

**AGENDA**  
**INVESTMENT ADVISORY COUNCIL MEETING**  
**Tuesday, November 16, 2010**  
**12:00 Noon**  
**State Board of Investment**  
**Board Room – First Floor**  
**60 Empire Drive, St. Paul, MN**

- |  |            |
|--|------------|
|  | <b>TAB</b> |
| <b>1. Approval of Minutes of August 17, 2010</b>   |            |
| <b>2. Report from the Executive Director (H. Bicker)</b>   | <b>A</b>   |
| A. Quarterly Investment Review<br>(July 1, 2010 – September 30, 2010)  |            |
| B. Administrative Report   | <b>B</b>   |
| 1. Reports on budget and travel  |            |
| 2. FY10 Audit Report   |            |
| 3. Draft of FY10 Annual Report   |            |
| 4. Tentative Meeting Dates for Calendar 2011   |            |
| 5. Update on Sudan   |            |
| 6. Update on Iran  |            |
| 7. Update on 529 Plan  |            |
| 8. Litigation Update   |            |
| <b>3. Review of manager performance for the period ending<br/>September 30, 2010 (H. Bicker)</b>   | <b>C</b>   |
| <b>4. Review of changes to State's Deferred Compensation Plan (H. Bicker)</b>  | <b>D</b>   |
| <b>5. Review of the asset allocation of the Assigned Risk Plan (H. Bicker)</b>   | <b>E</b>   |
| <b>6. Review of potential changes to SBI's investment authority under<br/>Minnesota Statutes 11A.24 (H. Bicker)</b>                      |            |
| <b>7. Alternative Investment Report (H. Bicker)</b>  | <b>F</b>   |
| A. Review of current strategy.   |            |
| B. Consideration of investment commitments to new funds with one<br>existing resource manager and four existing private equity managers. |            |
| <b>8. Other items</b>  |            |

**INVESTMENT ADVISORY COUNCIL**

**MINUTES**

**November 16, 2010**

**Minutes**  
**Investment Advisory Council**  
**August 17, 2010**

**MEMBERS PRESENT:** Frank Ahrens, Jeff Bailey, Dave Bergstrom, Kerry Brick, Dennis Duerst, Doug Gorence, Laurie Hacking, Kathy Kardell (for Tom Hanson), Heather Johnston, P. Jay Kiedrowski, LeRoy Koppendrayner, Judy Mares, Gary Martin, Gary Norstrem, and Mary Vanek.

**MEMBERS ABSENT:** John Bohan and Malcolm McDonald.

**SBI STAFF:** Howard Bicker, Teri Richardson, Jim Heidelberg, Tammy Brusehaver, Patricia Ammann, Stephanie Gleeson, John Griebenow, Michael McGirr, Steve Schugel, Debbie Griebenow, Carol Nelson, and Charlene Olson.

**OTHERS ATTENDING:** Ann Posey, Nuveen Investments; Jim Gelbmann, Rebecca Spartz, Christie Eller, Heidi Holst, State Auditor's Office; Patrick Robben, Governor's Office and John Fisher, REAM.

The minutes of the May 18, 2010 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 outperformed its Composite Index over the ten year period ending June 30, 2010 (Combined Funds 2.9% vs. Composite 2.8%.) and had provided a real rate of return over the latest 20 year period (Combined Funds 8.0% vs. CPI 2.6%.)

Mr. Bicker reported that the Combined Funds' assets decreased for the quarter ending June 30, 2010 due to weak market performance. He said that the asset mix is on target, and he reported that the Combined Funds outperformed its Composite Index for the quarter (Combined Funds -5.5% vs. Composite -5.7%) and for the year (Combined Funds 15.2% vs. Composite 13.5%.)

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock -11.5% vs. Domestic Equity Asset Class Target -11.3%) but outperformed for the year (Domestic Stocks 15.8% vs. Domestic Equity Asset Class Target 15.7%.) He said the International Stock manager group outperformed its Composite Index for the quarter (International Stocks -11.5% vs. International Equity Asset Class Target -12.4%) and for the year (International Stocks 11.7% vs. International Equity Asset Class Target 10.4%.) Mr. Bicker stated that the bond segment

outperformed its target for the quarter (Bonds 3.6% vs. Fixed Income Asset Class Target 3.5%) and for the year (Bonds 14.5% vs. Fixed Income Asset Class Target 9.5%.) He stated that the alternative investments returned 15.0% for the year. He concluded his report with the comment that, as of June 30, 2010, the SBI was responsible for over \$52 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 stated that updated information on Sudan and Iran is included in Tab B, and he noted that staff is in the process of divesting some stocks as a result of the Iran legislation. He stated that the Iran related divestment must be completed by January 2011.

Mr. Bicker said that staff continues to work on updating existing repurchase agreements (repo) with current counterparties. He noted that language in the contracts is changing and several firms have balked at the state's terms or demanded terms to which the State cannot legally agree. He stated that at this time, staff believes the remaining repo counterparties offer sufficient capacity to meet the State's liquidity needs. He stated that staff is setting up contingency plans with State Street Bank to manage a short-term pool to help meet the State's short term investments needs.

Ms. Eller stated that the Lehman bankruptcy case is proceeding and that the State had filed a motion in support of discovery regarding some company transfers. Ms. Eller stated that the SBI is not a defendant in the pension lawsuit, and she noted that the State will be filing a motion for judgment soon.

Mr. Bicker stated that staff is recommending that staff be granted the authority to renegotiate its contract with State Street Bank. He noted that there have been significant changes in the financial markets since the last contract was awarded and that staff has also required additional services from the bank. Mr. Kiedrowski moved approval of staff's recommendations, and Mr. Bergstrom seconded the motion. In response to a question from Ms. Johnson, Mr. Bicker explained that securities lending income is very minimal, and he noted changes that the SBI has made to collateral requirements for the lending program. In response to a question from Mr. Brick, Mr. Bicker explained that the custodial business with State Street is entirely separate from the investment management business at State Street. In response to a question from Mr. Gorence, Mr. Bicker said that he is hoping to give State Street the ability to increase revenues while giving the SBI the ability to put a limit on the amount they receive. The motion passed.

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

Mr. Bicker referred members to Tab C of the meeting materials and briefly reviewed the recent manager performance. He said that staff is monitoring Alliance Capital in the international emerging equity program due to significant personnel turnover. He added that staff is also continuing to monitor Alliance's domestic equity account management.

Mr. Bicker referred members to Tab D of the meeting materials and stated that staff is not recommending the use of customized MSCI market indices as the asset class target, or as individual manager benchmarks for the international equity program at this time. He said that staff will continue to evaluate whether to subscribe to the index beginning July 1, 2011 in order to analyze the impact of investment restrictions. He noted that the Iran divestment schedule does not mandate full divestment until January 31, 2011. A discussion followed on the various types of restrictions placed on the SBI's portfolios, and Mr. Bicker discussed the costs associated with using customized indices and the advantages to waiting for a new fiscal year reporting cycle to implement any potential changes. Mr. Gorence moved approval of staff's recommendation, as stated in Tab D of the meeting materials. Ms. Mares seconded the motion. The motion passed.

Mr. Bicker stated that staff has no recommendations for alternative investments this quarter.

Mr. Griebenow made a brief presentation to members providing some background information on the two real estate firms that would be making a presentation for the Real Estate Roundtable discussion. The presentation by Michael Ruane, Managing Partner of TA Realty and Bill Stein, Senior Managing Director at Blackstone Group followed.

The meeting adjourned at 1:47 P.M.

Respectfully submitted,



Howard Bicker  
Executive Director

# **Tab A**

**LONG TERM OBJECTIVES**  
**Period Ending 9/30/2010**

<b>COMBINED FUNDS: \$43.4 Billion</b>	<b>Result</b>	<b>Compared to Objective</b>
<p><b>Match or Exceed Composite Index (10 Yr.)</b></p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.</p>	<p><b>3.8% (1)</b></p>	<p>0.2 percentage point above the target</p>
<p><b>Provide Real Return (20 yr.)</b></p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.</p>	<p><b>9.0%</b></p>	<p>6.5 percentage points above CPI</p>

(1) Performance is calculated net of fees.

**SUMMARY OF ACTUARIAL VALUATIONS****Eight Plans of MSRS, PERA and TRA  
July 1, 2009****Liabilities**

Actuarially Accrued Liabilities \$60.7 billion

**Assets**

Current Actuarial Value \$46.8 billion

**Funding Ratio**

Current Actuarial Value divided by  
Accrued Liabilities 77.1%

**Actuarial Assumptions:**

1. Liabilities calculated using entry age normal cost method.
2. Difference between actual returns and actuarially expected returns spread over five years.
3. Interest/Discount Rate: 8.5%
4. Full Funding Target Date:
  - 2020 – MSRS General
  - 2031 – PERA General
  - 2037 – TRA



**EXECUTIVE SUMMARY**  
**Combined Funds (Net of Fees)**

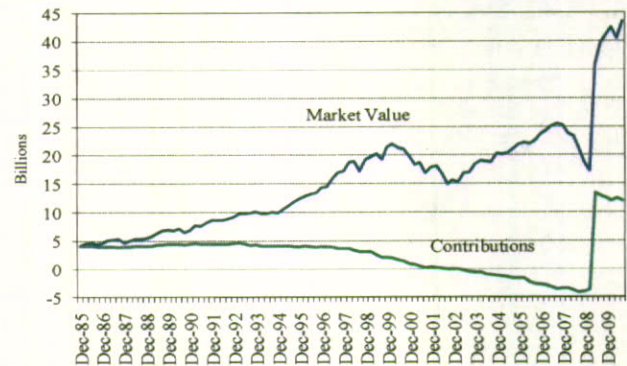
**Asset Growth**

The market value of the Combined Funds increased 7.2% during the third quarter of 2010. Positive investment returns caused the increase in market value.

**Asset Growth**  
**During Third Quarter 2010**  
**(Millions)**

Beginning Value	\$ 40,466
Net Contributions	-536
Investment Return	3,449
Ending Value	\$ 43,379

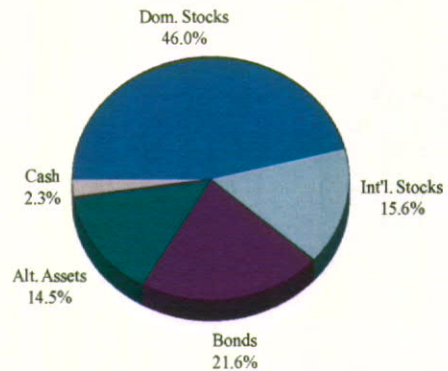
Note: The significant increase in market value and contributions in June 2009 was due to the merger of the Basics and Post Funds.



**Asset Mix**

Strong equity returns and rebalancing caused the allocation to domestic equities to increase. The fixed income allocation decreased due to the rebalancing.

	Policy Targets	Actual Mix 9/30/2010	Actual Market Value (Millions)
Domestic Stocks	45.0%	46.0%	\$19,943
Int'l. Stocks	15.0	15.6	6,789
Bonds	18.0	21.6	9,367
Alternative Assets*	20.0	14.5	6,297
Unallocated Cash	2.0	2.3	983
	100.0%	100.0%	\$43,379

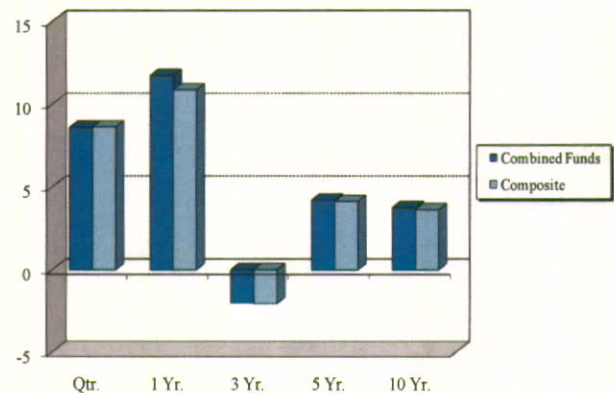


\* Any uninvested allocation is held in domestic bonds.

**Fund Performance (Net of Fees)**

The Combined Funds was even with its target for the quarter and outperformed for the year.

	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds	8.6%	11.7%	-2.0%	4.2%	3.8%
Composite	8.6	10.9	-2.0	4.1	3.6



## EXECUTIVE SUMMARY

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

#### Domestic Stocks

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

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

	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Dom. Stocks</b>	<b>11.5%</b>	<b>10.9%</b>	<b>-6.8%</b>	<b>0.6%</b>	<b>-0.3%</b>
Asset Class Target*	11.5	11.0	-6.6	0.9	-0.1

\* 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.

#### International Stocks

The international stock manager group (active, semi-passive and passive combined) was even with its target for the quarter and outperformed for the year.

**MSCI ACWI Free ex U.S. (net):** The Morgan Stanley Capital International All Country World Index is a free float-adjusted market capitalization Index that is designed to measure equity market performance in the global developed and emerging markets. There are 45 countries included in this index. It does not include the United States.

	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	<b>16.6%</b>	<b>9.0%</b>	<b>-7.0%</b>	<b>4.6%</b>	<b>4.5%</b>
Asset Class Target*	16.6	7.6	-7.3	4.3	4.3

\* Since 6/1/08 the International Equity Asset Class Target is the Standard MSCI ACWI ex U.S. (net). From 10/1/07 to 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) + 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.

#### Bonds

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

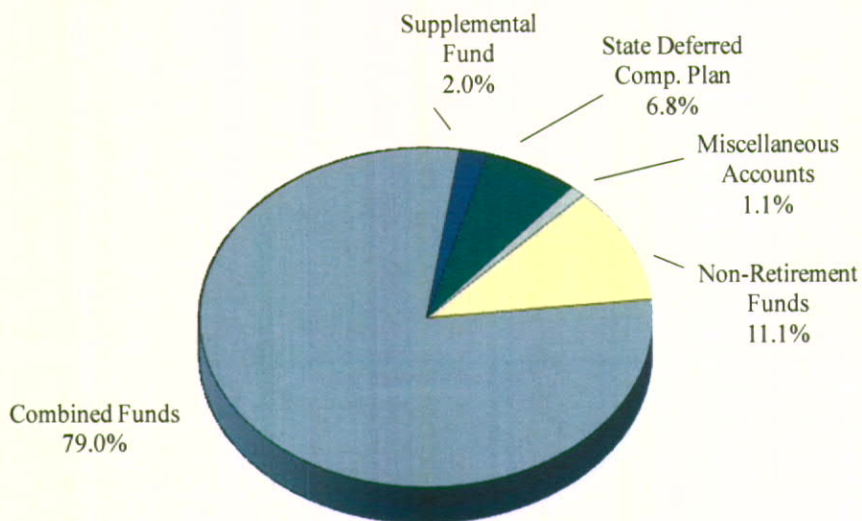
**Barclays Capital Aggregate:** The Barclays Capital Aggregate Bond Index reflects the performance of the broad bond market for investment grade (Baa or higher) bonds, U.S. treasury and agency securities, and mortgage obligations with maturities greater than one year.

	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	<b>3.2%</b>	<b>11.2%</b>	<b>7.2%</b>	<b>6.1%</b>	<b>6.6%</b>
Asset Class Target	2.5	8.2	7.4	6.2	6.4

#### Alternative Investments

	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Alternatives</b>	<b>1.9%</b>	<b>15.9%</b>	<b>0.9%</b>	<b>12.2%</b>	<b>11.5%</b>

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



	<b>9/30/2010 Market Value (Billions)</b>
<b>Retirement Funds</b>	
Combined Funds	\$43.4
Supplemental Investment Fund	1.1
- Excluding Deferred Compensation Plan Assets	
State Deferred Compensation Plan	3.7
<b>Non-Retirement Funds</b>	
Assigned Risk Plan	0.3
Permanent School Fund	0.7
Environmental Trust Fund	0.5
State Cash Accounts	4.6
<b>Miscellaneous Accounts</b>	<b>0.6</b>
<b>Total</b>	<b>\$54.9</b>

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# MINNESOTA STATE BOARD OF INVESTMENT

## QUARTERLY INVESTMENT REPORT

Third Quarter 2010  
(July 1, 2010 - September 30, 2010)

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## VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/2010				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Equity</b>					
Dow Jones Wilshire Composite	11.5%	11.3%	-6.3%	1.2%	0.3%
Dow Jones Industrials	11.1	14.1	-5.4	3.1	2.5
S&P 500	11.3	10.2	-7.2	0.6	-0.4
Russell 3000 (broad market)	11.5	11.0	-6.6	0.9	0.1
Russell 1000 (large cap)	11.6	10.8	-6.8	0.9	-0.2
Russell 2000 (small cap)	11.3	13.3	-4.3	1.6	4.0
<b>Domestic Fixed Income</b>					
Barclays Capital Aggregate (1)	2.5	8.2	7.4	6.2	6.4
Barclays Capital Gov't./Corp.	3.3	8.7	7.5	6.1	6.5
3 month U.S. Treasury Bills	0.0	0.1	0.9	2.4	2.4
<b>International</b>					
EAFE (2)	16.5	3.3	-9.5	2.0	2.6
Emerging Markets Free (3)	18.2	20.5	-1.2	13.1	13.8
ACWI Free ex-U.S. (4)	16.7	8.0	-7.0	4.7	4.8
World ex-U.S. (5)	16.1	4.1	-9.0	2.4	2.9
Salomon Non U.S. Gov't. Bond	10.4	4.5	8.4	7.3	8.0
<b>Inflation Measure</b>					
Consumer Price Index CPI-U (6)	0.2	1.1	1.6	1.9	2.2
Consumer Price Index CPI-W (7)	0.2	1.4	1.7	1.9	2.3

(1) Barclays Capital 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 an 11.5% return during the third quarter of 2010. In September, the U.S. Bureau of Economic Research declared the recession officially ended in June 2009. Volatility remained during the summer in equities, but improving investor sentiment during September drove stocks higher for the third quarter. The markets experienced the strongest September returns on record for the Dow in 71 years. This strong performance is welcome because September is historically one of the poorest performing months for equities. The upbeat macroeconomic news contributed to strong sector performance in the index, and all sectors were positive over the quarter. Within the Russell 3000, the Autos & Transportation sector along with the Materials & Processing sector reported the highest sector returns, both up 17.0% for the quarter. The Financial sector was the worst performing sector with a 5.6% return for the quarter. Growth companies outperformed value companies within the Russell 3000.

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

Large Growth	Russell 1000 Growth	13.0%
Large Value	Russell 1000 Value	10.1%
Small Growth	Russell 2000 Growth	12.8%
Small Value	Russell 2000 Value	9.7%

The Russell 3000 index returned 11.0% for the year ending September 30, 2010.

DOMESTIC BONDS

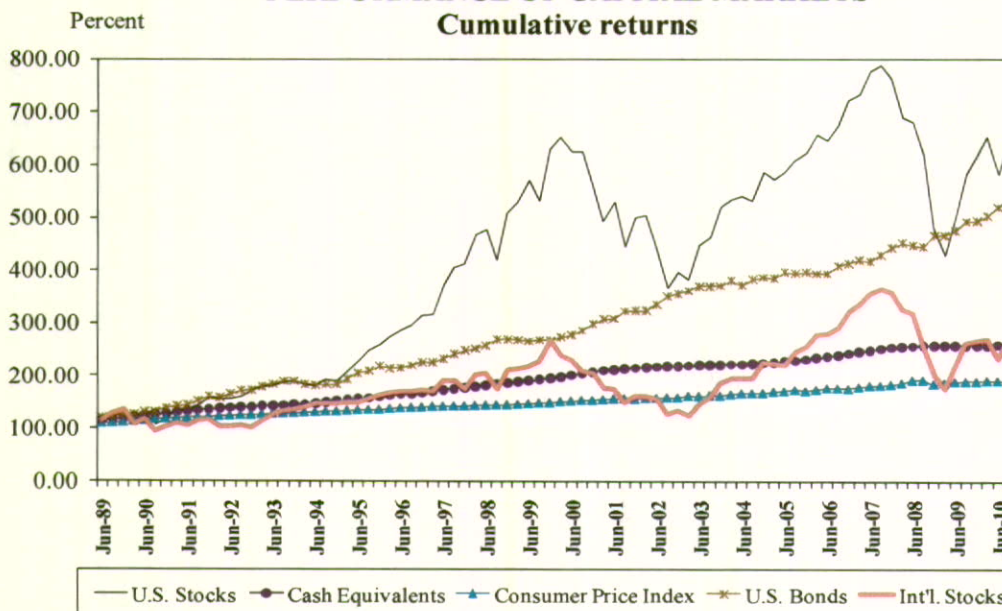
The U.S. bond market, as measured by the Barclays Capital Aggregate Index, returned 2.5% for the quarter. The spread sectors of the market performed well in 3Q10 after a pause in 2Q10. Increased uncertainty about the economic recovery drove Treasury yields lower.

The Treasury Yield Curve steepened marginally over the quarter, as 5 year yields dropped 51 bps and 10 year yields dropped 42 bps while the 30-year sector declined 20 bps. Corporate bonds outperformed Treasuries in 3Q as investors were encouraged by positive earnings and sought extra yield in lieu of low-yielding Treasuries. Commercial Mortgage-backed securities outperformed Treasuries as well, but Residential Mortgage-backed securities underperformed. Worries of a refinancing wave due to falling interest rates, weak home sales numbers, and foreclosure issues led investors away from the sector.

The major sector returns for the Barclays Capital Aggregate for the quarter were:

U.S. Treasury	2.7%
Agency	1.9
Corporates	4.7
Agency MBS	0.6
Commercial Mortgages	6.4
Asset-backed	2.5

PERFORMANCE OF CAPITAL MARKETS  
Cumulative returns



## FINANCIAL MARKETS REVIEW

### INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U.S. index net) provided a return of 16.1% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	19.8%
Japan	5.8
Canada	13.2
France	20.8
Australia	23.6
Germany	16.7

The World ex U.S. index returned 4.1% during the last year.

The World ex U.S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 23 markets located in Europe, Australasia, Far East, and Canada. The major markets listed above comprise about 72% of the value of the international markets in the index.

### EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index gross) provided a return of 18.2% for the quarter. The quarterly performance of the six largest stock markets in the index is shown below:

China	10.7%
Brazil	21.8
Korea	17.2
Taiwan	19.9
India	15.4
South Africa	25.4

The Emerging Markets Free index returned 20.5% during the last year.

The Emerging Markets Free (EMF) index is compiled by MSCI and measures performance of 21 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 74% of the value of the international markets in the index.

### REAL ESTATE

During the third quarter of 2010, real estate posted its third consecutive quarter of positive returns with the NCREIF Property Index posting a return of 3.86%. Even with accommodative monetary and fiscal policies, the real estate outlook for the remainder of 2010 continues to be one of caution due to weakness in employment.

### PRIVATE EQUITY

Many economists are forecasting a slower growth environment with U.S. GDP increases of 2%-3% as the economy deleverages and high unemployment continues. Third quarter U.S. IPO volume of \$3.9 billion decreased 27% from a year ago and 20% from second quarter this year. This year, 50 of the 75 U.S. IPOs have been backed by private equity sponsors, representing 60% of total IPO dollar volume. U.S. M&A activity increased significantly during the quarter with \$199 billion of combined deal value, representing a 76% increase above 2009 levels, the nadir of deal making amid the financial crisis. Corporations have been driving this higher level of activity as they begin to utilize their significant cash positions to make acquisitions. The renewed emphasis by corporations on strategic acquisitions could enhance the private equity exit environment.

### RESOURCE FUNDS

During the third quarter of 2010, crude oil traded between a range of \$83/bbl and \$72/bbl. The average price for the third quarter of 2010 was \$76/bbl which is close to the average price for the entire calendar year. Producers continued to drill for natural gas during the third quarter despite declining gas prices and a stagnant economy. Third quarter natural gas prices averaged \$4.24/mmbtu. Many industry experts believe that improvements in drilling technologies and recent natural gas discoveries will continue to put downward pressure on natural gas prices for the foreseeable future.



COMBINED FUNDS

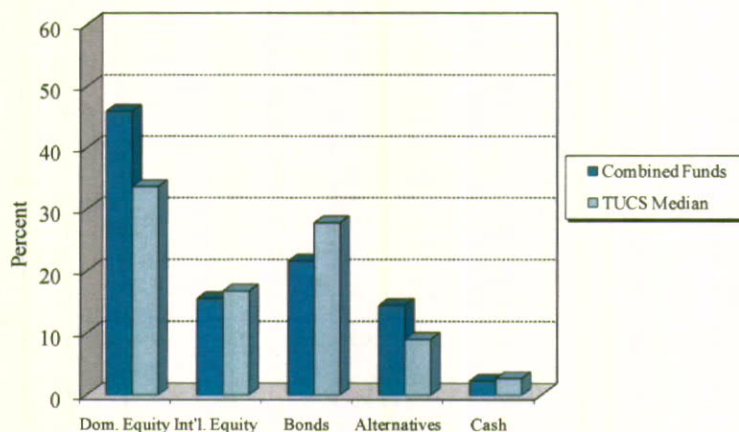
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On September 30, 2010, 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	\$19,943	46.0%
International Stocks	6,789	15.6
Bonds	9,367	21.6
Alternative Assets	6,297	14.5
Unallocated Cash	983	2.3
<b>Total</b>	<b>\$43,379</b>	<b>100.0%</b>



	Dom. Equity	Int'l Equity	Bonds	Alternatives	Cash
<b>Combined Funds</b>	<b>46.0%</b>	<b>15.6%</b>	<b>21.6%</b>	<b>14.5%</b>	<b>2.3%</b>
Median Allocation in TUCS*	33.7	16.8	27.8	9.0**	2.7

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

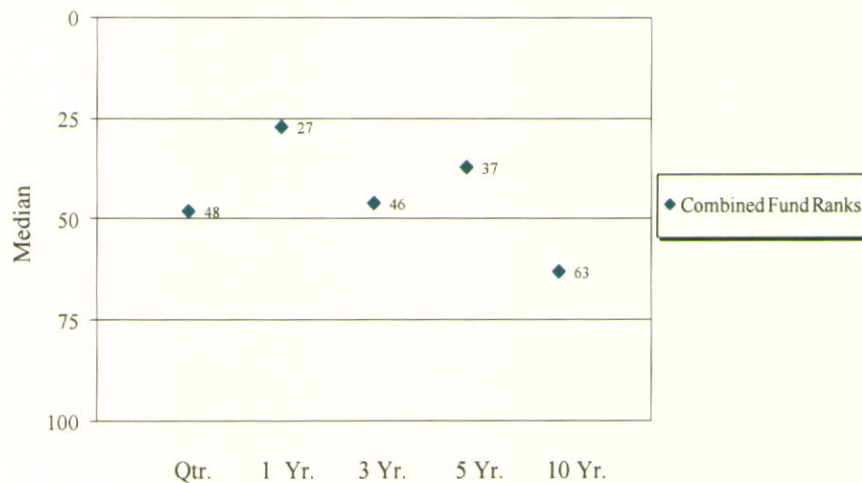
**COMBINED FUNDS**  
**Performance Compared to Other Pension Funds**

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

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

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

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



	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	48th	27th	46th	37th	63rd

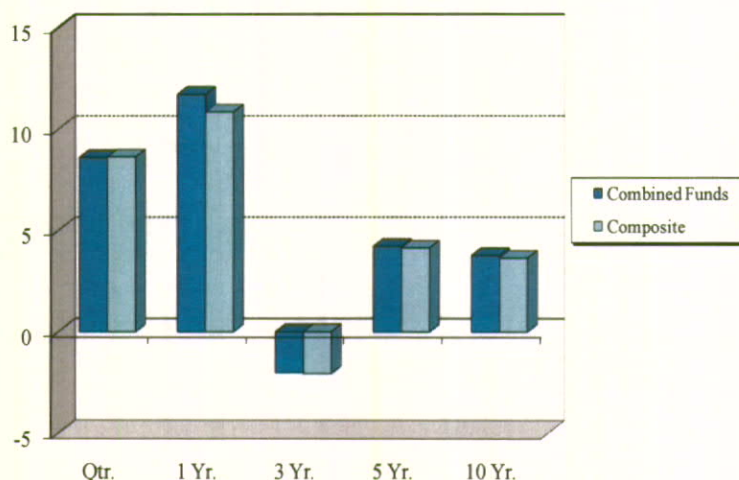
\* Compared to public and corporate plans greater than \$1 billion, gross of fees.

**COMBINED FUNDS  
Performance Compared to Composite Index**

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

	<b>Market Index</b>	<b>Combined Funds Composite* 3Q10</b>
Domestic Stocks	Russell 3000	45.0%
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Barclays Capital Aggregate	23.7*
Alternative Investments	Alternative Investments	15.3*
Unallocated Cash	3 Month T-Bills	1.0
		100.0%

\* Alternative asset and fixed income 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 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Combined Funds**</b>	<b>8.6%</b>	<b>11.7%</b>	<b>-2.0%</b>	<b>4.2%</b>	<b>3.8%</b>
Composite Index	8.6	10.9	-2.0	4.1	3.6

\*\* Actual returns are reported net of fees.

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**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 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Domestic Stocks</b>	<b>11.5%</b>	<b>10.9%</b>	<b>-6.8%</b>	<b>0.6%</b>	<b>-0.3%</b>
Asset Class Target*	11.5	11.0	-6.6	0.9	-0.1

\* 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.

Value Added to Domestic Equity Target



**International Stocks**

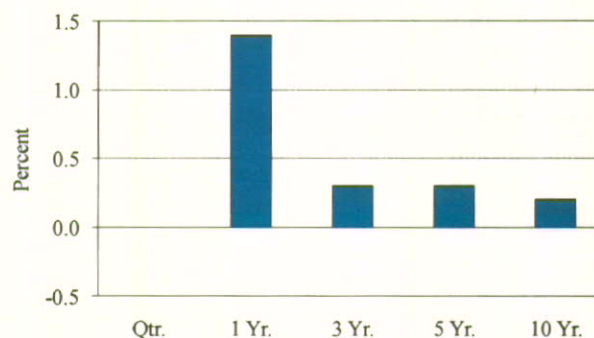
**Target:** MSCI ACWI Free ex U.S. (net)

**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 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Int'l. Stocks</b>	<b>16.6%</b>	<b>9.0%</b>	<b>-7.0%</b>	<b>4.6%</b>	<b>4.5%</b>
Asset Class Target*	16.6	7.6	-7.3	4.3	4.3

\* 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.

Value Added to International Equity Target



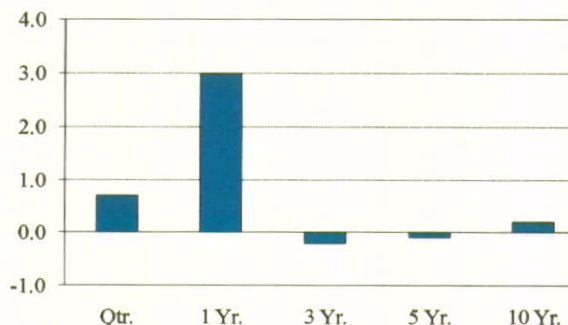
**Bonds**

**Target:** Barclays Capital 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 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Bonds</b>	<b>3.2%</b>	<b>11.2%</b>	<b>7.2%</b>	<b>6.1%</b>	<b>6.6%</b>
Asset Class Target	2.5	8.2	7.4	6.2	6.4

Value Added to Fixed Income Target



## 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 9/30/2010				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	1.9%	15.9%	0.9%	12.2%	11.5%
Inflation	0.2%	1.1%	1.6%	1.9%	2.2%

#### Real Estate Investments (Equity emphasis)

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

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

	Period Ending 9/30/2010				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	3.3%	-7.5%	-12.3%	0.6%	5.5%

#### Private Equity Investments (Equity emphasis)

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

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

	Period Ending 9/30/2010				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	1.8%	21.0%	1.7%	13.1%	10.1%

#### Resource Investments (Equity emphasis)

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

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

	Period Ending 9/30/2010				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	-1.6%	13.9%	3.9%	18.9%	23.2%

#### Yield Oriented Investments (Debt emphasis)

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

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

	Period Ending 9/30/2010				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	3.0%	21.5%	8.4%	17.3%	15.3%

## SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan, Hennepin County Supplemental Retirement Plan, and Health Care Savings 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.
4. It serves as the investment vehicle for the Voluntary Statewide Volunteer Firefighter Plan.

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. All returns are net of investment management fees.

**On September 30, 2010 the market value of the entire Fund was \$1.1 billion.**

## Investment Options

	9/30/2010 Market Value (In Millions)
<b>Income Share Account</b> – a balanced portfolio utilizing both common stocks and bonds.	\$230
<b>Growth Share Account</b> – an actively managed, all common stock portfolio.	\$109
<b>Common Stock Index Account</b> – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$221
<b>International Share Account</b> – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$121
<b>Bond Market Account</b> – an actively managed, all bond portfolio.	\$138
<b>Money Market Account</b> – a portfolio utilizing short-term, liquid debt securities.	\$172
<b>Fixed Interest Account</b> – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	\$130
<b>Volunteer Firefighter Account</b> – a balanced portfolio only used by the Voluntary Statewide Volunteer Firefighter Plan.	\$1

## 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%	60.9%
Bonds	35.0	37.6
Unallocated Cash	5.0	1.5
	100.0%	100.0%

## Period Ending 9/30/2010

## Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	7.7%	10.3%	-0.6%	3.6%	2.8%
Benchmark*	7.9	9.9	-1.5	2.9	2.5

\* 60% Russell 3000/35% Barclays Capital Aggregate Bond Index/5% T-Bills Composite since 10/1/03. 60% Wilshire 5000/35% Barclays Capital 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 9/30/2010

## Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	11.5%	10.7%	-7.1%	0.3%	-0.5%
Benchmark*	11.5	11.0	-6.6	0.9	-0.1

\* Russell 3000 since 10/1/03. 100% Wilshire 5000 Investable from July 1999 to September 2003.

## 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 9/30/2010

## Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	11.5%	11.3%	-6.3%	1.1%	0.1%
Benchmark*	11.5	11.0	-6.6	0.9	-0.1

\* 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 9/30/2010

## Annualized

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	16.6%	9.0%	-6.8%	4.8%	4.7%
Benchmark*	16.6	7.6	-7.3	4.3	4.3

\* 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.



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 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>3.2%</b>	<b>11.2%</b>	<b>7.2%</b>	<b>6.1%</b>	<b>6.6%</b>
Barclays Capital Aggregate	2.5	8.2	7.4	6.2	6.4

**MONEY MARKET ACCOUNT**

**Investment Objective**

The investment objective of the Money Market Account is to protect principal by investing in short-term, liquid U.S. Government securities.

**Asset Mix**

The Account is invested entirely in high quality, short-term U.S. Treasury and Agency securities. The average maturity of the portfolios is less than 90 days.

	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>0.1%</b>	<b>0.2%</b>	<b>1.6%</b>	<b>2.8%</b>	<b>2.7%</b>
3 month T-Bills	0.0	0.1	0.9	2.4	2.4

**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 Account is invested in a well-diversified portfolio of high-quality fixed income securities with strong credit ratings. The Account also invests in contracts issued by highly rated insurance companies and banks which are structured to provide principal protection for the Account's diversified bond portfolios, regardless of daily market changes.

	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Account</b>	<b>1.0%</b>	<b>4.3%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>4.9%</b>
Benchmark*	0.3	1.7	2.2	3.4	3.5

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

**VOLUNTEER FIREFIGHTER ACCOUNT**

The investment objective of the Volunteer Firefighter Account is to maximize long-term returns while limiting short-term portfolio return volatility.

The Account is invested in a balanced portfolio:

	Target	Actual
Domestic Stocks	35.0	36.0%
International Stocks	15.0	15.6
Bonds	45.0	45.1
Cash	5.0	3.3
	100.0%	100.0%

	Period Ending 9/30/2010	
	Qtr.	1 Yr.
<b>Total Account</b>	<b>7.8</b>	<b>N/A</b>
Benchmark*	7.7	

\* The benchmark for this account is 35% Russell 3000, 15% MSCI ACWI Free ex U.S. (net), 45% Barclays Capital Aggregate, 5% 3 month T-Bills.

## DEFERRED COMPENSATION PLAN ACCOUNTS

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

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

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

### Investment Options

	<b>9/30/2010 Market Value (in Millions)</b>
Vanguard Institutional Index (passive)	\$389
Janus Twenty (active)	\$401
Legg Mason Appreciation Y (active)	\$115
Vanguard Mid Cap Index (passive)	\$175
T. Rowe Price Small Cap (active)	\$361
Fidelity Diversified International (active)	\$229
Vanguard Institutional Developed Markets (passive)	\$90
Dodge & Cox Balanced Fund (active)	\$259
Vanguard Balanced Fund (passive)	\$172
Dodge & Cox Income Fund (active)	\$146
Vanguard Total Bond Market Fund (passive)	\$135
SIF Money Market Account	\$80
SIF Fixed Interest Account	\$1,154

## 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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				<b>Annualized</b>
	11.3%	10.2%	-7.1%	0.7%
S&P 500	11.3	10.2	-7.2	0.6

**Janus Twenty (active)**

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

Fund	Period Ending 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				<b>Annualized</b>
	11.0%	3.0%	-4.2%	4.7%
S&P 500	11.3	10.2	-7.2	0.6

**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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				<b>Annualized</b>
	9.8%	8.6%	-3.9%	2.6%
S&P 500	11.3	10.2	-7.2	0.6

## 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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				<b>Annualized</b>
	13.0%	17.9%	-4.4%	2.4%
MSCI US Mid-Cap 450	13.0	18.0	-4.4	2.4

## 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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				<b>Annualized</b>
	12.9%	18.4%	-0.7%	3.6%
Russell 2000	11.3	13.3	-4.3	1.6

## 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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				<b>Annualized</b>
	16.7%	4.7%	-10.0%	1.8%
MSCI EAFE	16.5	3.3	-9.5	2.0

**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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
				<b>Annualized</b>
	17.6%	3.5%	-9.3%	2.1%
MSCI EAFE	16.5	3.3	-9.5	2.0

## 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% Barclays Capital Aggregate, over time.

	Period Ending 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	<b>8.5%</b>	<b>7.5%</b>	<b>-5.0%</b>	<b>0.9%</b>
Benchmark	7.9	9.9	-1.2	3.1

**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% Barclays Capital Aggregate.

	Period Ending 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	<b>7.8%</b>	<b>10.3%</b>	<b>-0.4%</b>	<b>3.6%</b>
Benchmark	8.1	10.5	-0.6	3.5

## 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 Barclays Capital Aggregate, over time.

	Period Ending 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	<b>2.6%</b>	<b>8.9%</b>	<b>7.8%</b>	<b>6.5%</b>
Barclays Capital Agg.	2.5	8.2	7.4	6.2

**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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	<b>2.5%</b>	<b>8.1%</b>	<b>7.5%</b>	<b>6.3%</b>
Barclays Capital Agg.	2.5	8.2	7.4	6.2

**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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	<b>0.1%</b>	<b>0.2%</b>	<b>1.6%</b>	<b>2.8%</b>
3-Mo. Treas.	0.0	0.1	0.9	2.4

## 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 9/30/2010			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
<b>Fund</b>	<b>1.0%</b>	<b>4.3%</b>	<b>4.6%</b>	<b>4.6%</b>
Benchmark	0.3	1.7	2.2	3.4

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.

	9/30/2010 Target	9/30/2010 Actual
Stocks	20.0%	20.0%
Bonds	80.0	80.0
Total	100.0%	100.0%

**Investment Management**

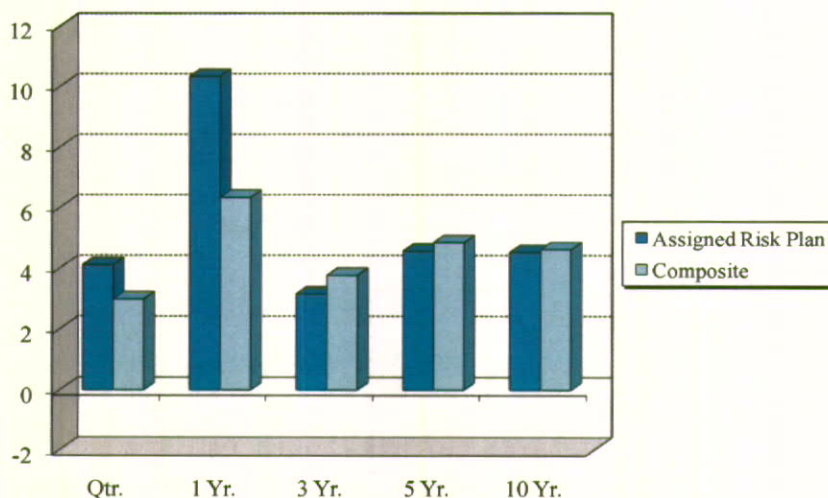
Voyageur Asset Management manages the bond segment of the Fund. GE Investment Management manages the equity segment.

**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, 2010 the market value of the Assigned Risk Plan was \$304 million.



Period Ending 9/30/2010

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>4.1%</b>	<b>10.3%</b>	<b>3.2%</b>	<b>4.6%</b>	<b>4.5%</b>
Composite	3.0	6.3	3.8	4.9	4.6
<b>Equity Segment*</b>	<b>10.4</b>	<b>4.6</b>	<b>-5.9</b>	<b>1.8</b>	<b>0.7</b>
Benchmark	11.3	10.2	-7.2	0.6	-0.4
<b>Bond Segment*</b>	<b>2.7</b>	<b>11.6</b>	<b>5.6</b>	<b>5.1</b>	<b>5.2</b>
Benchmark	0.9	5.0	6.3	5.7	5.6

\* Actual returns are calculated net of fees.

**PERMANENT SCHOOL FUND**

**Investment Objectives**

The investment objective of the Permanent School Fund is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity. The income from the portfolio is used to offset expenditures on school aid payments to local school districts.

**Asset Mix**

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

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.

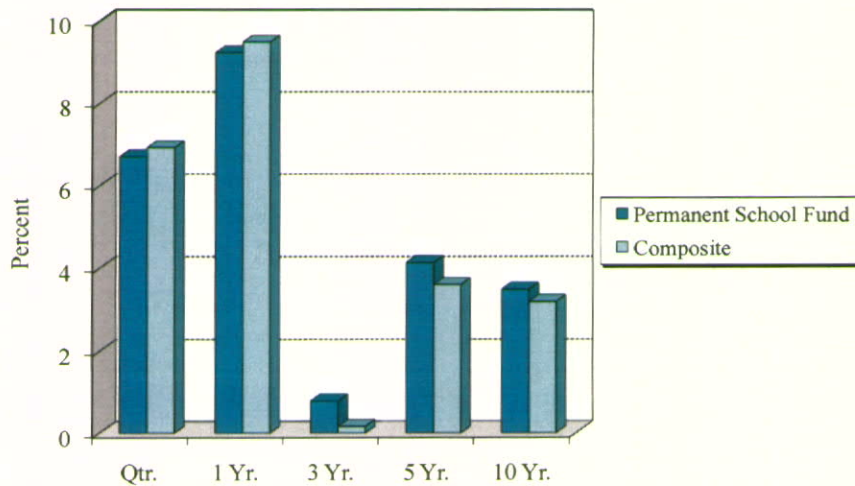
**Investment Management**

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, 2010 the market value of the Permanent School Fund was \$713 million.

	9/30/2010 Target	9/30/2010 Actual
Stocks	50.0%	49.8%
Bond	48.0	48.6
Cash	2.0	1.6
Total	100.0%	100.0%



	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>6.7%</b>	<b>9.2%</b>	<b>0.8%</b>	<b>4.1%</b>	<b>3.5%</b>
Composite	6.9	9.5	0.2	3.6	3.2
<b>Equity Segment*</b>	<b>11.4</b>	<b>10.3</b>	<b>-7.1</b>	<b>0.7</b>	<b>-0.4</b>
S&P 500	11.3	10.2	-7.2	0.6	-0.4
<b>Bond Segment*</b>	<b>2.5</b>	<b>7.9</b>	<b>8.2</b>	<b>6.9</b>	<b>6.9</b>
Barclays Capital Agg.	2.5	8.2	7.4	6.2	6.4

\* Actual returns are calculated net of fees.

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.

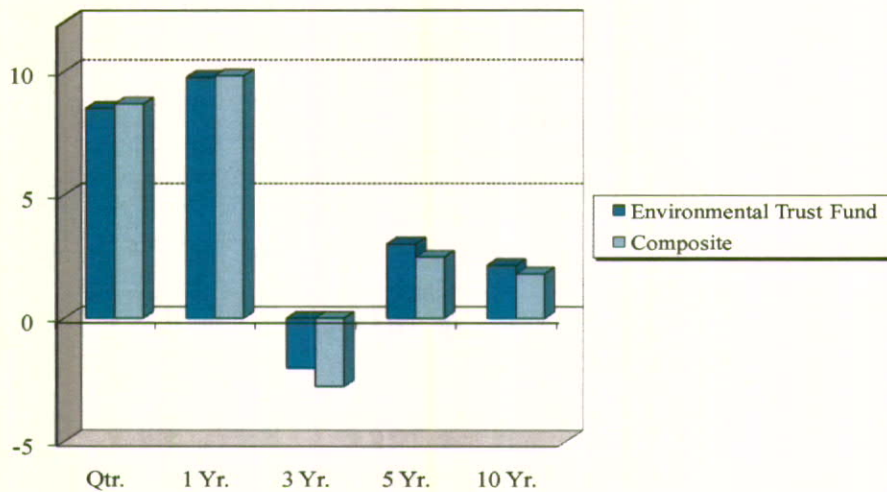
**Investment Management**

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, 2010 the market value of the Environmental Trust Fund was \$507 million.

	9/30/2010 Target	9/30/2010 Actual
Stocks	70.0%	70.4%
Bonds	28.0	27.7
Cash	2.0	1.9
Total	100.0%	100.0%



	Period Ending 9/30/2010				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund*</b>	<b>8.5%</b>	<b>9.8%</b>	<b>-2.0%</b>	<b>3.0%</b>	<b>2.1%</b>
Composite	8.7	9.8	-2.7	2.5	1.8
<b>Equity Segment*</b>	<b>11.4</b>	<b>10.3</b>	<b>-7.0</b>	<b>0.7</b>	<b>-0.3</b>
S&P 500	11.3	10.2	-7.2	0.6	-0.4
<b>Bond Segment*</b>	<b>2.5</b>	<b>7.9</b>	<b>8.2</b>	<b>6.9</b>	<b>6.9</b>
Barclays Capital Agg.	2.5	8.2	7.4	6.2	6.4

\* Actual returns are calculated net of fees.

**CLOSED LANDFILL INVESTMENT FUND**

**Investment Objectives**

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

**Asset Mix**

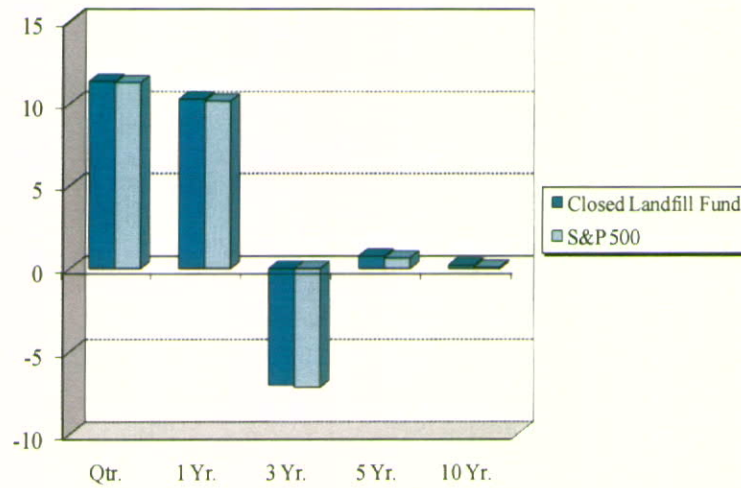
Effective July 1999, the Closed Landfill Investment Fund is invested entirely in common stock. Given the long time horizon of this Fund and the lack of need for any short or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund.

**Investment Management**

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

**Market Value**

On September 30, 2010, the market value of the Closed Landfill Investment Fund was \$0.7 million. During the 2010 legislative session, \$48 million was withdrawn for budget purposes.



**Period Ending 9/30/2010**

	Annualized				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Total Fund (1)</b>	<b>11.4%</b>	<b>10.3%</b>	<b>-7.0%</b>	<b>0.8%</b>	<b>-0.3%</b>
S&P 500	11.3	10.2	-7.2	0.6	-0.4

(1) Actual returns are calculated net of fees.



