MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 8, 2000

&

INVESTMENT ADVISORY
COUNCIL MEETING
March 7, 2000

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, March 8, 2000
9:00 A.M. -Room 316
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of December 8, 1999	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (September 30, 1999 – December 31, 1999)	A
B. Administrative Report	B
1. Reports on budget and travel	
2. Results of FY99 Financial Audit	
3. Legislative Update	
4. Assigned Risk Plan Manager	
5. Litigation Update	
6. Update on Tobacco Information	
7. Results of Y2K Preparedness Efforts	
8. IAC Appointments	
3. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	C
1. Review of manager performance	
2. Update on funding of fixed income managers	
3. Review of fixed income manager Standish Ayer & Wood	
4. Recommendation to conduct a search for the Emerging Manager Program	
5. Recommendation to renew BGI's passive equity management contract	
6. Approval of update Tobacco Fund Investment Policy Paper	
B. International Manager Committee	D
1. Review of manager performance	
2. Update on funding of new international managers	
C. Alternative Investment Committee	E
1. Review of current strategy	
2. Approval of two commitments with existing private equity managers for the Basic Retirement Funds: • Crescendo Ventura Management • DLJ Merchant Banking	
3. Pre-approval of a follow-on investment with an existing private equity manager for the Basic Retirement Funds: • Welsh, Carson, Anderson & Stowe IX, L.P.	

NOT OFFICIAL
DRAFT

Minutes
State Board of Investment
December 8, 1999

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, December 8, 1999 in Room 125 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; and Secretary of State Mary Kiffmeyer were present. The minutes of the September 8, 1999 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending September 30, 1999 (Combined Funds 12.4% vs. Inflation 3.0 %), exceeded the median fund (23rd percentile) and outperformed its composite index (Combined Funds 16.3% vs. Composite 16.0%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 16.7% vs. Composite 16.5%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 15.9% vs. Composite 15.4%).

Mr. Bicker reported that the Basic Funds' assets decreased 4.7% for the quarter ending September 30, 1999 due to negative investment returns and negative net contributions. He said that the asset mix is essentially on target. He said that the Basic Funds slightly underperformed its composite index for the quarter (Basic Funds –2.4% vs. Composite –2.3%) and for the year (Basic Funds 17.8% vs. Composite 18.7%). He noted that the Funds had outperformed over both the three and five year periods.

Mr. Bicker reported that the Post Fund's assets decreased 1.5% for the quarter ending September 30, 1999 due to negative investment returns. He said that the Post Fund asset mix is also essentially on target. He said that the Post Fund underperformed its composite index for the quarter (Post Fund –2.7% vs. Composite -2.6%) and for the year (Post Fund 17.8% vs. Composite 18.3%). He noted that the Post Fund had also outperformed over both the three and five year periods.

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks –6.4% vs. Wilshire 5000 –6.6%) but had underperformed for the year (Domestic Stocks 25.9% vs. Wilshire 5000 26.9%). He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks 2.5% vs. Int'l. Composite 3.4%) and for the year (International Stocks 31.8% vs. Int'l. Composite 34.5%). Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 0.7% vs. Lehman Aggregate 0.7%) and outperformed it for the year (Bonds –0.1% vs. Lehman Aggregate –0.4). He concluded his report with the comment that as of September 30, 1999, the SBI was responsible for over $47.5 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for current budget and travel reports. He stated that a draft of the SBI's 1999 Annual Report had been distributed to members for comments and that the final report would be sent to the printer in mid December.

Mr. Bicker announced that the Post Retirement benefit increase which is payable January 1, 2000 is 11.14%.

Mr. Bicker referred members to page 2 of Tab B for a listing of tentative Board and IAC meeting dates for calendar year 2000.

Mr. Bicker stated that the Legislative Auditor's Office had completed their audit of the SBI and that to staff's knowledge, there were no significant findings. He said that Board and IAC members will each receive a copy of the report.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of securities class action litigation concerning Mercury Finance Corporation and their auditors, Peat Marwick. She reported that there has been a partial settlement with the company and the outside directors. She added that the arbitrator was to have released his decision on the allocation of the partial settlement, but she noted that she has not received that information yet. Ms. Eller stated that discovery is proceeding against the accountants and that settlement negotiations are also proceeding.

Mr. Bicker noted that updated information on the Board's tobacco holdings could be found within Tab B. He noted that there are approximately 2.3 million shares still held by the SBI's active stock managers.

