

MINNESOTA STATE BOARD  
OF INVESTMENT  
MEETING  
**December 6, 2006**

&

INVESTMENT ADVISORY  
COUNCIL MEETING  
**December 5, 2006**

**STATE BOARD OF INVESTMENT**

**AGENDA AND MINUTES**

**December 6, 2006**



**AGENDA**  
**STATE BOARD OF INVESTMENT MEETING**  
**Wednesday, December 6, 2006**  
**9:00 A.M. - Room 123**  
**State Capitol – St. Paul**

- |   |            |
|---|------------|
|   | <b>TAB</b> |
| <b>1. Approval of Minutes of September 6, 2006</b>  |            |
| <b>2. Report from the Executive Director (Howard Bicker)</b>  | <b>A</b>   |
| A. Quarterly Investment Review<br>(July 1, 2006 – September 30, 2006)   |            |
| B. Administrative Report  | <b>B</b>   |
| 1. Reports on budget and travel   |            |
| 2. Post Retirement Benefit Increase for FY06  |            |
| 3. Legislative Update   |            |
| 4. Litigation Update  |            |
| 5. Results of FY06 Audit  |            |
| 6. Draft of FY06 Annual Report  |            |
| 7. Tentative Meeting Dates for Calendar 2007  |            |
| <b>3. Report from the Compensation Review Committee (Mary Vanek)</b>  |            |
| <b>4. Reports from the Investment Advisory Council (Mike Troutman)</b>  |            |
| <b>A. Stock and Bond Manager Committee</b>  | <b>C</b>   |
| 1. Review of manager performance  |            |
| 2. Review of Cohen, Klingenstein & Marks, a domestic equity manager   |            |
| 3. Recommendation to terminate Summit Creek Advisors, a domestic equity manager                                     |            |
| <b>B. Alternative Investment Committee</b>  | <b>D</b>   |
| 1. Review of current strategy   |            |
| 2. Recommendation of new investments with two private equity managers, and one new existing private equity manager: |            |
| • CarVal Investors  |            |
| • EBF & Associates  |            |
| • Hellman & Friedman  |            |

**Minutes  
State Board of Investment  
September 6, 2006**

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, September 6, 2006 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 7, 2006 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, 2006 (Combined Funds 8.6% vs. Composite 8.3%), and had provided a real rate of return over the latest 20 year period (Combined Funds 9.8% vs. CPI 3.1%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 8.8% vs. Composite 8.5%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.3% vs. Composite 8.0%).

Mr. Bicker reported that the Basic Fund's assets decreased 3.7% for the quarter ending June 30, 2006 due mostly to negative contributions. He said that the asset mix is essentially on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds -0.4% vs. Composite -0.2%) and matched it for the year (Basic Funds 12.6% vs. Composite 12.6%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 4.8% for the quarter ending June 30, 2006, due to positive net contributions. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund underperformed its composite index for the quarter (Post Fund -0.5 vs. Composite -0.3%) and outperformed it for the year (Post Fund 12.0% vs. Composite 11.8%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock -2.3% vs. Domestic Equity Asset Class Target -2.0%) and for the year (Domestic Stocks 8.9% vs. Domestic Equity Asset Class Target 9.6%). He said the International Stock manager group underperformed its composite index slightly for the quarter (International Stocks -0.1% vs. International Equity Asset Class Target 0.0%) but outperformed it for the year (International Stocks 28.2% vs. International Equity Asset Class Target 27.9%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.0% vs. Fixed Income Asset Class Target -0.1%) and for the year (Bonds -0.2% vs. Fixed Income Asset Class Target -0.8%). He noted that the alternative investments had also performed strongly for the year (Alternatives 43.7%). He concluded his report with the comment that as of June 30, 2006, the SBI was responsible for over \$55 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 said that a referee has been appointed on the attorneys' fee issue at AOL and that after the referee's report the judge will make a recommendation. In response to a question from Ms. Kiffmeyer, Ms. Eller said that it is still unknown how much the State may receive in the settlement.

### **Consultant Review Committee Report**

Ms. Heyl referred members to Tab C of the meeting materials and stated that during the quarter, staff and the Committee had completed a Request for Proposal (RFP) process to select consultants to provide independent advice to the SBI. She reported that the Committee concluded that a general consultant should provide a broad range of consulting and analytical services and that a special projects consultant would address specific needs, as necessary. She said that the Committee is recommending Richards & Tierney for general consulting services and Pension Consulting Alliance for special project consulting. Ms. Kiffmeyer moved approval of the Committee's recommendation as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute contracts with Richards & Tierney, Inc. for general consulting services and with Pension Consulting Alliance for special projects. Both contracts should cover the five year period beginning July 1, 2007 and will be subject to the standard termination provisions required by state statute."** The motion passed.

### **IAC Membership Review Committee Report**

Mr. Sausen referred members to the memo distributed to members at the beginning of the meeting regarding the recommended appointment to the IAC (see **Attachment A**). He stated that the Committee considered four applicants for the open position on the Investment Advisory Council and that the Committee is recommending Jeffery Bailey for a term expiring in January 2008. Ms. Anderson moved approval of the Committee's recommendation, as stated in Attachment A. Mr. Hatch seconded the motion. The motion passed.

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

Mr. Troutman referred members to Tab D of the meeting materials and stated that the Committee had conducted a review of RiverSource Investments during the quarter. He said that the Committee believes the manager is adding value through its stock selection process and that no action is being recommended at this time.

### **Alternative Investment Committee Report**

Mr. Troutman referred members to Tab E of the meeting materials and stated that the Committee is recommending new investments with one existing private equity manager, Goldman Sachs; and one new private equity manager, Diamond Castle. He noted that the



principals of Diamond Castle were previously longtime partners at Donaldson, Lufkin & Jenrette and Credit Suisse First Boston and that the SBI had done significant investments with them in the past. Mr. Hatch moved approval of both the Committee's recommendations, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in GS Capital Partners VI, 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 Goldman Sachs upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Goldman Sachs or reduction or termination of the commitment.**

**The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in Diamond Castle Partners IV, 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 Diamond Castle upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Diamond Castle or reduction or termination of the commitment."** The motion passed.

In response to a question from Ms. Kiffmeyer, Mr. Troutman stated that the Basic Funds alternative assets are now at approximately 11% of their 15% goal and the Post Fund is at approximately 9% of its 12% goal. In response to a question from Mr. Hatch, Mr. Bicker confirmed that the real estate segment makes up about 3% of the Combined Funds.

The meeting adjourned at 9:26 A.M.

Respectfully submitted,



Howard Bicker  
Executive Director

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**MINNESOTA  
STATE  
BOARD OF  
INVESTMENT**



**Board Members:**

Governor  
Tim Pawlenty

State Auditor  
Patricia Anderson

Secretary of State  
Mary Kiffmeyer

Attorney General  
Mike Hatch

**Executive Director:**

Howard J. Bicker

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DATE: September 6, 2006

TO: Members, State Board of Investment

FROM: IAC Membership Review Committee

**SUBJECT: Recommended Appointment to IAC**

The Investment Advisory Council has a vacancy as a result of the resignation of Ken Gudorf. Mr. Gudorf's term is scheduled to expire in January 2008.

Four applications for membership on the Council have been considered by the Committee. The applicants are as follows:

- Jeffery Bailey Director, Benefits Finance  
Target Corporation
- Michael Nguyen Relationship Manager  
Wells Capital Management
- Dana Pollard Financial Consultant  
Wells Fargo Investments
- Ted Sullivan Attorney  
Lind, Jensen, Sullivan & Peterson

Of the four additional applicants, Mr. Bailey is the only one with any plan sponsor or institutional investment experience. The other applicants have retail brokerage, treasury, and civil litigation backgrounds, which are less directly relevant to the business and function of the State Board of Investment.

**RECOMMENDATION:**

**The Committee recommends that the Board appoint Jeffery Bailey as a member of the Investment Advisory Council for a term expiring in January 2008.**



**INVESTMENT ADVISORY COUNCIL**

**AGENDA AND MINUTES**

**December 5, 2006**

**AGENDA**  
**INVESTMENT ADVISORY COUNCIL MEETING**  
**Tuesday, December 5, 2006**  
**2:00 P.M. - Board Room – First Floor**  
**60 Empire Drive, St. Paul, MN**

- |   |            |
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| <b>1. Approval of Minutes of September 5, 2006</b>  | <b>TAB</b> |
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| 7. Tentative Meeting Dates for Calendar 2007  |            |
| <b>3. Reports from the Investment Advisory Council</b>  |            |
| <b>A. Stock and Bond Manager Committee (John Bohan)</b>   | <b>C</b>   |
| 1. Review of manager performance  |            |
| 2. Review of Cohen, Klingenstein & Marks, a domestic equity manager   |            |
| 3. Recommendation to terminate Summit Creek Advisors, a domestic equity manager                                     |            |
| <b>B. Alternative Investment Committee (Judy Mares)</b>   | <b>D</b>   |
| 1. Review of current strategy   |            |
| 2. Recommendation of new investments with two private equity managers, and one new existing private equity manager: |            |
| • CarVal Investors  |            |
| • EBF & Associates  |            |
| • Hellman & Friedman  |            |
| <b>4. State Board of Investment Overview</b>  |            |



**Minutes**  
**Investment Advisory Council**  
**September 5, 2006**

**MEMBERS PRESENT:** Frank Ahrens; Kerry Brick; Laurie Hacking; Peggy Ingison; Heather Johnston; P. Jay Kiedrowski; Hon. Ken Maas; Judy Mares; Malcolm McDonald; Gary Norstrom; Daralyn Peifer; Mike Troutman; Mary Vanek.

**MEMBERS ABSENT:** Dave Bergstrom; John Bohan; and Doug Gorence.

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

**OTHERS ATTENDING:** Ann Posey, Richards & Tierney; Christie Eller; Peter Sausen; Carla Heyl; Peter Sausen; Jeff Bailey; Chirag Mehta and Kim Nelson, Service Employees International Union.

The Investment Advisory Council (IAC) met at 2:00 P.M. Tuesday, September 5, 2006 in the Board Room, First Floor, 60 Empire Drive. Mr. Troutman welcomed Mr. Jeffery Bailey, the nominee for the IAC position. Members elected Mr. Troutman as Chair of the IAC and Mr. McDonald as Vice Chair. The minutes of the June 6, 2006 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, 2006 (Combined Funds 8.6% vs. Composite 8.3%), and had provided a real rate of return over the latest 20 year period (Combined Funds 9.8% vs. CPI 3.1%). He stated that the Basic Funds have outperformed its composite index (Basic Funds 8.8% vs. Composite 8.5%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.3% vs. Composite 8.0%).

Mr. Bicker reported that the Basic Fund's assets decreased 3.7% for the quarter ending June 30, 2006 due mostly to negative contributions. He said that the asset mix is essentially on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds -0.4% vs. Composite -0.2%) and matched it for the year (Basic Funds 12.6% vs. Composite 12.6%).



Mr. Bicker reported that the market value of the Post Fund's assets increased 4.8% for the quarter ending June 30, 2006, due to positive net contributions. He noted that the assets from Minneapolis Teachers Retirement Fund were merged into the Fund during the quarter. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund underperformed its composite index for the quarter (Post Fund -0.5 vs. Composite -0.3%) and outperformed it for the year (Post Fund 12.0% vs. Composite 11.8%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock -2.3% vs. Domestic Equity Asset Class Target -2.0%) and for the year (Domestic Stocks 8.9% vs. Domestic Equity Asset Class Target 9.6%). He said the International Stock manager group underperformed its composite index slightly for the quarter (International Stocks -0.1% vs. International Equity Asset Class Target 0.0%) but outperformed it for the year (International Stocks 28.2% vs. International Equity Asset Class Target 27.9%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.0% vs. Fixed Income Asset Class Target -0.1%) and for the year (Bonds -0.2% vs. Fixed Income Asset Class Target -0.8%). He noted that the alternative investments had also performed strongly for the year (Alternatives 43.7%). He concluded his report with the comment that as of June 30, 2006, the SBI was responsible for over \$55 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 said that a referee has been appointed on the attorneys' fee issue at AOL and that after the referee's report the judge will make a recommendation. In response to a question from Mr. Kiedrowski, Mr. Bicker confirmed that there is additional salary flexibility for the non-represented employees now.

#### **Consultant Review Committee Report**

Ms. Heyl referred members to Tab C of the meeting materials and stated that during the quarter, staff and the Committee had completed a Request for Proposal (RFP) process to select consultants to provide independent advice to the SBI. She reported that the Committee concluded that a general consultant should provide a broad range of consulting and analytical services and that a special projects consultant would address specific needs, as necessary. She said that the Committee is recommending Richards & Tierney for general consulting services and Pension Consulting Alliance for special project consulting. In response to a question from Mr. Troutman, Mr. Bicker briefly summarized the types of special projects conducted by Pension Consulting Alliance in the past. Mr. McDonald moved to endorse the Committee's recommendation as stated in the Committee Report. Ms. Mares seconded the motion. The motion passed.

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

Mr. Troutman referred members to Tab D of the meeting materials and stated that the Committee had conducted a review of RiverSource Investments during the quarter. He said that the Committee believes the manager is adding value through its stock selection process and that no action is being recommended at this time. In response to a question from Ms. Peifer, Mr. Bicker confirmed that the Committee will be conducting a review of Cohen, Klingenstein & Marks and that approximately 50% of their assets had been removed from their portfolio.

### **Alternative Investment Committee Report**

Ms. Mares referred members to Tab E of the meeting materials and stated that the Committee is recommending new investments with one existing private equity manager, Goldman Sachs; and one new private equity manager, Diamond Castle. She noted that the principals of Diamond Castle were previously longtime partners at Donaldson, Lufkin & Jenrette and Credit Suisse First Boston and that the SBI had done significant investments with them in the past. A discussion followed on what might be expected in the near term in the private equity area. Ms. Mares moved approval of both the Committee's recommendations, as stated in the Committee Report. The motion was seconded. The motion passed.

A discussion followed regarding potential topics for future IAC meetings. Members discussed numerous topics and discussed the potential order they should be presented. Mr. Troutman thanked members for their ideas and stated that the topics information will be organized and laid out in a time frame for the upcoming year.

The meeting adjourned at 3:15 P.M.

Respectfully submitted,



Howard Bicker  
Executive Director

# **Tab A**



**LONG TERM OBJECTIVES**  
**Period Ending 9/30/2006**

<b>COMBINED FUNDS: \$45.2 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Match or Exceed Composite Index (10 Yr.)</b></p> <p>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.</p>	<b>8.7% (1)</b>	0.2 percentage point above target
<p><b>Provide Real Return (20 yr.)</b></p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	<b>10.3%</b>	7.2 percentage points above CPI

<b>BASIC RETIREMENT FUNDS: \$22.5 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Match or Exceed Composite Index (10 Yr.)</b></p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.</p>	<b>8.9%</b>	0.2 percentage point above target

<b>POST RETIREMENT FUND: \$22.7 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Match or Exceed Composite Index (10 Yr.)</b></p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.</p>	<b>8.5%</b>	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, 2005

	Active (Basics)	Retired (Post)	Total (Combined)
<b>Liability Measures</b>			
1. Current and Future Benefit Obligation	\$34.3 billion	\$23.4 billion	\$57.7 billion
2. Accrued Liabilities	25.3	23.4	48.7
<b>Asset Measures</b>			
3. Current and Future Actuarial Value	\$32.0 billion	\$23.4 billion	\$55.4 billion
4. Current Actuarial Value	20.4	23.4	43.8
<b>Funding Ratios</b>			
Future Assets vs. Future Obligations (3 ÷ 1)	93%	100%	96%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	81%	100%	90%*

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

**Notes:**

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

**Actuarial Assumptions:**

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

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

Full Funding Target Date: 2031

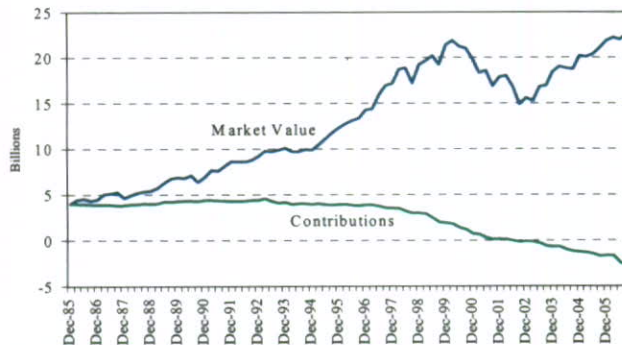
**EXECUTIVE SUMMARY**  
**Basic Retirement Funds (Net of Fees)**

**Asset Growth**

The market value of the Basic Funds increased 2.5% during the third quarter of 2006. Positive investment returns accounted for the increase.

**Asset Growth**  
**During Third Quarter 2006**  
**(Millions)**

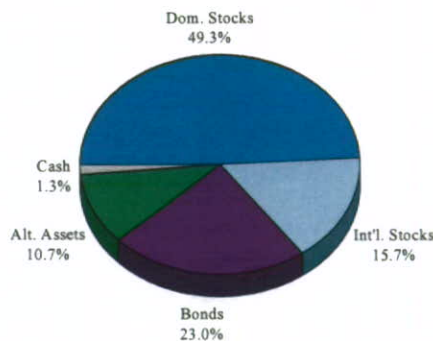
Beginning Value	\$ 21,979
Net Contributions	-315
Investment Return	858
Ending Value	\$ 22,522



**Asset Mix**

The allocation to alternative assets decreased slightly over the quarter due to strong relative returns in other asset classes.

	Policy Targets	Actual Mix 9/30/2006	Actual Market Value (Millions)
Domestic Stocks	45.0%	49.3%	\$11,104
Int'l. Stocks	15.0	15.7	3,526
Bonds	24.0	23.0	5,178
Alternative Assets*	15.0	10.7	2,420
Unallocated Cash	1.0	1.3	294
	100.0%	100.0%	\$22,522

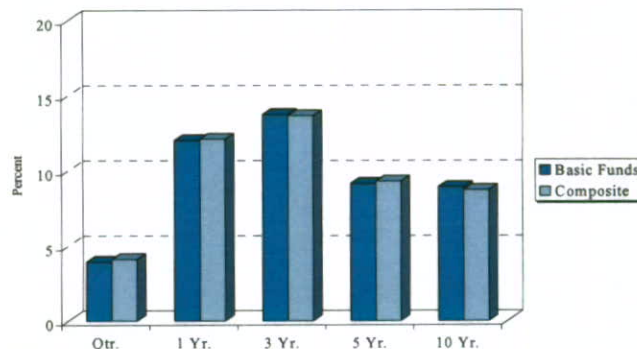


\* Any uninvested allocation is held in domestic stocks

**Fund Performance (Net of Fees)**

The Basic Funds trailed the quarterly and one-year composite market index.

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	3.9%	12.0%	13.7%	9.2%	8.9%
Composite	4.1	12.1	13.7	9.3	8.7





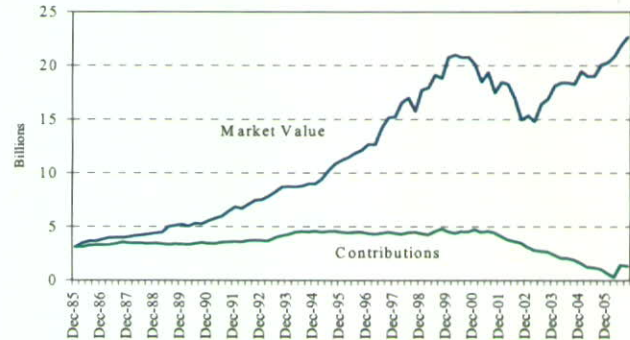
**EXECUTIVE SUMMARY**  
**Post Retirement Fund (Net of Fees)**

**Asset Growth**

The market value of the Post Fund increased 3.5% during the third quarter of 2006. Positive investment returns accounted for the increase.

**Asset Growth**  
**During Third Quarter 2006**  
**(Millions)**

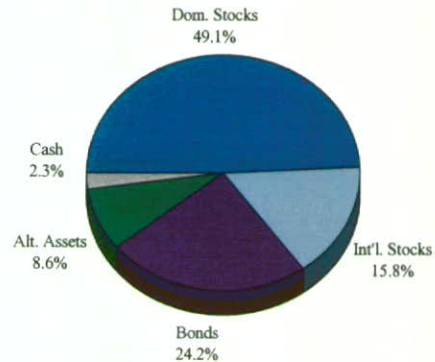
Beginning Value	\$21,911
Net Contributions	-99
Investment Return	866
Ending Value	\$22,678



**Asset Mix**

The allocation to cash decreased over the quarter as payouts were made from the Post Fund.

	Policy Targets	Actual Mix 9/30/2006	Actual Market Value (Millions)
Domestic Stocks	45.0%	49.1%	\$11,126
Int'l. Stocks	15.0	15.8	3,579
Bonds	25.0	24.2	5,479
Alternative Assets*	12.0	8.6	1,962
Unallocated Cash	3.0	2.3	532
	100.0%	100.0%	\$22,678

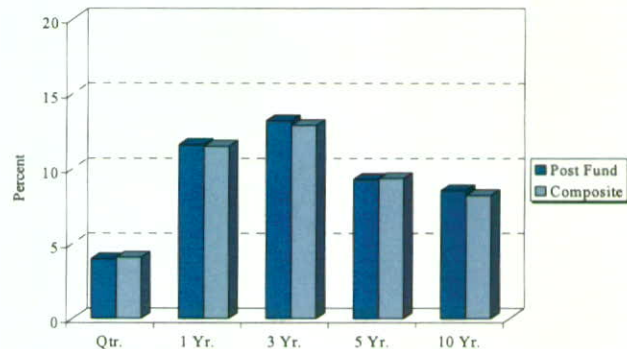


\* Any uninvested allocation is held in domestic stocks.

**Fund Performance (Net of Fees)**

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

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Post</b>	<b>4.0%</b>	<b>11.6%</b>	<b>13.2%</b>	<b>9.3%</b>	<b>8.5%</b>
Composite	4.1	11.5	12.9	9.3	8.2



## EXECUTIVE SUMMARY

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

#### Domestic Stocks

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

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

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Dom. Stocks</b>	<b>4.3%</b>	<b>9.6%</b>	<b>12.8%</b>	<b>7.9%</b>	<b>8.1%</b>
Asset Class Target*	4.6	10.2	13.0	8.3	8.2

\* 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, semi-passive and passive combined) exceeded its target for the quarter and trailed the benchmark for the year.

**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 47 countries included in this index. It does not include the United States.

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	<b>4.0%</b>	<b>19.3%</b>	<b>23.0%</b>	<b>15.7%</b>	<b>7.7%</b>
Asset Class Target*	3.9	18.9	23.4	15.7	6.9

\* 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) lagged its target for the quarter, and outperformed for all other periods shown.

**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 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	<b>3.7%</b>	<b>3.9%</b>	<b>4.0%</b>	<b>5.2%</b>	<b>6.8%</b>
Asset Class Target*	3.8	3.7	3.4	4.8	6.4

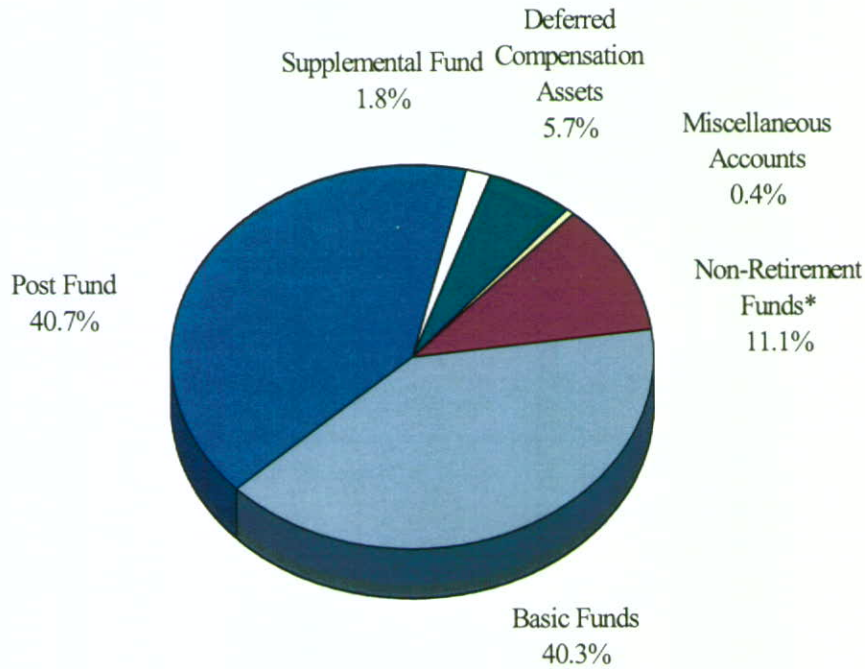
\* The Fixed Income Asset Class Target is the Lehman Aggregate, effective 7/1/1994. Prior to 7/1/1994, the fixed income target was the Salomon BIG.

#### Alternative Investments

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Alternatives</b>	<b>3.2%</b>	<b>34.2%</b>	<b>29.8%</b>	<b>16.6%</b>	<b>17.0%</b>



**EXECUTIVE SUMMARY**  
**Funds Under Management**



	<b>9/30/2006 Market Value (Billions)</b>
<b>Retirement Funds</b>	
Basic Retirement Funds	\$22.5
Post Retirement Fund	22.7
Supplemental Investment Fund	0.9
State Deferred Compensation Plan Non-SIF Assets	3.2
<b>Non-Retirement Funds*</b>	
Assigned Risk Plan	0.3
Permanent School Fund	0.7
Environmental Trust Fund	0.4
State Cash Accounts	4.8
<b>Miscellaneous Accounts</b>	<b>0.2</b>
<b>Total</b>	<b>\$55.8</b>

# MINNESOTA STATE BOARD OF INVESTMENT

## QUARTERLY INVESTMENT REPORT

Third Quarter 2006  
(July 1, 2006 - September 30, 2006)

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## VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Equity</b>					
Dow Jones Wilshire Composite	4.5%	10.4%	13.3%	8.6%	8.6%
Dow Jones Industrials	5.3	13.1	10.5	8.1	9.2
S&P 500	5.7	10.8	12.3	7.0	8.6
Russell 3000 (broad market)	4.6	10.2	13.0	8.1	8.7
Russell 1000 (large cap)	5.1	10.2	12.8	7.6	8.7
Russell 2000 (small cap)	0.4	9.9	15.5	13.8	9.1
<b>Domestic Fixed Income</b>					
Lehman Aggregate (1)	3.8	3.7	3.4	4.8	6.4
Lehman Gov't./Corp.	3.9	3.3	3.1	5.0	6.5
3 month U.S. Treasury Bills	1.3	4.6	2.8	2.3	3.7
<b>International</b>					
EAFE (2)	3.9	19.2	22.3	14.3	6.8
Emerging Markets Free (3)	5.0	20.8	31.0	28.9	7.6
ACWI Free ex-U.S. (4)	4.0	19.4	23.9	16.4	7.6
World ex-U.S. (5)	3.7	18.7	22.6	14.6	7.1
Salomon Non U.S. Gov't. Bond	0.9	2.0	4.4	8.2	4.7
<b>Inflation Measure</b>					
Consumer Price Index CPI-U (6)	0.0	2.1	2.8	2.5	2.5
Consumer Price Index CPI-W (7)	-0.1	1.7	3.1	2.6	2.5

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

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

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

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

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

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

(7) Consumer Price Index (CPI) for all wage earners, also known as CPI-W.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000 index, gained 4.6% during the third quarter of 2006. Fears of inflation and concern about Federal Reserve interest rate moves weighed on the market in July. However, a lessening of geopolitical tensions, lack of major hurricanes, and a reduction in oil prices supported the market, which rallied in September. Large capitalization stocks outperformed small capitalization stocks, and value stocks outperformed growth stocks. The technology sector generated the largest total return within the Russell 3000 index. The other energy sector generated the lowest total return. This was a reversal of the second quarter's sector performance.

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

Large Growth	Russell 1000 Growth	+3.9%
Large Value	Russell 1000 Value	+6.2%
Small Growth	Russell 2000 Growth	-1.8%
Small Value	Russell 2000 Value	+2.6%

The Russell 3000 index returned 10.2% for the year ending September 30, 2006.

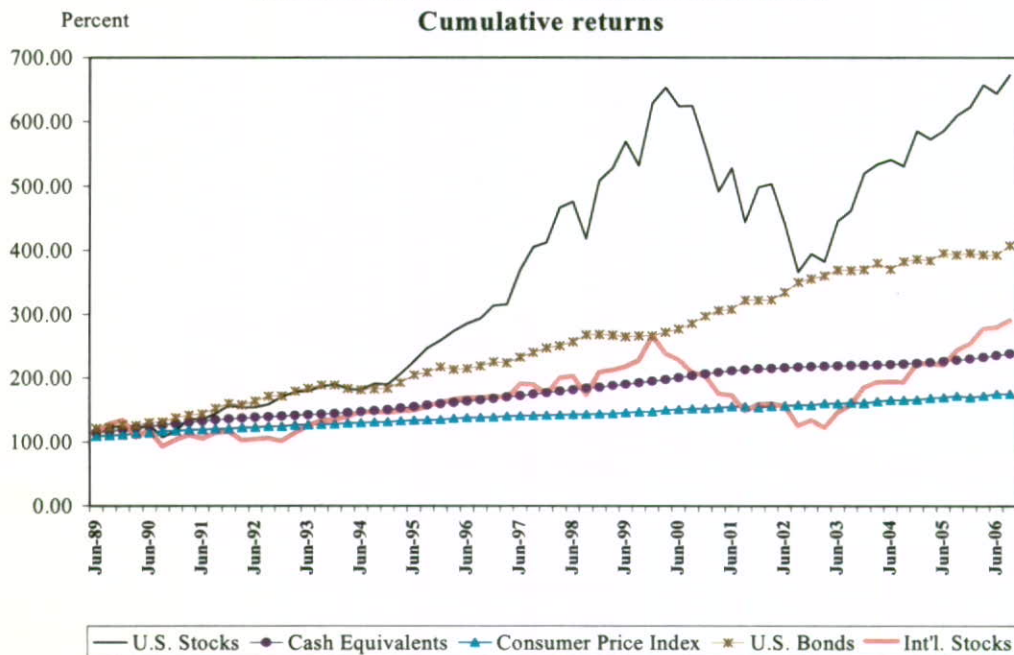
DOMESTIC BONDS

The bond market posted a gain of 3.8% for the quarter and 3.7% for the year. Bond prices rallied in the third quarter as interest rates of all maturities fell. The rally was sparked by a pause by the Federal Reserve in its rate hike campaign, signs of moderating economic growth, and a significant softening in the housing sector. After 17 consecutive increases, interest rates remained unchanged at 5.25%. Performance in non-Treasury sectors (Agencies, Mortgages, Credit) was positive during the quarter, with all sectors posting positive returns versus equivalent duration Treasuries.

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

U.S. Treasury	3.7%
Agency	3.3
Credit	4.5
Mortgages	3.6

PERFORMANCE OF CAPITAL MARKETS





## 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 3.7% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	4.2%
Japan	-0.7
France	4.9
Switzerland	7.4
Germany	4.8
Canada	1.1

The World ex U.S. index increased by 18.7% 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 5.0% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	5.5%
Taiwan	3.4
South Africa	-6.5
Mexico	16.0
Brazil	-1.3

The Emerging Markets Free index increased by 20.8% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 25 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

As growth in the U.S. economy decelerates, growth in real estate returns is expected to be more reliant on income growth than on the pure capital-driven price increases of the recent past.

### PRIVATE EQUITY

U.S. private equity firms raised \$163 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2005. This represents a 77% increase relative to the revised 2004 total of \$92 billion. The three quarters of 2006 have seen a total of \$154 billion in funds raised.

### RESOURCE FUNDS

During the third quarter of 2006, crude oil averaged \$70.65 per barrel, unchanged from the average price of \$70.66 during the prior quarter. The sustained high oil prices continue to reflect the relative instability in the Middle East.



COMBINED FUNDS

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

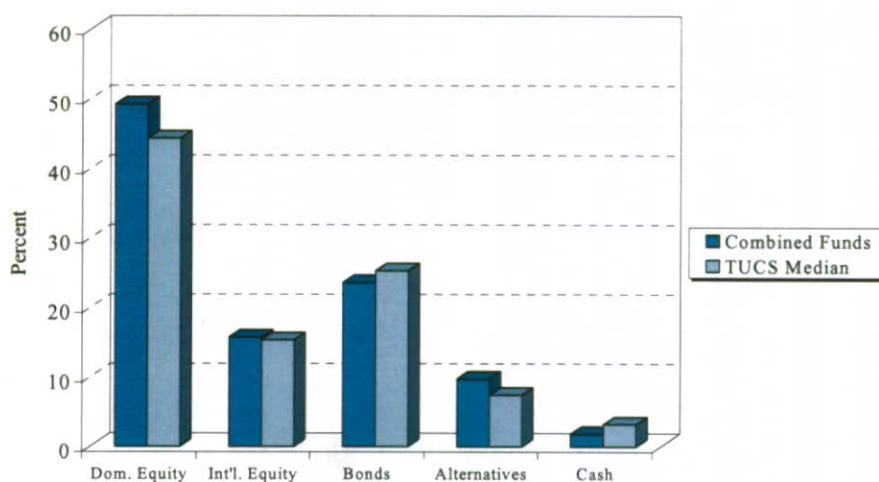
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On September 30, 2006, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$22,230	49.2%
International Stocks	7,106	15.7
Bonds	10,656	23.6
Alternative Assets	4,382	9.7
Unallocated Cash	826	1.8
<b>Total</b>	<b>\$45,200</b>	<b>100.0%</b>

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
<b>Combined Funds</b>	<b>49.2%</b>	<b>15.7%</b>	<b>23.6%</b>	<b>9.7%</b>	<b>1.8%</b>
Median Allocation in TUCS*	44.3	15.3	25.3	7.4**	3.2

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

\*\* May include assets other than alternatives.

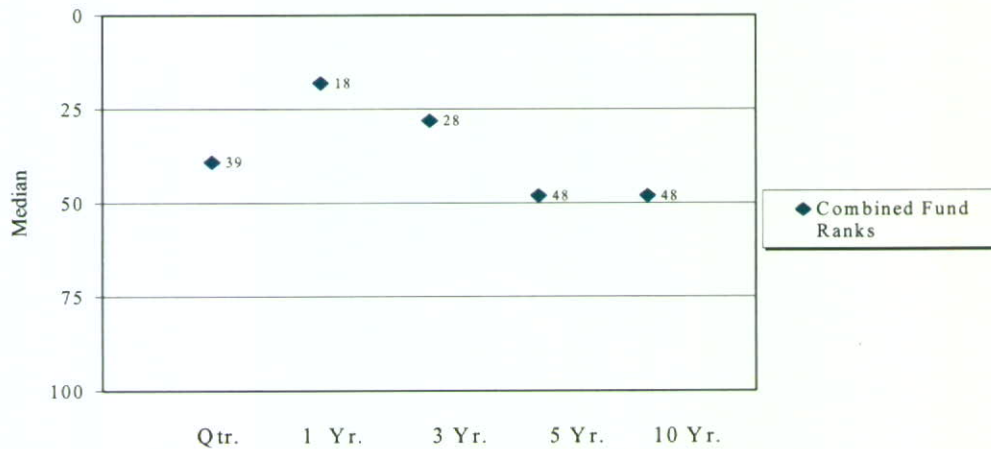
**COMBINED FUNDS  
Performance Compared to Other Pension Funds**

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.



Combined Funds Percentile Rank in TUCS*	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
	39th	18th	28th	48th	48th

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

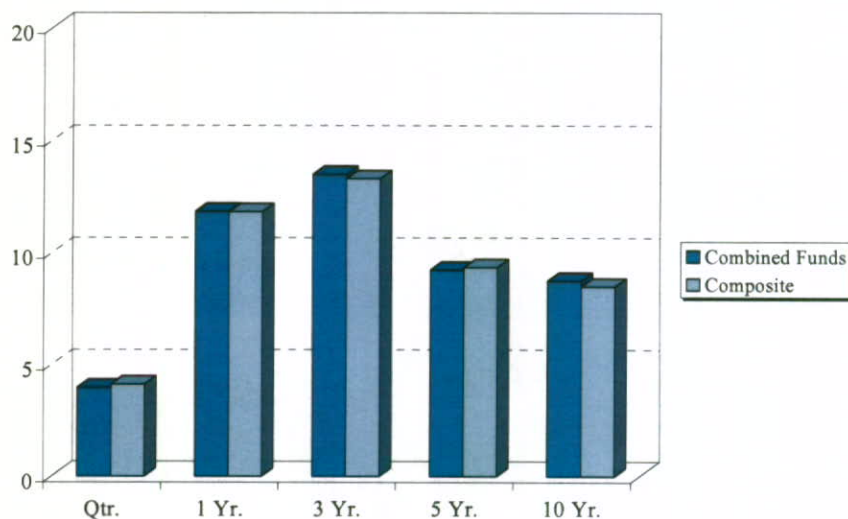
**COMBINED FUNDS**  
**Performance Compared to Composite Index**

The Combined Funds' performance is evaluated relative to a composite of market indices. The composite is

weighted in a manner that reflects the asset allocation of the Combined Funds:

	<b>Market Index</b>	<b>Combined Funds Composite* 3Q06</b>
Domestic Stocks	Russell 3000	48.5%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	10.0*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



**Period Ending 9/30/2006**

	<b>Qtr.</b>	<b>1 Yr.</b>	<b>3 Yr.</b>	<b>Annualized 5 Yr.</b>	<b>10 Yr.</b>
<b>Combined Funds**</b>	<b>4.0%</b>	<b>11.8%</b>	<b>13.5%</b>	<b>9.2%</b>	<b>8.7%</b>
<b>Composite Index</b>	<b>4.1</b>	<b>11.8</b>	<b>13.3</b>	<b>9.3</b>	<b>8.5</b>

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



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## BASIC RETIREMENT FUNDS

### Investment Objectives

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

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

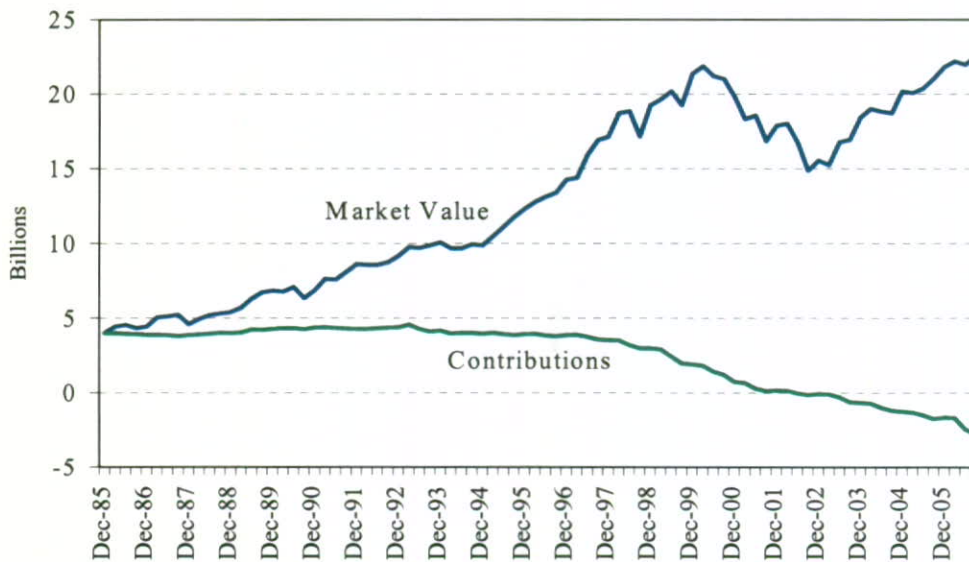
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

### Asset Growth

The market value of the Basic Funds increased 2.5% during the third quarter of 2006.

Positive investment returns accounted for the increase.



#### Last Five Years In Millions

	12/01	12/02	12/03	12/04	12/05	3/06	6/06	Latest Qtr. 9/06
Beginning Value	\$19,807	\$17,874	\$15,561	\$18,435	\$20,201	\$21,816	\$22,820	\$21,979
Net Contributions	-572	-247	-592	-577	-411	-24	-752	-315
Investment Return	-1,361	-2,066	3,466	2,343	2,026	1,028	-89	858
Ending Value	\$17,874	\$15,561	\$18,435	\$20,201	\$21,816	\$22,820	\$21,979	\$22,522

**BASIC RETIREMENT FUNDS**

**Asset Mix**

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

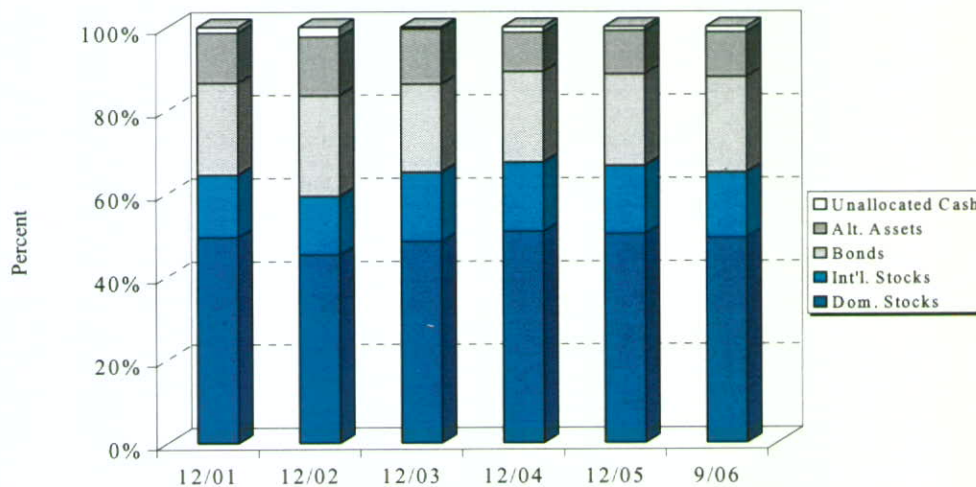
In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

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

Over the last year, the allocation to alternatives increased due to strong returns.

During the quarter, the allocation to alternative assets decreased slightly over the quarter due to strong investment returns in other asset classes.

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



	Last Five Years							Latest Qtr.
	12/01	12/02	12/03	12/04	12/05	3/06	6/06	9/06
Domestic Stocks	49.5%	45.3%	48.5%	50.9%	50.3%	49.7%	49.0%	49.3%
Int'l. Stocks	15.0	14.1	16.6	16.6	16.3	15.7	15.8	15.7
Bonds	22.1	24.2	21.2	21.8	22.1	22.9	23.1	23.0
Alternative Assets	13.3	9.4	13.3	9.4	10.4	10.2	11.2	10.7
Unallocated Cash	1.3	2.3	0.4	1.3	0.9	1.5	0.9	1.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

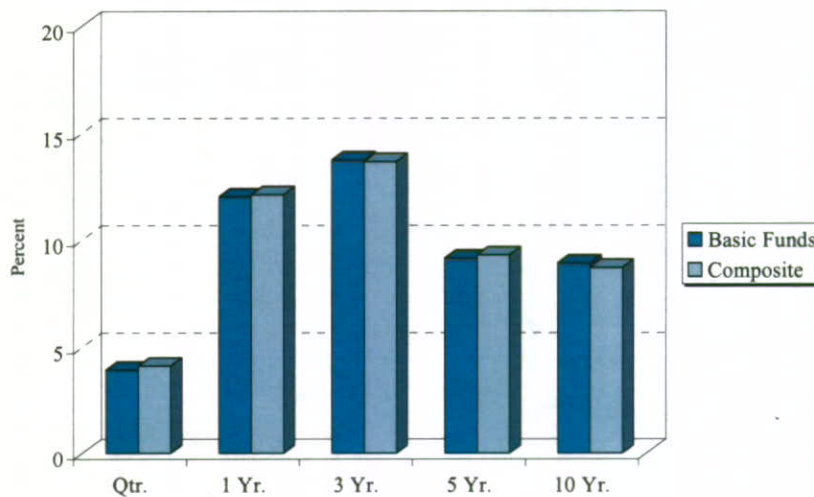


**BASIC RETIREMENT FUNDS**  
**Total Fund Performance (Net of Fees)**

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

	<b>Basics Target</b>	<b>Market Index</b>	<b>Basics Composite* 3Q06</b>
Domestic Stocks	45.0%	Russell 3000	48.9%*
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	11.1*
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 9/30/2006**

	<b>Qtr.</b>	<b>1 Yr.</b>	<b>3 Yr.</b>	<b>Annualized 5 Yr.</b>	<b>10 Yr.</b>
<b>Basic Funds**</b>	<b>3.9%</b>	<b>12.0%</b>	<b>13.7%</b>	<b>9.2%</b>	<b>8.9%</b>
Composite Index	4.1	12.1	13.7	9.3	8.7

\*\*Returns are reported net of fees.

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

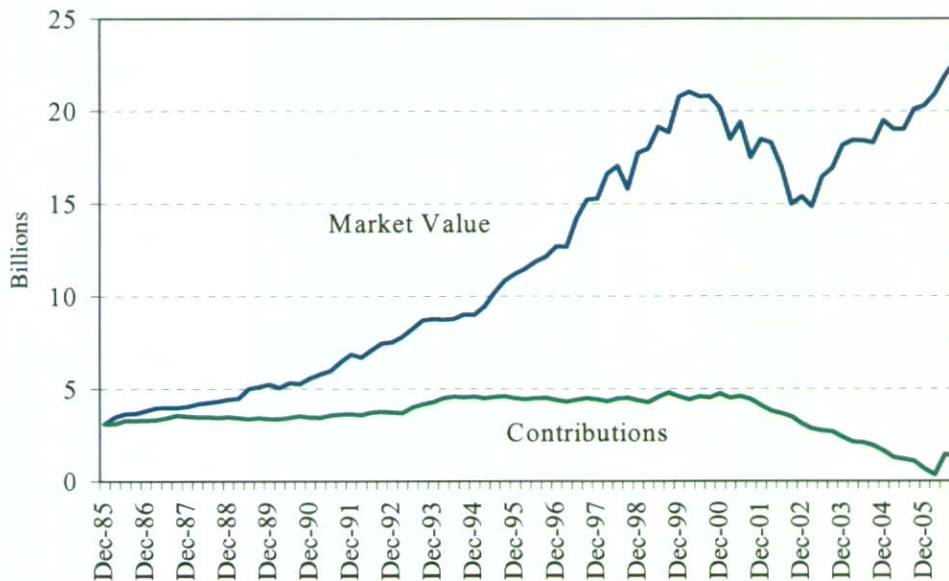
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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

**Asset Growth**

The market value of the Post Fund increased 3.5% during the third quarter of 2006.

Positive investment returns accounted for the increase.