## 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 9/30/2010				
		Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
<b>Treasurer's Cash Pool*</b>	<b>\$4,460</b>	<b>0.2%</b>	<b>0.8%</b>	<b>2.5%</b>	<b>3.5%</b>	<b>3.2%</b>
Custom Benchmark**		0.0	0.0	1.1	2.4	2.4
<b>Trust Fund Cash Pool*</b>	<b>\$133</b>	<b>0.1</b>	<b>0.4</b>	<b>1.4</b>	<b>2.8</b>	<b>2.7</b>
Custom Benchmark		0.0	0.0	1.1	2.4	2.2
3 month T-Bills		0.0	0.1	0.9	2.4	2.4

\* 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 Barclays Capital 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.

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**MINNESOTA STATE BOARD OF INVESTMENT**  
**Composition of State Investment Portfolios By Type of Investment**  
**Market Value September 30, 2010 (in Thousands)**

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>COMBINED RETIREMENT FUNDS</b>								
Teachers Retirement Fund	368,291 2.32%	0	3,428,797 21.58%	0	7,300,971 45.95%	2,485,157 15.64%	2,305,303 14.51%	15,888,519 100%
Public Employees Retirement Fund	281,317 2.32%	0	2,622,595 21.58%	0	5,583,831 45.95%	1,900,664 15.64%	1,763,109 14.51%	12,151,516 100%
State Employees Retirement Fund	171,125 2.08%	0	1,779,382 21.64%	0	3,788,535 46.06%	1,289,569 15.68%	1,196,239 14.54%	8,224,850 100%
Public Employees Police & Fire	110,700 2.32%	0	1,032,023 21.58%	0	2,197,302 45.95%	747,934 15.64%	693,804 14.51%	4,781,763 100%
Highway Patrol Retirement Fund	9,758 1.88%	0	112,258 21.68%	0	239,028 46.16%	81,362 15.71%	75,474 14.57%	517,880 100%
Judges Retirement Fund	2,805 2.10%	0	28,910 21.63%	0	61,555 46.05%	20,953 15.68%	19,436 14.54%	133,659 100%
Correctional Employees Retirement	14,001 2.48%	0	121,842 21.55%	0	259,406 45.88%	88,299 15.61%	81,908 14.48%	565,456 100%
Public Employees Correctional	5,352 2.31%	0	50,022 21.59%	0	106,477 45.95%	36,243 15.64%	33,620 14.51%	231,714 100%
Legislative Retirement Fund	56 0.29%	0	4,299 22.02%	0	9,157 46.91%	3,117 15.97%	2,892 14.81%	19,521 100%
PERA Minneapolis Retirement	20,060 2.32%	0	186,495 21.58%	0	397,179 45.95%	135,195 15.64%	125,411 14.51%	864,340 100%
<b>TOTAL COMBINED FUNDS</b>	<b>983,465 2.27%</b>	<b>0</b>	<b>9,366,623 21.59%</b>	<b>0</b>	<b>19,943,441 45.97%</b>	<b>6,788,493 15.65%</b>	<b>6,297,196 14.52%</b>	<b>43,379,218 100%</b>

	Cash & ST	Bonds Int	Bonds Ext	Stock Int	Stock Ext	Ext Intl	Alternative	Total
<b>MINNESOTA SUPPLEMENTAL FUNDS:</b>								
Income Share Account	3,494 1.52%	86,451 37.57%	0	0	140,174 60.91%	0	0	230,119 100%
Growth Share Account	0	0	0	0	109,240 100.00%	0	0	109,240 100%
Money Market Account	171,853 100.00%	0	0	0	0	0	0	171,853 100%
Common Stock Index	0	0	0	0	221,257 100.00%	0	0	221,257 100%
Bond Market Account	0	0	137,990 100.00%	0	0	0	0	137,990 100%
International Share Account	0	0	0	0	0	121,035 100.00%	0	121,035 100%
Stable Value Fund	0	0	129,598 100.00%	0	0	0	0	129,598 100%
Volunteer Firefighters Account	26 3.25%	0	361 45.12%	0	288 36.00%	125 15.63%	0	800 100%
<b>TOTAL SUPPLEMENTAL FUNDS</b>	175,373 15.63%	86,451 7.71%	267,949 23.88%	0	470,959 41.98%	121,160 10.80%	0	1,121,892 100%
<b>MN DEFERRED COMP PLAN</b>	90,243 2.43%	0	1,562,656 42.18%	0	1,733,806 46.80%	318,177 8.59%	0	3,704,882 100%
<b>TOTAL RETIREMENT FUNDS</b>	1,249,081 2.59%	86,451 0.18%	11,197,228 23.23%	0	22,148,206 45.94%	7,227,830 15.00%	6,297,196 13.06%	48,205,992 100%

<b>ASSIGNED RISK PLAN</b>	8,255 2.71%	0	236,344 77.64%	0	59,830 19.65%	0	0	304,429 100%
<b>ENVIRONMENTAL FUND</b>	9,785 1.93%	140,300 27.69%	0	356,564 70.38%	0	0	0	506,649 100%
<b>PERMANENT SCHOOL FUND</b>	11,211 1.57%	346,857 48.64%	0	355,020 49.79%	0	0	0	713,088 100%
<b>CLOSED LANDFILL INVESTMENT</b>	0	0	0	660 100.00%	0	0	0	660 100%
<b>TREASURERS CASH</b>	4,459,886 100.00%	0	0	0	0	0	0	4,459,886 100%
<b>HOUSING FINANCE AGENCY</b>	0	71,848 100.00%	0	0	0	0	0	71,848 100%
<b>MINNESOTA DEBT SERVICE FUND</b>	0	43,969 100.00%	0	0	0	0	0	43,969 100%
<b>MISCELLANEOUS ACCOUNTS</b>	166,565 27.20%	258,634 42.23%	0	187,262 30.57%	0	0	0	612,461 100%
<b>TOTAL CASH AND NON-RETIREMENT</b>	4,655,702 69.35%	861,608 12.84%	236,344 3.52%	899,506 13.40%	59,830 0.89%	0	0	6,712,990 100%
<b>GRAND TOTAL</b>	5,904,783 10.75%	948,059 1.72%	11,433,572 20.82%	899,506 1.64%	22,208,036 40.44%	7,227,830 13.16%	6,297,196 11.47%	54,918,982 100%

# **Tab B**

## **EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT**

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DATE: November 9, 2010

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, 2010 is included as **Attachment A**.

A report on travel for the period from August 5, 2010 – November 4, 2010 is included as **Attachment B**.

### **2. Results of FY10 Audit**

The Legislative Auditor is working on the financial audit of SBI operations for FY10. A final copy will be distributed as soon as it is available.

### **3. Draft of FY10 Annual Report**

A draft of the SBI's annual report for FY10 will be distributed to the Board members/designees and IAC members in late November. The final report should be distributed by the end of the year.

### **4. Tentative Meeting Dates for Calendar 2011**

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 2011 are:

<b>IAC</b>	<b>SBI</b>
<b>Tuesday, February 22, 2011</b>	<b>Wednesday, March 9, 2011</b>
<b>Tuesday, May 24, 2011</b>	<b>Wednesday, June 8, 2011</b>
<b>Tuesday, August 23, 2011</b>	<b>Wednesday, September 7, 2011</b>
<b>Tuesday, November 22, 2011</b>	<b>Wednesday, December 7, 2011</b>

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

## 5. Update on Sudan

Each quarter, staff provides a report to the Board on steps taken to implement *Minnesota Statutes*, section 11A.243 that requires SBI actions concerning companies with operations in Sudan. Staff receives periodic reports from the Conflict Risk Network (CRN) 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 CRN. 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 CRN list and writes letters as required by law.

If after 90 days following the SBI's communication, a company continues to have active business operations in Sudan, 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.

SBI managers divested 342,100 shares in the third quarter.

**Attachment C** is a copy of the September 9, 2010 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.

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

## 6. Update on Iran

Each quarter, staff provides a report to the Board on steps taken to implement *Minnesota Statutes*, section 11A.244 that requires SBI actions concerning companies with operations in Iran.

SBI subscribes to the Iran service provided by RiskMetrics and regularly receives a list of companies with operations in Iran. SBI received a new list of scrutinized companies for October 2010. See **Attachment E** for this list. Staff sent a letter dated October 8, 2010 (see **Attachment F**) to each domestic and international equity manager and fixed income manager with instructions that the managers may not purchase additional publicly traded securities of the companies. Staff receives monthly reports from the SBI's custodian bank concerning SBI holdings of companies on the restricted list and writes letters as required by law.



The first divestment of Iran holdings was made by July 31, 2010. During the third quarter, nearly 2.8 million shares were divested. The August 4, 2010 letter contained an updated list of companies requiring divestment.

According to the law, if after 90 days from the SBI's communication with the company, the company continues to have scrutinized business operations, the SBI must divest all publicly traded securities of the company according to following schedule:

- at least 50 percent shall be sold within nine months after the company appeared on the scrutinized list.
- 100 percent, within fifteen months after the company appeared on the scrutinized list.

#### **7. Update on 529 Plan**

The manager of the state's College Savings Plan, TIAA-CREF, has requested approval of minor changes in allocation across several mutual funds in the Plan's options. Staff has reviewed and concurs with the proposed changes. This is an information item for the Board.

#### **8. Litigation Update**

SBI legal counsel will give the Board a verbal update on the status of litigation at the Board meeting on December 1, 2010.



ATTACHMENT A

STATE BOARD OF INVESTMENT  
 FISCAL YEAR 2011 ADMINISTRATIVE BUDGET REPORT  
 FISCAL YEAR TO DATE THROUGH OCTOBER 31, 2010

ITEM	FISCAL YEAR 2011 BUDGET	FISCAL YEAR 2011 10/31/2010
<b>PERSONAL SERVICES</b>		
FULL TIME EMPLOYEES	\$ 2,845,000	\$ 927,886
PART TIME EMPLOYEES	69,000	22,742
SEVERENCE PAYOFF	0	0
WORKERS COMPENSATION INSURANCE	600	569
MISCELLANEOUS PAYROLL		0
<b>SUBTOTAL</b>	<b>\$ 2,914,600</b>	<b>\$ 951,197</b>
<b>STATE OPERATIONS</b>		
RENTS & LEASES	200,000	68,015
REPAIRS/ALTERATIONS/MAINTENANCE	10,000	438
PRINTING & BINDING	4,000	1,993
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	20,000	1,588
COMMUNICATIONS	29,000	7,833
TRAVEL, IN-STATE	900	104
TRAVEL, OUT-STATE	40,000	13,558
SUPPLIES	30,000	4,049
EQUIPMENT	10,000	0
EMPLOYEE DEVELOPMENT	5,000	2,585
OTHER OPERATING COSTS	9,000	4,218
<b>SUBTOTAL</b>	<b>\$ 357,900</b>	<b>\$ 104,381</b>
<b>TOTAL ADMINISTRATIVE BUDGET</b>	<b>\$ 3,272,500</b>	<b>\$ 1,055,578</b>

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## ATTACHMENT B

## STATE BOARD OF INVESTMENT

**Travel Summary by Date**  
**SBI Travel August 5, 2010 – November 4, 2010**

<b>Purpose</b>	<b>Name(s)</b>	<b>Destination and Date</b>	<b>Total Cost</b>
<b>Conference:</b> National Association of State Retirement Administrators (NASRA)	H. Bicker	Seattle, WA 8/7-8/10	\$1,433.56
<b>Manager Monitoring:</b> <b>Fixed Income Managers:</b> Aberdeen Asset Mgmt.; BlackRock; Goldman Sachs <b>Manager Search:</b> <b>Fixed Income Managers:</b> Fidelity Investments; Jennison Associates <b>Master Custodian:</b> State Street Bank & Trust Co.	M. Menssen J. J. Kirby	Boston, MA New York, NY Philadelphia, PA 8/16-8/19	2,757.45
<b>Manager Monitoring:</b> <b>International Equity</b> <b>Managers:</b> J. P. Morgan; Marathon; Pyramis; State Street Global Advisors; Threadneedle <b>Manager Search:</b> <b>International Equity</b> <b>Managers:</b> Advent International plc; Record Currency Mgmt.; <b>Manager Monitoring:</b> <b>Alternative Investment</b> <b>Manager:</b> CVC Capital Partners	H. Bicker	London, England 9/13-9/17	3,325.17

<b>Purpose</b>	<b>Name(s)</b>	<b>Destination and Date</b>	<b>Total Cost</b>
<b>Manager Monitoring: Alternative Investment Manager:</b> GTCR, Prudential Mezzanine Annual Meeting	J. Griebenow	Chicago, IL 9/14-9/15	\$694.40
<b>In State Travel</b> Retired Educators Association of Minnesota (REAM) Annual Convention	H. Bicker	Morton, MN 9/21	103.60
<b>Conference:</b> Vision 2010 sponsored by: Vanguard	J. Heidelberg	Chicago, IL 9/26-9/28	739.78
<b>Conference:</b> Institutional Limited Partners Association Annual Conference (ILPA)	J. Griebenow M. McGirr	Los Angeles, CA 9/28-9/30	3,590.00
<b>Manager Monitoring: Master Custodian:</b> State Street's Institutional Investor Services (IIS) Client Advisory Council Meeting	H. Bicker	Boston, MA 9/29-9/30	2,814.49
<b>Conference:</b> National Association of State Investment Officers (NASIO)		Mobile, AL 10/3-10/6	
<b>Conference:</b> National Association of State Investment Officers (NASIO)	T. Richardson	Mobile, AL 10/3-10/6	1,993.28
<b>Manager Monitoring: Alternative Investment Managers:</b> Credit Suisse; Summit; Vestar	M. McGirr	Boston, MA New York, NY 10/5-10/7	1,372.76

<b>Purpose</b>	<b>Name(s)</b>	<b>Destination and Date</b>	<b>Total Cost</b>
<b>In State Travel:</b> Public Employee Retirees Group (PERG)	H. Bicker	Duluth, MN 10/13	\$154.72
<b>Manager Monitoring: Alternative Investment Managers:</b> Merit Energy; Midstream and Resource; Natural Gas Partners; Summit Partners	M. McGirr	Dallas, TX 10/18-10/19	1,182.40
<b>Manager Monitoring: Domestic Equity Managers:</b> Barrow Hanley; Earnest Partners	T. Brusehaver P. Ammann	Dallas, TX Atlanta, GA 10/25-10/27	1,541.50





ATTACHMENT C

Letter to SBI International Equity Managers and Domestic Equity Managers

September 9, 2010

**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 equity portfolios managed by your organization and replaces all prior communications. This communication also applies to all depository receipts or ADR's of any of the listed companies.**

*Minnesota Statutes*, section 11A.243 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 changes to the List of Restricted Sudan Stocks that was attached to the June 8, 2010 letter you received. **This new list is effective September 15, 2010.**

- The following companies have been added to the restricted list:
  - AKM Industrial Company Limited (China)
  - China North Optical-Electrical Technology Co. Ltd. (China)
  - Jiangxi Hongdu Aviation (China)
  - Minara Resources Limited (Switzerland)
  - Scorpion Offshore Limited (Bermuda)
  - Sichuan Nitrocell Company Limited (China)
  
- The following companies have been removed from the restricted list:
  - Bongaigon Refinery & Petrochemical Limited (India)
  - China Avic Avionics Equipment Company Limited (China)
  - Jiangxi Changhe Automobile Company Limited (China)

**Attachment 2** is the List of Sudan Stocks Requiring Divestment.

- The following companies were added to the divestment list.
  - Dongfeng Motor Group Company Limited
  - JX Holdings, Inc.
  - PTT Exploration & Production PCL

**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.**

**Attachment 3** is a list of security identifiers for the companies on the List of Restricted Sudan Stocks (**Attachment 1**) that your organization may use. Please note that the list of security identifiers has information on companies not on the restricted list.

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

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

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

## ATTACHMENT 1

<b>Restricted Sudan Stocks</b>	
<b>Company Name</b>	<b>Country of Origin</b>
AviChina Industry & Technology Company Limited	China
Daqing Huake Group Company Limited	China
Dongfeng Motor Group Company Limited	China
Hafei Aviation Industry Company	China
Harbin Dongan Auto Engine Company	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
Jinan Diesel Company Limited	China
PetroChina	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Company Limited	China
Sinopec Yizheng Chemical Fibre Company Limited	China
Wuhan Boiler Company.	China
China North Industries Group Corporation AKA CNGC/Norinco	China
Norinco International Cooperation Limited	China
Sichuan Nitrocell Company Limited	China
China North Optical-Electrical Technology Company Limited	China
AKM Industrial Company Limited	China
Kunlun Energy Co. Ltd. (formerly CNPC Hong Kong)	Hong Kong
Sinopec Kanton Holdings Limited	Hong Kong
Chennai Petroleum Corporation Ltd. AKA CPCL	India
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Limited	India
Mangalore Refinery and Petrochemical Limited	India
Mercator Lines	India
Oil and Natural Gas Company AKA ONGC	India
Alstom Projects India Limited	India
Oil India Limited	India
Egypt Kuwaiti Holding Company	Egypt
Kingdream PLC	Egypt/China
AREF Energy Holding Company	Kuwait
ONA S.A.	Morocco
Managem	Morocco
Malaysia International Shipping Company AKA MISC Berhad	Malaysia
Petronas Gas Berhad	Malaysia
Petronas Dagangan Berhad	Malaysia
Ranhill Berhad	Malaysia
Scomi Group Berhad	Malaysia

**ATTACHMENT 1**

<b>Restricted Sudan Stocks</b>	
<b>Company Name</b>	<b>Country of Origin</b>
Scomi Engineering Berhad	Malaysia
Electricity Generating PCL AKA EGCO	Thailand
PTT Public Company AKA PTT	Thailand
PTT Exploration & Production PCL	Thailand
Mercator Lines Singapore	Singapore
Alstom	France
Areva SA	France
Seadrill Limited	Bermuda
Scorpion Offshore Limited	Bermuda
JX Holdings, Inc.	Japan
Minara Resources Limited	Switzerland

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

Source: Genocide Intervention Network

SBI Effective Date:

September 15, 2010

**ATTACHMENT 2**

<b>Sudan Stocks Requiring Divestment</b>			
<b>Company Name</b>	<b>Country of Origin</b>	<b>Divest 50 Percent By this Date</b>	<b>Divest 100 Percent By this date</b>
China Petroleum and Chemical Corporation AKA Sinopec Corp	China	April 30, 2008	October 31, 2008
PetroChina Company	China	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
PTT Public Company Limited	Thailand	August 31, 2010	February 28, 2011
Seadrill Limited	Bermuda	August 31, 2010	February 28, 2011
Dongfeng Motor Group Company Limited	China	March 31, 2011	September 30, 2011
JX Holdings, Inc.	Japan	March 31, 2011	September 30, 2011
PTT Exploration & Production PCL	Thailand	March 31, 2011	September 30, 2011

Note: AKA means "Also Known As"

Source: Genocide Intervention Network

SBI Effective Date:

September 15, 2010











Company	Primary Company / Alternative Parent	Exchange	Security Type	Security Name	Ticker	ISIN Number	SECC	CUSIP	ISIN	COMMON	CNS	Fandcode
TOTAL SA (FRANCE)	TOTAL SA	Euro Comp (XLON)	Common Stock	TOTAL SA	FPCHF EU	850727	B128WJ1 GB			FR0000120271		001179616
TOTAL SA (FRANCE)	TOTAL SA	Euro OTC (XLON)	Common Stock	TOTAL SA	FPNOK EO	850727	B128WJ1 GB			FR0000120271		001179616
TOTAL SA (FRANCE)	TOTAL SA	Euro Comp (XLON)	Common Stock	TOTAL SA	FPNOK EO	850727	B128WJ1 GB			FR0000120271		001179616
TOTAL SA (FRANCE)	TOTAL SA	Euro OTC (XLON)	Common Stock	TOTAL SA	FPAUD EU	850727	B128WJ1 GB			FR0000120271		001179616
TOTAL SA (FRANCE)	TOTAL SA	Euro Comp (XLON)	Common Stock	TOTAL SA	FPAUD EU	850727	B128WJ1 GB			FR0000120271		001179616
TOTAL SA (FRANCE)	TOTAL SA	Euro OTC (XLON)	Misc	TOTAL SA-STRIP VVPR	TOTS EO	946112				FR0000120271		001179616
TOTAL SA (FRANCE)	TOTAL SA	Buenos Floor (XBUE)	Receipt	TOTAL SA-SUS	TOTABR					BE0005554259		009855475
TOTAL SA (FRANCE)	TOTAL SA	Euro OTC (XLON)	Common Stock	TOTAL SA	FPZAR EO	850727	2648220 AR			ARDEUT112075		
TOTAL SA (FRANCE)	TOTAL SA	Euro Comp (XLON)	Common Stock	TOTAL SA	FPZAR EU	850727				FR0000120271		001179616
TOTAL KENYA LTD (KENYA)	TOTAL SA	Euro Comp (XLON)	Common Stock	TOTAL SA	FPZAR EU	850727				FR0000120271		001179616
TOTAL GABON	TOTAL SA	Nairobi (XNAI)	Common Stock	TOTAL KENYA LTD	TKNL KN		6893107 KE			KE0000000463		
TOTAL GABON	TOTAL SA	EM Paris (XPAR)	Common Stock	TOTAL GABON	EC FP	852437	4309781 FR		012145	GA0000121459		001198629
TOTAL GABON	TOTAL SA	OTC US	Common Stock	TOTAL GABON	ELFGF US	852437	8030R20 US		012145	GA0000121459		001198629
TOTAL GABON	TOTAL SA	Berlin (XBER)	Common Stock	TOTAL GABON	RZW GR	852437	801XSMS DE		012145	GA0000121459		001198629
TOTAL GABON	TOTAL SA	Euro OTC (XLON)	Common Stock	TOTAL GABON	EC EO	852437	B28Z2B6 GB			GA0000121459		001198629
TOTAL GABON	TOTAL SA	Euro Comp (XLON)	Common Stock	TOTAL GABON	EC EU	852437	B28Z2B6 GB			GA0000121459		001198629
TOTAL GABON	TOTAL SA	PLUS Mkt Grp (XPLU)	Common Stock	TOTAL GABON	EC PZ	852437	B28Z2B6 GB		012145	GA0000121459		001198629
TOTAL GABON	TOTAL SA	Turquoise (TRQX)	Common Stock	TOTAL GABON	EC TQ	852437	4309781 FR		012145	GA0000121459		001198629
TOTAL GABON	TOTAL SA	Equidant (XEQT)	Common Stock	TOTAL GABON	EC BQ	852437	4309781 FR		012145	GA0000121459		001198629
TOTAL GABON	TOTAL SA	Tradegate (XGAT)	Common Stock	TOTAL GABON	RZW TH	852437	801XSMS DE		012145	GA0000121459		001198629
TOTAL NIGERIA PLC	TOTAL SA	Lagos (XNSA)	Common Stock	TOTAL NIGERIA PLC	TOTAL NL		6888964 NG			NGTOTAL00001		
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Burgundy (BURG)	Common Stock	WARTSILA OYJ	WRTIV BY	881050			980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Helsinki (XHEL)	Common Stock	WARTSILA OYJ	WRTIV FH	881050	4525189 FI		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Stuttgart (XSTU)	Common Stock	WARTSILA OYJ-B SHARES	MTA GR	881050	B08KRC4 DE		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Chi-X All Ts (CHIX)	Common Stock	WARTSILA OYJ-B SHARES	WRTB IX	881050	452189 FI		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	PLUS Mkt Grp (XPLU)	Common Stock	WARTSILA OYJ	WRTBV PZ	881050			980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	OTC US (OOTO)	Common Stock	WARTSILA OYJ	WRTBF US	881050	B08MMZ8		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Euro OTC (XLON)	Common Stock	WARTSILA OYJ	WRTIV EU	881050	B28N651 GB			F0009003727		X98155108
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Euro Comp (XLON)	Common Stock	WARTSILA OYJ	WRTIV EU	881050	B28N651 GB			F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Euro OTC (XLON)	Common Stock	WARTSILA OYJ	WRTIVGBPEO	881050				F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Turquoise (TRQX)	Common Stock	WARTSILA OYJ	WRTIV TQ	881050	4525189 FI		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	BATS Europe (BATE)	Common Stock	WARTSILA OYJ	WRTIV EB	881050	4525189 FI		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	OTC US (OOTO)	ADR	WARTSILA OYJ-UNSPON ADR	WRTBY US		B3F0CN2 US			US9365441057		
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	NYSE ARCA Eu (XHFT)	Common Stock	WARTSILA OYJ	WRTIV NR	881050	4525189 FI		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Euro Comp (XLON)	Common Stock	WARTSILA OYJ	WRTIVGBXEU	881050	B28N651 GB			F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Euro OTC (XLON)	Common Stock	WARTSILA OYJ	WRTIVGBXEO	881050	B28N651 GB			F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Euro OTC (XLON)	Common Stock	WARTSILA OYJ	WRTIVUSDEO	881050				F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	Euro Comp (XLON)	Common Stock	WARTSILA OYJ	WRTIVUSDEU	881050				F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	LSE EuropeGS (XLON)	Common Stock	WARTSILA OYJ	WRTIV LI	881050	B28N651 GB		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	QUOTE MTF (QMTF)	Common Stock	WARTSILA OYJ	WRTIV QM	881050	4525189 FI		980070	F0009003727		004174488
WARTSILA OYJ (FINLAND)	WARTSILA OYJ	XetraMkt (XET)	Common Stock	WARTSILA OYJ	WRTIV QK	881050	4525189 FI		980070	F0009003727		004174488

ATTACHMENT D

**Genocide Intervention Network List of "Highest Offenders" Companies in Sudan**  
**List Effective Through November 30, 2010**

<b>Company Name</b>	<b>Country of Origin</b>
China National Petroleum Corporation AKA CNPC	China
Jinan Diesel Co. Ltd.	China
Daqing Huake Group Co. Ltd.	China
PetroChina	China
KunLun Energy Co. Ltd. (formerly CNPC Hong Kong)	Hong Kong
Petronas Gas Berhad	Malaysia
Petronas Dagangan	Malaysia
Malaysia International Shipping Company AKA MISC Berhad	Malaysia
Oil and Natural Gas Company, AKA ONGC	India
Mangalore Refinery and Petrochemicals Ltd.	India
Sinopec Group AKA China Petrochemical Corporation	China
Kingdream PLC	China
Sinopec Corporation AKA China Petroleum and Chemical Corporation	China
Sinopec Shanghai Petrochemical Co. Ltd.	China
Sinopec Kanton Holdings	China
Sinopec Yizheng Chemical Fibre Company, Ltd.	China
AREF Energy Holding Company	Kuwait
Egypt Kuwaiti Holding Company	Egypt
Ranhill Berhad	Malaysia
China North Industries Corporation AKA Norinco	China
Norinco International Cooperation Ltd.	China
Sichuan Nitrocell Company Limited	China
China North Optical-Electrical Technology Company Limited	China
AKM Industrial Company Limited	China
AviChina Industry & Technology Company, Ltd.	China
Hafei Aviation Industry	China
Jiangxi Hongdu Aviation AKA Hongdu Aviation	China
Harbin Dongan Auto Engine Co.	China
China Hydraulic and Hydroelectric Construction Group AKA Sinohydro	China
Mercator Lines	India
Mercator Lines Singapore	Singapore
Dongfeng Motor Group Company Limited	China
Indian Oil Corporation Ltd. AKA IOCL	India
Lanka IOC Limited	India
Chennai Petroleum Corporation Limited AKA CPCL	India
Oil India Limited	India
Scomi Group Berhad	Malaysia
Scomi Engineering Berhad	Malaysia
Alstom	France
Alstom Projects India Ltd	India
Wuhan Boiler Company	France
Electricity Generating Company Limited AKA EGCO	Thailand
ONA S.A.	Morocco
Managem	Morocco
PTT Public Company, Limited AKA PTT	Thailand
PTT Exploration & Production PCL	Thailand
Seadrill Limited	Bermuda
Scorpion Offshore Limited	Bermuda
JX Holdings, Inc.	Japan
Minara Resources Limited	Switzerland

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

Genocide Intervention Network List of Companies in Sudan for "Ongoing Engagement"  
List Effective Through November 30, 2010

<u>Company Name</u>	<u>Country of Origin</u>
Shanghai Electric Group Company, Ltd.	China
Harbin Power Equipment Company Limited	China
China Poly Group Corporation	China
Bharat Electronics Limited	India
Bharat Heavy Electricals	India
Essar Oil	India
Citadel Capital	Egypt
Lundin International SA	France
Saras S.p.A.	Italy
Atlas Copco AB	Sweden
Lundin Petroleum AB	Sweden
Andritz VA Tech Hydro	Austria
Man SE	Germany
GAZ Group	Russia
Yaroslavsky Diesel Equipment Plant Oao	Russia
Kamaz	Russia

**Genocide Intervention Network List of Companies in Sudan with No Publicly Traded Equity**  
**List Effective Through November 30, 2010**

<b>Company Name</b>	<b>Country of Origin</b>
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 International Water & Electric Corp AKA CWE	China
China National Machinery and Equipment Import Export Corporation (CMEC)	China
China National United Oil Company	China
China Petroleum Engineering Company AKA CPEC	China
Coyne et Bellier	France
Dindir Petroleum International/Edgo Group	Jordan
Express Petroleum and Gas Company	Nigeria
GIAD Industrial City	Sudan
Glencore International AG	Switzerland
Harbin Power Engineering AKA HPE	China
Hi Tech Petroleum Group Co. Ltd.	Sudan
HTC Yemen International Limited	Yemen
JX Nippon Oil & Energy Corporation	Japan
K & K Capital Group AKA KKCG	Czech Republic
Kuwait Foreign Petroleum Exploration Company AKA Kufpec	Kuwait
Lahmeyer International	Germany
Mott MacDonald	UK
Petrolin	Gabon
Petroneeds Service International Company	Sudan
PT Pertamina Persero AKA Pertamina	Indonesia
Shandong Electric Power Construction Corporation AKA Shandong Electric Power Group	China
Snowy Mountain Engineering Corporation	Australia
Star Petroleum	Spain
Sudan Petroleum Company AKA Sudapet	Sudan
Tamoil	Libya
Trafigura Beheer	Netherlands
Vitol Group	Switzerland
Zaver Petroleum Corporation Ltd.	Pakistan

Source: Genocide Intervention Network

September 8, 2010



ATTACHMENT E

ATTACHMENT 1

LIST OF SCRUTINIZED IRAN COMPANIES

<b>COMPANY</b>	<b>COUNTRY</b>
China Petroleum & Chemical Corporation	China
CNOOC Ltd	Hong Kong
Costain Group PLC	UK
Daelim Industrial Company Limited	South Korea
Edison SpA	Italy
Gazprom Neft Oao	Russia
Gazprom Oao	Russia
Hyundai Engineering & Construction Co., Ltd.	South Korea
Indian Oil Corporation Ltd.	India
INA-Industrija Nafta, d.d.	Croatia
KunLun Energy Company Limited	Hong Kong
L'Air Liquide SA	France
Liquefied Natural Gas Ltd	Australia
Mangalore Refinery & Petrochemicals Ltd.	India
Oil and Natural Gas Corporation Limited	India
OMV Aktiengesellschaft	Austria
PetroChina Company Limited	China
Petrofac Limited	UK
Petronas Dagangan Bhd	Malaysia
Petronas Gas Berhad	Malaysia
PetroVietnam Consultancy and Engineering Corp.	Vietnam
PetroVietnam Fertilizer and Chemicals Corp.	Vietnam
PetroVietnam Southern Gas Joint Stock Company	Vietnam
PTT Exploration and Production Public Company Ltd	Thailand
PTT Public Company Limited	Thailand
Royal Dutch Shell Plc	Netherlands
Saipem S.p.A.	Italy
Sasol Limited	South Africa
Sinopec Kantons Holdings Ltd.	Hong Kong
Sinopec Shanghai Petrochemical Company Ltd	China
Statoil ASA	Norway
Technip	France
Trevi-Finanziaria Industriale S.p.A.	Italy

October 12, 2010





## ATTACHMENT F

Letter to SBI International Equity Managers and Domestic Equity Managers  
October 8, 2010

### Regarding: Iran Companies

Dear Manager:

Laws of Minnesota 2009, Chapter 90, codified as *Minnesota Statutes*, section 11A.244, required the Minnesota State Board of Investment (SBI) to implement an Iran restriction. **This communication applies to all SBI equity portfolios managed by your organization. This communication also applies to all depository receipts or ADR's of any of the listed companies.**

**Attachment 1** is the List of Restricted Iran Companies. Securities of these companies **may not be purchased** for the SBI portfolio that your organization manages. Please note that the attached List makes changes to the List of Restricted Iran Companies that was attached to the August 4, 2010 letter you received. **This new list is effective October 12, 2010.**

- The following company has been removed from the restricted list:
  - JGC Corporation
- The following companies have been added to the restricted list:
  - INA-Industrija Nafta, d.d.
  - Mangalore Refinery & Petrochemicals Ltd.
  - Petrofac Limited
  - PetroVietnam Consultancy and Engineering Corp.
  - PetroVietnam Fertilizer and Chemicals Corp.
  - PetroVietnam Southern Gas Joint Stock Company

**Attachment 2** is the List of Iran Companies Requiring Divestment.

- The following company has been removed from the divestment list:
  - JGC Corporation

**If you own securities of companies on the List of Iran Companies Requiring Divestment in the SBI portfolio that your company manages, then you must divest those holdings** according to the schedule 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.

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

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

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

**ATTACHMENT 1**  
**RESTRICTED IRAN COMPANIES**

<b>COMPANY</b>	<b>ID</b>	<b>TICKER</b>	<b>CUSIP</b>	<b>SEDOL</b>	<b>ISIN</b>	<b>COUNTRY</b>
China Petroleum & Chemical Corporation	IID000000002161850	600028	16941R108	6373728	CNE0000018G1	China
CNOOC Ltd	IID000000002140797	883	126132109	B00G0S5	HK0883013259	Hong Kong
Costain Group PLC	IID000000002133808	COST		B64NSP7	GB00B64NSP76	UK
Daelim Industrial Company, Limited	IID000000002163524	000210	EF8583876	6249584	KR7000210005	South Korea
Edison SpA	IID000000002164934	EDN		7513578	IT0003152417	Italy
Gazprom Neft OAO	IID000000002145433	SIBN	36829G107	B59L417	RU0009062467	Russia
Gazprom OAO	IID000000002167503	GAZP	368287207	B59L4L7	RU0007661625	Russia
Hyundai Engineering & Construction Co., Ltd.	IID000000002169828	000720		6450988	KR7000720003	South Korea
INA-Industrija Nafta, d.d	IID000000002170018	INA-R-A		B1JMYF6	HRINA0RA0007	Croatia
Indian Oil Corporation Ltd.	IID000000002170424	530965	Y3925YAB0	6253767	INE242A01010	India
KunLun Energy Company Limited	IID000000002160624	135	50126A101	6340078	BMG5320C1082	Hong Kong
L'Air Liquide SA	IID000000002124820	AI	009126202	B1YXBJ7	FR0000120073	France
Liquefied Natural Gas Ltd	IID000000002124395	LNG		B02L5H2	AU000000LNG0	Australia
Mangalore Refinery & Petrochemicals Ltd	IID000000002135609	500109		6121530	INE103A01014	India
Oil and Natural Gas Corporation Limited	IID000000002178040	500312		6139362	INE213A01011	India
OMV Aktiengesellschaft	IID000000002127907	OMV	670875509	4651459	AT0000743059	Austria
PetroChina Company Limited	IID000000002179403	601857	71646E100	B28SLD9	CNE1000007Q1	China
Petrofac Limited	IID000000002179416	PFC		B0H2K53	GB00B0H2K534	UK
Petronas Dagangan Bhd	IID000000002179442	PETDAG		6695938	MYL568100001	Malaysia
Petronas Gas Berhad	IID000000002178591	PETGAS		6703972	MYL603300004	Malaysia
PetroVietnam Consultancy and Engineering Corp	IID000000002179453	PVE		B2NFY69	VN000000PVE0	Vietnam
PetroVietnam Fertilizer and Chemicals Corp	IID000000002179451	DPM		B291F68	VN000000DPM1	Vietnam
PetroVietNam Southern Gas Joint Stock Co	IID000000002179409	PGS		B2988V5	VN000000PGS1	Vietnam
PTT Exploration and Production Public Company Ltd.	IID000000002178717	PTTEP	69364V106	B1359K1	TH0355A10Z04	Thailand
PTT Public Company Limited	IID000000002136205	PTT	Y71548BF0	6420390	TH0646010015	Thailand
Royal Dutch Shell Plc	IID000000002137074	RDSA	780259206	B03MLX2	GB00B03MLX29	Netherlands
Saipem S.p.A.	IID000000002127281	SPM	79376W208	4768768	IT0000068525	Italy
Sasol Limited	IID000000002129090	SOL	803866102	6777450	ZAE000006896	South Africa
Sinopec Kantons Holdings Ltd.	IID000000002149237	934	82934W207	6162692	BMG8165U1009	Hong Kong
SINOPEC Shanghai Petrochemical Company Limited	IID000000002133087	600688	82935M109	6802794	CNE000000BB2	China
Statoil ASA	IID000000002184880	STL	85771P102	7133608	NO0010096985	Norway
Technip	IID000000002186315	TEC	878546209	4874160	FR0000131708	France
Trevi-Finanziaria Industriale S.p.A.	IID000000002145536	TFI		5731446	IT0001351383	Italy

October 12, 2010

## ATTACHMENT 2

### LIST OF IRAN COMPANIES REQUIRING DIVESTMENT

<b>Company Name</b>	<b>Country of Origin</b>	<b>Divest 50 Percent By this Date</b>	<b>Divest 100 Percent By this Date</b>
CNOOC Ltd	China	July 31, 2010	January 31, 2011
Gazprom Oao	Russia	July 31, 2010	January 31, 2011
L'Air Liquide	France	July 31, 2010	January 31, 2011
OMV AG	Austria	July 31, 2010	January 31, 2011
Royal Dutch Shell PLC	U.K.	July 31, 2010	January 31, 2011
Sasol Ltd	South Africa	July 31, 2010	January 31, 2011
Statoil Hydro ASA	Norway	July 31, 2010	January 31, 2011

PTT Exploration and Production Public Company Limited	Thailand	January 28, 2011	July 28, 2011
Saipem S.p.A.	Italy	January 28, 2011	July 28, 2011
Technip	France	January 28, 2011	July 28, 2011

October 12, 2010

## Letter to Fixed Income Managers

October 8, 2010

### Regarding Iran Companies

Dear Manager:

Laws of Minnesota 2009, Chapter 90, codified as *Minnesota Statutes*, section 11A.244, required the Minnesota State Board of Investment (SBI) to implement an Iran restriction. **This communication applies to the SBI fixed income portfolio managed by your organization.**

**Attachment 1** is the List of Restricted Iran Companies. Securities of these companies **may not be purchased** for the SBI portfolio that your organization manages. Please note that the attached List makes changes to the List of Restricted Iran Companies that was attached to the August 4, 2010 letter you received. **This new list is effective October 12, 2010.**

- The following company has been removed from the restricted list:
  - JGC Corporation
- The following companies have been added to the restricted list:
  - INA-Industrija Nafta, d.d.
  - Mangalore Refinery & Petrochemicals Ltd.
  - Petrofac Limited
  - PetroVietnam Consultancy and Engineering Corp.
  - PetroVietnam Fertilizer and Chemicals Corp.
  - PetroVietnam Southern Gas Joint Stock Company

**Attachment 2** is the List of Iran Companies Requiring Divestment.

- The following company has been removed from the divestment list:
  - JGC Corporation

**If you own securities of companies on the List of Iran Companies Requiring Divestment in the SBI portfolio that your company manages, then you must divest those holdings** according to the schedule 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.

If you have any questions about this matter, please contact Michael J. Menssen, Manager, Long-Term Debt, J. J. Kirby, Portfolio Manager, Long-Term Debt; or James E. Heidelberg, Manager, Public Programs.

Sincerely,

Teresa J. Richardson  
Assistant Executive Director

Enclosures

cc.: James E. Heidelberg, Manager, Public Programs  
Steve Kuettel, Manager, Short-Term Debt  
Michael J. Menssen, Manager, Long-Term Debt  
J. J. Kirby, Portfolio Manager, Long-Term Debt

**ATTACHMENT 1**  
**RESTRICTED IRAN COMPANIES**

**COMPANY**

China Petroleum & Chemical Corporation  
 CNOOC Ltd  
 Costain Group PLC  
 Daelim Industrial Company Limited  
 Edison SpA  
 Gazprom Neft Oao  
 Gazprom Oao  
 Hyundai Engineering & Construction Co., Ltd.  
 Indian Oil Corporation Ltd.  
 INA-Industrija Nafta, d.d.  
 KunLun Energy Company Limited  
 L'Air Liquide SA  
 Liquefied Natural Gas Ltd  
 Mangalore Refinery & Petrochemicals Ltd.  
 Oil and Natural Gas Corporation Limited  
 OMV Aktiengesellschaft  
 PetroChina Company Limited  
 Petrofac Limited  
 Petronas Dagangan Bhd  
 Petronas Gas Berhad  
 PetroVietnam Consultancy and Engineering Corp.  
 PetroVietnam Fertilizer and Chemicals Corp.  
 PetroVietnam Southern Gas Joint Stock Company  
 PTT Exploration and Production Public Company Ltd  
 PTT Public Company Limited  
 Royal Dutch Shell Plc  
 Saipem S.p.A.  
 Sasol Limited  
 Sinopec Kantons Holdings Ltd.  
 Sinopec Shanghai Petrochemical Company Ltd  
 Statoil ASA  
 Technip  
 Trevi-Finanziaria Industriale S.p.A.

**COUNTRY**

China  
 Hong Kong  
 UK  
 South Korea  
 Italy  
 Russia  
 Russia  
 South Korea  
 India  
 Croatia  
 Hong Kong  
 France  
 Australia  
 India  
 India  
 Austria  
 China  
 UK  
 Malaysia  
 Malaysia  
 Vietnam  
 Vietnam  
 Vietnam  
 Thailand  
 Thailand  
 Netherlands  
 Italy  
 South Africa  
 Hong Kong  
 China  
 Norway  
 France  
 Italy

October 12, 2010

## ATTACHMENT 2

### LIST OF IRAN COMPANIES REQUIRING DIVESTMENT

<b>Company Name</b>	<b>Country of Origin</b>	<b>Divest 50 Percent By this Date</b>	<b>Divest 100 Percent By this Date</b>
CNOOC Ltd	China	July 31, 2010	January 31, 2011
Gazprom Oao	Russia	July 31, 2010	January 31, 2011
L'Air Liquide	France	July 31, 2010	January 31, 2011
OMV AG	Austria	July 31, 2010	January 31, 2011
Royal Dutch Shell PLC	U.K.	July 31, 2010	January 31, 2011
Sasol Ltd	South Africa	July 31, 2010	January 31, 2011
Statoil Hydro ASA	Norway	July 31, 2010	January 31, 2011

PTT Exploration and Production Public Company Limited	Thailand	January 28, 2011	July 28, 2011
Saipem S.p.A.	Italy	January 28, 2011	July 28, 2011
Technip	France	January 28, 2011	July 28, 2011

October 12, 2010



# **Tab C**



# STATE BOARD OF INVESTMENT

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## Domestic Equity Manager Evaluation Reports

Third Quarter, 2010



# Domestic Equity

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**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC STOCK MANAGERS**  
**Periods Ending September, 2010**

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	11.7	11.6	7.2	10.8	-9.1	-6.8	-0.9	0.9
Russell 1000 Growth Aggregate	14.1	13.0	14.0	12.7	-4.2	-4.4	1.5	2.1
Russell 1000 Value Aggregate	11.0	10.1	9.0	8.9	-8.8	-9.4	-0.4	-0.5
Russell 2000 Growth Aggregate	11.9	12.8	15.2	14.8	-8.1	-3.7	0.8	2.3
Russell 2000 Value Aggregate	10.2	9.7	16.4	11.8	-4.4	-5.0	-0.7	0.7
<b>Active Manager Aggregate</b>	<b>12.1</b>	<b>11.5</b>	<b>11.8</b>	<b>11.4</b>	<b>-7.0</b>	<b>-6.4</b>	<b>0.2</b>	<b>0.9</b>
<b>Semi-Passive Aggregate</b>	<b>11.2</b>	<b>11.6</b>	<b>9.9</b>	<b>10.8</b>	<b>-7.2</b>	<b>-6.8</b>	<b>0.5</b>	<b>0.9</b>
<b>Passive Manager (BlackRock)</b>	<b>11.5</b>	<b>11.5</b>	<b>11.2</b>	<b>11.0</b>	<b>-6.4</b>	<b>-6.6</b>	<b>1.0</b>	<b>0.9</b>
<b>Total Domestic Equity Aggregate</b>	<b>11.5</b>	<b>11.5</b>	<b>10.9</b>	<b>11.0</b>	<b>-6.8</b>	<b>-6.6</b>	<b>0.6</b>	<b>0.9</b>
<b>Russell 3000 Index</b>		<b>11.5</b>		<b>11.0</b>		<b>-6.6</b>		<b>0.9</b>

	2009		2008		2007		2006		2005	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	27.6	28.4	-39.6	-37.6	2.4	5.8	15.8	15.5	6.4	6.3
Russell 1000 Growth Aggregate	44.5	37.2	-42.7	-38.4	14.9	11.8	2.2	9.1	7.3	5.3
Russell 1000 Value Aggregate	23.8	19.7	-38.0	-36.8	3.6	-0.2	17.4	22.2	6.0	7.1
Russell 2000 Growth Aggregate	33.6	34.5	-46.8	-38.5	21.6	7.0	10.0	13.3	4.7	4.2
Russell 2000 Value Aggregate	36.3	20.6	-36.1	-28.9	-13.4	-9.8	13.1	23.5	7.7	4.7
<b>Active Manager Aggregate</b>	<b>32.3</b>	<b>27.9</b>	<b>-40.5</b>	<b>-36.9</b>	<b>6.3</b>	<b>4.2</b>	<b>11.5</b>	<b>15.8</b>	<b>6.5</b>	<b>6.0</b>
<b>Semi-Passive Aggregate</b>	<b>28.5</b>	<b>28.4</b>	<b>-37.2</b>	<b>-37.6</b>	<b>3.2</b>	<b>5.8</b>	<b>16.1</b>	<b>15.5</b>	<b>6.2</b>	<b>6.3</b>
<b>Passive Manager (BlackRock)</b>	<b>28.2</b>	<b>28.3</b>	<b>-37.1</b>	<b>-37.3</b>	<b>5.1</b>	<b>5.1</b>	<b>15.8</b>	<b>15.7</b>	<b>6.2</b>	<b>6.1</b>
<b>Total Domestic Equity Aggregate</b>	<b>29.6</b>	<b>28.3</b>	<b>-38.1</b>	<b>-37.3</b>	<b>4.9</b>	<b>5.1</b>	<b>14.5</b>	<b>15.7</b>	<b>6.4</b>	<b>6.1</b>
<b>Russell 3000 Index</b>		<b>28.3</b>		<b>-37.3</b>		<b>5.1</b>		<b>15.7</b>		<b>6.1</b>