In response to questions from Ms. Dutcher, Mr. Bicker stated that the international segment's underperformance was the result of underweighting in emerging markets by some managers. He added that there will be a Y2K update later in the meeting and at the March 2000 Board meeting which will include how Y2K impacted some of the emerging markets.

SBI Administrative Committee Report

Ms. Johnson referred members to Tab C of the meeting materials and stated that the Committee met on October 28, 1999 to review potential SBI legislative issues. She noted the revised recommendation that was distributed to members during the meeting regarding the SBI's legislative proposals **(see Attachment A).** Ms. Dutcher moved approval of the Committee's recommendation, as stated in Attachment A. Ms. Kiffmeyer seconded the motion. The motion passed. Ms. Dutcher stated that she supports the change in the amortization schedule for the Post benefit increase formula from a 5 year amortization to a 10 year period and she said she hopes the Board has support from the various pension groups as this proceeds through the legislative process. She also voiced her concern that we may be creating two classes of retirees and she said she hopes that there will be discussion in the future to extend the amortization period beyond ten years, to a longer period, such as 18 to 20 years.

Deferred Compensation Review Committee Report

Mr. Sausen referred members to Tab D of the meeting materials and stated the SBI is responsible for selecting product providers for the Minnesota State Colleges and Universities (MnSCU) Retirement Program and also to approve the selection of a recordkeeping/communication provider for the plan. He said that the Committee is recommending that Teachers Insurance and Annuity Association-College Retirement Equity fund (TIAA-CREF) be retained as the product provider. In response to a question from Ms. Kiffmeyer, Mr. Bicker clarified that the memo distributed to members during the meeting pertains to the recommendation for the recordkeeper **(see Attachment B).** He noted that the recordkeeper will also have a pre-specified list of mutual funds which will be available to participants, which is why the Board must also approve their contract. Ms. Johnson moved approval of the Committee's recommendation to retain TIAA-CREF as the product provider, as stated in the Committee Report, which reads: "The Deferred Compensation Review Committee recommends that the executive director be authorized, in consultation with legal counsel, to negotiate and execute a contract of substantially the same terms as set forth in the request for proposal with Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF). Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment, and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by the product provider upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on the product provider or reduction or termination of the commitment." Ms. Dutcher seconded the motion. The motion passed.

Ms. Dutcher moved approval of the second recommendation to retain Norwest Bank as the recordkeeper for the MnSCU plan, as stated in Attachment B. Ms. Johnson seconded the motion. The motion passed.

Fixed Income Search Committee Report

Mr. Sausen referred members to Tab E of the meeting materials and stated that the Committee had met in November to interview four firms. He said that based on the interviews, questionnaire responses and information provided by staff, the Committee is recommending that three of the firms be hired. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute a contract with the three (3) firms listed below for active fixed income investment management services:

Deutsche Asset Management
150 South Independence Square West
Philadelphia, PA 19106

Dodge & Cox Investment Managers
One Sansome Street
35th Floor
San Francisco, CA 94104

Metropolitan West Asset Management
11766 Wilshire Boulevard
Suite 1580
Los Angeles, CA 90025"

Ms. Dutcher seconded the motion. The motion passed.

International Search Committee Report
Mr. Sausen referred members to Tab F of the meeting materials and stated that the Committee has two recommendations for consideration by the Board. He said the first involves the selection of new managers for the active international stock segment. He stated that the Committee is recommending that four firms be retained at this time. He reported that the second recommendation involves whether or not Record Treasury Management should continue to be retained as a currency manager. He said that the Committee is recommending that the SBI terminate it current contract with Record Treasury. Ms. Dutcher commented that she believes that Record Treasury did an outstanding job for the SBI and she said she hopes they will be considered in future searches. Mr. Bicker agreed with Ms. Dutcher and explained that the decision to terminate them was not based on poor performance, but on changes that have been made to the structure of the international program and because the SBI wants to better define the role currency will have in the program structure. He said that it is possible that Record Treasury could be retained again at some point in the future. Ms. Johnson moved approval of both of the Committee's recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute contracts with the following firms for active international stock management:

American Express Asset Management
11th Floor, Dashwood House
69 Old Broad Street
London, ED2M 1QS

Blairlogie Capital Management
125 Princess Street, 4th Floor
Edinburgh, Scotland EH2 4AD

INVESCO Global Asset Management
One Midtown Plaza
1360 Peachtree Street, Suite 100
Atlanta, GA 30309

Montgomery Asset Management, LLC
101 California Street
San Francisco, CA 94111

The Committee recommends that the SBI terminate its current contract with Record Treasury Management for currency management. The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute a twelve month contract with Record Treasury to oversee the settlement of all forward contracts currently in the SBI portfolio." Ms. Dutcher seconded the motion. The motion passed.