	Last Five Years					Latest Qtr.		
	In Millions							
	12/01	12/02	12/03	12/04	12/05	3/06	6/06	9/06
Beginning Value	\$20,153	\$18,475	\$15,403	\$18,162	\$19,480	\$20,295	\$20,909	\$21,911
Net Contributions	-647	-1,000	-719	-749	-984	-315	1,106	-99
Investment Return	-1,031	-2,072	3,478	2,067	1,799	929	-104	866
Ending Value	\$18,475	\$15,403	\$18,162	\$19,480	\$20,295	\$20,909	\$21,911	\$22,678

POST RETIREMENT FUND

Asset Mix

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

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

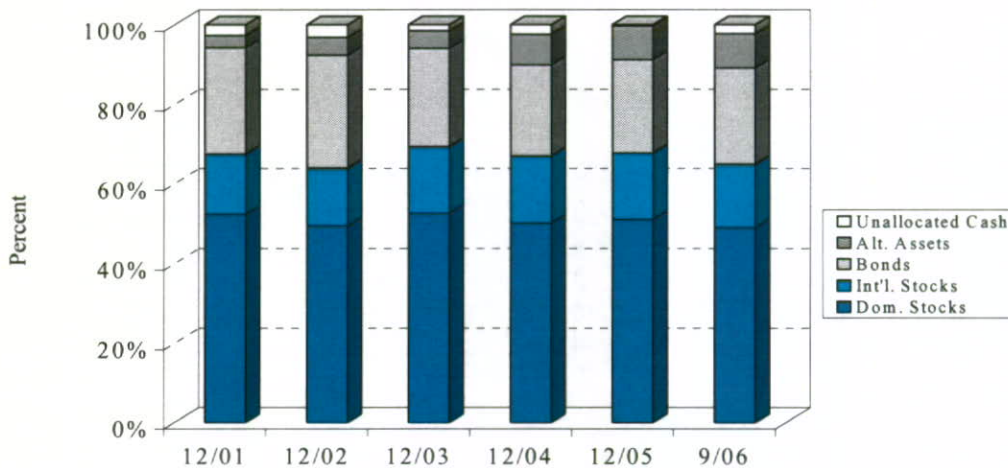
In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

Over the last year, the allocation to alternative investments increased due to strong returns.

During the quarter, the allocation to domestic stocks increased due to positive returns. The unallocated cash decreased over the quarter as payouts were made from the Post Fund.

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.



	Last Five years						Latest Qtr.	
	12/01	12/02	12/03	12/04	12/05	3/06	6/06	9/06
Dom. Stocks	52.4%	49.6%	52.7%	50.2%	51.1%	49.2%	47.2%	49.1%
Int'l. Stocks	15.1	14.4	16.7	16.8	16.6	15.8	15.3	15.8
Bonds	26.7	28.3	24.6	22.9	23.5	24.1	23.7	24.2
Alt. Assets	3.1	4.5	4.4	7.6	8.5	8.2	8.7	8.6
Unallocated Cash	2.7	3.2	1.6	2.5	0.3	2.7	5.1	2.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

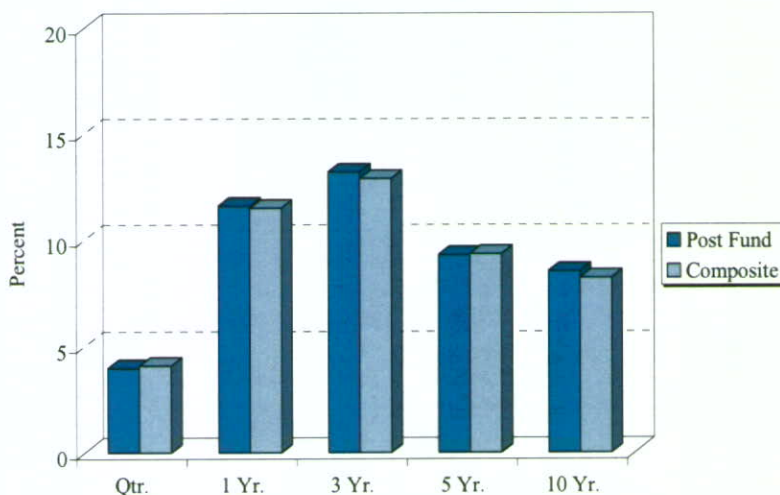


**POST RETIREMENT FUND**  
**Total Fund Performance (Net of Fees)**

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

Asset Class	Post Target	Market Index	Post Composite* 3Q06
Domestic Stocks	45.0%	Russell 3000	48.2%
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	25.0	Lehman Aggregate	25.0
Alternative Investments	12.0	Alternative Investments	8.8*
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 9/30/2006**

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
<b>Post Fund**</b>	<b>4.0%</b>	<b>11.6%</b>	<b>13.2%</b>	<b>9.3%</b>	<b>8.5%</b>
Composite Index	4.1	11.5	12.9	9.3	8.2

\*\* Returns are reported net of fees.

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

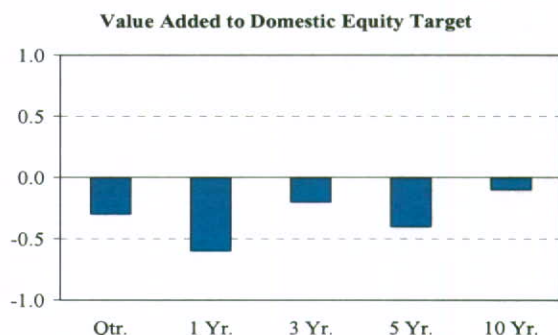
#### Domestic Stocks

**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 9/30/2006				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	4.3%	9.6%	12.8%	7.9%	8.1%
Asset Class Target*	4.6	10.2	13.0	8.3	8.2

\* 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.



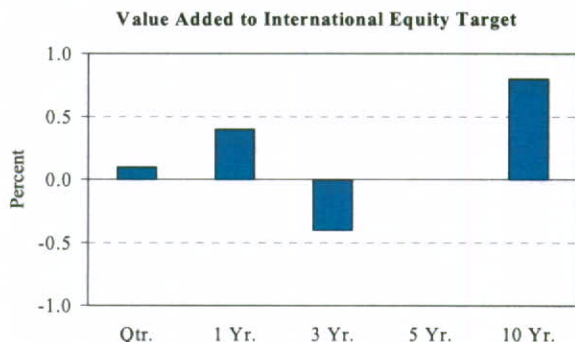
#### International Stocks

**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 9/30/2006				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	4.0%	19.3%	23.0%	15.7%	7.7%
Asset Class Target*	3.9	18.9	23.4	15.7	6.9

\* 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.

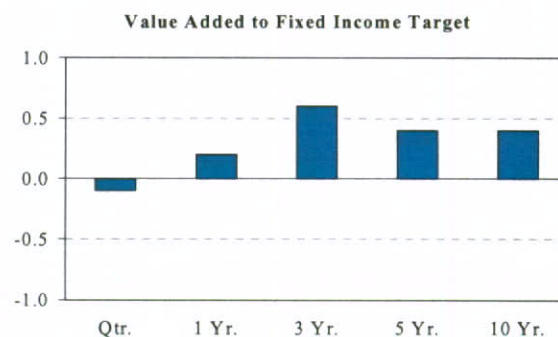


#### Bonds

**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 9/30/2006				
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	3.7%	3.9%	4.0%	5.2%	6.8%
Asset Class Target	3.8	3.7	3.4	4.8	6.4



## 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 9/30/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	3.2%	34.2%	29.8%	16.6%	17.0%
Inflation	0.0%	2.1%	2.8%	2.5%	2.5%

#### Real Estate Investments (Equity emphasis)

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

	Period Ending 9/30/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	2.9%	21.6%	18.1%	12.5%	14.0%

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.

#### 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.

	Period Ending 9/30/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	1.4%	31.7%	30.7%	14.1%	16.9%

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.

#### Resource Investments (Equity emphasis)

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

	Period Ending 9/30/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	27.9%	65.5%	70.7%	39.8%	26.3%

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.

#### 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.

	Period Ending 9/30/2006				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	1.5%	43.2%	28.9%	19.4%	16.4%

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.



## 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, 2006 the market value of the entire Fund was \$0.9 billion.**

## Investment Options

	9/30/2006 Market Value (In Millions)
<b>Income Share Account</b> – a balanced portfolio utilizing both common stocks and bonds.	\$238
<b>Growth Share Account</b> – an actively managed, all common stock portfolio.	\$112
<b>Common Stock Index Account</b> – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$230
<b>International Share Account</b> – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$87
<b>Bond Market Account</b> – an actively managed, all bond portfolio.	\$132
<b>Money Market Account</b> – a portfolio utilizing short-term, liquid debt securities.	\$71
<b>Fixed Interest Account</b> – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	\$65

## SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

## INCOME SHARE ACCOUNT

## Investment Objective

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

## Asset Mix

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

	Target	Actual
Stocks	60.0%	63.4%
Bonds	35.0	34.0
Unallocated Cash	5.0	2.6
	100.0%	100.0%

## Period Ending 9/30/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	4.3%	8.3%	9.6%	7.0%	7.9%
Benchmark*	4.2	7.7	9.1	7.0	7.8

\* 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 9/30/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	4.2%	9.1%	12.5%	7.6%	7.8%
Benchmark*	4.6	10.2	13.0	8.3	8.2

\* 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 9/30/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	4.7%	10.5%	13.1%	8.3%	8.6%
Benchmark*	4.6	10.2	13.0	8.3	8.3

\* 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 up to 10% of the Account is "semi-passively managed." These portions of the Account are designed to track and modestly outperform, respectively, the return of 22 developed 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 9/30/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	4.0%	19.4%	23.1%	15.8%	7.8%
Benchmark*	3.9	18.9	23.4	15.7	6.9

\* 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.

**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.

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>3.7%</b>	<b>4.0%</b>	<b>4.0%</b>	<b>5.3%</b>	<b>6.8%</b>
Lehman Agg.	3.8	3.7	3.4	4.8	6.4

**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.

**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.

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>1.2%</b>	<b>4.4%</b>	<b>2.9%</b>	<b>2.4%</b>	<b>4.0%</b>
3 month T-Bills	1.3	4.6	2.8	2.3	3.7

**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.

**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.

	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>1.1%</b>	<b>4.5%</b>	<b>4.3%</b>	<b>4.8%</b>	<b>5.6%</b>
Benchmark*	1.3	5.2	4.1	3.7	4.7

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



## DEFERRED COMPENSATION PLAN ACCOUNTS

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.

### Investment Options

	<b>9/30/2006 Market Value (in Millions)</b>
Vanguard Institutional Index (passive)	\$439
Janus Twenty (active)	\$333
Legg Mason Appreciation Y (active)	\$119
Vanguard Mid Cap Index (passive)	\$113
T. Rowe Price Small Cap (active)	\$390
Fidelity Diversified International (active)	\$240
Vanguard Institutional Developed Markets (passive)	\$55
Dodge & Cox Balanced Fund (active)	\$256
Vanguard Balanced Fund (passive)	\$168
Dodge & Cox Income Fund (active)	\$81
Vanguard Total Bond Market Fund (passive)	\$49
Money Market Account	\$57
Fixed Interest Account	\$126
Fixed Fund	\$748

## DEFERRED COMPENSATION PLAN ACCOUNTS

## LARGE CAP EQUITY

**Vanguard Institutional Index (passive)**

- A passive domestic stock portfolio that tracks the S&P 500.

Fund	Period Ending 9/30/2006			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Annualized
S&P 500	5.7%	10.8%	12.3%	7.0%
	5.7	10.8	12.3	7.0

**Janus Twenty (active)**

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

Fund	Period Ending 9/30/2006			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Annualized
S&P 500	1.6%	3.9%	15.3%	7.7%
	5.7	10.8	12.3	7.0

**Legg Mason Partners Appreciation Y (active)**

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

Fund	Period Ending 9/30/2006			
	Qtr.	1 Yr.	3 Yr.	Since
				12/1/03
S&P 500	4.0%	11.1%	N/A	10.0%
	5.7	10.8	N/A	10.5

## 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.

Fund	Period Ending 9/30/2006			
	Qtr.	1 Yr.	3 Yr.	Since
				1/1/04
MSCI US	1.4%	9.2%	N/A	14.6%
Mid-Cap 450	1.3	9.1	N/A	14.6

## 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.

Fund	Period Ending 9/30/2006			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Annualized
Russell 2000	0.0%	9.2%	15.7%	13.0%
	0.4	9.9	15.5	13.8

## 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.

Fund	Period Ending 9/30/2006			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				Annualized
MSCI EAFE	3.1%	17.4%	21.7%	17.2%
	3.9	19.2	22.3	14.3

**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.

Fund	Period Ending 9/30/2006			
	Qtr.	1 Yr.	3 Yr.	Since
				12/1/03
MSCI EAFE	4.0%	19.1%	N/A	20.4%
	3.9	19.2	N/A	20.2

DEFERRED COMPENSATION PLAN ACCOUNTS

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 9/30/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since
Fund	4.2%	10.7%	N/A	12.9%
Benchmark	4.9	7.9	N/A	8.7

**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% MSCI US Broad Market Index/40% Lehman Aggregate.

	Period Ending 9/30/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since
Fund	4.3%	7.8%	N/A	8.3%
Benchmark	4.2	7.7	N/A	8.3

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 9/30/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	3.4%	4.1%	3.5%	5.3%
Lehman Agg.	3.8	3.7	3.4	4.8

**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 9/30/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since
Fund	3.9%	3.7%	N/A	3.8%
Lehman Agg.	3.8	3.7	N/A	3.8

**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 9/30/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	1.2%	4.4%	2.9%	2.4%
3-Mo. Treas.	1.3	4.6	2.8	2.3

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 9/30/2006			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	1.2%	4.6%	4.3%	4.8%
Benchmark	1.3	5.2	4.1	3.7

FIXED FUND

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

Period Ending 9/30/2006

The quarterly blended rate is: 4.56%



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.

	9/30/2006 Target	9/30/2006 Actual
Stocks	20.0%	23%
Bonds	80.0	77
Total	100.0%	100.0%

**Investment Management**

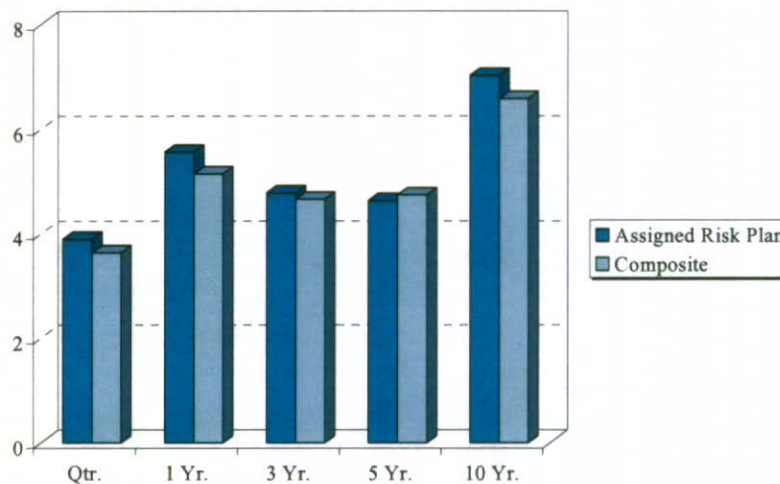
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

**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, 2006 the market value of the Assigned Risk Plan was \$332 million.



Period Ending 9/30/2006

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>3.9%</b>	<b>5.6%</b>	<b>4.8%</b>	<b>4.6%</b>	<b>7.0%</b>
Composite	3.6	5.1	4.7	4.7	6.6
<b>Equity Segment*</b>	<b>6.5</b>	<b>11.6</b>	<b>10.5</b>	<b>5.8</b>	<b>9.4</b>
Benchmark	5.7	10.8	12.3	7.0	8.6
<b>Bond Segment*</b>	<b>3.1</b>	<b>3.9</b>	<b>3.1</b>	<b>3.9</b>	<b>5.5</b>
Benchmark	3.1	3.7	2.8	4.0	5.8

\* 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.

	9/30/2006 Target	9/30/2006 Actual
Stocks	50.0%	50.7%
Bond	48.0	47.5
Unallocated Cash	2.0	1.8
Total	100.0%	100.0%

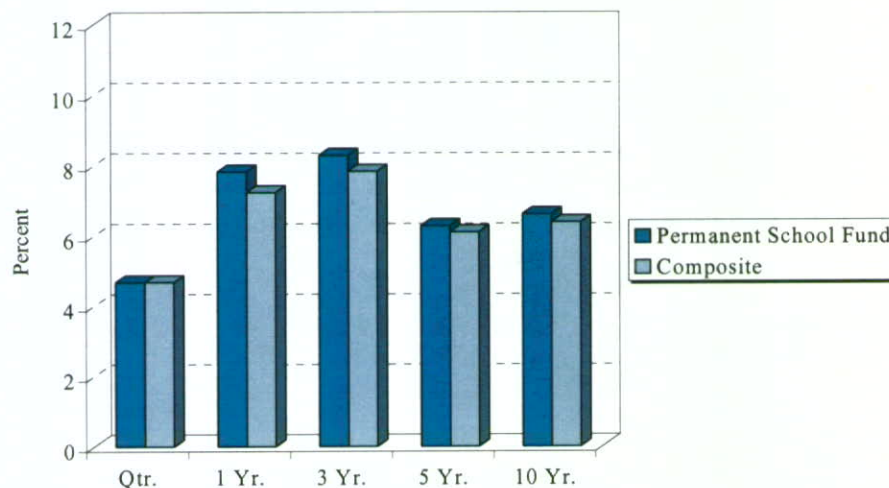
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

**Investment Management**

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

**Market Value**

On September 30, 2006 the market value of the Permanent School Fund was \$666 million.



**Period Ending 9/30/2006**

**Annualized**

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund (1) (2)</b>	<b>4.7%</b>	<b>7.8%</b>	<b>8.3%</b>	<b>6.3%</b>	<b>6.6%</b>
Composite	4.7	7.2	7.8	6.1	6.4
<b>Equity Segment (1) (2)</b>	<b>5.7</b>	<b>10.9</b>	<b>12.3</b>	<b>7.0</b>	<b>N/A</b>
S&P 500	5.7	10.8	12.3	7.0	N/A
<b>Bond Segment (1)</b>	<b>3.7</b>	<b>4.6</b>	<b>4.0</b>	<b>5.3</b>	<b>6.8</b>
Lehman Aggregate	3.8	3.7	3.4	4.8	6.4

(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.

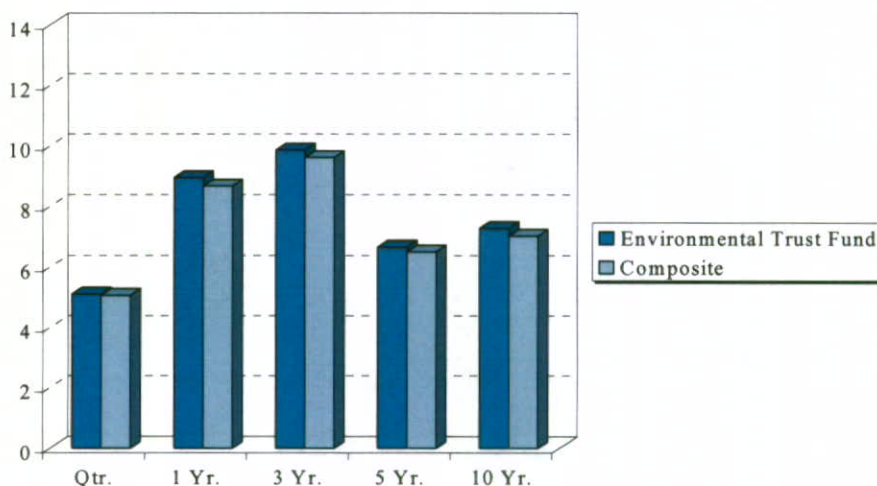
**Investment Management**

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, 2006 the market value of the Environmental Trust Fund was \$437 million.

	9/30/2006 Target	9/30/2006 Actual
Stocks	70.0%	70.0%
Bonds	28.0	29.4
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



	Period Ending 9/30/2006				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>5.1%</b>	<b>8.9%</b>	<b>9.9%</b>	<b>6.7%</b>	<b>7.3%</b>
Composite	5.1	8.7	9.6	6.5	7.0
<b>Equity Segment*</b>	<b>5.7</b>	<b>10.9</b>	<b>12.4</b>	<b>7.1</b>	<b>8.7</b>
S&P 500	5.7	10.8	12.3	7.0	8.6
<b>Bond Segment*</b>	<b>3.7</b>	<b>4.6</b>	<b>4.2</b>	<b>5.3</b>	<b>6.9</b>
Lehman Agg.	3.8	3.7	3.4	4.8	6.4

\* Actual returns are calculated net of fees.



**CLOSED LANDFILL INVESTMENT FUND**

**Investment Objectives**

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

**Investment Management**

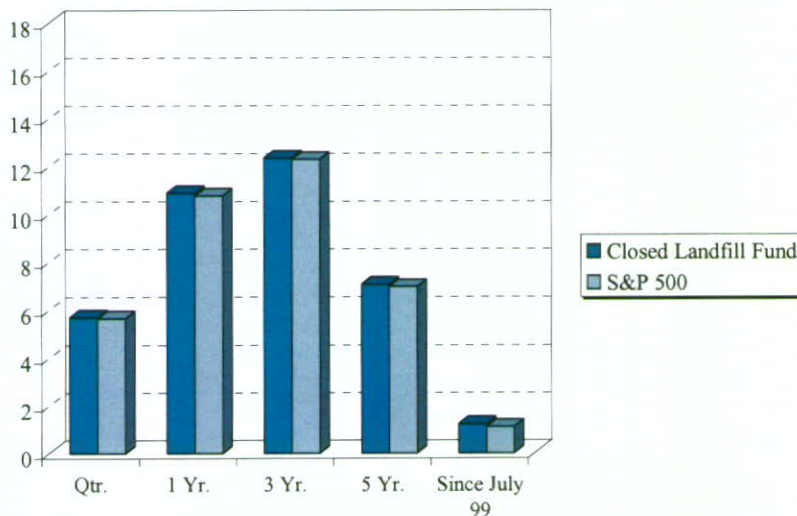
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

**Market Value**

On September 30, 2006, the market value of the Closed Landfill Investment Fund was \$49.0 million.

**Asset Mix**

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



**Period Ending 9/30/2006**

	Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 7/1/1999
<b>Total Fund (1)</b>	5.7%	10.9%	12.3%	7.1%	1.2%
<b>S&amp;P 500 (2)</b>	5.7	10.8	12.3	7.0	1.1

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

## STATE CASH ACCOUNTS

**Description**

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

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

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

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

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

**Investment Objectives**

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

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

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

**Asset Mix**

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

**Investment Management**

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

	Market Value (Millions)	Period Ending 9/30/2006				
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Treasurer's Cash Pool*</b>	<b>\$4,403</b>	<b>1.4%</b>	<b>4.8%</b>	<b>2.9%</b>	<b>2.5%</b>	<b>4.2%</b>
Custom Benchmark**		1.2	4.2	2.3	1.9	3.7
<b>Trust Fund Cash Pool*</b>	<b>\$48</b>	<b>1.4</b>	<b>4.7</b>	<b>2.9</b>	<b>2.4</b>	<b>4.0</b>
Custom Benchmark***		1.2	4.2	2.3	1.8	3.4
3 month T-Bills		1.3	4.6	2.8	2.3	3.7

\* Actual returns are calculated net of fees.

\*\* Beginning in January 2003, the Treasurer's Cash Pool is measured against the iMoneyNet, All Taxable Money Fund Report Average. 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 iMoneyNet, All Taxable Money Fund Report Average. 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 iMoneyNet, All Taxable Money Fund Report Average. 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, 2006 (in Thousands)**

	<b>Cash and Short term Securities</b>	<b>Bonds Internal</b>	<b>Bonds External</b>	<b>Stocks Internal</b>	<b>Stocks External</b>	<b>External Int'l</b>	<b>Alternative Assets</b>	<b>Total</b>
<b>BASIC RETIREMENT FUNDS:</b>								
Teachers Retirement Fund	87,836 1.17%	0	1,727,611 23.02%	0	3,705,214 49.36%	1,176,591 15.68%	808,603 10.77%	7,505,855 100%
Public Employees Retirement Fund	79,500 1.27%	0	1,438,543 23.01%	0	3,083,406 49.32%	979,163 15.66%	671,388 10.74%	6,252,000 100%
State Employees Retirement Fund	80,685 1.56%	0	1,184,821 22.94%	0	2,539,571 49.18%	806,463 15.62%	552,825 10.70%	5,164,365 100%
Public Employees Police & Fire	33,497 1.18%	0	654,066 23.02%	0	1,402,322 49.36%	445,376 15.67%	305,877 10.77%	2,841,138 100%
Highway Patrol Retirement Fund	3,095 1.18%	0	60,398 23.03%	0	129,458 49.37%	41,111 15.68%	28,179 10.74%	262,241 100%
Judges Retirement Fund	2,599 4.92%	0	11,710 22.16%	0	25,099 47.50%	7,970 15.08%	5,465 10.34%	52,843 100%
Correctional Employees Retirement	3,681 1.18%	0	71,959 23.03%	0	154,239 49.36%	48,980 15.68%	33,580 10.75%	312,439 100%
Public Employees Correctional	3,054 2.28%	0	30,454 22.78%	0	65,276 48.81%	20,729 15.50%	14,216 10.63%	133,729 100%
<b>TOTAL BASIC FUNDS</b>	293,947 1.30%	0	5,179,562 23.00%	0	11,104,585 49.30%	3,526,383 15.66%	2,420,133 10.74%	22,524,610 100%
<b>POST RETIREMENT FUND</b>	532,101 2.35%	0	5,480,889 24.17%	0	11,126,005 49.05%	3,579,529 15.78%	1,961,780 8.65%	22,680,304 100%
<b>TOTAL BASIC AND POST</b>	826,048 1.83%	0	10,660,451 23.58%	0	22,230,590 49.18%	7,105,912 15.72%	4,381,913 9.69%	45,204,914 100%



	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
<b>MINNESOTA SUPPLEMENTAL FUNDS:</b>								
Income Share Account	6,211 2.61%	81,029 34.01%	0	0	151,020 63.38%	0	0	238,260 100%
Growth Share Account	0	0	0	0	112,153 100.00%	0	0	112,153 100%
Money Market Account	70,839 100.00%	0	0	0	0	0	0	70,839 100%
Common Stock Index	0	0	0	0	229,830 100.00%	0	0	229,830 100%
Bond Market Account	0	0	131,935 100.00%	0	0	0	0	131,935 100%
International Share Account	0	0	0	0	0	87,179 100.00%	0	87,179 100%
Fixed Interest Account	800 1.23%	0	64,243 98.77%	0	0	0	0	65,043 100%
<b>TOTAL SUPPLEMENTAL FUNDS</b>	77,850 8.32%	81,029 8.66%	196,178 20.98%	0	493,003 52.72%	87,179 9.32%	0	935,239 100%
<b>MN DEFERRED COMP PLAN *</b>	57,533 1.81%	0	1,280,539 40.30%	0	1,544,496 48.61%	294,776 9.28%	0	3,177,344 100%
<b>TOTAL RETIREMENT FUNDS</b>	961,431 1.95%	81,029 0.16%	12,137,168 24.61%	0	24,268,089 49.21%	7,487,867 15.18%	4,381,913 8.89%	49,317,497 100%

\* 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	4,039 1.22%	0	253,221 76.32%	0	74,517 22.46%	0	0	331,777 100%
ENVIRONMENTAL FUND	2,473 0.57%	128,457 29.39%	0	306,082 70.04%	0	0	0	437,012 100%
PERMANENT SCHOOL FUND	12,114 1.82%	316,623 47.53%	0	337,385 50.65%	0	0	0	666,122 100%
CLOSED LANDFILL INVESTMENT	74 0.15%	0	0	49,572 99.85%	0	0	0	49,646 100%
TREASURERS CASH	4,405,327 100.00%	0	0	0	0	0	0	4,405,327 100%
HOUSING FINANCE AGENCY	59,069 27.93%	152,449 72.07%	0	0	0	0	0	211,518 100%
MINNESOTA DEBT SERVICE FUND	0	185,174 100.00%	0	0	0	0	0	185,174 100%
MISCELLANEOUS ACCOUNTS	56,501 26.32%	88,407 41.18%	0	69,781 32.50%	0	0	0	214,689 100%
TOTAL CASH AND NON-RETIREMENT	4,539,597 69.83%	871,110 13.40%	253,221 3.89%	762,820 11.73%	74,517 1.15%	0	0	6,501,265 100%
GRAND TOTAL	5,501,028 9.85%	952,139 1.71%	12,390,389 22.20%	762,820 1.37%	24,342,606 43.61%	7,487,867 13.41%	4,381,913 7.85%	55,818,762 100%

# **Tab B**



## EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 28, 2006



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, 2006 is included as **Attachment A**.

A report on travel for the period from August 16, 2006 - November 15, 2006 is included as **Attachment B**.

### **2. Post Retirement Benefit Increase for FY06**

The Post Retirement benefit increase for FY06 will be 2.5%. The increase will be payable to eligible retirees effective January 1, 2007.

For FY 1997 the "inflation cap" in the benefit increase formula was 3.5%. Beginning FY 1998, the "inflation cap" is 2.5%. The following shows the benefit increases for the past ten years:

1997	10.1%
1998	9.8%
1999	11.1%
2000	9.5%
2001	4.5%
2002	0.7%
2003	2.1%
2004	2.5%
2005	2.5%
2006	2.5%

### **3. Legislative Update**

I will present a verbal update on any legislative activity of interest to the SBI.

**4. Litigation Update**

SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on December 6, 2006.

**5. Results of FY06 Audit**

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY06. I should be able to provide a verbal report of the audit findings at the Board meeting on December 6, 2006.

**6. Draft of FY06 Annual Report**

A draft of the SBI's annual report for FY06 was sent to the Board members/designees and IAC members. The final report should be distributed by the end of the year.

**7. Tentative Meeting Dates for Calendar 2007**

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 2007 are:

<b>IAC</b>	<b>SBI</b>
<b>Tuesday, March 6, 2007</b>	<b>Wednesday, March 7, 2007</b>
<b>Tuesday, June 5, 2007</b>	<b>Wednesday, June 6, 2007</b>
<b>Tuesday, September 4, 2007</b>	<b>Wednesday, September 5, 2007</b>
<b>Tuesday, December 4, 2007</b>	<b>Wednesday, December 5, 2007</b>

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

ATTACHMENT A

**STATE BOARD OF INVESTMENT  
FISCAL YEAR 2007 ADMINISTRATIVE BUDGET REPORT  
GENERAL FUND APPROPRIATION  
FISCAL YEAR TO DATE THROUGH OCTOBER 31, 2006**

ITEM	FISCAL YEAR 2007 BUDGET	FISCAL YEAR 2007 ACTUAL
<b>PERSONAL SERVICES</b>		
FULL TIME EMPLOYEES	\$ 1,975,000	\$ 552,665
PART TIME EMPLOYEES		\$ 2,410
SEVERENCE PAYOFF	32,000	33,930
WORKERS COMPENSATION INSURANCE	1,000	777
MISCELLANEOUS PAYROLL	2,000	0
<b>SUBTOTAL</b>	<b>\$ 2,010,000</b>	<b>\$ 589,782</b>
<b>STATE OPERATIONS</b>		
RENTS & LEASES	210,000	70,002
REPAIRS/ALTERATIONS/MAINTENANCE	8,000	1,444
PRINTING & BINDING	8,000	2,625
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	2,807
COMMUNICATIONS	20,000	6,116
TRAVEL, IN-STATE	1,000	172
TRAVEL, OUT-STATE	50,000	11,668
SUPPLIES	30,000	4,966
EQUIPMENT	20,000	6,977
EMPLOYEE DEVELOPMENT	10,000	2,303
OTHER OPERATING COSTS	8,000	4,363
<b>SUBTOTAL</b>	<b>\$ 375,000</b>	<b>\$ 113,443</b>
<b>ORIGINAL BUDGET</b>	<b>\$ 2,385,000</b>	<b>\$ 703,225</b>
<b>ADJUSTMENTS TO ORIGINAL BUDGET</b>	<b>\$ 0</b>	
<b>TOTAL GENERAL FUND</b>	<b>\$ 2,385,000</b>	<b>\$ 703,225</b>





**ATTACHMENT B**

**STATE BOARD OF INVESTMENT**

**Travel Summary by Date  
SBI Travel August 16, 2006 – November 15, 2006**

<b>Purpose</b>	<b>Name(s)</b>	<b>Destination and Date</b>	<b>Total Cost</b>
<b>Manager Monitoring: Alternative Investment Manager:</b> Prudential Capital Partners Annual Meeting	A. Christensen	Chicago, IL 9/12-9/14	\$814.00
<b>Manager Monitoring: International Equity Manager:</b> Fidelity Management Trust Co. <b>Manager Monitoring: Domestic Equity Manager:</b> RiverSource Investments <b>Manager Monitoring: Alternative Investment Manager:</b> T.A. Associates Realty <b>Master Custodian:</b> State Street Bank & Trust Co.	H. Bicker	Boston, MA 9/17-9/20	713.33
<b>Conference:</b> Council of Institutional Investors Fall 2006 Meeting	J. Heidelberg	Washington, D.C. 9/17-9/19	1,247.90
<b>In State Travel:</b> Retired Educators Association of Minnesota Annual Convention	H. Bicker	Hinkley, MN 9/26-9/27	162.07
<b>Conference:</b> National Association of State Investment Officers (NASIO)	H. Bicker M. Perry	St. Louis, MO 10/1-10/4	4,236.77
<b>Conference:</b> Institutional Limited Partners Association (ILPA) Fall 2006 Conference	J. Griebenow A. Christensen	Boston, MA 10/3-10/5	2,846.42

Purpose	Name(s)	Destination and Date	Total Cost
<b>Manager Monitoring:</b> <b>Emerging Markets Manager:</b> Capital International, Inc. <b>Manager Search:</b> <b>International Managers:</b> Barclays Global Investors; Dimensional Fund Advisors; Tradewinds NWQ Global Investors <b>Conference:</b> Wilshire Compass Technology Seminar sponsored by: Wilshire Compass Group	S. Gleeson	Los Angeles, CA San Francisco, CA Napa, CA 10/10-10/13	\$2,037.11
<b>Manager Monitoring:</b> <b>Alternative Investment Manager:</b> Elevation Partners Annual Meeting	A. Christensen	Phoenix, AZ 10/10-10/12	1,187.61
<b>Manager Monitoring:</b> <b>Domestic Equity Managers:</b> Cohen, Klingenstein & Marks; Jacobs Levy Equity Mgmt.; J.P. Morgan Investment Mgmt.; Lord Abbett & Co.; New Amsterdam Partners; Oppenheimer Capital; Systematic Financial Mgmt.;	S. Sutton P. Ammann	New York, NY Teaneck, NJ 11/6-11/10	4,238.96
<b>Master Custodian:</b> State Street Bank & Trust Co.	B. Nicol	Boston, MA 11/6-11/8	480.21



Purpose	Name(s)	Destination and Date	Total Cost
<p><b>Manager Monitoring:</b>  <b>Alternative Investment Managers:</b>  Blackstone; Court Square Capital;  Credit Suisse Strategic Partners;  Diamond Castle Capital Partners;  Hellman &amp; Friedman; KKR;  Lehman Brothers Real Estate;  Silver Lake Partners;  Vestar Capital Partners;  Warburg Pincus;  Welsh Carson Anderson Stowe</p> <p><b>Manager Search:</b>  <b>Alternative Investment Managers:</b>  Apax Partners;  Brentwood Associates;  Cerberus Capital Mgmt.;  Industri Kapital;  Leonard Green &amp; Partners;  Mid-Ocean Partners;  New Mountain Capital;  Paul Capital Partners;  Permira;  Thomas H. Lee Partners;  Tullis-Dickerson &amp; Co.</p> <p><b>Conference:</b>  General Partners Summit 2006  Sponsored by: Institutional  Limited Partners Association  (ILPA)</p>	A. Christensen	New York, NY 11/7-11/10	\$2,249.21
<p><b>Consultant:</b>  Richards &amp; Tierney, Inc.</p>	H. Bicker	Chicago, IL 11/9-11/10	453.08
<p><b>Manager Monitoring:</b>  <b>Deferred Compensation  Plan Manager:</b>  The Vanguard Group</p> <p><b>Conference:</b>  Vision 2006 Conference  sponsored by:  The Vanguard Group</p>	J. Heidelberg	Philadelphia, PA 11/12-11/14	881.22

# Tab C

## **COMMITTEE REPORT**

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DATE: November 29, 2006

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

FROM: **Stock and Bond Manager Committee**

The Stock and Bond Manager Committee met on Wednesday, November 15, 2006 to consider the following agenda items:

- Review the manager performance for the period ending September 30, 2006.
- Review of Cohen, Klingenstein & Marks, a domestic equity manager.
- Recommendation to terminate Summit Creek Advisors, a domestic equity manager.

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

### **INFORMATION ITEMS:**

**1. Review the manager performance for the period ending September 30, 2006.**

- ***Domestic Equity Program***

For the period ending September 30, 2006, the **Domestic Equity Program** underperformed over all time periods.

<b>Time period</b>	<b>Total Program</b>	<b>DE Asset Class Target*</b>
<b>Quarter</b>	4.3%	4.6%
<b>1 Year</b>	9.6%	10.2%
<b>3 Years</b>	12.8%	13.0%
<b>5 Years</b>	7.9%	8.3%

\* 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, 2006, the **Fixed Income Program** underperformed for the quarter and outperformed the Lehman Aggregate over all other time periods.

Time period	Total Program	Lehman Aggregate
Quarter	3.7%	3.8%
1 Year	3.9%	3.7%
3 Years	4.0%	3.4%
5 Years	5.2%	4.8%

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

- **International Equity Program**

For the period ending September 30, 2006, the **International Equity Program** outperformed the composite index over the quarter and year, and underperformed and matched the index over the three and five year time periods respectively.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	4.0%	3.9%
1 Year	19.3%	18.9%
3 Year	23.0%	23.4 %
5 Year	15.7%	15.7%

\* 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.

The performance evaluation reports for the international equity managers start on the **blue page A-113** of this Tab.

## **2. Review of Cohen, Klingenstein & Marks, a domestic equity manager.**

Cohen, Klingenstein & Marks, Inc. made a presentation to the Stock & Bond Committee to address organizational issues and the underperformance of the SBI portfolio.

The firm began in 1981 with two principals, George Cohen and Richard Marks, offering software. Tom Klingenstein, the third principal, joined the firm in 1991. Three additional members were added to the firm during the late 1990's with the intention that they would become the "second generation" – Joel Silverstein, Donovan Kukul and Jessica Caie. Jessica Caie left the firm 1Q05.

Sheila Devlin joined the firm in September 2005 as Managing Director. Sheila is a senior investment professional (29 years of experience) and was brought in to join the principals in guiding the growth of the firm. Within the last year the firm hired two senior analysts/portfolio managers - Jafar Rizvi (16 years of experience) and Scott Froehlich (12 years of experience). They were added to the investment committee in 1Q06 and 2Q06 respectively.

Joel Silverstein left in July 2006. The principals anticipated that Joel would assume firm management duties; however, Joel preferred to concentrate on investment management. Donovan Kukul resigned in September 2006. The entire intended "second generation" has left the firm.

The team runs a concentrated large cap growth portfolio of approximately 33 names. The process is valuation sensitive and combines macroeconomic and fundamental analysis.

The firm has a history of taking contrary economic and investment views. For example, the firm correctly saw that technology was overvalued during the bubble and pulled back on the sector late 1999 and early 2000; the portfolio experienced strong relative performance during calendar year 2000. Unfortunately, the team got back into technology 2Q01, which was too early. Though it took some time, the portfolio outperformed for the calendar year 2003 due to largely to the positioning in technology.

The team also did not change the economic outlook or portfolio positioning post 9/11/2001, believing that the event would not greatly change the course of the economy. While the economic view was largely correct, the team seemed to underestimate the level of pessimism among investors following the bursting of the dot com bubble and the terrorist attack on 9/11/2001.

In recent periods the firm has stated that the economy is in better shape than economists and analysts predict. This has proven to be correct. In keeping with this outlook, the portfolio has been overweight in consumer discretionary and



technology names for some time. The bets within technology and consumer discretionary have not yet performed as expected. The portfolio has also been underweight health care; strong stock selection within health care provided the greatest contribution to performance 3Q06. The portfolio has been unexposed to energy for some time, which also proved beneficial in the most recent quarter.

Portfolio performance is provided below.

<b>Period (9/30/06)</b>	<b>CKM</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Quarter	5.3%	3.9%	3.9%
1 Year	0.0%	6.0%	6.0%
3 Year	3.6%	8.4%	8.4%
5 Year	0.5%	4.4%	7.8%
Since Inception	8.3%	8.9%	10.6%
<b>Calendar Years</b>			
2005	-0.9%	5.3%	5.3%
2004	6.1%	6.3%	6.3%
2003	41.2%	29.7%	39.3%
2002	-35.0%	-27.9%	-23.8%
2001	-25.0%	-20.4%	-11.2%
2000	-6.0%	-22.4%	-12.1%

The Committee decided to take no action at this time and requested that Staff provide another review of the firm in a year.

**3. Recommendation to terminate Summit Creek Advisors, a domestic equity manager.**

The MSBI hired the investment team of Summit Creek Advisors LLC in July 2000 to manage a small cap growth portfolio. At that time, the small cap growth team was part of Winslow Capital Management, Inc. As of September 30, 2006, the Summit Creek Advisors LLC portfolio contained \$144 million in assets.

Summit Creek Advisors LLC split from Winslow Capital Management, Inc. on July 1, 2005. However, Summit Creek Advisors LLC continued to operate out of office space within Winslow Capital Management, Inc. Winslow Capital Management, Inc. also provided back office support to Summit Creek Advisors LLC per a contractual arrangement.

Summit Creek Advisors LLC moved into its own office space July 1, 2006. Upon expiration of the contract July 1, 2006, back office support was no longer provided by Winslow Capital Management, Inc.



The small cap growth strategy has maintained a small asset base by design. However, the strategy has suffered a sustained period of underperformance, leading clients to terminate Summit Creek. Below is a table outlining the progression of lost client accounts.

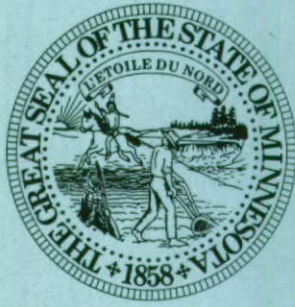
<b>Date</b>	<b>Number of Accounts</b>	<b>Strategy Assets</b>
6/30/2004	8	\$672 million
6/30/2005	7	\$647 million
6/30/2006	5	\$671 million
9/30/2006	2	\$391 million

The MSBI and one other entity are the only remaining clients of the firm. Summit Creek has informed consultants that the strategy has reopened, but staff is unaware of any other active marketing plans. Rather, the team intends to focus its energy on investment performance. As of September 30, 2006, the MSBI portfolio represented approximately 37% of the firm's total assets. Staff is concerned that the departure of clients and absence of a marketing plan place the firm's future in jeopardy.