**COMBINED RETIREMENT FUNDS**  
**ACTIVE DOMESTIC STOCK MANAGERS**  
**Periods Ending September, 2010**  
**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 %		
<b>LARGE CAP</b>												
<b>Russell 1000 Core</b>												
New Amsterdam Partners	13.3	11.6	9.7	10.8	-7.1	-6.8	-0.8	0.9	9.5	8.6	\$334.1	1.6%
UBS Global	10.1	11.6	6.6	10.8	-7.9	-6.8	0.3	0.9	7.9	7.7	\$323.4	1.6%
<b>Aggregate</b>	<b>11.7</b>	<b>11.6</b>	<b>7.2</b>	<b>10.8</b>	<b>-9.1</b>	<b>-6.8</b>	<b>-0.9</b>	<b>0.9</b>			<b>\$657.5</b>	<b>3.2%</b>
<b>Russell 1000 Growth</b>												
Alliance Capital	10.5	13.0	3.8	12.7	-6.7	-4.4	-0.4	2.1	11.8	9.3	\$253.4	1.2%
INTECH	11.7	13.0	14.4	12.7	-6.2	-4.4	0.2	2.1	0.8	2.2	\$292.3	1.4%
Jacobs Levy	12.5	13.0	13.7	12.7	-6.6	-4.4	-0.7	2.1	-0.4	2.2	\$259.9	1.3%
Knelman Asset Mgmt.	13.4	13.0	10.4	12.7	-6.6	-4.4	1.6	2.1	1.6	2.2	\$55.2	0.3%
Sands Capital	16.9	13.0	21.5	12.7	-0.5	-4.4	3.2	2.1	3.4	2.2	\$241.1	1.2%
Winslow-Large Cap	16.3	13.0	13.3	12.7	-2.6	-4.4	4.1	2.1	4.7	2.2	\$122.7	0.6%
Zevenbergen Capital	17.9	13.0	18.9	12.7	-0.4	-4.4	6.6	2.1	9.0	7.0	\$294.5	1.4%
<b>Aggregate</b>	<b>14.1</b>	<b>13.0</b>	<b>14.0</b>	<b>12.7</b>	<b>-4.2</b>	<b>-4.4</b>	<b>1.5</b>	<b>2.1</b>			<b>\$1,519.0</b>	<b>7.4%</b>
<b>Russell 1000 Value</b>												
Barrow, Hanley	12.0	10.1	10.5	8.9	-8.5	-9.4	-1.1	-0.5	2.9	2.4	\$390.2	1.9%
Earnest Partners	11.0	10.1	9.8	8.9	-6.9	-9.4	0.6	-0.5	3.3	3.3	\$166.0	0.8%
Lord Abbett & Co.	9.8	10.1	6.4	8.9	-8.4	-9.4	0.3	-0.5	2.0	2.4	\$280.7	1.4%
LSV Asset Mgmt.	10.2	10.1	8.8	8.9	-9.6	-9.4	-0.4	-0.5	3.4	2.4	\$367.2	1.8%
Systematic Financial Mgmt.	11.8	10.1	9.7	8.9	-9.6	-9.4	-0.3	-0.5	2.9	2.4	\$270.0	1.3%
<b>Aggregate</b>	<b>11.0</b>	<b>10.1</b>	<b>9.0</b>	<b>8.9</b>	<b>-8.8</b>	<b>-9.4</b>	<b>-0.4</b>	<b>-0.5</b>			<b>\$1,474.2</b>	<b>7.2%</b>
<b>SMALL CAP</b>												
<b>Russell 2000 Growth</b>												
McKinley Capital	12.9	12.8	15.2	14.8	-11.3	-3.7	-1.9	2.3	0.6	4.2	\$186.6	0.9%
Next Century Growth	9.6	12.8	15.0	14.8	-9.0	-3.7	3.1	2.3	-1.1	-0.5	\$221.4	1.1%
Turner Investment Partners	13.4	12.8	15.4	14.8	-4.3	-3.7	3.4	2.3	4.6	4.2	\$235.4	1.2%
<b>Aggregate</b>	<b>11.9</b>	<b>12.8</b>	<b>15.2</b>	<b>14.8</b>	<b>-8.1</b>	<b>-3.7</b>	<b>0.8</b>	<b>2.3</b>			<b>\$643.4</b>	<b>3.2%</b>
<b>Russell 2000 Value</b>												
Goldman Sachs	10.3	9.7	16.8	11.8	-1.5	-5.0	3.5	0.7	5.6	4.2	\$134.8	0.7%
Hotchkis & Wiley	9.8	9.7	20.7	11.8	-1.3	-5.0	-1.9	0.7	3.3	4.2	\$116.3	0.6%
Martingale Asset Mgmt.	11.7	9.7	12.1	11.8	-8.3	-5.0	-3.8	0.7	2.1	4.2	\$107.5	0.5%
Peregrine Capital	9.6	9.7	16.1	11.8	-5.1	-5.0	-0.4	0.7	9.0	8.3	\$188.0	0.9%
<b>Aggregate</b>	<b>10.2</b>	<b>9.7</b>	<b>16.4</b>	<b>11.8</b>	<b>-4.4</b>	<b>-5.0</b>	<b>-0.7</b>	<b>0.7</b>			<b>\$546.5</b>	<b>2.7%</b>
<b>Active Mgr. Aggregate (2)</b>	<b>12.1</b>	<b>11.5</b>	<b>11.8</b>	<b>11.4</b>	<b>-7.0</b>	<b>-6.4</b>	<b>0.2</b>	<b>0.9</b>			<b>\$4,840.6</b>	<b>23.7%</b>

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

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

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

	2009		2008		2007		2006		2005	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>LARGE CAP</b>										
<b>Russell 1000 Core</b>										
New Amsterdam Partners	24.8	28.4	-36.7	-37.6	5.0	5.8	9.3	15.5	7.6	6.3
UBS Global	41.3	28.4	-41.3	-37.6	0.8	5.8	16.8	15.5	8.6	6.3
<b>Aggregate</b>	<b>27.6</b>	<b>28.4</b>	<b>-39.6</b>	<b>-37.6</b>	<b>2.4</b>	<b>5.8</b>	<b>15.8</b>	<b>15.5</b>	<b>6.4</b>	<b>6.3</b>
<b>Russell 1000 Growth</b>										
Alliance Capital	38.4	37.2	-40.3	-38.4	15.4	11.8	-0.4	9.1	14.2	5.3
INTECH	34.0	37.2	-42.8	-38.4	11.4	11.8	7.4	9.1	7.8	5.3
Jacobs Levy	37.1	37.2	-44.9	-38.4	8.4	11.8	6.1	9.1	5.3	5.3
Knelman Asset Mgmt.	31.1	37.2	-39.9	-38.4	18.0	11.8	7.1	9.1	6.6	5.3
Sands Capital	71.6	37.2	-48.6	-38.4	19.5	11.8	-5.5	9.1	10.9	5.3
Winslow-Large Cap	40.9	37.2	-39.1	-38.4	22.0	11.8	7.6	9.1	10.5	5.3
Zevenbergen Capital	57.4	37.2	-43.2	-38.4	24.0	11.8	6.2	9.1	9.0	5.3
<b>Aggregate</b>	<b>44.5</b>	<b>37.2</b>	<b>-42.7</b>	<b>-38.4</b>	<b>14.9</b>	<b>11.8</b>	<b>2.2</b>	<b>9.1</b>	<b>7.3</b>	<b>5.3</b>
<b>Russell 1000 Value</b>										
Barrow, Hanley	23.2	19.7	-35.2	-36.8	2.6	-0.2	15.4	22.2	9.6	7.1
Earnest Partners	31.6	19.7	-39.8	-36.8	6.5	-0.2	13.8	22.2	15.6	7.1
Lord Abbett & Co.	20.5	19.7	-36.3	-36.8	4.4	-0.2	18.6	22.2	3.5	7.1
LSV Asset Mgmt.	24.0	19.7	-39.3	-36.8	1.3	-0.2	21.7	22.2	12.5	7.1
Systematic Financial Mgmt.	23.2	19.7	-40.6	-36.8	8.3	-0.2	17.9	22.2	10.3	7.1
<b>Aggregate</b>	<b>23.8</b>	<b>19.7</b>	<b>-38.0</b>	<b>-36.8</b>	<b>3.6</b>	<b>-0.2</b>	<b>17.4</b>	<b>22.2</b>	<b>6.0</b>	<b>7.1</b>
<b>SMALL CAP</b>										
<b>Russell 2000 Growth</b>										
McKinley Capital	28.0	34.5	-49.1	-38.5	16.2	7.0	12.5	13.3	0.2	4.2
Next Century Growth	35.0	34.5	-49.3	-38.5	34.2	7.0	12.4	13.3	25.2	4.2
Turner Investment Partners	36.9	34.5	-41.9	-38.5	14.8	7.0	13.6	13.3	6.2	4.2
<b>Aggregate</b>	<b>33.6</b>	<b>34.5</b>	<b>-46.8</b>	<b>-38.5</b>	<b>21.6</b>	<b>7.0</b>	<b>10.0</b>	<b>13.3</b>	<b>4.7</b>	<b>4.2</b>
<b>Russell 2000 Value</b>										
Goldman Sachs	27.8	20.6	-26.8	-28.9	-5.0	-9.8	17.8	23.5	4.1	4.7
Hotchkis & Wiley	62.5	20.6	-44.1	-28.9	-18.8	-9.8	3.0	23.5	10.4	4.7
Martingale Asset Mgmt.	19.4	20.6	-33.8	-28.9	-16.8	-9.8	14.8	23.5	6.2	4.7
Peregrine Capital	45.8	20.6	-39.4	-28.9	-13.4	-9.8	14.3	23.5	10.1	4.7
<b>Aggregate</b>	<b>36.3</b>	<b>20.6</b>	<b>-36.1</b>	<b>-28.9</b>	<b>-13.4</b>	<b>-9.8</b>	<b>13.1</b>	<b>23.5</b>	<b>7.7</b>	<b>4.7</b>
<b>Active Mgr. Aggregate (1)</b>	<b>32.3</b>	<b>27.9</b>	<b>-40.5</b>	<b>-36.9</b>	<b>6.3</b>	<b>4.2</b>	<b>11.5</b>	<b>15.8</b>	<b>6.5</b>	<b>6.0</b>

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

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, 2010  
Versus Manager Benchmarks**

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>SEMI-PASSIVE MANAGERS (2)</b>												
BlackRock Institutional	11.4	11.6	8.6	10.8	-7.6	-6.8	0.0	0.9	7.5	7.3	\$2,324.1	11.4%
INTECH	11.2	11.6							-1.1	-1.2	\$1,196.9	5.9%
JP Morgan	11.7	11.6	11.3	10.8	-5.8	-6.8	1.7	0.9	7.6	7.3	\$2,623.1	12.8%
Mellon Capital	9.8	11.6	8.4	10.8	-8.6	-6.8	-0.4	0.9	6.6	7.3	\$1,209.5	5.9%
<b>Semi-Passive Aggregate (3)</b> (R1000)	<b>11.2</b>	<b>11.6</b>	<b>9.9</b>	<b>10.8</b>	<b>-7.2</b>	<b>-6.8</b>	<b>0.5</b>	<b>0.9</b>			<b>\$7,353.6</b>	<b>36.0%</b>
<b>PASSIVE MANAGER (R3000)</b>												
BlackRock Institutional	11.5	11.5	11.2	11.0	-6.4	-6.6	1.0	0.9	6.9	6.8	\$8,220.5	40.3%
<b>Historical Aggregate (3) (4)</b>	<b>11.5</b>	<b>11.5</b>	<b>10.9</b>	<b>11.0</b>	<b>-6.8</b>	<b>-6.6</b>	<b>0.6</b>	<b>0.9</b>	<b>9.5</b>	<b>9.7</b>	<b>\$20,414.7</b>	<b>100.0%</b>
Russell 3000		11.5		11.0		-6.6		0.9		10.1		
Russell 1000		11.6		10.8		-6.8		0.9		10.2		
Russell 2000		11.3		13.3		-4.3		1.6		8.7		

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

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

(3) Includes the performance of terminated managers.

(4) The Historical Aggregate benchmark 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**

	2009		2008		2007		2006		2005	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>SEMI-PASSIVE MANAGERS</b>										
BlackRock Institutional	27.6	28.4	-37.1	-37.6	2.2	5.8	15.6	15.5	7.6	6.3
INTECH										
JP Morgan	32.1	28.4	-37.1	-37.6	5.1	5.8	16.5	15.5	4.7	6.3
Mellon Capital	25.6	28.4	-37.6	-37.6	2.5	5.8	16.5	15.5	6.1	6.3
<b>Semi-Passive Aggregate (R1000)</b>	<b>28.5</b>	<b>28.4</b>	<b>-37.2</b>	<b>-37.6</b>	<b>3.2</b>	<b>5.8</b>	<b>16.1</b>	<b>15.5</b>	<b>6.2</b>	<b>6.3</b>
<b>PASSIVE MANAGER (R3000)</b>										
BlackRock Institutional	28.2	28.3	-37.1	-37.3	5.1	5.1	15.8	15.7	6.2	6.1
<b>Historical Aggregate (1)</b>	<b>29.6</b>	<b>28.3</b>	<b>-38.1</b>	<b>-37.3</b>	<b>4.9</b>	<b>5.1</b>	<b>14.5</b>	<b>15.7</b>	<b>6.4</b>	<b>6.1</b>
Russell 3000		28.3		-37.3		5.1		15.7		6.1
Russell 1000		28.4		-37.6		5.8		15.5		6.3
Russell 2000		27.2		-33.8		-1.6		18.4		4.6

(1) Includes the performance of terminated managers.

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



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



# Large Cap Core (R1000)

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**NEW AMSTERDAM PARTNERS**  
**Periods Ending September, 2010**

**Portfolio Manager: Michelle Clayman**

**Assets Under Management: \$334,065,613**

**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.

**Quantitative Evaluation**

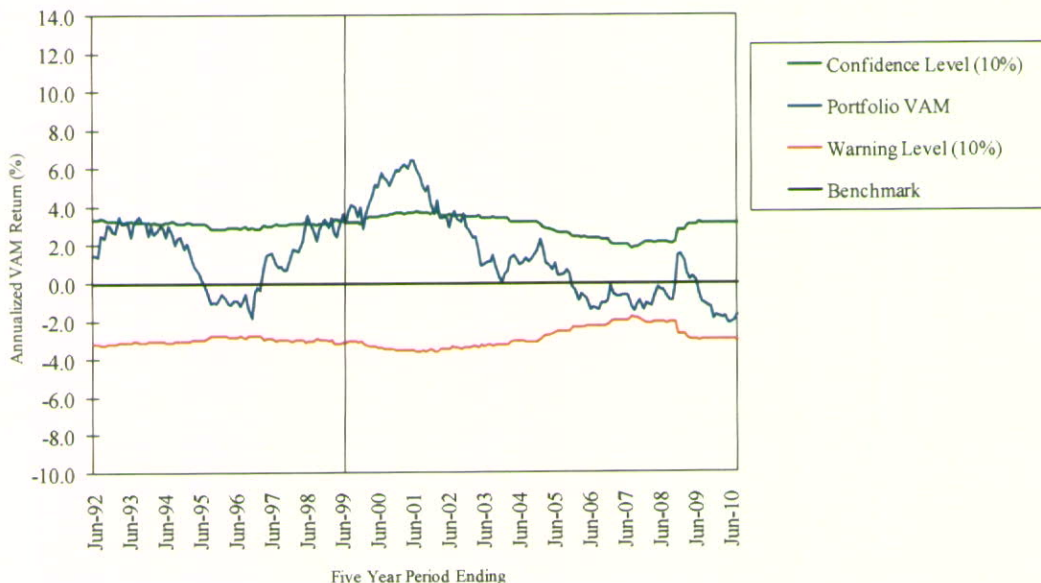
	<b>Actual</b>	<b>Russell Index</b>
Last Quarter	13.3%	11.6%
Last 1 year	9.7	10.8
Last 2 years	1.7	2.0
Last 3 years	-7.1	-6.8
Last 4 years	-2.2	-1.4
Last 5 years	-0.8	0.9
Since Inception (1) (4/94)	9.5	8.6

**Recommendation**

No action required.

- (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**  
**Rolling Five Year VAM vs. Russell Index (1)**



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

**UBS GLOBAL ASSET MANAGEMENT, INC.**  
**Periods Ending September, 2010**

**Portfolio Manager: John Leonard**

**Assets Under Management: \$323,404,794**

**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 underperformed the benchmark for the quarter and for the year. Stock selection was negative for both periods. The quarterly performance was hurt by several sectors, with Technology having the biggest impact. Stock selection for the year was negative across most sectors, especially Utilities where an overweight to Dynegy was a significant drag on performance.

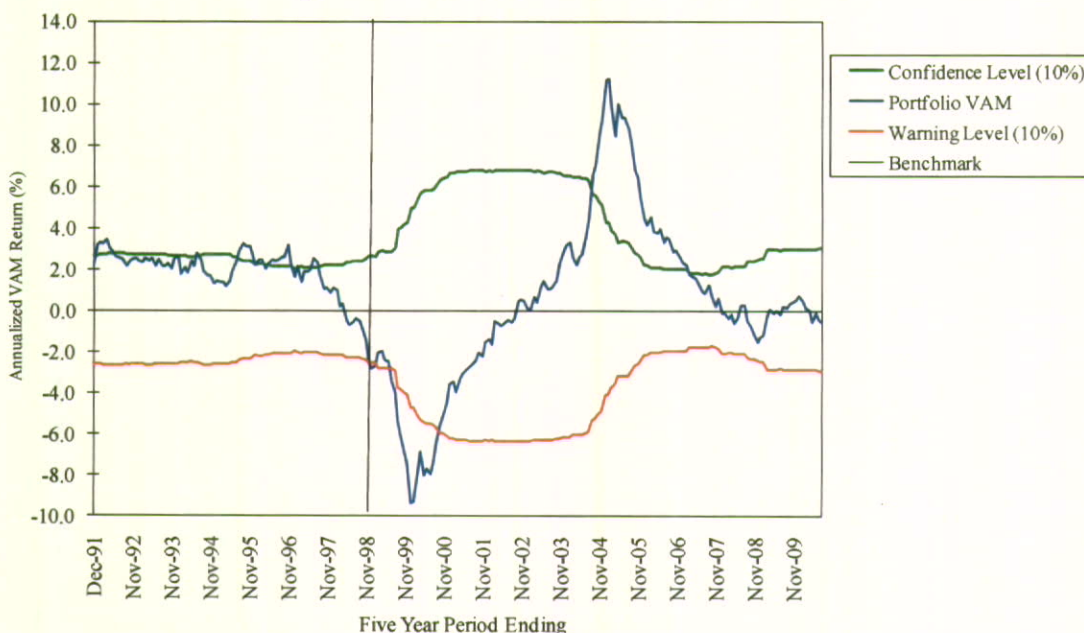
**Quantitative Evaluation**

	<b>Actual</b>	<b>(R1000 Core)</b>
Last Quarter	10.1%	11.6%
Last 1 year	6.6	10.8
Last 2 years	1.2	2.0
Last 3 years	-7.9	-6.8
Last 4 years	-2.9	-1.4
Last 5 years	0.3	0.9
Since Inception (7/93)	7.9	7.7

**Recommendation**

No action required.

**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)**



## Large Cap Growth (R1000 Growth)

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**ALLIANCE CAPITAL MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Stephanie Simon**

**Assets Under Management: \$253,358,611**

**Investment Philosophy**

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

**Staff Comments**

Alliance trailed the benchmark for the quarter and the year due to stock selection. For the quarter, stock selection across cyclically exposed sectors – Financials, Consumer Discretionary and Technology – were the primary sources of underperformance. For the year, stock selection and an overweight to the Financial sector along with stock selection in the Healthcare sector were the biggest drivers of the underperformance.

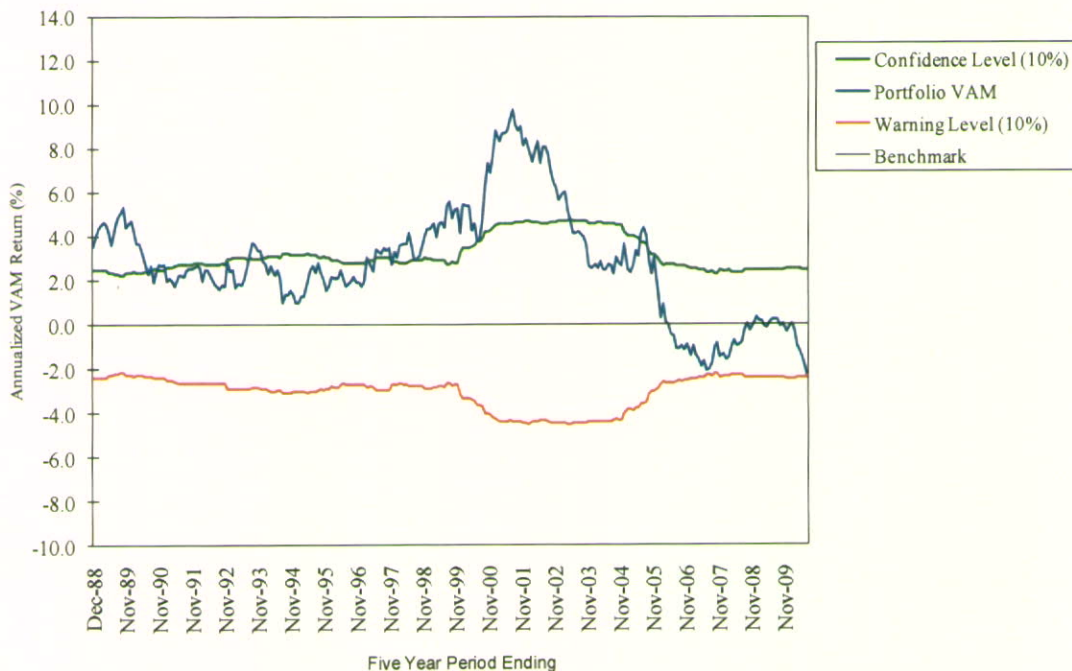
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	10.5%	13.0%
Last 1 year	3.8	12.7
Last 2 years	2.6	5.1
Last 3 years	-6.7	-4.4
Last 4 years	-0.9	1.1
Last 5 years	-0.4	2.1
Since Inception (1/84)	11.8	9.3

**Recommendation**

No action required.

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



**INTECH INVESTMENT MANAGEMENT LLC**  
**Periods Ending September, 2010**

**Portfolio Manager: Adrian Banner**

**Assets Under Management: \$292,345,084**

**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.

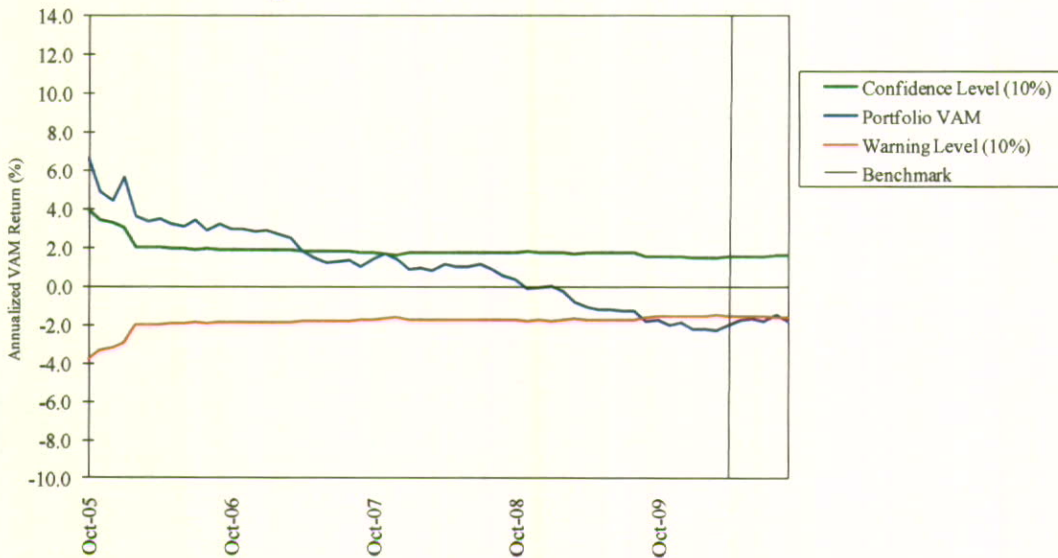
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	11.7%	13.0%
Last 1 year	14.4	12.7
Last 2 years	3.2	5.1
Last 3 years	-6.2	-4.4
Last 4 years	-1.1	1.1
Last 5 years	0.2	2.1
Since Inception (1/05)	0.8	2.2

**Recommendation**

No action required.

**INTECH INVESTMENT MANAGEMENT LLC**  
**Rolling Five Year VAM vs. Russell 1000 Growth**



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

**JACOBS LEVY EQUITY MANAGEMENT**  
**Periods Ending September, 2010**

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

**Assets Under Management: \$259,869,731**

**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.

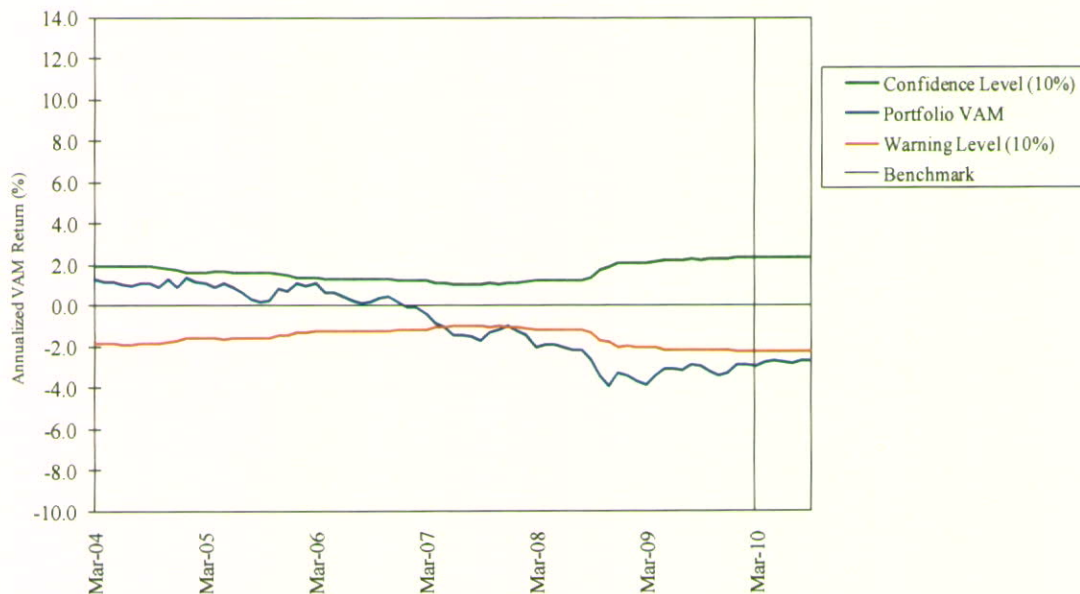
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	12.5%	13.0%
Last 1 year	13.7	12.7
Last 2 years	4.4	5.1
Last 3 years	-6.6	-4.4
Last 4 years	-1.9	1.1
Last 5 years	-0.7	2.1
Since Inception (1/05)	-0.4	2.2

**Recommendation**

No action required.

**JACOBS LEVY EQUITY 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.

**KNELMAN ASSET MANAGEMENT, LLC**  
**Periods Ending September, 2010**

**Portfolio Manager: Kip Knelman**

**Assets Under Management: \$55,167,544**

**Investment Philosophy**

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.

**Staff Comments**

No comment at this time.

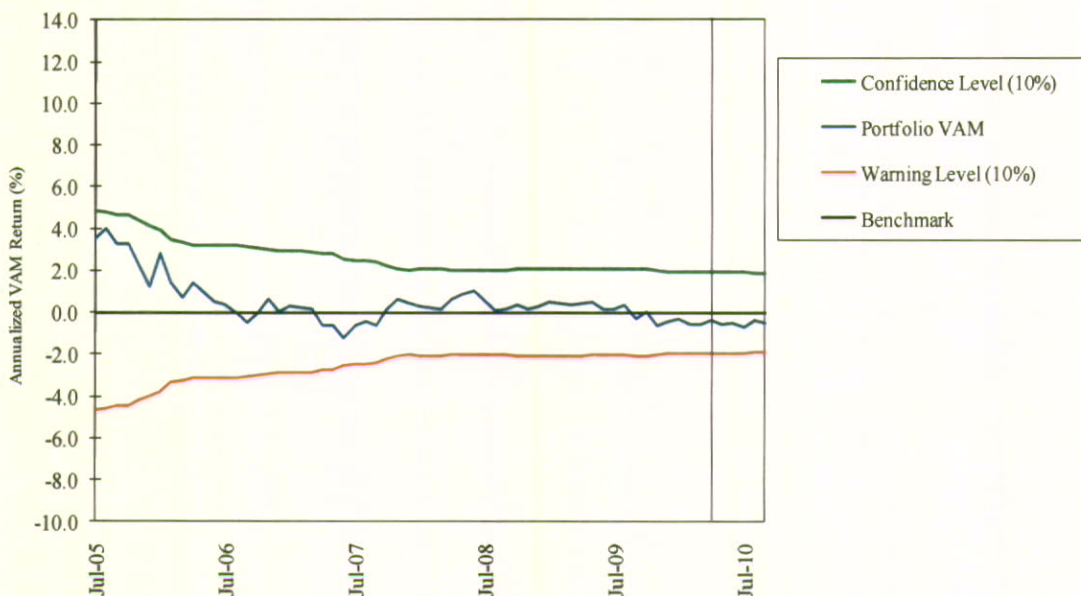
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	13.4%	13.0%
Last 1 year	10.4	12.7
Last 2 years	3.8	5.1
Last 3 years	-6.6	-4.4
Last 4 years	0.4	1.1
Last 5 years	1.6	2.1
Since Inception (1/05)	1.6	2.2

**Recommendation**

No action required.

KNELMAN ASSET MANAGEMENT, LLC.  
 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.



**SANDS CAPITAL MANAGEMENT LLC**  
**Periods Ending September, 2010**

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

**Assets Under Management: \$241,063,914**

**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**

Sands outperformed the benchmark for the quarter and for the year due to overall stock selection. Both periods were helped by strong stock selection in the Technology and Consumer Discretionary sectors.

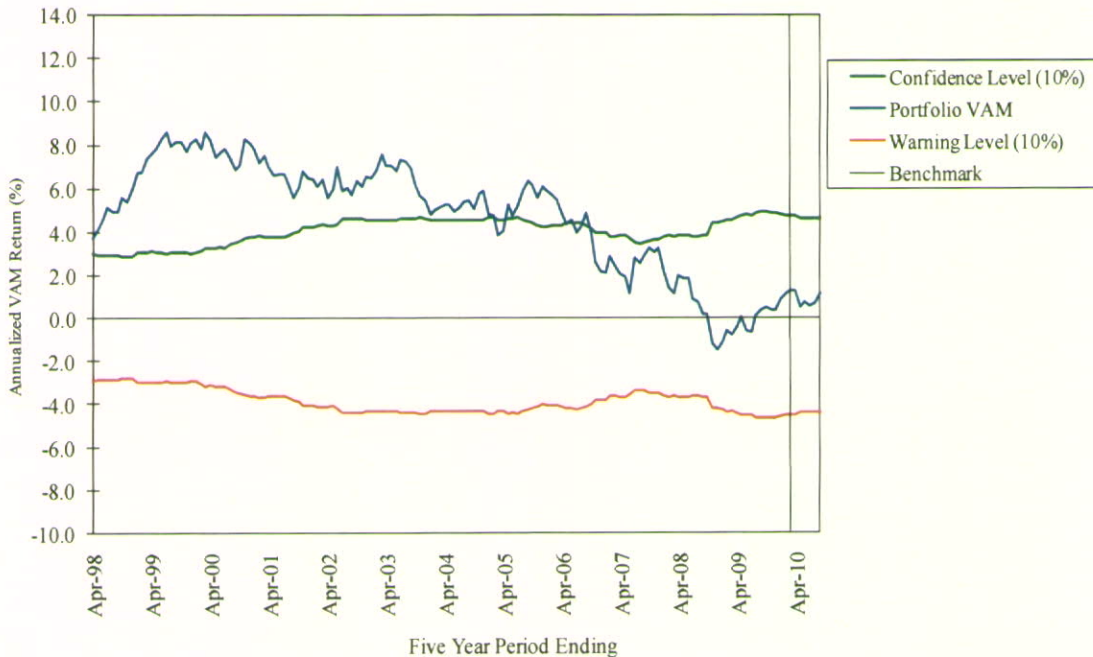
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	16.9%	13.0%
Last 1 year	21.5	12.7
Last 2 years	14.2	5.1
Last 3 years	-0.5	-4.4
Last 4 years	4.5	1.1
Last 5 years	3.2	2.1
Since Inception (1/05)	3.4	2.2

**Recommendation**

No action required.

**SANDS CAPITAL MANAGEMENT, LLC**  
**Rolling Five Year VAM vs. Russell 1000 Growth**



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

**WINSLOW CAPITAL MANAGEMENT, INC.**  
**Periods Ending September, 2010**

**Portfolio Manager: Bart Wear and Justin Kelly**

**Assets Under Management: \$122,730,273**

**Investment Philosophy**

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.

**Staff Comments**

No comment at this time.

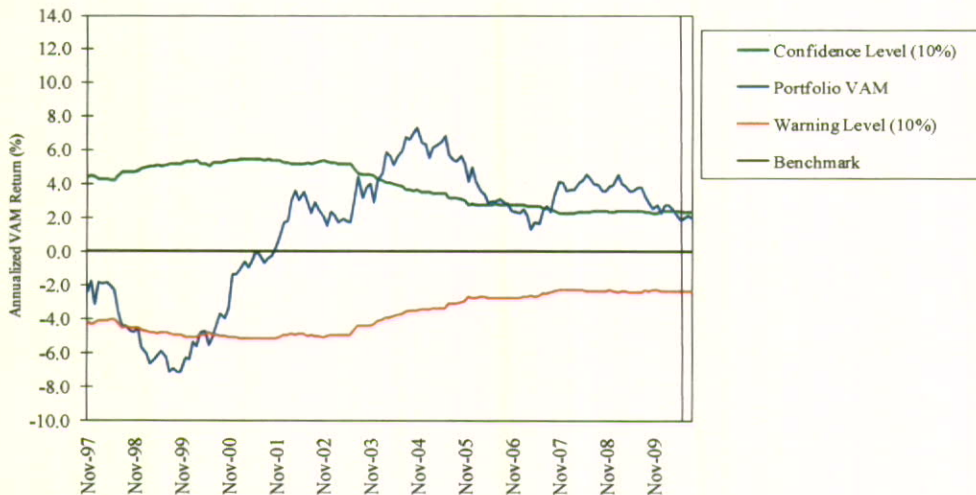
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	16.3%	13.0%
Last 1 year	13.3	12.7
Last 2 years	6.5	5.1
Last 3 years	-2.6	-4.4
Last 4 years	3.3	1.1
Last 5 years	4.1	2.1
Since Inception (1/05)	4.7	2.2

**Recommendation**

No action required.

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



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

**ZEVENBERGEN CAPITAL INC.**  
**Periods Ending September, 2010**

**Portfolio Manager:** Nancy Zevenbergen

**Assets Under Management:** \$294,460,025

**Investment Philosophy**

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

**Staff Comments**

Zevenbergen outperformed the benchmark for the quarter and for the year due to overall stock selection. For the quarter, six of the portfolio's top ten contributors were technology issues. Both periods were helped by strong stock selection primarily in the Technology sector and closely followed by the Consumer Discretionary sector.

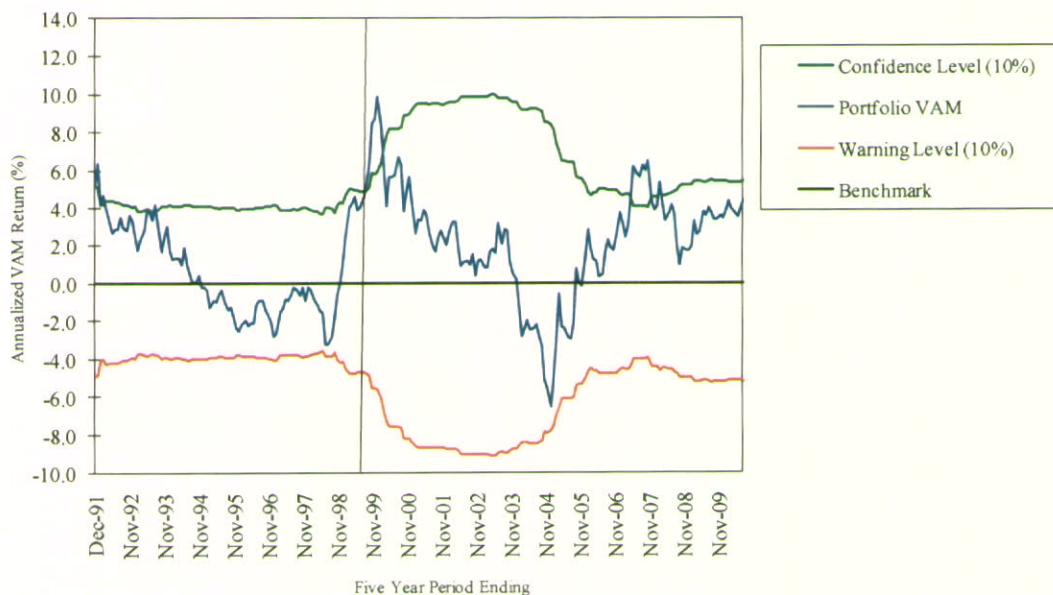
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Growth</b>
Last Quarter	17.9%	13.0%
Last 1 year	18.9	12.7
Last 2 years	11.4	5.1
Last 3 years	-0.4	-4.4
Last 4 years	6.2	1.1
Last 5 years	6.6	2.1
Since Inception (4/94)	9.0	7.0

**Recommendation**

No action required.

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



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

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



## Large Cap Value (R1000 Value)

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**BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.**  
**Periods Ending September 2010**

**Portfolio Manager: Tim Culler**

**Assets Under Management: \$390,189,744**

**Investment Philosophy**

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

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

**Staff Comments**

No comment at this time.

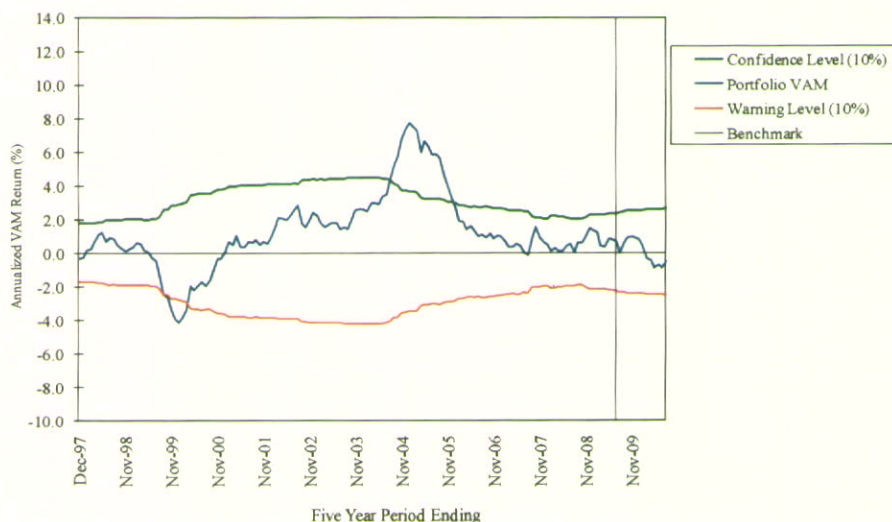
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	12.0%	10.1%
Last 1 year	10.5	8.9
Last 2 years	1.3	-1.3
Last 3 years	-8.5	-9.4
Last 4 years	-3.2	-3.9
Last 5 years	-1.1	-0.5
Since Inception (4/04)	2.9	2.4

**Recommendation**

No action required.

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



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

**EARNEST PARTNERS, LLC**  
**Periods Ending September, 2010**

**Portfolio Manager: Paul Viera**

**Assets Under Management: \$166,023,099**

**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.

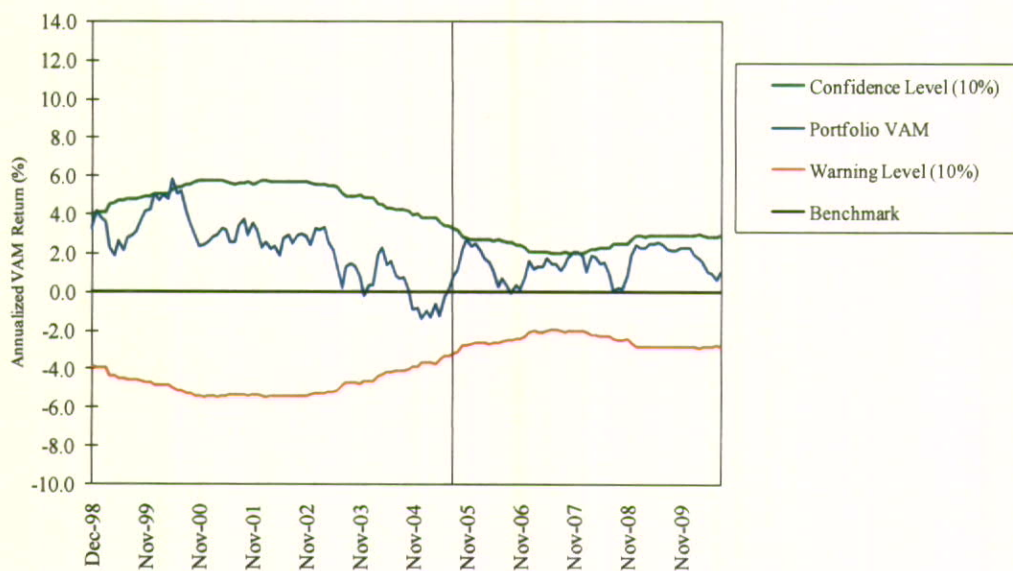
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	11.0%	10.1%
Last 1 year	9.8	8.9
Last 2 years	4.8	-1.3
Last 3 years	-6.9	-9.4
Last 4 years	-2.0	-3.9
Last 5 years	0.6	-0.5
Since Inception (7/00)	3.3	3.3

**Recommendation**

No action required.

**EARNEST PARTNERS**  
**Rolling Five Year VAM vs. Russell 1000 Value**



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



**LORD ABBETT & CO. LLC**  
**Periods Ending September, 2010**

**Portfolio Manager: Eli Salzmann**

**Assets Under Management: \$280,723,447**

**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**

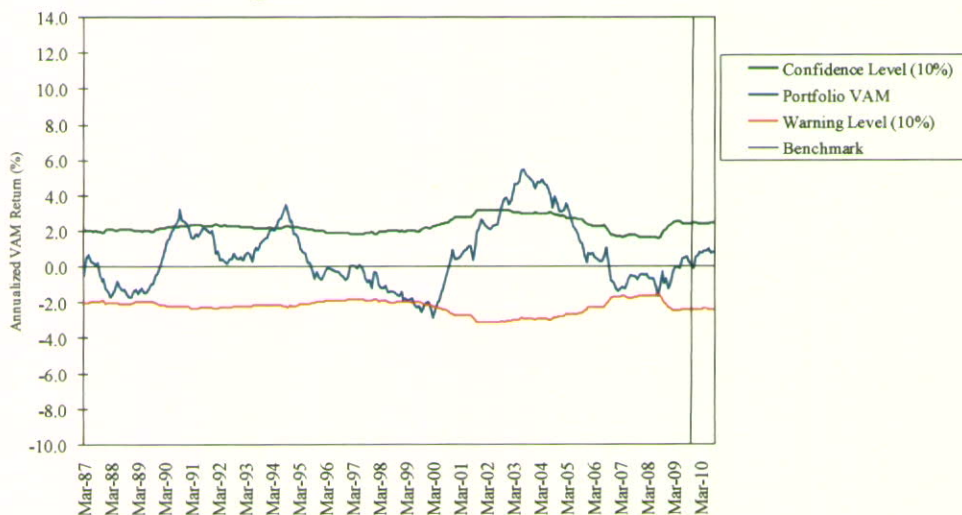
Lord Abbett trailed the benchmark for the quarter and the year. Unfavorable stock selection within the Financials sector and an overweight to the sector were the largest detractors from relative performance for both periods.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>	
Last Quarter	9.8%	10.1%	No action required.
Last 1 year	6.4	8.9	
Last 2 years	-0.2	-1.3	
Last 3 years	-8.4	-9.4	
Last 4 years	-3.0	-3.9	
Last 5 years	0.3	-0.5	
Since Inception (4/04)	2.0	2.4	

**Recommendation**

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



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

**LSV ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Josef Lakonishok**

**Assets Under Management: \$367,231,837**

**Investment Philosophy**

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

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

**Staff Comments**

No comment at this time.

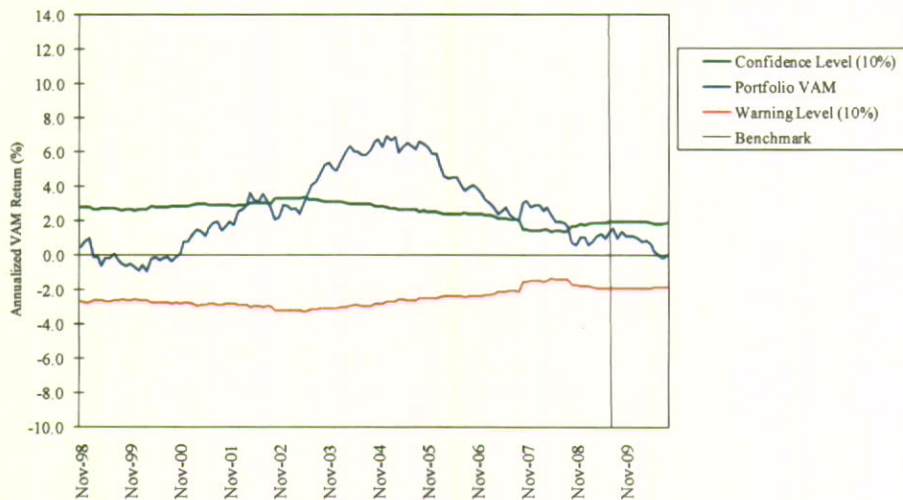
**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	10.2%	10.1%
Last 1 year	8.8	8.9
Last 2 years	-0.7	-1.3
Last 3 years	-9.6	-9.4
Last 4 years	-3.7	-3.9
Last 5 years	-0.4	-0.5
Since Inception (4/04)	3.4	2.4

**Recommendation**

No action required.

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



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

**SYSTEMATIC FINANCIAL MANAGEMENT, L.P.**  
**Periods Ending September, 2010**

**Portfolio Manager: Kevin McCreesh**

**Assets Under Management: \$270,007,559**

**Investment Philosophy**

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

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

**Staff Comments**

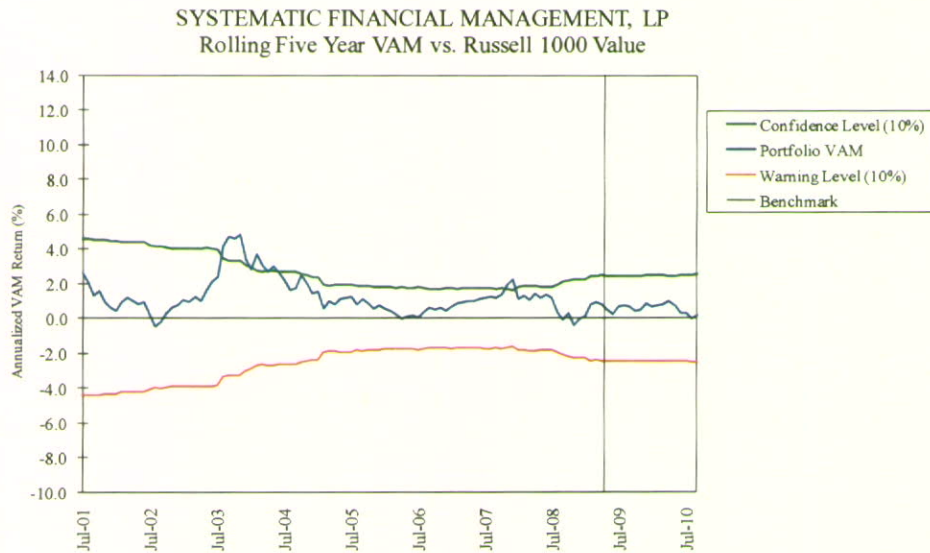
No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R1000 Value</b>
Last Quarter	11.8%	10.1%
Last 1 year	9.7	8.9
Last 2 years	0.2	-1.3
Last 3 years	-9.6	-9.4
Last 4 years	-3.0	-3.9
Last 5 years	-0.3	-0.5
Since Inception (4/04)	2.9	2.4

**Recommendation**

No action required.



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

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



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

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**MCKINLEY CAPITAL MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$186,571,726**

**Investment Philosophy**

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

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

**Staff Comments**

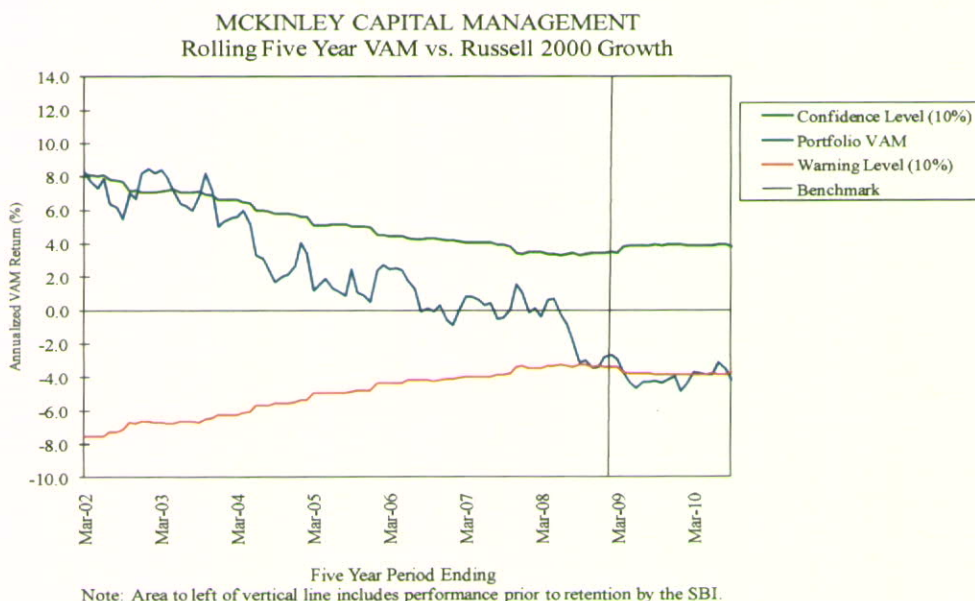
No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	12.9%	12.8%
Last 1 year	15.2	14.8
Last 2 years	-1.2	3.7
Last 3 years	-11.3	-3.7
Last 4 years	-3.5	1.5
Last 5 years	-1.9	2.3
Since Inception (1/04)	0.6	4.2

**Recommendation**

No action required.