Domestic Manager Committee Report
Ms. Yeomans referred members to Tab G of the meeting materials and stated that Brinson's underperformance will continue to be closely monitored but that no action is recommended at this time. She reported that the Committee has taken on the responsibility of reviewing the performance of the 457 Plan's mutual funds and the fixed income options and she referred members to page 53 of Tab G for details and said that this information will be presented as part of the Committee Report each quarter. She also noted that some minor housekeeping revisions were made to the investment manager guidelines.

Ms. Yeomans stated that the Committee is recommending that the SBI terminate one of the fixed income managers, Investment Advisers, Inc. due to poor performance, significant staff turnover, loss of accounts and assets. Ms. Dutcher voiced her concern regarding the impact the termination will have on the local branch of the firm and she said she believes the firm should be reconsidered as a manager at some point in the future if their performance and organizational issues are resolved. Ms. Yeomans noted that she believes the SBI has been very patient in dealing with these issues and that it is too costly to try to support their business at this time. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI terminate its contractual relationship with Investment Advisers, Inc. for fixed income investment management services." Ms. Kiffmeyer seconded the motion. The motion passed.

International Manager Committee Report
Ms. Yeomans referred members to Tab H of the meeting materials and stated that the Committee has no formal recommendations at this time. She noted that the international investment manager guidelines had also been reviewed and that minor revisions were made.

Alternative Investment Committee Report
Ms. Yeomans referred members to Tab I of the meeting materials and stated that the Committee is recommending two new private equity mezzanine funds for the Post Fund with Goldman Sachs Merchant Banking and DLJ Merchant Banking. In response to a question from Ms. Kiffmeyer, Mr. Bicker clarified that the language included in the recommendation gives the SBI the ability to negotiate terms of the contract and the ability not to make the investment should that become necessary. Ms. Dutcher moved approval of the Committee's recommendations regarding Goldman and DLJ, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in GS Mezzanine Partners II, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Goldman Sachs Merchant Banking upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Goldman Sachs Merchant Banking or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in DLJ Investment Partners II, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by DLJ Merchant Banking upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on or reduction or termination of the commitment." Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee's third recommendation requests that the Board pre-approve three follow-on investments with three existing alternative investment managers: GTCR Golder Rauner, Fox Paine and Merit Energy. She explained that staff and the committee believe the pre-approval process is necessary in order to participate in the very competitive private equity market and she briefly described each of the investments under consideration. Mr. Bicker clarified that the Committee's recommendation had been revised and he distributed copies of the revised recommendation to members **(see Attachment C)**. He said that the change gives the SBI more flexibility in evaluating opportunities that may arise between quarterly Board meetings while still continuing to have Board input through designees that would have final approval of the investments. Ms. Dutcher noted that she had requested in her briefing with Mr. Bicker that the language be revised to include this form of Board input and she moved approval of the Committee's revised recommendation, as stated in Attachment C and the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with final approval from the Committee, which will be comprised of members of the IAC Alternative Investment Committee and a designee of each Board member, and assistance from the SBI's legal counsel, to negotiate and execute the following commitments:

- A $175 million or 20%, whichever is less, additional investment for the Basic Retirement Funds with an existing private equity manager, GTCR Golder Rauner, in GTCR Fund VII.

- A $100 million or 20%, whichever is less, additional investment for the Basic Retirement Funds with an existing private equity manager, Fox Paine, in Fox Paine Capital Fund II, L.P.

- A $100 million or 20%, whichever is less, additional investment for the Post Retirement Fund with an existing resource manager, Merit Energy, in Merit Energy Fund D.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by GTCR Golder Rauner, Fox Paine and Merit Energy upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on GTCR Golder Rauner, Fox Paine and Merit Energy or reduction or termination of the commitment." Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Yeomans reported that the final two recommendations involve increases in investment commitments to two funds that were already approved by the Board. She said that the SBI has the opportunity to increase the investment for the Post Fund in Citicorp Mezzanine Fund by $25 million and to increase the investment for the Basic Funds in Thoma Cressey Fund VI by $15 million by purchasing a secondary interest from another institutional investor. Ms. Dutcher moved approval of both of the Committee's recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a $25 million increase (from $75 to

$100 million, but no more than 20% of the total fund) in investment commitment for the SBI to Citicorp Mezzanine III, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Citicorp upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Citicorp or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a $15 million increase (from $35 to $50 million, but no more than 20% of the total fund) in investment commitment for the SBI to Thoma Cressey Fund VI, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Thoma Cressey upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Thoma Cressey or reduction or termination of the commitment." Ms. Johnson seconded the motion. The motion passed.