**RECOMMENDATION:**

**The Committee recommends that the SBI terminate the relationship with Summit Creek Advisors LLC for investment management services.**

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# STATE BOARD OF INVESTMENT

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## Domestic Equity Manager Evaluation Reports

Third Quarter, 2006



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**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC STOCK MANAGERS**  
**Periods Ending September, 2006**

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	4.8	5.1	10.9	10.2	13.9	12.8		
Russell 1000 Growth Aggregate	2.5	3.9	2.4	6.0	6.7	8.4		
Russell 1000 Value Aggregate	5.1	6.2	11.3	14.6	14.6	17.2		
Russell 2000 Growth Aggregate	-4.8	-1.8	3.7	5.9	9.8	11.8		
Russell 2000 Value Aggregate	-1.0	2.6	5.4	14.0	17.1	19.0		
<b>Active Manager Aggregate</b>	<b>2.8</b>	<b>4.2</b>	<b>7.4</b>	<b>10.0</b>	<b>11.8</b>	<b>12.9</b>		
<b>Semi-Passive Aggregate</b>	<b>5.5</b>	<b>5.1</b>	<b>11.0</b>	<b>10.2</b>	<b>13.2</b>	<b>13.0</b>		
<b>Passive Manager (BGI)</b>	<b>4.7</b>	<b>4.6</b>	<b>10.3</b>	<b>10.2</b>	<b>13.1</b>	<b>13.0</b>		
<b>Historical Aggregate</b>	<b>4.3</b>	<b>4.6</b>	<b>9.6</b>	<b>10.2</b>	<b>12.8</b>	<b>13.0</b>		
<b>SBI DE Asset Class Target</b>		<b>4.6</b>		<b>10.2</b>		<b>13.0</b>		
<b>Russell 3000 Index</b>		<b>4.6</b>		<b>10.2</b>		<b>13.0</b>		

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	YTD 2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	7.7	8.0	6.4	6.3	14.5	11.4
Russell 1000 Growth Aggregate	-2.5	3.0	7.3	5.3	6.1	6.3
Russell 1000 Value Aggregate	9.8	13.2	6.0	7.1	14.3	16.5
Russell 2000 Growth Aggregate	3.0	4.2	4.7	4.2	9.7	14.3
Russell 2000 Value Aggregate	3.9	13.3	7.7	4.7	25.0	22.2
Active Manager Aggregate	4.5	7.9	6.5	6.0	12.5	12.3
Semi-Passive Aggregate	8.4	8.0	6.2	6.3	11.7	11.4
Passive Manager (BGI)	8.1	8.0	6.2	6.1	12.0	11.9
Historical Aggregate	7.1	8.0	6.4	6.1	12.2	11.9
SBI DE Asset Class Target		8.0		6.1		11.9
Russell 3000 Index		8.0		6.1		11.9

**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC STOCK MANAGERS**  
**Periods Ending September, 2006**  
**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 %
<b>LARGE CAP</b>										
<b>Russell 1000 Core</b>										
Franklin Portfolio	4.5	5.1	12.0	10.2	14.0	12.8	8.8	7.6	11.9	11.5
New Amsterdam Partners (2)	1.9	5.1	4.6	10.2	12.5	12.8	10.1	11.6	13.5	11.9
UBS Global	6.6	5.1	14.3	10.2	15.1	12.8	11.5	7.6	11.3	10.6
Voyageur-Chicago Equity	2.1	5.1	2.7	10.2	7.5	12.8	5.1	7.6	-0.8	0.7
<b>Aggregate</b>	<b>4.8</b>	<b>5.1</b>	<b>10.9</b>	<b>10.2</b>	<b>13.9</b>	<b>12.8</b>				
<b>Russell 1000 Growth</b>										
Alliance Capital	2.9	3.9	1.6	6.0	7.9	8.4	3.3	4.4	14.2	10.8
Cohen, Klingenstein & Marks	5.3	3.9	0.0	6.0	3.6	8.4	0.5	4.4	8.3	8.9
Holt-Smith & Yates	1.8	3.9	5.4	6.0	7.0	8.4	3.0	4.4	-1.8	-6.9
INTECH	2.6	3.9	5.8	6.0					5.4	4.7
Jacobs Levy	3.4	3.9	4.4	6.0					3.3	4.7
Lazard Asset Mgmt.	3.4	3.9	6.5	6.0					4.6	4.7
Sands Capital	0.7	3.9	-1.8	6.0					1.0	4.7
Winslow-Large Cap	3.4	3.9	7.3	6.0					7.9	4.7
Zevenbergen Capital	1.2	3.9	8.1	6.0	12.1	8.4	6.1	4.4	10.0	8.9
<b>Aggregate</b>	<b>2.5</b>	<b>3.9</b>	<b>2.4</b>	<b>6.0</b>	<b>6.7</b>	<b>8.4</b>				
<b>Russell 1000 Value</b>										
Barrow, Hanley	5.1	6.2	8.1	14.6					13.6	13.4
Earnest Partners	4.1	6.2	11.5	14.6	19.1	17.2	11.1	10.7	6.8	8.2
Lord Abbett & Co.	6.5	6.2	15.1	14.6					10.7	13.4
LSV Asset Mgmt.	3.6	6.2	13.8	14.6					16.0	13.4
Oppenheimer	6.8	6.2	11.1	14.6	11.8	17.2	7.7	10.7	12.5	12.1
Systematic Financial Mgmt.	4.5	6.2	11.0	14.6					13.1	13.4
<b>Aggregate</b>	<b>5.1</b>	<b>6.2</b>	<b>11.3</b>	<b>14.6</b>	<b>14.6</b>	<b>17.2</b>				
<b>SMALL CAP</b>										
<b>Russell 2000 Growth</b>										
McKinley Capital	-3.9	-1.8	5.0	5.9					6.9	8.2
Next Century Growth	-8.3	-1.8	10.3	5.9	14.9	11.8	12.3	10.1	-2.6	-1.8
Summit Creek Advisors	-3.2	-1.8	-0.7	5.9	7.8	11.8	7.8	10.1	-0.4	-1.8
Turner Investment Partners	-4.2	-1.8	6.2	5.9					7.6	8.2
<b>Aggregate</b>	<b>-4.8</b>	<b>-1.8</b>	<b>3.7</b>	<b>5.9</b>	<b>9.8</b>	<b>11.8</b>				
<b>Russell 2000 Value</b>										
Goldman Sachs	3.1	2.6	12.9	14.0					12.1	14.5
Hotchkis & Wiley	-2.8	2.6	-2.0	14.0					11.2	14.5
Martingale Asset Mgmt.	-4.4	2.6	1.3	14.0					13.5	14.5
Peregrine Capital	-0.2	2.6	7.1	14.0	18.1	19.0	17.0	17.0	16.8	15.6
RiverSource/Kenwood	-0.1	2.6	10.8	14.0					14.6	14.5
<b>Aggregate</b>	<b>-1.0</b>	<b>2.6</b>	<b>5.4</b>	<b>14.0</b>	<b>17.1</b>	<b>19.0</b>				
<b>Active Mgr. Aggregate (3)</b>	<b>2.8</b>	<b>4.2</b>	<b>7.4</b>	<b>10.0</b>	<b>11.8</b>	<b>12.9</b>				

- (1) Since retention by the SBI. Time period varies for each manager.
- (2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/03. Prior to that date it was the Russell Midcap Index.
- (3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

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

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>LARGE CAP</b>										
<b>Russell 1000 Core</b>										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	29.9	-25.4	-21.7	-6.6	-12.5
New Amsterdam Partners (2)	7.6	6.3	14.8	11.4	34.2	38.0	-17.5	-16.2	-3.3	-5.6
UBS Global	8.6	6.3	13.4	11.4	30.7	29.9	-14.7	-21.7	5.2	-12.5
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	29.9	-20.6	-21.7	-19.4	-12.5
<b>Aggregate</b>	<b>6.4</b>	<b>6.3</b>	<b>14.5</b>	<b>11.4</b>						
<b>Russell 1000 Growth</b>										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	29.7	-26.8	-27.9	-13.7	-20.4
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	29.7	-35.0	-27.9	-25.0	-20.4
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	29.7	-28.0	-27.9	-1.7	-20.4
INTECH (1)	7.8	5.3								
Jacobs Levy (1)	5.3	5.3								
Lazard Asset Mgmt. (1)	6.6	5.3								
Sands Capital (1)	10.9	5.3								
Winslow-Large Cap (1)	10.5	5.3								
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	29.7	-36.2	-27.9	-29.0	-20.4
<b>Aggregate</b>	<b>7.3</b>	<b>5.3</b>	<b>6.1</b>	<b>6.3</b>						
<b>Russell 1000 Value</b>										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	30.0	-18.1	-15.5	-0.4	-5.6
Lord Abnett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	30.0	-15.5	-15.5	-7.0	-5.6
Systematic Financial Mgmt. (1)	10.3	7.1								
<b>Aggregate</b>	<b>6.0</b>	<b>7.1</b>	<b>14.3</b>	<b>16.5</b>						
<b>SMALL CAP</b>										
<b>Russell 2000 Growth</b>										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-30.3	-22.8	-9.2
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	48.5	-25.0	-30.3	-6.1	-9.2
Turner Investment Partners	6.2	4.2	11.6	14.3						
<b>Aggregate</b>	<b>4.7</b>	<b>4.2</b>	<b>9.7</b>	<b>14.3</b>						
<b>Russell 2000 Value</b>										
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital	10.1	4.7	23.6	22.2	44.2	46.0	-8.1	-11.4	12.6	14.0
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
<b>Aggregate</b>	<b>7.7</b>	<b>4.7</b>	<b>25.0</b>	<b>22.2</b>						
<b>Active Mgr. Aggregate (3)</b>	<b>6.5</b>	<b>6.0</b>	<b>12.5</b>	<b>12.3</b>						

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

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

(3) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.



**COMBINED RETIREMENT FUNDS**  
**DOMESTIC STOCK MANAGERS**  
**Periods Ending September, 2006**  
**Versus Manager Benchmarks**

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>ACTIVE MANAGERS</b>												
<b>Large Cap Core (R1000)</b>												
Franklin Portfolio	4.5	5.1	12.0	10.2	14.0	12.8	8.8	10.3	11.9	11.6	\$635.1	2.8%
New Amsterdam Partners	1.9	5.1	4.6	10.2	12.5	12.8	10.1	11.2	13.5	13.3	\$486.3	2.1%
UBS Global	6.6	5.1	14.3	10.2	15.1	12.8	11.5	8.6	11.3	10.7	\$944.6	4.2%
Voyageur-Chicago Equity	2.1	5.1	2.7	10.2	7.5	12.8	5.1	9.2	-0.8	1.0	\$48.3	0.2%
<b>Aggregate</b>	<b>4.8</b>	<b>5.1</b>	<b>10.9</b>	<b>10.2</b>	<b>13.9</b>	<b>12.8</b>						
<b>Large Cap Growth (R1000 Growth)</b>												
Alliance Capital	2.9	3.9	1.6	6.0	7.9	8.4	3.3	4.0	14.2	10.8	\$505.2	2.2%
Cohen, Klingenstein & Marks	5.3	3.9	0.0	6.0	3.6	8.4	0.5	7.8	8.3	10.6	\$242.0	1.1%
Holt-Smith & Yates	1.8	3.9	5.4	6.0	7.0	8.4	3.0	8.3	-1.8	3.7	\$105.8	0.5%
INTECH	2.6	3.9	5.8	6.0					5.4	4.7	\$305.9	1.3%
Jacobs Levy	3.4	3.9	4.4	6.0					3.3	4.7	\$281.0	1.2%
Lazard Asset Mgmt.	3.4	3.9	6.5	6.0					4.6	4.7	\$54.4	0.2%
Sands Capital	0.7	3.9	-1.8	6.0					1.0	4.7	\$202.4	0.9%
Winslow-Large Cap	3.4	3.9	7.3	6.0					7.9	4.7	\$107.6	0.5%
Zevenbergen Capital	1.2	3.9	8.1	6.0	12.1	8.4	6.1	7.6	10.0	11.9	\$231.7	1.0%
<b>Aggregate</b>	<b>2.5</b>	<b>3.9</b>	<b>2.4</b>	<b>6.0</b>	<b>6.7</b>	<b>8.4</b>						
<b>Large Cap Value (R1000 Value)</b>												
Barrow, Hanley	5.1	6.2	8.1	14.6					13.6	13.4	\$444.6	2.0%
Earnest Partners	4.1	6.2	11.5	14.6	19.1	17.2	11.1	16.5	6.8	13.8	\$179.8	0.8%
Lord Abbett & Co.	6.5	6.2	15.1	14.6					10.7	13.4	\$317.7	1.4%
LSV Asset Mgmt.	3.6	6.2	13.8	14.6					16.0	13.4	\$427.1	1.9%
Oppenheimer	6.8	6.2	11.1	14.6	11.8	17.2	7.7	10.5	12.5	12.6	\$341.0	1.5%
Systematic Financial Mgmt.	4.5	6.2	11.0	14.6					13.1	13.4	\$304.6	1.3%
<b>Aggregate</b>	<b>5.1</b>	<b>6.2</b>	<b>11.3</b>	<b>14.6</b>	<b>14.6</b>	<b>17.2</b>						
<b>Small Cap Growth (R2000 Growth)</b>												
McKinley Capital	-3.9	-1.8	5.0	5.9					6.9	8.2	\$204.5	0.9%
Next Century Growth	-8.3	-1.8	10.3	5.9	14.9	11.8	12.3	11.2	-2.6	0.2	\$138.7	0.6%
Summit Creek Advisors	-3.2	-1.8	-0.7	5.9	7.8	11.8	7.8	11.8	-0.4	2.5	\$144.1	0.6%
Turner Investment Partners	-4.2	-1.8	6.2	5.9					7.6	8.2	\$155.4	0.7%
<b>Aggregate</b>	<b>-4.8</b>	<b>-1.8</b>	<b>3.7</b>	<b>5.9</b>	<b>9.8</b>	<b>11.8</b>						
<b>Small Cap Value (R2000 Value)</b>												
Goldman Sachs	3.1	2.6	12.9	14.0					12.1	14.5	\$128.0	0.6%
Hotchkis & Wiley	-2.8	2.6	-2.0	14.0					11.2	14.5	\$125.4	0.6%
Martingale Asset Mgmt.	-4.4	2.6	1.3	14.0					13.5	14.5	\$132.5	0.6%
Peregrine Capital Mgmt.	-0.2	2.6	7.1	14.0	18.1	19.0	17.0	18.2	16.8	17.9	\$205.8	0.9%
RiverSource/Kenwood	-0.1	2.6	10.8	14.0					14.6	14.5	\$60.9	0.3%
<b>Aggregate</b>	<b>-1.0</b>	<b>2.6</b>	<b>5.4</b>	<b>14.0</b>	<b>17.1</b>	<b>19.0</b>						
<b>Active Mgr. Aggregate (1)</b>	<b>2.8</b>	<b>4.2</b>	<b>7.4</b>	<b>10.0</b>	<b>11.8</b>	<b>12.9</b>						

(1) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

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

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>ACTIVE MANAGERS</b>										
<b>Large Cap Core (R1000)</b>										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	36.9	-25.4	-19.8	-6.6	-5.4
New Amsterdam Partners	7.6	6.3	14.8	11.4	34.2	37.1	-17.5	-22.2	-3.3	3.7
UBS Global	8.6	6.3	13.4	11.4	30.7	30.8	-14.7	-20.6	5.2	-11.0
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	28.9	-20.6	-20.7	-19.4	-12.0
<b>Aggregate</b>	<b>6.4</b>	<b>6.3</b>	<b>14.5</b>	<b>11.4</b>						
<b>Large Cap Growth (R1000 Growth)</b>										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	26.3	-26.8	-24.0	-13.7	-15.3
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	39.3	-35.0	-23.8	-25.0	-11.2
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	31.3	-28.0	-19.0	-1.7	4.6
INTECH (1)	7.8	5.3								
Jacobs Levy (1)	5.3	5.3								
Lazard Asset Mgmt. (1)	6.6	5.3								
Sands Capital (1)	10.9	5.3								
Winslow-Large Cap (1)	10.5	5.3								
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	31.3	-36.2	-24.2	-29.0	-3.2
<b>Aggregate</b>	<b>7.3</b>	<b>5.3</b>	<b>6.1</b>	<b>6.3</b>						
<b>Large Cap Value (R1000 Value)</b>										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	41.8	-18.1	-11.6	-0.4	11.5
Lord Abbett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	31.4	-15.5	-20.7	-7.0	-9.5
Systematic Financial Mgmt. (1)	10.3	7.1								
<b>Aggregate</b>	<b>6.0</b>	<b>7.1</b>	<b>14.3</b>	<b>16.5</b>						
<b>Small Cap Growth (R2000 Growth)</b>										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-27.8	-22.8	-5.5
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	51.3	-25.0	-26.7	-6.1	4.6
Turner Investment Partners	6.2	4.2	11.6	14.3						
<b>Aggregate</b>	<b>4.7</b>	<b>4.2</b>	<b>9.7</b>	<b>14.3</b>						
<b>Small Cap Value (R2000 Value)</b>										
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital Mgmt.	10.1	4.7	23.6	22.2	44.2	44.2	-8.1	-6.9	12.6	22.9
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
<b>Aggregate</b>	<b>7.7</b>	<b>4.7</b>	<b>25.0</b>	<b>22.2</b>						
<b>Active Mgr. Aggregate (2)</b>	<b>6.5</b>	<b>6.0</b>	<b>12.5</b>	<b>12.3</b>						

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

(2) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

**COMBINED RETIREMENT FUNDS  
DOMESTIC STOCK MANAGERS  
Periods Ending September, 2006  
Versus Manager Benchmarks (1)**

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		%
<b>SEMI-PASSIVE MANAGERS</b>												
Barclays Global Investors	4.9	5.1	11.1	10.2	13.5	13.0	8.7	8.0	11.2	10.5	\$3,118.8	13.7%
Franklin Portfolio	5.3	5.1	11.2	10.2	13.1	13.0	7.5	8.0	10.1	10.5	\$2,224.8	9.8%
JP Morgan	6.3	5.1	10.8	10.2	12.9	13.0	7.2	8.0	10.5	10.5	\$2,428.2	10.7%
<b>Semi-Passive Aggregate (R1000)</b>	<b>5.5</b>	<b>5.1</b>	<b>11.0</b>	<b>10.2</b>	<b>13.2</b>	<b>13.0</b>	<b>7.9</b>	<b>8.0</b>	<b>10.7</b>	<b>10.5</b>		
<b>PASSIVE MANAGER (R3000)</b>												
Barclays Global Investors	4.7	4.6	10.3	10.2	13.1	13.0	8.2	8.3	10.0	9.8	\$7,490.5	33.0%
<b>Historical Aggregate (3)</b>	<b>4.3</b>	<b>4.6</b>	<b>9.6</b>	<b>10.2</b>	<b>12.8</b>	<b>13.0</b>	<b>7.9</b>	<b>8.7</b>	<b>11.5</b>	<b>11.8</b>	<b>\$22,723.4</b>	<b>100.0%</b>
SBI DE Asset Class Target (4)		4.6		10.2		13.0		8.3		11.7		
Russell 3000		4.6		10.2		13.0		8.1		12.2		
Wilshire 5000		4.5		10.4		13.3		8.6		12.1		
Russell 1000		5.1		10.2		12.8		7.6		12.4		
Russell 2000		0.4		9.9		15.5		13.8		10.3		

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

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

(3) Includes the performance of terminated managers.

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



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

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>SEMI-PASSIVE MANAGERS</b>										
Barclays Global Investors	7.6	6.3	11.7	11.4	30.0	28.5	-19.1	-19.7	-7.8	-9.7
Franklin Portfolio	6.1	6.3	11.7	11.4	26.9	28.5	-20.2	-19.7	-9.0	-9.7
JP Morgan	4.7	6.3	11.7	11.4	28.9	28.5	-21.8	-19.7	-8.7	-9.7
<b>Semi-Passive Aggregate (R1000)</b>	<b>6.2</b>	<b>6.3</b>	<b>11.7</b>	<b>11.4</b>	<b>28.8</b>	<b>28.5</b>	<b>-20.3</b>	<b>-19.7</b>	<b>-8.5</b>	<b>-9.7</b>
<b>PASSIVE MANAGER (R3000)</b>										
Barclays Global Investors	6.2	6.1	12.0	11.9	30.9	31.2	-21.4	-21.5	-11.8	-11.7
<b>Historical Aggregate (2)</b>	<b>6.4</b>	<b>6.1</b>	<b>12.2</b>	<b>11.9</b>	<b>31.0</b>	<b>31.4</b>	<b>-22.4</b>	<b>-21.1</b>	<b>-11.1</b>	<b>-9.9</b>
SBI DE Asset Class Target (3)		6.1		11.9		31.2		-21.5		-11.7
Russell 3000		6.1		11.9		31.1		-21.5		-11.5
Wilshire 5000		6.4		12.5		31.6		-20.9		-11.0
Russell 1000		6.3		11.4		29.9		-21.7		-12.5
Russell 2000		4.6		18.3		47.3		-20.5		2.5

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

(2) Includes the performance of terminated managers.

(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03.

From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index.

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

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

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



## **Large Cap Core (R1000)**





# Large Cap Core (R1000)

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**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending September, 2006**

**Portfolio Manager: John Cone**

**Assets Under Management: \$635,107,395**

**Investment Philosophy – Active Style**

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

**Staff Comments**

The portfolio underperformed the Russell 1000 index by 0.6 percentage point (ppt) for the quarter. Weak stock selection in the technology and autos & transportation sectors detracted from performance.

For the year, the portfolio outperformed the Russell 1000 index by 1.8 ppts. Strong stock selection aided returns, particularly in the materials & processing, consumer discretionary and health care sectors. Exposure to Trading, Momentum and Growth factors aided returns.

**Recommendation**

No action required

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Core</b>	<b>Manager Benchmark</b>
Last Quarter	4.5%	5.1%	5.1%
Last 1 year	12.0	10.2	10.2
Last 2 years	12.3	12.2	12.2
Last 3 years	14.0	12.8	12.8
Last 4 years	15.8	15.8	17.9
Last 5 years	8.8	7.6	10.3
Since Inception (4/89)	11.9	11.5	11.6

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Core</b>	<b>Manager Benchmark</b>
2005	3.4%	6.3%	6.3%
2004	15.7	11.4	11.4
2003	32.9	29.9	36.9
2002	-25.4	-21.7	-19.8
2001	-6.6	-12.5	-5.4

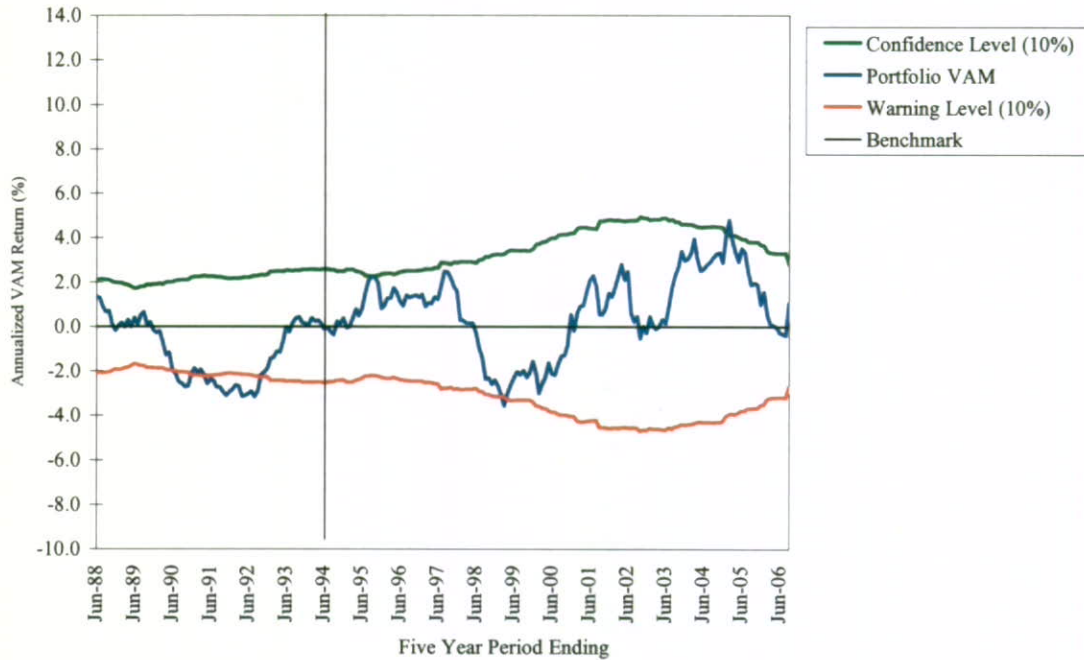


**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending September, 2006**

**Portfolio Manager: John Cone**

**Assets Under Management: \$635,107,395**

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, 2006**

**Portfolio Manager: Michelle Clayman**

**Assets Under Management: \$486,279,672**

**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 underperformed the Russell 1000 index by 3.2 percentage points (ppt) for the quarter. Weak stock selection and sector allocation decisions negatively impacted returns. An underweight allocation to the financial services sector coupled with weak stock selection negatively affected the returns. Other detractors from performance for the quarter included the weak stock selection in the integrated oils and technology sectors.

The portfolio underperformed the Russell 1000 index by 5.6 ppts for the year. An underweight allocation and weak stock selection in financials detracted from performance. The next biggest detractor from performance was the portfolio overweight and weak stock selection in consumer discretionary.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell Index (1)</b>	<b>Manager Benchmark</b>
Last Quarter	1.9%	5.1%	5.1%
Last 1 year	4.6	10.2	10.2
Last 2 years	10.6	12.2	12.2
Last 3 years	12.5	12.8	12.8
Last 4 years	16.2	17.4	17.0
Last 5 years	10.1	11.6	11.2
Since Inception (4/94)	13.5	11.9	13.3

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell Index (1)</b>	<b>Manager Benchmark</b>
2005	7.6%	6.3%	6.3%
2004	14.8	11.4	11.4
2003	34.2	38.0	37.1
2002	-17.5	-16.2	-22.2
2001	-3.3	-5.6	3.7

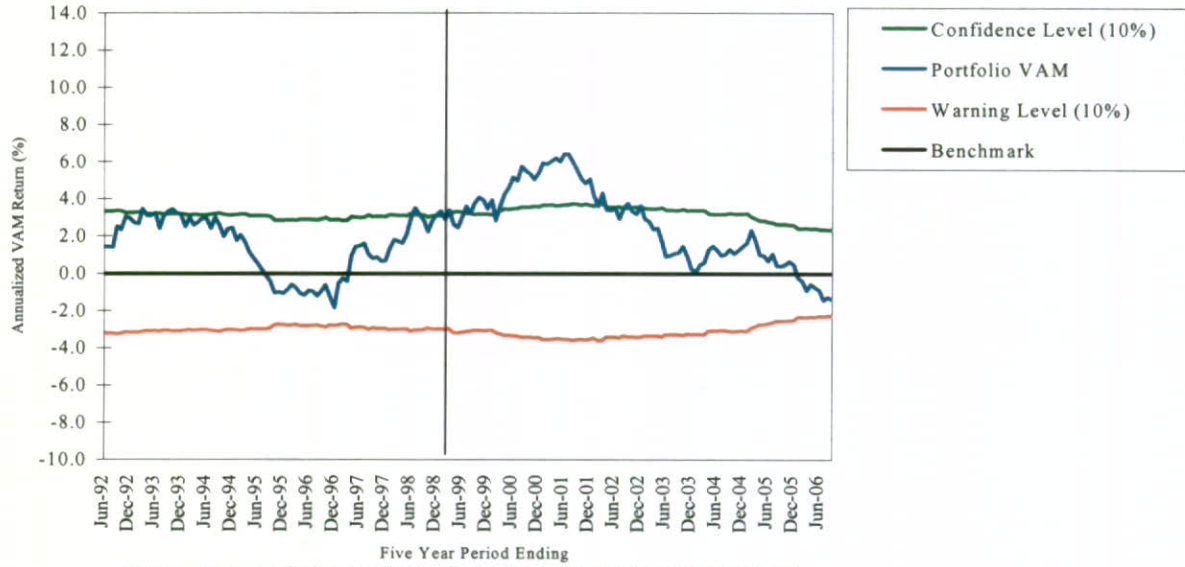
(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

**NEW AMSTERDAM PARTNERS**  
**Periods Ending September, 2006**

**Portfolio Manager: Michelle Clayman**

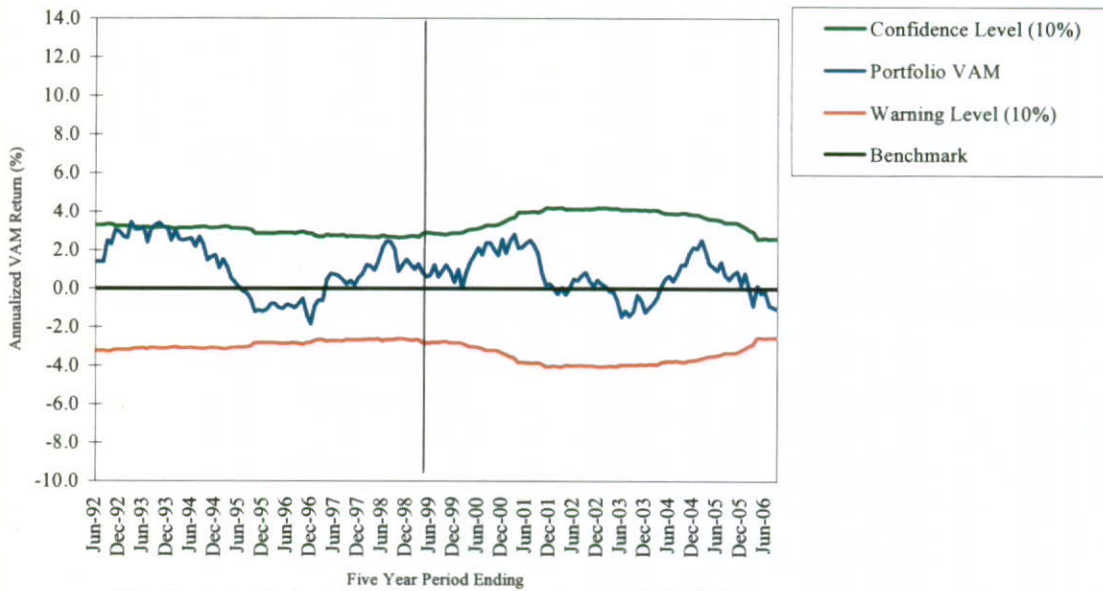
**Assets Under Management: \$486,279,672**

**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, 2006**

**Portfolio Manager: John Leonard**

**Assets Under Management: \$944,584,225**

**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 during the quarter by 1.5 percentage points (ppt) during the quarter. The portfolio's underweight to energy was the largest contributor to performance for the quarter. Strong stock selection within the technology and financial sectors also benefited returns.

For the year, the portfolio outperformed the Russell 1000 index by 4.1 ppts. The biggest contributor to return for the year was the overweight allocation and strong stock selection in the financial sector. Strong stock selection in the technology and integrated oils sectors also proved beneficial.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Core</b>	<b>Manager Benchmark</b>
Last Quarter	6.6%	5.1%	5.1%
Last 1 year	14.3	10.2	10.2
Last 2 years	14.3	12.2	12.2
Last 3 years	15.1	12.8	12.8
Last 4 years	17.9	15.8	16.1
Last 5 years	11.5	7.6	8.6
Since Inception (7/93)	11.3	10.6	10.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Core</b>	<b>Manager Benchmark</b>
2005	8.6%	6.3%	6.3%
2004	13.4	11.4	11.4
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: John Leonard**

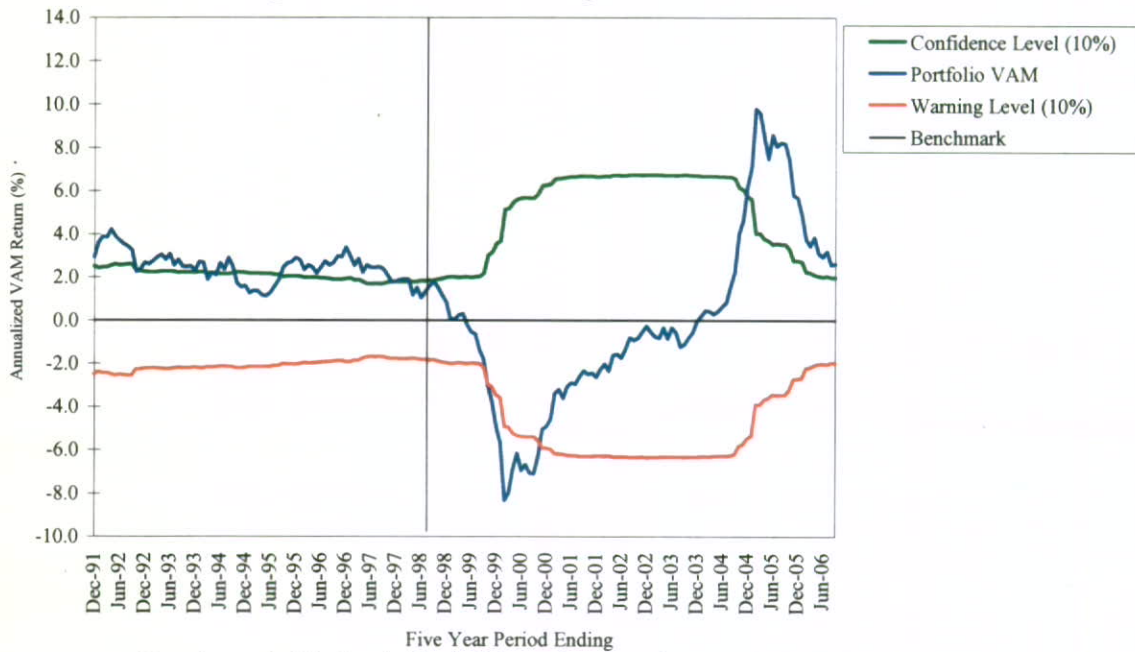
**Assets Under Management: \$944,584,225**

**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, 2006**

**Portfolio Manager: Charles Henderson**

**Assets Under Management: \$48,309,415**

**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 3.0 percentage points (ppt) for the quarter and 7.5 ppt for the year. In both periods an underweight allocation to the financial services and weak stock selection proved detrimental. During the year, the overweight in other energy and technology sectors in addition to the weak stock selection in those sectors hurt the portfolio.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Core</b>	<b>Manager Benchmark</b>
Last Quarter	2.1%	5.1%	5.1%
Last 1 year	2.7	10.2	10.2
Last 2 years	5.8	12.2	12.2
Last 3 years	7.5	12.8	12.8
Last 4 years	9.8	15.8	14.6
Last 5 years	5.1	7.6	9.2
Since Inception (7/00)	-0.8	0.7	1.0

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Core</b>	<b>Manager Benchmark</b>
2005	3.9%	6.3%	6.3%
2004	10.6	11.4	11.4
2003	23.2	29.9	28.9
2002	-20.6	-21.7	-20.7
2001	-19.4	-12.5	-12.0



**VOYAGEUR ASSET MANAGEMENT**  
**Periods Ending September, 2006**

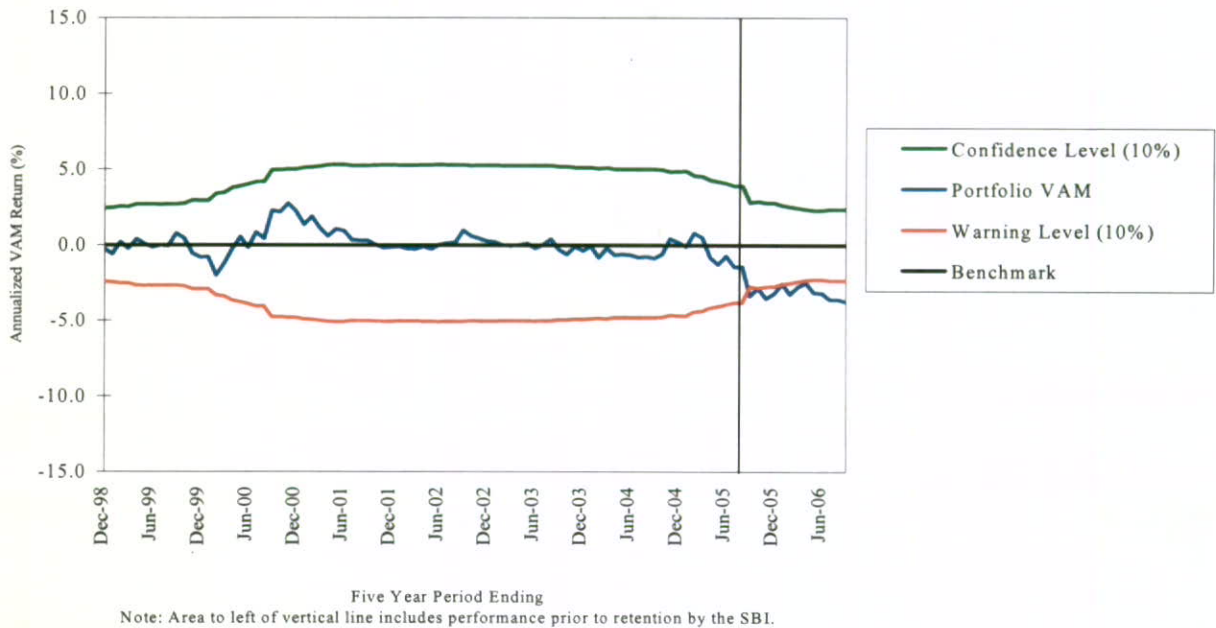
**Portfolio Manager: Charles Henderson**

**Assets Under Management: \$48,309,415**

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



Voyageur Asset Management  
 Rolling Five Year VAM vs. Manager Benchmark



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## **Large Cap Growth (R1000 Growth)**





## Large Cap Growth (R1000 Growth)

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**ALLIANCE CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Jack Koltes**

**Assets Under Management: \$505,199,420**

**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**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	2.9%	3.9%	3.9%
Last 1 year	1.6	6.0	6.0
Last 2 years	9.1	8.8	8.8
Last 3 years	7.9	8.4	8.4
Last 4 years	9.8	12.5	12.1
Last 5 years	3.3	4.4	4.0
Since Inception (1/84)	14.2	10.8	10.8

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	14.2%	5.3%	5.3%
2004	5.7	6.3	6.3
2003	22.4	29.7	26.3
2002	-26.8	-27.9	-24.0
2001	-13.7	-20.4	-15.3

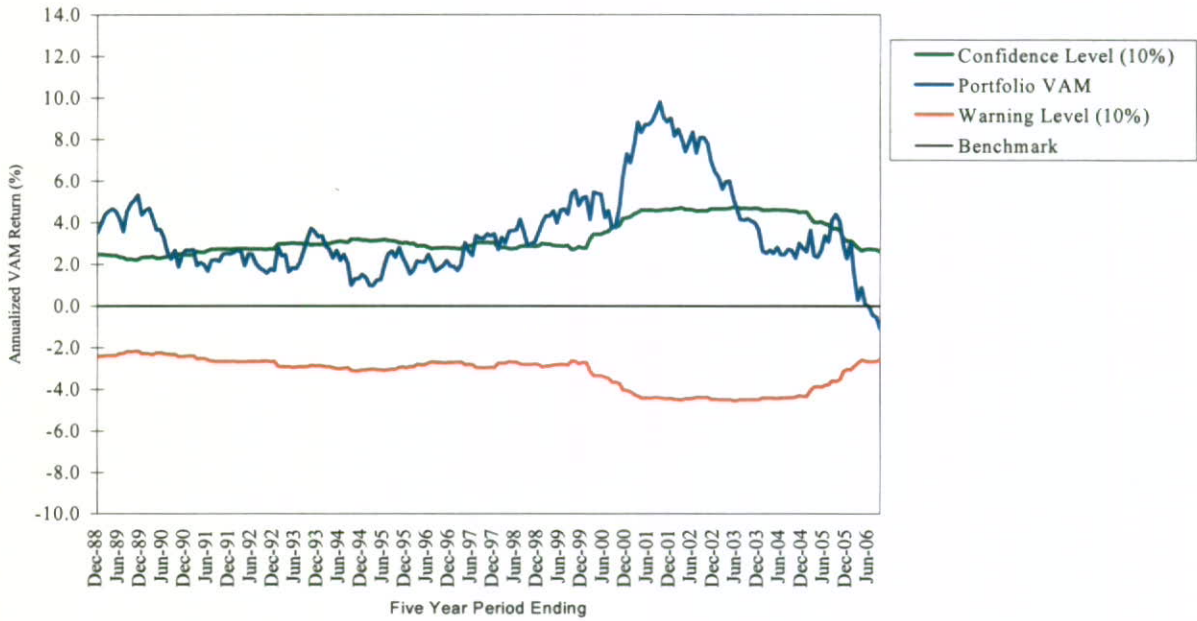


**ALLIANCE CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

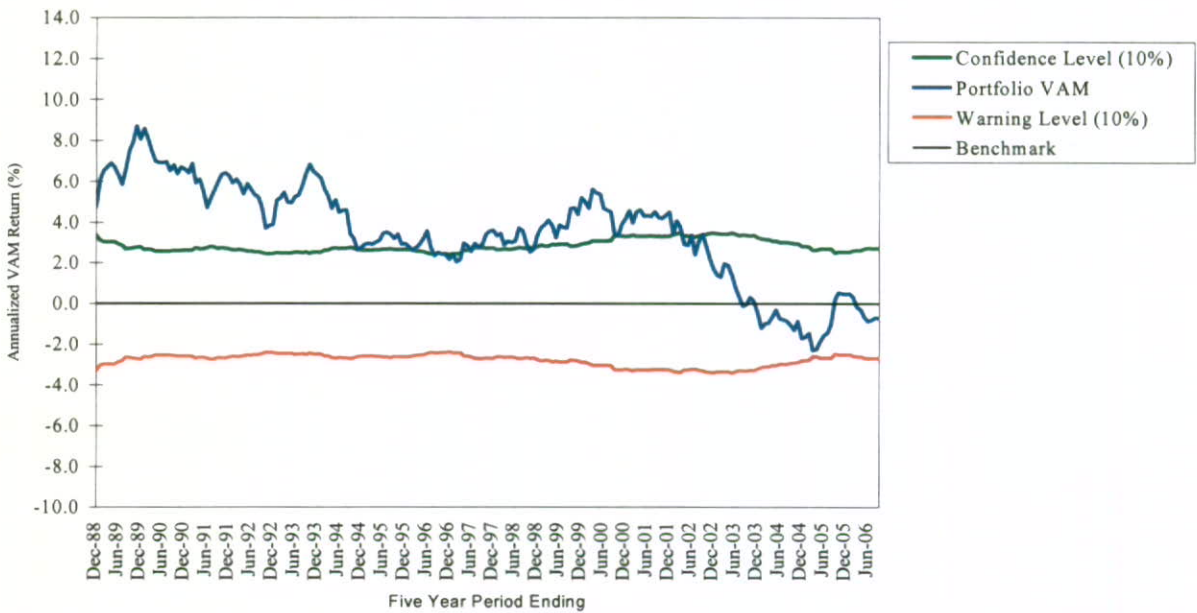
**Portfolio Manager: Jack Koltes**

**Assets Under Management: \$505,199,420**

**ALLIANCE CAPITAL MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 1000 Growth**



**ALLIANCE CAPITAL MANAGEMENT**  
**Rolling Five Year VAM vs. Manager Benchmark**



**COHEN KLINGENSTEIN & MARKS INCORPORATED**  
**Periods Ending September, 2006**

**Portfolio Manager: George Cohen**

**Assets Under Management: \$242,049,988**

**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 Stock & Bond Committee reviewed Cohen, Klingenstein & Marks at its 11/15/06 meeting.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	5.3%	3.9%	3.9%
Last 1 year	0.0	6.0	6.0
Last 2 years	4.2	8.8	8.8
Last 3 years	3.6	8.4	8.4
Last 4 years	12.2	12.5	15.7
Last 5 years	0.5	4.4	7.8
Since Inception (4/94)	8.3	8.9	10.6

**Calendar Year Returns**

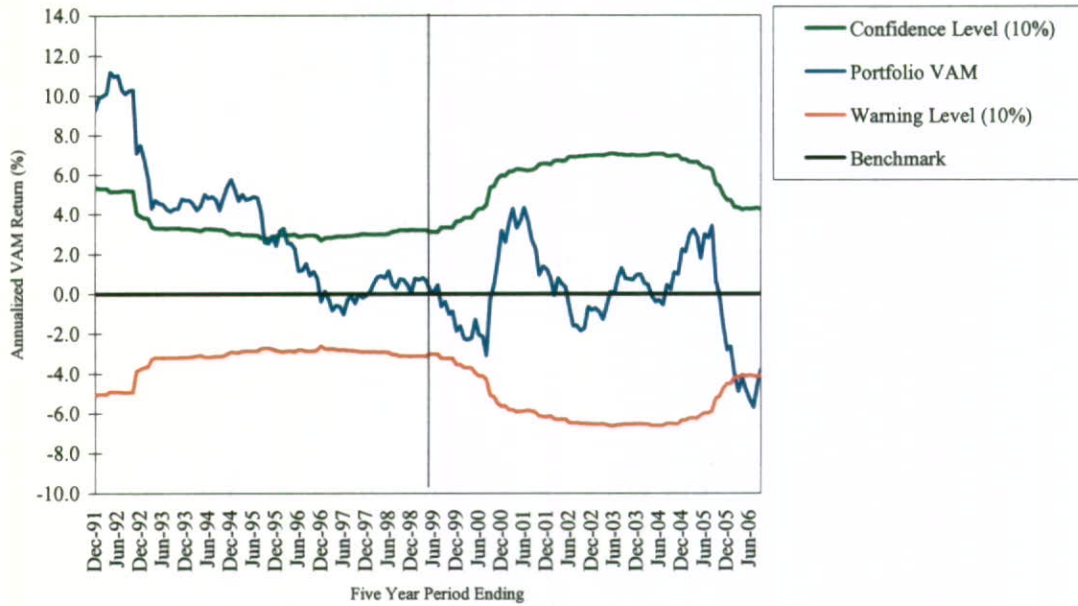
	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	-0.9%	5.3%	5.3%
2004	6.1	6.3	6.3
2003	41.2	29.7	39.3
2002	-35.0	-27.9	-23.8
2001	-25.0	-20.4	-11.2

**COHEN KLINGENSTEIN & MARKS INCORPORATED**  
**Periods Ending September, 2006**

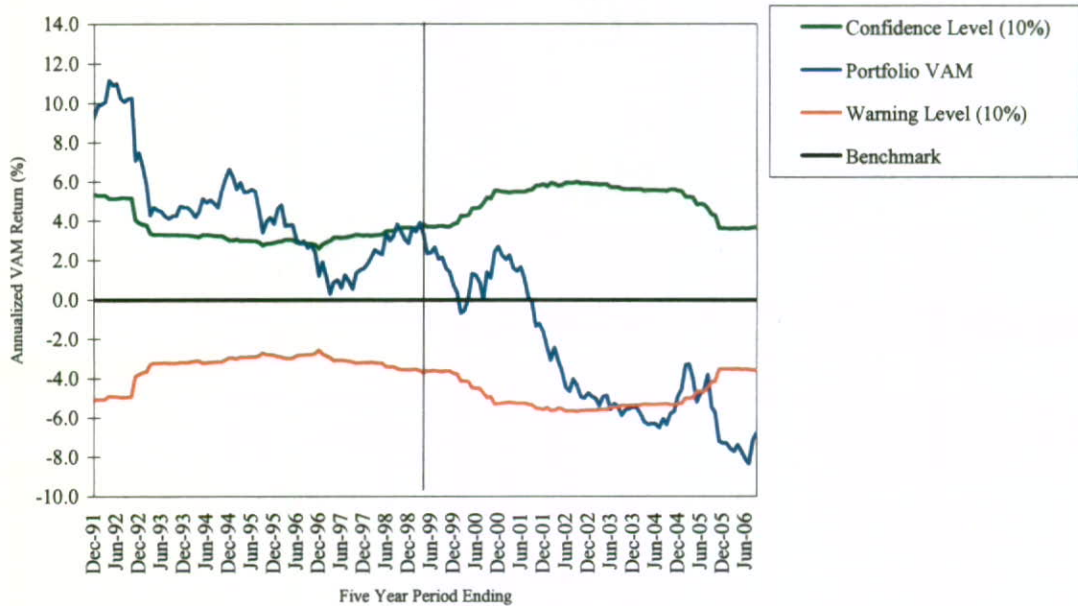
**Portfolio Manager: George Cohen**

**Assets Under Management: \$242,049,988**

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



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





**HOLT-SMITH & YATES ADVISORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Ryan Erickson**

**Assets Under Management: \$105,764,555**

**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 underperformed the Russell 1000 Growth Index by 2.1 percentage points (ppt) during the quarter. Despite overweight allocations to financial services and technology, weak stock selection within these sectors weighed on returns. An overweight position in the other energy sector detracted from performance.