**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Periods Ending September, 2010**

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

**Assets Under Management: \$221,397,880**

**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**

Next Century trailed the quarterly benchmark. Stock selection was negative with the biggest impact from the Consumer Discretionary sector.

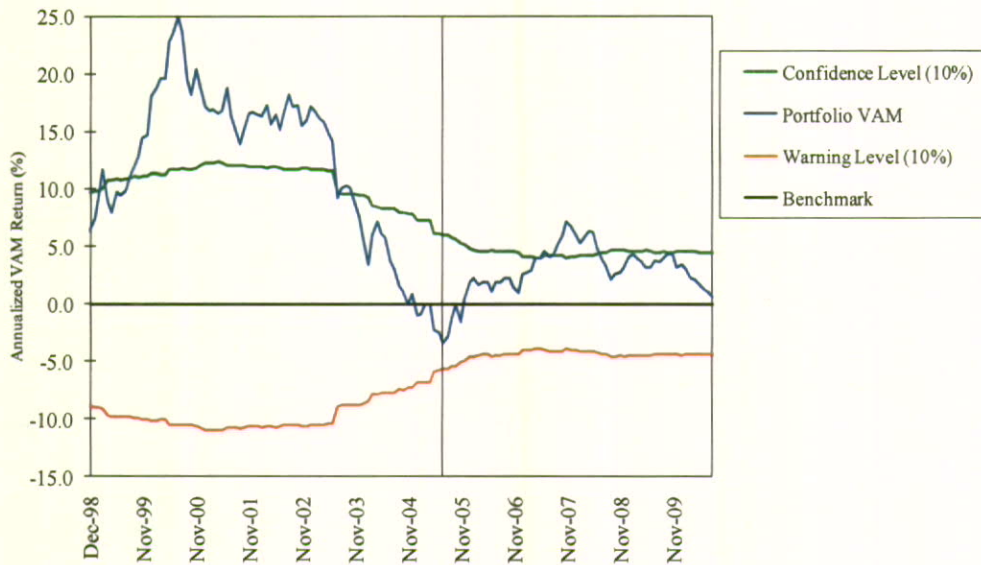
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	9.6%	12.8%
Last 1 year	15.0	14.8
Last 2 years	-0.7	3.7
Last 3 years	-9.0	-3.7
Last 4 years	1.3	1.5
Last 5 years	3.1	2.3
Since Inception (7/00)	-1.1	-0.5

**Recommendation**

No action required.

**NEXT CENTURY GROWTH INVESTORS, LLC**  
**Rolling Five Year VAM vs. Russell 2000 Growth**



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



**TURNER INVESTMENT PARTNERS**  
**Periods Ending September, 2010**

**Portfolio Manager: William McVail**

**Assets Under Management: \$235,426,741**

**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**

No comment at this time.

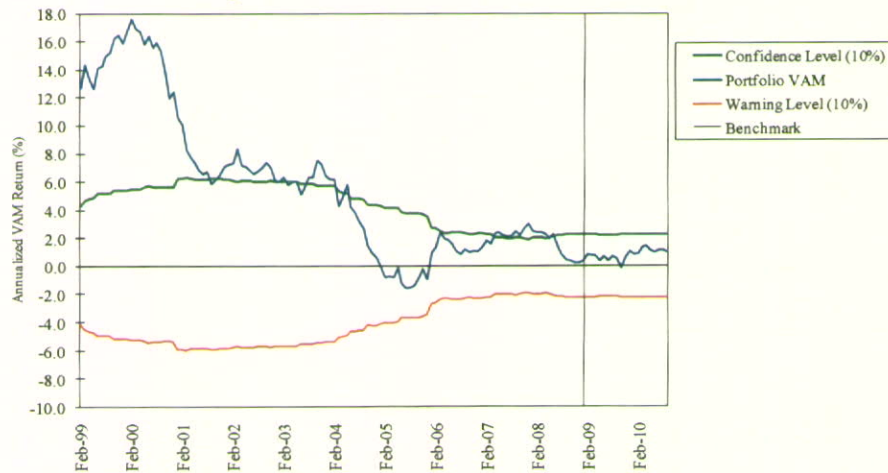
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Growth</b>
Last Quarter	13.4%	12.8%
Last 1 year	15.4	14.8
Last 2 years	4.6	3.7
Last 3 years	-4.3	-3.7
Last 4 years	2.7	1.5
Last 5 years	3.4	2.3
Since Inception (1/04)	4.6	4.2

**Recommendation**

No action required.

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



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

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



## Small Cap Value (R2000 Value)

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**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Chip Otnes**

**Assets Under Management: \$134,771,639**

**Investment Philosophy**

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

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

**Staff Comments**

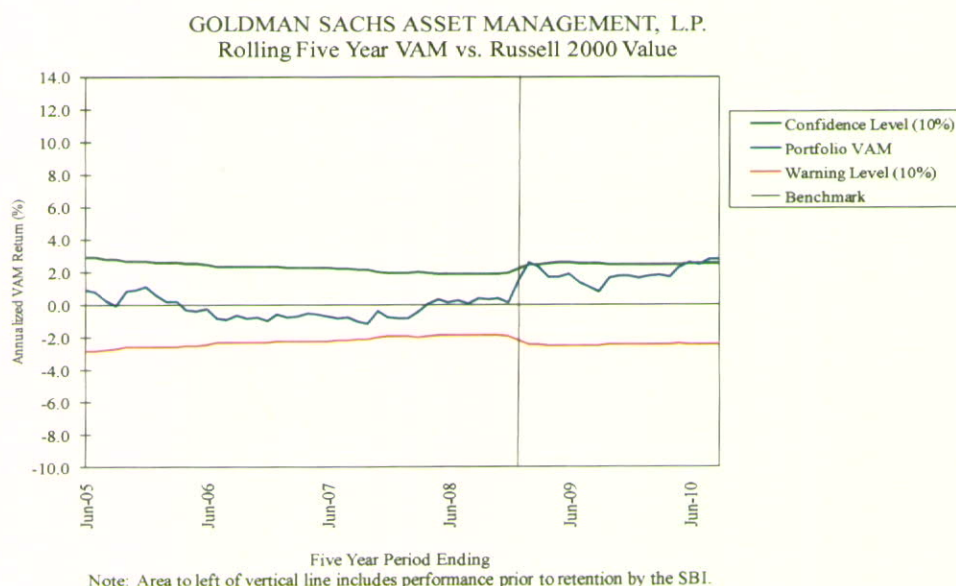
No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	10.3%	9.7%
Last 1 year	16.8	11.8
Last 2 years	2.7	-1.1
Last 3 years	-1.5	-5.0
Last 4 years	1.3	-2.3
Last 5 years	3.5	0.7
Since Inception (1/04)	5.6	4.2

**Recommendation**

No action required.



**HOTCHKIS & WILEY CAPITAL MANAGEMENT**  
**Periods Ending September, 2010**

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

**Assets Under Management: \$116,284,119**

**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**

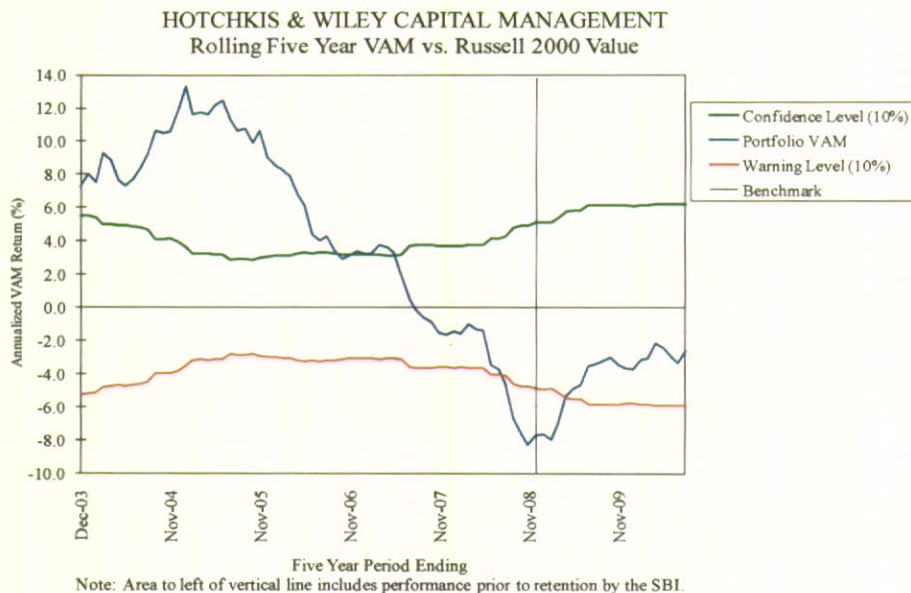
Hotchkis & Wiley exceeded the benchmark for the quarter and for the year due to overall stock selection. The overweight and strong stock selection in the Consumer Discretionary sector, primarily media and retail companies, was the largest contributor to the return for the year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	9.8%	9.7%
Last 1 year	20.7	11.8
Last 2 years	9.7	-1.1
Last 3 years	-1.3	-5.0
Last 4 years	-1.9	-2.3
Last 5 years	-1.9	0.7
Since Inception (1/04)	3.3	4.2

**Recommendation**

No action required.



**MARTINGALE ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: William Jacques**

**Assets Under Management: \$107,506,062**

**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**

Martingale outperformed the benchmark for the quarter and for the year. Both periods benefited by overall stock selection, especially Consumer Discretionary.

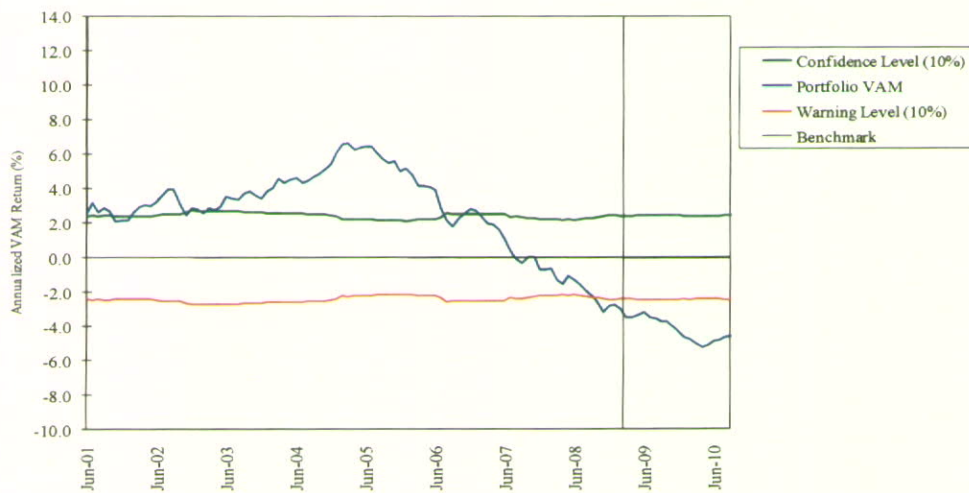
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	11.7%	9.7%
Last 1 year	12.1	11.8
Last 2 years	-2.6	-1.1
Last 3 years	-8.3	-5.0
Last 4 years	-5.1	-2.3
Last 5 years	-3.8	0.7
Since Inception (1/04)	2.1	4.2

**Recommendation**

No action required.

MARTINGALE ASSET MANAGEMENT, L.P.  
 Rolling Five Year VAM vs. Russell 2000 Value



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

**PEREGRINE CAPITAL MANAGEMENT**  
**Periods Ending September, 2010**

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

**Assets Under Management: \$187,955,881**

**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.

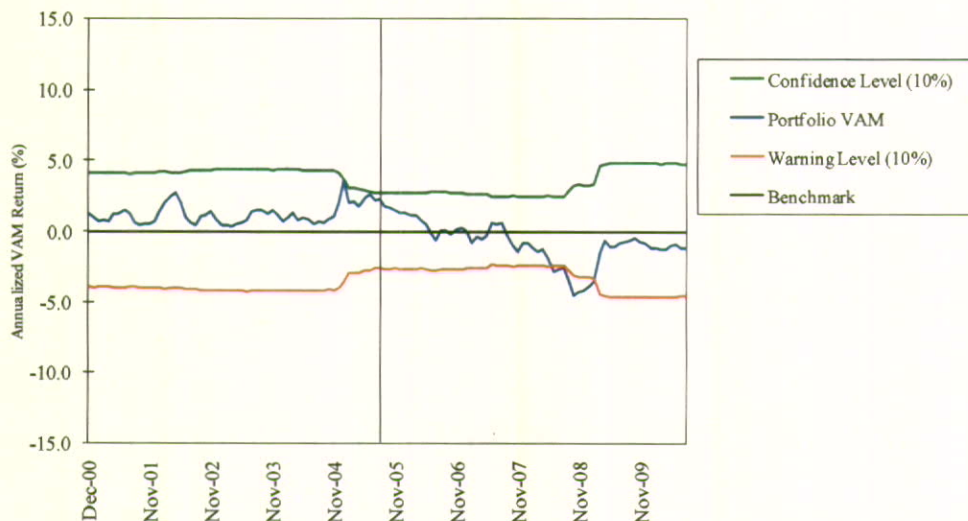
**Quantitative Evaluation**

	<b>Actual</b>	<b>R2000 Value</b>
Last Quarter	9.6%	9.7%
Last 1 year	16.1	11.8
Last 2 years	4.5	-1.1
Last 3 years	-5.1	-5.0
Last 4 years	-2.2	-2.3
Last 5 years	-0.4	0.7
Since Inception (7/00)	9.0	8.3

**Recommendation**

No action required.

**PEREGRINE CAPITAL MANAGEMENT**  
**Rolling Five Year VAM vs. Russell 2000 Value**



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



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## **Semi-Passive and Passive**



## **Semi-Passive and Passive**

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**BLACKROCK INSTITUTIONAL TRUST CO., N.A.**  
**Periods Ending September, 2010**

**Portfolio Manager: Raffaele Savi**

**Assets Under Management: \$2,324,111,272**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

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.

No comment at this time.

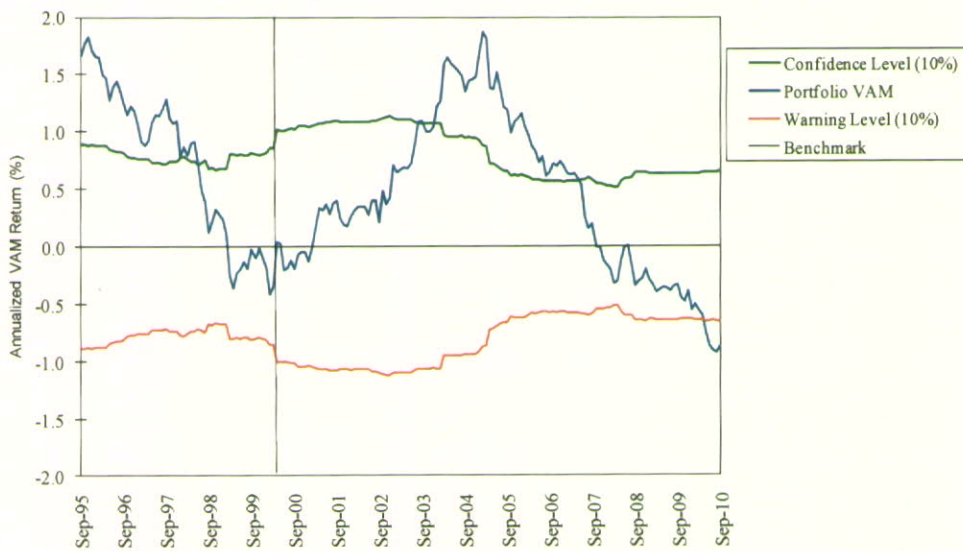
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Manager Benchmark*</b>	
Last Quarter	11.4%	11.6%	No action required.
Last 1 year	8.6	10.8	
Last 2 years	0.9	2.0	
Last 3 years	-7.6	-6.8	
Last 4 years	-2.6	-1.4	
Last 5 years	0.0	0.9	
Since Inception (1/95)	7.5	7.3	

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

**BLACKROCK INSTITUTIONAL TRUST CO.- SEMI-PASSIVE**  
**Rolling Five Year VAM vs. Manager Benchmark**



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

**INTECH INVESTMENT MANAGEMENT LLC**  
**Periods Ending September, 2010**

**Portfolio Manager: Adrian Banner**

**Assets Under Management: \$1,196,925,004**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

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 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 1.0% or 8 times maximum index security weight, 3) beta equal to or less than benchmark beta, and 4) constraining the weighted average capital distribution to be roughly equal to the capital distribution of the benchmark. Target security positions are established using a weekly 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.

No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Russell 1000</b>
Last Quarter	11.2%	11.6%
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 (4/10)	-1.1	-1.2

No action required.

**VAM Graph will be drawn for period ending 6/30/12.**

**J.P. MORGAN INVESTMENT MANAGEMENT, INC.**  
**Periods Ending September, 2010**

**Portfolio Manager: Ralph Zingone and Scott Blasdell      Assets Under Management: \$2,623,057,506**

**Investment Philosophy – Semi-Passive Style**

**Staff Comments**

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.

No comment at this time.

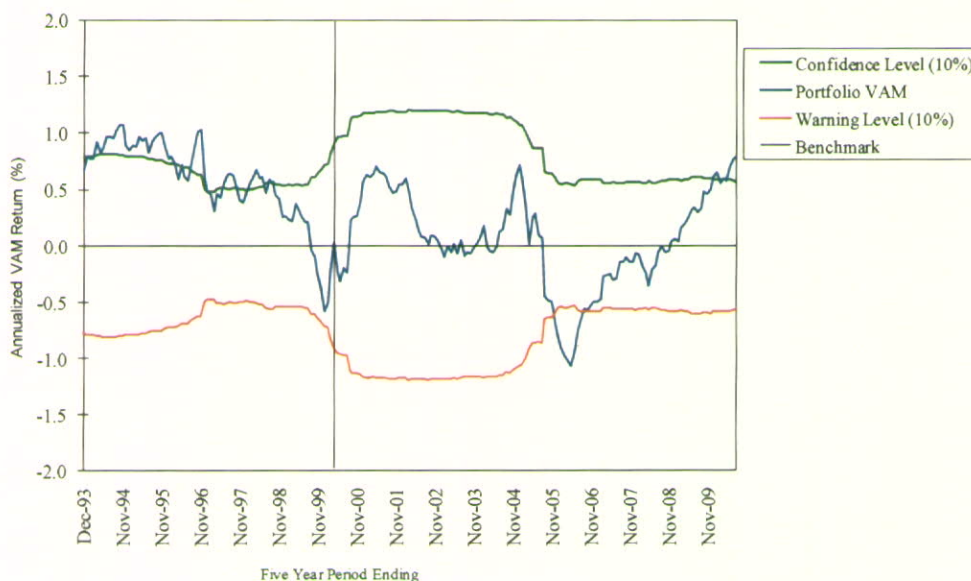
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Manager Benchmark*</b>	
Last Quarter	11.7%	11.6%	No action required.
Last 1 year	11.3	10.8	
Last 2 years	3.8	2.0	
Last 3 years	-5.8	-6.8	
Last 4 years	-0.5	-1.4	
Last 5 years	1.7	0.9	
Since Inception (1/95)	7.6	7.3	

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

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.

**MELLON CAPITAL MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Tony Garvin**

**Assets Under Management: \$1,209,528,382**

**Investment Philosophy – Semi-Passive Style**

Mellon believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Mellon 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**

Mellon trailed the benchmark for the quarter and for the year due to stock selection. For both periods, stock selection in the Technology sector was the largest detractor.

Mellon announced in October that Oliver Buckley, Executive Vice President, CIO of Active Equity, will be retiring at the end of the year. Warren Chiang, Head of Active Equity Strategies, will assume Mr. Buckley's responsibilities.

**Quantitative Evaluation**

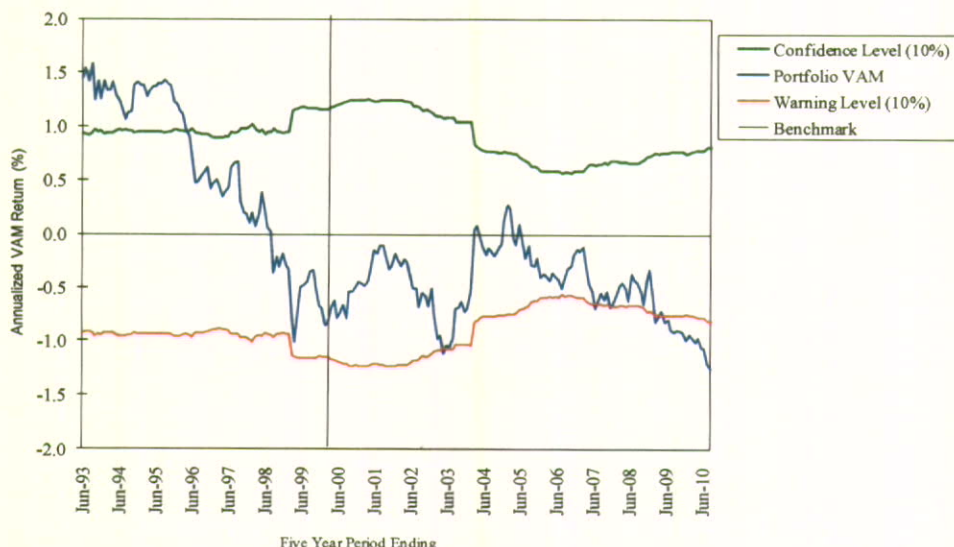
	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	9.8%	11.6%
Last 1 year	8.4	10.8
Last 2 years	-0.4	2.0
Last 3 years	-8.6	-6.8
Last 4 years	-3.1	-1.4
Last 5 years	-0.4	0.9
Since Inception (1/95)	6.6	7.3

**Recommendation**

No action required.

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

MELLON CAPITAL MANAGEMENT- 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.



**BLACKROCK INSTITUTIONAL TRUST CO., N.A.**  
**Periods Ending September, 2010**

**Portfolio Manager: Amy Schioldager**

**Assets Under Management: \$8,220,472,773**

**Investment Philosophy – Passive Style**

**Staff Comments**

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.

No comment at this time.

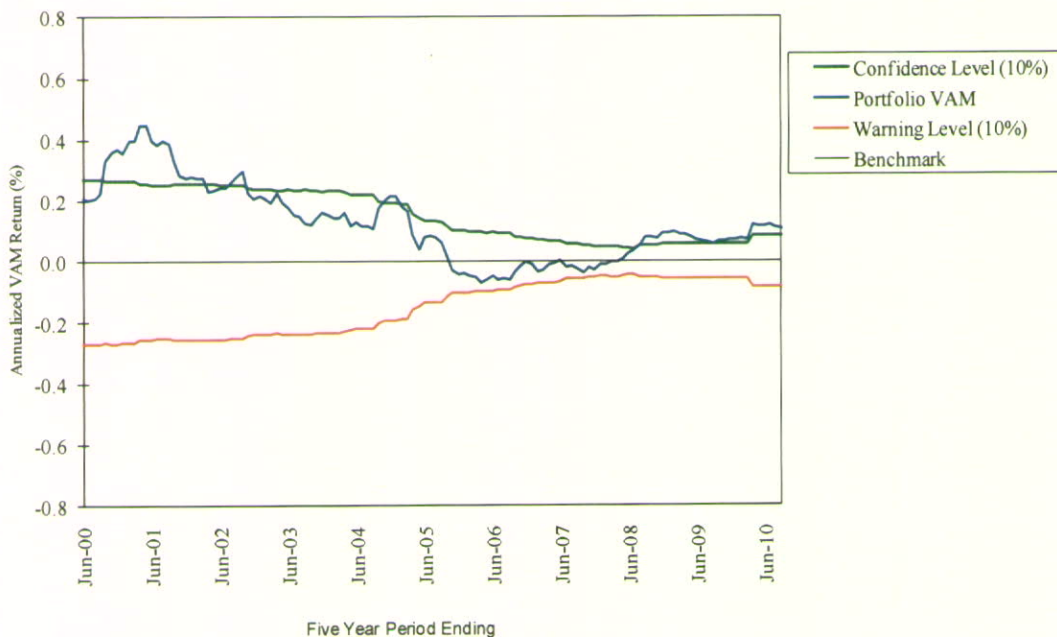
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Manager Benchmark*</b>
Last Quarter	11.5%	11.5%
Last 1 year	11.2	11.0
Last 2 years	2.0	1.9
Last 3 years	-6.4	-6.6
Last 4 years	-1.2	-1.3
Last 5 years	1.0	0.9
Since Inception (7/95)	6.9	6.8

No action required.

**BLACKROCK INSTITUTIONAL TRUST CO.- PASSIVE**  
**Rolling Five Year VAM vs. Manager Benchmark**





# STATE BOARD OF INVESTMENT

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## Bond Manager Evaluation Reports

Third Quarter, 2010



## **Bond Managers**

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**COMBINED RETIREMENT FUNDS  
BOND MANAGERS  
Periods Ending September, 2010**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
<b>Active Managers</b>												
Aberdeen	3.6	2.5	13.1	8.2	4.7	7.4	4.6	6.2	6.2	6.7	\$889.2	9.4%
Columbia (RiverSource)	3.1	2.5	9.8	8.2	6.5	7.4	5.8	6.2	6.1	6.4	\$945.9	10.0%
Dodge & Cox	2.7	2.5	9.9	8.2	8.5	7.4	7.0	6.2	7.6	6.7	\$955.7	10.1%
PIMCO	4.4	2.5	13.9	8.2					14.2	9.4	\$968.9	10.2%
Western	4.2	2.5	13.4	8.2	7.6	7.4	6.4	6.2	9.7	8.6	\$1,040.4	10.9%
<b>Active Mgr. Aggregate</b>	<b>3.6</b>	<b>2.5</b>	<b>12.1</b>	<b>8.2</b>	<b>6.8</b>	<b>7.4</b>	<b>5.9</b>	<b>6.2</b>			<b>\$4,800.1</b>	<b>50.5%</b>
<b>Semi-Passive Managers</b>												
BlackRock	2.5	2.5	8.6	8.2	6.4	7.4	5.6	6.2	6.5	6.5	\$1,558.1	16.4%
Goldman	2.8	2.5	10.2	8.2	7.5	7.4	6.4	6.2	6.6	6.3	\$1,601.6	16.9%
Neuberger	2.9	2.5	11.3	8.2	8.0	7.4	6.6	6.2	7.6	7.4	\$1,545.0	16.3%
<b>Semi-Passive Mgr. Aggregate</b>	<b>2.8</b>	<b>2.5</b>	<b>10.0</b>	<b>8.2</b>	<b>7.4</b>	<b>7.4</b>	<b>6.2</b>	<b>6.2</b>			<b>\$4,704.8</b>	<b>49.5%</b>
<b>Historical Aggregate (2)</b>	<b>3.2</b>	<b>2.5</b>	<b>11.2</b>	<b>8.2</b>	<b>7.2</b>	<b>7.4</b>	<b>6.1</b>	<b>6.2</b>	<b>Since 7/1/84</b> <b>8.7</b>	<b>8.6</b>	<b>\$9,504.9</b>	<b>100.0%</b>
Barclays Capital Aggregate (3)		2.5		8.2		7.4		6.2		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**

	2009		2008		2007		2006		2005	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Managers</b>										
Aberdeen	18.4	5.9	-14.7	5.2	5.6	7.0	4.8	4.3	2.7	2.4
Columbia (RiverSource)	14.0	5.9	-4.9	5.2	6.6	7.0	4.7	4.3	2.6	2.4
Dodge & Cox	16.5	5.9	0.1	5.2	5.3	7.0	5.5	4.3	2.5	2.4
PIMCO	15.5	5.9								
Western	17.5	5.9	-6.8	5.2	5.4	7.0	5.4	4.3	2.7	2.4
<b>Active Mgr. Aggregate</b>	<b>16.5</b>	<b>5.9</b>	<b>-7.3</b>	<b>5.2</b>	<b>5.8</b>	<b>7.0</b>	<b>5.0</b>	<b>4.3</b>	<b>2.9</b>	<b>2.4</b>
<b>Semi-Passive Managers</b>										
BlackRock	9.6	5.9	-1.1	5.2	6.8	7.0	4.3	4.3	2.7	2.4
Goldman	12.0	5.9	-1.2	5.2	7.0	7.0	4.5	4.3	2.8	2.4
Neuberger	14.3	5.9	-1.9	5.2	6.3	7.0	4.5	4.3	2.5	2.4
<b>Semi-Passive Mgr. Aggregate</b>	<b>12.0</b>	<b>5.9</b>	<b>-1.4</b>	<b>5.2</b>	<b>6.7</b>	<b>7.0</b>	<b>4.5</b>	<b>4.3</b>	<b>2.6</b>	<b>2.4</b>
<b>Historical Aggregate</b>										
<b>Historical Aggregate</b>	<b>14.3</b>	<b>5.9</b>	<b>-4.2</b>	<b>5.2</b>	<b>6.3</b>	<b>7.0</b>	<b>4.7</b>	<b>4.3</b>	<b>2.8</b>	<b>2.4</b>
Barclays Capital Aggregate		5.9		5.2		7.0		4.3		2.4

**ABERDEEN ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Neil Moriarty**

**Assets Under Management: \$889,194,829**

**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**

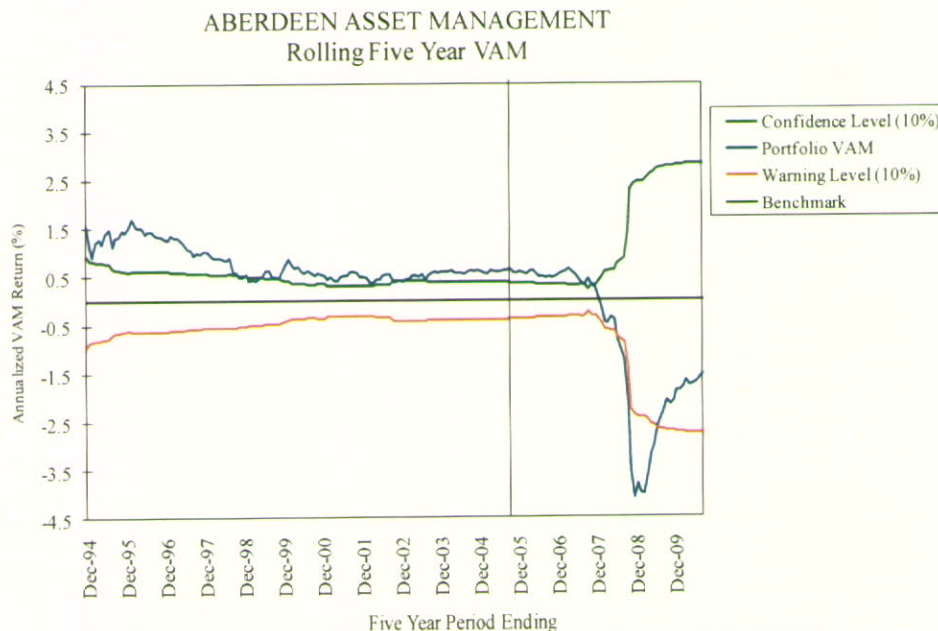
Aberdeen outperformed the benchmark by 110bps in 3Q10 and by 490 bps over the last 12 months. Non-Agency MBS added the most value to the portfolio during the quarter and the last year. Overweights to the Corporate and CMBS sectors also added value during the quarter and over the last year.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.6%	2.5%
Last 1 year	13.1	8.2
Last 2 years	9.3	9.4
Last 3 years	4.7	7.4
Last 4 years	4.8	6.8
Last 5 years	4.6	6.2
Since Inception (2/00)	6.2	6.7

**Recommendations**

No action required.



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

**COLUMBIA MANAGEMENT INVESTMENT ADVISERS, LLC**  
**(Formerly RiverSource Investments)**  
**Periods Ending September, 2010**

**Portfolio Manager: Colin Lundgren**

**Assets Under Management: \$945,931,742**

**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**

Columbia outperformed the benchmark by 60 bps in 3Q10 and outperformed the benchmark by 160 bps over the last 12 months. Performance for the quarter and the year was hurt by a short duration interest rate position as yields fell. An overweight to both Investment Grade and High Yield corporate bonds added to performance during the quarter and year. Performance during the quarter and the year was also aided by overweights to non-agency RMBS and CMBS.

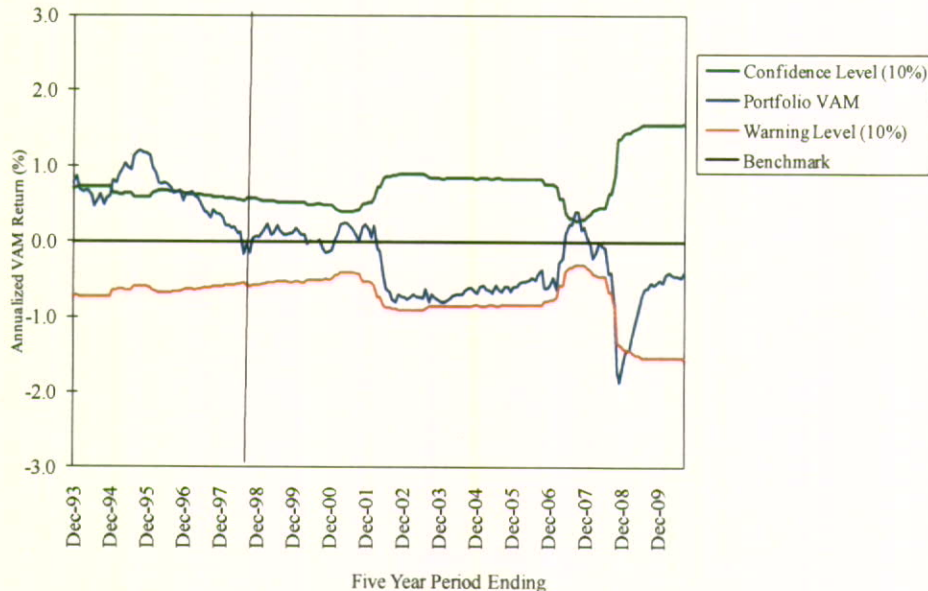
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	3.1%	2.5%
Last 1 year	9.8	8.2
Last 2 years	9.9	9.4
Last 3 years	6.5	7.4
Last 4 years	6.2	6.8
Last 5 years	5.8	6.2
Since Inception (7/93)	6.1	6.4

**Recommendations**

No action required.

**COLUMBIA MANAGEMENT - FIXED INCOME**  
**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, 2010**

**Portfolio Manager:** Dana Emery

**Assets Under Management:** \$955,748,507

**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**

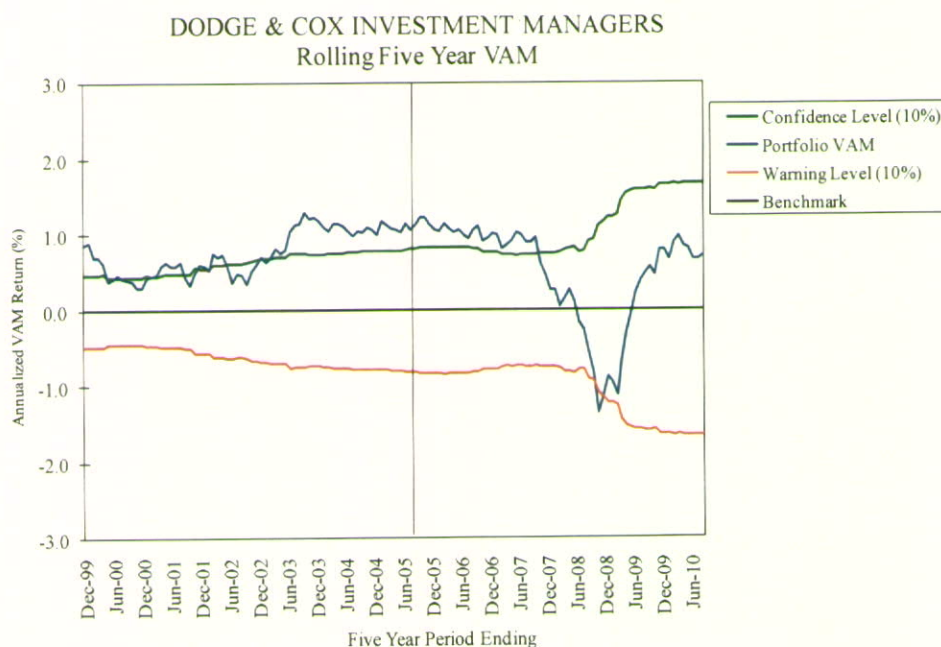
Dodge & Cox outperformed the benchmark by 20 bps in 3Q10 and outperformed by 170 bps over the last 12 months. A short duration stance relative to the benchmark hindered the quarter and one year performance as rates rallied. An overweight to the corporate bond sector produced positive excess returns, but performance was offset by an Agency MBS overweight. One year performance was largely driven by the corporate sector overweight.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.7%	2.5%
Last 1 year	9.9	8.2
Last 2 years	13.4	9.4
Last 3 years	8.5	7.4
Last 4 years	7.7	6.8
Last 5 years	7.0	6.2
Since Inception (2/00)	7.6	6.7

**Recommendations**

No action required.



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, 2010**

**Portfolio Manager: Bill Gross**

**Assets Under Management: \$968,887,303**

**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 outperformed the benchmark by 190 bps in 3Q10 and by 570 bps over the last 12 months. Outperformance for the quarter was driven by a long duration interest rate positioning as well as an underweight to the Agency MBS sector. A corporate sector overweight (both Investment Grade and High Yield) also added to performance for the quarter and year. Non-Agency MBS holdings also added value to the portfolio during the quarter and year.

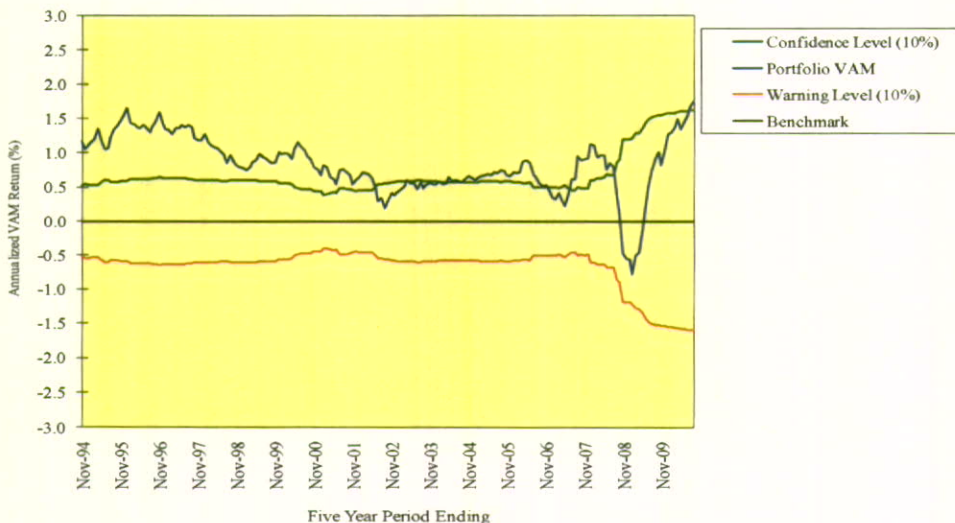
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.4%	2.5%
Last 1 year	13.9	8.2
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)	14.2	9.4

**Recommendations**

No action required.

PACIFIC INVESTMENT MANAGEMENT CO.  
 Rolling Five Year VAM



Note: Graph includes performance of the manager prior to retention by SBI.

**WESTERN ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Steve Walsh**

**Assets Under Management: \$1,040,367,890**

**Investment Philosophy**

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

**Staff Comments**

Western outperformed the benchmark by 170 bps in 3Q10 and by 520 bps over the last 12 months. Outperformance for the quarter was driven by a long duration interest rate positioning, an underweight to the Agency MBS sector and select holdings in Non-Agency MBS and High Yield corporates. Over the last 12 months, outperformance was driven by Non-Agency MBS holdings and an overweight to Investment-Grade and High Yield corporate bonds.

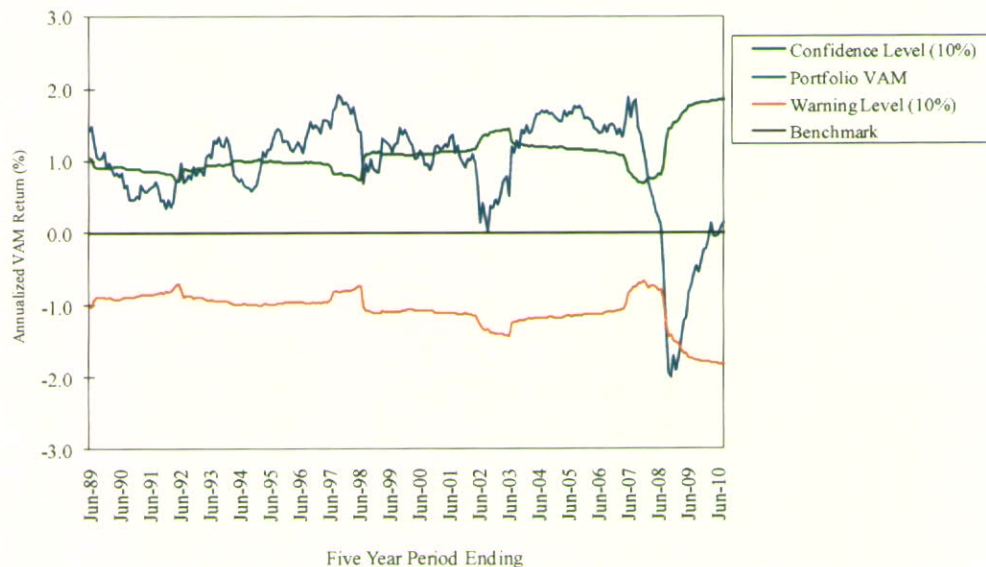
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	4.2%	2.5%
Last 1 year	13.4	8.2
Last 2 years	13.5	9.4
Last 3 years	7.6	7.4
Last 4 years	6.9	6.8
Last 5 years	6.4	6.2
Since Inception (7/84)	9.7	8.6

**Recommendations**

No action required.

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



**BLACKROCK, INC.**  
**Periods Ending September, 2010**

**Portfolio Manager: Keith Anderson**

**Assets Under Management: \$1,558,136,640**

**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**

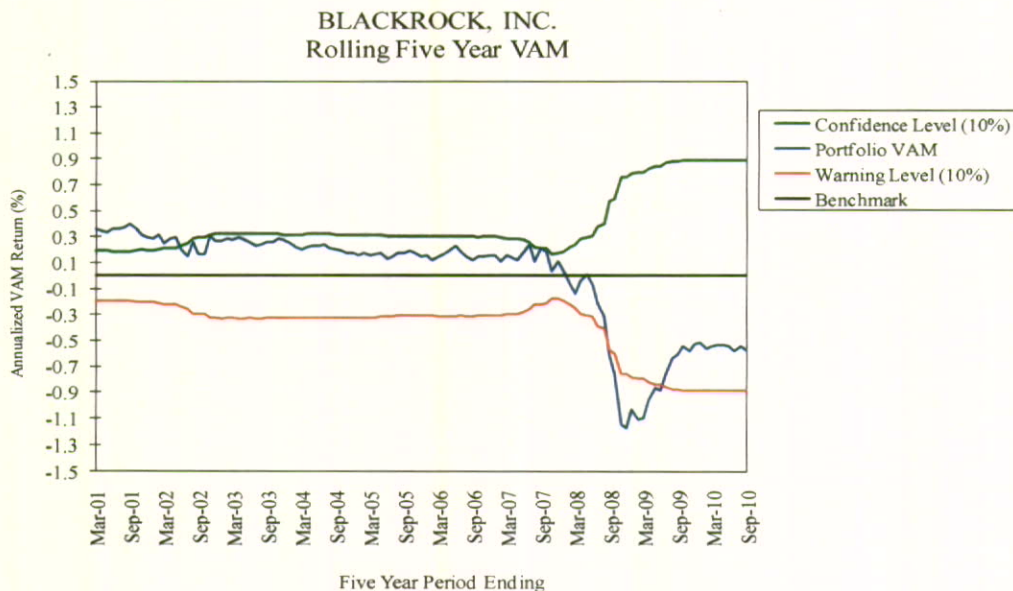
Blackrock was even with the benchmark in 3Q10 and outperformed by 40 bps over the last 12 months. Performance for the quarter was driven by overweights to the CMBS and corporate bond sector, although duration and yield curve positioning offset some of this performance. Over the last 12 months, non-agency MBS holdings added to performance, as did an overweight to the CMBS sector.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.5%	2.5%
Last 1 year	8.6	8.2
Last 2 years	9.8	9.4
Last 3 years	6.4	7.4
Last 4 years	6.1	6.8
Last 5 years	5.6	6.2
Since Inception (4/96)	6.5	6.5

**Recommendation**

No action required.



**GOLDMAN SACHS ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Jonathon Beinner**

**Assets Under Management: \$1,601,583,921**

**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**

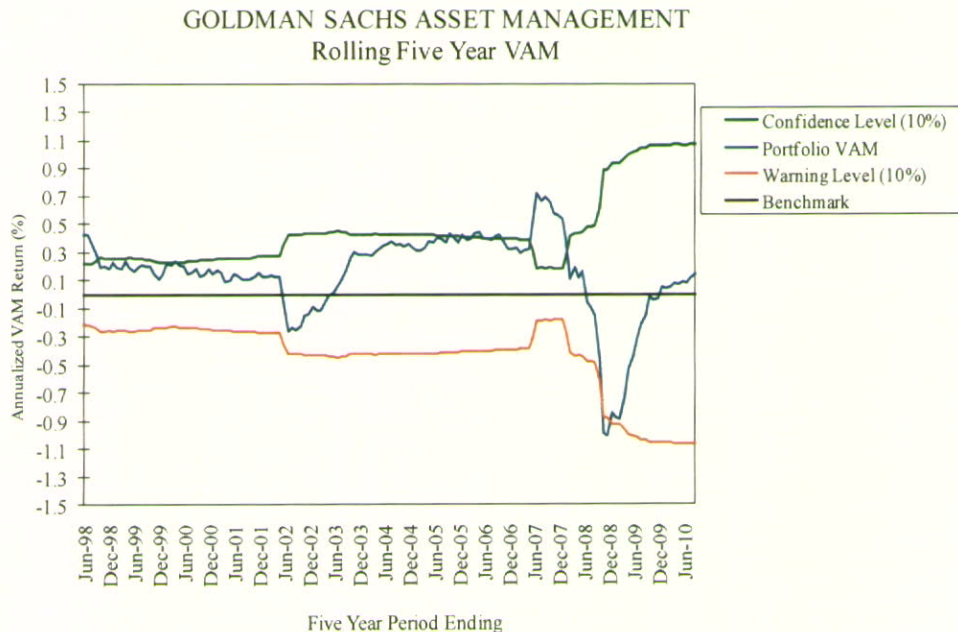
Goldman Sachs outperformed the benchmark by 30 bps in 3Q10 and by 200 bps over the last 12 months. The quarter and one year performance were driven by security selection in the non-agency MBS and corporate bond sectors. Security selection within the Agency MBS market also added to performance for the quarter.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.8%	2.5%
Last 1 year	10.2	8.2
Last 2 years	10.9	9.4
Last 3 years	7.5	7.4
Last 4 years	7.0	6.8
Last 5 years	6.4	6.2
Since Inception (7/93)	6.6	6.3

**Recommendations**

No action required.



**NEUBERGER INVESTMENT MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Andrew Johnson**

**Assets Under Management: \$1,545,040,641**

**Investment Philosophy**

Neuberger (formerly Lincoln) manages an enhanced index portfolio closely tracking the Barclay's Capital Aggregate. Neuberger'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. Neuberger 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. Neuberger was retained by the SBI in July 1988.

**Staff Comments**

Neuberger outperformed the benchmark by 40 bps in 3Q10 and by 310 bps over the last 12 months. The quarter and one year performance were driven by overweights to the commercial and non-agency residential MBS sectors as well as to the corporate bond sector.

