MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
December 8, 2004

&

INVESTMENT ADVISORY
COUNCIL MEETING
December 7, 2004

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

December 8, 2004

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

TAB

1. **Approval of Minutes of September 8, 2004**

2. **Report from the Executive Director (Howard Bicker)** — **A**
   A. Quarterly Investment Review
      (July 1, 2004 – September 30, 2004)

   B. Administrative Report — **B**
      1. Reports on budget and travel
      2. Post Retirement Benefit Increase for FY04
      3. Litigation Update
      4. Update regarding Pharmaceutical Shareholder Resolutions
      5. Results of FY04 Audit
      6. Draft of FY04 Annual Report
      7. Tentative Meeting Dates for Calendar 2005

3. **Report from the SBI Administrative Committee (Peter Sausen)** — **C**
   A. Review of Potential SBI 2005 Legislative Session Issues
      1. Post Retirement Fund
      2. SBI Budget Process
      3. SBI Compensation Plan
      4. Alternative Investments Data Privacy

4. **Report from the Domestic Equity Large-Capitalization Growth Search Committee (Peter Sausen)** — **D**

5. **Reports from the Investment Advisory Council (Mike Troutman)**
   A. Stock and Bond Manager Committee — **E**
      1. Review of manager performance
      2. Update on the Domestic Equity Large Capitalization Growth search
      3. Recommendation to renew investment manager contracts

   B. Alternative Investment Committee — **F**
      1. Review of current strategy
      2. Recommendation of new investments with two existing managers:
         - GS (Goldman Sachs) Capital Partners
         - CSFB (Credit Suisse First Boston) Strategic Partners

      3. Recommendation of a new investment with one new manager:
         - Split Rock Partners

Minutes
State Board of Investment
September 8, 2004

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, September 8, 2004 in Room 123 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson; Secretary of State Mary Kiffmeyer; and Attorney General Mike Hatch were present. The minutes of the June 2, 2004 Board meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending June 30, 2004 (Combined Funds 9.6% vs. Composite 9.4%), and had provided a real rate of return over the latest 20 year period (Combined Funds 11.2% vs. CPI 3.1%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.8% vs. Composite 9.6%) over the last ten years and reported that the Post Fund has also outperformed its composite over the last ten year period (Post Fund 9.4% vs. Composite 9.1%).

Mr. Bicker reported that the Basic Fund's assets decreased 1.0% for the quarter ending June 30, 2004 due to negative net contributions. He said that the asset mix is essentially on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 0.6% vs. Composite 0.5%) and for the year (Basic Funds 16.6% vs. Composite 16.3%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 0.1% for the quarter ending June 30, 2004 due to negative net contributions. He said the Post Fund asset mix is on target. He stated that the Post Fund matched its composite index for the quarter (Post Fund 0.2% vs. Composite 0.2%) and outperformed it for the year (Post Fund 16.3% vs. Composite 15.7%).

Mr. Bicker reported that the domestic stock manager group slightly underperformed its target for the quarter (Domestic Stock 1.2% vs. Domestic Equity Asset Class Target 1.3%) and for the year (Domestic Stocks 20.3% vs. Domestic Equity Asset Class Target 20.6%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks -1.0% vs. International Equity Asset Class Target -0.9%) and for the year (International Stocks 30.9% vs. International Equity Asset Class Target 32.1%). Mr. Bicker stated that the bond segment slightly outperformed its target for the quarter (Bonds -2.0% vs. Fixed Income Asset Class Target -2.4%) and for the year (Bonds 1.5% vs. Fixed Income Asset Class Target 0.3%). He reported that alternative investments returned 4.7% for the quarter. He concluded his report with the comment that as of June 30, 2004, the SBI was responsible for over $47 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 litigation. She stated that the State is currently involved in four securities cases, two of which are class actions and two of which are individual actions. She said that in the State's case against WorldCom, the State had originally opted out of the class action in hopes of a better recovery through pursuing an individual action. She reported that the State had finished the opt-out motion and had responded to some discovery. Ms. Eller said that the AOL case is a class action case and that the State is starting to receive documentation from discovery. Ms. Eller stated that the Broadcom trial date is likely to be after the first of the year and that the court has approved the class notice. She said expert discovery is ongoing and that a series of summary judgment motions will be heard in September 2004. Ms. Eller reported that the second individual action is against McKesson, and she noted that the case remains delayed due to the criminal prosecutions which are ongoing. She said a motion from the Department of Justice to delay the civil discovery is still awaiting the judge's decision.

Mr. Bicker reported that during the 2004 Legislative Session, the Metropolitan Council received authority to have the SBI invest some non-retirement related assets. He said that the Met Council has postponed the transfer of the assets until the spring of 2005.

Stock and Bond Manager Committee Report
Mr. Troutman referred members to Tab C of the meeting materials and stated that during the quarter, staff and the Committee had updated the Fixed Income Program short list. He said that the list will serve as a starting point for any future manager searches.

Mr. Troutman reported that a review had been done on the asset allocation for the Assigned Risk Plan. He said that the Committee is recommending that the current asset allocation of 20% equities and 80% fixed income be reaffirmed. Ms Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Stock and Bond Manager Committee recommends that the SBI reaffirm the long-term asset allocation of the Workers' Compensation Assigned Risk Plan of 20% equities and 80% fixed income."** The motion passed.

Mr. Troutman said that the Committee is recommending that investment manager contracts be renewed for five current managers. Ms. Anderson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with the assistance from SBI's legal counsel, to negotiate and execute five year contract extensions with the following firms, subject to inclusion of a provision which provides for immediate termination:**

Developed Market International Equity Managers

American Express Asset Management
Britannic Asset Management International
Invesco Global Asset Management

Fixed Income Managers

Deutsche Asset Management
Dodge & Cox Inc.

The motion passed.

Mr. Troutman referred members to a memo which was distributed at the beginning of the meeting regarding a recommendation to terminate Bay Isle Financial Corporation (see **Attachment** A). Mr. Bicker explained that staff had just received notice that the firm is discontinuing the large cap value product in which the SBI is invested. He added that their assets would be transferred to other current large cap value managers retained by the SBI. Mr. Hatch moved approval of the recommendation as stated in Attachment A. The motion passed.

Alternative Investment Committee Report
Mr. Troutman referred members to Tab D of the meeting materials and stated that the Committee is recommending an investment with an existing yield-oriented manager, Prudential Capital Group. Ms. Anderson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Prudential Capital Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Prudential Capital upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Prudential Capital or reduction or termination of the commitment."** The motion passed.

Proxy Voting Committee Report
Mr. Bicker referred members to Tab E of the meeting materials and stated that the Committee is requesting approval of the shareholder proposal language related to pharmaceutical companies. Governor Pawlenty briefly provided some background information regarding his original intent behind the proposal and the process by which the Securities and Exchange Commission evaluates shareholder proposals, which impacted the final wording of the proposal. Governor Pawlenty moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Proxy Voting Committee recommends that the Board adopt the language of the attached resolution and authorize the executive director with assistance from legal**

counsel to submit this resolution to Eli Lilly and Company; Merck & Co., Inc.; Pfizer Inc. and Wyeth for inclusion in their 2005 proxy statements." The motion passed.

Proposed Change to SBI Budget Process

Mr. Troutman referred members to two memos that were distributed to members at the beginning of the meeting and stated that members of the Investment Advisory Council have been concerned for some time about the SBI's level of budgetary funding (see **Attachment B and C**). He said he believes it has become an issue of fiduciary responsibility to examine the budget process for the SBI. He said that the three retirement systems, the SBI, and the Department of Finance had held discussions over the summer and had developed an outline of a process to move the SBI's budget development and accountability out of the General Fund Appropriation process. He said he is recommending that the Administrative Committee, together with the Directors of the three retirement systems and the Department of Finance meet to formalize a proposal related to the SBI budget and compensation issues. He said that the Committee would report back to the Board at its December 8, 2004 meeting. In response to a question from Governor Pawlenty, Mr. Bicker stated that the Board may take action on this item. Ms. Vanek, Director of the Public Employees Retirement Association and Mr. Austin, Director of the Teachers Retirement Association, both voiced their support for the recommendation. Ms. Kiffmeyer noted that her questions regarding accountability had been answered and she stated her support. Ms. Anderson and Governor Pawlenty also added their support, and Governor Pawlenty stated that the Board is informally directing the Committee and Staff to pursue the Committee's recommendation, as stated in Attachment B.

The meeting adjourned at 9:26 A.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

MINNESOTA STATE BOARD OF INVESTMENT

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DATE: September 7, 2004

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

FROM: Howard Bicker

SUBJECT: Recommendation to Terminate Bay Isle Financial Corporation

Staff recommends the termination of Bay Isle Financial Corporation, an Emerging Manager in the Domestic Equity Program. It has been brought to our attention that Bay Isle will discontinue management of the large value product in which the SBI is invested. Bay Isle suggests that their clients seek the services of another firm in managing assets in the large value style.

The SBI recently added four new managers to the roster of large value managers, and Staff recommends that the assets be transferred to one or more of them.

RECOMMENDATION

The Committee recommends that the SBI terminate its relationship with Bay Isle Financial Corporation as an Emerging Manager in the Domestic Equity Program.

DATE: September 7, 2004

TO: Members, State Board of Investment

FROM: Mike Troutman, Chair, Investment Advisory Council

SUBJECT: Recommendation related to the September 7, 2004 memo from the Directors of the three statewide retirement systems.

I would like to suggest that the Administrative Committee of the State Investment Board, together with the Directors of the three Statewide Retirement Systems and the Department of Finance, meet to formalize a proposal related to SBI budget and compensation issues.

The Committee would report back to the Board at its December 8, 2004 meeting.

Teacher's Retirement Association
Minnesota State Retirement System
Public Employees Retirement Association

Date: September 7, 2004

To: Members of the Investment Advisory Council

From: Gary Austin, TRA Executive Director
Dave Bergstrom, MSRS Executive Director
Mary Most Vanek, PERA Executive Director

Re: Proposed Change to State Board of Investment Budget Process

The retirement funds are very concerned that recent budget cuts have reduced the oversight capabilities by the State Board of Investment (SBI) staff. Of the more than $47 billion managed by the SBI, $40 billion are pension fund dollars held in trust for our members and retirees. We feel that the budget reductions were not prudent, because the resulting reduction in staffing does not allow the remaining resources to properly oversee the multitude of money managers engaged by the Board. To put it into perspective, if fewer resources for monitoring performance means a 1/100th of 1 percent lower return, the pension funds collectively stand to lose about $4 million. Any funding not supported by returns on the investment of our assets has to be made up by participants and employers contributing to the retirement funds.

The current budget-setting process requires that the SBI submit a General Fund Appropriation Request as part of the Biennial Budget process. If approved by the Department of Finance, the request is submitted to the Legislature as part of the Governor's Budget Recommendations. The General Fund Appropriation approved by the Legislature covers internal operating expenses of the Board staff, including salaries, office rent, travel and all other operating expenses.

By statute, the SBI charges the statewide retirement funds and non-general fund accounts (e.g., Permanent School Fund, Environmental Trust Fund, etc.) for approximately 90% of its General Fund appropriation. These receipts are deposited in the General Fund as non-dedicated revenue to reimburse the General Fund for our share of SBI's costs and are not available for future use by the SBI. So while the Legislature appropriates General Fund assets to fund the SBI, the majority of the costs for managing the investment of pension and state funds is reimbursed to the General Fund. The portion of the appropriation not recovered by the bill-back provision (approximately 10%) represents SBI's budget that is associated with the investment of the General Fund portion of the Invested Treasurer's Cash Fund.

We support a change in the budgetary process, which would allow the State Board of Investment to directly bill operating costs to the retirement systems and the other agencies for which specific assets are invested.

Proposed Future Funding of SBI Operations

We discussed our proposal with the Commissioner of Finance, Peggy Ingison, and some members of her staff and received some helpful suggestions on the structure they felt appropriate. The SBI would bill all funds that use the SBI's investment service their share of operating expenses. Under the proposal, a dedicated account would be set up into which the retirement systems (and other agencies for which funds are managed) would deposit the amounts allocated to each and these funds would then be available for use by the SBI for its operating expenses.

The SBI's budget for these operating costs would be established through the committee process with a recommendation for final approval of the budget by the State Board of Investment.

Request for IAC support of the proposed budgeting change

We are interested in pursuing the change in the State Board's budgeting process this coming legislative session and would like the Investment Advisory Council's support for the change. Time is of the essence, as the Department of Finance requires all budget requests to be delivered to the Department by mid-October. Ideally, the modification would be effective for the fiscal year beginning July 1, 2005.

While in concept, Commissioner Ingison and her staff were supportive of the recommended change in the budgeting process for the SBI, they will discuss it with the Governor to find out if he is comfortable with it. They would prefer that the General Fund's portion of the SBI budget -- that associated with the management of the Invested Treasurer's Cash Fund -- continue to be a legislative appropriation and will work with us to define what this needs to be. They will also work with us to draft the technical changes to the statute to accommodate their concerns and effect a change they believe to be a reasonable approach.

One additional note: We are also concerned about the turnover of SBI staff, and would like to improve the compensation levels available to hire and retain qualified employees. We think this change in the budgeting process may help facilitate a change in the SBI's ability to establish a reasonable compensation level for the kind of professional skills required in this field.

We would appreciate the Investment Advisory Council's support of the change. We are very willing to be involved with whatever is necessary to effect this change in the budgeting process.

Proposed Budget Process

1. Staff would prepare a proposed budget.

2. The Administrative Committee of the State Board of Investment would review the proposed budget and make any changes they deemed necessary. The Committee is comprised of:

   - A representative of each Board Member
   - The Chair and Vice Chair of the IAC
   - The Directors of the three statewide retirement systems (proposed additions)

3. The Administrative Committee's proposed budget would be reviewed by the full Investment Advisory Council for their recommendations.

4. The Board of the SBI would review the proposed budget, make any adjustments, and vote on the final approval.

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

December 7, 2004

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, December 7, 2004
9:00 A.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

	TAB
1. Approval of Minutes of September 7, 2004	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (July 1, 2004 – September 30, 2004)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Post Retirement Benefit Increase for FY04	
3. Litigation Update	
4. Update regarding Pharmaceutical Shareholder Resolutions	
5. Results of FY04 Audit	
6. Draft of FY04 Annual Report	
7. Tentative Meeting Dates for Calendar 2005	
3. Report from the SBI Administrative Committee (Peter Sausen)	**C**
A. Review of Potential SBI 2005 Legislative Session Issues	
1. Post Retirement Fund	
2. SBI Budget Process	
3. SBI Compensation Plan	
4. Alternative Investments Data Privacy	
4. Report from the Domestic Equity Large-Capitalization Growth Search Committee (Peter Sausen)	**D**
5. Reports from the Investment Advisory Council (John Bohan)	
A. Stock and Bond Manager Committee	**E**
1. Review of manager performance	
2. Update on the Domestic Equity Large Capitalization Growth search	
3. Recommendation to renew investment manager contracts	
B. Alternative Investment Committee (Malcolm McDonald)	**F**
1. Review of current strategy	
2. Recommendation of new investments with two existing managers:	
• GS (Goldman Sachs) Capital Partners	
• CSFB (Credit Suisse First Boston) Strategic Partners	
3. Recommendation of a new investment with one new manager:	
• Split Rock Partners	

Minutes
Investment Advisory Council
September 7, 2004

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

Mr. Troutman called the meeting to order and stated that an additional agenda item would be discussed at the end of the meeting. The minutes of the June 2, 2004 IAC meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, stated that the December 7, 2004 meeting is scheduled for 9:00 A.M. rather than 2:00 P.M. and he asked members to update their calendars. He referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending June 30, 2004 (Combined Funds 9.6% vs. Composite 9.4%), and had provided a real rate of return over the latest 20 year period (Combined Funds 11.2% vs. CPI 3.1%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.8% vs. Composite 9.6%) over the last ten years and reported that the Post Fund has also outperformed its composite over the last ten year period (Post Fund 9.4% vs. Composite 9.1%).

Mr. Bicker reported that the Basic Fund's assets decreased 1.0% for the quarter ending June 30, 2004 due to negative net contributions. He said that the asset mix is essentially on target. He reported that the Basic Funds outperformed its composite index for the quarter (Basic Funds 0.6% vs. Composite 0.5%) and for the year (Basic Funds 16.6% vs. Composite 16.3%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 0.1% for the quarter ending June 30, 2004 due to negative net contributions. He said the Post Fund asset mix is on target. He stated that the Post Fund matched its composite index for the quarter (Post Fund 0.2% vs. Composite 0.2%) and outperformed it for the year (Post Fund 16.3% vs. Composite 15.7%).

Mr. Bicker reported that the domestic stock manager group slightly underperformed its target for the quarter (Domestic Stock 1.2% vs. Domestic Equity Asset Class Target 1.3%) and for the year (Domestic Stocks 20.3% vs. Domestic Equity Asset Class Target 20.6%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks -1.0% vs. International Equity Asset Class Target -0.9%) and for the year (International Stocks 30.9% vs. International Equity Asset Class Target 32.1%). Mr. Bicker stated that the bond segment slightly outperformed its target for the quarter (Bonds -2.0% vs. Fixed Income Asset Class Target -2.4%) and for the year (Bonds 1.5% vs. Fixed Income Asset Class Target 0.3%) He reported that alternative investments returned 4.7% for the quarter. He concluded his report with the comment that as of June 30, 2004, the SBI was responsible for over $47 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 litigation. She stated that the State is currently involved in four securities cases, two of which are class actions and two of which are individual actions. She said that in the State's case against Worldcom, the State had originally opted out of the class action in hopes of a better recovery through pursuing an individual action. She reported that the State had finished the opt-out motion and had responded to some discovery. Ms. Eller said that the AOL case is a class action case and that the State is starting to receive documentation from discovery. Ms. Eller stated that the Broadcom trial date is likely to be after the first of the year and that the court has approved the class notice. She said expert discovery is ongoing and that a series of summary judgment motions will be heard in September 2004. Ms. Eller reported that the second individual action is against McKesson, and she noted that the case remains delayed due to the criminal prosecutions which are ongoing. She said a motion from the Department of Justice to delay the civil discovery is still awaiting the judge's decision.

In response to questions from Mr. Brick, Mr. Bicker said that staff has investigated various options for creating a benchmark by which to measure the performance of alternative assets. He noted the issues involved with using a benchmark in this area and said that staff had not found any appropriate benchmarks. He added that other plan sponsors have also found that it is difficult to find an appropriate benchmark to use in this area. Mr. Gudorf and Ms. Posey briefly discussed some issues involved with trying to create a benchmark for alternative assets.

Mr. Bicker reported that during the 2004 legislative session, the Metropolitan Council received authority to have the SBI invest some non-retirement related assets. He said that the Met Council has postponed the transfer of the assets until the spring of 2005. In response to a question from Mr. Troutman, Mr. Bicker stated that asset allocation decisions would be made after staff receives the fund's liability data and other pertinent information.

Stock and Bond Manager Committee Report

Mr. Brick referred members to Tab C of the meeting materials and stated that during the quarter, staff and the Committee had updated the Fixed Income Program short list. He said that the list will serve as a starting point for future manager searches.

Mr. Bicker reported that a review had been completed on the asset allocation for the Assigned Risk Plan. He said that the Committee is recommending that the current asset allocation of 20% equities and 80% fixed income be reaffirmed. Mr. McDonald moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion. The motion passed.

Mr. Bicker said that the Committee is recommending that investment manager contracts be renewed for five current managers: American Express Asset Mgmt.; Britannic Asset Mgmt. Intl.; Invesco Asset Mgmt.; Deutsche Asset Mgmt. and Dodge & Cox, Inc. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. In response to a question from Ms. Johnston, Mr. Bicker summarized the process staff and the Committee follow when evaluating an individual manager's performance. The motion passed.

Mr. Bicker referred members to a memo which was distributed at the beginning of the meeting regarding a recommendation to terminate Bay Isle Financial Corporation (see **Attachment A**). He explained that staff had just received notice that the firm is discontinuing the large cap value product in which the SBI is invested. He added that their assets would be transferred to other current large cap value managers retained by the SBI. Mr. McDonald moved approval of the recommendation as stated in Attachment A. Mr. Gudorf seconded the motion.

In response to a question from Ms. Peifer, Mr. Bicker stated that staff and the Committee believe that American Express' performance will improve due to their acquisition of Threadneedle and that the Committee will be reviewing Britannic's performance during first quarter 2005. The motion passed.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab D of the meeting materials and briefly reviewed the performance of the alternative investment segment. He stated that the Committee is recommending an investment with an existing yield-oriented manager, Prudential Capital Group. Ms. Vanek moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. In response to a question from Mr. Brick, Mr. Bicker stated that there are not specific allocation limits set for each asset class in the alternative area because staff and the Committee have taken a more opportunistic investment approach. The motion passed.

Proxy Voting Committee Report
Mr. Bicker referred members to Tab E of the meeting materials and stated that the Committee will be requesting Board approval of the shareholder proposal language related to pharmaceutical companies. In response to a question from Mr. Ahrens, Mr. Bicker confirmed that no investment restrictions or divestiture action is being proposed.

Proposed Change to SBI Budget Process
Mr. Troutman stated that members of the Investment Advisory Council have been concerned for some time about the SBI's level of budgetary funding, and he said he believes it has become an issue of fiduciary responsibility to examine the budget process for the SBI. He said that the three retirement systems, the SBI, and the Department of Finance had held discussions over the summer and had developed an outline of a process to move the SBI's budget development and accountability out of the General Fund appropriation process. Ms. Vanek, Director of PERA, explained the proposed process whereby the majority of the SBI's budget would be funded directly by the retirement funds and not be part of the legislative appropriation process. Both Ms. Vanek and Mr. Austin, Director of Teachers Retirement Association, voiced their support of such a change.

Ms. Ingison, Commissioner of Finance, stated that one of the main concerns is making sure there is accountability for the budget setting process. In response to a question from Mr. Ahrens, Mr. Bicker stated that approximately $250,000 of the SBI's budget would still go through the current legislative budget appropriation process to cover costs associated with investing the non-retirement related assets for the State. He said that under the proposed change, the remainder of the budget would be approved by the Administrative Committee, which would be expanded to include the directors of the three retirement systems. He said the IAC and the Board would also approve the budget, thus insuring that there was accountability throughout the process. In response to further questions from Mr. Ahrens, Mr. Bicker stated that costs to the retirement systems would be based on assets under management, and he further described how the process would work for the various non-retirement related state agencies. In response to questions from Ms. Johnston, Mr. Bicker discussed how the size of the SBI staff has shrunk over the years and the significant recent turnover of staff during the last 18 months. Mr. Troutman noted the substantial growth in assets under management and the increased complexity of the asset classes the SBI utilizes. In response to a question from Ms. Johnston, Ms. Vanek stated that it is a possibility that the retirement funds administrative costs could increase as a result of this change to the SBI budgeting process. Several members thanked everyone who has been involved in this process

Mr. Troutman referred members to a memo from the three retirement systems (see **Attachment B**) and asked for support from the IAC on the process outlined in the memo. Mr. McDonald moved approval of supporting the process outlined in Attachment B. Ms. Peifer seconded the motion. The motion passed.

Mr. Troutman distributed to members a memo that he is proposing to pass out at the Board meeting for their consideration. He stated that the memo further addresses the process for the proposed budgetary change (see **Attachment C**). Mr. McDonald moved approval of the recommendation as stated in Attachment C. Mr. Gudorf seconded the motion. The motion passed. Ms. Mares noted that the IAC has been concerned about the SBI's budget process for a long time, and she said she does not want the Board to believe the concern is only coming from the retirement funds. Ms. Peifer added that it is important to remember the significance of even a fraction of an additional basis point in return on the SBI's assets under management.

The meeting adjourned at 2:57 P.M.

Respectfully submitted,

Howard Bicker
Executive Director

MINNESOTA STATE BOARD OF INVESTMENT

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DATE: September 7, 2004

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

FROM: Howard Bicker

SUBJECT: Recommendation to Terminate Bay Isle Financial Corporation

Staff recommends the termination of Bay Isle Financial Corporation, an Emerging Manager in the Domestic Equity Program. It has been brought to our attention that Bay Isle will discontinue management of the large value product in which the SBI is invested. Bay Isle suggests that their clients seek the services of another firm in managing assets in the large value style.

The SBI recently added four new managers to the roster of large value managers, and Staff recommends that the assets be transferred to one or more of them.

RECOMMENDATION
The Committee recommends that the SBI terminate its relationship with Bay Isle Financial Corporation as an Emerging Manager in the Domestic Equity Program.

Teacher's Retirement Association
Minnesota State Retirement System
Public Employees Retirement Association

Date: September 7, 2004

To: Members of the Investment Advisory Council

From: Gary Austin, TRA Executive Director
Dave Bergstrom, MSRS Executive Director
Mary Most Vanek, PERA Executive Director

Re: Proposed Change to State Board of Investment Budget Process

The retirement funds are very concerned that recent budget cuts have reduced the oversight capabilities by the State Board of Investment (SBI) staff. Of the more than $47 billion managed by the SBI, $40 billion are pension fund dollars held in trust for our members and retirees. We feel that the budget reductions were not prudent, because the resulting reduction in staffing does not allow the remaining resources to properly oversee the multitude of money managers engaged by the Board. To put it into perspective, if fewer resources for monitoring performance means a 1/100th of 1 percent lower return, the pension funds collectively stand to lose about $4 million. Any funding not supported by returns on the investment of our assets has to be made up by participants and employers contributing to the retirement funds.

The current budget-setting process requires that the SBI submit a General Fund Appropriation Request as part of the Biennial Budget process. If approved by the Department of Finance, the request is submitted to the Legislature as part of the Governor's Budget Recommendations. The General Fund Appropriation approved by the Legislature covers internal operating expenses of the Board staff, including salaries, office rent, travel and all other operating expenses.

By statute, the SBI charges the statewide retirement funds and non-general fund accounts (e.g., Permanent School Fund, Environmental Trust Fund, etc.) for approximately 90% of its General Fund appropriation. These receipts are deposited in the General Fund as non-dedicated revenue to reimburse the General Fund for our share of SBI's costs and are not available for future use by the SBI. So while the Legislature appropriates General Fund assets to fund the SBI, the majority of the costs for managing the investment of pension and state funds is reimbursed to the General Fund. The portion of the appropriation not recovered by the bill-back provision (approximately 10%) represents SBI's budget that is associated with the investment of the General Fund portion of the Invested Treasurer's Cash Fund.

We support a change in the budgetary process, which would allow the State Board of Investment to directly bill operating costs to the retirement systems and the other agencies for which specific assets are invested.

Proposed Future Funding of SBI Operations

We discussed our proposal with the Commissioner of Finance, Peggy Ingison, and some members of her staff and received some helpful suggestions on the structure they felt appropriate. The SBI would bill all funds that use the SBI's investment service their share of operating expenses. Under the proposal, a dedicated account would be set up into which the retirement systems (and other agencies for which funds are managed) would deposit the amounts allocated to each and these funds would then be available for use by the SBI for its operating expenses.

The SBI's budget for these operating costs would be established through the committee process with a recommendation for final approval of the budget by the State Board of Investment.

Request for IAC support of the proposed budgeting change

We are interested in pursuing the change in the State Board's budgeting process this coming legislative session and would like the Investment Advisory Council's support for the change. Time is of the essence, as the Department of Finance requires all budget requests to be delivered to the Department by mid-October. Ideally, the modification would be effective for the fiscal year beginning July 1, 2005.

While in concept, Commissioner Ingison and her staff were supportive of the recommended change in the budgeting process for the SBI, they will discuss it with the Governor to find out if he is comfortable with it. They would prefer that the General Fund's portion of the SBI budget -- that associated with the management of the Invested Treasurer's Cash Fund -- continue to be a legislative appropriation and will work with us to define what this needs to be. They will also work with us to draft the technical changes to the statute to accommodate their concerns and effect a change they believe to be a reasonable approach.

One additional note: We are also concerned about the turnover of SBI staff, and would like to improve the compensation levels available to hire and retain qualified employees. We think this change in the budgeting process may help facilitate a change in the SBI's ability to establish a reasonable compensation level for the kind of professional skills required in this field.

We would appreciate the Investment Advisory Council's support of the change. We are very willing to be involved with whatever is necessary to effect this change in the budgeting process.

Proposed Budget Process

1. Staff would prepare a proposed budget.

2. The Administrative Committee of the State Board of Investment would review the proposed budget and make any changes they deemed necessary. The Committee is comprised of:

   - A representative of each Board Member
   - The Chair and Vice Chair of the IAC
   - The Directors of the three statewide retirement systems (proposed additions)

3. The Administrative Committee's proposed budget would be reviewed by the full Investment Advisory Council for their recommendations.

4. The Board of the SBI would review the proposed budget, make any adjustments, and vote on the final approval.

DATE: September 7, 2004

TO: Members, State Board of Investment

FROM: Mike Troutman, Chair, Investment Advisory Council

SUBJECT: Recommendation related to the September 7, 2004 memo from the Directors of the three statewide retirement systems.

I would like to suggest that the Administrative Committee of the State Investment Board, together with the Directors of the three Statewide Retirement Systems and the Department of Finance, meet to formalize a proposal related to SBI budget and compensation issues.

The Committee would report back to the Board at its December 8, 2004 meeting.

Tab A

LONG TERM OBJECTIVES
Period Ending 9/30/2004

COMBINED FUNDS: $37.0 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.	9.4% (1)	0.3 percentage point above target
Provide Real Return (20 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	10.8%	7.8 percentage points above CPI

BASIC RETIREMENT FUNDS: $18.7 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.	9.5%	0.2 percentage point above target

POST RETIREMENT FUND: $18.3 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.	9.1%	0.3 percentage point above target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

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

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

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

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

Actuarial Assumptions:

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

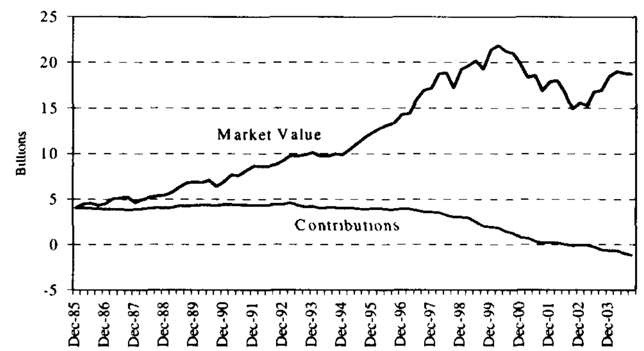
EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 0.6% during the third quarter of 2004. Negative net contributions accounted for the decrease.

Asset Growth During Third Quarter 2004 (Millions)

Beginning Value	$ 18,824
Net Contributions	-197
Investment Return	88
Ending Value	$ 18,715

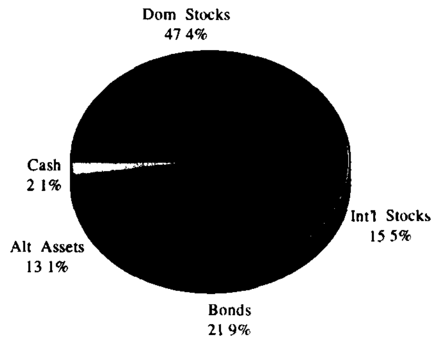


Asset Mix

The allocation to bonds and alternative assets increased over the quarter due to positive returns.

	Policy Targets	Actual Mix 9/30/2004	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	47.4%	$8,878
Int'l. Stocks	**15.0**	15.5	2,902
Bonds	**24.0**	21.9	4,097
Alternative Assets*	**15.0**	13.1	2,452
Unallocated Cash	**1.0**	2.1	386
	100.0%	100.0%	$18,715

* Any uninvested allocation is held in domestic stocks

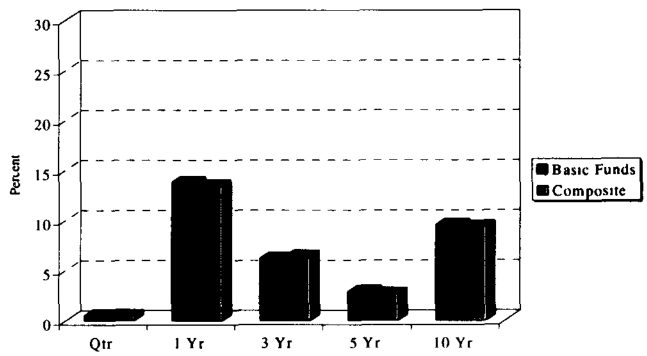


Fund Performance (Net of Fees)

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

Period Ending **9/30/2004**

			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	**0.5%**	**13.8%**	**6.2%**	**2.9%**	**9.5%**
Composite	0.5	13.4	6.4	2.7	9.3



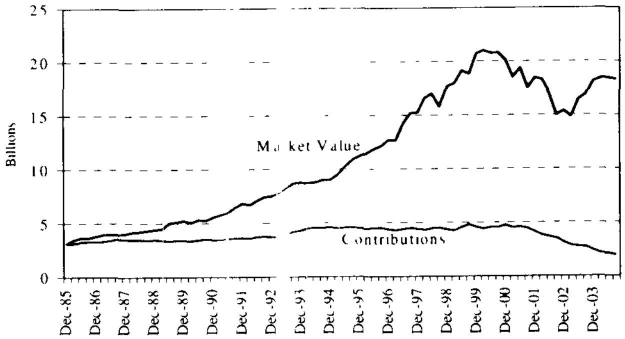
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased 0.6% during the third quarter of 2004. Negative net contributions accounted for the slight decrease.

	Asset Growth During Third Quarter 2004 (Millions)
Beginning Value	$18,415
Net Contributions	-157
Investment Return	41
Ending Value	$18,299

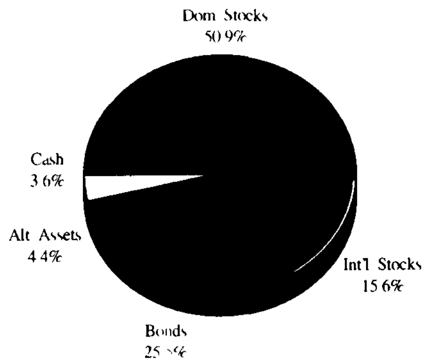


Asset Mix

The allocation to bonds increased over the quarter due to positive returns.

	Policy Targets	Actual Mix 9/30/2004	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.9%	$9,318
Int'l. Stocks	**15.0**	15.6	2,861
Bonds	**25.0**	25.5	4,666
Alternative Assets*	**12.0**	4.4	802
Unallocated Cash	**3.0**	3.6	652
	100.0%	100.0%	$18,299

* Any uninvested allocation is held in domestic stocks.

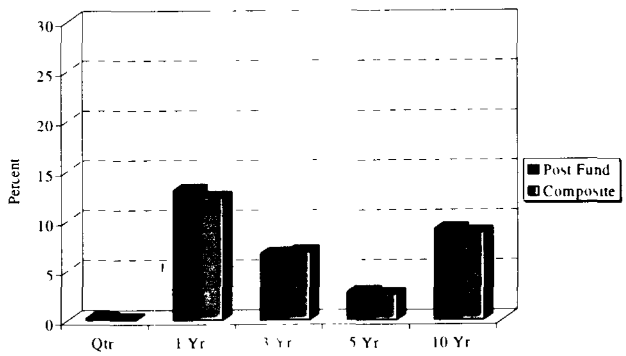


Fund Performance (Net of Fees)

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

Period Ending **9/30/2004**

	Qtr	1 Yr	3 Yr	5 Yr	10 Yr
		Annualized			
Post	**0.2%**	**13.0%**	**6.7%**	**2.8%**	**9.1%**
Composite	0.1	12.3	6.9	2.6	8.8



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

Domestic Stocks

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

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

	Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	**-1.7%**	**14.3%**	**5.2%**	**-0.9%**	**10.2%**
Asset Class Target*	-1.9	14.3	5.6	-0.7	10.4

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

International Stocks

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

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

	Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**0.8%**	**21.6%**	**10.6%**	**0.4%**	**4.9%**
Asset Class Target*	1.0	22.7	10.6	-0.2	3.8

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

Bonds

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

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

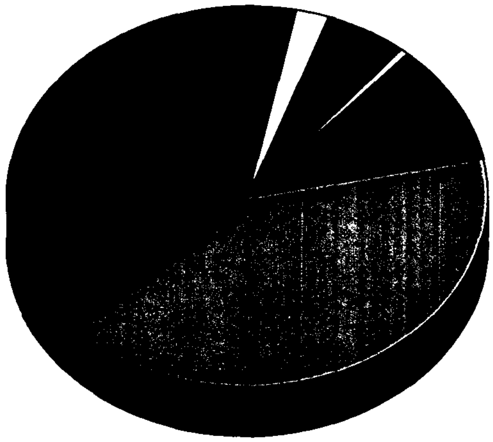
	Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**3.2%**	**4.7%**	**6.3%**	**7.8%**	**8.0%**
Asset Class Target*	3.2	3.7	5.9	7.5	7.7

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

Alternative Investments

	Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr	5 Yr.	10 Yr.
Alternatives	**3.8%**	**20.3%**	**5.8%**	**9.1%**	**13.7%**

EXECUTIVE SUMMARY
Funds Under Management



	9/30/2004 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$18.7
Post Retirement Fund	18.3
Supplemental Investment Fund	1.0
State Deferred Compensation Plan Non-SIF Assets	2.5
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.3
State Cash Accounts	3.5
Miscellaneous Accounts	0.2
Total	$45.5

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT
Third Quarter 2004
(July 1, 2004 - September 30, 2004)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/2004				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	-1.8%	14.8%	6.1%	0.0%	10.7%
Dow Jones Industrials	-2.9	11.0	6.7	1.4	12.3
S&P 500	-1.9	13.9	4.0	-1.3	11.1
Russell 3000 (broad market)	-1.9	14.3	5.3	-0.1	10.9
Russell 1000 (large cap)	-1.8	13.9	4.7	-0.7	11.1
Russell 2000 (small cap)	-2.9	18.8	13.7	7.4	9.9
Domestic Fixed Income					
Lehman Aggregate (1)	3.2	3.7	5.9	7.5	7.7
Lehman Gov't./Corp.	3.6	3.3	6.3	7.7	7.8
3 month U.S. Treasury Bills	0.4	1.1	1.4	2.9	4.1
International					
EAFE (2)	-0.3	22.1	9.1	-0.9	4.0
Emerging Markets Free (3)	8.3	26.5	25.9	6.0	0.1
ACWI Free ex-U.S. (4)	1.0	23.1	11.4	0.5	4.3
World ex-U.S. (5)	0.2	22.3	9.6	-0.4	4.3
Salomon Non U.S. Gov't. Bond	3.3	8.2	12.1	6.3	6.3
Inflation Measure					
Consumer Price Index (6)	0.1	2.5	2.1	2.5	2.4

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

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

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000, declined by 1.9% during the third quarter of 2004. The market sold off significantly in July and did not recover enough to overcome July's negative impact. Oil prices surged over $50 per barrel, and the Fed Funds target rate increased from 1.25% to 1.75%. Uncertainty regarding the U.S. Presidential election, ongoing geopolitical tensions, and the economic recovery weighed on investors. During the quarter, the stock of large companies outperformed smaller companies, and value companies outperformed growth companies. The electronic technology sector was the largest detractor from returns within the Russell 3000, while the energy minerals sector provided the greatest contribution to returns.

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

Large Growth	Russell 1000 Growth	-5.2%
Large Value	Russell 1000 Value	1.5%
Small Growth	Russell 2000 Growth	-6.0%
Small Value	Russell 2000 Value	0.1%

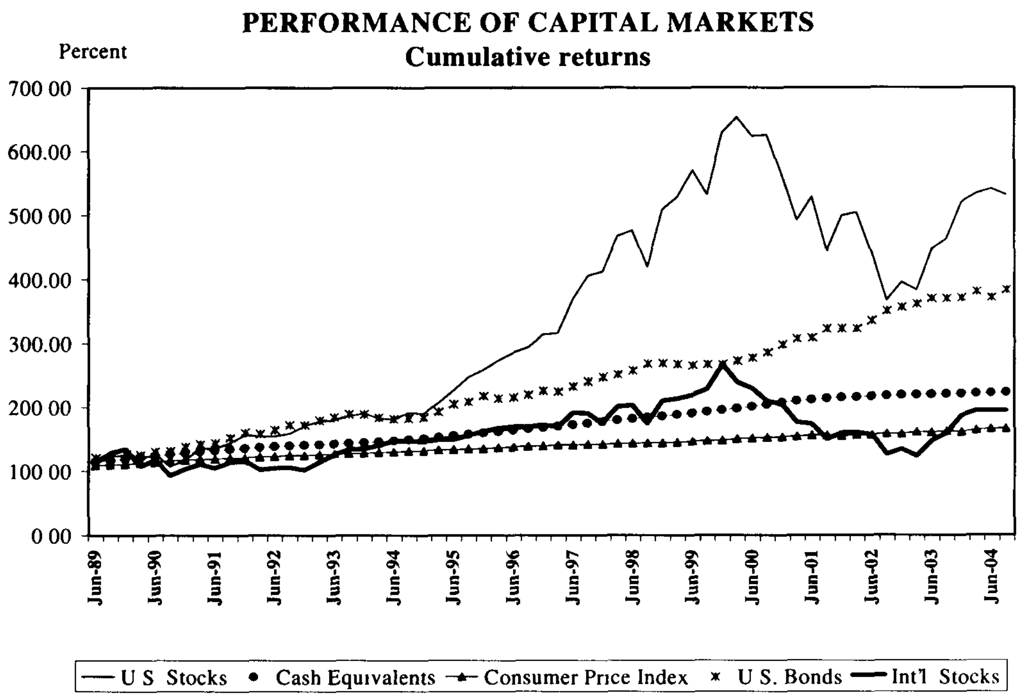
The Russell 3000 returned 14.3% for the year ending September 30, 2004.

DOMESTIC BONDS

The bond market generated a return of 3 2% for the quarter and 3.7% for the year. Economic growth was hindered during the quarter by a heightened fear of terrorism, a sharp rise in oil prices, and the worst hurricane season to hit the U.S. in 40 years. Lower reported inflation played a role as the bond market pushed intermediate and long-term bond yields lower. Conversely, short-term (1-year and under) bond yields rose, influenced by two Federal Fund's rate increases, .25% each time to the current rate of 1.75%. Corporate bonds, mortgage-backed securities, and asset-backed securities all provided positive excess returns versus Treasuries during the quarter. The 0.47% decline in 10-year Treasury yields during the third quarter followed a 0.75% rise during the previous quarter.

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

Treasury/Agency	3.1%
Credit	4.2
Mortgages	2.6



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index) provided a return of 0.2% for the quarter The quarterly performance of the six largest stock markets is shown below

United Kingdom	2.8%
Japan	-7 5
France	0.0
Switzerland	-2 2
Germany	-1.8
Canada	7 7

The World ex U S index increased by 22 3% during the last year.

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

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 8.3% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	4 2%
Taiwan	-0 4
South Africa	13.5
Mexico	5 5
Brazil	26 3

The Emerging Markets Free index increased by 26.5% during the last year

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

REAL ESTATE

The first half of 2004 saw a deceleration in new construction and a corresponding increase in demand for commercial real estate with leasing rates, though still moderate, beginning to pick up Analysts look to the end of 2004 and into 2005 for these factors to lead to a potential recovery in real estate fundamentals

PRIVATE EQUITY

U S. private equity firms raised $39 billion for private equity limited partnerships of all types, from venture capital to buyouts in the first three quarters of 2004. This represents a similar pace to 2003, where the entire year saw fundraising of $47 billion

RESOURCE FUNDS

During the third quarter of 2004, crude oil averaged $43.79 per barrel, significantly higher than an average price of $38.24 during the second quarter of 2004. The sustained high oil prices reflect the relative instability in the Middle East.

COMBINED FUNDS

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

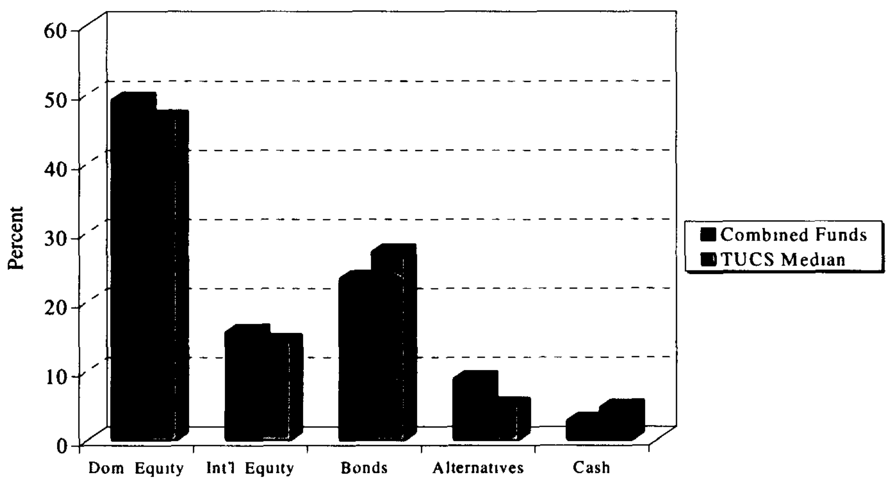
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

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

	$ Millions	%
Domestic Stocks	$18,196	49.2%
International Stocks	5,763	15.6
Bonds	8,763	23.6
Alternative Assets	3,254	8.8
Unallocated Cash	1,038	2.8
Total	$37,014	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	**49.2%**	**15.6%**	**23.6%**	**8.8%**	**2.8%**
Median Allocation in TUCS*	46.6	14.2	27.2	5.0**	4.7

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

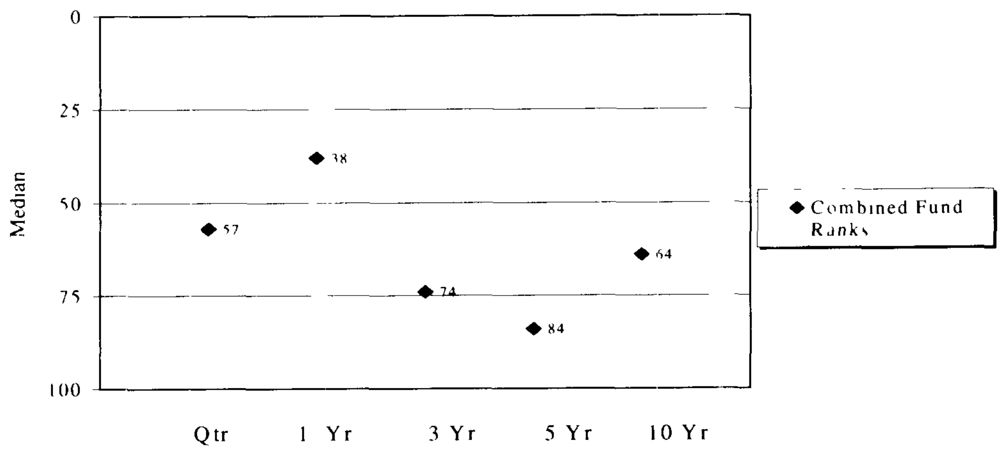
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care There are several reasons why such comparisons will provide an "apples to oranges" look at performance

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

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

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

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



	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
	Period Ending 9/30/2004				
Combined Funds Percentile Rank in TUCS*	57th	38th	74th	84th	64th

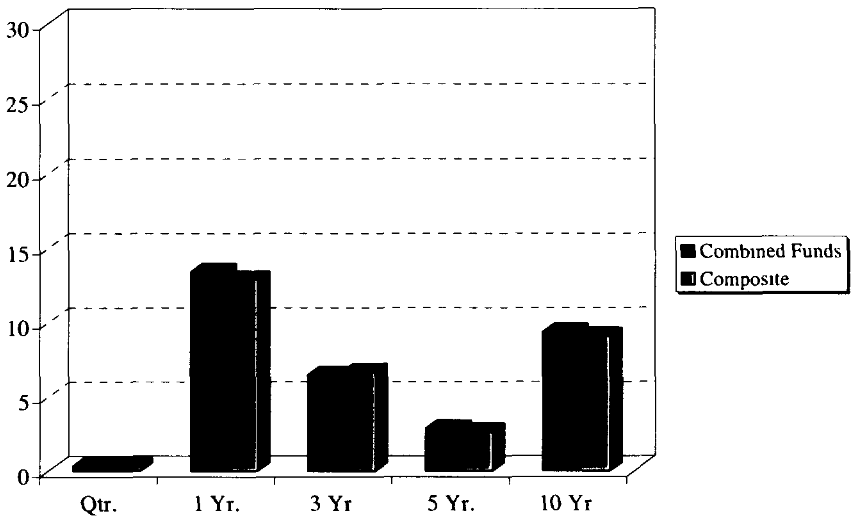
* Compared to public and corporate plans greater than $1 billion, gross of fees

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Funds Composite* 3Q04
Domestic Stocks	Russell 3000	50.1%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	8.4*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



Period Ending 9/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
				Annualized	
Combined Funds**	**0.4%**	**13.4%**	**6.5%**	**2.8%**	**9.4%**
Composite Index	0.3	12.9	6.7	2.6	9.1

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

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BASIC RETIREMENT FUNDS

Investment Objectives

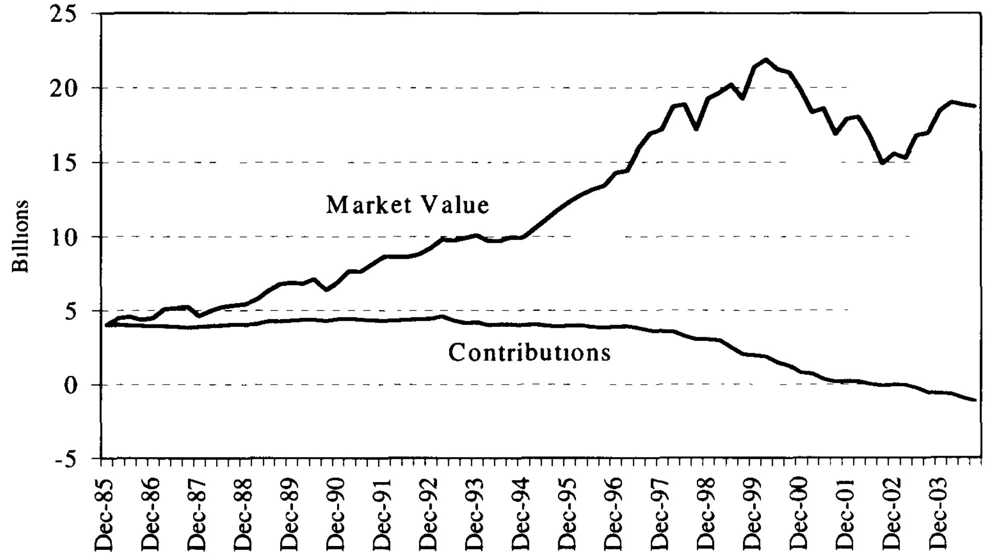
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Funds decreased 0.6% during the third quarter of 2004. Negative net contributions accounted for the decrease.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	3/04	6/04	Latest Qtr. 9/04
Beginning Value	$19,244	$21,365	$19,807	$17,874	$15,561	$18,435	$19,007	$18,824
Net Contributions	-1,065	-1,186	-572	-247	-592	-32	-289	-197
Investment Return	3,186	-372	-1,361	-2,066	3,466	604	106	88
Ending Value	$21,365	$19,807	$17,874	$15,561	$18,435	$19,007	$18,824	$18,715

BASIC RETIREMENT FUNDS

Asset Mix

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

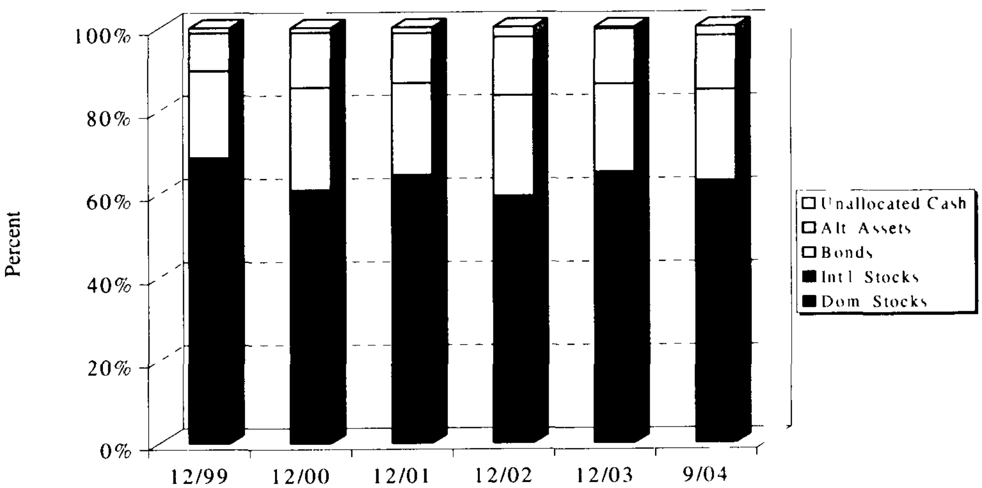
Domestic Stocks	45.0%
Int'l Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

Over the last year, the allocation to bonds increased due to rebalancing.

