

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



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Howard J. Bicker

60 Empire Drive
Suite 355
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us
www.sbi.state.mn.us

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**AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Friday, November 21, 2008
12:00 Noon - Board Room – First Floor
60 Empire Drive, St. Paul, MN**

- | | |
|--|---|
| <ol style="list-style-type: none"> 1. Approval of Minutes of August 20, 2008 2. Report from the Executive Director (Howard Bicker) <ol style="list-style-type: none"> A. Quarterly Investment Review
(July 1, 2008 – September 30, 2008) B. Administrative Report <ol style="list-style-type: none"> 1. Reports on budget and travel. 2. Post Retirement Benefit Increase for FY08. 3. FY08 Audit Report. 4. Draft of the FY08 Annual Report. 5. Tentative Meeting Dates for Calendar 2009. 6. Update on Sudan. 7. Update on Quarterly Issues: <ul style="list-style-type: none"> Securities Lending Rebalancing Post Fund Cash Management for 457 and Supplementals 3. Review of manager performance for the period ending September 30, 2008. 4. OHE Student Loan Program.
Information to be provided at meeting. 5. Review of current strategy of Alternative Investments. 6. Minneapolis Employees Retirement Fund (MERF) asset transfer. 7. A review of asset allocation assumptions and simulations for the SBI Basics, Post and Combined Funds. 8. Other items. | <p>TAB</p> <p>A</p> <p>B</p> <p>C</p> <p>--</p> <p>D</p> <p>--</p> <p>E</p> |
|--|---|

INVESTMENT ADVISORY COUNCIL

MINUTES

November 21, 2008

**Minutes
Investment Advisory Council
August 20, 2008**

MEMBERS PRESENT: Jeff Bailey; John Bohan; Laurie Hacking; Heather Johnston; Kathy Kardell (for Tom Hanson) P. Jay Kiedrowski; Malcolm McDonald; Gary Norstrom; Mike Troutman; and Mary Vanek.

MEMBERS ABSENT: Frank Ahrens; Dave Bergstrom; Kerry Brick; Doug Gorence; Judy Mares; and Daralyn Peifer.

SBI STAFF: Howard Bicker; Jim Heidelberg; Tammy Brusehaver-Derby; Patricia Ammann; Stephanie Gleeson; John Griebenow; Mike Menssen; J.J. Kirby; Steve Schugel; Debbie Griebenow; Carol Nelson; and Charlene Olson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Celeste Grant; Rebecca Spartz; Christie Eller; Jim Schowalter, Department of Finance; John Fisher, REAM; and Chirag Mehta, SEIU.

Mr. Troutman called the meeting to order, and he noted that the agenda was being revised to include the topic of Credit Enhancement. The minutes of the June 3, 2008 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and he reported that the Combined Funds had slightly trailed its Composite Index over the ten year period ending June 30, 2008 (Combined Funds 5.7% vs. Composite 5.8%), and had provided a real rate of return over the latest 20 year period (Combined Funds 9.7% vs. CPI 3.1%). He stated that the Basic Funds had slightly underperformed its Composite Index (Basic Funds 5.8% vs. Composite 5.9%) over the last ten years and reported that the Post Fund had also slightly underperformed its composite over the last ten-year period (Post Fund 5.6% vs. Composite 5.7%).

Mr. Bicker reported that the Basic Fund's assets decreased 2.2% for the quarter ending June 30, 2008 due to both negative investment returns and negative net contributions. He said that the asset mix is essentially on target. He reported that the Basic Funds outperformed its Composite Index for the quarter (Basic Funds -0.6% vs. Composite -1.0%) but underperformed for the year (Basic Funds -4.8% vs. Composite -3.9%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 0.8% for the quarter ending June 30, 2008, also due mostly to negative investment returns. He said that the Post Fund's asset mix is also on target. He stated that the Post Fund outperformed its Composite Index for the quarter (Post Fund -0.9% vs. Composite -1.0%) but underperformed it for the year (Post Fund -5.2% vs. Composite -4.0%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock -1.1% vs. Domestic Equity Asset Class Target -1.7%) but trailed it for the year (Domestic Stocks -13.1% vs. Domestic Equity Asset Class Target -12.7%). He said the International Stock manager group outperformed its Composite Index for the quarter (International Stocks -0.6% vs. International Equity Asset Class Target -1.0%) but also trailed it for the year (International Stocks -6.6% vs. International Equity Asset Class Target -6.4%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds -0.7% vs. Fixed Income Asset Class Target -1.0%) but trailed it for the year (Bonds 4.3% vs. Fixed Income Asset Class Target 7.1%). He noted that bond performance suffered due to the managers' underweighting in government securities. He noted that the alternative investments had performed strongly for the year (Alternatives 13.4%). He concluded his report with the comment that as of June 30, 2008, the SBI was responsible for over \$59 billion in assets.

Mr. Bicker referred members to Tab B of the meeting materials for an update on the budget and travel for the quarter.

Mr. Bicker announced that a long time employee of the SBI, Michael Schmitt, had passed away over the weekend. He stated that the SBI's recently approved compensation plan is in place and that staff and the search committee are in the process of advertising for the Assistant Executive Director position. He noted that the SBI is going through a more formal search process than it has in the past for the Assistant Director position in order to allow for better succession planning for the Executive Director's potential retirement within the next few years. In response to a question from Ms. Posey, Ms. Hacking noted that the second part of the report from the compensation study is due in October 2008.

Equities and Fixed Income

Mr. Bicker referred members to Tab C of the meeting materials and briefly reviewed the stock and bond performance for the quarter. He noted that the CIO of Voyager Asset Management had resigned and that staff will be monitoring the firm closely. He briefly discussed the bond performance and in response to a question from Mr. Troutman, reviewed which managers currently have high-yield authorization. Mr. Bicker reviewed the international managers performance and stated that staff continues to monitor UBS closely due to poor performance and organizational issues and that organizational changes had also taken place at Riversource and Alliance. In response to a question from Mr. Troutman, Mr. Bicker stated that more recently the international markets have underperformed the U.S. markets. In response to a question from Ms. Hacking, Mr. Bicker confirmed that staff had met with INVESCO recently and that they also

continue to be monitored closely for performance issues. Mr. Bicker next reviewed the performance of the non-retirement fund managers.

Mr. Bicker referred members to Tab D of the meeting materials and stated that staff is recommending the termination of Cohen Klingenstein and Marks, a domestic equity manager, due to organizational issues and underperformance. He noted that staff has already removed the SBI's assets from the manager and that the recommendation formally terminates the relationship. Mr. McDonald moved approval of the recommendation, as stated in Tab D of the meeting materials. Mr. Bohan seconded the motion. The motion passed. In response to a question from Mr. Kiedrowski, Mr. Bicker said that Cohen's portfolio had been transitioned into cash to meet cash flow needs.

Mr. Bicker referred members to Tab E of the meeting materials and said that staff is recommending the termination of Morgan Stanley as a fixed income manager based on their performance and organizational issues. Mr. Bohan moved approval of the recommendation, as stated in Tab E of the meeting materials. Mr. McDonald seconded the motion. In response to several questions, Mr. Bicker discussed how Morgan Stanley's portfolio could be transitioned, and he noted that later in the meeting, PIMCO, a new fixed income manager candidate, would be making a presentation to members regarding potentially being hired to assume the assets of Morgan Stanley's portfolio. In response to further questions from various members, Mr. Bicker noted that turnover costs are expected to be low if the assets are transitioned to PIMCO. The motion made earlier to terminate Morgan Stanley passed.

Mr. Troutman introduced Mr. James Clark and Mr. Mark McCray from PIMCO, and they made a presentation to members regarding their firm. Following the presentation, Mr. Kiedrowski made a motion to retain PIMCO as an active fixed income manager. Mr. McDonald seconded the motion. A discussion followed regarding the process of transitioning the portfolio from Morgan Stanley to PIMCO, if PIMCO receives Board approval. The motion passed.

Alternative Investments

Mr. Bicker referred members to Tab F of the meeting materials and reported that staff is recommending a new investment with an existing resource manager, First Reserve. Mr. Bohan moved approval of the recommendation, as stated in Tab F of the meeting materials. Mr. McDonald seconded the motion. The motion passed.

Credit Enhancement

Mr. Bicker reported that the Office of Higher Education, a significant supplier of student loans in the state for both public and private colleges, has been affected by recent market conditions regarding auction rate debt. He said that there have been some preliminary discussions regarding the possibility of the SBI's involvement as a credit enhancement vehicle and liquidity provider. A lengthy discussion followed with Mr. Bicker explaining the various issues and potential questions that would need to be answered prior to the SBI's involvement. Several members also voiced a variety of questions and concerns.

Mr. Bicker stated that no action was required at this time and that members would receive more information in the coming months.

MERF Transfer

Mr. Bicker stated that the Board of the Minneapolis Employee Retirement Fund (MERF) had voted to transfer their assets to the SBI, effective October 1, 2008, and he distributed information regarding their assets (see **Attachment A**). He clarified that MERF is not merging with the state system and that the SBI is simply being hired as an investment manager. In response to several questions, Mr. Bicker reviewed the types of assets MERF currently has and the process to be used for transferring these assets. He noted that this is an informational item and does not require IAC action.

Asset Allocation

Mr. Bicker referred members to Tab G of the meeting materials and stated that staff had prepared a draft asset allocation review for discussion. He stated that the review lays out various asset allocation scenarios for the Basics, Post and Combined Funds and the input assumptions on which the scenarios are based. He said that during the 2008 legislative session a law was passed that provides for the possible merger of the Basics and Post based upon the funded ratio of the Post. He noted that the first date the funds could potentially be combined is June 30, 2009 and that staff believes it would be prudent to have an asset allocation for the Combined Funds to be approved in advance of the merger.

A lengthy discussion followed with several members asking questions related to understanding the input assumptions, the impact of required return expectations on asset allocation choices, and the risk/reward trade offs of various allocation levels. At the conclusion of the discussion, members asked staff to provide some additional analysis on the stress testing of assumptions and expected returns of assets relative to the liabilities for the next meeting in November 2008.

The meeting adjourned at 3:48 P.M.

Respectfully submitted,



Howard Bicker
Executive Director

ASSET ALLOCATION

TOTAL FUND

ASSET ALLOCATION AS OF 6/30/08

(\$ in thousands)

	U.S. Equity	Non-U.S. Equity	U.S. Bond	Non-U.S. Bond	Real Estate	Cash	Total	Percent of Total	Policy
SSgA Russell 3000 Index Fund	\$370,052 (100%)	--	--	--	--	--	\$370,052	31.0 %	
PIMCO StocksPLUS L.P.	98,613 (104%)	\$9,482 (10%)	--	--	--	-\$13,275 (-14%)	94,820	7.9	
Private Capital	--	--	--	--	--	16 (100%)	16	0.0	
US Equities	468,666 (101%)	9,482 (2%)	--	--	--	-13,258 (-3%)	464,889	38.9	40.0 %
SSgA All-Country World ex-U.S. IMI Fund	--	\$198,440 (100%)	--	--	--	--	\$198,440	16.6 %	
Non-U.S. Equities	--	198,440 (100%)	--	--	--	--	198,440	16.6	15.0 %
Capital Guardian Trust Company	\$41,055 (33%)	\$80,383 (65%)	--	--	--	\$1,849 (2%)	\$123,287	10.3 %	
Global Equity	41,055 (33%)	80,383 (65%)	--	--	--	1,849 (2%)	123,287	10.3	10.0 %
Aberdeen Asset Management	--	--	\$116,331 (95%)	\$3,784 (3%)	--	\$1,953 (2%)	\$122,068	10.2 %	
Pacific Investment Management Company, LLC	--	--	42,587 (43%)	1,981 (2%)	--	54,472 (55%)	99,040	8.3	
Mortgages	--	--	124 (100%)	--	--	--	124	0.0	
Western Asset Management	--	--	112,438 (100%)	--	--	--	112,438	9.4	
Fixed Income	--	--	271,480 (81%)	5,765 (2%)	--	56,425 (17%)	333,670	27.9	30.0 %
Adelante Capital Management, LLC	--	--	--	--	\$59,663 (100%)	--	\$59,663	5.0 %	
Real Estate	--	--	--	--	59,663 (100%)	--	59,663	5.0	5.0 %
Cash And Short-Term Derivatives	--	--	--	--	--	\$14,453 (100%)	\$14,453	1.2 %	
Cash And Short Term Derivatives	--	--	--	--	--	14,453 (100%)	14,453	1.2	0.0 %
Total Fund - Combined	\$509,720	\$288,305	\$271,480	\$5,765	\$59,663	\$59,470	\$1,194,403	100.0 %	100.0 %
Percent of Total	42.7%	24.1%	22.7%	0.5%	5.0%	5.0%	100.0%		

The table above reflects the combined assets of the Combined Fund. The Deposit Accumulation Fund assets are reported on page 17.

Tab A

LONG TERM OBJECTIVES
Period Ending 9/30/2008

COMBINED FUNDS: \$42.2 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</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>	5.7% (1)	0.1 percentage point below target
<p>Provide Real Return (20 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	9.2%	6.2 percentage points above CPI

BASIC RETIREMENT FUNDS: \$21.2 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.</p>	5.8%	0.1 percentage point below target

POST RETIREMENT FUND: \$21.0 Billion	Result	Compared to Objective
<p>Match or Exceed Composite Index (10 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.</p>	5.6%	0.1 percentage point below 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, 2007

	Active (Basics)	Retired (Post)	Total (Combined)
Liabilities			
Actuarially Accrued Liabilities	\$28.77 billion	\$27.50 billion	\$56.27 billion
Assets			
Current Actuarial Value	\$22.26 billion	\$25.15 billion	\$47.41 billion
Funding Ratio			
Current Actuarial Value divided by Accrued Liabilities	77.37%	91.45%	84.25%

Notes:

1. Liabilities calculated using entry age normal cost method.
2. Difference between actual returns and actuarially expected returns spread over five years for Basics.

Actuarial Assumptions:

Interest/Discount Rate:

8.5% Basics, 8.5% Post (6% on required reserves, 2.5% on inflation)

Full Funding Target Date:

2020 – MSRS General

2031 – PERA General

2037 – TRA

EXECUTIVE SUMMARY

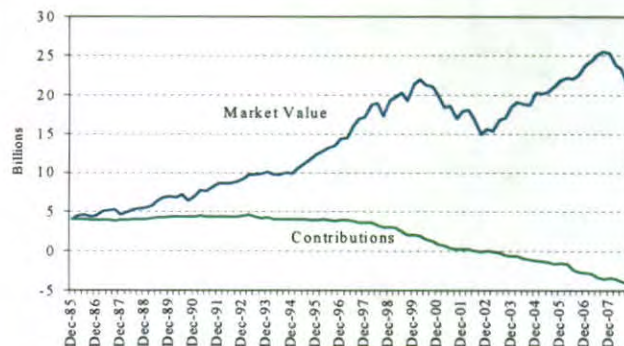
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 8.8% during the third quarter of 2008. Negative investment returns were the main reasons for the decrease.

Asset Growth During Third Quarter 2008 (Millions)

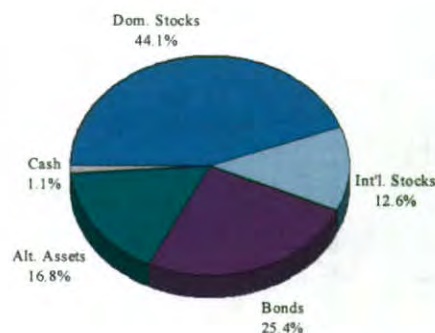
Beginning Value	\$ 23,279
Net Contributions	-272
Investment Return	-1,784
Ending Value	\$ 21,223



Asset Mix

The asset allocation of the Basic Funds was changed effective July 1, 2008. In 2003, the Board approved a new asset allocation. Once the Post Fund reached its target of 12% in Alternative Investments, the Basic Funds would increase the Alternative Investments target to 20%. The five percent increase to Alternatives was offset by a five percent reduction in the bond allocation.

	Policy Targets	Actual Mix 9/30/2008	Actual Market Value (Millions)
Domestic Stocks	45.0%	44.1%	\$9,347
Int'l. Stocks	15.0	12.6	2,677
Bonds	19.0	25.4	5,392
Alternative Assets*	20.0	16.8	3,573
Unallocated Cash	1.0	1.1	234
	100.0%	100.0%	\$21,223

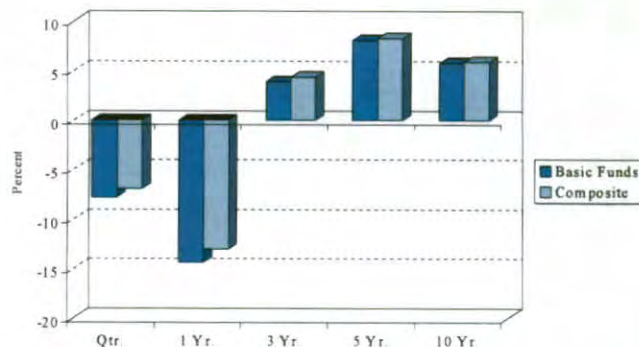


* Any uninvested allocation is held in domestic bonds.

Fund Performance (Net of Fees)

The Basic Funds underperformed its target for the quarter and for the year.

	Period Ending 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basics	-7.7%	-14.4%	3.9%	8.1%	5.8%
Composite	-6.9	-13.0	4.4	8.3	5.9



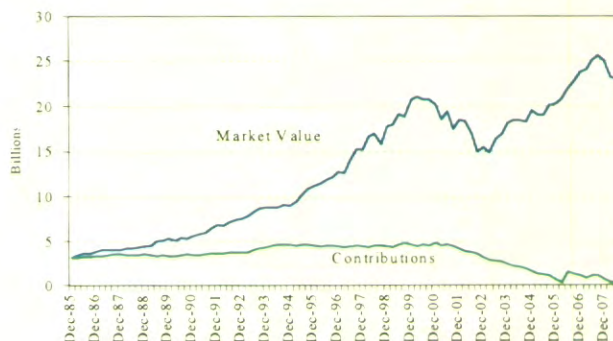
EXECUTIVE SUMMARY Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased 8.4% during the third quarter of 2008. Negative investment returns accounted for the decrease.

Asset Growth During Third Quarter 2008 (Millions)

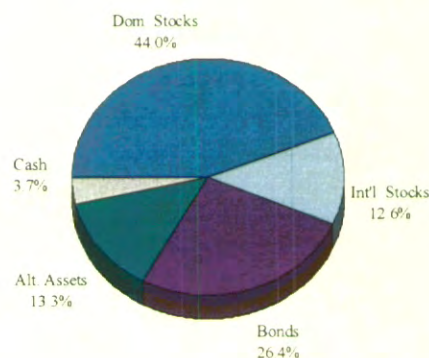
Beginning Value	\$22,968
Net Contributions	-159
Investment Return	-1,779
Ending Value	\$21,030



Asset Mix

The asset allocation increased for all classes except equities. A declining equity market caused an underweight allocation to both domestic and international equities.

	Policy Targets	Actual Mix 9/30/2008	Actual Market Value (Millions)
Domestic Stocks	45.0%	44.0%	\$9,259
Int'l. Stocks	15.0	12.6	2,643
Bonds	25.0	26.4	5,544
Alternative Assets*	12.0	13.3	2,805
Unallocated Cash	3.0	3.7	779
	100.0%	100.0%	\$21,030

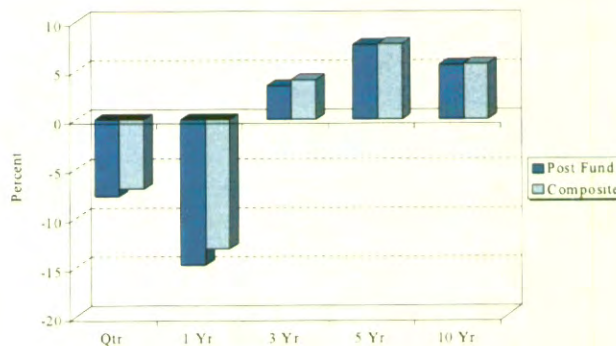


* Any uninvested allocation is held in domestic stocks.

Fund Performance (Net of Fees)

The Post Fund underperformed its target for the quarter and for the year.

	Period Ending 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post	-7.9%	-14.8%	3.5%	7.6%	5.6%
Composite	-7.0	-13.1	4.0	7.7	5.7



EXECUTIVE SUMMARY

Stock and Bond Manager Performance (Net of Fees)

Domestic Stocks

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

	Period Ending 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Dom. Stocks	-9.4%	-22.3%	-0.3%	5.3%	3.1%
Asset Class Target*	-8.7	-21.5	0.3	5.7	3.5

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

* 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) underperformed its target for the quarter and for the year.

	Period Ending 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	-22.2%	-30.3%	2.8%	11.1%	6.5%
Asset Class Target*	-21.9	-30.1	2.7	11.4	6.4

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.

* 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) underperformed its target for the quarter and for the year.

	Period Ending 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-2.8%	-1.3%	2.6%	3.1%	5.0%
Asset Class Target*	-0.5	3.7	4.2	3.8	5.2

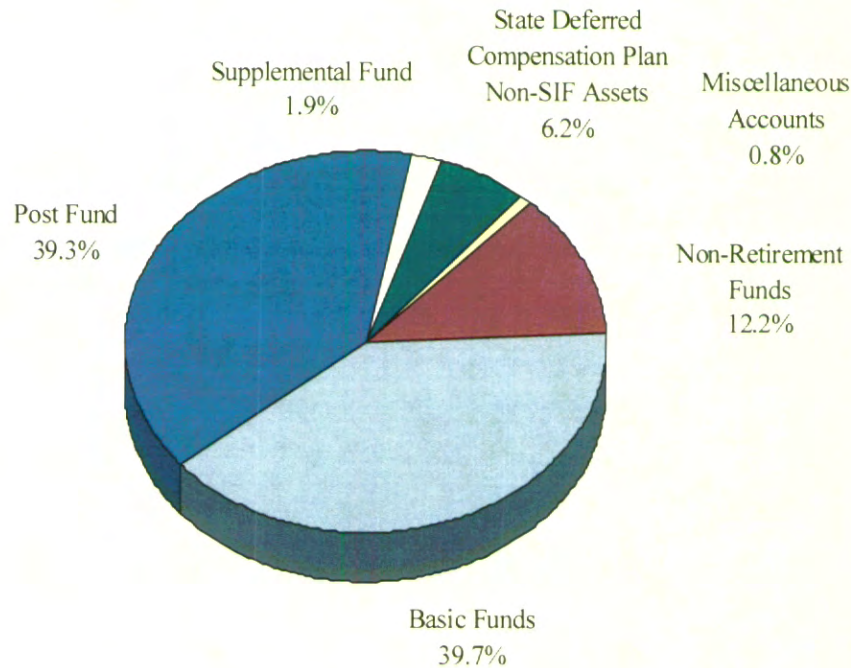
Lehman Aggregate: The Lehman Brothers Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

* 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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	3.5%	10.6%	24.2%	25.6%	15.5%

EXECUTIVE SUMMARY
Funds Under Management



	9/30/2008 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	\$21.2
Post Retirement Fund	21.0
Supplemental Investment Fund	1.0
State Deferred Compensation Plan Non-SIF Assets	3.3
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.7
Environmental Trust Fund	0.4
State Cash Accounts	5.1
Miscellaneous Accounts	0.6
Total	\$53.6

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 2008
(July 1, 2008 - September 30, 2008)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	-8.7%	-21.3%	0.6%	6.0%	4.0%
Dow Jones Industrials	-3.7	-19.8	3.3	5.7	5.5
S&P 500	-8.4	-22.0	0.2	5.2	3.1
Russell 3000 (broad market)	-8.7	-21.5	0.3	5.7	3.8
Russell 1000 (large cap)	-9.3	-22.1	0.1	5.5	3.5
Russell 2000 (small cap)	-1.1	-14.5	1.8	8.1	7.8
Domestic Fixed Income					
Lehman Aggregate (1)	-0.5	3.7	4.2	3.8	5.2
Lehman Gov't./Corp.	-1.6	2.4	3.6	3.3	5.0
3 month U.S. Treasury Bills	0.4	2.4	4.0	3.1	3.4
International					
EAFE (2)	-20.6	-30.5	1.1	9.7	5.0
Emerging Markets Free (3)	-26.9	-33.0	8.7	19.0	14.8
ACWI Free ex-U.S. (4)	-21.8	-30.0	3.1	11.8	6.8
World ex-U.S. (5)	-20.7	-29.6	1.7	10.3	5.6
Salomon Non U.S. Gov't. Bond	-4.3	5.2	5.5	5.6	5.2
Inflation Measure					
Consumer Price Index CPI-U (6)	0.0	4.9	3.2	3.2	2.9
Consumer Price Index CPI-W (7)	-0.1	5.4	3.3	3.5	3.0

(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, posted a -8.7% return during the third quarter of 2008. The financial markets experienced extreme volatility during the quarter driven by uncertainty and fear as investors experienced an unprecedented financial crisis. The value sectors outperformed the growth sectors within the Russell 3000 for the quarter. Within the Russell 3000 index, the consumer staples sector was the best performing sector with a 6.7% return and the energy sector was the worst performing sector with a -36.8% return for the quarter.

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

Large Growth	Russell 1000 Growth	-12.3%
Large Value	Russell 1000 Value	-6.1%
Small Growth	Russell 2000 Growth	-7.0%
Small Value	Russell 2000 Value	5.0%

The Russell 3000 index returned -21.5% for the year ending September 30, 2008.

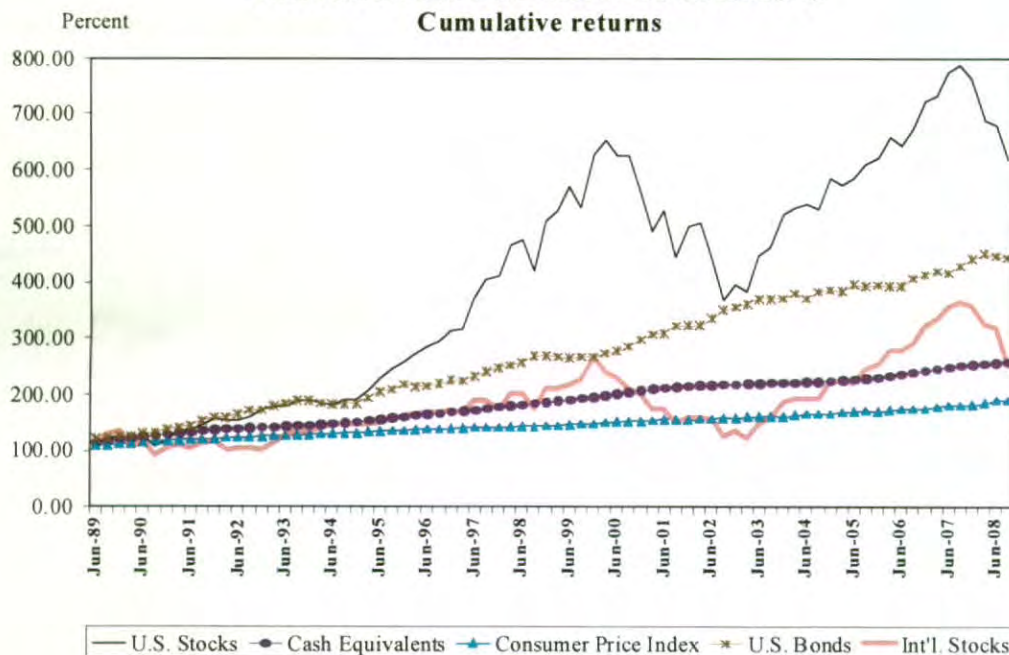
DOMESTIC BONDS

The third quarter of 2008 turned out to be one of the most challenging quarters in history for investors. Financial deleveraging gained momentum as massive selling occurred amid a global flight to quality. This led to a further decline in asset prices in all spread sectors. The bond market, as measured by the Lehman Brothers Aggregate Index, returned -0.5% for the quarter. The financial sector was hit particularly hard, due to the bankruptcy of Lehman Brothers, the government bailout of AIG, the sale of Merrill Lynch to Bank of America, the FDIC seizure of Washington Mutual, and Wachovia's sale to Wells Fargo. The CMBS and ABS sectors posted their worst quarterly returns on record, as forced selling by levered investors reached a fever pitch during the quarter as investors sought the safety and liquidity of Treasuries. The agency MBS sector benefited from the government's takeover of Freddie Mac and Fannie Mae, but the non-Agency sector continued to sell-off as a result of continuing declines in home prices, mostly due to rising foreclosures.

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

U.S. Treasury	2.3%
Agency	1.1
Corporates	-7.8
Residential Mortgages	1.9
Commercial Mortgages	-5.8

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 -20.7% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	-21.0%
Japan	-22.2
France	-18.9
Canada	-21.8
Germany	-20.6
Switzerland	-13.2

The World ex U.S. index decreased by -29.6% 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 -26.9% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Brazil	-37.9%
China	-25.2
Korea	-24.2
Russia	-45.2
Taiwan	-24.6
South Africa	-16.5

The Emerging Markets Free index increased by -33.0% 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 72% of the value of the international markets in the index.

REAL ESTATE

The sub-prime crisis and the ensuing credit crunch occurred over one year ago, and today's real estate investment environment remains extremely challenging. Traditional real estate lenders have been sidelined by losses. Due in large part to this credit crunch and uncertainty regarding valuations, national brokerage firms report transaction sales volumes are down significantly. Real estate property prices are under pressure given the poor economic outlook.

PRIVATE EQUITY

According to the Dow Jones Private Equity Analyst news source, three-quarters of the way through the year, fund-raising by North American private equity firms is surprisingly ahead of last year's pace. Investors appear to be investing at a steady rate so as not to miss out on making investments in potentially attractive vintage years for the private equity asset class. In particular, fund-raising for mezzanine and distressed investing funds appears especially strong reflecting their attractive investment opportunity sets.

RESOURCE FUNDS

During the third quarter of 2008, crude oil averaged \$118 per barrel, down from the average price of \$123 per barrel during the second quarter. Oil prices are declining due to weak economic conditions.

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.

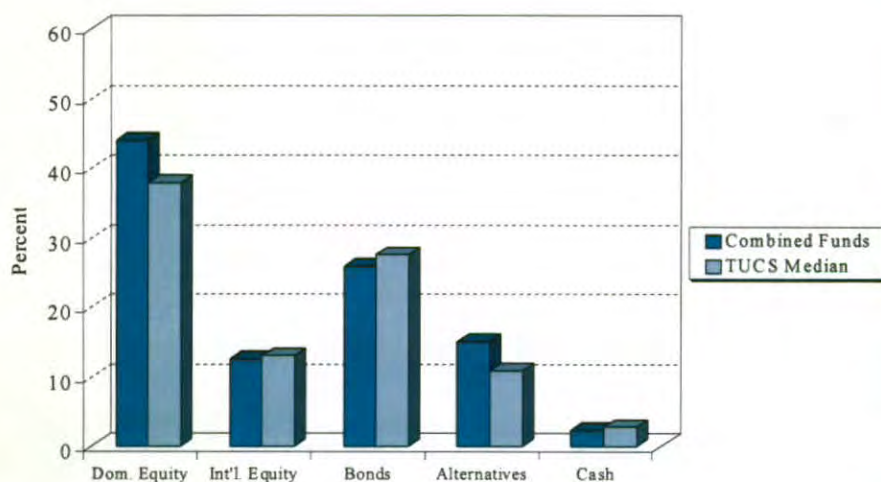
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On September 30, 2008, the actual asset mix of the Combined Funds was:

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:

	\$ Millions	%
Domestic Stocks	\$18,606	44.0%
International Stocks	5,320	12.6
Bonds	10,936	25.9
Alternative Assets	6,378	15.1
Unallocated Cash	1,013	2.4
Total	\$42,253	100.0%



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
Combined Funds	44.0%	12.6%	25.9%	15.1%	2.4%
Median Allocation in TUCS*	38.0	13.1	27.6	10.9**	2.8

* Public and corporate plans over \$1 billion.

** May include assets other than alternatives.

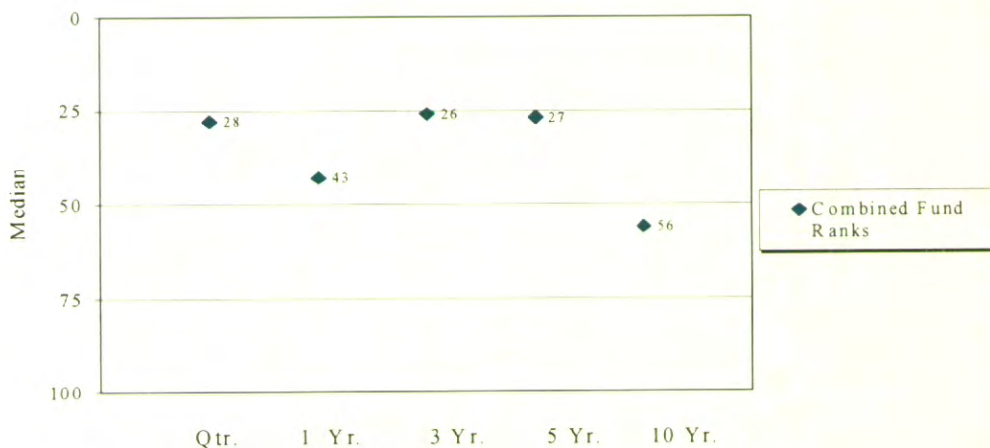
**COMBINED FUNDS
Performance Compared to Other Pension Funds**

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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
	28th	43rd	26th	27th	56th

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

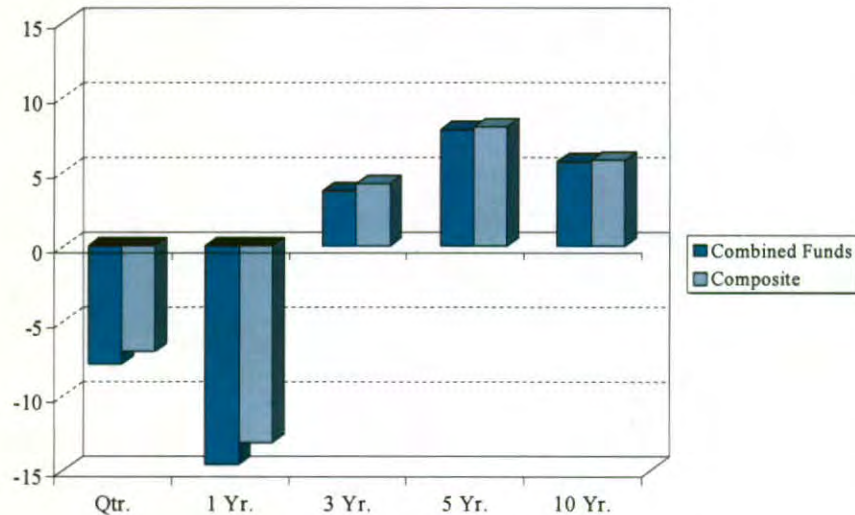
**COMBINED FUNDS
Performance Compared to Composite Index**

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

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

	Market Index	Combined Funds Composite* 3Q08
Domestic Stocks	Russell 3000	45.3%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.8
Alternative Investments	Alternative Investments	12.9*
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 9/30/2008

	Qtr.	1 Yr.	3 Yr.	Annualized 5 Yr.	10 Yr.
Combined Funds**	-7.8%	-14.6%	3.7%	7.8%	5.7%
Composite Index	-7.0	-13.1	4.2	8.0	5.8

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

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BASIC RETIREMENT FUNDS

Investment Objectives

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

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

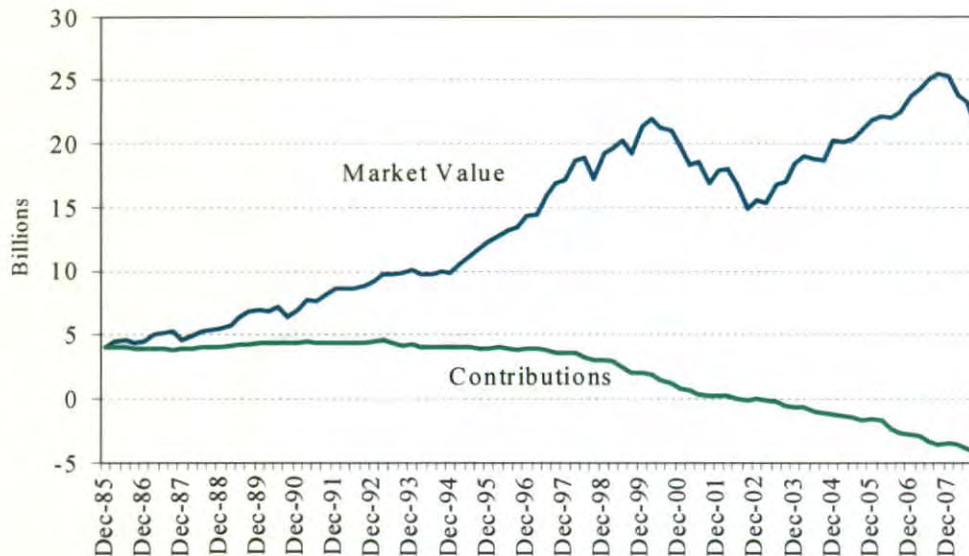
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Funds decreased 8.8% during the third quarter of 2008.

Negative investment returns were the main reason for the decrease.



	Last Five Years							Latest Qtr.
	In Millions							
	12/03	12/04	12/05	12/06	12/07	3/08	6/08	9/08
Beginning Value	\$15,561	\$18,435	\$20,201	\$21,816	\$23,694	\$25,301	\$23,800	\$23,279
Net Contributions	-592	-577	-411	-1,219	-662	-29	-372	-272
Investment Return	3,466	2,343	2,026	3,097	2,269	-1,472	-149	-1,784
Ending Value	\$18,435	\$20,201	\$21,816	\$23,694	\$25,301	\$23,800	\$23,279	21,223

BASIC RETIREMENT FUNDS

Asset Mix

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

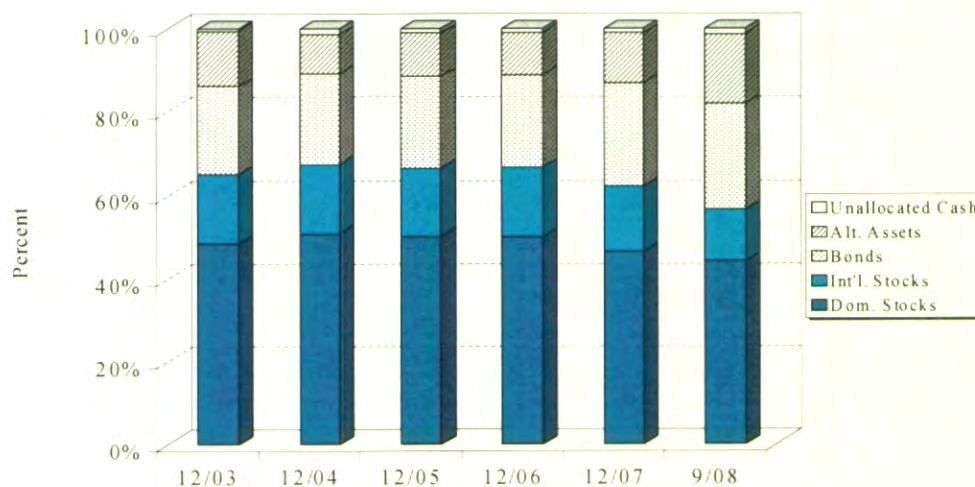
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	19.0
Alternative Assets*	20.0
Unallocated Cash	1.0

* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in bonds as of July 1, 2008.

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%. This change went into effect on July 1, 2008 after the Post Fund reached its 12% allocation to Alternatives.

Over the last year, the allocation to domestic equity declined due to negative investment returns. This also drove the bond allocation higher. The allocation to alternatives increased due to strong returns and increased investing activity.

During the quarter, the allocation to stocks decreased due to a declining equity market. Alternative investments increased due to better relative returns. Bond allocation increased as the equity allocation decreased.



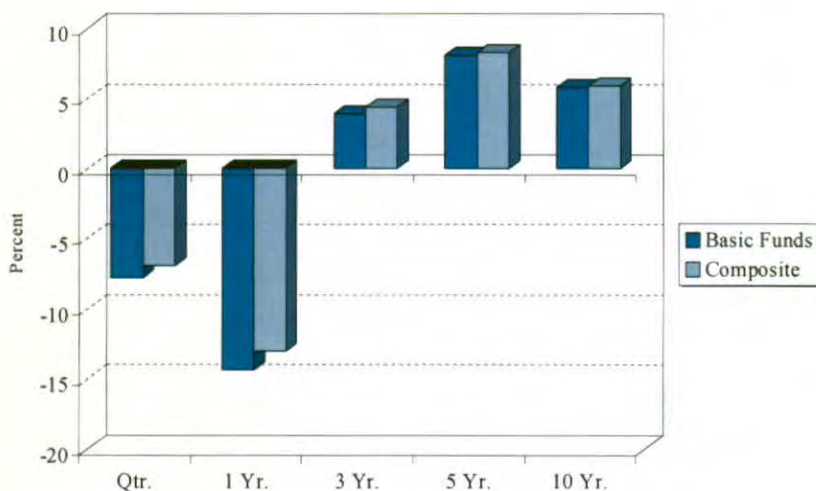
	Last Five Years						Latest Qtr.	
	12/03	12/04	12/05	12/06	12/07	3/08	6/08	9/08
Domestic Stocks	48.5%	50.9%	50.3%	50.1%	46.4%	46.3%	45.9%	44.1%
Int'l. Stocks	16.6	16.6	16.3	16.6	15.8	15.3	15.4	12.6
Bonds	21.2	21.8	22.1	22.2	24.7	23.4	23.6	25.4
Alternative Assets	13.3	9.4	10.4	10.3	12.1	13.7	14.5	16.8
Unallocated Cash	0.4	1.3	0.9	0.8	1.0	1.3	0.6	1.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 3Q08
Domestic Stocks	45.0%	Russell 3000	45%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	19.0	Lehman Aggregate	24.7
Alternative Investments	20.0	Alternative Investments	14.3*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

* Alternative asset and fixed income 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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basic Funds**	-7.7%	-14.4%	3.9%	8.1%	5.8%
Composite Index	-6.9	-13.0	4.4	8.3	5.9

**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.

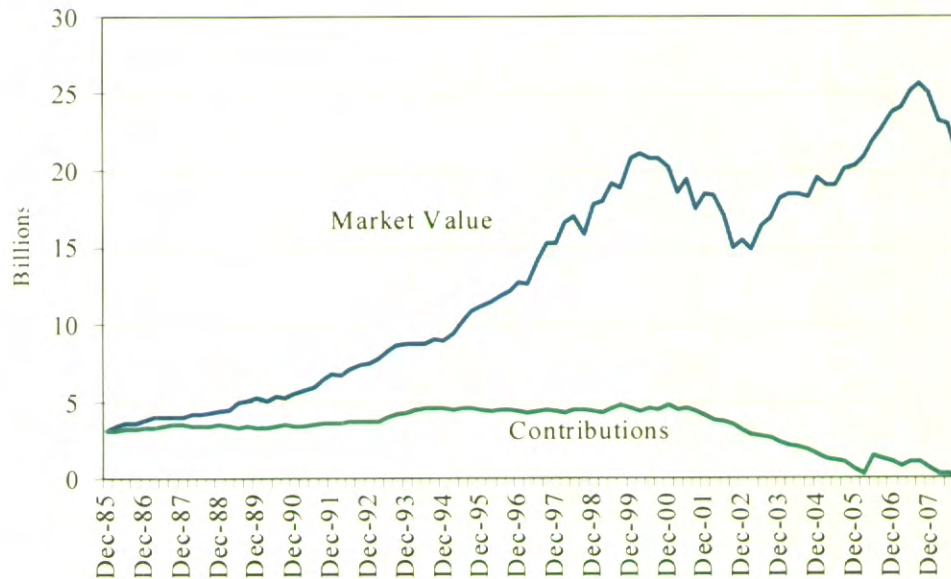
The post retirement benefit increase formula is based on the total return of the Fund. As a result, the Board maintains a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks.

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 decreased 8.4% during the third quarter of 2008.

Negative investment returns accounted for the decrease.



	Last Five Years					Latest Qtr.		
	In Millions					3/08	6/08	9/08
	12/03	12/04	12/05	12/06	12/07			
Beginning Value	\$15,403	\$18,162	\$19,480	\$20,295	\$23,733	\$24,998	\$23,163	\$22,968
Net Contributions	-719	-749	-984	-240	-886	-366	-10	-159
Investment Return	3,478	2,067	1,799	1,295	2,151	-1,469	-185	-1,779
Ending Value	\$18,162	\$19,480	\$20,295	\$23,733	\$24,998	\$23,163	\$22,968	\$21,030

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.