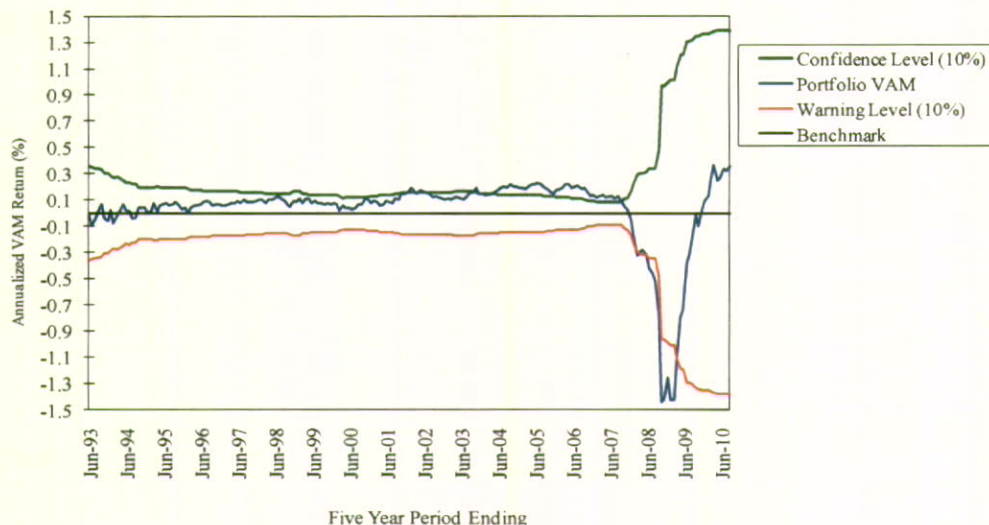
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.9%	2.5%
Last 1 year	11.3	8.2
Last 2 years	12.0	9.4
Last 3 years	8.0	7.4
Last 4 years	7.3	6.8
Last 5 years	6.6	6.2
Since Inception (7/88)	7.6	7.4

**Recommendations**

No action required.

**NEUBERGER INVESTMENT MANAGEMENT**  
**Rolling Five Year VAM**



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# STATE BOARD OF INVESTMENT

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## International Manager Evaluation Reports

Third Quarter, 2010



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# International Managers

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**COMBINED RETIREMENT FUNDS  
INTERNATIONAL STOCK MANAGERS  
Periods Ending September, 2010**

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
<b>Active Developed Markets (2)</b>												
Acadian	15.4	16.1	5.7	4.1	-14.4	-8.9	0.1	2.5	3.1	4.4	\$262.8	3.8%
Columbia (RiverSource)	18.6	16.1	7.8	4.1	-6.7	-8.9	3.0	2.5	-0.1	1.9	\$253.2	3.7%
Invesco	14.5	16.1	1.9	4.1	-8.0	-8.9	2.4	2.5	3.5	1.9	\$220.0	3.2%
J.P. Morgan	16.6	16.1	4.6	4.1	-7.1	-8.9	2.6	2.5	4.1	4.4	\$225.8	3.3%
Marathon	14.3	16.1	8.8	4.1	-4.8	-8.9	5.7	2.5	8.4	5.0	\$513.9	7.4%
McKinley	15.8	16.1	8.8	4.1	-13.2	-8.9	0.2	2.5	2.7	4.4	\$220.2	3.2%
Pyramis (Fidelity)	15.6	16.1	6.2	4.1	-7.2	-8.9	3.8	2.5	5.7	4.4	\$248.9	3.6%
<b>Aggregate</b>	<b>15.6</b>	<b>16.1</b>	<b>6.5</b>	<b>4.1</b>	<b>-8.2</b>	<b>-8.9</b>	<b>2.9</b>	<b>2.5</b>			<b>\$1,944.8</b>	<b>28.1%</b>
<b>Active Emerging Markets (3)</b>												
AllianceBernstein	17.6	18.0	21.3	20.2	-4.0	-1.3	10.4	12.9	13.1	14.4	\$176.0	2.5%
Capital International	17.2	18.0	20.3	20.2	2.2	-1.3	16.4	12.9	14.0	14.4	\$756.6	11.0%
Morgan Stanley	18.9	18.0	20.5	20.2	-2.7	-1.3	13.0	12.9	14.5	14.4	\$704.2	10.2%
<b>Aggregate</b>	<b>18.0</b>	<b>18.0</b>	<b>20.7</b>	<b>20.2</b>	<b>-1.3</b>	<b>-1.3</b>	<b>13.3</b>	<b>12.9</b>			<b>\$1,636.8</b>	<b>23.7%</b>
<b>Semi-Passive Developed Markets (2)</b>												
AQR	17.6	16.1	6.0	4.1	-8.5	-8.9	2.4	2.5	4.5	4.4	\$251.8	3.6%
Pyramis (Fidelity)	15.9	16.1	5.1	4.1	-8.9	-8.9	3.1	2.5	5.2	4.4	\$374.5	5.4%
State Street	16.1	16.1	4.2	4.1	-10.4	-8.9	1.6	2.5	3.6	4.4	\$239.9	3.5%
<b>Aggregate</b>	<b>16.4</b>	<b>16.1</b>	<b>5.1</b>	<b>4.1</b>	<b>-9.3</b>	<b>-8.9</b>	<b>2.4</b>	<b>2.5</b>			<b>\$866.2</b>	<b>12.5%</b>
<b>Passive Developed Markets (2)</b>												
State Street	16.4	16.1	5.1	4.1	-8.5	-8.9	2.8	2.5	6.5	6.2	\$2,461.7	35.6%
									<b>Since 10/1/92</b>			
Equity Only (4) (6)	16.6	16.6	9.0	7.6	-7.0	-7.3	4.6	4.3	7.2	6.7	\$6,909.7	100.0%
<b>Total Program (5) (6)</b>	<b>16.6</b>	<b>16.6</b>	<b>9.0</b>	<b>7.6</b>	<b>-7.0</b>	<b>-7.3</b>	<b>4.6</b>	<b>4.3</b>	<b>7.4</b>	<b>6.7</b>	<b>\$6,909.7</b>	<b>100.0%</b>
SBI Int'l Equity Target (6)	16.6		7.6		-7.3		4.3		6.7			
MSCI ACWI Free ex. U.S. (7)	16.6		7.6		-7.4		4.3		7.0			
MSCI World ex U.S. (net)	16.1		4.1		-9.0		2.4		6.3			
MSCI EAFE Free (net)	16.5		3.3		-9.5		2.0		6.0			
MSCI Emerging Markets Free (8)	18.0		20.2		-1.5		12.7		9.8			

- (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**

	2009		2008		2007		2006		2005	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
<b>Active Developed Markets (1)</b>										
Acadian	28.8	33.7	-50.5	-43.5	10.0	12.6	31.9	25.7		
Columbia (RiverSource)	29.3	33.7	-40.8	-43.5	12.4	12.6	23.6	25.7	14.2	14.5
Invesco	32.0	33.7	-38.8	-43.5	8.4	12.6	26.0	25.7	10.6	14.5
J.P. Morgan	37.5	33.7	-41.5	-43.5	8.8	12.6	23.1	25.7		
Marathon	29.8	33.7	-38.0	-43.5	15.4	12.6	27.5	25.7	16.4	14.5
McKinley	24.1	33.7	-48.5	-43.5	20.4	12.6	25.4	25.7		
Pyramis (Fidelity)	35.1	33.7	-42.9	-43.5	17.7	12.6	22.7	25.7		
<b>Aggregate</b>	<b>31.9</b>	<b>33.7</b>	<b>-42.8</b>	<b>-43.5</b>	<b>13.0</b>	<b>12.6</b>	<b>25.8</b>	<b>25.7</b>	<b>13.6</b>	<b>14.5</b>
<b>Active Emerging Markets (2)</b>										
AllianceBernstein	78.4	78.5	-56.0	-53.2	38.8	39.9	30.4	32.2	32.7	34.0
Capital International	83.1	78.5	-48.9	-53.2	38.4	39.9	35.6	32.2	38.4	34.0
Morgan Stanley	71.7	78.5	-54.5	-53.2	43.0	39.9	37.6	32.2	34.3	34.0
<b>Aggregate</b>	<b>77.3</b>	<b>78.5</b>	<b>-53.0</b>	<b>-53.2</b>	<b>40.0</b>	<b>39.9</b>	<b>34.4</b>	<b>32.2</b>	<b>34.9</b>	<b>34.0</b>
<b>Semi-Passive Developed Markets (1)</b>										
AQR	36.0	33.7	-44.0	-43.5	9.0	12.6	25.2	25.7		
Pyramis (Fidelity)	30.2	33.7	-44.0	-43.5	18.2	12.6	26.8	25.7		
State Street	34.9	33.7	-45.3	-43.5	9.1	12.6	27.1	25.7		
<b>Aggregate</b>	<b>33.6</b>	<b>33.7</b>	<b>-44.4</b>	<b>-43.5</b>	<b>12.1</b>	<b>12.6</b>	<b>26.4</b>	<b>25.7</b>		
<b>Passive Developed Markets (1)</b>										
State Street	34.0	33.7	-43.4	-43.5	12.9	12.6	26.0	25.7	14.6	14.5
Equity Only (3) (5)	41.2	41.5	-45.3	-45.5	17.1	16.9	27.0	26.7	16.4	16.6
<b>Total Program (4) (5)</b>	<b>41.2</b>	<b>41.5</b>	<b>-45.3</b>	<b>-45.5</b>	<b>17.1</b>	<b>16.9</b>	<b>27.0</b>	<b>26.7</b>	<b>16.4</b>	<b>16.6</b>
SBI Int'l Equity Target (5)		41.5	-45.5		16.9		26.7		16.6	
MSCI ACWI Free ex. U.S. (6)		41.5	-45.5		16.7		26.7		16.6	
MSCI World ex U.S. (net)		33.7	-43.6		12.4		25.7		14.5	
MSCI EAFE Free (net)		31.8	-43.4		11.2		26.3		13.5	
MSCI Emerging Markets Free (7)		78.5	-53.3		39.4		32.2		34.0	

- (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, 2010**

**Portfolio Manager: John Chisholm**

**Assets Under Management: \$262,831,512**

**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**

No comment at this time.

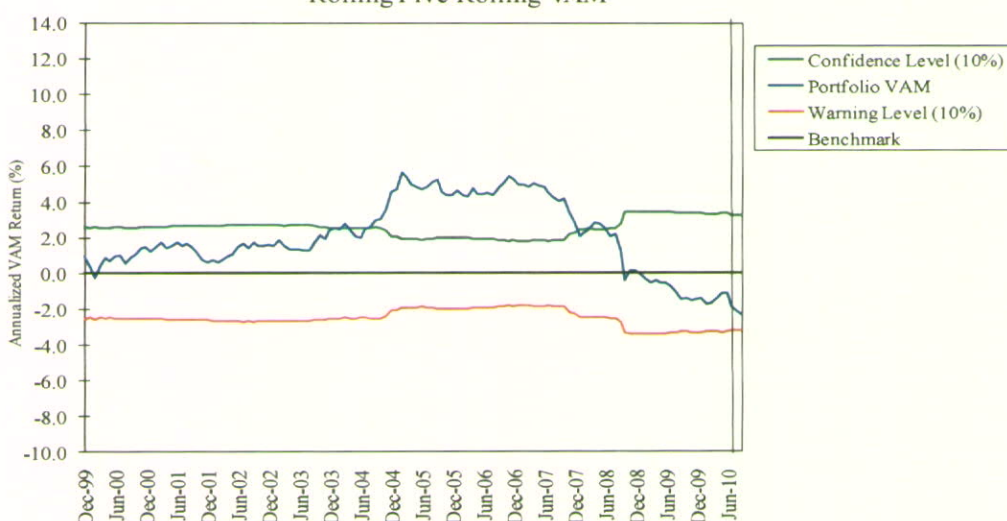
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	15.4%	16.1%
Last 1 year	5.7	4.1
Last 2 years	0.3	3.5
Last 3 years	-14.4	-8.9
Last 4 years	-5.0	-1.2
Last 5 years	0.1	2.5
Since Inception (7/05)	3.1	4.4

**Recommendations**

No action required.

**ACADIAN ASSET MANAGEMENT**  
**Rolling Five Rolling VAM**



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

**COLUMBIA MANAGEMENT INVESTMENT ADVISORS, LLC**  
**(Formerly RiverSource Investments)**  
**Periods Ending September, 2010**

**Portfolio Manager:** Esther Perkins

**Assets Under Management:** \$253,206,741

**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**

No comment at this time.

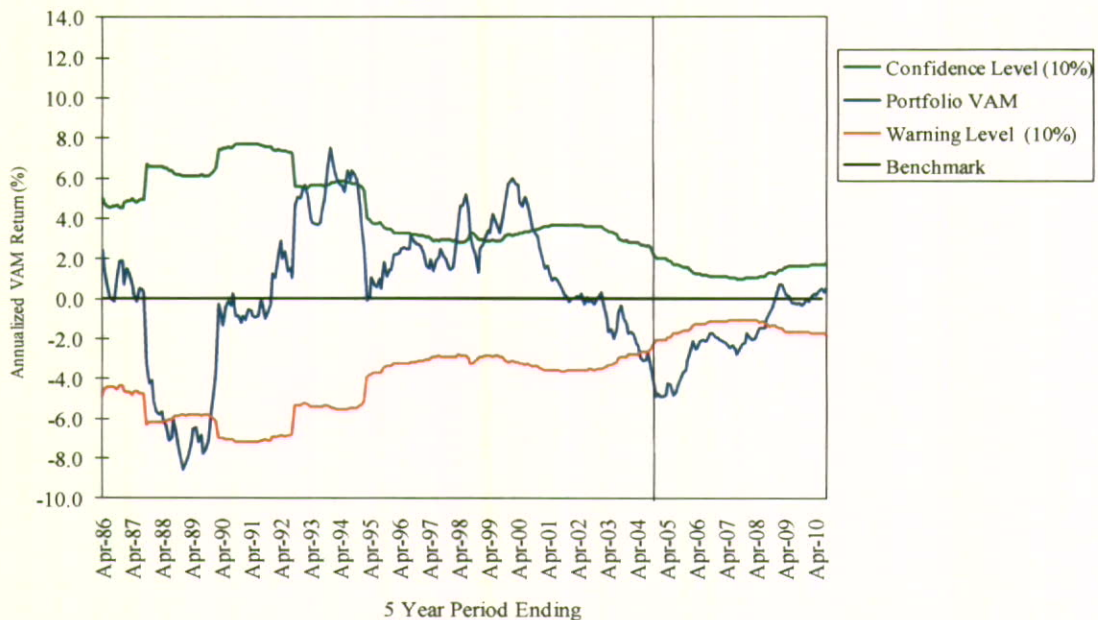
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	18.6%	16.1%
Last 1 year	7.8	4.1
Last 2 years	5.2	3.5
Last 3 years	-6.7	-8.9
Last 4 years	-0.3	-1.2
Last 5 years	3.0	2.5
Since Inception (3/00)	-0.1	1.9

**Recommendations**

No action required.

**COLUMBIA MANAGEMENT INVESTMENT ADVISORS**  
**Rolling Five Year VAM**



**INVESCO GLOBAL ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Erik Granade**

**Assets Under Management: \$219,991,106**

**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**

No comment at this time.

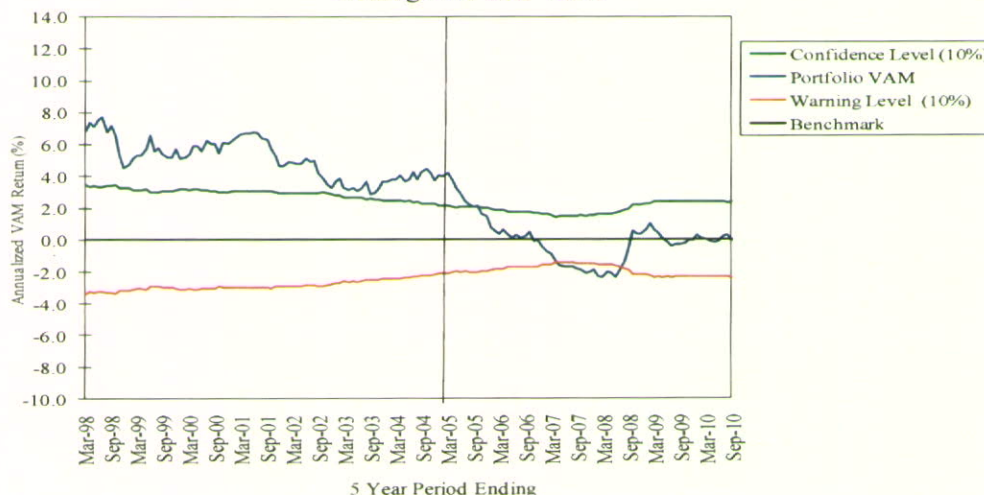
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	14.5%	16.1%
Last 1 year	1.9	4.1
Last 2 years	3.5	3.5
Last 3 years	-8.0	-8.9
Last 4 years	-1.7	-1.2
Last 5 years	2.4	2.5
Since Inception (3/00)	3.5	1.9

**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, 2010**

**Portfolio Manager: James Fisher**

**Assets Under Management: \$225,792,007**

**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**

No comment at this time.

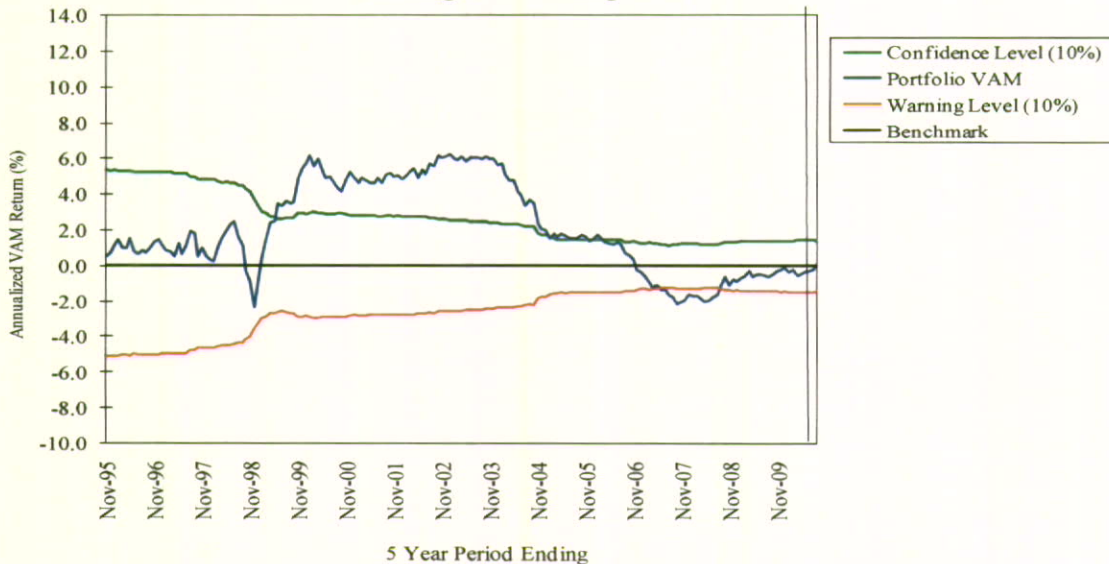
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	16.6%	16.1%
Last 1 year	4.6	4.1
Last 2 years	5.3	3.5
Last 3 years	-7.1	-8.9
Last 4 years	-1.1	-1.2
Last 5 years	2.6	2.5
Since Inception (7/05)	4.1	4.4

**Recommendations**

No action required.

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



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



**MARATHON ASSET MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager:** William Arah

**Assets Under Management:** \$513,854,882

**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**

No comment at this time.

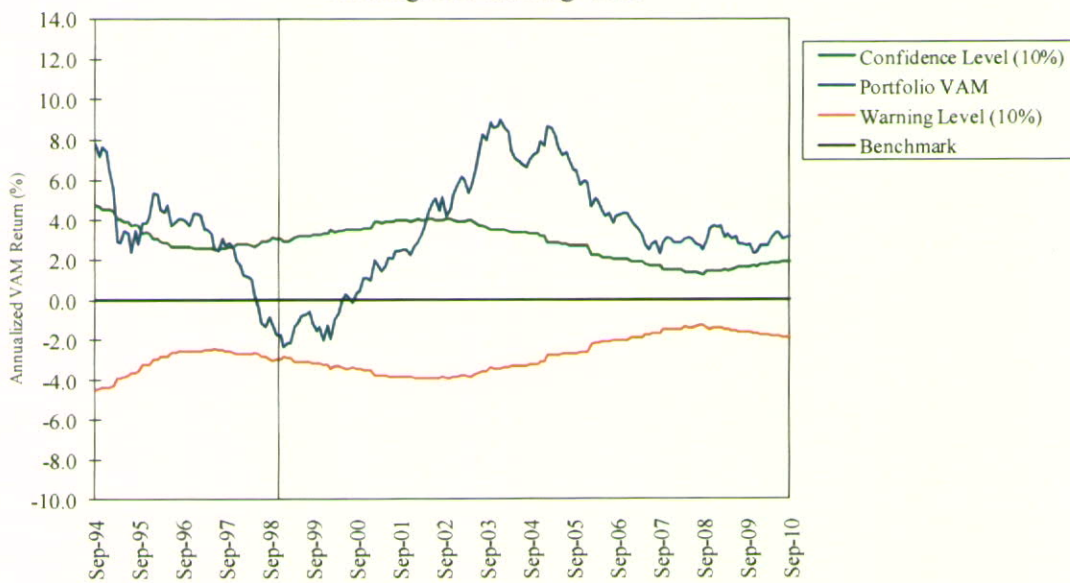
**Quantitative Evaluation**

	<b>Custom</b>	
	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	14.3%	16.1%
Last 1 year	8.8	4.1
Last 2 years	7.2	3.5
Last 3 years	-4.8	-8.9
Last 4 years	2.4	-1.2
Last 5 years	5.7	2.5
Since Inception (11/93)	8.4	5.0

**Recommendations**

No action required.

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



5 Year Period Ending

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

**MCKINLEY CAPITAL MANAGEMENT, INC.**  
**Periods Ending September, 2010**

**Portfolio Manager: Robert A. Gillam**

**Assets Under Management: \$220,158,678**

**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**

No comment at this time.

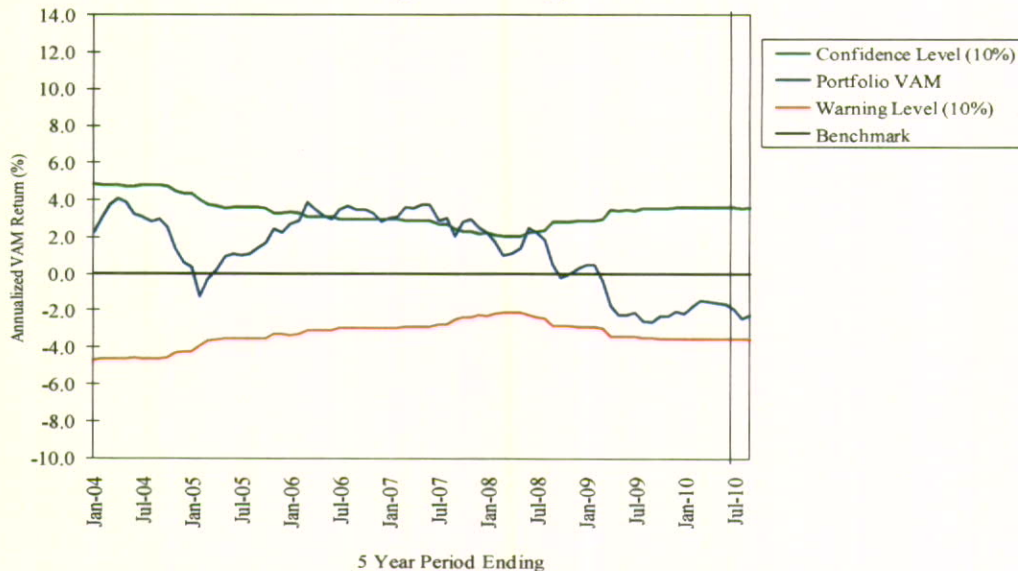
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	15.8%	16.1%
Last 1 year	8.8	4.1
Last 2 years	0.1	3.5
Last 3 years	-13.2	-8.9
Last 4 years	-3.6	-1.2
Last 5 years	0.2	2.5
Since Inception (7/05)	2.7	4.4

**Recommendations**

No action required.

MCKINLEY CAPITAL MANAGEMENT, INC.  
 Rolling Five Rolling VAM



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

**PYRAMIS GLOBAL ADVISORS TRUST COMPANY**  
**(Formerly Fidelity Management Trust Company)**  
**Periods Ending September, 2010**

**Portfolio Manager:** Michael Strong

**Assets Under Management:** \$248,922,323

**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**

No comment at this time.

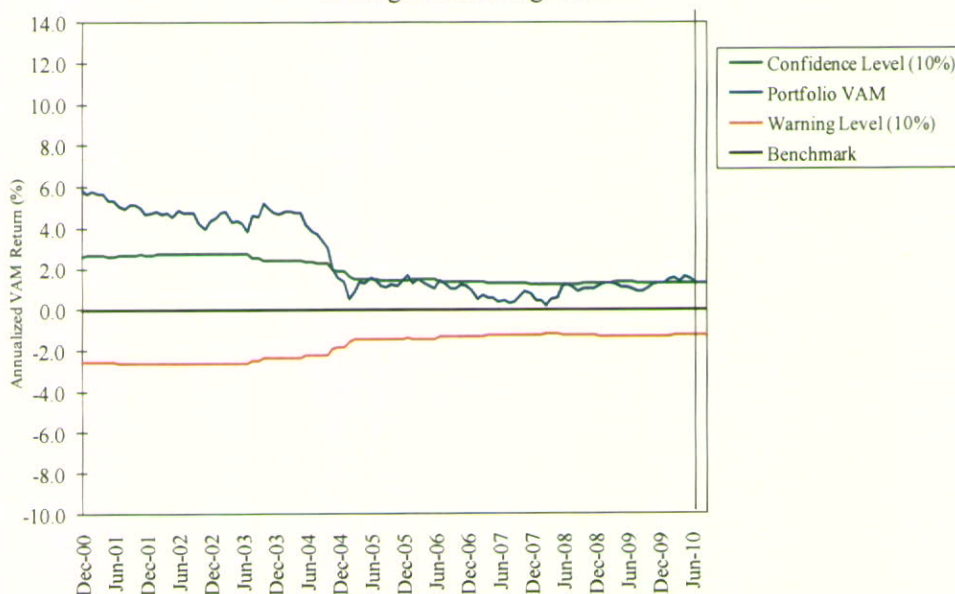
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	15.6%	16.1%
Last 1 year	6.2	4.1
Last 2 years	4.8	3.5
Last 3 years	-7.2	-8.9
Last 4 years	0.7	-1.2
Last 5 years	3.8	2.5
Since Inception (7/05)	5.7	4.4

**Recommendations**

No action required.

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



5 Year Period Ending

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

**ALLIANCEBERNSTEIN L.P.**  
**Periods Ending September, 2010**

**Portfolio Manager: Steve Beinhacker**

**Assets Under Management: \$176,001,230**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

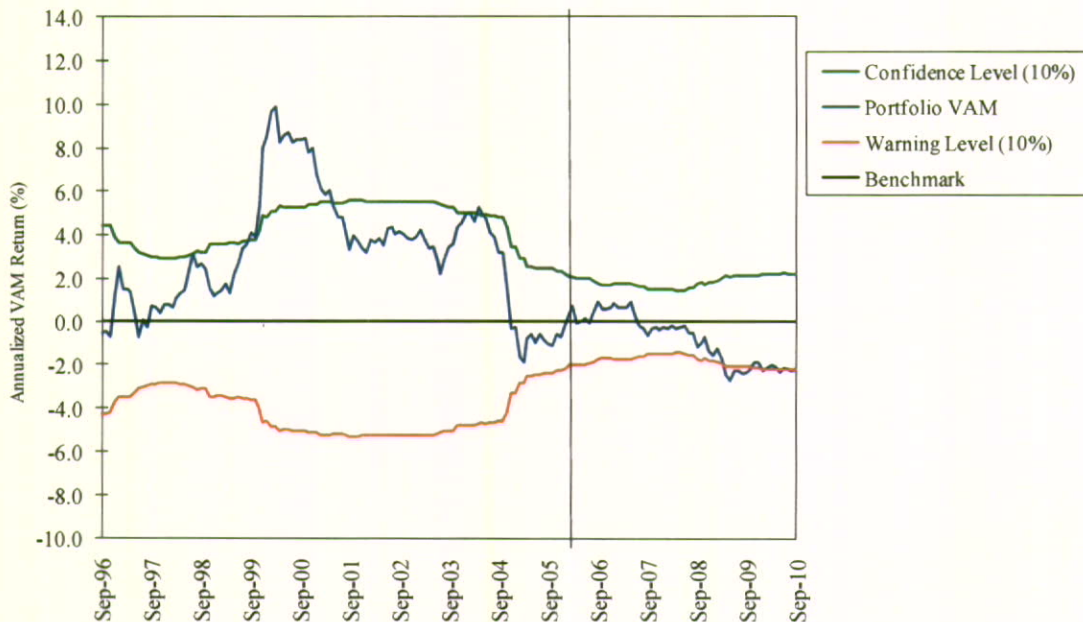
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	17.6%	18.0%
Last 1 year	21.3	20.2
Last 2 years	17.1	19.6
Last 3 years	-4.0	-1.3
Last 4 years	8.5	11.1
Last 5 years	10.4	12.9
Since Inception (3/01)	13.1	14.4

**Recommendations**

No action required.

**ALLIANCEBERNSTEIN L.P.**  
**Rolling Five Year VAM**



5 Year Period Ending

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

**CAPITAL INTERNATIONAL, INC.**  
**Periods Ending September, 2010**

**Portfolio Manager: Victor Kohn**

**Assets Under Management: \$756,626,517**

**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**

No comment at this time.

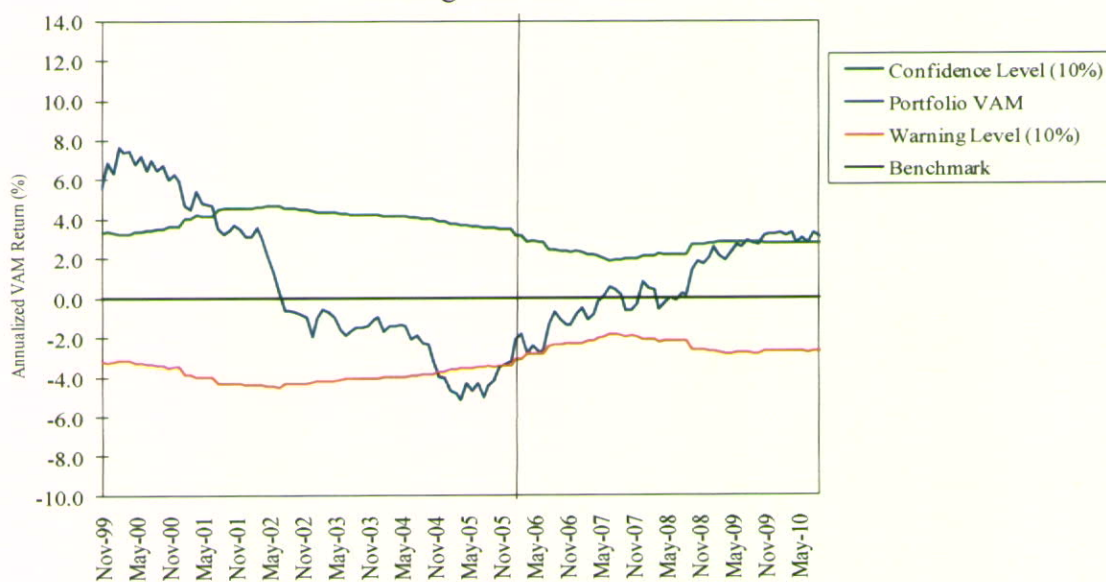
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	17.2%	18.0%
Last 1 year	20.3	20.2
Last 2 years	25.0	19.6
Last 3 years	2.2	-1.3
Last 4 years	14.0	11.1
Last 5 years	16.4	12.9
Since Inception (3/01)	14.0	14.4

**Recommendations**

No action required.

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



5 Year Period Ending

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

**MORGAN STANLEY INVESTMENT MANAGEMENT**  
**Periods Ending September, 2010**

**Portfolio Manager: Ruchir Sharma**

**Assets Under Management: \$704,160,610**

**Investment Philosophy**

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

**Staff Comments**

No comment at this time.

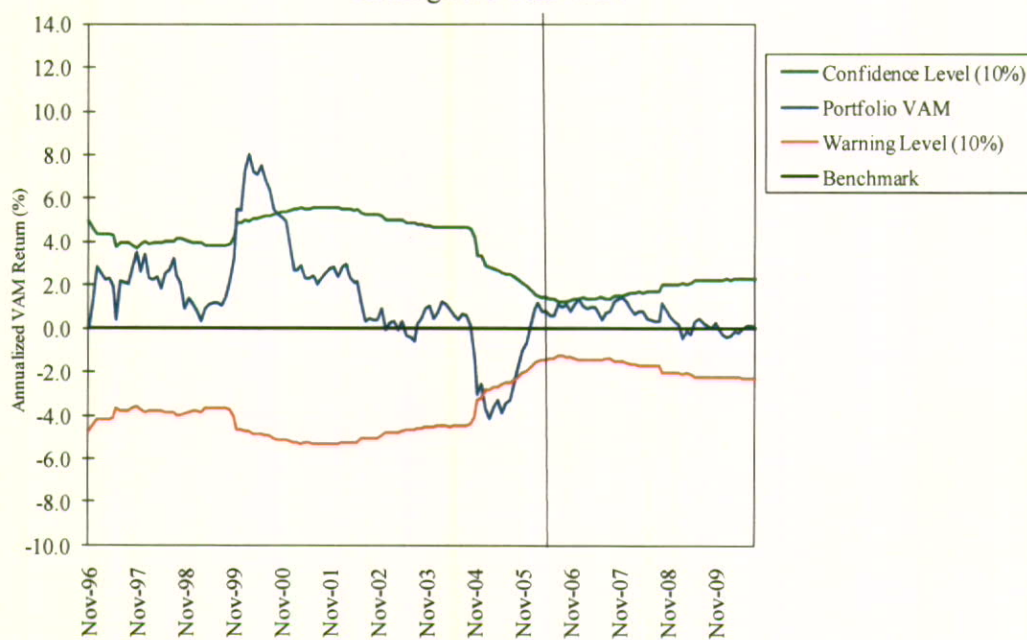
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	18.9%	18.0%
Last 1 year	20.5	20.2
Last 2 years	18.9	19.6
Last 3 years	-2.7	-1.3
Last 4 years	10.5	11.1
Last 5 years	13.0	12.9
Since Inception (3/01)	14.5	14.4

**Recommendations**

No action required.

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



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

**AQR CAPITAL MANAGEMENT, LLC**  
**Periods Ending September, 2010**

**Portfolio Manager:** Cliff Asness

**Assets Under Management:** \$251,835,102

**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**

No comment at this time.

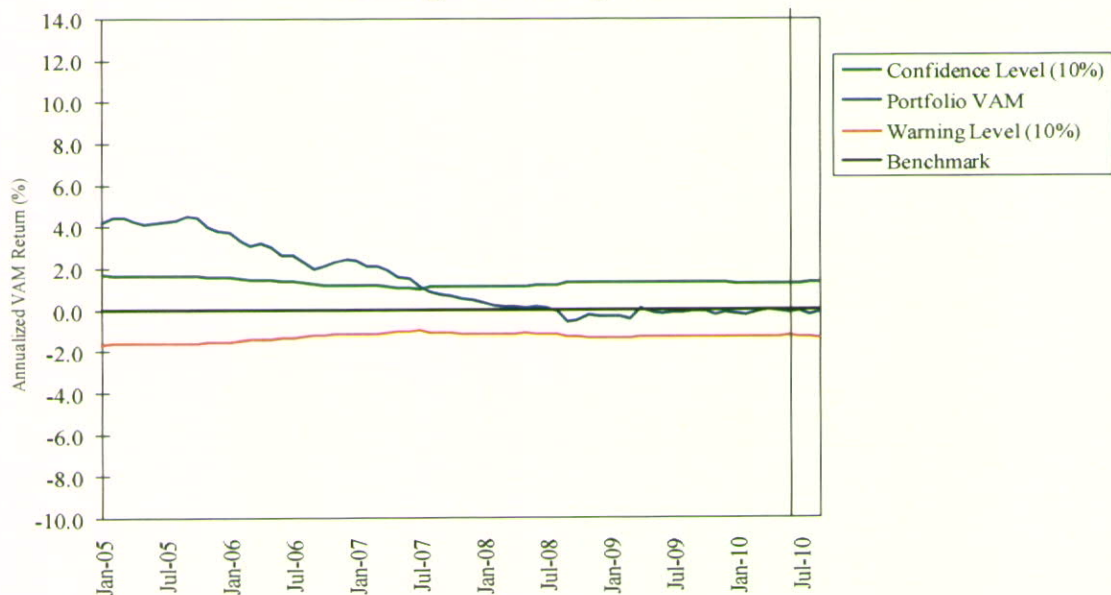
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	17.6%	16.1%
Last 1 year	6.0	4.1
Last 2 years	6.1	3.5
Last 3 years	-8.5	-8.9
Last 4 years	-1.3	-1.2
Last 5 years	2.4	2.5
Since Inception (7/05)	4.5	4.4

**Recommendations**

No action required.

**AQR CAPITAL MANAGEMENT, LLC**  
**Rolling Five Rolling VAM**



5 Year Period Ending

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

**PYRAMIS GLOBAL ADVISORS TRUST COMPANY**  
**(Formerly Fidelity Management Trust Company)**  
**Periods Ending September, 2010**

**Portfolio Manager:** Cesar Hernandez

**Assets Under Management:** \$374,466,258

**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**

No comment at this time.

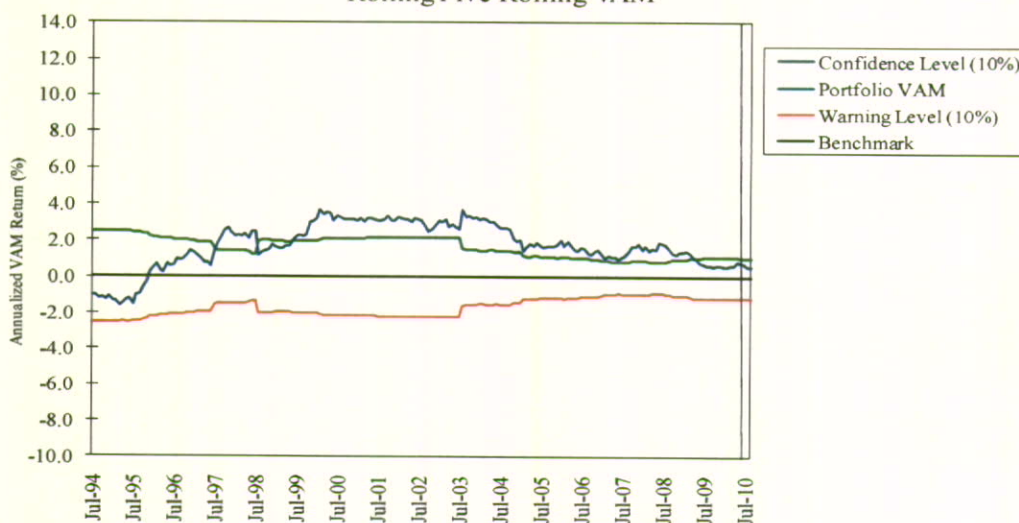
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	15.9%	16.1%
Last 1 year	5.1	4.1
Last 2 years	2.3	3.5
Last 3 years	-8.9	-8.9
Last 4 years	-0.3	-1.2
Last 5 years	3.1	2.5
Since Inception (7/05)	5.2	4.4

**Recommendations**

No action required.

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



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



**STATE STREET GLOBAL ADVISORS**  
**Periods Ending September, 2010**

**Portfolio Manager: Didier Rosenfeld**

**Assets Under Management: \$239,862,687**

**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**

No comment at this time.

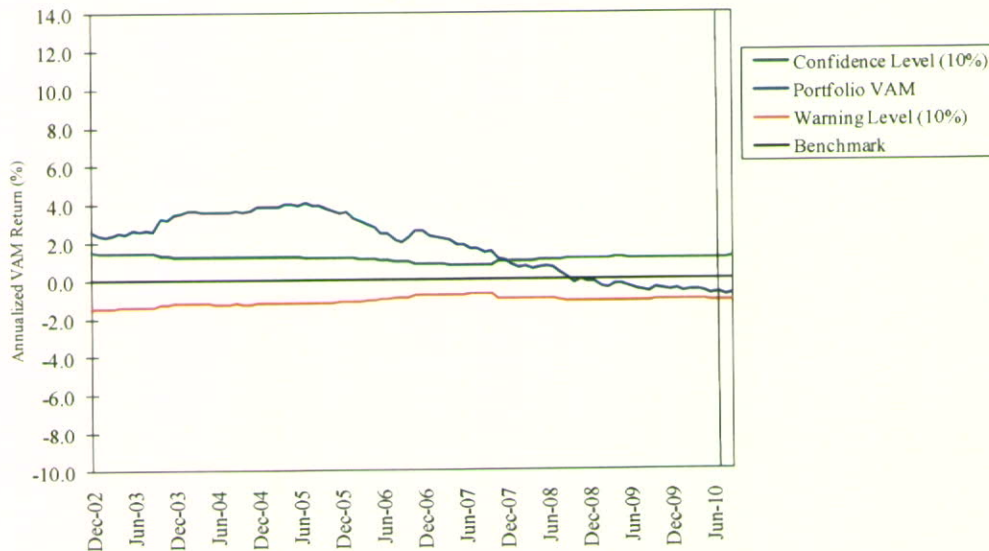
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	16.1%	16.1%
Last 1 year	4.2	4.1
Last 2 years	3.5	3.5
Last 3 years	-10.4	-8.9
Last 4 years	-2.4	-1.2
Last 5 years	1.6	2.5
Since Inception (7/05)	3.6	4.4

**Recommendations**

No action required.

**STATE STREET GLOBAL ADVISORS - ALPHA**  
**Rolling Five Rolling VAM**



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

**STATE STREET GLOBAL ADVISORS**  
**Periods Ending September, 2010**

**Portfolio Manager: Lynn Blake**

**Assets Under Management: \$2,461,742,787**

**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**

No comment at this time.

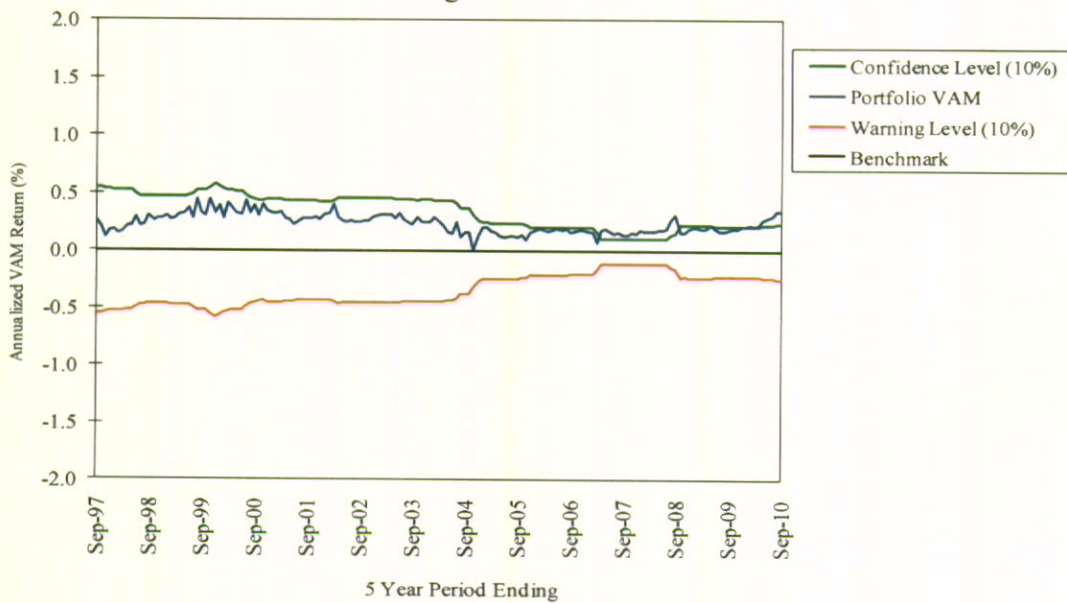
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	16.4%	16.1%
Last 1 year	5.1	4.1
Last 2 years	3.8	3.5
Last 3 years	-8.5	-8.9
Last 4 years	-0.8	-1.2
Last 5 years	2.8	2.5
Since Inception (10/92)	6.5	6.2

**Recommendation**

No action required.

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



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# STATE BOARD OF INVESTMENT

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## Non-Retirement Manager Evaluation Reports

Third Quarter, 2010



## **Non-Retirement Managers**

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**NON - RETIREMENT MANAGERS**  
**Periods Ending September, 2010**

	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)	10.4	11.3	4.6	10.2	-5.9	-7.2	1.8	0.6	8.6	7.9	\$60.8
RBC Global Asset Management (Custom Benchmark)	2.7	1.7	11.6	5.9	5.6	6.6	5.1	5.8	6.2	6.4	\$243.6
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	1.0	0.3	4.3	1.7	4.6	2.2	4.6	3.4	5.5	4.5	\$1,283.2
Internal Stock Pool (S&P 500 Index)	11.4	11.3	10.3	10.2	-7.0	-7.2	0.8	0.6	7.7	7.6	\$898.2
Internal Bond Pool - Income Share (Barclays Capital Aggregate) (2)	2.6	2.5	8.7	8.2	8.0	7.4	6.7	6.2	7.8	7.4	\$86.5
Internal Bond Pool - Trust (Barclays Capital Aggregate)	2.5	2.5	7.9	8.2	8.2	7.4	6.9	6.2	7.3	6.8	\$606.7

(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**

	2009		2008		2007		2006		2005	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
GE Asset Management (S&P 500 Index)	32.3	26.5	-35.6	-37.0	8.5	5.5	16.4	15.8	2.6	4.9
RBC Global Asset Management (Custom Benchmark)	8.3	0.9	-2.4	9.5	5.8	7.9	4.5	4.3	2.5	2.1
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)	4.7	1.9	4.7	2.6	4.8	4.7	4.6	5.2	4.3	4.4
Internal Stock Pool (S&P 500 Index)	26.3	26.5	-36.7	-37.0	5.5	5.5	15.9	15.8	4.9	4.9
Internal Bond Pool - Income Share (Barclays Capital Aggregate)	12.9	5.9	1.3	5.2	6.4	7.0	5.0	4.3	2.7	2.4
Internal Bond Pool - Trust (Barclays Capital Aggregate)	12.2	5.9	2.6	5.2	7.1	7.0	5.1	4.3	2.8	2.4



**GE ASSET MANAGEMENT - Assigned Risk Plan**  
**Periods Ending September, 2010**

**Portfolio Manager: Dave Carlson**

**Assets Under Management: \$60,783,072**

**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**

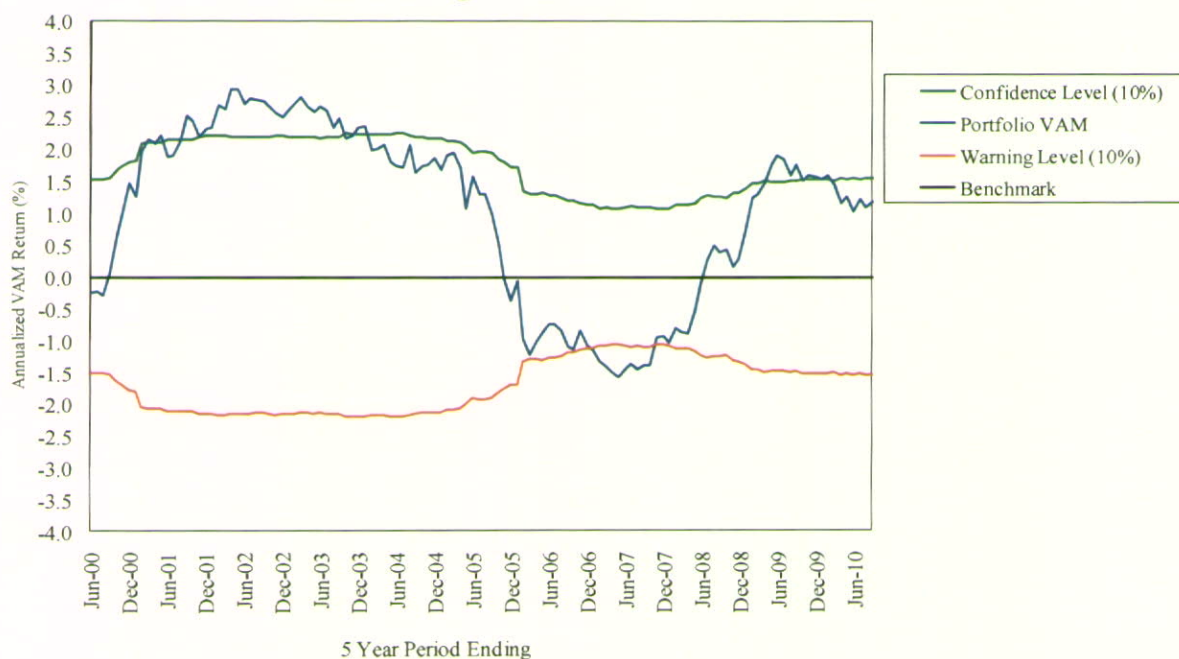
No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>	
Last Quarter	10.4%	11.3%	No action required.
Last 1 year	4.6	10.2	
Last 2 years	0.5	1.3	
Last 3 years	-5.9	-7.2	
Last 4 years	-0.5	-1.8	
Last 5 years	1.8	0.6	
Since Inception (1/95)	8.6	7.9	

**Recommendation**

**GE ASSET MANAGEMENT**  
**Rolling Five Year VAM**



**RBC GLOBAL ASSET MANAGEMENT (U.S.) - Assigned Risk Plan**  
**Periods Ending September, 2010**

**Portfolio Manager: John Huber**

**Assets Under Management: \$243,646,065**

**Investment Philosophy**  
**Assigned Risk Plan**

RBC 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**

No comment at this time.