During the quarter, the bond and alternative investment stock allocations increased due to positive returns



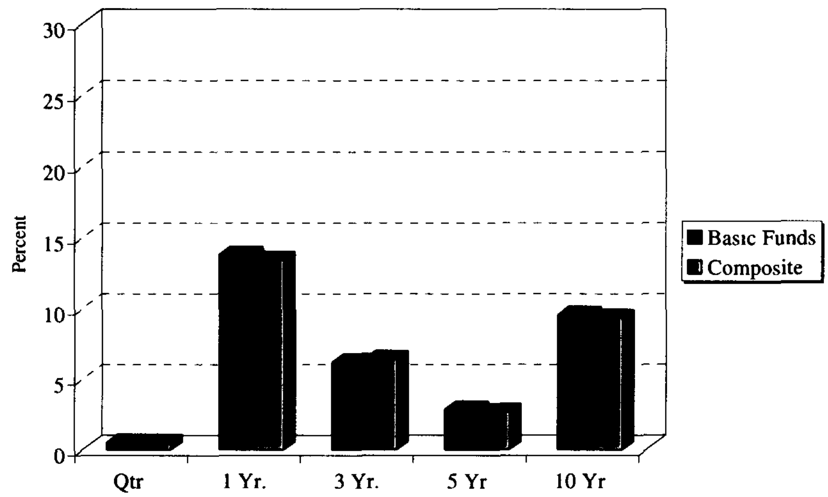
	Last Five Years							Latest Qtr.
	12/99	**12/00**	**12/01**	**12/02**	**12/03**	**3/04**	**6/04**	**9/04**
Domestic Stocks	51.9%	44.3%	49.5%	45.3%	48.5%	47.2%	48.0%	47.4%
Int'l Stocks	16.8	16.6	15.0	14.1	16.6	15.5	15.3	15.5
Bonds	21.0	24.7	22.1	24.2	21.2	21.2	21.0	21.9
Alternative Assets	9.1	13.3	12.1	14.1	13.3	12.8	12.7	13.1
Unallocated Cash	1.2	1.1	1.3	2.3	0.4	3.3	3.0	2.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 3Q04
Domestic Stocks	45.0%	Russell 3000	47.5%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Investments	15.0	Alternative Investments	12.5*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



Period Ending 9/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Basic Funds**	**0.5%**	**13.8%**	**6.2%**	**2.9%**	**9.5%**
Composite Index	0.5	13.4	6.4	2.7	9.3

**Returns are reported net of fees.

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

POST RETIREMENT FUND

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

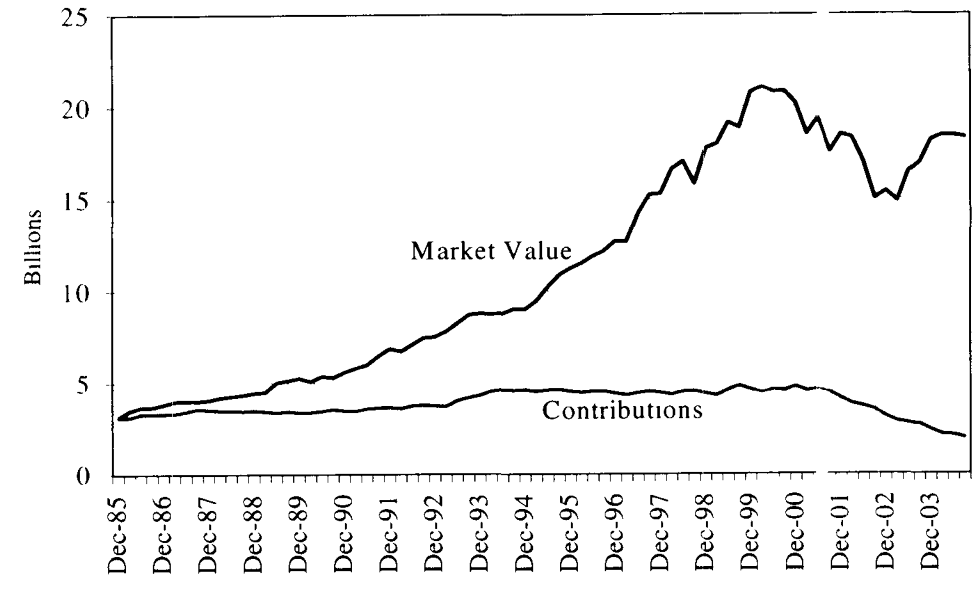
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis If the Post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

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

Asset Growth

The market value of the Post Fund decreased 0.6% during the third quarter of 2004

Negative net contributions accounted for the slight decrease.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	3/04	6/04	Latest Qtr. 9/04
Beginning Value	17,743	$20,768	$20,153	$18,475	$15,403	$18,162	$18,429	$18,415
Net Contributions	211	167	-647	-1,000	-719	-261	-47	-157
Investment Return	2,814	-782	-1,031	-2,072	3,478	528	33	41
Ending Value	20,768	$20,153	$18,475	$15,403	$18,162	$18,429	$18,415	$18,299

POST RETIREMENT FUND
Asset Mix

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

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

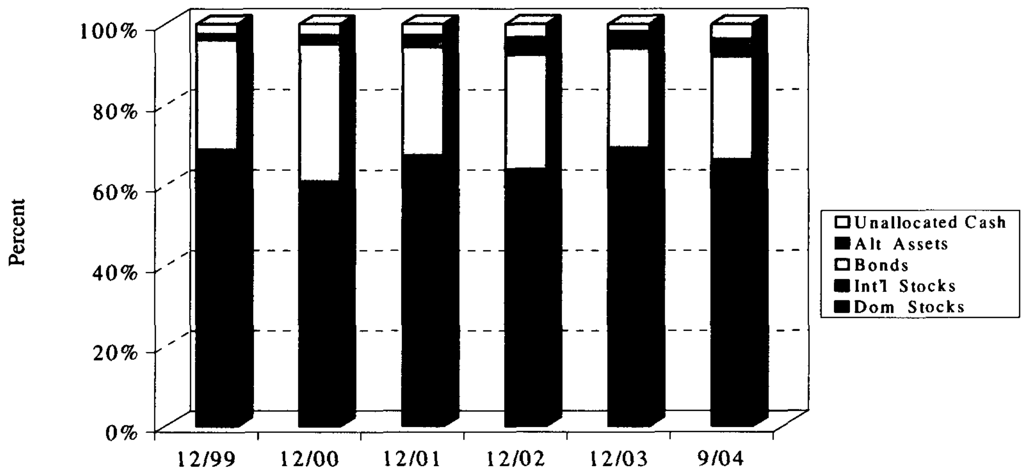
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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

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

Over the last year, the allocation to domestic stocks increased due to positive returns. The allocation to bonds increased and the allocation to domestic equities decreased due to rebalancing.

During the quarter, the allocation to bonds increased over the quarter due to positive returns.



	Last Five years							Latest Qtr.
	12/99	**12/00**	**12/01**	**12/02**	**12/03**	**3/04**	**6/04**	**9/04**
Dom. Stocks	52.0%	47.5%	52.4%	49.6%	52.7%	50.5%	51.4%	50.9%
Int'l. Stocks	16.9	13.5	15.1	14.4	16.7	15.7	15.5	15.6
Bonds	27.2	34.0	26.7	28.3	24.6	25.1	24.6	25.5
Alt. Assets	1.5	2.3	3.1	4.5	4.4	4.3	4.3	4.4
Unallocated Cash	2.4	2.7	2.7	3.2	1 6	4.4	4.2	3.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

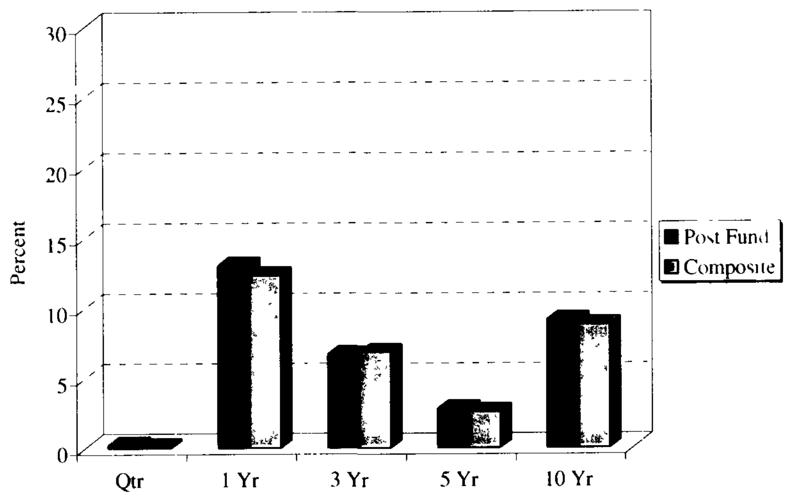
POST RETIREMENT FUND

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* 2Q04
Domestic Stocks	45 0%	Russell 3000	52.8%
Int'l Stocks	15.0	MSCI ACWI Free ex-U.S	15 0
Bonds	25.0	Lehman Aggregate	25.0
Alternative Investments	12.0	Alternative Investments	4 2*
Unallocated Cash	3 0	3 Month T-Bills	3.0
	100.0%		100 0%

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



Period Ending 9/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
			Annualized		
Post Fund**	**0.2%**	**13.0%**	**6.7%**	**2.8%**	**9.1%**
Composite Index	0.1	12.3	6.9	2.6	8.8

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

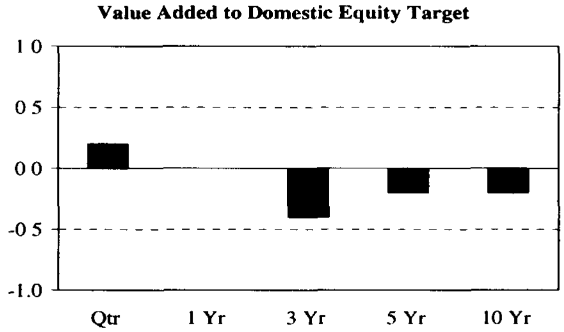
STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

Domestic Stocks

Target: Russell 3000

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



Period Ending 9/30/2004

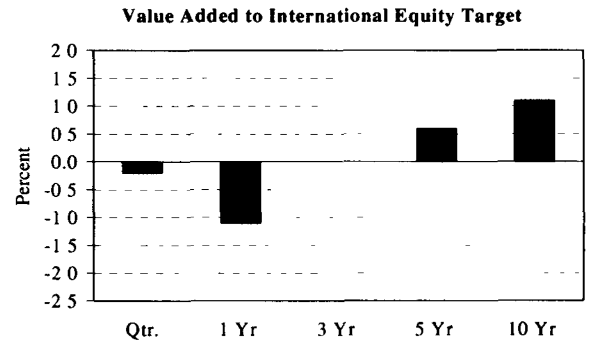
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Domestic Stocks	**-1.7%**	**14.3%**	**5.2%**	**-0.9%**	**10.2%**
Asset Class Target*	-1.9	14.3	5.6	-0.7	10.4

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

International Stocks

Target: MSCI ACWI Free ex U.S. (net)

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



Period Ending 9/30/2004

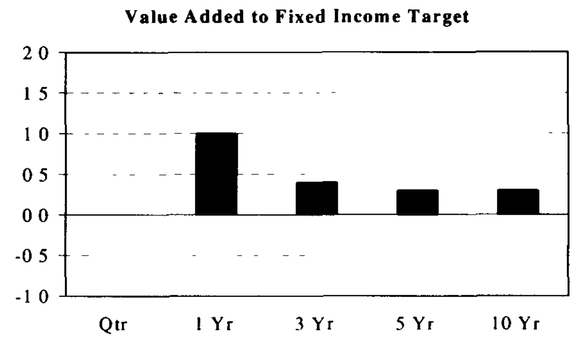
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Int'l. Stocks	**0.8%**	**21.6%**	**10.6%**	**0.4%**	**4.9%**
Asset Class Target*	1.0	22.7	10.6	-0.2	3.8

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

Bonds

Target: Lehman Brothers Aggregate Bond Index

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



Period Ending 9/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Bonds	**3.2%**	**4.7%**	**6.3%**	**7.8%**	**8.0%**
Asset Class Target	3.2	3.7	5.9	7.5	7.7

ALTERNATIVE INVESTMENTS
Performance of Asset Categories
(Net of Fees)

Alternative Investments

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

Period Ending 9/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Alternatives	3.8%	20.3%	5.8%	9.1%	13.7%
Inflation	0.1%	2.5%	2.1%	2.5%	2.4%

Real Estate Investments (Equity emphasis)

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

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

Period Ending 9/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Real Estate	2.4%	12.9%	7.3%	10.0%	10.9%

Private Equity Investments (Equity emphasis)

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

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

Period Ending 9/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Private Equity	4.9%	27.2%	3.3%	7.1%	15.8%

Resource Investments (Equity emphasis)

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

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

Period Ending 9/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Resource	7.0%	12.1%	6.3%	12.7%	12.3%

Yield Oriented Investments (Debt emphasis)

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

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

Period Ending 9/30/2004	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Yield Oriented	1.6%	16.7%	9.8%	11.7%	12.3%

SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.

2. It is one investment vehicle offered to employees as part of Minnesota State Colleges and University's Individual Retirement Account Plan and College Supplemental Retirement Plan.

3. It serves as an external money manager for a portion of some local police and firefighter retirement plans.

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

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

On September 30, 2004 the market value of the entire Fund was $1.0 billion.

Investment Options

	9/30/2004 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$465
Growth Share Account – an actively managed, all common stock portfolio.	$130
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$189
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$60
Bond Market Account – an actively managed, all bond portfolio.	$91
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$49
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	$55

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	61.0%
Bonds	35.0	36.8
Unallocated Cash	5.0	2.2
	100.0%	100.0%

Period Ending 9/30/2004

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.1%**	**10.3%**	**5.5%**	**2.6%**	**9.6%**
Benchmark*	0.0	9.9	5.9	2.8	9.5

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 9/30/2004

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**-1.6%**	**14.3%**	**5.0%**	**-1.2%**	**9.9%**
Benchmark*	-1.9	14.3	5.6	-0.7	10.2

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 9/30/2004

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**-1.8%**	**14.4%**	**5.5%**	**-0.4%**	**10.6%**
Benchmark*	-1.9	14.3	5.6	-0.5	10.5

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

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

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

Period Ending 9/30/2004

		Annualized			
					Since
	Qtr.	1 Yr.	3 Yr.	5 Yr.	9/1/94
Total Account	**0.8%**	**21.7%**	**10.8%**	**0.6%**	**4.6%**
Benchmark*	1.0	22.7	10.6	-0.3	3.5

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

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

	Period Ending 9/30/2004				
		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**3.2%**	**4.7%**	**6.3%**	**7.9%**	**8.0%**
Lehman Agg.	3.2	3.7	5.9	7.5	7.7

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 9/30/2004				
		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**0.4%**	**1.4%**	**1.7%**	**3.3%**	**4.5%**
3 month T-Bills	0.4	1.1	1.4	2.9	4.1

Asset Mix

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

FIXED INTEREST ACCOUNT

Investment Objectives

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

	Period Ending 9/30/2004				
		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**Since 11/1/94**
Total Account	**1.0%**	**4.2%**	**5.0%**	**5.5%**	**6.1%**
Benchmark*	0.8	3.1	3.0	4.1	5.1

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

Asset Mix

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

DEFERRED COMPENSATION PLAN ACCOUNTS

DESCRIPTION

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

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

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

LARGE CAP EQUITY

Vanguard Institutional Index (passive)
- A passive domestic stock portfolio that tracks the S&P 500

	Period Ending 9/30/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**-1.9%**	**13.9%**	**4.1%**	**-1.2%**
S&P 500	-1 9	13 9	4 0	-1 3

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

	Period Ending 9/30/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.3%**	**21.0%**	**4.6%**	**-7.1%**
S&P 500	-1 9	13 9	4.0	-1 3

Smith Barney Appreciation Y (active)
- A diversified fund of large cap stocks which is expected to outperform the S&P 500, over time.

	Period Ending 9/30/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**-1.8%**	**N/A**	**N/A**	**6.4%**
S&P 500	-1 9	N/A	N/A	6 8

MID CAP EQUITY

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

	Period Ending 9/30/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 1/1/04
Fund	**-0.8%**	**N/A**	**N/A**	**4.9%**
MSCI US Mid-Cap 450	-0 8	N/A	N/A	5 0

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)
- A fund that invests primarily in companies with small market capitalizations and is expected to outperform the Russell 2000

	Period Ending 9/30/2004			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**-1.5%**	**20.0%**	**12.7%**	**11.1%**
Russell 2000	-2 9	18 8	13 7	7 4

DEFERRED COMPENSATION PLAN ACCOUNTS

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

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

Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.2%**	**21.0%**	**14.0%**	**6.9%**
MSCI EAFE	-0.3	22.1	9 2	-0.8

Vanguard Institutional Developed Markets (passive)

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

Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**-0.5%**	**N/A**	**N/A**	**12.7%**
MSCI EAFE	-0.3	N/A	N/A	12.4

BALANCED

Dodge & Cox Balanced Fund (active)

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

Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	**0.5%**	**15.2%**	**N/A**	**15.2%**
Benchmark	0.2	9.8	N/A	9.8

Vanguard Balanced Fund (passive)

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

Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**0.2%**	**N/A**	**N/A**	**5.8%**
Benchmark	0.2	N/A	N/A	5.8

FIXED INCOME

Dodge & Cox Income Fund (active)

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

Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**2.7%**	**3.7%**	**6.6%**	**8.0%**
Lehman Agg.	3.2	3.7	5.9	7.5

Vanguard Total Bond Market Fund (passive)

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

Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**3.1%**	**N/A**	**N/A**	**4.3%**
Lehman Agg.	3.2	N/A	N/A	4.4

Money Market Account

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

Period Ending 9/30/2004		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.4%**	**1.4%**	**1.7%**	**3.3%**
3-Mo. Treas.	0.4	1.1	1.4	2.9

DEFERRED COMPENSATION PLAN ACCOUNTS

FIXED INTEREST ACCOUNT

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

Period Ending 9/30/2004

		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**0.9%**	**4.2%**	**5.0%**	**5.5%**
Benchmark	0.8	3.1	3.0	4.1

FIXED FUND

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

Period Ending 9/30/2004

The quarterly blended rate is 4.8%

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.

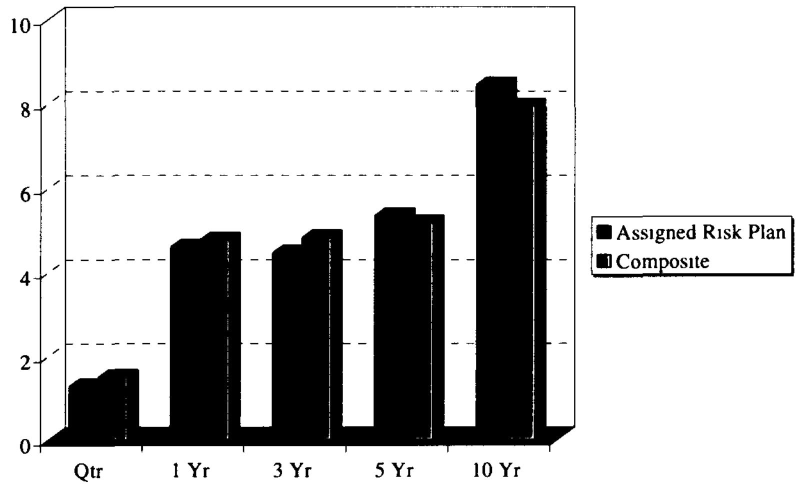
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	9/30/2004 Target	9/30/2004 Actual
Stocks	20.0%	22.8%
Bonds	80.0	77.2
Total	100.0%	100.0%

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

Performance Benchmarks
A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. Since July 1, 1994, the equity benchmark has been the S&P 500 index. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the total fund asset allocation targets.

Market Value
On September 30, 2004 the market value of the Assigned Risk Plan was $273 million.



Period Ending 9/30/2004

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	1.3%	4.6%	4.5%	5.4%	8.5%
Composite	1.5	4.8	4.8	5.2	8.0
Equity Segment*	-2.1	10.3	2.7	0.3	11.9
Benchmark	-1.9	13.9	4.0	-1.3	11.1
Bond Segment*	2.4	2.8	4.3	5.9	6.6
Benchmark	2.4	2.5	4.7	6.5	6.9

* 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

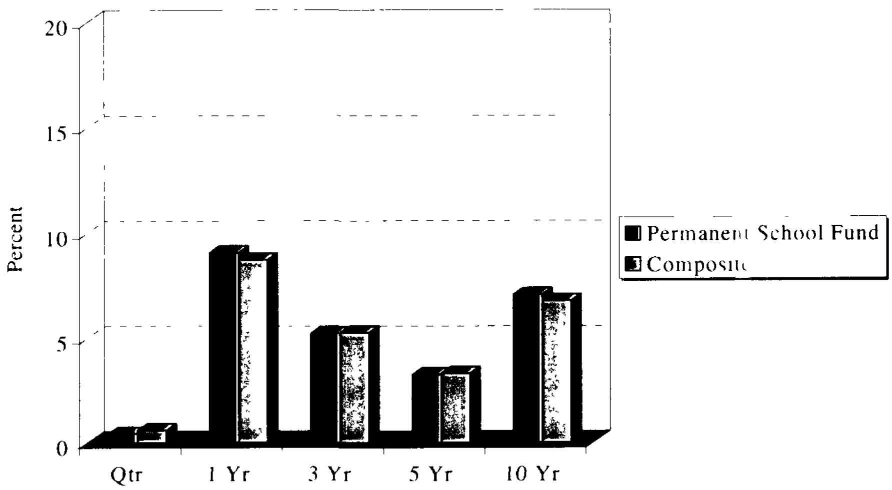
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income

	9/30/2004 Target	9/30/2004 Actual
Stocks	50.0%	52 4%
Bond	48 0	46 1
Unallocated Cash	2 0	1.5
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, 2004 the market value of the Permanent School Fund was $580 million



Period Ending 9/30/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Fund (1) (2)	0 4%	9 1%	5 2%	3.3%	7 1%
Composite	0 6	8 7	5 3	3.3	6 8
Equity Segment (1) (2)	-1 9	13 8	4 1	-1 2	N/A
S&P 500	-1 9	13 9	4 0	-1 3	N/A
Bond Segment (1)	3 2	4 1	6 1	7 7	8.2
Lehman Aggregate	3 2	3 7	5 9	7 5	7.7

(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

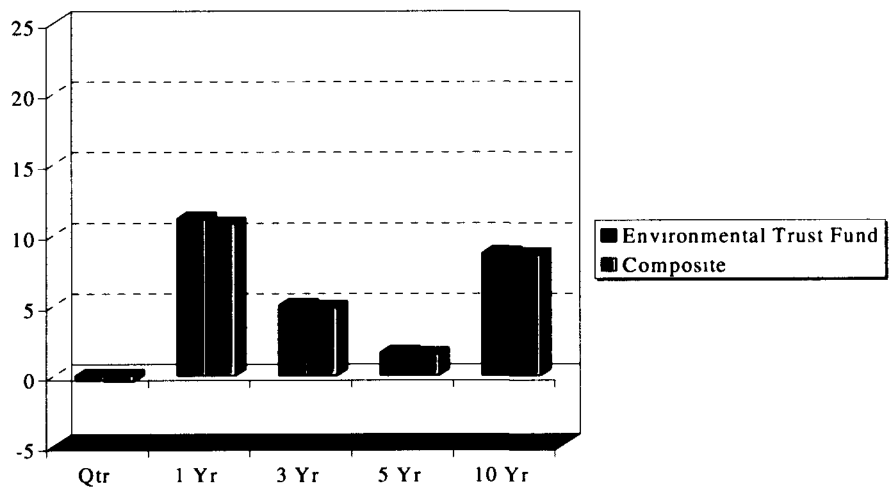
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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, 2004 the market value of the Environmental Trust Fund was $343 million.

	9/30/2004 Target	9/30/2004 Actual
Stocks	70.0%	68.7%
Bonds	28.0	30.7
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



Period Ending 9/30/2004

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	-0.4%	11.1%	5.0%	1.6%	8.7%
Composite	-0.4	10.8	4.8	1.5	8.6
Equity Segment*	-1.9	14.0	4.1	-1.2	11.2
S&P 500	-1.9	13.9	4.0	-1.3	11.1
Bond Segment*	3.2	4.6	6.3	7.7	8.0
Lehman Agg.	3.2	3.7	5.9	7.5	7.7

* Actual returns are calculated net of fees.

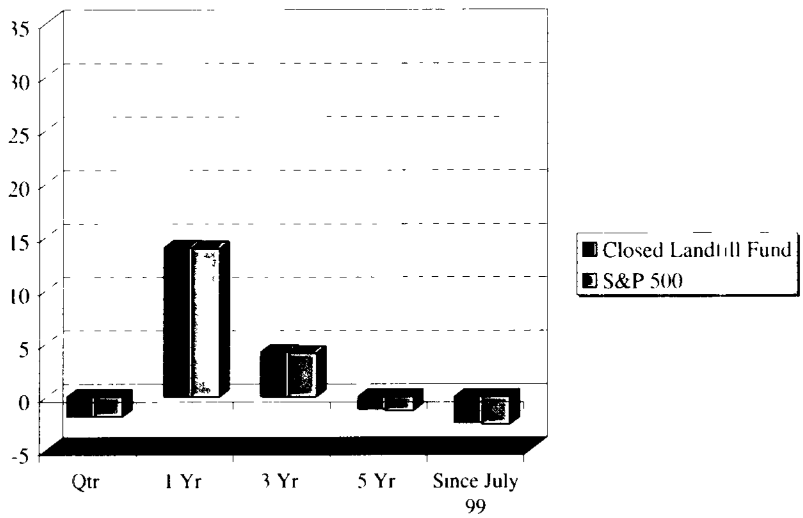
CLOSED LANDFILL INVESTMENT FUND

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

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

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

Market Value
On September 30, 2004 the market value of the Closed Landfill Investment Fund was $31 2 million.



Period Ending 9/30/2004

			Annualized	
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Fund (1)	-1.8%	14.0%	4 2%	-1 1%
S&P 500 (2)	-1 9	13.9	4 0	-1 3

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

STATE CASH ACCOUNTS

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

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

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

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

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

Investment Objectives
Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 9/30/2004

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$3,085**	**0.4%**	**1.2%**	**1.7%**	**3.6%**	**4.6%**
Custom Benchmark**		0.2	0.6	1.2	3.1	4.3
Trust Fund Cash Pool*	**$66**	**0.4**	**1.2**	**1.5**	**3.3**	**4.5**
Custom Benchmark***		0.2	0.6	1.0	2.6	4.0
3 month T-Bills		0.4	1.1	1.4	2.9	4.1

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT

Composition of State Investment Portfolios By Type of Investment
Market Value September 30, 2004 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	139,571	0	1,489,392	0	3,227,361	1,055,050	892,439	6,803,813
	2.05%		21.89%		47.43%	15.51%	13.12%	100%
Public Employees Retirement Fund	102,211	0	1,076,638	0	2,332,674	762,659	643,429	4,917,611
	2.08%		21.89%		47.44%	15.51%	13.08%	100%
State Employees Retirement Fund	84,912	0	907,918	0	1,967,119	643,142	542,613	4,145,704
	2.05%		21.90%		47.45%	15.51%	13.09%	100%
Public Employees Police & Fire	46,876	0	498,887	0	1,081,081	353,402	299,513	2,279,759
	2.06%		21.88%		47.42%	15.50%	13.14%	100%
Highway Patrol Retirement Fund	4,483	0	47,920	0	103,824	33,945	28,638	218,810
	2.05%		21.90%		47.45%	15.51%	13.09%	100%
Judges Retirement Fund	714	0	7,632	0	16,535	5,406	4,561	34,848
	2.05%		21.90%		47.45%	15.51%	13.09%	100%
Correctional Employees Retirement	4,859	0	52,024	0	112,717	36,852	31,099	237,551
	2.05%		21.90%		47.45%	15.51%	13.09%	100%
Public Employees Correctional	2,556	0	16,624	0	36,018	11,776	9,934	76,908
	3.32%		21.62%		46.83%	15.31%	12.92%	100%
TOTAL BASIC FUNDS	386,182	0	4,097,035	0	8,877,329	2,902,232	2,452,226	18,715,004
	2.06%		21.89%		47.44%	15.51%	13.10%	100%
POST RETIREMENT FUND	652,115	0	4,665,513	0	9,318,397	2,860,884	802,084	18,298,993
	3.56%		25.50%		50.92%	15.64%	4.38%	100%
TOTAL BASIC AND POST	1,038,297	0	8,762,548	0	18,195,726	5,763,116	3,254,310	37,013,997
	2.81%		23.67%		49.16%	15.57%	8.79%	100%

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	10,139	170,932	0	0	283,691	0	0	464,762
	2.18%	36.78%			61.04%			100%
Growth Share Account	0	0	0	0	130,306	0	0	130,306
					100.00%			100%
Money Market Account	49,025	0	0	0	0	0	0	49,025
	100.00%							100%
Common Stock Index	0	0	0	0	189,238	0	0	189,238
					100.00%			100%
Bond Market Account	0	0	90,763	0	0	0	0	90,763
			100.00%					100%
International Share Account	0	0	0	0	0	60,251	0	60,251
						100.00%		100%
Fixed Interest Account	290	0	55,222	0	0	0	0	55,512
	0.52%		99.48%					100%
TOTAL SUPPLEMENTAL FUNDS	59,454	170,932	145,985	0	603,235	60,251	0	1,039,857
	5.72%	16.44%	14.04%		58.01%	5.79%		100%
MN DEFERRED COMP PLAN *	52,466	0	1,007,074	0	1,257,044	152,368	0	2,468,952
	2.13%		40.79%		50.91%	6.17%		100%
TOTAL RETIREMENT FUNDS	1,150,217	170,932	9,915,607	0	20,056,005	5,975,735	3,254,310	40,522,806
	2.84%	0.42%	24.47%		49.49%	14.75%	8.03%	100%

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

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	7,896	0	204,132	0	61,379	0	0	273,407
	2.89%		74.66%		22.45%			100%
ENVIRONMENTAL FUND	2,079	105,447	0	235,607	0	0	0	343,133
	0.61%	30.73%		68.66%				100%
PERMANENT SCHOOL FUND	8,581	267,568	0	304,231	0	0	0	580,380
	1.48%	46.10%		52.42%				100%
CLOSED LANDFILL INVESTMENT	45	0	0	31,136	0	0	0	31,181
	0.14%			99.86%				100%
TREASURERS CASH	3,085,895	0	0	0	0	0	0	3,085,895
	100.00%							100%
HOUSING FINANCE AGENCY	64,730	154,912	0	0	0	0	0	219,642
	29.47%	70.53%						100%
MINNESOTA DEBT SERVICE FUND	8,341	223,814	0	0	0	0	0	232,155
	3.59%	96.41%						100%
MISCELLANEOUS ACCOUNTS	84,584	98,472	0	34,507	0	0	0	217,563
	38.88%	45.26%		15.86%				100%
TOTAL CASH AND NON-RETIREMENT	3,262,151	850,213	204,132	605,481	61,379	0	0	4,983,356
	65.46%	17.06%	4.10%	12.15%	1.23%			100%
GRAND TOTAL	4,412,368	1,021,145	10,119,739	605,481	20,117,384	5,975,735	3,254,310	45,506,162
	9.70%	2.24%	22.24%	1.33%	44.21%	13.13%	7.15%	100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 30, 2004

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the fiscal year to date through October 31, 2004 is included as **Attachment A.**

A report on travel for the period from August 16, 2004 - November 15, 2004 is included as **Attachment B.**

2. Post Retirement Benefit Increase for FY04

The Post Retirement benefit increase for FY04 will be 2.5%. The increase will be payable to eligible retirees effective January 1, 2005.

For FY 1995-1997 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:

1995	6.4%
1996	8.0%
1997	10.1%
1998	9.8%
1999	11.1%
2000	9.5%
2001	4.5%
2002	0.7%
2003	2.1%
2004	2.5%

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 8, 2004.

4. **Update regarding Pharmaceutical Shareholder Resolutions**

At it's September 7, 2004 meeting, the Board authorized the submission of shareholder resolutions at Eli Lilly and Company; Merck & Co., Inc.; Pfizer Inc.; and Wyeth for inclusion in their 2005 proxy statements. Staff has submitted the resolutions. Any developments will be reported to the Board at its December 8, 2004 meeting.

5. **Results of FY04 Audit**

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY04. I should be able to provide a verbal report of the audit findings at the Board meeting on December 8, 2004.

6. **Draft of FY04 Annual Report**

A draft of the SBI's annual report for FY04 will be sent to the Board members/designees and IAC members. The final report will be distributed in January 2005.

7. **Tentative Meeting Dates for Calendar 2005**

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 2005 are:

IAC	SBI
Tuesday, March 1, 2005	**Wednesday, March 2, 2005**
Tuesday, June 7, 2005	**Wednesday, June 8, 2005**
Tuesday, September 6, 2005	**Wednesday, September 7, 2005**
Tuesday, December 6, 2005	**Wednesday, December 7, 2005**

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 2005 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH OCTOBER 31, 2004

ITEM	FISCAL YEAR 2005 BUDGET	FISCAL YEAR 2005 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,800,000	$ 507,031
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	860
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 1,840,000**	**$ 507,891**
STATE OPERATIONS		
RENTS & LEASES	196,000	66,040
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	3,153
PRINTING & BINDING	10,000	3,134
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	1,876
COMMUNICATIONS	20,000	4,289
TRAVEL, IN-STATE	1,000	219
TRAVEL, OUT-STATE	35,000	7,125
SUPPLIES	20,000	5,654
EQUIPMENT	0	0
EMPLOYEE DEVELOPMENT	10,000	2,095
OTHER OPERATING COSTS	10,000	4,400
SUBTOTAL	**$ 327,000**	**$ 97,985**
ORIGINAL BUDGET	**$ 2,167,000**	**$ 605,876**
BALANCE FORWARD FROM FY 2004	**$ 137,000**	
TOTAL GENERAL FUND	**$ 2,304,000**	**$ 605,876**

ATTACHMENT B

STATE BOARD OF INVESTMENT

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

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: **Domestic Equity Managers:** LSV; Voyageur; UBS **Fixed Income Managers:** Lincoln; Goldman Sachs; **International Manager:** UBS **Alternative Investment Manager:** Goldman Sachs **Consultant:** Richards & Tierney	M. Perry	Chicago, IL 8/23-8/25	$756.94
Manager Monitoring: **Alternative Investment Managers:** Banc Fund; Chicago Growth Partners (Wm. Blair); GTCR Golder Rauner; Merit Capital Partners (Wm. Blair); Prudential Capital Partners; Thoma Cressey; Equity Office Properties Trust **Manager Search:** **Alternative Investment Manager:** Wind Point Partners **Conference:** I.L.P.A. Conference	A. Christensen	Chicago, IL 9/21-9/24	$951.71
Conference: National Council on Teacher Retirement	H. Bicker	Portland, OR 10/9-10/14	$1,105.22
Conference: National Association of State Investment Officers (NASIO)	H. Bicker M. Perry	Helena MT 10/17-10/20	$1,238.55
Conference: Securities Lending Conference sponsored by: ABP Dutch General Pension Fund And NY Teachers Retirement System	S. Kuettel	New York, NY 10/25-10-28	$1,762.28

Tab C

COMMITTEE REPORT

DATE: November 30, 2004

TO: Members, State Board of Investment

FROM: SBI Administrative Committee

The Administrative Committee met on November 17, 2004 to consider the following agenda:

- Review of Potential 2005 Legislative Session Issues

Review of Potential SBI 2005 Legislative Session Issues

The Committee discussed four potential issues for the 2005 session:

1) Post Retirement Fund
2) SBI Budget Process
3) SBI Compensation Plan
4) Alternative Investments Data Privacy

1. Post Retirement Fund

The Retirement Systems are proposing to place a cap of five percent on the annual Post Retirement Fund benefit increase. Over the past several years, Staff and the retirement systems have worked on proposals to smooth the annual increases by extending the amortization period over which investment earnings in the Post Fund are spread. These proposals were met with resistance, partly because the impact was somewhat difficult to understand. The retirement systems believe this new proposal would be easier for participants to understand.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI authorize staff to work with the retirement systems on a legislative proposal seeking to cap the Post Fund benefit increase at 5% annually.

2. **SBI Budget Process**

The retirement systems have proposed a change in the SBI's budgetary process that would allow the SBI to directly bill operating costs to the retirement systems and other agencies and funds for which assets are invested and recapture those receipts for its use. The Investment Advisory Council (IAC) strongly endorses the proposal.

The proposed change would continue to have the SBI seek a legislative appropriation for the portion of the budget directly related to the investment of general fund assets. The SBI's annual budget would continue to be reviewed by the Administrative Committee and be approved by the Board.

If the proposal is approved, Staff recommends that the three retirement system directors be added to the Administrative Committee.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI authorize staff to request legislation be introduced to change the budget process for the SBI.

3. **SBI Compensation Plan**

The IAC and retirement systems also have expressed concern over staff turnover. They believe compensation levels for the SBI are not competitive and should be improved to hire and retain qualified employees.

Currently, the legislature and the department of employee relations set salary and benefit levels for SBI employees. By statute, the salary of the executive director may not exceed 95 percent of the salary of the Governor. The retirement systems and IAC suggest that the Board seek authority to establish its own compensation plan. The salary of the executive director would no longer be tied to the Governor's salary.

RECOMMENDATION:

The SBI Administrative Committee took no position on this issue. Members of the Committee stated that the Investment Advisory Committee should be given the opportunity to present its proposal to the Board.

4. **Alternative Investments Data Privacy**

The SBI's alternative investment program continues to be affected by the issue of data requests from outside parties seeking information about the underlying portfolio companies. Other public plans and endowments have faced the same data privacy issue. A growing number of private equity managers are no longer taking money from these entities to ensure that proprietary information is not disclosed and their competitive position not harmed. Staff believes that if the SBI does not seek corrective action, the SBI will be excluded from attractive investment opportunities.

The SBI currently, and would continue to, provide on a quarterly basis for each fund in which it invests, the commitment amount funded, status of the commitment, the market value of the investment, the internal rate of return and age of the investment.

Last year the legislature dealt with a bill concerning investment in biosciences. As part of that bill, both houses passed language that would have deemed as nonpublic financial or proprietary data the SBI receives from alternative investment managers in its due diligence work. Staff recommends that similar language be brought forward for legislative approval in the next session.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI authorize the Staff to propose legislation which deems as nonpublic financial or proprietary data that SBI receives from alternative investment managers.

Tab D

COMMITTEE REPORT

DATE: November 30, 2004

TO: Members, State Board of Investment

FROM: Domestic Equity Large-Capitalization Growth Search Committee

A large capitalization growth manager search was conducted as a result of the decision by the Minnesota State Board of Investment (SBI), at its September 2003 meeting, to control misfit risk, or style bias, in the Domestic Equity Program by allocating assets to active managers based on market capitalization and style. Staff has proposed to diversify the large capitalization growth managers, which collectively manage more than $1.6 billion. Currently, the SBI has two regular and two emerging managers in the large capitalization growth area.

The Search Committee met on October 5, 2004 to select large capitalization growth managers to interview as candidates for the Domestic Equity Program. The members of the Search Committee included:

Name	**Representing**
Peter Sausen	Governor Pawlenty
Carla Heyl	State Auditor Anderson
Alberto Quintela	Secretary of State Kiffmeyer
Christie Eller	State Attorney General Hatch
Gary Norstrem	Investment Advisory Council
Dave Bergstrom	Investment Advisory Council

Process

To initiate the search, Staff requested information from approximately 50 large cap growth managers. These managers came from Staff recommendations, as well as recommendations from Richard's & Tierney and others. Staff also screened databases seeking candidates with sufficient return history, assets under management, and an acceptable risk and return profile relative to the Russell 1000 Growth Index. Each of these candidates was asked to respond to a questionnaire, provide a monthly return history for its composite and five separate accounts, and provide five years of portfolio holdings for a representative account.

Staff reviewed each manager's response to the questionnaire and eliminated the managers that do not fit the SBI's needs. Important considerations included investment philosophy and process, investment staff turnover, level of stock turnover, and composition of firm's client base. Staff also looked for risk awareness and presence of appropriate risk controls. Richards & Tierney provided portfolio analysis for each candidate.

The Search Committee interviewed six candidates on Friday, November 12, 2004. Based on the interviews, questionnaire responses, and other information provided, the Search Committee recommends that six (6) firms be retained by the SBI in the Domestic Equity Program. Information regarding each of the recommended firms is provided starting on page 3 of this Tab.

RECOMMENDATION:

The Domestic Equity Search Committee recommends that the following firms be retained for the Domestic Equity Program:

Large Cap Growth Managers	Location of Investment Team
Domestic Equity Managers	
Enhanced Investment Technologies, LLC (INTECH)	Princeton, NJ & Palm Beach Gardens, FL
Jacobs Levy Equity Management	Florham Park, NJ
Sands Capital Management, Inc.	Arlington, VA
Transamerica Investment Management, LLC	San Francisco, CA
Emerging Managers	
Knelman Asset Management Group	Minneapolis, MN
Winslow Capital Management, Inc.	Minneapolis, MN

and that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a contract with each firm.

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission:	June 28, 2004
Firm's Name:	Enhanced Investment Technologies, LLC (INTECH)
Name of Product:	INTECH Large Cap Growth
Investment Style:	Large Cap Growth

Investment Philosophy:
INTECH's active strategies are based on a mathematical theory that is the result of research done by Dr. Robert Fernholz and published in his 1982 paper, "Stochastic Portfolio Theory and Stock Market Equilibrium." Dr. Fernholz sought to demonstrate in that paper that by combining securities with high relative volatility, but low covariance, a portfolio could be constructed that will outperform a benchmark index over the long term. The key element is in INTECH's engineering of that process into a specific portfolio construction methodology.

The underlying premise of the strategy capitalizes on the covariance structure of the market and stock volatility to build portfolios of companies whose price variability is designed to produce returns in excess of the benchmark. The innovative element of INTECH's approach derives from the fact that no estimates are necessary of the future rates of return for the stocks in the portfolio. INTECH's process is based on mathematically proven market dynamics and does not depend on proprietary fundamental forecasts.

INTECH's process is different than either traditional fundamental or quantitative strategies and the hallmark of the process is the risk managed nature of the strategy.

Investment Process:
The equity investment policy is established by the application of a mathematical process developed by INTECH. This unique approach to institutional investment management involves no specific sector or security selection decisions based on fundamentals. The investment process is designed to determine more efficient equity weightings of the securities held in the portfolio utilizing a specific mathematical formula to optimize and rebalance. For the Large Cap Growth Strategy, the process begins with the universe of securities in the S&P BARRA Growth Index or the Russell 1000 Growth Index. From that universe, the process is applied with the following risk parameters for the Large Cap Growth mandate:

- Minimize absolute standard deviation or maximize information ratio
- Lesser of 2.5% or 10 x maximum differential from index weight
- Beta constrained to be equal to or less than the beta of the benchmark index (Russell 1000 Growth)

Target proportions are established as a result of an optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Those target proportions are established using stochastic calculus to determine more efficient weightings of each stock in the portfolio.

Once those proportions are determined and the portfolio is constructed, it is then rebalanced to those target proportions every 6 business days and partially re-optimized weekly. The resultant turnover in the portfolio is approximately 75% per year.

Ownership:
INTECH is a subsidiary of Janus Capital Group Inc., which owns 77.5% of INTECH. INTECH employees own the remaining 22.5%.

	Updated through 6/30/04 $(MM)
Firm's total assets under management:	$17,605
Total Assets under management in this product:	$9,423
Institutional Assets under management in this product	$9,423
Number of Separate Accounts in this product:	122
Number of Portfolio Managers on this product:	4
Number of Analysts on this product:	1

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

5 Largest Tax-Exempt Institutional Separate Account	
Type	**Assets ($MM)**
Corporate	$625.2
Public	$393.6
Taft-Hartley	$360.2
Corporate	$301.0
Public	$247.1

	Investment Manager:	INTECH - REPA				
	Benchmark:	FRANK RUSSELL 1000 GROWTH				
	—PORTFOLIO—		—BENCHMARK—		—VAM—	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
00 Q4	-6.93 *	-6.93 *	-17.44 *	-17.44 *	12.73 *	12.73 *
01 Q1	-16.24		-20.90		5.89	
Q2	9.32		8.42		0.83	
Q3	-20.95		-19.41		-1.92	
Q4	16.90	-15.39	15.14	-20.42	1.53	6.32
02 Q1	-0.71		-2.59		1.93	
Q2	-15.31		-18.67		4.14	
Q3	-14.75		-15.05		0.35	
Q4	7.31	-23.07	7.15	-27.88	0.15	6.68
03 Q1	-1.12		-1.07		-0.05	
Q2	13.47		14.31		-0.73	
Q3	4.82		3.91		0.88	
Q4	10.12	29.51	10.41	29.75	-0.27	-0.18
04 Q1	4.22		0.79		3.41	
Q2	2.40		1.94		0.45	
Latest						
1 yr		23.18		17.88		4.50
3 yr		-0.59		-3.74		3.27
5 yr						
Cumulative 0011-0406		-4.73		-11.78		7.99
Std.Dev		18.52		22.78		7.60

*Fourth Quarter 2000 includes two months of performance, November and December.