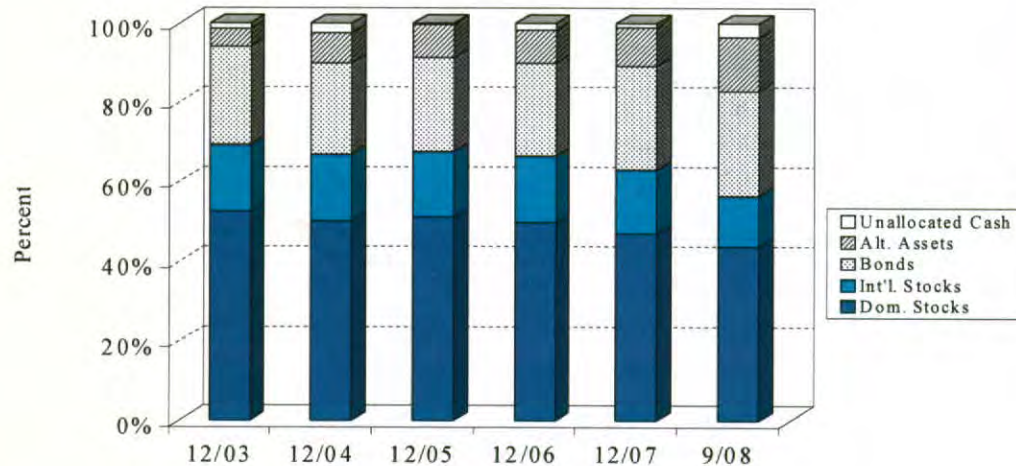
In October 2003, the Board revised its long term asset allocations for the Post Fund, increasing alternative investments from 5% to 12% and decreasing domestic equity from 50% to 45% and decreasing fixed income from 27% to 25%.

Over the last year, the allocation to alternative assets increased due to strong returns and allocation from cash. Stocks decreased as the market value of these assets declined. This decline in stock allocation drove the bond allocation up.

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.

During the quarter, the allocation to Alternatives increased due to strong investment returns and an allocation from cash. Domestic and International stock allocation decreased due to a poor equity market, and this drove the bond allocation higher.



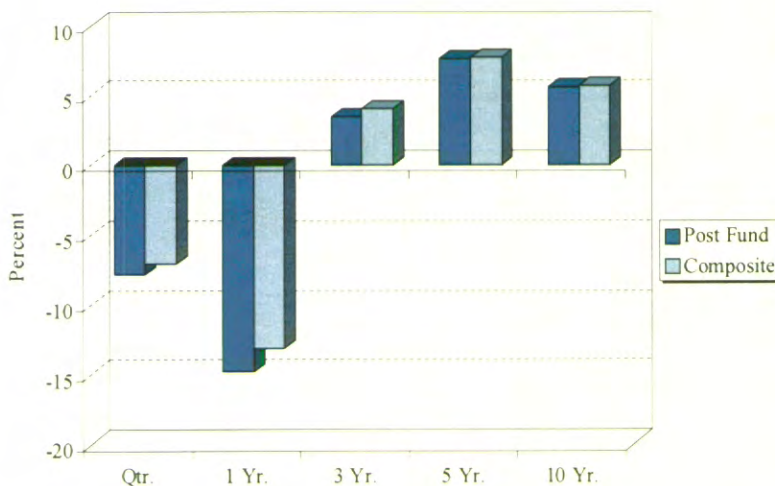
	Last Five years							Latest Qtr.
	12/03	12/04	12/05	12/06	12/07	3/08	6/08	9/08
Dom. Stocks	52.7%	50.2%	51.1%	49.9%	47.1%	45.9%	46.7%	44.0%
Int'l. Stocks	16.7	16.8	16.6	16.7	16.0	15.4	15.5	12.6
Bonds	24.6	22.9	23.5	23.3	26.1	24.6	25.0	26.4
Alt. Assets	4.4	7.6	8.5	8.3	9.8	11.1	11.3	13.3
Unallocated Cash	1.6	2.5	0.3	1.8	1.0	3.0	1.5	3.7
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* 3Q08
Domestic Stocks	45.0%	Russell 3000	45.5%
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	11.5*
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 9/30/2008

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post Fund**	-7.9%	-14.8%	3.5%	7.6%	5.6%
Composite Index	-7.0	-13.1	4.0	7.7	5.7

** 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.

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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	-9.4%	-22.3%	-0.3%	5.3%	3.1%
Asset Class Target*	-8.7	-21.5	0.3	5.7	3.5

* 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.



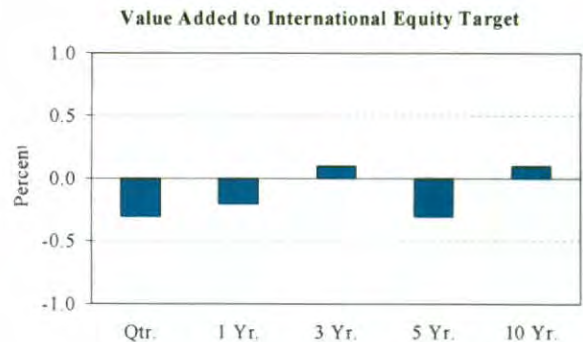
International Stocks

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

Expectation: If at least one-third of the pool is managed actively, no more than one-third is semi-passively managed, and at least one-quarter is passively managed, the entire pool is expected to exceed the target by +.25%-.75% annualized, over time.

	Period Ending 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	-22.2%	-30.3%	2.8%	11.1%	6.5%
Asset Class Target*	-21.9	-30.1	2.7	11.4	6.4

* 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.

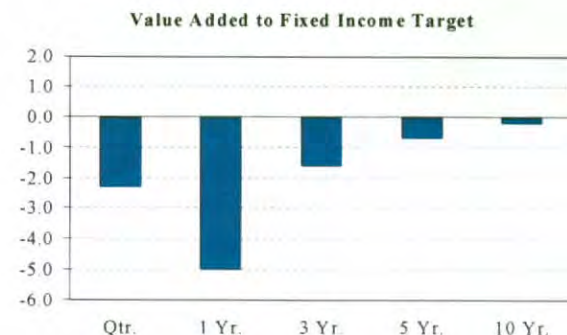


Bonds

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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	-2.8%	-1.3%	2.6%	3.1%	5.0%
Asset Class Target	-0.5	3.7	4.2	3.8	5.2



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 9/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	3.5%	10.6%	24.2%	25.6%	15.5%
Inflation	0.0%	4.9%	3.2%	3.2%	2.9%

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 9/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	-0.4%	6.8%	17.7%	17.2%	13.0%

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 9/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	-1.4%	1.3%	21.2%	24.7%	13.5%

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 9/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	12.3%	19.2%	36.1%	49.9%	26.2%

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 9/30/2008				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	18.8%	41.6%	35.2%	29.9%	19.5%

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, 2008 the market value of the entire Fund was \$1.0 billion.

Investment Options

	9/30/2008 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$219
Growth Share Account – an actively managed, all common stock portfolio.	\$101
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$250
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$102
Bond Market Account – an actively managed, all bond portfolio.	\$109
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$154
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	\$78

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%	59.1%
Bonds	35.0	40.0
Unallocated Cash	5.0	0.9
	100.0%	100.0%

Period Ending 9/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-6.0%	-13.0%	1.9%	5.2%	4.4%
Benchmark*	-7.0	-13.6	1.4	4.7	4.3

* 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 9/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-9.8%	-22.9%	-0.8%	5.0%	2.8%
Benchmark*	-8.7	-21.5	0.3	5.7	3.5

* 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 9/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-8.6%	-21.2%	0.5%	5.9%	3.8%
Benchmark*	-8.7	-21.5	0.3	5.7	3.6

* 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 9/30/2008

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-22.2%	-30.2%	2.9%	11.2%	6.6%
Benchmark*	-21.9	-30.1	2.7	11.4	6.4

* 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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	-2.8%	-1.1%	2.6%	3.2%	5.0%
Lehman Agg.	-0.5	3.7	4.2	3.8	5.2

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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	0.8%	3.9%	4.5%	3.5%	3.8%
3 month T-Bills	0.4	2.4	4.0	3.1	3.4

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 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	1.2%	4.8%	4.7%	4.5%	5.2%
Benchmark*	0.7	3.1	4.4	4.1	4.3

* 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

	9/30/2008 Market Value (in Millions)
Vanguard Institutional Index (passive)	\$375
Janus Twenty (active)	\$375
Legg Mason Appreciation Y (active)	\$112
Vanguard Mid Cap Index (passive)	\$118
T. Rowe Price Small Cap (active)	\$311
Fidelity Diversified International (active)	\$225
Vanguard Institutional Developed Markets (passive)	\$64
Dodge & Cox Balanced Fund (active)	\$235
Vanguard Balanced Fund (passive)	\$159
Dodge & Cox Income Fund (active)	\$98
Vanguard Total Bond Market Fund (passive)	\$83
Money Market Account	\$111
Fixed Interest Account	\$985

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 9/30/2008			
	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
S&P 500	-8.3%	-22.0%	0.2%	5.2%
	-8.4	-22.0	0.2	5.2

Janus Twenty (active)

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

Fund	Period Ending 9/30/2008			
	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
S&P 500	-26.0%	-18.8%	5.1%	11.4%
	-8.4	-22.0	0.2	5.2

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 9/30/2008			
	Qtr.	1 Yr.	3 Yr.	Annualized Since
				12/1/03
S&P 500	-8.2%	-14.3%	3.1%	5.4%
	-8.4	-22.0	0.2	4.0

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 9/30/2008			
	Qtr.	1 Yr.	3 Yr.	Annualized Since
				1/1/04
MSCI US	-15.1%	-24.4%	-0.8%	5.7%
Mid-Cap 450	-15.1	-24.4	-0.9	5.6

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 9/30/2008			
	Qtr.	1 Yr.	3 Yr.	Annualized
				5 Yr.
Russell 2000	-2.7%	-17.8%	0.0%	7.3%
	-1.1	-14.5	1.8	8.1

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 9/30/2008			
	Qtr.	1 Yr.	3 Yr.	Annualized
				5 Yr.
MSCI EAFE	-20.8%	-28.8%	2.3%	10.4%
	-20.6	-30.5	1.1	9.7

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 9/30/2008			
	Qtr.	1 Yr.	3 Yr.	Annualized Since
				12/1/03
MSCI EAFE	-19.0%	-29.1%	1.8%	8.8%
	-20.6	-30.5	1.1	8.2

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 9/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	-10.4%	-22.8%	-2.1%	4.1%
Benchmark	-5.6	-12.6	1.8	4.7

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 9/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	-5.2%	-11.7%	2.2%	4.6%
Benchmark	-5.7	-12.1	2.0	4.5

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 9/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	-3.8%	-2.3%	2.3%	2.6%
Lehman Agg.	-0.5	3.7	4.2	3.8

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 9/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	-0.4%	3.9%	4.3%	4.1%
Lehman Agg.	-0.5	3.7	4.2	4.1

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 9/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	0.8%	3.9%	4.5%	3.5%
3-Mo. Treas.	0.4	2.4	4.0	3.1

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 9/30/2008			
	Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	1.1%	4.8%	4.7%	4.5%
Benchmark	0.7	3.1	4.4	4.1

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.

	9/30/2008 Target	9/30/2008 Actual
Stocks	20.0%	19.2%
Bonds	80.0	80.8
Total	100.0%	100.0%

Investment Management

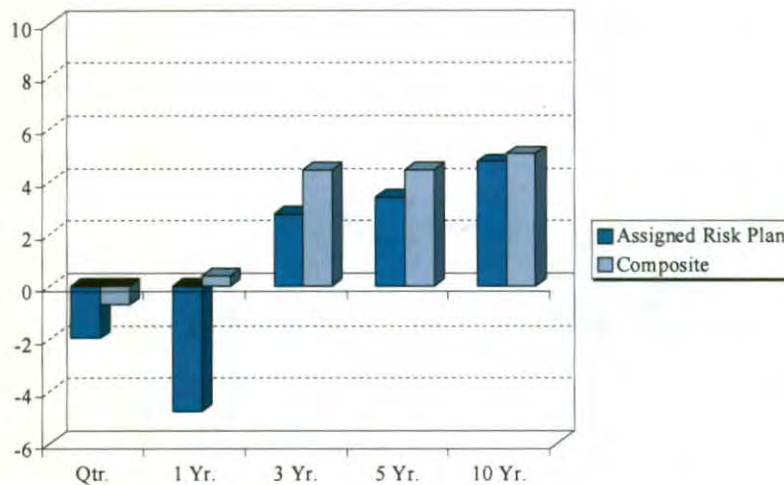
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

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, 2008 the market value of the Assigned Risk Plan was \$313 million.



Period Ending 9/30/2008

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	-2.0%	-4.8%	2.7%	3.4%	4.8%
Composite	-0.7	0.4	4.4	4.4	5.0
Equity Segment*	-6.8	-17.3	2.7	5.6	4.5
Benchmark	-8.4	-22.0	0.2	5.2	3.1
Bond Segment*	-0.8	-0.7	2.7	2.7	4.2
Benchmark	1.8	7.2	5.5	4.2	5.3

* 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.

	9/30/2008 Target	9/30/2008 Actual
Stocks	50.0%	47.1%
Bond	48.0	51.0
Cash	2.0	1.9
Total	100.0%	100.0%

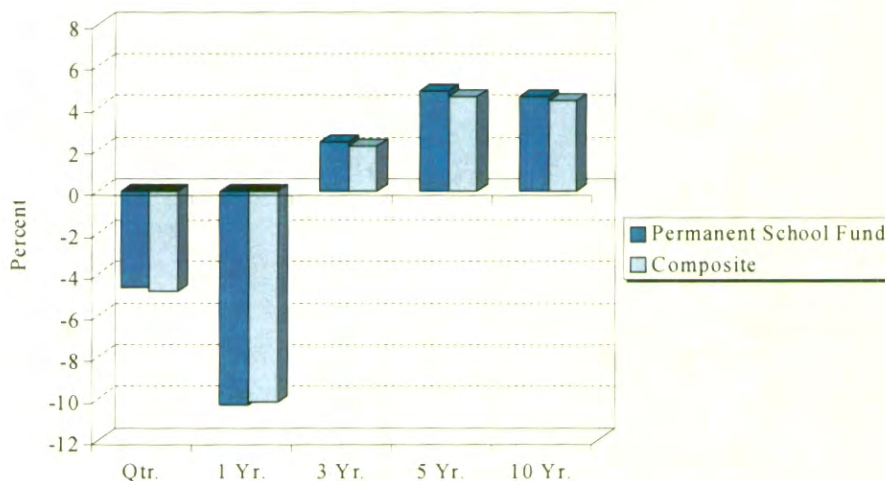
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

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, 2008 the market value of the Permanent School Fund was \$666 million.



Period Ending 9/30/2008

Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	-4.7%	-10.3%	2.4%	4.8%	4.5%
Composite	-4.9	-10.2	2.2	4.5	4.3
Equity Segment (1) (2)	-8.3	-21.9	0.3	5.2	3.1
S&P 500	-8.4	-22.0	0.2	5.2	3.1
Bond Segment (1)	-1.3	2.6	4.2	4.0	5.4
Lehman Aggregate	-0.5	3.7	4.2	3.8	5.2

(1) Actual returns are calculated net of fees.
 (2) Equities were added to the asset mix for FY98. 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.

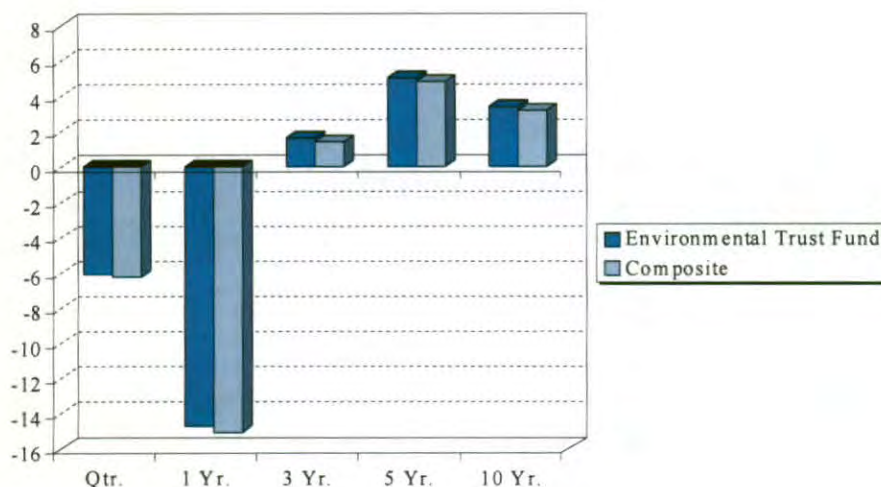
Investment Management

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, 2008 the market value of the Environmental Trust Fund was \$438 million.

	9/30/2008 Target	9/30/2008 Actual
Stocks	70.0%	66.7%
Bonds	28.0	32.6
Cash	2.0	0.7
Total	100.0%	100.0%



	Period Ending 9/30/2008				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	-6.1%	-14.7%	1.7%	5.0%	3.4%
Composite	-6.3	-15.0	1.4	4.8	3.2
Equity Segment*	-8.3	-21.9	0.3	5.2	3.2
S&P 500	-8.4	-22.0	0.2	5.2	3.1
Bond Segment*	-1.3	2.6	4.2	4.1	5.5
Lehman Agg.	-0.5	3.7	4.2	3.8	5.2

* 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

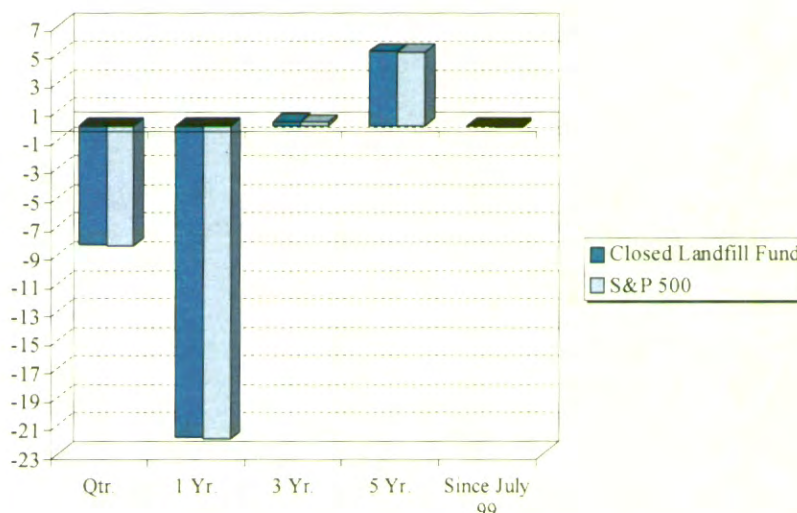
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value

On September 30, 2008, the market value of the Closed Landfill Investment Fund was \$46.6 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 9/30/2008

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	Since 7/1/1999
Total Fund (1)	-8.3%	-21.9%	0.3%	5.2%	-0.1%
S&P 500 (2)	-8.4	-22.0	0.2	5.2	-0.2

(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 9/30/2008				
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	\$5,034	0.0%	3.1%	4.4%	3.4%	3.9%
Custom Benchmark**		0.5	2.8	3.9	2.9	3.4
Trust Fund Cash Pool*	\$26	0.0	2.6	4.2	3.3	3.7
Custom Benchmark***		0.5	2.8	3.9	2.9	3.2
3 month T-Bills		0.4	2.4	4.0	3.1	3.4

* 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, 2008 (in Thousands)

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	72,692 1.07%	0	1,723,535 25.41%	0	2,987,063 44.04%	855,435 12.61%	1,144,621 16.87%	6,783,346 100%
Public Employees Retirement Fund	71,151 1.15%	0	1,573,282 25.41%	0	2,727,364 44.05%	781,042 12.61%	1,039,324 16.78%	6,192,163 100%
State Employees Retirement Fund	52,072 1.07%	0	1,232,381 25.41%	0	2,135,777 44.04%	611,672 12.61%	818,147 16.87%	4,850,049 100%
Public Employees Police & Fire	29,024 1.07%	0	689,685 25.43%	0	1,195,543 44.07%	342,375 12.62%	456,015 16.81%	2,712,642 100%
Highway Patrol Retirement Fund	2,243 1.07%	0	53,285 25.42%	0	92,361 44.06%	26,451 12.62%	35,271 16.83%	209,611 100%
Judges Retirement Fund	475 1.07%	0	11,343 25.43%	0	19,664 44.08%	5,631 12.62%	7,493 16.80%	44,606 100%
Correctional Employees Retirement	2,832 1.07%	0	67,522 25.43%	0	117,053 44.08%	33,521 12.62%	44,606 16.80%	265,534 100%
Public Employees Correctional	2,753 1.66%	0	41,803 25.27%	0	72,467 43.82%	20,753 12.55%	27,615 16.70%	165,391 100%
TOTAL BASIC FUNDS	233,242 1.10%	0	5,392,836 25.41%	0	9,347,292 44.04%	2,676,880 12.61%	3,573,092 16.84%	21,223,342 100%
POST RETIREMENT FUND	779,213 3.70%	0	5,544,551 26.36%	0	9,259,369 44.03%	2,643,103 12.57%	2,804,923 13.34%	21,031,159 100%
TOTAL BASIC AND POST	1,012,455 2.40%	0	10,937,387 25.88%	0	18,606,661 44.04%	5,319,983 12.59%	6,378,015 15.09%	42,254,501 100%

	Cash and Short term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	2,020 0.92%	87,526 40.03%	0	0	129,133 59.05%	0	0	218,679 100%
Growth Share Account	0	0	0	0	100,598 100.00%	0	0	100,598 100%
Money Market Account	153,733 100.00%	0	0	0	0	0	0	153,733 100%
Common Stock Index	0	0	0	0	249,570 100.00%	0	0	249,570 100%
Bond Market Account	0	0	108,961 100.00%	0	0	0	0	108,961 100%
International Share Account	0	0	0	0	0	102,176 100.00%	0	102,176 100%
Stable Value Fund Monthly	3,177 4.06%	0	75,015 95.94%	0	0	0	0	78,192 100%
TOTAL SUPPLEMENTAL FUNDS	158,930 15.70%	87,526 8.65%	183,976 18.18%	0	479,301 47.37%	102,176 10.10%	0	1,011,909 100%
MN DEFERRED COMP PLAN	110,720 3.40%	0	1,293,106 39.76%	0	1,558,648 47.93%	289,816 8.91%	0	3,252,290 100%
TOTAL RETIREMENT FUNDS	1,282,105 2.75%	87,526 0.19%	12,414,469 26.69%	0	20,644,610 44.38%	5,711,975 12.28%	6,378,015 13.71%	46,518,700 100%

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	14,381 4.59%	0	239,129 76.37%	0	59,603 19.04%	0	0	313,113 100%
ENVIRONMENTAL FUND	2,861 0.65%	142,756 32.60%	0	292,350 66.75%	0	0	0	437,967 100%
PERMANENT SCHOOL FUND	12,433 1.87%	339,710 50.98%	0	314,197 47.15%	0	0	0	666,340 100%
CLOSED LANDFILL INVESTMENT	97 0.21%	0	0	46,530 99.79%	0	0	0	46,627 100%
TREASURERS CASH	5,088,569 100.00%	0	0	0	0	0	0	5,088,569 100%
HOUSING FINANCE AGENCY	2,235 1.70%	129,063 98.30%	0	0	0	0	0	131,298 100%
MINNESOTA DEBT SERVICE FUND	0	27,080 100.00%	0	0	0	0	0	27,080 100%
MISCELLANEOUS ACCOUNTS	28,643 7.55%	235,948 62.20%	0	114,734 30.25%	0	0	0	379,325 100%
TOTAL CASH AND NON-RETIREMEN	5,149,219 72.62%	874,557 12.34%	239,129 3.37%	767,811 10.83%	59,603 0.84%	0	0	7,090,319 100%
GRAND TOTAL	6,431,324 12.00%	962,083 1.79%	12,653,598 23.60%	767,811 1.43%	20,704,213 38.62%	5,711,975 10.66%	6,378,015 11.90%	53,609,019 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 14, 2008

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, 2008 is included as **Attachment A**.

A report on travel for the period from August 5, 2008 - November 4, 2008 is included as **Attachment B**.

2. Post Retirement Benefit Increase for FY08

The Post Retirement benefit increase for FY08 will be 2.5%. The increase will be payable to eligible retirees effective January 1, 2009.

The benefit increase is comprised of two components, the investment component and the inflation component. There is no investment component for FY08. The inflation component for FY08 is 2.5% which is the maximum allowable increase. The increase in the Consumer Price Index for wage earners (CPI-W) for the twelve months ending June 30, 2008 was 5.55%. The following shows the benefit increases for the past ten years:

1999	11.1%
2000	9.5%
2001	4.5%
2002	0.7%
2003	2.1%
2004	2.5%
2005	2.5%
2006	2.5%
2007	2.5%
2008	2.5%

3. Results of FY08 Audit

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY08. I should be able to provide a verbal report of the audit findings at the Board meeting on December 10, 2008.

4. Draft of FY08 Annual Report

A draft of the SBI's annual report for FY08 was sent to the Board members/designees and IAC members. The final report should be distributed by the end of the year.

5. Tentative Meeting Dates for Calendar 2009

The quarterly meetings of the SBI are normally held in March, June, September and December. The dates for the IAC and SBI meetings for calendar 2009 are:

IAC	SBI
Wednesday, February 18, 2009	Wednesday, March 11, 2009
Wednesday, May 20, 2009	Wednesday, June 10, 2009
Wednesday, August 19, 2009	Wednesday, September 9, 2009
Wednesday, November 18, 2009	Wednesday, December 9, 2009

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

6. Update on Sudan.

Each quarter staff provides a report to the Board on steps taken to implement Laws of Minnesota 2007, Chapter 117 that requires SBI actions concerning companies with operations in Sudan.

Staff receives periodic reports from the Sudan Divestment Task Force about the status of companies with operations in Sudan. The SBI is restricted from purchasing stock in the companies designated as highest offenders by the Task Force. Accordingly, staff updates the list of restricted stocks and notifies investment managers that they may not purchase shares in companies on the restricted list. Staff receives monthly reports from the SBI's custodian bank concerning SBI holdings of companies on the Task Force list and writes letters as required by law.

If after 90 days following the SBI's communication with a company and it continues to have active business operations, then the SBI must divest holdings of the company according to the following schedule:

- at least 50% shall be sold within nine months after the company appeared on the Task Force list; and
- 100% shall be sold within fifteen months after the company appeared on the list.

During the second quarter of 2008, SBI's managers divested all remaining shares of companies on the list of stocks to be divested. During the third quarter several managers held holdings in ABB, a Swiss Company that was added to the restricted list in June, and the company will be added to the divestment list at a later date.

Attachment C is a copy of the June 17, 2008 letter sent to each international equity manager and domestic equity manager containing the most recent restricted list and the list of stocks to be divested. In the third quarter there were no changes to the restricted list of stocks or to the list of stocks to be divested.

Attachment D is an updated list of companies with operations in Sudan.

7. Update on Quarterly Issues.

A verbal report will be given on quarterly issues at the meeting.

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**STATE BOARD OF INVESTMENT
FISCAL YEAR 2009 ADMINISTRATIVE BUDGET REPORT
FISCAL YEAR TO DATE THROUGH OCTOBER 31, 2008**

ITEM	FISCAL YEAR 2009 BUDGET	FISCAL YEAR 2009 10/31/2008
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 2,162,000	\$ 803,490
PART TIME EMPLOYEES	\$ 25,000	\$ 28,049
SEVERENCE PAYOFF	20,000	11,150
WORKERS COMPENSATION INSURANCE	1,000	504
MISCELLANEOUS PAYROLL	4,000	0
SUBTOTAL	\$ 2,212,000	\$ 843,193
STATE OPERATIONS		
RENTS & LEASES	205,000	64,040
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	501
PRINTING & BINDING	10,000	9,894
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	20,000	3,225
COMMUNICATIONS	30,000	8,615
TRAVEL, IN-STATE	1,000	1,311
TRAVEL, OUT-STATE	50,000	11,028
SUPPLIES	35,000	12,990
EQUIPMENT	20,000	1,857
EMPLOYEE DEVELOPMENT	15,000	3,265
OTHER OPERATING COSTS	9,000	4,037
SUBTOTAL	\$ 405,000	\$ 120,763
ORIGINAL BUDGET	\$ 2,617,000	\$ 963,956
ADJUSTMENTS TO ORIGINAL BUDGET	\$ 0	
TOTAL GENERAL FUND	\$ 2,617,000	\$ 963,956

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ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel August 5, 2008 – November 4, 2008

Purpose	Name(s)	Destination and Date	Total Cost
Manager Search: Domestic Bond Manager: Pacific Investment Management Company (PIMCO)	J. Kirby	Newport Beach, CA 8/4-8/5	\$1,734.14
Consultant Visit: Richards & Tierney	H. Bicker	Chicago, IL 8/27-8/28	750.21
In State Travel: Public Employees Pension Service Association Annual Meeting	H. Bicker	St. Cloud, MN 9/12/08	78.28
Conference: Vanguard Visions 2008	J. Heidelberg	Washington, D.C. 9/14-9/16	1,097.70
Manager Monitoring: Domestic Bond Managers: Aberdeen Asset Mgmt.; BlackRock Financial Mgmt.; Goldman Sachs Asset Mgmt.; PIMCO Manager Search: Domestic Bond Managers: Fidelity Investments; Prudential Master Custodian: State Street Bank	J. Kirby	Boston, MA New York, NY Philadelphia, PA 9/15-9/19	1,927.67
Manager Monitoring: Alternative Investment Manager: Prudential Capital Partners Annual Meeting	J. Griebenow	Chicago, IL 9/16-9/17	1,071.00
Manager Monitoring: Domestic Equity Managers: McKinley Capital Mgmt.; Zevenbergen Capital	P. Ammann	Anchorage, AK Seattle, WA 9/17-9/19	1,845.26

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: Domestic Equity Manager: Zevenbergen Capital Conference: Russell Index Conference	T. Brusehaver-Derby	Seattle, WA 9/17-9/19	\$1,318.12
In State Travel: Retired Educators Association of Minnesota Convention 2008	H. Bicker	St. Cloud, MN 9/30	78.28
Conference: National Association of State Investment Officers (NASIO)	H. Bicker	Philadelphia, PA 10/3-10/8	2,290.01
Conference: Public Pension Financial Forum (P2F2) Conference	S. Schugel B. Nicol	Mobile, AL 10/19-10/22	2,851.35

ATTACHMENT C

Letter to SBI International Equity Managers

June 17, 2008

Regarding: Sudan Companies

Dear Manager:

The Minnesota State Board of Investment (SBI) sent you prior communication concerning holdings in companies doing business in Sudan. **This new communication applies to all SBI international equity portfolios managed by your organization and replaces all prior communications.**

Laws of Minnesota 2007, Chapter 117 requires the SBI to implement a Sudan restriction.

Attachment 1 is the List of Restricted Sudan Stocks. **These securities may not be purchased for the SBI portfolio that your organization manages.** Please note that the attached List makes a change to the List of Restricted Sudan Stocks that was attached to the May 1, 2008 letter you received. **This new list is effective June 20, 2008.**

- The following companies have been added to the restricted list:
 - ABB
 - Egypt Kuwait Holding Company
- The following company has been deleted from the restricted list:
 - Petrofac

Attachment 2 is the List of Sudan Stocks Requiring Divestment.

- The following company has been added to the divestment list:
 - Harbin Power Equipment
- The following company has been deleted from the divestment list:
 - Petrofac

If you own securities of companies on the List of Sudan Stocks Requiring Divestment in the SBI portfolio that your organization manages, then you must divest those holdings according to the schedules provided in the Attachment:

- **At least 50 percent of a company's holdings must be sold by the date indicated, and**
- **At least 100 percent of a company's holdings must be sold by the date indicated.**

Please recognize that you are responsible for identifying all listings of each security.

If you have any questions about this matter, please contact Stephanie Gleeson, International Equities; or James E. Heidelberg, Manager Public Programs.

Sincerely,

Howard Bicker
Executive Director

Enclosures

cc: James E. Heidelberg, Manager, Public Programs
Stephanie Gleeson, International Equities

Letter to SBI Domestic Equity Managers

June 17, 2008

Regarding: Sudan Companies

Dear Manager:

The Minnesota State Board of Investment (SBI) sent you prior communication concerning holdings in companies doing business in Sudan. **This new communication applies to all SBI domestic equity portfolios managed by your organization and replaces all prior communications. This communication applies to ADR's of any of the listed companies.**

Laws of Minnesota 2007, Chapter 117 requires the SBI to implement a Sudan restriction.

Attachment 1 is the List of Restricted Sudan Stocks. **These securities may not be purchased for the SBI portfolio that your organization manages.** Please note that the attached List makes a change to the List of Restricted Sudan Stocks that was attached to the May 1, 2008 letter you received. **This new list is effective June 20, 2008.**

- The following companies have been added to the restricted list:
 - ABB
 - Egypt Kuwait Holding Company
- The following company has been deleted from the restricted list:
 - Petrofac

Attachment 2 is the List of Sudan Stocks Requiring Divestment.

- The following company has been added to the divestment list:
 - Harbin Power Equipment
- The following company has been deleted from the divestment list:
 - Petrofac

If you own securities of companies on the List of Sudan Stocks Requiring Divestment in the SBI portfolio that your organization manages, then you must divest those holdings according to the schedules provided in the Attachment:

- **At least 50 percent of a company's holdings must be sold by the date indicated, and**
- **At least 100 percent of a company's holdings must be sold by the date indicated.**

Please recognize that you are responsible for identifying all listings of each security.

If you have any questions about this matter, please contact Tammy Brusehaver, or Patricia Ammann, Domestic Equities; or James E. Heidelberg, Manager, Public Programs.

Sincerely,

Howard Bicker
Executive Director

Enclosures

cc: James E. Heidelberg, Manager, Public Programs
Tammy Brusehaver, Domestic Equities
Patricia Ammann, Domestic Equities

ATTACHMENT 1

Restricted Sudan Stocks	
Company Name	Country of Origin
AviChina Industry & Technology Co. Ltd.	China
Dongfeng Automotive Company Ltd.	China
Hafei Aviation Industry Co.	China
Harbin Dongan Auto Engine Co. Ltd.	China
Harbin Power Equipment	China
Jiangxi Changhe Automobile Co. Ltd.	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
PetroChina	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Wuhan Boiler Co.	China
CNPC Hong Kong	Hong Kong
Sinopec Kanton Holdings, Ltd.	Hong Kong
Bharat Heavy Electricals Ltd.	India
Bongaigaon Refinery & Petrochemicals Limited (BRPL)	India
Chennai Petroleum Corporation Ltd. (CPCL)	India
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Ltd.	India
Mangalore Refinery and Petrochemical Ltd.	India
Oil and Natural Gas Company, AKA ONGC	India
AREF Investment Group	Kuwait
Egypt Kuwait Holding Company	Egypt
Kejuruteraan Samudra Timur Bhd	Malaysia
Kencana Petroleum Berhad	Malaysia
Malaysia International Shipping Company AKA MISC Berhad	Malaysia
Muhibbah Engineering Berhad	Malaysia
PECD Berhad	Malaysia
Petronas Gas, Bhd.	Malaysia
Petronas Dagangan, Bhd.	Malaysia
Ranhill Berhad	Malaysia
Scomi Group Bhd	Malaysia
Scomi Engineering Bhd	Malaysia
Electricity Generating PCL AKA EGCO	Thailand
Wartsila Oyj	Finland

ATTACHMENT 1

Restricted Sudan Stocks

Company Name	Country of Origin
Alstom	France
Areva SA	France
Dietswell Engineering	France
Lundin International SA	France
Lundin Petroleum AB	Sweden
ABB	Switzerland

Note: List contains parent companies and subsidiaries publicly traded.
AKA means "Also Known As"

Source: Sudan Divestment Task Force

June 17, 2008

ATTACHMENT 2

Sudan Stocks Requiring Divestment

Company Name	Country of Origin	Divest 50 Percent By this Date	Divest 100 Percent By this date
China Petroleum and Chemical Corporation AKA Sinopec Corp	China	April 30, 2008	October 31, 2008
PetroChina Company	China	April 30, 2008	October 31, 2008
Bharat Heavy Electricals Ltd.	India	April 30, 2008	October 31, 2008
Oil and Natural Gas Corp AKA ONGC	India	April 30, 2008	October 31, 2008
Malaysia International Shipping Company AKA MISC Berhad	Malaysia	April 30, 2008	October 31, 2008
Alstom	France	April 30, 2008	October 31, 2008
Lundin Petroleum	Sweden	April 30, 2008	October 31, 2008
Wartsila Oyj	Finland	May 31, 2008	November 30, 2008
Harbin Power Equipment	China	June 30, 2008	December 31, 2008

Note: AKA means "Also Known As"

Source: Sudan Divestment Task Force

June 17, 2008

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ATTACHMENT D

Sudan Divestment Task Force List of "Highest Offenders" Companies in Sudan
Task Force List Effective Through November 30, 2008
Companies Ranked from Worst to Least Problematic

Company Name	Country of Origin
China National Petroleum Corporation AKA CNPC	China
PetroChina	China
CNPC Hong Kong	Hong Kong
Petronas Gas	Malaysia
Petronas Dagangan	Malaysia
MISC Berhad AKA Malaysia International Shipping Company	Malaysia
Oil and Natural Gas Company, AKA ONGC	India
Mangalore Refinery and Petrochemicals Ltd.	India
Sinopec Group AKA China Petrochemical Corporation	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Kanton Holdings	China
Lundin Petroleum AB	Sweden
Lundin International SA	France
AREF Investment Group	Kuwait
Mohammed Abdulmohsin Al-Kharafi & Sons Company	Kuwait
Egypt Kuwait Holding Company	Egypt
Ranhill Berhad	Malaysia
Dietswell Engineering	France
Muhibbah Engineering Berhad	Malaysia
Kencana Petroleum Berhad	Malaysia
Kejuruteraan Samundra Timur Bhd	Malaysia
AviChina Industry & Technology Company, Ltd.	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
Hafei Aviation Industry	China
Harbin Dongan Auto Engine Co.	China
Jiangxi Changhe Automobile Co.	China
Harbin Power Equipment Company Limited	China
ABB	Switzerland
Wartsila Oyj	Finland
Bharat Heavy Electricals	India
Dongfeng Automotive Company Limited	China
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Limited	India
Bongaigaon Refinery & Petrochemicals Limited (BRPL)	India
Chennai Petroleum Corporation Limited (CPCL)	India
Scomi Group Berhad	Malaysia
Scomi Engineering Berhad	Malaysia
Alstom	France
Wuhan Boiler Company	France
PECD Berhad	Malaysia
Electricity Generating Company Limited AKA EGCO	Thailand

Note: List contains parent companies and subsidiaries publicly traded
 AKA means "also known as"

Sudan Divestment Task Force List of Companies in Sudan for Ongoing Engagement
Task Force List Effective Through November 30, 2008
 Companies Ranked from Worst to Least Problematic

<u>Company Name</u>	<u>Country of Origin</u>
Bharat Electronics Limited	India
Norinco AKA China North Industries Corporation	China
Sudan Telecommunications Company AKA Sudatel	Sudan
Saras S.p.A.	Italy
Man AG	Germany
Kamaz	Russia
Total SA	France
Nippon Oil	Japan
Suez SA	France
Shanghai Power Transmission and Distribution Co. Ltd.	China
Bousted Heavy Industries Corporation	Malaysia
Atlas Copco AB	Sweden
Nam Fatt Corporation Berhad	Malaysia
Reliance Industries Limited AKA RIL	India
Schlumberger	France
La Mancha Resources	Canada
Petrofac	UK
Brinkley Mining PLC	UK
Mitsui Engineering & Shipbuilding Company Limited	Japan
Mercator Lines	India
Concordia Maritime	Sweden
Bollere Group	France

Sudan Divest.Task Force List of Companies in Sudan with No Publicly Traded Equity
Task Force List Effective Through November 30, 2008

Company Name	Country of Origin
Africa Energy	Nigeria
Al-Qahtani & Sons Group of Companies	Saudi Arabia
Ansan Wikfs/Shaher Trading Company	Yemen
APS Engineering Company	Italy
Arcadia Petroleum	UK
Ascom Group SA	Moldova
China Hydraulic and Hydroelectric Construction Group AKA Sinohydro	China
China International Water & Electric Corp AKA CWE	China
Delta Petrol/Tower Holdings	Turkey/Luxembourg
Edgo Group/Dindir Petroleum	Jordan
Express Petroleum and Gas Company	Nigeria
GIAD Industrial City	Sudan
Hi Tech Petroleum	Sudan
K & K Capital Group AKA KKCG	Czech Republic
Kuwait Foreign Petroleum Exploration Company AKA Kufpec	Kuwait
Lahmeyer	Germany
Mohan Energy Corp.	India
Mott MacDonald	UK
Mubadala Development Company	UAE
Peschaud & Cie International	France
Petrolin	Gabon
Petroneeds Service International Company	Sudan
PetroSA	South Africa
PT Pertamina Persero AKA Pertamina	Indonesia
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group	China
Snowy Mountain Engineering Corporation	Australia
Sudan Petroleum Company AKA Sudapet	Sudan
Tamoil	Libya
Trafigura Beheer	Netherlands
Vitol Group	Switzerland
Zaver Petroleum Company	Pakistan

9-Sep-08

Tab C



STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Third Quarter, 2008

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Domestic Equity

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COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending September, 2008

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	-9.8	-9.3	-24.1	-22.1	-1.1	0.1		
Russell 1000 Growth Aggregate	-14.0	-12.3	-22.5	-20.9	-1.7	0.0		
Russell 1000 Value Aggregate	-8.4	-6.1	-25.1	-23.6	-1.2	0.1		
Russell 2000 Growth Aggregate	-14.2	-7.0	-23.9	-17.1	0.6	1.5		
Russell 2000 Value Aggregate	0.3	5.0	-18.2	-12.3	-3.3	2.0		
Active Manager Aggregate	-10.2	-7.7	-23.3	-20.7	-1.3	0.4		
Semi-Passive Aggregate	-9.4	-9.3	-22.7	-22.1	-0.3	0.1		
Passive Manager (BGI)	-8.6	-8.7	-21.3	-21.5	0.4	0.3		
Total Domestic Equity Aggregate	-9.4	-8.7	-22.3	-21.5	-0.3	0.2		
SBI DE Asset Class Target		-8.7		-21.5		0.3		
Russell 3000 Index		-8.7		-21.5		0.3		

	2007		2006		2005		2004	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	2.4	5.8	15.8	15.5	6.4	6.3	14.5	11.4
Russell 1000 Growth Aggregate	14.9	11.8	2.2	9.1	7.3	5.3	6.1	6.3
Russell 1000 Value Aggregate	3.6	-0.2	17.4	22.2	6.0	7.1	14.3	16.5
Russell 2000 Growth Aggregate	21.6	7.0	10.0	13.3	4.7	4.2	9.7	14.3
Russell 2000 Value Aggregate	-13.4	-9.8	13.1	23.5	7.7	4.7	25.0	22.2
Active Manager Aggregate	6.3	4.2	11.5	15.8	6.5	6.0	12.5	12.3
Semi-Passive Aggregate	3.2	5.8	16.1	15.5	6.2	6.3	11.7	11.4
Passive Manager (BGI)	5.1	5.1	15.8	15.7	6.2	6.1	12.0	11.9
Total Domestic Equity Aggregate	4.9	5.1	14.5	15.7	6.4	6.1	12.2	11.9
SBI DE Asset Class Target		5.1		15.7		6.1		11.9
Russell 3000 Index		5.1		15.7		6.1		11.9

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending September, 2008
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	-12.9	-9.3	-25.6	-22.1	-0.7	0.1	5.3	5.5	9.8	9.8	\$397.4	2.1%
New Amsterdam Partners (2)	-10.6	-9.3	-22.6	-22.1	-2.5	0.1	4.8	5.5	10.6	9.5	\$430.5	2.3%
UBS Global	-6.5	-9.3	-23.6	-22.1	-0.2	0.1	5.8	5.5	8.8	8.5	\$424.8	2.2%
Aggregate	-9.8	-9.3	-24.1	-22.1	-1.1	0.1					\$1,252.7	6.6%
Russell 1000 Growth												
Alliance Capital	-14.6	-12.3	-22.7	-20.9	-2.3	0.0	2.9	3.7	12.6	9.6	\$240.8	1.3%
INTECH	-13.8	-12.3	-22.6	-20.9	-1.7	0.0			-0.4	0.6	\$274.5	1.4%
Jacobs Levy	-15.5	-12.3	-25.2	-20.9	-3.9	0.0			-2.8	0.6	\$238.6	1.3%
Lazard Asset Mgmt.	-15.8	-12.3	-24.3	-20.9	0.1	0.0			0.5	0.6	\$51.2	0.3%
Sands Capital	-16.7	-12.3	-24.6	-20.9	-3.6	0.0			-2.0	0.6	\$184.7	1.0%
Voyageur-Chicago Equity (4)	-6.6	-12.3	-18.9	-20.9	-1.3	0.0	3.1	3.7	-1.4	-5.9	\$45.2	0.2%
Winslow-Large Cap	-15.8	-12.3	-18.6	-20.9	2.6	0.0			3.8	0.6	\$108.2	0.6%
Zevenbergen Capital	-10.0	-12.3	-20.3	-20.9	3.5	0.0	7.6	3.7	8.7	7.2	\$237.4	1.2%
Aggregate	-14.0	-12.3	-22.5	-20.9	-1.7	0.0					\$1,380.8	7.2%
Russell 1000 Value												
Barrow, Hanley	-8.4	-6.1	-25.5	-23.6	-2.6	0.1			3.6	4.1	\$379.9	2.0%
Earnest Partners	-11.0	-6.1	-26.5	-23.6	-2.2	0.1	7.2	7.1	2.9	4.4	\$151.0	0.8%
Lord Abnett & Co.	-6.7	-6.1	-22.8	-23.6	0.7	0.1			3.0	4.1	\$281.8	1.5%
LSV Asset Mgmt.	-5.6	-6.1	-25.1	-23.6	-0.3	0.1			5.3	4.1	\$372.1	1.9%
Systematic Financial Mgmt.	-12.1	-6.1	-26.5	-23.6	-0.7	0.1			4.1	4.1	\$268.9	1.4%
Aggregate	-8.4	-6.1	-25.1	-23.6	-1.2	0.1					\$1,453.7	7.6%
SMALL CAP												
Russell 2000 Growth												
McKinley Capital	-14.6	-7.0	-28.6	-17.1	-2.3	1.5			1.4	4.3	\$191.0	1.0%
Next Century Growth	-15.7	-7.0	-23.5	-17.1	5.7	1.5	10.2	6.6	-1.2	-1.5	\$224.5	1.2%
Turner Investment Partners	-12.1	-7.0	-19.8	-17.1	2.6	1.5			4.7	4.3	\$215.4	1.1%
Aggregate	-14.2	-7.0	-23.9	-17.1	0.6	1.5					\$630.9	3.3%
Russell 2000 Value												
Goldman Sachs	3.9	5.0	-9.4	-12.3	4.1	2.0			6.8	6.5	\$127.8	0.7%
Hotchkis & Wiley	-7.3	5.0	-20.2	-12.3	-8.9	2.0			0.7	6.5	\$96.6	0.5%
Martingale Asset Mgmt.	-0.9	5.0	-18.7	-12.3	-4.7	2.0			4.1	6.5	\$113.2	0.6%
Peregrine Capital	4.0	5.0	-21.7	-12.3	-3.6	2.0	6.6	9.4	10.1	10.7	\$172.0	0.9%
RiverSource/Kenwood	-2.2	5.0	-21.0	-12.3	-3.3	2.0			3.7	6.5	\$49.8	0.3%
Aggregate	0.3	5.0	-18.2	-12.3	-3.3	2.0					\$559.5	2.9%
Active Mgr. Aggregate (3)	-10.2	-7.7	-23.3	-20.7	-1.3	0.4					\$5,277.5	27.7%

(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.