Ms. Kiffmeyer stated that she would like to offer a resolution for the Board's consideration regarding the rescinding of authority to sponsor or co-sponsor any non-statutory shareholder resolutions and she read the resolution she had distributed to members **(see Attachment D)** and moved approval of the resolution The motion failed to receive a second and no vote was taken.

The meeting adjourned at 9:50 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

Revised recommendation in the SBI Administrative Committee Report, (Tab C, Page Two)

RECOMMENDATION:

The Committee recommends that the SBI approve the proposals and authorize the Executive Director to submit a bill for enactment during the 2000 Legislative Session. Further, the Committee recommends that the SBI support the proposal related to the Post Fund Amortization Extension and the elimination of the investment restriction for the tobacco endowment funds.

MINNESOTA STATE BOARD OF INVESTMENT

Board Members:

Governor
Jesse Ventura

State Auditor
Judi Dutcher

State Treasurer
Carol C. Johnson

Secretary of State
Mary Kiffmeyer

Attorney General
Mike Hatch

Executive Director:

Howard J. Bicker

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DATE: December 7, 1999

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

SUBJECT: Minnesota State Colleges and Universities Retirement Plans Recordkeeping/Communication Provider Search

The SBI is responsible for selecting product providers for investment of employee and employer contributions into the retirement plans (the Plans) of the Minnesota State Colleges and Universities (MnSCU). The Deferred Compensation Review Committee has a recommendation that appears in the Board folder to hire a financial institution to provide a range of investment options for the Plans.

In addition to the financial institution recommendation, the Committee also recommends that the Board approve the selection by MnSCU of a recordkeeping/communication provider for the Plans. Because the recordkeeper/communication provider will bring a set of mutual fund investment options to the Plans, the Board also must approve a contract between MnSCU and the recordkeeper provider.

The Deferred Compensation Review Committee met November 29, 1999. The Committee considered action taken by MnSCU related to its recordkeeping RFP and reviewed material prepared by staff concerning pre-selected mutual funds offered by the respondents to the RFP. Staff reported that it presented information at a November 23 MnSCU meeting that each set of mutual funds offered by respondents was a reasonable set of options with acceptable returns and fees. Staff reported that the MnSCU Committee agreed to eliminate a mutual fund window from consideration due to the higher cost of the windows in general and lack of need for a lengthy list of mutual fund options. Staff further reported that the MnSCU committee agreed to make site visits to Nationwide and Norwest Bank on November 29 and 30 and to interview the two firms at MnSCU offices on December 1.

The Deferred Compensation Review Committee concluded that the mutual funds offered by the respondents under consideration by MnSCU were acceptable and that a decision by MnSCU related to its RFP should be based upon the respondents' recordkeeping, communication and administrative abilities.

On December 1, MnSCU made a recommendation to the SBI that Norwest Bank be chosen as its recordkeeping/communication provider. The Deferred Compensation Review Committee met on December 7 and approved the MnSCU selection for recommendation to the Board at its December 8, 1999 meeting.

RECOMMENDATION:

The Deferred Compensation Review Committee recommends that the Board approve the selection by the Minnesota State Colleges and Universities of Norwest Bank as the recordkeeping/communication provider for the MnSCU retirement plans and authorize the executive director, with assistance from legal counsel, to negotiate and execute contract terms for the formal agreement between MnSCU and Norwest Bank.

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

Revised recommendation in the Alternative Investment Committee Report, (Tab I, Page Four, Item # 3)

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with final approval from the Committee, which will be comprised of members of the IAC Alternative Investment Committee and a designee of each Board member, and assistance from the SBI's legal counsel, to negotiate and execute the following commitments:

Resolution

WHEREAS, the State Board of Investment manages, in trust for state agencies and pensioners, a diverse investment portfolio of $47.5 billion – which includes in excess of $23 billion in equity holdings.

WHEREAS, during Fiscal Year 1999, the State Board of Investment sponsored or co-sponsored 10 shareholder resolutions. The average affirmative vote for the resolutions that came to a vote, ranged between 6.6 percent and 12.8 percent of the total number of votes cast.

WHEREAS, the Proxy Committee and staff could undertake other, more useful work, if relieved of the task of sponsoring or co-sponsoring shareholder resolutions.