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission:	June 28, 2004
Firm's Name:	Jacobs Levy Equity Management
Name of Product:	Large Cap Growth (Russell 1000 Growth)
Investment Style:	Large Cap Growth

Investment Philosophy:
Our philosophy has evolved from over 17 years of award-winning research conducted by Bruce Jacobs and Ken Levy. We believe the market is a complex system, permeated with inefficiencies offering opportunities for profitable active investment that can only be detected and fully exploited with intensive statistical modeling.

Quantitative modeling of a wide range of stocks and a variety of factors permits breadth of inquiry without sacrificing depth of analysis. Our multidimensional approach maximizes the number of insights that can be exploited, and captures the intricacies of stock price behavior, allowing the firm to construct portfolios that meet a variety of client-specific needs and provide consistency of performance through small exposures to numerous potential opportunities.

To measure "pure" sources of excess return, we "disentangle" return effects. Simultaneous analysis in a unified framework isolates each source of return from the background noise created by other factors. "Pure" effects are additive and provide more reliable predictions of future stock price behavior than "naïve" effects from simple single-factor analyses.

Our security selection system is dynamic and forward-looking. We continuously monitor portfolio returns to gauge the effectiveness of existing models and highlight areas for further research aimed at detecting new inefficiencies and anticipating return opportunities.

Investment Process:
The Jacobs Levy multidimensional investment process combines human insight and intuition, finance and behavioral theory, and state-of-the-art quantitative and statistical methods. The process is engineered to be fully integrated, using the same proprietary factors across all investment functions, from security selection through portfolio construction, trading, performance attribution, and guideline compliance.

Research, initiated and supervised by Principals Bruce Jacobs and Ken Levy, uses the best available, internally scrubbed balance sheet and income statement data, analyst and corporate earnings expectational data, economic data, and pricing data from a broad universe of over 3000 U.S. equities. Intuitively appealing and theoretically reasonable return-predictor relationships are investigated and modeled.

Model building considers numerous firm and market-based attributes, including earnings, profitability, value, growth, size, momentum, price reversals, and volatility; managements' informed actions and analysts' influential opinions; and investor sentiment and other behavioral effects such as investor underreaction and overreaction. Additional models capture the effects of industry affiliation. A backdrop of economic factors influences the models. The breadth of inquiry is combined with a depth of analysis that allows for nonlinearities and distributed effects across different types of stocks. Importantly, factors are analyzed simultaneously, using the Principals' pioneering "disentangling" techniques, which result in "purified" return estimates that are additive and more robust.

Model results are "graded" for reliability and weighted to form expected returns for each stock, given its exposures to the various factors. Returns are estimated on a daily basis for both long-term and short-term horizons; the dual horizons assist the timing of investment decisions.

Security expected returns generated from more than 70 models become inputs for the firm's proprietary portfolio optimizer, which is customized along the same dimensions found relevant in security evaluation. The optimizer, run daily by the firm's Traders/Portfolio Engineers under the supervision of the Portfolio Managers, selects stocks and associated weights with the objective of maximizing portfolio performance (as defined by information ratio), while ensuring proper diversification across inefficiencies, securities, industries, and sectors and taking into account liquidity, trading costs, and investor guidelines. Diversification across many small exposures to numerous potential opportunities contributes to consistency of performance over time and helps to control portfolio risk.

A proprietary expert system flags any proposed trades that require further examination. These are reviewed by Traders and Portfolio Managers, who check news reports and broker research and, if necessary, contact company managements and/or Wall Street analysts to ensure that real-world conditions are conducive to trading. The Traders monitor the attractiveness, liquidity, and urgency of each proposed trade. An extensive electronic trading infrastructure minimizes transaction costs.

Our proprietary performance attribution system, customized along the same dimensions as the firm's stock selection process, allows the Portfolio Managers to see how each component of the investment engine is working. Continuous monitoring of each portfolio determines whether selected insights are paying off as expected. A feedback loop between performance attribution and research helps to translate the information gained from performance attribution into improvements in stock selection, and ensure that the system remains dynamic, adjusting to changing opportunities.

Ownership:
Jacobs Levy is wholly and equally owned by its two founders, Bruce Jacobs and Ken Levy.

	Updated through 6/30/04* $(MM)
Firm's total assets under management:	$16,747
Total Assets under management in this product:	$1,427
Institutional Assets under management in this product:	$1,427
Number of Separate Accounts in this product:	10
Number of Portfolio Managers on this product:	2
Number of Analysts on this product:	9

* Excludes a $593 M funding on 7/30/04 from a corporate pension plan in this product.

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

Type	Assets ($MM)
Public Pension	$361.1
Public Pension	$243.3
Corporate Pension	$203.0
Corporate Pension	$160.3
Corporate Pension	$146.2

Investment Manager:	JACOBS LEVY - REP1	
Benchmark:	FRANK RUSSELL 1000 GROWTH	

	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
99 Q2	3.43		3.85		-0.40	
Q3	-3.76		-3.66		-0.10	
Q4	26.34	25.77	25.14	25.20	0.96	0.45
00 Q1	5.96		7.13		-1.09	
Q2	-1.27		-2.70		1.46	
Q3	-3.12		-5.38		2.39	
Q4	-22.52	-21.48	-21.35	-22.42	-1.50	1.22
01 Q1	-23.12		-20.90		-2.81	
Q2	10.71		8.42		2.11	
Q3	-18.75		-19.41		0.82	
Q4	14.92	-20.53	15.14	-20.42	-0.19	-0.13
02 Q1	-1.36		-2.59		1.26	
Q2	-15.23		-18.67		4.24	
Q3	-15.43		-15.05		-0.45	
Q4	5.04	-25.72	7.15	-27.88	-1.97	3.00
03 Q1	-0.39		-1.07		0.69	
Q2	15.48		14.31		1.03	
Q3	3.27		3.91		-0.62	
Q4	9.85	30.50	10.41	29.75	-0.51	0.58
04 Q1	2.05		0.79		1.26	
Q2	0.42		1.94		-1.49	
Latest						
1 yr		16.26		17.88		-1.37
3 yr		-2.47		-3.74		1.31
5 yr		-5.50		-6.48		1.05
Cumulative 9904-0406		-4.63		-5.50		0.92
Std Dev		22.66		22.25		3.25

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: June 25, 2004

Firm's Name: Sands Capital Management, Inc.

Name of Product: Large Cap Growth Equity

Investment Style: Large Cap Growth Equity

Investment Philosophy:

Our mission at Sands Capital is to add value by enhancing the wealth of our clients with prudence over time. We believe the best way to accomplish our mission is to fully invest client assets in equity portfolios containing high-quality, seasoned, growing businesses; to focus those portfolios on only the best ideas across an array of attractive and growing business spaces; and to invest for the long-term. This investment strategy supports the fundamental philosophy that sustained above average earnings growth is the secret to common stock price appreciation. Our investment objective is to invest in companies with the long-term potential to significantly outperform a relevant index.

In addition, Sands Capital believes all of its personnel and efforts should be exclusively dedicated toward these ends, creating a unified goal of maintaining client portfolios that have dramatic wealth creation potential without undue risk.

Investment Process:

Research is the cornerstone of Sands Capital's investment process. Sands Capital's research effort is bottom-up, company-focused, and long-term oriented. All research analyses and conclusions are internally generated using a variety of internal and external data sources. An investment team consisting of eight generalists, each with expertise in certain industries, conducts the firm's research.

Sands Capital's proprietary universe consists of approximately 250-300 companies, participating in growing sectors such as advanced technology, financial services, health care, branded consumer and retailers. Companies are selected for inclusion in the universe if they are demonstrating superior historical and projected sales and earnings growth and have the potential for wealth creation.

At this point in the research process, Sands Capital seeks to identify the potential leaders in attractive business spaces. The investment team uses seven qualitative success factors to identify the true leader(s) within the most promising business spaces:

1. Creating growth drivers: new products/services and entering new markets
2. Developing and anticipating important industry trends
3. Creating competitive barriers
4. Gaining market share
5. Building financial muscle to weather adverse periods and fund new opportunities
6. Displaying superior management ability
7. Applying technology to add value

Companies that pass through the leader screen are added to the Leader List, which contains the leading 80 to 100 companies in 15 to 20 growing industries.

When a member or group of members from the investment team can demonstrate that a company on the Leader List is an attractive and growing business space, has demonstrable competitive advantages and leadership traits, and has the potential for sustainable above-average earnings growth over the next 3-5 years, that company is placed on the Sands Capital Management New Opportunities List.

To be included in client portfolios, a company must meet the same rigorous criteria as existing portfolio companies:

1. Will deliver sustainable above-average earnings growth over the next 3-5 years.
2. Has significant competitive advantages.
3. Has a leadership position or proprietary niche.
4. Demonstrates a clear sense of purpose and mission in an understandable business.
5. Exhibits financial strength.
6. Is rationally valued relative to comparable companies, the market, and the business prospects for that particular company.

To determine whether a company meets these criteria, one or more members of the investment team build the investment case. The investment case includes a proprietary detailed earnings model, basic facts and figures pertaining to the company, an explanation as to exactly how the company matches the criteria, the key metrics by which the company can be measured, the outstanding/unresolved issues relating to the company, and the hypothetical sell case for the company. This information is shared with the larger investment team, and a vetting process ensues. The vetting process can last from several weeks to several months, during which additional questions are asked and answered (if possible) and additional information is gathered. When all outstanding issues are resolved and with significant input from the investment team and the Director of Research, the CIO determines the target weights for new holdings in client portfolios.

Ownership:
Sands Capital Management is an independent S Corporation and has been 100% employee owned since inception.

	Updated through 6/30/04 $(MM)
Firm's total assets under management:	$8,487 Million
Total Assets under management in this product:	$8,474 Million
Institutional Assets under management in this product	$7,926 Million
Number of Separate Accounts in this product:	234
Number of Portfolio Managers on this product:	8*
Number of Analysts on this product:	0

* Portfolio managers also function as research analysts.

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

Name	Type	Amount
Name Confidential	Corporate ERISA	$655.9
Florida State Board of Administration	Public Defined Benefit	$469.3
Illinois Municipal Retirement Fund	Public Defined Benefit	$408.6
Indiana Public Employees' Retirement Fund	Public Defined Benefit	$332.7
Name Confidential	Corporate ERISA	$293.1

	Investment Manager:	SANDS CAPITAL - REP6				
	Benchmark:	FRANK RUSSELL 1000 GROWTH				
	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q2	0.55 *		2.55 *		-1.96 *	
Q3	2 38		1.48		0 89	
Q4	3.63	6.68	3.87	8.10	-0.23	-1.31
94 Q1	-4 29		-4.41		0.12	
Q2	-0 65		-1.02		0.37	
Q3	7 64		7.69		-0.05	
Q4	1.07	3.44	0.75	2.66	0.32	0.76
95 Q1	11.48		9.52		1.78	
Q2	16.24		9.83		5 83	
Q3	6.48		9.08		-2.38	
Q4	3.93	43.40	4.55	37.19	-0.60	4.53
96 Q1	6 83		5 37		1.39	
Q2	10 70		6.36		4.08	
Q3	4 23		3.60		0.61	
Q4	12 82	39.08	6.04	23.12	6.40	12.96
97 Q1	0 68		0 54		0 15	
Q2	20.18		18 91		1 06	
Q3	10 57		7.52		2.84	
Q4	-1.61	31.62	1.52	30.49	-3 08	0.87
98 Q1	15.04		15.15		-0.10	
Q2	8 44		4 54		3 73	
Q3	-6 95		-9.08		2 35	
Q4	32.99	54.36	26.74	38.71	4 93	11.29
99 Q1	13 90		6 36		7 09	
Q2	8 48		3.85		4 46	
Q3	-4.33		-3.66		-0 69	
Q4	25.30	48.12	25.14	33.16	0 13	11.23
00 Q1	11 77		7.13		4 34	
Q2	-1 65		-2.70		1 08	
Q3	-10 97		-5.38		-5 91	
Q4	-17.07	-18.84	-21.35	-22.42	5 43	4.62
01 Q1	-22.12		-20.90		-1 54	
Q2	8.78		8.42		0 33	
Q3	-23.06		-19.41		-4 53	
Q4	27.64	-16.80	15.14	-20.42	10 86	4.55

	—PORTFOLIO—		—BENCHMARK—		——VAM——	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
02 Q1	-2.57		-2.59		0.02	
Q2	-15.51		-18.67		3.89	
Q3	-17.75		-15.05		-3.18	
Q4	7.89	-26.95	7.15	-27.88	0.68	1.30
03 Q1	3.66		-1.07		4.78	
Q2	14.43		14.31		0.11	
Q3	7.03		3.91		3.00	
Q4	8.05	37.19	10.41	29.75	-2.14	5.74
04 Q1	6.43		0.79		5.60	
Q2	5.43		1.94		3.43	
Latest						
1 yr		29.77		17.88		10.09
3 yr		3.37		-3.74		7.38
5 yr		-1.86		-6.48		4.93
Cumulative 9305-0406		15.56		9.23		5.80
Std.Dev		21.10		19.00		6.35

*Second Quarter 1993 includes two months of performance, May and June.

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: June 24, 2004

Firm's Name: Transamerica Investment Management, LLC

Name of Product: Institutional Large Growth

Investment Style: Large Cap Growth

Investment Philosophy:
In pursuit of growth of capital, our large-cap growth portfolios invest in a relatively small number of first-in-class companies, as determined by the companies' own strong fundamentals. Companies must also be well positioned to benefit from change but not highly valued relative to the inherent opportunity.

In order to maximize the potential for gain, we make meaningful investments in companies than have been vetted by our proprietary research process. For large-cap growth portfolios, our goal is approximately 25 - 30 positions. We believe that this number provides sufficient diversification to manage systemic risk, assuming the covariance among holdings is limited. Moreover, building concentrated portfolios means we: 1) Invest only in companies about which we have the strongest convictions and 2) Can devote more attention to each issue in the portfolio as it evolves. This same philosophy has been applied to our Large Growth portfolios since inception in 1971.

Investment Process:
TIM's three-phase, team-oriented research emphasizes in-house research and seeks to control or limit nonsystemic or business risk. Our equity portfolio managers (all CFAs) function as general analysts as well and share responsibility for generating new investment opportunities. The process is highly collaborative and collegial.

1. Generation of new "ideas" – Using an eclectic group of sources (securities industry contacts, industry conferences, trade and general media, quantitative screens and, on a limited basis, Wall Street research), a manager/analyst identifies a company or group of companies that may be positively impacted by change. Change may be secular, involving an industry cycle, a product cycle or a management transition. Or it may be fundamental, driven by evolving demographics, politics or economics.

2. Proprietary fundamental research and analysis – This stage identifies the one or few companies best positioned to benefit disproportionately from change—that is, those with the most attractive and well-founded business models. Proprietary analysis of financial statements and interviews with company management, competitors, suppliers and customers winnow out those that lack key strengths and/or are not reasonably valued.

3. Peer review – Companies not eliminated from fundamental research are presented to the equity team for review. These respectful but uncompromising group evaluations ensure that (1) the reasoning behind each recommendation is solid and defensible and (2) the securities ultimately selected for truly fit all formal and informal criteria and controls.

4. Managers work in teams. All portfolios have either two primary managers or a primary and a secondary portfolio manager, who are also research analysts. This structure ensures that a consistent investment strategy is maintained. Teams are supported by additional research analysts. Every morning, senior management, all portfolio managers and research analysts meet to discuss the market and their portfolio ideas. There is discussion about purchase and sale ideas, which can involve lively debates. Ultimate portfolio decision-making responsibility lies with primary manager.

Ownership:
Transamerica Investment Management, LLC is a wholly owned subsidiary of AEGON N.V. Portfolio managers and key professionals own 20% of net revenues with AEGON owning the remaining 80%.

	Updated through 6/30/04 $(MM)
Firm's total assets under management:	$19,010
Total Assets under management in this product:	$6,060
Institutional Assets under management in this product	$5,529
Number of Separate Accounts in this product:	31
Number of Portfolio Managers on this product:	6
Number of Analysts on this product:	2

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

Type	**Assets ($MM)**
Corporate	$1,180.9
Corporate	$938.1
Corporate	$643.3
Public	$155.1
Public	$104.4

Investment Manager:	TRANSAMERICA - REP1
Benchmark:	FRANK RUSSELL 1000 GROWTH

	---PORTFOLIO---		---BENCHMARK---		-------VAM-------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
94 Q1	-2.82		-4.41		1.66	
Q2	-2.60		-1.02		-1.59	
Q3	8.26		7.69		0.52	
Q4	2.30	4.82	0.75	2.66	1.54	2.11
95 Q1	13.42		9.52		3.56	
Q2	15.57		9.83		5.22	
Q3	12.05		9.08		2.73	
Q4	-1.25	45.03	4.55	37.19	-5.55	5.72
96 Q1	3.62		5.37		-1.66	
Q2	7.04		6.36		0.63	
Q3	5.34		3.60		1.68	
Q4	11.44	30.21	6.04	23.12	5.09	5.75
97 Q1	1.26		0.54		0.72	
Q2	27.93		18.91		7.58	
Q3	18.50		7.52		10.22	
Q4	-4.27	46.94	1.52	30.49	-5.71	12.61
98 Q1	19.65		15.15		3.90	
Q2	4.70		4.54		0.16	
Q3	-9.01		-9.08		0.08	
Q4	27.42	45.23	26.74	38.71	0.54	4.70
99 Q1	13.71		6.36		6.92	
Q2	0.56		3.85		-3.17	
Q3	-9.40		-3.66		-5.95	
Q4	31.20	35.92	25.14	33.16	4.84	2.08
00 Q1	15.23		7.13		7.56	
Q2	-8.32		-2.70		-5.78	
Q3	-2.10		-5.38		3.47	
Q4	-13.50	-10.54	-21.35	-22.42	9.97	15.32
01 Q1	-13.78		-20.90		9.00	
Q2	3.94		8.42		-4.13	
Q3	-17.27		-19.41		2.66	
Q4	12.27	-16.76	15.14	-20.42	-2.49	4.61
02 Q1	-0.88		-2.59		1.75	
Q2	-16.47		-18.67		2.71	
Q3	-15.88		-15.05		-0.98	
Q4	10.07	-23.34	7.15	-27.88	2.72	6.30

	—PORTFOLIO—		—BENCHMARK—		—VAM—	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
03 Q1	1.71		-1.07		2.81	
Q2	12.42		14.31		-1.65	
Q3	3.87		3.91		-0.04	
Q4	12.24	33.32	10.41	29.75	1.66	2.75
04 Q1	2.38		0.79		1.58	
Q2	2.94		1.94		0.98	
Latest						
1 yr		22.87		17.88		4.24
3 yr		0.02		-3.74		3.90
5 yr		-0.95		-6.48		5.91
Cumulative 9401-0406		15.66		9.04		6.07
Std.Dev		21.02		19.51		7.77

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: June 25, 2004

Firm's Name: Knelman Asset Management Group, LLC

Name of Product: Knelman Large Cap Portfolio

Investment Style: Large Cap Growth

Investment Philosophy:
Portfolios invested in companies exhibiting substantial growth opportunities, strong business models, solid management teams and the probability for positive earnings surprises will produce superior long-term results. Our approach emphasizes earnings growth as the fundamental driver of stock prices over time. Furthermore, while earnings drive stock prices, relative valuations will determine at what prices we will purchase or sell a security.

Investment Process:
Our investment process is rigorous, with the goal of identifying companies that have competitive advantages and strong franchises - which allow them to show dynamic, high quality growth. It is the combination of quantitative, qualitative and valuation criteria, that determines our appetite for investing in a company. Our equity process is fundamentally based, focused on identifying those companies with high quality fundamental characteristics.

Our three-pronged approach: **quantitative** (the numbers), **qualitative** (the people), and **valuation** (the opportunity) help us identify those companies with dynamic growth, high quality and excellent value. Our **quantitative** approach focuses on the fundamentals of a company. We focus our efforts on the company's operating trends. Our goal is to find companies with strong growth not only today but also expected into the future. We analyze historical trends in revenues, earnings, margins, cash flows, and various financial ratios. We look at the fundamentals of current revenue and earnings growth and identify drivers for future growth including consistency, acceleration and sustainability. We identify accelerating operating momentum, witnessed by improving profitability and margins. Portfolio companies typically show strong earnings estimate momentum. Our **qualitative** analysis supplements our quantitative approach. Throughout the process we validate our assumptions. Confirmation of company fundamentals comes through talking to company contacts and related parties. We also talk to brokerage analysts while trying to identify the bull and bear assumptions to the story. We evaluate management depth and capabilities and how they have developed and implemented a successful business model and adapted to various market conditions. Our **valuation** models focus on relative rankings of the fundamentals within the industry, versus the market overall and versus the company itself.

Our commitment to long-term investment requires us to examine investment opportunities well-beyond current market events and quantitative results. While we fully understand the importance of current, short-term events and results, and the market's reaction to them, we try to stay focused on those companies with substantial and sustainable growth opportunities, companies with strong business models and those with outstanding, creative management teams.

Our universe of purchase candidates is well in excess of 1500 companies. We narrow our companies to roughly 75 that are more seriously analyzed and closely followed.

Ownership:
The firm is 100% owned by the two senior partners. The senior managing partner, who holds the majority of the equity, plans to have other employee's have the opportunity for equity ownership in the future.

	Updated through 6/30/04 $(MM)
Firm's total assets under management:	$275
Total Assets under management in this product:	$250
Institutional Assets under management in this product	$180
Number of Separate Accounts in this product:	62
Number of Portfolio Managers on this product:	2
Number of Analysts on this product:	2

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

Name	Assets ($MM)
CSFB	$115
NYCERS	$22
Ohio Bureau of Workers Compensation	$17
NY State Common Fund	$14
National Gypsum	$12

	Investment Manager:	KNELMAN ASSET MGMT - REP1				
	Benchmark:	FRANK RUSSELL 1000 GROWTH				
	---PORTFOLIO---		---BENCHMARK---		-------VAM-------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
00 Q3	-0.07 *		-1.26 *		1.21 *	
Q4	-11.60	-11.66	-21.35	-22.34	12.39	13.75
01 Q1	-17.13		-20.90		4.76	
Q2	6.40		8.42		-1.87	
Q3	-15.87		-19.41		4.39	
Q4	11.80	-17.07	15.14	-20.42	-2.90	4.21
02 Q1	-1.08		-2.59		1.55	
Q2	-12.25		-18.67		7.90	
Q3	-16.02		-15.05		-1.15	
Q4	2.44	-25.32	7.15	-27.88	-4.40	3.55
03 Q1	-1.86		-1.07		-0.80	
Q2	10.51		14.31		-3.32	
Q3	4.28		3.91		0.36	
Q4	12.86	27.64	10.41	29.75	2.21	-1.63
04 Q1	-0.18		0.79		-0.95	
Q2	0.52		1.94		-1.39	
Latest						
1 yr		18.09		17.88		0.18
3 yr		-3.47		-3.74		0.28
5 yr						
Cumulative 0008-0406		-8.68		-12.45		4.30
Std.Dev		16.68		23.11		9.09

*Third Quarter 2000 includes two months of performance, August and September.

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: June 22, 2004

Firm's Name: Winslow Capital Management, Inc.

Name of Product: Large Cap Growth

Investment Style: Large Cap Growth

Investment Philosophy:
Winslow Capital believes that investing in companies with above-average earnings growth provides the best opportunity for achieving superior portfolio returns over the long term. While above-average earnings growth is a necessity, valuation relative to our estimated earnings growth rate is also important in selecting a stock. We invest in companies which we believe can deliver future annual earnings growth of at least 13% with a rising return on invested capital. Our portfolios have a weighted 3 years forward annual earnings growth rate around 18%.

Our investment philosophy is founded on fundamental research. All of the investment principals have had many years of research experience. The majority of our analytical work is done internally by the investment principals. We are "bottom-up" stock pickers and position the portfolio decision-makers as close as possible to the flow and source of fundamental information -- directly from a company, its suppliers and competitors. This hands-on research process eliminates "information filtering." We also work with selected Street analysts whom we believe have the best insights. We look to add value by identifying, through our research, those companies which can grow earnings above consensus expectations.

Investment Process:
In order to identify "high quality" or improving growth companies, we begin by using a quantitative screen of the 500 companies with market caps exceeding $4 billion. We screen for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income. This process narrows the list to approximately 300 companies where a more thorough qualitative assessment is made in the context of each company's respective industry sector. Our analysis emphasizes competitive advantage to determine whether a company meets our definition of a high-quality growth company.

This latter step in the process narrows the list to approximately 100 stocks which we then actively analyze. This process includes detailed examination of income statements, cash flow and balance sheet projections and holding discussions with management. The next step in the process is to determine which of the 100 companies can meet or beat Wall Street earnings estimates. The final step is to choose the most attractively valued stocks. Our valuation approach is P/E driven relative to: (i) the Russell 1000 Growth index, (ii) sector peers, (iii) the company's sustainable future growth rate, and (iv) the company's ROIC. We generally own position sizes of 1-3% and hold 50 stocks (common stock only) in the portfolio. Also, we diversify the portfolio in respect to companies' earnings growth rates, market capitalizations and price/earnings ratios.

The decision-making process involves the principals acting together as a team. Each idea is sponsored by a team member and is thoroughly reviewed by the whole team before purchase. Decision-making involves our fundamental analysis of a company's business and then a valuation judgment of the stock. To outperform the Russell 1000 Growth Index, we build portfolios different from the index. After we construct our portfolio, we contrast it with the benchmark to know where we are different and why, to understand completely the active structure of our investments.

Ownership:
Winslow Capital Management is employee owned including one former employee. The firm is 79% owned by Clark Winslow, R. Bart Wear, Joseph J. Docter and Jean A. Baillon. In November, 2003 partners signed an agreement providing key principals options which will substantially broaden the equity ownership over the next few years.

	Updated through 6/30/04 $(MM)
Firm's total assets under management:	$774
Total Assets under management in this product:	$102*
Institutional Assets under management in this product	$101
Number of Separate Accounts in this product:	5
Number of Portfolio Managers on this product:	3
Number of Analysts on this product:	3**

**Selected in two searches totaling $90 M; contracts not yet complete and not included in total*
***At Winslow Capital all portfolio managers act as research analysts.*

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

Name	Type	Assets
St. John's University	Foundation	$28
Russell Developing Manager Fund	Corp.	$31

	Investment Manager:	WINSLOW CAPITAL MANAGEMENT - REP 1				
	Benchmark:	FRANK RUSSELL 1000 GROWTH				
	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
99 Q2	5.36		3.85		1.45	
Q3	-6.09		-3.66		-2.52	
Q4	29.53	28.15	25.14	33.16	3.50	-8.70
00 Q1	7.74		7.13		0.58	
Q2	-3.48		-2.70		-0.80	
Q3	4.11		-5.38		10.03	
Q4	-16.34	-9.42	-21.35	-22.42	6.36	16.76
01 Q1	-17.20		-20.90		4.68	
Q2	10.61		8.42		2.02	
Q3	-19.58		-19.41		-0.21	
Q4	16.43	-14.25	15.14	-20.42	1.12	7.76
02 Q1	-1.15		-2.59		1.48	
Q2	-15.03		-18.67		4.48	
Q3	-15.71		-15.05		-0.78	
Q4	2.07	-27.74	7.15	-27.88	-4.75	0.20
03 Q1	0.31		-1.07		1.39	
Q2	14.17		14.31		-0.12	
Q3	2.61		3.91		-1.25	
Q4	10.66	30.04	10.41	29.75	0.22	0.22
04 Q1	3.69		0.79		2.89	
Q2	2.07		1.94		0.13	
Latest						
1 yr		20.18		17.88		1.96
3 yr		-2.35		-3.74		1.45
5 yr		-1.24		-6.48		5.60
Cumulative 9904 - 0406		-0.19		-5.50		5.62
Std.Dev		21.03		22.25		6.72

Investment Manager:	WINSLOW CAPITAL - REP 1
Benchmark:	FRANK RUSSELL 1000 GROWTH

	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtlv Return	Annual Return
92 Q4	0.98 *	0.98 *	1.00 *	1.00 *	-0.02 *	-0.02 *
93 Q1	0.33		-0.84		1.18	
Q2	0.34		-1.55		1.92	
Q3	4.33		1.48		2.81	
Q4	6.08	11.42	3.87	2.90	2.12	8.27
94 Q1	-4.80		-4.41		-0 41	
Q2	-3.43		-1 02		-2.44	
Q3	10 80		7.69		2.89	
Q4	0.94	2.82	0.75	2.66	0.20	0.16
95 Q1	6 12		9.52		-3.10	
Q2	8 62		9 83		-1.11	
Q3	8.93		9 08		-0.13	
Q4	-1.38	23.83	4.55	37.19	-5.68	-9.74
96 Q1	6.19		5 37		0 77	
Q2	5 15		6.36		-1.14	
Q3	5.63		3 60		1.96	
Q4	1.01	19.14	6.04	23.12	-4.74	-3.24
97 Q1	-8 61		0.54		-9.10	
Q2	21.05		18.91		1.80	
Q3	10 03		7.52		2.34	
Q4	3.50	25.99	1.52	30.49	1.96	-3.44
98 Q1	15.48		15.15		0.28	
Q2	4 35		4.54		-0.19	
Q3	-16 18		-9.08		-7.81	
Q4	28.68	29.96	26.74	38.71	1.53	-6.30
99 Q1	-5 14		6.36		-10.81	
Q2	5 36		3.85		1.45	
Q3	-6.09		-3.66		-2.52	
Q4	29.53	21 57	25.14	33.16	3.50	-8.70
00 Q1	7 74		7.13		0.58	
Q2	-3.48		-2.70		-0.80	
Q3	4.11		-5.38		10.03	
Q4	-16.34	-9.42	-21.35	-22.42	6.36	16.76
01 Q1	-17.20		-20.90		4.68	
Q2	10 61		8 42		2 02	
Q3	-19 58		-19.41		-0.21	
Q4	16.43	-14.25	15.14	-20.42	1.12	7.76

	—PORTFOLIO—		—BENCHMARK—		——VAM——	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
02 Q1	-1.15		-2.59		1.48	
Q2	-15.03		-18.67		4.48	
Q3	-15.71		-15.05		-0.78	
Q4	2.07	-27.74	7.15	-27.88	-4.75	0.20
03 Q1	0.31		-1.07		1.39	
Q2	14.17		14.31		-0.12	
Q3	2.61		3.91		-1.25	
Q4	10.66	30.04	10.41	29.75	0.22	0.22
04 Q1	3.69		0.79		2.89	
Q2	2.07		1.94		0.13	
Latest						
1 yr		20.18		17.88		1.96
3 yr		-2.35		-3.74		1.45
5 yr		-1.24		-6.48		5.60
Cumulative 9212-0406		8.69		8.52		0.16
Std.Dev		19.64		18.73		7.78

*Fourth Quarter 1992 includes one month of performance, December.

Tab E

COMMITTEE REPORT

DATE: November 30, 2004

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Tuesday, November 16, 2004 to consider the following agenda items:

- Review the manager performance for the period ending September 30, 2004.
- Update on the Domestic Equity Large Cap Growth search.
- Recommendation to renew investment manager contracts.

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

INFORMATION ITEMS:

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

- ***Domestic Equity Program***

For the period ending September 30, 2004, the **Domestic Equity Program** outperformed during the quarter, matched the benchmark over the year, and underperformed the asset class target* over the three and five year time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	-1.7%	-1.9%
1 Year	14.3	14.3
3 Years	5.2	5.6
5 Years	-0.9	-0.7

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

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

- *Fixed Income Program*

For the period ending September 30, 2004, the **Fixed Income Program** matched the Lehman Aggregate for the quarter, and outperformed the index over all longer time periods.

Time period	Total Program	Lehman Aggregate
Quarter	3.2%	3.2%
1 Year	4.7	3.7
3 Years	6.3	5.9
5 Years	7.8	7.5

The performance evaluation reports for the fixed income managers start on the **blue page A-89** of this Tab.

- *International Equity Program*

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

Time Period	Total* Program	Int'l Equity Asset Class Target**	Equity*** Mgrs. Only
Quarter	0.8	1.0	0.8
1 Year	21.6	22.7	21.6
3 Year	10.6	10.6	10.6
5 Year	0.4	-0.2	0.4

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

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

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

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

2. Update on the Domestic Equity Large Cap Growth search.

The SBI conducted a search for large capitalization growth managers as a result of the decision by the Minnesota State Board of Investment (SBI), at its September 2003 meeting, to control misfit risk, or style bias, in the Domestic Equity Program by allocating assets to active managers based on market capitalization and style. Staff proposed diversifying the large capitalization growth managers, which collectively manage more than $1.6 billion. Currently, the SBI has two regular and two emerging managers in the large capitalization growth area.

The Search Committee met on November 12, 2004, and interviewed six (6) large capitalization growth managers for the Domestic Equity Program. The Search Committee recommends that the following six (6) firms be retained by the SBI for inclusion in the Domestic Equity Program:

Enhanced Investment Technologies, LLC (INTECH)
Jacobs Levy Equity Management
Sands Capital Management, Inc.
Transamerica Investment Management, LLC

Knelman Asset Management Group (Emerging Manager)
Winslow Capital Management, Inc. (Emerging Manager)

The results and recommendations from the Search Committee appear in **Tab D.**

ACTION ITEMS:

1. Recommendation to renew investment manager contracts.

The contracts of seven (7) managers will expire in the next few quarters. Currently, the standing of each of these managers is satisfactory. Staff recommends renewal of each of these contracts for a five-year period with an immediate termination clause. All other terms and conditions of the contracts are expected to remain unchanged.

RECOMMENDATION

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

Emerging Domestic Equity Managers
Earnest Partners, LLC
Holt-Smith & Yates Advisors
Next Century Growth Investors, LLC
Peregrine Capital Management
Voyageur Asset Management
Winslow Capital Management, Inc

Passive Domestic Equity Managers
Barclays Global Investors

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Third Quarter, 2004

Table of Contents

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

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	1 8	-1 8	17 4	13 9	6 5	9 1	2 4	3 4	11 8	11 5	$675 0	3 6%
New Amsterdam Partners	0 4	-1 8	16 6	13 9	9 7	10 6	8 4	7 1	14 1	13 5	$397 6	2 1%
UBS Global	-0 6	-1 8	16 5	13 9	9 6	6 3	3 7	1 4	10 8	10 4	$722 7	3 8%
Voyageur-Chicago Equity	-3 4	-1 8	11 2	13 9	4 6	7 2			-3 7	-3 9	$43 2	0 2%
Aggregate	0 4	-1 8	16 8	13 9								
Large Cap Growth (R1000 Growth)												
Alliance Capital	-4 1	-5 2	5 6	7 5	-0 5	0 9	-4 3	-3 3	14 7	11 0	$927 8	4 9%
Cohen, Klingenstein & Marks	-5 7	-5 2	2 5	7 5	-1 9	7 1	-6 6	-0 3	9 1	10 9	$556 2	3 0%
Holt-Smith & Yates	-2 3	-5 2	11 7	7 5	1 9	8 0			-4 8	1 4	$41 1	0 2%
Zevenbergen Capital	-7 1	-5 2	12 3	7 5	2 4	6 8	-8 8	1 5	9 6	12 5	$125 7	0 7%
Aggregate	-4 8	-5 2	5.4	7 5								
Large Cap Value (R1000 Value)												
Barrow, Hanley	1 9	1 5							4 6	2 4	$257 9	1 4%
Earnest Partners	1 5	1 5	21 6	20 5	6 8	17 1			2 0	13 0	$54 7	0 3%
Lord Abbett & Co	2 0	1 5							-0 3	2 4	$245 8	1 3%
LSV Asset Mgmt	2 1	1 5							4 2	2 4	$261 2	1 4%
Oppenheimer	0 1	1 5	17 3	20 5	6 8	7 1	5 6	4 2	13 1	12 1	$712 3	3 8%
Systematic Financial Mgmt	0 3	1 5							1 5	2 4	$149 8	0 8%
Aggregate	0 3	1 5	18 2	20 5								
Small Cap Growth (R2000 Growth)												
McKinley Capital	-6 8	-6 0							-3 1	-0 7	$164 8	0 9%
Next Century Growth	-9 8	-6 0	0 8	11 9	5 9	10 8			-12 6	-4 8	$28 6	0 2%
Turner Investment Partners	-5 0	-6 0							-0 6	-0 7	$126 3	0 7%
Winslow-Small Cap	-8 3	-6 0	5 5	11 9	7 0	11 8			-4 5	-1 5	$121 3	0 6%
Aggregate	-6 9	-6 0	7 2	11 9								
Small Cap Value (R2000 Value)												
AEAM/Kenwood	0 8	0 1							11 5	8 0	$46 7	0 2%
Goldman Sachs	3 1	0 1							8 6	8 0	$101 5	0 5%
Hotchkis & Wiley	0 9	0 1							12 1	8 0	$104 8	0 6%
Martingale Asset Mgmt	1 0	0 1							13 4	8.0	$106 1	0 6%
Peregrine Capital Mgmt	0 7	0 1	23 0	25 7	17 9	19 9			17 3	18.9	$153 8	0 8%
Aggregate	1 3	0 1	26 3	25 7								
Active Mgr. Aggregate	-1 5	-2 0	13 4	14 0								

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

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	-2 0	-1 8	14 4	14 5	5 8	5 2	-0 8	-2.1	10 9	10 1	$2,438 3	13 0%
Franklin Portfolio	-1.9	-1.8	14.3	14.5	4 3	5 2	-2.3	-2.1	9 7	10 1	$1,758.4	9 4%
JP Morgan	-1.3	-1.8	15 9	14.5	4.5	5 2	-2 0	-2 1	10 3	10 1	$2,085 5	11 1%
Semi-Passive Aggregate (R1000)	-1.7	-1 8	14 9	14.5	5.0	5 2	-1.6	-2 1	10 3	10 1		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	-1.8	-1.9	14.4	14.3	5.5	5 6	-0.4	-0.5	9.5	9.3	$6,346 0	33.8%
									Since 1/1/84			
Historical Aggregate (3)	**-1.7**	**-1.9**	**14.3**	**14.2**	**5.2**	**6.3**	**-0.9**	**-0.2**	**11.5**	**11.8**	$18,799 0	100 0% *
SBI DE Asset Class Target (4)		-1.9		14.3		5.6		-0 7		11.7		
Russell 3000		-1.9		14.3		5 3		-0.1		12 2		
Wilshire 5000		-1.8		14.8		6 1		0 0		12 0		
Russell 1000		-1.8		13.9		4 7		-0.7		12 4		
Russell 2000		-2.9		18.8		13 7		7.4		10 0		

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

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

(3) Includes the performance of terminated managers.

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

* Includes the performance and market value of Bay Isle, who was terminated in September 2004.

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

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

* YTD begins 4/04 when manager was funded

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

	YTD 9/30/04		2003		2002		2001		2000		1999	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	1 7	1 5	30 0	28 5	-19 1	-19 7	-7 8	-9 7	-13 8	-16 3	14 1	16 3
Franklin Portfolio	1 7	1 5	26 9	28 5	-20 2	-19 7	-9 0	-9 7	-15 9	-16 3	12 9	16 3
JP Morgan	2 3	1 5	28 9	28 5	-21 8	-19 7	-8 7	-9 7	-13 6	-16 3	14 0	16 3
Semi-Passive Aggregate (R1000)	1 9	1 5	28 8	28 5	-20 3	-19 7	-8 5	-9 7	-14 4	-16 3	13 7	16 3
PASSIVE MANAGER (R3000)												
Barclays Global Investors	1 7	1 6	30 9	31 2	-21 4	-21 5	-11 8	-11 7	-9 8	-11 0	23 3	23 6
Historical Aggregate (2)	**1.8**	**1.6**	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**	**-11.0**	**-10.7**	**21.0**	**21.3**
SBI DE Asset Class Target (3)		1 6		31 2		-21 5		-11 7		-10 8		22 2
Russell 3000		1 6		31 1		-21 5		-11 5		-7 5		20 9
Wilshire 5000		2 1		31 6		-20 9		-11 0		-10 9		23 6
Russell 1000		1 5		29 9		-21 7		-12 5		-7 8		20 9
Russell 2000		3 7		47 3		-20 5		2 5		-3 0		21 3

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

(2) Includes the performance of terminated managers

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

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

* Includes performance of Bay Isle, who was terminated in September 2004

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

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	1.8	-1.8	17.4	13.9	6.5	4.7	2.4	-0.[illegible]	11.8	11.4
New Amsterdam Partners (2)	0.4	-1.8	16.6	13.9	9.7	11.2	8.4	7.0	14.1	11.9
UBS Global	-0.6	-1.8	16.5	13.9	9.6	4.7	3.7	-0.[illegible]	10.8	10.3
Voyageur-Chicago Equity	-3.4	-1.8	11.2	13.9	4.6	4.7			-3.7	-4.4
Aggregate	0.4	-1.8	16.8	13.9						
Russell 1000 Growth										
Alliance Capital	-4.1	-5.2	5.6	7.5	-0.5	1.6	-4.3	-6.8	14.7	11.0
Cohen, Klingenstein & Marks	-5.7	-5.2	2.5	7.5	-1.9	1.6	-6.6	-6.8	9.1	8.9
Holt-Smith & Yates	-2.3	-5.2	11.7	7.5	1.9	1.6			-4.8	-13.5
Zevenbergen Capital	-7.1	-5.2	12.3	7.5	2.4	1.6	-8.8	-6.8	9.6	8.9
Aggregate	-4.8	-5.2	5.4	7.5						
Russell 1000 Value										
Barrow, Hanley	1.9	1.5							4.6	2.4
Earnest Partners	1.5	1.5	21.6	20.5	6.8	7.6			2.0	4.9
Lord Abbett & Co	-2.0	1.5							-0.3	2.4
LSV Asset Mgmt	2.1	1.5							4.2	2.4
Oppenheimer	0.1	1.5	17.3	20.5	6.8	7.6	5.6	4.3	13.1	11.5
Systematic Financial Mgmt	0.3	1.5							1.5	2.4
Aggregate	0.3	1.5	18.2	20.5						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	-6.8	-6.0							-3.1	-0.7
Next Century Growth	-9.8	-6.0	0.8	11.9	5.9	9.1			-12.6	-7.6
Turner Investment Partners	-5.0	-6.0							-0.6	-0.7
Winslow-Small Cap	-8.3	-6.0	5.5	11.9	7.0	9.1			-4.5	-7.6
Aggregate	-6.9	-6.0	7.2	11.9						
Russell 2000 Value										
AEAM/Kenwood	0.8	0.1							11.5	8.0
Goldman Sachs	3.1	0.1							8.6	8.0
Hotchkis & Wiley	0.9	0.1							12.1	8.0
Martingale Asset Mgmt.	1.0	0.1							13.4	8.0
Peregrine Capital	0.7	0.1	23.0	25.7	17.9	17.7			17.3	15.5
Aggregate	1.3	0.1	26.3	25.7						
Active Mgr. Aggregate	-1.5	-2.0	13.4	14.0						

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

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

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

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

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

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

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

Large Cap Core (R1000)

Large Cap Core (R1000)

Table of Contents

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2004

Portfolio Manager: John Cone | **Assets Under Management: $675,038,957**

Investment Philosophy – Active Style

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

Staff Comments

The portfolio outperformed the Russell 1000 index by 3.6 percentage points (ppt) during the quarter. Overall stock selection was strong, particularly within the health technology and retail trade sectors. An overweight allocation to consumer durables coupled with strong stock selection contributed to performance.

For the year, the portfolio outperformed the Russell 1000 index by 3.5 ppt. Both overall sector allocation decisions and strong stock selection contributed to performance. Stock selection most notable within the consumer services, health technology, producer manufacturing, retail trade and technology services sectors. Successful risk factor exposures included positive earnings yield, momentum, and trading activity.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	1.8%	-1.8%	-1.8%
Last 1 year	17.4	13.9	13.9
Last 2 years	19.3	19.4	23.8
Last 3 years	6.5	4.7	9.1
Last 4 years	-2.2	-4.8	0.3
Last 5 years	2.4	-0.7	3.4
Since Inception (4/89)	11.8	11.4	11.5

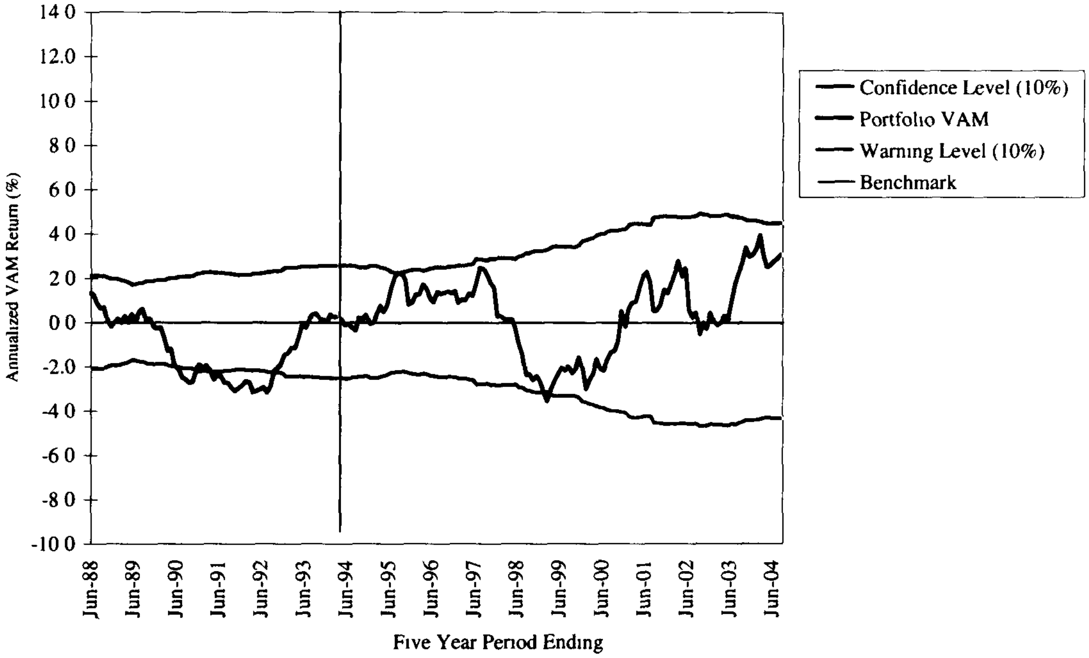
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
YTD 9/30/04	4.4%	1.5%	1.5%
2003	32.9	29.9	36.9
2002	-25.4	-21.7	-19.8
2001	-6.6	-12.5	-5.4
2000	-1.6	-7.8	0.3
1999	26.2	20.9	16.3

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2004

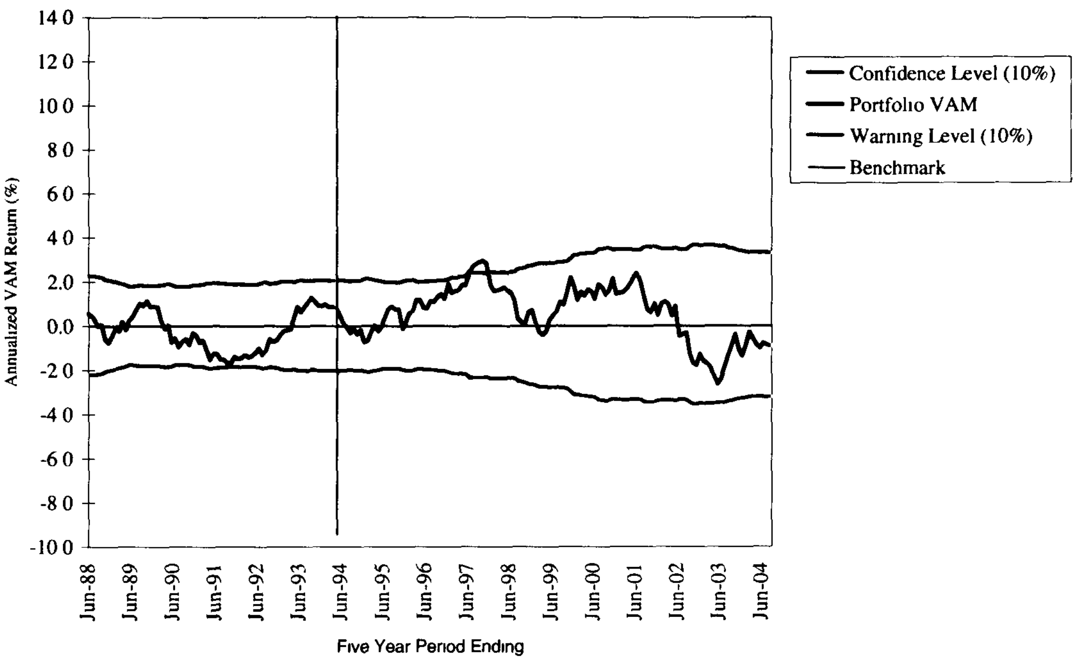
Portfolio Manager: John Cone | **Assets Under Management: $675,038,957**

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



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

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



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

NEW AMSTERDAM PARTNERS
Periods Ending September, 2004

Portfolio Manager: Michelle Clayman **Assets Under Management: $397,645,038**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 index by 2.2 percentage points (ppt) during the quarter. Strong overall stock selection, particularly within the health technology, finance and technology services sectors, contributed to performance.