(4) Voyageur's benchmark was changed to the Russell 1000 Growth for all time periods on 1/1/2007.

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

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	2.4	5.8	20.4	15.5	3.4	6.3	15.7	11.4	32.9	29.9
New Amsterdam Partners (1)	5.0	5.8	9.3	15.5	7.6	6.3	14.8	11.4	34.2	38.0
UBS Global	0.8	5.8	16.8	15.5	8.6	6.3	13.4	11.4	30.7	29.9
Aggregate	2.4	5.8	15.8	15.5	6.4	6.3	14.5	11.4		
Russell 1000 Growth										
Alliance Capital	15.4	11.8	-0.4	9.1	14.2	5.3	5.7	6.3	22.4	29.7
INTECH	11.4	11.8	7.4	9.1	7.8	5.3				
Jacobs Levy	8.4	11.8	6.1	9.1	5.3	5.3				
Lazard Asset Mgmt.	18.0	11.8	7.1	9.1	6.6	5.3				
Sands Capital	19.5	11.8	-5.5	9.1	10.9	5.3				
Voyageur-Chicago Equity (3)	10.9	11.8	2.1	9.1	3.9	5.3	10.6	6.3	23.2	29.7
Winslow-Large Cap	22.0	11.8	7.6	9.1	10.5	5.3				
Zevenbergen Capital	24.0	11.8	6.2	9.1	9.0	5.3	13.1	6.3	49.3	29.7
Aggregate	14.9	11.8	2.2	9.1	7.3	5.3				
Russell 1000 Value										
Barrow, Hanley	2.6	-0.2	15.4	22.2	9.6	7.1				
Earnest Partners	6.5	-0.2	13.8	22.2	15.6	7.1	18.9	16.5	32.0	30.0
Lord Abbett & Co.	4.4	-0.2	18.6	22.2	3.5	7.1				
LSV Asset Mgmt.	1.3	-0.2	21.7	22.2	12.5	7.1				
Systematic Financial Mgmt.	8.3	-0.2	17.9	22.2	10.3	7.1				
Aggregate	3.6	-0.2	17.4	22.2	6.0	7.1				
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	16.2	7.0	12.5	13.3	0.2	4.2	12.2	14.3		
Next Century Growth	34.2	7.0	12.4	13.3	25.2	4.2	6.4	14.3	50.7	48.5
Turner Investment Partners	14.8	7.0	13.6	13.3	6.2	4.2	11.6	14.3		
Aggregate	21.6	7.0	10.0	13.3	4.7	4.2	9.7	14.3		
Russell 2000 Value										
Goldman Sachs	-5.0	-9.8	17.8	23.5	4.1	4.7	19.9	22.2		
Hotchkis & Wiley	-18.8	-9.8	3.0	23.5	10.4	4.7	27.1	22.2		
Martingale Asset Mgmt.	-16.8	-9.8	14.8	23.5	6.2	4.7	30.8	22.2		
Peregrine Capital	-13.4	-9.8	14.3	23.5	10.1	4.7	23.6	22.2	44.2	46.0
RiverSource/Kenwood	-11.8	-9.8	19.4	23.5	4.8	4.7	25.8	22.2		
Aggregate	-13.4	-9.8	13.1	23.5	7.7	4.7	25.0	22.2		
Active Mgr. Aggregate (2)	6.3	4.2	11.5	15.8	6.5	6.0				

(1) 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.

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

(3) Voyageur's benchmark was changed to the Russell 1000 Growth for all time periods on 1/1/2007.

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

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending September, 2008
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 %		
SEMI-PASSIVE MANAGERS (1)												
Barclays Global Investors	-10.5	-9.3	-22.6	-22.1	-0.7	0.1	5.2	5.6	8.5	8.1	\$2,751.4	14.4%
Franklin Portfolio	-8.8	-9.3	-23.1	-22.1	-0.4	0.1	5.1	5.6	7.7	8.1	\$2,190.6	11.5%
JP Morgan	-8.7	-9.3	-22.3	-22.1	0.3	0.1	5.5	5.6	8.1	8.1	\$2,424.2	12.7%
Semi-Passive Aggregate (R1000)	-9.4	-9.3	-22.7	-22.1	-0.3	0.1	5.3	5.6	8.1	8.1	\$7,366.2	38.6%
PASSIVE MANAGER (R3000)												
Barclays Global Investors	-8.6	-8.7	-21.3	-21.5	0.4	0.3	5.8	5.7	7.7	7.6	\$6,441.9	33.8%
Historical Aggregate (3)	-9.4	-8.7	-22.3	-21.5	-0.3	0.2	5.3	5.7	10.1	10.4	\$19,085.6	100.0%
SBI DE Asset Class Target (4)		-8.7		-21.5		0.3		5.7		10.3		
Russell 3000		-8.7		-21.5		0.3		5.7		10.7		
Wilshire 5000		-8.7		-21.3		0.6		6.0		10.7		
Russell 1000		-9.3		-22.1		0.1		5.5		10.9		
Russell 2000		-1.1		-14.5		1.8		8.1		9.3		

- (1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.
- (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**

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS (1)										
Barclays Global Investors	2.2	5.8	15.6	15.5	7.6	6.3	11.7	11.4	30.0	28.5
Franklin Portfolio	2.5	5.8	16.5	15.5	6.1	6.3	11.7	11.4	26.9	28.5
JP Morgan	5.1	5.8	16.5	15.5	4.7	6.3	11.7	11.4	28.9	28.5
Semi-Passive Aggregate (R1000)	3.2	5.8	16.1	15.5	6.2	6.3	11.7	11.4	28.8	28.5
PASSIVE MANAGER (R3000)										
Barclays Global Investors	5.1	5.1	15.8	15.7	6.2	6.1	12.0	11.9	30.9	31.2
Historical Aggregate (2)	4.9	5.1	14.5	15.7	6.4	6.1	12.2	11.9	31.0	31.4
SBI DE Asset Class Target (3)		5.1		15.7		6.1		11.9		31.2
Russell 3000		5.1		15.7		6.1		11.9		31.1
Wilshire 5000		5.6		15.8		6.4		12.5		31.6
Russell 1000		5.8		15.5		6.3		11.4		29.9
Russell 2000		-1.6		18.4		4.6		18.3		47.3

(1) Semi-Passive managers' benchmark is the Russell 1000 index beginning 1/1/04 and was the Completeness Fund benchmark prior to 1/1/04.

(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.

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Large Cap Core (R1000)

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Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$397,403,979

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

No comment at this time.

Recommendation

No action required

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	-12.9%	-9.3%
Last 1 year	-25.6	-22.1
Last 2 years	-6.6	-4.6
Last 3 years	-0.7	0.1
Last 4 years	2.4	3.5
Last 5 years	5.3	5.5
Since Inception (4/89)	9.8	9.8

Calendar Year Returns

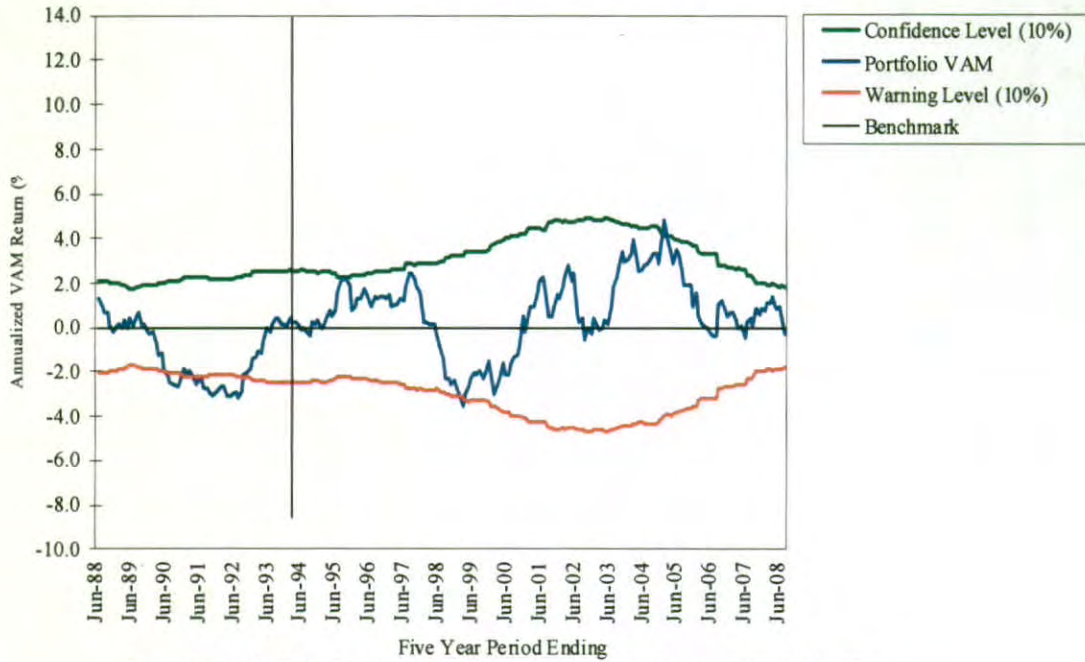
	Actual	Russell 1000 Core
2007	2.4%	5.8%
2006	20.4	15.5
2005	3.4	6.3
2004	15.7	11.4
2003	32.9	29.9

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$397,403,979

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.

NEW AMSTERDAM PARTNERS
Periods Ending September, 2008

Portfolio Manager: Michelle Clayman

Assets Under Management: \$430,487,925

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell Index (1)
Last Quarter	-10.6%	-9.3%
Last 1 year	-22.6	-22.1
Last 2 years	-5.9	-4.6
Last 3 years	-2.5	0.1
Last 4 years	2.0	3.5
Last 5 years	4.8	5.5
Since Inception (4/94)	10.6	9.5

Calendar Year Returns

	Actual	Russell Index (1)
2007	5.0%	5.8%
2006	9.3	15.5
2005	7.6	6.3
2004	14.8	11.4
2003	34.2	38.0

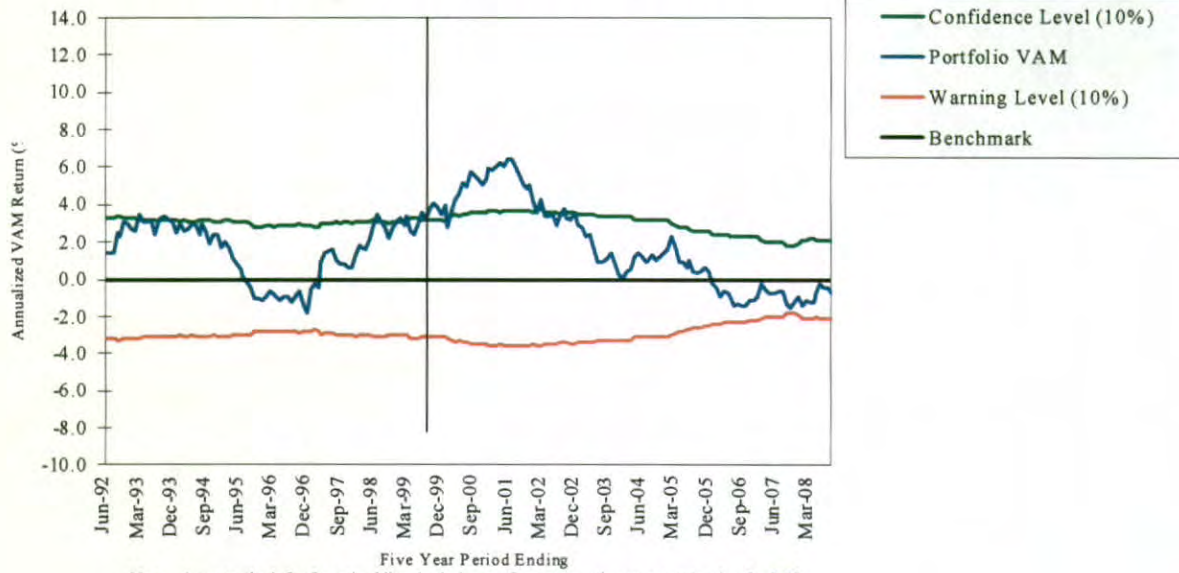
(1) New Amsterdam Partners' published benchmark is the Russell 1000 Core beginning 10/1/03. Prior to that date it was the Russell Midcap index.

NEW AMSTERDAM PARTNERS
Periods Ending September, 2008

Portfolio Manager: Michelle Clayman

Assets Under Management: \$430,487,925

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



UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending September, 2008

Portfolio Manager: John Leonard

Assets Under Management: \$424,802,064

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

UBS outperformed the quarterly benchmark. The portfolio was helped by stock selection in the Financial Services sector and an underweight and stock selection in the Materials sector. UBS trailed the one-year return due to stock selection in the Consumer Discretionary sector and an underweight to the Consumer Staples sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Core
Last Quarter	-6.5%	-9.3%
Last 1 year	-23.6	-22.1
Last 2 years	-6.8	-4.6
Last 3 years	-0.2	0.1
Last 4 years	3.2	3.5
Last 5 years	5.8	5.5
Since Inception (7/93)	8.8	8.5

Calendar Year Returns

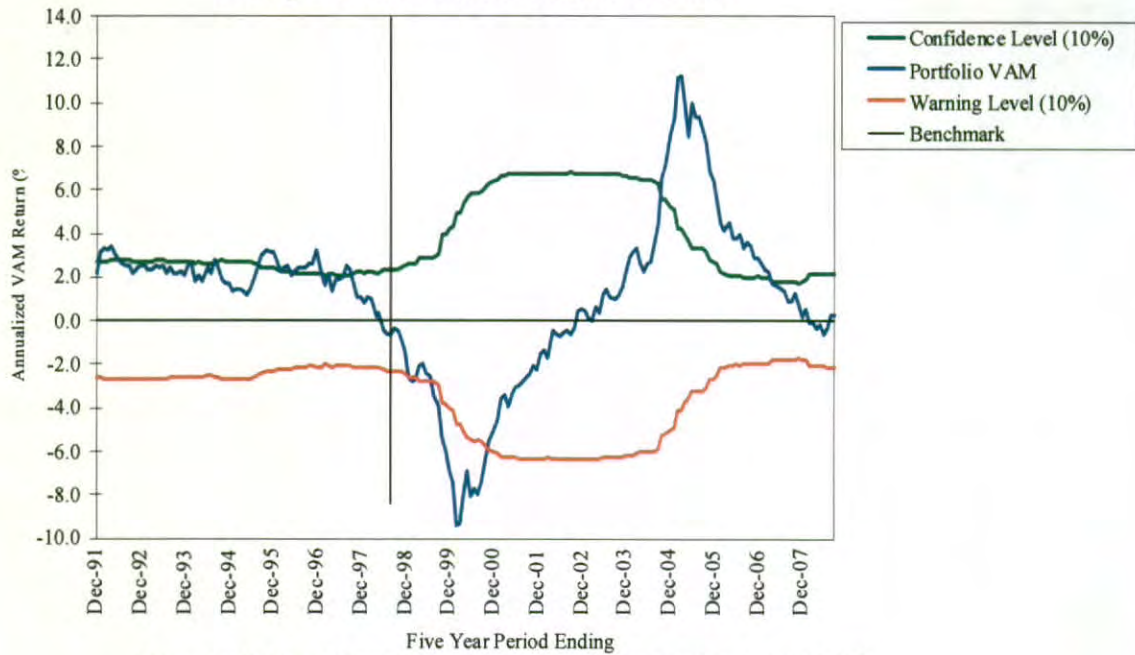
	Actual	Russell 1000 Core
2007	0.8%	5.8%
2006	16.8	15.5
2005	8.6	6.3
2004	13.4	11.4
2003	30.7	29.9

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending September, 2008

Portfolio Manager: John Leonard

Assets Under Management: \$424,802,064

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.

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Large Cap Growth (R1000 Growth)

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Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Stephanie Simon

Assets Under Management: \$240,824,096

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)

	Actual	Russell 1000 Growth
Last Quarter	-14.6%	-12.3%
Last 1 year	-22.7	-20.9
Last 2 years	-4.2	-2.8
Last 3 years	-2.3	0.0
Last 4 years	2.3	2.8
Last 5 years	2.9	3.7
Since Inception (1/84)	12.6	9.6

Calendar Year Returns

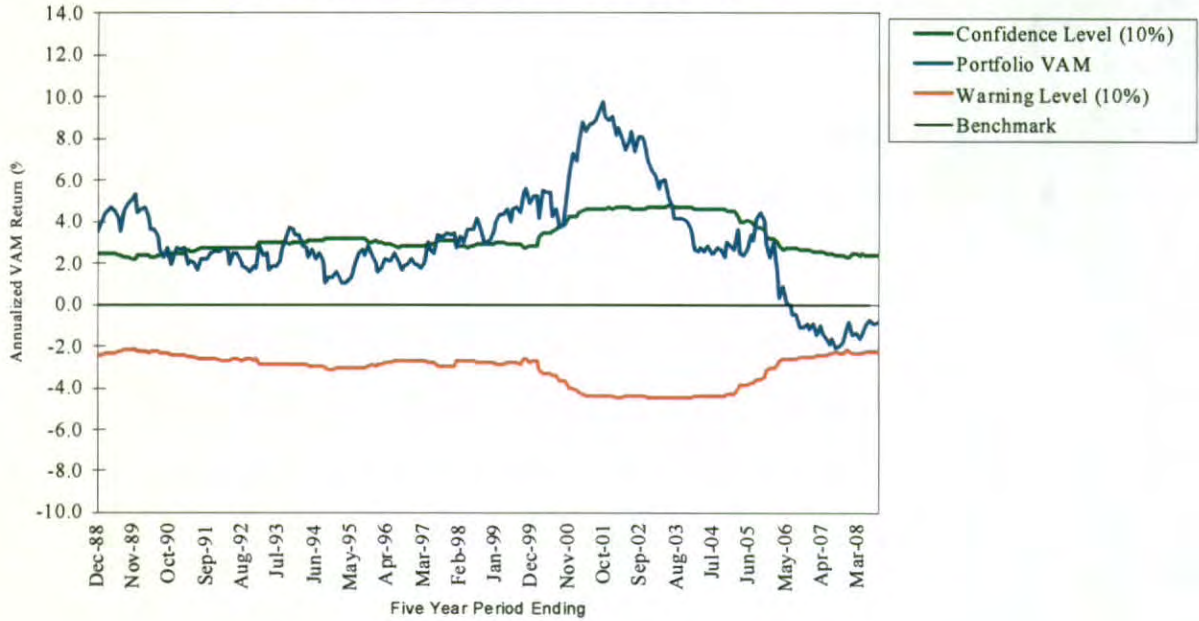
	Actual	Russell 1000 Growth
2007	15.4%	11.8%
2006	-0.4	9.1
2005	14.2	5.3
2004	5.7	6.3
2003	22.4	29.7

ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Stephanie Simon

Assets Under Management: \$240,824,096

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



INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending September, 2008

Portfolio Manager: Robert Fernholz

Assets Under Management: \$ 274,512,240

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-13.8%	-12.3%
Last 1 year	-22.6	-20.9
Last 2 years	-5.3	-2.8
Last 3 years	-1.7	0.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	-0.4	0.6

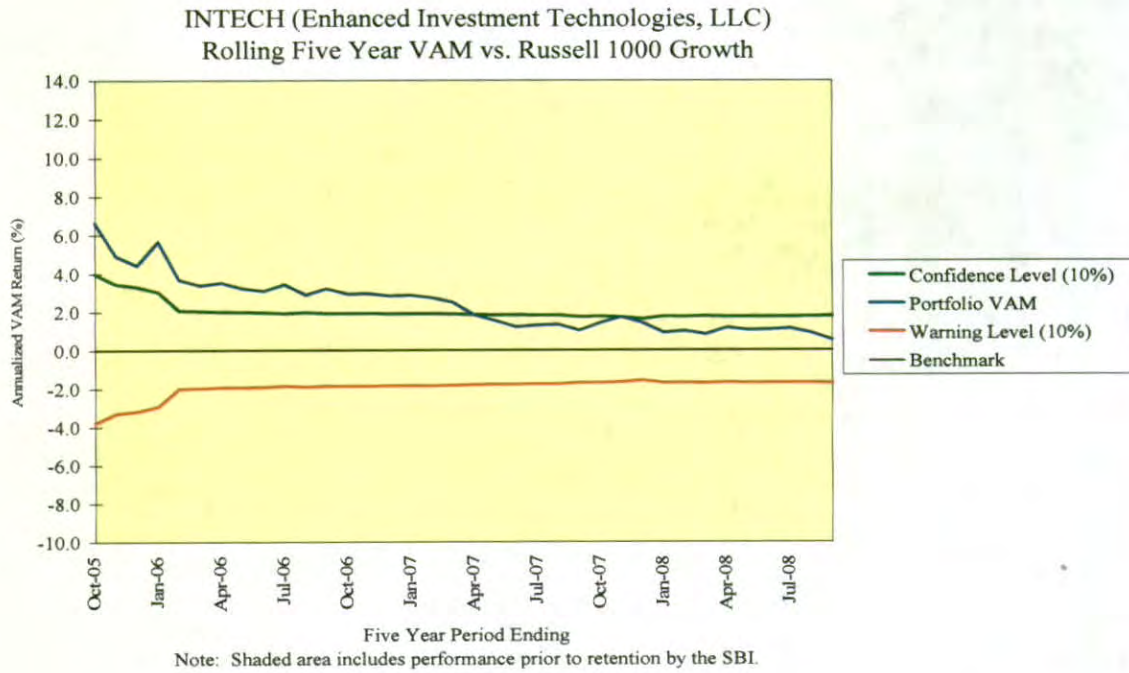
Calendar Year Returns

	Actual	Russell 1000 Growth
2007	11.4%	11.8%
2006	7.4	9.1
2005	7.8	5.3
2004	N/A	N/A
2003	N/A	N/A

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending September, 2008

Portfolio Manager: Robert Fernholz

Assets Under Management: \$274,512,240



JACOBS LEVY EQUITY MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$238,605,781

Investment Philosophy

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.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-15.5%	-12.3%
Last 1 year	-25.2	-20.9
Last 2 years	-7.8	-2.8
Last 3 years	-3.9	0.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	-2.8	0.6

Calendar Year Returns

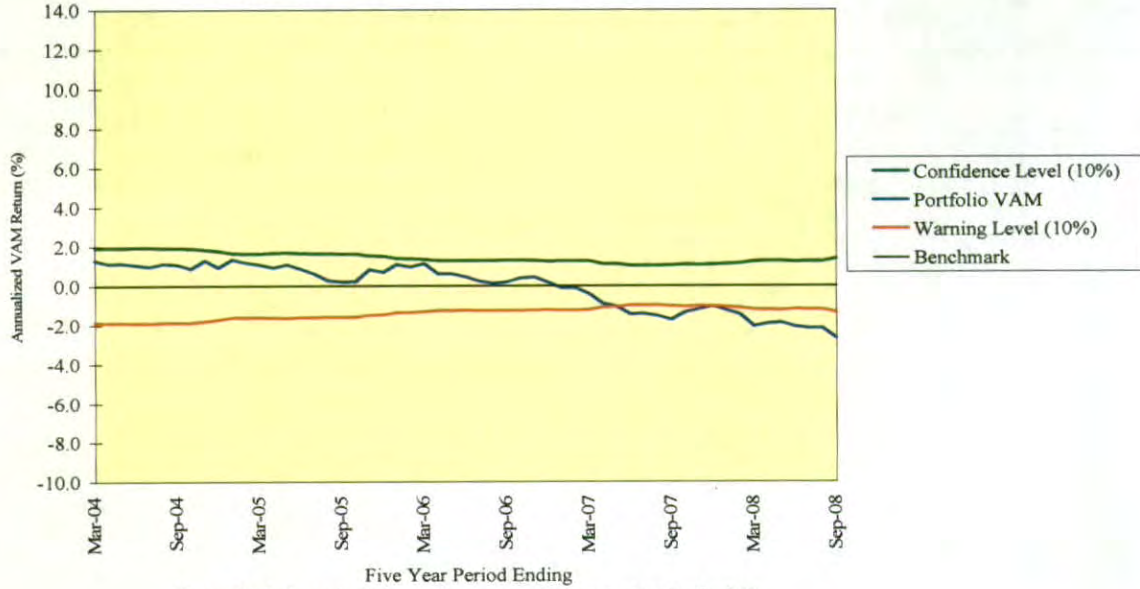
	Actual	Russell 1000 Growth
2007	8.4%	11.8%
2006	6.1	9.1
2005	5.3	5.3
2004	N/A	N/A
2003	N/A	N/A

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Bruce Jacobs and Ken Levy

Assets Under Management: \$238,605,781

JACOBS LEVY EQUITY MANAGEMENT
Rolling Five Year VAM vs. Russell 1000 Growth



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

LAZARD ASSET MANAGEMENT LLC
Periods Ending September, 2008

Portfolio Manager: Kip Knelman

Assets Under Management: \$51,229,935

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.

On September 4, 2008, Lazard announced their intention to transfer the assets under management currently associated with the U.S. Equity Growth strategy back to Knelman Asset Management Group (Knelman). The SBI's portfolio is part of the U.S. Equity Growth strategy. Kip Knelman will resume the independent management of this business as he did prior to Lazard's acquisition of Knelman in 2005. The transfer is anticipated to be effective fourth quarter 2008. Staff is monitoring the transaction closely.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-15.8%	-12.3%
Last 1 year	-24.3	-20.9
Last 2 years	-2.9	-2.8
Last 3 years	0.1	0.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	0.5	0.6

Calendar Year Returns

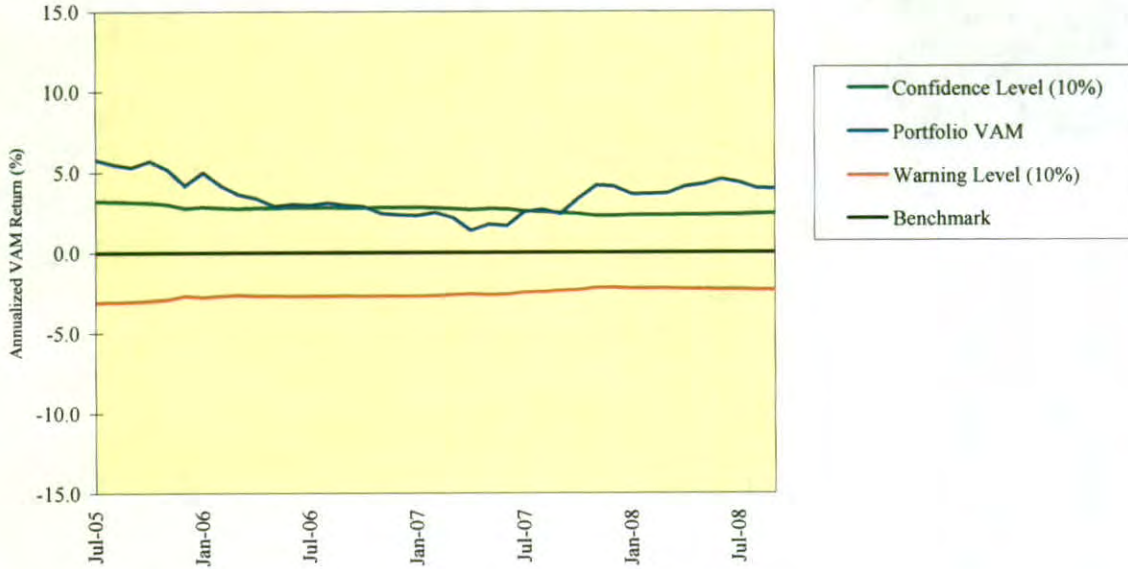
	Actual	Russell 1000 Growth
2007	18.0%	11.8%
2006	7.1	9.1
2005	6.6	5.3
2004	N/A	N/A
2003	N/A	N/A

LAZARD ASSET MANAGEMENT LLC
Periods Ending September, 2008

Portfolio Manager: Kip Knelman

Assets Under Management: \$51,229,935

LAZARD ASSET MANAGEMENT, LLC.
 Rolling Five Year VAM vs. Russell 1000 Growth



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

SANDS CAPITAL MANAGEMENT LLC
Periods Ending September, 2008

Portfolio Manager: Frank Sands, Jr.

Assets Under Management: \$184,707,334

Investment Philosophy

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.

Staff Comments

In September 2008, voting control of the firm was turned over to Frank M. Sands, Jr., and he assumed the roles of Chief Investment Officer and Chief Executive Officer at that time. Frank M. Sands, Sr., turned 70 and it is intended that he will remain involved with the firm as Chairman.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-16.7%	-12.3%
Last 1 year	-24.6	-20.9
Last 2 years	-4.5	-2.8
Last 3 years	-3.6	0.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	-2.0	0.6

Calendar Year Returns

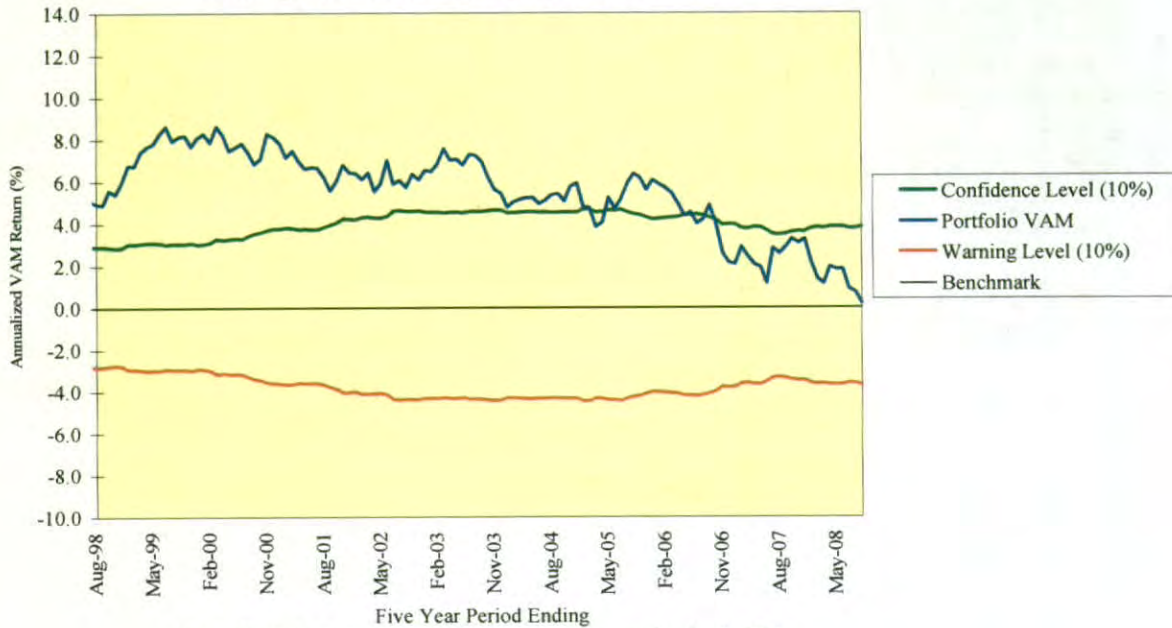
	Actual	Russell 1000 Growth
2007	19.5%	11.8%
2006	-5.5	9.1
2005	10.9	5.3
2004	N/A	N/A
2003	N/A	N/A

SANDS CAPITAL MANAGEMENT LLC
Periods Ending September, 2008

Portfolio Manager: Frank Sands, Jr.

Assets Under Management: \$184,707,334

Sands Capital Management, LLC
 Rolling Five Year VAM vs. Russell 1000 Growth



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

VOYAGEUR ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Gordon Telfer and Nancy Scinto

Assets Under Management: \$45,227,571

Investment Philosophy

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

Staff Comments

Voyageur outperformed for the quarter and the year. Third quarter performance was positive versus the benchmark with stock selection adding to total returns, specifically in Healthcare, and Industrials and Materials. Stock selection continued to help the one-year return. Healthcare and Energy were the two strongest sectors for stock selection.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-6.6%	-12.3%
Last 1 year	-18.9	-20.9
Last 2 years	-3.2	-2.8
Last 3 years	-1.3	0.0
Last 4 years	1.2	2.8
Last 5 years	3.1	3.7
Since Inception (7/00)	-1.4	-5.9

Calendar Year Returns

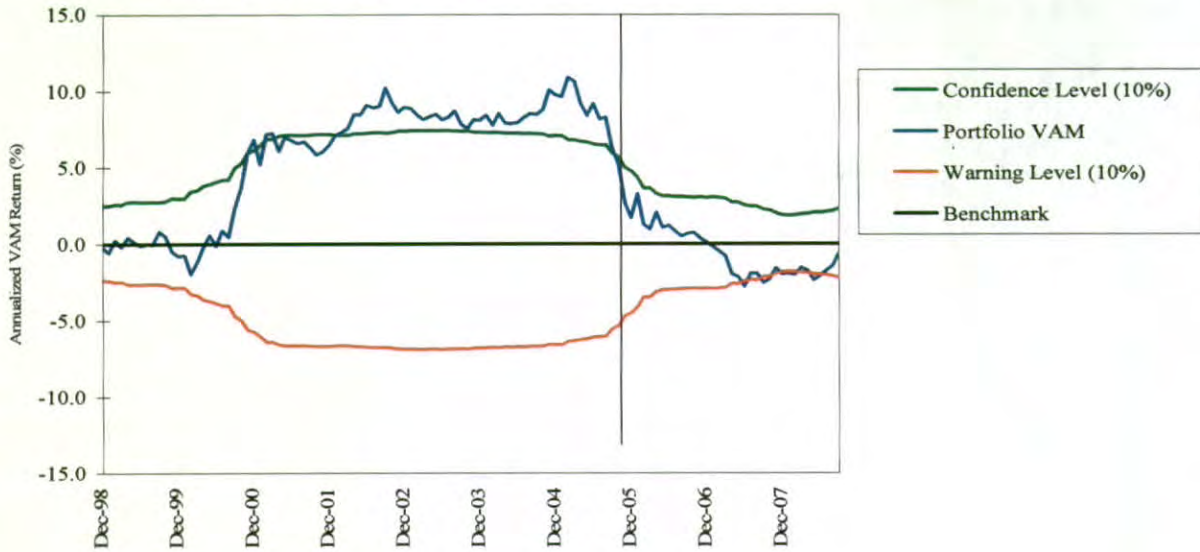
	Actual	Russell 1000 Growth
2007	10.9%	11.8%
2006	2.1	9.1
2005	3.9	5.3
2004	10.6	6.3
2003	23.2	29.7

VOYAGEUR ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Gordon Telfer and Nancy Scinto

Assets Under Management: \$45,227,571

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



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

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending September, 2008

Portfolio Manager: Clark Winslow

Assets Under Management: \$108,217,148

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.

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-15.8%	-12.3%
Last 1 year	-18.6	-20.9
Last 2 years	0.3	-2.8
Last 3 years	2.6	0.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/05)	3.8	0.6

Calendar Year Returns

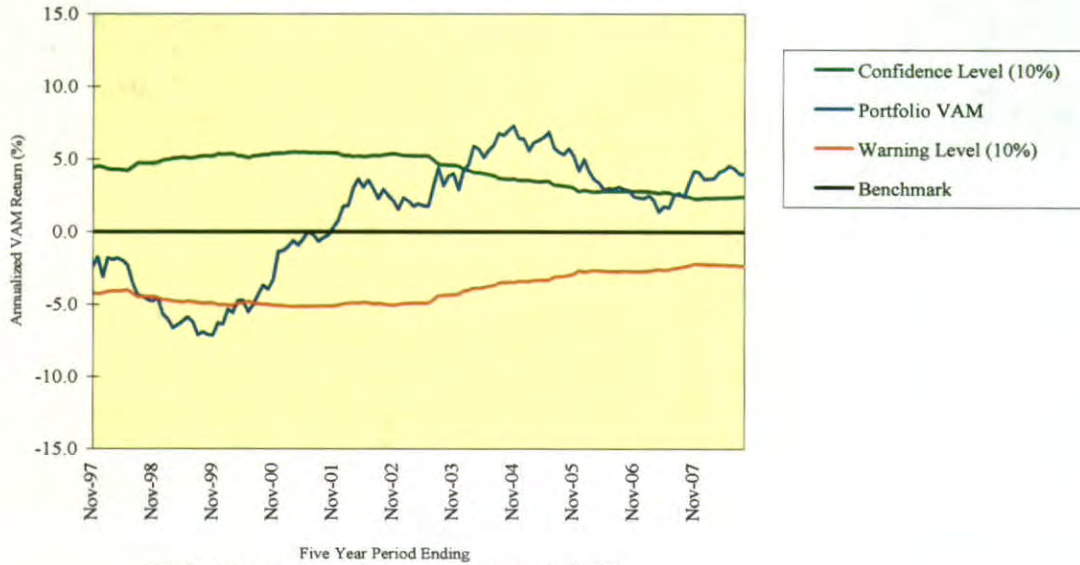
	Actual	Russell 1000 Growth
2007	22.0%	11.8%
2006	7.6	9.1
2005	10.5	5.3
2004	N/A	N/A
2003	N/A	N/A

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending September, 2008

Portfolio Manager: Clark Winslow

Assets Under Management: \$108,217,148

WINSLOW CAPITAL MANAGEMENT, INC.
Rolling Five Year VAM vs. Russell 1000 Growth



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

ZEVENBERGEN CAPITAL INC.
Periods Ending September, 2008

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$237,431,473

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

Staff visited Zevenbergen at their offices during the quarter.

On September 30, Zevenbergen regained majority interest in their firm from their partner, RidgeWorth Capital Management, Inc. Nancy Zevenbergen, who founded the firm, is now the majority owner. There were no other changes to personnel or the investment process.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Growth
Last Quarter	-10.0%	-12.3%
Last 1 year	-20.3	-20.9
Last 2 years	1.2	-2.8
Last 3 years	3.5	0.0
Last 4 years	6.5	2.8
Last 5 years	7.6	3.7
Since Inception (4/94)	8.7	7.2

Calendar Year Returns

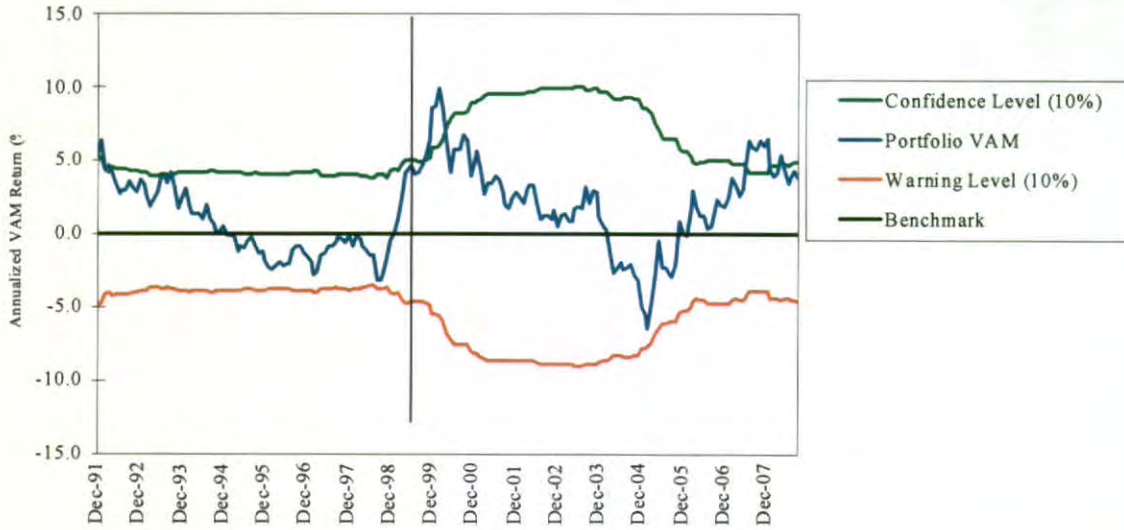
	Actual	Russell 1000 Growth
2007	24.0%	11.8%
2006	6.2	9.1
2005	9.0	5.3
2004	13.1	6.3
2003	49.3	29.7

ZEVENBERGEN CAPITAL INC.
Periods Ending September, 2008

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$237,431,473

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.

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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, 2008

Portfolio Manager: Tim Culler

Assets Under Management: \$379,940,595

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.

No comment at this time.

Recommendation

No action required.