THE STATE BOARD OF INVESTMENT HEREBY RESOLVES THAT:

Upon adoption of this Resolution, all *non-statutory* authorizations to sponsor or co-sponsor shareholder resolutions in the name of the Board, or the State of Minnesota, are hereby rescinded.

Adopted this __________ day of December, 1999.

____
Jesse Ventura
Governor
Chairman, State Board of Investment

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, March 7, 2000
2:00 P.M. - SBI Conference Room
Room 10, Capitol Professional Office Building
590 Park Street, St. Paul, MN

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2. Update on funding of fixed income managers	
3. Review of fixed income manager Standish Ayer & Wood	
4. Recommendation to conduct a search for the Emerging Manager Program	
5. Recommendation to renew BGI's passive equity management contract	
6. Approval of updated Tobacco Fund Investment Policy Paper	
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1. Review of current strategy	
2. Approval of two commitments with existing private equity managers for the Basic Retirement Funds:	
• Crescendo Ventura Management	
• DLJ Merchant Banking	
3. Pre-approval of a follow-on investment with an existing private equity manager for the Basic Retirement Funds:	
• Welsh, Carson, Anderson & Stowe IX, L.P.	

NOT OFFICIAL DRAFT

Minutes
Investment Advisory Council
December 7, 1999

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Ken Gudorf; P. Jay Kiedrowski; Han Chin Liu; Judy Mares; Malcolm McDonald; Gary Norstrem; Mary Stanton; Mike Troutman; Mary Vanek; Pam Wheelock; and Jan Yeomans.
MEMBERS ABSENT:	Doug Gorence; Daralyn Peifer; and Elaine Voss.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Andy Christensen; Tammy Brusehaver-Derby; Stephanie Gleeson; Debbie Griebenow; John Griebenow; Steve Koessl, Jason Matz; Mike Menssen; Charlene Olson; and Carol Nelson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Eric Lipman; Jake Manahan; Jennifer Mohlenhoff; Peter Sausen; Conrad deFiebre, Star Tribune; Eugene Edie; Allen Hoppe, Metropolitan Council; Christine Williamson, Pensions and Investment; Robert Heimerl; Lloyd Belford and Dale Hanke, REAM.

Ms Yeomans called the meeting to order and the minutes of the September 7, 1999 meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending September 30, 1999 (Combined Funds 12.4% vs. Inflation 3.0 %), exceeded the median fund (23rd percentile) and outperformed its composite index (Combined Funds 16.3% vs. Composite 16.0%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 16.7% vs. Composite 16.5%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 15.9% vs. Composite 15.4%).

Mr. Bicker reported that the Basic Funds' assets decreased 4.7% for the quarter ending September 30, 1999 due to negative investment returns and negative net contributions. He said that the asset mix is essentially on target. He said that the Basic Funds slightly underperformed its composite index for the quarter (Basic Funds –2.4% vs. Composite

–2.3%) and for the year (Basic Funds 17.8% vs. Composite 18.7%). He noted that the Funds had outperformed over both the three and five year periods.

Mr. Bicker reported that the Post Fund's assets decreased 1.5% for the quarter ending September 30, 1999 due to negative investment returns. He said that the Post Fund asset mix is also essentially on target. He said that the Post Fund underperformed its composite index for the quarter (Post Fund –2.7% vs. Composite -2.6%) and for the year (Post Fund 17.8% vs. Composite 18.3%). He noted that the Post Fund had also outperformed over both the three and five year periods.

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stocks –6.4% vs. Wilshire 5000 –6.6%) but had underperformed for the year (Domestic Stocks 25.9% vs. Wilshire 5000 26.9%). He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks 2.5% vs. Int'l. Composite 3.4%) but has outperformed over longer periods. Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 0.7% vs. Lehman Aggregate 0.7%) and outperformed it for the year (Bonds –0.1% vs. Lehman Aggregate –0.4). He concluded his report with the comment that as of September 30, 1999, the SBI was responsible for over $47.5 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for current budget and travel reports. He stated that a draft of the SBI's 1999 Annual Report had been distributed to members for comments and that the final report would be sent to the printer in mid December.

Mr. Bicker announced that the Post Retirement benefit increase which is payable January 1, 2000 is 11.14%.

Mr. Bicker referred members to page 2 of Tab B for a listing of tentative Board and IAC meeting dates for calendar year 2000.