For the year, the portfolio outperformed the Russell 1000 index by 2.7 ppt. Performance was positively impacted by strong overall stock selection. Stock selection within the health technology and finance sectors was particularly effective. An overweight allocation to consumer durables coupled with strong stock selection contributed to returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)	Manager Benchmark
Last Quarter	0.4%	-1.8%	-1.8%
Last 1 year	16.6	13.9	13.9
Last 2 years	22.2	22.9	21.9
Last 3 years	9.7	11.2	10.6
Last 4 years	1.6	1.6	1.5
Last 5 years	8.4	7.0	7.1
Since Inception (4/94)	14.1	11.9	13.5

Calendar Year Returns

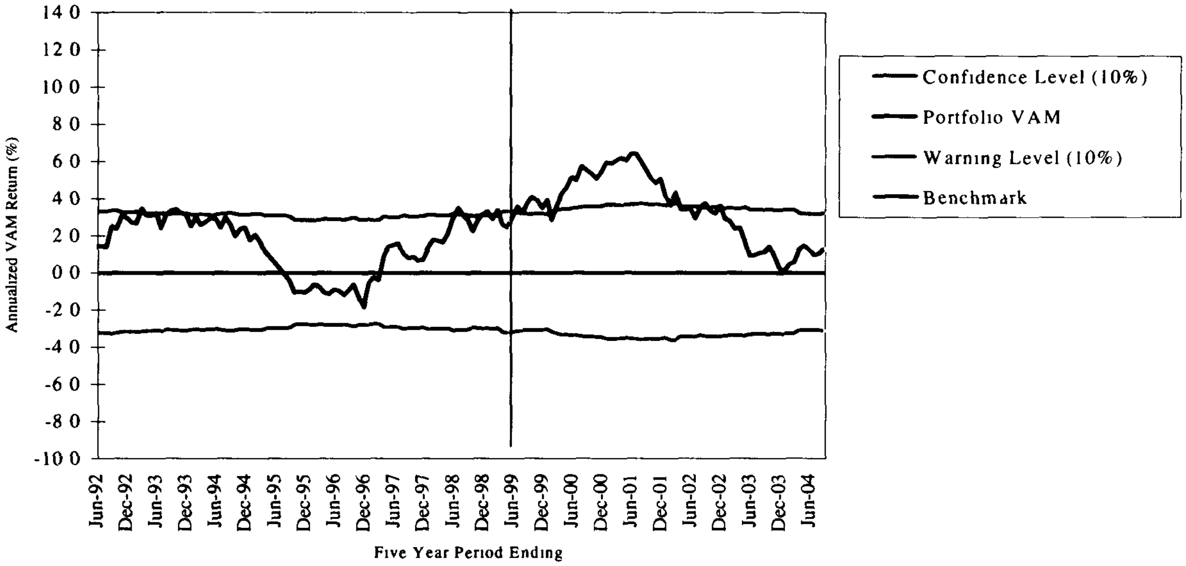
	Actual	Russell Index (1)	Manager Benchmark
YTD 9/30/04	4.0%	1.5%	1.5%
2003	34.2	38.0	37.1
2002	-17.5	-16.2	-22.2
2001	-3.3	-5.6	3.7
2000	15.0	8.2	3.1
1999	15.0	18.2	32.1

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

NEW AMSTERDAM PARTNERS
Periods Ending September, 2004

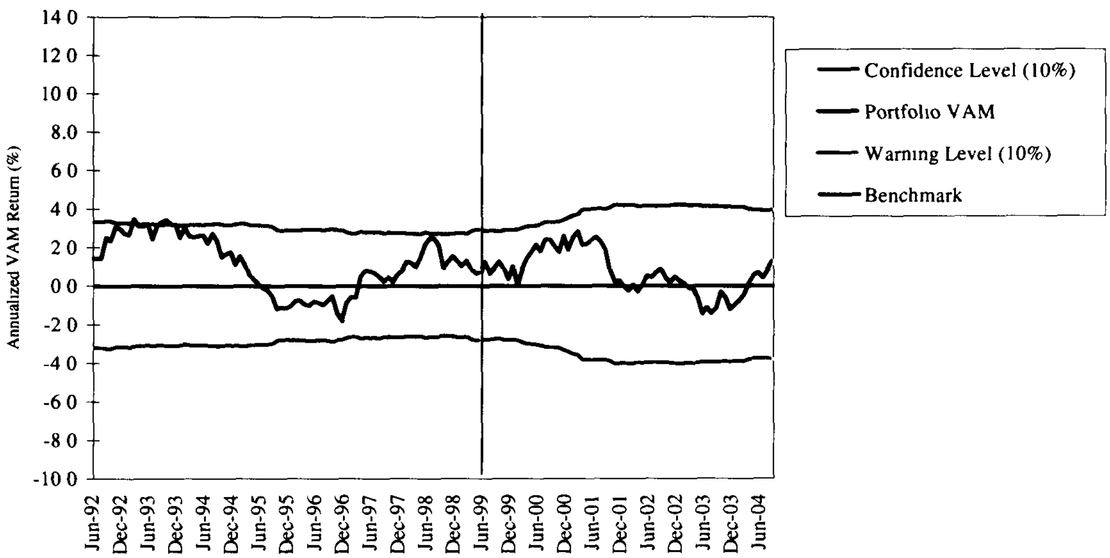
Portfolio Manager: Michelle Clayman **Assets Under Management: $397,645,038**

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



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

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Manager Benchmark



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

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

Portfolio Manager: John Leonard | **Assets Under Management: $722,710,427**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 index for the quarter by 1.2 percentage points (ppt). An underweight allocation to electronic technology, particularly within the semiconductor industry, positively impacted performance. Strong stock selection within this area further enhanced the positive impact. Overweight positions in companies with higher earnings yields and those with higher currency sensitivity contributed to returns.

For the year, the portfolio outperformed the Russell 1000 index by 2.6 ppt. Strong stock selection within the producer manufacturing and electronic technology sectors proved beneficial. Risk factor allocations that contributed to performance included exposure to companies with higher earnings yields, higher earnings variation, and an emphasis on larger, less volatile companies.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	-0.6%	-1.8%	-1.8%
Last 1 year	16.5	13.9	13.9
Last 2 years	21.5	19.4	20.2
Last 3 years	9.6	4.7	6.3
Last 4 years	5.8	-4.8	-4.1
Last 5 years	3.7	-0.7	1.4
Since Inception (7/93)	10.8	10.3	10.4

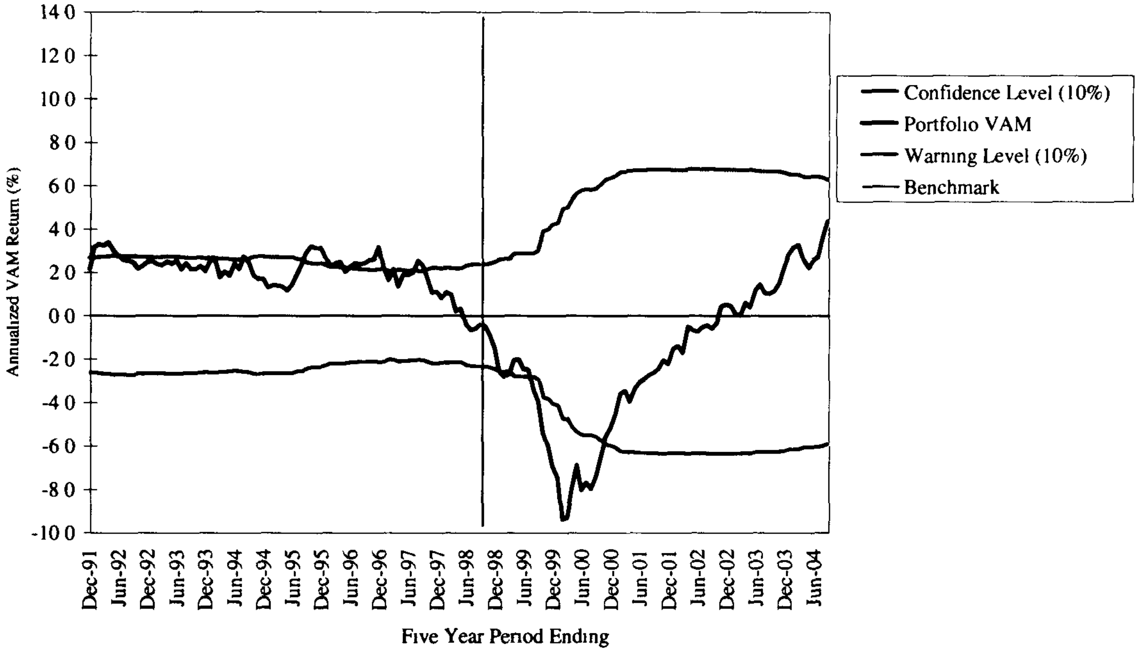
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
YTD 9/30/04	2.7%	1.5%	1.5%
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0
2000	3.6	-7.8	-1.0
1999	-8.5	20.9	21.6

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

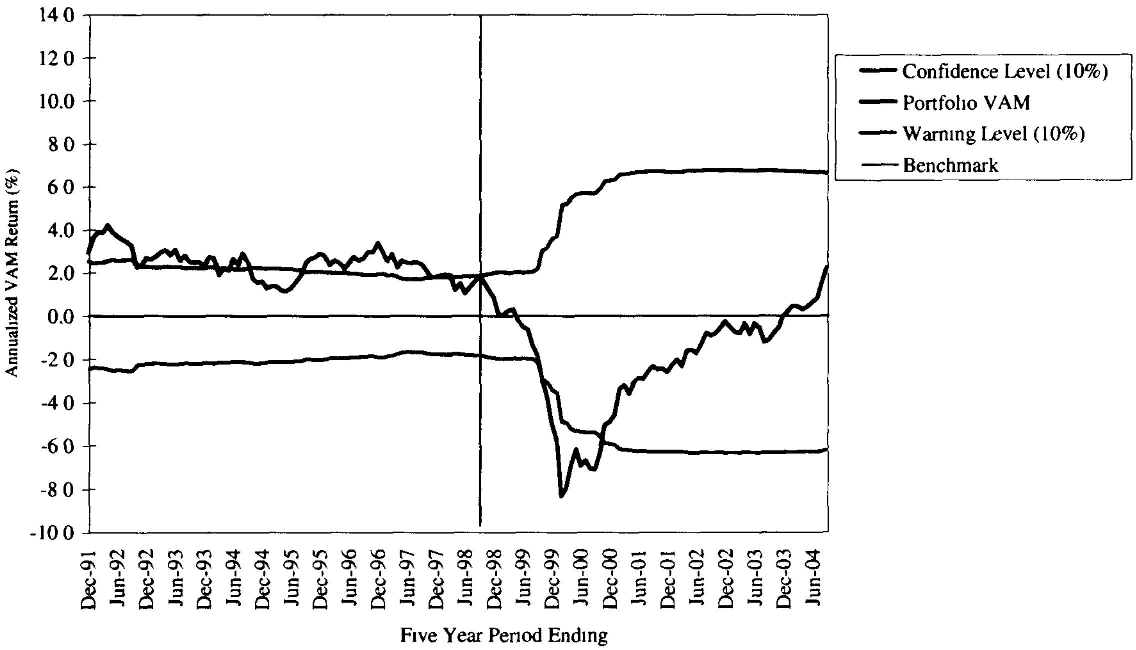
Portfolio Manager: John Leonard **Assets Under Management: $722,710,427**

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Russell 1000 Core



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Manager Benchmark



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

VOYAGEUR ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Charles Henderson **Assets Under Management: $43,179,711**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 index by 1.6 percentage points (ppt) during the quarter An overweight allocation to the underperforming distribution services sector hindered returns. Weak stock selection within health services negatively impacted performance. An underweight position in finance coupled with weak stock selection detracted from returns

For the year, the portfolio underperformed the Russell 1000 index by 2.7 ppt. An overweight position in the underperforming distribution services sector proved detrimental Weak stock selection within financials hindered returns An underweight allocation to energy minerals represented a missed opportunity as this was the best performing sector within the index.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	-3.4%	-1.8%	-1 8%
Last 1 year	11.2	13 9	13 9
Last 2 years	14.1	19.4	17 1
Last 3 years	4 6	4 7	7 2
Last 4 years	-5 7	-4.8	-2.8
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-3.7	-4 4	-3 9

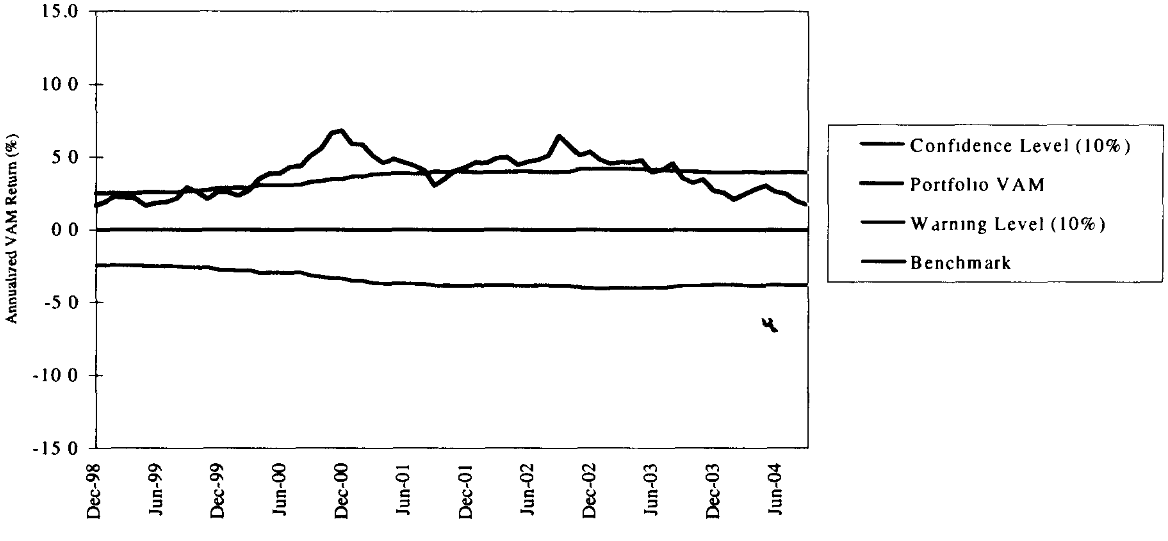
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
YTD 9/30/04	1.6%	1 5%	1.5%
2003	23 2	29.9	28 9
2002	-20 6	-21 7	-20.7
2001	-19 4	-12 5	-12 0
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

VOYAGEUR ASSET MANAGEMENT
Periods Ending September, 2004

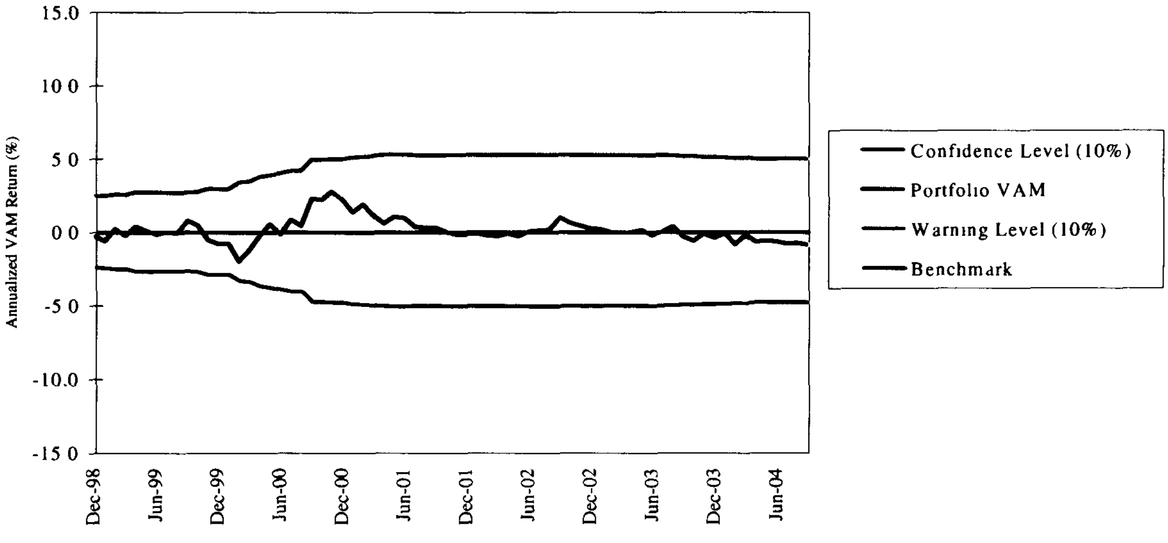
Portfolio Manager: Charles Henderson **Assets Under Management: $43,179,711**

Voyageur Asset Management
Rolling Five Year VAM vs. Russell 1000 Core



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

Voyageur Asset Management
Rolling Five Year VAM vs. Manager Benchmark



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

Large Cap Growth (R1000 Growth)

Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Jack Koltes **Assets Under Management: $927,764,725**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 1.1 percentage points (ppt) during the quarter. Strong overall stock selection contributed to performance, and was particularly effective within the health services, consumer non-durables and technology services sectors.

For the year, the portfolio underperformed the Russell 1000 Growth index by 1.9 ppt. Overall stock selection detracted from performance and was notably weak within the retail trade, electronic technology, and health technology sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

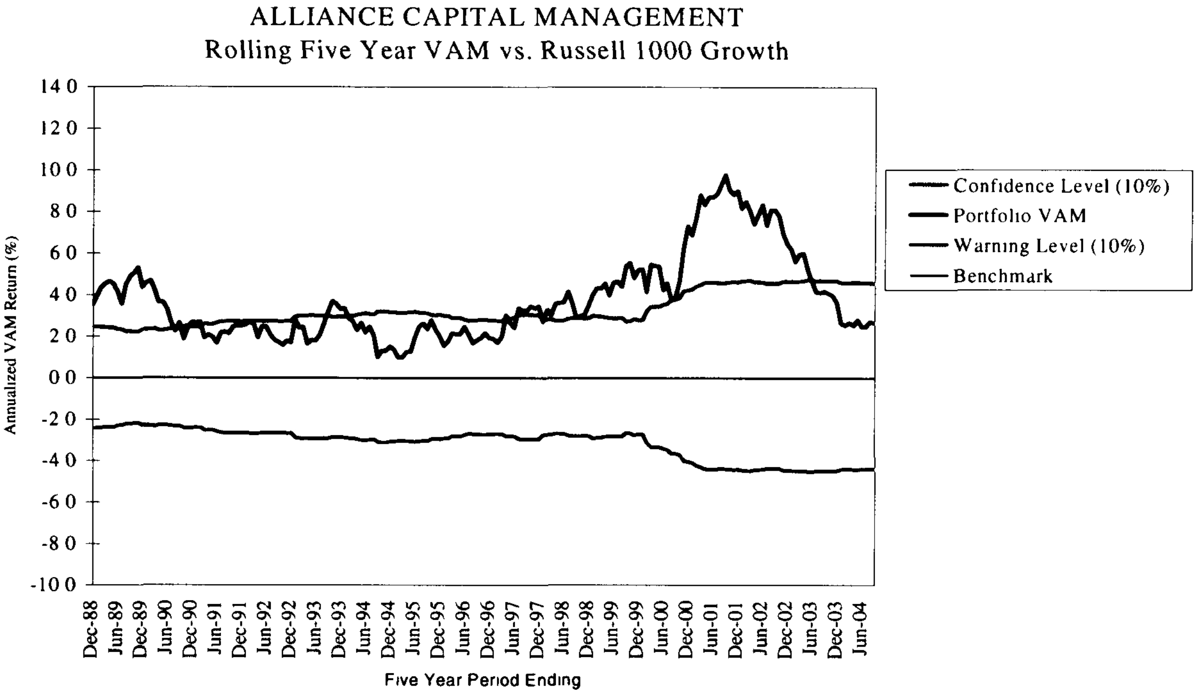
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-4.1%	-5.2%	-5.2%
Last 1 year	5.6	7.5	7.5
Last 2 years	10.4	16.3	15.4
Last 3 years	-0.5	1.6	0.9
Last 4 years	-9.4	-13.1	-8.6
Last 5 years	-4.3	-6.8	-3.3
Since Inception (1/84)	14.7	11.0	11.0

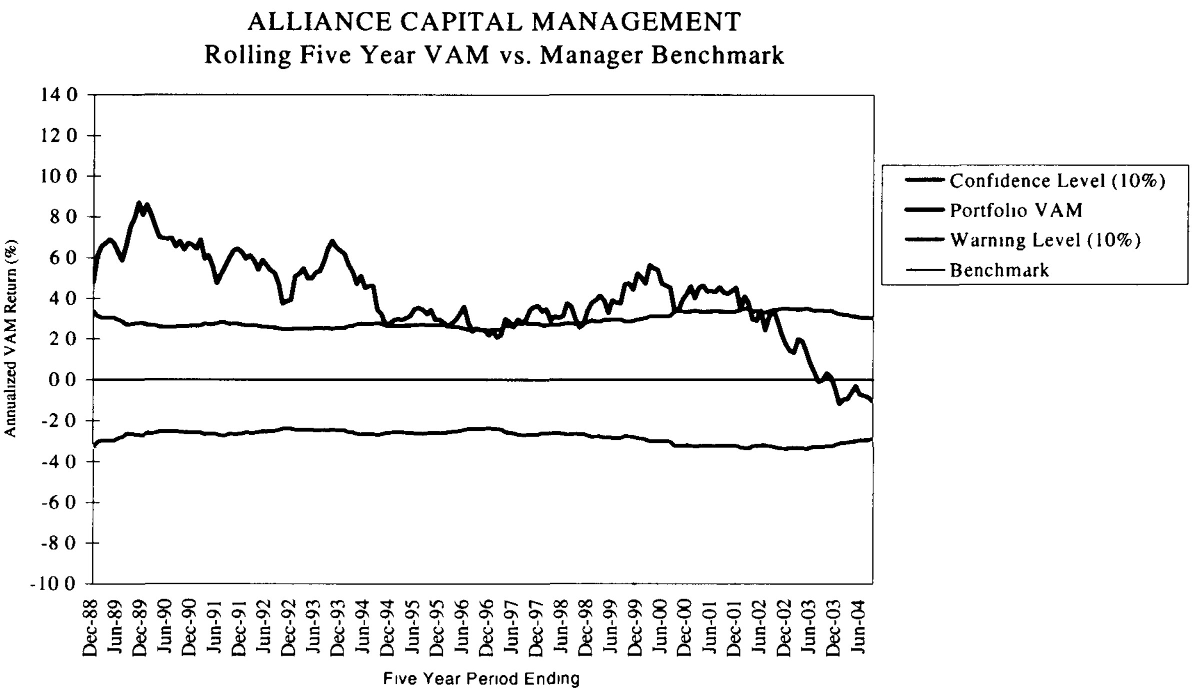
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 9/30/04	-3.1%	-2.6%	-2.6%
2003	22.4	29.7	26.3
2002	-26.8	-27.9	-24.0
2001	-13.7	-20.4	-15.3
2000	-13.7	-22.4	-11.4
1999	38.0	33.2	30.3

ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Jack Koltes **Assets Under Management: $927,764,725**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 2004

Portfolio Manager: George Cohen — **Assets Under Management: $556,230,196**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 0 5 percentage point (ppt) over the quarter An overweight allocation to the underperforming electronic technology sector proved detrimental Weak stock selection within the consumer non-durables sector also detracted from performance

For the year, the portfolio underperformed the Russell 1000 Growth index by 5 0 ppt An overweight position in electronic technology coupled with weak stock selection detracted from performance Weak stock selection within the consumer services sector negatively impacted returns

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-5 7%	-5 2%	-5 2%
Last 1 year	2.5	7 5	7.5
Last 2 years	20 8	16 3	23 1
Last 3 years	-1 9	1.6	7.1
Last 4 years	-11 8	-13 1	-6 1
Last 5 years	-6 6	-6 8	-0 3
Since Inception (4/94)	9.1	8 9	10 9

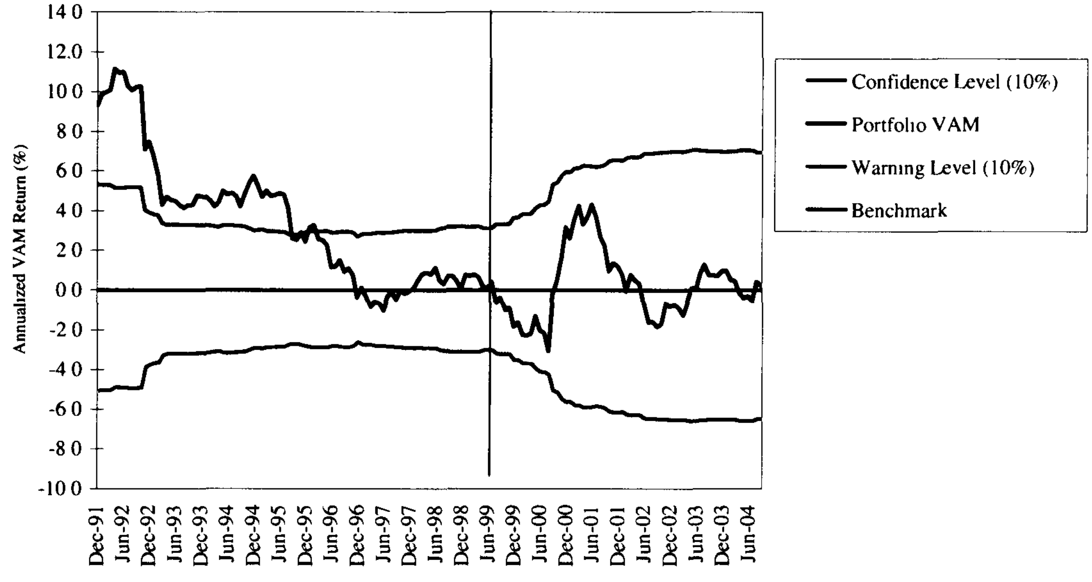
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 9/30/04	-5 9%	-2 6%	-2 6%
2003	41 2	29.7	39 3
2002	-35 0	-27 9	-23 8
2001	-25 0	-20 4	-11 2
2000	-6 0	-22 4	-12 1
1999	24 8	33 2	28 6

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 2004

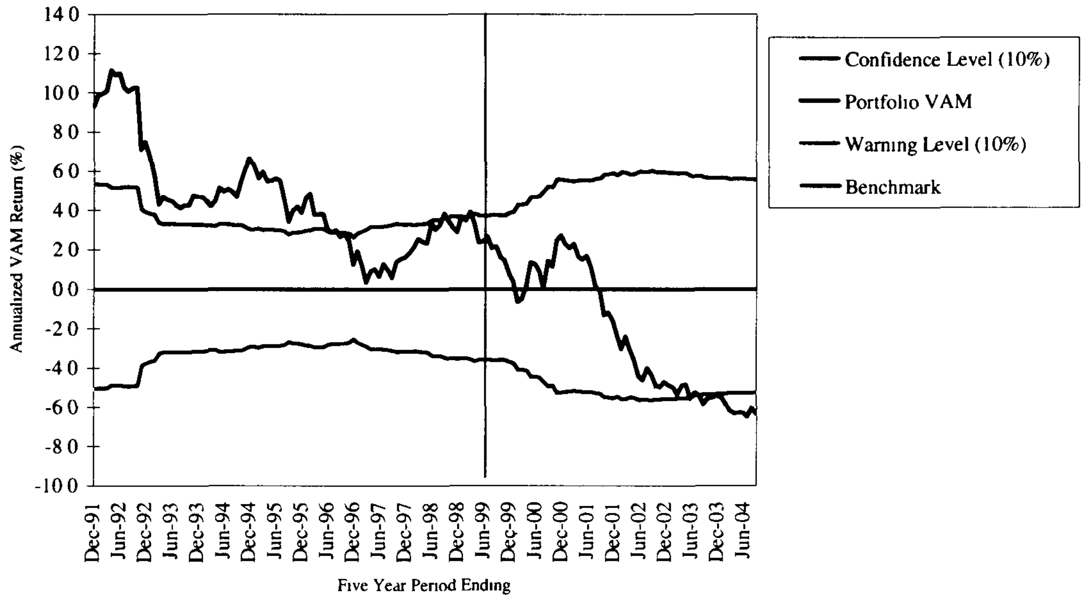
Portfolio Manager: George Cohen | **Assets Under Management: $556,230,196**

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



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

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



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

HOLT-SMITH & YATES ADVISORS
Periods Ending September, 2004

Portfolio Manager: Kristin Yates | **Assets Under Management: $41,144,996**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 2.9 percentage points (ppt) during the quarter. Overweight allocations to the retail trade and finance sectors proved beneficial; strong stock selection enhanced the positive impact. Effective stock selection within the electronic technology sector contributed to performance.

For the year, the portfolio outperformed the Russell 1000 Growth index by 4.2 ppt. Strong overall stock selection contributed to performance, and was particularly effective within the electronic technology and retail trade sectors. An overweight position in the health services sector coupled with strong stock selection positively impacted returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-2.3%	-5.2%	-5.2%
Last 1 year	11.7	7.5	7.5
Last 2 years	15.2	16.3	17.6
Last 3 years	1.9	1.6	8.0
Last 4 years	-5.1	-13.1	1.6
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-4.8	-13.5	1.4

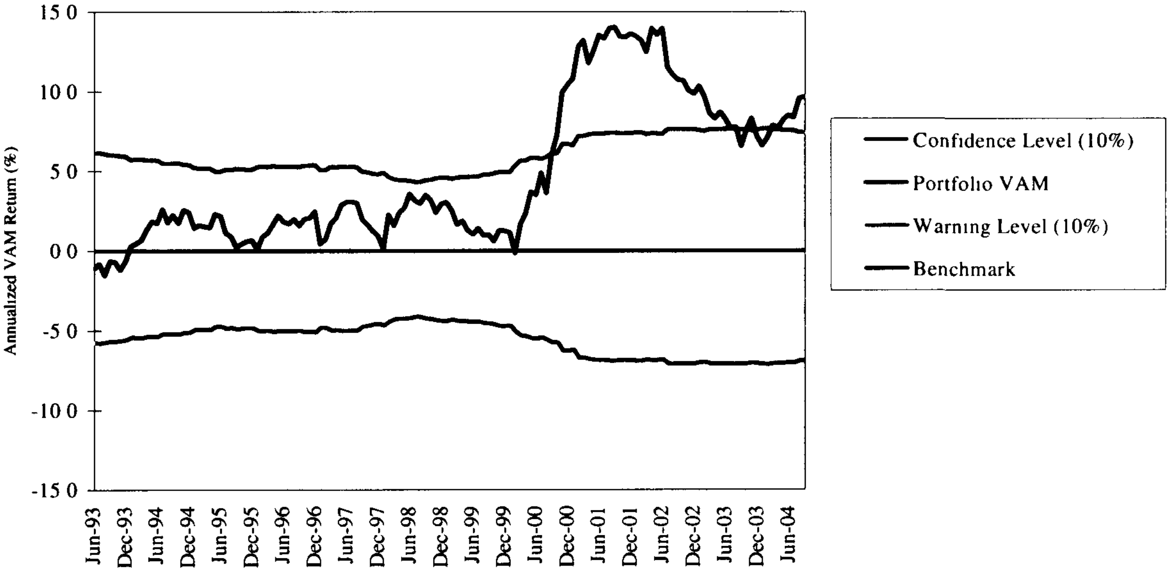
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 9/30/04	0.8%	-2.6%	-2.6%
2003	22.1	29.7	31.3
2002	-28.0	-27.9	-19.0
2001	-1.7	-20.4	4.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

HOLT-SMITH & YATES ADVISORS
Periods Ending September, 2004

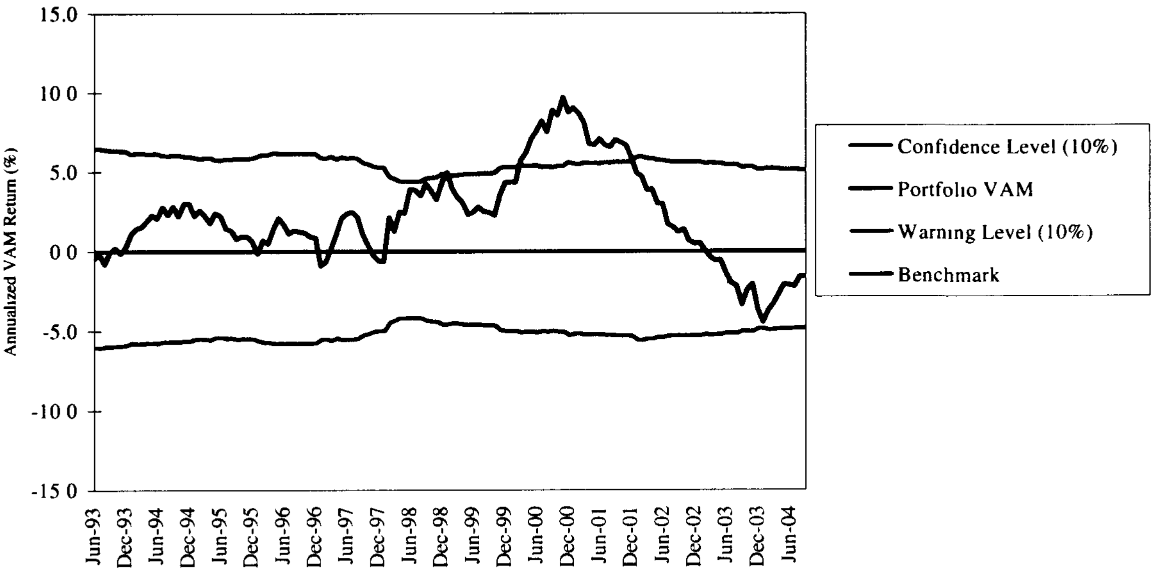
Portfolio Manager: Kristin Yates **Assets Under Management: $41,144,996**

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



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

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



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

ZEVENBERGEN CAPITAL INC.
Periods Ending September, 2004

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $125,698,085**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Growth index by 1 9 percentage points (ppt) during the quarter Weak overall stock selection detracted from performance, and was particularly ineffective in the retail trade and health services sectors For the year, the portfolio outperformed the Russell 1000 Growth index by 4 8 ppt Strong stock selection within the technology services, finance, and consumer services sectors positively impacted performance

Trusco Capital Management purchased an additional 32% interest in Zevenbergen effective 9/30/04, bringing Trusco's total ownership to 55% Zevenbergen employees retain a 45% interest in the firm Trusco holds an additional option that may be exercised September 2008

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	-7 1%	-5 2%	-5 2%
Last 1 year	12.3	7 5	7 5
Last 2 years	25 1	16.3	17 8
Last 3 years	2.4	1.6	6 8
Last 4 years	-17 1	-13.1	-7 6
Last 5 years	-8 8	-6 8	1 5
Since Inception (4/94)	9 6	8 9	12 5

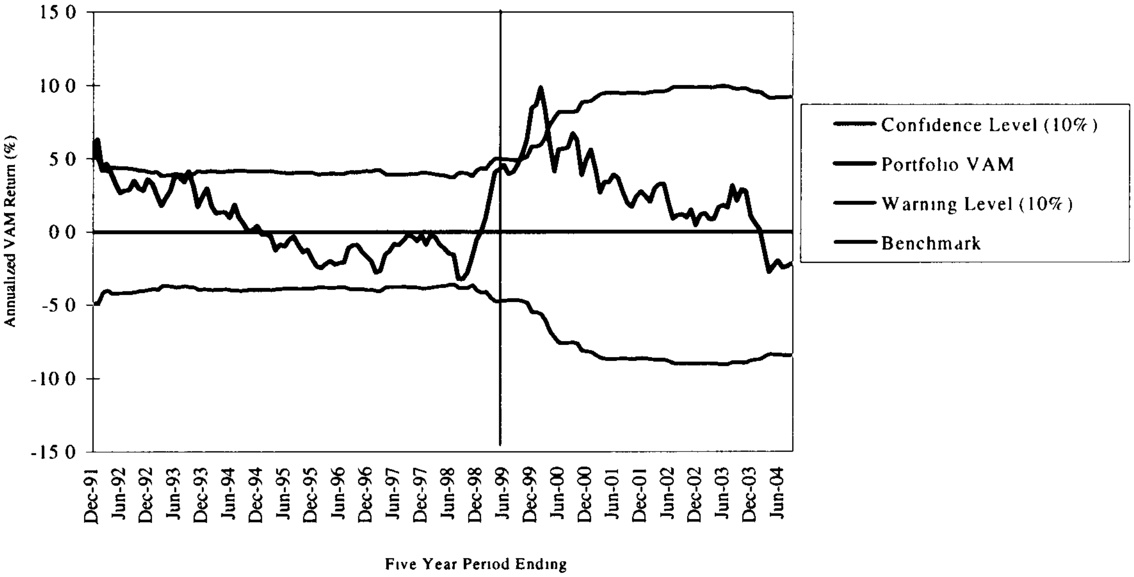
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
YTD 9/30/04	-0 6%	-2 6%	-2 6%
2003	49 3	29 7	31 3
2002	-36 2	-27 9	-24 2
2001	-29	-20 4	-3 2
2000	-38.2	-22 4	-16 6
1999	94 3	33 2	56 6

ZEVENBERGEN CAPITAL INC.
Periods Ending September, 2004

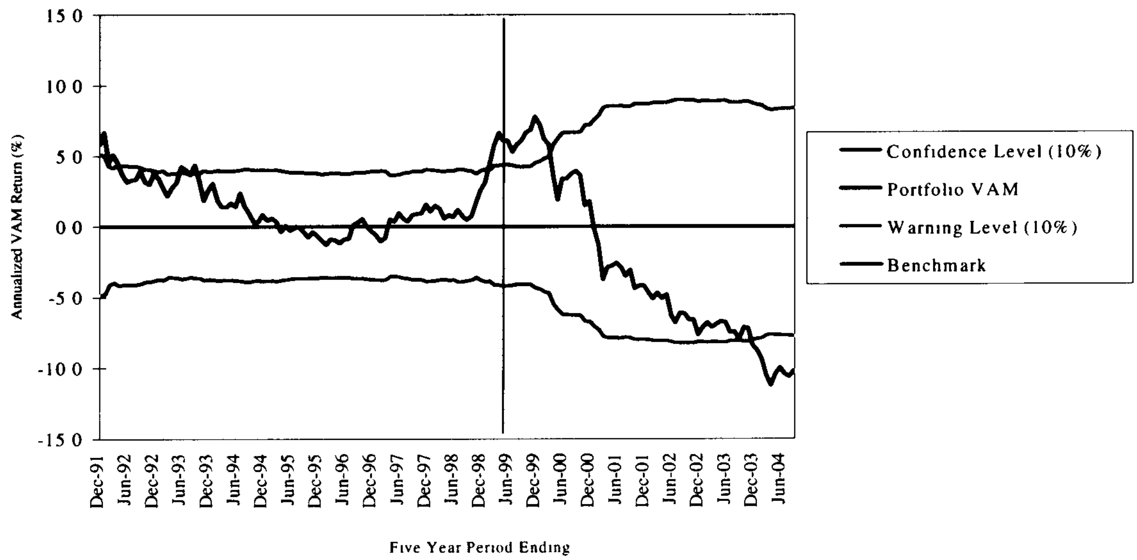
Portfolio Manager: **Nancy Zevenbergen** **Assets Under Management:** **$125,698,085**

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



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

Zevenbergen Capital Management
Rolling Five Year VAM vs. Manager Benchmark



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

Large Cap Value (R1000 Value)

Large Cap Value (R1000 Value)

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

Portfolio Manager: Tim Culler **Assets Under Management: $257,898,263**

Investment Philosophy

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

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

Staff Comments

For the quarter, the portfolio outperformed the Russell 1000 Value index by 0.4 percentage point. Strong overall stock selection contributed to performance, and was particularly effective within the process industries sector. An underweight allocation to the electronic technology sector coupled with strong stock selection aided returns. An overweight position in the energy minerals sector proved beneficial, as this was the best performing sector within the index.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.9%	1.5%	1.5%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (3/04)	4.6	2.4	2.4

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 9/30/04*	4.6%	2.4%	2.4%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

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

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

Portfolio Manager: Tim Culler | Assets Under Management: $257,898,263

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

EARNEST PARTNERS, LLC
Periods Ending September, 2004

Portfolio Manager: Paul Viera | **Assets Under Management: $54,707,898**

Investment Philosophy

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

Staff Comments

The portfolio matched the return of the Russell 1000 Value index at 1.5%. Overall stock selection was positive, particularly within the consumer services sector. This helped offset the impact of weak overall sector allocation.

For the year, the portfolio outperformed the Russell 1000 Value index by 1.1 percentage points. An overweight position in energy minerals coupled with strong stock selection contributed to performance. Strong stock selection within the consumer services and consumer durables sectors positively impacted returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.5%	1.5%	1.5%
Last 1 year	21.6	20.5	20.5
Last 2 years	23.7	22.4	28.4
Last 3 years	6.8	7.6	17.1
Last 4 years	2.6	3.2	11.7
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	2.0	4.9	13.0

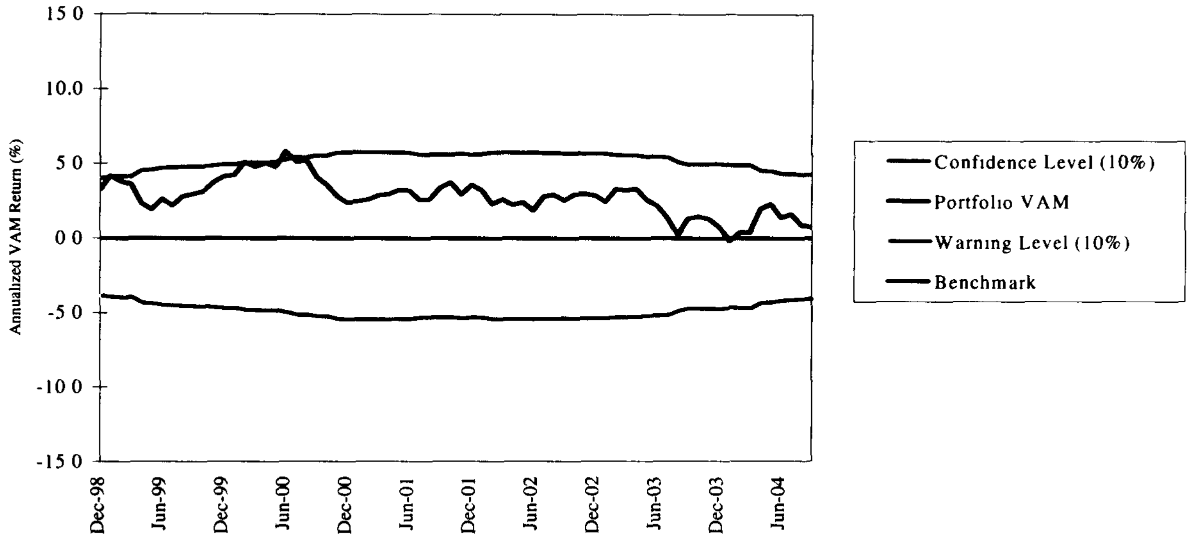
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 9/30/04	7.7%	5.5%	5.5%
2003	32.0	30.0	41.8
2002	-18.1	-15.5	-11.6
2001	-0.4	-5.6	11.5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

EARNEST PARTNERS, LLC
Periods Ending September, 2004

Portfolio Manager: Paul Viera **Assets Under Management: $54,707,898**

Earnest Partners
Rolling Five Year VAM vs. Russell 1000 Value



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

Earnest Partners
Rolling Five Year VAM vs. Manager Benchmark

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

LORD ABBETT & CO. LLC
Periods Ending September, 2004

Portfolio Manager: Eli Saltzmann **Assets Under Management: $245,766,676**

Investment Philosophy

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

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

Staff Comments

For the quarter, the portfolio underperformed the Russell 1000 Value index by 3 5 percentage points An underweight allocation to the financials sector coupled with weak stock selection detracted from performance Weak stock selection within producer manufacturing negatively impacted returns An underweight position in energy minerals represented a missed opportunity as this was the best performing sector within the index

On 9/30/04, the firm named five new partners, while one partner retired One of the new partners is Richard Larsen, research analyst on the large cap value team The firm now has a total of 50 partners.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

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

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 9/30/04	-0 3%	2 4%	2 4%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

* Note YTD begins 4/04 when manager was funded

LORD ABBETT & CO. LLC
Periods Ending September, 2004

Portfolio Manager: Eli Saltzmann **Assets Under Management: $245,766,676**

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

LSV ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Josef Lakonishok **Assets Under Management: $261,168,177**

Investment Philosophy

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

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

Staff Comments

For the quarter, the portfolio outperformed the Russell 1000 Value index by 0 6 percentage point An overweight allocation to energy minerals coupled with strong stock selection contributed to performance Strong stock selection within the finance sector positively impacted returns LSV began managing the assets of terminated manager Bay Isle effective September 14, 2004

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	2 1%	1.5%	1 5%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (3/04)	4 2	2 4	2 4

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 9/30/04	4 2%	2.4%	2 4%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

* Note YTD begins 4/04 when manager was funded

LSV ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Josef Lakonishok **Assets Under Management: $261,168,177**

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

OPPENHEIMER CAPITAL
Periods Ending September, 2004

Portfolio Manager: John Lindenthal — **Assets Under Management: $712,251,268**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 1000 Value index by 1.4 percentage points (ppt) during the quarter. Weak overall sector allocation detracted from performance. An underweight position in energy minerals, the best performing sector within the index, represented a missed opportunity. Weak stock selection within the producer manufacturing sector negatively impacted returns.