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.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-8.4%	-6.1%
Last 1 year	-25.5	-23.6
Last 2 years	-7.6	-6.5
Last 3 years	-2.6	0.1
Last 4 years	2.9	4.0
Last 5 years	N/A	N/A
Since Inception (4/04)	3.6	4.1

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	2.6%	-0.2%
2006	15.4	22.2
2005	9.6	7.1
2004	N/A	N/A
2003	N/A	N/A

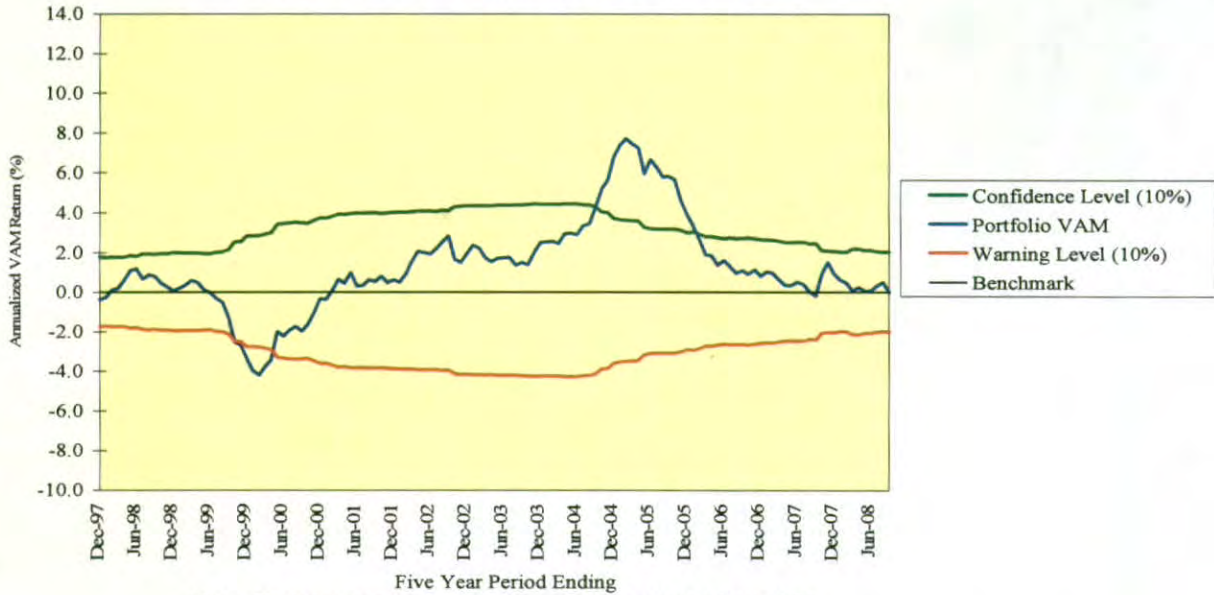
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending September, 2008

Portfolio Manager: Tim Culler

Assets Under Management: \$379,940,595

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, 2008

Portfolio Manager: Paul Viera

Assets Under Management: \$151,031,972

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-11.0%	-6.1%
Last 1 year	-26.5	-23.6
Last 2 years	-8.4	-6.5
Last 3 years	-2.2	0.1
Last 4 years	3.9	4.0
Last 5 years	7.2	7.1
Since Inception (7/00)	2.9	4.4

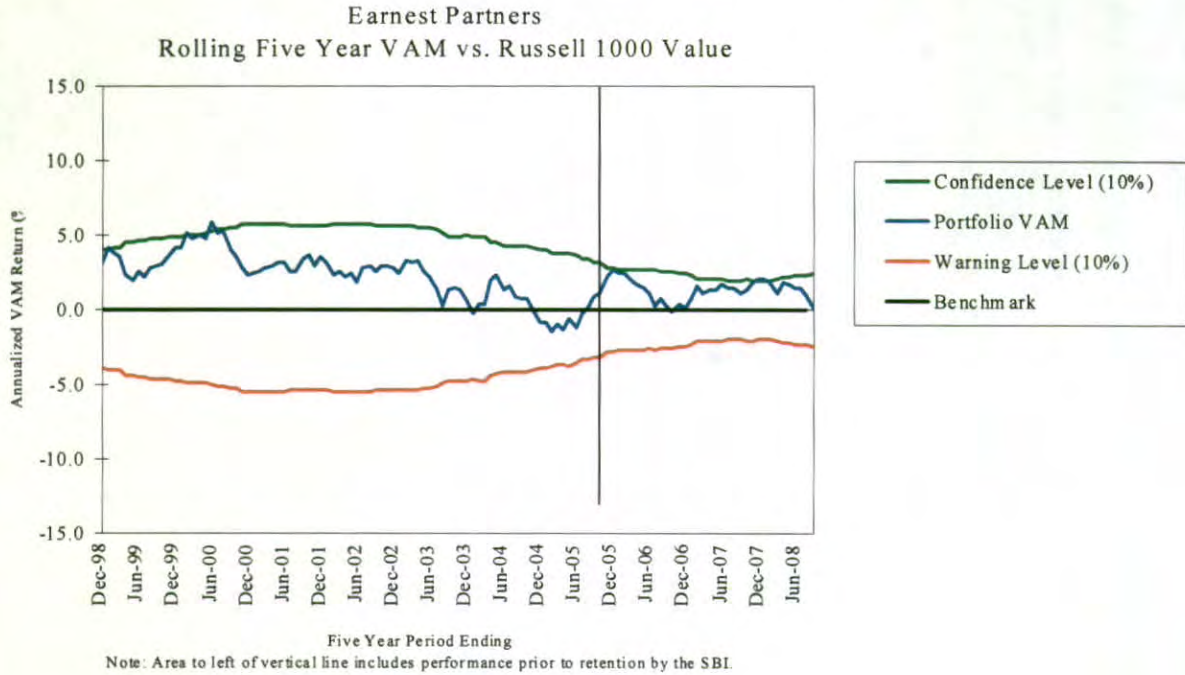
Calendar Year Returns

	Actual	Russell 1000 Value
2007	6.5%	-0.2%
2006	13.8	22.2
2005	15.6	7.1
2004	18.9	16.5
2003	32.0	30.0

EARNEST PARTNERS, LLC
Periods Ending September, 2008

Portfolio Manager: Paul Viera

Assets Under Management: \$151,031,972



LORD ABBETT & CO. LLC
Periods Ending September, 2008

Portfolio Manager: Eli Salzmann

Assets Under Management: \$281,760,472

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

Lord Abbett trailed the quarterly benchmark and outperformed for the year. The main detractor for the quarter was Fannie Mae, which was liquidated on September 7th. The overweight to the Financial Services sector helped offset the Fannie Mae loss. The one-year return was helped by an underweight position and stock selection in the Financial Services sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 1000 Value
Last Quarter	-6.7%	-6.1%
Last 1 year	-22.8	-23.6
Last 2 years	-5.8	-6.5
Last 3 years	0.7	0.1
Last 4 years	3.5	4.0
Last 5 years	N/A	N/A
Since Inception (4/04)	3.0	4.1

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	4.4%	-0.2%
2006	18.6	22.2
2005	3.5	7.1
2004	N/A	N/A
2003	N/A	N/A

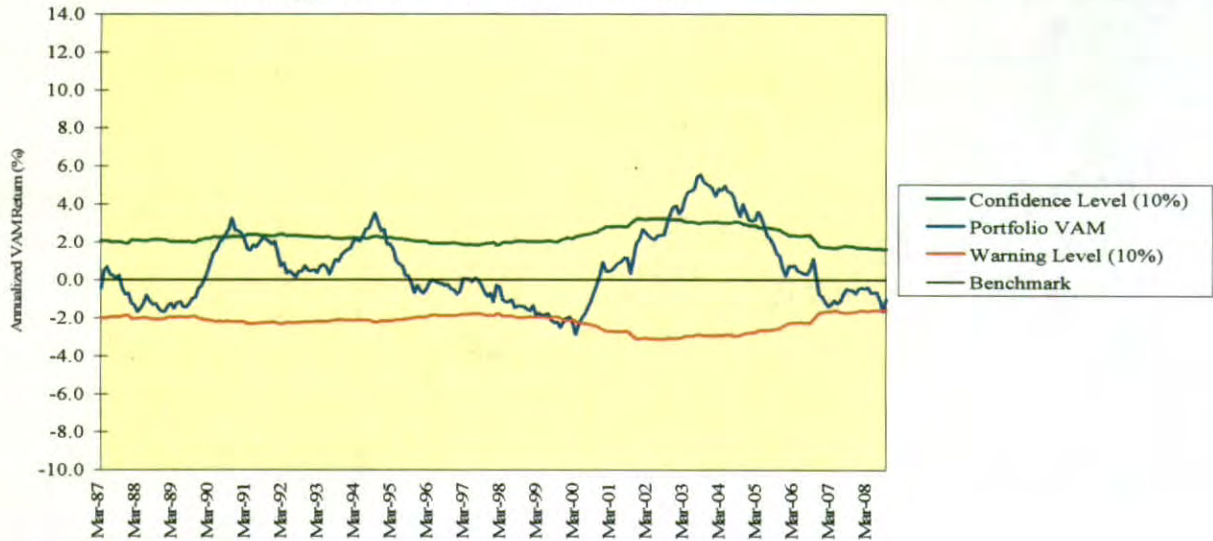
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LORD ABBETT & CO. LLC
Periods Ending September, 2008

Portfolio Manager: Eli Salzmann

Assets Under Management: \$281,760,472

LORD ABBETT & CO. LLC
Rolling Five Year VAM vs. Russell 1000 Value



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

LSV ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$372,084,461

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)

	Actual	Russell 1000 Value
Last Quarter	-5.6%	-6.1%
Last 1 year	-25.1	-23.6
Last 2 years	-6.7	-6.5
Last 3 years	-0.3	0.1
Last 4 years	4.9	4.0
Last 5 years	N/A	N/A
Since Inception (4/04)	5.3	4.1

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	1.3%	-0.2%
2006	21.7	22.2
2005	12.5	7.1
2004	N/A	N/A
2003	N/A	N/A

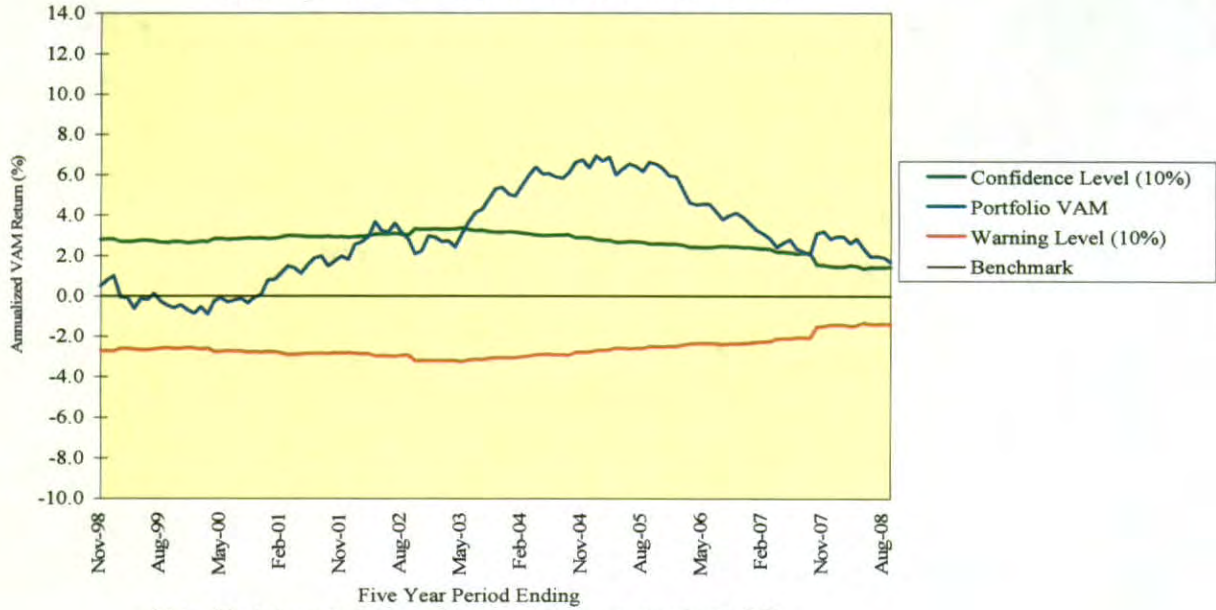
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

LSV ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Josef Lakonishok

Assets Under Management: \$372,084,461

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



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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending September, 2008

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$268,894,979

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)

	Actual	Russell 1000 Value
Last Quarter	-12.1%	-6.1%
Last 1 year	-26.5	-23.6
Last 2 years	-6.0	-6.5
Last 3 years	-0.7	0.1
Last 4 years	4.3	4.0
Last 5 years	N/A	N/A
Since Inception (4/04)	4.1	4.1

Calendar Year Returns*

	Actual	Russell 1000 Value
2007	8.3%	-0.2%
2006	17.9	22.2
2005	10.3	7.1
2004	N/A	N/A
2003	N/A	N/A

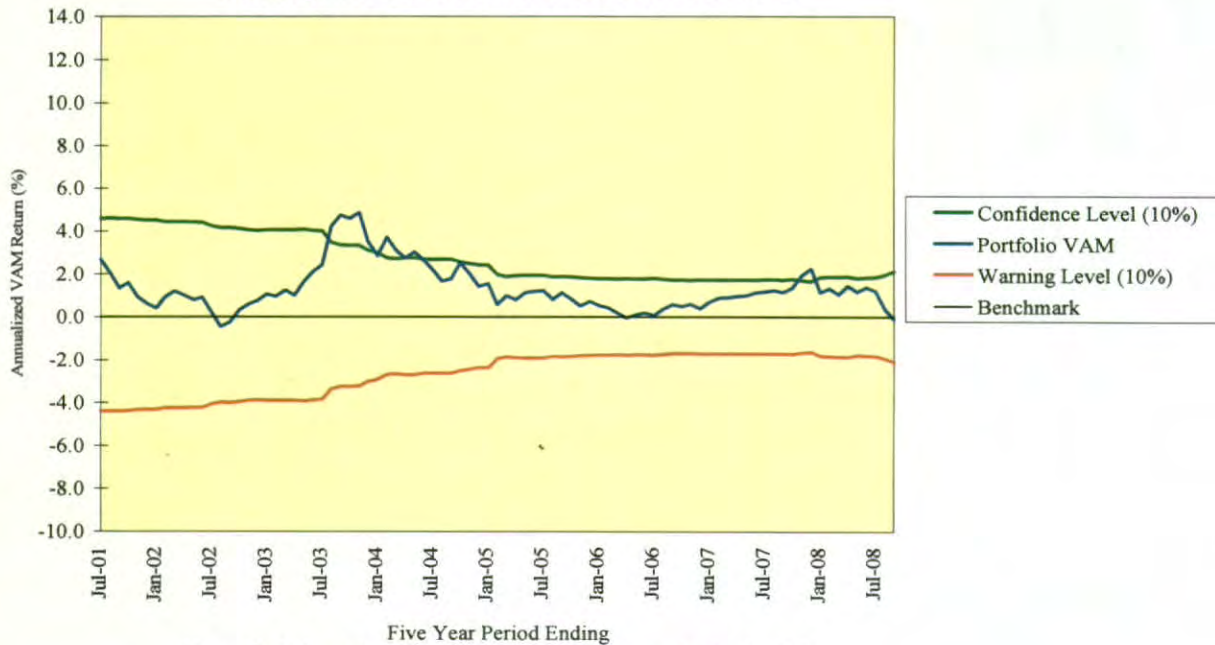
* Note: Manager was funded 4/04. Includes full-year returns only. Performance of managers hired during a calendar year are reported beginning with the following calendar year.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending September, 2008

Portfolio Manager: Kevin McCreesh

Assets Under Management: \$268,894,979

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, 2008

Portfolio Manager: Robert A. Gillam

Assets Under Management: \$191,024,483

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

Staff met with McKinley at their office in Alaska during the quarter. McKinley has re-opened their small cap growth product to new investors. McKinley intends to restructure its organization from an Alaska Corporation to a Delaware limited liability company during the fourth quarter.

The portfolio underperformed its benchmark for the quarter and the year. Security selection hurt performance for both periods, particularly in the Producer Durables sector and the Technology sector.

Robert A. Gillam was appointed CIO in 2008.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	-14.6%	-7.0%
Last 1 year	-28.6	-17.1
Last 2 years	-5.8	-0.7
Last 3 years	-2.3	1.5
Last 4 years	2.4	5.4
Last 5 years	N/A	N/A
Since Inception (1/04)	1.4	4.3

Calendar Year Returns

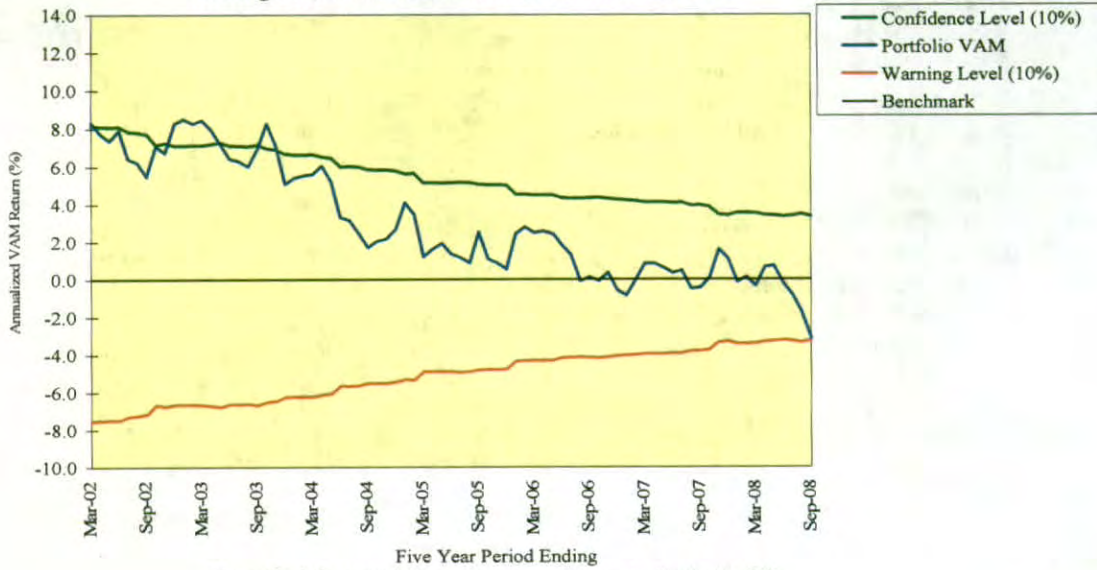
	Actual	Russell 2000 Growth
2007	16.2%	7.0%
2006	12.5	13.3
2005	0.2	4.2
2004	12.2	14.3
2003	N/A	N/A

MCKINLEY CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Robert A. Gillam

Assets Under Management: \$191,024,483

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, 2008

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$224,482,824

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 trailed the benchmark for the quarter and for the year. For the quarter, both sector weights and security selection negatively impacted performance. The 12-month return was hurt by security selection. Holdings in the Financial Services, Producer Durables, Technology and Materials & Processing accounted for the majority of the underperformance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	-15.7%	-7.0%
Last 1 year	-23.5	-17.1
Last 2 years	3.4	-0.7
Last 3 years	5.7	1.5
Last 4 years	12.6	5.4
Last 5 years	10.2	6.6
Since Inception (7/00)	-1.2	-1.5

Calendar Year Returns

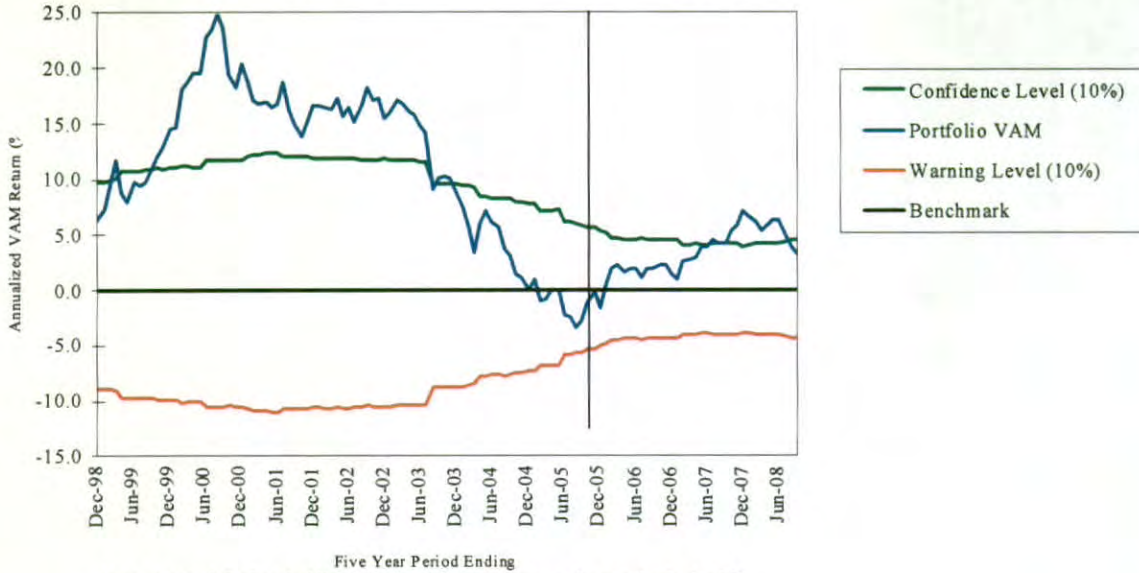
	Actual	Russell 2000 Growth
2007	34.2%	7.0%
2006	12.4	13.3
2005	25.2	4.2
2004	6.4	14.3
2003	50.7	48.5

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending September, 2008

Portfolio Manager: Thomas Press and Don Longlet

Assets Under Management: \$224,482,824

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



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

TURNER INVESTMENT PARTNERS
Periods Ending September, 2008

Portfolio Manager: William McVail

Assets Under Management: \$215,370,364

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 for the quarter primarily due to stock selection in the Health Care sector and the Materials and Processing sector. Those two sectors represent approximately 30% of the portfolio.

For the year, stock selection in the Technology sector was the largest detractor from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Growth
Last Quarter	-12.1%	-7.0%
Last 1 year	-19.8	-17.1
Last 2 years	0.9	-0.7
Last 3 years	2.6	1.5
Last 4 years	5.8	5.4
Last 5 years	N/A	N/A
Since Inception (1/04)	4.7	4.3

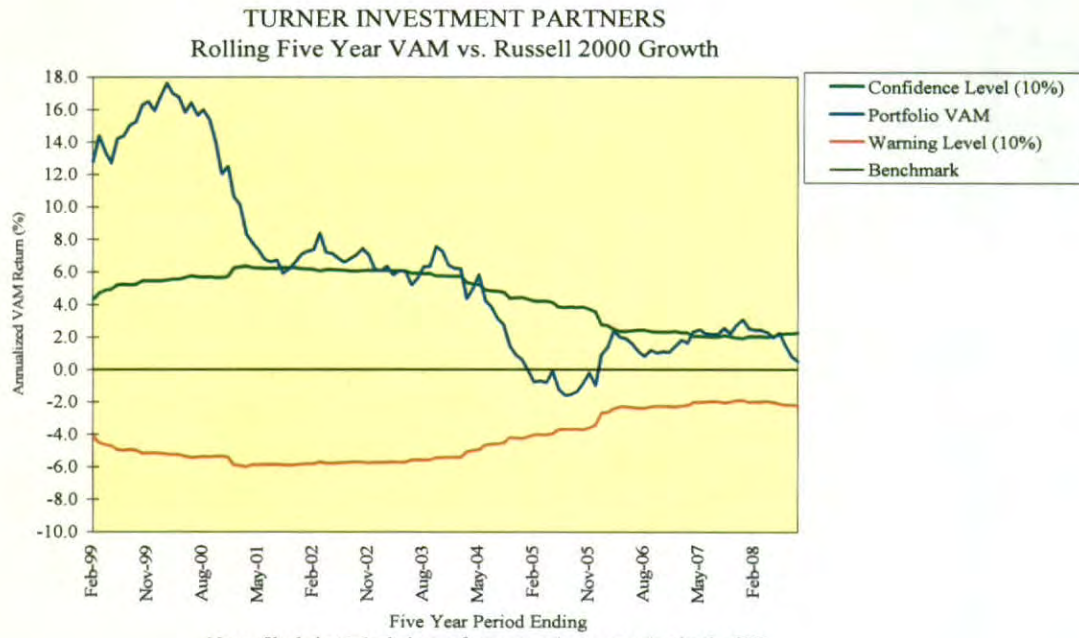
Calendar Year Returns

	Actual	Russell 2000 Growth
2007	14.8%	7.0%
2006	13.6	13.3
2005	6.2	4.2
2004	11.6	14.3
2003	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending September, 2008

Portfolio Manager: William McVail

Assets Under Management: \$215,370,364



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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, 2008

Portfolio Manager: Chip Otness

Assets Under Management: \$127,788,640

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.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	3.9%	5.0%
Last 1 year	-9.4	-12.3
Last 2 years	-0.1	-3.5
Last 3 years	4.1	2.0
Last 4 years	5.9	5.7
Last 5 years	N/A	N/A
Since Inception (1/04)	6.8	6.5

Calendar Year Returns

	Actual	Russell 2000 Value
2007	-5.0%	-9.8%
2006	17.8	23.5
2005	4.1	4.7
2004	19.9	22.2
2003	N/A	N/A

Staff Comments

The portfolio underperformed for the quarter for the first time in six quarters. Over the past twelve months, the portfolio continues to outperform the benchmark. An overweight to the Energy sector was the biggest detractor for the quarter. Stock selection had a positive impact for the quarter and for the year. Strong stock selection in Financials contributed to the one-year outperformance.

Recommendation

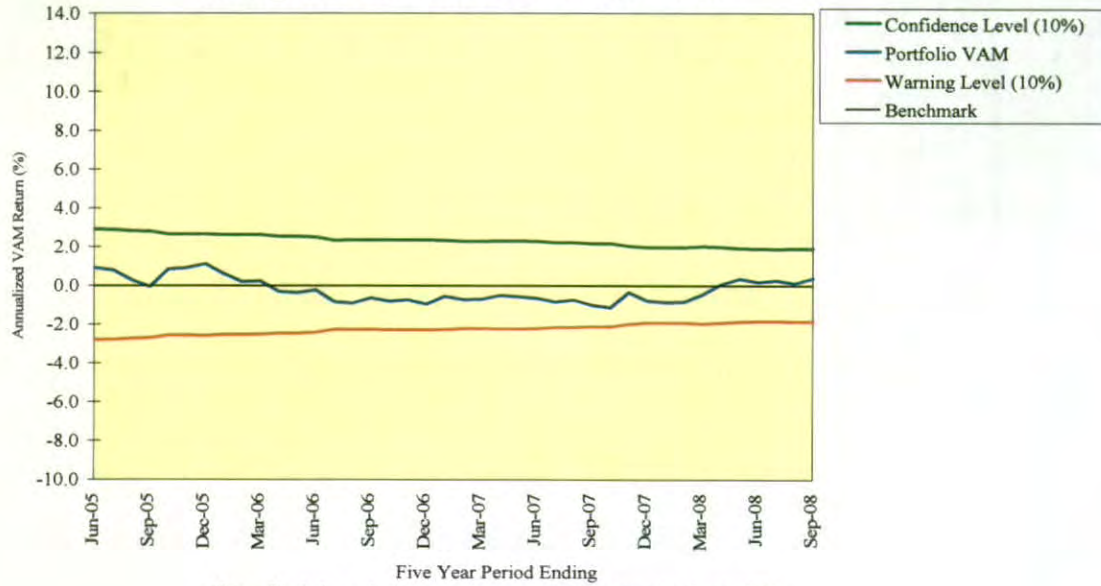
No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Chip Otness

Assets Under Management: \$127,788,640

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



HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$96,644,801

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

The portfolio lagged its benchmark for the quarter and the year. For the quarter, the majority of the underperformance came from negative stock selection in the Consumer Discretionary and Financial Services sectors. The portfolio, which is more heavily weighted in insurance and real estate, did not benefit from the rally in small banks during the quarter. For the year, an overweight position in Consumer Discretionary along with negative stock selection in the Financial Services sector and Materials and Processing sector detracted from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-7.3%	5.0%
Last 1 year	-20.2	-12.3
Last 2 years	-12.2	-3.5
Last 3 years	-8.9	2.0
Last 4 years	-2.0	5.7
Last 5 years	N/A	N/A
Since Inception (1/04)	0.7	6.5

Calendar Year Returns

	Actual	Russell 2000 Value
2007	-18.8%	-9.8%
2006	3.0	23.5
2005	10.4	4.7
2004	27.1	22.2
2003	N/A	N/A

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Jim Miles and David Green

Assets Under Management: \$96,644,801

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, 2008

Portfolio Manager: William Jacques

Assets Under Management: \$113,244,457

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Russell 2000 Value
Last Quarter	-0.9%	5.0%
Last 1 year	-18.7	-12.3
Last 2 years	-7.5	-3.5
Last 3 years	-4.7	2.0
Last 4 years	1.6	5.7
Last 5 years	N/A	N/A
Since Inception (1/04)	4.1	6.5

Calendar Year Returns

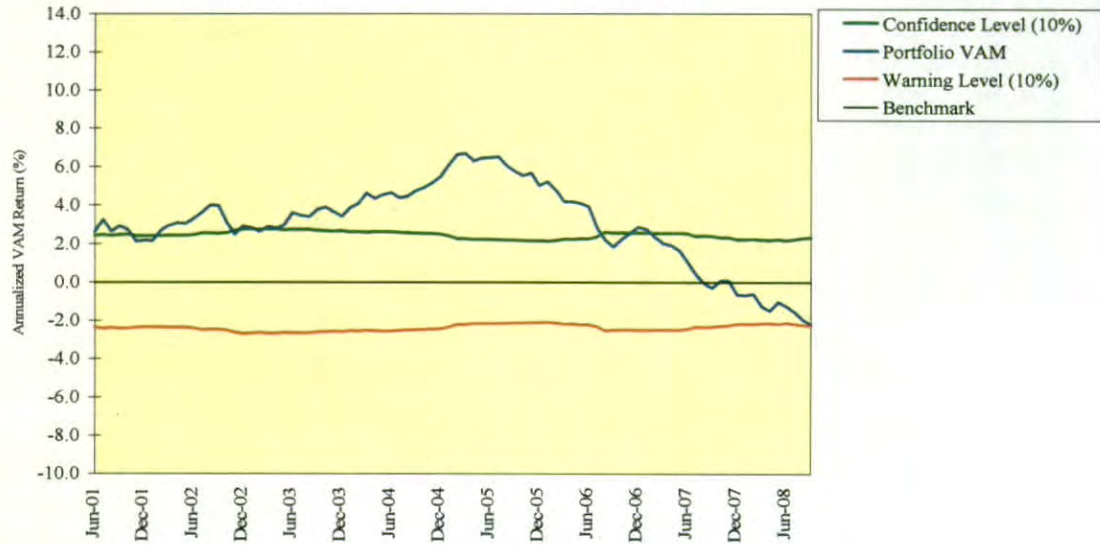
	Actual	Russell 2000 Value
2007	-16.8%	-9.8%
2006	14.8	23.5
2005	6.2	4.7
2004	30.8	22.2
2003	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: William Jacques

Assets Under Management: \$113,244,457

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, 2008

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$172,015,087

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)

	Actual	Russell 2000 Value
Last Quarter	4.0%	5.0%
Last 1 year	-21.7	-12.3
Last 2 years	-8.6	-3.5
Last 3 years	-3.6	2.0
Last 4 years	2.8	5.7
Last 5 years	6.6	9.4
Since Inception (7/00)	10.1	10.7

Calendar Year Returns

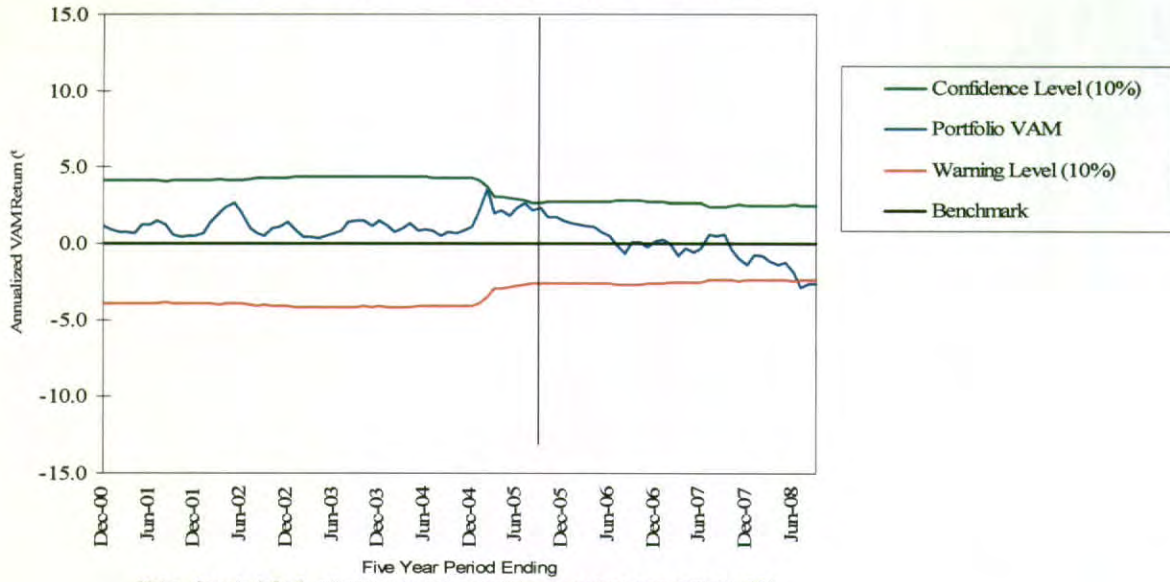
	Actual	Russell 2000 Value
2007	-13.4%	-9.8%
2006	14.3	23.5
2005	10.1	4.7
2004	23.6	22.2
2003	44.2	46.0

PEREGRINE CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Doug Pugh and Tasso Coin

Assets Under Management: \$172,015,087

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



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

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$49,780,671

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)

	Actual	Russell 2000 Value
Last Quarter	-2.2%	5.0%
Last 1 year	-21.0	-12.3
Last 2 years	-9.6	-3.5
Last 3 years	-3.3	2.0
Last 4 years	1.6	5.7
Last 5 years	N/A	N/A
Since Inception (1/04)	3.7	6.5

Calendar Year Returns

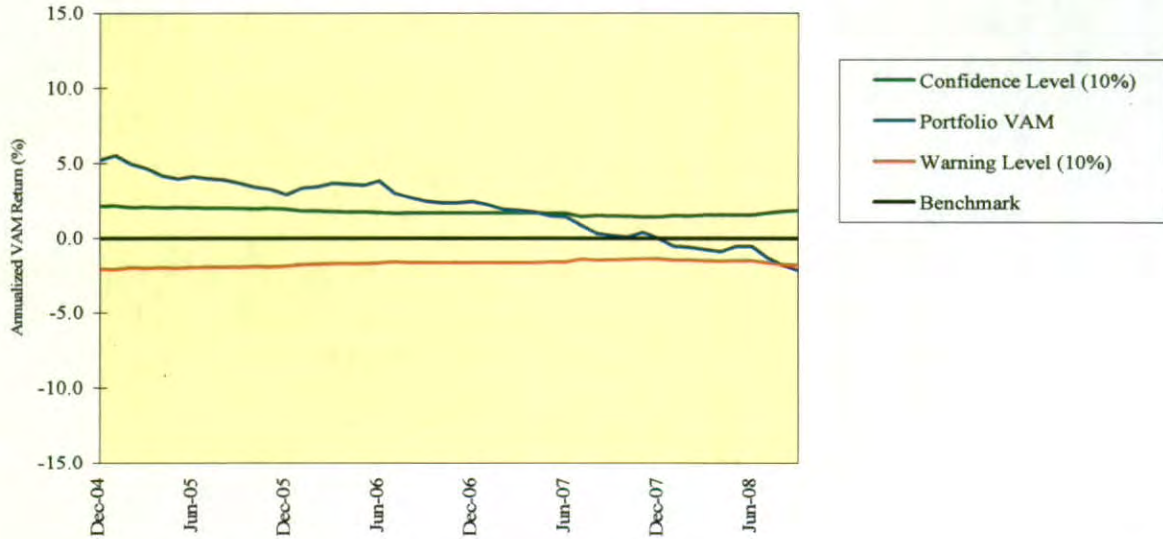
	Actual	Russell 2000 Value
2007	-11.8%	-9.8%
2006	19.4	23.5
2005	4.8	4.7
2004	25.8	22.2
2003	N/A	N/A

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Jacob Hurwitz and Kent Kelley

Assets Under Management: \$49,780,671

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, 2008

Portfolio Manager: Russ Koesterich

Assets Under Management: \$2,751,351,541

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

BGI trailed the benchmark for the quarter and for the year. The quarterly return was hurt by stock selection, particularly in the Financial Services and Materials sectors. The one year return was also hurt by stock selection, primarily in the Financial Services sector.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-10.5%	-9.3%
Last 1 year	-22.6	-22.1
Last 2 years	-6.1	-4.6
Last 3 years	-0.7	0.1
Last 4 years	3.1	3.5
Last 5 years	5.2	5.6
Since Inception (1/95)	8.5	8.1

Calendar Year Returns

	Actual	Manager Benchmark*
2007	2.2%	5.8%
2006	15.6	15.5
2005	7.6	6.3
2004	11.7	11.4
2003	30.0	28.5

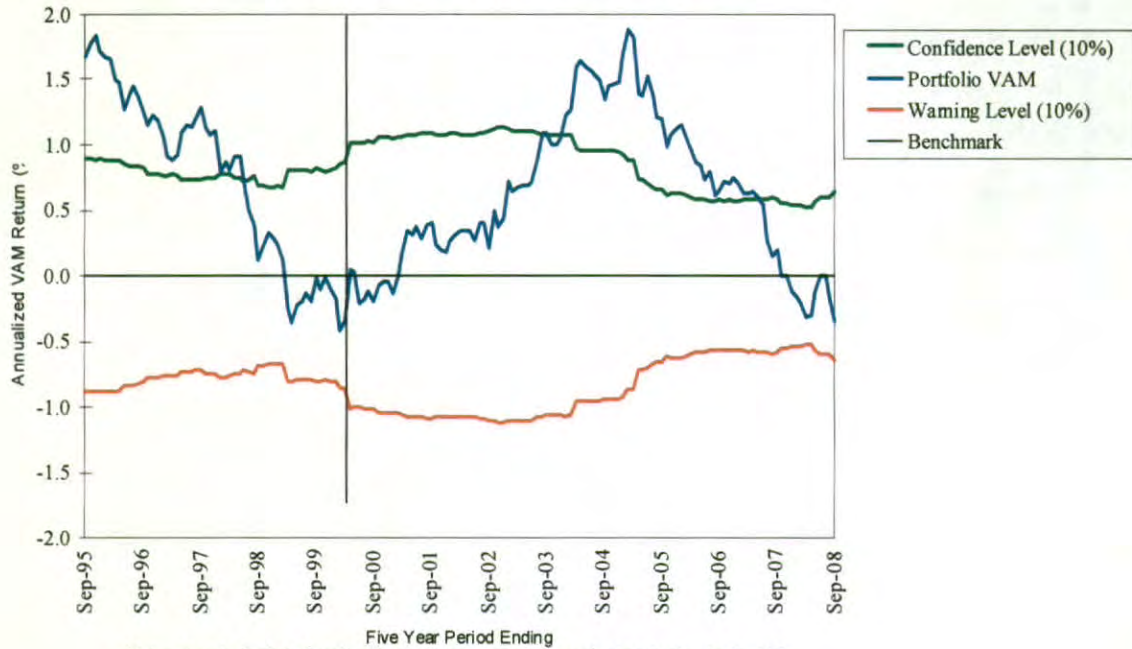
*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2008

Portfolio Manager: Russ Koesterich

Assets Under Management: \$2,751,351,541

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, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$2,190,643,556

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-8.8%	-9.3%
Last 1 year	-23.1	-22.1
Last 2 years	-5.8	-4.6
Last 3 years	-0.4	0.1
Last 4 years	3.0	3.5
Last 5 years	5.1	5.6
Since Inception (1/95)	7.7	8.1

Calendar Year Returns

	Actual	Manager Benchmark*
2007	2.5%	5.8%
2006	16.5	15.5
2005	6.1	6.3
2004	11.7	11.4
2003	26.9	28.5

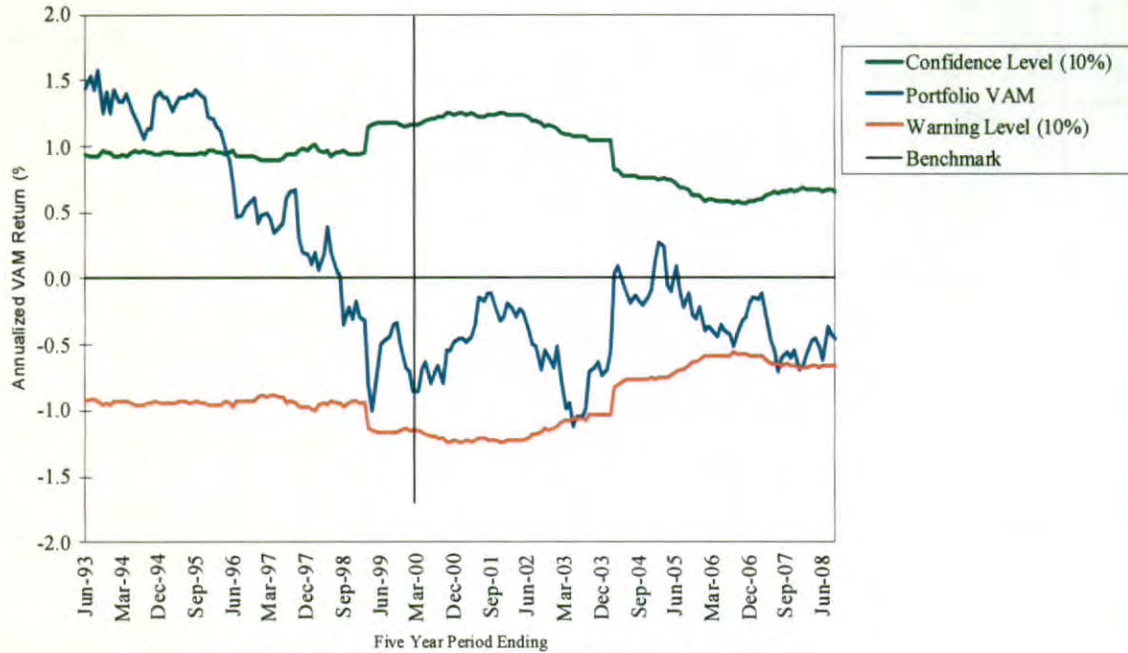
*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 2008

Portfolio Manager: Tony Garvin

Assets Under Management: \$2,190,643,556

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 SBL.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending September, 2008

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,424,211,344

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns

(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	-8.7%	-9.3%
Last 1 year	-22.3	-22.1
Last 2 years	-4.6	-4.6
Last 3 years	0.3	0.1
Last 4 years	3.1	3.5
Last 5 years	5.5	5.6
Since Inception (1/95)	8.1	8.1

Calendar Year Returns

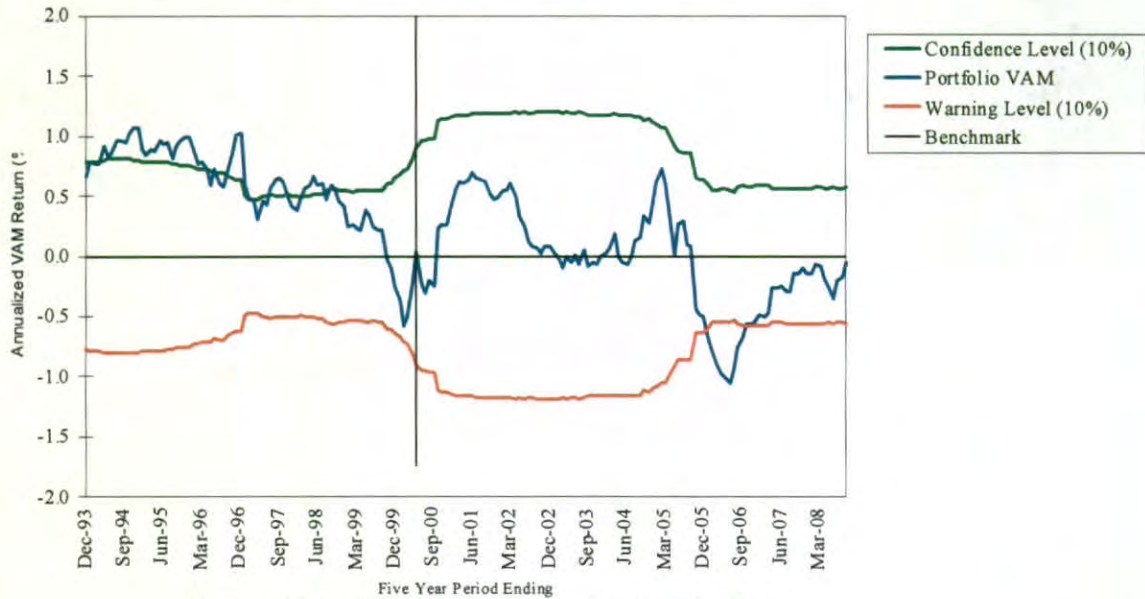
	Actual	Manager Benchmark*
2007	5.1%	5.8%
2006	16.5	15.5
2005	4.7	6.3
2004	11.7	11.4
2003	28.9	28.5

*Russell 1000 since 1/1/04, Completeness Fund through 12/31/03.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending September, 2008

Portfolio Manager: Ralph Zingone and Terance Chen Assets Under Management: \$2,424,211,344

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, 2008

Portfolio Manager: Amy Schioldager

Assets Under Management: \$6,441,900,304

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)

	Actual	Manager Benchmark*
Last Quarter	-8.6%	-8.7%
Last 1 year	-21.3	-21.5
Last 2 years	-4.3	-4.4
Last 3 years	0.4	0.3
Last 4 years	3.7	3.7
Last 5 years	5.8	5.7
Since Inception (7/95)	7.7	7.6

Calendar Year Returns

	Actual	Manager Benchmark*
2007	5.1%	5.1%
2006	15.8	15.7
2005	6.2	6.1
2004	12.0	11.9
2003	30.9	31.2

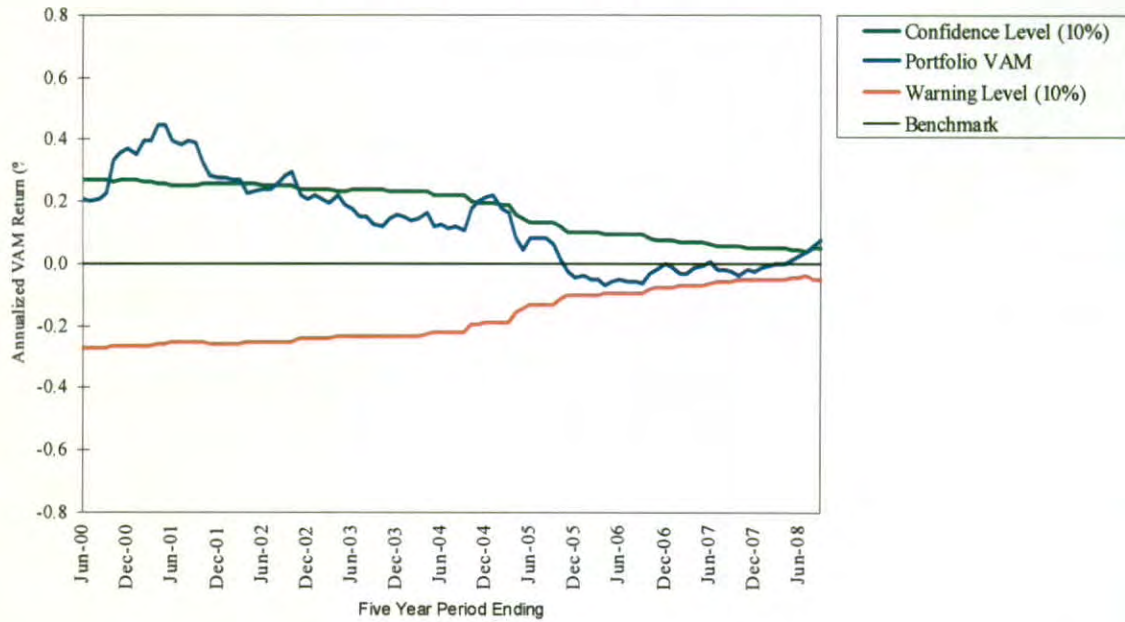
* The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03.
 From Account inception to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

BARCLAYS GLOBAL INVESTORS
Periods Ending September, 2008

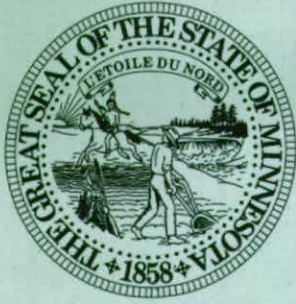
Portfolio Manager: Amy Schioldager

Assets Under Management: \$6,441,900,304

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

Bond Manager Evaluation Reports

Third Quarter, 2008

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Bond Managers

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**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 2008**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Aberdeen	-4.5	-0.5	-3.9	3.7	1.6	4.2	2.5	3.8	5.5	6.0	\$1,065.8	9.6%
Dodge & Cox	-3.0	-0.5	-0.8	3.7	2.9	4.2	3.2	3.8	6.3	6.0	\$1,124.5	10.2%
Morgan Stanley (thru Aug.)	-4.5	0.8	-6.2	5.9	0.4	4.3	2.5	4.6	8.4	8.7	\$0.2	0.0%
PIMCO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	\$857.4	7.8%
RiverSource	-2.4	-0.5	0.1	3.7	3.1	4.2	3.4	3.8	5.6	6.0	\$957.1	8.7%
Western	-3.8	-0.5	-3.3	3.7	1.8	4.2	3.3	3.8	9.4	8.5	\$1,402.5	12.7%
Active Mgr. Aggregate	-3.5	-0.5	-3.1	3.7	2.0	4.2	2.9	3.8	8.6	8.5	\$5,407.5	49.0%
Semi-Passive Managers												
BlackRock	-3.4	-0.5	0.0	3.7	2.9	4.2	3.1	3.8	5.9	6.0	\$1,834.4	16.6%
Goldman	-1.7	-0.5	1.1	3.7	3.5	4.2	3.6	3.8	6.1	6.0	\$1,865.5	16.9%
Lehman	-1.4	-0.5	0.6	3.7	3.1	4.2	3.2	3.8	7.2	7.3	\$1,937.7	17.5%
Semi-Passive Mgr. Aggregate	-2.2	-0.5	0.6	3.7	3.2	4.2	3.3	3.8	7.3	7.3	\$5,637.7	51.0%
Historical Aggregate (2)	-2.8	-0.5	-1.3	3.7	2.6	4.2	3.1	3.8	8.5	8.6	\$11,045.16	100.0%
Lehman Aggregate (3)		-0.5		3.7		4.2		3.8		8.6		

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

(2) Includes performance of terminated managers.