For the year, the portfolio underperformed the Russell 1000 Growth Index by 0.6 ppt. Weak stock selection within financial services proved detrimental. An overweight allocation to the other energy sector pressured performance. Lack of exposure to producer durables represented a missed opportunity as the sector outperformed.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	1.8%	3.9%	3.9%
Last 1 year	5.4	6.0	6.0
Last 2 years	4.7	8.8	8.8
Last 3 years	7.0	8.4	8.4
Last 4 years	9.8	12.5	13.1
Last 5 years	3.0	4.4	8.3
Since Inception (7/00)	-1.8	-6.9	3.7

**Calendar Year Returns**

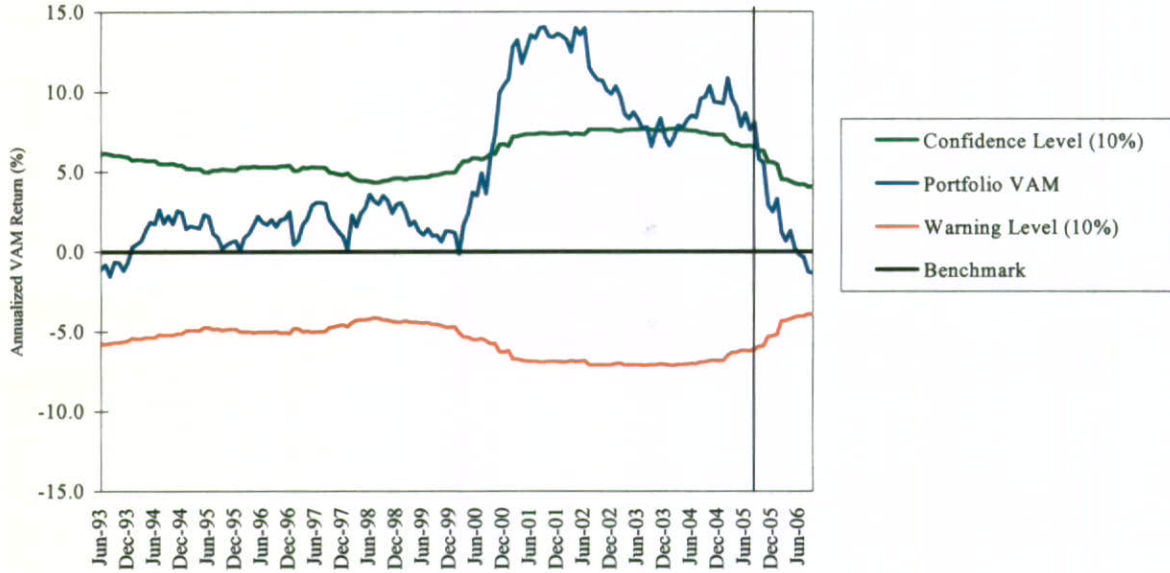
	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	1.5%	5.3%	5.3%
2004	7.3	6.3	6.3
2003	22.1	29.7	31.3
2002	-28.0	-27.9	-19.0
2001	-1.7	-20.4	4.6

**HOLT-SMITH & YATES ADVISORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Ryan Erickson**

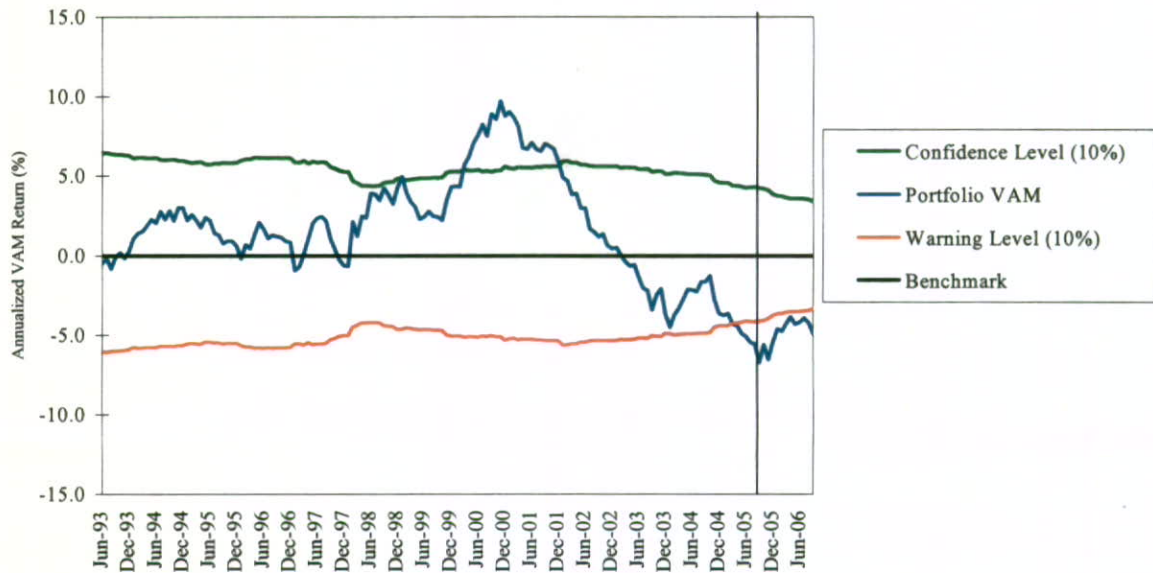
**Assets Under Management: \$105,764,555**

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



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

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



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

**INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)**  
**Periods Ending September, 2006**

**Portfolio Manager: Robert Fernholz**

**Assets Under Management: \$ 305,894,271**

**Investment Philosophy**

Through the application of a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 Growth benchmark. No specific sector or security selection decisions based on fundamentals are required. Risk parameters include: 1) minimize absolute standard deviation or maximize information ratio, 2) security positions limited to lesser of 2.5% or 10 times maximum index security weight, and 3) beta equal to or less than benchmark beta. Target security positions are established using an optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Rebalancing to target proportions occurs every six (6) business days, and partial re-optimization occurs weekly.

**Staff Comments**

The portfolio underperformed the Russell 1000 Growth Index by 1.3 percentage points (ppt) during the quarter. The strategy tends to overweight smaller cap securities, which proved detrimental during the period. The mathematical process produced a portfolio underweight in technology, which detracted from performance.

For the year, the portfolio underperformed the Russell 1000 Growth Index by 0.2 ppt, despite positive results from the volatility portion of the process. An underweight position in producer durables represented a missed opportunity as the sector outperformed. An overweight allocation to autos & transportation pressured returns.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	2.6%	3.9%	3.9%
Last 1 year	5.8	6.0	6.0
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	5.4	4.7	4.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	7.8%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A



**INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)**  
**Periods Ending September, 2006**

**Portfolio Manager: Robert Fernholz**

**Assets Under Management: \$305,894,271**

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**VAM Graphs will be drawn for period ending 3/31/07.**

**JACOBS LEVY EQUITY MANAGEMENT**

Periods Ending September, 2006

**Portfolio Manager: Bruce Jacobs and Ken Levy**

**Assets Under Management: \$280,962,291**

**Investment Philosophy**

**Staff Comments**

The strategy combines human insight and intuition, finance and behavioral theory, and state-of-the-art quantitative and statistical methods. Security expected returns generated from numerous models become inputs for the firm's proprietary portfolio optimizer. The optimizer is run daily with the objective of maximizing the information ratio, while ensuring proper diversification across market inefficiencies, securities, industries, and sectors. Extensive data scrubbing is conducted on a daily basis using both human and technology resources. Liquidity, trading costs, and investor guidelines are incorporated within the optimizing process.

The portfolio underperformed the Russell 1000 Growth Index by 0.5 percentage point (ppt) during the quarter. Overweight allocations to the producer durables and other energy sectors coupled with weak stock selection proved detrimental. An underweight position in technology represented a missed opportunity as the sector outperformed.

For the year, the portfolio underperformed the Russell 1000 Growth Index by 1.6 ppt. Weak overall stock selection negatively impacted performance and was particularly ineffective within the producer durables, consumer discretionary, and technology sectors.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	3.4%	3.9%	3.9%
Last 1 year	4.4	6.0	6.0
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	3.3	4.7	4.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	5.3%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

**JACOBS LEVY EQUITY MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Bruce Jacobs and Ken Levy**

**Assets Under Management: \$280,962,291**

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**VAM Graphs will be drawn for period ending 3/31/07**



**LAZARD ASSET MANAGEMENT LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Jim Tatera**

**Assets Under Management: \$54,377,984**

**Investment Philosophy**

**Staff Comments**

The strategy invests in companies exhibiting substantial growth opportunities, strong business models, solid management teams, and the probability for positive earnings surprises. The approach emphasizes earnings growth as the fundamental driver of stock prices over time. The process combines quantitative, qualitative and valuation criteria. The quantitative component addresses fundamentals and is focused on operating trends. Qualitative analysis involves confirmation of company fundamentals through discussions with company contacts and related parties. Valuation models focus on relative rankings of the fundamentals within the industry, the market overall and the company itself.

The portfolio underperformed the Russell 1000 Growth Index during the quarter by 0.5 percentage point (ppt). An underweight position in health care coupled with weak stock selection proved detrimental. An overweight allocation to the consumer discretionary sector pressured returns. Weak stock selection exacerbated the negative impact.

For the year, the portfolio outperformed the Russell 1000 Growth Index by 0.5 ppt. An overweight allocation to financial services coupled with strong stock selection contributed to performance. An underweight position in the other energy sector coupled with effective stock selection aided returns.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	3.4%	3.9%	3.9%
Last 1 year	6.5	6.0	6.0
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	4.6	4.7	4.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	6.6%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

**LAZARD ASSET MANAGEMENT LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Jim Tatera**

**Assets Under Management: \$54,377,984**

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**VAM Graphs will be drawn for period ending 3/31/07**

**SANDS CAPITAL MANAGEMENT LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Frank Sands, Sr.**

**Assets Under Management: \$202,366,470**

**Investment Philosophy**

**Staff Comments**

The manager invests in high-quality, seasoned and growing businesses. Bottom-up, company-focused, long-term oriented research is the cornerstone of the investment process. The strategy focuses on six (6) key investment criteria: 1) sustainable above average earnings growth; 2) leadership position in a promising business space; 3) significant competitive advantages or unique business franchise; 4) management with a clear mission and value added focus; 5) financial strength; and 6) rational valuation relative to the overall market and the company's business prospects.

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	0.7%	3.9%	3.9%
Last 1 year	-1.8	6.0	6.0
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	1.0	4.7	4.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	10.9%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A



**SANDS CAPITAL MANAGEMENT LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Frank Sands, Sr.**

**Assets Under Management: \$202,366,470**

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**VAM Graphs will be drawn for period ending 3/31/07**

**WINSLOW CAPITAL MANAGEMENT, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Clark Winslow**

**Assets Under Management: \$107,574,709**

**Investment Philosophy**

**Staff Comments**

The strategy identifies companies that can grow earnings above consensus expectations to build portfolios with forward weighted earnings growth in the range of 15-20% annually. A quantitative screen is employed for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income. Resulting companies are subjected to a qualitative assessment within the context of industry sectors. Detailed examination of income statements, cash flow and balance sheet projections is conducted, along with a judgment on the quality of management. Attractively valued stocks are chosen based on P/E relative to the benchmark, sector peers, the company's sustainable future growth rate and return on invested capital. Final portfolio construction includes diversification by economic sectors, earnings growth rates, price/earnings ratios and market capitalizations.

The portfolio underperformed the Russell 1000 Growth Index by 0.5 percentage point (ppt). An underweight allocation to technology coupled with weak stock selection detracted from performance. Weak stock selection within the consumer discretionary sector pressured returns.

For the year, the portfolio outperformed the Russell 1000 Growth Index by 1.3 ppts. Overweight positions within the utility and financial services sectors proved beneficial. Strong stock selection enhanced the positive impact. Effective stock selection within the other energy sector contributed to performance.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	3.4%	3.9%	3.9%
Last 1 year	7.3	6.0	6.0
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/05)	7.9	4.7	4.7

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	10.5%	5.3%	5.3%
2004	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

**WINSLOW CAPITAL MANAGEMENT, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Clark Winslow**

**Assets Under Management: \$107,574,709**

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**VAM Graphs will be drawn for period ending 3/31/07**



**ZEVENBERGEN CAPITAL INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Nancy Zevenbergen**

**Assets Under Management: \$231,715,631**

**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 2.7 percentage points (ppt) during the quarter. Weak overall stock selection detracted from performance, and was particularly ineffective within the consumer discretionary, financial services, and consumer staples sectors.

For the year, the portfolio outperformed the Russell 1000 Growth Index by 2.1 ppt. Both overall stock selection and sector allocation decisions aided returns. An underweight position in health care coupled with strong stock selection contributed to performance. Strong stock selection within technology proved beneficial. An overweight allocation to utilities combined with effective stock selection supported performance.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	1.2%	3.9%	3.9%
Last 1 year	8.1	6.0	6.0
Last 2 years	12.0	8.8	8.8
Last 3 years	12.1	8.4	8.4
Last 4 years	18.4	12.5	13.2
Last 5 years	6.1	4.4	7.6
Since Inception (4/94)	10.0	8.9	11.9

**Calendar Year Returns**

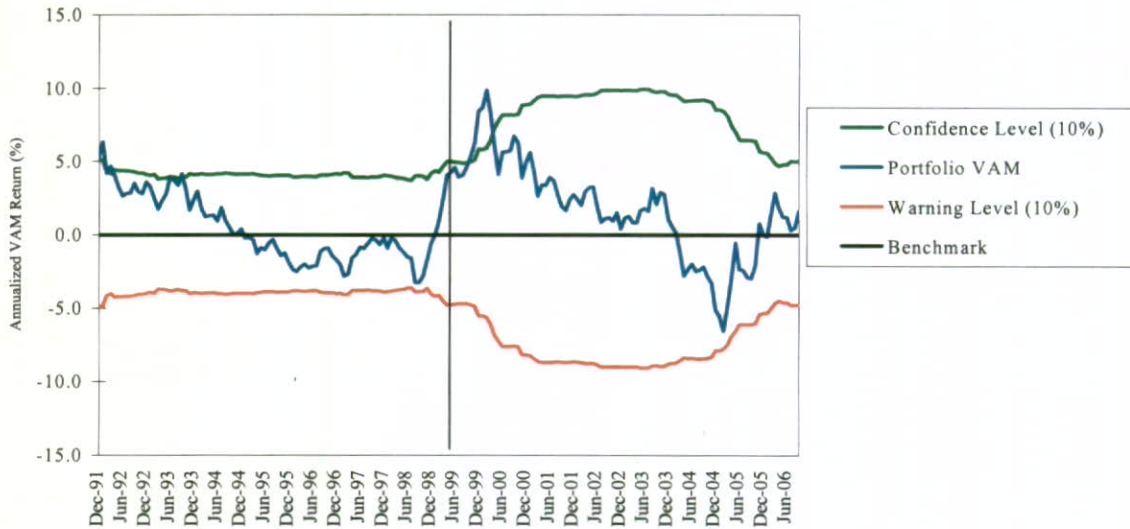
	<b>Actual</b>	<b>Russell 1000 Growth</b>	<b>Manager Benchmark</b>
2005	9.0%	5.3%	5.3%
2004	13.1	6.3	6.3
2003	49.3	29.7	31.3
2002	-36.2	-27.9	-24.2
2001	-29.0	-20.4	-3.2

**ZEVENBERGEN CAPITAL INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Nancy Zevenbergen**

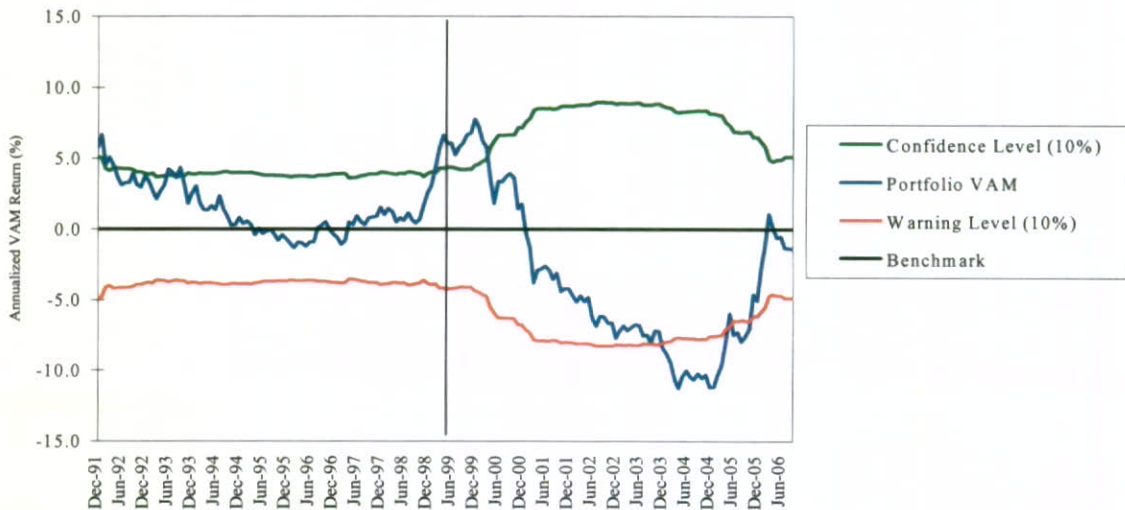
**Assets Under Management: \$231,715,631**

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



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

Zevenbergen Capital Management  
 Rolling Five Year VAM vs. Manager Benchmark



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

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## **Large Cap Value (R1000 Value)**

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## Large Cap Value (R1000 Value)

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**BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Tim Culler**

**Assets Under Management: \$444,601,727**

**Investment Philosophy**

**Staff Comments**

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 portfolio underperformed the Russell 1000 Value by 1.1 percentage points (ppt) during the quarter. Weak stock selection within the integrated oils sector pressured returns. An underweight allocation to financial services coupled with weak stock selection detracted from performance. An overweight position in producer durables proved detrimental; ineffective stock selection exacerbated the negative impact.

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.

For the year, the portfolio underperformed the Russell 1000 Value Index by 6.5 ppt. An underweight allocation to financials coupled with weak stock selection detracted from performance. An overweight position in the consumer discretionary sector coupled with weak stock selection pressured returns.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	5.1%	6.2%	6.2%
Last 1 year	8.1	14.6	14.6
Last 2 years	14.6	15.6	15.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	13.6	13.4	13.4

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
2005	9.6%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

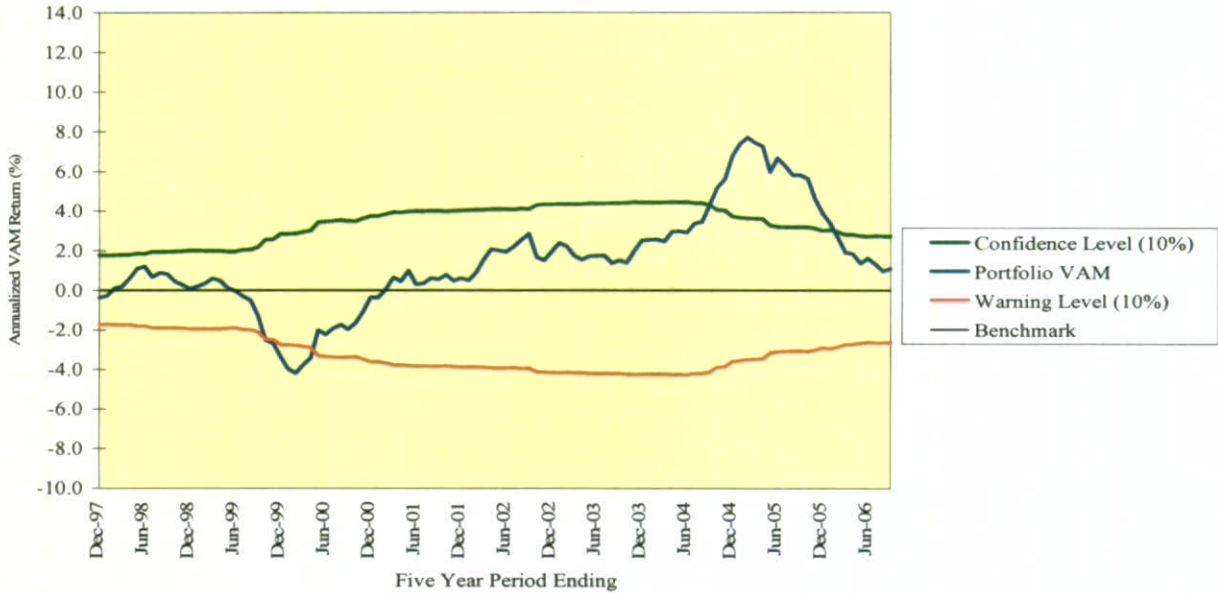
\* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

**BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Tim Culler**

**Assets Under Management: \$444,601,727**

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.  
 Rolling Five Year VAM vs. Russell 1000 Value



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

**EARNEST PARTNERS, LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Paul Viera**

**Assets Under Management: \$179,818,561**

**Investment Philosophy**

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

**Staff Comments**

The portfolio underperformed the Russell 1000 Value Index by 2.1 percentage points (ppt) during the quarter. Overweight allocations to the other energy and autos & transportation sectors coupled with weak stock selection detracted from performance. Despite an underweight position in the integrated oils sector, weak stock selection pressured returns.

For the year, the portfolio underperformed the Russell 1000 Value Index by 3.1 ppt. An overweight allocation to technology coupled with ineffective stock selection hindered performance. An overweight position in the other energy sector detracted as this was the worst performing sector within the index.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	4.1%	6.2%	6.2%
Last 1 year	11.5	14.6	14.6
Last 2 years	17.8	15.6	15.6
Last 3 years	19.1	17.2	17.2
Last 4 years	20.7	19.0	21.8
Last 5 years	11.1	10.7	16.5
Since Inception (7/00)	6.8	8.2	13.8

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
2005	15.6%	7.1%	7.1%
2004	18.9	16.5	16.5
2003	32.0	30.0	41.8
2002	-18.1	-15.5	-11.6
2001	-0.4	-5.6	11.5

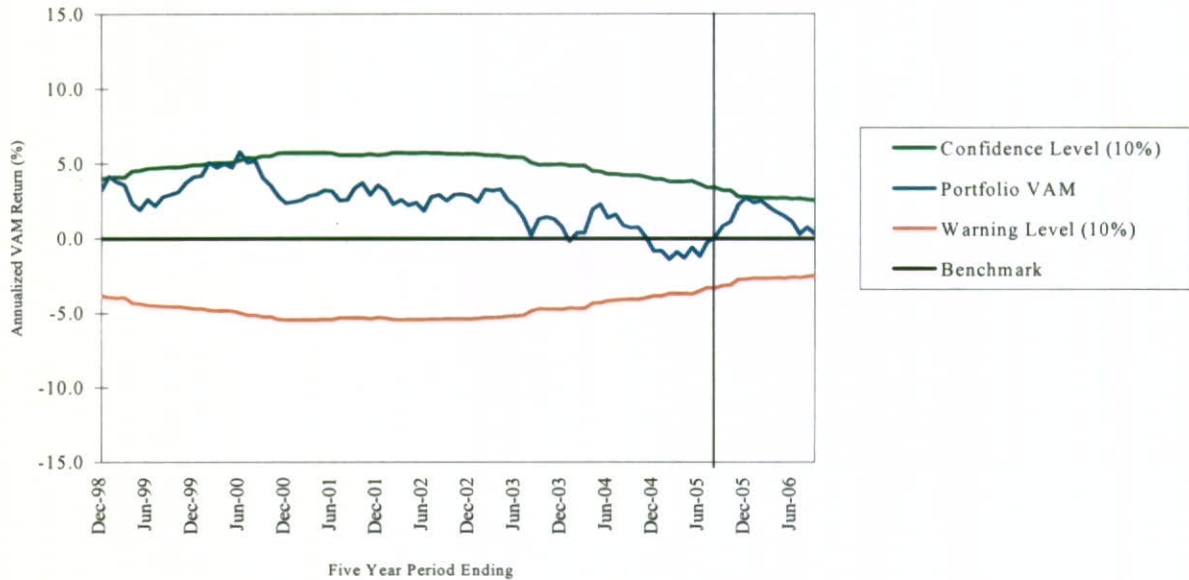


**EARNEST PARTNERS, LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Paul Viera**

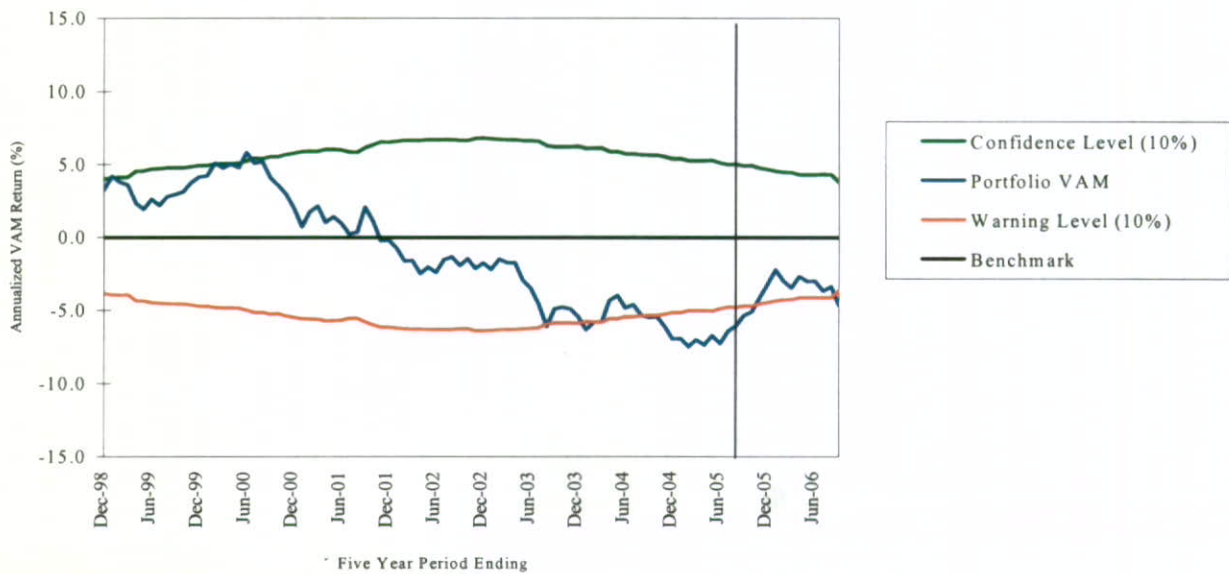
**Assets Under Management: \$179,818,561**

**Earnest Partners**  
**Rolling Five Year VAM vs. Russell 1000 Value**



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

**Earnest Partners**  
**Rolling Five Year VAM vs. Manager Benchmark**



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

**LORD ABBETT & CO. LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Eli Saltzmann**

**Assets Under Management: \$317,712,535**

**Investment Philosophy**

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

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

**Staff Comments**

The portfolio outperformed the Russell 1000 Value Index by 0.3 percentage point (ppt) during the quarter. An underweight position in the integrated oils sector coupled with strong stock selection aided returns. Effective stock selection within the utilities sector proved beneficial. An overweight allocation to health care more than offset the impact of weak stock selection within the sector.

For the year, the portfolio outperformed the Russell 1000 Value Index by 0.5 ppt. Overall strong stock selection contributed to performance and was particularly effective within the other energy and utilities sectors. An underweight position in the integrated oils sector coupled with strong stock selection supported performance.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	6.5%	6.2%	6.2%
Last 1 year	15.1	14.6	14.6
Last 2 years	13.7	15.6	15.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	10.7	13.4	13.4

**Calendar Year Returns**

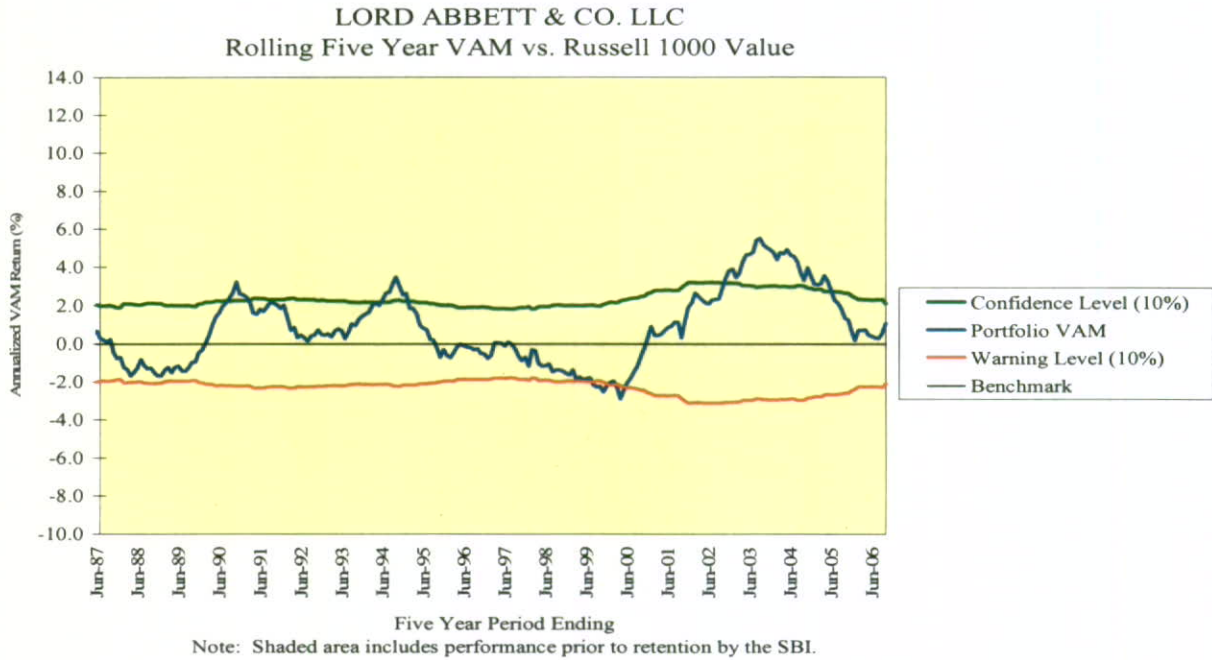
	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
2005	3.5%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

\* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

**LORD ABBETT & CO. LLC**  
Periods Ending September, 2006

**Portfolio Manager: Eli Saltzmann**

**Assets Under Management: \$317,712,535**





**LSV ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Josef Lakonishok**

**Assets Under Management: \$427,126,081**

**Investment Philosophy**

**Staff Comments**

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.

No comment at this time.

**Recommendation**

No action required.

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.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	3.6%	6.2%	6.2%
Last 1 year	13.8	14.6	14.6
Last 2 years	18.0	15.6	15.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	16.0	13.4	13.4

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
2005	12.5%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

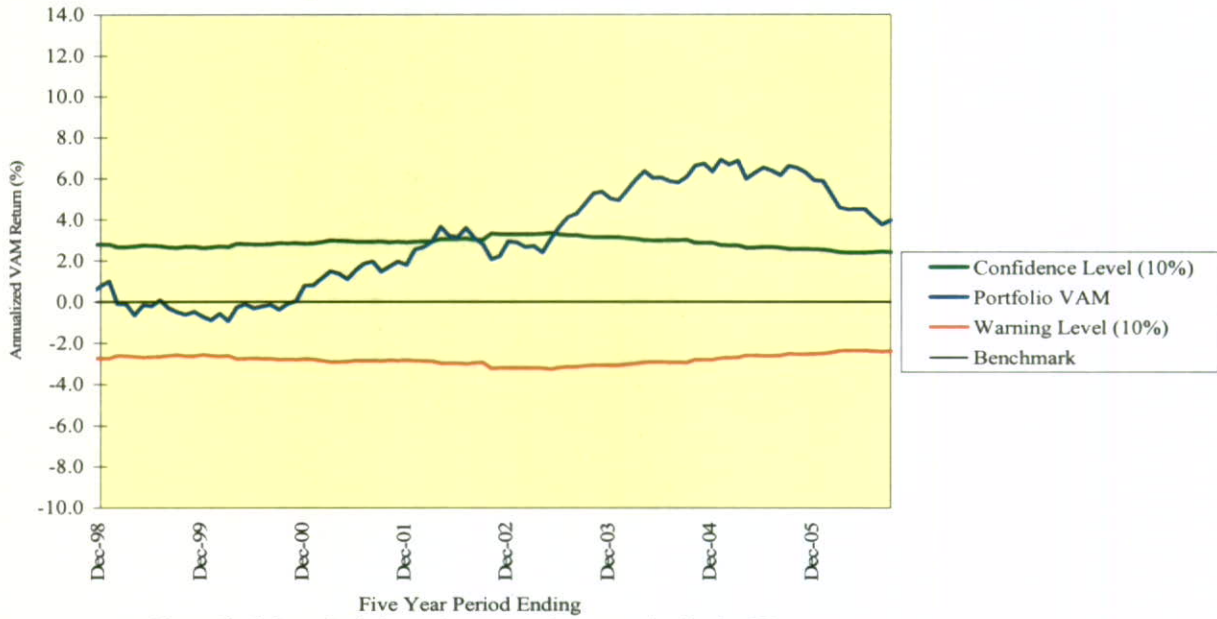
\* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LSV ASSET MANAGEMENT  
Periods Ending September, 2006

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$427,126,081

LSV ASSET MANAGEMENT  
Rolling Five Year VAM vs. Russell 1000 Value



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

**OPPENHEIMER CAPITAL**  
**Periods Ending September, 2006**

**Portfolio Manager: John Lindenthal**

**Assets Under Management: \$340,990,129**

**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 outperformed the Russell 1000 Value Index by 0.6 percentage point (ppt) during the quarter. An overweight allocation to technology coupled with strong stock selection contributed to performance. An underweight position in the other energy sector proved beneficial; effective stock selection enhanced the positive impact.

For the year, the portfolio underperformed the Russell 1000 Value Index by 3.5 ppt. Overweight allocations to the consumer discretionary and consumer staples sectors detracted from performance. Weak stock selection within the sectors further pressured returns.

**Recommendation**

Manager was re-interviewed by the Stock & Bond Committee 1Q06. Staff continues to monitor closely.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	6.8%	6.2%	6.2%
Last 1 year	11.1	14.6	14.6
Last 2 years	9.1	15.6	15.6
Last 3 years	11.8	17.2	17.2
Last 4 years	14.8	19.0	19.2
Last 5 years	7.7	10.7	10.5
Since Inception (7/93)	12.5	12.1	12.6

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
2005	1.0%	7.1%	7.1%
2004	12.0	16.5	16.5
2003	28.9	30.0	31.4
2002	-15.5	-15.5	-20.7
2001	-7.0	-5.6	-9.5

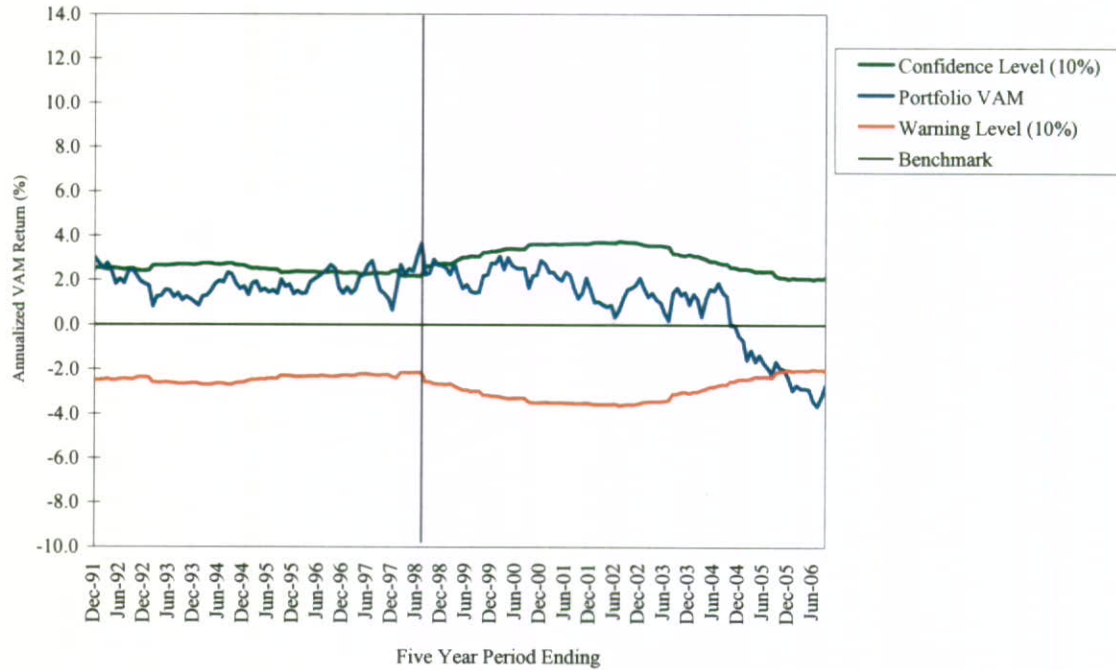


**OPPENHEIMER CAPITAL**  
**Periods Ending September, 2006**

**Portfolio Manager: John Lindenthal**

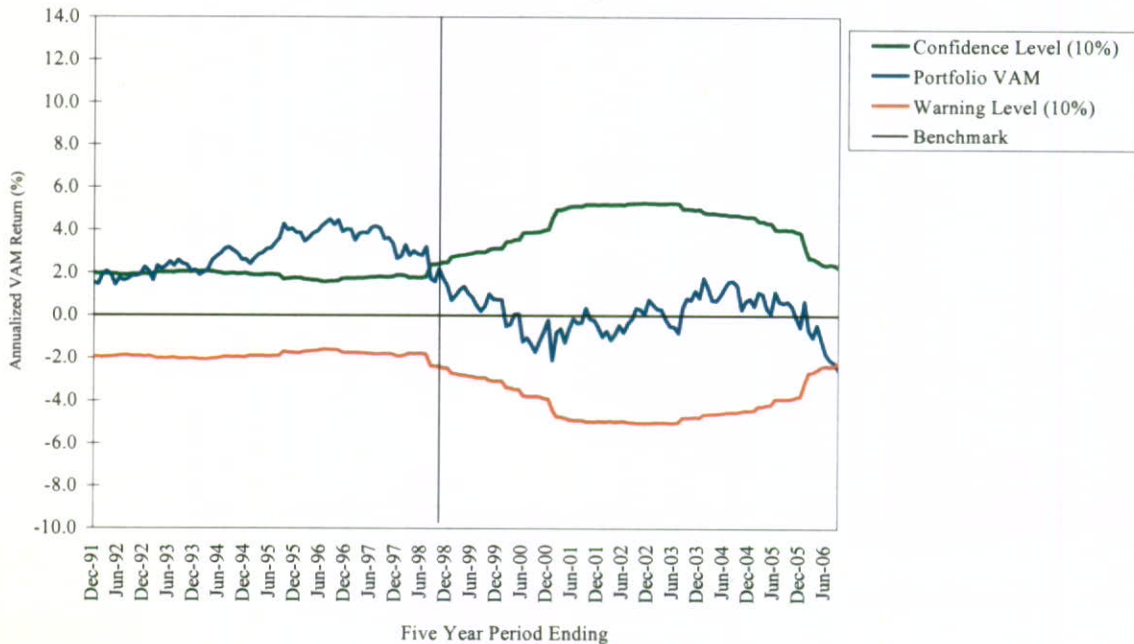
**Assets Under Management: \$340,990,129**

**OPPENHEIMER CAPITAL**  
**Rolling Five Year VAM vs. Russell 1000 Value**



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**



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

**SYSTEMATIC FINANCIAL MANAGEMENT, L.P.**  
**Periods Ending September, 2006**

**Portfolio Manager: Kevin McCreesh**

**Assets Under Management: \$304,602,687**

**Investment Philosophy**

**Staff Comments**

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.

No comment at this time.

**Recommendation**

No action required.

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.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	4.5%	6.2%	6.2%
Last 1 year	11.0	14.6	14.6
Last 2 years	15.8	15.6	15.6
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (4/04)	13.1	13.4	13.4

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 1000 Value</b>	<b>Manager Benchmark</b>
2005	10.3%	7.1%	7.1%
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

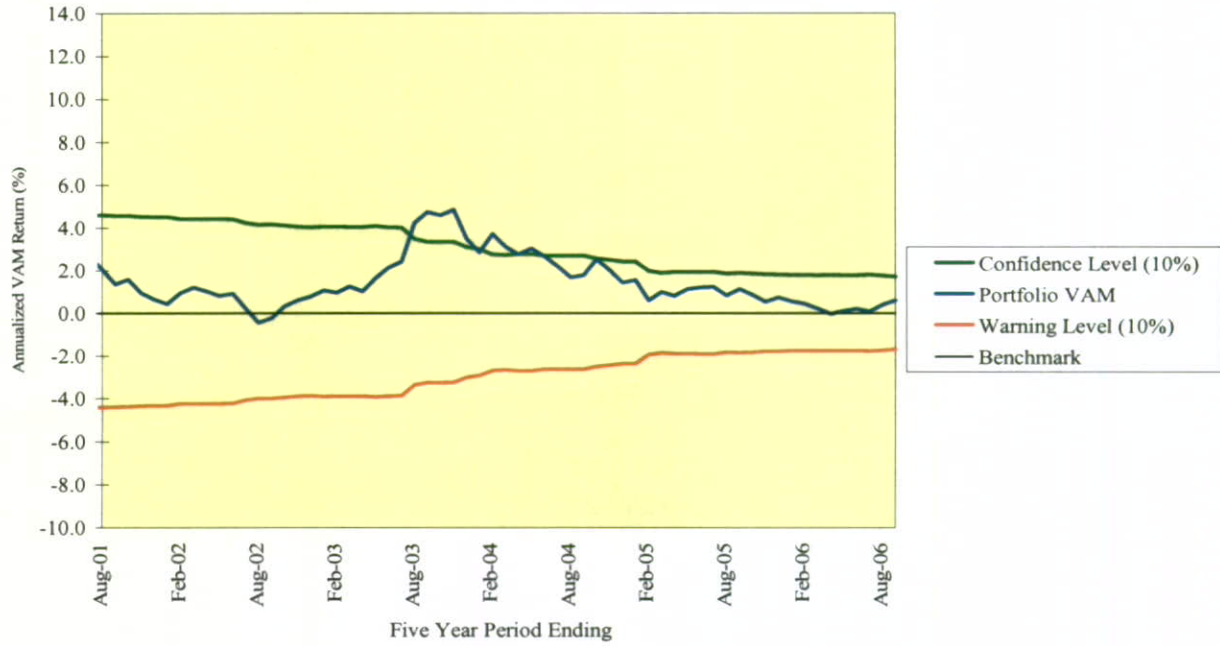
\* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

**SYSTEMATIC FINANCIAL MANAGEMENT, L.P.**  
**Periods Ending September, 2006**

**Portfolio Manager: Kevin McCreesh**

**Assets Under Management: \$304,602,687**

**SYSTEMATIC FINANCIAL MANAGEMENT, LP**  
**Rolling Five Year VAM vs. Russell 1000 Value**



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



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## **Small Cap Growth (R2000) Growth**

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## Small Cap Growth (R2000 Growth)

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**MCKINLEY CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Robert Gillam, Sr.**

**Assets Under Management: \$204,525,201**

**Investment Philosophy**

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

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

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	-3.9%	-1.8%	-1.8%
Last 1 year	5.0	5.9	5.9
Last 2 years	11.4	11.8	11.8
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)	6.9	8.2	8.2

**Calendar Year Returns**

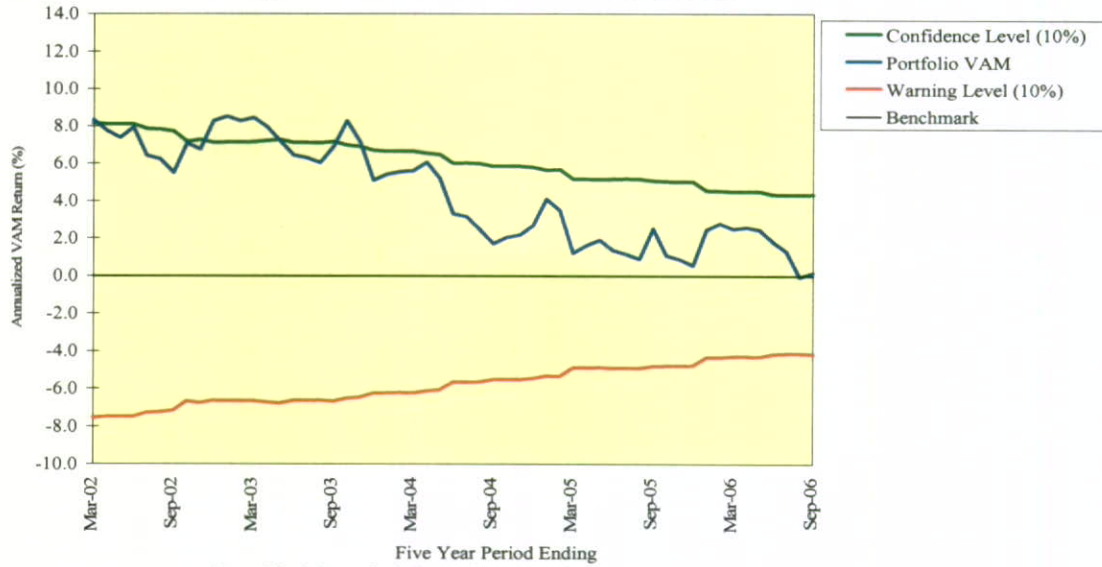
	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
2005	0.2%	4.2%	4.2%
2004	12.2	14.3	14.3
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

**MCKINLEY CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Robert Gillam, Sr.**

**Assets Under Management: \$204,525,201**

**MCKINLEY CAPITAL MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 2000 Growth**



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

**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Periods Ending September, 2006**

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

**Assets Under Management: \$138,650,131**

**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 6.5 percentage points (ppt) during the quarter. An underweight allocation to the consumer discretionary sector represented a missed opportunity as the sector outperformed. Weak stock selection exacerbated the negative impact. Ineffective stock selection within the health care, producer durables and financial services sectors pressured returns.

For the year, the portfolio outperformed the Russell 2000 Growth Index by 4.4 ppt. An overweight position in producer durables coupled with strong stock selection proved beneficial. Despite underweight allocations to materials & processing and technology, strong stock selection within these sectors contributed to performance.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	-8.3%	-1.8%	-1.8%
Last 1 year	10.3	5.9	5.9
Last 2 years	22.7	11.8	11.8
Last 3 years	14.9	11.8	11.8
Last 4 years	20.1	18.6	19.3
Last 5 years	12.3	10.1	11.2
Since Inception (7/00)	-2.6	-1.8	0.2

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
2005	25.2%	4.2%	4.2%
2004	6.4	14.3	14.3
2003	50.7	48.5	48.5
2002	-33.3	-30.3	-27.8
2001	-22.8	-9.2	-5.5



**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Periods Ending September, 2006**

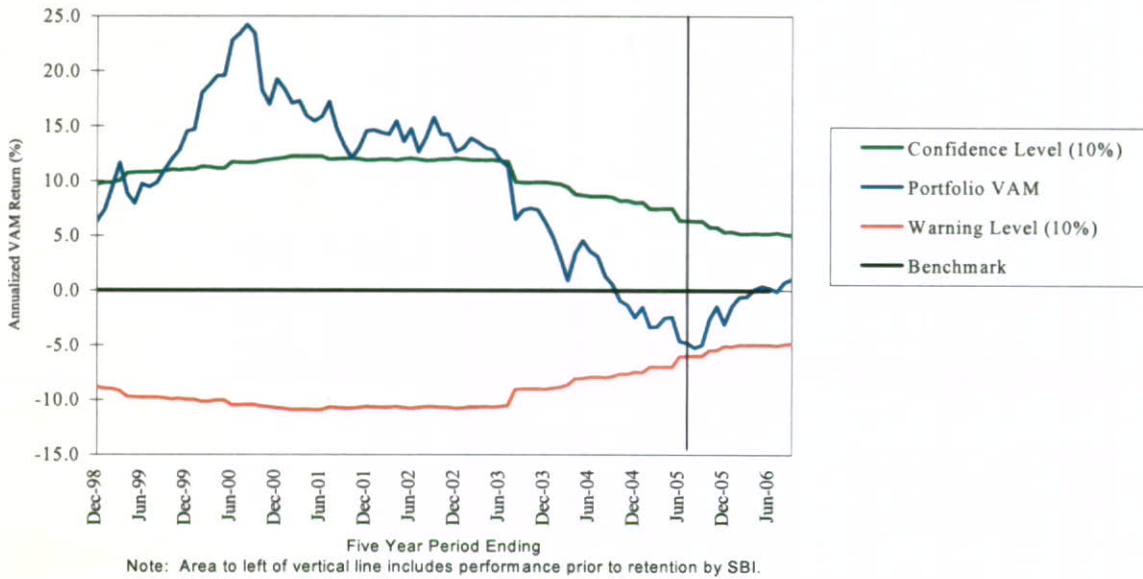
**Portfolio Manager: Thomas Press and Don Longlet**

**Assets Under Management: \$138,650,131**

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



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



**SUMMIT CREEK ADVISORS, LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Joseph Docter**

**Assets Under Management: \$144,119,405**

**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 firm experienced a significant loss of accounts and assets under management at the end of the third quarter, due largely to sustained underperformance. Given this situation, staff is concerned about the organization's ability to survive and continue as a viable business entity.