For the year, the portfolio underperformed the Russell 1000 Value index by 3.2 ppt. The cash position, which was 5.6% on 9/30/04, was the largest detractor for the year. An overweight allocation to the retail trade and electronic technology sectors, coupled with weak stock selection, hindered returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	0.1%	1.5%	1.5%
Last 1 year	17.3	20.5	20.5
Last 2 years	20.8	22.4	22.9
Last 3 years	6.8	7.6	7.1
Last 4 years	3.3	3.2	0.2
Last 5 years	5.6	4.3	4.2
Since Inception (7/93)	13.1	11.5	12.1

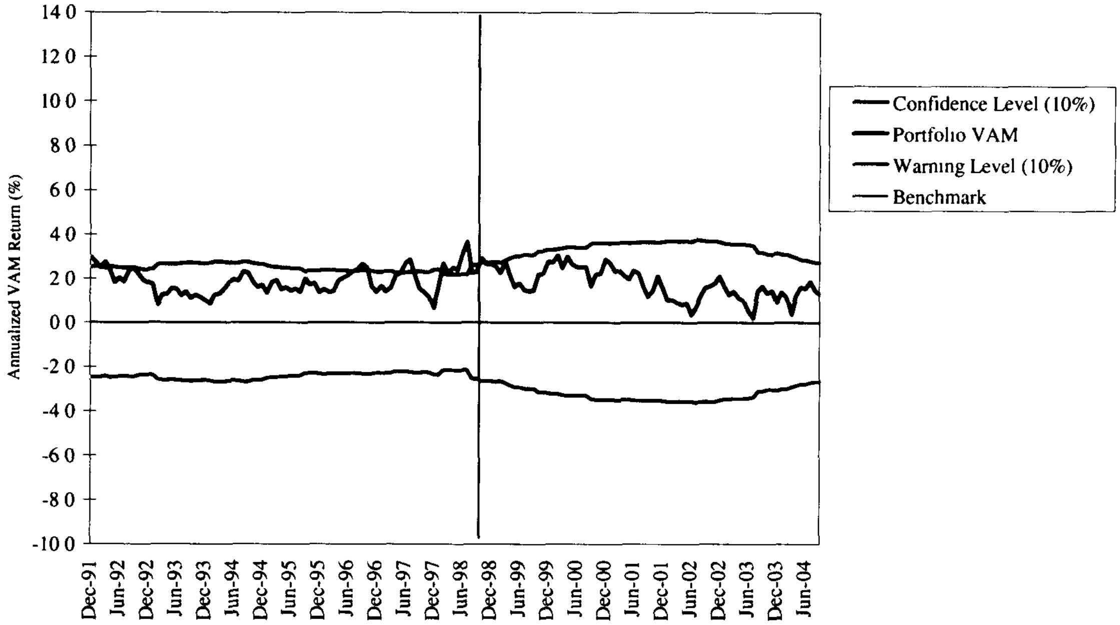
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 9/30/04	3.6%	5.5%	5.5%
2003	28.9	30.0	31.4
2002	-15.5	-15.5	-20.7
2001	-7.0	-5.6	-9.5
2000	11.2	7.0	10.3
1999	10.7	7.3	14.9

OPPENHEIMER CAPITAL
Periods Ending September, 2004

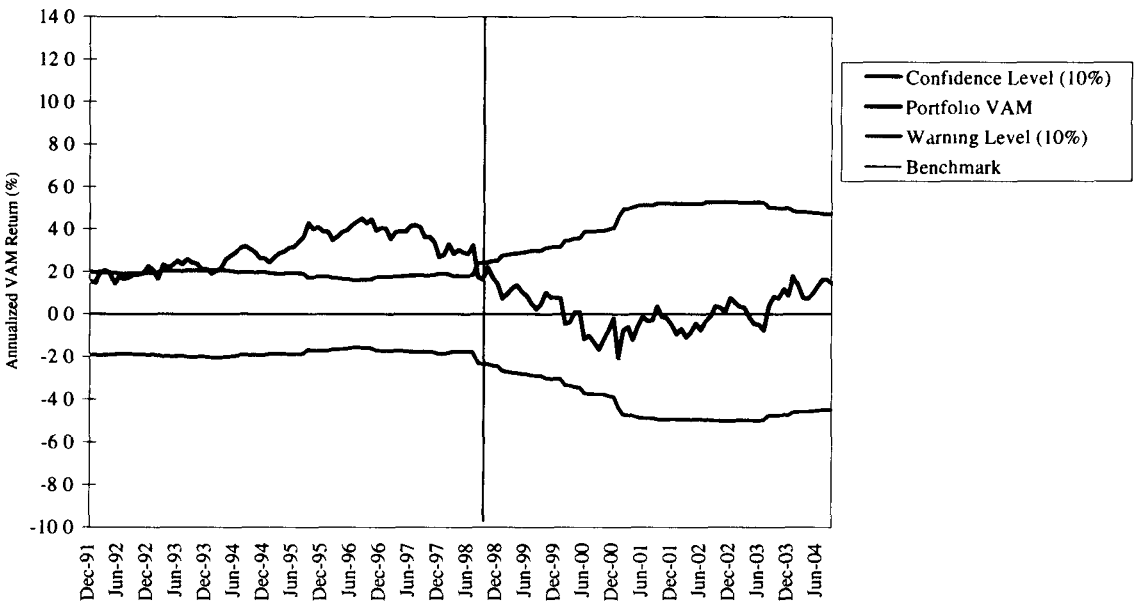
Portfolio Manager: John Lindenthal **Assets Under Management: $712,251,268**

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



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

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Manager Benchmark



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

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

Portfolio Manager: Kevin McCreesh **Assets Under Management: $149,793,533**

Investment Philosophy

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

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

Staff Comments

For the quarter, the portfolio underperformed the Russell 1000 Value index by 1 2 percentage points An overweight allocation to the electronic technology sector coupled with weak stock selection detracted from performance Ineffective stock selection within the finance sector pressured returns An underweight position in energy minerals represented a missed opportunity as this was the best performing sector within the index; weak stock selection added to the negative impact

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

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

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
YTD 9/30/04	1 5%	2.4%	2 4%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

* Note YTD begins 4/04 when manager was funded

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

Portfolio Manager: Kevin McCreesh **Assets Under Management: $149,793,533**

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

Small Cap Growth (R2000) Growth

Small Cap Growth (R2000 Growth)

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MCKINLEY CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $164,755,266**

Investment Philosophy

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

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

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-6 8%	-6.0%	-6.0%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	-3 1	-0.7	-0.7

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 9/30/04	-3 1%	-0 7%	-0 7%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

Staff Comments

The portfolio underperformed the Russell 2000 Growth index 0.8 percentage point during the quarter Weak overall stock selection, most notably within the consumer durables, electronic technology, and health services sectors, detracted from performance An underweight allocation to financials represented a missed opportunity as the sector outperformed within the index Weak stock selection within the sector added to the negative impact

Recommendation

No action required

MCKINLEY CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $164,755,266**

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

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending September, 2004

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $28,565,344**

Investment Philosophy

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

Staff Comments

The portfolio underperformed the Russell 2000 Growth index by 3 8 percentage points (ppt) during the quarter and 11 1 ppt for the year Overall weak stock selection detracted from performance in both periods and was particularly ineffective within the technology services and electronic technology sectors.

Wells Fargo agreed to purchase the mutual fund and pension assets of Strong A group of former Strong employees purchased the remaining assets, including the 20% ownership stake in Next Century. Next Century will exit the mutual fund business upon completion of the Wells Fargo transaction at year end Per Tom Press, these changes will have no impact on Next Century's business operations.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-9.8%	-6.0%	-6 0%
Last 1 year	0 8	11 9	11 9
Last 2 years	17 5	25 9	27 4
Last 3 years	5 9	9 1	10 8
Last 4 years	-13.5	-7 1	-4.4
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-12 6	-7 6	-4 8

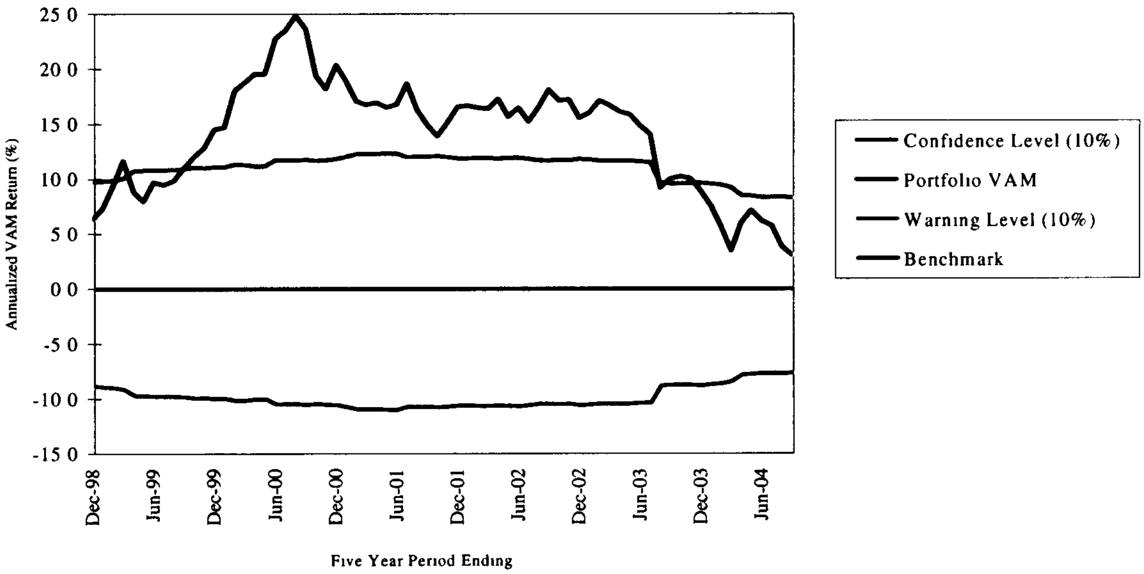
Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 9/30/04	-7 5%	-0 7%	-0.7%
2003	50.7	48 5	48.5
2002	-33 3	-30.3	-27.8
2001	-22 8	-9.2	-5.5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending September, 2004

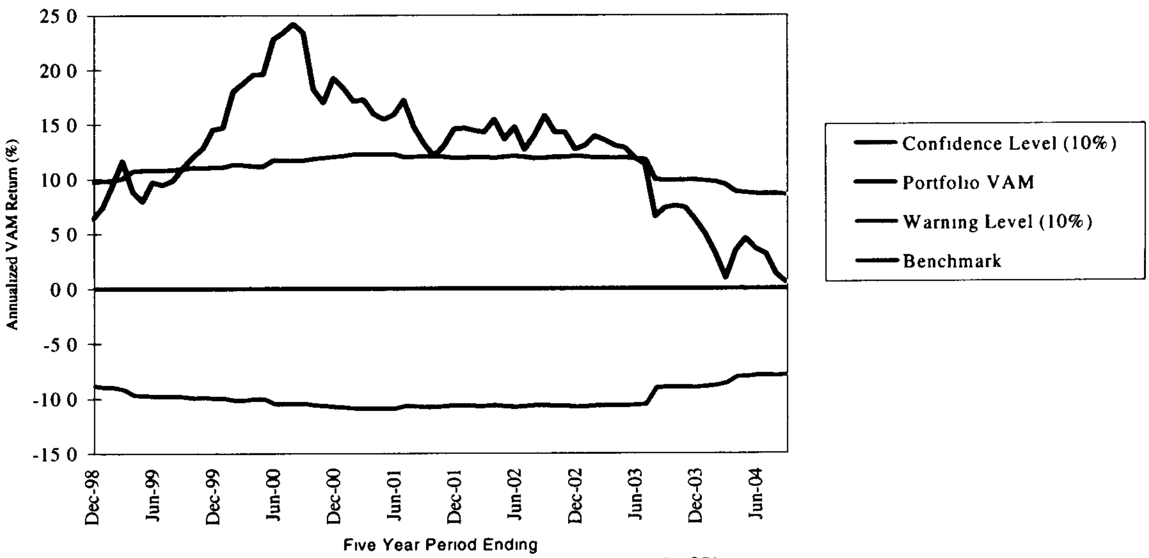
Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $28,565,344**

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



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

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



Note Shaded area includes performance prior to retention by the SBI

TURNER INVESTMENT PARTNERS
Periods Ending September, 2004

Portfolio Manager: William McVail **Assets Under Management: $126,344,148**

Investment Philosophy

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

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

Staff Comments

The portfolio outperformed the Russell 2000 Growth index by 1 0 percentage point during the quarter Strong overall stock selection contributed to performance, and was most effective in the electronic technology, technology services and health services sectors

During the quarter the firm hired a third research analyst to cover the health care sector

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-5 0%	-6 0%	-6 0%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	-0.6	-0.7	-0 7

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
YTD 9/30/04	-0 6%	-0.7%	-0.7%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending September, 2004

Portfolio Manager: William McVail **Assets Under Management: $126,344,148**

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

WINSLOW CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Joseph Docter **Assets Under Management: $121,253,626**

Investment Philosophy

Winslow Capital believes that companies with above average earnings growth rates provide the best opportunities for superior portfolio returns. They look for companies with three to five year records of increased sales and earnings, steady 20-30% growth, low financial leverage with strong cash flow, and significant management ownership. Through internal fundamental research, they calculate projected fundamentals – earnings projections, forecasts of relative P/E ratios, and projected 12-18 month returns – which are used in the valuation model to rank securities. Individual positions do not exceed five percent. The portfolio is diversified across sectors.

Staff Comments

The portfolio underperformed the Russell 2000 Growth index by 2.3 percentage points (ppt) during the quarter. Overall stock selection detracted from performance and was particularly weak within the health services, consumer services, and consumer durables sectors. Five holdings cost the portfolio 6.2% during the period – Corinthian Colleges, Accredo Health, Possis Medical, eResearch and Select Comfort.

For the year, the portfolio underperformed the Russell 2000 Growth index by 6.4 ppt. Overall weak stock selection, particularly within consumer services and health services, detracted from performance. An underweight allocation to distribution services coupled with weak stock selection negatively impacted returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

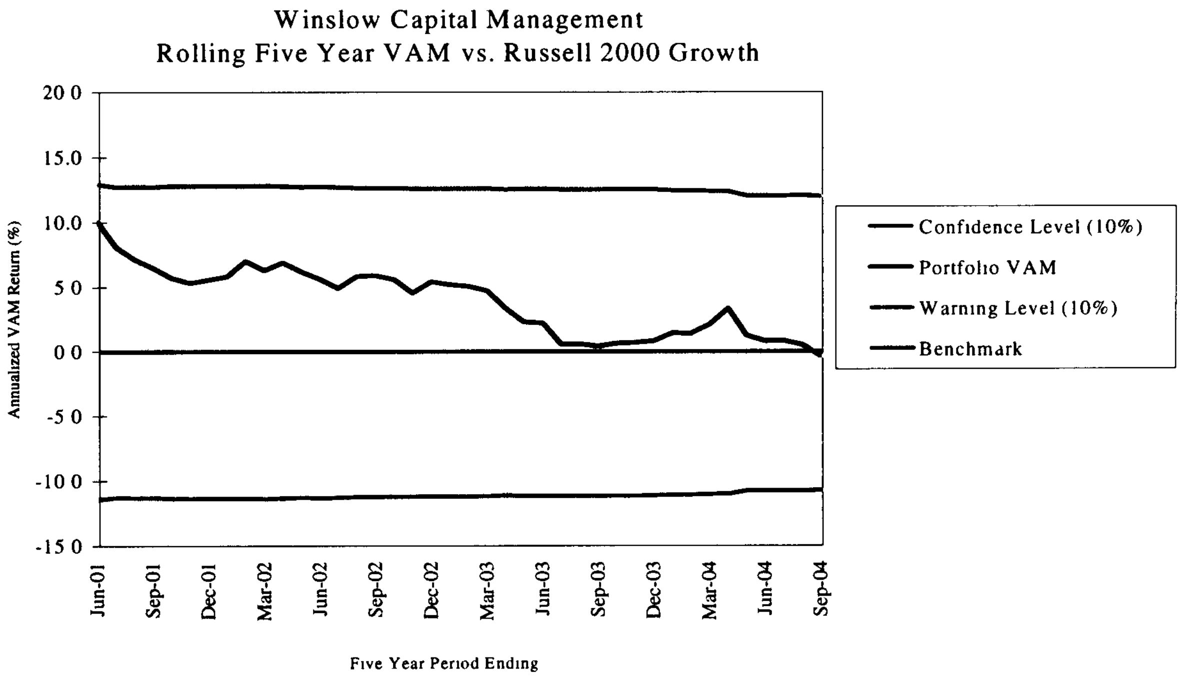
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-8.3%	-6.0%	-6.0%
Last 1 year	5.5	11.9	11.9
Last 2 years	20.7	25.9	27.6
Last 3 years	7.0	9.1	11.8
Last 4 years	-6.3	-7.1	-0.6
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-4.5	-7.6	-1.5

Calendar Year Returns

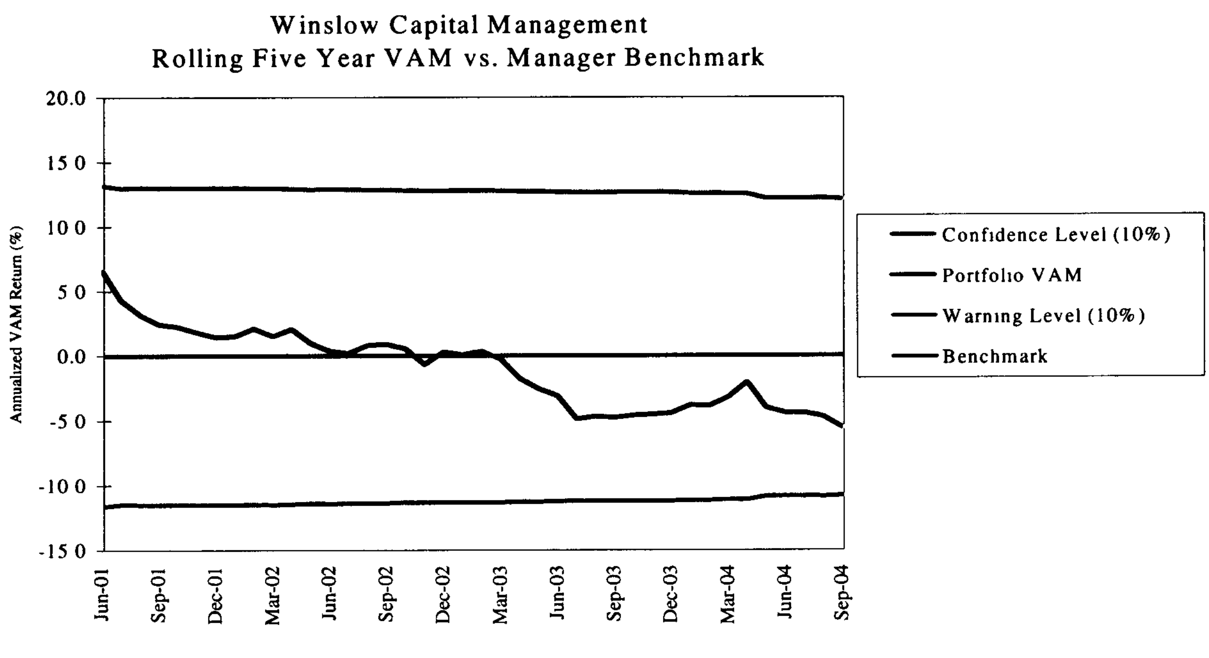
	Actual	Russell 2000 Growth	Manager Benchmark
YTD 9/30/04	-5.1%	-0.7%	-0.7%
2003	37.6	48.5	51.3
2002	-25.0	-30.3	-26.7
2001	-6.1	-9.2	4.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Joseph Docter **Assets Under Management: $121,253,626**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Small Cap Value (R2000 Value)

Small Cap Value (R2000 Value)

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KENWOOD CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $46,686,004**

Investment Philosophy

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

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

Staff Comments

The portfolio outperformed the Russell 2000 Value index by 0 7 percentage point during the quarter Strong overall stock selection contributed to performance, and was particularly effective within the finance, utilities and retail trade sectors

During the quarter the firm hired two additional senior quantitative research analysts.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	0.8%	0.1%	0.1%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	11 5	8.0	8 0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 9/30/04	11 5%	8 0%	8 0%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

KENWOOD CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley Assets Under Management: $46,686,004

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

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Chip Otness | **Assets Under Management: $101,529,995**

Investment Philosophy

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

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

Staff Comments

The portfolio outperformed the Russell 2000 Value index by 3 0 percentage points during the quarter Overall strong stock selection positively impacted returns. An underweight allocation to the electronic technology sector coupled with strong stock selection contributed to performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	3 1%	0 1%	0 1%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	8 6	8.0	8.0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 9/30/04	8.6%	8.0%	8.0%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Chip Otness | **Assets Under Management: $101,529,995**

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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $104,799,419**

Investment Philosophy

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

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

Staff Comments

For the quarter, the portfolio outperformed the Russell 2000 Value index by 0.8 percentage point. Strong stock selection within the process industries and consumer durables sectors contributed to performance. Lack of exposure to electronic technology, one of the worst performing sectors within the index, proved beneficial.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	0.9%	0.1%	0.1%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	12.1	8.0	8.0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 9/30/04	12.1%	8.0%	8.0%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $104,799,419**

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

MARTINGALE ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: William Jacques | **Assets Under Management: $106,108,527**

Investment Philosophy

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

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

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

Staff Comments

For the quarter, the portfolio outperformed the Russell 2000 Value index by 0.9 percentage point. Overall strong stock selection contributed to performance, and was particularly effective within the finance, electronic technology, technology services, and retail trade sectors.

During the quarter the firm hired a senior software engineer, thus completing the staff expansion plan for 2004.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	1.0%	0.1%	0.1%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	13.4	8.0	8.0

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
YTD 9/30/04	13.4%	8.0%	8.0%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: William Jacques **Assets Under Management: $106,108,527**

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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $153,834,426**

Investment Philosophy

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

Staff Comments

The portfolio outperformed the Russell 2000 Value index by 0.6 percentage point (ppt) during the quarter. Strong stock selection within the technology services, electronic technology, and process industry sectors contributed to performance.

For the year, the portfolio underperformed the Russell 2000 Value index by 2.7 ppts. Weak stock selection within the finance sector was the largest detractor from performance. An underweight allocation to non-energy minerals, one of the best performing sectors within the index, negatively impacted returns.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

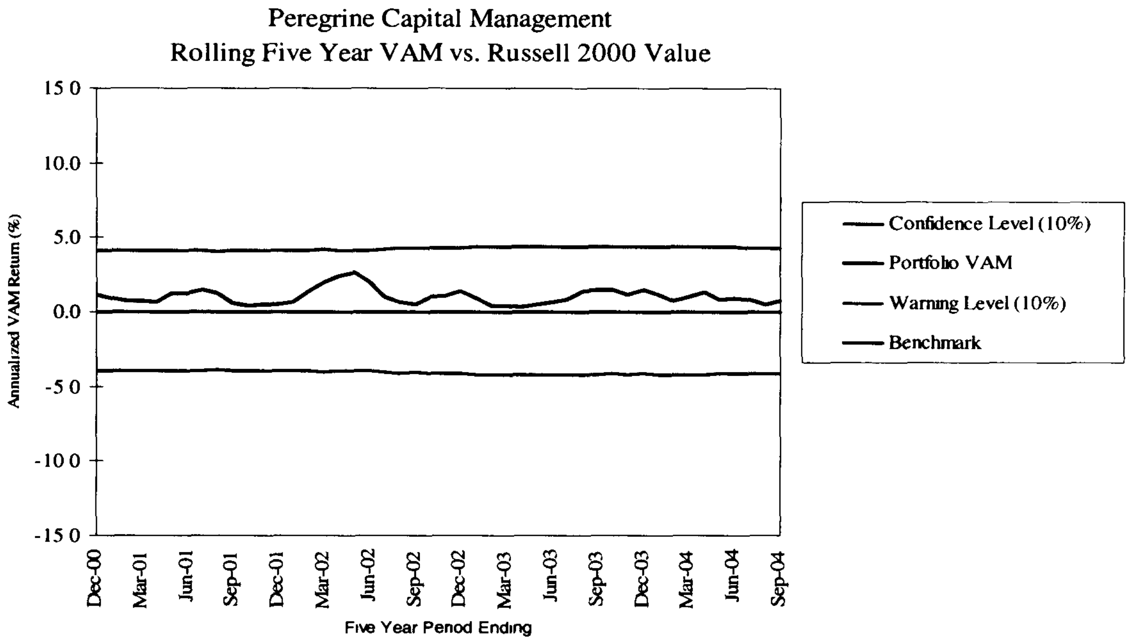
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	0.7%	0.1%	0.1%
Last 1 year	23.0	25.7	25.7
Last 2 years	30.4	28.6	28.7
Last 3 years	17.9	17.7	19.9
Last 4 years	16.1	14.5	18.1
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	17.3	15.5	18.9

Calendar Year Returns

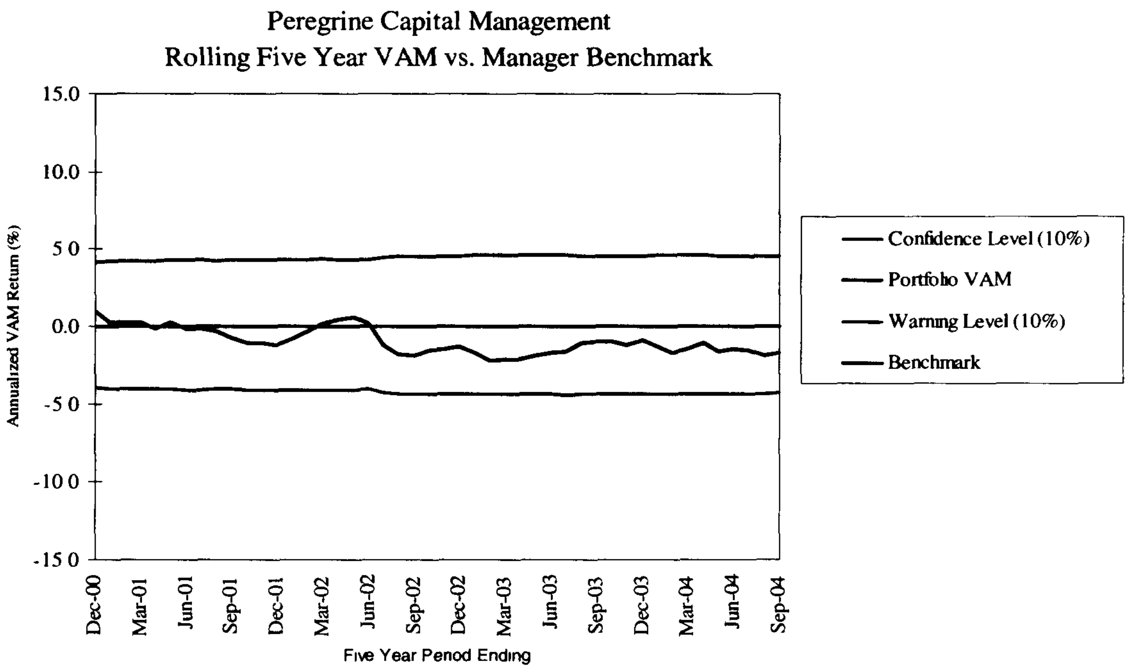
	Actual	Russell 2000 Value	Manager Benchmark
YTD 9/30/04	7.3%	8.0%	8.0%
2003	44.2	46.0	44.2
2002	-8.1	-11.4	-6.9
2001	12.6	14.0	22.9
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A

PEREGRINE CAPITAL MANAGEMENT
Periods Ending March, 2004

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $153,834,426**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Semi-Passive and Passive

Semi-Passive and Passive

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BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2004

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,438,308,833**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio underperformed the Russell 1000 index by 0.2 percentage point (ppt) during the quarter An overweight allocation to electronic technology coupled with weak stock selection detracted from performance An underweight position in producer manufacturing represented a missed opportunity as the sector outperformed Weak stock selection added to the negative impact

For the year, the portfolio underperformed the blended manager benchmark by 0 1 ppt Specific holdings detracted from alpha during the period, including Intel and Wyeth

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-2.0%	-1 8%
Last 1 year	14 4	14 5
Last 2 years	20.1	18 9
Last 3 years	5.8	5.2
Last 4 years	-3.8	-5 1
Last 5 years	-0.8	-2.1
Since Inception (1/95)	10.9	10.1

Calendar Year Returns

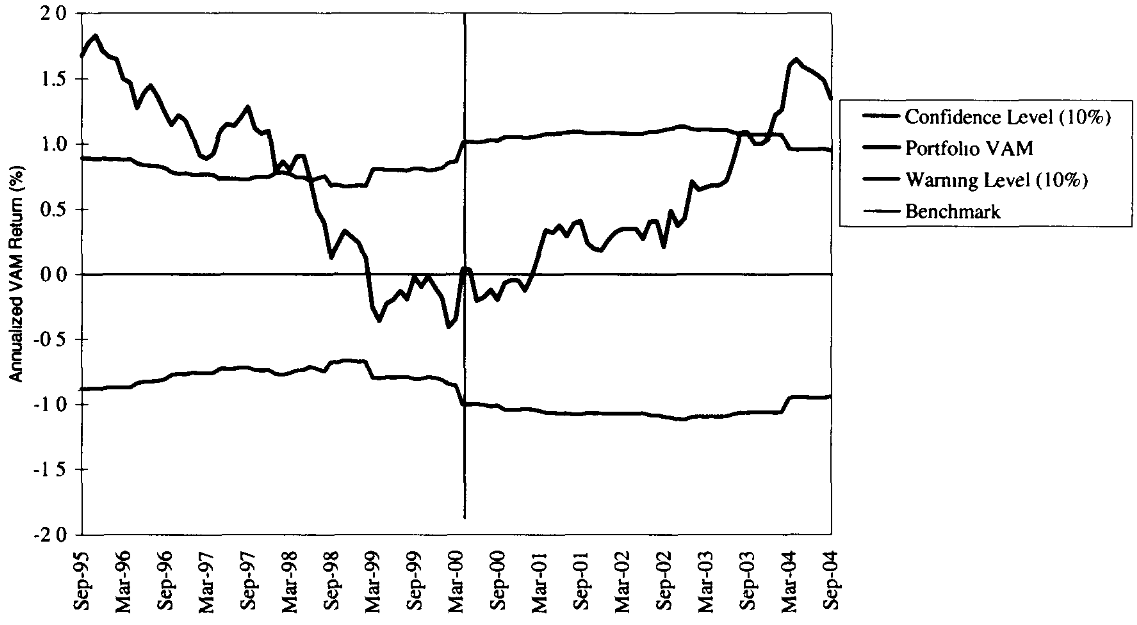
	Actual	Manager Benchmark*
YTD 9/30/04	1 7%	1.5%
2003	30.0	28 5
2002	-19 1	-19 7
2001	-7 8	-9 7
2000	-13 8	-16 3
1999	14 1	16.3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04.

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2004

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,438,308,833**

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2004

Portfolio Manager: John Cone | **Assets Under Management: $1,758,431,484**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio underperformed with Russell 1000 index by 0.1 percentage point (ppt) during the quarter. Overall stock selection detracted from performance and was particularly ineffective within the consumer services and consumer non-durables sectors

For the year, the portfolio underperformed the blended manager benchmark by 0 2 ppt Weak overall stock selection hindered returns. Unsuccessful sector tilts included an underweight position in materials and an overweight allocation to transportation

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-1 9%	-1 8%
Last 1 year	14 3	14.5
Last 2 years	17.7	18 9
Last 3 years	4.3	5 2
Last 4 years	-5 1	-5 1
Last 5 years	-2 3	-2 1
Since Inception (1/95)	9 7	10 1

Calendar Year Returns

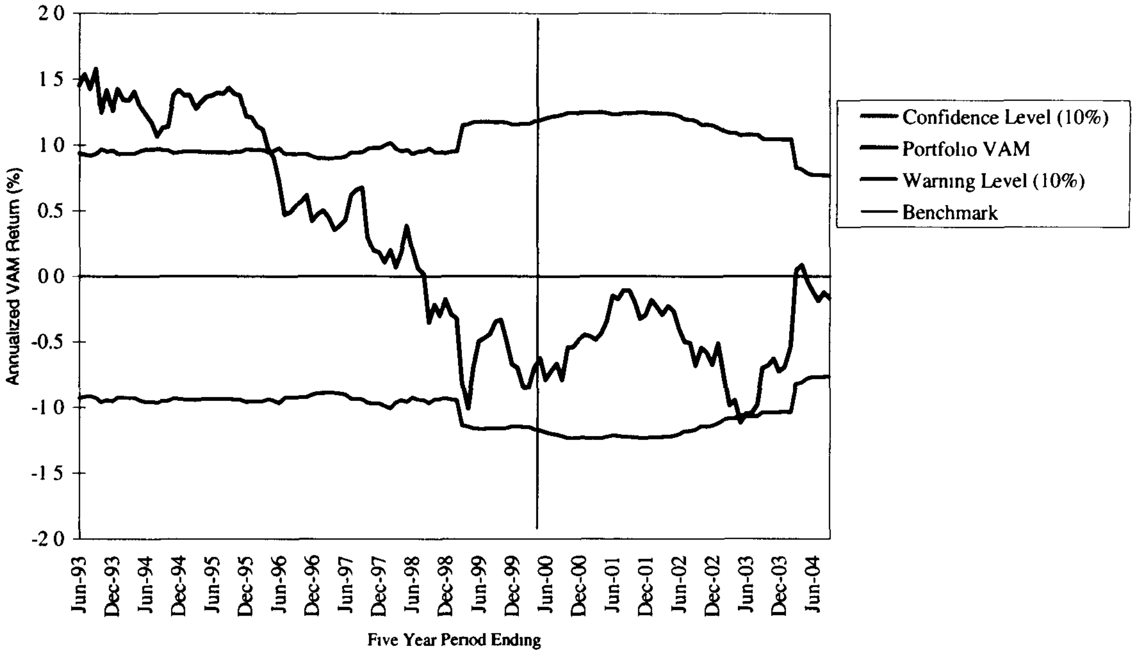
	Actual	Manager Benchmark*
YTD 9/30/04	1 7%	1 5%
2003	26 9	28.5
2002	-20 2	-19 7
2001	-9 0	-9 7
2000	-15 9	-16 3
1999	12 9	16 3

* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2004

Portfolio Manager: John Cone | **Assets Under Management: $1,758,431,484**

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



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

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

Portfolio Manager: Tim Devlin **Assets Under Management: $2,085,542,620**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

The portfolio outperformed the Russell 1000 index by 0 5 percentage point (ppt) during the quarter Strong overall stock selection, particularly within the electronic technology sector, contributed to performance An underweight allocation to distribution services coupled with strong stock selection proved beneficial For the year, the portfolio outperformed the blended manager benchmark by 1.4 ppt.

The merger of JP Morgan and Bank One closed on 7/1/2004 Most of the equity assets formerly managed by Bank One have been mapped into existing JP Morgan large, mid, and small cap strategies This transition process is nearing completion The Bank One purely quantitative and mid value strategy teams will continue as before in Columbus

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-1.3%	-1 8%
Last 1 year	15 9	14 5
Last 2 years	19 3	18 9
Last 3 years	4 5	5 2
Last 4 years	-4 5	-5 1
Last 5 years	-2.0	-2 1
Since Inception (1/95)	10 3	10.1

Calendar Year Returns

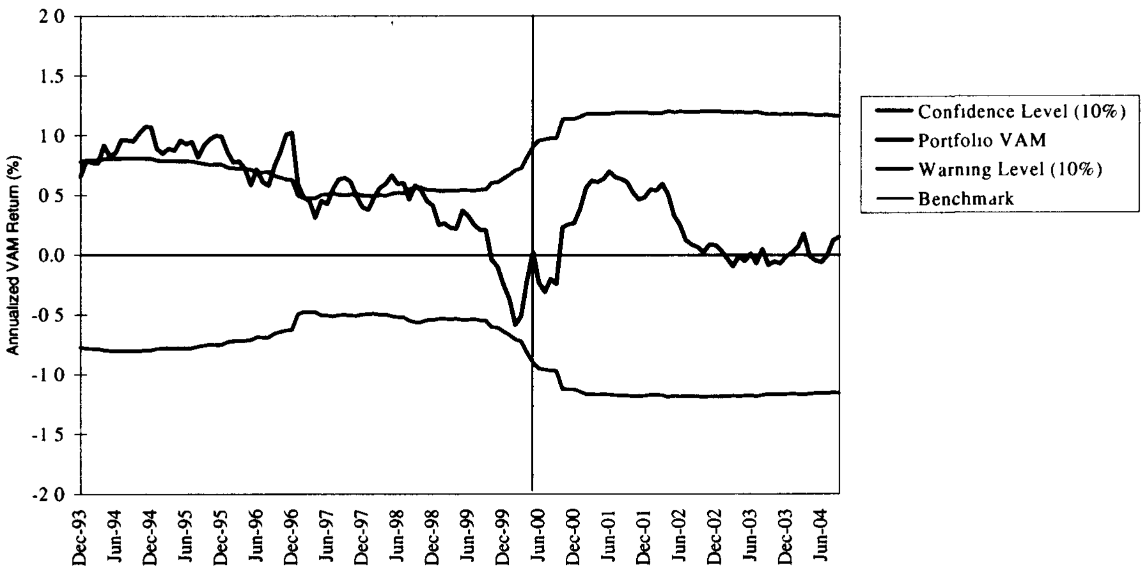
	Actual	Manager Benchmark*
YTD 9/30/04	2.3%	1 5%
2003	28 9	28 5
2002	-21 8	-19 7
2001	-8 7	-9 7
2000	-13 6	-16 3
1999	14 0	16 3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04

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

Portfolio Manager: Tim Devlin **Assets Under Management: $2,085,542,620**

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



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

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2004

Portfolio Manager: Amy Schioldager | **Assets Under Management: $6,345,950,059**

Investment Philosophy – Passive Style

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

Staff Comments

The portfolio outperformed the Russell 3000 index by 0 1 percentage point (ppt) during the quarter The strength of large cap stocks relative to small cap stocks proved beneficial The portfolio is generally underweight small-cap and micro-cap stocks due to liquidity and transaction cost concerns

For the year, the portfolio outperformed the Russell 3000 index by 0.1 ppt.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-1 8%	-1 9%
Last 1 year	14.4	14 3
Last 2 years	20.0	20 0
Last 3 years	5.5	5 6
Last 4 years	-4.5	-4 6
Last 5 years	-0 4	-0.5
Since Inception (7/95)	9 5	9 3

Calendar Year Returns

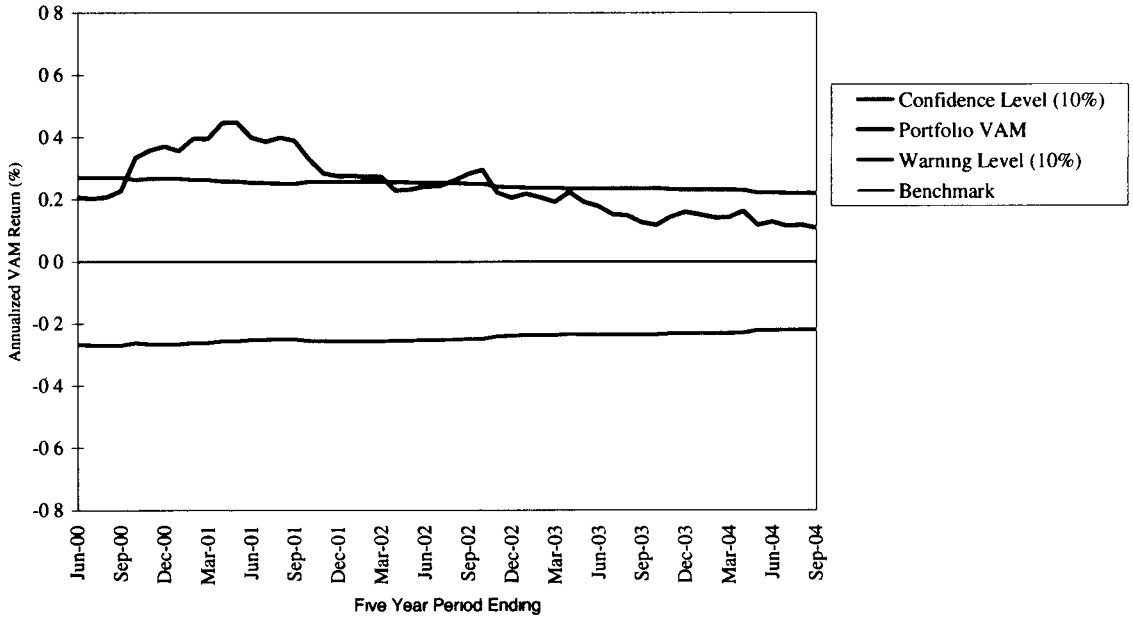
	Actual	Manager Benchmark*
YTD 9/30/04	1 7%	1.6%
2003	30.9	31 2
2002	-21 4	-21 5
2001	-11 8	-11 7
2000	-9 8	-11 0
1999	23 3	23 6

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

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2004

Portfolio Manager: Amy Schioldager **Assets Under Management: $6,345,950,059**

BARCLAYS GLOBAL INVESTORS - PASSIVE
Rolling Five Year VAM vs. Domestic Equity Target
(Russell 3000 as of 10/1/2003)



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Third Quarter, 2004

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 2004

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
American Express (AMG)	3 4	3.2	4.3	3.7	4.9	5 9	6.8	7.5	6 5	6.8	$809.9	9 1%
Deutsche	3.4	3.2	4 5	3.7	6.4	5 9			8.6	8.0	$656 6	7 4%
Dodge & Cox	2.8	3.2	4.2	3.7	7.4	5.9			9.3	8 0	$819 9	9 3%
Morgan Stanley	2.7	3 2	4.6	3.7	6.1	5 9	7 7	7 5	9 8	9 5	$782 0	8 8%
Western	3.5	3 2	7 0	3.7	8 0	5 9	9.3	7 5	10 9	9 5	$1,323 5	14 9%
Semi-Passive Managers												
BlackRock	3 2	3.2	4.1	3.7	6 0	5.9	7 7	7.5	7 4	7.1	$1,491 5	16.8%
Goldman	3 3	3 2	4.6	3.7	6 4	5.9	7.9	7.5	7 0	6 7	$1,479 4	16 7%
Lincoln	3.3	3.2	3 9	3.7	6.1	5 9	7.7	7.5	8.2	8.1	$1,490 6	16.8%
											$8,853.3	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**3.2**	**3.2**	**4.7**	**3.7**	**6.3**	**5.9**	**7.8**	**7.5**	**9.6**	**9.4**		
Lehman Aggregate (3)		3.2		3.7		5.9		7.5		9 5		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Includes performance of terminated managers.
(3) Prior to July 1994, this index reflects the Salomon BIG.

AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Colin Lundgren **Assets Under Management: $809,850,082**

Investment Philosophy

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

Staff Comments

American Express outperformed the benchmark for the quarter and for the year. The quarterly performance was helped by its allocation to high yield, the higher quality emphasis in their holdings, and credit selection. The one-year outperformance was due to their allocation to high yield corporate bonds, issue selection in investment grade corporates, and the short duration position.

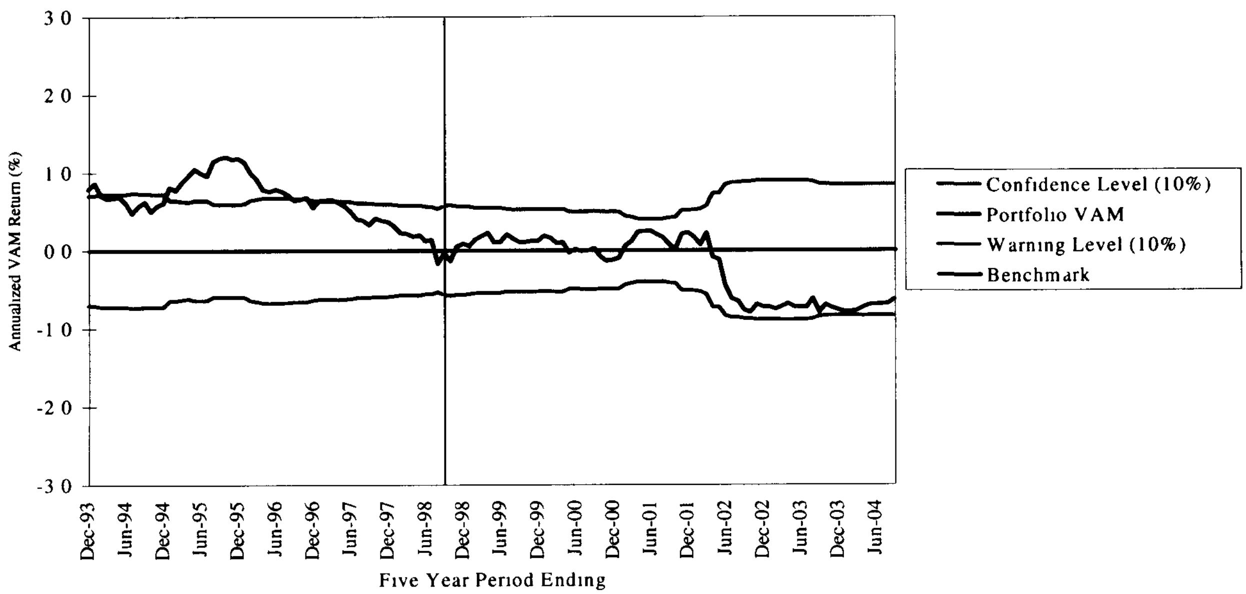
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.2%
Last 1 year	4.3	3.7
Last 2 years	5.1	4.5
Last 3 years	4.9	5.9
Last 4 years	6.6	7.6
Last 5 years	6.8	7.5
Since Inception (7/93)	6.5	6.8

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, 2004

Portfolio Manager: Warren Davis | **Assets Under Management: $656,569,047**

Investment Philosophy

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

Staff Comments

Deutsche Asset's outperformance for the first quarter and the year was primarily due to the overweight position and issue selection in the corporate sector A significant overweight to Commercial Mortgage Backed securities also helped performance

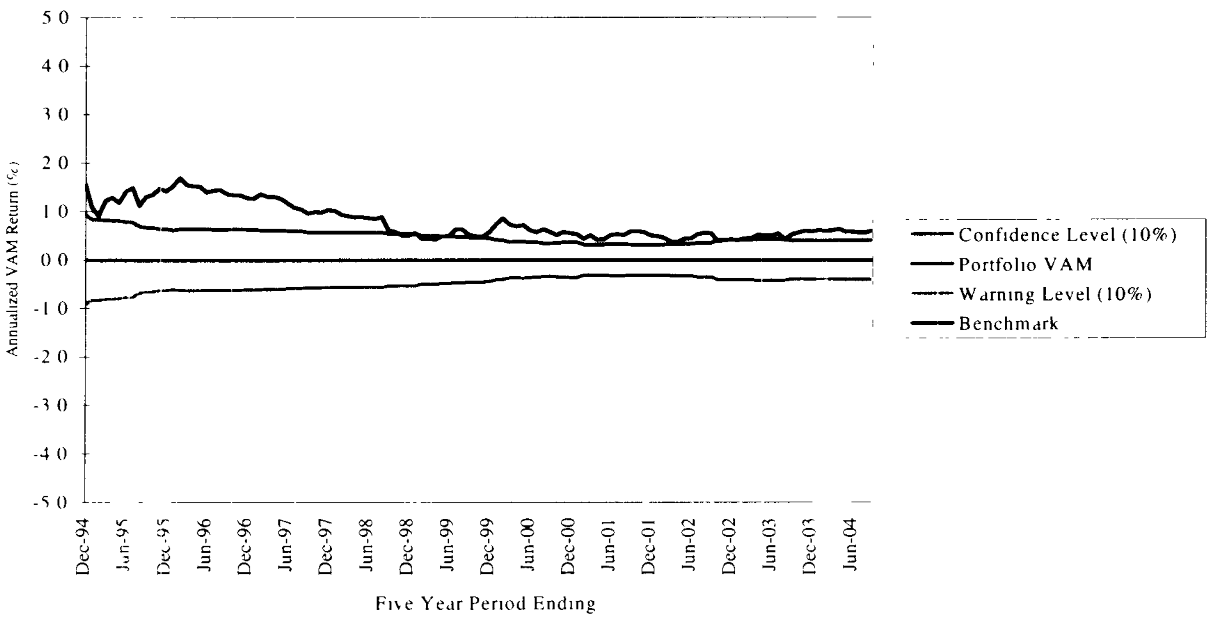
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3 4%	3.2%
Last 1 year	4 5	3 7
Last 2 years	5.1	4.5
Last 3 years	6.4	5 9
Last 4 years	8 3	7.6
Last 5 years	N/A	N/A
Since Inception (2/00)	8 6	8 0

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, 2004

Portfolio Manager: Dana Emery | **Assets Under Management: $819,871,405**

Investment Philosophy

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

Staff Comments

Dodge & Cox trailed the quarterly benchmark. The quarterly performance was hurt by the portfolio's shorter than benchmark duration position. Over the year, the duration position has benefited the portfolio. Security selection within the corporate sector has helped returns for both time periods.