**Quantitative Evaluation**

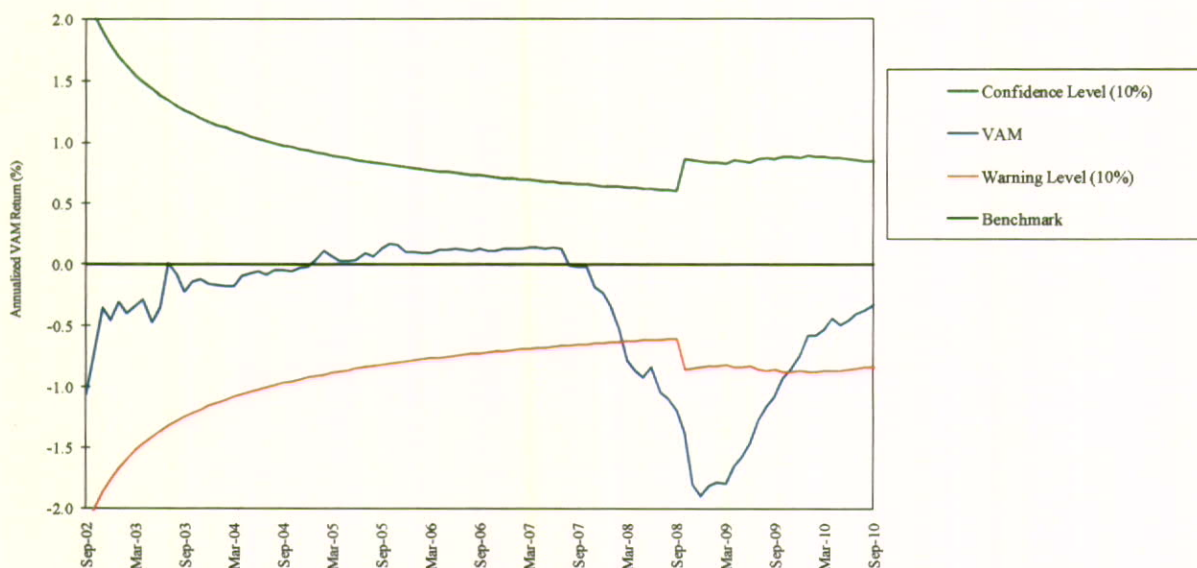
	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	2.7%	1.7%
Last 1 year	11.6	5.9
Last 2 years	8.9	6.3
Last 3 years	5.6	6.6
Last 4 years	5.5	6.4
Last 5 years	5.1	5.8
Since Inception (7/91)	6.2	6.4

**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.

RBC GLOBAL ASSET MANAGEMENT  
 Cumulative VAM



**GALLIARD CAPITAL MANAGEMENT**  
**Periods Ending June, 2010**

**Portfolio Manager: Karl Tourville**

**Assets Under Management: \$1,283,154,152**

**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.

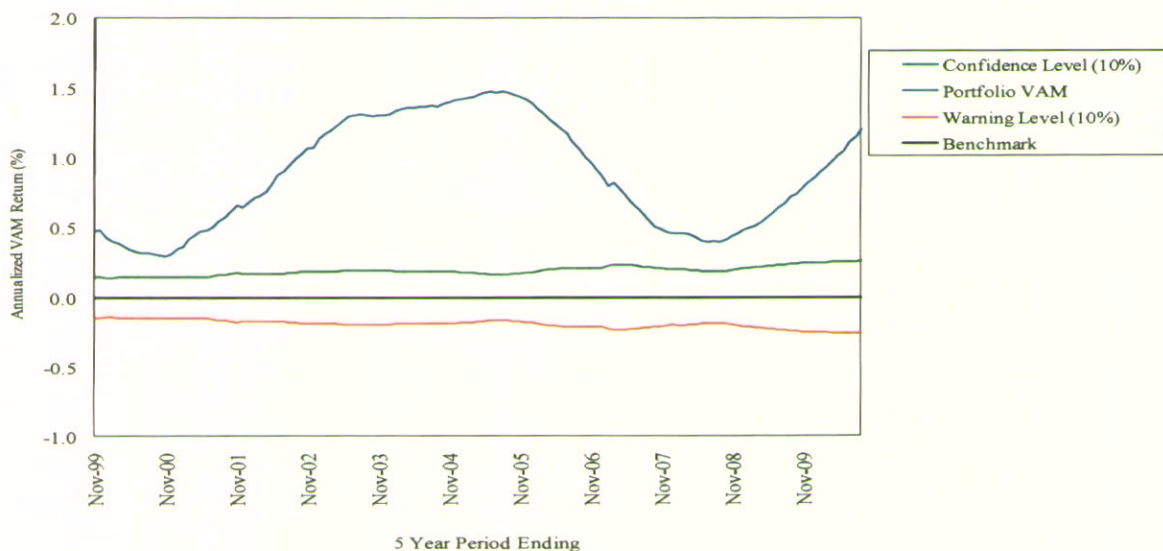
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	1.0%	0.3%
Last 1 year	4.3	1.7
Last 2 years	4.5	1.8
Last 3 years	4.6	2.2
Last 4 years	4.6	2.9
Last 5 years	4.6	3.4
Since Inception (11/94)	5.5	4.5

**Recommendation**

No action required.

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



**INTERNAL STOCK POOL - Trust/Non-Retirement Assets**  
**Periods Ending September, 2010**

**Portfolio Manager: Mike Menssen**

**Assets Under Management: \$898,219,399**

**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.

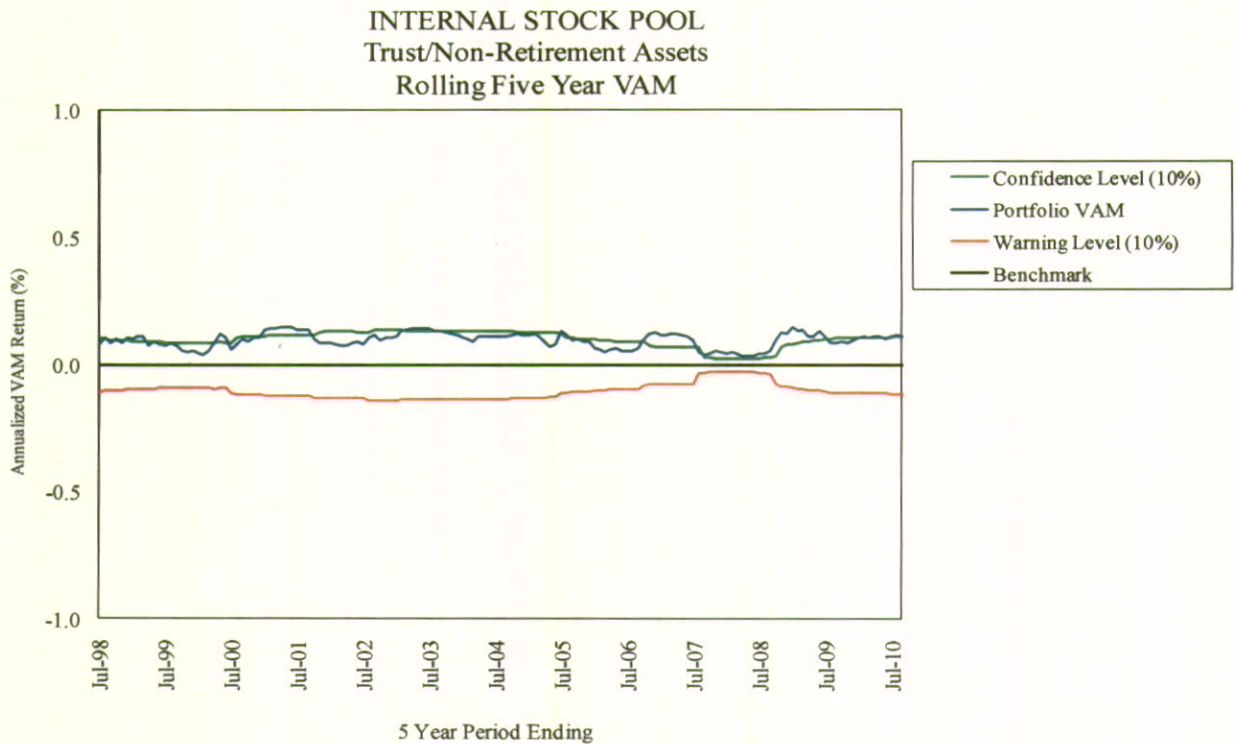
No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	11.4%	11.3%
Last 1 year	10.3	10.2
Last 2 years	1.4	1.3
Last 3 years	-7.0	-7.2
Last 4 years	-1.6	-1.8
Last 5 years	0.8	0.6
Since Inception (7/93)	7.7	7.6

No action required.



**INTERNAL BOND POOL - Income Share Account**  
**Periods Ending September, 2010**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$86,450,615**

**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.

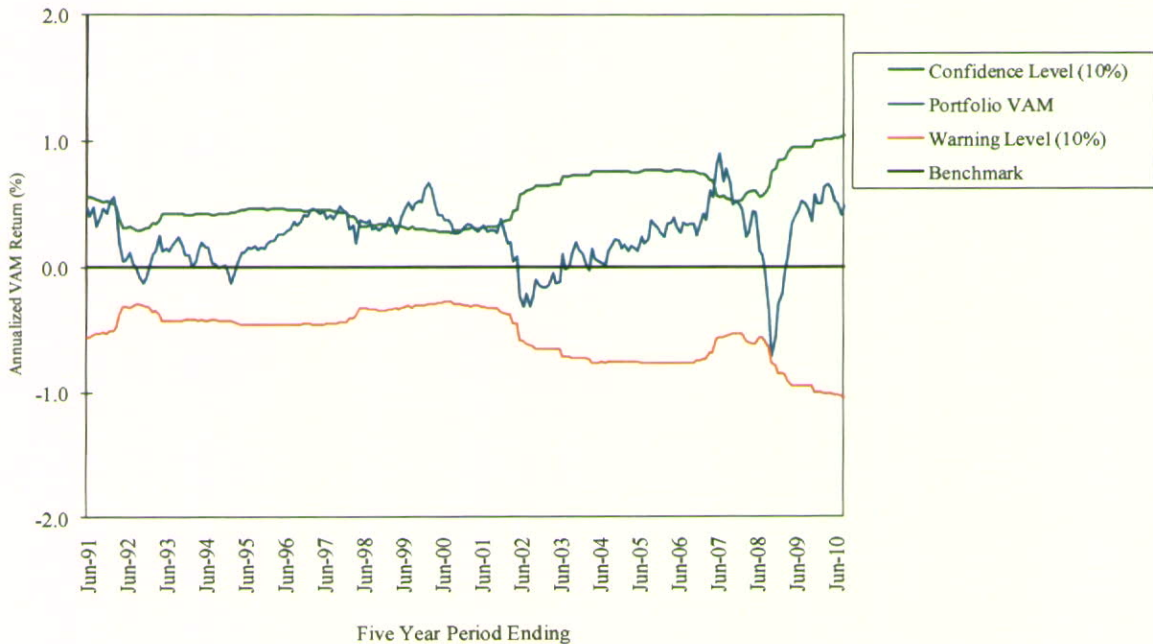
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.6%	2.5%
Last 1 year	8.7	8.2
Last 2 years	11.5	9.4
Last 3 years	8.0	7.4
Last 4 years	7.3	6.8
Last 5 years	6.7	6.2
Since Inception (7/86)	7.8	7.4

**Recommendation**

No action required.

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



**INTERNAL BOND POOL - Trust/Non-Retirement Assets**  
**Periods Ending September, 2010**

**Portfolio Manager: Mike Messen**

**Assets Under Management: \$606,669,197**

**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**

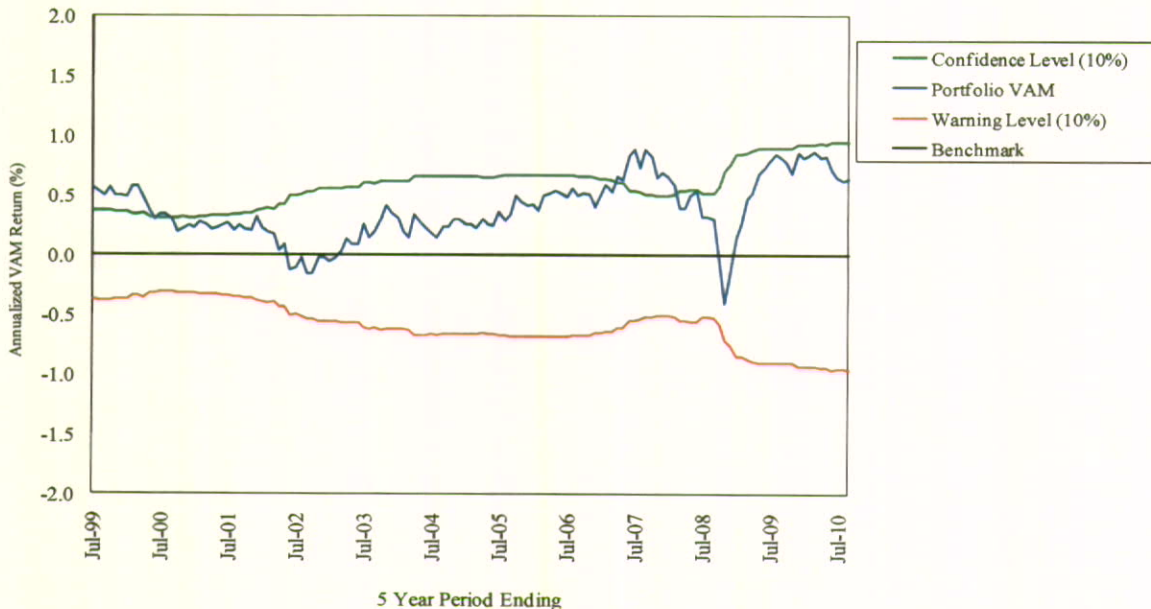
**Recommendation**

	<b>Actual</b>	<b>Benchmark</b>
Last Quarter	2.5%	2.5%
Last 1 year	7.9	8.2
Last 2 years	11.1	9.4
Last 3 years	8.2	7.4
Last 4 years	7.5	6.8
Last 5 years	6.9	6.2
Since Inception (7/94)*	7.3	6.8

No action required.

\* Date started managing the pool against the Barclays Capital Aggregate.

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



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# STATE BOARD OF INVESTMENT

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## Deferred Compensation Plan Evaluation Reports

Third Quarter, 2010



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A-104

# Mutual Fund Managers

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**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**MUTUAL FUND MANAGERS**  
**Periods Ending September, 2010**

457 Mutual Funds	Quarter		1 Year		3 Years		5 Years		Since Retention		State's Participation In Fund (\$ millions)
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	by SBI * %	%	
<b>Large Cap Equity:</b>											
Janus Twenty (S&P 500)	11.0	11.3	3.0	10.2	-4.2	-7.2	4.7	0.6	0.6	0.2	\$400.9
Legg Mason Partners Appr I (S&P 500)	9.8	11.3	8.6	10.2	-3.9	-7.2	2.6	0.6	4.4	3.2	\$114.8
Vanguard Institutional Index Plus (S&P 500)	11.3	11.3	10.2	10.2	-7.1	-7.2	0.7	0.6	0.2	0.2	\$389.1
<b>Mid Cap Equity:</b>											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	13.0	13.0	17.9	18.0	-4.4	-4.4	2.4	2.4	6.2	6.2	\$174.9
<b>Small Cap Equity:</b>											
T. Rowe Price Small-Cap Stock (Russell 2000)	12.9	11.3	18.4	13.3	-0.7	-4.3	3.6	1.6	7.8	4.9	\$361.1
<b>Balanced:</b>											
Dodge & Cox Balanced Fund (60% S&P 500/40% Barclays Capital Agg)	8.5	7.9	7.5	9.9	-5.0	-1.2	0.9	3.1	4.5	4.8	\$259.0
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Barclays Capital Agg)	7.8	8.1	10.3	10.5	-0.4	-0.6	3.6	3.5	4.9	4.8	\$172.4
<b>Bond:</b>											
Dodge & Cox Income Fund (Barclays Capital Aggregate)	2.6	2.5	8.9	8.2	7.8	7.4	6.5	6.2	6.7	6.4	\$146.4
Vanguard Total Bond Market Index Inst. (Barclays Capital Aggregate)	2.5	2.5	8.1	8.2	7.5	7.4	6.3	6.2	5.6	5.6	\$135.0
<b>International:</b>											
Fidelity Diversified International (MSCI EAFE-Free)	16.7	16.5	4.7	3.3	-10.0	-9.5	1.8	2.0	6.6	3.0	\$228.6
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	17.6	16.5	3.5	3.3	-9.3	-9.5	2.1	2.0	6.9	6.7	\$89.6

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**

	2009		2008		2007		2006		2005	
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk
	%	%	%	%	%	%	%	%	%	%
<b>457 Mutual Funds</b>										
<b>Large Cap Equity:</b>										
Janus Twenty (S&P 500)	43.3	26.5	-42.0	-37.0	35.9	5.5	12.3	15.8	9.4	4.9
Legg Mason Partners Appr I (S&P 500)	21.8	26.5	-28.8	-37.0	8.6	5.5	15.0	15.8	4.6	4.9
Vanguard Institutional Index Plus (S&P 500)	26.7	26.5	-36.9	-37.0	5.5	5.5	15.8	15.8	5.0	4.9
<b>Mid Cap Equity:</b>										
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	40.5	40.5	-41.8	-41.8	6.2	6.2	13.8	13.7	14.1	13.9
<b>Small Cap Equity:</b>										
T. Rowe Price Small-Cap Stock (Russell 2000)	38.5	27.2	-33.4	-33.8	-1.7	-1.6	12.8	18.4	8.4	4.6
<b>Balanced:</b>										
Dodge & Cox Balanced Fund (60% S&P 500/40% Barclays Capital Agg)	28.4	18.4	-33.6	-22.4	1.7	6.2	13.8	11.1	6.6	4.0
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Barclays Capital Agg)	20.2	19.7	-22.1	-22.4	6.3	6.3	11.1	11.1	4.8	4.8
<b>Bond:</b>										
Dodge & Cox Income Fund (Barclays Capital Aggregate)	16.1	5.9	-0.3	5.2	4.7	7.0	5.3	4.3	2.0	2.4
Vanguard Total Bond Market Index Inst. (Barclays Capital Aggregate)	6.1	5.9	5.2	5.2	7.0	7.0	4.4	4.3	2.5	2.4
<b>International:</b>										
Fidelity Diversified International (MSCI EAFE-Free)	31.8	31.8	-45.2	-43.4	16.0	11.2	22.5	26.3	17.2	13.5
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	28.2	31.8	-41.5	-43.4	11.0	11.2	26.3	26.3	13.6	13.5

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, 2010**

**Portfolio Manager: Ron Sachs**

**State's Participation in Fund: \$400,921,372  
Total Assets in Fund: \$8,800,000,000**

**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.

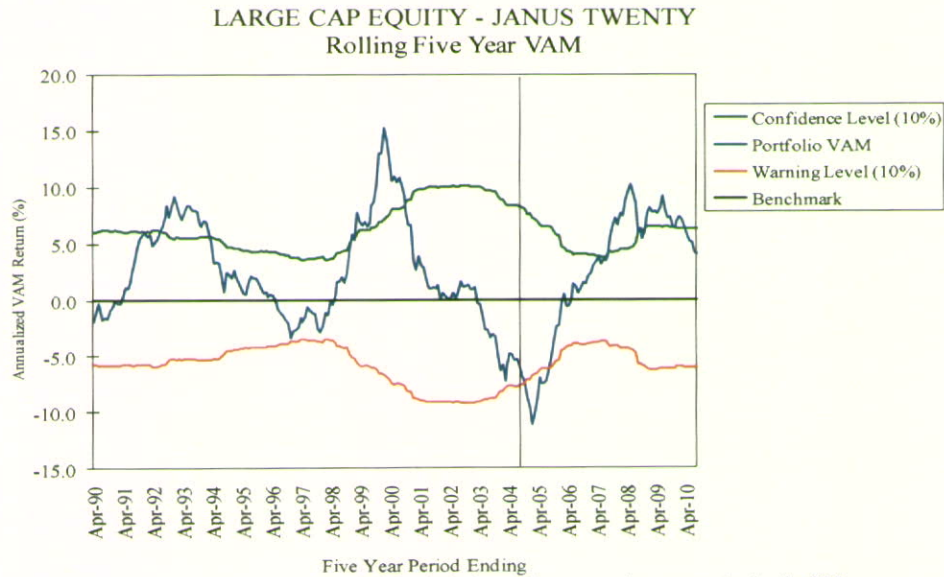
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	11.0%	11.3%
Last 1 year	3.0	10.2
Last 2 years	4.2	1.3
Last 3 years	-4.2	-7.2
Last 4 years	5.0	-1.8
Last 5 years	4.7	0.6
Since Retention by SBI (7/99)	0.6	0.2

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



**MN STATE 457 DEFERRED COMPENSATION PLAN  
LARGE CAP EQUITY – LEGG MASON PARTNERS APPRECIATION I  
Periods Ending September, 2010**

**Portfolio Manager: Scott Glasser**

**State's Participation in Fund: \$114,782,258  
Total Assets in Fund: \$4,101,318,090**

**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.

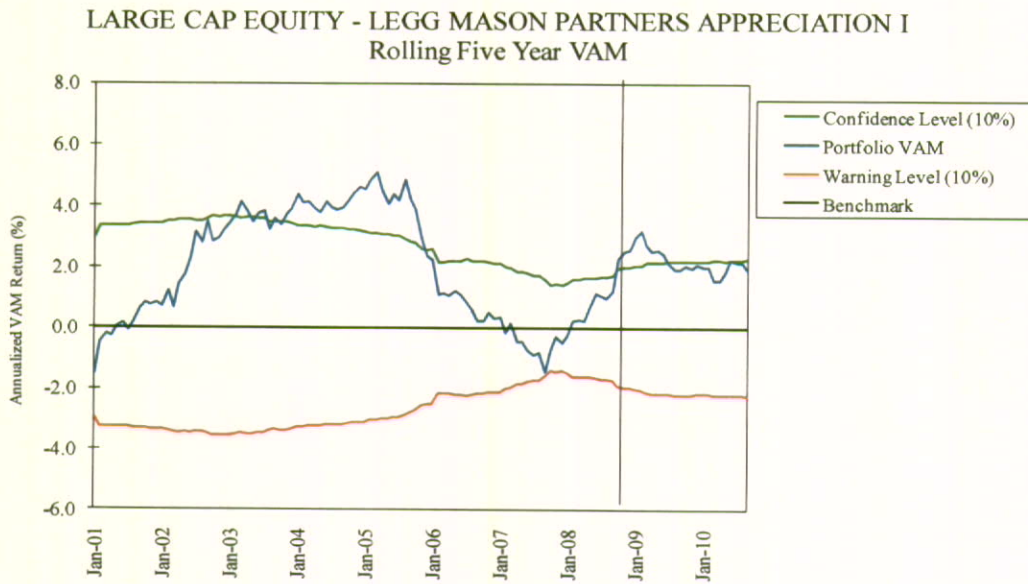
**Quantitative Evaluation**

	Actual	Benchmark*
Last Quarter	9.8%	11.3%
Last 1 year	8.6	10.2
Last 2 years	1.8	1.3
Last 3 years	-3.9	-7.2
Last 4 years	0.9	-1.8
Last 5 years	2.6	0.6
Since Retention by SBI (12/03)	4.4	3.2

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



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, 2010**

**Portfolio Manager: Donald Butler**

**State's Participation in Fund: \$389,076,863  
Total Assets in Fund: \$27,516,000,000**

**Investment Philosophy  
Vanguard Institutional Index**

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

**Staff Comments**

No comment at this time.

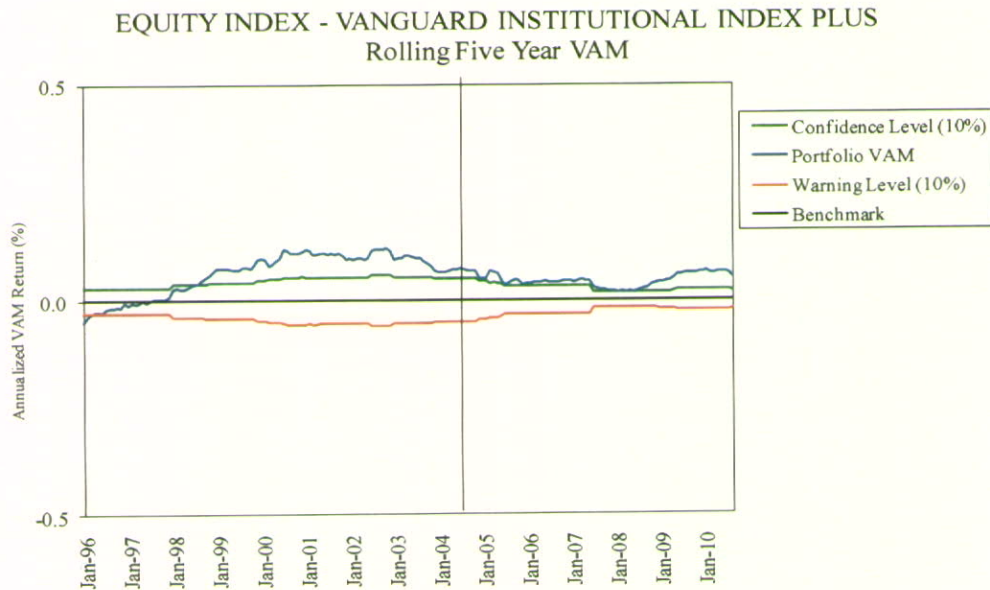
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	11.3%	11.3%
Last 1 year	10.2	10.2
Last 2 years	1.4	1.3
Last 3 years	-7.1	-7.2
Last 4 years	-1.7	-1.8
Last 5 years	0.7	0.6
Since Retention by SBI (7/99)	0.2	0.2

**Recommendation**

No action required.

\*Benchmark is the S&P 500.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
MID CAP EQUITY – VANGUARD MID-CAP INDEX  
Periods Ending September, 2010**

**Portfolio Manager: Donald Butler**

**State's Participation in Fund: \$174,876,573  
Total Assets in Fund: \$7,128,000,000**

**Investment Philosophy  
Vanguard Mid-Cap Index**

The fund employs a “passive management”- or indexing- investment approach designed to track the performance of the MSCI US Mid Cap 450 Index, a broadly diversified index of stocks of medium-size U.S. companies. The fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the index, holding each stock in approximately the same proportion as its weighting within the index.

**Staff Comments**

No comment at this time.

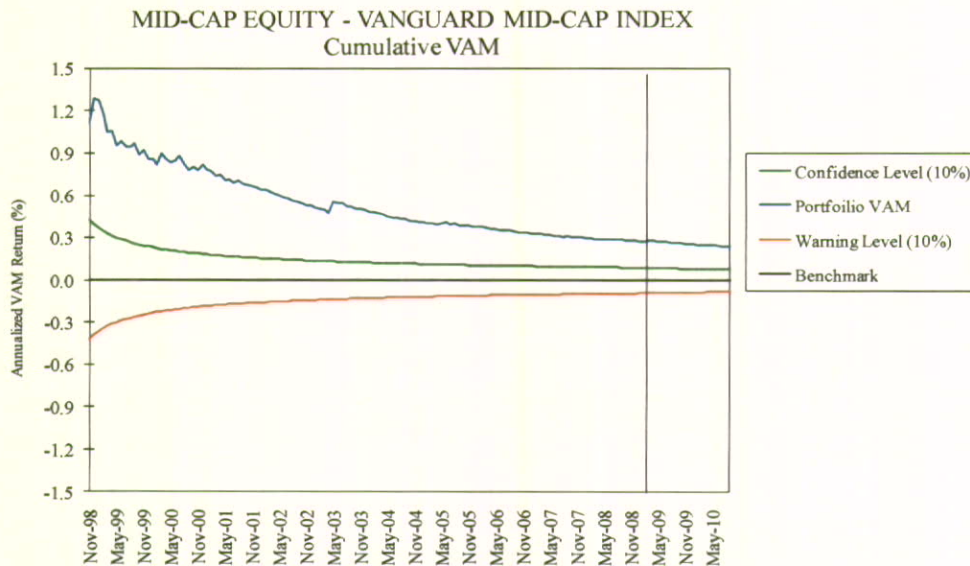
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	13.0%	13.0%
Last 1 year	17.9	18.0
Last 2 years	7.5	7.5
Last 3 years	-4.4	-4.4
Last 4 years	0.8	0.8
Last 5 years	2.4	2.4
Since Retention by SBI (1/04)	6.2	6.2

**Recommendation**

No action required.

\*Benchmark is the MSCI US Mid Cap 450.



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



**MN STATE 457 DEFERRED COMPENSATION PLAN  
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND  
Periods Ending September, 2010**

<b>Portfolio Manager: Gregory A. McCrickard</b>	<b>State's Participation in Fund: \$361,086,611</b> <b>Total Assets in Fund: \$5,719,698,621</b>
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**Investment Philosophy  
T. Rowe Price Small Cap Equity Fund**

**Staff Comments**

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.

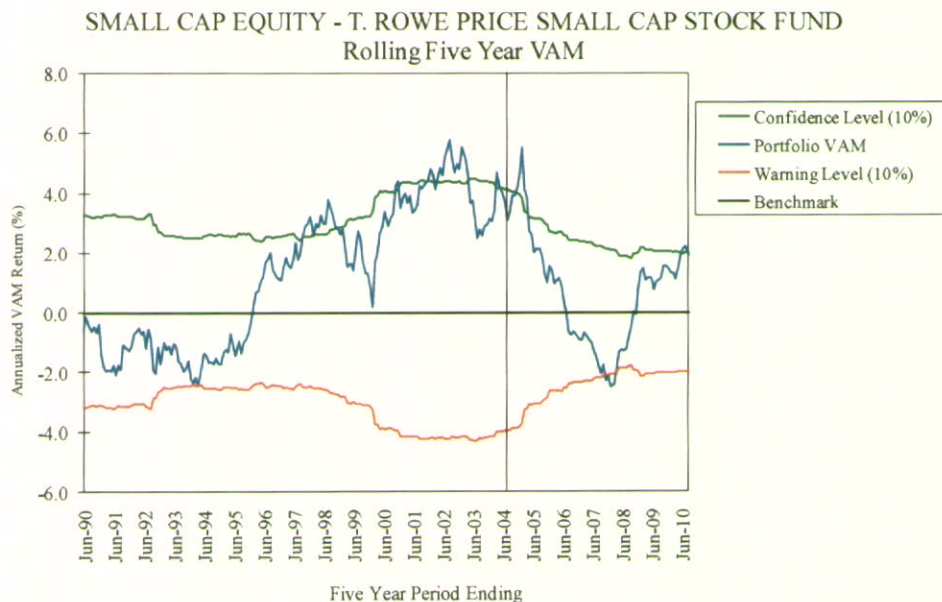
No comment at this time.

**Quantitative Evaluation**

**Recommendation**

	Actual	Benchmark*	
Last Quarter	12.9%	11.3%	No action required.
Last 1 year	18.4	13.3	
Last 2 years	9.1	1.3	
Last 3 years	-0.7	-4.3	
Last 4 years	2.2	-0.4	
Last 5 years	3.6	1.6	
Since Retention by SBI (7/99)	7.8	4.9	

\*Benchmark is the Russell 2000.



**STATE 457 DEFERRED COMPENSATION PLAN  
BALANCED – DODGE & COX BALANCED FUND  
Periods Ending September, 2010**

**Portfolio Manager: John Gunn**

**State's Participation in Fund: \$259,040,300  
Total Assets in Fund: \$14,429,499,385**

**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**

No comment at this time.

**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	8.5%	7.9%
Last 1 year	7.5	9.9
Last 2 years	5.4	5.1
Last 3 years	-5.0	-1.2
Last 4 years	-1.5	2.0
Last 5 years	0.9	3.1
Since Retention By SBI (10/03)	4.5	4.8

**Recommendation**

No action required.

\*Benchmark is 60% S&P 500, 40% Barclays Capital Aggregate.

**BALANCED - DODGE & COX BALANCED FUND  
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  
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND  
Periods Ending September, 2010**

**Portfolio Manager: Michael Perre**

**State's Participation in Fund: \$172,410,537  
Total Assets in Fund: \$3,165,000,000**

**Investment Philosophy  
Vanguard Balanced Index Fund**

**Staff Comments**

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. The fund's bond segment attempts to track the performance of the Barclays Capital Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

No comment at this time.

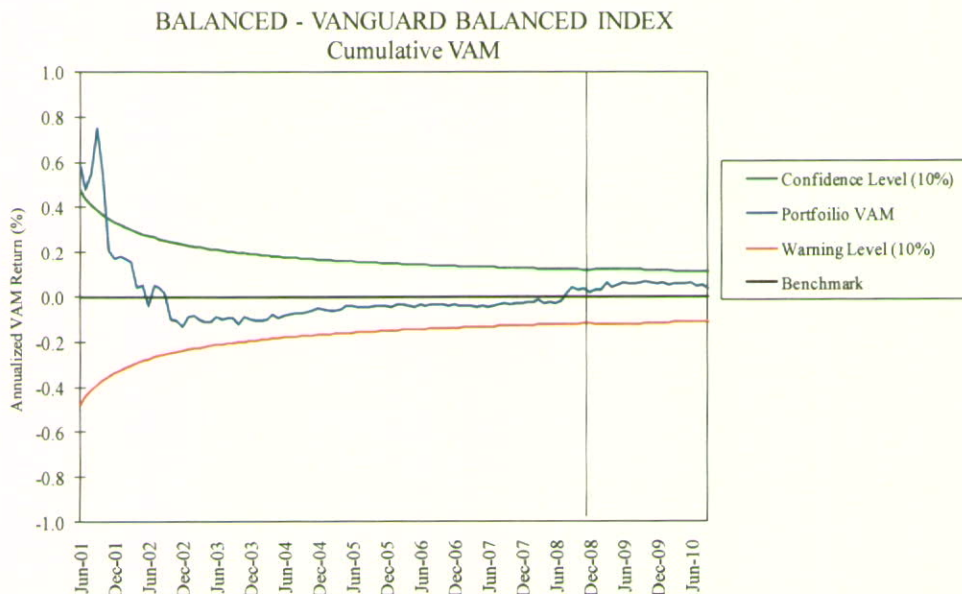
**Quantitative Evaluation**

**Recommendation**

	Actual	Benchmark*
Last Quarter	7.8%	8.1%
Last 1 year	10.3	10.5
Last 2 years	5.8	5.8
Last 3 years	-0.4	-0.6
Last 4 years	2.6	2.5
Last 5 years	3.6	3.5
Since Retention by SBI (12/03)	4.9	4.8

No action required.

\*Benchmark is 60% MSCI US Broad Market, 40% Barclays Capital Aggregate. Equity benchmark was Wilshire 5000 prior to April 1, 2005.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
BOND – DODGE & COX INCOME FUND  
Periods Ending September, 2010**

**Portfolio Manager: Dana Emery**

**State's Participation in Fund: \$146,367,291  
Total Assets in Fund: \$22,446,631,759**

**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**

No comment at this time.

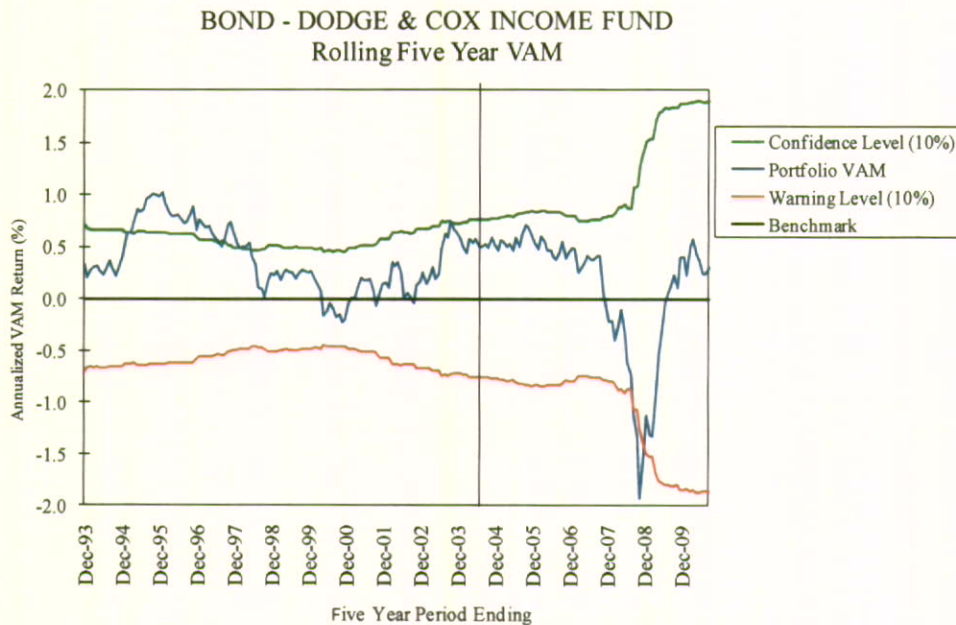
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	2.6%	2.5%
Last 1 year	8.9	8.2
Last 2 years	13.3	9.4
Last 3 years	7.8	7.4
Last 4 years	7.2	6.8
Last 5 years	6.5	6.2
Since Retention By SBI (7/99)	6.7	6.4

**Recommendation**

No action required.

\*Benchmark is the Barclays Capital Aggregate.



**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL**  
**Periods Ending September, 2010**

**Portfolio Manager: Kenneth Volpert**

**State's Participation in Fund: \$134,973,837**  
**Total Assets in Fund: \$20,300,000,000**

**Investment Philosophy**  
**Vanguard Total Bond Market Index**  
**Institutional**

**Staff Comments**

The fund attempts to track the performance of the Barclays Capital Aggregate Bond Index, which is a widely recognized measure of the entire taxable U.S. bond market. The index consists of more than 5,000 U.S. Treasury, federal agency, mortgage-backed, and investment-grade corporate securities. Because it is not practical or cost-effective to own every security in the index, the fund invests in a large sampling that matches key characteristics of the index (such as market-sector weightings, coupon interest rates, credit quality, and maturity). To boost returns, the fund holds a higher percentage than the index in short-term, investment-grade corporate bonds and a lower percentage in short-term Treasury securities.

No comment at this time.

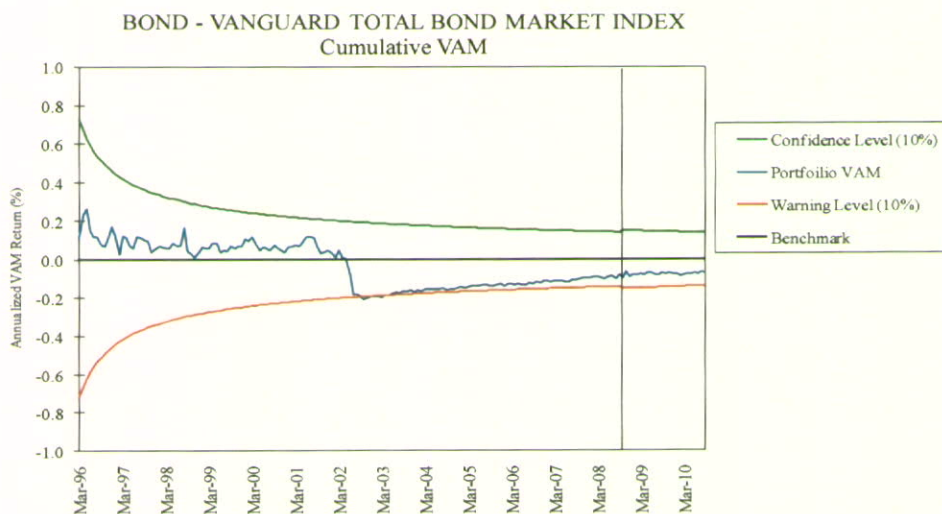
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	2.5%	2.5%
Last 1 year	8.1	8.2
Last 2 years	9.4	9.4
Last 3 years	7.5	7.4
Last 4 years	6.9	6.8
Last 5 years	6.3	6.2
Since Retention by SBI (12/03)	5.6	5.6

No action required.

\*Benchmark is the Barclays Capital Aggregate.



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

**MN STATE 457 DEFERRED COMPENSATION PLAN  
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL  
Periods Ending September, 2010**

**Portfolio Manager: William Bower**

**State's Participation in Fund: \$228,626,535  
Total Assets in Fund: \$26,259,130,000**

**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.

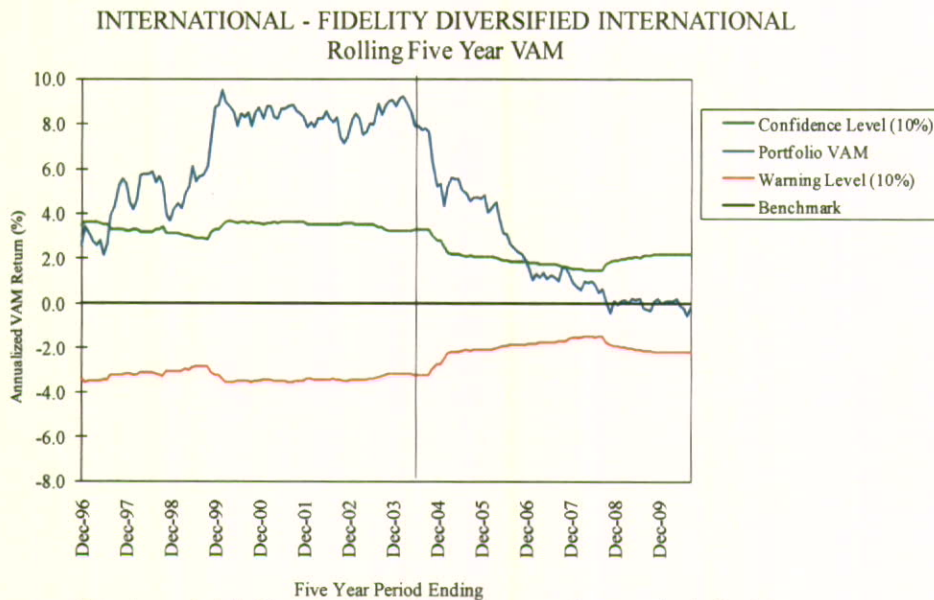
**Quantitative Evaluation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	16.7%	16.5%
Last 1 year	4.7	3.3
Last 2 years	1.2	3.2
Last 3 years	-10.0	-9.5
Last 4 years	-1.7	-1.9
Last 5 years	1.8	2.0
Since Retention By SBI (7/99)	6.6	3.0

**Recommendation**

No action required.

\*Benchmark is the MSCI EAFE-Free.



**MN STATE 457 DEFERRED COMPENSATION PLAN**  
**INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX**  
**Periods Ending September, 2010**

<b>Portfolio Manager: Duane Kelly and Michael Buek</b>	<b>State's Participation in Fund: \$89,550,458</b>
	<b>Total Assets in Fund: \$6,552,000,000</b>

**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.

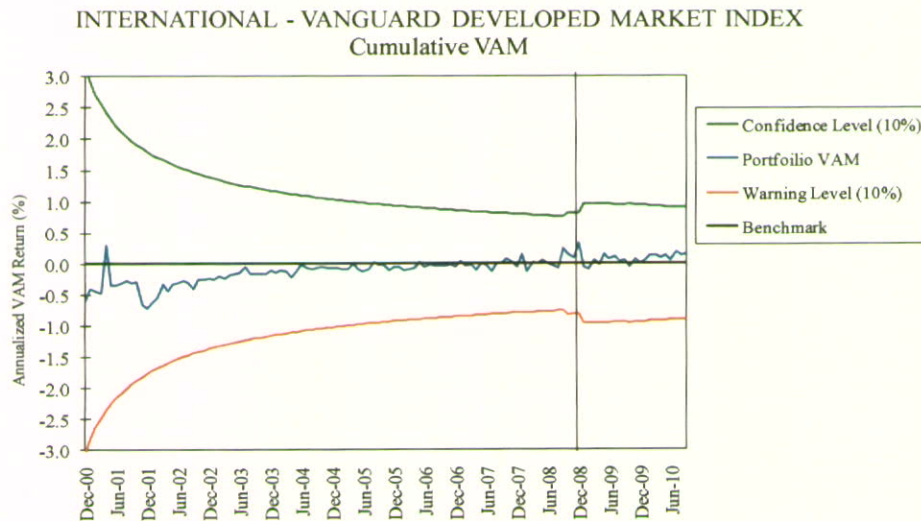
**Quantitative Evaluation**

**Recommendation**

	<b>Actual</b>	<b>Benchmark*</b>
Last Quarter	17.6%	16.5%
Last 1 year	3.5	3.3
Last 2 years	2.6	3.2
Last 3 years	-9.3	-9.5
Last 4 years	-1.7	-1.9
Last 5 years	2.1	2.0
Since Retention by SBI (12/03)	6.9	6.7

No action required.

\*Benchmark is the MSCI EAFE International



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

# **Tab D**



DATE: November 9, 2010

TO: Members, Investment Advisory Council

FROM: Jim Heidelberg

**SUBJECT: Review of the State Deferred Compensation Plan**

The Deferred Compensation Review Committee (Committee) met September 20 to consider the addition of target date funds to the State Deferred Compensation Plan (Plan) and to review the Plan's existing array of investment options. The Plan is a tax-sheltered IRC 457(b) retirement savings plan available to all public employees in the state. It is a supplement to the primary defined benefit retirement plans of TRA, PERA and MSRS. The Plan administrator is MSRS. The SBI is responsible for selecting Plan investment options and investment managers.

The Committee discussed the background information provided by staff concerning target date product offerings and the existing Plan investment options. A copy of that material is attached.

The Committee approved the addition of target date funds to the Plan and SSgA as product provider. The Committee recommended additional terms to this approval and these issues have been worked out with SSgA to staff's satisfaction.

The Committee also approved changes to the array of investment options. With these changes, the Plan's investment array would be the following:

<b>Asset Class</b>	<b>Option</b>
Large Cap Equity	1) Janus Twenty 2) Vanguard Institutional Index (S&P 500)
Mid Cap Equity	Vanguard Mid-Cap Index
Small Cap Equity	T. Rowe Price Small Cap Stock
Balanced	Vanguard Balanced Index
Bond	1) Dodge & Cox Income 2) Vanguard Total Bond Index
International	1) Vanguard Total International Stock Index 2) Fidelity Diversified International
Money Market	SIF Money Market
Stable Value	SIF Fixed Interest
Target Date Funds	SSgA



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DATE: September 13, 2010

TO: Members, Deferred Compensation Review Committee

FROM: Jim Heidelberg 

SUBJECT: **Target Date Funds for the Deferred Compensation Plan**

The Minnesota State Retirement System (MSRS) has requested that the SBI consider the addition of target date funds to the state Deferred Compensation Plan (the Plan). A target date fund (TDF) is a balanced investment option in which the asset allocation is changed gradually by the investment manager to reduce risk as the target retirement date approaches. A TDF offers the participant a balanced option in which the asset allocation is changed automatically to become less aggressive as he or she approaches retirement.