**Recommendation**

Committee recommends termination of manager.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	-3.2%	-1.8%	-1.8%
Last 1 year	-0.7	5.9	5.9
Last 2 years	9.0	11.8	11.8
Last 3 years	7.8	11.8	11.8
Last 4 years	14.7	18.6	19.4
Last 5 years	7.8	10.1	11.8
Since Inception (7/00)	-0.4	-1.8	2.5

**Calendar Year Returns**

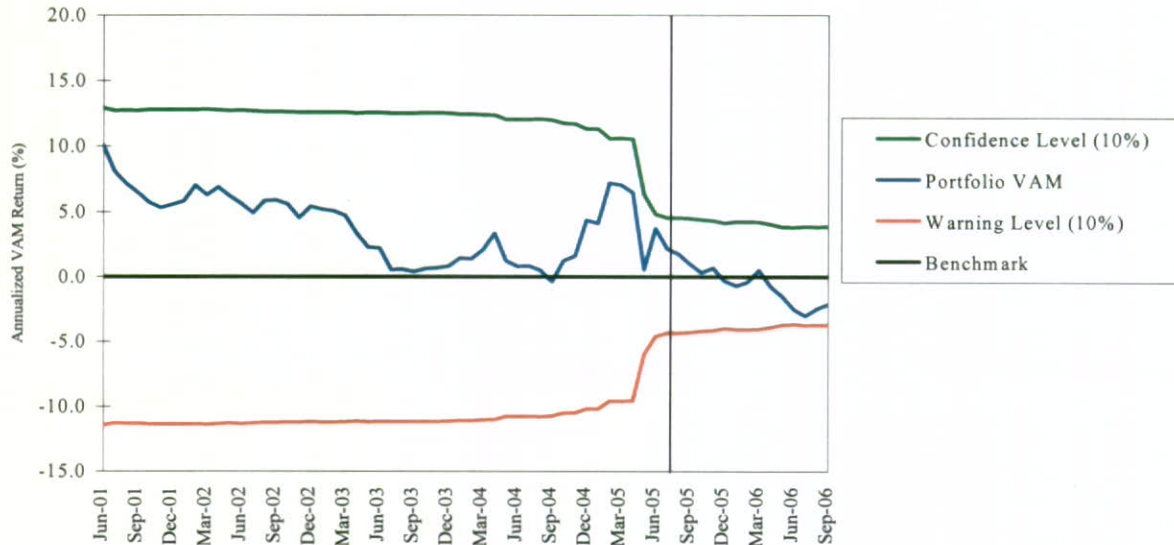
	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
2005	4.4%	4.2%	4.2%
2004	8.9	14.3	14.3
2003	37.6	48.5	51.3
2002	-25.0	-30.3	-26.7
2001	-6.1	-9.2	4.6

**SUMMIT CREEK ADVISORS, LLC**  
**Periods Ending September, 2006**

**Portfolio Manager: Joseph Docter**

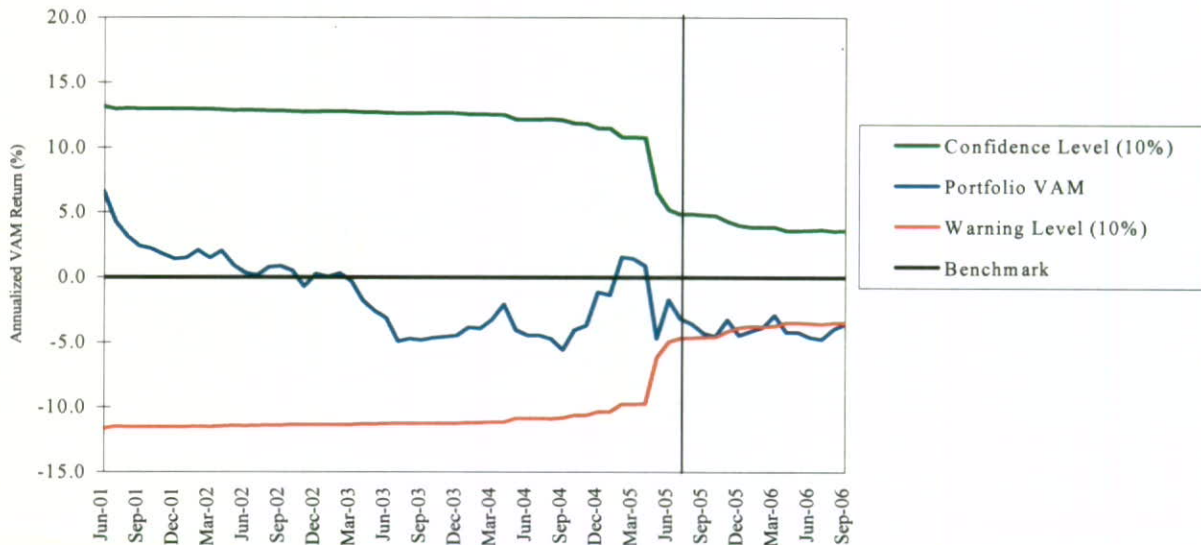
**Assets Under Management: \$144,119,405**

Summit Creek Advisors, LLC  
 Rolling Five Year VAM vs. Russell 2000 Growth



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

Summit Creek Advisors, LLC  
 Rolling Five Year VAM vs. Manager Benchmark



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



**TURNER INVESTMENT PARTNERS**  
**Periods Ending September, 2006**

**Portfolio Manager: William McVail**

**Assets Under Management: \$155,356,982**

**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 underperformed the Russell 2000 Growth Index by 2.4 percentage points (ppt) during the quarter. Weak overall stock selection detracted from performance and was particularly ineffective within the technology, financial services and consumer discretionary sectors.

For the year, the portfolio outperformed the benchmark by 0.3 ppt. Strong stock selection within the materials & processing, consumer, and financial services sectors contributed to performance. The portfolio benefited from the performance of holdings not included in the benchmark, including VistaPrint, NovaGold Resources and Ctrip.com International.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
Last Quarter	-4.2%	-1.8%	-1.8%
Last 1 year	6.2	5.9	5.9
Last 2 years	10.9	11.8	11.8
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)	7.6	8.2	8.2

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Growth</b>	<b>Manager Benchmark</b>
2005	6.2%	4.2%	4.2%
2004	11.6	14.3	14.3
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A



**TURNER INVESTMENT PARTNERS**  
**Periods Ending September, 2006**

**Portfolio Manager: William McVail**

**Assets Under Management: \$155,356,982**

TURNER INVESTMENT PARTNERS  
 Rolling Five Year VAM vs. Russell 2000 Growth



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

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## **Small Cap Value (R2000 Value)**

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## Small Cap Value (R2000 Value)

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**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Chip Otness**

**Assets Under Management: \$128,032,674**

**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 0.5 percentage point (ppt) during the quarter. Strong overall stock selection contributed to performance, and was particularly effective within the technology, consumer discretionary and health care sectors.

For the year, the portfolio underperformed the Russell 2000 Value Index by 1.1 ppt. Underweight positions within the materials & processing and producer durables sectors proved detrimental. Weak stock selection exacerbated the negative impact.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	3.1%	2.6%	2.6%
Last 1 year	12.9	14.0	14.0
Last 2 years	12.3	15.9	15.9
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	14.5	14.5

**Calendar Year Returns**

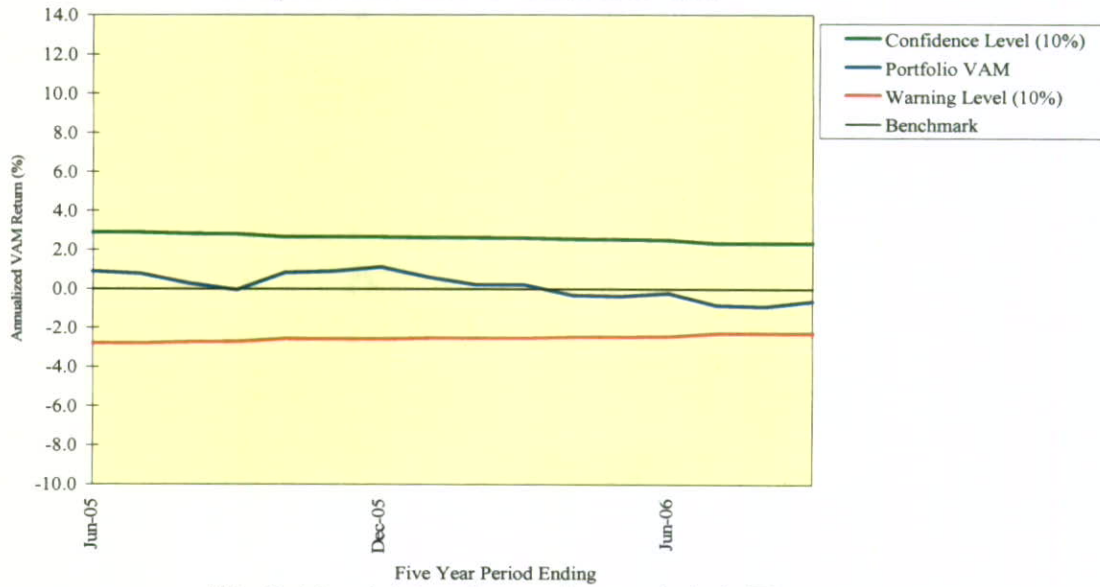
	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
2005	4.1%	4.7%	4.7%
2004	19.9	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Chip Otness**

**Assets Under Management: \$128,032,674**

**GOLDMAN SACHS ASSET MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 2000 Value**



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

**HOTCHKIS & WILEY CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Jim Miles and David Green**

**Assets Under Management: \$125,382,064**

**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**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	-2.8%	2.6%	2.6%
Last 1 year	-2.0	14.0	14.0
Last 2 years	9.4	15.9	15.9
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)	11.2	14.5	14.5

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
2005	10.4%	4.7%	4.7%
2004	27.1	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

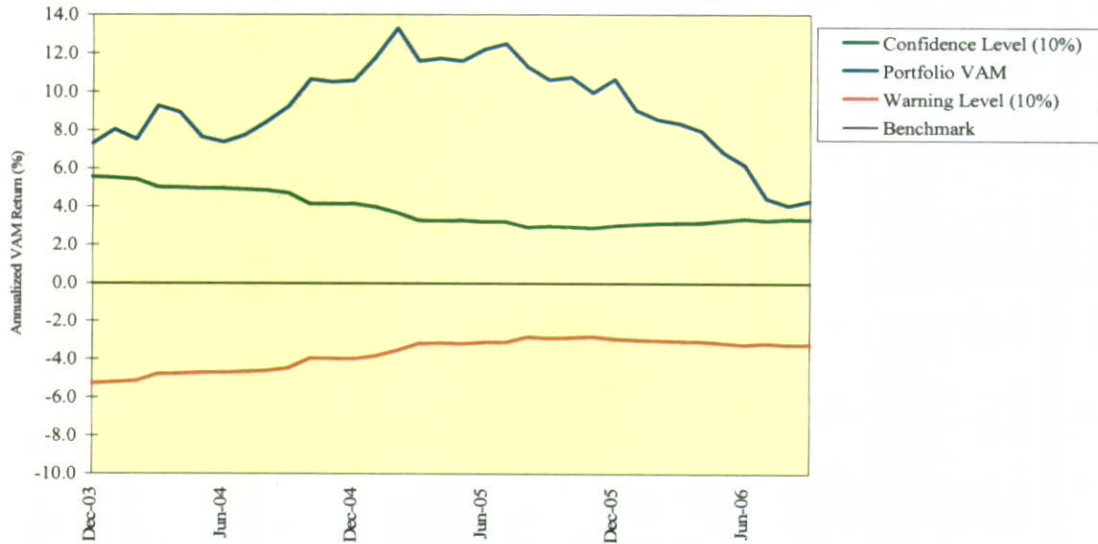


**HOTCHKIS & WILEY CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Jim Miles and David Green**

**Assets Under Management: \$125,382,064**

**HOTCHKIS & WILEY CAPITAL MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 2000 Value**



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

**MARTINGALE ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: William Jacques**

**Assets Under Management: \$132,466,774**

**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**

The portfolio underperformed the Russell 2000 Value Index by 7.0 percentage points (ppt) during the quarter and 12.7 ppt for the year. In both periods, weak stock selection within the technology and materials & processing sectors detracted from performance.

The team is very concerned about the strategy's underperformance and has performed extensive analysis to determine the sources of underperformance. Their conclusion is that the process is not broken, though the short term environment remains challenging. Staff is impressed with the analytic work they have done and their proactive approach to addressing the situation.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	-4.4%	2.6%	2.6%
Last 1 year	1.3	14.0	14.0
Last 2 years	11.7	15.9	15.9
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)	13.5	14.5	14.5

**Calendar Year Returns**

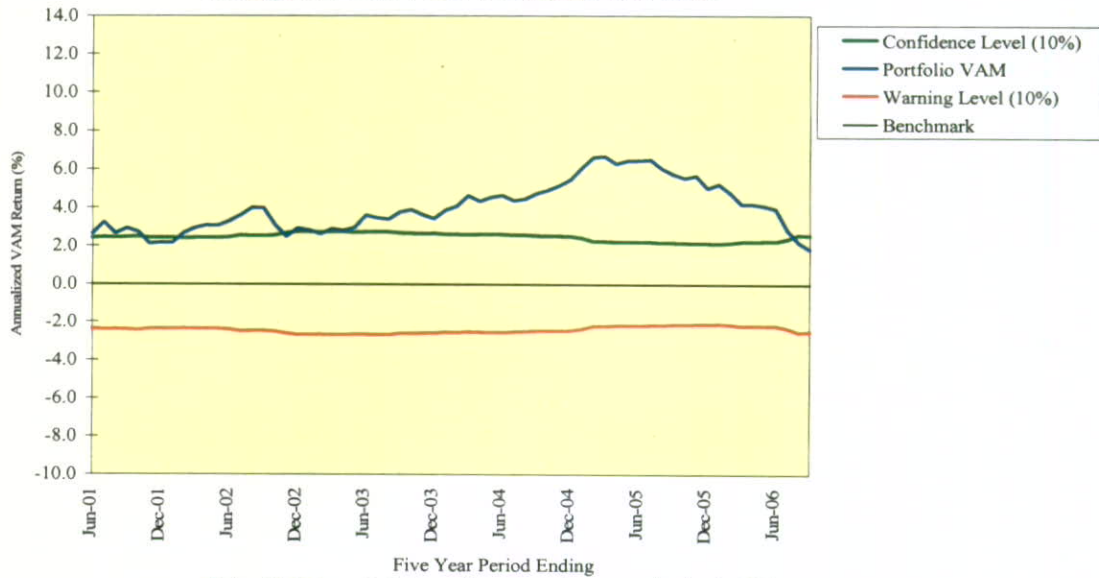
	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
2005	6.2%	4.7%	4.7%
2004	30.8	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

**MARTINGALE ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: William Jacques**

**Assets Under Management: \$132,466,774**

**MARTINGALE ASSET MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 2000 Value**



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

**PEREGRINE CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

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

**Assets Under Management: \$205,807,509**

**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**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	-0.2%	2.6%	2.6%
Last 1 year	7.1	14.0	14.0
Last 2 years	15.7	15.9	15.9
Last 3 years	18.1	19.0	19.0
Last 4 years	22.8	22.1	22.1
Last 5 years	17.0	17.0	18.2
Since Inception (7/00)	16.8	15.6	17.9

**Calendar Year Returns**

	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
2005	10.1%	4.7%	4.7%
2004	23.6	22.2	22.2
2003	44.2	46.0	44.2
2002	-8.1	-11.4	-6.9
2001	12.6	14.0	22.9

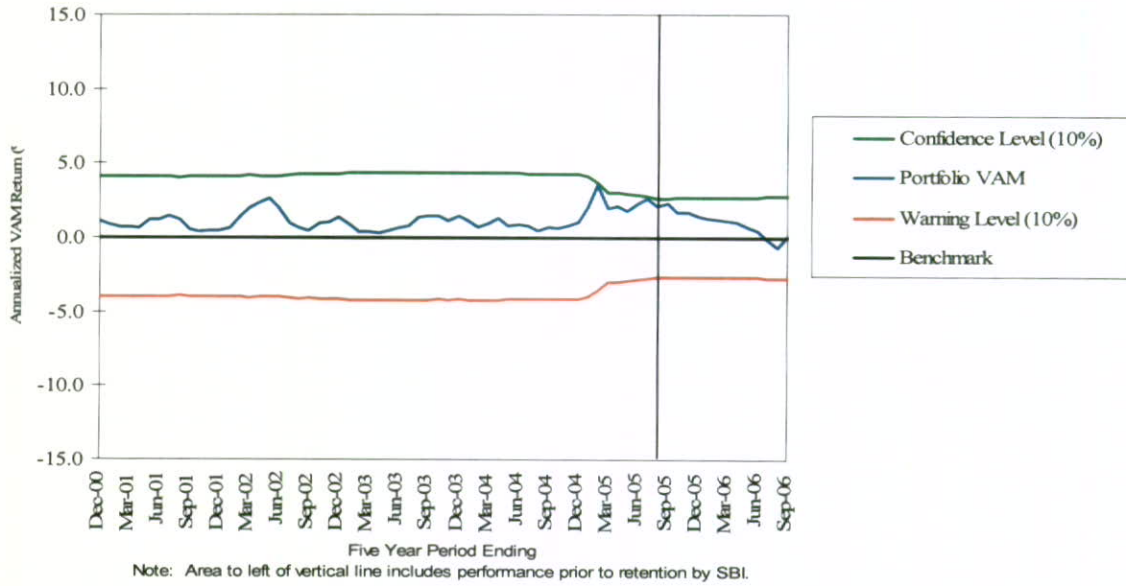


**PEREGRINE CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

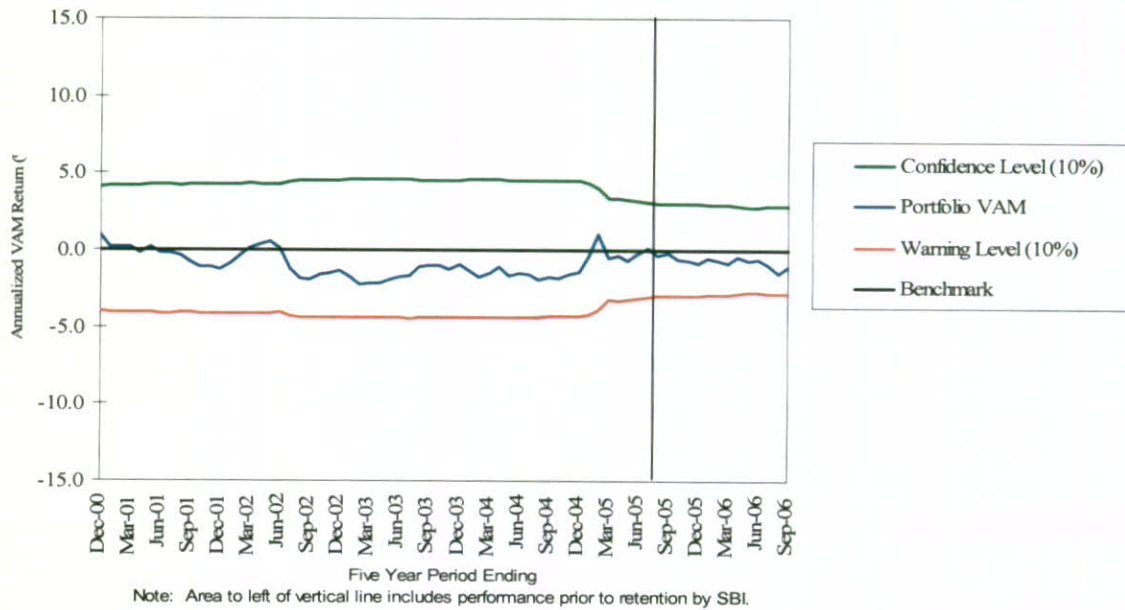
**Portfolio Manager: Doug Pugh and Tasso Coin**

**Assets Under Management: \$205,807,509**

Peregrine Capital Management  
 Rolling Five Year VAM vs. Russell 2000 Value



Peregrine Capital Management  
 Rolling Five Year VAM vs. Manager Benchmark



**RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Jacob Hurwitz and Kent Kelley**

**Assets Under Management: \$60,943,244**

**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**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
Last Quarter	-0.1%	2.6%	2.6%
Last 1 year	10.8	14.0	14.0
Last 2 years	14.3	15.9	15.9
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)	14.6	14.5	14.5

**Calendar Year Returns**

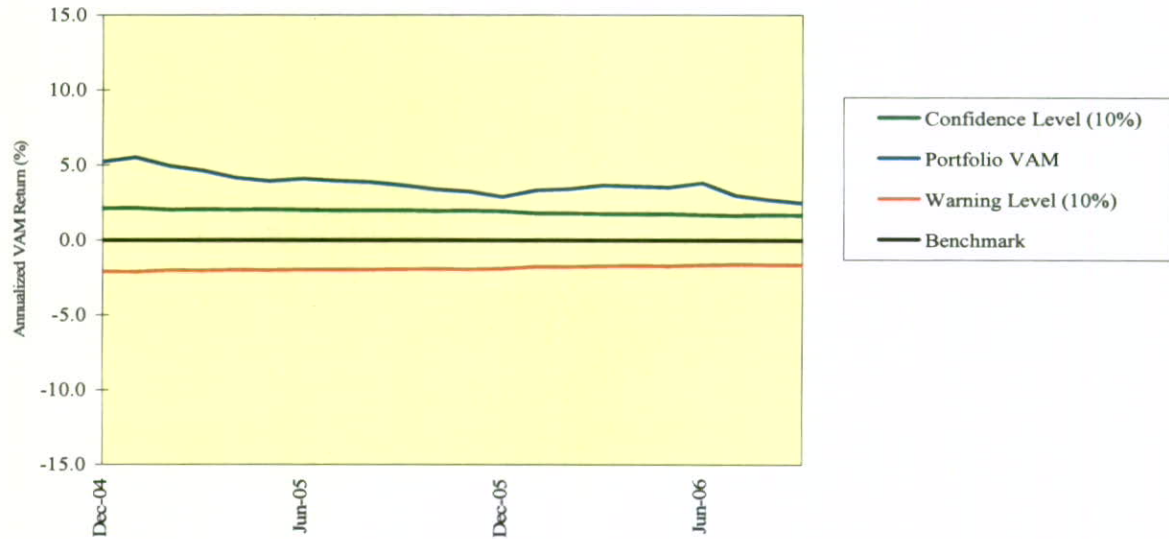
	<b>Actual</b>	<b>Russell 2000 Value</b>	<b>Manager Benchmark</b>
2005	4.8%	4.7%	4.7%
2004	25.8	22.2	22.2
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A

**RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Jacob Hurwitz and Kent Kelley**

**Assets Under Management: \$60,943,244**

**RIVERSOURCE / KENWOOD CAPITAL MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 2000 Value**



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

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## **Semi-Passive and Passive**

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## **Semi-Passive and Passive**

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**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Rhonda Vitanye**

**Assets Under Management: \$3,118,789,507**

**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 materials & processing coupled with weak stock selection detracted from performance. Stock selection in consumer discretionary also was weak for the quarter.

For the year, the portfolio outperformed the Russell 1000 index by 0.9 ppt. Strong stock selection in the health care and materials & processing sectors benefited returns. Despite an underweight allocation to consumer discretionary and producer durables, strong stock selection within these sectors contributed to performance for the year.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	4.9%	5.1%
Last 1 year	11.1	10.2
Last 2 years	13.1	12.2
Last 3 years	13.5	13.0
Last 4 years	16.5	15.5
Last 5 years	8.7	8.0
Since Inception (1/95)	11.2	10.5

**Calendar Year Returns**

	<b>Actual</b>	<b>Manager Benchmark*</b>
2005	7.6%	6.3%
2004	11.7	11.4
2003	30.0	28.5
2002	-19.1	-19.7
2001	-7.8	-9.7

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



**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Rhonda Vitanye**

**Assets Under Management: \$3,118,789,507**

**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, 2006**

**Portfolio Manager: John Cone**

**Assets Under Management: \$2,224,830,771**

**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 outperformed the Russell 1000 index by 0.2 percentage point (ppt) during the quarter. Strong stock selection coupled with an underweight to the other energy sector contributed to the return of the portfolio.

For the year, the portfolio outperformed the Russell 1000 index by 1.0 ppt. Overall, the portfolio benefited from sector allocation and security selection. The biggest contributor to performance was the strong stock selection in the health care, financial, and consumer discretionary sectors.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	5.3%	5.1%
Last 1 year	11.2	10.2
Last 2 years	12.5	12.2
Last 3 years	13.1	13.0
Last 4 years	15.1	15.5
Last 5 years	7.5	8.0
Since Inception (1/95)	10.1	10.5

**Calendar Year Returns**

	<b>Actual</b>	<b>Manager Benchmark*</b>
2005	6.1%	6.3%
2004	11.7	11.4
2003	26.9	28.5
2002	-20.2	-19.7
2001	-9.0	-9.7

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

**FRANKLIN PORTFOLIO ASSOCIATES**  
**Periods Ending September, 2006**

**Portfolio Manager: John Cone**

**Assets Under Management: \$2,224,830,771**

**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, 2006**

**Portfolio Manager: Ralph Zingone and Terance Chen    Assets Under Management: \$2,428,246,330**

**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 1.2 percentage points (ppt) during the quarter. Overall sector allocation and security selection decisions added value to the portfolio. The biggest contributor to performance was stock selection within the consumer discretionary and health care sectors.

For the year, the portfolio outperformed the Russell 1000 index by 0.6 ppt. The portfolio reported more favorable returns due in part to stock selection within the financial services, other energy and materials & processing sectors.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	6.3%	5.1%
Last 1 year	10.8	10.2
Last 2 years	11.4	12.2
Last 3 years	12.9	13.0
Last 4 years	15.3	15.5
Last 5 years	7.2	8.0
Since Inception (1/95)	10.5	10.5

**Calendar Year Returns**

	<b>Actual</b>	<b>Manager Benchmark*</b>
2005	4.7%	6.3%
2004	11.7	11.4
2003	28.9	28.5
2002	-21.8	-19.7
2001	-8.7	-9.7

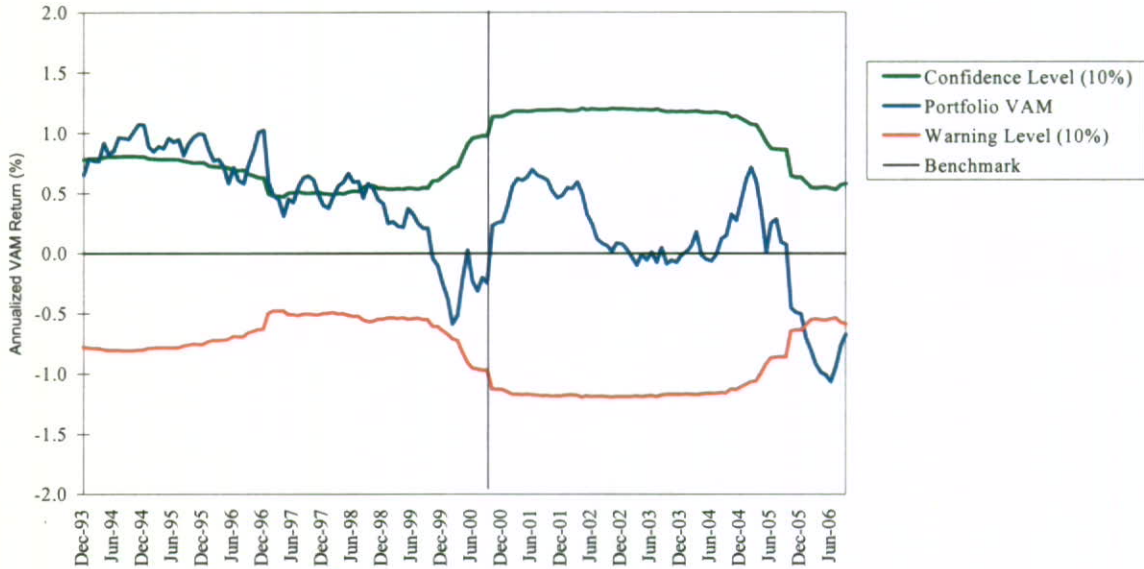
\* Completeness Fund until 12/31/03; Russell 1000 beginning 1/1/04.



**J.P. MORGAN INVESTMENT MANAGEMENT, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Ralph Zingone and Terance Chen    Assets Under Management: \$2,428,246,330**

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



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

**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Amy Schioldager**

**Assets Under Management: \$7,490,535,847**

**Investment Philosophy – Passive Style**

Barclays Global Investors seeks to minimize 1) tracking error, 2) transaction costs, and 3) investment and operational risks. The portfolio is passively managed against the asset class target using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark with less exposure to illiquid stocks.

**Staff Comments**

No comment at this time.

**Recommendation**

No action required.

**Quantitative Evaluation**

**Period Returns**

*(Annualized for multi-year periods)*

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	4.7%	4.6%
Last 1 year	10.3	10.2
Last 2 years	12.4	12.4
Last 3 years	13.1	13.0
Last 4 years	16.1	16.1
Last 5 years	8.2	8.3
Since Inception (7/95)	10.0	9.8

**Calendar Year Returns**

	<b>Actual</b>	<b>Manager Benchmark*</b>
2005	6.2%	6.1%
2004	12.0	11.9
2003	30.9	31.2
2002	-21.4	-21.5
2001	-11.8	-11.7

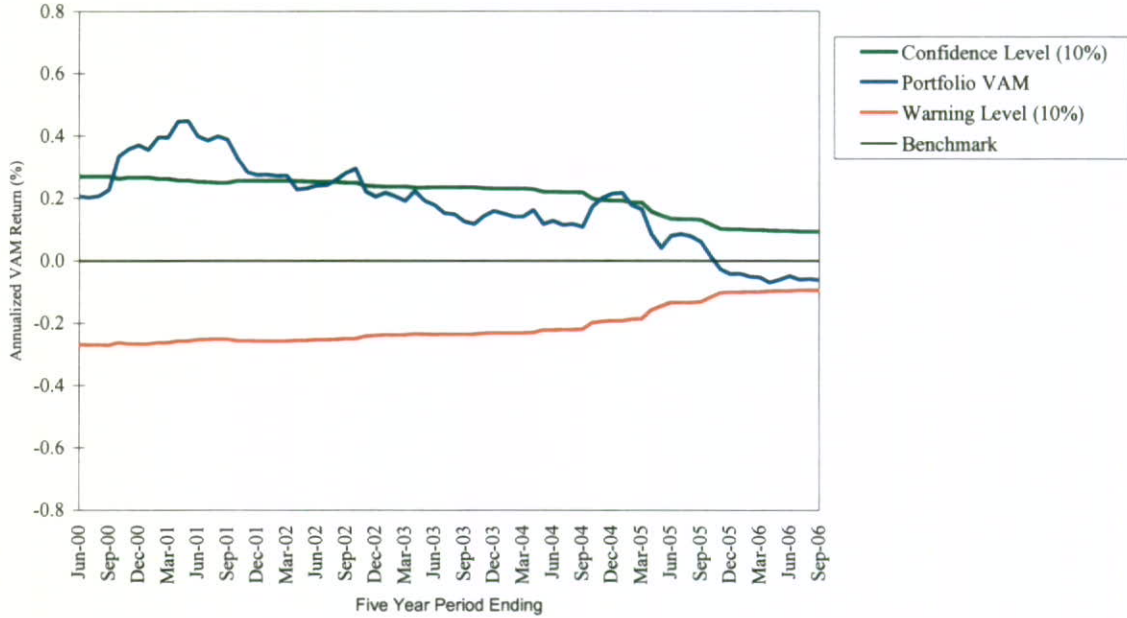
\* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

**BARCLAYS GLOBAL INVESTORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Amy Schioldager**

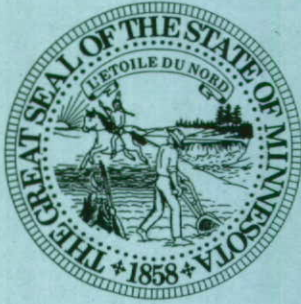
**Assets Under Management: \$7,490,535,847**

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



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# STATE BOARD OF INVESTMENT

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## Bond Manager Evaluation Reports

Third Quarter, 2006



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**COMBINED RETIREMENT FUNDS  
BOND MANAGERS  
Periods Ending September, 2006**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>Active Managers</b>												
Aberdeen	3.8	3.8	3.9	3.7	3.9	3.4	5.3	4.8	7.1	6.5	\$1,070.9	9.9%
Dodge & Cox	3.4	3.8	4.2	3.7	3.9	3.4	5.9	4.8	7.5	6.5	\$1,089.3	10.1%
Morgan Stanley	3.0	3.8	3.9	3.7	4.3	3.4	5.3	4.8	9.3	9.0	\$878.7	8.1%
RiverSource	3.7	3.8	4.0	3.7	3.8	3.4	4.4	4.8	6.1	6.2	\$900.8	8.3%
Western	4.3	3.8	4.0	3.7	5.0	3.4	6.4	4.8	10.2	8.9	\$1,430.2	13.3%
<b>Semi-Passive Managers</b>												
BlackRock	3.6	3.8	3.8	3.7	3.6	3.4	4.9	4.8	6.6	6.3	\$1,874.5	17.4%
Goldman	3.8	3.8	4.0	3.7	3.9	3.4	5.2	4.8	6.5	6.2	\$1,877.8	17.4%
Lehman	3.9	3.8	3.8	3.7	3.5	3.4	5.0	4.8	7.7	7.6	\$1,666.1	15.4%
											<b>\$10,788.2</b>	<b>100.0%</b>
<b>Historical Aggregate (2)</b>	<b>3.7</b>	<b>3.8</b>	<b>3.9</b>	<b>3.7</b>	<b>4.0</b>	<b>3.4</b>	<b>5.2</b>	<b>4.8</b>	<b>9.1</b>	<b>8.9</b>		
Lehman Aggregate (3)		3.8		3.7		3.4		4.8		9.0		

(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.

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**ABERDEEN ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Warren Davis**

**Assets Under Management: \$1,070,889,255**

**Investment Philosophy**

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

**Staff Comments**

Aberdeen matched the quarterly benchmark and exceeded the benchmark for the year. The one-year outperformance was due to individual security selection in the spread sectors.

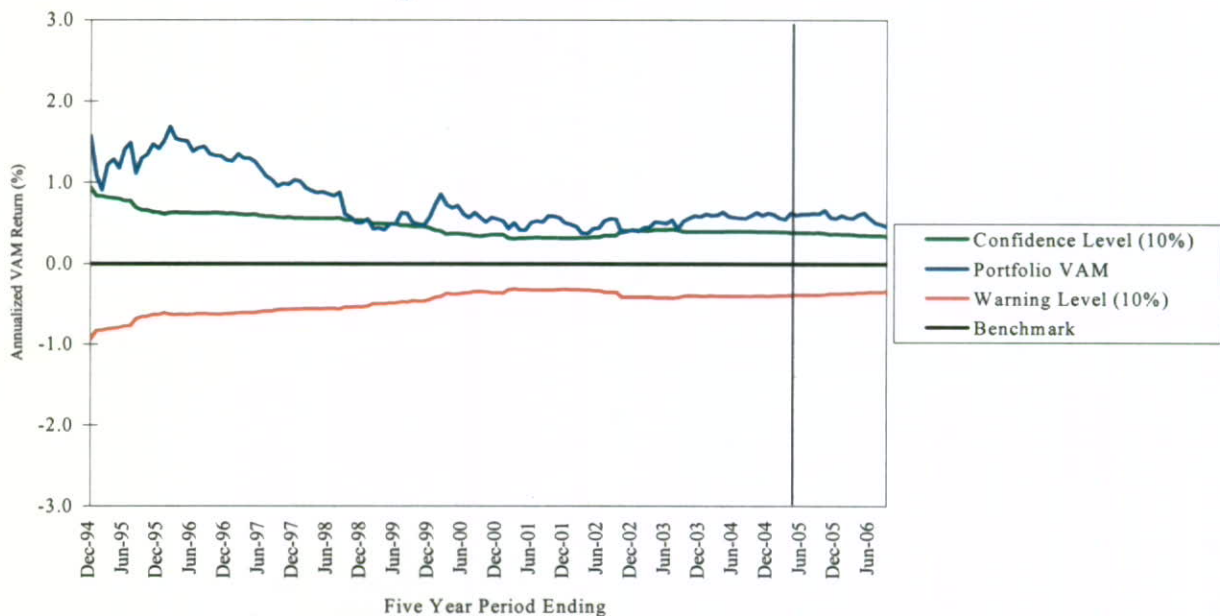
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.8%	3.8%
Last 1 year	3.9	3.7
Last 2 years	3.6	3.2
Last 3 years	3.9	3.4
Last 4 years	4.3	3.9
Last 5 years	5.3	4.8
Since Inception (2/00)	7.1	6.5

**Recommendations**

No action required.

**ABERDEEN ASSET MANAGEMENT**  
**Rolling Five Year VAM**



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

**DODGE & COX INVESTMENT MANAGERS**  
**Periods Ending September, 2006**

**Portfolio Manager: Dana Emery**

**Assets Under Management: \$1,089,315,943**

**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 underperformed the quarterly benchmark and exceeded the one-year benchmark. The quarterly performance was hurt by the portfolio's shorter effective duration and yield curve positioning. The one-year performance was also helped by security selection, specifically Ford Motor Credit and GMAC.

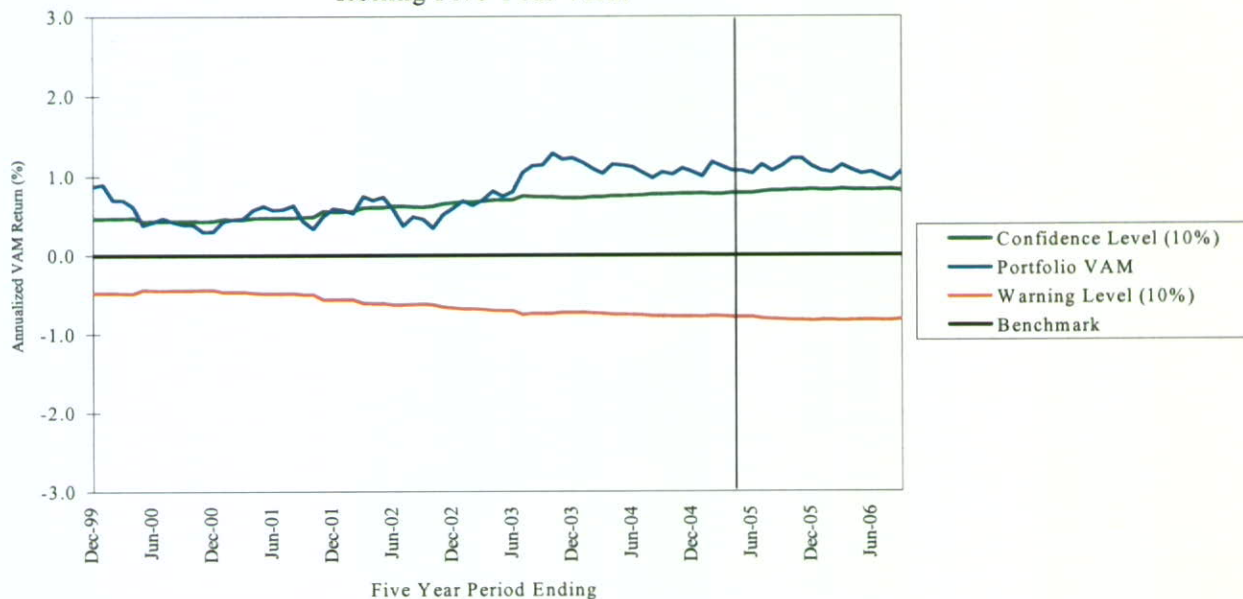
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.4%	3.8%
Last 1 year	4.2	3.7
Last 2 years	3.7	3.2
Last 3 years	3.9	3.4
Last 4 years	5.0	3.9
Last 5 years	5.9	4.8
Since Inception (2/00)	7.5	6.5

**Recommendations**

No action required.

**DODGE & COX INVESTMENT MANAGERS**  
**Rolling Five Year VAM**



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

**MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: David Horowitz**

**Assets Under Management: \$878,677,981**

**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 trailed the benchmark for the quarter and outperformed for the year. The below benchmark interest rate bet detracted from performance during the quarter, but contributed to the one-year outperformance.

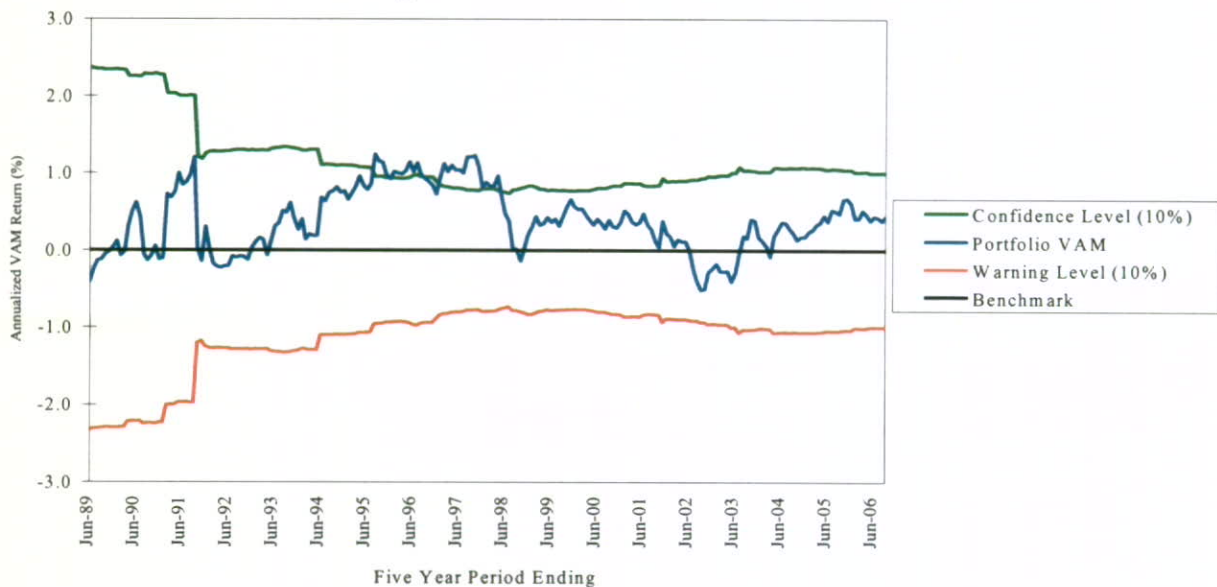
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.0%	3.8%
Last 1 year	3.9	3.7
Last 2 years	4.1	3.2
Last 3 years	4.3	3.4
Last 4 years	4.7	3.9
Last 5 years	5.3	4.8
Since Inception (7/84)	9.3	9.0

**Recommendations**

No action required.

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





**RIVERSOURCE INVESTMENTS**  
**Periods Ending September, 2006**

**Portfolio Manager: Colin Lundgren**

**Assets Under Management: \$900,768,267**

**Investment Philosophy**

RiverSource (formerly 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. RiverSource was retained by the SBI in July 1993.

**Staff Comments**

RiverSource slightly trailed the quarterly benchmark and outperformed for the year. The portfolio's short duration position had a negative impact on quarterly performance as rates moved higher. Over the last year, the portfolio's overall duration helped performance. A significant overweight to the Commercial Mortgage Backed Security sector helped the one-year return.

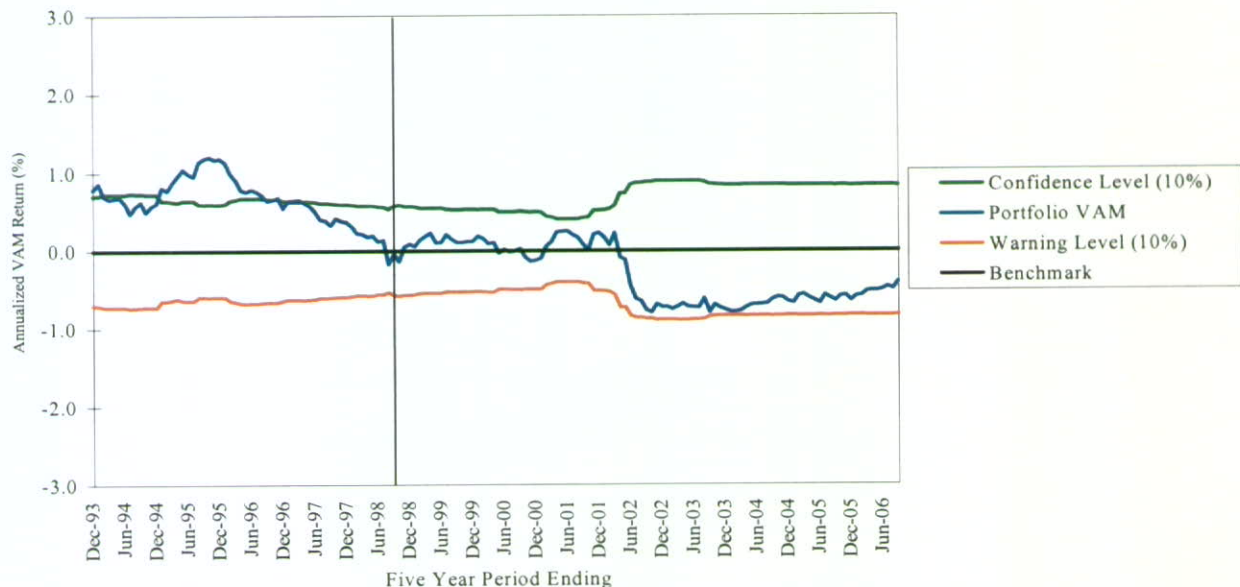
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.7%	3.8%
Last 1 year	4.0	3.7
Last 2 years	3.6	3.2
Last 3 years	3.8	3.4
Last 4 years	4.4	3.9
Last 5 years	4.4	4.8
Since Inception (7/93)	6.1	6.2

**Recommendations**

No action required.