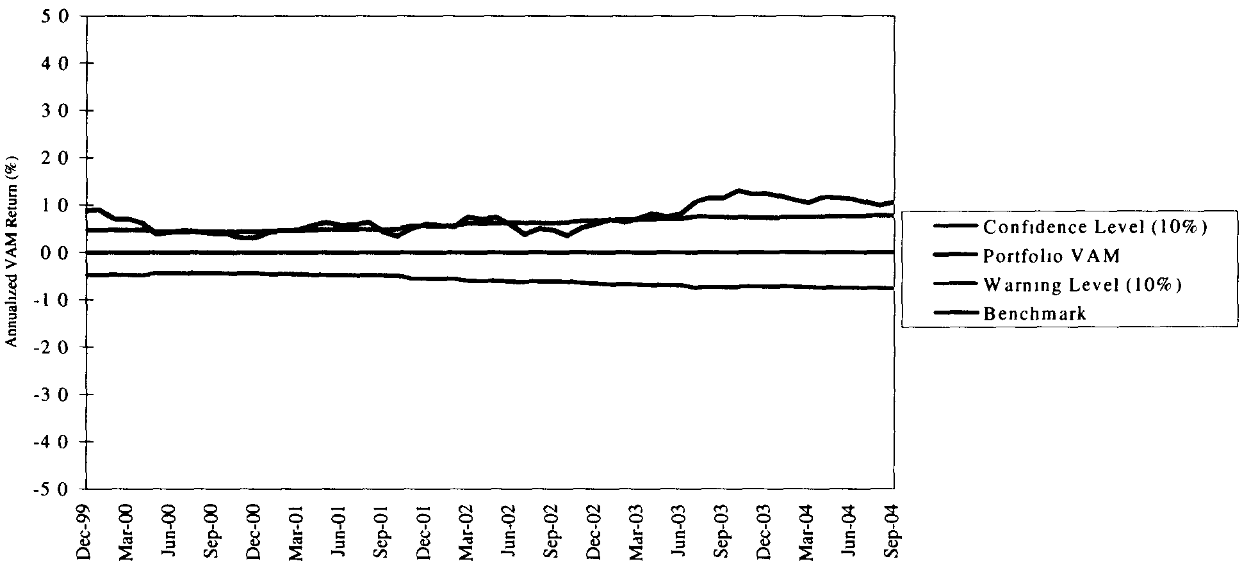
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.8%	3.2%
Last 1 year	4.2	3.7
Last 2 years	6.3	4.5
Last 3 years	7.4	5.9
Last 4 years	9.0	7.6
Last 5 years	N/A	N/A
Since Inception (2/00)	9.3	8.0

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Rolling Five Year VAM



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: David Horowitz | **Assets Under Management: $781,951,576**

Investment Philosophy

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

Staff Comments

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

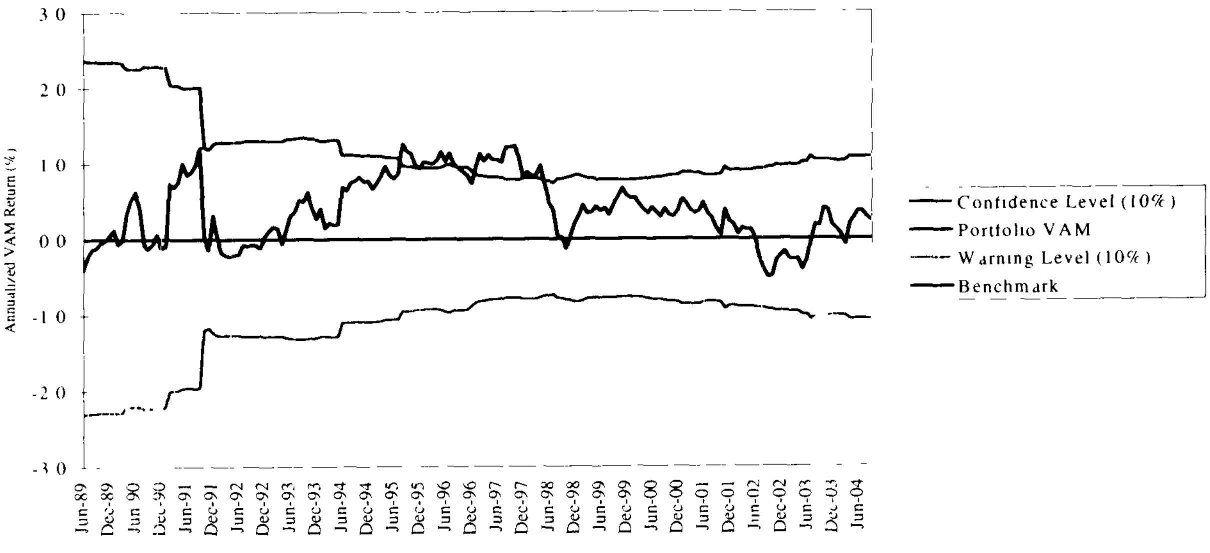
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	3 2%
Last 1 year	4 6	3.7
Last 2 years	5 4	4 5
Last 3 years	6.1	5 9
Last 4 years	7.9	7 6
Last 5 years	7.7	7 5
Since Inception (7/84)	9 8	9 5

Recommendations

No action required

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



WESTERN ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Ken Leech | **Assets Under Management: $1,323,514,473**

Investment Philosophy

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

Staff Comments

Several of the portfolio strategies helped Western outperform the quarterly and one-year benchmark. An overweight of the lower quality sectors contributed to the quarterly outperformance. The outperformance for both periods also benefited from moderate exposure to TIPS. The one-year return was also helped by an overweight exposure to investment grade credit.

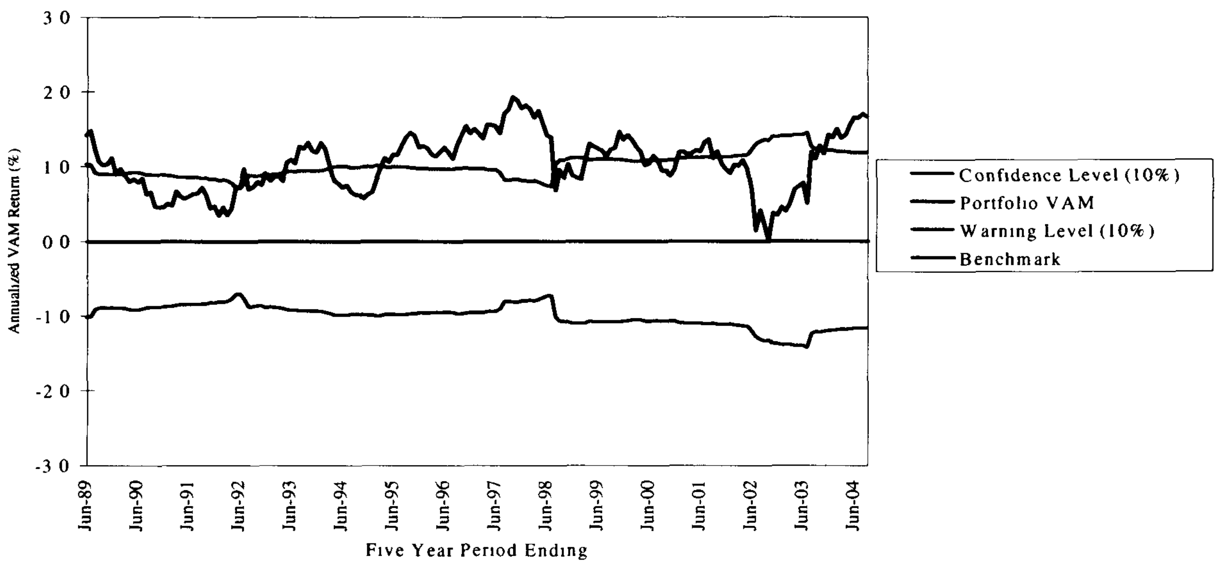
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	3.2%
Last 1 year	7.0	3.7
Last 2 years	8.7	4.5
Last 3 years	8.0	5.9
Last 4 years	9.7	7.6
Last 5 years	9.3	7.5
Since Inception (7/84)	10.9	9.5

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending September, 2004

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,491,517,643**

Investment Philosophy

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

Staff Comments

BlackRock matched the quarterly benchmark. The issue selection in corporates was a positive contributor to performance but was offset by an underweighting to corporates. The one-year return continues to benefit from the short duration positioning.

In August, Blackrock entered into a definitive agreement with MetLife, Inc. to acquire SSRM Holdings, Inc., the holding company of State Street Research & Management Company and SSR Realty Advisors Inc. Staff will continue to monitor the integration of SSRM into BackRock's organization.

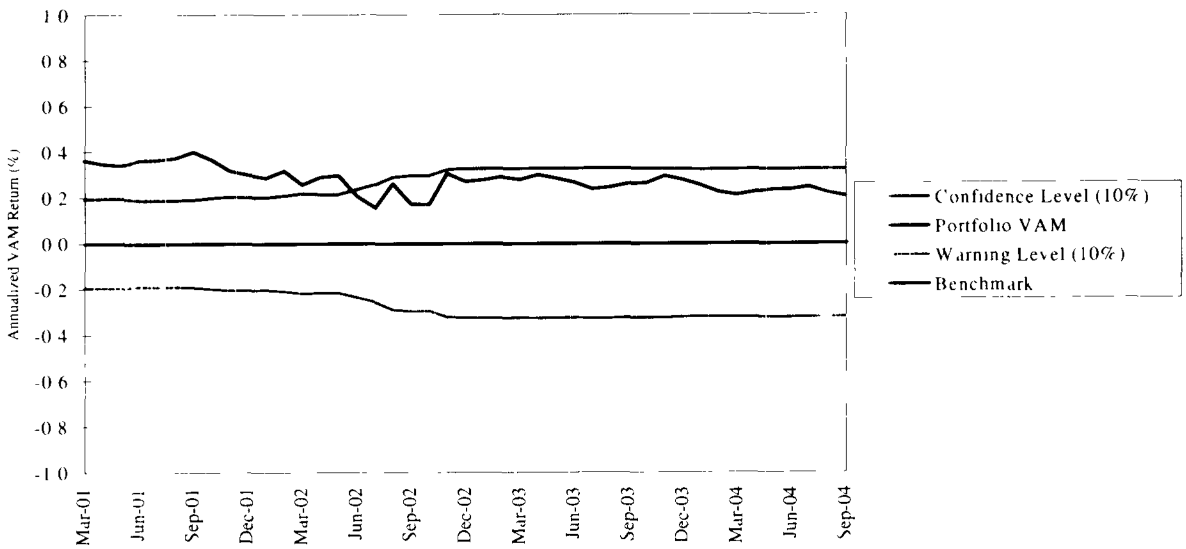
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	3.2%
Last 1 year	4.1	3.7
Last 2 years	5.1	4.5
Last 3 years	6.0	5.9
Last 4 years	7.8	7.6
Last 5 years	7.7	7.5
Since Inception (4/96)	7.4	7.1

Recommendation

No action required

BLACKROCK, INC
Rolling Five Year VAM



Five Year Period Ending

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,479,359,481**

Investment Philosophy

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

Staff Comments

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

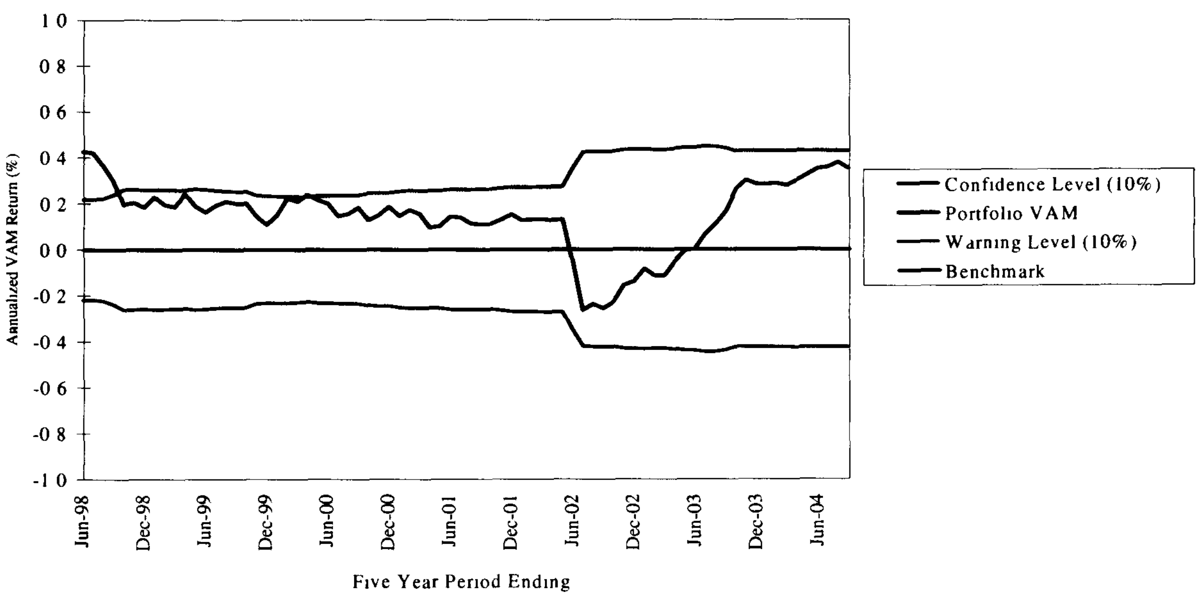
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.2%
Last 1 year	4.6	3.7
Last 2 years	5.9	4.5
Last 3 years	6.4	5.9
Last 4 years	8.0	7.6
Last 5 years	7.9	7.5
Since Inception (7/93)	7.0	6.7

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,490,640,514**

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 exceeded the benchmark for the quarter and the year The quarterly performance was helped by security selection in the corporate, asset-backed and mortgage sectors The one-year return was helped by security selection in the corporate and asset-backed sectors

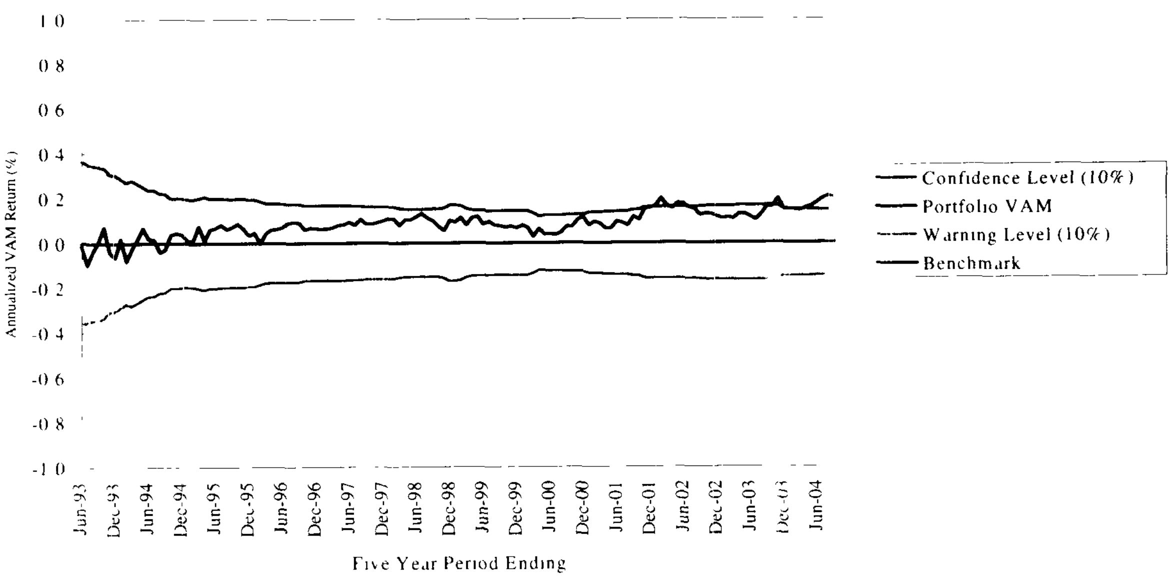
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3 3%	3 2%
Last 1 year	3 9	3.7
Last 2 years	4.8	4 5
Last 3 years	6 1	5.9
Last 4 years	7.8	7 6
Last 5 years	7.7	7 5
Since Inception (7/88)	8 2	8.1

Recommendations

No action required

LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Rolling Five Year VAM



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 2004

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 2004

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Developed Markets (2)												
American Express	0 6	0 2	17 5	22 3	6 1	9 3			-8.2	-3 4	$519 1	8 9%
Britannic (Blairlogie)	-0 5	0 2	19 7	22 3	8 8	9 3			-4 8	-3 4	$335 9	5 8%
Invesco	-0 1	0 2	24 0	22 3	10 4	9 3			1 1	-3 4	$497 0	8 5%
Marathon (3)	0 3	0 2	24 2	22 3	15 7	13 7	6 1	2 1	7 9	5 0	$573 8	9 9%
T. Rowe Price	-1 7	0 2	14 0	22 3	4 9	9 3	-2 2	-0 8	4 4	4 3	$525 2	9 0%
UBS Global	1 2	0 2	23 3	22 3	8 7	9 3	3 1	-0 8	7 6	5 8	$516 1	8 9%
Active Emerging Markets												
Alliance Capital	8 2	8 1	26 9	26 1	29 2	26 5			8 8	9 0	$198 9	3 4%
Capital International	7 5	8.1	20 9	26.1	23 5	26 5			4 0	9 0	$165 7	2 8%
Morgan Stanley	8 3	8 1	25 6	26 1	27 3	26 5			8 7	9 0	$199 5	3 4%
Passive Developed Markets (2)												
State Street	0 3	0 2	22 5	22 3	9 5	9 3	-0 6	-0 8	6 5	6 2	$2,292 2	39 4%
									Since 10/1/92			
Equity Only (4) (6)	0 8	1 0	21 6	22 7	10 6	10 6	0 4	-0 2	6 7	6 0	$5,823 4	100 0% *
Total Program (5) (6)	**0.8**	**1.0**	**21.6**	**22.7**	**10.6**	**10.6**	**0.4**	**-0.2**	**7.0**	**6.0**	**$5,823.4**	
SBI Int'l Equity Target (6)		1 0		22 7		10 6		-0 2		6 0		
MSCI ACWI Free ex U S (7)		1 0		22 7		11 0		0 2		6 5		
MSCI World ex U S (net)		0 2		22.3		9 6		-0 4		6 4		
MSCI EAFE Free (net)		-0 3		22 1		9 1		-0 9		6 2		
MSCI Emerging Markets Free (8)		8 1		26 1		25 6		5 8		6 1		

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

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

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

Portfolio Manager: Alex Lyle and Ed Gaunt | **Assets Under Management: $519,061,720**

Investment Philosophy

American Express Asset Management's (AEAM) process identifies investment themes which they feel will drive improved return on capital, and will provide attractive investment opportunities. AEAM's core international equity approach is a blend of top-down and bottom up styles with an emphasis on large cap growth stocks. They start the decision making process with the development of their geopolitical and macroeconomic outlook. The bottom-up stage of their process begins with real-time relative valuation comparisons of the stocks in their investable universe. The most attractively priced stocks then go through in depth fundamental analysis.

Staff Comments

American Express outperformed during the quarter due to strong stock selection overall, especially in the financials and consumer staples sectors. The portfolio's overweight position in Hong Kong also contributed to positive performance.

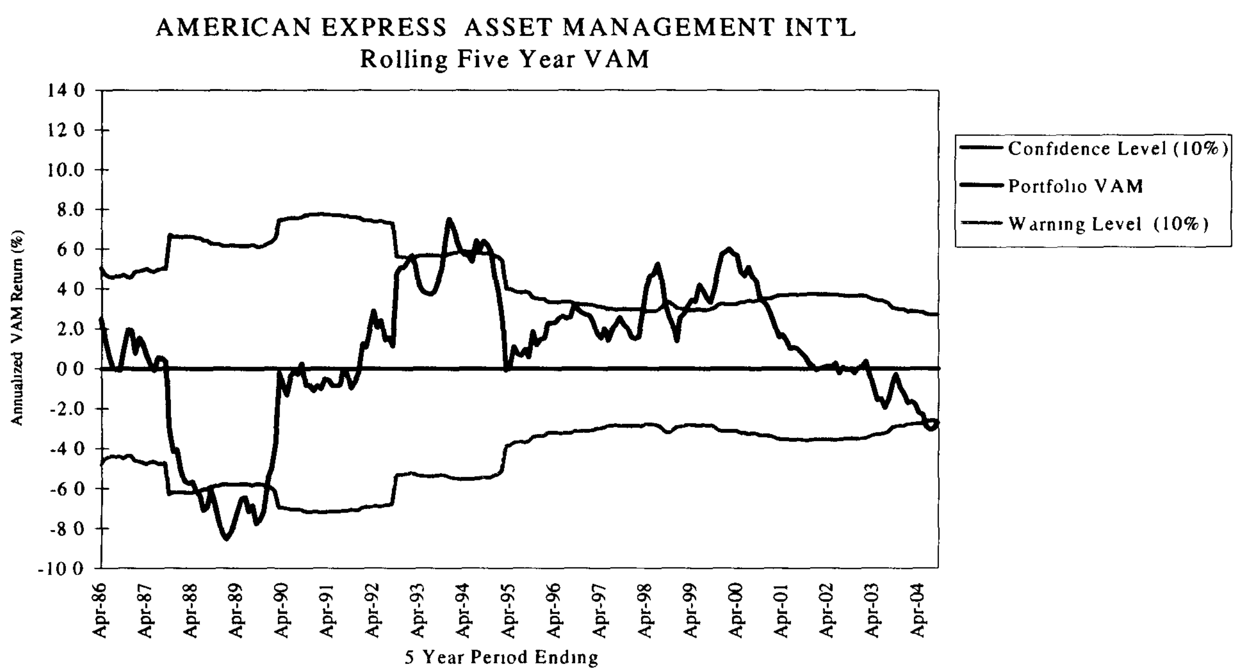
Underperformance for the year was due primarily to poor stock selection in Japan and the United Kingdom, the two largest markets in the index.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.2%
Last 1 year	17.5	22.3
Last 2 years	18.8	24.1
Last 3 years	6.1	9.3
Last 4 years	-7.0	-1.7
Last 5 years	N/A	N/A
Since Inception (3/00)	-8.2	-3.4

Recommendations

Staff is closely monitoring the firm due to organizational change and performance concerns.



Note Shaded area includes performance prior to managing SBI account

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending September, 2004

Portfolio Manager: James Smith **Assets Under Management: $335,865,855**

Investment Philosophy

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

Staff Comments

Overall country and sector weighting decisions hurt performance during the quarter In particular, the portfolio's underweight position in Australia, one of the better performing markets, detracted from returns.

For the year, stock selection in the United Kingdom along with a small cash balance detracted from performance

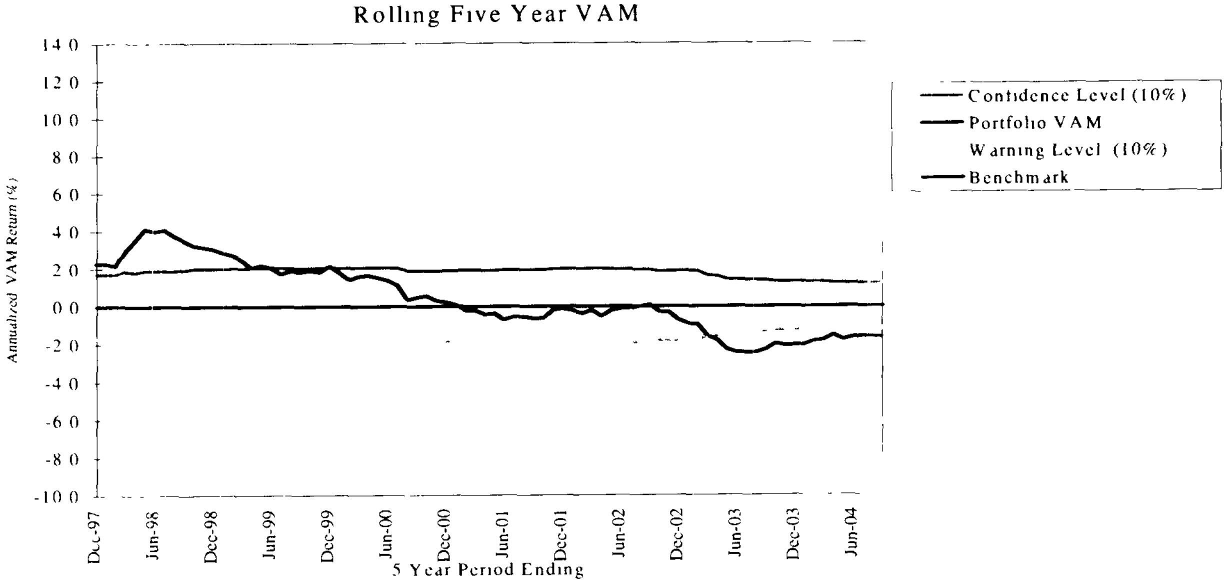
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.5%	0 2%
Last 1 year	19 7	22.3
Last 2 years	22.0	24.1
Last 3 years	8 8	9 3
Last 4 years	-3 4	-1.7
Last 5 years	N/A	N/A
Since Inception (3/00)	-4 8	-3 4

Recommendations

Staff is monitoring the firm due to performance concerns.

BRITANNIC ASSET MANAGEMENT
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending September, 2004

Portfolio Manager: Erik Granade **Assets Under Management: $496,955,465**

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

During the quarter, the portfolio's underweight to Australia and Canada, along with stock selection in the United Kingdom, detracted from performance. While for the year, stock selection overall, particularly in Europe, was significantly positive.

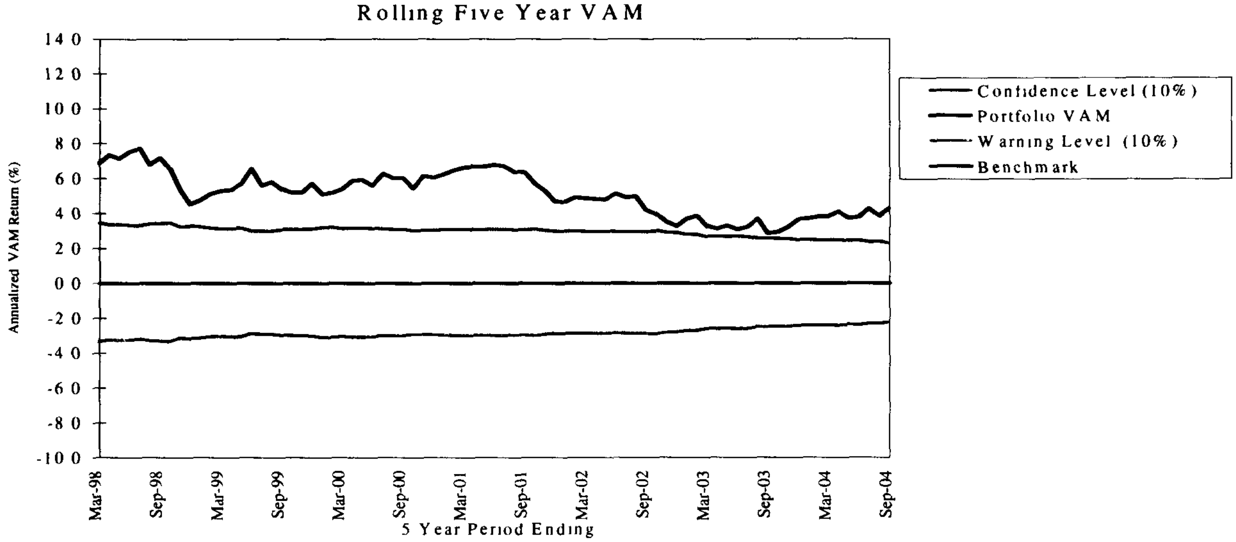
INVESCO's parent company AMVESCAP announced that its subsidiaries INVESCO Funds Group and AIM Advisors Inc reached final settlements with the Attorneys General of Colorado and New York and the U.S. Securities & Exchange Commission to resolve civil enforcement actions related to market timing. INVESCO Global Asset Management, the subsidiary responsible for managing the SBI's portfolio, was not involved in any of these regulatory actions.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	0.2%
Last 1 year	24.0	22.3
Last 2 years	22.6	24.1
Last 3 years	10.4	9.3
Last 4 years	1.8	-1.7
Last 5 years	N/A	N/A
Since Inception (3/00)	1.1	-3.4

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: William Arah | **Assets Under Management: $573,810,220**

Investment Philosophy

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

Staff Comments

The portfolio's modest outperformance during the quarter was due in part to its overweight position in Hong Kong and Singapore

For the year, positive stock selection in Japan was a significant contributor to the portfolio's outperformance

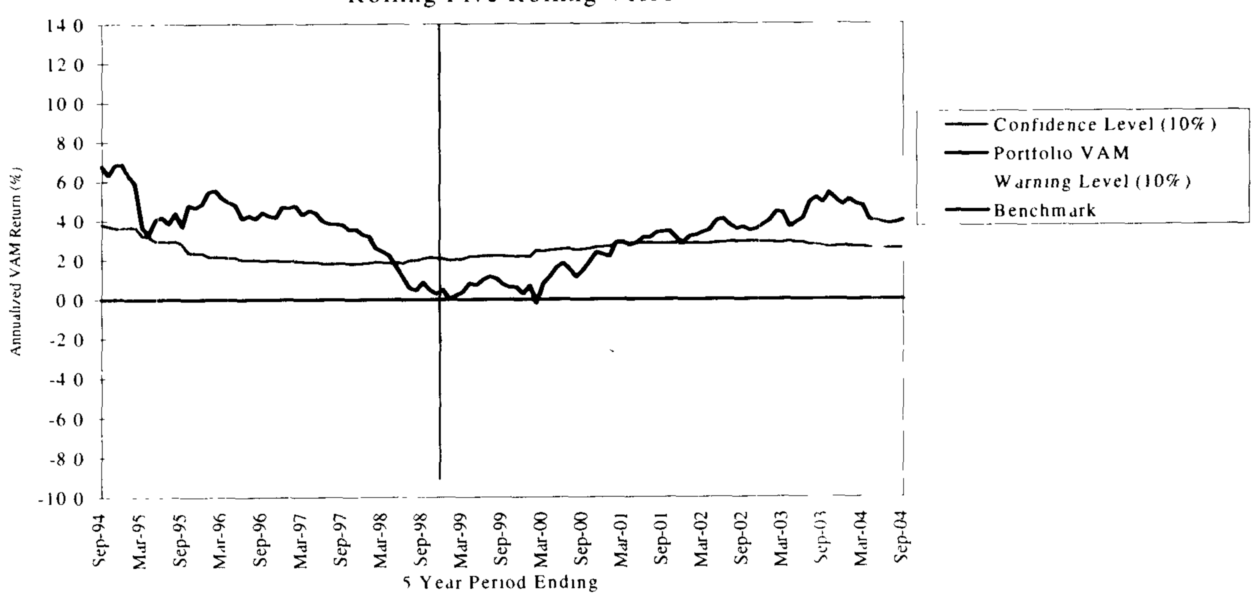
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	0.3%	0.2%
Last 1 year	24.2	22.3
Last 2 years	28.5	27.3
Last 3 years	15.7	13.7
Last 4 years	5.7	1.7
Last 5 years	6.1	2.1
Since Inception (11/93)	7.9	5.0

Recommendations

No action required

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



5 Year Period Ending

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

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending September, 2004

Portfolio Manager: Mark Bickford-Smith | **Assets Under Management: $525,222,088**

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

Stock selection along with country and sector weighting decisions contributed negatively to performance during the quarter and the year. Stock selection in Japan and the United Kingdom was particularly disappointing during both periods.

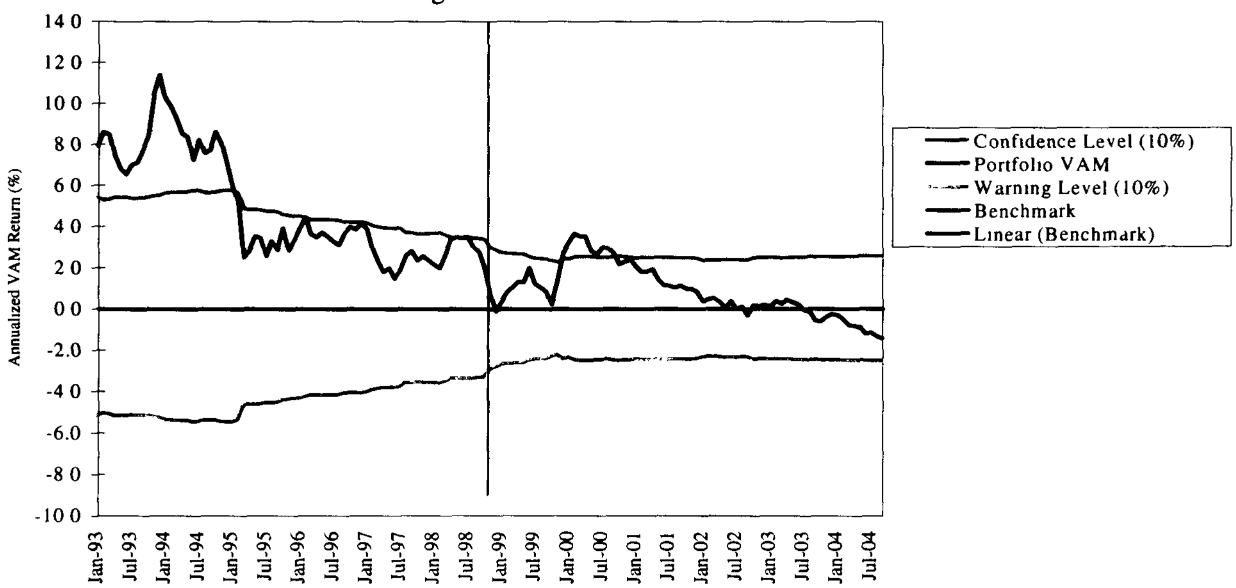
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.7%	0.2%
Last 1 year	14.0	22.3
Last 2 years	18.3	24.1
Last 3 years	4.9	9.3
Last 4 years	-5.6	-1.7
Last 5 years	-2.2	-0.8
Since Inception (11/93)	4.4	4.3

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, 2004

Portfolio Manager: Thomas Madsen **Assets Under Management: $516,051,713**

Investment Philosophy

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

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

Staff Comments

The portfolio's outperformance during the quarter and the year was due largely to positive stock selection, especially in the United Kingdom, France and Japan

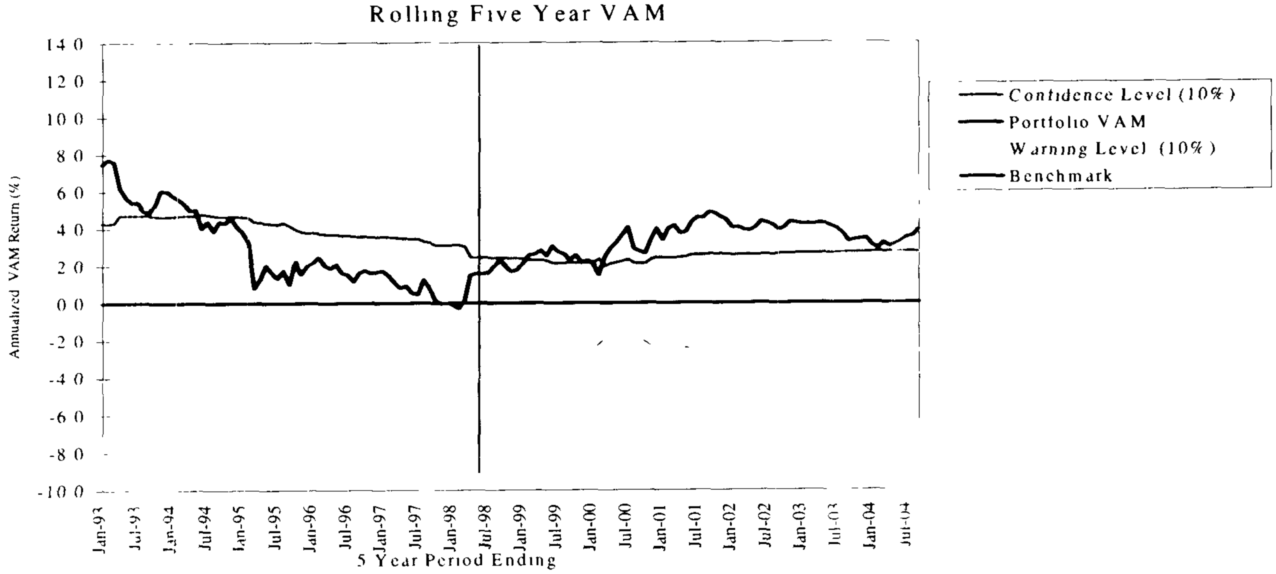
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	0 2%
Last 1 year	23.3	22 3
Last 2 years	23 4	24.1
Last 3 years	8.7	9 3
Last 4 years	1.7	-1 7
Last 5 years	3 1	-0.8
Since Inception (4/93)	7.6	5 8

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, 2004

Portfolio Manager: Edward Baker | **Assets Under Management: $198,895,443**

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

Alliance's portfolio narrowly outperformed during the quarter due to stock selection overall, particularly in Taiwan and South Africa. The portfolio's underweight position in Israel, the worst performing market during the period, was also beneficial.

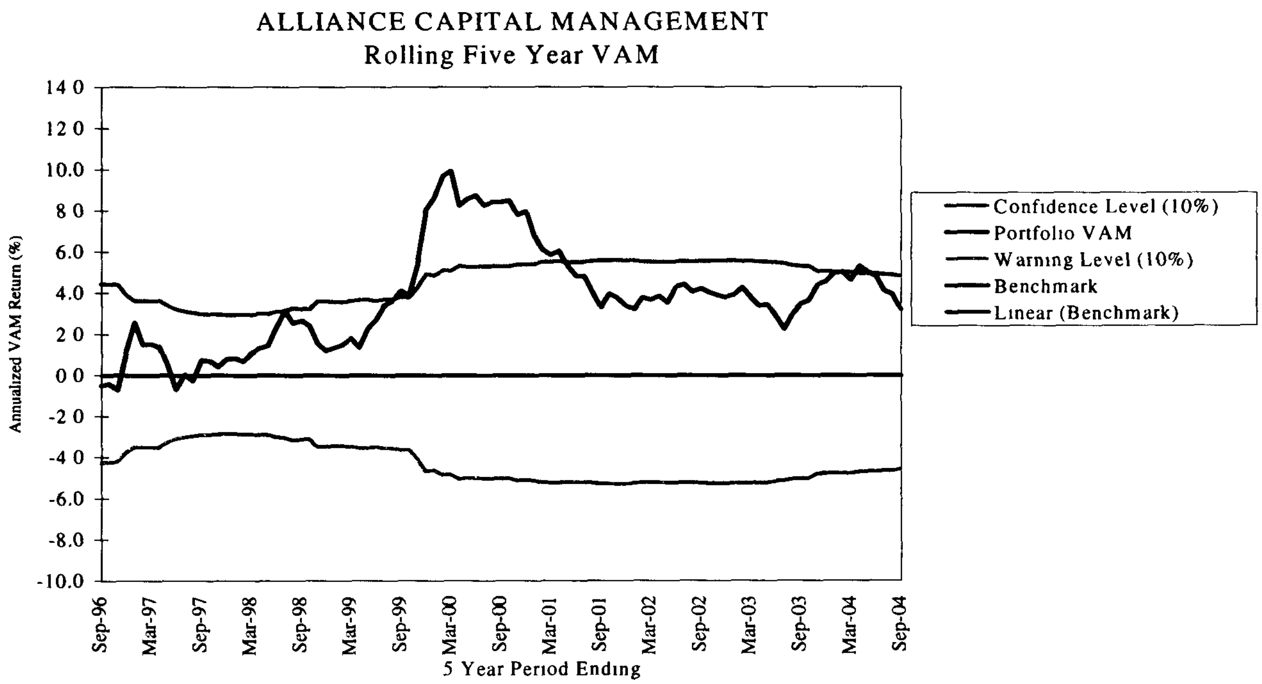
For the year, stock selection in Korea, India, Israel and Russia added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.2	8.1
Last 1 year	26.9	26.1
Last 2 years	35.0	35.5
Last 3 years	29.2	26.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	8.8	9.0

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

CAPITAL INTERNATIONAL, INC.
Periods Ending September, 2004

Portfolio Manager: Victor Kohn **Assets Under Management: $165,736,136**

Investment Philosophy

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

Staff Comments

Capital underperformed due in part to energy holdings in Russia and Brazil, as well as an underweight sector position. The portfolio's underweight position to South Africa and the materials sector further detracted from performance during the recent period.

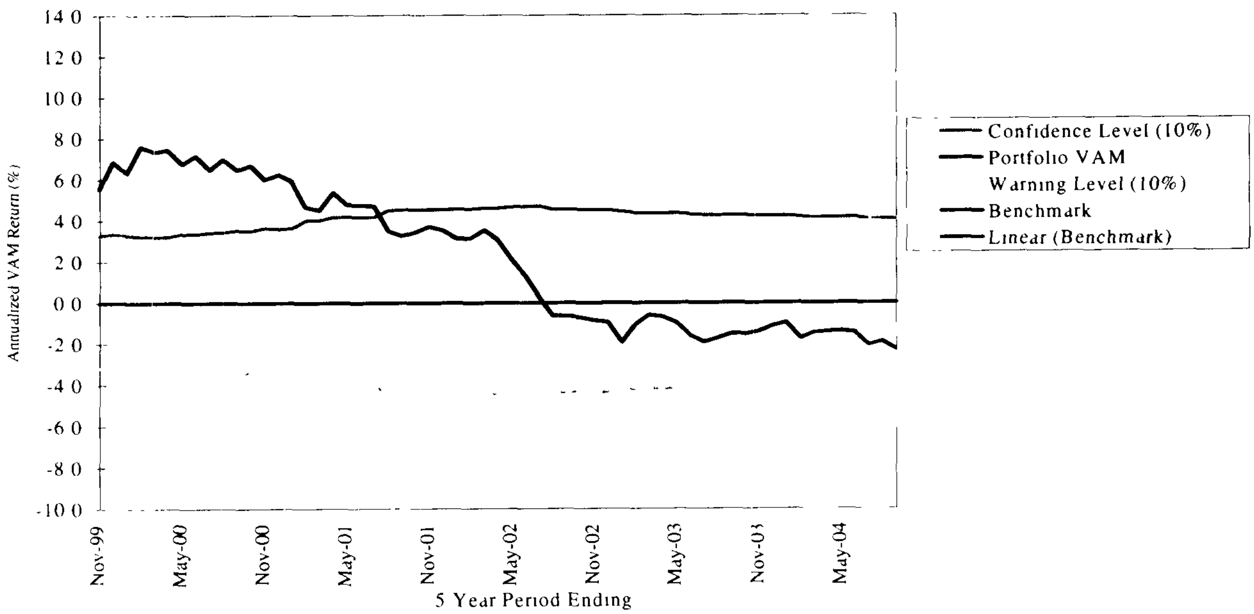
For the year, stock selection overall was significantly negative. This was particularly true in the South African market, where an underweight position further detracted from returns. Performance was also hurt by stock selection in Taiwan, Korea, and Brazil and the portfolio's overweight position in the information technology sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.5	8.1
Last 1 year	20.9	26.1
Last 2 years	33.7	35.5
Last 3 years	23.5	26.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	4.0	9.0

Recommendations

Staff is monitoring the firm due to performance concerns.



Note: Shaded area includes performance prior to managing SBI account

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Narayan Ramachandran **Assets Under Management: $199,518,024**

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

Overall, country and sector weighting decisions contributed positively during the quarter. The portfolio's overweight position in Egypt, Indonesia, and Turkey, three of the better performing markets, added particular value.

During the year, the portfolio modestly underperformed due primarily to stock selection in Thailand, Brazil, China and Korea and an underweight position in Hungary.

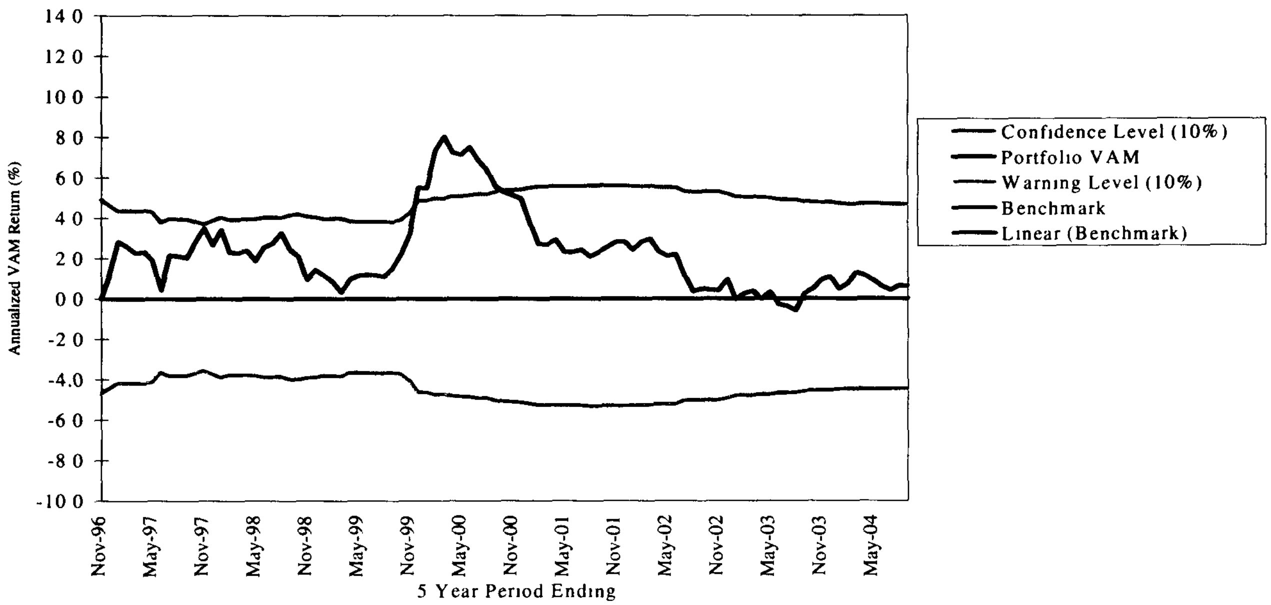
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.3%	8.1%
Last 1 year	25.6	26.1
Last 2 years	34.6	35.5
Last 3 years	27.3	26.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	8.7	9.0

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending

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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 2004

Portfolio Manager: Lynn Blake **Assets Under Management: $2,292,168,606**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 21 markets located in Europe, Australia and the Far East (EAFE). They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free (net) index. SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs The MSCI EAFE-Free (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U S. pension fund, which should result in modest positive tracking error, over time

Staff Comments

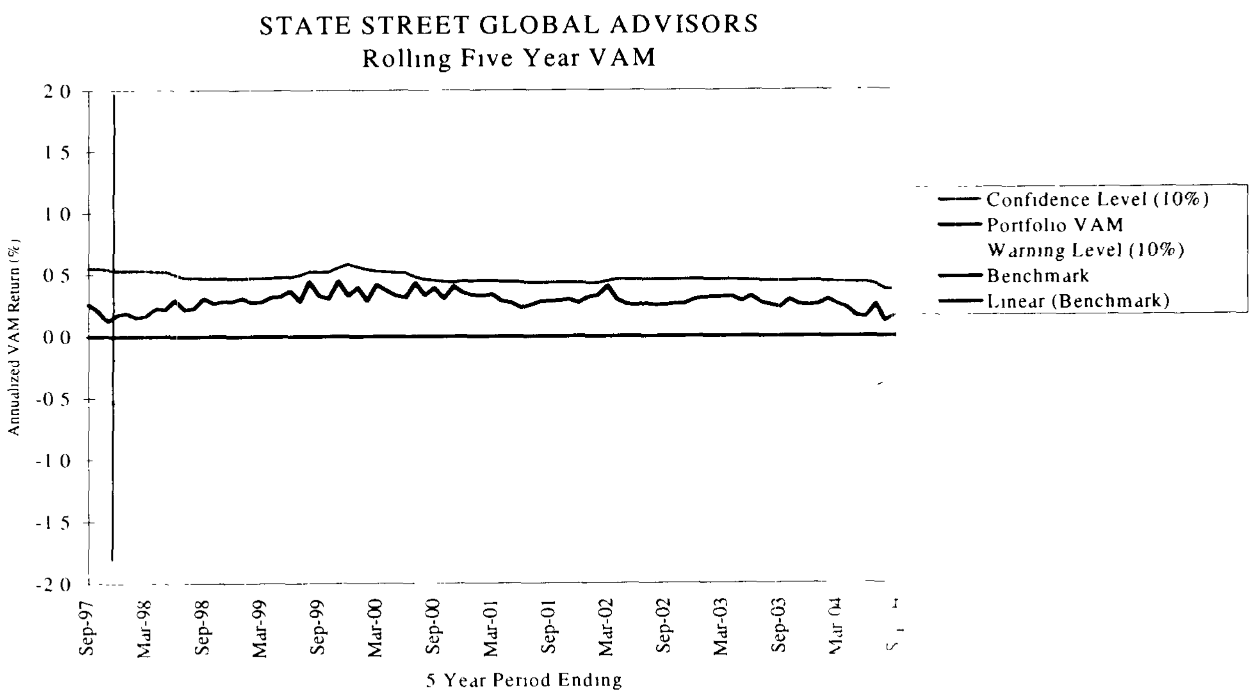
The passive portfolio's positive tracking error during the quarter and the year is within expectation. It is due primarily to the higher dividend income received in the portfolio relative to the net return of the benchmark.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	0 2%
Last 1 year	22.5	22.3
Last 2 years	24.3	24.1
Last 3 years	9 5	9.3
Last 4 years	-1 6	-1 7
Last 5 years	-0.6	-0.8
Since Inception (10/92)	6 5	6.2

Recommendation

No action required



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

STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Third Quarter, 2004

NON - RETIREMENT MANAGERS
Periods Ending September, 2004

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)
GE Investment Management (S&P 500 Index)*	-2.1	-1 9	10.3	13 9	2.7	4.0	0 3	-1 3	12 2	11.4	$62 3
Voyageur Asset Management (Custom Benchmark)*	2 4	2.4	2.8	2.5	4 3	4.7	5 9	6.5	6 9	6.9	$211 1
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.0	0.8	4.2	3.1	5 0	3.0	5.5	4.1	6.1	5.1	$160.2
Internal Stock Pool (S&P 500 Index)*	-1.9	-1 9	14 0	13 9	4.1	4 0	-1 2	-1 3	10 5	10 4	$605.5
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	3 4	3.2	4.4	3.7	6.0	5.9	7.6	7.5	8 4	8.0	$170 9
Internal Bond Pool - Trust (Lehman Aggregate)*	3.2	3.2	4.6	3.7	6.2	5.9	7.7	7.5	7 9	7.5	$406 7

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

(1) Since retention by the SBI Time period varies by manager
(2) Prior to July 1994, the benchmark was the Salomon BIG.