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

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Calendar Year Returns

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Managers										
Aberdeen	5.6	7.0	4.8	4.3	2.7	2.4	5.1	4.3	5.2	4.1
Dodge & Cox	5.3	7.0	5.5	4.3	2.5	2.4	4.1	4.3	7.4	4.1
Morgan Stanley	6.3	7.0	4.2	4.3	4.1	2.4	4.6	4.3	5.1	4.1
RiverSource	6.6	7.0	4.7	4.3	2.6	2.4	5.1	4.3	4.3	4.1
Western	5.4	7.0	5.4	4.3	2.7	2.4	6.6	4.3	9.2	4.1
Active Mgr. Aggregate	5.8	7.0	5.0	4.3	2.9	2.4	5.3	4.3	6.6	4.1
Semi-Passive Managers										
BlackRock	6.8	7.0	4.3	4.3	2.7	2.4	4.5	4.3	4.4	4.1
Goldman	7.0	7.0	4.5	4.3	2.8	2.4	5.1	4.3	5.7	4.1
Lehman	6.3	7.0	4.5	4.3	2.5	2.4	4.6	4.3	4.4	4.1
Semi-Passive Mgr. Aggregate	6.7	7.0	4.5	4.3	2.6	2.4	4.7	4.3	4.8	4.1
Historical Aggregate										
	6.3	7.0	4.7	4.3	2.8	2.4	5.0	4.3	5.7	4.1
Lehman Aggregate		7.0		4.3		2.4		4.3		4.1

ABERDEEN ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Warren Davis

Assets Under Management: \$1,065,773,586

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 underperformed the benchmark by 400 bps during the 3rd quarter and by 760 bps over the last 12 months. Overweights to the CMBS, RMBS and corporate bond sectors were drags on performance in 3Q08 as well as the previous 12 months. Mark-to-market impact of non-Agency mortgage holdings contributed just over 60% of the 3Q08 underperformance, and another 20% of underperformance was due to holdings in super-senior AAA CMBS bonds. Staff is confident that once fundamental valuation returns to asset pricing, Aberdeen's portfolio will outperform going forward. The portfolio's RMBS and CMBS holdings offer significant credit enhancement that should withstand extreme collateral deterioration.

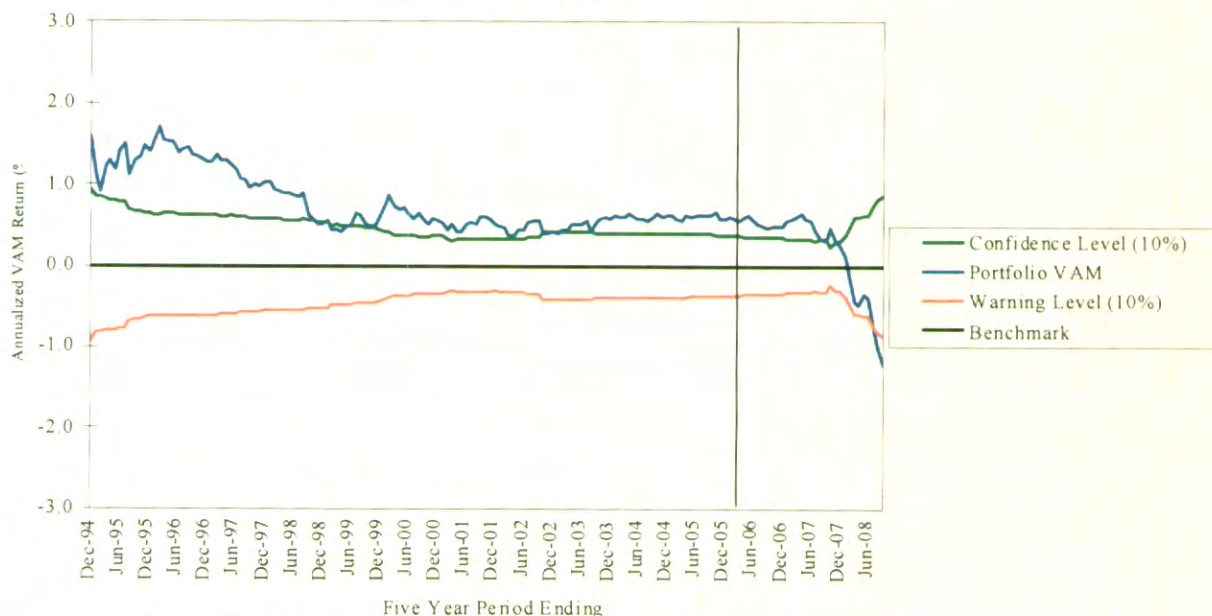
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.5%	-0.5%
Last 1 year	-3.9	3.7
Last 2 years	0.4	4.4
Last 3 years	1.6	4.2
Last 4 years	2.0	3.8
Last 5 years	2.5	3.8
Since Inception (2/00)	5.5	6.0

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, 2008

Portfolio Manager: Dana Emery

Assets Under Management: \$1,124,512,275

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 benchmark by 250 bps during the 3rd quarter, and by 450 bps over the last 12 months. The portfolio's corporate sector overweight was the main detractor of returns, as that sector suffered record underperformance amid a very difficult market environment. A short portfolio duration also detracted from returns for the quarter and the last 12 months. Over the last year, underperformance was driven by corporate and Agency MBS sector overweights. Going forward, Staff believes the Dodge & Cox portfolio is well positioned to benefit from a return to normalcy in the broader fixed income markets. The Fed's plan to purchase Agency MBS should help drive demand in that sector, which our portfolio has an overweight.

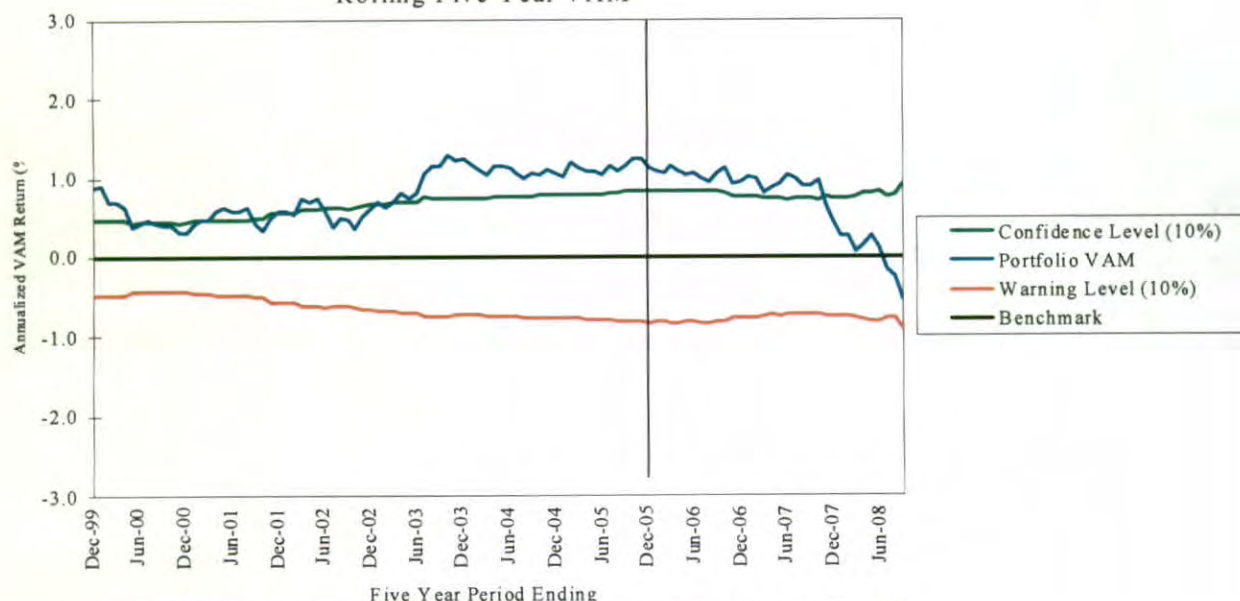
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.0%	-0.5%
Last 1 year	-0.8	3.7
Last 2 years	2.3	4.4
Last 3 years	2.9	4.2
Last 4 years	3.0	3.8
Last 5 years	3.2	3.8
Since Inception (2/00)	6.3	6.0

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

PACIFIC INVESTMENT MANAGEMENT CO. LLC (PIMCO)
Periods Ending September, 2008

Portfolio Manager:

Assets Under Management: \$857,377,152

Investment Philosophy

PIMCO's investment approach seeks to outperform a client's benchmark on a consistent basis, while maintaining overall risk similar to the index. PIMCO's approach to investing has three key principles: the utilization of multiple strategies, a long-term orientation and bond selection from a broad universe. PIMCO's investment process starts with an annual Secular Forum. The goal of this Forum is to look beyond the current business cycle and determine how secular forces will play out over the next 3 to 5 years. Quarterly, PIMCO holds Economic Forums to evaluate growth and inflation over the next 6 to 9 months. Following PIMCO's Secular and Economic Forums, the PIMCO Investment Committee (IC) develops key portfolio strategies. They consider both the "top-down" conclusions emanating from PIMCO's Forum, as well as the "bottom-up" market intelligence provided by PIMCO's teams of sector specialist portfolio managers. Through an interactive series of meetings, the IC defines a set of consistent strategies that are then implemented.

Staff Comments

PIMCO was hired as an active fixed income manager on September 11, 2008. They were funded with the portfolio previously operated by Morgan Stanley, whom the SBI terminated on September 10, 2008. Going forward, staff is confident that PIMCO has the leadership and overall investment approach necessary to restore the portfolio to outperformance, particularly when the credit crisis begins to abate.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (9/08)	N/A	N/A

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2010.

RIVERSOURCE INVESTMENTS
Periods Ending September, 2008

Portfolio Manager: Colin Lundgren

Assets Under Management: \$957,108,761

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 underperformed the benchmark by 190 bps for the 3rd quarter and by 360 bps over the last 12 months. An overweight exposure to the corporate bond sector was the main driver of underperformance, as the sector had the worst quarter on record. A short duration position also detracted from returns, as interest rates declined. These same strategies detracted from returns over the last 12 months. Going forward, the portfolio is well positioned for a "bounce" in performance as the credit crisis abates. The portfolio's CMBS and RMBS holdings represent significant value and have the potential to perform quite well in light of the government's plan to purchase mortgage-backed securities.

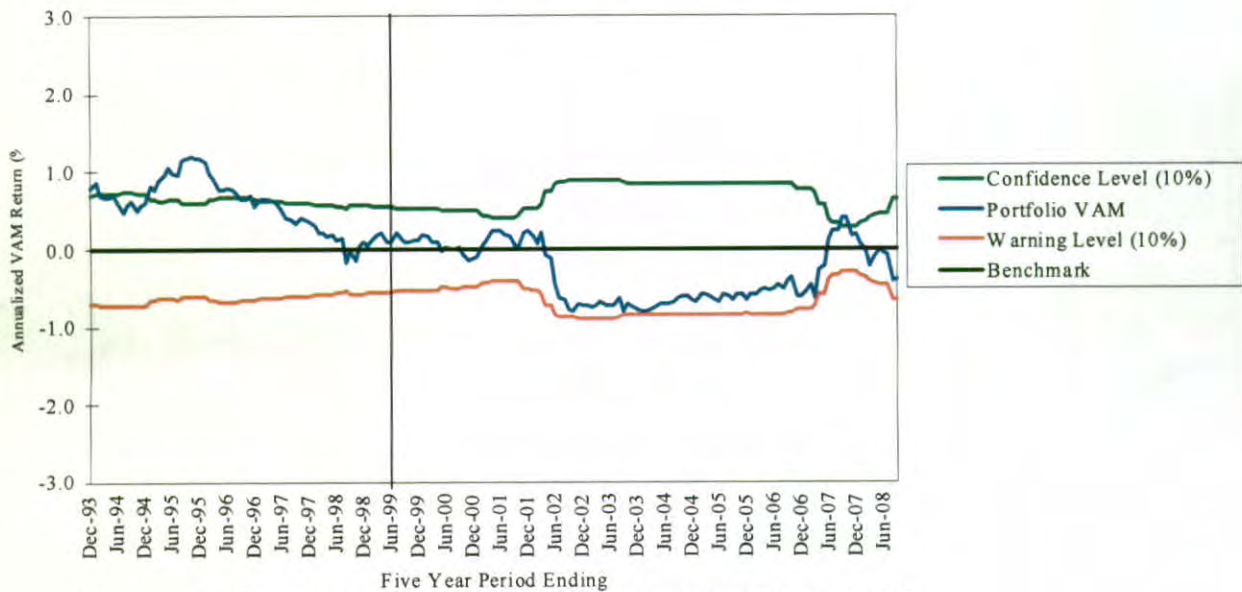
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.4%	-0.5%
Last 1 year	0.1	3.7
Last 2 years	2.7	4.4
Last 3 years	3.1	4.2
Last 4 years	3.2	3.8
Last 5 years	3.4	3.8
Since Inception (7/93)	5.6	6.0

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, 2008

Portfolio Manager: Ken Leech

Assets Under Management: \$857,377,152

Investment Philosophy

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

Staff Comments

Western underperformed the benchmark by 330 bps during the 3rd quarter and by 700 bps over the last 12 months. An overweight to the financial sector and Agency debentures significantly impacted performance to the downside. Mortgage-backed securities were the main driver of underperformance in 3Q08 and over the last 12 months. A long duration stance was a positive contributor to returns in 3Q08 and over the last 12 months as Treasury yields plummeted. Currently, the portfolio's non-Agency mortgage and lower quality corporate bond holdings are being priced at deep discounts. These can be considered "liquidity discounts," and once trust in the financial system returns, these discounts will disappear leaving asset prices closer to fundamental value.

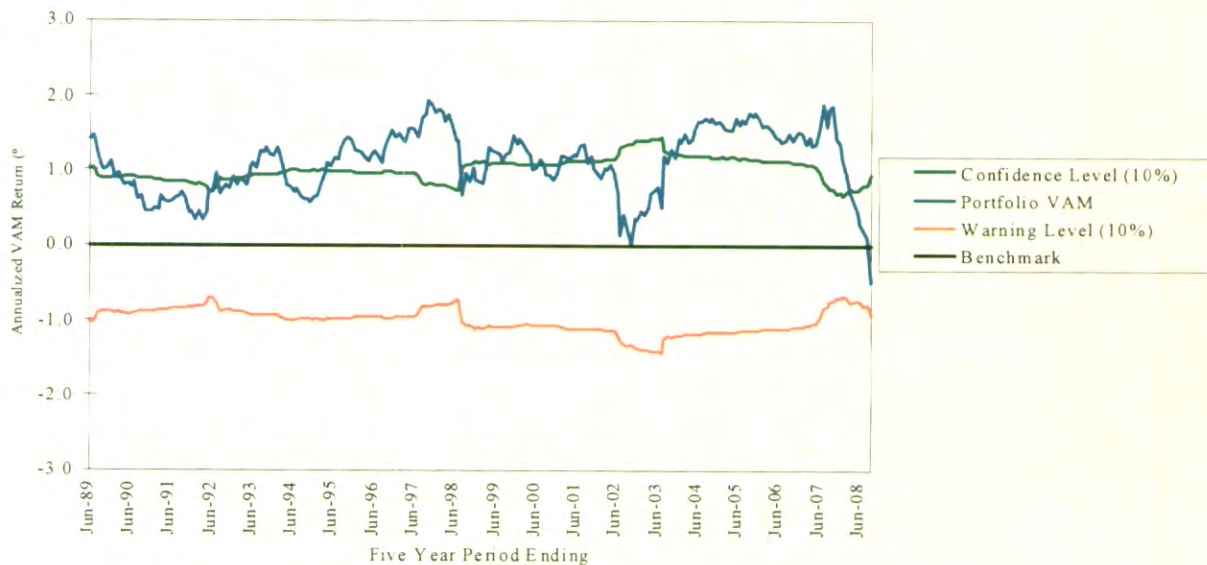
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.8%	-0.5%
Last 1 year	-3.3	3.7
Last 2 years	0.8	4.4
Last 3 years	1.8	4.2
Last 4 years	2.3	3.8
Last 5 years	3.3	3.8
Since Inception (7/84)	9.4	8.5

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
 Rolling Five Year VAM



BLACKROCK, INC.
Periods Ending September, 2008

Portfolio Manager: Keith Anderson

Assets Under Management: \$

Investment Philosophy

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

Staff Comments

Blackrock underperformed the benchmark by 290 bps during the 3rd quarter and by 370 bps over the last 12 months. A yield-curve steepening bias and corporate sector underweight contributed positively to performance in 3Q08. However, overweight to the CMBS and ABS sectors were drags on performance, as these sectors recorded their worst ever quarterly underperformances. Non-Agency MBS also detracted from performance in 3Q08 as well as the last 12 months. Corporate security selection also detracted from 3Q08 performance. Staff is confident that the non-Agency mortgage securities in the portfolio offer enough credit enhancement to withstand worst-case scenario defaults, and therefore remain confident that the portfolio is positioned to outperform once fundamental valuation returns to asset pricing.

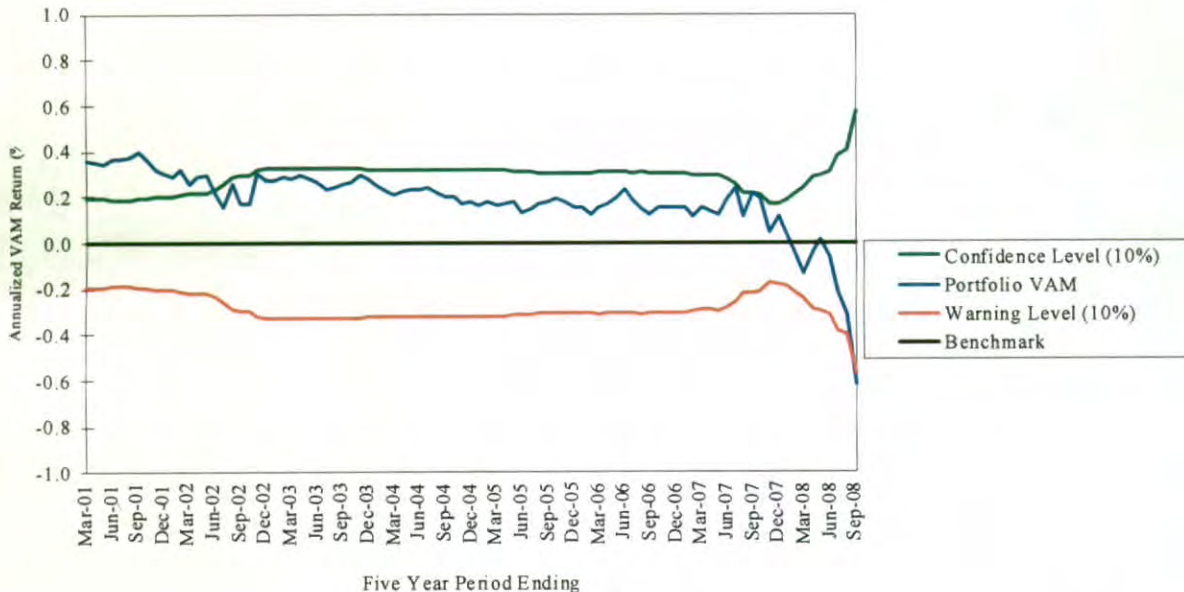
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.4%	-0.5%
Last 1 year	0.0	3.7
Last 2 years	2.4	4.4
Last 3 years	2.9	4.2
Last 4 years	2.9	3.8
Last 5 years	3.1	3.8
Since Inception (4/96)	5.9	6.0

Recommendation

No action required.

BLACKROCK, INC.
 Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Jonathon Beinner

Assets Under Management: \$1,834,374,676

Investment Philosophy

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

Staff Comments

Goldman Sachs underperformed the benchmark by 120 bps during the 3rd quarter, and by 260 bps over the last 12 months. Security selection of AAA super-senior non-Agency ARMs (non-subprime) was the main driver of underperformance for the quarter and the last 12 months. An overall slight underweight in portfolio duration also detracted from returns, as interest rates declined throughout the quarter and the last 12 months. Going forward, Staff is confident that Goldman Sachs' performance will rebound as the credit crisis abates. Holdings in non-Agency mortgages offer significant credit enhancement and are "money good" even in the event of extreme default rates never before seen.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.7%	-0.5%
Last 1 year	1.1	3.7
Last 2 years	3.2	4.4
Last 3 years	3.5	4.2
Last 4 years	3.4	3.8
Last 5 years	3.6	3.8
Since Inception (7/93)	6.1	6.0

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,865,533,450

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 underperformed the benchmark by 90 bps during the 3rd quarter, and by 310 bps over the last 12 months. Decisions to overweight non-Agency hybrid ARMs and CMBS were primary causes of underperformance. Floating-rate ABS held as cash equivalents also detracted from returns. These same decisions drove underperformance over the last 12 months, as fundamentals took a back seat to volatility and forced selling pressures. Going forward, Staff believes that underperformance of the non-Agency mortgage as well as CMBS holdings has been mainly driven by mark-to-market accounting as forced selling and illiquidity in these sectors has driven yield spreads to all-time wides. These holdings are of the highest quality and benefit from substantial credit enhancement, so a return to par value is expected.

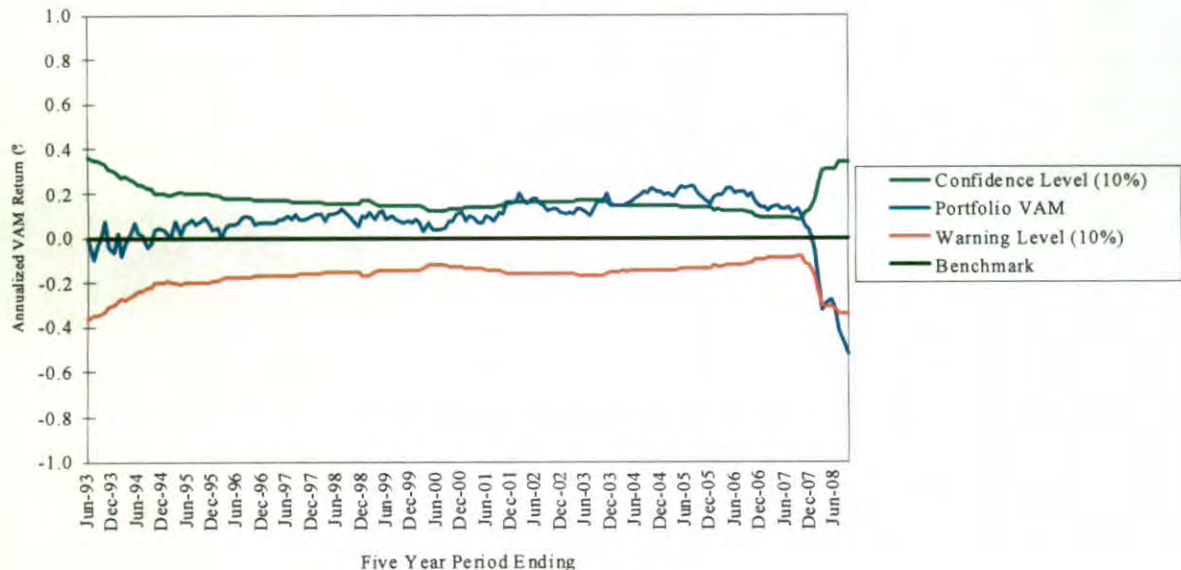
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.4%	-0.5%
Last 1 year	0.6	3.7
Last 2 years	2.8	4.4
Last 3 years	3.1	4.2
Last 4 years	3.1	3.8
Last 5 years	3.2	3.8
Since Inception (7/88)	7.2	7.3

Recommendations

No action required.

LEHMAN BROTHERS ASSET MANAGEMENT
 Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 2008

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International Managers

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**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 2008**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Developed Markets (2)												
Acadian	-26.4	-20.7	-37.5	-29.4	-0.1	1.8			4.9	4.9	\$231.0	4.3%
Invesco	-14.9	-20.7	-27.4	-29.4	1.7	1.8	9.8	10.3	3.6	1.6	\$242.7	4.5%
J.P. Morgan	-18.8	-20.7	-27.9	-29.4	0.8	1.8			3.4	4.9	\$203.5	3.8%
Marathon	-18.8	-20.7	-25.1	-29.4	4.7	1.8	13.1	10.3	8.6	5.1	\$446.7	8.2%
McKinley	-28.7	-20.7	-34.7	-29.4	0.3	1.8			4.4	4.9	\$219.8	4.1%
Pyramis (Fidelity)	-21.6	-20.7	-27.2	-29.4	3.2	1.8			6.3	4.9	\$226.8	4.2%
RiverSource	-19.8	-20.7	-26.6	-29.4	1.6	1.8	9.2	10.3	-1.3	1.6	\$228.7	4.2%
UBS Global	-18.8	-20.7	-31.2	-29.4	-0.3	1.8	8.0	10.3	6.8	6.3	\$227.1	4.2%
Aggregate	-20.9	-20.7	-29.4	-29.4	1.8	1.8	9.8	10.3	6.1	5.1	\$2,026.1	37.4%
Active Emerging Markets (3)												
AllianceBernstein	-30.4	-27.0	-35.4	-32.8	6.2	8.6	17.4	18.8	12.1	13.1	\$306.5	5.7%
Capital International	-26.1	-27.0	-31.7	-32.8	10.9	8.6	19.0	18.8	11.3	13.1	\$327.4	6.0%
Morgan Stanley	-26.9	-27.0	-34.8	-32.8	9.1	8.6	19.2	18.8	13.3	13.1	\$336.8	6.2%
Aggregate	-27.8	-27.0	-34.0	-32.8	8.7	8.6	18.3	18.8	6.2	6.3	\$970.7	17.9%
Semi-Passive Developed Markets (2)												
AQR	-23.0	-20.7	-32.0	-29.4	0.0	1.8			3.5	4.9	\$219.8	4.1%
Pyramis (Fidelity)	-22.0	-20.7	-27.8	-29.4	3.6	1.8			7.0	4.9	\$248.0	4.6%
State Street	-23.2	-20.7	-32.9	-29.4	0.4	1.8			3.7	4.9	\$223.7	4.1%
Aggregate	-22.7	-20.7	-30.9	-29.4	1.3	1.8			4.7	4.9	\$691.5	12.8%
Passive Developed Markets (2)												
State Street	-20.2	-20.7	-28.8	-29.4	2.2	1.8	10.7	10.3	6.8	6.5	\$1,733.6	32.0%
									Since 10/1/92			
Equity Only (4) (6)	-22.2	-21.9	-30.3	-30.1	2.8	2.7	11.1	11.4	7.2	6.7	\$5,422.2	100.0%
Total Program (5) (6)	-22.2	-21.9	-30.3	-30.1	2.8	2.7	11.1	11.4	7.4	6.7	\$5,422.2	100.0%
SBI Int'l Equity Target (6)		-21.9		-30.1		2.7		11.4		6.7		
MSCI ACWI Free ex. U.S. (7)		-21.9		-30.3		2.6		11.3		7.1		
MSCI World ex U.S. (net)		-20.7		-29.6		1.7		10.3		6.7		
MSCI EAFE Free (net)		-20.6		-30.5		1.1		9.7		6.3		
MSCI Emerging Markets Free (8)		-27.0		-33.2		8.4		18.7		8.7		

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

(2) Since 6/1/08 the developed markets manager's benchmark is the Standard (large + mid) MSCI World ex U.S. (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI World ex U.S. (net). From 10/1/03 to 9/30/07 the benchmark was MSCI World ex U.S. (net). Prior to that date, it was MSCI EAFE Free (net). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net).

(3) Since 6/1/08 the emerging markets manager's benchmark is the Standard (large + mid) MSCI Emerging Markets Free (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI Emerging Markets Free (net). From 1/1/01 to 9/30/07 the benchmark was MSCI Emerging Markets Free (net). Prior to that date, it was MSCI Emerging Markets Free (gross). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI Emerging Markets Free (net).

(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 6/1/08 the International Equity asset class target is the Standard (large + mid) MSCI ACWI ex U.S. (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI ACWI ex U.S. (net). From 10/1/03 to 9/30/07 the target was MSCI ACWI 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.

**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Calendar Year Returns**

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Active Developed Markets (1)										
Acadian	10.0	12.6	31.9	25.7						
Invesco	8.4	12.6	26.0	25.7	10.6	14.5	21.4	20.4	33.0	38.5
J.P. Morgan	8.8	12.6	23.1	25.7						
Marathon	15.4	12.6	27.5	25.7	16.4	14.5	24.6	20.4	47.2	38.5
McKinley	20.4	12.6	25.4	25.7						
Pyramis (Fidelity)	17.7	12.6	22.7	25.7						
RiverSource	12.4	12.6	23.6	25.7	14.2	14.5	17.5	20.4	30.2	38.5
UBS Global	7.7	12.6	25.6	25.7	10.0	14.5	20.1	20.4	32.3	38.5
Aggregate	13.0	12.6	25.8	25.7	13.6	14.5	19.0	20.4	35.1	38.5
Active Emerging Markets (2)										
AllianceBernstein	38.8	39.9	30.4	32.2	32.7	34.0	28.6	25.5	54.1	55.8
Capital International	38.4	39.9	35.6	32.2	38.4	34.0	19.5	25.5	54.2	55.8
Morgan Stanley	43.0	39.9	37.6	32.2	34.3	34.0	24.2	25.5	58.8	55.8
Aggregate	40.0	39.9	34.4	32.2	34.9	34.0	22.9	25.5	56.0	55.8
Semi-Passive Developed Markets (1)										
AQR	9.0	12.6	25.2	25.7						
Pyramis (Fidelity)	18.2	12.6	26.8	25.7						
State Street	9.1	12.6	27.1	25.7						
Aggregate	12.1	12.6	26.4	25.7						
Passive Developed Markets (1)										
State Street	12.9	12.6	26.0	25.7	14.6	14.5	20.6	20.4	38.6	38.5
Equity Only (3) (5)	17.1	16.9	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1
Total Program (4) (5)	17.1	16.9	27.0	26.7	16.4	16.6	20.0	20.9	38.2	40.1
SBI Int'l Equity Target (5)		16.9		26.7		16.6		20.9		40.1
MSCI ACWI Free ex. U.S. (6)		16.7		26.7		16.6		20.9		40.8
MSCI World ex U.S. (net)		12.4		25.7		14.5		20.4		39.4
MSCI EAFE Free (net)		11.2		26.3		13.5		20.2		38.6
MSCI Emerging Markets Free (7)		39.4		32.2		34.0		25.5		55.8

- (1) Since 6/1/08 the developed markets manager's benchmark is the Standard (large + mid) MSCI World ex U.S. (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI World ex U.S. (net). From 10/1/03 to 9/30/07 the benchmark was 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).
- (2) Since 6/1/08 the emerging markets manager's benchmark is the Standard (large + mid) MSCI Emerging Markets Free (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI Emerging Markets Free (net). From 1/1/01 to 9/30/07 the benchmark was MSCI Emerging Markets Free (net). Prior to that date, it was MSCI Emerging Markets Free (gross). From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI Emerging Markets Free (net).
- (3) Equity managers only. Includes impact of terminated managers.
- (4) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.
- (5) Since 6/1/08 the International Equity asset class target is the Standard (large + mid) MSCI ACWI ex U.S. (net). From 10/1/07 through 5/31/08 the benchmark was the Provisional Standard MSCI ACWI ex U.S. (net). From 10/1/03 to 9/30/07 the target was MSCI ACWI 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.
- (6) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.
- (7) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

ACADIAN ASSET MANAGEMENT LLC
Periods Ending September, 2008

Portfolio Manager: John Chisholm

Assets Under Management: \$230,984,473

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

Both allocation and selection decisions contributed negatively to recent performance. Over both the quarter and the year, stock selection in Japan, and selection and weighting decisions in the industrials, materials and consumer sectors had the weakest portfolio performance.

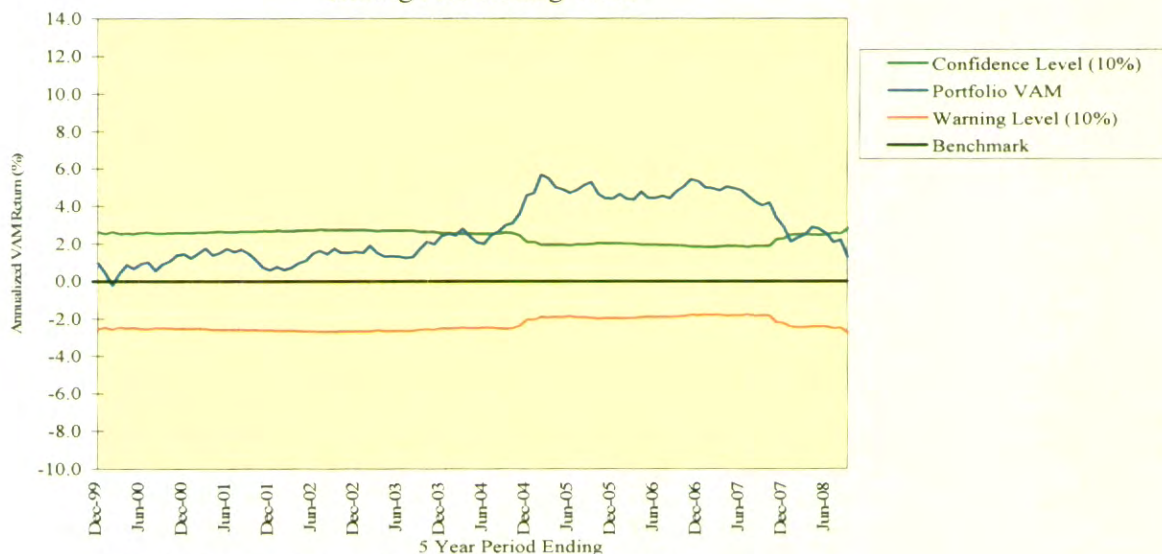
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-26.4%	-20.7%
Last 1 year	-37.5	-29.4
Last 2 years	-9.9	-5.8
Last 3 years	-0.1	1.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	4.9	4.9

Recommendations

No action required.

ACADIAN ASSET MANAGEMENT
Rolling Five Rolling VAM



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

INVESCO GLOBAL ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Erik Granade

Assets Under Management: \$242,692,227

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 allocation and selection decisions contributed positively to recent performance. Underweight positions in the materials and industrials sectors, together with stock selection in those sectors and the financials sector contributed significantly to performance over the quarter and the year.

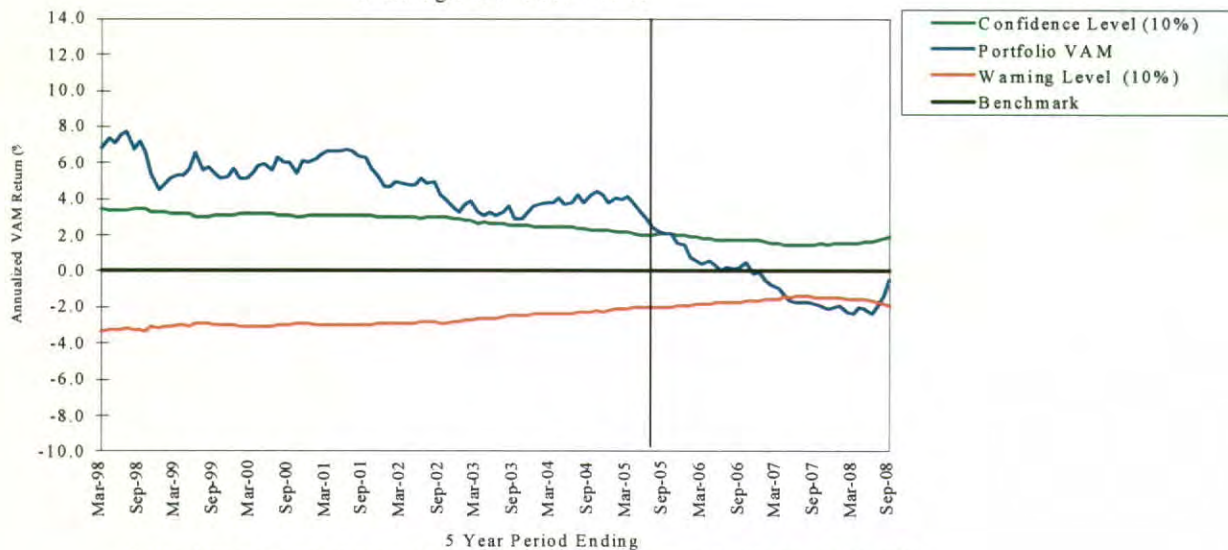
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-14.9%	-20.7%
Last 1 year	-27.4	-29.4
Last 2 years	-6.6	-5.8
Last 3 years	1.7	1.8
Last 4 years	6.5	7.5
Last 5 years	9.8	10.3
Since Inception (3/00)	3.6	1.6

Recommendations

No action required.

INVESCO GLOBAL ASSET MANAGEMENT
 Rolling Five Year VAM



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, 2008

Portfolio Manager: James Fisher

Assets Under Management: \$203,452,508

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

The portfolio's underweight to the materials sector and overweight to the healthcare sector, and stock selection in the financials sector added value during the quarter and the year.

On September 25th, 2008, J.P. Morgan Chase & Co. announced it has acquired all deposits, assets and certain liabilities of Washington Mutual's banking operations from the FDIC. Excluded from the transaction are the senior unsecured debt, subordinated debt, and preferred stock of WaMu's banks and any assets or liabilities of the banks' parent holding company (WM) or the holding company's non-bank subsidiaries.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-18.8%	-20.7%
Last 1 year	-27.9	-29.4
Last 2 years	-7.2	-5.8
Last 3 years	0.8	1.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	3.4	4.9

Recommendations

No action required.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
 Rolling Five Rolling VAM



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

MARATHON ASSET MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: William Arah

Assets Under Management: \$446,680,047

Investment Philosophy

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

Staff Comments

Stock selection in Japan and in the industrials sector contributed significantly to the portfolio's outperformance during the quarter and the year.