**RIVERSOURCE INVESTMENTS - FIXED INCOME**  
**Rolling Five Year VAM**



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



**WESTERN ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Ken Leech**

**Assets Under Management: \$1,430,214,319**

**Investment Philosophy**

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

**Staff Comments**

Western outperformed the quarterly and one-year benchmark. The quarterly return was helped by an overweight duration position, and an overweight exposure to the mortgage-backed sector. Western outperformed for the year due to an overweight exposure to the mortgage-backed sector and TIPS exposure.

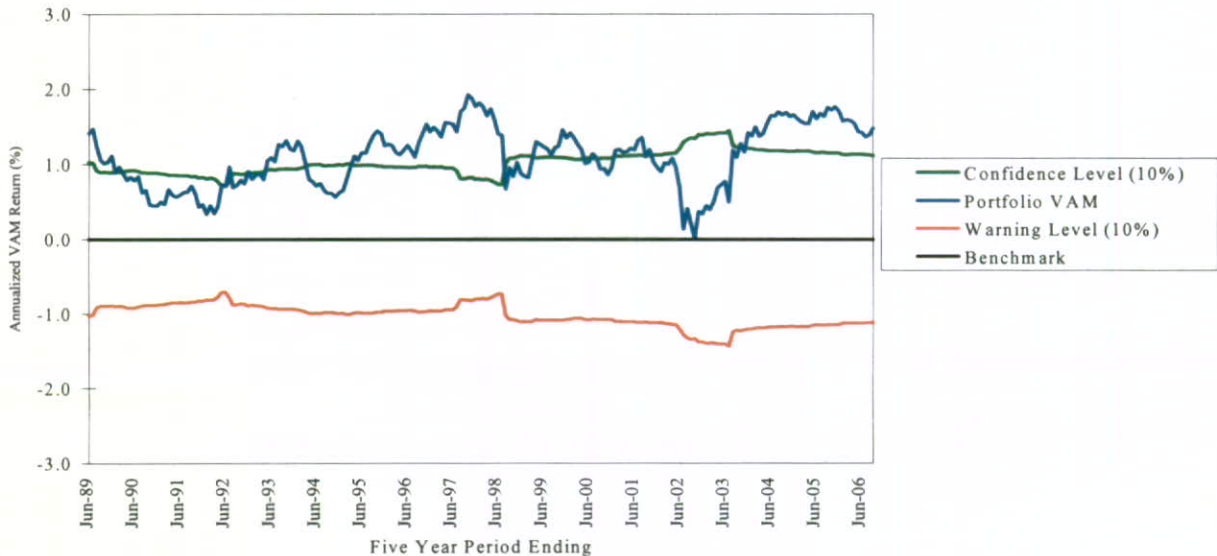
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.3%	3.8%
Last 1 year	4.0	3.7
Last 2 years	4.0	3.2
Last 3 years	5.0	3.4
Last 4 years	6.3	3.9
Last 5 years	6.4	4.8
Since Inception (7/84)	10.2	8.9

**Recommendations**

No action required.

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



**BLACKROCK, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Keith Anderson**

**Assets Under Management: \$1,874,538,236**

**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 lagged the quarterly benchmark and outperformed for the year. The quarterly performance was hurt by the short duration position and an underweight to the agency and corporate sectors. The one-year performance was helped by a short duration position.

The Blackrock and Merrill Lynch merger closed on September 30, 2006.

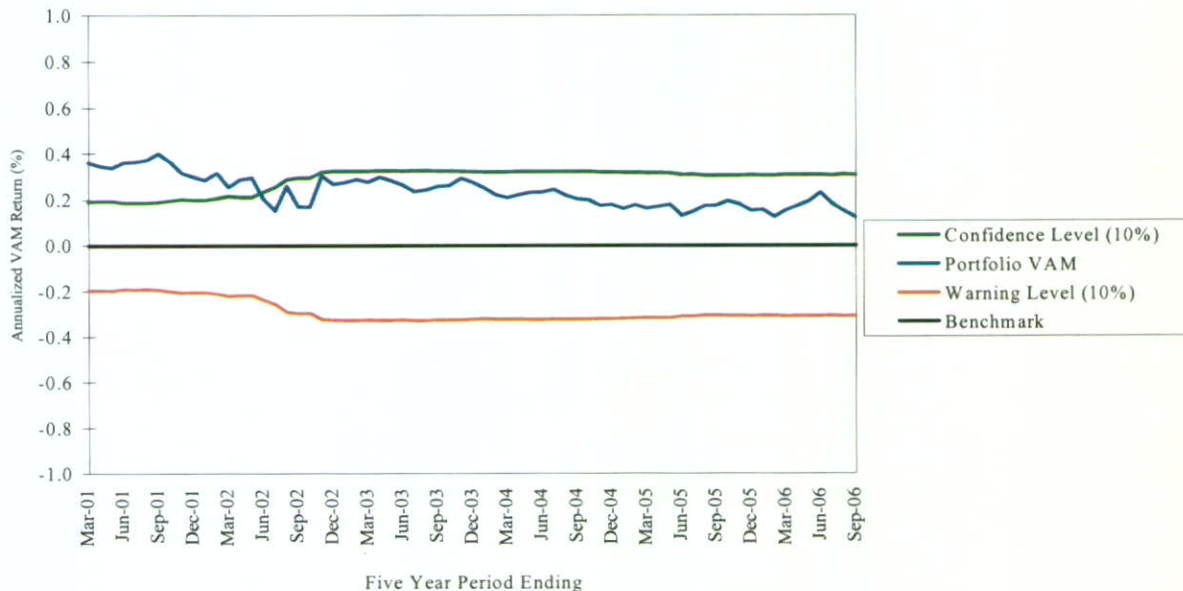
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.6%	3.8%
Last 1 year	3.8	3.7
Last 2 years	3.4	3.2
Last 3 years	3.6	3.4
Last 4 years	4.2	3.9
Last 5 years	4.9	4.8
Since Inception (4/96)	6.6	6.3

**Recommendation**

No action required.

**BLACKROCK, INC.**  
**Rolling Five Year VAM**



**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Jonathon Beinrer**

**Assets Under Management: \$1,877,755,544**

**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, Goldman matched their benchmark. Goldman outperformed for the year. The one-year return was helped by a short duration position as rates rose.

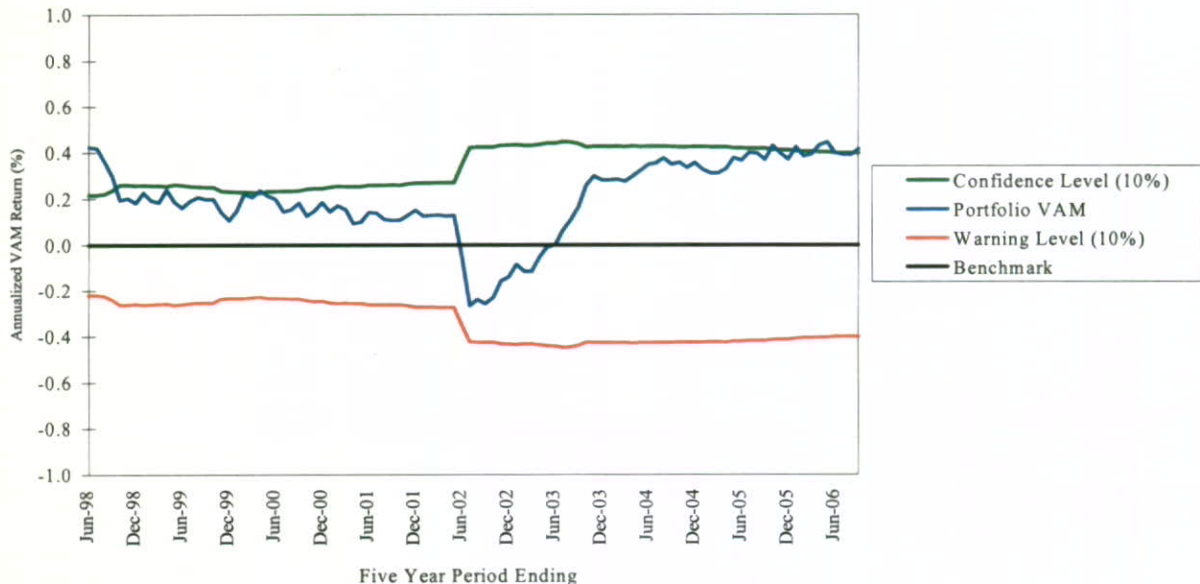
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.8%	3.8%
Last 1 year	4.0	3.7
Last 2 years	3.6	3.2
Last 3 years	3.9	3.4
Last 4 years	4.7	3.9
Last 5 years	5.2	4.8
Since Inception (7/93)	6.5	6.2

**Recommendations**

No action required.

**GOLDMAN SACHS ASSET MANAGEMENT**  
**Rolling Five Year VAM**





**LEHMAN BROTHERS ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Andrew Johnson**

**Assets Under Management: \$1,666,073,849**

**Investment Philosophy**

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

**Staff Comments**

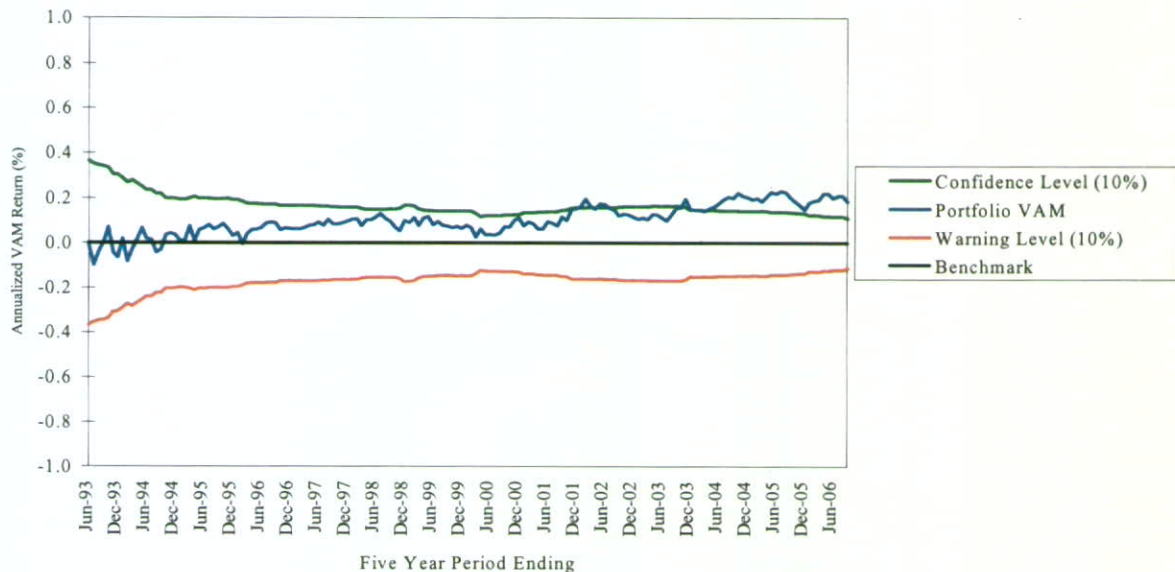
Lehman outperformed the benchmark for the quarter and for the year. Both periods were helped by security selection in the mortgage and corporate sector.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	3.9%	3.8%	No action required.
Last 1 year	3.8	3.7	
Last 2 years	3.4	3.2	
Last 3 years	3.5	3.4	
Last 4 years	4.1	3.9	
Last 5 years	5.0	4.8	
Since Inception (7/88)	7.7	7.6	

**Recommendations**

**LEHMAN BROTHERS ASSET MANAGEMENT**  
**Rolling Five Year VAM**







# STATE BOARD OF INVESTMENT

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## International Manager Evaluation Reports

Third Quarter, 2006



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**COMBINED RETIREMENT FUNDS  
INTERNATIONAL STOCK MANAGERS  
Periods Ending September, 2006**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
<b>Active Developed Markets (2)</b>												
Acadian	5.3	3.7	23.1	18.6					34.0	24.6	\$364.7	5.1%
Fidelity	2.2	3.7	17.2	18.6					23.6	24.6	\$323.5	4.5%
Invesco	5.1	3.7	20.6	18.6	22.3	22.6	14.7	14.4	6.9	3.9	\$485.8	6.8%
J.P. Morgan	3.2	3.7	18.9	18.6					22.9	24.6	\$322.4	4.5%
Marathon (3)	3.7	3.7	20.0	18.6	24.5	22.6	19.2	17.2	10.4	7.6	\$556.9	7.7%
McKinley	2.1	3.7	17.1	18.6					25.9	24.6	\$333.4	4.6%
RiverSource	2.7	3.7	17.4	18.6	20.3	22.6	12.1	14.4	0.0	3.9	\$341.6	4.7%
UBS Global	4.0	3.7	18.7	18.6	20.8	22.6	13.0	14.4	9.3	8.2	\$497.0	6.9%
<b>Active Emerging Markets</b>												
Alliance Capital	5.0	4.9	18.4	20.5	30.2	30.6	30.3	29.0	16.4	16.9	\$346.0	4.8%
Capital International	7.4	4.9	26.5	20.5	30.3	30.6	28.1	29.0	14.1	16.9	\$303.3	4.2%
Morgan Stanley	5.8	4.9	23.5	20.5	31.8	30.6	30.3	29.0	17.4	16.9	\$320.0	4.4%
<b>Semi-Passive Developed Markets (2)</b>												
AQR	3.9	3.7	18.4	18.6					25.4	24.6	\$260.5	3.6%
Fidelity	3.3	3.7	17.7	18.6					24.6	24.6	\$262.5	3.6%
State Street	2.9	3.7	19.3	18.6					25.4	24.6	\$263.9	3.7%
<b>Passive Developed Markets (2)</b>												
State Street	3.7	3.7	18.9	18.6	22.7	22.6	14.6	14.4	8.7	8.4	\$2,211.1	30.7%
Equity Only (4) (6)	4.0	3.9	19.3	18.9	23.0	23.4	15.7	15.7	9.0	8.4	\$7,193.1	100.0%
<b>Total Program (5) (6)</b>	<b>4.0</b>	<b>3.9</b>	<b>19.3</b>	<b>18.9</b>	<b>23.0</b>	<b>23.4</b>	<b>15.7</b>	<b>15.7</b>	<b>9.2</b>	<b>8.4</b>	<b>\$7,193.1</b>	
SBI Int'l Equity Target (6)		3.9		18.9		23.4		15.7		8.4		
MSCI ACWI Free ex. U.S. (7)		3.9		18.9		23.4		15.9		8.9		
MSCI World ex U.S. (net)		3.7		18.6		22.6		14.6		8.6		
MSCI EAFE Free (net)		3.9		19.2		22.3		14.3		8.4		
MSCI Emerging Markets Free (8)		4.9		20.5		30.6		28.5		9.5		

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

(2) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net). Since inception of 7/1/05, the Semi-Passive Developed Markets managers benchmark is MSCI World ex U.S. (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.

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**ACADIAN ASSET MANAGEMENT, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: John Chisholm**

**Assets Under Management: \$364,669,600**

**Investment Philosophy**

Acadian believes there are inefficiencies in the global equity markets that can be exploited by a disciplined quantitative investment process. In evaluating markets and stocks, Acadian believes it is most effective to use a range of measures, including valuation, price trends, financial quality and earnings information. Risk control is a critical part of the Acadian approach. Acadian's process seeks to capture value-added at both the stock and the sector/country level. The process is active and bottom-up, but each stock forecast also contains a sector/country forecast. Selection is made from a very broad investment universe using disciplined, factor-driven quantitative models. Portfolios are constructed with an optimizer and are focused on targeting a desired level of active risk relative to a client's chosen benchmark index.

**Staff Comments**

Over the quarter and the year, positive overall stock selection drove the portfolio's outperformance. For both periods, selection in the United Kingdom, Germany, Canada and France as well as in the financials sector was particularly strong.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.3%	3.7%
Last 1 year	23.1	18.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	34.0	24.6

**Recommendations**

No action required.

**VAM Graphs will be drawn for period ending 9/30/07.**

**FIDELITY MANAGEMENT TRUST COMPANY**

**Periods Ending September, 2006**

**Portfolio Manager: Michael Strong**

**Assets Under Management: \$323,481,746**

**Investment Philosophy**

International Growth is a core, growth-oriented strategy that provides diversified exposure to the developed international markets. The investment process combines active stock selection and regional asset allocation. Four portfolio managers in London, Tokyo, Hong Kong, and Boston construct regional sub-portfolios, selecting stocks based on Fidelity analysts' bottom-up research and their own judgment and expertise. Portfolio guidelines seek to ensure risk is commensurate with the performance target and to focus active risk on stock selection. Resulting portfolios typically contain between 200-250 holdings.

**Staff Comments**

The portfolio's underperformance over the quarter and the year was primarily driven by European stock selection, particularly in the United Kingdom and in Spain.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.2%	3.7%
Last 1 year	17.2	18.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	23.6	24.6

**Recommendations**

No action required.

**VAM Graphs will be drawn for period ending 9/30/07.**

**INVESCO GLOBAL ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Erik Granade**

**Assets Under Management: \$485,765,722**

**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**

Both overall stock selection and the resulting country allocations added value to the portfolio during the quarter and the year. Over both periods, selection in Japan and in the United Kingdom contributed significantly. The portfolio's underweight positions in the Netherlands and in Switzerland were also very effective.

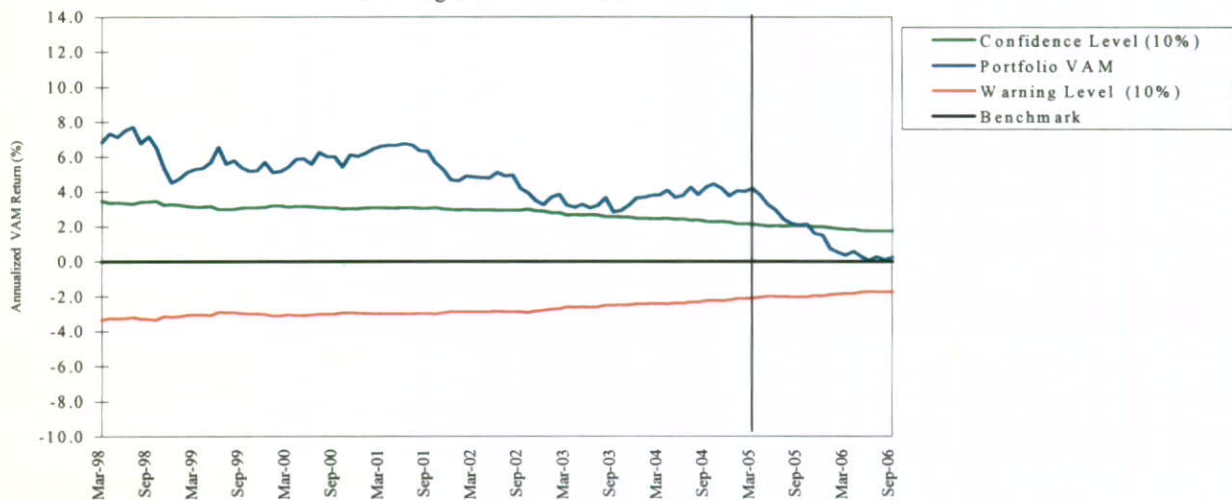
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.1%	3.7%
Last 1 year	20.6	18.6
Last 2 years	21.4	22.7
Last 3 years	22.3	22.6
Last 4 years	22.0	23.4
Last 5 years	14.7	14.4
Since Inception (3/00)	6.9	3.9

**Recommendations**

No action required.

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



5 Year Period Ending  
 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, 2006**

**Portfolio Manager: James Fisher**

**Assets Under Management: \$322,424,108**

**Investment Philosophy**

JP Morgan's international equity strategy seeks to add value through active stock selection, while remaining diversified by both sector and region. The portfolio displays a large capitalization size bias and a slight growth orientation. Stock selection decisions reflect the insights of approximately 150 locally based investors, ranking companies within their respective local markets. The most attractive names in each region are then further validated by a team of Global Sector Specialists who seek to take the regional team rankings and put these into a global context. The team of six senior portfolio managers draws together the insights of both the regional and global specialists, constructing a portfolio of the most attractive names.

**Staff Comments**

Positive returns from country allocations did not overcome negative stock selection during the quarter but did over the year. The portfolio derived the most value, over both time periods, from overweight positions in the Swiss and Dutch markets, and an underweight position in Canada.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.2%	3.7%
Last 1 year	18.9	18.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	22.9	24.6

**Recommendations**

No action required.

**VAM Graphs will be drawn for period ending 9/30/07.**



**MARATHON ASSET MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager:** William Arah

**Assets Under Management:** \$556,897,657

**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**

Positive stock selection over both the quarter and the year offset the negative effects of the portfolio's regional allocations. The portfolio's overweight position in Asia and underweight position in Europe detracted from relative returns, while selection in Canada and in Europe overall added value.

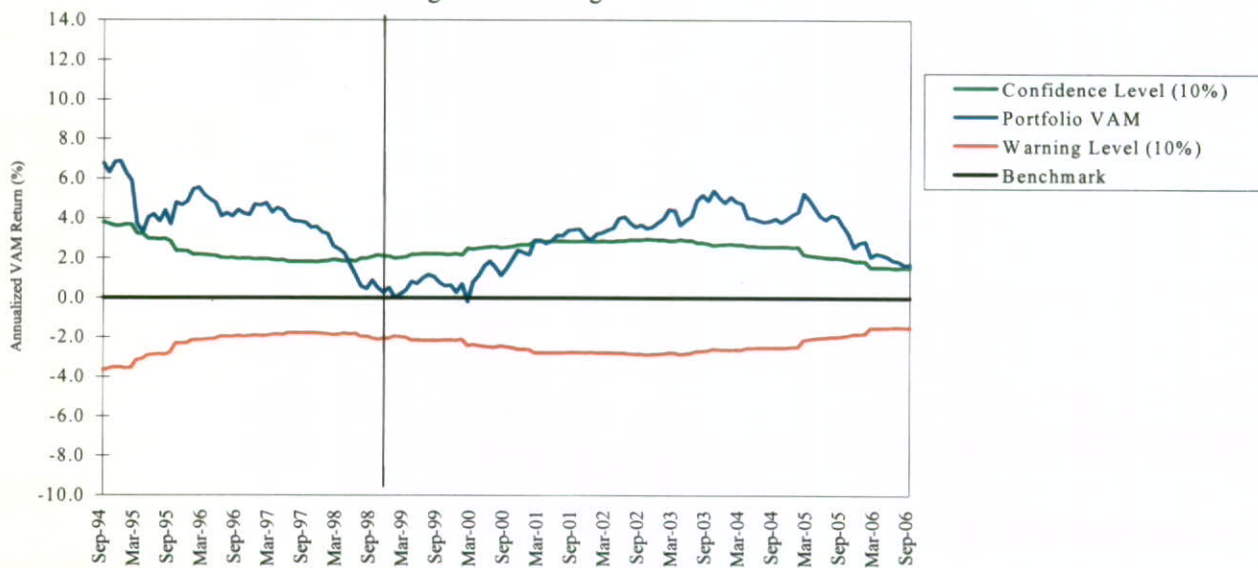
**Quantitative Evaluation**

	<b>Actual</b>	<b>Custom Benchmark</b>
Last Quarter	3.7%	3.7%
Last 1 year	20.0	18.6
Last 2 years	24.7	22.7
Last 3 years	24.5	22.6
Last 4 years	26.6	25.0
Last 5 years	19.2	17.2
Since Inception (11/93)	10.4	7.6

**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.

**MCKINLEY CAPITAL MANAGEMENT, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Robert Gillam, Jr.**

**Assets Under Management: \$333,409,899**

**Investment Philosophy**

At McKinley Capital, investment decisions are based on the philosophy that excess market returns can be achieved through the construction and active management of a diversified, fundamentally sound portfolio of inefficiently priced common stocks whose earnings growth rates are accelerating above market expectations. A disciplined quantitative investment process drives all product strategies. The firm can be described as a bottom-up growth manager. They employ both a systematic screening process and a qualitative overview to construct and manage portfolios. Investment ideas are initially generated by the quantitative investment process. The balance of the qualitative overlay seeks to identify securities with earnings estimates that are reasonable and sustainable. All portfolios managed by McKinley Capital use the same investment process and construction methodology to manage portfolios.

**Staff Comments**

Stock selection in the United Kingdom and the portfolio's overweight position in the Norwegian energy sector detracted significantly from returns over both the quarter and the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.1%	3.7%
Last 1 year	17.1	18.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.9	24.6

**Recommendations**

No action required.

**VAM Graphs will be drawn for period ending 9/30/07.**

**RIVERSOURCE INVESTMENTS**  
**Periods Ending September, 2006**

**Portfolio Manager:** Alex Lyle and Ed Gaunt

**Assets Under Management:** \$341,595,273

**Investment Philosophy**

RiverSource's philosophy focuses on key forces of change in markets and the companies that will benefit. The firm believes that in a global marketplace, where sustainable competitive advantage is rare, their research should focus on the dynamics of change. A good understanding of the likely impact of these changes at a company level, complemented with an appreciation of the ability of management to exploit these changes, creates significant opportunities to pick winners and avoid losers.

**Staff Comments**

During both the quarter and the year, the portfolio's overweight position and stock selection in the Japanese market have been the primary negative contributors to returns. While the market has been concerned about the prospects for economic growth in Japan, RiverSource believes that the country is at the beginning of a multi-year recovery.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.7%	3.7%
Last 1 year	17.4	18.6
Last 2 years	21.6	22.7
Last 3 years	20.3	22.6
Last 4 years	20.2	23.4
Last 5 years	12.1	14.4
Since Inception	0.0	3.9

(3/00)

**Recommendations**

No action required.

**RIVERSOURCE INVESTMENTS**  
**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, 2006**

**Portfolio Manager: Thomas Madsen**

**Assets Under Management: \$496,953,369**

**Investment Philosophy**

UBS's investment research process focuses on identifying discrepancies between a security's fundamental or intrinsic value and its observed market price both across and within international equity markets. UBS exploits these discrepancies using a disciplined fundamental approach. The research analysts evaluate companies in their markets around the world and assign relative price/intrinsic value rankings based on the present value of the future cash flows. The portfolio management team draws upon the analysts' stock and industry-level research and synthesizes it with the firm's macro analysis of the global economy, country specific views and various market-driven issues to systematically develop portfolio strategy. UBS develops currency strategies separately and in coordination with country allocations. They utilize currency equilibrium bands to determine which currencies are over or under valued.

**Staff Comments**

The portfolio outperformed marginally over both the quarter and the year. Value added from stock selection was minimal for the quarter and negative for the year. Country and sector allocation decisions improved performance over both time periods. The portfolio's underweight positions in the energy and materials sectors contributed to returns during the quarter, while overweight positions in the German and Dutch markets added value over the year.

UBS is consolidating, in London, senior portfolio managers on this strategy. Zoe von Streng, who has assisted with the management of the SBI's portfolio, and is located in Zurich, will be leaving the team. Dan Blumenhardt will join Illario di Bon in London, to coordinate management of the SBI's portfolio.

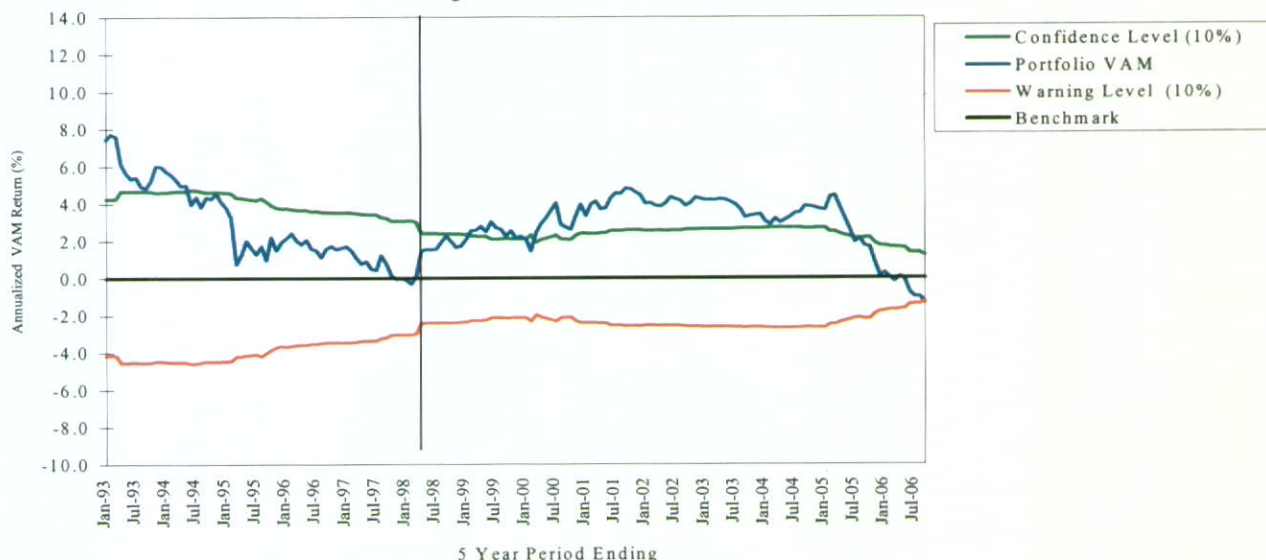
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.0%	3.7%
Last 1 year	18.7	18.6
Last 2 years	19.6	22.7
Last 3 years	20.8	22.6
Last 4 years	21.5	23.4
Last 5 years	13.0	14.4
Since Inception (4/93)	9.3	8.2

**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, 2006**

**Portfolio Manager: Edward Baker**

**Assets Under Management: \$346,047,225**

**Investment Philosophy**

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

**Staff Comments**

The portfolio marginally outperformed the benchmark during the quarter. Stock selection overall contributed negatively to performance, while country and sector weighting decisions added value. The portfolio's overweight to and stock selection in the telecommunications sector added significant value.

Stock selection in the South African, Indian, and Korean markets was a large contributor to the portfolio's underperformance for the year.

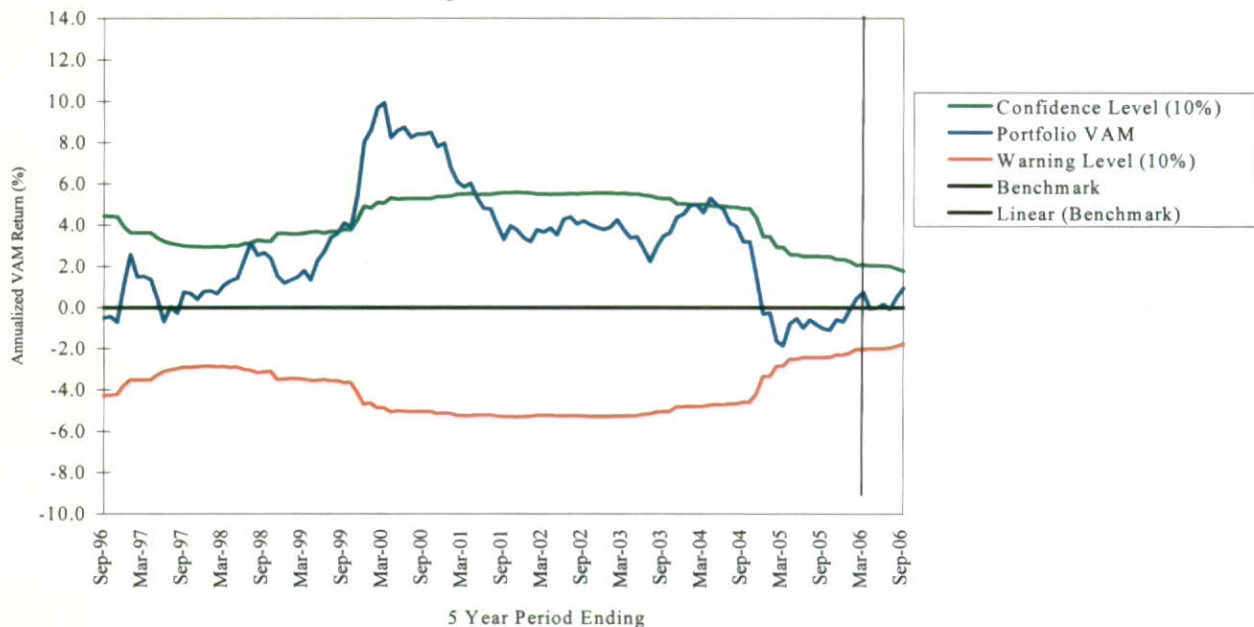
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.0	4.9
Last 1 year	18.4	20.5
Last 2 years	31.9	32.9
Last 3 years	30.2	30.6
Last 4 years	33.4	34.2
Last 5 years	30.3	29.0
Since Inception (3/01)	16.4	16.9

**Recommendations**

Staff is monitoring the firm due to personnel turnover.

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



Note: Shaded area includes performance prior to managing SBI account.

**CAPITAL INTERNATIONAL, INC.**  
**Periods Ending September, 2006**

**Portfolio Manager: Victor Kohn**

**Assets Under Management: \$303,339,415**

**Investment Philosophy**

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

**Staff Comments**

The portfolio outperformed significantly over both the quarter and the year. During both time periods, overall stock selection, particularly in Brazil, Russia and Taiwan, drove returns. The portfolio's underweight to the energy sector also contributed positively during the quarter.

Capital announced that Osman Aikman, one of the seven portfolio managers on the multi-manager team, will be transferring to another area within Capital. Lisa Thomson, an emerging markets equity research analyst with Capital, will replace him.

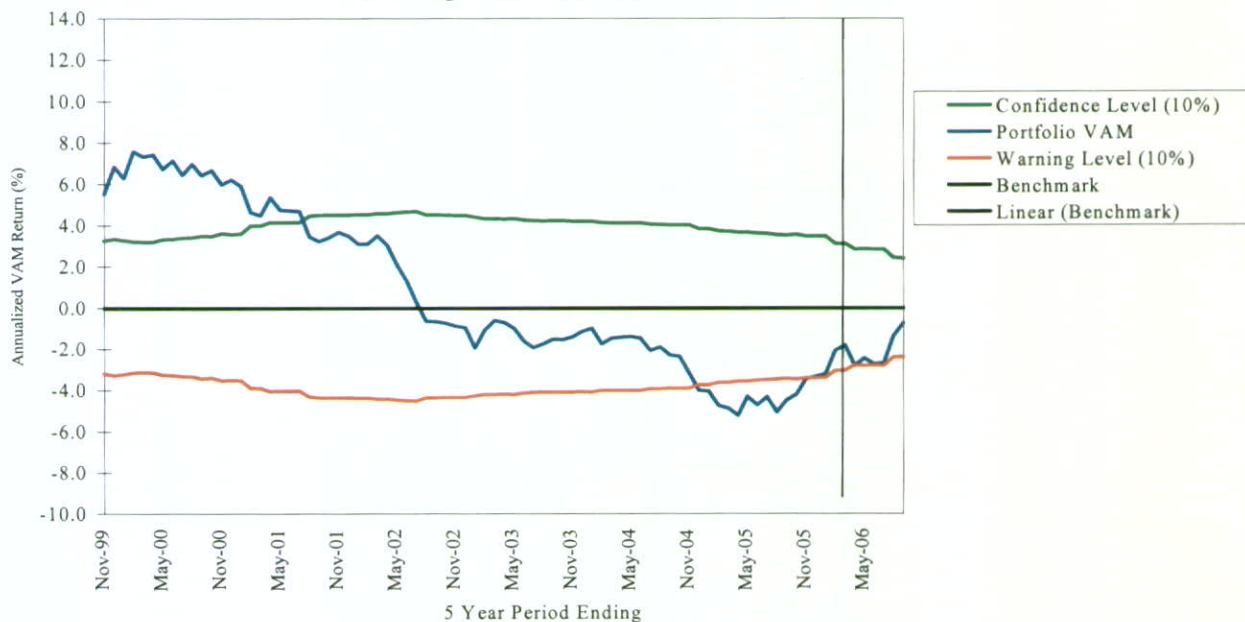
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	7.4%	4.9%
Last 1 year	26.5	20.5
Last 2 years	35.3	32.9
Last 3 years	30.3	30.6
Last 4 years	34.5	34.2
Last 5 years	28.1	29.0
Since Inception (3/01)	14.1	16.9

**Recommendations**

No action required.

**CAPITAL INTERNATIONAL, INC.**  
**Rolling Five Year VAM**



Note: Shaded area includes performance prior to managing SBI account.

**MORGAN STANLEY INVESTMENT MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Ruchir Sharma**

**Assets Under Management: \$319,983,064**

**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**

Over both the quarter and the year, the portfolio added value relative to the benchmark. Strong overall stock selection during both periods, and positive country allocation decisions for the year, drove returns. Selection in Mexico, Brazil and Taiwan was very strong during both periods. For the year, weighting decisions in these markets, along with selection and an overweight position in Russia, were the most significant contributors to performance.

**Quantitative Evaluation**

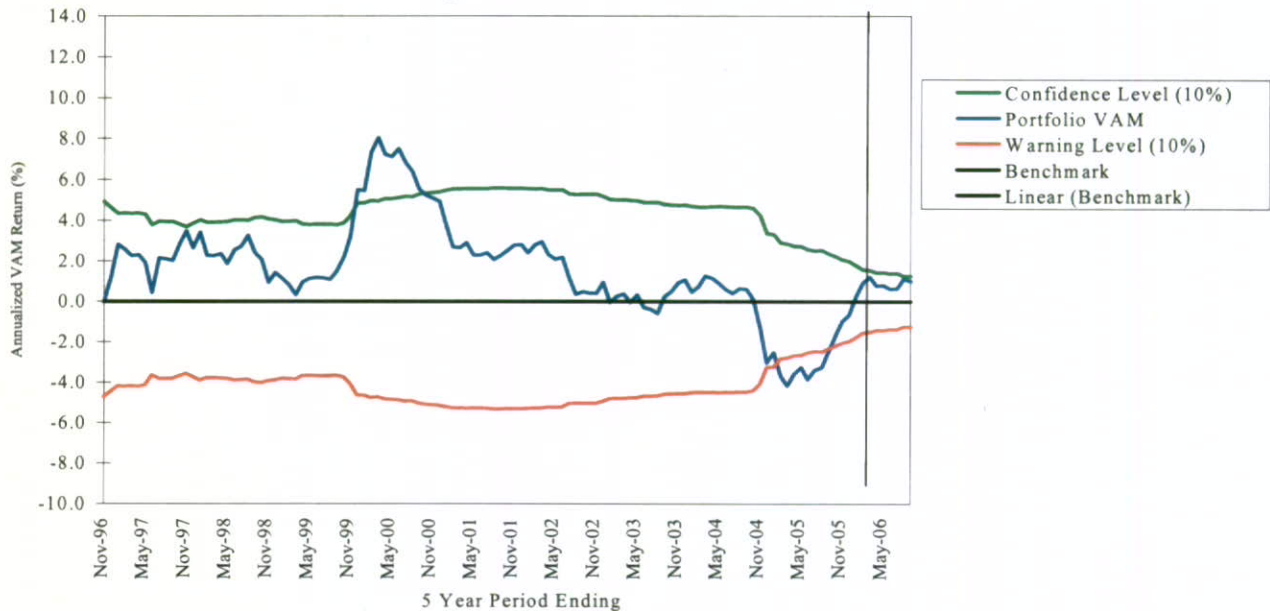
	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.8%	4.9%
Last 1 year	23.5	20.5
Last 2 years	35.0	32.9
Last 3 years	31.8	30.6
Last 4 years	34.8	34.2
Last 5 years	30.3	29.0
Since Inception	17.4	16.9

(3/01)

**Recommendations**

Staff is monitoring the firm due to personnel turnover.

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





**AQR CAPITAL MANAGEMENT, LLC**  
**Periods Ending September, 2006**

**Portfolio Manager:** Cliff Asness

**Assets Under Management:** \$260,505,043

**Investment Philosophy**

AQR employs a disciplined quantitative approach emphasizing both top-down country/currency allocation and bottom-up security selection decisions to generate excess returns. AQR's investment philosophy is based on the fundamental concepts of value and momentum. AQR's international equity product incorporates stock selection, country selection, and currency selection models as the primary alpha sources. Dynamic strategy allocation (between the three primary alpha sources) and style weighting are employed as secondary alpha sources.

**Staff Comments**

The portfolio narrowly outperformed over the quarter and slightly underperformed for the year. Sector weighting decisions, particularly the portfolio's underweight positions in the energy and healthcare sectors as well as in the Japanese market, added value during the quarter. Weighting decisions overall detracted from the one-year return.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.9%	3.7%
Last 1 year	18.4	18.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.4	24.6

**Recommendations**

No action required.

**VAM Graphs will be drawn for period ending 9/30/07.**



**FIDELITY MANAGEMENT TRUST COMPANY**  
**Periods Ending September, 2006**

**Portfolio Manager: Cesar Hernandez**

**Assets Under Management: \$262,462,580**

**Investment Philosophy**

Select International combines active stock selection with quantitative risk control to provide consistent excess returns above the benchmark while minimizing relative volatility and risk. By combining five regional sub-portfolios in the U.K., Canada, Continental Europe, Japan, and the Pacific Basin ex Japan, the portfolio manager produces a portfolio made up of the best ideas of the firm's research analysts. Each regional portfolio is created so that stock selection is the largest contributor to active return while systematic, sector, and factor risks are minimized. The portfolio manager uses a combination of proprietary and third-party optimization models to monitor and control risk within each regional module. Resulting portfolios typically contain between 275-325 holdings.

**Staff Comments**

For both the quarter and the year, overall stock selection detracted from returns. During the quarter, selection in the energy and utility sectors was negative. For the year, selection in Japan did not add value.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.3%	3.7%
Last 1 year	17.7	18.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	24.6	24.6

**Recommendations**

No action required.

**VAM Graphs will be drawn for period ending 9/30/07.**

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Paul Moghtader**

**Assets Under Management: \$263,929,424**

**Investment Philosophy**

SSgA's Alpha strategy is managed using a quantitative process. Stock selection provides the best opportunity to add consistent value. Industry factors have come to dominate country factors and an approach that uses industry weights to add incremental value complements stock selection. Unwanted biases are controlled for through disciplined risk-control techniques. Country and regional allocations are a result of the security selection process but are managed to remain with +/- 5% of the benchmarks allocation. Sector and industry allocations are managed to be within +/- 3% of the benchmarks allocation. The portfolio managers on this team have extensive experience and insight, which is used in conjunction with the models to create core portfolios.

**Staff Comments**

The portfolio underperformed for the quarter and outperformed for the year. While stock selection across European markets detracted from the quarterly return, it added value for the year. Over both time periods, selection in the Japanese market contributed negatively.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.9%	3.7%
Last 1 year	19.3	18.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	25.4	24.6

**Recommendations**

No action required.

**VAM Graphs will be drawn for period ending 9/30/07.**

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending September, 2006**

**Portfolio Manager: Lynn Blake**

**Assets Under Management: \$2,211,092,400**

**Investment Philosophy**

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) World ex U.S. index of 22 markets located in the developed markets outside of the United States (including Canada). SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs. The MSCI World ex U.S. (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**

SSgA's passive strategy's positive tracking error for the year is within expectation.

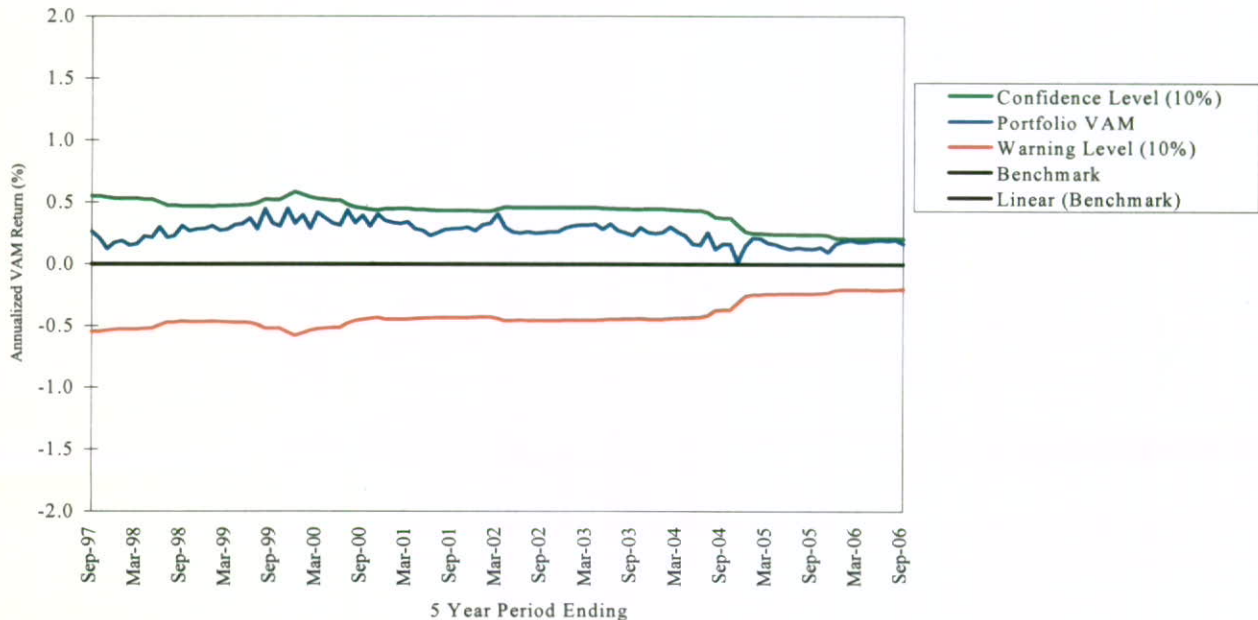
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.7%	3.7%
Last 1 year	18.9	18.6
Last 2 years	22.8	22.7
Last 3 years	22.7	22.6
Last 4 years	23.6	23.4
Last 5 years	14.6	14.4
Since Inception (10/92)	8.7	8.4

**Recommendation**

No action required.

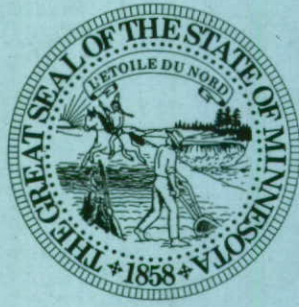
**STATE STREET GLOBAL ADVISORS**  
**Rolling Five Year VAM**



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

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# STATE BOARD OF INVESTMENT

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## Non-Retirement Manager Evaluation Reports

Third Quarter, 2006



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**NON - RETIREMENT MANAGERS**  
**Periods Ending September, 2006**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	
	%	%	%	%	%	%	%	%	%	%	
GE Asset Management (S&P 500 Index)*	6.5	5.7	11.6	10.8	10.5	12.3	5.8	7.0	11.9	11.4	\$76.3
Voyageur Asset Management (Custom Benchmark)*	3.1	3.1	3.9	3.7	3.1	2.8	3.9	4.0	6.4	6.4	\$255.5
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.1	1.3	4.5	5.2	4.3	4.1	4.8	3.7	5.8	5.0	\$194.3
Internal Stock Pool (S&P 500 Index)*	5.7	5.7	10.9	10.8	12.3	12.3	7.0	7.0	10.7	10.6	\$762.8
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	3.8	3.8	4.4	3.7	4.1	3.4	5.2	4.8	7.9	7.5	\$81.0
Internal Bond Pool - Trust (Lehman Aggregate)*	3.7	3.8	4.6	3.7	4.2	3.4	5.3	4.8	7.3	6.8	\$489.7

\* 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.