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending September, 2004

Portfolio Manager: Dave Carlson | **Assets Under Management: $62,291,408**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

GE trailed the benchmark for the quarter, primarily due to stock selection in the Financials, Health Care and Utilities sectors. The one-year underperformance was impacted by an overweight to the Financials sector, and stock selection in the Health Care and Information Technologies sector.

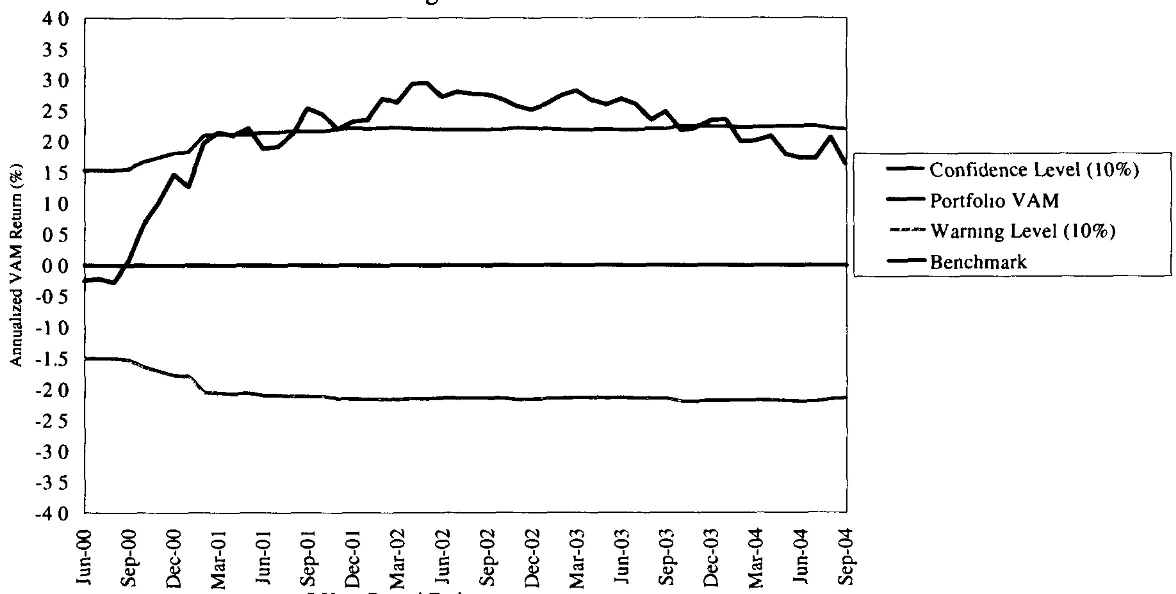
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.1%	-1.9%
Last 1 year	10.3	13.9
Last 2 years	15.3	19.0
Last 3 years	2.7	4.0
Last 4 years	-2.9	-4.7
Last 5 years	0.3	-1.3
Since Inception (1/95)	12.2	11.4

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending September, 2004

Portfolio Manager: Tom McGlinch | **Assets Under Management: $211,114,134**

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 matched the benchmark for the quarter and outperformed for the year. The returns for both periods were helped by the portfolio duration being shorter than the benchmark

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.4%	2 4%
Last 1 year	2 8	2.5
Last 2 years	3.2	3.0
Last 3 years	4.3	4 7
Last 4 years	5 9	6.5
Last 5 years	5.9	6 5
Since Inception (7/91)	6 9	6.9

*Custom benchmark since inception date

Recommendation

No action required

VAM will be drawn for period ending 6/30/05.

GALLIARD CAPITAL MANAGEMENT
Periods Ending September, 2004

Portfolio Manager: Karl Tourville | **Assets Under Management: $160,166,524**

Investment Philosophy

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

Staff Comments

No comments at this time.

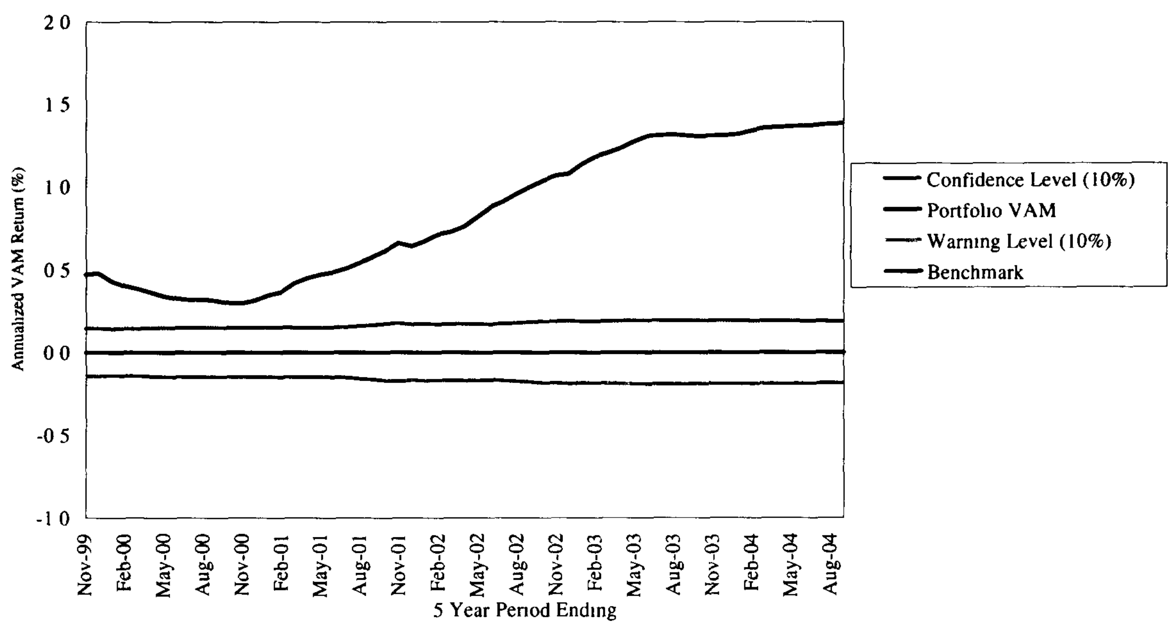
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	0.8%
Last 1 year	4.2	3.1
Last 2 years	4.6	2.8
Last 3 years	5.0	3.0
Last 4 years	5.4	3.5
Last 5 years	5.5	4.1
Since Inception (11/94)	6.1	5.1

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending September, 2004

Portfolio Manager: Mike Menssen **Assets Under Management: $605,481,106**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

The Internal Equity Pool is managed to closely track the S&P 500 Index The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index The optimization model's estimate of tracking error with this strategy is approximately 10 basis points per year.

Staff Comments

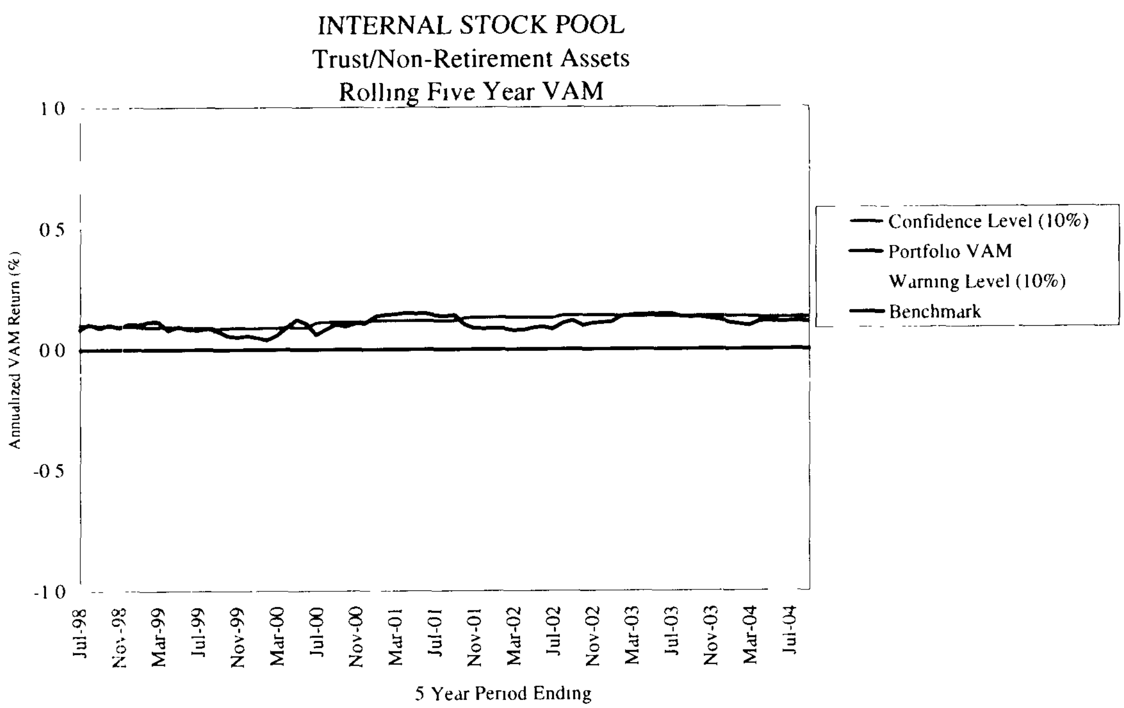
The portfolio matched the quarterly benchmark and had positive tracking error for the year

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1 9%	-1 9%
Last 1 year	14 0	13 9
Last 2 years	19 1	19.0
Last 3 years	4.1	4 0
Last 4 years	-4 5	-4.7
Last 5 years	-1.2	-1.3
Since Inception (7/93)	10.5	10.4

Recommendation

No action required



INTERNAL BOND POOL - Income Share Account
Periods Ending September, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $170,932,471**

Investment Philosophy
Income Share Account

The investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

Staff Comments

The internal bond pool outperformed the quarterly benchmark for the income share fund and matched for the internal trust account, while both outperformed for the year. Performance for both periods was helped by an overweight in the BBB portion of the corporate sector. The one-year outperformance was also due to a shorter than benchmark duration.

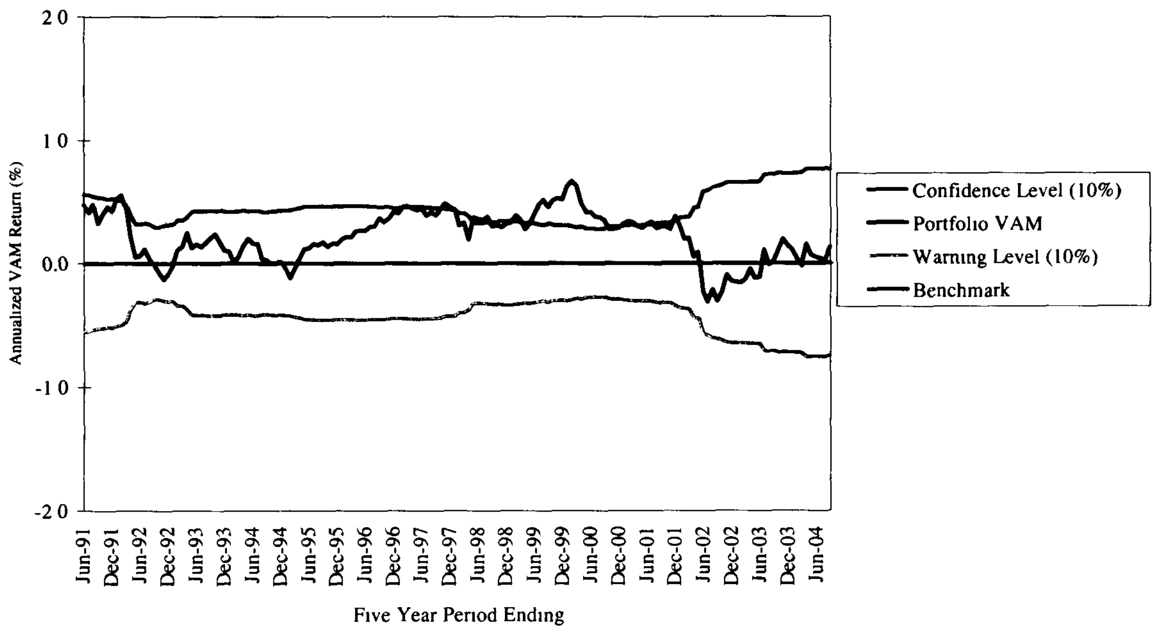
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.2%
Last 1 year	4.4	3.7
Last 2 years	5.9	4.5
Last 3 years	6.0	5.9
Last 4 years	7.7	7.6
Last 5 years	7.6	7.5
Since Inception (7/86)	8.4	8.0

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending September, 2004

Portfolio Manager: Mike Menssen **Assets Under Management: $406,715,891**

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

The internal bond portfolio's investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook

Staff Comments

The internal bond pool outperformed the quarterly benchmark for the income share fund and matched for the internal trust account, while both outperformed for the year. Performance for both periods was helped by an overweight in the BBB portion of the corporate sector. The one-year outperformance was also due to a shorter than benchmark duration

Quantitative Evaluation

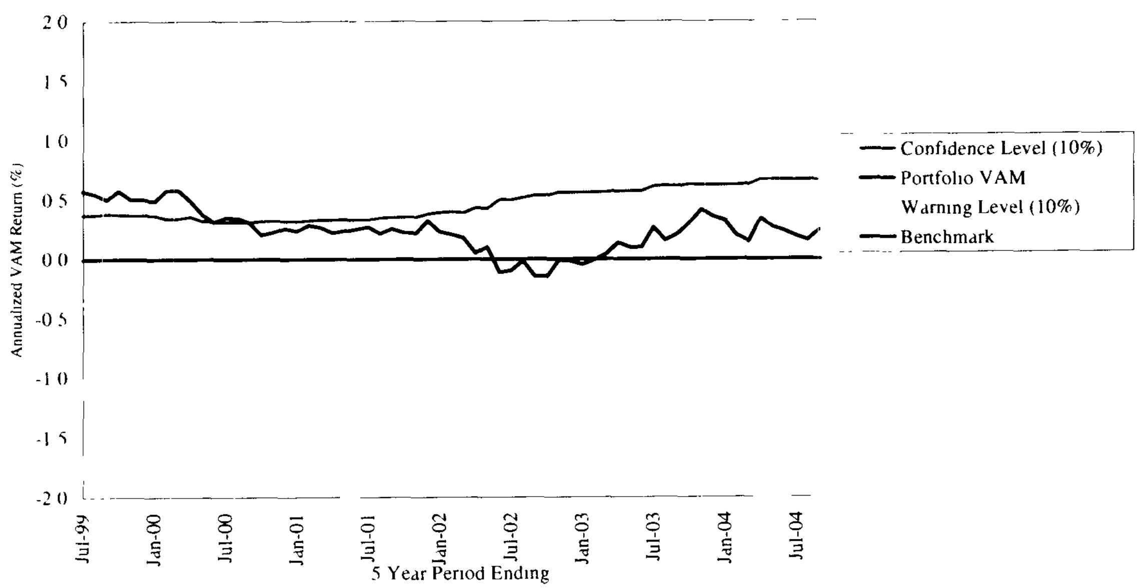
	Actual	Benchmark
Last Quarter	3.2%	3.2%
Last 1 year	4 6	3 7
Last 2 years	6 0	4.5
Last 3 years	6.2	5.9
Last 4 years	7.9	7 6
Last 5 years	7.7	7.5
Since Inception (7/94)*	7 9	7 5

Recommendation

No action required

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

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Rolling Five Year VAM



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Third Quarter, 2004

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending September, 2004

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI * %	Since Retention by SBI * %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	0 3	-1.9	21 0	13.9	4 6	4 0	-7.1	-1.3	-6.6	-2 5	$263.3
Smith Barney Appr Y (S&P 500)	-1.8	-1.9	12.6	13.9	5.3	4.0	2.6	-1.3	6.4	6 8	$107 0
Vanguard Institutional Index Plus (S&P 500)	-1.9	-1.9	13.9	13.9	4 1	4 0	-1 2	-1 3	-2.4	-2.5	$380 2
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-0.8	-0 8	19.2	19 2	12.5	12.3	10.8	10.5	4 9	5.0	$40 5
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	-1 5	-2 9	20.0	18 8	12 7	13.7	11 1	7.4	10.0	5 7	$319 4
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	0.5	0.2	15.2	9 8	11 1	5.2	10.9	2.5	15.2	9.8	$155.3
Vanguard Balanced Index Inst. Fund (60% Wilshire 5000, 40% Lehman Agg)	0 2	0 2	10.3	10.3	6.1	6 4			5 8	5 8	$159.3
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	2.7	3.2	3.7	3.7	6.6	5.9	8.0	7.5	7 7	7.2	$73.9
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	3.1	3 2	3.6	3.7	5.2	5 9	7 1	7 5	4 3	4 4	$43 5
International:											
Fidelity Diversified International (MSCI EAFE-Free)	0.2	-0.3	21.0	22.1	14.0	9.2	6.9	-0.8	7.7	0 0	$131.1
Vanguard Inst. Dev. Mtks. Index Fund (MSCI EAFE)	-0.5	-0.3	22.4	22.1	9 2	9.1			12.7	12 4	$21.3

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI

Benchmarks for the Funds are noted in parentheses below the Fund names.

* Vanguard Mid-Cap Index Fund retained January 2004; Smith Barney, Vanguard Inst. Dev. Mkt., Vanguard Balanced, Vanguard Total Bond Mkt. retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999

Fixed Fund:	%
Blended Yield Rate for current quarter***	4.8
Bid Rates for current quarter:	
Great West Life	4.5
Minnesota Life	4.2
Principal Life	4.5

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

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending September, 2004

State's Participation in Fund: $263,252,543
Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $8,820,600,000**

Investment Philosophy
Janus Twenty

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

Staff Comments

Janus outperformed the quarterly and one-year benchmark. The portfolio was helped by stock selection, specifically UnitedHealthGroup and NIKE.

Quantitative Evaluation

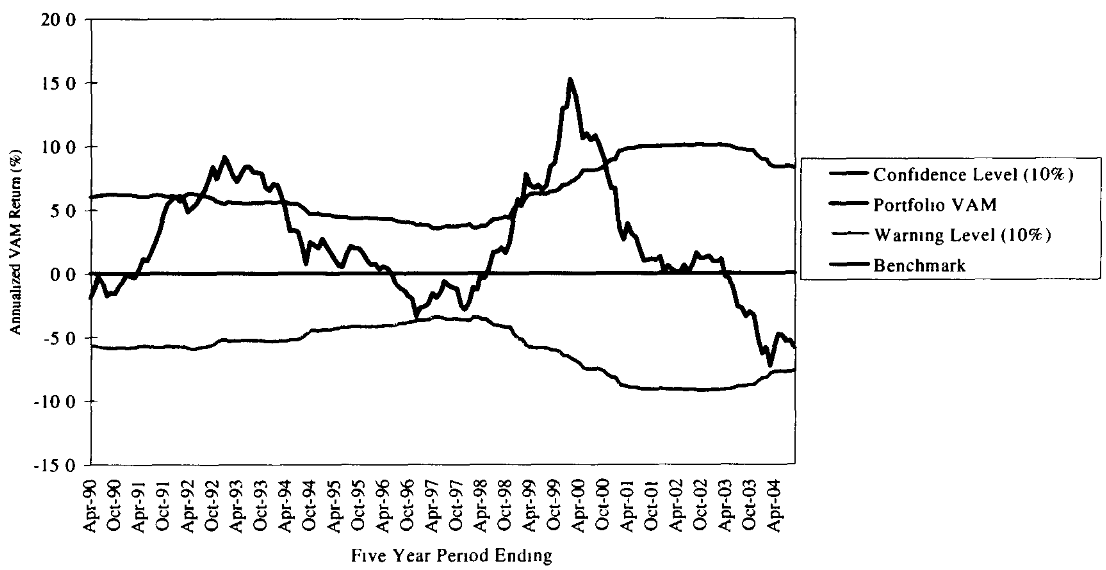
	Actual	Benchmark*
Last Quarter	0.3%	-1.9%
Last 1 year	21.0	13.9
Last 2 years	19.1	19.0
Last 3 years	4.6	4.0
Last 4 years	-13.8	-4.7
Last 5 years	-7.1	-1.3
Since Retention by SBI (7/99)	-6.6	-2.5

*Benchmark is the S&P 500.

Recommendation

No action required

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – SMITH BARNEY APPRECIATION Y
Periods Ending September, 2004

State's Participation in Fund: $107,022,309
Total Assets in Fund: $5,500,000,000

Portfolio Manager: Hersh Coen

Investment Philosophy
Smith Barney Appreciation Y

The Fund invests in U.S. growth and value stocks, primarily blue-chip companies that are dominant in their industries. Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders. The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

Smith Barney outperformed the quarterly benchmark. During the quarter stock selection in the Consumer Discretionary and Financial sectors helped performance. For the year, the portfolio's cash position hurt performance, as well as not owning eBay.

Quantitative Evaluation

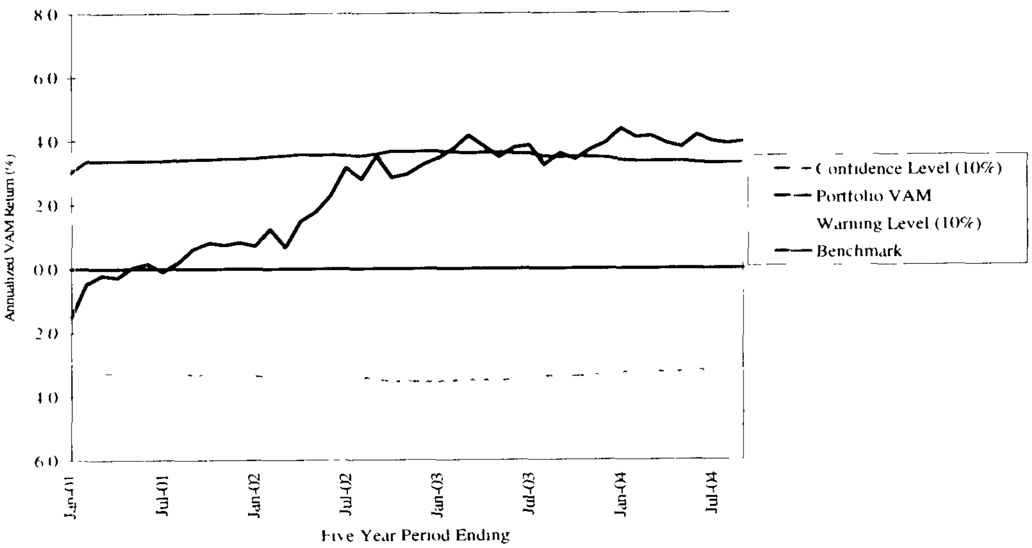
	Actual	Benchmark*
Last Quarter	-1.8%	-1.9%
Last 1 year	12.6	13.9
Last 2 years	16.2	19.0
Last 3 years	5.3	4.0
Last 4 years	0.8	-4.7
Last 5 years	2.6	-1.3
Since Retention by SBI (12/03)	6.4	6.8

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

Recommendation

No action required

LARGE CAP EQUITY - SMITH BARNEY APPRECIATION Y
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS
Periods Ending September, 2004

State's Participation in Fund: $380,191,158

Portfolio Manager: George U. Sauter — **Total Assets in Fund: $12,267,445,589**

Investment Philosophy
Vanguard Institutional Index

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

Staff Comments

No comment at this time.

Quantitative Evaluation

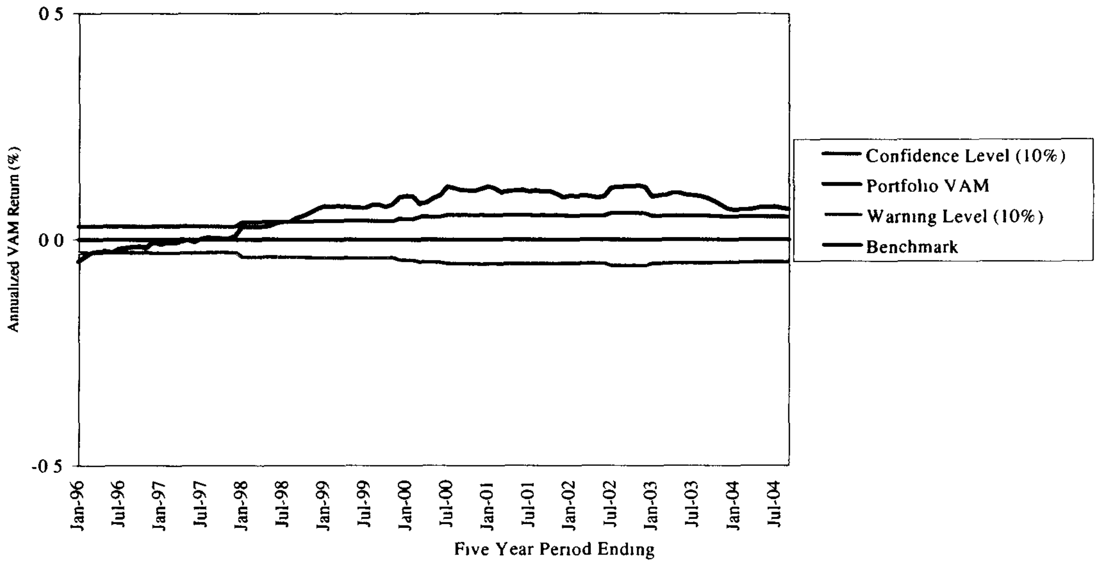
	Actual	Benchmark*
Last Quarter	-1.9%	-1.9%
Last 1 year	13.9	13.9
Last 2 years	19.0	19.0
Last 3 years	4.1	4.0
Last 4 years	-4.6	-4.7
Last 5 years	-1.2	-1.3
Since Retention by SBI (7/99)	-2.4	-2.5

*Benchmark is the S&P 500.

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending September, 2004

State's Participation in Fund:	**$40,483,125**
Total Assets in Fund:	**$1,612,679,925**

Portfolio Manager: George U. Sauter

Investment Philosophy
Vanguard Mid-Cap Index

The fund employs a "passive management"- or indexing- investment approach designed to track the performance of the MSCI® US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U S companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

Staff Comments

No comment at this time

Quantitative Evaluation

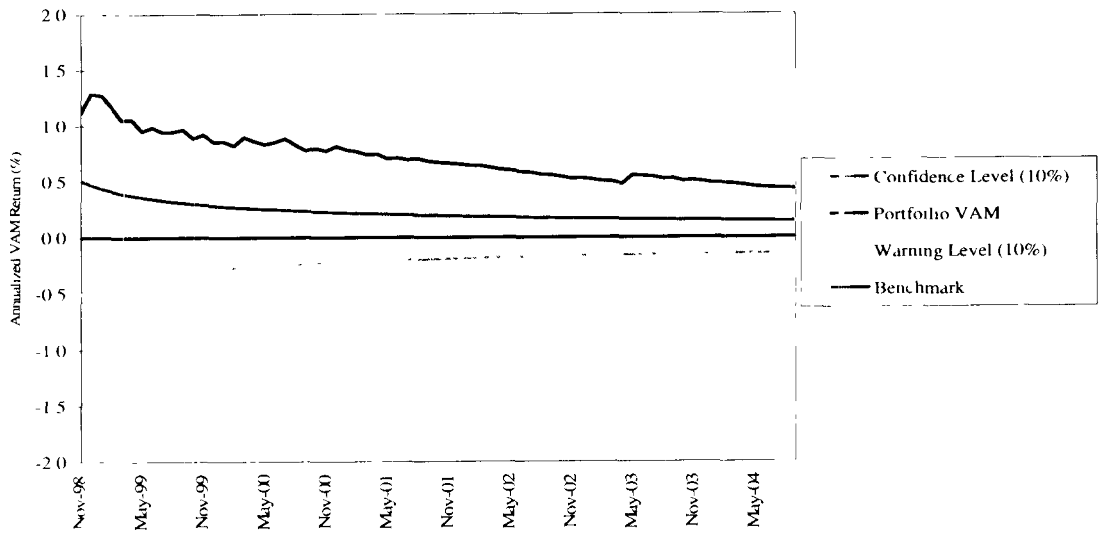
	Actual	Benchmark*
Last Quarter	-0 8%	-0 8%
Last 1 year	19 2	19 2
Last 2 years	22 1	21 9
Last 3 years	12 5	12 3
Last 4 years	3 7	3 5
Last 5 years	10 8	10 5
Since Retention by SBI (1/04)	4.9	5 0

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI

Recommendation

No action required

MID-CAP EQUITY - VANGUARD MID-CAP INDEX
Cumulative VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending September, 2004

State's Participation in Fund: $319,369,115

Portfolio Manager: Gregory A. McCrickard **Total Assets in Fund: $5,870,262,492.20**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

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

Staff Comments

T. Rowe-Price outperformed the quarterly benchmark due to stock selection and an overweight in the Energy sector. The strategy's stock selection in technology and a significant overweight in energy helped the one-year outperformance.

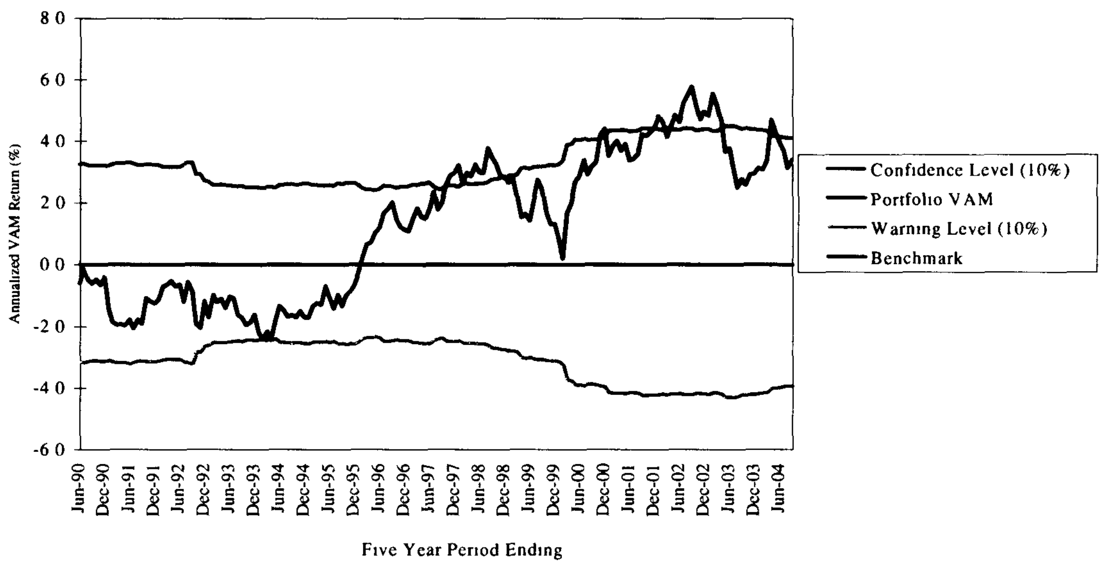
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-1.5%	-2.9%
Last 1 year	20.0	18.8
Last 2 years	22.3	27.3
Last 3 years	12.7	13.7
Last 4 years	6.5	3.8
Last 5 years	11.1	7.4
Since Retention by SBI (7/99)	10.0	5.7

*Benchmark is the Russell 2000.

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending September, 2004

State's Participation in Fund: $155,321,814

Portfolio Manager: John Gunn **Total Assets in Fund: $18,614,864,018**

Investment Philosophy
Dodge & Cox Balanced Fund

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities.

Staff Comments

Dodge & Cox outperformed the quarterly benchmark due to the equity portfolio exceeding its benchmark. The equity portfolio was helped by an overweight in the Materials and Energy sectors. The fixed income portfolio was hurt by its shorter than benchmark duration.

Quantitative Evaluation

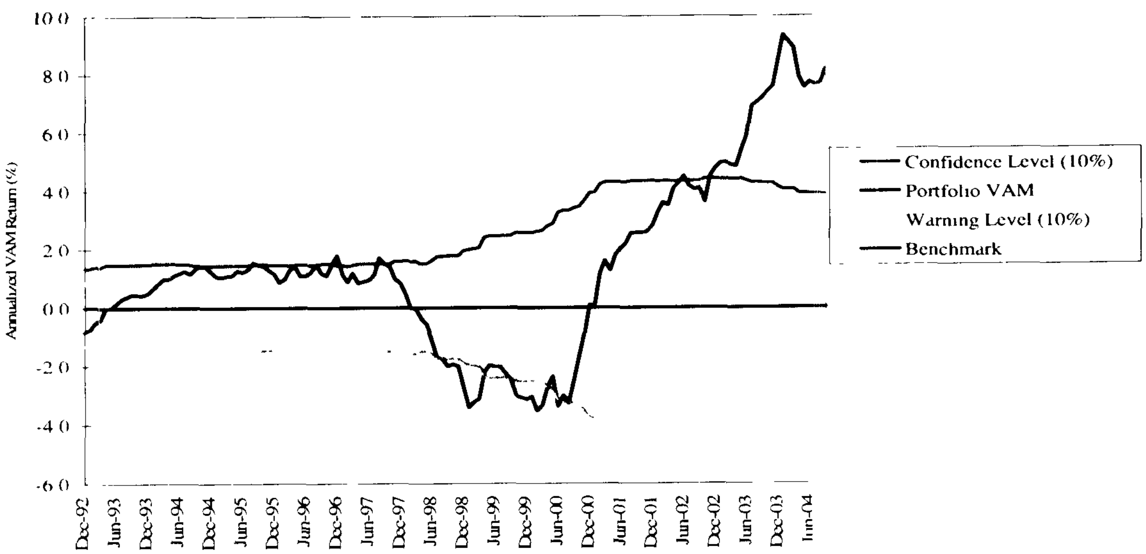
	Actual	Benchmark*
Last Quarter	0.5%	0.2%
Last 1 year	15.2	9.8
Last 2 years	17.8	13.3
Last 3 years	11.1	5.2
Last 4 years	11.1	0.5
Last 5 years	10.9	2.5
Since Retention By SBI (10/03)	15.2	9.8

*Benchmark is 60% S&P 500, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required

BALANCED - DODGE & COX BALANCED FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending September, 2004

		State's Participation in Fund:	**$159,269,117**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$1,522,212,250**

Investment Philosophy
Vanguard Balanced Index Fund

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the Wilshire 5000 Total Market Index, an unmanaged index that covers all regularly traded U.S. stocks. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

Quantitative Evaluation

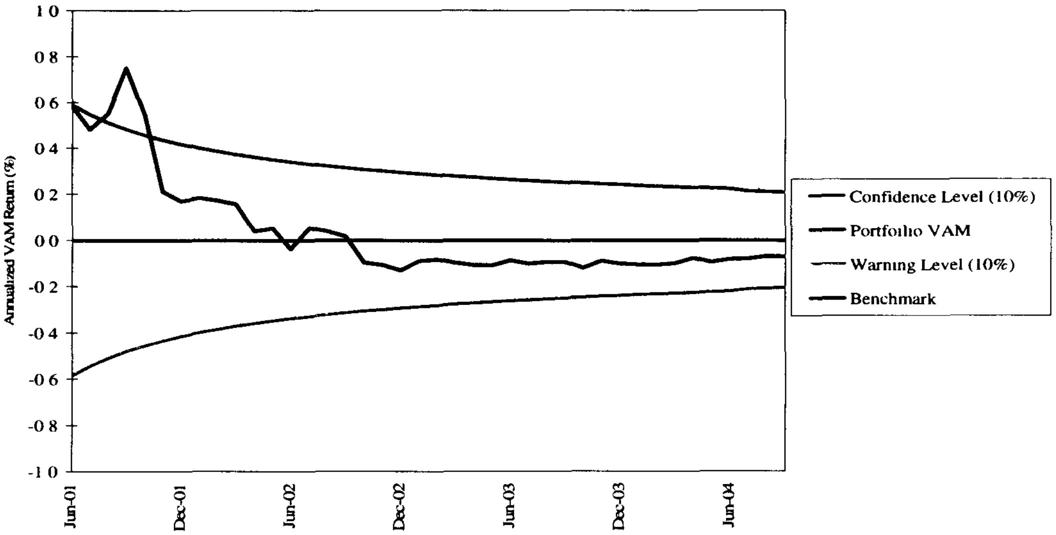
	Actual	Benchmark*
Last Quarter	0.2%	0.2%
Last 1 year	10 3	10.3
Last 2 years	13.9	14.0
Last 3 years	6 1	6 4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	5.8	5.8

*Benchmark is 60% Wilshire, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

BALANCED - VANGUARD BALANCED INDEX
Cumulative VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending September, 2004

State's Participation in Fund:	**$73,898,812**
Total Assets in Fund:	**$7,241,924,453**

Portfolio Manager: Dana Emery

Investment Philosophy
Dodge & Cox Income Fund

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

Staff Comments

Dodge & Cox trailed the quarterly benchmark The fund's shorter than benchmark duration was the primary source of underperformance.

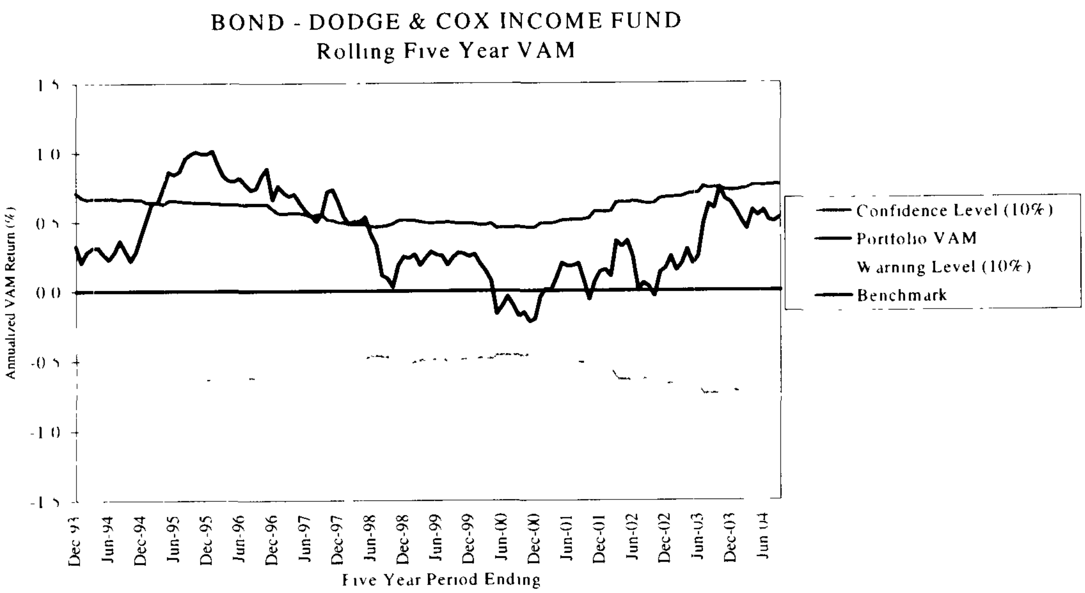
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.7%	3.2%
Last 1 year	3.7	3.7
Last 2 years	5.6	4.5
Last 3 years	6.6	5.9
Last 4 years	8.5	7.6
Last 5 years	8.0	7.5
Since Retention By SBI (10/03)	7.7	7.2

*Benchmark is the Lehman Aggregate.

Recommendation

No action required



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending September, 2004

		State's Participation in Fund:	**$43,457,111**
Portfolio Manager:	**Robert Auwaerter**	**Total Assets in Fund:**	**$6,982,326,938**

Investment Philosophy
Vanguard Total Bond Market Index Institutional

The fund attempts to track the performance of the Lehman Brothers Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

Staff Comments

No comment at this time.

Quantitative Evaluation

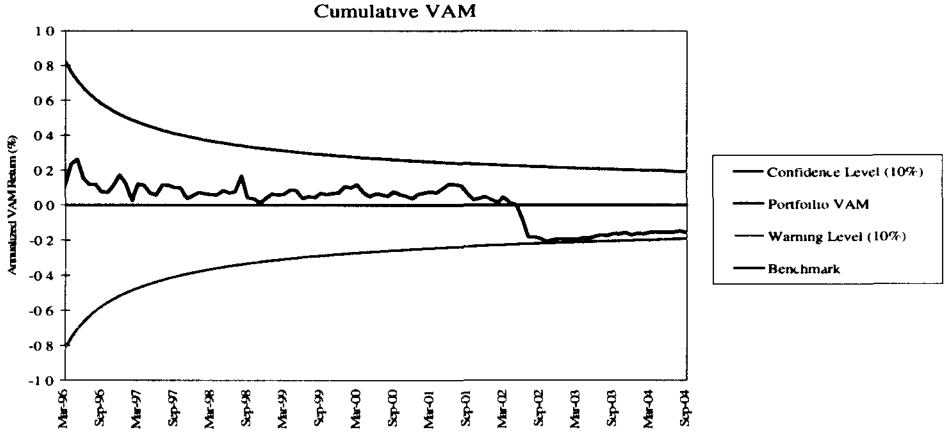
	Actual	Benchmark*
Last Quarter	3.1%	3.2%
Last 1 year	3.6	3.7
Last 2 years	4.5	4.5
Last 3 years	5.2	5.9
Last 4 years	7.1	7.6
Last 5 years	7.1	7.5
Since Retention by SBI (12/03)	4.3	4.4

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

Recommendation

No action required.

BOND - VANGUARD TOTAL BOND MARKET INDEX
Cumulative VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending September, 2004

State's Participation in Fund: $131,089,022
Portfolio Manager: William Bower **Total Assets in Fund: $18,743,600,000**

Investment Philosophy
Fidelity Diversified International

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

Staff Comments

Fidelity outperformed the quarterly benchmark due to stock selection in the consumer discretionary and information technology sectors. The one-year return was hurt by stock selection in the financial and energy sectors

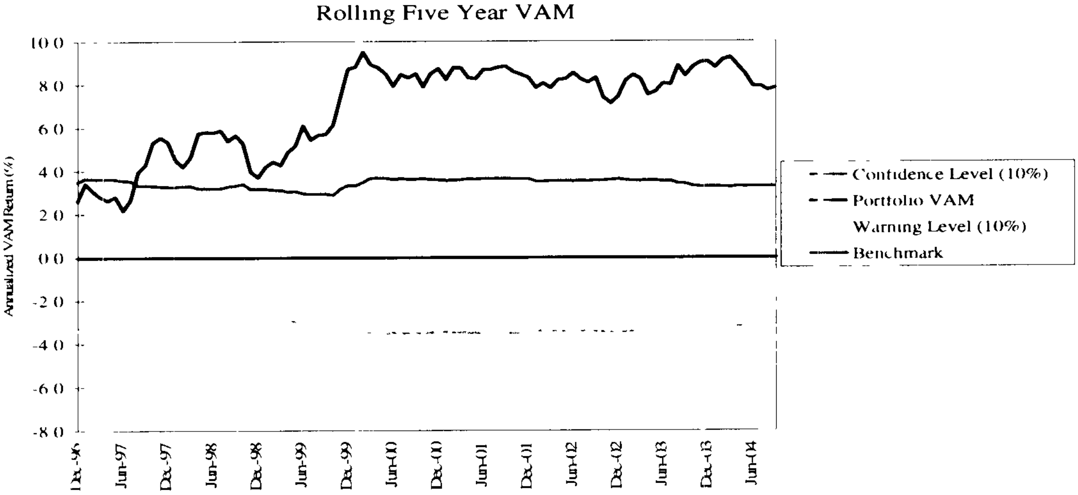
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0 2%	-0 3%
Last 1 year	21.0	22 1
Last 2 years	25 9	24.0
Last 3 years	14 0	9.2
Last 4 years	3.6	-1.8
Last 5 years	6.9	-0.8
Since Retention By SBI (7/99)	7.7	0.0

*Benchmark is the MSCI EAFE-Free.

Recommendation

No action required



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKET INDEX
Periods Ending September, 2004

		State's Participation in Fund:	**$21,278,894**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$861,792,269**

Investment Philosophy
Vanguard Institutional Developed Market Index

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

Staff Comments

No comment at this time.

Quantitative Evaluation

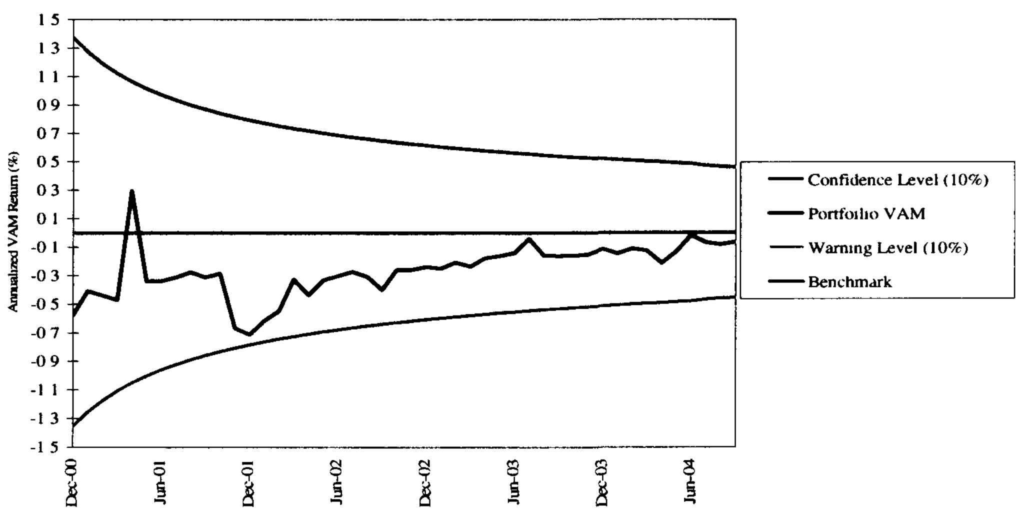
	Actual	Benchmark*
Last Quarter	-0.5%	-0.3%
Last 1 year	22.4	22 1
Last 2 years	24.4	24.0
Last 3 years	9 2	9.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	12.7	12.4

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

Recommendation

No action required.

INTERNATIONAL - VANGUARD DEVELOPED MARKET INDEX
Cumulative VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending September, 2004

Total Assets in MN Fixed Fund: $616,957,253 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $684,118,020 **
**Includes all assets in new and old fixed options

Principal Life

Ratings: Moody's	Aa2	
S&P	AA	
A.M. Best	A+	
Duff & Phelps	AA+	
Assets in MN Fixed Fund:	$261,950,183	

Investment Philosophy

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk

Minnesota Life

Ratings: Moody's	Aa2
S&P	AA
A M. Best	A++
Duff & Phelps	AA+
Assets in MN Fixed Fund:	$145,497,368
Assets in Prior MN 457 Plan:	$0
Total Assets:	$145,497,368

Investment Philosophy

Investment decisions support an asset/liability match for the company's many product lines A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle

Great-West Life

Ratings: Moody's	Aa2
S&P	AA+
A M. Best	A++
Duff & Phelps	AAA
Assets in MN Fixed Fund:	$186,628,011
Assets in Prior MN 457 Plan:	$67,160,768
Total Assets:	$253,788,778

Investment Philosophy

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities. The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third-party rating agencies or by the manager if private placements Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending September, 2004

Current Quarter

Dollar Amount of Bid: $49,800,000 **Blended Rate: 4.82%**

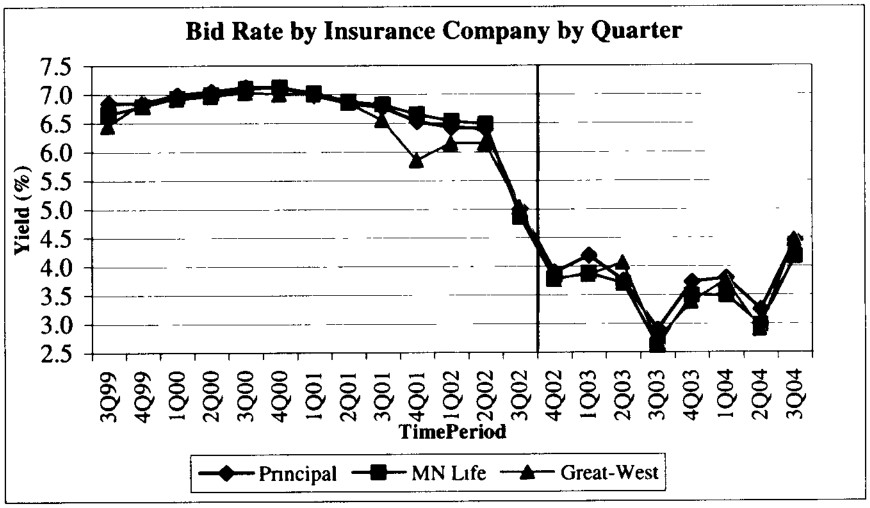
Bid Rates:

Principal Life	4.45%
Minnesota Life	4.17%
Great-West Life	4.47%

Contracts were renewed in June 2002 Bid rates are now effective for five years on new cashflows. The bid rate bands were narrowed to 8 b.p. from 10 b.p. and additional scenarios were added. All changes were effective for 3Q 2002 bids.