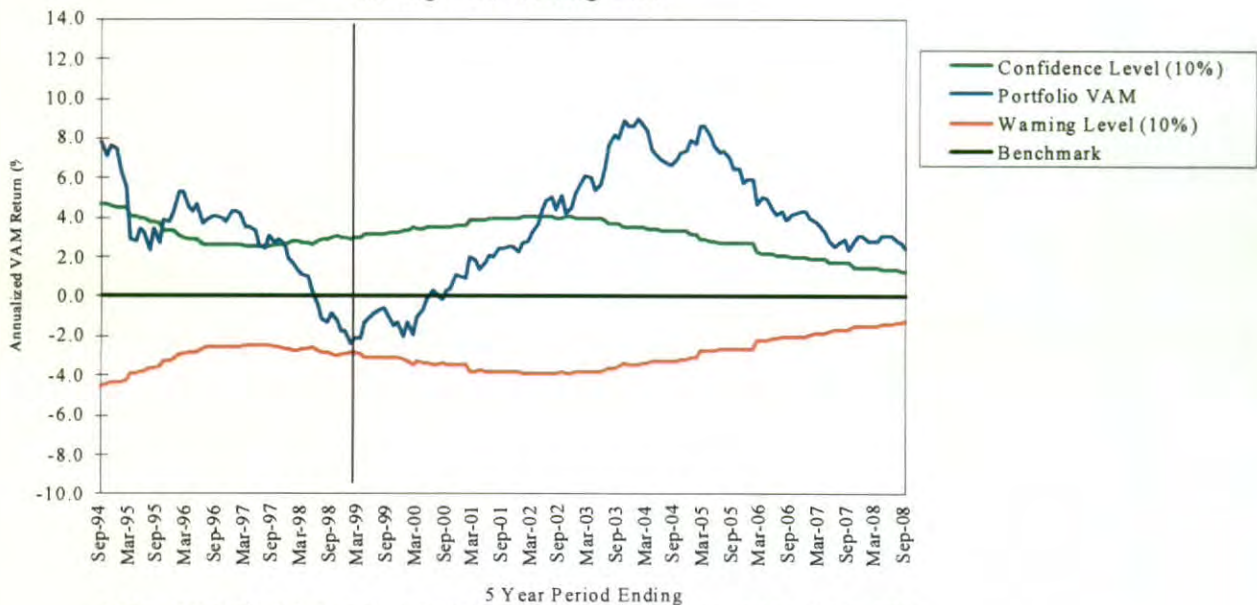
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	-18.8%	-20.7%
Last 1 year	-25.1	-29.4
Last 2 years	-2.2	-5.8
Last 3 years	4.7	1.8
Last 4 years	10.4	7.5
Last 5 years	13.1	10.3
Since Inception (11/93)	8.6	5.1

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

MCKINLEY CAPITAL MANAGEMENT, INC.
Periods Ending September, 2008

Portfolio Manager: Robert Gillam, Jr.

Assets Under Management: \$219,759,187

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

The portfolio's overweight positions in the industrials and materials sectors, two of the worst performers, contributed significantly to the portfolio's underperformance over the quarter and the year. Stock selection in the financials sector and in the United Kingdom overall also detracted.

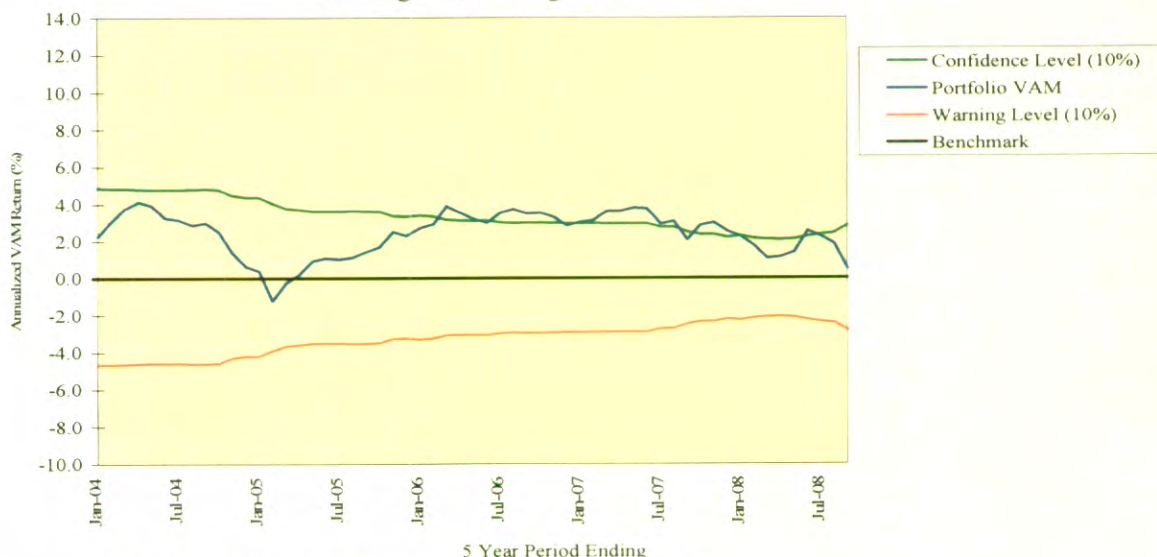
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-28.7%	-20.7%
Last 1 year	-34.7	-29.4
Last 2 years	-7.1	-5.8
Last 3 years	0.3	1.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	4.4	4.9

Recommendations

No action required.

MCKINLEY CAPITAL MANAGEMENT, INC.
 Rolling Five Rolling VAM



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

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending September, 2008

Portfolio Manager: Michael Strong

Assets Under Management: \$226,753,084

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

Stock selection in the industrials, utilities and information technology sectors detracted from returns during the quarter, while selection in the materials, healthcare and financials sectors contributed to the portfolio's outperformance during the year.

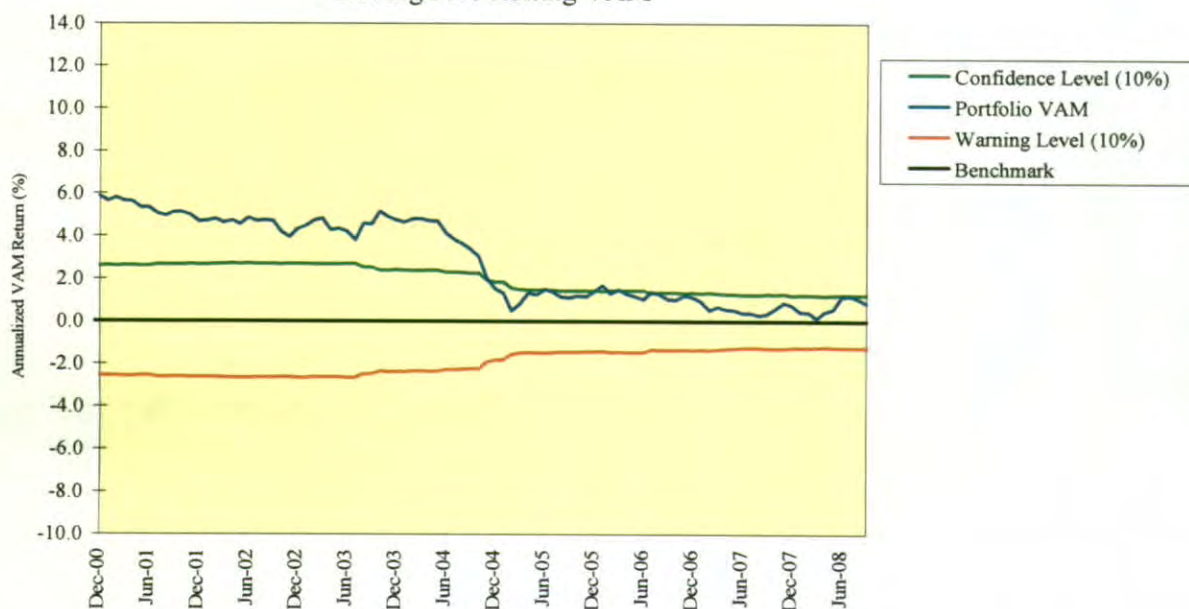
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-21.6%	-20.7%
Last 1 year	-27.2	-29.4
Last 2 years	-3.2	-5.8
Last 3 years	3.2	1.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	6.3	4.9

Recommendations

No action required.

PYRAMIS GLOBAL ADVISORS TRUST Co. - INTL GROWTH
Rolling Five Rolling VAM



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

RIVERSOURCE INVESTMENTS
Periods Ending September, 2008

Portfolio Manager: Esther Perkins

Assets Under Management: \$228,683,121

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

The portfolio added value relative to the benchmark over both the quarter and the year. During both periods, performance was helped by stock selection in the financials sector and overweight positions in both the consumer staples and healthcare sectors.

During the quarter, Dominic Rossi, Threadneedle's Head of Equities, decided to leave the firm. Sarah Arkle, Chief Investment Officer, has assumed the role of Head of Equities while the position is reviewed and a permanent replacement is sought. Dominic Rossi did not have day-to-day portfolio management responsibilities over the State's portfolio.

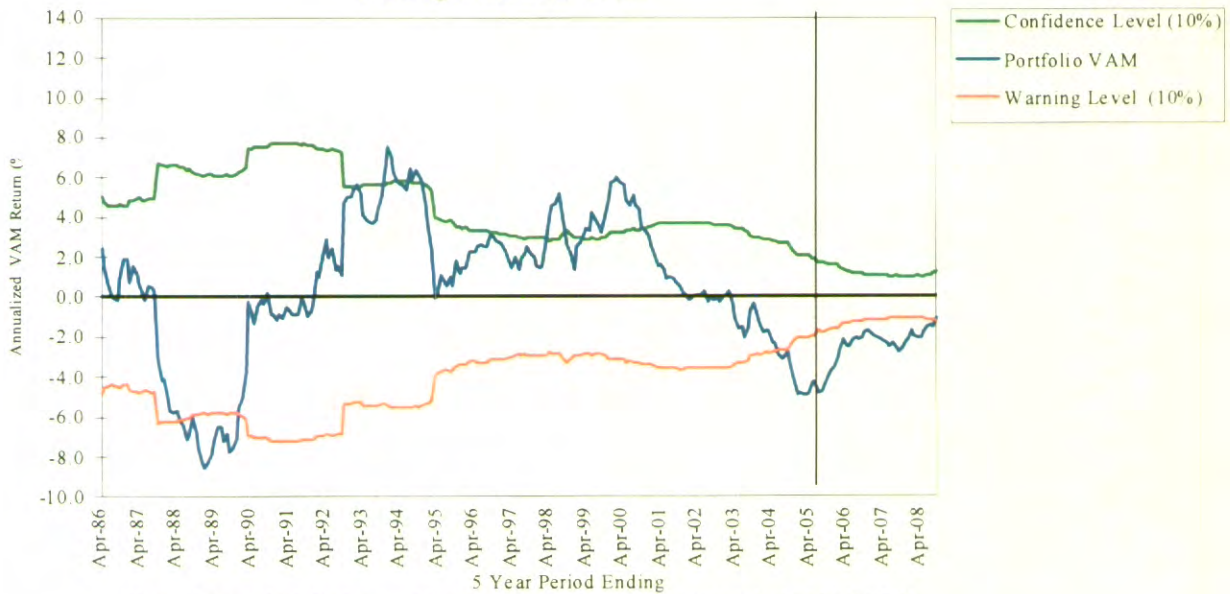
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-19.8%	-20.7%
Last 1 year	-26.6	-29.4
Last 2 years	-5.5	-5.8
Last 3 years	1.6	1.8
Last 4 years	7.2	7.5
Last 5 years	9.2	10.3
Since Inception (3/00)	-1.3	1.6

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, 2008

Portfolio Manager: Nick Irish

Assets Under Management: \$227,059,393

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

While currency bets in the portfolio added value during the quarter, stock selection in Japan continued to be a significant detractor over both the quarter and the year.

During the quarter Marcus Eichacker, the Research Director for Asia ex-Japan, left the firm. He also covered Japanese telecommunication stocks.

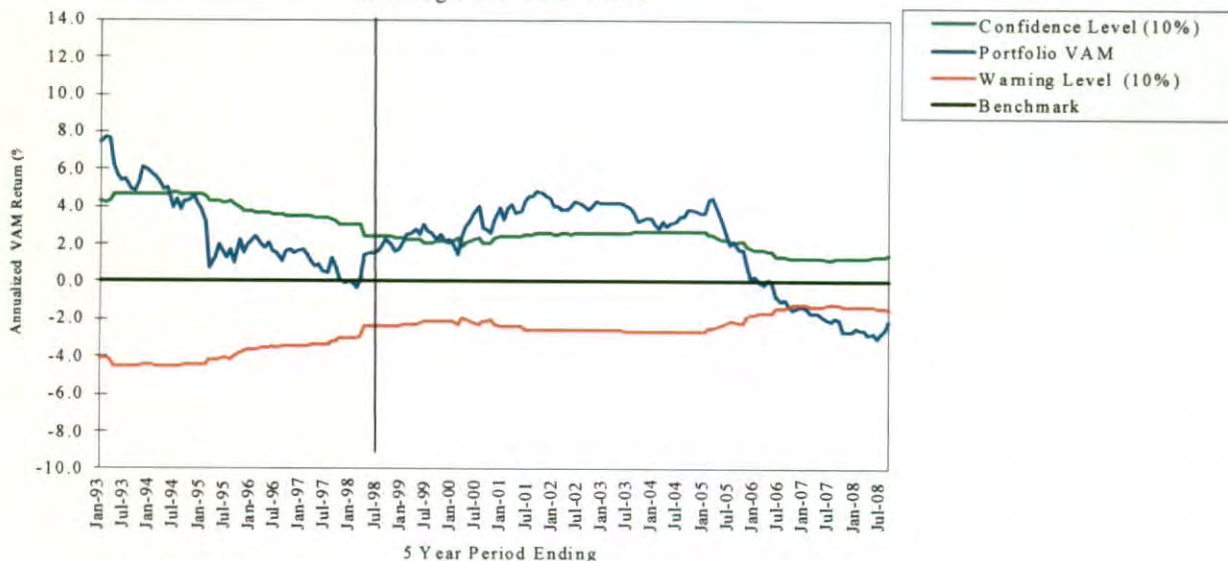
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-18.8%	-20.7%
Last 1 year	-31.2	-29.4
Last 2 years	-8.7	-5.8
Last 3 years	-0.3	1.8
Last 4 years	4.5	7.5
Last 5 years	8.0	10.3
Since Inception (4/93)	6.8	6.3

Recommendations

No action required.

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



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

ALLIANCEBERNSTEIN L.P.
Periods Ending September, 2008

Portfolio Manager: Steve Beinhacker

Assets Under Management: \$306,549,445

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

Stock selection in Turkey and Korea and in the financials and consumer discretionary sectors contributed to the portfolio's underperformance during the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-30.4%	-27.0%
Last 1 year	-35.4	-32.8
Last 2 years	0.6	3.1
Last 3 years	6.2	8.6
Last 4 years	15.2	17.1
Last 5 years	17.4	18.8
Since Inception (3/01)	12.1	13.1

Recommendations

No action required.

ALLIANCEBERNSTEIN L.P.
 Rolling Five Year VAM



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

CAPITAL INTERNATIONAL, INC.
Periods Ending September, 2008

Portfolio Manager: Victor Kohn

Assets Under Management: \$327,372,239

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

Stock selection in the telecommunications and industrials sectors, and in Taiwan overall, contributed to the portfolio's outperformance during the quarter and the year.

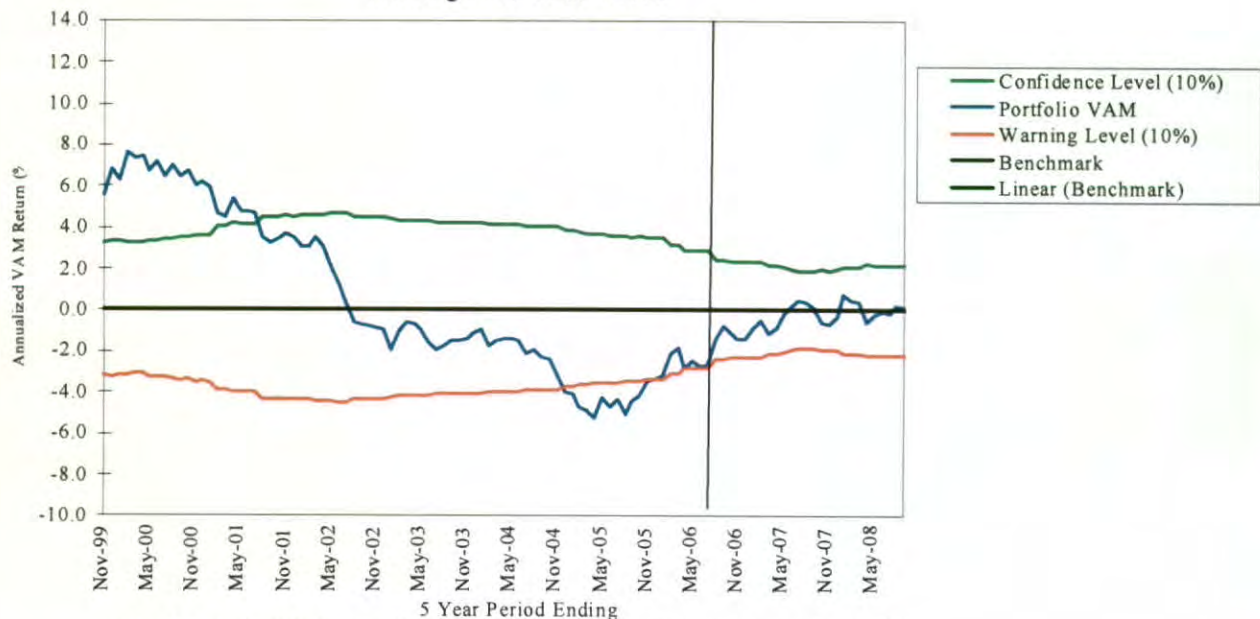
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-26.1%	-27.0%
Last 1 year	-31.7	-32.8
Last 2 years	3.9	3.1
Last 3 years	10.9	8.6
Last 4 years	18.6	17.1
Last 5 years	19.0	18.8
Since Inception (3/01)	11.3	13.1

Recommendations

No action required.

CAPITAL INTERNATIONAL, INC.
Rolling Five Year VAM



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

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Ruchir Sharma

Assets Under Management: \$336,779,577

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

Portfolio performance was mixed over the quarter and year. During the quarter, stock selection in the financials and telecommunications sectors, together with an underweight to Brazil and the materials sector contributed to the portfolio's outperformance. During the year, stock selection in the energy sector and in Taiwan overall added to the portfolio's underperformance.

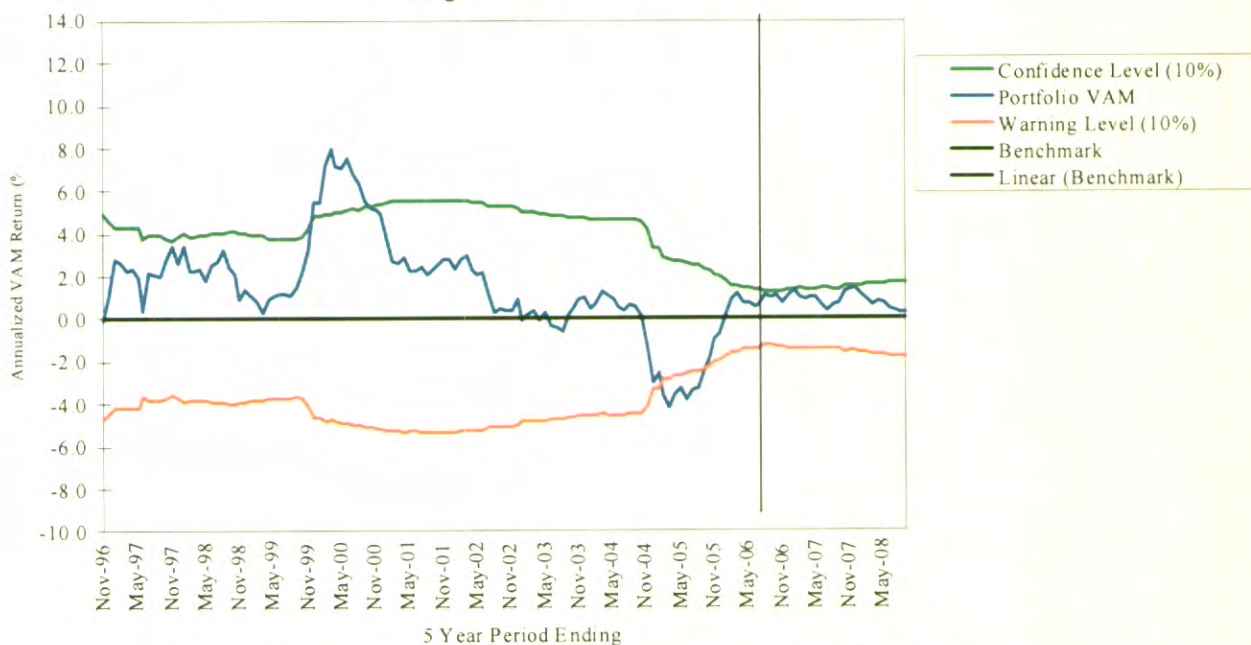
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-26.9%	-27.0%
Last 1 year	-34.8	-32.8
Last 2 years	2.6	3.1
Last 3 years	9.1	8.6
Last 4 years	17.7	17.1
Last 5 years	19.2	18.8
Since Inception (3/01)	13.3	13.1

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



AQR CAPITAL MANAGEMENT, LLC
Periods Ending September, 2008

Portfolio Manager: Cliff Asness

Assets Under Management: \$219,829,091

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

Stock selection in the consumer discretionary and industrials sectors contributed to the portfolio's underperformance during the quarter and the year.

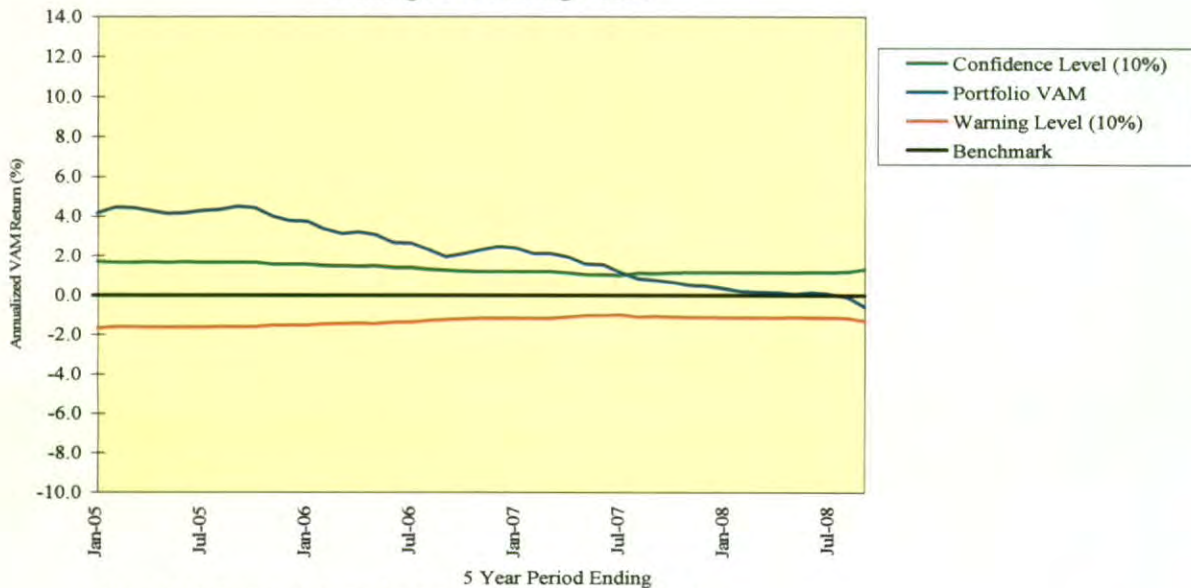
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-23.0%	-20.7%
Last 1 year	-32.0	-29.4
Last 2 years	-8.1	-5.8
Last 3 years	0.0	1.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	3.5	4.9

Recommendations

No action required.

AQR CAPITAL MANAGEMENT, LLC
Rolling Five Rolling VAM



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

PYRAMIS GLOBAL ADVISORS TRUST COMPANY
(Formerly Fidelity Management Trust Company)
Periods Ending September, 2008

Portfolio Manager: Cesar Hernandez

Assets Under Management: \$247,972,277

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

Portfolio performance was mixed over the quarter and year. Stock selection in Japan and in the industrials, information technology, and consumer discretionary sectors contributed to the portfolio's underperformance during the quarter. While for the year, stock selection in the financials, energy and materials sectors added value.

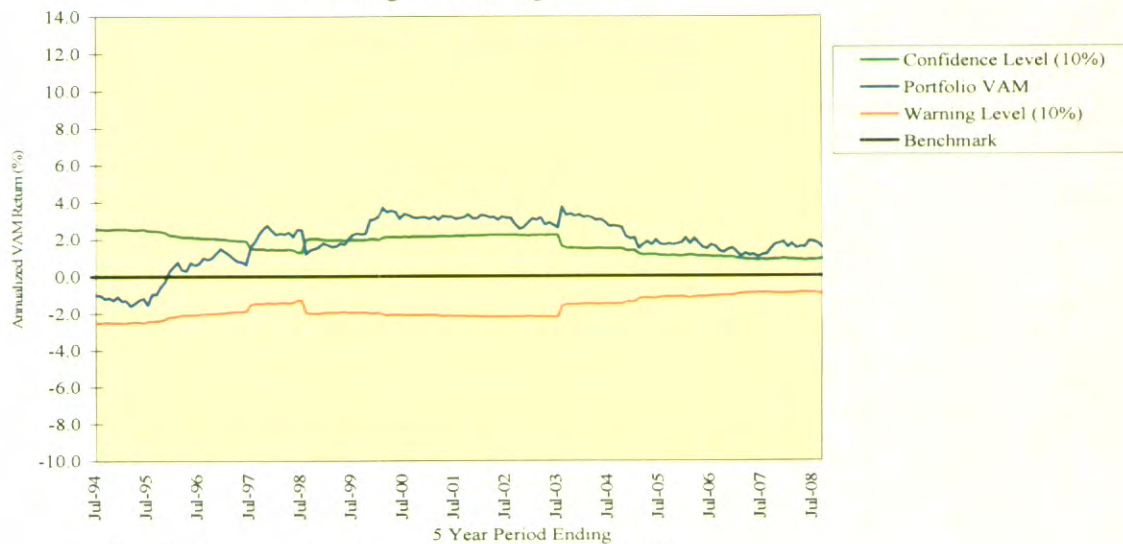
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-22.0%	-20.7%
Last 1 year	-27.8	-29.4
Last 2 years	-2.8	-5.8
Last 3 years	3.6	1.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	7.0	4.9

Recommendations

No action required.

PYRAMIS GLOBAL ADVISORS TRUST Co. - SELECT INTL
Rolling Five Rolling VAM



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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 2008

Portfolio Manager: Didier Rosenfeld

Assets Under Management: \$223,720,706

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

Stock selection in the United Kingdom and in the financials, industrials and materials sectors contributed significantly to the portfolio's underperformance during the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-23.2%	-20.7%
Last 1 year	-32.9	-29.4
Last 2 years	-7.9	-5.8
Last 3 years	0.4	1.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	3.7	4.9

Recommendations

No action required.

STATE STREET GLOBAL ADVISORS - ALPHA
Rolling Five Rolling VAM



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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 2008

Portfolio Manager: Lynn Blake

Assets Under Management: \$1,733,627,903

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

The tracking error of the passive portfolio is within expectation over all time periods.

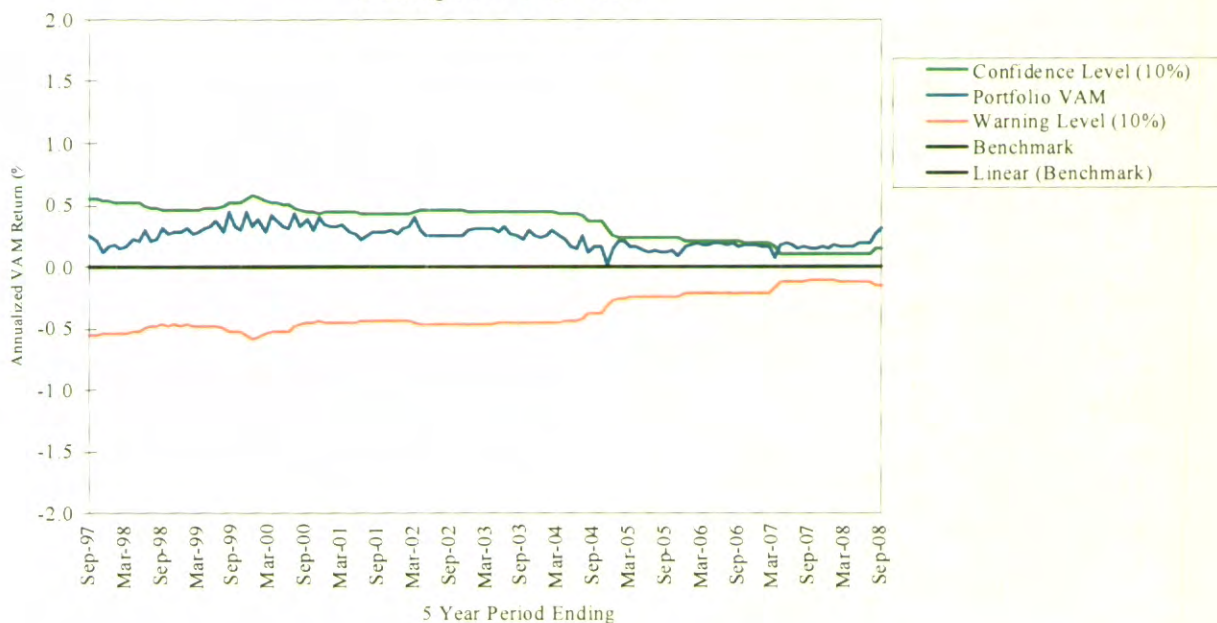
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-20.2%	-20.7%
Last 1 year	-28.8	-29.4
Last 2 years	-5.2	-5.8
Last 3 years	2.2	1.8
Last 4 years	7.9	7.5
Last 5 years	10.7	10.3
Since Inception (10/92)	6.8	6.5

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS - PASSIVE
Rolling Five Year VAM





STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Third Quarter, 2008

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A-126

Non-Retirement Managers

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NON - RETIREMENT MANAGERS
Periods Ending September, 2008

	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)	-6.8	-8.4	-17.3	-22.0	2.7	0.2	5.6	5.2	9.9	8.9	\$60.2
Voyageur Asset Management (Custom Benchmark)	-0.8	1.8	-0.7	7.2	2.7	5.5	2.7	4.2	5.9	6.4	\$252.9
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	1.1	0.7	4.8	3.1	4.7	4.4	4.5	4.1	5.6	4.9	\$1,031.6
Internal Stock Pool (S&P 500 Index)	-8.3	-8.4	-21.8	-22.0	0.3	0.2	5.2	5.2	8.5	8.4	\$767.8
Internal Bond Pool - Income Share (Lehman Aggregate) (2)	-2.1	-0.5	1.5	3.7	3.7	4.2	3.8	3.8	7.5	7.3	\$87.5
Internal Bond Pool - Trust (Lehman Aggregate)	-1.3	-0.5	2.6	3.7	4.2	4.2	4.1	3.8	6.8	6.5	\$539.7

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

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

NON - RETIREMENT MANAGERS
Calendar Year Returns

	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)	8.5	5.5	16.4	15.8	2.6	4.9	8.8	10.9	23.7	28.7
Voyageur Asset Management (Custom Benchmark)	5.8	7.9	4.5	4.3	2.5	2.1	3.2	3.0	2.6	2.5
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	4.8	4.7	4.6	5.2	4.3	4.4	4.2	3.3	4.7	2.6
Internal Stock Pool (S&P 500 Index)	5.5	5.5	15.9	15.8	4.9	4.9	10.9	10.9	28.9	28.7
Internal Bond Pool - Income Share (Lehman Aggregate) (1)	6.4	7.0	5.0	4.3	2.7	2.4	5.1	4.3	5.8	4.1
Internal Bond Pool - Trust (Lehman Aggregate)	7.1	7.0	5.1	4.3	2.8	2.4	5.0	4.3	5.9	4.1

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

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending September, 2008

Portfolio Manager: Dave Carlson

Assets Under Management: \$60,209,514

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

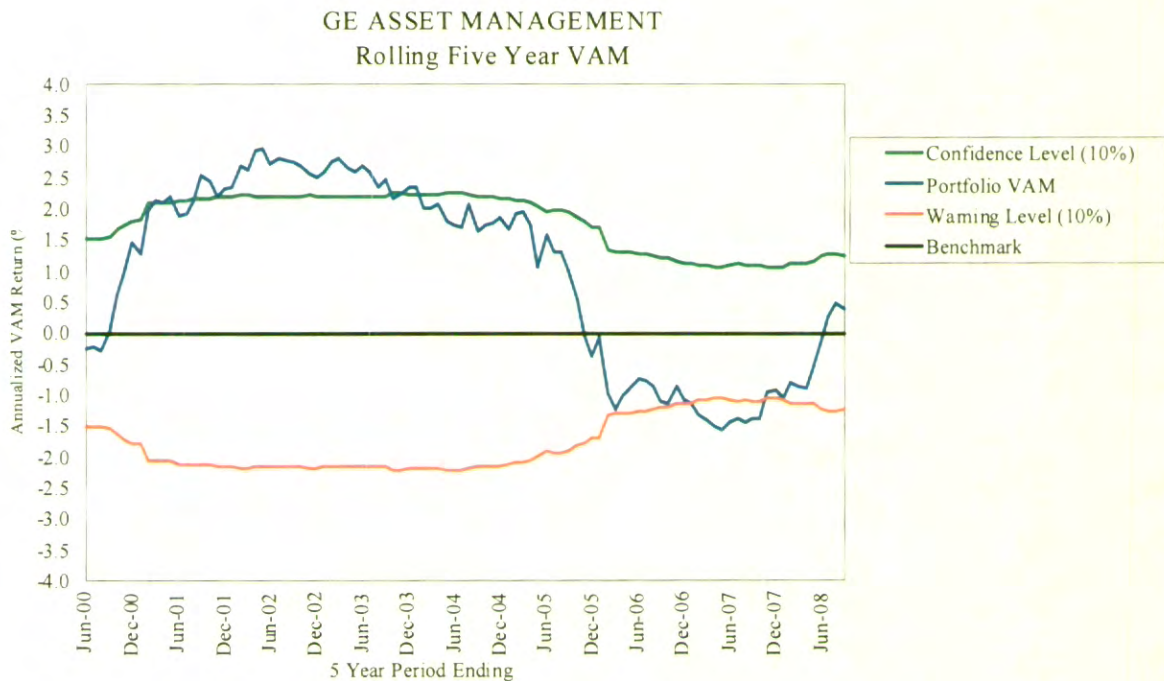
No comment at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.8%	-8.4%
Last 1 year	-17.3	-22.0
Last 2 years	-1.4	-4.7
Last 3 years	2.7	0.2
Last 4 years	4.4	3.1
Last 5 years	5.6	5.2
Since Inception (1/95)	9.9	8.9

Recommendation

No action required.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending September, 2008

Portfolio Manager: John Huber

Assets Under Management: \$252,903,484

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

The portfolio continues to be affected by high risk premiums for non-Treasury securities, which are the focus of the manager's strategy. The manager remains optimistic that the portfolio's high quality assets and yield advantage provides the right mix for longer term performance.

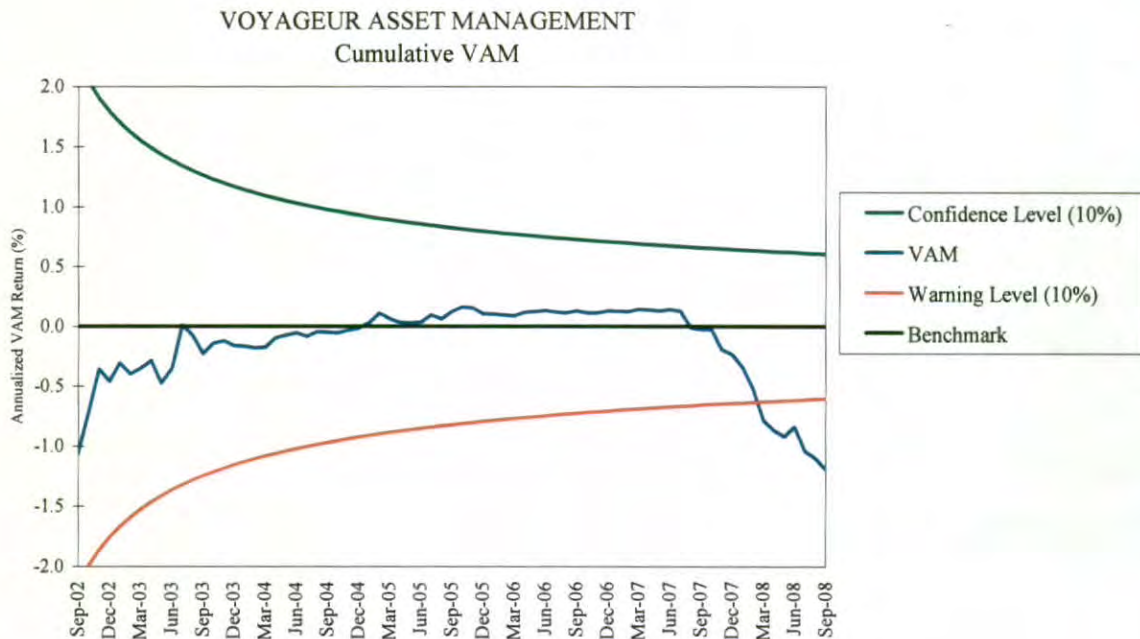
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.8%	1.8%
Last 1 year	-0.7	7.2
Last 2 years	2.1	6.4
Last 3 years	2.7	5.5
Last 4 years	2.7	4.6
Last 5 years	2.7	4.2
Since Inception (7/91)	5.9	6.4

Recommendation

No action required.

* Effective 4/1/02 blended benchmark consists of 25% Merrill Lynch (ML) Mortgage Master, 25% ML 1-3 Yr. Gov't, 25% ML 5-10 Yr. Tsy/Ag, 15% ML 3-5 Yr. Tsy/Ag, 10% ML 91 day T-Bill.



GALLIARD CAPITAL MANAGEMENT
Periods Ending September, 2008

Portfolio Manager: Karl Tourville

Assets Under Management: \$1,031,596,324

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

No comment at this time.

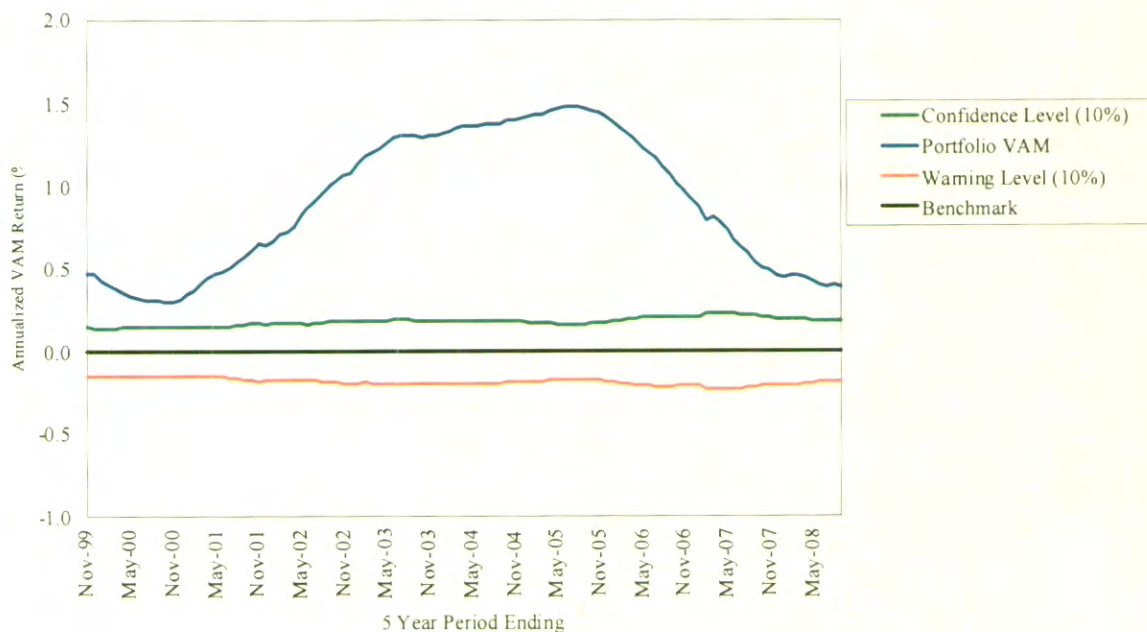
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	0.7%
Last 1 year	4.8	3.1
Last 2 years	4.8	4.1
Last 3 years	4.7	4.4
Last 4 years	4.6	4.3
Last 5 years	4.5	4.1
Since Inception (11/94)	5.6	4.9

Recommendation

No action required.

Galliard Capital Management
 Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending September, 2008

Portfolio Manager: Mike Messen

Assets Under Management: \$767,810,325

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.

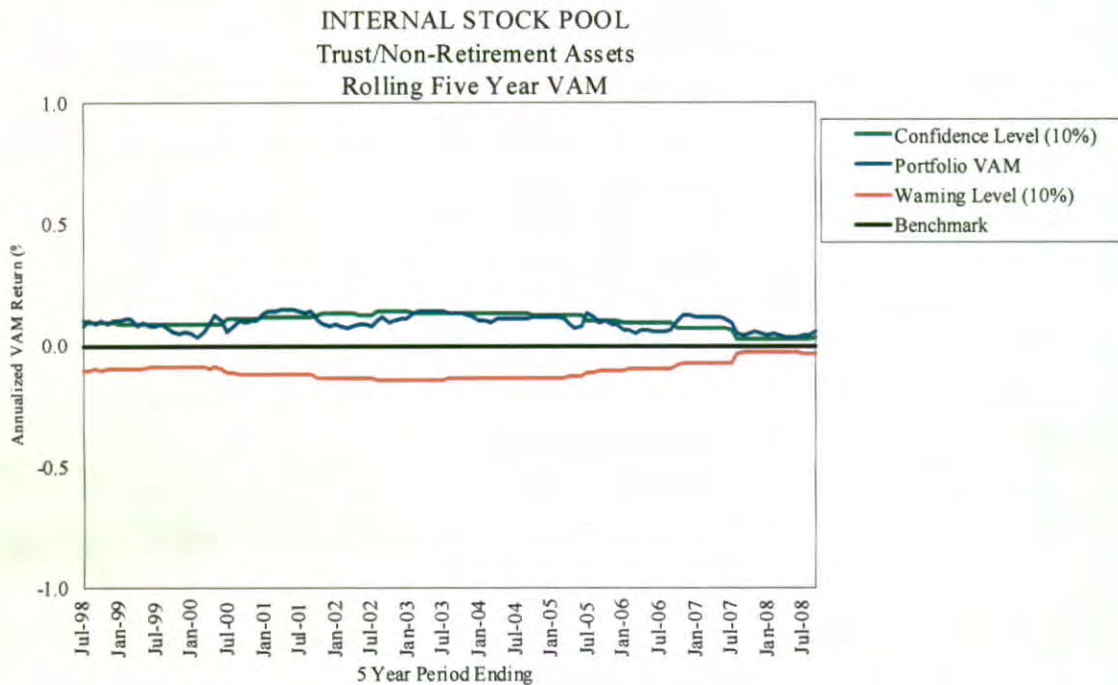
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	-8.3%	-8.4%
Last 1 year	-21.8	-22.0
Last 2 years	-4.6	-4.7
Last 3 years	0.3	0.2
Last 4 years	3.2	3.1
Last 5 years	5.2	5.2
Since Inception (7/93)	8.5	8.4

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending September, 2008

Portfolio Manager: Mike Messen

Assets Under Management: \$87,525,880

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

No comment at this time.

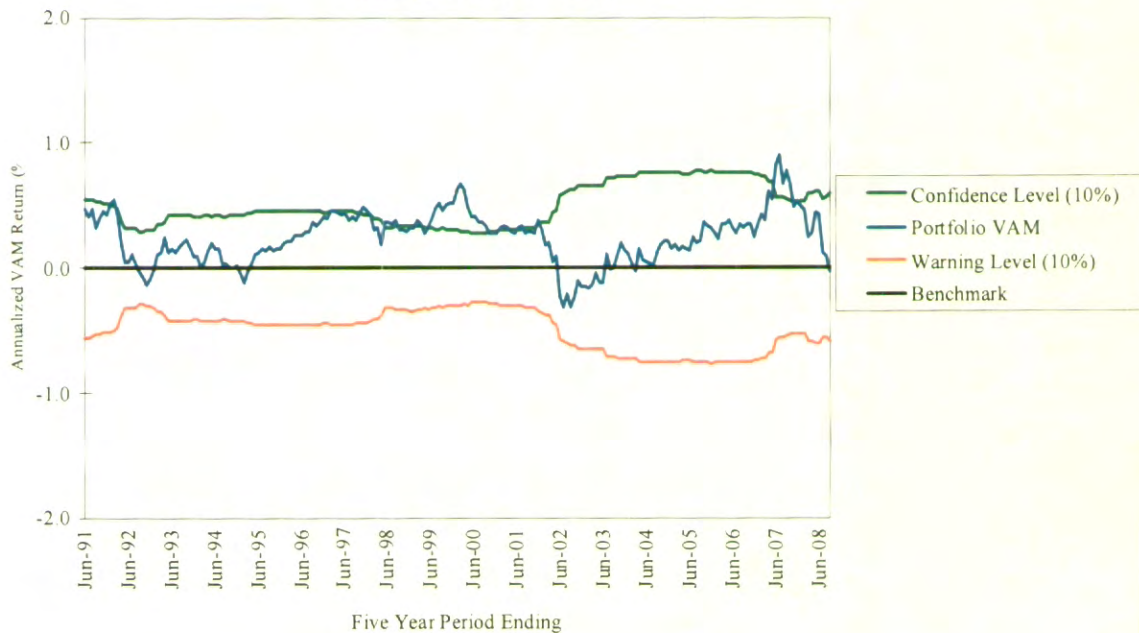
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.1%	-0.5%
Last 1 year	1.5	3.7
Last 2 years	3.3	4.4
Last 3 years	3.7	4.2
Last 4 years	3.6	3.8
Last 5 years	3.8	3.8
Since Inception (7/86)	7.5	7.3

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending September, 2008

Portfolio Manager: Mike Menssen

Assets Under Management: \$539,683,431

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.