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**GE ASSET MANAGEMENT - Assigned Risk Plan**  
**Periods Ending September, 2006**

**Portfolio Manager: Dave Carlson**

**Assets Under Management: \$76,253,942**

**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. A value portfolio, a growth portfolio and a research portfolio 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**

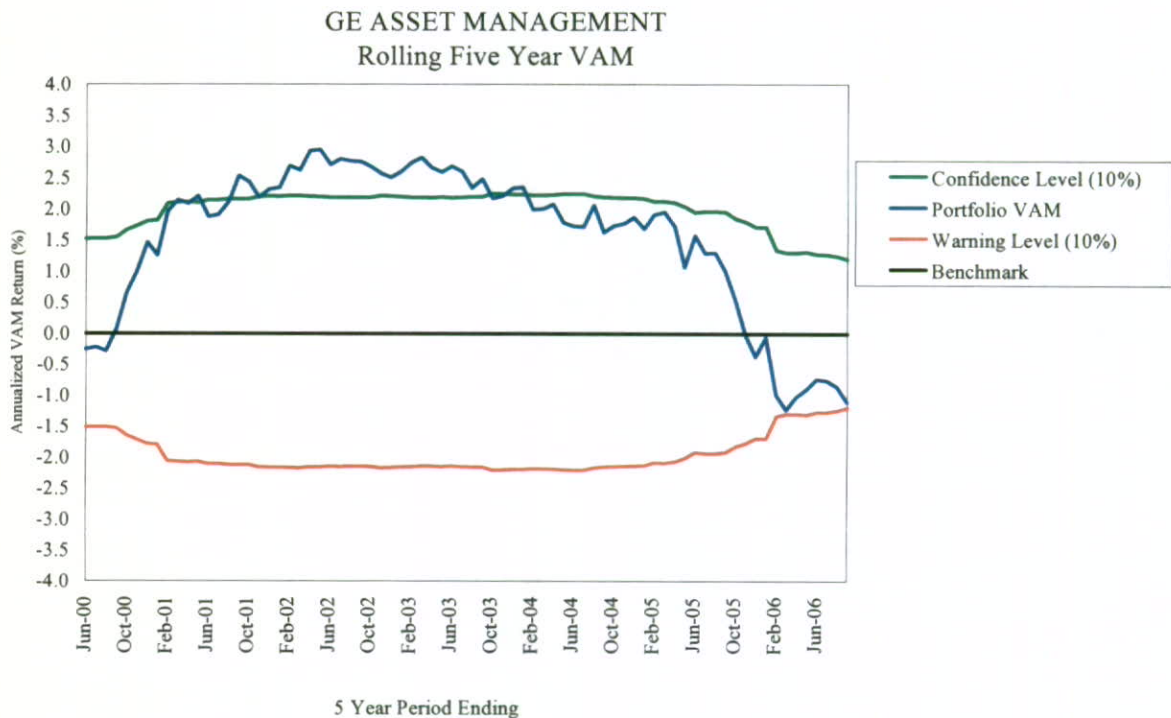
GE exceeded the quarterly and one-year benchmark. Security selection in the financials, materials, health care, industrials, and the consumer discretionary sectors helped the quarterly return. Strong stock selection within energy, technology, industrials, materials and consumer staples helped the one-year outperformance.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	6.5%	5.7%
Last 1 year	11.6	10.8
Last 2 years	10.6	11.5
Last 3 years	10.5	12.3
Last 4 years	12.9	15.2
Last 5 years	5.8	7.0
Since Inception (1/95)	11.9	11.4

**Recommendation**

No recommendation at this time.



**VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan**  
**Periods Ending September, 2006**

**Portfolio Manager: John Huber**

**Assets Under Management: \$255,522,662**

**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 quarterly return was helped by their overweight to spread product. The one-year return was helped by a general overweight to fixed income sectors other than Treasuries.

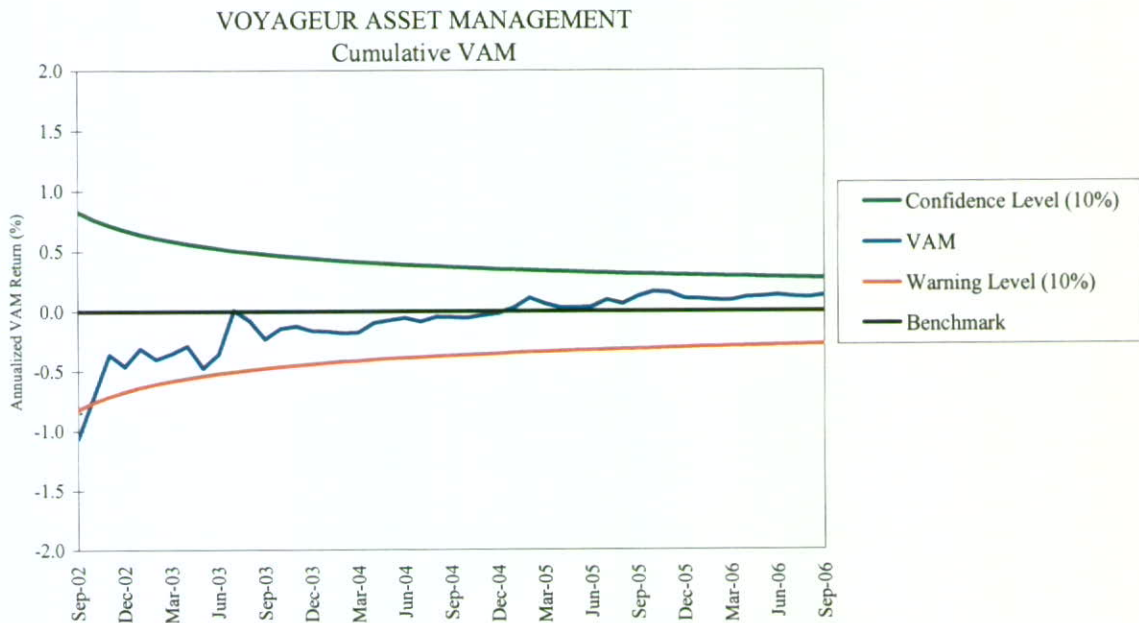
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	3.1%	3.1%
Last 1 year	3.9	3.7
Last 2 years	3.2	2.9
Last 3 years	3.1	2.8
Last 4 years	3.2	2.9
Last 5 years	3.9	4.0
Since Inception (7/91)	6.4	6.4

**Recommendation**

No action required.

\*Custom benchmark since inception date.



**GALLIARD CAPITAL MANAGEMENT**  
**Periods Ending September, 2006**

**Portfolio Manager: Karl Tourville**

**Assets Under Management: \$194,291,197**

**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 investment contracts 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**

Galliard slightly trailed its quarterly benchmark.

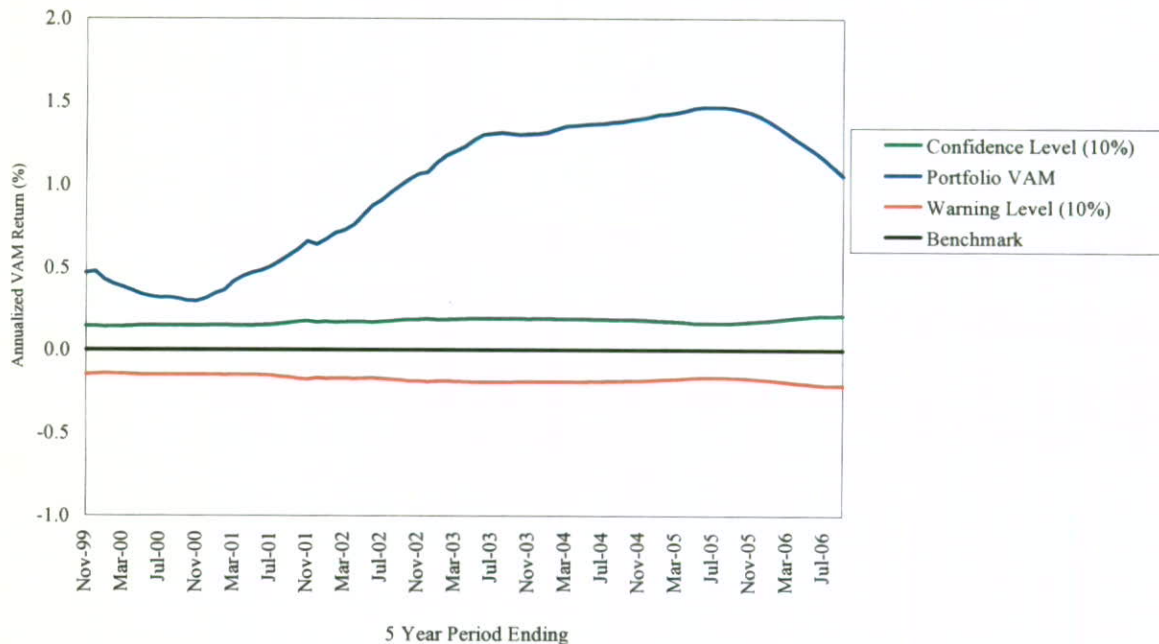
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.1%	1.3%
Last 1 year	4.5	5.2
Last 2 years	4.3	4.6
Last 3 years	4.3	4.1
Last 4 years	4.5	3.7
Last 5 years	4.8	3.7
Since Inception (11/94)	5.8	5.0

**Recommendation**

No action required.

**Galliard Capital Management**  
**Rolling Five Year VAM**





**INTERNAL STOCK POOL - Trust/Non-Retirement Assets**  
**Periods Ending September, 2006**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$762,819,539**

**Investment Philosophy**  
**Environmental Trust Fund**  
**Permanent School Fund**

**Staff Comments**

The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index. The optimization model's estimate of tracking error with this strategy is approximately 10 basis points per year.

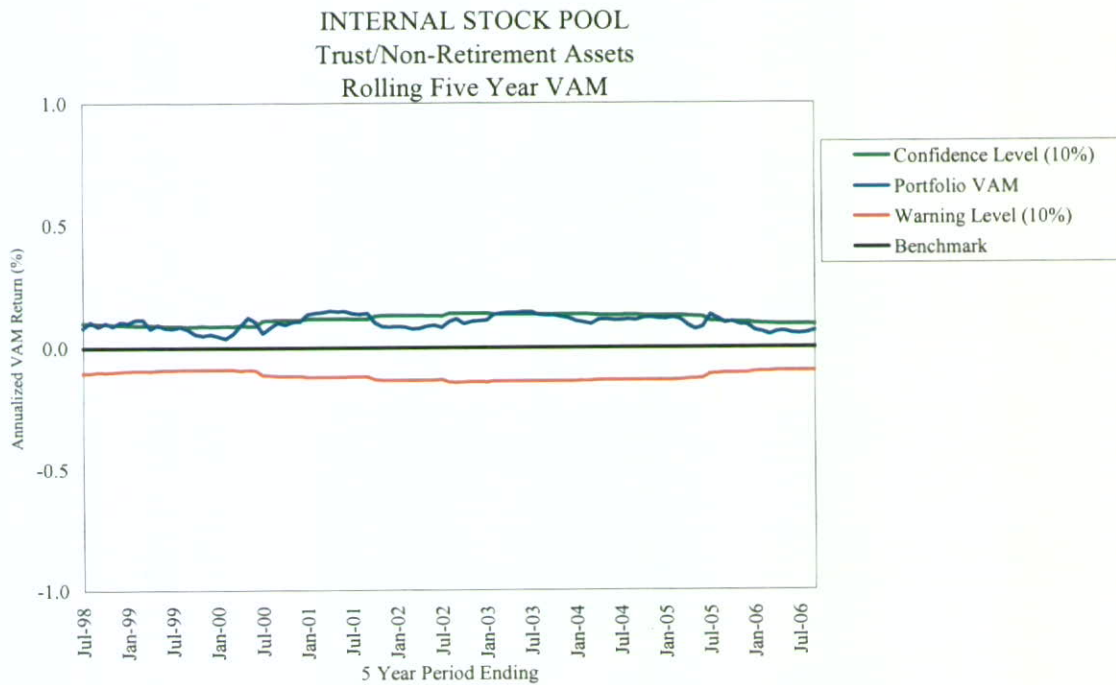
The portfolio matched the benchmark for the quarter and slightly outperformed for the year.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	5.7%	5.7%
Last 1 year	10.9	10.8
Last 2 years	11.6	11.5
Last 3 years	12.3	12.3
Last 4 years	15.3	15.2
Last 5 years	7.0	7.0
Since Inception (7/93)	10.7	10.6

No action required.





**INTERNAL BOND POOL - Income Share Account**  
**Periods Ending September, 2006**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$81,028,814**

**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 income share account matched the quarterly benchmark. It outperformed the one-year benchmark primarily due to a short duration position.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.8%	3.8%
Last 1 year	4.4	3.7
Last 2 years	3.9	3.2
Last 3 years	4.1	3.4
Last 4 years	4.9	3.9
Last 5 years	5.2	4.8
Since Inception (7/86)	7.9	7.5

**Recommendation**

No action required.

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



**INTERNAL BOND POOL - Trust/Non-Retirement Assets**  
**Periods Ending September, 2006**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$489,660,343**

**Investment Philosophy**  
**Environmental Trust Fund**  
**Permanent School Trust Fund**

**Staff Comments**

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.

The internal trust account slightly trailed the quarterly benchmark due to a small short duration position. It outperformed the one-year benchmark primarily due to a short duration position.

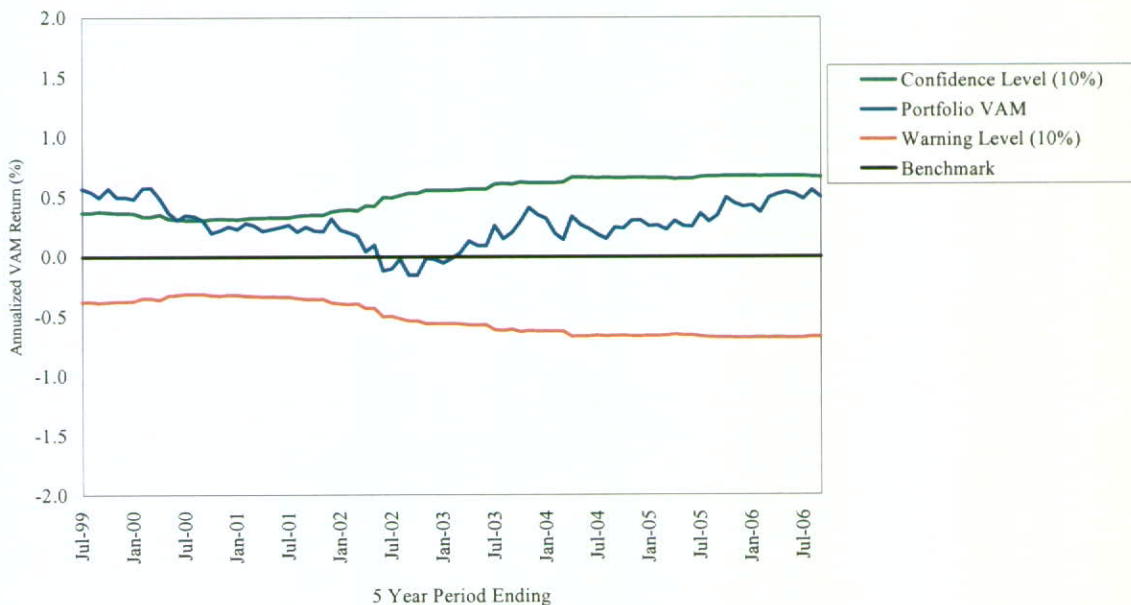
**Quantitative Evaluation**

**Recommendation**

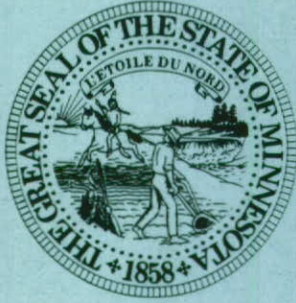
	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	3.7%	3.8%	No action required.
Last 1 year	4.6	3.7	
Last 2 years	4.0	3.2	
Last 3 years	4.2	3.4	
Last 4 years	5.0	3.9	
Last 5 years	5.3	4.8	
Since Inception (7/94)*	7.3	6.8	

\* Date started managing the pool against the Lehman Aggregate.

**INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS**  
**Rolling Five Year VAM**







# STATE BOARD OF INVESTMENT

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## Deferred Compensation Plan Evaluation Reports

Third Quarter, 2006



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**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**MUTUAL FUND MANAGERS**  
**Periods Ending September, 2006**

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation In Fund (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%	
<b>Large Cap Equity:</b>											
Janus Twenty (S&P 500)	1.6	5.7	3.9	10.8	15.3	12.3	7.7	7.0	-1.7	1.2	\$332.6
Legg Mason Partners Appr Y (S&P 500)	4.0	5.7	11.1	10.8	11.5	12.3	7.5	7.0	10.0	10.5	\$118.6
Vanguard Institutional Index Plus (S&P 500)	5.7	5.7	10.8	10.8	12.3	12.3	7.0	7.0	1.3	1.2	\$438.7
<b>Mid Cap Equity:</b>											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	1.4	1.3	9.2	9.1	18.2	18.2	14.6	14.4	14.6	14.6	\$113.0
<b>Small Cap Equity:</b>											
T. Rowe Price Small-Cap Stock (Russell 2000)	0.0	0.4	9.2	9.9	15.7	15.5	13.0	13.8	11.0	7.9	\$390.4
<b>Balanced:</b>											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	4.2	4.9	10.7	7.9	12.9	8.7	11.4	6.4	12.9	8.7	\$256.3
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	4.3	4.2	7.8	7.7	9.3	9.3	7.2	7.4	8.3	8.3	\$168.5
<b>Bond:</b>											
Dodge & Cox Income Fund (Lehman Aggregate)	3.4	3.8	4.1	3.7	3.5	3.4	5.3	4.8	6.5	6.1	\$80.6
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	3.9	3.8	3.7	3.7	3.4	3.4	4.4	4.8	3.8	3.8	\$48.7
<b>International:</b>											
Fidelity Diversified International (MSCI EAFE-Free)	3.1	3.9	17.4	19.2	21.7	22.3	17.2	14.3	11.5	5.8	\$239.9
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	4.0	3.9	19.1	19.2	22.5	22.3	14.3	14.3	20.4	20.2	\$54.8

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.

<b>Fixed Fund:</b>	%	***The Blended Yield Rate for the current quarter includes the return on the existing portfolio assets and the Liquidity Buffer Account (money market). The Bid Rates for the current quarter determine the allocation of new cash flow.
Blended Yield Rate for current quarter***:	4.6	
Bid Rates for current quarter:		
Great West Life	5.3	
Minnesota Life	5.6	
Principal Life	5.8	

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**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – JANUS TWENTY  
Periods Ending September, 2006**

**Portfolio Manager: Scott W. Schoelzel**

**State's Participation in Fund: \$332,607,888  
Total Assets in Fund: \$9,161,003,504**

**Investment Philosophy  
Janus Twenty**

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

**Staff Comments**

Janus underperformed the quarterly and one-year benchmark. The quarterly performance was hurt by overall stock selection, particularly coal miner Peabody Energy.

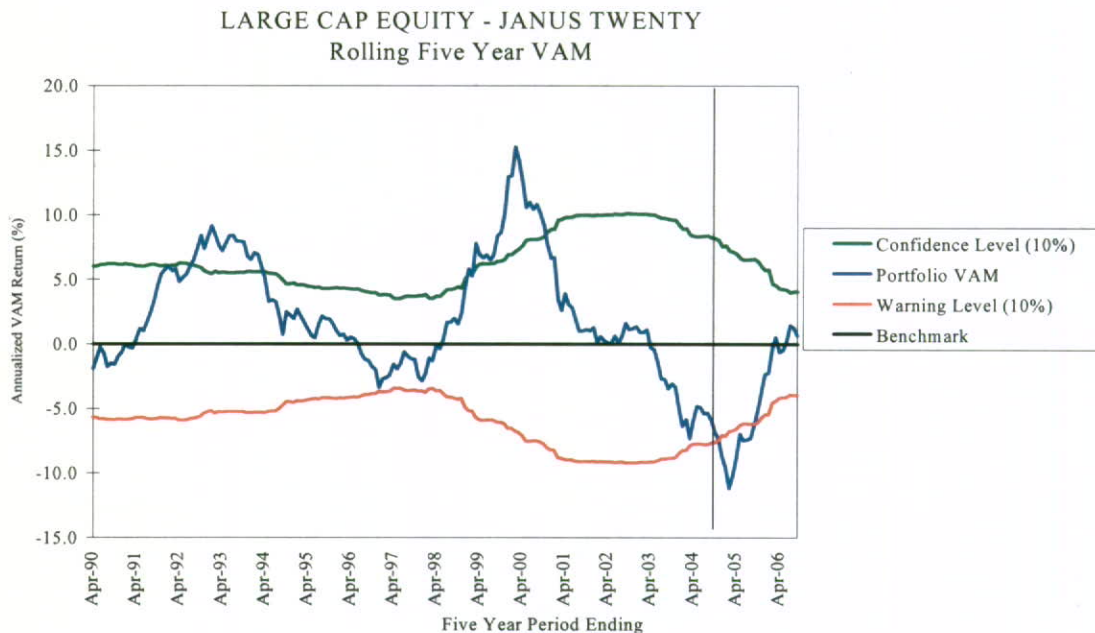
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	1.6%	5.7%
Last 1 year	3.9	10.8
Last 2 years	12.5	11.5
Last 3 years	15.3	12.3
Last 4 years	15.8	15.2
Last 5 years	7.7	7.0
Since Retention by SBI (7/99)	-1.7	1.2

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION Y  
Periods Ending September, 2006**

**Portfolio Manager: Scott Glasser**

**State's Participation in Fund: \$118,580,388  
Total Assets in Fund: \$5,865,882,065**

**Investment Philosophy  
Legg Mason Partners 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**

Legg Mason (formerly Smith Barney) trailed the quarterly benchmark due to sector allocation, especially the energy sector. The one year outperformance was primarily due to stock selection.

**Quantitative Evaluation**

	Actual	Benchmark*
Last Quarter	4.0%	5.7%
Last 1 year	11.1	10.8
Last 2 years	10.9	11.5
Last 3 years	11.5	12.3
Last 4 years	13.5	15.2
Last 5 years	7.5	7.0
Since Retention by SBI (12/03)	10.0	10.5

**Recommendation**

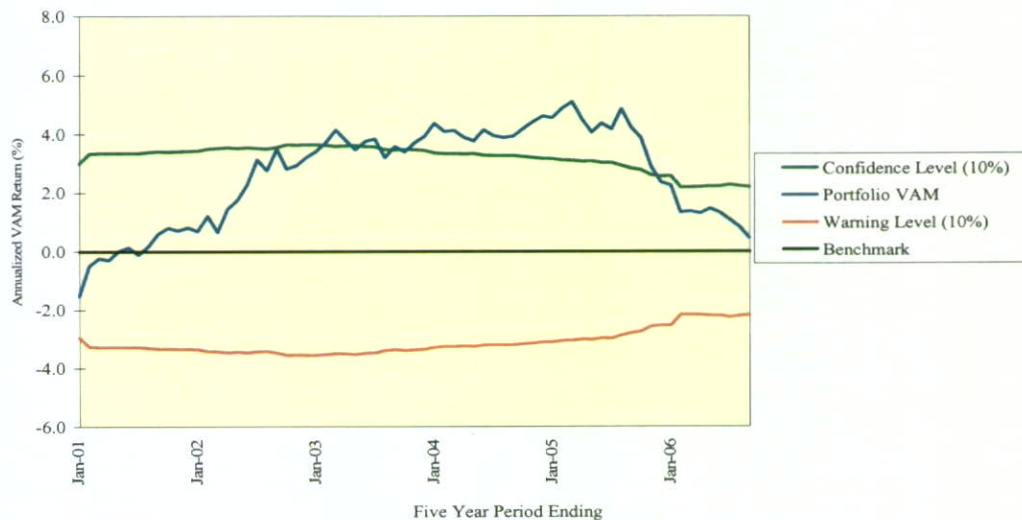
No action required.

\*Benchmark is the S&P 500.

Numbers in black are returns since retention by SBI.

Numbers in blue include returns prior to retention by SBI.

**LARGE CAP EQUITY - LEGG MASON PARTNERS APPRECIATION Y  
Rolling Five Year VAM**



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



**MN STATE 457 DEFERRED COMPENSATION PLAN  
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX PLUS  
Periods Ending September, 2006**

**Portfolio Manager: George U. Sauter**

**State's Participation in Fund: \$438,675,993  
Total Assets in Fund: \$18,799,000,000**

**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**

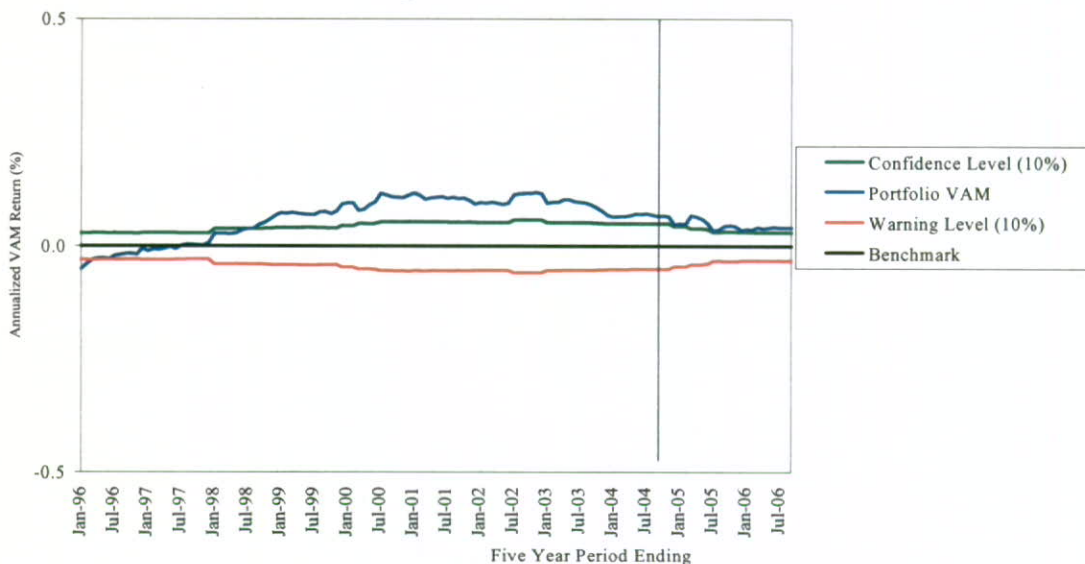
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	5.7%	5.7%
Last 1 year	10.8	10.8
Last 2 years	11.6	11.5
Last 3 years	12.3	12.3
Last 4 years	15.2	15.2
Last 5 years	7.0	7.0
Since Retention by SBI (7/99)	1.3	1.2

**Recommendation**

No action required.

\*Benchmark is the S&P 500.

**EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS  
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
MID CAP EQUITY – VANGUARD MID-CAP INDEX  
Periods Ending September, 2006**

**Portfolio Manager: George U. Sauter**

**State's Participation in Fund: \$113,027,734  
Total Assets in Fund: \$4,010,000,000**

**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**

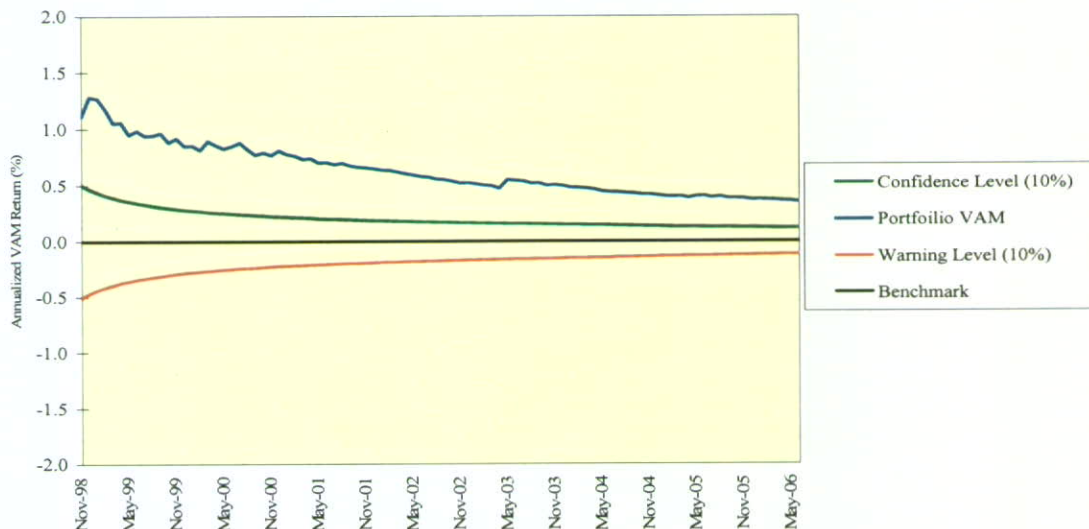
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	1.4%	1.3%
Last 1 year	9.2	9.1
Last 2 years	17.8	17.7
Last 3 years	18.2	18.2
Last 4 years	19.9	19.8
Last 5 years	14.6	14.4
Since Retention by SBI (1/04)	14.6	14.6

**Recommendation**

No action required.

\*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.

**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, 2006**

**Portfolio Manager: Gregory A. McCrickard**

**State's Participation in Fund: 390,388,201  
 Total Assets in Fund: 7,448,268,465**

**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 lagged the quarterly and one-year benchmark. Stock selection and an overweight position in energy equipment and services had a negative impact as oil prices declined from record highs. The one-year return was hurt by the strategy's stock selection and an underweight position in the consumer discretionary sector.

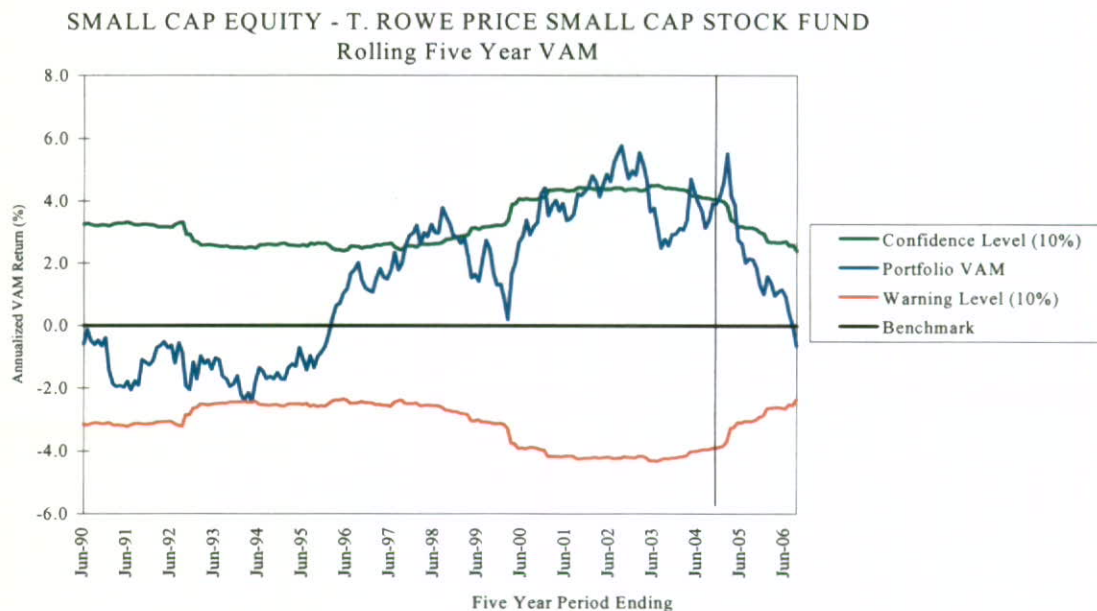
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	0.0%	0.4%
Last 1 year	9.2	9.9
Last 2 years	13.6	13.9
Last 3 years	15.7	15.5
Last 4 years	17.9	20.4
Last 5 years	13.0	13.8
Since Retention by SBI (7/99)	11.0	7.9

**Recommendation**

No action required.

\*Benchmark is the Russell 2000.





**STATE 457 DEFERRED COMPENSATION PLAN  
BALANCED – DODGE & COX BALANCED FUND  
Periods Ending September, 2006**

**Portfolio Manager: John Gunn**

**State's Participation in Fund: \$256,311,672  
Total Assets in Fund: \$25,984,838,677**

**Investment Philosophy  
Dodge & Cox Balanced Fund**

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities.

**Staff Comments**

Dodge & Cox underperformed the quarterly benchmark due to the equity portfolio and fixed income portfolio lagging its respective benchmark. The equity portfolio was hurt by holdings that rose strongly, just not as much as the corresponding S&P 500 sectors. The fixed income portfolio was negatively impacted by its shorter than benchmark duration.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	4.2%	4.9%
Last 1 year	10.7	7.9
Last 2 years	11.8	8.2
Last 3 years	12.9	8.7
Last 4 years	14.8	10.7
Last 5 years	11.4	6.4
Since Retention By SBI (10/03)	12.9	8.7

**Recommendation**

No action required.

\*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.

**BALANCED - DODGE & COX BALANCED FUND  
Rolling Five Year VAM**



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



**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND**  
 Periods Ending September, 2006

**Portfolio Manager: George U. Sauter**

**State's Participation in Fund: \$168,470,974**  
**Total Assets in Fund: \$2,482,000,000**

**Investment Philosophy**  
**Vanguard Balanced Index Fund**

**Staff Comments**

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 MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. 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.

No comment at this time.

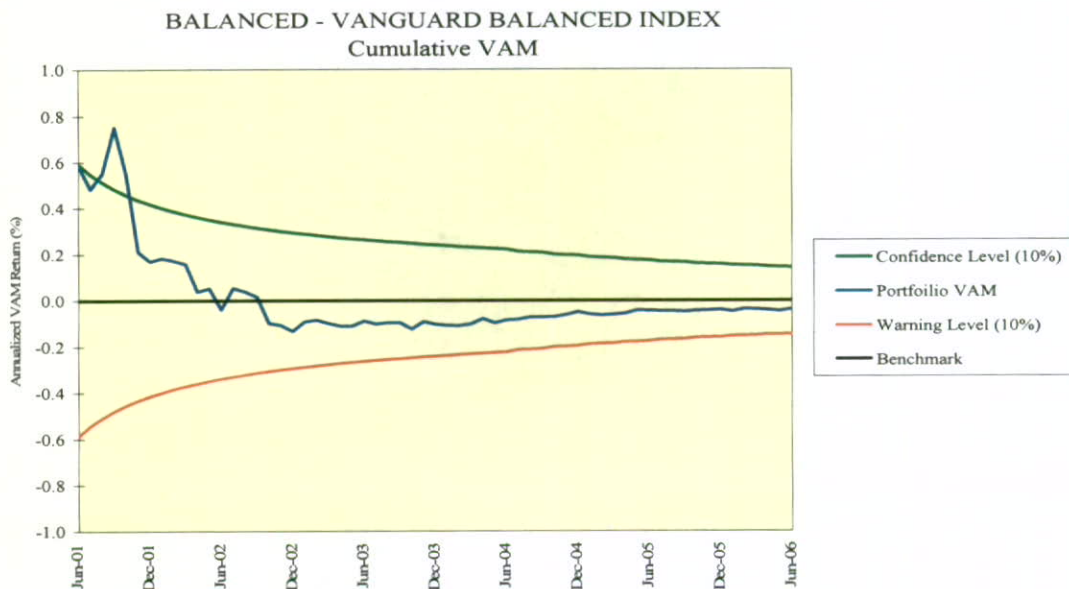
**Quantitative Evaluation**

**Recommendation**

	Actual	Benchmark*
Last Quarter	4.3%	4.2%
Last 1 year	7.8	7.7
Last 2 years	8.8	8.8
Last 3 years	9.3	9.3
Last 4 years	11.3	11.4
Last 5 years	7.2	7.4
Since Retention by SBI (12/03)	8.3	8.3

No action required.

\*Benchmark is 60% MSCI US Broad Market, 40% Lehman Aggregate.  
 Equity benchmark was Wilshire 5000 prior to April 1, 2005.  
 Numbers in black are returns since retention by SBI.  
 Numbers in blue include returns prior to retention by SBI.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – DODGE & COX INCOME FUND  
Periods Ending September, 2006**

**Portfolio Manager: Dana Emery**

**State's Participation in Fund: \$80,620,580  
Total Assets in Fund: \$10,997,185,900**

**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 due to the fund's shorter than benchmark duration.

**Quantitative Evaluation**

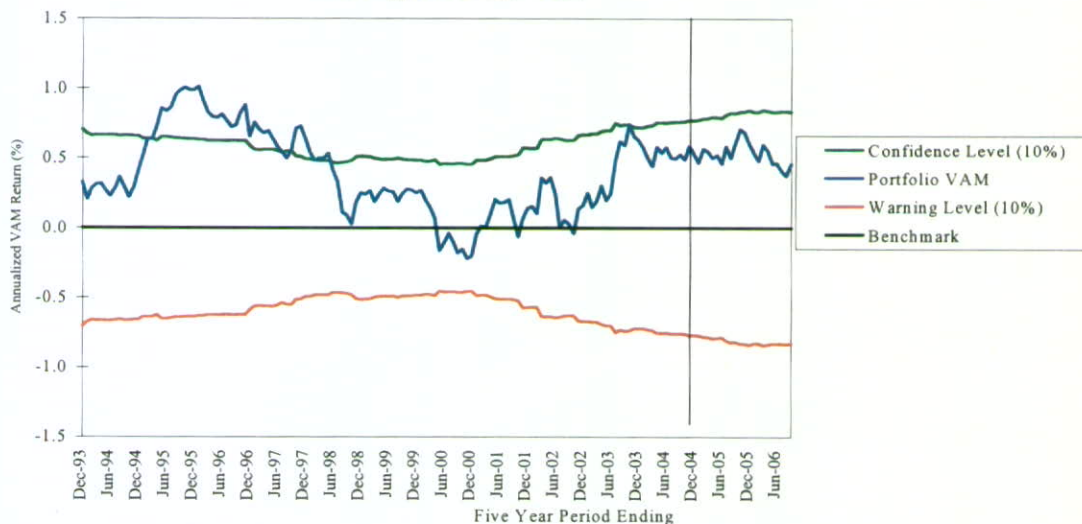
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	3.4%	3.8%
Last 1 year	4.1	3.7
Last 2 years	3.3	3.2
Last 3 years	3.5	3.4
Last 4 years	4.4	3.9
Last 5 years	5.3	4.8
Since Retention By SBI (7/99)	6.5	6.1

**Recommendation**

No action required.

\*Benchmark is the Lehman Aggregate.

**BOND - DODGE & COX INCOME FUND  
Rolling Five Year VAM**



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL  
Periods Ending September, 2006**

**Portfolio Manager: Robert Auwaerter**

**State's Participation in Fund: \$48,679,963  
Total Assets in Fund: \$7,905,000,000**

**Investment Philosophy  
Vanguard Total Bond Market Index  
Institutional**

**Staff Comments**

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.

No comment at this time.

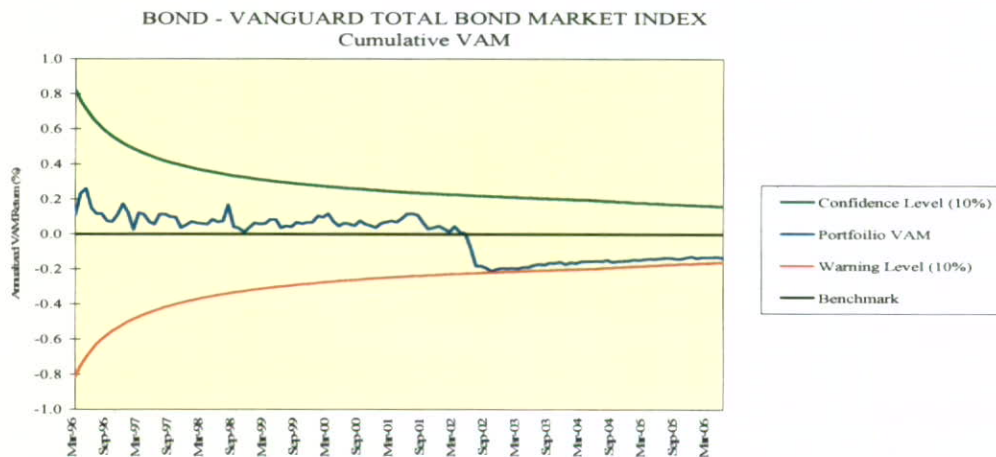
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	3.9%	3.8%
Last 1 year	3.7	3.7
Last 2 years	3.2	3.2
Last 3 years	3.4	3.4
Last 4 years	3.9	3.9
Last 5 years	4.4	4.8
Since Retention by SBI (12/03)	3.8	3.8

No action required.

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



Note: Shaded area includes performance prior to managing SBI account



**MN STATE 457 DEFERRED COMPENSATION PLAN  
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL  
Periods Ending September, 2006**

**Portfolio Manager: William Bower**

**State's Participation in Fund: \$239,936,727  
Total Assets in Fund: \$42,076,170,000**

**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**

No comment at this time.

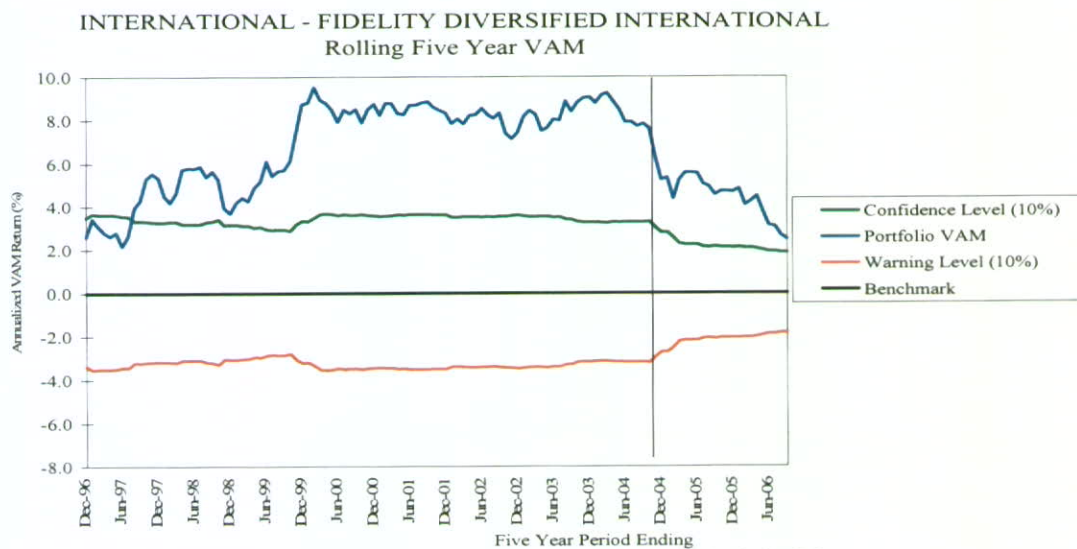
**Quantitative Evaluation**

	Actual	Benchmark*
Last Quarter	3.1%	3.9%
Last 1 year	17.4	19.2
Last 2 years	22.1	22.4
Last 3 years	21.7	22.3
Last 4 years	24.0	23.2
Last 5 years	17.2	14.3
Since Retention By SBI (7/99)	11.5	5.8

**Recommendation**

No action required.

\*Benchmark is the MSCI EAFE-Free.





**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX**  
**Periods Ending September, 2006**

**Portfolio Manager:** George U. Sauter **State's Participation in Fund:** \$54,839,256  
**Total Assets in Fund:** \$3,249,000,000

**Investment Philosophy**  
**Vanguard Institutional Developed Market**  
**Index**

**Staff Comments**

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.

No comment at this time.

**Quantitative Evaluation**

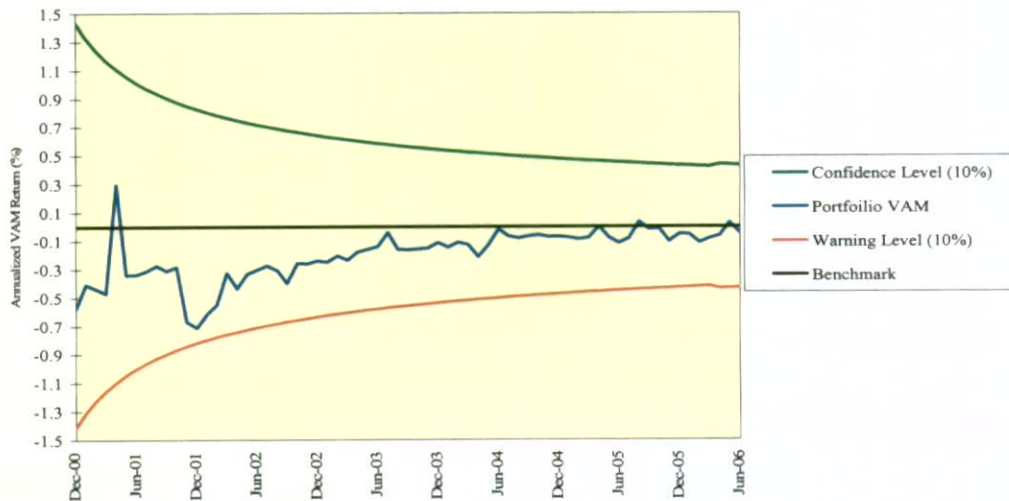
**Recommendation**

	Actual	Benchmark*
Last Quarter	4.0%	3.9%
Last 1 year	19.1	19.2
Last 2 years	22.5	22.4
Last 3 years	22.5	22.3
Last 4 years	23.5	23.2
Last 5 years	14.3	14.3
Since Retention by SBI (12/03)	20.4	20.2

No action required.

\*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.