MSRS receives many requests from participants asking how to invest their money. MSRS cannot give investment advice and cannot direct participants to specific investment options. Understanding available investment options, choosing among them to create an appropriate portfolio, periodically revisiting the investments and rebalancing when appropriate are necessary steps that take more effort and resources than many participants have to offer. Further, a significant body of research demonstrates that confusion, uncertainty, fear and inertia all combine to produce less than ideal portfolio decisions for many participants. It is in this context that MSRS wants to introduce target date funds as an alternative for participants.

## Request for Information

Staff spoke with a number of firms to gather background information on the subject, and then sent a request for information (RFI) to twelve firms. A copy of the RFI is in Attachment A. All twelve of the following firms responded to the RFI.

- Allianz
- American Century
- BlackRock
- Goldman Sachs
- Fidelity
- ICMA
- ING
- JP Morgan
- SSgA
- T. Rowe Price
- Vanguard
- Wells Fargo

## Review of responses

Staff reviewed each response and suggests eliminating the following firms from consideration:

<b>Company</b>	<b>Reason for Elimination</b>
American Century	All active management; higher fees
Allianz	Very high fees
ICMA	Long-short global tactical allocation used even in retirement
Goldman Sachs	Does not currently have assets in the product
ING	Higher fees; limited assets in product
JP Morgan	Active management; questionable fees
Wells Fargo	Unusual diversification in stock and bond portfolios

Staff prefers to discuss the following five firms:

- BlackRock-Non-lending funds
- Fidelity-Pyramis passive product
- SSgA-Non-lending funds
- Vanguard
- T. Rowe Price

With the exception of T. Rowe Price, each offers relatively low-cost passive funds. T. Rowe Price is included in the discussion to provide a comparison of a quality actively managed product.

## *Discussion of Considered Firms*

### **BlackRock**

BlackRock, based in New York with significant operations in San Francisco, began managing its LifePath Portfolios in 1993. As of March 31, 2010 the firm managed \$34.9 billion in the Portfolios. The firm introduced its Non-Lendable Portfolios in January 2009. Non-lendable Portfolios do not participate in securities lending activity. The firm's Portfolios are designed to maximize the benefits of diversification by investing in mutually exclusive asset classes through the use of passively managed funds.

### **Fidelity-Pyramis**

Fidelity, based in Boston, is a large retail investment management firm that established Pyramis as its institutional management operation in the early 2000's. Fidelity has offered its retail target date Freedom Funds since October 1996, and as of March 31, 2010 managed \$107.4 billion in the Funds. Pyramis launched its Pyramis Lifecycle Pools in July 2007. As of March 31, 2010, Pyramis managed \$6.6 billion in the Pools of which almost \$1.4 billion was in the Pyramis Index Lifecycle. The Index Lifecycle is invested in five passively managed asset class funds, of which three are broad-based asset class Fidelity institutional class mutual funds and two are commingled pools.

### **SSgA**

SSgA, based in Boston, is one of the largest and most experienced index managers in the world. The firm began managing its Target Date Strategies in 1995 and launched a series of commingled fund Target Date Strategies in 2004 for the defined contribution market. As of March 31, 2010, the firm managed \$9.2 billion in its Target Date Strategies. Its commingled funds are fund of funds that invest only in passive index funds and in only one strategy per asset class in order to achieve broad diversification and avoid unintended overlap in exposures.

### **Vanguard**

Vanguard, based in Malvern, Pennsylvania, is one of the largest mutual fund providers in the industry. The firm introduced its Target Retirement Funds in October 2003. The firm expanded the product line in 2006 by adding Funds with years ending in zero. As of April 30, 2010, the firm managed \$65.4 billion in the Funds. Vanguard believes that target date funds are intended to be straightforward, transparent and easy to explain. Accordingly, the Funds are invested in a relatively small number of distinct asset classes and core holdings are index funds representing broad US equity and bond markets.

### **T. Rowe Price**

T. Rowe Price, based in Baltimore, is focused primarily on active management. The firm began managing its Retirement Date Funds in 2002 and launched the Retirement Date Trusts for institutional investors in 2008. As of March 31, 2010, the firm managed \$46.7 billion in the Funds and \$1.6 billion in the Trusts. The firm's target date funds are fund of funds with the overwhelming majority of the underlying funds being actively managed.

## *Selection Criteria*

Evaluating a TDF requires a review of the following features of a TDF.

- Glide path of the fund: Glide path is the name referencing how the percentage of equities becomes less aggressive over time.
- Asset classes included in the fund: Some TDF's have a relatively simple mix of stocks and bonds, and others include a wider range of asset classes.
- Extent to which the TDF uses passive or active management: Also, the quality of the underlying funds used in constructing the TDF's is at issue.
- Use of tactical asset allocation: Does the manager make tactical decisions in addition to adjusting the asset mix along the glide path?
- Fees: Are all costs disclosed in the manager's presentation of "fund fees"?

Each firm's TDF's may be evaluated by comparing data on the primary features as shown below.

### *1. Glide Path*

The following shows the portion of assets in equities in selected target date funds and at selected ages for participants.

Company	2050	2040	2030	2020	2010	Post Retirement		
	25	35	45	55	65	70	72	75
BlackRock-Non-Lending	99.0%	88.2%	75.3%	59.6%	38.0%	38.0%	38.0%	38.0%
Fidelity-Pyramis	89.1	83.4	74.0	60.5	49.6	42.0	30.0*	20.1
SSgA-Non-Lending	90.0	90.0	83.0	69.5	47.5	35.0	35.0	35.0
Vanguard	90.0	90.0	82.9	67.9	50.5	36.4	30.0	30.0
T. Rowe Price	90.0	90.0	85.0	72.0	55.0	46.0	43.0*	40.0

\*Interpolated from data provided

## 2. Asset Classes

BlackRock, Fidelity and Vanguard each offer an uncomplicated mix of asset class funds in their TDF product. SSgA includes several subclasses within its bond offering. T. Rowe Price Retirement Date Trusts offer a more complicated structure featuring bond, domestic equity and international equity subclasses, and a longer list of underlying funds.

<b>BlackRock-Non-Lending</b>	<b>Fidelity-Pyramis</b>	<b>SSgA</b>	<b>Vanguard</b>	<b>T. Rowe Price</b>
US Bonds-BC Agg	US Bonds-BC Agg	US Bonds-BC Agg s	US Bonds-BC Agg	US Bonds- BC Agg
		Long-Term Government Bonds		
		High Yield Bonds		High Yield Bonds
				Global Bonds ex US
				Emerging Market Bonds
		Short-Term Bonds		Short-Term Bonds
US Inflation-Linked Bonds	US Inflation-Linked Bonds	US Inflation-Linked Bonds	US Inflation-Linked Bonds	
	US Equities All-Cap Index		US Equities All-Cap Index	
US Large Cap Equities-R1000		U.S. Large Cap Equity S&P 500		US Large Cap Growth, Value, Index,
US Small/Mid Cap Equities- R2000		U.S. Mid Cap Equity S&P Mid-Cap 400		US Mid Cap Growth, Value
		U.S. Small Cap Equity- R2000		US Small Cap Growth, Value, Extended Market Index
International Equity ACWI ex US	International Equity EAFE	International Equity ACWI ex US	Europe/Pacific/Emerging Markets Equity	International Equity Core, Growth, Value, Emerging Markets
Global Real Estate		Global Real Estate		
Money Market	Money Market		Money Market	

## 3. Active vs. Passive

As mentioned earlier, all options except T. Rowe Price are passively managed. T. Rowe Price uses mostly actively managed funds. Staff has no issues with the quality of the underlying funds presented.

#### 4. *Tactical Asset Allocation*

Each firm regularly rebalances the funds' portfolios to target weights which change as the allocation rolls down the glide path. Vanguard, Fidelity and SSgA make no tactical asset allocation changes around the glide path. BlackRock reconstructs the glide path on a quarterly basis using the latest market information and its own updated return forecasts, but these updates change the glide path only modestly. T. Rowe Price makes active tactical allocation decisions by adjusting away from the strategic asset allocation when its investment committee deems it advantageous. The largest change has been 3.5% away from the glide path equity allocation.

#### 5. *Fees*

Each firm, with one exception, charges fees specified by fund. Pyramis charges on an assets-under-management schedule with fees being lower with incrementally higher total assets invested. Fees for selected target date years are shown below. As can be seen, there is a measurable cost to choosing the T. Rowe Price active approach.

<b>Fund</b>	<b>BlackRock- Non-Lending</b>	<b>Fidelity- Pyramis</b>	<b>SSgA</b>	<b>Vanguard</b>	<b>T. Rowe Price*</b>
2050	0.18%	0.15-0.19%	0.17%	0.20%	0.45-0.47%
2040	0.18	0.15-0.19	0.17	0.20	0.45-0.47
2030	0.18	0.15-0.19	0.17	0.19	0.45-0.47
2020	0.18	0.15-0.19	0.17	0.18	0.45-0.47
2010	0.18	0.15-0.19	0.17	0.17	0.45-0.47
Retirement	0.18	0.15-0.19	0.17	0.18	0.45-0.47

\*Retirement Date Trusts

#### **Performance**

Tables displaying performance for selected target date funds are presented in Attachments B and C. Attachment B is sorted by manager. Attachment C is identical data sorted by fund date. Vanguard, T. Rowe Price, Fidelity and SSgA returns are net of fees. BlackRock returns are gross of fees. Comparisons of performance across companies are not transparent due to differing asset classes used and different asset allocations. Also, the firms have short histories for the products offered. Staff draws the following conclusions about performance:

- The firms with passively managed funds manage returns close to the composite indices.
- T. Rowe Price's favorable above-benchmark returns may be time period/market dependent.
- As would be expected, the funds with lower equity exposure have lower absolute returns.
- A shorter history is available for the newer funds, which are the ones with retirement dates further in the future.



## Committee Action

The Committee needs to determine what recommendations, if any, it wishes to make concerning a TDF provider. Any recommendation would be presented to the Board at its December 2010 meeting. MSRS would make necessary recordkeeping and communication changes for a July 1, 2011 implementation.

## ATTACHMENT B

### Performance By Company Selected Year Funds

#### BlackRock Performance by Fund (Gross of Fees)

	<u>YTD</u> <u>Thru 4/30</u>	<u>2009</u>	<u>Calendar Year</u>			<u>Annualized Calendar Year</u>		
			<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>1 Yr.</u>	<u>2 Yr.</u>	<u>3 Yr.</u>
2050 Fund	5.75	46.00	-39.49	7.83	19.08	46.00	-6.01	-4.37
Benchmark	6.06	45.95	-39.94	7.55	19.02	45.95	--6.37	-4.51
2040 Fund	5.38	41.30	-36.31	6.47	18.09	41.30	-5.13	-3.93
Benchmark	5.63	41.35	-36.72	6.36	18.17	41.35	-5.42	-4.06
2030 Fund	5.08	35.90	-31.62	6.75	16.17	35.90	-3.60	-2.41
Benchmark	5.31	36.08	-32.01	6.65	16.22	36.08	-3.81	-2.52
2020 Fund	4.71	29.60	-25.60	7.00	14.01	29.60	-1.81	-0.66
Benchmark	4.90	29.86	-26.00	6.94	13.96	29.86	-1.97	-0.74
2010 Fund	4.15	20.60	-14.75	7.53	9.52	20.60	1.40	2.53
Benchmark	4.29	20.94	-15.00	7.32	9.54	20.94	1.39	2.43

Note: Returns for YTD and 2009 are for the non-lendable funds. All other returns are for the lendable funds.

### Fidelity Performance by Fund

	<b>YTD</b>		<b>Calendar Year</b>			<b>Annualized Calendar Year</b>		
	<b><u>Thru 4/30</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yr.</u></b>	<b><u>3 Yr.</u></b>
2050 Fund	5.47	26.27	-34.24	--	--	26.27	-8.88	--
Benchmark	5.68	26.96	-34.78	--	--	26.96	-9.01	--
2040 Fund	5.31	25.04	-32.48	--	--	25.04	-8.12	--
Benchmark	5.51	25.51	-32.82	--	--	25.51	-8.18	--
2030 Fund	5.09	23.75	-31.04	--	--	23.75	-7.62	--
Benchmark	5.27	24.04	-31.28	--	--	24.04	-7.67	--
2020 Fund	4.58	20.75	-25.58	--	--	20.75	-5.20	--
Benchmark	4.75	20.85	-25.67	--	--	20.85	-5.22	--
2010 Fund	3.85	17.50	-18.95	--	--	17.50	-2.41	--
Benchmark	4.12	17.19	-19.00	--	--	17.19	-2.57	--

### SSgA Performance by Fund

	<b>YTD</b>		<b>Calendar Year</b>			<b>Annualized Calendar Year</b>		
	<b><u>Thru 4/30</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yr.</u></b>	<b><u>3 Yr.</u></b>
2050 Fund	6.51	27.51	-33.54	--	--	27.51	-7.95	--
Benchmark	6.59	27.05	-34.14	--	--	27.05	-8.53	--
2040 Fund	6.52	27.44	-33.69	8.12	16.55	27.44	-8.07	-2.96
Benchmark	6.59	27.05	-34.15	8.22	16.51	27.05	-8.53	-3.26
2030 Fund	6.29	24.49	-30.94	7.77	14.68	24.29	-7.35	-2.56
Benchmark	6.36	23.86	-31.59	7.86	14.59	23.86	-7.95	-2.96
2020 Fund	5.77	20.16	-25.23	7.59	12.08	20.16	-5.22	-1.13
Benchmark	5.94	19.61	-26.06	7.71	11.97	19.61	-5.96	-1.61
2010 Fund	4.85	14.98	-16.75	6.93	8.50	14.98	-2.16	0.78
Benchmark	5.08	14.44	-17.61	7.20	8.30	14.44	-2.90	0.36

### Vanguard Performance by Fund

	<u>YTD</u> <u>Thru 4/30</u>	<u>2009</u>	<u>Calendar Year</u>			<u>Annualized Calendar Year</u>		
			<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>1 Yr.</u>	<u>2 Yr.</u>	<u>3 Yr.</u>
2050 Fund	6.17	28.31	-34.62	7.49	--	28.31	-8.40	-3.39
Benchmark	6.33	28.52	-35.11	7.50	--	28.52	-8.68	-3.58
2040 Fund	6.19	28.32	-34.53	7.48	--	28.32	-8.34	-3.35
Benchmark	6.33	28.52	-34.11	7.50	--	28.52	-8.68	-3.58
2030 Fund	5.96	26.72	-32.91	7.49	--	26.72	-7.79	-2.95
Benchmark	6.09	27.01	-33.41	7.63	--	27.01	-8.03	-3.08
2020 Fund	5.41	23.10	-27.04	7.52	--	23.10	-5.23	-1.16
Benchmark	5.54	23.27	-27.52	7.54	--	23.27	-5.48	-1.32
2010 Fund	4.78	19.32	-20.67	7.70	--	19.32	-2.71	0.64
Benchmark	4.91	19.44	-21.05	7.78	--	19.44	-2.89	0.54

### T. Rowe Price Performance by Fund

	<u>YTD</u> <u>Thru 4/30</u>	<u>2009</u>	<u>Calendar Year</u>			<u>Annualized Calendar Year</u>		
			<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>1 Yr.</u>	<u>2 Yr.</u>	<u>3 Yr.</u>
2050 Fund	6.71	35.88	--	--	--	35.88	--	--
Benchmark	6.37	28.58	--	--	--	28.58	--	--
2040 Fund	6.72	35.74	--	--	--	35.74	--	--
Benchmark	6.37	28.58	--	--	--	28.58	--	--
2030 Fund	6.55	34.93	--	--	--	34.93	--	--
Benchmark	6.21	27.44	--	--	--	27.44	--	--
2020 Fund	6.05	31.77	--	--	--	31.77	--	--
Benchmark	5.67	24.21	--	--	--	24.21	--	--
2010 Fund	5.33	27.60	--	--	--	27.60	--	--
Benchmark	4.83	19.63	--	--	--	19.63	--	--

**ATTACHMENT C**

**Target Date Fund Performance  
Selected Years**

<b><u>2050 Fund</u></b>	<b><u>YTD Thru 4/30</u></b>	<b><u>Calendar Year</u></b>				<b><u>Annualized Calendar Year</u></b>		
		<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yr.</u></b>	<b><u>3 Yr.</u></b>
BlackRock	5.75	46.00	-39.49	7.83	19.08	46.00	-6.01	-4.37
Benchmark	6.06	45.95	-39.94	7.55	19.02	45.95	-6.37	-4.51
Fidelity	5.47	26.27	-34.24	--	--	26.27	-8.88	--
Benchmark	5.68	26.96	-34.78	--	--	26.96	-9.01	--
SSgA	6.51	27.51	-33.54	--	--	27.51	-7.95	--
Benchmark	6.59	27.05	-34.14	--	--	27.05	-8.53	--
Vanguard	6.17	28.31	-34.62	7.49	--	28.31	-8.40	-3.39
Benchmark	6.33	28.52	-35.11	7.50	--	28.52	-8.68	-3.58
T. Rowe Price	6.71	35.88	--	--	--	35.88	--	--
Benchmark	6.37	28.58	--	--	--	28.58	--	--

<b><u>2040 Fund</u></b>	<b><u>YTD Thru 4/30</u></b>	<b><u>Calendar Year</u></b>				<b><u>Annualized Calendar Year</u></b>		
		<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yr.</u></b>	<b><u>3 Yr.</u></b>
BlackRock	5.38	41.30	-36.31	6.47	18.09	41.30	-5.13	-3.93
Benchmark	5.63	41.35	-36.72	6.36	18.17	41.35	-5.42	-4.06
Fidelity	5.31	25.04	-32.48	--	--	25.04	-8.12	--
Benchmark	5.51	25.51	-32.82	--	--	25.51	-8.18	--
SSgA	6.52	27.44	-33.69	8.12	16.55	27.44	-8.07	-2.96
Benchmark	6.59	27.05	-34.15	8.22	16.51	27.05	-8.53	-3.26
Vanguard	6.19	28.32	-34.53	7.48	--	28.32	-8.34	-3.35
Benchmark	6.33	28.52	-34.11	7.50	--	28.52	-8.68	-3.58
T. Rowe Price	6.72	35.74	--	--	--	35.74	--	--
Benchmark	6.37	28.58	--	--	--	28.58	--	--

<u>2030 Fund</u>	<u>YTD</u>	<u>2009</u>	<u>Calendar Year</u>			<u>Annualized Calendar Year</u>		
	<u>Thru 4/30</u>		<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>1 Yr.</u>	<u>2 Yr.</u>	<u>3 Yr.</u>
BlackRock	5.08	35.90	-31.62	6.75	16.17	35.90	-3.60	-2.41
Benchmark	5.31	36.08	-32.01	6.65	16.22	36.08	-3.81	-2.52
Fidelity	5.09	23.75	-31.04	--	--	23.75	-7.62	--
Benchmark	5.27	24.04	-31.28	--	--	24.04	-7.67	--
SSgA	6.29	24.49	-30.94	7.77	14.68	24.29	-7.35	-2.56
Benchmark	6.36	23.86	-31.59	7.86	14.59	23.86	-7.95	-2.96
Vanguard	5.96	26.72	-32.91	7.49	--	26.72	-7.79	-2.95
Benchmark	6.09	27.01	-33.41	7.63	--	27.01	-8.03	-3.08
T. Rowe Price	6.55	34.93	--	--	--	34.93	--	--
Benchmark	6.21	27.44	--	--	--	27.44	--	--

<u>2020 Fund</u>	<u>YTD</u>	<u>2009</u>	<u>Calendar Year</u>			<u>Annualized Calendar Year</u>		
	<u>Thru 4/30</u>		<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>1 Yr.</u>	<u>2 Yr.</u>	<u>3 Yr.</u>
BlackRock	4.71	29.60	-25.60	7.00	14.01	29.60	-1.81	-0.66
Benchmark	4.90	29.86	-26.00	6.94	13.96	29.86	-1.97	-0.74
Fidelity	4.58	20.75	-25.58	--	--	20.75	-5.20	--
Benchmark	4.75	20.85	-25.67	--	--	20.85	-5.22	--
SSgA	5.77	20.16	-25.23	7.59	12.08	20.16	-5.22	-1.13
Benchmark	5.94	19.61	-26.06	7.71	11.97	19.61	-5.96	-1.61
Vanguard	5.41	23.10	-27.04	7.52	--	23.10	-5.23	-1.16
Benchmark	5.54	23.27	-27.52	7.54	--	23.27	-5.48	-1.32
T. Rowe Price	6.05	31.77	--	--	--	31.77	--	--
Benchmark	5.67	24.21	--	--	--	24.21	--	--

<b><u>2010 Fund</u></b>	<b><u>YTD</u></b>	<b><u>2009</u></b>	<b><u>Calendar Year</u></b>			<b><u>Annualized Calendar Year</u></b>		
	<b><u>Thru 4/30</u></b>		<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>1 Yr.</u></b>	<b><u>2 Yr.</u></b>	<b><u>3 Yr.</u></b>
BlackRock	4.15	20.60	-14.75	7.53	9.52	20.60	1.40	2.53
Benchmark	4.29	20.94	-15.00	7.32	9.54	20.94	1.39	2.43
Fidelity	3.85	17.50	-18.95	--	--	17.50	-2.41	--
Benchmark	4.12	17.19	-19.00	--	--	17.19	-2.57	--
SSgA	4.85	14.98	-16.75	6.93	8.50	14.98	-2.16	0.78
Benchmark	5.08	14.44	-17.61	7.20	8.30	14.44	-2.90	0.36
Vanguard	4.78	19.32	-20.67	7.70	--	19.32	-2.71	0.64
Benchmark	4.91	19.44	-21.05	7.78	--	19.44	-2.89	0.54
T. Rowe Price	5.33	27.60	--	--	--	27.60	--	--
Benchmark	4.83	19.63	--	--	--	19.63	--	--

Note: Returns for BlackRock Funds are gross of fees; returns for YTD and 2009 are for non-lendable funds; returns for all other periods are for lendable funds.

**MINNESOTA  
STATE  
BOARD OF  
INVESTMENT**



**Board Members:**

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Rebecca Otto

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Attorney General  
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**Executive Director:**

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DATE: September 13, 2010

TO: Members, Deferred Compensation Review Committee

FROM: Jim Heidelberg 

SUBJECT: **Review of Deferred Compensation Plan Investment Options**

In conjunction with the consideration of the addition of Target Date Funds to the state Deferred Compensation Plan (the Plan), staff suggests that the existing array of investment options be reviewed.

The current array of Plan options has a set of actively managed funds and a set of passively managed funds by specified asset class.

Asset Class	Active	Passive
Large Cap Equity	1) Janus Twenty 2) Legg Mason Appreciation I	Vanguard Inst'l Index (S&P 500)
Mid Cap Equity		Vanguard Mid-Cap Index
Small Cap Equity	T. Rowe Price Small Cap Stock	
Balanced	Dodge & Cox Balanced	Vanguard Balanced Index
Bond	Dodge & Cox Income	Vanguard Total Bond Market Index
International	Fidelity Diversified International	Vanguard Inst'l Developed Markets Index
Money Market	SIF Money Market	
Stable Value	SIF Fixed Interest	

An Equal Opportunity  
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Contributions and assets as of June 30, 2010 are shown by investment option in the following table. In general, the options with the most assets also receive the most contributions.

<b>Minnesota State Deferred Compensation Plan</b>		
<b>Unaudited Assets/Contributions</b>		
<b>6/30/2010</b>		
	<b>June Contributions</b>	<b>Assets</b>
SIF Fixed Interest Account	\$4,005,644.01	\$1,130,422,395.51
Janus Twenty Fund	\$2,393,461.62	\$368,039,709.69
Vanguard Inst'l Index Plus	\$1,873,773.16	\$350,146,328.86
T. Rowe Price Small-Cap Stock Fund	\$1,494,162.71	\$326,206,672.07
Dodge & Cox Balanced Fund	\$1,536,233.68	\$241,057,225.56
Fidelity Diversified International Fund	\$1,494,863.35	\$199,619,474.52
Vanguard Balanced Index Fund	\$835,388.69	\$159,945,654.32
Vanguard Mid Cap	\$1,484,563.42	\$152,795,415.21
Dodge & Cox Income Fund	\$740,479.72	\$136,221,846.65
Vanguard Total Bond Market Index	\$718,246.56	\$117,180,979.15
Legg Mason Partners Appreciation Fund	\$625,690.62	\$105,420,690.07
SIF Money Market Account	\$546,942.11	\$83,095,785.10
Vanguard Inst'l Developed Markets	\$673,920.39	\$73,121,475.43
Ameritrade SDB	N/A	\$32,764,000.33
<b>Total</b>	<b>\$18,423,370.04</b>	<b>\$3,476,037,652.47</b>

SBI staff and MSRS staff discussed the current investment options and made a number of observations:

- Janus Twenty is an extremely popular option with strong participant interest.
- A balanced option remains a viable offering because some participants will continue to choose a balanced option in constructing their investment portfolio.
- While the Fidelity Diversified International Fund is well received, participants have expressed interest in having some exposure to emerging markets.
- A broader domestic equity index fund may not be needed. The Vanguard Institutional Index Fund tracks the S & P 500 which covers 75 percent of the market and has a very low expense ratio of 0.025 percent.
- The Plan currently offers three large-cap domestic equity funds. Eliminating one may be appropriate.



- Having a money market option in addition to the stable value option (SIF Fixed Interest Account) is appropriate. Short term transfers that would otherwise involve the Money Market Account may disrupt the Fixed Interest investment manager's effective handling of the Fixed Interest Account.
- Active bond managers have enjoyed success in outperforming the broad domestic bond market.
- It is time to consider changing the strategy of the SIF Money Market Account. During the market crisis in the fall of 2007, the SBI responded to participant fears and changed the Money Market Account to the current very conservative strategy of investing entirely in US government Treasuries and agency securities. Staff addressed this issue and moved the assets of the Account to an SSgA managed money market fund used by other public plans.

Given these considerations, staff recommends the following:

- Retain Janus Twenty and Vanguard Institutional Index, and eliminate Legg Mason Appreciation I.
- Retain Vanguard Mid-Cap Index and T. Rowe Price Small Cap Stock as the two are the only offerings in their respective asset class.
- Retain the passively managed, low cost Vanguard Balanced Index as the balanced option and eliminate Dodge & Cox Balanced.
- Retain Dodge & Cox Income as the bond offering and eliminate Vanguard Total Bond Market Index.
- Retain Fidelity Diversified International and replace Vanguard Institutional Developed Markets with Vanguard FTSE All-World ex-U.S. Index which has an emerging markets component.
- Retain the SIF Money Market Account in the revised strategy.
- Retain the SIF Fixed Interest Account.

With these actions, the Plan's investment array would be:

<b>Asset Class</b>	<b>Option</b>
Large Cap Equity	1) Janus Twenty 2) Vanguard Institutional Index (S&P 500)
Mid Cap Equity	Vanguard Mid-Cap Index
Small Cap Equity	T. Rowe Price Small Cap Stock
Balanced	Vanguard Balanced Index
Bond	Dodge & Cox Income
International	1) <i>Vanguard FTSE All-World ex-U.S. Index</i> 2) Fidelity Diversified International
Money Market	<i>SIF Money Market</i>
Stable Value	SIF Fixed Interest
Target Date Funds*	Manager to be determined

\* If approved by Committee

**Timeline for Actions:**

Deferred Compensation Review Committee	September 20
IAC review; MSRS Board review	Mid-November
SBI Board meeting action	December 1
MSRS communications, recordkeeping changes	January-February 2011
New plan implementation	July 1, 2011

# **Tab E**

DATE: November 9, 2010

TO: Members, Investment Advisory Council

FROM: Jim Heidelberg

**SUBJECT: Assigned Risk Plan Asset Allocation**

### **Plan Administration**

The Minnesota Workers' Compensation Assigned Risk Plan (Plan) is a non-profit, tax-exempt entity administered by the Department of Commerce. The Plan provides disability income, medical expenses, retraining expenses and death benefits to high risk entities, with payments being made either periodically or in lump sum.

Affinity Insurance Services, Inc, Bloomington, Minnesota, a division of AON Insurance, is the Plan administrator retained by Commerce. Affinity handles the daily activities of the Plan, receiving premium payments from participating organizations, paying benefits and determining Plan liabilities through the preparation of annual actuarial reports.

By statute, the SBI invests the assets of the Plan. The SBI reviews the annual actuarial liability study which displays the payments that are estimated to be made from Plan assets over time. The SBI seeks to match Plan investment strategy with the estimated stream of liabilities. The SBI maintains an asset allocation for the Plan and periodically updates that allocation.

### **Investment Objectives**

The SBI recognizes that the Assigned Risk Plan has limited tolerance for risk due to erratic cash flows, no allowance for surplus, and generally, short duration liabilities. Therefore, it is appropriate to establish two investment objectives for the Plan:

- To minimize mismatch between assets and liabilities;
- To provide sufficient liquidity (cash) for payment of on-going claims and operating expenses

### ***Asset Allocation***

The SBI believes that due to the uncertainty of premium and liability cash flows, the Plan should be invested very conservatively.

The *fixed income* segment is invested to fund the shorter-term liabilities, and the common stock segment is invested to fund the longer-term liabilities. This structure creates a high fixed income allocation which minimizes the possibility of a future fund deficit. The smaller *equity* exposure provides higher expected returns and hedges some of the inflation risk associated with the liability stream.

The current long term asset allocation targets for the Plan are as follows:

Domestic Equities	20%
Domestic Fixed Income	80

The attached table from the Plan actuary displays the year-by-year liabilities estimated for the Plan. The liability payments continue to be heavily weighted in the first several years with a modest portion of estimated claims to be paid in later years. Due to changes in the workers compensation marketplace, the Plan administrator was forced to adopt a higher retention rate for considering liabilities. While there was a business change in the functioning of the Plan, there was no change in the investment constraints the Plan faces. Therefore, there is no compelling reason to change the investment objectives of the Plan. Further, the portion of liabilities in the first fifteen years has remained at about 80 percent. Given these considerations, staff concludes that the current allocation of 20 percent equities and 80 percent bonds be continued.

**RECOMMENDATION:**

**Staff recommends that the IAC affirm the allocation targets for the Assigned Risk Plan and recommend to the Board to make no changes to the current Plan allocation of 20% equities and 80% fixed income.**



# **Tab F**

DATE: November 9, 2010

TO: Members, Investment Advisory Council

FROM: **John Griebenow**  
**Michael McGirr**

Staff has reviewed the following information and action agenda items:

1. Review of current strategy.
2. New investments with four existing private equity managers, GTCR, CS Strategic Partners, Summit Partners, Vestar and one existing resource manager, Merit Energy Company.

**IAC action is required on the last item.**

**INFORMATION ITEMS:**

**1) Review of Current Strategy.**

To increase overall portfolio diversification, 20% of the Combined Funds are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments in which 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**).

- a. The real estate investment strategy is to establish and maintain 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.
- b. 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.



- c. 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.
- d. The strategy for yield-oriented investments will target funds that typically provide a current return and may have an equity component such as subordinated debt or mezzanine investments. Yield-oriented investments will provide diversification by including investments in the private equity, resource and real estate categories.

#### **ACTION ITEMS:**

##### **1) Investment with an existing private equity manager, GTCR, in GTCR Fund X.**

GTCR is seeking investors for a new \$3.0 billion private equity fund, GTCR Fund X. This fund is a successor to nine other private equity funds managed by GTCR. The SBI has invested in six other private equity funds with GTCR. Like the other private equity funds, this fund will seek to earn attractive returns through a portfolio of private equity investments.

In addition to reviewing the attractiveness of the GTCR Fund X investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for the fund.

More information on GTCR Fund X is included as **Attachment C**.

#### **RECOMMENDATION:**

**Staff recommends a commitment of \$100 million, or 20% of GTCR Fund X, whichever is less. Approval by the Investment Advisory Council of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by GTCR upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on GTCR or reduction or termination of the commitment.**

**2) Investment with an existing private equity manager, CS Strategic Partners, in CS Strategic Partners V.**

CS Strategic Partners is seeking investors for a new \$2.5 billion private equity fund. This fund is a successor to four other prior private equity funds managed by CS Strategic Partners. The SBI has invested in all of the prior four funds. Like the prior funds, the new fund will seek to earn attractive returns by focusing on investing in existing limited partnership interests purchased from limited partners desiring liquidity prior to the termination of those funds.

In addition to reviewing the attractiveness of the CS Strategic Partners V investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for fund V.

More information on CS Strategic Partners V is included as **Attachment D**.

**RECOMMENDATION:**

**Staff recommends a commitment of \$100 million, or 20% of CS Strategic Partners V, whichever is less. Approval by the Investment Advisory Council of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by CS Strategic Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on CS Strategic Partners or reduction or termination of the commitment.**

**3) Investment with an existing private equity manager, Summit Partners, in Summit Partners Growth Equity Fund VIII.**

Summit Partners is seeking investors for a new \$3 billion private equity fund. This fund is a successor to seven other private equity funds managed by Summit Partners. The SBI has invested in three of the seven other private equity funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

In addition to reviewing the attractiveness of the Summit Partners Growth Equity Fund VIII investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for fund VIII.

More information on Summit Partners Growth Equity Fund VIII is included as **Attachment E**.

**RECOMMENDATION:**

**Staff recommends a commitment of \$100 million, or 20% of Summit Partners Growth Equity Fund VIII, whichever is less. Approval by the Investment Advisory Council of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Summit Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Summit Partners or reduction or termination of the commitment.**

**4) Investment with an existing private equity manager, Vestar Capital Partners, in Vestar Capital Partners VI, LP.**

Vestar Capital Partners is seeking investors for a new \$3.5 billion private equity fund. This fund is a successor to five other private equity funds managed by Vestar Capital Partners. The SBI is invested in the two latest prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

In addition to reviewing the attractiveness of the Vestar Capital Partners VI, L.P. investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for fund VI.

More information on Vestar Capital Partners VI, L.P is included as **Attachment F**.

**RECOMMENDATION:**

**Staff recommends a commitment of \$100 million, or 20% of Vestar Capital Partners VI, L.P, whichever is less. Approval by the Investment Advisory Council of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Vestar Capital Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the**

**imposition of additional terms and conditions on Vestar Capital Partners or reduction or termination of the commitment.**

**5) Investment with an existing resource manager, Merit Energy Company, in Merit Energy Partners H.**

Merit Energy Company is seeking investors for a new \$750 million resource fund, Merit Energy Partners H. This fund is a successor to nineteen other resource funds managed by Merit. The SBI has invested in the five latest prior resource funds with Merit Energy Company. Like the other resource funds, this fund will seek to earn attractive returns through a portfolio of resource oil and gas investments.

In addition to reviewing the attractiveness of the Merit Energy Partners H investment offering, staff has conducted reference checks, a literature database search and reviewed the potential investor base for the fund.

More information on Merit Energy Partners H is included as **Attachment G**.

**RECOMMENDATION:**

**Staff recommends a commitment of \$100 million, or 20% of Merit Energy Partners H, whichever is less. Approval by the Investment Advisory Council of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the Investment Advisory Council, the State Board of Investment nor its Executive Director have any liability for reliance by Merit Energy Company upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Merit Energy Company or reduction or termination of the commitment.**

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ATTACHMENT A

**Minnesota State Board of Investment**  
*Pooled Alternative Investments*  
*Combined Funds*  
*September 30, 2010*

Combined Funds Market Value	\$43,379,215,230
Amount Available for Investment	\$2,433,883,908

	Current Level	Target Level	Difference
Market Value (MV)	\$6,241,959,138	\$8,675,843,046	\$2,433,883,908
MV +Unfunded	\$9,335,010,486	\$13,013,764,569	\$3,678,754,083

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	\$3,726,657,837	\$1,680,633,705	\$5,407,291,543
Real Estate	\$870,284,038	\$205,342,148	\$1,075,626,187
Resource	\$573,438,253	\$585,730,226	\$1,159,168,479
Yield-Oriented	\$1,071,579,009	\$621,345,268	\$1,692,924,277
<b>Total</b>	\$6,241,959,138	\$3,093,051,348	\$9,335,010,486



# ATTACHMENT B

Minnesota State Board of Investment  
- Alternative Investments -  
As of September 30, 2010

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	MOIC**	Period Years
<b>I. Real Estate</b>								
<b>Blackstone</b>								
Blackstone Real Estate V	100,000,000	86,444,362	62,192,165	23,165,945	13,555,638	-1.66	0.99	4.42
Blackstone Real Estate VI	100,000,000	52,542,537	42,753,915	46,623	47,457,463	-10.87	0.81	3.50
<b>Colony Capital</b>								
Colony Investors III	100,000,000	100,000,000	5,156,000	167,834,385	0	14.70	1.73	12.75
<b>CSFB</b>								
CSFB Strategic Partners III RE	25,000,000	24,791,647	10,328,735	568,588	208,353	-29.72	0.44	5.25
CS Strategic Partners IV RE	50,000,000	43,868,930	26,252,547	1,606,425	6,131,070	-22.35	0.64	2.29
<b>Lehman Brothers Real Estate Partners</b>								
Lehman Brothers Real Estate Pension Partners II	75,000,000	70,256,048	37,523,731	22,008,951	4,743,952	-6.44	0.85	5.25
Lehman Brothers Real Estate Partners III	150,000,000	61,754,328	28,453,777	0	88,245,672	-32.01	0.46	2.36
<b>Prime Property Fund</b>	40,000,000	40,000,000	193,670,914	0	0	5.59	4.84	28.97
<b>T.A. Associates Realty</b>								
Realty Associates Fund V	50,000,000	50,000,000	16,889,936	78,192,912	0	10.91	1.90	11.35
Realty Associates Fund VI	50,000,000	50,000,000	38,178,184	41,605,698	0	12.00	1.60	8.26
Realty Associates Fund VII	75,000,000	75,000,000	52,347,786	19,271,918	0	-1.28	0.95	5.87
Realty Associates Fund VIII	100,000,000	100,000,000	65,974,000	4,705,191	0	-12.47	0.71	4.25
Realty Associates Fund IX	100,000,000	55,000,000	53,240,495	29,534	45,000,000	-5.03	0.97	2.10
<b>UBS Trumbull Property Fund</b>	42,376,529	42,376,529	237,319,854	0	0	6.69	5.60	28.42
<b>Real Estate Total</b>	<b>1,057,376,529</b>	<b>852,034,381</b>	<b>870,284,038</b>	<b>359,036,170</b>	<b>205,342,148</b>		<b>1.44</b>	
<b>II. Resource</b>								
Apache Corp III	30,000,000	30,000,000	3,433,020	55,014,732	0	12.15	1.95	23.75
EnCap Energy Capital Fund VII	100,000,000	52,449,568	49,156,821	7,037,230	47,550,432	5.14	1.07	3.25
Energy Capital Partners II-A	100,000,000	25,377,466	21,507,924	3,955,190	74,622,534	-1.12	1.00	0.20
<b>First Reserve</b>								
First Reserve Fund VIII	100,000,000	100,000,000	662,003	203,073,861	0	15.85	2.04	12.42
First Reserve Fund IX	100,000,000	100,000,000	338,000	299,809,372	0	48.13	3.00	9.48
First Reserve Fund X	100,000,000	100,000,000	59,513,125	122,963,396	0	36.69	1.82	5.91
First Reserve Fund XI	150,000,000	118,926,553	99,308,220	8,058,765	31,073,447	-4.10	0.90	3.77
First Reserve Fund XII	150,000,000	65,148,683	39,280,729	5,794,571	84,851,317	-23.68	0.69	1.92
<b>NGP</b>								
NGP Midstream & Resources	100,000,000	67,049,882	58,043,377	24,426,686	32,950,118	11.01	1.23	3.50
Natural Gas Partners IX	150,000,000	72,386,201	70,832,993	3,357,514	77,613,799	2.11	1.02	2.94
<b>Sheridan</b>								
Sheridan Production Partners I	100,000,000	81,002,260	95,730,998	10,750,000	18,997,740	16.10	1.31	3.50
Sheridan Production Partners II	100,000,000	0	0	0	100,000,000	N/A	N/A	0.00
<b>T. Rowe Price</b>	71,002,692	71,002,692	0	97,346,757	0	28.11	1.37	N/A
<b>Trust Company of the West</b>								
TCW Energy Partners XIV	100,000,000	75,857,911	65,881,043	30,313,924	24,142,089	14.59	1.27	3.45
TCW Energy Partners XV	150,000,000	9,750,000	9,750,000	0	93,928,750	0.00	1.00	0.31
<b>Resource Total</b>	<b>1,601,002,692</b>	<b>968,951,216</b>	<b>573,438,253</b>	<b>871,901,997</b>	<b>585,730,226</b>		<b>1.49</b>	
<b>III. Yield-Oriented</b>								
Audax Mezzanine Fund III	100,000,000	0	0	0	100,000,000	N/A	N/A	0.49
Carbon Capital	46,184,308	46,184,308	7,625	61,178,042	0	15.38	1.32	8.38
<b>Citicorp Mezzanine</b>								
Citicorp Mezzanine I	40,000,000	40,000,000	115,818	61,049,740	0	11.50	1.53	15.75
Citicorp Mezzanine III	100,000,000	88,029,296	6,816,960	124,585,857	0	15.44	1.49	10.91
<b>DLJ Investment Partners</b>								
DLJ Investment Partners II	27,375,168	23,164,217	1,127,656	33,726,419	4,210,951	10.39	1.50	10.75
DLJ Investment Partners III	100,000,000	31,395,983	17,521,551	7,956,428	68,604,017	-14.57	0.81	4.27
<b>Gold Hill Venture Lending</b>								
Gold Hill Venture Lending	40,000,000	40,000,000	26,073,598	25,667,204	0	7.52	1.29	6.01
Gold Hill 2008	25,852,584	11,375,137	12,123,519	0	14,477,447	6.35	1.07	2.25
<b>GS Mezzanine Partners</b>								
GS Mezzanine Partners II	100,000,000	100,000,000	14,281,372	116,561,398	0	7.02	1.31	10.58
GS Mezzanine Partners III	75,000,000	75,000,000	29,015,219	61,227,636	0	6.75	1.20	7.22
GS Mezzanine Partners 2006 Institutional	100,000,000	73,999,888	56,265,242	19,747,828	26,000,112	0.48	1.03	4.48
GS Mezzanine Partners V	150,000,000	58,483,987	57,035,748	10,914,357	91,516,013	6.86	1.16	2.94
<b>GTCR Capital Partners</b>	80,000,000	69,589,422	352,360	106,814,249	10,410,578	10.82	1.54	10.88
<b>Merit Capital Partners (fka William Blair)</b>								
William Blair Mezzan. Cap. Fd. III	60,000,000	56,958,000	10,839,708	93,221,052	3,042,000	15.03	1.83	10.75
Merit Mezzanine Fund IV	75,000,000	68,406,593	62,980,492	15,531,156	6,593,407	5.02	1.15	5.79
Merit Mezzanine Fund V	75,000,000	4,408,163	4,408,163	0	70,591,837	0.00	1.00	0.78
<b>Merit Energy Partners</b>								
Merit Energy Partners B	24,000,000	24,000,000	58,347,884	102,602,862	0	24.89	6.71	14.25
Merit Energy Partners C	50,000,000	50,000,000	169,891,726	218,083,933	0	31.98	7.76	11.92
Merit Energy Partners D	88,000,000	70,938,303	144,240,695	156,651,826	0	25.26	4.24	9.35
Merit Energy Partners E	100,000,000	39,983,197	60,127,670	27,496,821	0	17.53	2.19	5.96
Merit Energy Partners F	100,000,000	51,633,900	46,573,717	3,327,931	48,366,100	-0.53	0.97	4.52



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<b>Prudential Capital Partners</b>								
<i>Prudential Capital Partners I</i>	100,000,000	96,957,404	32,628,584	110,590,738	3,042,596	11.34	1.48	9.45
<i>Prudential Capital Partners II</i>	100,000,000	92,911,944	78,599,287	37,544,846	7,088,056	8.40	1.25	5.25
<i>Prudential Capital Partners III</i>	100,000,000	39,096,996	36,048,763	4,612,063	60,903,004	5.83	1.04	1.46
<b>Quadrant Real Estate Advisors</b>								
<i>Institutional Commercial Mortgage Fd V</i>	37,200,000	37,200,000	10,123,547	49,995,334	0	8.10	1.62	11.16
<b>Summit Partners</b>								
<i>Summit Subordinated Debt Fund I</i>	20,000,000	18,000,000	81,479	31,406,578	2,000,000	30.55	1.75	16.50
<i>Summit Subordinated Debt Fund II</i>	45,000,000	40,500,000	3,257,566	84,344,930	4,500,000	56.28	2.16	13.16
<i>Summit Subordinated Debt Fund III</i>	45,000,000	42,690,965	28,235,448	21,253,196	2,309,035	8.15	1.16	6.62
<i>Summit Subordinated Debt Fund IV</i>	50,000,000	5,750,000	5,751,760	0	44,250,000	0.04	1.00	2.51
<b>T. Rowe Price</b>	55,800,931	55,800,931	395,600	54,744,943	0	-3.93	0.99	N/A
<b>TCW/Crescent Mezzanine</b>								
<i>TCW/Crescent Mezzanine Partners III</i>	75,000,000	68,835,264	10,405,173	145,419,046	6,164,736	36.20	2.26	9.50
<b>Windjammer Capital Investors</b>								
<i>Windjammer Mezzanine &amp; Equity Fund II</i>	66,708,861	52,008,253	33,900,280	43,420,822	14,700,608	8.90	1.49	10.50
<i>Windjammer Senior Equity Fund III</i>	75,000,000	42,425,228	54,004,801	4,936,824	32,574,772	13.43	1.39	4.74
<b>Yield-Oriented Total</b>	2,326,121,852	1,615,727,380	1,071,579,009	1,834,614,061	621,345,268		1.80	
<b>IV. Private Equity</b>								
<b>Adams Street Partners</b>								
<i>Adams Street VPAF Fund I</i>	3,800,000	3,800,000	41,880	9,440,295	0	13.22	2.50	22.39
<i>Adams Street VPAF Fund II</i>	20,000,000	20,000,000	54,629	37,988,511	0	24.09	1.90	19.84
<b>Advent International GPE VI-A</b>	50,000,000	17,375,000	16,419,687	1,000,000	32,625,000	0.21	1.00	2.50
<b>Affinity Ventures</b>								
<i>Affinity Ventures IV</i>	4,000,000	3,031,847	1,446,115	762,818	968,153	-13.34	0.73	6.25
<i>Affinity Ventures V</i>	5,000,000	2,700,000	2,341,945	115,993	2,300,000	-8.28	0.91	2.24
<b>Banc Fund</b>								
<i>Banc Fund VII</i>	45,000,000	45,000,000	23,232,600	812,725	0	-16.45	0.53	5.50
<i>Banc Fund VIII</i>	98,250,000	20,632,500	20,622,266	0	77,617,500	-0.06	1.00	2.43
<b>Blackstone</b>								
<i>Blackstone Capital Partners II</i>	47,271,190	47,271,190	4,374,823	95,590,212	0	34.05	2.11	16.85
<i>Blackstone Capital Partners IV</i>	70,000,000	68,861,959	48,207,917	106,486,659	1,138,041	39.83	2.25	8.22
<i>Blackstone Capital Partners V</i>	140,000,000	120,335,993	109,312,006	6,767,541	19,664,007	-2.16	0.96	4.66
<i>Blackstone Capital Partners VI</i>	100,000,000	0	0	0	100,000,000	N/A	N/A	2.18
<b>BLUM Capital Partners</b>								
<i>Blum Strategic Partners I</i>	50,000,000	49,158,307	468,687	99,450,576	841,693	12.74	2.03	11.77
<i>Blum Strategic Partners II</i>	50,000,000	40,185,889	10,866,203	73,919,825	9,814,111	22.51	2.11	9.20
<i>Blum Strategic Partners III</i>	75,000,000	74,528,936	30,057,521	53,547,757	471,064	2.59	1.12	5.33
<i>Blum Strategic Partners IV</i>	150,000,000	137,030,203	102,234,327	17,202,045	12,969,797	-6.13	0.87	2.86
<b>Carval Investors</b>								
<i>CVI Global Value Fund</i>	200,000,000	190,000,000	209,131,698	2,087,004	10,000,000	4.18	1.11	3.72
<i>CarVal Credit Value Fund I</i>	100,000,000	0	0	0	100,000,000	N/A	N/A	0.00
<b>Chicago Growth Partners (William Blair)</b>								
<i>William Blair Capital Partners VII</i>	50,000,000	48,150,000	10,138,893	61,526,834	1,850,000	9.85	1.49	9.56
<i>Chicago Growth Partners I</i>	50,000,000	49,291,998	40,222,673	15,789,143	708,002	5.56	1.14	5.18
<i>Chicago Growth Partners II</i>	60,000,000	19,148,569	18,992,432	0	40,851,431	-1.64	0.99	2.55
<b>Coral Partners</b>								
<i>Coral Partners IV</i>	15,000,000	15,000,000	910,965	13,538,879	0	-0.90	0.96	16.19
<i>Coral Partners V</i>	15,000,000	15,000,000	1,120,836	7,854,144	0	-6.21	0.60	12.29
<b>Court Square Capital</b>								
<i>Court Square Capital Partners</i>	100,000,000	80,180,544	33,937,768	130,730,342	19,819,456	28.50	2.05	8.80
<i>Court Square Capital Partners II</i>	175,000,000	94,588,983	90,253,864	2,188,769	80,411,017	-0.95	0.98	4.07
<b>Crescendo</b>								
<i>Crescendo III</i>	25,000,000	25,000,000	1,406,301	9,321,908	0	-17.15	0.43	11.90
<i>Crescendo IV</i>	101,500,000	101,500,000	32,433,692	5,627,888	0	-11.95	0.37	10.56
<b>CSFB/ DLJ</b>								
<i>DLJ Merchant Banking Partners III</i>	125,000,000	120,688,297	63,450,762	181,696,502	4,311,703	18.43	2.03	10.00
<i>DLJ Strategic Partners</i>	100,000,000	93,424,448	17,729,695	151,105,354	6,575,552	22.81	1.81	9.69
<i>CSFB Strategic Partners II-B</i>	100,000,000	82,977,907	36,727,547	121,515,485	11,222,093	36.70	1.91	7.20
<i>CSFB Strategic Partners III-B</i>	100,000,000	77,302,886	83,466,194	3,353,924	22,697,114	3.65	1.12	5.33
<i>CSFB Strategic Partners III VC</i>	25,000,000	22,613,198	16,419,166	10,207,311	2,386,802	5.79	1.18	5.33
<i>CS Strategic Partners IV-B</i>	100,000,000	63,177,522	72,428,946	6,102,714	36,822,478	14.64	1.24	2.51
<i>CS Strategic Partners IV VC</i>	40,500,000	24,157,447	24,997,459	1,602,010	16,342,553	5.36	1.10	2.29
<b>CVC European Equity Partners V</b>	136,520,076	53,980,221	57,107,790	4,674,707	82,539,855	12.68	1.14	2.51
<b>Diamond Castle Partners IV</b>	100,000,000	78,998,525	59,468,919	14,160,164	21,001,475	-3.30	0.93	4.06
<b>DSV Partners IV</b>	10,000,000	10,000,000	32,623	39,196,082	0	10.61	3.92	25.47
<b>EBF and Associates</b>								
<i>EBF Merced Partners II</i>	75,000,000	63,768,881	53,401,037	48,717,919	11,231,120	23.67	1.60	3.50
<i>EBF Merced Partners III</i>	100,000,000	9,875,000	9,692,915	0	90,125,000	-4.31	0.98	0.40
<b>Elevation Partners</b>	75,000,000	64,942,384	26,556,193	33,830,659	10,057,616	-4.12	0.93	5.37
<b>Fox Paine Capital Fund</b>								
<i>Fox Paine Capital Fund II</i>	50,000,000	45,408,133	20,569,059	45,397,941	4,591,867	16.60	1.45	10.25
<b>GHJM Marathon Fund</b>								
<i>GHJM Marathon Fund IV</i>	40,000,000	39,051,000	6,512,304	53,984,488	949,000	9.33	1.55	11.46
<i>GHJM Marathon Fund V</i>	50,000,000	48,385,516	50,777,638	16,895,392	1,614,484	10.99	1.40	6.00