No comment at this time.

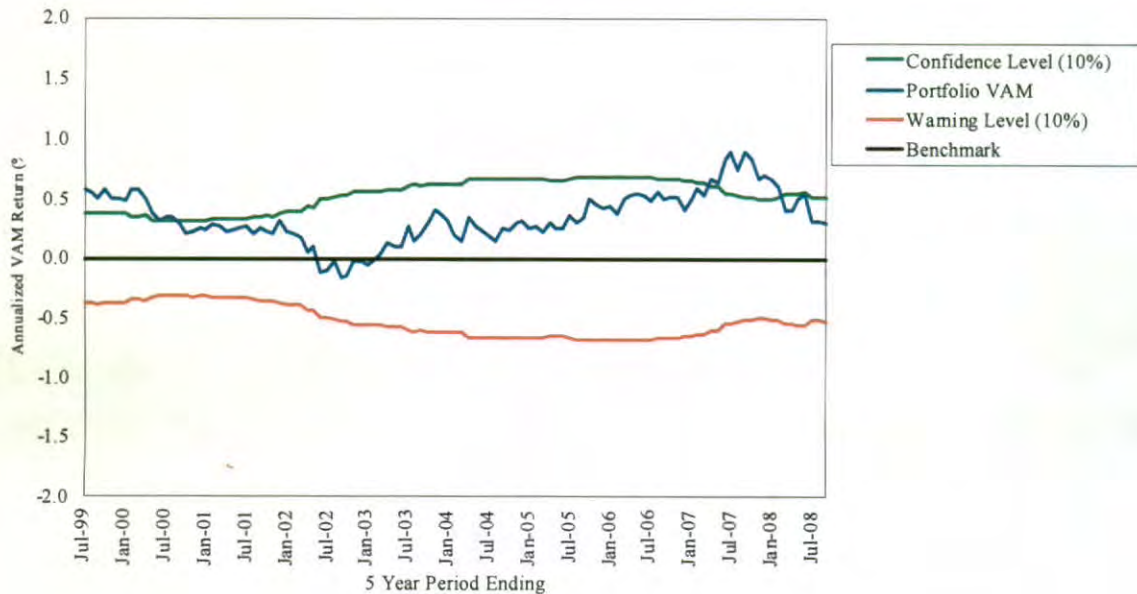
Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	-1.3%	-0.5%	No action required.
Last 1 year	2.6	3.7	
Last 2 years	4.0	4.4	
Last 3 years	4.2	4.2	
Last 4 years	4.0	3.8	
Last 5 years	4.1	3.8	
Since Inception (7/94)*	6.8	6.5	

* Date started managing the pool against the Lehman Aggregate.

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
 Rolling Five Year VAM



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STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Third Quarter, 2008

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Mutual Fund Managers

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MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending September, 2008

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention by SBI *		State's Participation In Fund (\$ millions)	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	%	%		
Large Cap Equity:												
Janus Twenty (S&P 500)	-26.0	-8.4	-18.8	-22.0	5.1	0.2	11.4	5.2	-0.1	-0.1	\$374.7	
Legg Mason Partners Appr I (S&P 500)	-8.2	-8.4	-14.3	-22.0	3.1	0.2	6.4	5.2	5.4	4.0	\$112.2	
Vanguard Institutional Index Plus (S&P 500)	-8.3	-8.4	-22.0	-22.0	0.2	0.2	5.2	5.2	0.0	-0.1	\$375.3	
Mid Cap Equity:												
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	-15.1	-15.1	-24.4	-24.4	-0.8	-0.9	8.1	8.1	5.7	5.6	\$118.3	
Small Cap Equity:												
T. Rowe Price Small-Cap Stock (Russell 2000)	-2.7	-1.1	-17.8	-14.5	0.0	1.8	7.3	8.1	7.5	5.7	\$311.1	
Balanced:												
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	-10.4	-5.6	-22.8	-12.6	-2.1	1.8	4.1	4.7	4.1	4.7	\$235.2	
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	-5.2	-5.7	-11.7	-12.1	2.2	2.0	5.3	5.2	4.6	4.5	\$159.0	
Bond:												
Dodge & Cox Income Fund (Lehman Aggregate)	-3.8	-0.5	-2.3	3.7	2.3	4.2	2.6	3.8	5.4	5.7	\$98.2	
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	-0.4	-0.5	3.9	3.7	4.3	4.2	3.8	3.8	4.1	4.1	\$82.6	
International:												
Fidelity Diversified International (MSCI EAFE-Free)	-20.8	-20.6	-28.8	-30.5	2.3	1.1	10.4	9.7	7.8	2.9	\$225.4	
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	-19.0	-20.6	-29.1	-30.5	1.8	1.1	10.3	9.7	8.8	8.2	\$64.4	

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; Legg Mason, 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.

**MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Calendar Year Returns**

457 Mutual Funds	2007		2006		2005		2004		2003	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Large Cap Equity:										
Janus Twenty (S&P 500)	35.9	5.5	12.3	15.8	9.4	4.9	23.9	10.9	25.3	28.7
Legg Mason Partners Appr I (S&P 500)	8.6	5.5	15.0	15.8	4.6	4.9	9.3	10.9	25.1	28.7
Vanguard Institutional Index Plus (S&P 500)	5.5	5.5	15.8	15.8	5.0	4.9	10.9	10.9	28.7	28.7
Mid Cap Equity:										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	6.2	6.2	13.8	13.7	14.1	13.9	20.5	20.5	34.3	33.8
Small Cap Equity:										
T. Rowe Price Small-Cap Stock (Russell 2000)	-1.7	-1.6	12.8	18.4	8.4	4.6	18.8	18.3	32.3	47.3
Balanced:										
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	1.7	6.2	13.8	11.1	6.6	4.0	13.3	8.3	24.5	18.5
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	6.3	6.3	11.1	11.1	4.8	4.8	9.5	9.3	20.1	20.1
Bond:										
Dodge & Cox Income Fund (Lehman Aggregate)	4.7	7.0	5.3	4.3	2.0	2.4	3.8	4.3	6.0	4.1
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	7.0	7.0	4.4	4.3	2.5	2.4	4.4	4.3	4.1	4.1
International:										
Fidelity Diversified International (MSCI EAFE-Free)	16.0	11.2	22.5	26.3	17.2	13.5	19.7	20.2	42.4	38.6
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	11.0	11.2	26.3	26.3	13.6	13.5	20.3	20.2	38.9	38.6

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.

**MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending September, 2008**

Portfolio Manager: Ron Sachs

**State's Participation in Fund: \$374,676,649
Total Assets in Fund: \$9,371,500,000**

**Investment Philosophy
Janus Twenty**

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

Staff Comments

No comment at this time.

Quantitative Evaluation

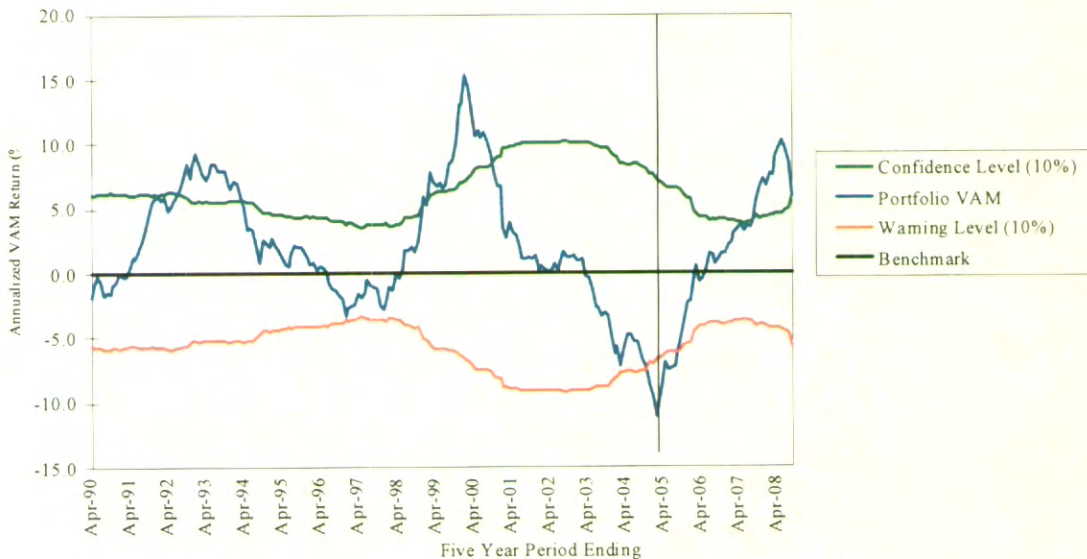
	Actual	Benchmark*
Last Quarter	-26.0%	-8.4%
Last 1 year	-18.8	-22.0
Last 2 years	5.8	-4.7
Last 3 years	5.1	0.2
Last 4 years	9.1	3.1
Last 5 years	11.4	5.2
Since Retention by SBI (7/99)	-0.1	-0.1

Recommendation

No action required.

*Benchmark is the S&P 500.

**LARGE CAP EQUITY - JANUS TWENTY
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
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION I
Periods Ending September, 2008**

Portfolio Manager: Scott Glasser

**State's Participation in Fund: \$112,196,975
Total Assets in Fund: \$4,698,037,916**

**Investment Philosophy
Legg Mason Partners Appreciation I**

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

No comment at this time.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-8.2%	-8.4%
Last 1 year	-14.3	-22.0
Last 2 years	0.0	-4.7
Last 3 years	3.1	0.2
Last 4 years	5.0	3.1
Last 5 years	6.4	5.2
Since Retention by SBI (12/03)	5.4	4.0

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 I
Rolling Five Year VAM



Five Year Period Ending
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, 2008**

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$375,303,731
Total Assets in Fund: \$22,433,000,000**

**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.

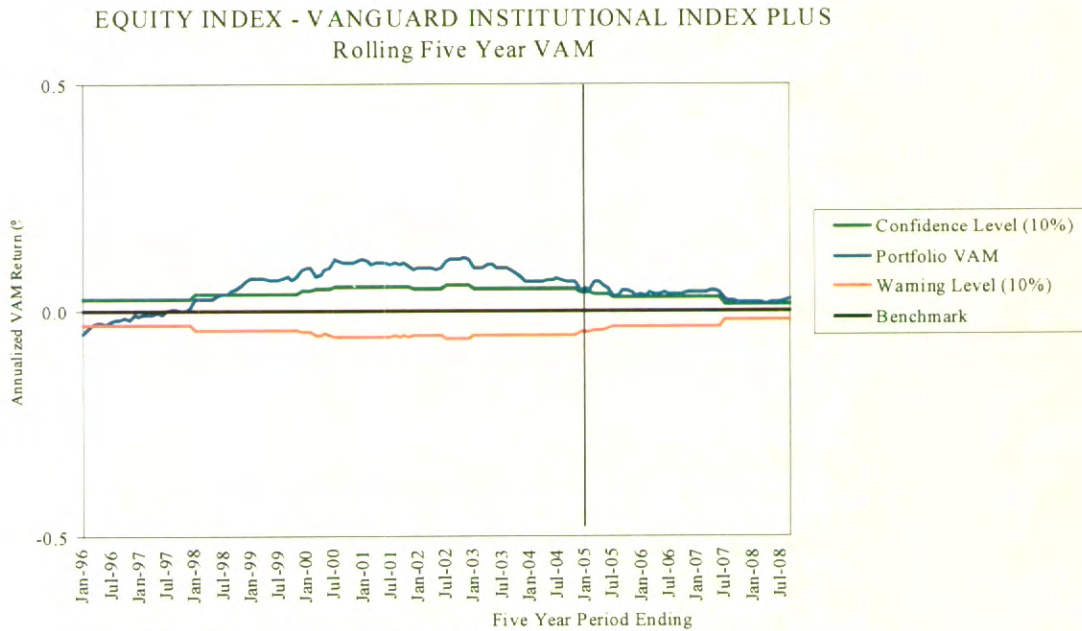
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-8.3%	-8.4%
Last 1 year	-22.0	-22.0
Last 2 years	-4.7	-4.7
Last 3 years	0.2	0.2
Last 4 years	3.1	3.1
Last 5 years	5.2	5.2
Since Retention by SBI (7/99)	0.0	-0.1

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
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending September, 2008**

Portfolio Manager: Donald Butler

**State's Participation in Fund: \$118,285,690
Total Assets in Fund: \$5,141,000,000**

**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.

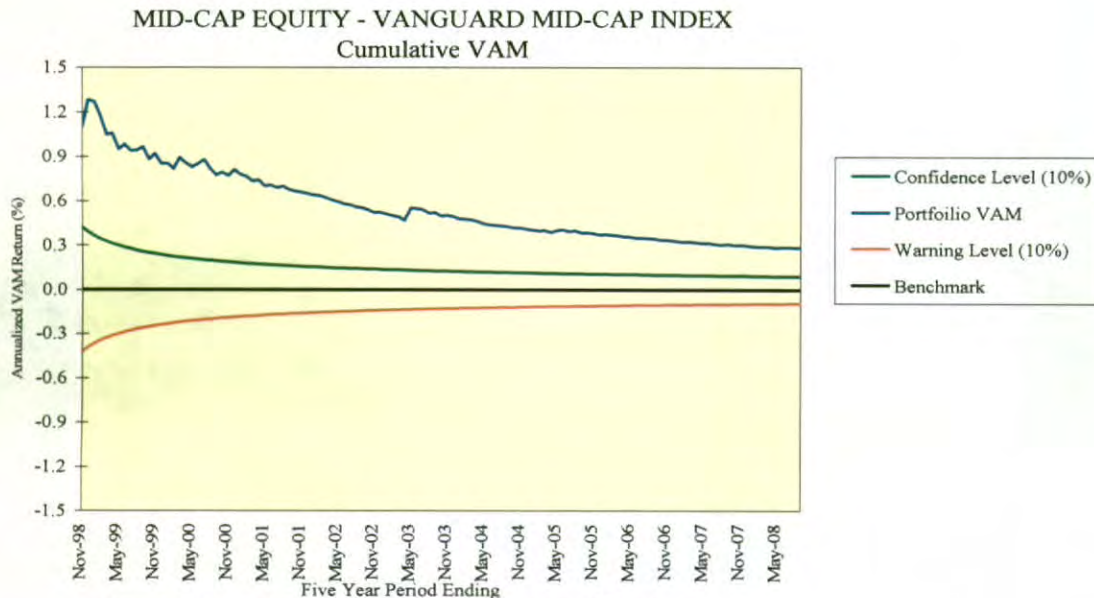
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-15.1%	-15.1%
Last 1 year	-24.4	-24.4
Last 2 years	-5.5	-5.5
Last 3 years	-0.8	-0.9
Last 4 years	5.5	5.4
Last 5 years	8.1	8.1
Since Retention by SBI (1/04)	5.7	5.6

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.



MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
 Periods Ending September, 2008

Portfolio Manager: Gregory A. McCrickard	State's Participation in Fund: 311,097,334	
	Total Assets in Fund: 5,712,370,000	

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

In a difficult market, the manager continues to employ their disciplined, valuation driven, low turnover approach.

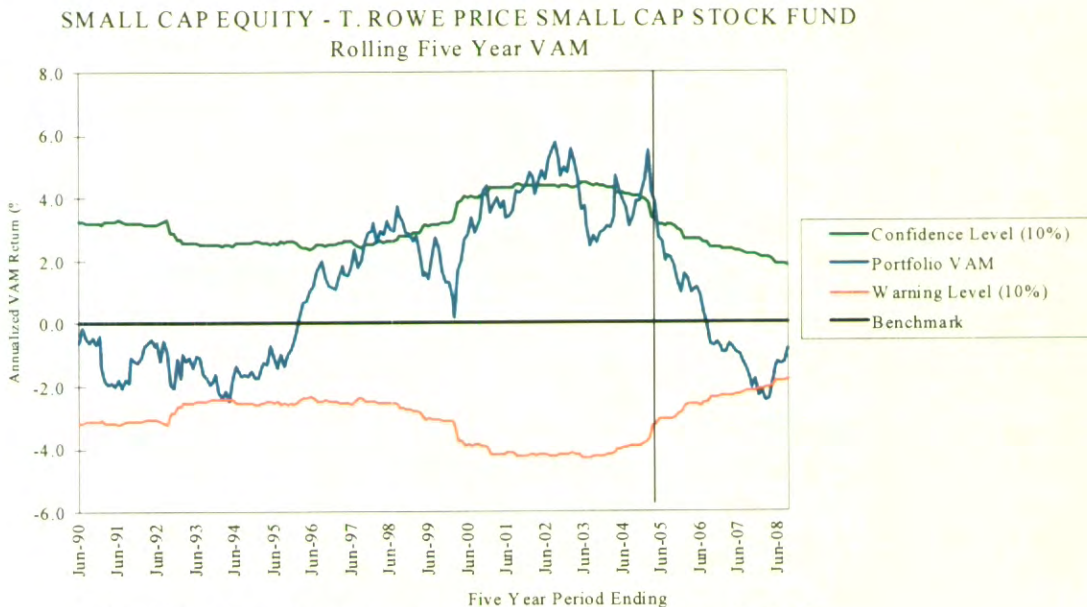
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-2.7%	-1.1%
Last 1 year	-17.8	-14.5
Last 2 years	-4.2	-2.0
Last 3 years	0.0	1.8
Last 4 years	4.3	5.6
Last 5 years	7.3	8.1
Since Retention by SBI (7/99)	7.5	5.7

Recommendation

No action required.

*Benchmark is the Russell 2000.



**STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending September, 2008**

Portfolio Manager: John Gunn

**State's Participation in Fund: \$235,223,130
Total Assets in Fund: \$19,004,515,618**

**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

The manager trailed the quarterly and one-year benchmarks due to an overweight to equities and continued weakness in corporate bonds.

Quantitative Evaluation

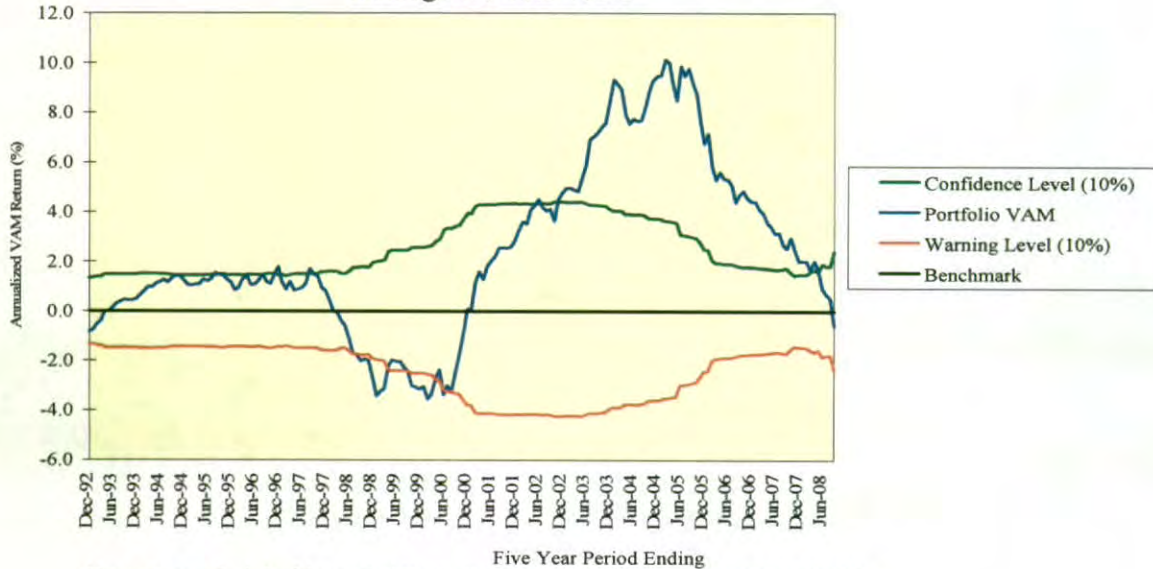
	Actual	Benchmark*
Last Quarter	-10.4%	-5.6%
Last 1 year	-22.8	-12.6
Last 2 years	-7.9	-1.1
Last 3 years	-2.1	1.8
Last 4 years	1.5	3.4
Last 5 years	4.1	4.7
Since Retention By SBI (10/03)	4.1	4.7

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, 2008**

Portfolio Manager: Michael Perre

**State's Participation in Fund: \$158,957,774
Total Assets in Fund: \$2,573,000,000**

**Investment Philosophy
Vanguard Balanced Index Fund**

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the 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.

Staff Comments

No comment at this time.

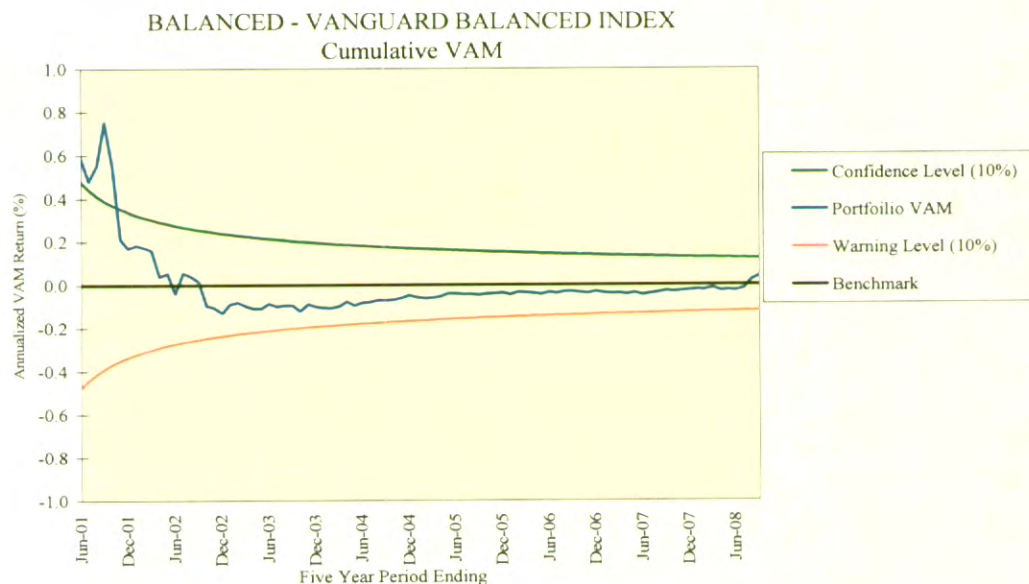
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-5.2%	-5.7%
Last 1 year	-11.7	-12.1
Last 2 years	-0.4	-0.7
Last 3 years	2.2	2.0
Last 4 years	4.1	3.9
Last 5 years	5.3	5.2
Since Retention by SBI (12/03)	4.6	4.5

Recommendation

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.



Note: Shaded area includes performance prior to managing SBI account

**MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending September, 2008**

Portfolio Manager: Dana Emery

**State's Participation in Fund: \$98,198,401
Total Assets in Fund: \$14,902,721,930**

**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

The manager's significant overweight to corporates in the quarter detracted from performance as corporates underperformed comparable duration Treasuries by an unprecedented 10.3 percent for the quarter. The manager continues to employ the same investment approach of thoroughly understanding an investment's fundamentals over a three-to-five year time frame.

Quantitative Evaluation

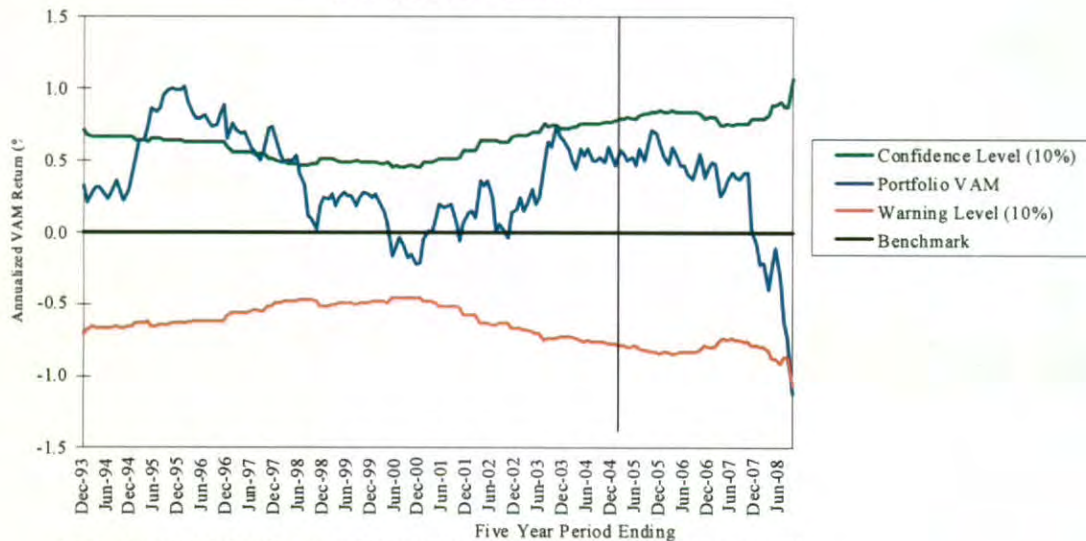
	Actual	Benchmark*
Last Quarter	-3.8%	-0.5%
Last 1 year	-2.3	3.7
Last 2 years	1.3	4.4
Last 3 years	2.3	4.2
Last 4 years	2.3	3.8
Last 5 years	2.6	3.8
Since Retention By SBI (7/99)	5.4	5.7

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, 2008**

Portfolio Manager: Kenneth Volpert

**State's Participation in Fund: \$82,602,653
Total Assets in Fund: \$11,803,000,000**

**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.

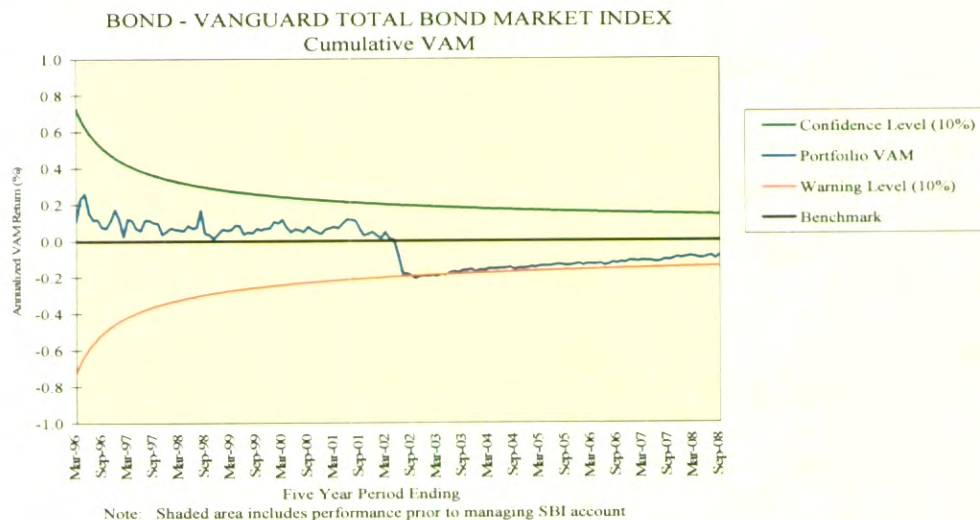
Quantitative Evaluation

Recommendation

	Actual	Benchmark*
Last Quarter	-0.4%	-0.5%
Last 1 year	3.9	3.7
Last 2 years	4.6	4.4
Last 3 years	4.3	4.2
Last 4 years	3.9	3.8
Last 5 years	3.8	3.8
Since Retention by SBI (12/03)	4.1	4.1

No action required.

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



**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending September, 2008**

Portfolio Manager: William Bower

**State's Participation in Fund: \$225,390,275
Total Assets in Fund: \$37,955,360,000**

**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.

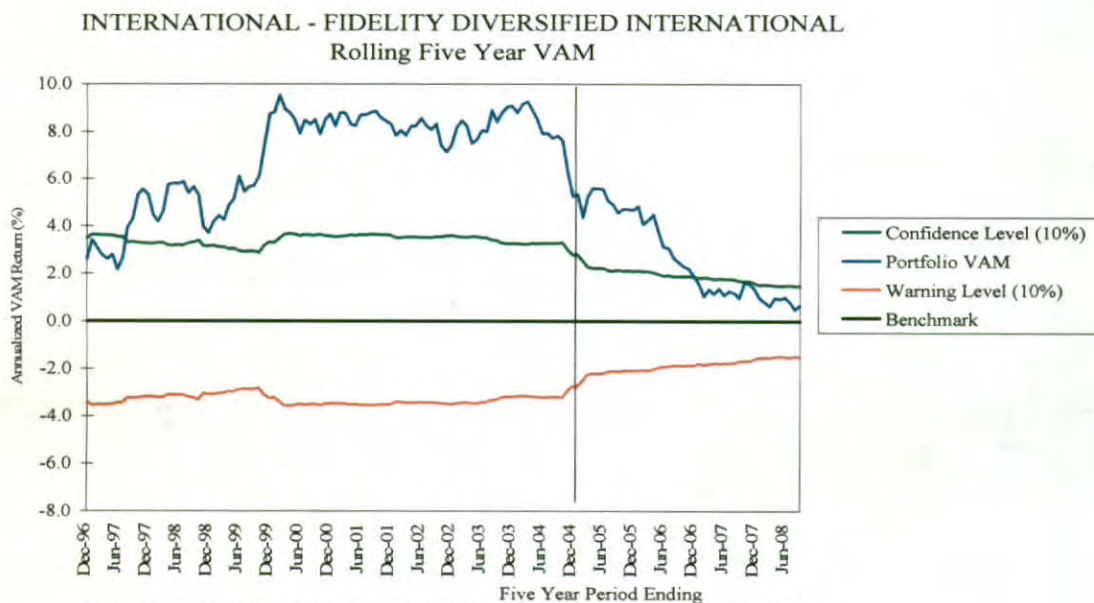
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-20.8%	-20.6%
Last 1 year	-28.8	-30.5
Last 2 years	-4.6	-6.8
Last 3 years	2.3	1.1
Last 4 years	7.9	6.8
Last 5 years	10.4	9.7
Since Retention By SBI (7/99)	7.8	2.9

Recommendation

No action required.

*Benchmark is the MSCI EAFE-Free.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending September, 2008**

Portfolio Manager: Duane Kelly and Michael Buek **State's Participation in Fund:** \$64,426,371
Total Assets in Fund: \$4,363,000,000

**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.

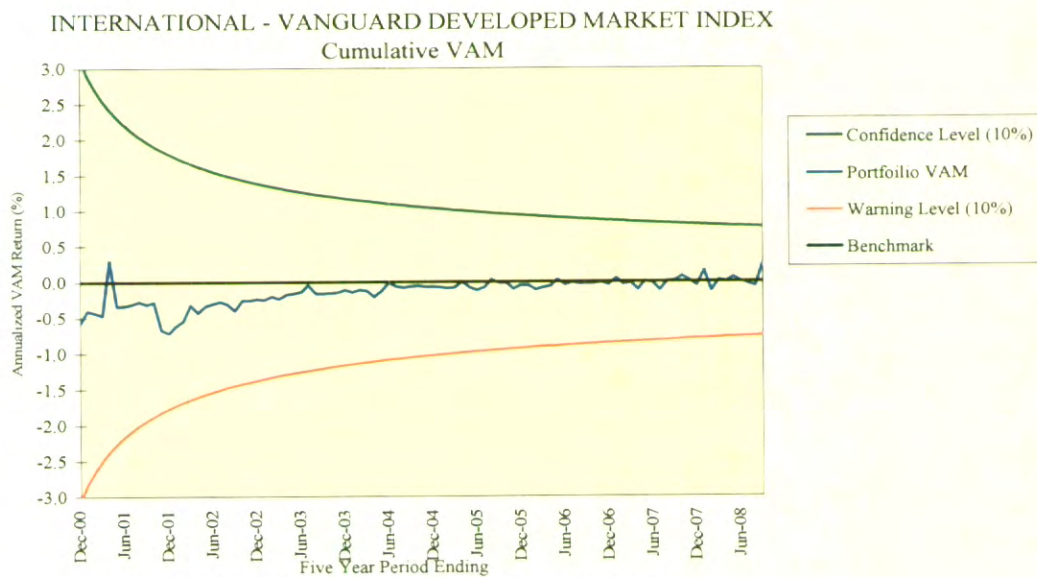
No comment at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark*	
Last Quarter	-19.0%	-20.6%	No action required.
Last 1 year	-29.1	-30.5	
Last 2 years	-5.8	-6.8	
Last 3 years	1.8	1.1	
Last 4 years	7.4	6.8	
Last 5 years	10.3	9.7	
Since Retention by SBI (12/03)	8.8	8.2	

*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.



Tab D

DATE: November 14, 2008

TO: Members, Investment Advisory Council

FROM: John Griebenow JG

Staff has reviewed the following information and action agenda items:

1. Review of current strategy.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 20% 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**).

1. 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.
2. 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.

3. 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.
4. 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.

ATTACHMENT A

Minnesota State Board of Investment
Pooled Alternative Investments
Combined Retirement Funds
September 30, 2008

Basic Retirement Funds Market Value	\$21,222,677,326
Post Retirement Fund Market Value	\$21,030,478,633
 Amount Available for Investment	 \$435,401,457

	Current Level	Target Level	Difference
Market Value (MV)	\$6,332,791,444	\$6,768,192,901	\$435,401,457
MV +Unfunded	\$9,828,012,277	\$10,152,289,352	\$324,277,074

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$3,347,006,277	\$2,015,042,295	\$5,362,048,572
Real Estate	\$1,194,622,777	\$339,958,218	\$1,534,580,995
Resource	\$397,312,139	\$444,421,304	\$841,733,443
Yield-Oriented	\$1,393,850,251	\$695,799,016	\$2,089,649,267
Total	\$6,332,791,444	\$3,495,220,833	\$9,828,012,277

ATTACHMENT B

Minnesota State Board of Investment Alternative Investments *

As of September 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>I. Real Estate</u>							
Blackstone							
Blackstone Real Estate V	100,000,000	83,667,867	112,226,489	22,751,431	16,332,133	35.28	2.43
Blackstone Real Estate VI	100,000,000	41,566,403	46,874,848	0	58,433,597	11.42	1.50
Colony Capital							
Colony Investors III	100,000,000	100,000,000	9,989,300	167,834,385	0	15.19	10.75
CSFB/ DLJ							
CSFB Strategic Partners III RE	25,000,000	17,561,136	17,557,804	569,577	7,438,864	2.72	3.25
CS Strategic Partners IV RE	50,000,000	27,125,000	27,125,000	0	22,875,000	0.00	0.29
Lehman Brothers Real Estate Partners							
Lehman Brothers Real Estate Partners II	75,000,000	65,121,376	65,957,833	22,008,951	9,878,624	20.54	3.25
Lehman Brothers Real Estate Partners III	150,000,000	30,000,000	30,000,000	0	120,000,000	0.00	0.36
Prime Property Fund	40,000,000	40,000,000	301,471,749	8,872,688	0	8.12	26.97
T.A. Associates Realty							
Realty Associates Fund V	50,000,000	50,000,000	27,909,748	75,313,380	0	12.57	9.35
Realty Associates Fund VI	50,000,000	50,000,000	54,415,212	40,236,607	0	18.75	6.26
Realty Associates Fund VII	75,000,000	75,000,000	87,624,818	17,733,543	0	14.20	3.87
Realty Associates Fund VIII	100,000,000	95,000,000	97,741,035	3,025,104	5,000,000	4.54	2.25
Realty Associates Fund IX	100,000,000	0	0	0	100,000,000	N/A	0.10
UBS Trumbull Property Fund	42,376,529	42,376,529	315,728,942	0	0	8.47	26.42
Real Estate Total	1,057,376,529	717,418,311	1,194,622,777	358,345,666	339,958,218		
<u>II. Resource</u>							
Apache Corp III	30,000,000	30,000,000	8,278,770	53,557,113	0	12.43	21.75
EnCap Energy Capital Fund VII	100,000,000	18,617,121	16,373,148	1,234,124	81,382,879	-11.28	1.25
First Reserve							
First Reserve Fund VII	40,000,000	40,000,000	872,998	60,016,961	0	10.20	12.25
First Reserve Fund VIII	100,000,000	100,000,000	1,848,000	201,883,104	0	15.88	10.42
First Reserve Fund IX	100,000,000	100,000,000	940,000	298,659,472	0	48.13	7.48
First Reserve Fund X	100,000,000	99,152,841	66,555,731	110,288,083	847,159	47.93	3.91
First Reserve Fund XI	150,000,000	110,554,251	117,464,223	0	39,445,749	9.94	1.77
NGP							
NGP Midstream & Resources	100,000,000	33,127,998	37,218,860	216,421	66,872,002	18.70	1.50
Natural Gas Partners IX	150,000,000	19,640,854	22,409,276	365,317	130,359,146	23.68	0.94
Sheridan Production Partners I	100,000,000	39,002,260	49,901,072	2,500,000	60,997,740	39.04	1.50
Simmons							
SCF-IV	47,626,265	47,626,265	41,486,770	145,600,193	0	26.88	10.50
T. Rowe Price	71,002,692	71,002,692	0	97,346,757	0	28.11	N/A
TCW Energy Partners XIV	100,000,000	35,483,371	33,963,291	3,133,538	64,516,629	5.66	1.45
Resource Total	1,188,628,957	744,207,653	397,312,139	974,801,083	444,421,304		
<u>III. Yield-Oriented</u>							
Carbon Capital	46,184,308	46,184,308	1,708,343	59,522,956	0	15.59	6.38
Citicorp Mezzanine							
Citicorp Mezzanine I	40,000,000	40,000,000	91,788	60,023,024	0	11.26	13.75
Citicorp Mezzanine III	100,000,000	88,029,296	14,422,815	120,074,597	11,970,704	16.54	8.91
DLJ Investment Partners							
DLJ Investment Partners II	50,000,000	23,119,388	5,231,550	30,360,759	26,880,612	11.30	8.75
DLJ Investment Partners III	100,000,000	25,509,062	23,717,200	569,240	74,490,938	-4.95	2.28
Gold Hill Venture Lending							
Gold Hill Venture Lending	40,000,000	36,400,000	31,335,791	10,535,160	3,600,000	6.10	4.01
Gold Hill 2008	50,000,000	0	0	0	50,000,000	N/A	0.25

**Minnesota State Board of Investment
Alternative Investments ***

As of September 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Market Distributions	Unfunded Commitment	IRR %	Period Years
GS Mezzanine Partners							
<i>GS Mezzanine Partners II</i>	100,000,000	83,092,437	39,258,750	81,663,174	16,907,563	9.47	8.58
<i>GS Mezzanine Partners III</i>	75,000,000	52,896,411	34,065,631	39,124,047	22,103,589	12.46	5.22
<i>GS Mezzanine Partners 2006 Institutional</i>	100,000,000	67,374,802	57,495,058	13,122,742	32,625,198	2.70	2.48
<i>GS Mezzanine Partners V</i>	150,000,000	45,000,000	45,446,805	0	105,000,000	1.57	0.94
GTCR Capital Partners	80,000,000	69,589,422	2,856,670	104,472,277	10,410,578	10.90	8.88
KB Mezzanine Fund II	25,000,000	25,000,000	312,087	12,218,730	0	-13.49	13.00
Merit Capital Partners (fka William Blair)							
<i>William Blair Mezzan. Cap. Fd. III</i>	60,000,000	56,958,000	13,497,278	88,626,304	3,042,000	15.30	8.75
<i>Merit Mezzanine Fund IV</i>	75,000,000	51,605,769	48,145,711	9,157,259	23,394,231	6.19	3.79
Merit Energy Partners							
<i>Merit Energy Partners B</i>	24,000,000	24,000,000	106,858,772	73,529,445	0	27.96	12.25
<i>Merit Energy Partners C</i>	50,000,000	50,000,000	334,779,928	144,265,330	0	38.95	9.92
<i>Merit Energy Partners D</i>	88,000,000	70,938,303	266,978,728	96,246,842	17,061,697	34.70	7.35
<i>Merit Energy Partners E</i>	100,000,000	36,489,813	81,436,761	13,390,402	63,510,187	29.46	3.96
<i>Merit Energy Partners F</i>	100,000,000	23,440,563	31,679,198	1,770,831	76,559,437	21.28	2.52
Prudential Capital Partners							
<i>Prudential Capital Partners I</i>	100,000,000	95,856,253	36,537,151	94,168,694	4,143,747	10.41	7.45
<i>Prudential Capital Partners II</i>	100,000,000	87,924,001	85,133,214	11,276,814	12,075,999	6.50	3.25
Quadrant Real Estate Advisors							
<i>Institutional Commercial Mortgage Fd IV</i>	14,300,000	14,300,000	2,217,019	20,839,034	0	8.32	10.75
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	19,730,792	38,566,307	0	8.30	9.17
Summit Partners							
<i>Summit Subordinated Debt Fund I</i>	20,000,000	18,000,000	85,481	31,406,578	2,000,000	30.55	14.50
<i>Summit Subordinated Debt Fund II</i>	45,000,000	40,500,000	5,806,713	83,140,047	4,500,000	56.39	11.16
<i>Summit Subordinated Debt Fund III</i>	45,000,000	35,715,965	23,542,576	16,722,997	9,284,035	6.99	4.62
<i>Summit Subordinated Debt Fund IV</i>	50,000,000	0	0	0	50,000,000	N/A	0.51
T. Rowe Price	54,377,560	54,377,560	718,075	52,586,511	0	-9.63	N/A
TCW/Crescent Mezzanine							
<i>TCW/Crescent Mezzanine Partners I</i>	40,000,000	37,213,077	1,380,694	59,445,548	2,786,923	14.76	12.50
<i>TCW/Crescent Mezzanine Partners II</i>	100,000,000	87,479,046	1,809,677	137,608,725	12,520,954	13.65	9.85
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	68,835,264	14,709,767	140,442,743	6,164,736	37.14	7.50
Windjammer Capital Investors							
<i>Windjammer Mezzanine & Equity Fund II</i>	66,708,861	50,223,136	36,314,302	37,955,359	16,485,725	10.30	8.50
<i>Windjammer Senior Equity Fund III</i>	67,974,684	29,694,520	26,545,925	2,956,977	38,280,164	-1.34	2.74
Yield-Oriented Total	2,268,745,413	1,572,946,396	1,393,850,251	1,685,789,454	695,799,016		
IV. Private Equity							
Adams Street Partners							
<i>Adams Street VPAF Fund I</i>	3,800,000	3,800,000	93,054	9,387,104	0	13.23	20.39
<i>Adams Street VPAF Fund II</i>	20,000,000	20,000,000	138,186	37,898,512	0	24.09	17.84
Advent International GPE VI	50,000,000	5,250,000	5,250,000	0	44,750,000	0.00	0.50
Affinity Ventures							
<i>Affinity Ventures IV</i>	4,000,000	2,511,847	1,860,377	405,436	1,488,153	-7.14	4.25
<i>Affinity Ventures V</i>	5,000,000	250,000	250,000	0	4,750,000	0.00	0.24
Banc Fund							
<i>Banc Fund VII</i>	45,000,000	39,600,000	23,245,319	812,725	5,400,000	-22.18	3.50
<i>Banc Fund VIII</i>	98,250,000	982,500	984,753	0	97,267,500	0.25	0.43
Blackstone							
<i>Blackstone Capital Partners II</i>	47,271,190	47,271,190	4,134,381	95,379,217	0	34.12	14.86
<i>Blackstone Capital Partners IV</i>	70,000,000	64,312,112	53,661,184	87,649,384	5,687,888	46.08	6.22
<i>Blackstone Capital Partners V</i>	140,000,000	100,449,196	95,805,599	5,061,592	39,550,804	-0.25	2.66
<i>Blackstone Capital Partners VI</i>	100,000,000	0	0	0	100,000,000	N/A	0.18