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, 2006**

**Total Assets in MN Fixed Fund: \$748,423,141 \***

\*Includes \$14-18M in Liquidity Buffer Account

**Total Assets in 457 Plan: \$748,423,141 \*\***

\*\*Includes all assets in new and old fixed options

**Principal Life**

**Investment Philosophy**

<b>Ratings:</b>	Moody's	Aa2
	S&P	AA
	A.M. Best	A+
	Duff & Phelps	AA+

**Assets in MN Fixed Fund: \$339,594,698**

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

**Minnesota Life**

**Investment Philosophy**

<b>Ratings:</b>	Moody's	Aa2
	S&P	AA
	A.M. Best	A++
	Duff & Phelps	AA+

**Assets in MN Fixed Fund: \$176,279,778**

**Assets in Prior MN 457 Plan: \$0**

**Total Assets: \$176,279,778**

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

**Great-West Life**

**Investment Philosophy**

<b>Ratings:</b>	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA

**Assets in MN Fixed Fund: \$219,824,433**

**Assets in Prior MN 457 Plan: \$0**

**Total Assets: \$219,824,433**

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, 2006**

**Current Quarter**

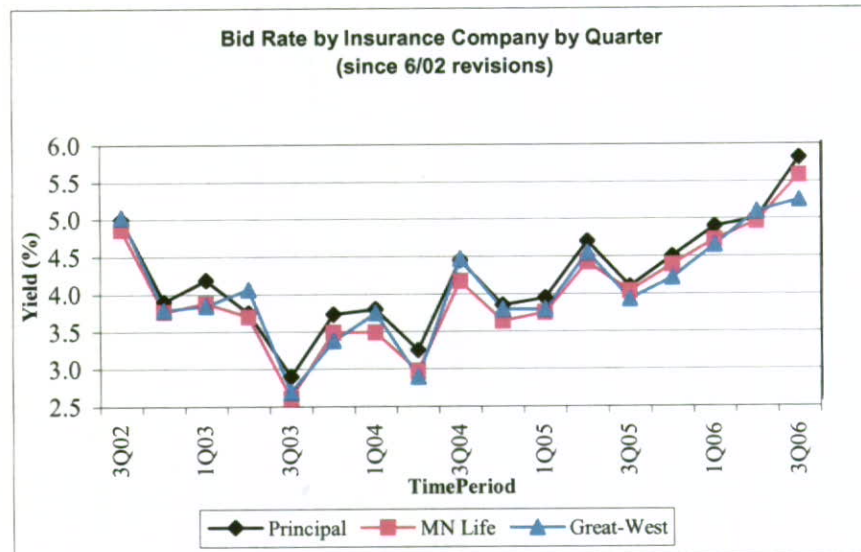
**Dollar Amount of Bid: \$25,200,000**

**Blended Rate: 4.56%**

**Bid Rates:**

Principal Life            5.82%  
Minnesota Life        5.58%  
Great-West Life        5.25%

Contracts were renewed in June 2002. Under these contracts, bid rates are effective for five years on the quarterly cash flows, the bid rate bands were narrowed to 8 b.p. from 10 b.p., and additional bid scenarios were added. All changes were effective for 3Q 2002 bids. The separate portfolio managed by Minnesota Life (previously referred to as the "existing portfolio") no longer exists. All assets of that portfolio matured in June 2004 and have been rolled into the Fixed Fund.



**Staff Comments on Bid Rates**

The graph indicates bid rates for the new cash flows which are effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

	4Q05	1Q06	2Q06	3Q06	Staff Comments
Principal Life	60.0%	75.0%	30.0%	75.0%	Principal was the top bidder and was awarded 75%, and Minnesota Life received 25%.
Minnesota Life	40.0%	25.0%	30.0%	25.0%	
Great-West Life	0.0%	0.0%	40.0%	0.0%	

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# Tab D

## **COMMITTEE REPORT**

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DATE: November 29, 2006

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

**FROM: Alternative Investment Committee**

The Alternative Investment Committee met on November 15, 2006 to review the following information and action agenda items:

- Review of current strategy.
- New investments with two new private equity managers, CarVal Investors and EBF & Associates; and one existing private equity manager, Hellman & Friedman.

**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 a new private equity manager, CarVal Investors, in Cargill Value Investment's (CVI) Global Value Fund, L.P.**

CarVal is seeking investors for a new \$4-5 billion private equity fund. This fund is a successor to a proprietary pool of investment capital (approximately \$7 billion assets under management) managed by CarVal for Cargill Inc. Like the prior investment pool, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Cargill Value Investment's (CVI) Global Value Fund, 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 \$200 million or 20%, whichever is less, in Cargill Value Investment's (CVI) Global Value Fund, 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 CarVal upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on CarVal or reduction or termination of the commitment.**



**2) Investment with a new private equity manager, EBF & Associates, in Merced Partners II, L.P.**

EBF & Associates is seeking investors for a new \$500 - \$1 billion private equity fund. This fund is a successor to three separate prior funds (totaling approximately \$1.9 billion in assets under management) that invested in a wide range of public and private investments. This fund will seek to earn attractive returns through a diversified portfolio of primarily private equity investments.

More information on Merced Partners II, L.P. is included as **Attachment D**.

**RECOMMENDATION:**

**The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$75 million or 20%, whichever is less, in Merced 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 EBF & Associates upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on EBF & Associates or reduction or termination of the commitment.**

**3) Investment with an existing private equity manager, Hellman & Friedman, in Hellman & Friedman Capital Partners VI, L.P.**

Hellman & Friedman is seeking investors for a new \$8.4 billion private equity fund. This fund is a successor to five other prior private equity funds managed by Hellman & Friedman in which the SBI has invested a total of \$350 million in the three prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Hellman & Friedman Capital Partners VI, 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 \$175 million or 20%, whichever is less, in Hellman & Friedman Capital Partners VI, 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 Hellman & Friedman upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Hellman & Friedman or reduction or termination of the commitment.**

ATTACHMENT A

**Minnesota State Board of Investment**  
*Pooled Alternative Investments*  
*Combined Retirement Funds*  
*September 30, 2006*

Basic Retirement Funds Market Value	\$22,522,615,824
Post Retirement Fund Market Value	\$22,678,195,713
 Amount Available for Investment	 <b>\$1,805,628,629</b>

	Current Level	Target Level	Difference
Market Value (MV)	\$4,294,147,230	\$6,099,775,859	\$1,805,628,629
MV +Unfunded	\$7,048,581,271	\$9,149,663,789	\$2,101,082,517

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$2,235,543,886	\$1,572,717,211	\$3,808,261,097
Real Estate	\$775,201,888	\$231,836,088	\$1,007,037,976
Resource	\$285,810,327	\$183,799,860	\$469,610,187
Yield-Oriented	\$997,591,129	\$766,080,882	\$1,763,672,011
<b>Total</b>	\$4,294,147,230	\$2,754,434,041	\$7,048,581,271





## ATTACHMENT B

Minnesota State Board of Investment  
- Alternative Investments -

As of September 30, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Real Estate</b>							
American Republic Realty Fund	1	1	93,400	5,000	0	107.0	16.7
Blackstone Real Estate V	100,000,000	34,823,391	28,234,652	7,368,270	65,176,609	N/A	0.4
<b>Colony Capital</b>							
Colony Investors II	80,000,000	78,482,328	386,122	88,682,745	1,517,672	4.4	11.5
Colony Investors III	100,000,000	100,000,000	18,354,600	151,784,754	0	14.8	8.7
CSFB Strategic Partners III RE	25,000,000	2,503,313	2,322,376	0	22,496,687	-7.8	1.2
Heltman Advisory Fund V	20,000,000	20,000,000	18,368	35,792,461	0	8.6	14.8
Lehman Brothers Real Estate Partners II	75,000,000	33,854,880	38,396,796	4,387,257	41,145,120	50.7	1.2
Morgan Stanley (Lend Lease)	40,000,000	40,000,000	236,268,212	0	0	7.5	25.0
<b>T.A. Associates Realty</b>							
Realty Associates Fund III	40,000,000	40,000,000	416,234	81,734,724	0	10.9	12.3
Realty Associates Fund IV	50,000,000	50,000,000	14,949,589	89,678,420	0	13.1	9.7
Realty Associates Fund V	50,000,000	50,000,000	51,923,507	38,351,893	0	11.7	7.4
Realty Associates Fund VI	50,000,000	50,000,000	52,722,311	21,378,502	0	19.1	4.3
Realty Associates Fund VII	75,000,000	73,500,000	75,242,860	4,511,546	1,500,000	13.8	1.9
Realty Associates Fund VIII	100,000,000	0	0	0	100,000,000	N/A	0.2
UBS Realty	42,376,529	42,376,529	255,872,862	0	0	8.2	24.4
<b>Real Estate Total</b>	<b>847,376,530</b>	<b>615,540,442</b>	<b>775,201,888</b>	<b>523,675,572</b>	<b>231,836,088</b>		
<b>Resource</b>							
Apache Corp III	30,000,000	30,000,000	10,570,380	52,195,651	0	12.7	19.8
<b>First Reserve</b>							
First Reserve I	15,000,000	15,000,000	17,293	14,552,526	0	-0.3	25.0
First Reserve II	7,000,000	7,000,000	54,890	14,879,948	0	5.9	23.7
First Reserve V	16,800,000	16,800,000	168,865	50,261,377	0	16.2	16.4
First Reserve VII	40,000,000	40,000,000	3,012,004	55,976,613	0	9.7	10.2
First Reserve VIII	100,000,000	100,000,000	57,447,735	124,217,811	0	14.2	8.4
First Reserve IX	100,000,000	100,000,000	56,940,234	231,208,491	0	48.2	5.5
First Reserve X	100,000,000	72,458,516	73,796,256	34,312,339	27,541,484	60.2	1.9
First Reserve XI	150,000,000	0	0	0	150,000,000	N/A	0.0
<b>Simmons</b>							
Simmons - SCF Fund II	17,000,000	14,706,629	999,999	30,582,945	2,293,371	9.1	15.1
Simmons - SCF Fund III	25,000,000	23,408,729	4,220,689	61,269,117	1,591,271	18.5	11.2
Simmons - SCF Fund IV	50,000,000	47,626,265	70,746,328	102,704,320	2,373,735	28.5	8.5
T. Rowe Price	43,732,107	43,732,107	7,835,655	56,315,173	N/A	27.2	N/A
<b>Resource Total</b>	<b>694,532,107</b>	<b>510,732,247</b>	<b>285,810,327</b>	<b>828,476,310</b>	<b>183,799,860</b>		

## Minnesota State Board of Investment

- Alternative Investments -

As of September 30, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Yield-Oriented</b>							
Carbon Capital	50,000,000	46,184,308	2,822,785	57,461,981	3,815,692	15.4	4.4
CT Mezzanine Partners	100,000,000	36,804,097	2,495,579	49,093,973	63,195,903	19.1	5.0
Citicorp Mezzanine							
<i>Citicorp Mezzanine Partners</i>	40,000,000	40,000,000	503,610	56,672,949	0	10.4	11.7
<i>Citicorp Mezzanine III</i>	100,000,000	85,821,706	37,310,310	88,410,662	14,178,294	16.4	6.9
DLJ Investment Partners							
<i>DLJ Investment Partners II</i>	50,000,000	21,026,211	5,854,420	25,582,074	28,973,789	10.7	6.7
<i>DLJ Investment Partners III</i>	100,000,000	12,322,853	3,425,839	0	87,677,147	N/A	0.3
Gold Hill Venture Lending	40,000,000	29,600,000	25,930,329	2,967,365	10,400,000	-2.1	2.0
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	83,092,437	46,887,349	70,300,738	16,907,563	10.7	6.6
GS Mezzanine Partners III	75,000,000	52,896,411	40,151,066	25,913,967	22,103,589	15.9	3.2
GS Mezzanine Partners 2006	100,000,000	14,999,888	14,998,478	0	85,000,112	N/A	0.5
GTCR Capital Partners	80,000,000	69,589,422	11,921,879	93,934,930	10,410,578	10.9	6.9
GMAC Institutional Advisors							
<i>Institutional Commercial Mortgage Fd III</i>	21,500,000	21,275,052	8,505,804	26,374,604	224,948	8.2	9.8
<i>Institutional Commercial Mortgage Fd IV</i>	14,300,000	14,300,000	4,757,881	17,731,524	0	8.4	8.8
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	27,549,881	26,497,687	0	8.3	7.2
KB Mezzanine Fund IV, L.P.	25,000,000	25,000,000	1,946,362	11,836,905	0	-11.3	11.0
Merit Capital Partners (fka William Blair)							
<i>William Blair Mezzanine Fund III</i>	60,000,000	55,998,000	26,960,645	53,774,400	4,002,000	11.0	6.7
<i>Merit Mezzanine IV</i>	75,000,000	18,803,571	18,061,940	0	56,196,429	-4.6	1.8
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	61,973,478	49,760,332	0	25.6	10.2
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	190,034,506	70,801,349	0	36.4	7.9
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	185,662,270	28,530,896	17,061,697	33.4	5.3
<i>Merit Energy Partners E</i>	100,000,000	40,581,510	52,936,347	2,483,297	59,418,490	20.8	2.0
<i>Merit Energy Partners F</i>	100,000,000	16,909,536	14,370,890	0	83,090,464	N/A	0.5
Prudential Capital Partners							
<i>Prudential Capital Partners I</i>	100,000,000	97,721,503	50,880,015	67,711,791	2,278,497	8.5	5.5
<i>Prudential Capital Partners II</i>	100,000,000	28,896,526	27,750,490	1,309,677	71,103,474	0.9	1.3
Summit Partners							
<i>Summit Sub. Debt Fund I</i>	20,000,000	18,000,000	82,602	31,406,578	2,000,000	30.6	12.5
<i>Summit Sub. Debt Fund II</i>	45,000,000	40,275,000	8,491,036	80,814,603	4,725,000	56.7	9.2
<i>Summit Sub. Debt Fund III</i>	45,000,000	23,400,000	21,189,308	3,232,113	21,600,000	4.0	2.6
T. Rowe Price	53,394,449	53,394,449	384,484	51,844,812	N/A	-12.9	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners</i>	40,000,000	37,130,039	6,156,077	50,659,420	2,869,961	13.8	10.5
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	87,479,046	4,227,545	128,184,441	12,520,954	12.9	7.9
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	68,835,264	46,093,967	82,499,696	6,164,736	35.6	5.5
Windjammer Capital Investors							
<i>Windjammer Mezzanine &amp; Equity Fund II</i>	66,708,861	49,811,002	44,089,487	31,048,748	16,897,859	14.1	6.5
<i>Windjammer Senior Equity Fund III</i>	67,974,684	4,710,977	3,184,469	579,895	63,263,707	N/A	0.7
<b>Yield-Oriented Total</b>	<b>2,143,077,994</b>	<b>1,376,997,112</b>	<b>997,591,129</b>	<b>1,287,421,409</b>	<b>766,080,882</b>		



## Minnesota State Board of Investment

- Alternative Investments -

As of September 30, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>Private Equity</b>							
<b>Adams Street Partners (Brinson)</b>							
<i>Brinson Partners I</i>	5,000,000	3,800,000	49,722	9,387,104	1,200,000	13.2	18.4
<i>Brinson Partners II</i>	20,000,000	20,000,000	207,490	37,754,513	0	24.1	15.8
Affinity Ventures	4,000,000	1,111,847	810,787	405,436	2,888,153	8.9	2.2
<b>Bank Fund</b>							
<i>Banc Fund V</i>	48,000,000	48,000,000	47,361,184	53,544,369	0	14.7	8.2
<i>Banc Fund VII</i>	45,000,000	21,600,000	20,114,201	0	23,400,000	-9.5	1.5
<b>Blackstone Capital Partners</b>							
<i>Blackstone Capital Partners II</i>	50,000,000	47,271,190	4,308,584	94,930,770	2,728,810	34.2	12.9
<i>Blackstone Capital Partners IV</i>	70,000,000	58,421,199	64,448,574	46,791,721	11,578,801	54.9	4.2
<i>Blackstone Capital Partners V</i>	100,000,000	17,222,114	14,766,730	578,519	82,777,886	N/A	0.7
<b>BLUM Capital Partners</b>							
<i>Blum Strategic Partners I</i>	50,000,000	48,771,954	18,459,587	86,426,434	1,228,046	14.8	7.8
<i>Blum Strategic Partners II</i>	50,000,000	38,766,177	35,333,333	46,191,771	11,233,823	26.2	5.2
<i>Blum Strategic Partners III</i>	75,000,000	59,004,469	55,785,201	9,456,587	15,995,531	16.3	1.3
<b>Chicago Growth Partners (William Blair)</b>							
<i>Chicago Growth Partners VIII</i>	50,000,000	10,641,998	9,615,546	0	39,358,002	-13.7	1.2
<i>William Blair Capital Partners VII</i>	50,000,000	45,250,000	24,297,089	21,971,737	4,750,000	0.8	5.6
Contrarian Capital Fund II	37,000,000	33,244,395	10,171,585	35,750,170	3,755,605	4.7	9.3
<b>Court Square Capital</b>							
<i>Citigroup Venture Capital Equity</i>	100,000,000	79,574,761	51,390,326	79,751,075	20,425,239	27.7	4.8
<i>Court Square Capital II</i>	100,000,000	230,328	230,328	0	99,769,672	N/A	0.1
<b>Coral Partners</b>							
<i>Coral Partners Fund II</i>	10,000,000	10,000,000	333,857	36,632,559	0	24.9	16.2
<i>Coral Partners Fund IV</i>	15,000,000	15,000,000	2,453,922	13,156,023	0	0.9	12.2
<i>Coral Partners Fund V</i>	15,000,000	14,625,000	3,687,579	2,016,216	375,000	-15.6	8.3
<b>Crescendo</b>							
<i>Crescendo III</i>	25,000,000	25,000,000	1,696,496	9,321,908	0	-21.1	7.9
<i>Crescendo IV</i>	101,500,000	98,962,500	36,704,869	4,018,614	2,537,500	-20.0	6.6
<b>CSFB/ DLJ</b>							
<i>DLJ Strategic Partners</i>	100,000,000	85,702,871	46,239,357	96,400,105	14,297,129	23.5	5.7
<i>CSFB Strategic Partners II-B</i>	100,000,000	68,814,402	64,349,192	62,524,626	31,185,598	51.6	3.2
<i>CSFB Strategic Partners III VC</i>	25,000,000	8,849,845	8,889,659	485,366	16,150,155	10.7	1.3
<i>CSFB Strategic Partners III-B</i>	100,000,000	16,478,316	16,477,069	2,481,823	83,521,684	31.5	1.3
<i>DLJ Merchant Banking Partners III</i>	125,000,000	115,695,840	75,358,236	125,109,582	9,304,160	19.1	6.0
Diamond Castle Partners IV	100,000,000	29,268,708	29,268,708	0	70,731,292	N/A	0.1
DSV Partners	10,000,000	10,000,000	1,233,631	28,861,427	0	9.6	21.5
Elevation Partners	75,000,000	22,952,334	21,465,000	0	52,047,666	-11.2	1.4
<b>Fox Paine Capital Fund</b>							
<i>Fox Paine Capital Fund</i>	40,000,000	40,000,000	5,068,920	39,288,122	0	1.8	8.4
<i>Fox Paine Capital Fund II</i>	50,000,000	37,495,303	28,450,685	44,478,121	12,504,697	32.1	6.2
<b>Golder, Thoma, Cressey, Rauner</b>							
<i>Golder, Thoma, Cressey &amp; Rauner Fund III</i>	14,000,000	14,000,000	8,686,010	78,123,015	0	31.0	18.9
<i>Golder, Thoma, Cressey &amp; Rauner Fund IV</i>	20,000,000	20,000,000	761,164	41,020,323	0	24.9	12.7
<i>Golder, Thoma, Cressey &amp; Rauner Fund V</i>	30,000,000	30,000,000	7,771,670	45,116,772	0	10.8	10.2
<b>GTCR Golder Rauner</b>							
<i>GTCR VI</i>	90,000,000	90,000,000	27,186,911	73,072,247	0	3.6	8.2
<i>GTCR VII</i>	175,000,000	150,828,124	109,496,259	183,741,908	24,171,876	21.8	6.6
<i>GTCR IX</i>	75,000,000	0	0	0	75,000,000	N/A	0.0
<b>GS Capital Partners 2000</b>							
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	28,790,524	56,739,134	0	21.9	6.1
<i>GS Capital Partners V</i>	100,000,000	54,505,427	57,142,727	0	45,494,573	7.4	1.5

Minnesota State Board of Investment

- Alternative Investments -

As of September 30, 2006

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<b>GHJM Marathon Fund</b>							
<i>GHJM Marathon Fund IV</i>	40,000,000	38,481,000	9,634,308	44,201,952	1,519,000	8.5	7.5
<i>GHJM Marathon Fund V</i>	28,985,714	24,382,851	19,943,631	3,197,797	4,602,863	-6.6	2.0
<b>Hellman &amp; Friedman</b>							
<i>Hellman &amp; Friedman Capital Partners III</i>	40,000,000	32,113,684	61,935	72,594,844	7,886,316	34.4	12.0
<i>Hellman &amp; Friedman Capital Partners IV</i>	150,000,000	133,967,494	158,529,248	157,819,906	16,032,506	33.9	6.7
<i>Hellman &amp; Friedman Capital Partners V</i>	160,000,000	105,482,935	102,294,291	7,860,279	54,517,065	6.3	1.8
<b>Kohlberg Kravis Roberts</b>							
<i>KKR 1987 Fund</i>	145,950,000	145,373,652	4,132,503	395,130,030	576,348	8.8	18.9
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	1,764,093	307,737,864	0	16.8	12.8
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	58,411,878	297,304,717	0	13.2	10.1
<i>KKR Millennium Fund</i>	200,000,000	196,965,098	194,689,130	122,214,923	3,034,902	38.7	3.8
<i>KKR 2006 Fund</i>	200,000,000	2,880,000	2,880,000	0	197,120,000	N/A	0.0
<i>Matrix Partners III</i>	10,000,000	10,000,000	70,276	78,027,244	0	75.1	16.4
<i>Lexington Capital Partners VI</i>	100,000,000	10,618,155	9,521,979	52,277	89,381,845	N/A	0.8
<b>Sightline Healthcare</b>							
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	3,278,199	4,190,002	0	-4.6	9.6
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	7,296,172	2,494,843	0	-14.5	7.7
<i>Sightline Healthcare Fund IV</i>	7,700,000	6,202,939	2,415,109	2,613,367	1,497,061	-11.1	3.0
<b>RWI Ventures</b>							
<i>RWI Group III</i>	616,430	616,430	617,921	0	0	N/A	0.3
<i>RWI Ventures I</i>	10,000,000	6,623,265	6,623,265	0	3,376,735	N/A	0.3
<i>Silver Lake Partners II</i>	100,000,000	76,556,191	76,512,477	119,698	23,443,809	0.1	2.2
<i>Split Rock Partners</i>	50,000,000	9,418,181	8,245,034	0	40,581,819	-18.4	1.4
<b>Summit Partners</b>							
<i>Summit Ventures II</i>	30,000,000	28,500,000	104,838	74,524,292	1,500,000	28.8	18.4
<i>Summit Ventures V</i>	25,000,000	23,875,000	2,917,626	27,123,883	1,125,000	6.3	8.5
<i>T. Rowe Price</i>	693,591,705	693,591,705	58,927,961	681,203,912	N/A	9.6	N/A
<b>Thoma Cressey</b>							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	16,675,689	8,659,003	1,085,000	-5.3	8.1
<i>Thoma Cressey Fund VII</i>	50,000,000	38,855,000	21,252,819	42,453,874	11,145,000	29.5	6.1
<i>Thoma Cressey Fund VIII</i>	70,000,000	10,150,000	9,910,480	0	59,850,000	N/A	0.4
<b>Thomas, Mc Nerney &amp; Partners</b>							
<i>Thomas, Mc Nerney &amp; Partners I</i>	30,000,000	16,950,000	12,682,073	4,672,914	13,050,000	1.3	3.9
<i>Thomas, Mc Nerney &amp; Partners II</i>	50,000,000	0	0	0	50,000,000	N/A	0.0
<b>Vestar Capital Partners</b>							
<i>Vestar Capital Partners IV</i>	55,000,000	50,443,131	33,150,515	31,107,786	4,556,869	9.8	6.8
<i>Vestar Capital Partners V</i>	75,000,000	10,242,150	9,905,972	0	64,757,850	-5.8	0.8
<b>Warburg Pincus</b>							
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	4,434,507	249,281,824	0	49.2	11.7
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	27,639,953	125,474,344	0	10.4	8.3
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	100,869,206	31,146,638	0	13.0	4.5
<i>Warburg Pincus Private Equity IX</i>	100,000,000	42,505,208	41,983,846	1,043,000	57,494,792	2.1	1.2
<i>Wayzata Opportunities Fund</i>	100,000,000	76,000,000	77,043,784	140,887	24,000,000	N/A	0.8
<b>Welsh, Carson, Anderson &amp; Stowe</b>							
<i>Welsh, Carson, Anderson &amp; Stowe VIII</i>	100,000,000	100,000,000	75,547,456	31,977,159	0	1.1	8.2
<i>Welsh, Carson, Anderson &amp; Stowe IX</i>	125,000,000	116,250,000	111,610,472	58,786,643	8,750,000	13.6	6.3
<i>Welsh, Carson, Anderson &amp; Stowe X</i>	100,000,000	26,578,466	24,881,644	0	73,421,534	N/A	0.8
<i>Zell/ Chilmark</i>	30,000,000	30,000,000	220,886	76,940,413	0	17.7	16.2
<b>Private Equity Total</b>	<b>5,841,343,849</b>	<b>4,268,626,639</b>	<b>2,235,543,886</b>	<b>4,405,624,416</b>	<b>1,572,717,211</b>		



<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b><i>Name of Fund:</i></b>	Cargill Value Investment's (CVI) Global Value Fund L.P.
<b><i>Type of Fund:</i></b>	Private Equity Limited Partnership
<b><i>Total Fund Size:</i></b>	\$4-5 billion
<b><i>Fund Manager:</i></b>	CarVal Investors, LLC. 12700 Whitewater Drive Minnetonka, MN 55343
<b><i>Manager Contact:</i></b>	Timothy Clark 952-984-3449

**II. Organization and Staff**

Cargill was founded in 1865 by W.W. Cargill and is one of the largest privately held companies in the world. Founded in 1987, Cargill Value Investment ("CVI") operated as a business unit of Cargill Inc. CarVal Investors, LLC is forming the Fund to continue and expand Cargill Value Investment's ("CVI") nineteen-year history of successful value investing in loan portfolios, corporate securities, international real estate and real estate loans and special opportunities across over thirty countries.

CVI (Cargill Value Investment) completed its spinout from Cargill in September 2006 and the firm was re-branded as CarVal Investors, to operate as its own independent firm. CarVal consists of the entire team from CVI, including over 205 total professionals, 80 investment professionals and over 100 legal, tax and risk management professionals. CarVal's investment decision process will remain autonomous, and its investment committee will continue to be comprised of the nine Senior Managing Directors. Cargill Inc. will remain a significant investor in the CVI Global Value Fund ("the Fund"). CarVal Investors is headquartered in Minneapolis, with affiliated offices in Beijing, Buenos Aires, Cobham, Copenhagen, Delhi, Luxembourg, Paris, Sao Paulo, Singapore, Shanghai and Tokyo.

CVI had over \$7 billion in assets under management as of December 31, 2005. From the date of the business unit's inception through December 31, 2005, CVI had invested in approximately 2,500 deals in various markets and economies throughout the world, representing an aggregate investment value of \$15 billion. In addition, Cargill has warehoused certain investments for the Fund since September 2006.

Structurally, CarVal has designed the fund to provide investors the ability to be able to choose from two classes of investor interests. One class (Class P) will reflect terms and conditions generally similar to private equity funds and the other class (Class H) will



reflect terms and conditions generally similar to hedge funds. Terms and conditions cited in items VI-IX will reflect the Class P class.

### **III. Investment Strategy**

CarVal Investors' investment strategies include transactions in loan portfolios, corporate securities, real estate and real estate loans and special opportunities.

The Loan Portfolio Strategy centers on investments in (i) sub-performing, non-performing or write-off loans, (ii) slow paying, partially paying or delinquent loans, (iii) loans being paid under a modification agreement or bankruptcy plan and (iv) non-uniform or non-conforming loans. CarVal Investors utilizes what it believes are some of the most experienced investment professionals in these sectors, including those within the Global Asset Manager Platform (certain global investment management entities in which CarVal Investors currently holds or will acquire interests in) described below, who collectively have relationships with the industry's leading servicers. These relationships have historically permitted CarVal Investors to match each portfolio to the servicer possessing the appropriate expertise to maximize its value. CarVal Investors expects to do so in the future in the same fashion.

The Corporate Securities Strategy centers on investments in obligations of leveraged or financially troubled corporations. These investments typically extend to mispriced or undervalued bonds, bank debt, trade claims, credit default swaps and equities. The investment professionals of CarVal Investors focusing on this Strategy utilize event-driven analysis with the objective of earning superior risk-adjusted returns while simultaneously preserving capital through a value investment approach. In making these investments, CarVal Investors supports an in-house due diligence process that is complemented and enhanced by a long-standing and extensive network of global contacts.

The International Real Estate and Real Estate Loans Strategy centers on investments in direct real estate and commercial real estate loan transactions, as well as real estate-related public debt and equity securities. In executing this Strategy, the Fund applies fundamental real estate analysis to each transaction and engages operating partners, including those within the Global Asset Manager Platform, who assist with the transactions and coordinate the due diligence and asset management of the investments. The Fund uses this network of operating partners to assist with assessments of market conditions, as well as analysis and management of cross-regional real estate portfolios. The Fund may invest in certain real estate located in North America. However, its ability to do so is subject to certain significant restrictions set forth in agreements entered into by Cargill Affiliates in connection with the formation of certain other funds.

The Special Opportunities Strategy utilizes the core competencies, skills and methods of the investment professionals of CarVal Investors to identify new asset categories for investment that are not already targeted by the Fund. Through this Strategy, the Fund may invest in a diverse base of non-traditional businesses and asset classes. Such

investments have historically included insurance companies in run-off, music catalogs and vessel assets.

Overall, the fund may use various hedging, leverage and other strategies to hedge and/or enhance returns.

#### IV. Investment Performance

Previous fund performance for capital managed by CVI (Cargill Value Investment) for Cargill as of December 31, 2005 is shown below.

Asset Class	Number of Deals	Total Investment (\$ Millions)	Net IRR
Total Loan Portfolio	1,027	\$5,570.2	16%
Total Corporate Securities	636	\$3,646.7	22%
Total International Real Estate	315	\$2,251.7	18%
Total Special Opportunities	10	\$164.7	12%
Total North American Real Estate	499	\$3,291.3	14%
Total	2,487	\$14,924.6	17%

- 1) The performance figures were provided by the General Partner and relate to the investment of a proprietary pool of capital from Cargill by CVI. Because many of the investments produce constant cash flows, certain assumptions were made in order to present the information in a format similar to typical fund performance data using a simulated fund structure to provide hypothetical net IRRs.
- 2) Over the past ten years, CVI has generated positive returns on approximately 95% of its deals.

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

#### V. General Partner's Investment

The individual principals of CarVal Investors together with certain personnel of CarVal Investors will make an aggregate commitment to the Fund through one or more General Partner entities or Fund Entities of no less than \$40 million. Cargill, Incorporated or its affiliates are expected to make a commitment to the Fund equal to 35% of the aggregate



commitments received by the Fund on and as of the final of the series of initial closings.

#### **VI. Takedown Schedule**

Takedown of investor commitments will be, as needed, on 10 days' notice.

#### **VII. Fees**

The management fee will be 2.0% of capital commitments during the Investment Period; thereafter 2.0% of funded capital commitments outstanding. Generally, 80% of all transaction, break-up, advisory, and other similar fees, and 100% of any directors' fees received by the General Partner will offset the management fee.

The partnership will reimburse the general partner for the partnership's organizational and startup expenses. Any placement agent fees will offset the management fee.

#### **VIII. Allocation and Distributions**

Generally, for illiquid investments, net profits will accrue 80% to the limited partners and 20% to the general partner, subject to an 8% preferred return to limited partners. For liquid investments, net profits will accrue 80% to the limited partners and 20% to the general partner, subject to an annual independent valuation in which losses need to be recouped prior to carry being paid. There are also true ups and a clawback in place as well.

#### **IX. Investment Period and Term**

The commitment amount shall be available to be drawn and invested by the Fund for a four-year period (the "Investment Period") following admission. Investor capital drawn by the Fund may also be available to be redrawn during the Investment Period to the extent that such capital is returned (or deemed returned) to the Investors during such period. The Fund is not expected to have a definite duration although an eight-year term with, if needed, two one-year extensions is expected.



<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b><i>Name of Fund:</i></b>	Merced Partners II ("the Fund")
<b><i>Type of Fund:</i></b>	Private Equity Limited Partnership
<b><i>Target Fund Size:</i></b>	\$400-500 million
<b><i>Fund Manager:</i></b>	EBF & Associates, L.P.
<b><i>Administrative Contact:</i></b>	Mark Bauer 601 Carlson Parkway, Ste. 200 Minnetonka MN 55305 952-476-7200

**II. Organization and Staff**

Founded in 1988 and based in Minneapolis, EBF and Associates, L.P. is forming the Fund to continue and expand EBF's fifteen-year successful investment track record.

EBF is led by Michael J Frey and supported by a team of 47, which includes 21 investment professionals and 26 operations professionals. The ten most senior investment professionals average 17 years of experience.

In total, EBF manages \$1.9 billion in three separate prior funds which invested in a wide range of public and private investments.

**III. Investment Strategy**

The investment objective of the Fund is to achieve a substantial return on capital while seeking to bear less than commensurate risk. There can be no assurance that the Fund will achieve its investment objective or that investors will receive a return of all or any part of their capital.

The Fund expects to pursue its objective primarily through investments where the General Partner believes there is strong downside protection from identifiable asset value and compelling return potential from some combination of current income, asset value appreciation, secondary market instrument appreciation (if long) or depreciation (if short), and enterprise value creation or appreciation. The relationship of reward to risk will be the General Partner's primary measure of an investment's merit.

The Fund may make investments directly in operating and real property assets through fee simple transactions, such as investments in aircraft sale-and-leaseback transactions and in land and other types of real estate, and may make investments in corporate enterprises that are start-up or early-stage in nature.

The Fund may make long and short investments in the secondary market debt and equity of below-investment-grade or financially distressed entities – that is, issuers that are in or near default or are otherwise struggling to meet their financial obligations.

The Fund may make investments of any other type, in the discretion of the General Partner.

The Fund anticipates that its investments will be reasonably diversified in number, industry focus, and geographic region. However, the Fund is not precluded from investing a substantial amount of its capital in a single holding, industry, or geographic area. While the General Partner does not expect to leverage Fund capital, it is not precluded from doing so. The Fund may invest outside the United States and, therefore, may incur foreign exchange or political risk.

The Fund expects to control and be actively involved in the stewardship of many of the companies and assets in which it invests. The Fund intends to seek out investments wherein strong management and attentive ownership add meaningful value. However, the Fund may own interests in companies and assets that it does not control and over which it has little, if any, influence.

Investments will be sourced from a wide variety of direct issuer and intermediary relationships of the General Partner and will be evaluated based on the General Partner's thorough in-house analysis and assessment of the multitude of financial, legal, market, operational, industry and other factors that impact credit profile, business prospects, and asset and enterprise value. In certain circumstances, the Fund will retain outside legal, tax, industry-specific and other advisors to help the General Partner minimize the downside and maximize the upside of an investment.

No assurance is given that the Fund's investment objectives will be met.

#### **IV. Investment Performance**

Previous fund performance as of June 30, 2006 for EBF & Associates and the SBI's investments with previous funds, where applicable, is shown below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Equity Commitments</b>	<b>SBI Investment</b>	<b>Net IRR from Inception</b>
Merced I	1990	\$1.1 billion	--	17%*
Tamarack	2001	\$500 million	--	9%*
Harrington	2005	\$300 million	--	-3%*
Private Investments**	1999	\$688 million	--	31%

\*The returns listed for Merced I, Tamarack, and Harrington are compound annual returns since inception, net of fees, for each of the funds.

\*\*These figures represent all private investments made by EBF & Associates, across Merced I, Tamarack, and Harrington funds. It is expected that Merced II will invest 50-100% in private investments, with the remainder in public investments similar to those made in the same three prior funds.

The returns provided above may not be indicative of future results.



## **V. General Partner's Investment**

The General Partners and its affiliates will contribute 1% of the Fund's aggregate Capital Commitments, up to a maximum of \$10 million.

## **VI. Takedown Schedule**

Capital will be drawn on an as-needed basis with a minimum of at least 10 business days notice given to the Limited Partners.

## **VII. Fees**

The Limited Partners will pay the General Partner a quarterly Management Fee, payable at the beginning of each quarter and pro rated on a daily basis for any partial quarter (the "Management Fee"), with the first payment made on the date when the General Partner gives its first notice of any required capital contributions. The quarterly Management Fee equals 37.5 basis points of the aggregate contributed and unreturned capital as of the beginning of each quarter, as reasonably determined by the General Partner.

The General Partner may waive the Management Fee for investments in the Fund by the General Partner, its partners, or their respective affiliates or employees, shareholders, partners or members.

Transaction fees, break-up fees, advisory fees, directors fees, monitoring fees, and other similar fees (collectively "Fee Income") generally will be paid directly to the Fund, rather than to the General Partner. To the extent that any Fee Income is received by the General Partner, its affiliates, or its employees and exceeds unreimbursed out-of-pocket transaction expenses incurred by the General Partner, its affiliates or their respective employees, 100% of the Fund's portion of such excess Fee Income will be applied to reduce the Management Fee.

The Fund will pay all organizational and offering expenses, up to a maximum of \$750,000, incurred in conjunction with the establishment of the Fund, the start up of its investment activities, and the sale of interests.

## **VIII. Allocations and Distributions**

The Fund is not required to make distributions during the Commitment Period, and Partners may not request full or partial redemptions of capital during the term of the Fund. Capital Commitments may be redrawn and/or reinvested, in the discretion of the General Partner, subject to the limitations set forth under "Drawdowns," below.



To the extent that the Fund makes distributions, all net proceeds will be apportioned among the Partners in proportion to their relative capital contributions. In general, investors will receive distributions in the following order of priority:

(i) 100% to the Partners, in proportion to their respective capital contributions, until such time as all Partners have received aggregate distributions in an amount equal to the aggregate of their capital contributions as of the time of such distribution; and thereafter

(ii) 80% to all Partners in proportion to their respective capital contributions and 20% to the General Partner in respect of its carried interest (the "Carried Interest").

Amounts distributed pursuant to subparagraph (i) in respect of capital contributions will be added to unfunded Capital Commitments and remain subject to recall by the Fund during the Commitment Period.

The General Partner will be entitled to cash distributions from the Fund in amounts sufficient to pay taxes (measured by reference to the highest applicable marginal federal, state and local tax rates for all of the General Partner's partners, former partners, and their respective affiliates) related to allocations of the Carried Interest prior to the time it otherwise receives cash distributions.

The General Partner, in its discretion, may waive the Carried Interest and Management Fee for investments in the Fund by the General Partner, its partners, or their respective affiliates or employees, shareholders, partners or members of such affiliates.

Distributions will be made in cash, with the exception of the distributions made upon the final liquidation of the Fund, which, in the discretion of the General Partner, may be made in cash, marketable securities, or other in-kind distribution.

If distributions are made of assets other than cash, the amount of such distributions will be valued by the General Partner, in its sole and absolute discretion. An independent appraisal will not be required and is not expected to be obtained, except as required by ERISA.

All items of income, gain, loss, and deduction will generally be allocated 80% to the Partners' capital accounts and 20% to the General Partner.

#### ***IX. Investment Period and Term***

The Commitment Period of the Fund will extend to the third anniversary of the Final Closing Date. The Fund will terminate on the fifth anniversary of the Final Closing Date. The term may be extended at the option of the General Partner for up to two additional one year periods.

## ATTACHMENT E

### PRIVATE EQUITY MANAGER SUMMARY PROFILE

#### I. Background Data

<i>Name of Fund:</i>	Hellman & Friedman Capital Partners VI, L.P. ("The Fund")
<i>Type of Fund:</i>	Private Equity
<i>Total Fund Size:</i>	\$8.4 billion (\$8 billion from Limited Partners)
<i>Fund Manager:</i>	Hellman & Friedman Investors VI, LLC
<i>Manager Contact:</i>	Mitchell Cohen One Maritime Plaza, 12 <sup>th</sup> Flr. San Francisco, CA 94111 415-788-5111

#### II. Organization and Staff

Hellman & Friedman LLC ("H&F" or the "Firm") was organized in 1984 and raised its first institutional private equity partnership in 1987. During its history, the Firm has raised and managed five partnerships with over \$8 billion of committed capital and invested in over 50 companies.

#### III. Investment Strategy

Over its history, H&F has developed a focused, consistent investment philosophy that it has executed with a disciplined but flexible approach. The foundation of this investment philosophy is H&F's focus on the quality of its portfolio companies' businesses as the primary driver of investment results. The Firm seeks to invest in businesses with strong, defensible franchises and predictable revenue and earnings growth and which generate high levels of free cash flow or attractive returns on the capital reinvested in the business. The Firm generally invests in businesses with strong operating management teams already in place; however, if needed, the Firm has experience attracting strong new managers to supplement or replace existing teams. In applying this philosophy, the Firm has become a leading private equity investor in the media, financial services, professional services, vertical software, and information services industries. The Firm continually looks to identify additional industries and companies that share these traits.

While H&F's investment philosophy specifically targets certain types of businesses, the Firm has been flexible about the form and structure of its investments. As a result, the Firm has significant experience investing in both control and non-control positions. H&F's investments often serve as transition capital, ranging from facilitating ownership changes in privately held companies to financing growth. It has invested in a variety of transaction structures, including buyouts, restructurings and various types of minority investments. Regardless of investment



structure, H&F selects investments in which it believes that it can add value to its portfolio companies by serving as a knowledgeable working business partner that actively assists with major strategic and financial initiatives.

The Firm couples its investment philosophy with a disciplined approach to identifying opportunities and making investments. The Firm will focus on making large-scale equity-related investments mostly in the \$200 to \$750 million range, and primarily in the United States and Europe. Its industry knowledge and relationships frequently have allowed H&F to identify opportunities early, with most of its investments resulting from long-term projects with significant gestation periods rather than from broad investment banker-led auction processes.

#### **IV. Investment Performance**

Previous fund performance as of June 30, 2006 for Hellman & Friedman and the SBI's investments with previous funds, where applicable, is shown below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Equity Commitments</b>	<b>SBI Investment</b>	<b>Net IRR from Inception</b>
Hellman & Friedman I	1987	\$327 million	--	12%
Hellman & Friedman II	1991	\$877 million	--	22%
Hellman & Friedman III	1995	\$1.5 billion	\$40 million	34%*
Hellman & Friedman IV	2000	\$2.2 billion	\$150 million	34%*
Hellman & Friedman V	2004	\$3.5 billion	\$160 million	6%*

\* IRRs and other data contained in this report are provided by staff and the SBI's Master Custodian, State Street Bank, and have not been confirmed by the managers and/or general partners

Investments in Hellman & Friedman V are relatively immature and therefore, returns may not be indicative of future results.

#### **V. General Partner's Investment**

The General Partner and its affiliates will make an aggregate Commitment of at least \$350 million to the Partnership.



## **VI. Takedown Schedule**

Partners must make their capital contributions upon ten business days' written notice by the General Partner to fund Investments, Management Fees, organizational expenses and partnership expenses.

## **VII. Fees**

The Partnership will pay a management fee ("Management Fee") to the Management Company quarterly in advance in respect of each Limited Partner. The Management Fee with respect to a Limited Partner will equal (i) 1.50% per annum of such Limited Partner's total Commitment during the Commitment Period and (ii) as of the first fiscal quarter following the earlier of the end of the Commitment Period or the formation of a successor equity partnership with investment objectives substantially similar to those of the Partnership, 0.75% per annum of such Limited Partner's proportionate share of the cost of Investments then held by the Partnership.

Limited Partners joining the Partnership at Subsequent Closings will contribute (from their Remaining Commitments) their allocable share of the Management Fee that otherwise would have been payable had all Limited Partners been admitted at the Initial Closing, plus additional amounts thereon at the prime rate plus 2% from the date such Management Fees would have been paid. Such contributions (other than such additional amounts) will reduce these Limited Partners' Remaining Commitments.

The Management Fee may be paid from drawdowns which will reduce Remaining Commitments or out of investment profits.

The Management Company may elect to waive a portion of Management Fees payable to it for particular periods. As capital contributions are called, such amounts will be funded by Limited Partners and invested in Investments. The Management Company will be entitled to special allocations and distributions relating to the waived amounts as set forth in the Partnership Agreement

## **VIII. Allocations and Distributions**

Investment profits will consist of income and gains from Investments net of all losses, Management Fees and partnership expenses. Investment profits of the Partnership generally will be allocated 80% to the Partners and 20% to the General Partner; provided that until cumulative investment profits exceed cumulative investment losses, items of investment profit and loss will be allocated to the Partners in proportion to their percentage interests in each Investment.

Net profits and losses attributable to temporary investments will be allocated among the Partners in proportion to their respective percentage interests in the Partnership (except as set forth in the Partnership Agreement).

Distributions of proceeds from the sale or other disposition of Investments generally will be made as follows: (i) the portion of the distribution representing the cost of the securities sold or otherwise disposed of will be distributed to all Partners in accordance with their percentage



interests in such Investment; and (ii) the balance of the distribution, to the extent that it represents investment profits, will be made to the Partners in proportion to the allocations of such investment profits described in the Partnership Agreement.

Notwithstanding the foregoing, the amount distributable to the General Partner will be reduced to the extent that the aggregate distributions of investment profits to the General Partner would exceed 20% of the cumulative net realized investment profits of the Partnership.

Investment profits in the form of interest or dividends and profits from the Partnership's temporary investments, net of related expenses and losses, will be distributed from time to time in the discretion of the General Partner in proportion to the allocations described above.

The Partnership may deduct or withhold from any cash distribution any portion of such distribution to the extent of any reasonable reserves established by the General Partner for the Partnership's actual and contingent obligations, including reserves for Management Fees, partnership expenses or in connection with actual or potential Investments. Cash distributions otherwise due to a defaulting Partner are subject to offset against such defaulting Partner's obligations to the Partnership.

## **IX. Investment Period and Term**

Commitments may be called and invested for six years from the date on which the Partnership commences operations (the "Commitment Period"). Thereafter, the Partners will be released from any further obligation with respect to their undrawn Commitments (the "Remaining Commitment"), except to the extent necessary to: (i) over the Management Fee or pay Partnership expenses or transaction expenses; (ii) fulfill certain indemnity obligations; and (iii) with the consent of the Advisory Board, for a period of two years from the date of the expiration of the Commitment Period make follow-on investments in Portfolio Companies; provided that capital contributions for such follow-on investments after the Commitment Period will not exceed an amount equal to 15% of a Partner's Commitment. The Commitment Period is also subject to early termination as provided in the Partnership Agreement with respect to "No-Fault Termination by the Limited Partners" and "Key Man".

Unless terminated sooner, the Partnership will have a term of ten years from the date of the initial capital call notice. At the General Partner's discretion and with the consent of a majority in interest of the Limited Partners, the term may be extended for two years to allow for the orderly termination of the Partnership. The Partnership is subject to earlier dissolution and termination upon the occurrence of certain events described in the Partnership Agreement.