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<b>Golder, Thoma, Cressey, Rauner</b>								
<i>Golder, Thoma, Cressey &amp; Rauner Fund IV</i>	20,000,000	20,000,000	196,312	42,160,456	0	25.01	2.12	16.66
<i>Golder, Thoma, Cressey &amp; Rauner Fund V</i>	30,000,000	30,000,000	721,726	53,955,241	0	11.01	1.82	14.25
<b>GS Capital Partners</b>								
<i>GS Capital Partners 2000</i>	50,000,000	50,000,000	21,202,940	85,763,981	0	22.95	2.14	10.08
<i>GS Capital Partners V</i>	100,000,000	66,390,364	83,016,028	42,669,888	33,609,636	16.34	1.89	5.50
<i>GS Capital Partners VI</i>	100,000,000	45,666,994	29,836,413	6,502,326	54,333,006	-11.49	0.80	3.66
<b>GTCR Golder Rauner</b>								
<i>GTCR VI</i>	90,000,000	90,000,000	5,337,029	75,082,762	0	-3.93	0.89	12.25
<i>GTCR VII</i>	175,000,000	159,249,989	894,599	387,322,726	15,750,011	25.31	2.44	10.64
<i>GTCR IX</i>	75,000,000	58,006,890	48,404,379	4,741,730	16,993,110	-7.10	0.92	4.25
<b>Hellman &amp; Friedman</b>								
<i>Hellman &amp; Friedman Capital Partners IV</i>	150,000,000	133,967,494	20,667,993	353,483,051	16,032,506	34.71	2.79	10.75
<i>Hellman &amp; Friedman Capital Partners V</i>	160,000,000	143,898,561	134,672,763	171,793,153	16,101,439	28.49	2.13	5.83
<i>Hellman &amp; Friedman Capital Partners VI</i>	175,000,000	131,368,715	141,541,563	8,131,682	43,631,285	5.55	1.14	3.50
<i>Hellman &amp; Friedman Capital Partners VII</i>	50,000,000	0	0	0	50,000,000	N/A	N/A	1.45
<b>Kohlberg Kravis Roberts</b>								
<i>KKR 1987 Fund</i>	145,373,652	145,373,652	1,239,073	396,121,354	0	8.71	2.73	22.85
<i>KKR 1993 Fund</i>	150,000,000	150,000,000	493,271	308,173,269	0	16.74	2.06	16.78
<i>KKR 1996 Fund</i>	200,000,000	200,000,000	20,961,968	345,523,451	0	12.98	1.83	14.08
<i>KKR Millennium Fund</i>	200,000,000	200,000,000	174,089,877	175,183,883	0	18.08	1.75	7.81
<i>KKR 2006 Fund</i>	200,000,000	162,862,198	147,365,477	28,354,030	37,137,802	1.81	1.08	4.01
<b>Lexington Capital Partners</b>								
<i>Lexington Capital Partners VI-B</i>	100,000,000	89,559,174	65,699,830	23,491,363	10,440,826	-0.20	1.00	4.76
<i>Lexington Capital Partners VII</i>	100,000,000	23,293,038	22,286,872	3,191	76,706,962	-32.05	0.96	1.30
<b>RWI Ventures</b>								
<i>RWI Group III</i>	616,430	616,430	121,861	330,192	0	-14.44	0.73	4.25
<i>RWI Ventures I</i>	7,603,265	7,603,265	1,507,832	4,025,809	0	-14.34	0.73	4.25
<b>Sightline Healthcare</b>								
<i>Sightline Healthcare Fund II</i>	10,000,000	10,000,000	1,240,114	4,883,002	0	-6.77	0.61	13.58
<i>Sightline Healthcare Fund III</i>	20,000,000	20,000,000	4,600,888	3,620,472	0	-11.38	0.41	11.69
<i>Sightline Healthcare Fund IV</i>	7,700,000	7,521,061	2,449,566	4,008,034	178,939	-5.16	0.86	7.01
<b>Silver Lake Partners</b>								
<i>Silver Lake Partners II</i>	100,000,000	88,740,757	80,851,509	35,564,846	11,259,243	7.61	1.31	6.25
<i>Silver Lake Partners III</i>	100,000,000	56,363,240	56,963,484	984,960	43,636,760	1.83	1.03	3.50
<b>Split Rock Partners</b>								
<i>Split Rock Partners</i>	50,000,000	35,872,728	29,624,152	428,377	14,127,272	-6.30	0.84	5.42
<i>Split Rock Partners II</i>	60,000,000	10,580,000	8,425,753	0	49,420,000	-22.82	0.80	2.42
<b>Summit Partners</b>								
<i>Summit Ventures II</i>	30,000,000	28,500,000	165,543	74,524,292	1,500,000	28.82	2.62	22.38
<i>Summit Ventures V</i>	25,000,000	24,125,000	564,798	32,460,571	875,000	7.99	1.37	12.50
<b>T. Rowe Price</b>	850,990,249	850,990,249	40,132,595	865,595,233	0	7.61	1.06	N/A
<b>Thoma Cressey</b>								
<i>Thoma Cressey Fund VI</i>	35,000,000	33,915,000	4,386,859	26,221,225	1,085,000	-1.31	0.90	12.11
<i>Thoma Cressey Fund VII</i>	50,000,000	50,000,000	22,562,345	61,861,701	0	22.29	1.69	10.10
<i>Thoma Cressey Fund VIII</i>	70,000,000	68,932,574	89,090,595	0	1,067,426	8.13	1.29	4.42
<b>Thomas, McNerney &amp; Partners</b>								
<i>Thomas, McNerney &amp; Partners I</i>	30,000,000	27,225,000	18,902,150	10,504,694	2,775,000	2.26	1.08	7.90
<i>Thomas, McNerney &amp; Partners II</i>	50,000,000	27,375,000	20,991,392	2,773,057	22,625,000	-6.80	0.87	4.25
<b>Varde Fund</b>								
<i>Varde Fund IX</i>	100,000,000	100,000,000	134,717,900	0	0	16.29	1.35	2.27
<i>Varde Fund X</i>	150,000,000	52,500,000	53,518,868	0	97,500,000	2.70	1.02	0.44
<b>Vestar Capital Partners</b>								
<i>Vestar Capital Partners IV</i>	55,000,000	52,484,054	27,238,842	63,549,804	2,515,946	14.22	1.73	10.79
<i>Vestar Capital Partners V</i>	75,000,000	64,138,353	70,718,545	5,321,047	10,861,647	6.29	1.19	4.78
<b>Warburg Pincus</b>								
<i>Warburg, Pincus Ventures</i>	50,000,000	50,000,000	429,198	255,993,050	0	49.21	5.13	15.75
<i>Warburg Pincus Equity Partners</i>	100,000,000	100,000,000	8,161,030	145,398,690	0	9.38	1.54	12.26
<i>Warburg Pincus Private Equity VIII</i>	100,000,000	100,000,000	82,914,061	99,973,682	0	14.56	1.83	8.46
<i>Warburg Pincus Private Equity IX</i>	100,000,000	100,000,000	96,656,249	22,303,950	0	5.11	1.19	5.18
<i>Warburg Pincus Private Equity X</i>	150,000,000	87,435,914	76,307,256	502,077	62,564,086	-7.74	0.88	2.93
<b>Wayzata</b>								
<i>Wayzata Opportunities Fund I</i>	100,000,000	92,300,000	141,220,477	339,109	7,700,000	10.33	1.53	4.78
<i>Wayzata Opportunities Fund II</i>	150,000,000	92,250,000	136,139,783	429,900	57,750,000	14.50	1.48	2.94
<b>Welsh, Carson, Anderson &amp; Stowe</b>								
<i>Welsh, Carson, Anderson &amp; Stowe VIII</i>	100,000,000	100,000,000	22,493,444	95,275,445	0	2.08	1.18	12.19
<i>Welsh, Carson, Anderson &amp; Stowe IX</i>	125,000,000	120,000,000	56,768,163	132,385,489	5,000,000	11.40	1.58	10.26
<i>Welsh, Carson, Anderson &amp; Stowe X</i>	100,000,000	87,578,466	84,206,840	4,462,642	12,421,534	0.37	1.01	4.79
<i>Welsh, Carson, Anderson &amp; Stowe XI</i>	100,000,000	29,483,714	26,353,399	0	70,516,286	-26.25	0.89	2.19
<b>Zell/Chilmark Fund</b>	30,000,000	30,000,000	36,259	77,129,496	0	17.71	2.57	20.22
<b>Private Equity Total</b>	8,379,124,862	6,692,691,157	3,726,657,837	6,023,498,902	1,680,633,705		1.46	
<b>Alternatives Total</b>	13,363,625,935	10,129,404,134	6,241,959,138	9,089,051,131	3,093,051,348		1.51	

\* 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.

\*\* MOIC: Multiple of Invested Capital



<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	GTCR Fund X
<b>Type of Fund:</b>	Private Equity Limited Partnership
<b>Total Fund Size:</b>	\$3 billion
<b>Fund Manager:</b>	GTCR LLC
<b>Manager Contact:</b>	David Donnini GTCR 300 N. LaSalle Street, Suite 5600 Chicago Ill. 60654 P: 312-382-2200

**II. Organization and Staff**

Founded in 1980, GTCR LLC (together with its affiliated management entities, collectively, "GTCR" or the "Firm") is a leading growth-oriented private equity firm. Since its inception, GTCR has managed nine private equity funds (the "Funds") through which it has invested approximately \$7.7 billion of equity capital. GTCR operates out of a single office in Chicago.

GTCR has a staff of approximately 80 employees, roughly half of whom are investment professionals and the remainder of whom are administrative professionals and support staff. All significant Firm governance, policy, and economic issues are determined by a subset of GTCR's Principals (i.e., the "Governing Principals"), while investment decisions require the approval of a majority of the 8 Principals on the Investment Committee (the "Investment Committee"), who have 129 years of collective private equity experience, 116 of them at GTCR.

**III. Investment Strategy**

During its 30-year history, GTCR has developed what it considers to be a differentiated private equity strategy through which the Firm seeks to utilize significant resources to create unique acquisition opportunities and to improve the revenue growth, profitability, and strategic value of its investments. GTCR's differentiated, value-added approach to private equity investing has several core tenets: 1. Focus on specific growth sectors of the North American economy; 2. Partnering with world-class management leaders; and 3. Emphasis on opportunities to transform businesses.

The Firm generally executes this strategy as the only participating private equity investor in its leveraged acquisitions of control positions in mature, cash-flowing companies. GTCR believes its strategy mitigates the extent to which the Firm competes directly with other private equity

firms. GTCR's execution of this strategy has historically created top quartile returns driven primarily by EBITDA growth and multiple expansion in its investments.

### Sector Focus

The first core tenet of GTCR's investment strategy is to focus primarily on specific growth sectors of the North American economy. In these sectors, GTCR believes it has developed proprietary advantages through the creation of both deep knowledge and extensive networks of relationships. The Firm generally invests in four core sectors: 1. Healthcare; 2. Information Services and Technology; 3. Financial Services and Technology; and 4. Growth Business Services. The Firm organizes its teams around the first three of these sectors. Its Growth Business Services opportunities usually share attributes with one or both of the technology-related sectors and are staffed accordingly.

### Partnering With World-Class Management Leaders

GTCR considers itself the pioneer of identifying, recruiting, and partnering with exceptional management leaders to acquire attractive companies in their specific areas of experience. The Firm devotes considerable time to the process of identifying, establishing relationships, and ultimately partnering with such leaders.

Since the start of 2000, 62% of GTCR's invested capital has funded companies where GTCR added a new CEO at the closing of the initial acquisition. More than a third of the remaining capital has been invested in companies where GTCR added senior leaders to other critical functions such as CFO, COO, or a lead sales position. GTCR management leaders are recruited and selected for their extensive experience in the same industry as the company in which GTCR and they are investing.

### Emphasis on Opportunities to Transform Businesses

The third and final core tenet of GTCR's investment strategy is its pursuit and execution of substantially transformational investments. GTCR seeks investments with material opportunity for: 1. Strategic transformation through multiple acquisitions within an investment platform; 2. Strategic transformation through corporate carve-outs; and 3. Operational transformation through substantial performance improvement.

Because GTCR seeks, and is many times successful in driving, operational and strategic transformations in its investments, it very rarely sells the same company that it purchases. Instead, the Firm seeks to create companies with fundamentally different—and enhanced—strategic positioning and operating performance.

GTCR has been an industry outperformer though out its thirty year history, as illustrated by returns that exceed the top quartile benchmark in five of its last six fully invested funds. During these thirty years the firm has consistently executed a differentiated and value-added private equity strategy well suited to the current economic and market environment. GTCR's "leaders strategy" enables the firm to identify, recruit and partner with top executive talent. With these management partners GTCR acquires growth businesses and transforms them through operational improvements and strategic repositioning. This value-added approach leads to value

creation independent of the economy and broader market. GTCR believes its unique approach to private equity investing will continue to generate top-quartile returns for its investors throughout Fund X.

#### IV. Investment Performance

The historical investment performance of GTCR as of March 31, 2010 is presented below:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception*	Net MOIC from Inception *
Equity Fund I	1980	\$60 million	0	31%	11.7x
Equity Fund II	1984	\$100 million	0	18%	3.7x
Equity Fund III	1987	\$235 million	\$14 million	31%	5.6x
Equity Fund IV	1994	\$312 million	\$20 million	26%	2.1x
Equity Fund V	1996	\$521 million	\$30 million	11%	1.8x
Equity Fund VI	1998	\$870 million	\$90 million	-3%	0.9x
Equity Fund VII	2000	\$2,000 million	\$175 million	26%	2.4x
Equity Fund VIII	2003	\$1,837 million	0	29%	1.8x
Equity Fund IX	2006	\$2,750 million	\$75 million	-10%	0.9x
Mezzanine fund	1999	\$450 million	\$80 million	11%	1.5x

\* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by GTCR.

#### V. General Partner's Investment

The General Partner, together with its partners and affiliates, in aggregate will commit to the Partnership an amount equal to at least 2% of the aggregate unaffiliated limited partner Commitments.

#### VI. Takedown Schedule

Commitments are expected to be drawn as needed, with not less than 10 days' prior written notice.

#### VII. Management Fee

The Partnership will, commencing on the Effective Date, pay the Management Company (or if it so designates, the General Partner) an annual management fee (the "Management Fee"), payable quarterly in advance, equal to 1.5% of aggregate Commitments during the first through the sixth years after the Effective Date; during the seventh year after the Effective Date, decreasing to 90% of the amount in effect during the sixth year after the Effective Date; during the eighth year after the Effective Date, decreasing to 85% of the amount in effect during the seventh year after the Effective Date; during the ninth year after the Effective Date, decreasing to 80% of the

amount in effect during the eighth year after the Effective Date; and during the tenth year after the Effective Date, decreasing to 75% of the amount in effect during the ninth year after the Effective Date. During the eleventh year after the Effective Date (if any) and each succeeding year thereafter until the Partnership is terminated, the Management Fee will equal an amount based on 0.75% of the aggregate amount of the Partnership's capital invested in portfolio companies, but not to exceed the amount payable in the tenth year.

The Management Fee will be reduced by 100% of any (i) director's fees, financial consulting fees or advisory fees received by the General Partner from portfolio companies and (ii) transaction fees and break-up fees from transactions not completed which are paid to the General Partner.

### ***VIII. Distributions***

Net proceeds attributable to the disposition of investments in portfolio companies, as well as distributions of securities in kind, together with any dividends or interest income received with respect to investments in portfolio companies that are not re-invested in portfolio companies, will be distributed in the following order of priority:

(a) first, 100% to all Partners in proportion to Commitments until the cumulative amount distributed in respect of investments then and previously disposed of equals the aggregate of the funded Commitments attributable to all realized investments plus the amount of permanent write-down, if any, with respect to each unrealized investment permanently written down as of that time; and the funded Commitments attributable to all organizational expenses, Management Fees and other expenses paid to date and allocated to realized investments and unrealized investments permanently written down as of that time; and

(b) thereafter, 80% to all Partners in proportion to Commitments and 20% to the General Partner.

### ***IX. Investment Period and Term***

Generally, the investment period will be six years.

Unless dissolved earlier pursuant to the terms of the Partnership Agreements, the Partnership will be dissolved on the tenth anniversary of the Effective Date, but may be extended for up to a maximum of three consecutive one-year periods at the discretion of the General Partner if the Partnership holds non-marketable securities, so long as Limited Partners holding a majority of the Limited Partner interests do not oppose any such extension.

*\* This document is a summary of more detailed information provided in the Confidential Private Placement Memorandum (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

**I. Background Data**

<b>Name of Fund:</b>	CS Strategic Partners V (SP V or "The Fund")
<b>Type of Fund:</b>	Private Equity Limited Partnership
<b>Total Fund Size:</b>	\$2.5 billion
<b>Fund Manager:</b>	CS Strategic Partners V
<b>Manager Contact:</b>	Stephen H. Can Eleven Madison Ave. New York, NY 10010 212-538-7680

**II. Organization and Staff**

SP V will be managed by the dedicated team of 24 investment professionals which comprises Strategic Partners. Strategic Partners is led by Stephen H. Can, who has significant expertise in secondary investing. As Head of Strategic Partners, Mr. Can has been responsible for establishing four other secondary private equity funds.

From its inception in 2000 through June 30, 2010, Strategic Partners has executed 543 transactions aggregating over \$6.7 billion in secondary interests, having analyzed 2,400 transactions involving over \$70 billion in secondary interests. Strategic Partners has called down \$5.8 billion to fund its acquisitions and has returned \$4.0 billion, which represents 69% of capital called, and holds interests in 1,100 underlying funds.

SP V will capitalize on the unique, global resources of Credit Suisse ("CS"), a leading global financial services company with a public market capitalization of \$44 billion and total assets of \$1.2 trillion as of June 30, 2010. CS, which operates through three divisions: Investment Banking, Private Banking and Asset Management, has a worldwide network of offices in 50 countries and employs approximately 48,000 people. CS has strong relationships with companies and private equity managers, with 2,500 investment bankers covering 30 industries and most top financial sponsors. Consequently, in assessing potential transactions, Strategic Partners has access to a deep global base of investment bankers and research analysts. In addition, Strategic Partners expects to benefit from the investment experience and industry insights of CS's private equity franchise, which has more than \$36 billion of assets under management.



### ***III. Investment Strategy***

Similar to predecessor funds, SP V will primarily pursue secondary opportunities to acquire leveraged buyout funds, with mezzanine, real estate, venture capital, distressed securities and fund of funds also considered. The Fund may also, to a lesser extent, make primary investments in underlying funds and direct equity, equity-like and debt investments.

The Strategic Partners team's vast experience and private equity market knowledge will facilitate SP V's opportunistic focus on a wide range of transactions. Specifically, Strategic Partners will invest (and has historically invested) in cases where a prospective seller's original commitment ranges in size from \$100,000 for a single fund holding to \$100 million or more for a portfolio of funds. Moreover, while SP V has a global investment mandate, it is anticipated that its portfolio will mainly be comprised of funds managed by U.S. and Western European sponsors.

Strategic Partners believes that the secondary private equity market will continue to grow, providing experienced, top-performing secondary managers, such as Strategic Partners, with a compelling opportunity to generate attractive risk adjusted rates of return for investors. As highlighted in the exhibits below, primary private equity commitments have grown dramatically over the past twenty years, driving secondary market transactions to record volumes, particularly in times of economic turmoil and market distress. The secondary market remains extremely small, however, when compared to the aggregate size of the primary market. From 1999 through 2009, commitments to private equity funds steadily increased, with nearly \$3 trillion of new capital committed to private equity funds globally, with only 2.6% of this amount raised for secondary private equity funds.

Strategic Partners is a dollar cost average investor and does not time the top or bottom of the investment cycle. Overall, the last few years have seen the public markets through an extremely turbulent period, and investments made from distressed sellers were at unprecedented pricing levels through the beginning of 2009. Although the number of highly distressed sellers in the market has decreased significantly, today's market is largely driven by portfolio management, liquidity and allocation issues. Given lower pricing in the market and higher expected returns by purchasers, many sellers are either capital constrained, having overcommitted to funds with the expectation that the commitments would be funded from distributions, or hindered by the "denominator effect," whereby declines in the public stock market have left limited partners over-allocated to private equity and needing to rebalance their portfolios. Strategic Partners continues to see significant opportunity for secondary investors in the future, as turnover resulting from active portfolio management and portfolio volatility, in addition to anticipated increases in primary fund drawdowns, positions SP as a buyer of attractive, high quality assets.

#### IV. Investment Performance

The historical investment performance of each of the SP Funds through June 30, 2010 is presented below:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception*	Net MOIC from Inception *
SP Fund I	2001	\$832 million	\$100 million	18.4%	1.64x
SP Fund II	2003	\$1,625 million	\$100 million	32.9%	1.69x
SP Fund III	2005	\$1,900 million	\$100 million	3.3%	1.07x
SP Fund IV	2008	\$2,073 million	\$100 million	17.0%	1.21x

\* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by SP.

#### V. General Partner's Investment

The General Partner, together with its partners and affiliates, in aggregate will commit to the Partnership an amount equal to at least 3% of the Fund's total capital commitments.

#### VI. Takedown Schedule

Commitments are expected to be drawn as needed, with not less than 10 days' prior written notice.

#### VII. Management Fee

Each Limited Partner will be charged an annual management fee, payable semi-annually to the Investment Manager during the term of the Fund and shall be calculated as follows:

- During the Investment Period, the management fee will be equal to 1.0% per annum of such Limited Partner's Commitment, effective upon the Initial Closing. After the Investment Period, the management fee will be equal to 1.0% per annum of the reported value of the Fund's investments.
- Any Limited Partner committing at least \$75 million will have its management fee reduced to 0.875% per annum, with the base upon which such fee is charged remaining unchanged.
- Any Limited Partner committing at least \$150 million will have its management fee reduced to 0.75% per annum, with the base upon which such fee is charged remaining unchanged. To the extent that the Investment Manager or General Partner delegates

certain responsibilities to their affiliates, a portion of the management fee may be payable to such affiliates.

Any transaction fees, break-up fees, advisory fees, directors' fees, monitoring fees or other similar fees received by the General Partner, the Investment Manager or their respective employees attributable to investments of the Fund will first be applied to offset any unreimbursed broken deal expenses and the remainder will reduce subsequent management fees.

### **VIII. Distributions**

All Partnership distributions will initially be apportioned between the General Partner and the Limited Partners pro rata to capital contributed. The amount so apportioned to each Limited Partner will be distributed as follows:

- Return of All Capital Contributions. First, to the Limited Partner, until the cumulative amount distributed to the Limited Partner is equal to the Limited Partner's total capital contributions (whether applied to investments, management fees or expenses);
- 8% Preferred Return on Invested Capital. Second, to the Limited Partner, to provide an 8% simple, annual return on the unreturned capital contributions of the Limited Partner applied to investments;
- Catch-up to General Partner. Third, to the General Partner until the General Partner has received 12.5% of the total amount distributed to the Limited Partner pursuant to clause (ii) and to the General Partner pursuant to this clause (iii); and
- 87.5% / 12.5% Split. Thereafter, 87.5% to the Limited Partner and 12.5% to the General Partner (the amounts distributed to the General Partner pursuant to clause (iii) and this clause (iv), the "Carried Interest").

### **IX. Investment Period and Term**

Generally, the Fund will have an investment period of four years from the date of the final closing of the Fund (the "Investment Period").

The Fund will terminate ten years from the final closing, but may be extended (i) for up to two successive one-year periods at the discretion of the General Partner and (ii) for up to two additional one-year periods at the discretion of the General Partner with the consent of the Advisory Committee or Limited Partners representing at least a majority of aggregate Capital Commitments.

*\* This document is a summary of more detailed information provided in the Confidential Private Placement Memorandum (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*

<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Summit Partners Growth Equity Fund VIII
<b>Type of Fund:</b>	Private Equity Limited Partnership
<b>Total Fund Size:</b>	\$3 billion
<b>Fund Manager:</b>	Summit Partners
<b>Manager Contact:</b>	Joe Trustey Summit Partner 222 Berkeley St. Boston MA 02116 P: 617-824-1000

**II. Organization and Staff**

Founded in 1984, Summit Partners (“Summit” or the “Firm”) is a global investment firm that invests principally in growth equity, venture capital, subordinated debt and credit opportunities. Summit has managed or is managing 11 growth equity and venture capital funds with combined committed capital of approximately \$9.3 billion and four subordinated debt funds with combined committed capital of approximately \$1.8 billion. Summit’s offices in Boston, Massachusetts, Palo Alto, California and London, England, provide broad international coverage.

With more than 200 collective years of experience investing in growth equity, venture capital and debt instruments, Summit’s managing directors are among the most seasoned in the growth equity and venture capital industry. The managing directors have been with Summit for an average of 15 years. Additionally, Summit successfully completed a succession plan in 2001 to provide for continuity of management and continued growth of the Firm. Summit currently has a staff of approximately 90 investment professionals and 70 support professionals.

**III. Investment Strategy**

Since the Firm’s inception, Summit’s overall strategy has been to invest principally in privately-held companies with a proven business model, a record of revenue and earnings growth, and the leadership capable of sustaining that growth. Summit uses proactive investment origination techniques to find and create investment opportunities, principally in profitable growth companies, often before the companies seek capital. Summit attempts to maximize investment returns by frequently pursuing companies with no previous professional investors, thereby reducing valuations. This strategy has allowed the Summit funds to achieve attractive financial returns while seeking to minimize risk to investors. Summit will seek to apply this same approach with the Partnership.

To generate these returns and to minimize risk, Summit's principal strategy is to invest primarily in private companies that are profitable at the time of investment; to invest in senior or preferred equity and equity-related securities and debt; to be the first professional investor; to be the lead or co-lead investor; and to obtain board seats or board attendance rights.

Approximately 92% of the companies in Summit's portfolio were profitable at the time of investment. Summit believes that disciplined entrepreneurs who have achieved and maintained profitability have demonstrated an ability to manage growth under the constraint of limited resources and to recognize and respond to the external forces that influence a company's success. However, Summit will invest in unprofitable companies from time to time so long as Summit believes that they are experiencing a substantial rate of growth, they have a clear path to profitability in the 12 to 18 months following the investment, there is a potential near-term path to liquidity or future funding, and/or the entrepreneur is well known to Summit.

Additionally, Summit has an industry-wide reputation as a lead or co-lead investor and has acted in that capacity with approximately 94% of its portfolio companies. Summit believes that by leading investments, it can negotiate valuations, terms and deal structures that will minimize risk exposure and maximize returns. As a lead investor, Summit is represented on the boards of directors of approximately 97% of its companies and has significant management influence over its portfolio companies.

Summit believes the success it has experienced in implementing its investment strategy is principally due to the following factors.

**Experienced Management:** With more than 200 collective years of experience investing in growth equity, venture capital and debt instruments, Summit's managing directors are among the most seasoned in the growth equity and venture capital industry. The managing directors have been with Summit for an average of 15 years. Additionally, Summit successfully completed a succession plan in 2001 to provide for continuity of management and continued growth of the Firm. Summit currently has a staff of approximately 90 investment professionals and 70 support professionals.

**Investment Origination:** Summit generates investment opportunities internally by researching industries, attending industry trade shows, and cold-calling the chief executives of the leading companies in these industries. This disciplined fundamental research process has become the primary source of deals and has been instrumental in generating a proprietary database of more than 194,000 companies worldwide. This database has grown by approximately 18,000 companies worldwide per year. Summit expects this database to be the source of a substantial number of investments for the Partnership. In addition, Summit has developed relationships with several thousand industry contacts who provide many other investment opportunities.

**Diversification and Early Liquidity:** Summit believes that it can minimize risk by diversifying the Partnership's portfolio of investments. By investing primarily in later-stage growth companies, Summit believes liquidity can be achieved much earlier than in more traditional early-stage venture capital investments.

#### IV. Investment Performance

The historical investment performance of Summit Equity Funds as of June 30, 2010 is presented below:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception*	Net MOIC from Inception *
Summit Ventures Fund I	1984	\$96 million	\$10 million	13%	2.0x
Summit Ventures Fund II	1988	\$231 million	\$30 million	30%	2.6x
Summit Ventures Fund III	1992	\$279 million	0	63%	3.6x
Summit Ventures Fund IV	1995	\$610 million	0	101%	7.5x
Summit Ventures Fund V	1998	\$1.1 billion	\$25 million	8%	1.4x
Summit Ventures Fund VI	2001	\$2.1 billion	0	13%	1.6x
Summit Ventures Fund VII	2006	\$3.1 billion	0	-1%	1.0x

\* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by Summit.

#### V. General Partner's Investment

The General Partner, together with its partners and affiliates, in aggregate will commit to the Partnership the lesser amount of \$100 million or 4% of the aggregate unaffiliated limited partner Commitments.

#### VI. Takedown Schedule

Commitments are expected to be drawn as needed, with not less than 10 days' prior written notice.

#### VII. Management Fee

The Partnership will pay the General Partner an annual management fee equal to 1.125% of committed capital ("Commitments") to the Partnership in year one, 2% of the Commitments in year two and 2.25% of the Commitments in years three through six, declining 10% in each year after year six. These fees will be reduced by 100% of directors' fees, consulting fees or any transaction fees paid by Partnership portfolio companies to the General Partner and attributable to the Partnership. The General Partner reserves the right to waive all or a portion of any

installment of the management fee. Any waived portion of a management fee installment may be treated as a deemed capital contribution by the General Partner in respect of the General Partner's Commitment.

### **VIII. Distributions**

Distributions of cash or liquid securities will be made at the discretion of the General Partner. It is anticipated, however, that short-term investment income, dividends and interest income from portfolio companies will be distributed at least annually; net investment gains realized in cash will be distributed regularly; and appreciated liquid securities will be distributed at the discretion of the General Partner. Distributions to cover tax liabilities of the Partners may be made annually if all other distributions in such year are not sufficient to cover such liability. In general, before Payout (the time that the Limited Partners have received distributions equal to their capital contributions), securities and net proceeds realized on the sale of securities will be distributed 20% to the General Partner as carried interest and 80% to the Partners in proportion to capital contributions. However, no such 20% carried interest distributions (except to pay anticipated tax liabilities) will be made to the General Partner if the fair value capital accounts (capital accounts adjusted to reflect unrealized gains and losses) of the Limited Partners plus amounts previously distributed to the Limited Partners do not equal at least 115% of the Limited Partners' aggregate capital contributions. If the fair value test is satisfied at such time, distributions will be made first to the General Partner until the General Partner receives, in respect of its carried interest, 20% of all distributions made to the Partners as of such time. After Payout, all such distributions will be made to the Partners in proportion to their capital accounts. All distributions of short-term investment income and dividends and interest income from portfolio companies will be made in the same proportion as such income was credited to the Partners' capital accounts.

### **IX. Investment Period and Term**

Generally, the investment period will be seven years.

The term of the Partnership is ten years commencing with the First Draw-Down Date, with options to extend for two additional periods each consisting of two years, each with the consent of the General Partner and two-thirds in interest of the Limited Partners. The Partnership's term is subject to early termination upon certain circumstances as set forth in the Partnership Agreements, including for any reason upon the approval of the General Partner together with the required vote of the Limited Partners.

*\* This document is a summary of more detailed information provided in the Confidential Private Placement Memorandum (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*

<b>PRIVATE EQUITY MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Vestar Capital Partners VI, LP
<b>Type of Fund:</b>	Private Equity Limited Partnership
<b>Total Fund Size:</b>	\$3.5 billion
<b>Fund Manager:</b>	Vestar Capital Partners
<b>Manager Contact:</b>	Dan O'Connell Vestar 345 Park Ave. New York, NY 10167 P: 212-351-1601

**II. Organization and Staff**

Vestar Capital Partners was formed in April 1988 by former principals of First Boston's Management Buyout Group, including the Group's co-heads and founders. These principals have worked together for over 25 years and, together with the other members of the Vestar team, have built Vestar into a leading international middle-market private equity investment firm with 49 professionals (including 25 Managing Directors) and offices (including those of advisory affiliates) in New York (1988), Denver (1990), Paris (2001), Milan (2001), Boston (2004) and Munich (2007).

Vestar received its initial funding from partners of the former Wesray Capital Corporation ("Wesray") who, together with the Vestar principals, provided the capital for the firm's first 11 transactions ("Vestar I"), which were completed between 1988 and 1993. Vestar subsequently raised a \$260 million fund ("Vestar II") in 1993, an \$803 million fund ("Vestar III") in 1996, a \$2.5 billion fund ("Vestar IV") in 1999 and a \$3.7 billion fund ("Vestar V") in 2005. Beginning with Vestar II and continuing through Vestar V, Vestar has invested capital on behalf of a diversified group of international institutional investors, including endowments, foundations, pension funds, financial institutions and funds of funds. Since forming Vestar over 22 years ago, the firm's principals have organized 66 investments in the U.S. and Europe with an aggregate transaction value of over \$30 billion.

**III. Investment Strategy**

The objective of the Partnership is to provide investors with superior, risk-adjusted, long-term capital appreciation by investing in a diversified portfolio of equity and equity-related securities in control private equity investments in partnership with management. The Partnership intends to



make these investments over a five- to six-year period, with a typical investment (including follow-on investments) in the range of \$50 million to \$500 million. The investment approach that Vestar will bring to the Partnership is consistent with that used in prior funds and the Partnership will be invested using the same investment strategy successfully employed by the Vestar principals in the past. The Vestar principals target middle-market companies in the \$250 million to \$3 billion valuation range, primarily focusing on corporate divisions or subsidiaries and public or privately-held companies being sold or recapitalized. Vestar pursues transactions in which it believes it has developed or can develop a meaningful competitive edge, such as by working exclusively with the company's management or the controlling stockholder, and in which it can add value through its domain knowledge, past investment experience and broad network of industry experts. Unless it believes it has a distinct edge in the process, Vestar seeks to avoid participating as a buyer in the auction markets for corporate or sponsor-to-sponsor sales, focusing instead on privately-negotiated transactions sourced through its broad and long-established network of business relationships.

Vestar Capital Partners is a leading private equity firm well positioned to succeed in today's highly competitive private equity middle market. Vestar believes that few firms have a more cohesive and experienced team of investment and operating professionals in the U.S. and Europe who have invested through multiple economic and capital market cycles and have maintained a consistency of both strategy and approach. Since its founding in 1988, the Firm has invested \$5.6 billion of private equity capital across 66 investments, 50 of which are realized or publicly traded and have generated an investment multiple of 2.4x and a gross IRR of 25%. Vestar's principals are investment-focused rather than transaction-driven, pursuing investments where they can identify potential value levers through the application of the firm's industry expertise, operating and strategic capabilities, and international reach. In the current market environment, Vestar believes there are attractive investment opportunities available for private equity firms with a focus on long-term value creation and a trusted reputation for partnering with proven management teams. Having built a reputation for integrity and superior investment performance, the Vestar principals are well positioned to experience a continuous flow of investment opportunities through their broad network of contacts and relationships in the business and financial communities

#### IV. Investment Performance

The historical investment performance of Vestar as of March 31, 2010 is presented below:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception*	Net MOIC from Inception *
Vestar Fund I	1988	\$35 million	0	54%	8.3x
Vestar Fund II	1993	\$260 million	0	58%	3.5x
Vestar Fund III	1997	\$803 million	0	5%	1.3x
Vestar Fund IV	1999	\$2,480 million	\$55 million	17%	1.8x
Vestar Fund V	2005	\$3,700 million	\$75 million	9%	1.2x

\* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by Vestar.

#### V. General Partner's Investment

The Principals will commit through the General Partner and other entities to invest in the Partnership and alongside the Partnership a minimum amount equal to 5% of Limited Partner commitments (e.g., \$175 million at the target fund size)..

#### VI. Takedown Schedule

Commitments are expected to be drawn as needed, with not less than 10 days' prior written notice.

#### VII. Management Fee

The Partnership will pay the General Partner an annual management fee (the "Management Fee"), payable semi-annually in advance, equal to 1.5% of aggregate Commitments. After the expiration of the Commitment Period or earlier upon the occurrence of certain other events as set forth in the Partnership Agreement, the Management Fee will equal 1.25% of (i) the aggregate amount of capital contributions to the Partnership and waived Management Fees, less (ii) the aggregate amount of distributions to Partners pursuant to clauses (a)(i) and (a)(ii) of "Distributions" above.

Management Fees also will be reduced by: (i) 100% of any break-up fees received by the General Partner and/or the Management Agent and (ii) 100% of any monitoring or transaction fees paid by Partnership portfolio companies to the General Partner and/or the Management Agent.

### **VIII. Distributions**

Generally, distributions will be distributed as follows:

(a) first, 100% to such Limited Partner until the cumulative amount distributed to such Limited Partner in respect of investments then and previously disposed of equals the aggregate of the following:

(i) such Limited Partner's funded Commitment attributable to all realized investments, plus the amount of permanent write-down, if any, with respect to each unrealized investment written down as of that time;

(ii) such Limited Partner's funded Commitment attributable to all organizational expenses, Management Fees (as defined below) and other expenses paid to date, in each case allocated to realized investments and unrealized investments to the extent they are permanently written down as of that time; and

(iii) a preferred return on amounts included in (i) and (ii) above at the rate of 8% per annum (not compounded) from the first day of the calendar month immediately succeeding the month in which such capital contribution was required to be paid to the Partnership (the "Preferred Return");

(b) second, 100% to the General Partner until such time as the General Partner has received, as its carried interest, 20% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph (b); and

(c) thereafter, 80% to such Limited Partner and 20% to the General Partner as carried interest.

### **IX. Investment Period and Term**

Generally, the investment period will be six years.

The term of the Partnership will terminate on the tenth anniversary of the Effective Date, but may be extended for up to three consecutive one-year periods at the discretion of the General Partner with the consent of the Advisory Board to allow for an orderly dissolution and liquidation of the Partnership's investments.

*\* This document is a summary of more detailed information provided in the Confidential Private Placement Memorandum (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*

<b>RESOURCE MANAGER SUMMARY PROFILE</b>
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**I. Background Data**

<b>Name of Fund:</b>	Merit Energy Partners H
<b>Type of Fund:</b>	Resource Limited Partnership
<b>Total Fund Size:</b>	\$750 million
<b>Fund Manager:</b>	Merit Energy Company
<b>Manager Contact:</b>	Bill Gayden Merit Energy 13727 Noel Rd. Dallas Texas, 75240 P: 972-701-8377

**II. Organization and Staff**

Merit Energy Company was formed in 1989 with a strategy that has been successful for over 20 years: to acquire, operate and develop high quality, mature producing oil and gas properties. Merit has raised over \$4.3 billion in equity commitments throughout 19 fundraisings, encompassing 27 partnerships. That strategy has allowed us to purchase over \$4.7 billion in assets while investing an additional \$2.0 billion in exploitation programs from generated cash flow. Merit has called \$3 billion in capital from its partners, distributed over \$5 billion to its partners, and currently has total assets with a book value of over \$4.4 billion. The partnerships have benefited from diverse portfolios of assets, with operations across North America. The large geographical footprint, along with a reserve mix of 61% oil and natural gas liquids (NGLs) and 39% natural gas, has given Merit valuable experience operating all types of assets in various environments.

Merit has a field staff of over 400 employees located in 14 field offices. In just over 20 years, we have produced 325 million BOE and have a current proved reserve base of 453 million BOE. In 2009, Merit's production averaged 85,443 BOE per day.

**III. Investment Strategy**

Merit Energy Company's investment strategy has remained consistent throughout its 20 year history. Merit looks to "buy right" by acquiring diverse, high quality, mature producing oil and gas properties, operate those assets efficiently, and develop them appropriately. Merit believes focusing on details is the key to their success, as they search for opportunities to increase production while being a lower cost operator. Merit maintains a low risk approach to capital development, spending approximately \$150 million annually. Drilling for proven reserves, wellbore recompletions, stimulations, and facility upgrades all play an integral part in their

capital programs. Merit focuses on implementing capital projects that are appropriate for the current operating environment and add the most value over the long-term to the portfolio. This focus has allowed Merit to increase the average reserve to production ratio to 14.8 at yearend 2009. Merit strives to become a more efficient operator of the assets it acquires. Thorough evaluation of detailed operating expenses enables them to identify areas of cost reduction. Examination of well history identifies specific projects for improving runtime, resulting in increased production. Field studies generate appropriate development programs to add reserves and further increase production.

Merit employs hedging strategies designed to mitigate some of the natural volatility in commodity prices, as well as to aid in the acquisition of new properties. In addition, Merit may form a Preferred Limited Partner facility to hold and provide leverage to limited partner interests, thereby potentially enhancing returns.

Merit's partnerships are long-term in nature and emphasize preservation of capital. Cash flow generated from the assets is reinvested for additional acquisitions over the course of nine years, minimizing the exposure to commodity price risk at any one point in time. Merit anticipates MEP H will make many acquisitions of net profit interests in both oil and gas assets located in multiple fields and thousands of wellbores. Merit's strategy is designed to provide direct commodity exposure, potential for an inflation hedge investment, and exposure to an experienced and successful management team.

While the current acquisition market is more active today than it has been in the past 18 months, Merit believes that this business is one that is incredibly difficult to time. Merit's strategy is to consistently acquire assets over a long investment horizon in order to diversify its acquisition and disposition activity by time. Merit's history as an all cash buyer and its reputation as a reliable and credible purchaser, has continued to be a competitive advantage in this current market environment.

Today, the energy market continues to see shale operators divesting producing assets to fund their significant unconventional resources plays. With the sheer magnitude of the cost of unconventional plays, these companies will continue to have a need for capital to fund these unconventional developments. This issue is magnified because without continued, significant drilling, many companies will lose their leases in these plays. Merit Energy was the direct beneficiary of these types of activities in the fourth quarter of 2009, with its acquisition from Petrohawk.

As larger companies continue to merge (Exxon/XTO, Conoco/Burlington; Denbury/Encore), Merit has seen and expects to continue to see assets on the market as a result of these transactions. As these companies focus on higher risk/higher reward projects, they continue to divest of their mature assets. In addition, British Petroleum has been actively selling assets to fund their recent liabilities in the Gulf. These divestitures tend to provide meaningful opportunities for operational improvements and significant cost reduction opportunities for Merit.

#### **IV. Investment Performance**

The historical investment performance of Merit Energy Funds with SBI participation as of June 30, 2010 is presented below:

<b>Fund</b>	<b>Inception Date</b>	<b>Total Commitments</b>	<b>SBI Investment</b>	<b>Net IRR from Inception*</b>	<b>Net MOIC from Inception *</b>
Merit Fund B	1996	\$130 million	\$24 million	26%	6.7x
Merit Fund C	1998	\$300 million	\$50 million	34%	7.8x
Merit Fund D	2000	\$465 million	\$88 million	30%	3.6x
Merit Fund E	2004	\$825 million	\$100 million	19%	1.9x
Merit Fund F	2005	\$1,300 million	\$100 million	-0.6%	.95x

\* Previous Fund investments may be relatively immature and, therefore, returns may not be indicative of future results. Net IRR and Multiple of Invested Capital (MOIC) were provided by Merit.

#### **V. General Partner's Investment**

The General Partner will commit 3% of total committed capital in the Partnership.

#### **VI. Takedown Schedule**

Commitments are expected to be drawn as needed, with capital call notice of not less than 16 days.

#### **VII. Management Fee**

The General Partner will receive an annual management fee of 1.25% on the greater of invested capital or book value up to the committed capital amount, and 1.00% on additional amounts (which may exceed the committed capital amount due to retained earnings).

### **VIII. Distributions**

Cash distributions are made annually for each fiscal year during the investment period. After any distributions to the Preferred Limited Partner, cash will be distributed (i) first, to the capital contributing partners in an amount not less than 6% of the lesser of called non-preferred capital commitments or actual capital account, (ii) second, to the General Partner in an amount equal to the General Partner's carried interest (13% of annual profits), and (iii) third, any cash not held for reinvestment in the discretion of the General Partner will be distributed to the capital contributing partners. After the expiration of the investment period, beginning no later than year ten, 100% of discretionary cash flow will be distributed to the partners quarterly in the priority described above but with no hold back for reinvestment.

Allocations of profit, after allocations to the Preferred Limited Partner equal to its preferred dividend and any other allocations called for by the PLP Interest terms, will be made annually, generally as follows: (i) 100% to the capital contributing partners until they receive a cumulative 8% return (preferred return since inception) (the "8% Return Allocation"), then (ii) 100% to the General Partner as a carried interest until it has received 13% of cumulative profits (after depletion) as a carried interest, then (iii) 87% to the capital contributing partners and 13% to the General Partner as a carried interest. In addition to the 13% carried interest at the Partnership level, and Investment Structure the General Partner (or affiliate) will be allocated a 2% carry at the working interest ownership level, which will bring the total carried interests to 15%.

### **IX. Investment Period and Term**

Generally, capital may be called for approximately six years.

The term of the Partnership is approximately 15 years, with termination of the Partnership on December 31, 2025 (unless terminated early as provided in the Partnership Agreement); provided, however, that the term can be extended for five years upon the approval of the General Partner and a Majority Interest.

*\* This document is a summary of more detailed information provided in the Confidential Private Placement Memorandum (the "PPM"). It is qualified in its entirety by the more detailed information provided in the PPM.*