**Minnesota State Board of Investment
Alternative Investments ***

As of September 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
BLUM Capital Partners							
<i>Blum Strategic Partners I</i>	50,000,000	49,001,812	12,882,199	89,408,820	998,188	13.64	9.77
<i>Blum Strategic Partners II</i>	50,000,000	40,187,230	16,091,696	72,946,530	9,812,770	24.62	7.20
<i>Blum Strategic Partners III</i>	75,000,000	73,976,127	49,302,904	24,239,937	1,023,873	-0.35	3.33
<i>Blum Strategic Partners IV</i>	150,000,000	105,921,719	83,773,382	0	44,078,281	-30.19	0.87
CVI Global Value Fund	200,000,000	133,750,000	139,800,055	2,087,004	66,250,000	5.31	1.72
Chicago Growth Partners (William Blair)							
<i>William Blair Capital Partners VII</i>	50,000,000	47,850,000	16,479,818	56,980,990	2,150,000	11.34	7.56
<i>Chicago Growth Partners VIII</i>	50,000,000	43,541,998	35,320,968	15,789,143	6,458,002	13.74	3.18
<i>Chicago Growth Partners II</i>	60,000,000	5,882,204	5,882,204	0	54,117,796	-4.11	0.56
Coral Partners							
<i>Coral Partners II</i>	10,000,000	10,000,000	45,126	36,763,904	0	24.88	18.18
<i>Coral Partners IV</i>	15,000,000	15,000,000	1,841,120	13,538,879	0	0.52	14.20
<i>Coral Partners V</i>	15,000,000	15,000,000	3,227,880	3,106,198	0	-12.38	10.29
Court Square Capital							
<i>Court Square Capital Partners</i>	100,000,000	79,743,358	29,724,299	126,006,206	20,256,642	29.53	6.80
<i>Court Square Capital Partners II</i>	175,000,000	52,043,132	47,704,775	1,207,440	122,956,868	-5.72	2.07
Crescendo							
<i>Crescendo III</i>	25,000,000	25,000,000	1,367,044	9,321,908	0	-19.69	9.90
<i>Crescendo IV</i>	101,500,000	101,500,000	45,391,379	4,018,614	0	-11.38	8.56
CSFB/ DLJ							
<i>DLJ Merchant Banking Partners III</i>	125,000,000	118,989,550	86,813,276	161,860,203	6,010,450	21.22	8.00
<i>DLJ Strategic Partners</i>	100,000,000	88,346,075	28,341,142	137,248,878	11,653,925	24.31	7.70
<i>CSFB Strategic Partners II-B</i>	100,000,000	82,334,840	48,151,295	113,892,624	17,665,160	43.43	5.20
<i>CSFB Strategic Partners III VC</i>	25,000,000	21,687,418	23,054,916	5,610,898	3,312,582	19.20	3.33
<i>CSFB Strategic Partners III-B</i>	100,000,000	85,390,484	86,535,174	27,227,163	14,609,516	27.20	3.33
<i>CS Strategic Partners IV-B</i>	100,000,000	27,750,000	30,363,662	277,862	72,250,000	11.74	0.51
<i>CS Strategic Partners IV VC</i>	40,000,000	6,000,000	6,089,886	0	34,000,000	-0.19	0.29
CVC European Equity Partners V	140,465,024	21,590,273	20,484,064	0	118,874,750	-12.11	0.51
Diamond Castle Partners IV	100,000,000	58,877,859	57,862,380	1,395,796	41,122,141	-0.41	2.06
DSV Partners IV	10,000,000	10,000,000	36,524	39,196,082	0	10.61	23.47
EBF Merced Partners II	75,000,000	30,000,000	30,882,780	0	45,000,000	3.41	1.50
Elevation Partners	75,000,000	42,853,851	33,002,339	14,244,241	32,146,149	4.69	3.37
Fox Paine Capital Fund							
<i>Fox Paine Capital Fund II</i>	50,000,000	38,742,510	33,564,925	45,038,976	11,257,490	27.15	8.25
GHJM Marathon Fund							
<i>GHJM Marathon Fund IV</i>	40,000,000	39,051,000	9,194,922	44,201,952	949,000	7.30	9.46
<i>GHJM Marathon Fund V</i>	50,000,000	39,181,483	38,684,507	5,862,155	10,818,517	6.44	4.00
Golder,Thoma, Cressey, Rauner							
<i>Golder, Thoma, Cressey & Rauner Fund III</i>	14,000,000	14,000,000	185,019	78,123,015	0	30.87	20.92
<i>Golder, Thoma, Cressey & Rauner Fund IV</i>	20,000,000	20,000,000	28,060	42,160,456	0	25.00	14.66
<i>Golder, Thoma, Cressey & Rauner Fund V</i>	30,000,000	30,000,000	2,286,449	53,681,701	0	11.33	12.25
GS Capital Partners							
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	27,638,603	79,762,693	0	25.10	8.08
<i>GS Capital Partners V</i>	100,000,000	66,390,364	124,273,146	13,787,485	33,609,636	35.33	3.50
<i>GS Capital Partners VI</i>	100,000,000	39,000,000	35,824,503	0	61,000,000	-9.43	1.66
GTCR Golder Rauner							
<i>GTCR VI</i>	90,000,000	90,000,000	19,232,884	75,082,762	0	1.41	10.25
<i>GTCR VII</i>	175,000,000	155,421,864	26,078,564	339,376,531	19,578,136	24.76	8.65
<i>GTCR IX</i>	75,000,000	22,108,672	19,055,525	4,741,730	52,891,328	11.24	2.25
Hellman & Friedman							
<i>Hellman & Friedman Capital Partners IV</i>	150,000,000	133,967,494	32,966,828	341,637,107	16,032,506	35.34	8.75
<i>Hellman & Friedman Capital Partners V</i>	160,000,000	141,981,656	166,599,393	129,080,577	18,018,344	40.67	3.83
<i>Hellman & Friedman Capital Partners VI</i>	175,000,000	108,907,922	108,246,894	2,712,656	66,092,078	2.33	1.50

**Minnesota State Board of Investment
Alternative Investments ***

As of September 30, 2008

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Kohlberg Kravis Roberts							
<i>KKR 1987 Fund</i>	145,373,652	145,373,652	1,871,869	395,916,506	0	8.72	20.85
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	771,181	308,083,297	0	16.75	14.78
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	29,401,579	337,712,666	0	13.24	12.08
<i>KKR Millennium Fund</i>	200,000,000	196,315,009	180,025,195	150,117,314	3,684,991	23.44	5.81
<i>KKR 2006 Fund</i>	200,000,000	152,768,528	150,839,475	5,906,251	47,231,472	2.34	2.01
Lexington Capital Partners VI-B	100,000,000	60,843,646	51,788,139	12,680,301	39,156,354	5.32	2.77
RWI Ventures							
<i>RWI Ventures I</i>	7,603,265	7,403,265	3,609,261	4,025,809	200,000	1.89	2.25
<i>RWI Group III</i>	616,430	616,430	193,804	330,192	0	-10.83	2.25
Sightline Healthcare							
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	2,277,074	4,883,002	0	-4.71	11.58
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	7,452,209	3,288,320	0	-9.48	9.69
<i>Sightline Healthcare Fund IV</i>	7,700,000	6,823,232	3,480,646	4,008,034	876,768	2.96	5.02
Silver Lake Partners							
<i>Silver Lake Partners II</i>	100,000,000	86,162,603	85,080,761	25,315,234	13,837,397	11.21	4.25
<i>Silver Lake Partners III</i>	100,000,000	19,551,920	17,931,664	588,153	80,448,080	-11.16	1.50
Split Rock Partners							
<i>Split Rock Partners</i>	50,000,000	25,309,092	25,014,214	428,377	24,690,908	0.32	3.42
<i>Split Rock Partners II</i>	60,000,000	0	0	0	60,000,000	N/A	0.42
Summit Partners							
<i>Summit Ventures II</i>	30,000,000	28,500,000	169,116	74,524,292	1,500,000	28.82	20.39
<i>Summit Ventures V</i>	25,000,000	24,125,000	2,006,241	32,091,300	875,000	8.65	10.50
T. Rowe Price	824,634,067	824,634,067	76,047,046	787,972,998	0	7.10	N/A
Thoma Cressey							
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	11,191,504	15,371,225	1,085,000	-3.62	10.11
<i>Thoma Cressey Fund VII</i>	50,000,000	49,104,075	33,675,214	46,489,614	895,925	25.42	8.10
<i>Thoma Cressey Fund VIII</i>	70,000,000	60,602,574	62,080,852	0	9,397,426	1.31	2.42
Thomas, McNerney & Partners							
<i>Thomas, McNerney & Partners I</i>	30,000,000	23,850,000	16,068,669	10,504,694	6,150,000	4.22	5.90
<i>Thomas, McNerney & Partners II</i>	50,000,000	14,375,000	11,850,103	768,885	35,625,000	-11.04	2.25
The Varde Fund IX	100,000,000	65,000,000	63,866,205	0	35,000,000	-2.35	0.27
Vestar Capital Partners							
<i>Vestar Capital Partners IV</i>	55,000,000	51,811,074	28,967,682	54,477,273	3,188,926	14.56	8.79
<i>Vestar Capital Partners V</i>	75,000,000	55,644,838	53,930,706	4,239,291	19,355,162	3.46	2.78
Warburg Pincus							
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	451,376	255,993,050	0	49.21	13.75
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	21,612,404	128,432,094	0	9.39	10.26
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	104,405,789	79,716,124	0	18.45	6.46
<i>Warburg Pincus Private Equity IX</i>	100,000,000	98,405,208	103,331,043	8,037,000	1,594,792	7.40	3.18
<i>Warburg Pincus Private Equity X</i>	150,000,000	40,560,914	32,204,311	121,413	109,439,086	-29.80	0.94
Wayzata							
<i>Wayzata Opportunities Fund</i>	100,000,000	99,250,000	116,742,912	339,109	750,000	7.86	2.78
<i>Wayzata Opportunities Fund II</i>	150,000,000	73,500,000	71,659,854	332,659	76,500,000	-3.37	0.94
Welsh, Carson, Anderson & Stowe							
<i>Welsh, Carson, Anderson & Stowe VIII</i>	100,000,000	100,000,000	37,417,317	82,347,673	0	2.46	10.19
<i>Welsh, Carson, Anderson & Stowe IX</i>	125,000,000	118,750,000	84,641,895	124,671,350	6,250,000	15.44	8.26
<i>Welsh, Carson, Anderson & Stowe X</i>	100,000,000	76,578,466	85,178,840	0	23,421,534	6.60	2.79
<i>Welsh, Carson, Anderson & Stowe XI</i>	100,000,000	0	0	0	100,000,000	N/A	0.19
<i>Zell/Chilmark Fund</i>	30,000,000	30,000,000	34,765	77,129,496	0	17.71	18.22
Private Equity Total	7,880,213,628	5,865,171,333	3,347,006,277	5,485,056,083	2,015,042,295		
Alternatives Total	12,394,964,527	8,899,743,693	6,332,791,444	8,503,992,287	3,495,220,834		

* None of the data presented herein has been reviewed or approved by either the general partner or investment manager. The performance and valuation data presented herein is not a guarantee or prediction of future results. Ultimately, the actual performance and value of any investment is not known until final liquidation. Because there is no industry-standardized method for valuation or reporting, comparisons of performance and valuation data among different investments is difficult.

Tab E

DATE: November 14, 2008

TO: Members, Investment Advisory Council

FROM: Howard Bicker *HB*

SUBJECT: Asset Allocation and Liability Study

Attached is the asset allocation and liability study done by Richards & Tierney. R&T will present this paper at the IAC meeting followed by a full discussion.

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Presentation to
Minnesota State Board of Investment
Investment Advisory Council
November 21, 2008

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MNSBI Asset Liability Study

Background

Policies That Determine The Financial Health of Retirement Funds

- ◆ **Funding Policy – Cash flow into the Fund**
 - Specification of how and when contributions are made to the fund
 - Specification of amount and timing of contributions
- ◆ **Benefit Policy – Cash flow out of the Fund**
 - Specification of plan benefits
 - Specification of eligibility requirements
- ◆ **Investment Policy – Level and type of investment risk**
 - Financial status of the plan
 - Financial strength of the plan sponsor
 - Risk tolerance/preferences of the plan fiduciaries

MNSBI Asset Liability Study

Background

◆ Objective

- To observe a range of future financial outcomes, in context of economic and investment uncertainty
 - At current investment policy
 - At alternative investment policies
- To affirm or revise investment policy

◆ Examine the Financial Health of MN Retirement Plans in Aggregate

- Within the context of Investment Policy decisions
- Within the context of **existing** Funding Policy
- Within the context of **existing** Benefit Policy

◆ Conduct the Analysis on a Consolidated Basis

- Used largest 4 plans (Teachers Retirement Fund, Public Employees Retirement Fund, State Employees Retirement Fund, Public Employees Police & Fire)
 - These four plans accounted for approximately 98% of total SBI retirement assets at June 30, 2008
- Combined the Basics and the Post

◆ Focus on Funded Ratio

- Actuarial Liabilities / Market Value of Assets
- 20 and 25 year projections
 - Years 2028 and 2033

MNSBI Asset Liability Study

Analytical Process

- ◆ **Create actuarial model of MN Retirement Plans that is consistent with the valuations by plan actuary (Segal)**
 - Load July 2007 census data, program plan provisions and enter actuarial assumptions
 - Utilize all available financial information
 - Run replication valuation to ensure results within 0-5% tolerance
 - Scale results so starting values exactly match actuary's figures
 - Reflect all new actuarial assumptions effective for July 2008 valuations
 - Reflect merging of Post plan with respective active plans
- ◆ **Create new entrant profiles**
 - Use an open group concept, where departing employees are replaced by presumed new hires
 - Set experience assumptions equal to valuation assumptions (no built-in gains or losses)
 - Achieve overall demographic stability in member counts, average ages, average service, etc.
 - Establish separate profile for each of the four plans modeled
- ◆ **Create a consolidated liability model**
 - Aggregate the four (4) plans
 - Maintain each plan's respective assumptions
- ◆ **Run 30-year core projection of liabilities**
- ◆ **Run Deterministic and Stochastic Forecasts**

MNSBI Asset Liability Study

Deterministic versus Stochastic

◆ **Deterministic forecasts**

- Set of financial outcomes over projection period, based on the premise that a set of assumptions will be realized
- Set of assumptions could be variety of scenarios

◆ **Stochastic forecasts**

- Set of several thousand deterministic forecasts chosen randomly based on the risk and return characteristics of the investment policy asset classes
- Distribution of financial outcomes over the projection period, based on the premise that assumptions will rarely, if ever, be fully realized
- Measures the range or volatility of selected financial factors over the projection periods
- Measures the probability of a variety of financial outcomes

Deterministic Forecast

Assume 8.5% Annual Investment Return starting July 2008

Year	Actuarial Value of Assets (AVA)	Market Value of Assets (MVA)	Actuarial Liability	Funded Ratio (Beg yr)	Employer Contributions (% of payroll)	Expected Employee Contributions (% of payroll)	Funding Expected Bft Pymts
2007	46,113,586,941	48,694,008,834	53,810,046,281	0.90	6.30	5.63	2,867,447,173
2008	48,389,334,858	44,778,736,618	56,806,475,924	*0.79	6.35	5.65	3,043,635,083
2009	49,933,604,802	**46,924,757,387	59,412,133,897	**0.79	6.45	5.71	3,229,549,232
2010	51,344,829,890	49,124,724,630	62,061,532,369	0.79	6.55	5.74	3,423,867,842
2011	52,670,463,929	51,374,018,287	64,752,561,165	0.79	6.55	5.74	3,623,351,786
2012	53,654,617,588	53,654,617,588	67,487,005,452	0.80	6.55	5.74	3,832,657,349
2013	55,961,615,892	55,961,615,892	70,259,815,347	0.80	6.55	5.74	4,050,353,022
2014	58,290,518,387	58,290,518,387	73,067,676,716	0.80	6.55	5.74	4,274,917,162
2015	60,638,137,822	60,638,137,822	75,907,648,238	0.80	6.55	5.75	4,505,476,814
2016	63,002,577,616	63,002,577,616	78,778,200,211	0.80	6.55	5.75	4,747,863,077
2017	65,374,779,456	65,374,779,456	81,666,445,605	0.80	6.55	5.75	4,980,771,415
2018	67,766,896,248	67,766,896,248	84,597,180,954	0.80	6.55	5.75	5,222,609,853
2019	70,173,624,077	70,173,624,077	87,566,773,464	0.80	6.55	5.75	5,479,380,684
2020	72,582,664,423	72,582,664,423	90,556,630,690	0.80	6.55	5.75	5,719,934,929
2028	92,811,153,957	92,811,153,957	116,210,113,051	0.80	6.55	5.77	7,721,618,708
2033	107,162,690,052	107,162,690,052	134,688,791,665	0.80	6.55	5.79	8,915,311,886

* Preliminary 2008 (MVA) Funded Ratios: MSRS 88%, TRS 82%, PERA 72%, PERA P&F 86%

** Values do not reflect the significant decline of the market value of assets experienced since July 2008.

Richards & Tierney, Inc.

Deterministic Forecasts – Funded Status

Investment Return needed for Full Funded Status at Years 2028/2033



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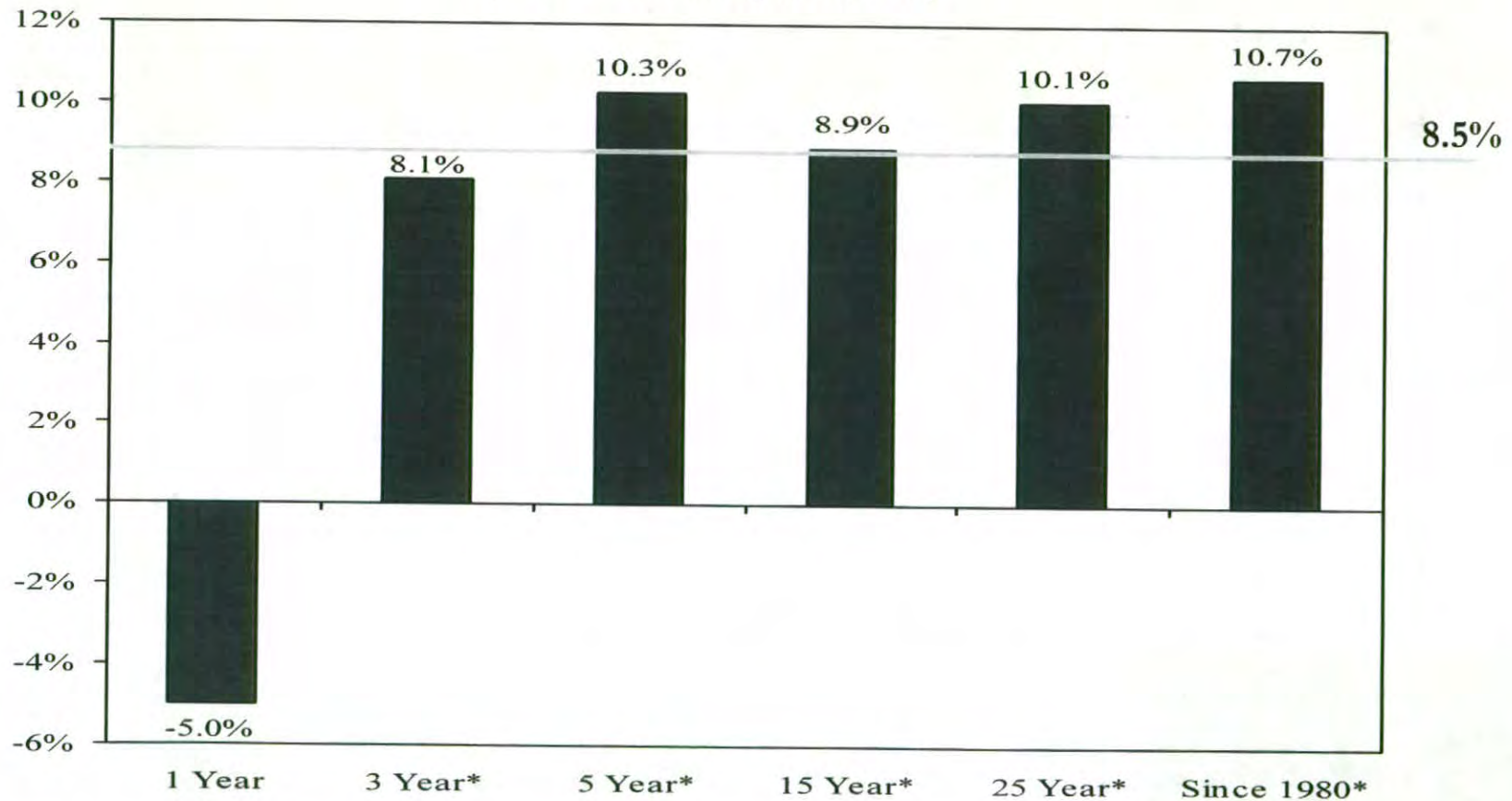
Values do not reflect the significant decline of the market value of assets experienced since July 2008.

MNSBI Asset Liability Study

MN SBI Historical Actual Returns

SBI Returns – Active/Post Funds Combined

(for periods ending 6/30/2008)



* Annualized rate of return net of fees and expenses

MNSBI Asset Liability Study

Capital Market Assumptions

Asset Classes	Real Return (%)	Nominal Return (%)	Risk (Std Dev)
Domestic Equity	6.0	9.0	17.0
International Equity	6.0	9.0	18.0
Emerging Markets	8.0	11.0	25.0
Alternative Assets	8.5	11.5	20.0
Domestic Bonds	3.0	6.0	7.0
Cash Equivalents	1.0	4.0	2.0
Inflation	3.0		1.0

MNSBI Asset Liability Study

Capital Market Assumptions

Correlation Matrix

	1	2	3	4	5	6	7
Domestic Equity	1.00						
International Equity	.70	1.00					
Emerging Markets	.65	.65	1.00				
Alternative Assets	.55	.45	.40	1.00			
Domestic Bonds	.20	.10	-.05	.20	1.00		
Cash Equivalents	.00	-.05	-.05	.00	.00	1.00	
Surprise Inflation	-.28	-.09	.25	.19	-.48	.02	1.00

MNSBI Asset Liability Study

Investment Options

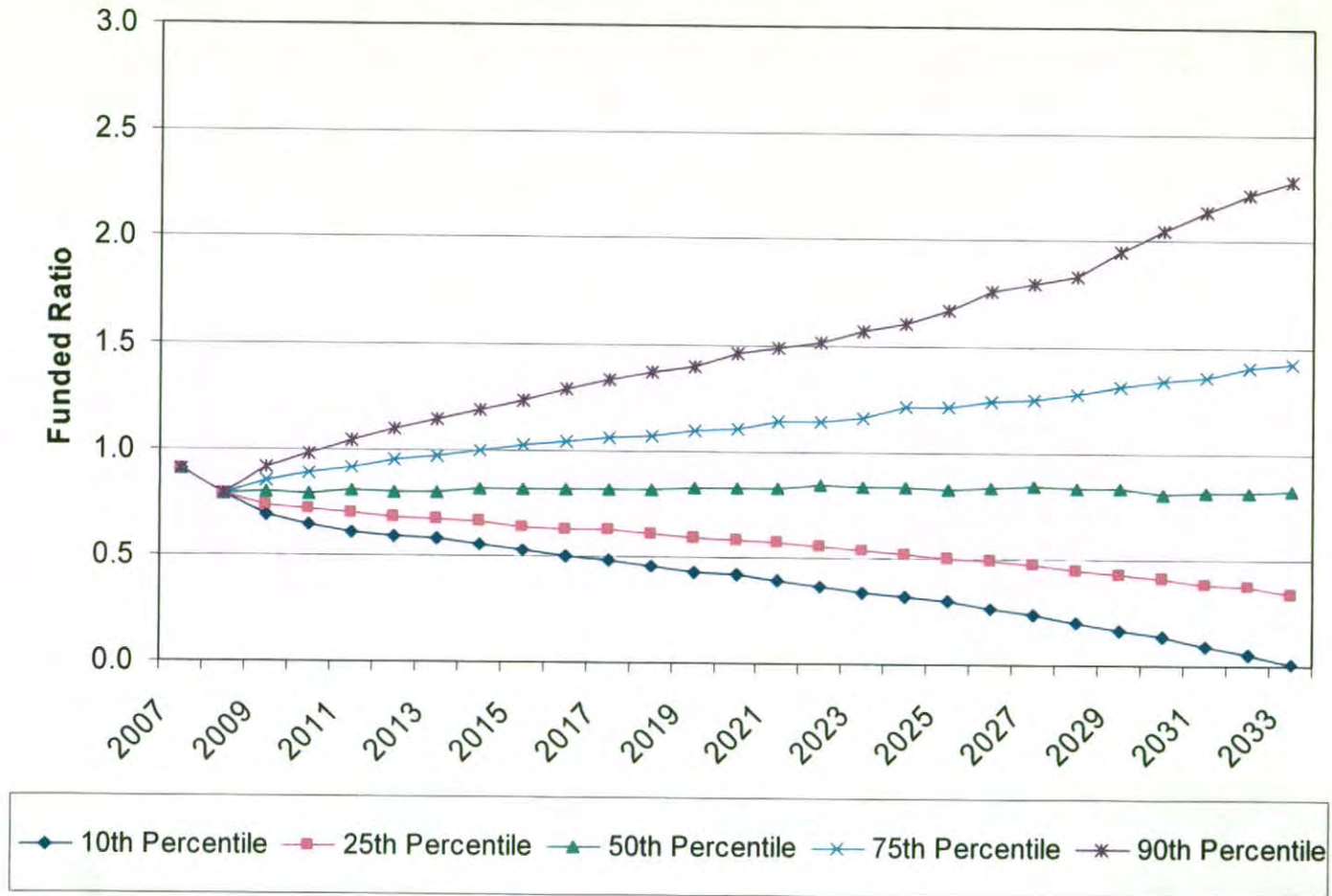
Asset Class	Current Policy	Option 1	Option 2	Option 3
US Stocks	45.0%	45.0%	40.0%	40.0%
International	12.0	12.0	16.0	16.0
Emerging Markets	3.0	3.0	4.0	4.0
Alternatives	16.0	20.0	18.0	20.0
US Bonds	22.0	18.0	20.0	18.0
Cash	2.0	2.0	2.0	2.0
Total	100.0%	100.0%	100.0%	100.0%

Annual Exp Return (%)	8.70	8.92	8.91	8.94
Annual Exp Risk (Std Dev)	12.30	12.81	12.79	12.75

Stochastic Forecast – Funded Ratio

Current Investment Policy: Projected Outcomes from 7/1/08

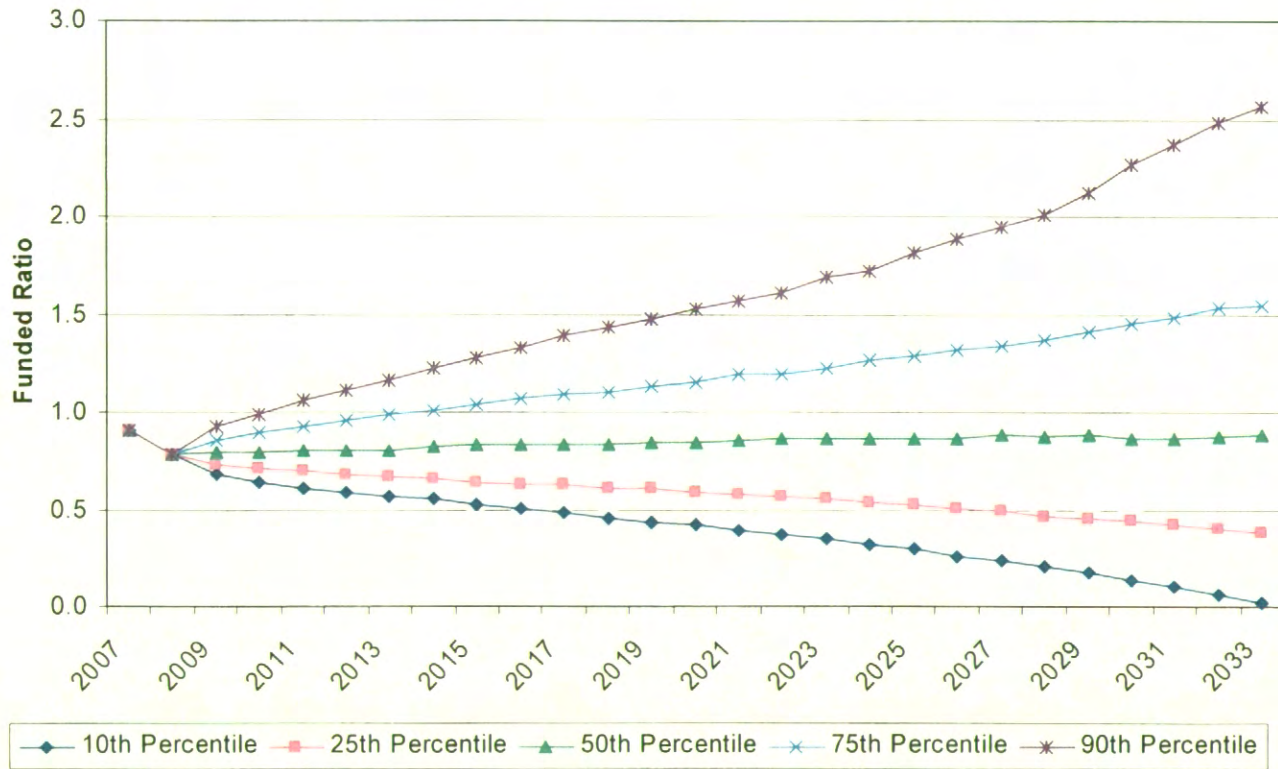
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Stochastic Forecast – Funded Ratio

Investment Option 1: Projected Outcomes from 7/1/08

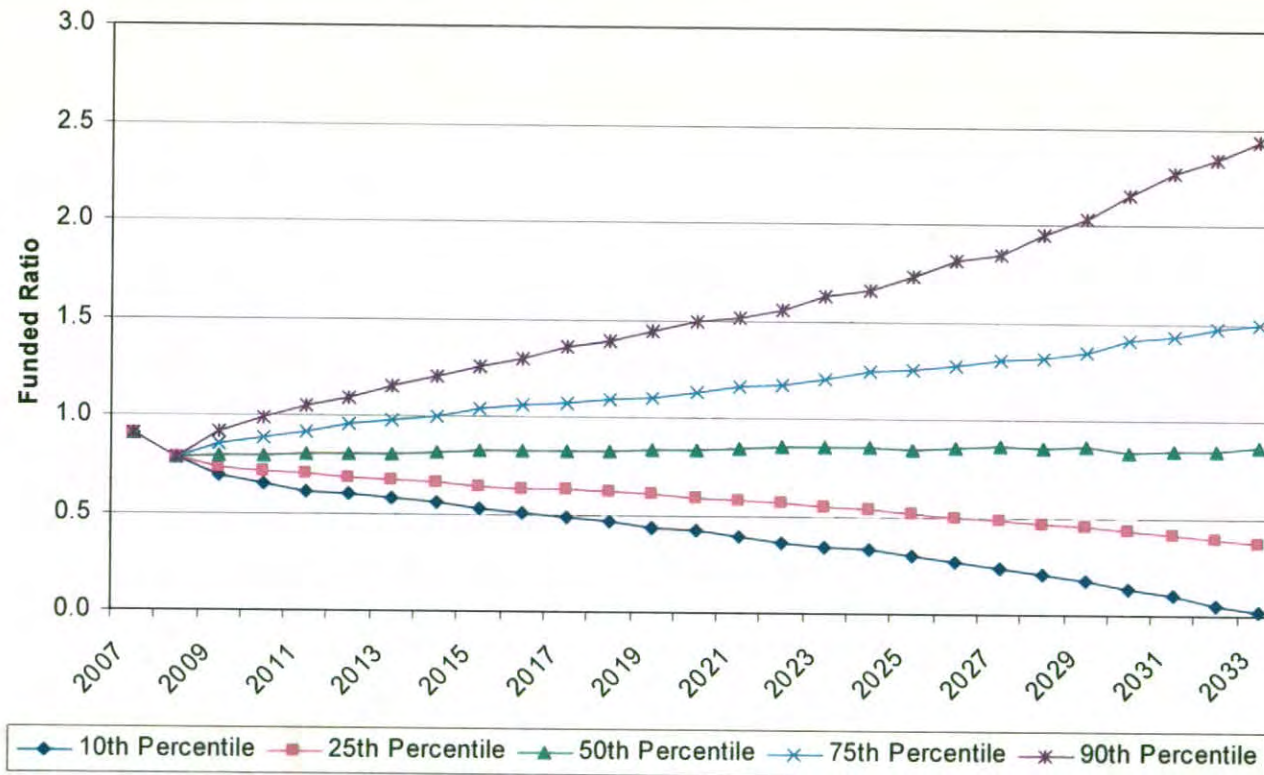
- 16 -



Stochastic Forecast – Funded Ratio

Investment Option 2: Projected Outcomes from 7/1/08

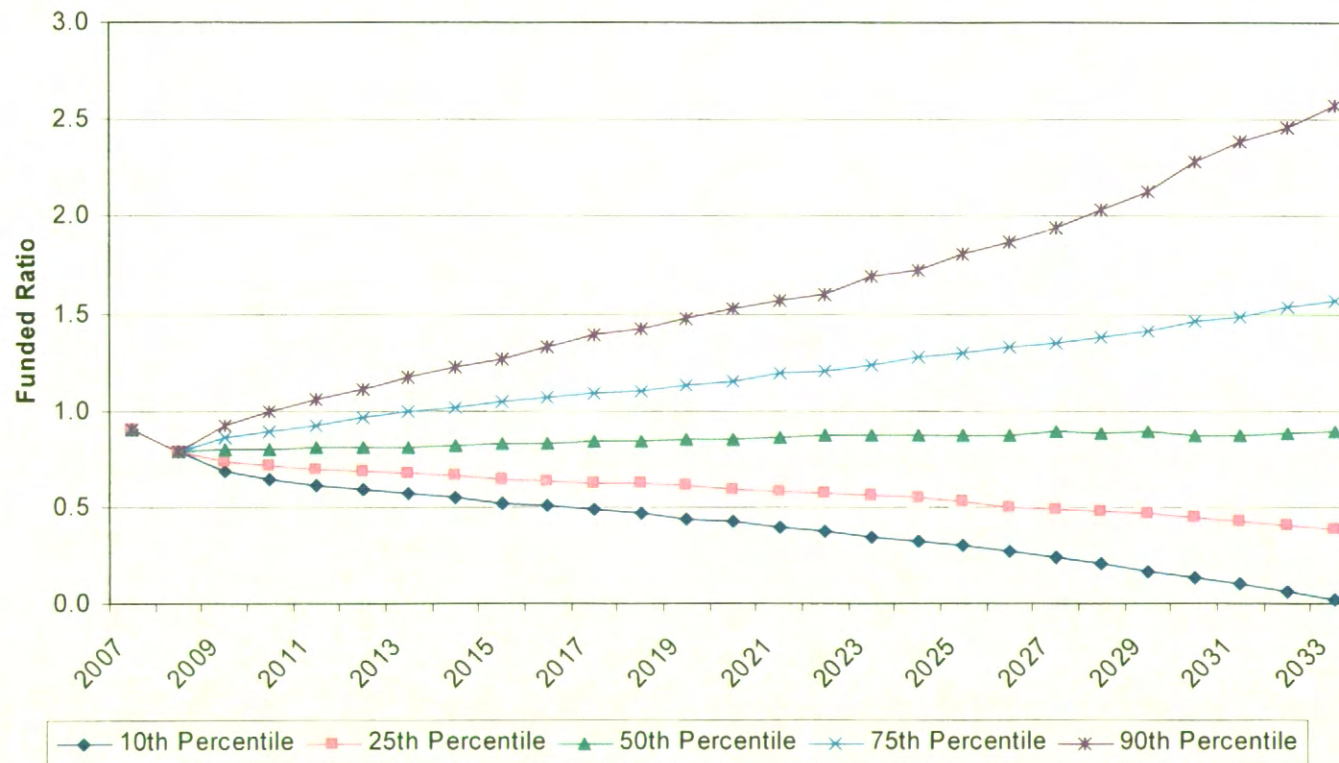
- 17 -



Stochastic Forecast – Funded Ratio

Investment Option 3: Projected Outcomes from 7/1/08

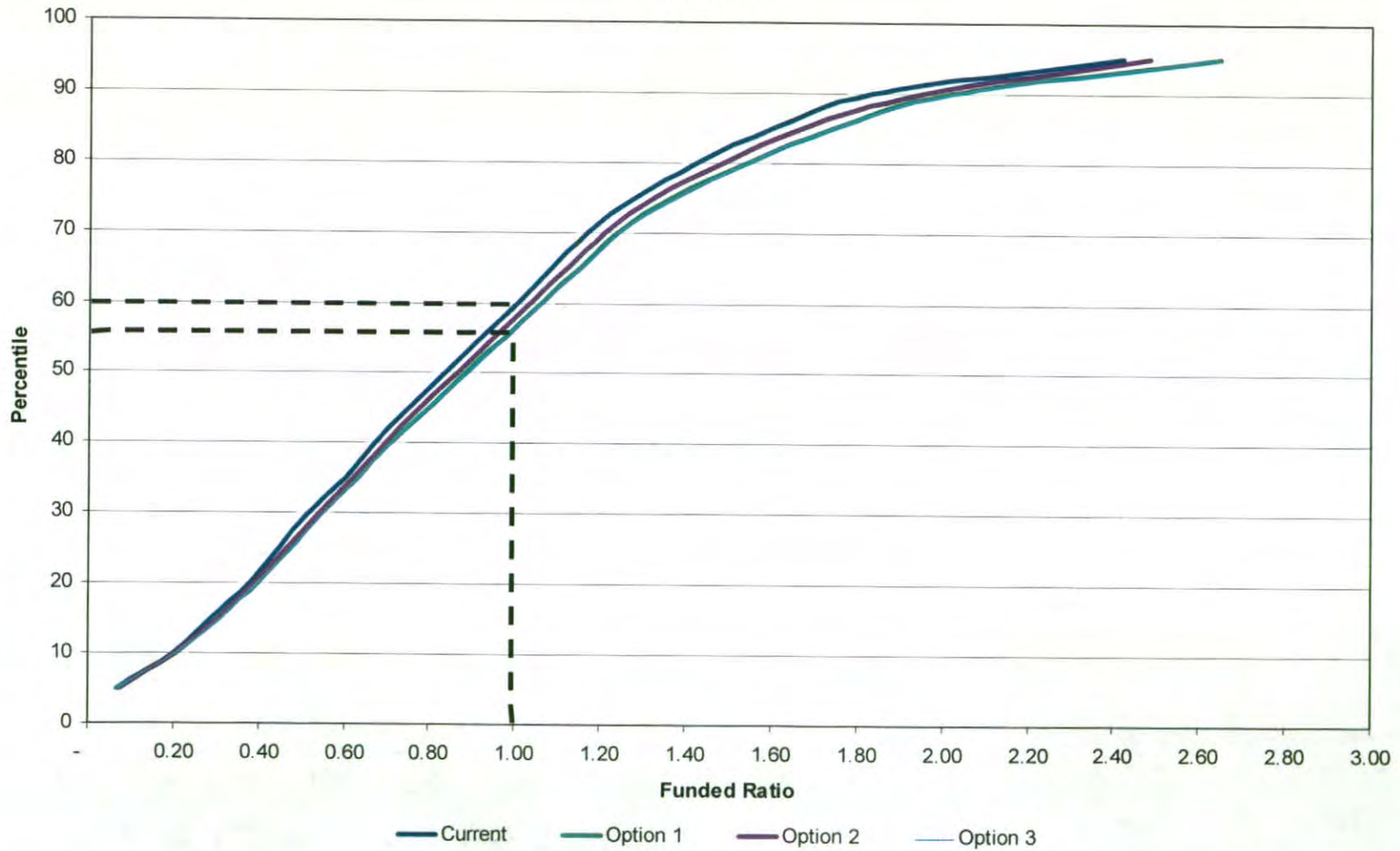
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Stochastic Forecast – Funded Ratio

Investment Options: Projected Outcomes from 7/1/08

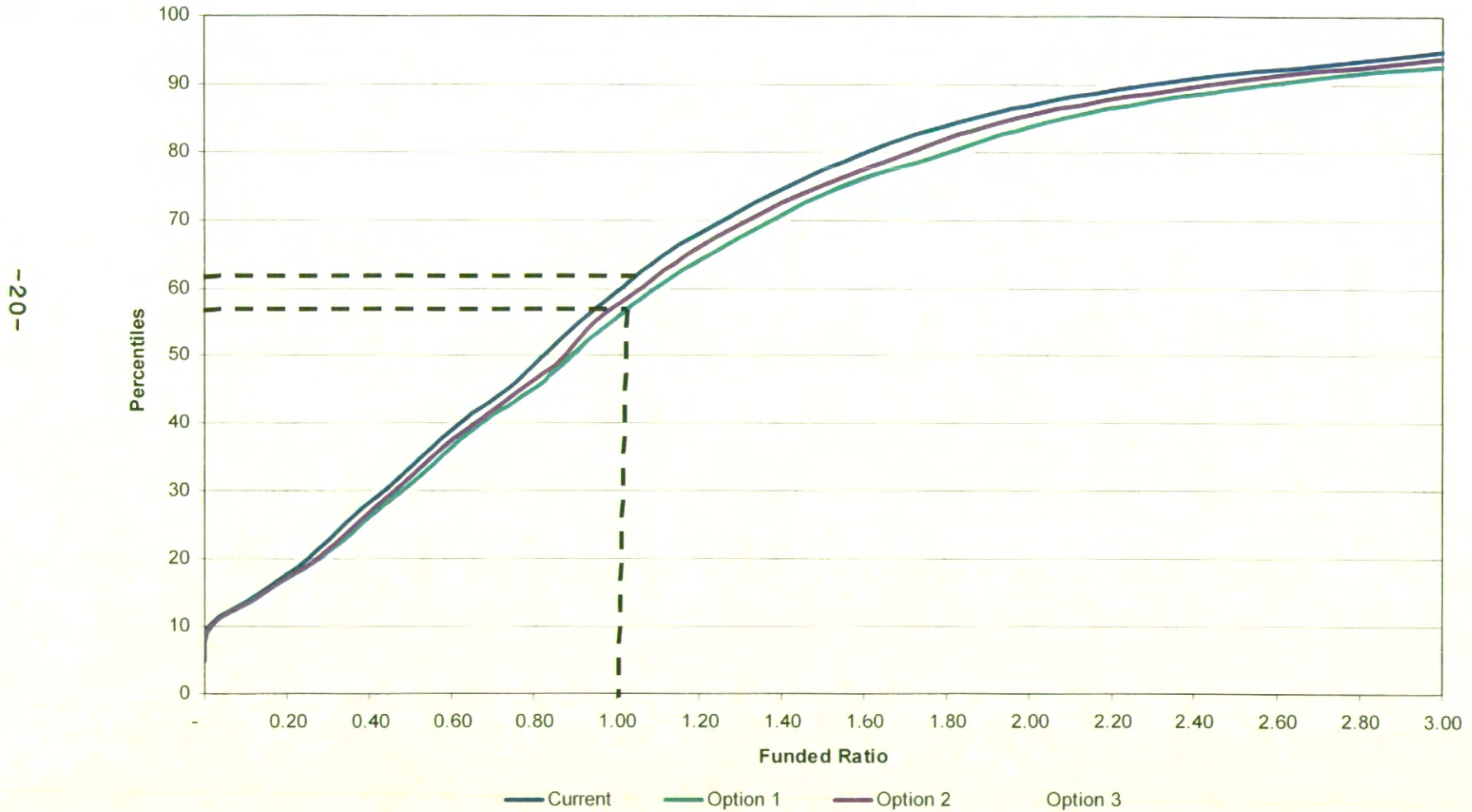
Funded Ratio
at Year 2028



Stochastic Forecast – Funded Ratio

Investment Options: Projected Outcomes from 7/1/08

Funded Ratio
at Year 2033



MNSBI Asset Liability Study

Discussion Points

◆ Investment Policy

- The projected funded status does not significantly change based on the investment options studied
- The investment policy will not likely solve potential future unfunded issues

◆ Funding Policy

- Statutory language exists that grants the PERA and MSRS Boards authority to increase contribution rates should a contribution deficiency materialize.
- TRA will likely seek similar authority in the coming session

◆ Benefit Policy

- Legislative action has been taken to combine the Basics and Post when(if) the funded ratio of the Post becomes less than 80% funded or two consecutive years of less than 85% funded.
- Benefit increases for Post have also been modified

◆ Extraordinary market action since July 2008

- The analysis was conducted based on June 30, 2008 market values, thus does not reflect the significant decline of the market value of assets experienced since June month-end. Future outcomes could be severely impacted by recent capital market action
- Consider revisiting the Asset Liability Analysis when 2009 data becomes available.