Dollar Amount in existing Minnesota Life portfolio: $0

Rate on existing Minnesota Life portfolio: n/a%



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.

	4Q03	1Q04	2Q04	3Q04
Principal Life	75.0%	50.0%	100.0%	50.0%
Minnesota Life	25.0%	0.0%	0.0%	0.0%
Great-West Life	0.0%	50.0%	0.0%	50.0%

Staff Comments

For the third quarter, Principal and Great-West each received 50% of the bid dollars.

Tab F

COMMITTEE REPORT

DATE: November 30, 2004

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on November 16, 2004 to review the following information and action agenda items:

- Review of current strategy
- New investments with two existing managers, GS (Goldman Sachs) Capital Partners and CSFB (Credit Suisse First Boston) Strategic Partners, and one new manager, Split Rock Partners.

Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

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

- The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

- The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.

- The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

ACTION ITEMS:

1) Investment with an existing private equity manager, GS (Goldman Sachs) Capital Partners, in GS Capital Partners V, L.P.

GS Capital Partners is seeking investors for a new $6 billion private equity fund. This fund is a successor to a prior private equity fund managed by GS Capital Partners in which the SBI has a $50 million investment. Like the prior fund, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on GS Capital Partners V, L.P. is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in GS Capital Partners V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by GS Capital Partners 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 GS Capital Partners or reduction or termination of the commitment.

2) Investments with an existing private equity manager, CSFB (Credit Suisse First Boston) Strategic Partners, in CSFB Strategic Partners III, CSFB Strategic Partners III RE (Real Estate) and CSFB Strategic Partners III VC (Venture Capital).

CSFB Strategic Partners is seeking investors for three new alternative investment funds. These funds are successors to two prior alternative investment funds managed by CSFB Capital Partners in which the SBI has invested an aggregate of $200 million. In the past, each prior fund invested in a combination of real estate, venture capital and private equity investments. The three new funds will target separately real estate, venture capital and private equity investments. Like the prior funds, the new funds will seek to earn attractive returns by focusing on investing in existing limited partnership interests purchased from limited partners desiring liquidity prior to the termination of those funds (secondary interests).

More information on CSFB Strategic Partners III, CSFB Strategic Partners III RE (Real Estate) and CSFB Strategic Partners III VC (Venture Capital) is included as **Attachment D.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute commitments of up to $100 million or 20%, whichever is less, in CSFB Strategic Partners III, up to $25 million or 20%, whichever is less, in CSFB Strategic Partners III RE (Real Estate) and up to $25 million or 20%, whichever is less, in CSFB Strategic Partners III VC (Venture Capital). Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by CSFB Strategic Partners 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 CSFB Strategic Partners or reduction or termination of the commitment.

3) **Investment with a new private equity manager, Split Rock Partners, in Split Rock Partners, L.P.**

Split Rock Partners is seeking investors for a new $300 million private equity fund. This fund is a successor to prior private equity funds managed by Split Rock Partners for their prior sole limited partner investor, The St. Paul Companies (now the St. Paul Travelers Companies). Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity and venture capital investments.

More information on Split Rock Partners, L.P. is included as **Attachment E**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $60 million or 20%, whichever is less, in Split Rock Partners, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Split Rock Partners 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 Split Rock Partners or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Pooled Alternative Investments
Combined Retirement Funds
September 30, 2004

Basic Retirement Funds Market Value	$18,714,983,472
Post Retirement Fund Market Value	$18,298,970,218
Amount Available for Investment	**$1,814,833,248**

	Current Level	Target Level	Difference
Market Value (MV)	$3,188,290,699	$5,003,123,947	$1,814,833,248
MV +Unfunded	$4,866,380,113	$7,504,685,920	$2,638,305,807

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$1,525,459,360	$893,957,931	$2,419,417,291
Real Estate	$656,263,431	$80,873,271	$737,136,702
Resource	$237,177,437	$121,929,379	$359,106,816
Yield-Oriented	$769,390,470	$581,328,833	$1,350,719,303
Total	$3,188,290,699	$1,678,089,414	$4,866,380,113

ATTACHMENT B

Minnesota State Board of Investment
- Alternative Investments -

As of September 30, 2004

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
Colony Capital							
Colony Investors II	80,000,000	78,482,328	1,315,003	87,203,000	1,517,672	4 27	9 50
Colony Investors III	100,000,000	100,000,000	40,591,502	108,362,673	0	12 76	6 75
Equity Office Properties Trust	258,062,214	258,062,214	107,415,810	363,237,642	0	14 98	12 85
Heitman							
Heitman Advisory Fund II	30,000,000	30,000,000	57,911	43,528,725	0	3 98	18 86
Heitman Advisory Fund V	20,000,000	20,000,000	344,873	35,289,042	0	8 60	12 82
Lasalle Income Parking Fund	15,000,000	14,644,401	2,360,517	29,486,683	355 599	12 44	13 03
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	166,414,803	6,763,958	0	6 73	22 97
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	16,023,805	68,811,362	0	11 51	10 33
Realty Associates Fund IV	50,000,000	50,000,000	38,875,976	52,037,568	0	11 84	7 66
Realty Associates Fund V	50,000,000	50,000,000	52,932,411	18,005,357	0	9 15	5 35
Realty Associates Fund VI	50,000,000	46,000,000	43,104,572	6,497,134	4,000,000	8 38	2 26
Realty Associates Fund VII	75,000,000	0	0	0	75,000,000	N/A	0 00
UBS Realty	42,376,529	42,376,529	186,826,249	0	0	7 36	22 42
Real Estate Total	850,438 743	769,565,472	656,263,431	819,223,144	80,873 271		
Resource							
Apache Corp III	30,000,000	30,000,000	8,144,460	49,311,125	0	12 38	17 75
First Reserve							
First Reserve I	15,000,000	15 000,000	68,149	14,552,526	0	-0 24	23 00
First Reserve II	7,000,000	7,000,000	111,541	14,879 948	0	5 97	21 65
First Reserve V	16,800,000	16,800,000	191,506	50,261,377	0	16 22	14 42
First Reserve VII	40,000,000	40,000,000	16,459,106	40,490,695	0	9 24	8 25
First Reserve VIII	100,000,000	100,000,000	61,484,456	80,141,577	0	9 74	6 42
First Reserve IX	100,000,000	86,786,247	81,354,036	24,254,579	13,213 753	12 25	3 48
First Reserve X	100,000,000	0	0	0	100,000,000	N/A	0 00
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	3,542,462	30,582,945	2,293,371	10 07	13 15
Simmons - SCF Fund III	25,000,000	23,380,337	17,745,532	47,357,209	1,619,663	19 36	9 25
Simmons - SCF Fund IV	50,000,000	45,197,407	38,218,188	28,815,521	4,802,593	9 81	6 50
T Rowe Price	24,389,015	24,389,015	9,858,000	12,669,410	0	-4 41	N/A
Resource Total	525,189,015	403,259,635	237,177,437	393,316,912	121,929,379		
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	45,078,078	9,596,419	3,815,692	16 43	2 38
CT Mezzanine Partners	100,000,000	36,804,097	10,617,058	40,119,097	63,195 903	19 69	3 03
Churchill Capital Partners II	20,000,000	18,501,079	583,613	25,946,336	1 498,921	10 59	11 93
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	10,132,204	44,315,527	0	10 04	9 75
Citicorp Mezzanine Partners III	100,000,000	74,173,115	62,415,562	32,040,791	25 826,885	14 20	4 91
DLJ Investment Partners II	50,000,000	17 827,966	5,403,634	20,926,645	32,172 034	9 87	4 75
Gold Hill Venture Lending	40,000,000	3,591,443	3,591,443	0	36,408,557	N/A	0 01
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	90,054,587	56,629,294	46,413,923	9,945,413	6 50	4 58
GS Mezzanine Partners III	75,000,000	8,875,738	9,493,844	0	66,124,262	8 83	1 22
GTCR Capital Partners	80,000,000	69,589,422	50,712,103	36,640,672	10,410 578	7 60	4 88
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fd II	13,500,000	13,397,500	3,159,171	18,460,464	102,500	9 74	9 18
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	16,440,452	16,593,341	224,948	8 23	7 83
Institutional Commercial Mortgage Fd IV	14,300,000	14,300 000	11,225,572	9,491,861	0	8 12	6 75
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	35,822,695	13,283,952	0	8 43	5 17
KB Mezzanine Partners Fund II	25,000,000	24,999,999	4,151,073	7,151,873	1	-18 13	9 00
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	28,946,811	25,006,908	0	16 96	8 25
Merit Energy Partners C	50,000,000	49,999,999	85,143,401	9,726,816	1	21 04	5 92
Merit Energy Partners D	88,000,000	75,405,710	87,467,024	4,301,741	12,594,290	11 91	3 35
Merit Energy Partners E	100,000,000	0	0	0	100,000 000	N/A	0 00
Merit Capital Partners (fka William Blair)							
William Blair Mezz Fund III	60,000,000	52,641,600	40,629,872	24,284,400	7,358,400	8 05	4 75
Merit Mezzanine Fund IV	75,000,000	0	0	0	75,000,000	N/A	0 00
Prudential Capital Partners	100,000,000	78,343,317	67,142,577	21,129,246	21,656,683	7 34	3 45
Summit Partners							
Summit Sub Debt Fund I	20,000,000	18,000,000	78,173	31,406,578	2,000,000	30 57	10 50
Summit Sub Debt Fund II	45,000,000	40,275,000	18,879,848	67,674,874	4,725,000	57 97	7 16
Summit Sub Debt Fund III	45,000,000	4,275,000	4,242,788	0	40,725,000	N/A	0 62
T Rowe Price	52,990,378	52,990,378	134,800	51,844,812	0	-11 50	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	37,130,039	5,141,759	48,115,030	2,869,961	12 89	8 50
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	25,678,086	98,157,471	12,520,954	11 98	5 85
TCW/Crescent Mezzanine Partners III	75,000,000	49,930,726	45,523,510	27,105,389	25,069,274	26 78	3 50
Windjammer Mezz. & Equity Fund II	66,708,861	39,625,285	34,926,026	11,801,559	27,083,576	8 08	4 50
Yield-Oriented Total	1,708,199,239	1,126,870 406	769,390 470	741,535,727	581,328,833		

Minnesota State Board of Investment
- Alternative Investments -

As of September 30, 2004

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners (Brinson)							
Brinson Partners I	5 000,000	3 800 000	281,931	9 190 16	1 200 000	13 27	16 39
Brinson Partners II	20 000 000	20 000 000	508 751	37 502 15	0	24 12	13 84
Affinity Ventures	4 000 000	720 000	720 000	0	3 280 000	N/A	0 25
Bank Fund V	48 000 000	48 000 000	66 545 088	16 247 32	0	14 46	6 21
Blackstone Capital Partners							
Blackstone Capital Partners II	50 000 000	47 271 190	5,112 980	94 450 97	2 728 810	34 52	10 86
Blackstone Capital Partners IV	70 000 000	24 409 014	24 631 184	3 765 95	45 590 986	19 79	2 22
BLUM Capital Partners							
Blum Strategic Partners I	50 000 000	48,772 544	44 913 500	38 917 92	1,227 456	11 08	5 77
Blum Strategic Partners II	50,000 000	48,887,052	45 482 782	18 649 23	1 112 948	19 80	3 20
Citigroup Venture Capital Equity	100 000,000	54 401 490	45 873,446	19 559 14	45 598,510	12 51	2 80
Contrarian Capital Fund II	37,000 000	33,244 395	26,032 971	18 481 54	3,755 605	4 72	7 33
Coral Partners							
Coral Partners Fund II	10,000,000	8 069,315	400,884	36 553 37	1,930,685	24 92	14 18
Coral Partners Fund IV	15 000,000	15 000 000	4 058,129	11 107 47	0	0 25	10 20
Coral Partners Fund V	15,000,000	14 625 000	4,500,999	2 016 16	375 000	-17 61	6 29
Crescendo							
Crescendo II	15 000,000	15 000,000	1,293 707	20 347 39	0	21 76	7 75
Crescendo III	25,000,000	25 000 000	3,326,864	8 084 95	0	-25 91	5 90
Crescendo IV	101 500,000	83 737 500	27,535,863	4 018 14	17 762 500	-29 26	4 56
CSFB/DLJ							
DLJ Merchant Banking Partners III	125 000,000	94 056,757	74,795 822	51 835 36	30 943 243	11 66	4 00
DLJ Strategic Partners	100 000 000	75 901,158	47 999 087	65 098 6	24 098,842	24 04	3 70
DLJ/CSFB Strategic Partners II	100,000,000	44,973 166	37 663 674	24 851 07	55 026 834	57 75	1 20
DSV Partners IV	10,000 000	10 000 000	1,261,841	27 596 34	0	9 49	19 47
First Century Partners III	10 000 000	10 000,000	67 736	15 098 39	0	7 50	19 79
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000 000	40 000 000	31,855,851	5 976 6	0	-1 15	6 44
Fox Paine Capital Fund II	50,000 000	36 625 004	32,765,493	4 903 2	13 374,996	2 32	4 25
Golder,Thoma, Cressey Rauner							
Golder, Thoma, Cressey Fund III	14,000 000	14 000,000	168 253	78 123 5	0	30 87	16 92
Golder, Thoma, Cressey & Rauner Fund IV	20,000 000	20 000 000	210,514	41 020 3	0	24 86	10 66
Golder, Thoma, Cressey & Rauner Fund V	30 000 000	30 000 000	20,836,581	25 769 3	0	9 56	8 25
GTCR Golder Rauner							
GTCR Fund VI	90 000,000	89,137,778	30 006 245	68 918 8	862 222	4 20	6 25
GTCR Fund VII	175 000 000	145 796,875	126 792 244	50 975 6	29 203 125	9 35	4 65
GS Capital Partners 2000	50 000 000	36 203 310	27 786 083	16 222 8	13 796 690	9 47	4 08
GHJM Marathon Fund IV	40 000 000	39 981 000	14,541 319	31 021 0	19 000	2 68	5 46
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40 000,000	32 113 684	3 922,800	61 708 8	7 886 316	33 69	10 03
Hellman & Friedman Capital Partners IV	150 000 000	114 673 002	86 580 474	43 782	35 326 998	9 27	4 75
Hellman & Friedman Capital Partners V	160 000,000	0	0		160 000 000	N/A	0 00
Kohlberg Kravis Roberts							
KKR 1986 Fund	18 365 339	18 365 339	15 769,578	204 170 1	0	28 06	18 46
KKR 1987 Fund	145 950 000	145,373 652	5 928 743	393 556 1	576 348	8 78	16 85
KKR 1993 Fund	150 000 000	150,000,000	27 601 214	2 6 349 6	0	16 59	10 78
KKR 1996 Fund	200 000 000	200 000,000	79 928 159	264 551 8	0	12 91	8 08
KKR Millennium Fund	200 000,000	63 670 000	60,696 000	3 002 6	136 330,000	-10 27	1 81
Matrix Partners III	20 000 000	20 000 000	317,007	1 4 355 5	0	30 31	19 12
Piper Jaffray Healthcare							
Piper Jaffray Healthcare Fund II	10 000,000	10,000 000	5 710,481	1 648 4 5	0	-5 93	7 58
Piper Jaffray Healthcare Fund III	20,000 000	19 000,002	8 733 283	2 494 3	999 998	-14 60	5 69
Piper Jaffray Healthcare Fund IV	7,700,000	3 256,543	2,575 489	4 1	4 443 457	-30 06	1 02
Silver Lake Partners II	100,000 000	11 434,088	11 434,088	0	88,565,912	N/A	0 25
Summit Partners							
Summit Ventures I	10 000 000	10 000,000	10,626	20 369, 7	0	13 17	19 79
Summit Ventures II	30 000,000	28,500 000	191,188	74 422 (9	1 500 000	28 82	16 39
Summit Ventures V	25 000 000	23 125 000	7 023 847	6 539 5	1 875 000	0 61	6 50
T Rowe Price	581 483 691	581,483 691	45,409 106	569 902,8	0	7 53	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35 000 000	33 915 000	18 648 691	7 881 2	1 085,000	-5 97	6 11
Thoma Cressey Fund VII	50 000,000	21 730 000	22 323 302	7 185 0	28 270 000	19 13	4 10
Thomas, McNerney & Partners	30 000,000	7 800 000	6,408 043		22 200 000	18 76	1 90
Vestar Capital Partners IV	55 000 000	35 388 550	28,026,824	2 800 7	19 611 450	7 17	4 79
Warburg Pincus							
Warburg, Pincus Ventures	50 000 000	50,000 000	50 400 320	194 549,5	0	49 54	9 75
Warburg Pincus Equity Partners	100,000 000	100 000 000	55 845 939	58 396,9	0	4 00	6 26
Warburg Pincus Private Equity VIII	100 000 000	55 000 000	50 835 311	4 451 1	45,000 000	-0 24	2 46
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100 000 000	99,000 000	81 453,314	1 873,2	1 000 000	-3 53	6 19
Welsh, Carson, Anderson & Stowe IX	125 000 000	90 000 000	66 109 740	31 568 9	35,000 000	4 15	4 26
William Blair Capital Partners VII	50 000 000	37 600 000	35 409 650		12 400 000	-3 85	3 56
Zell/ Chilmark	30 000,000	30 000 000	196 319	76 414,9	0	17 67	14 22
Private Equity Total	4 037 999 030	3 145 241 099	1 524 668 678	3 241 598 3	892 757 931		

ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	GS Capital Partners V, L.P. ("Fund V")
Type of Fund:	Private Equity
Total Fund Size:	$6 billion
Fund Manager:	Goldman, Sachs & Co.
Manager Contact:	Stephen S. Trevor 85 Broad Street New York, NY 10004 (212) 902-7301

II. Organization and Staff

The Principal Investment Area of Goldman Sachs' Merchant Banking Division (the "PIA") will evaluate, structure, monitor and harvest the Partnership's investments. The PIA's effort is supplemented by Goldman Sachs' professionals in investment banking and research, and by the wealth of other resources available throughout the Firm. The PIA's approximately 100 investment professionals have extensive private equity investing experience across numerous industries, geographies and investing environments. The PIA professionals who evaluate, structure and negotiate investments continue to work with the companies in which investments are made to maximize shareholder value. In doing so, PIA professionals work with management teams in formulating strategic, capital and operating plans; executing acquisitions, divestitures and financings; implementing executive compensation programs and overseeing executive searches; and generally participating in the full array of decisions involved in developing successful companies. The 16 members of the Investment Committee who are responsible for making the PIA's investment decisions and for monitoring the progress of investments have an average tenure of 19 years at Goldman Sachs.

III. Investment Strategy

GSCP ("Goldman Sachs Capital Partners") V intends to follow an investment strategy similar to that of its predecessor fund, GSCP 2000. This strategy has evolved over Goldman Sachs' 19 years of managing private equity funds over numerous investing cycles. The Investment Manager will focus on investments that are large enough to have an impact on the overall portfolio ($100 million to $300 million), but not sufficiently large to compromise the portfolio's diversification. The PIA pursues situations to invest in (i) companies with experienced management and market-leading positions that may be for sale or in need of equity capital, (ii) non-core operations of large corporate entities that may be in need of liquidity or (iii) companies which it believes are undervalued in the public markets. The PIA may also invest opportunistically to acquire businesses in partnership with new management teams or in anticipation of retaining new management subsequent to closing.

In executing its strategy, the PIA leverages Goldman Sachs' global leadership in investment banking, research expertise across a wide array of industries and geographies and client relationships to identify and evaluate attractive investment opportunities.

The General Partner intends to leverage the PIA's worldwide presence and global investing experience to identify and evaluate international investment opportunities for GSCP V. As of June 30, 2004, 38% of the invested equity capital of GSCP 2000 has been invested outside the U.S. The General Partner believes that a significant portion of GSCP V's transactions may be generated outside the U.S., primarily in Western Europe and targeted markets within Asia, particularly Japan, South Korea and Greater China.

The Partnership may, from time to time, employ leverage in an effort to enhance returns. At current interest rate levels, the General Partner believes that it may increase the Partnership's returns by borrowing funds to make investments and defer calling committed capital While the General Partner intends to utilize this type of leverage in the early years of the Partnership's term, the General Partner will not incur leverage to increase the aggregate pool of funds available for investment at any time beyond the aggregate amount of uncalled capital commitments.

IV. Investment Performance

Previous fund performance as of June 30, 2004 for Goldman Sachs and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
GSCP I	1992	$1.035 billion		27%
GSCP II	1995	$1.750 billion		4%
GSCP III	1998	$2.775 billion		-6%
GSCP 2000	2000	$5.250 billion	$50 million	10%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results

V. General Partner's Investment

Goldman Sachs and affiliated employee investment funds will commit, in the aggregate, at least $2.0 billion in capital to GSCP V.

VI. Takedown Schedule

Capital Commitments generally will be drawn down by the Fund pro rata from the Partners as needed with fifteen days' prior written notice.

VI. Fees

The Investment Manager will be paid an annual management fee, which will be payable semi-annually in arrears by all Limited Partners except for Goldman Sachs and its affiliated entities (which may include the GS Partnership and the Employee GSCP V Fund) that are direct or indirect Limited Partners in the Partnership (collectively, the "GSLP").

Each Limited Partner (other than the GSLP) will be charged an annual management fee (the "Management Fee") of 1.5% on invested capital (including any leverage and any reinvested capital, but reduced by the cost basis of harvested investments).

Goldman Sachs will perform investment banking and other services for, and will receive customary investment banking compensation from, Portfolio Companies and the Partnership. This compensation may include financial advisory fees or fees in connection with restructurings and mergers and acquisitions, underwriting or placement fees, financing or commitment fees, and brokerage fees. This compensation will not reduce the Management Fee and will not be shared with the Partnership or its Limited Partners

It is expected that Goldman Sachs will receive sponsor fees from Portfolio Companies in connection with acquisitions, dispositions and certain financings and recapitalizations by the Partnership and/or Portfolio Companies, including in situations where the Partnership is a co-investor with unaffiliated third parties. Because the Investment Manager charges the Management Fee on invested capital rather than committed capital, any sponsor fees will be paid to Goldman Sachs and will not be shared with the Partnership, except to the extent that any sponsor fees on an acquisition, disposition, financing or recapitalization by the Partnership and/or a Portfolio Company exceed 1% of the applicable company's enterprise value or 1% of the amount of the financing, as the case may be, in which case the Limited Partners' (other than the GSLP's) allocable portion of any excess will be credited against future Management Fees payable by or on behalf of those Limited Partners to the Investment Manager. The fees paid to Goldman Sachs in connection with the provision of investment banking, lending, brokerage and other services to the Partnership and Portfolio Companies will not be subject to the foregoing and will not be shared with the Partnership.

Portfolio Companies may be charged annual monitoring fees (e.g., fees for time devoted to a Portfolio Company) by Goldman Sachs, including in situations where the Partnership is a coinvestor with unaffiliated third parties. The Limited Partners' (other than the GSLP's) allocable portion of all monitoring fees paid to Goldman Sachs will be credited against future Management Fees payable by or on behalf of those Limited Partners and, therefore, should not increase the Partnership's costs.

In addition, Goldman Sachs officers or employees may receive fees and options paid and granted to directors on the boards of directors of Portfolio Companies, and those fees and options are not required to be shared with the Partnership. Goldman Sachs' policy is that the fees and options received by its officers and employees (but not its former officers or employees or the former limited partners of The Goldman Sachs Group, L.P.) must be paid to or held for the benefit of Goldman Sachs.

Commitment and break-up fees received by the Partnership will be applied to pay its current and future expenses and to make distributions to Partners.

The Partnership will bear its allocable portion of expenses incurred in connection with the organization and the offering of LP Interests in the Partnerships up to an aggregate of $2 million for all the Partnerships, and Goldman Sachs will absorb any of these expenses in excess of $2 million. In addition, the Partnership will bear the ongoing expenses of the Partnership, including all expenses related to the potential acquisition, acquisition, holding and sale of investments, and abandoned transactions. The Partnership will seek to be reimbursed by third parties for its expenses when possible.

The Partnership will also bear out-of-pocket expenses incurred in connection with the administration of the Partnership, as well as expenses relating to fund accounting, tax and legal advice (including with respect to litigation, if any), and information technology, in each case, whether performed by internal staff of Goldman Sachs or third parties.

GSCP V expects to engage unaffiliated persons with industry, managerial or other expertise as advisors ("Industry Advisors") in connection with GSCP V's investment activities. The Partnership will be responsible for its allocable portion of the fees and expenses of the Industry Advisors. In addition, these Industry Advisors may invest in Portfolio Companies on the same or more favorable terms than the Partnerships, or otherwise receive equity incentives, and the Partnership may enter into transactions or otherwise take steps to facilitate their investments or equity incentives, including financing their investments in Portfolio Companies, which could result in the incurrence of additional costs to the Partnership.

The organizational and operating expenses to be borne by the Partnership as described above are incremental to the Management Fee

VIII. Allocations and Distributions

If the Partnership achieves certain returns, Goldman Sachs and/or its employees, directly or indirectly, including through the Employee GSCP V Fund (collectively, the "holders of SLP interests"), will receive an override (the "Override") of 20% of total profits, based on the following formula. Net income of the Partnership (the excess of all income and gains over expenses and losses, computed by marking to market unrealized gains and losses as described below) will be allocated in a manner so that the General and Limited Partners (including the holders of SLP interests) are allocated income in proportion to their capital commitments (subject to adjustment in the event of a Default (as defined below) by any Limited Partner), until the Partners have achieved a return of 8% per annum on contributed capital less distributions on an annually compounded basis (the "Preferred Return"). Net income of the Partnership in excess of the Preferred Return will be allocated 100% to the holders of SLP interests until they have, in the aggregate, achieved an override equal to 20% of aggregate net income. Thereafter, any additional net income of the Partnership will be allocated 20% to the holders of SLP interests and 80% to the General and Limited Partners (including the holders of SLP interests) Losses will be allocated in a manner designed appropriately to reverse, on a cumulative basis, allocations previously made. No Override will be allocated if the Preferred Return is not achieved at the time of the allocation.

Unrealized gains and losses will be determined on the basis of the fair value of investments.

Proceeds from the sale or liquidation of investments or any portion thereof that have been held longer than fifteen (15) months will be distributed to the Partners upon realization in accordance with the distribution provisions described below. Proceeds from any investment or any portion thereof that has been held for fifteen (15) months or less (regardless of whether the proceeds are received prior to or after the expiration of the Commitment Period) may, in the sole discretion of the General Partner, be (i) reinvested or (ii) distributed to the Partners and subsequently recalled for reinvestment (in each case, without regard to the limitations on investments after the expiration of the Commitment Period).

The amount and timing of distributions from the Partnership to the Partners will be at the sole discretion of the General Partner, and distributions will be subject to holdbacks in respect of Reserves. Subject to the foregoing, proceeds from the sale, refinancing, redemption, or other disposition of Investments and extraordinary dividends or distributions in recapitalizations ("Net Proceeds from Investment Dispositions") generally will be distributed by the Partnership as soon as practicable after the proceeds are received by the Partnership, except as contemplated above regarding reinvestment.

Interest, dividends, and commitment and break-up fees, if any, paid to the Partnership ("Current Cash Flow from Investments") generally will be applied by the Partnership to pay its expenses and to establish Reserves. Any remaining Current Cash Flow from Investments and any Net Proceeds from Investment Dispositions will be distributed as follows: If the entire portfolio has not achieved the Preferred Return computed by marking to market unrealized gains and losses distributions will be made to all Partners pro rata based on their capital commitments (subject to adjustment in the event of a Default) as of the distribution date. If the entire portfolio has achieved the Preferred Return computed by marking to market unrealized gains and losses, then distributions will be made to all Partners pro rata based on their capital commitments (subject to adjustment in the event of a Default) until the Partners have received a cumulative amount (including distributions in respect of Current Cash Flow from Investments) equal to the sum of (i) the capital contributions used to fund the cost of all Investments that have been sold, refinanced, redeemed or otherwise disposed, and (ii) the Preferred Return thereon. Next, distributions will be made so as to provide the holders of SLP interests with their Override. Thereafter, distributions will be made 20% to the holders of SLP interests and 80% to the General and Limited Partners (including the holders of SLP interests).

Distributions may be made in-kind. In-kind distributions will be treated as distributions of Net Proceeds from Investment Dispositions. The Investment Committee will determine the fair value of any in-kind distribution in accordance with the valuation principles described herein. No independent appraisals will be obtained.

If, at the termination of the Partnership, the Partners have not received the Preferred Return, the holders of SLP interests will contribute to the Accounts of the Partners, in proportion to the amount of Override received by a holder of SLP interests, an aggregate amount equal to the lesser of (i) amounts previously received by the holders of SLP interests as Override or (ii) the amount necessary to provide the Partners' Preferred

Return. Moreover, if, at the end of the Commitment Period, at the end of the original ten year term of the Partnership and at the termination of the Partnership, the distributions in respect of the Override exceed the Override earned as of each of those dates, the holders of SLP interests will contribute to the Partnership for distribution to the Partners the amount of the excess.

Allocations and distributions will be appropriately adjusted for any taxes payable by the Partnership or a lower tier investment vehicle (including any corporate, local, non-U.S. and withholding taxes). Taxes payable by the Partnership or a lower-tier investment vehicle, or withholding taxes imposed on income of the Partnership or a lower-tier investment vehicle, as a result of the residence or domicile of any Partner, or otherwise as a result of the tax status of any Partner, will be for the account of those Partners and distributions will be appropriately reduced. However, the Override will not be reduced to take into account these taxes.

The General Partner may make allocations and/or distributions in a manner other than as described above, including disproportionate allocations of gain or loss and/or disproportionate distributions of portfolio securities or net proceeds from the disposition of portfolio securities to the extent required, or otherwise deemed advisable or necessary by the General Partner in its sole discretion, under applicable laws, rules and regulations.

IX. Investment Period and Term

The term of the Partnership will be ten years, subject to the General Partner's right to liquidate the Partnership at any time and to extend the term for up to three successive one-year periods to permit an orderly liquidation of the Partnership (the ten-year period and successive extensions collectively, the "Term"). Upon request of the General Partner and approval of a majority in interest of the Limited Partners other than the GSLP, the Term of the Partnership may be further extended.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	CSFB Strategic Partners III (SP III or "The Fund") CSFB Strategic Partners III RE (SP III RE) CSFB Strategic Partners III VC (SP III VC) (Collectively, "The Funds")
Type of Fund:	Private Equity
Total Fund Size:	$1.5 billion
Fund Manager:	CSFB Strategic Associates III
Manager Contact:	Stephen Can Eleven Madison Ave. New York, NY 10010 212-538-7680

II. Organization and Staff

The Funds will be managed by the dedicated team of 15 investment professionals which comprises Strategic Partners. Strategic Partners is led by Stephen H. Can, who has significant expertise in secondary investing. As Head of Strategic Partners, Mr. Can has been responsible for establishing SP I, SP II and SP II RE and for managing their investment activities.

From its inception in 2000 through June 30, 2004, Strategic Partners has executed 173 transactions aggregating over $2.1 billion in secondary interests, having analyzed 790 transactions involving over $27 billion in secondary interests. Strategic Partners has called down $1.5 billion to fund its acquisitions and has returned $740.3 million, which represents over 48% of capital called, and holds interests in 246 underlying funds with over 3,500 portfolio companies.

SP III will capitalize on the unique, global resources of Credit Suisse First Boston ("CSFB"), one of the world's largest investment banks, as well as CSFB's private equity franchise, which has more than $20 billion of assets under management. The Fund expects to benefit from a broad, often proprietary, flow of investment opportunities from CSFB's large network of relationships with corporate, public pension and individual investors, and to leverage the expertise of CSFB employees worldwide to gain market and company insights that are critical in determining the proper pricing of secondary investments.

III. Investment Strategy

Strategic Partners III

SP III's objective is to maximize risk-adjusted investment returns to investors, while taking advantage of the accelerated return of capital associated with secondary investing. The Fund will pursue secondary opportunities primarily in leveraged buyout and mezzanine funds, although real estate, venture capital, distressed securities and fund of funds will also be considered. Building on the success of SP II RE, Strategic Partners will establish separate co-investment vehicles focused specifically on real estate and venture capital secondary investments for those investors in the Fund who wish to increase their exposure to either investment class. The Fund will invest opportunistically in investments where the seller's original commitment may range in size from $100,000 for a single fund holding to $500 million or more for a portfolio of holdings. While the Fund has a global investment mandate, it is anticipated that most of its commitments will be made to funds managed by U.S. and Western European sponsors.

SP III will aggressively seek opportunities in non-competitive and competitive transactions and will invest both individually and, where appropriate, as part of a larger syndicate. The Fund will pursue individual fund investments as well as portfolios of investments. In sourcing investment opportunities, SP III will use the extensive network of relationships within CSFB's operating divisions, as well as relationships established by Strategic Partners and other CSFB Alternative Capital Division ("ACD") investment professionals with unaffiliated fund managers and investors.

Investment decisions for SP III will be based on a disciplined approach, with each potential opportunity's risk/return profile examined from a variety of perspectives, including its impact on the Fund's portfolio. The Fund will also consider qualitative factors, including managers' reputations, investment philosophies and capabilities. In addition, all investments are approved by the Investment Committee of the Fund, which consists of ACD professionals with extensive experience in private equity investing

Strategic Partners III RE

CSFB Strategic Partners III RE, L.P. ("SP III RE") is being organized as a separate fund to permit investors in SP III the opportunity to increase their exposure to real estate-related secondary investments above SP III's targeted 10% allocation to real estate. SP III RE intends to co-invest with SP III in all real estate-related secondary investments in the ratio of total available commitments in the case of SP III RE to 10% of total available commitments in the case of SP III

SP III RE is the successor fund to SP II RE, which was formed at the same time as SP II with $300 million of capital commitments to co-invest alongside SP II exclusively in real estate-related investments. Strategic Partners believes that secondary real estate investments continue to be attractive for the following reasons:

- Shorter Holding Periods. In three quarters of operation, SP II RE has already returned $43.5 million to investors on $203.8 million called, or over 21%.

- Reduction of Blind Pool Risk. Through June 30, 2004, SP II RE has invested in funds that have been, on average, over 91% invested.
- Diversification. SP II RE's portfolio is diversified across a wide range of real estate asset types. In addition, it holds underlying funds established from 1996 through 2002, with a weighted average vintage year of 1998.
- Steady Current Income. Through June 30, 2004, SP II RE has generated an annual cash yield of approximately 7%.
- Significant Commitments to Real Estate. From 1993 to 2003, over $205 billion of capital commitments have been made to U.S. private equity real estate funds.

Strategic Partners III VC

CSFB Strategic Partners III VC, L.P. ("SP III VC") is being organized as a separate fund to permit investors in SP III the opportunity to increase their exposure to venture capital-related secondary investments above SP III's targeted 5% allocation to venture capital. Strategic Partners will employ the same high level of due diligence and rigorous financial and business analysis to SP III VC as it has with respect to the SP Funds. Strategic Partners will consider venture investments in a broad range of industries including, but not limited to, software, communications, biotechnology, medical devices, electronics, and services, as well as investments ranging from early to expansion stage.

IV. Investment Performance

Previous fund performance as of June 30, 2004 for CSFB Strategic Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
CSFB Strategic Partners I	2001	$832 million	$100 million	24%
CSFB Strategic Partners II	2003	$1,625 million	$100 million	54%
CSFB Strategic Partners II RE	2003	$300 million	--	19%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

CSFB, its affiliates and employees will make aggregate capital commitments to the Fund, no later than the final closing of the Funds, of at least $75 million (the "CSFB Commitment").

VI. Takedown Schedule

It is anticipated that the Commitments will generally be drawn down pro rata during the Investment Period on an "as needed" basis, with a minimum of ten business days' prior written notice to the Limited Partners.

VII. Management Fees & Allocation and Distribution

Strategic Partners III

Existing investors in Strategic Partners I will have the right to invest in Fund III an amount not to exceed their capital commitment to Strategic Partners I ($100 million for the MSBI) on terms as to fees and carried interest no less favorable than the terms contained in Strategic Partners I.

Strategic Partners I fees included an acquisition fee at the time of each acquisition by the Fund of a Portfolio Investment equal to 1% of the sum of *(a)* the purchase price of each Portfolio Partnership then acquired and *(b)* without duplication, the undrawn capital committed by the Fund to each Portfolio partnership then acquired.

Also, for Strategic Partners I, distribution or sales proceeds received with respect to a Portfolio Investment will be distributed to all Partners participating in such Portfolio Investment. Each such Partner's proportionate share thereof generally will be distributed in the following order of priority:

(i) First, 100% to such Partner until the cumulative distributions to such Partner with respect to such Portfolio Investment equal the capital contributions of such Partner used by the Fund to acquire or make capital contributions in respect of such Portfolio Investment;

(ii) Second, 100% to such Partner until the cumulative distributions to such Partner from or in respect of such Portfolio Investment pursuant to this paragraph (b) equal a preferred return on the capital contributions of such Partner used by the Fund to acquire or make capital contributions in respect of such Portfolio Investment at the rate of 8% per annum, compounded annually;

(iii) Third, 100% to the General Partners until the General Partners have received 5% of the sum of the distributions made to such partner pursuant to paragraph (b) and to the General partners pursuant to this paragraph (c), in each case with respect to such Portfolio Investment; and

(iv) Thereafter, 95% to such Partner and 5% to the General Partners (the distributions to the General Partners described in paragraph (c) and in this paragraph (d) being referred to collectively as the General Partners' "Carried Interest").

Each purchase by the Fund of an investment in a Portfolio Partnership shall be treated as a separate Portfolio Investment for purposes of the distribution provisions as outlined above All distributions not directly attributable to a particular Portfolio Investment generally will be made to the Partners in proportion to their capital contributions used to acquire the investment giving rise to the distribution.

Strategic Partners III RE and Strategic Partners III VC
Each Limited Partner in SP III RE and SP III V will pay an annual management fee, payable semi-annually to the Investment Manager during the term of the Partnership. During the Investment Period, the management fee will be equal to 1.0% per annum of such Limited Partner's Commitment, effective upon the Initial Closing. After the Investment Period, the management fee will be equal to 1.0% per annum of the reported value of the Fund's investments.

All Partnership distributions will be divided among the Partners as follows:

(i) First, to all Partners pro rata, until the cumulative amount distributed to all Partners is equal to the total capital contributions applied to investments;

(ii) Second, to all Partners pro rata, to provide an 8% compound annual internal rate of return on the amount described in (i) above (the "Priority Return");

(iii) Third, 100% to the General Partner until the General Partner has received in the aggregate 10% of the total amount distributed pursuant to clause (ii) and this clause (iii); and

(iv) Thereafter, 90% to all Partners pro rata and 10% to the General Partner (the amounts distributed to the General Partner pursuant to clause (iii) and this clause (iv), the "Carried Interest").

VIII. Investment Period and Term

The Partnership will have an investment period of four years from the date of the final closing of the Partnership (the "Investment Period"), which may be extended for up to one additional year in the discretion of the General Partner with the consent of the Advisory Committee.

The Partnership will terminate ten years from the final closing, but may be extended (i) for up to two successive one-year periods in the discretion of the General Partner and (ii) for up to two additional one-year periods in the discretion of the General Partner with the consent of the Advisory Committee or Limited Partners representing at least a majority of aggregate commitments to the Partnership (the "Commitments").

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Split Rock Partners, L.P.
Type of Fund:	Venture Capital
Total Fund Size:	$300 million
Fund Manager:	Split Rock Partners Management, LLC
Manager Contact:	Michael Gorman 10400 Viking Dr. , Ste 550 Minneapolis, MN 55344 ph: 952-995-7474

II. Organization and Staff

Split Rock Partners, LP (the "Fund," or "Partnership") and Split Rock Partners Management, LLC, the general partner of the Fund (the "General Partner") are based in Minneapolis, Minnesota, and Menlo Park, California. The General Partner is led by Michael Gorman, James Simons, David Stassen and Allan Will (the "Managing Directors," or "team"). Other professional staff include an additional investment professional, Joshua Baltzell and 12 operations professionals.

Split Rock Partners, LLC ("Split Rock Partners") was founded in July 2004 through the transition of St. Paul Venture Capital ("SPVC") into two new firms, Split Rock Partners (healthcare and software) and Vesbridge Partners, LLC (networking and telecommunications). Since inception in 1988, SPVC has consistently been one of the most active early-stage venture capital investors in the United States. Solely funded by The St. Paul Companies (now The St. Paul Travelers Companies, "The St. Paul"), SPVC has directly invested $1.3 billion in healthcare, software, telecommunications, consumer products and services across six venture capital funds. SPVC has been the leading early-stage venture capital investor in Minnesota, investing over $248 million in 43 Minnesota-based companies. In addition, SPVC has been a very active investor nationally and developed a national reputation in targeted industry sectors. SPVC VI, the most recent SPVC fund originally capitalized at $970 million in October 2000, provided the base to become one of the most active early-stage venture capital firms in the United States.

Management changes at The St. Paul led to the opportunity for The St. Paul to diversify its private equity portfolio and for SPVC to diversify its investor base. In 2003, The St. Paul and SPVC agreed that each would benefit from raising outside institutional capital for investment in smaller more sector focused funds, resulting in the formation of the two new funds: the Partnership and Vesbridge Partners, LP. The Fund has closed on a $100 million commitment from The St. Paul and is seeking $150 million of additional commitments from institutional limited partners. The targeted fund size is $250 million.

III. Investment Strategy

Split Rock Partners will continue the successful investment strategy the Managing Directors employed at SPVC. This strategy focuses on investments in seed and early-stage healthcare and software companies.

The following chart summarizes the expected investment profile for the Fund:

Industry sector	Approximately 50% healthcare and 50% software
Geography	Approximately 50% Minnesota and Upper Midwest and 50% California
Stage	Approximately 75% early-stage and 25% expansion stage
New investment model	\$2 to \$4 million average initial investment \$4 to \$6 million in reserve on average
Fund investment plan	1.5 to 2.0 deals/partner/year 25 to 30 companies in the Fund
Ownership targets	20% to 30% in early-stage rounds 10% to 20% in expansion rounds
Role	Lead or co-lead Board seats in 75% or more of investments

IV. Investment Performance

Previous investment performance as of June 30, 2004 for Split Rock Partners is shown below:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception
Split Rock Team prior Investments	1990	\$354 million	-	30%

Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner will invest an amount equal to 1% of the capital contributed by all Limited Partners on the same schedule as the Limited Partners' capital contributions are made.

VI. Takedown Schedule

Each Limited Partner will contribute capital in installments as requested by the General Partner upon 10 business days' prior written notice.

VII. Fees

Commencing upon the first capital call, the General Partner will receive a management fee, payable quarterly in advance, equal to 2.5% of the Fund's committed capital. The annual management fee will be reduced to equal (a) 1.5% of the Fund's committed capital, upon the sixth anniversary of the first capital call, (b) 0.5% of the Fund's committed capital, upon the ninth anniversary of the first capital call and (c) 1.5% of the lesser of (i) the cost basis of the Fund's portfolio securities, and (ii) the fair market value of Fund's assets upon the tenth anniversary of the first capital call.

Management fees will be reduced by 100% directors' fees, consulting or advisory fees, or any transaction, commitment, breakup or similar fees paid in cash or other consideration to the General Partner, the Management Company or the Managing Directors by any portfolio company, but excluding options or other securities issued to consultants or employees (other than the Managing Directors) of the General Partner or the Management Company for services provided on behalf of a portfolio company.

From the management fee, the General Partner will pay all normal operating expenses of the Fund, including salaries, wages, rent, bookkeeping and all normal expenses incurred (other than expenses borne by the Fund). The Fund shall bear all expenses not reimbursed by portfolio companies and that are not normal operating expenses borne by the General Partner, including but not limited to: professional services fees, financial services fees, costs and expenses related to the acquisition, purchase, holding, sale or other disposition of investments or proposed investments, dissolution and liquidation of the Partnership, insurance, litigation, indemnification and other extraordinary expenses.

The Fund will bear the expenses incident to the organization of the Fund and the General Partner (up to a maximum of $1,000,000). The General Partner will bear placement agent fees or expenses, if any, by offset to the management fee.

VIII. Allocations and Distributions

At the end of each fiscal year or other accounting period, the net portfolio gain or loss for such period will be allocated 80% to the Partners (General and Limited), pro rata in proportion to their contributed capital, and 20% to the General Partner; provided that to the extent that an allocation of loss would cause the General Partner's capital account to be reduced to less than 1% of the sum of the balances of the capital accounts of all Partners (a "Contingent Loss"), such loss will be reallocated to all Partners in proportion to their contributed capital, except as necessary to account for the General Partner's clawback obligation (as described below). To the extent Partners have been allocated Contingent Losses, subsequent gains otherwise allocable to the General Partner with respect to its 20% carried interest will be allocated first to the Partners in proportion to unrestored Contingent Losses until such Contingent Losses have been restored. At the end of each fiscal year or other accounting period, the net amount of all other income or loss recognized by the Fund will be allocated to the Partners (General and Limited) in proportion to their contributed capital. Priority allocations of net capital gains will be made to the General Partner in an amount equal to all prior Fee Adjustments made with respect to the General Partner's capital contributions

Within 90 days following the end of each fiscal year, the General Partner will distribute cash to each Partner in an amount equal to 40% of net taxable income, less all cash distributions made during such fiscal year; provided, that the General Partner will have no obligation to make the foregoing distributions if the total amount to be distributed to all Partners would be less than $1,000,000. In addition, subject to the maintenance of reasonable cash reserves, within 90 days following the end of each fiscal year, the General Partner shall distribute, in cash, to each Partner, an amount equal to the amount of net ordinary income, if any, allocated to each Partner's capital account during such fiscal year.

The General Partner may make distributions of cash or marketable securities from time to time in its discretion as provided below. Such distributions will be made 80% to the Partners (General and Limited), pro rata in proportion to their respective capital commitments, and 20% to the General Partner, so long as (a) immediately following such distribution (i) there are no Contingent Losses in the Partners' capital accounts that have not been previously restored or are not restored by adjustments to such distribution, (ii) the value of the remaining Fund portfolio securities will equal or exceed 120% of the cost basis of such securities, and (iii) the General Partner's capital account will equal or exceed 1% of the sum of the balances of the capital accounts of all Partners, or (b) a Majority in Interest of the Limited Partners have consented to the distribution. In addition the General Partner may make discretionary distributions to all Partners in accordance with capital commitments, to the Limited Partners in accordance with capital commitments or, to the extent that carried interest distributions to the General Partner are less than 20% of net cumulative portfolio gain, to the General Partner. Concurrent with any distribution of marketable securities to the General Partner in respect of its 20% interest in the net capital gains of the Fund, the General Partner will be obligated to contribute to the Fund, in cash an amount equal to the cost basis of the securities distributed to the General Partner or decline distribution of a portion such securities of equal value.

The General Partner will be required to pay back to the Fund the amount by which the cumulative net distributions of portfolio gains received by the General Partner over the life of the Fund (excluding amounts received by the General Partner in respect of its capital commitment) exceeds 20% of the amount by which the Fund's (a) cumulative portfolio gains exceed (b) its cumulative portfolio losses; provided however, that such repayment obligation will be reduced by the federal and state income taxes payable on such amount by the members of the General Partner (assuming for this purpose a combined federal and state tax rate of 40%). The General Partner's operative agreements impose on its members the obligation to contribute capital to the General Partner in an amount not to exceed each member's pro rata share of the General Partner's remaining obligation to the Fund under this paragraph. In no event shall a member's obligation exceed such member's share of distributions received by the General Partner with respect to its carried interest in the Fund.

IX. *Investment Period and Term*

The Fund's investment period shall commence as of the initial capital contribution to the Fund and continue for six years (the "Investment Period").

The Partnership term will be 10 years following the initial capital call but may be extended by the General Partner for up to 2 additional one-year periods in its sole discretion to facilitate the orderly liquidation of investments. Additional one-year extensions may be made with the consent of a Majority in Interest of the Limited Partners.