Mr. Bicker stated that the Legislative Auditor's Office had completed their audit of the SBI and that to staff's knowledge, there were no major findings He said that Board and IAC members will each receive a copy of the report.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of securities class action litigation concerning Mercury Finance Corporation and their auditors, Peat Marwick. She reported that there has been a partial settlement with the company and the outside directors. She added that the arbitrator was to have released his decision on the allocation of the partial settlement, but she noted that she has not received that information yet. Ms. Eller stated that discovery is proceeding against the accountants and that settlement negotiations are also proceeding.

Mr. Bicker noted that updated information on the Board's tobacco holdings could be found within Tab B. He noted that there had been another 800,000 shares liquidated during the quarter.

SBI Administrative Committee Report

Mr. Bicker referred members to Tab C of the meeting materials and stated that the Committee met on October 28, 1999 to review potential SBI legislative issues and to review the SBI's Y2K situation. Mr. Bicker briefly reviewed the five technical provisions being proposed to clarify the SBI's investment authority. He said that the proposals include clarification of language to allow investments by the SBI to be transacted on a broader range of U.S. and Canadian stock exchanges; clarification of language regarding the legal structures in which venture capital investments can be made by the SBI; adding authority to invest in closed-end mutual funds; the repeal of separate SBI ethics reporting; and the repeal of Northern Ireland activities requirements.

Mr. Bicker stated that there are now two additional items that staff is requesting the Board's support on and he noted that staff is still unsure whose legislative package they will be included in. He said that the first item is to extend the amortization of the investment component of the Post Fund benefit formula from 5 to 10 years in order to reduce the volatility of the returns. He noted that the various retirement systems are supportive of this change. He stated that the second item involves removing all of the current investment restrictions from the Tobacco Endowment Fund so that the 5% spending target is based only upon the market value of the fund.

Deferred Compensation Review Committee Report

Mr. Sausen referred members to Tab D of the meeting materials and stated the SBI is responsible for selecting product providers for the Minnesota State Colleges and Universities (MnSCU) Retirement Program and also to approve the selection of a recordkeeping/communication provider for the plan. He said that the Committee is recommending that Teachers Insurance and Annuity Association-College Retirement Equity fund (TIAA-CREF) be retained as the product provider. Mr. Sausen stated that MnSCU did the due diligence on the recordkeeper candidates and that just prior to the IAC meeting the Deferred Compensation Review Committee had met and that the Committee had concurred with MnSCU's recommendation to retain Norwest Bank as the recordkeeping/communication provider. In response to a question, Mr. Bicker clarified that a motion was not required for the MnSCU recommendations, but that formal approval of the SBI's legislative package would be preferred. Mr. Gudorf moved approval of the Administrative Committee's recommendations regarding the SBI's legislative proposals. Mr. McDonald seconded the motion. The motion passed.

Fixed Income Search Committee Report
Mr Sausen referred members to Tab E of the meeting materials and stated that the Committee had met in November to interview four firms. He said that based on the interviews, questionnaire responses and information provided by staff, the Committee is recommending that following three firms be hired: Deutsche Asset Management, Dodge & Cox Investment Managers and Metropolitan West Asset Management. Mr. Norstrem moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed. Mr. Sausen thanked the IAC members who served on the Committee.

International Search Committee Report
Mr. Sausen referred members to Tab F of the meeting materials and stated that the Committee has two recommendations for consideration by the Board. He said the first involves the selection of new managers for the active international stock segment. He stated that the Committee is recommending that four firms be retained at this time. He reported that the second recommendation involves whether or not Record Treasury Management should continue to be retained as a currency manager. He said that the Committee is recommending that the SBI terminate it current contract with Record Treasury. Ms. Mares moved approval of the Committee's recommendations, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed. Mr. Bicker noted that Record Treasury's termination would be handled differently from a typical manager's termination since they will oversee the settlement of all forward contracts currently in the SBI portfolio, which would take several months. He also stated that it was important to note that Record Treasury was successful in doing the job they were originally hired for and that they were not being terminated because of poor performance but because the role of currency management is being redefined by the SBI.

In response to questions from Mr. Troutman, Mr. Bicker stated that the new international managers would have portfolios that vary in size from $100 to 400 million, depending on the amount of assets each firm has under management. He noted that the Committee felt that INVESCO should be funded slightly higher than the others. Mr. Bicker also noted that it is unusual for the SBI to have three search committees during any one quarter.

Domestic Manager Committee Report
Mr. Bohan referred members to Tab G of the meeting materials and reviewed the managers' performance. In response to questions from Mr. Kiedrowski, Mr. Bohan stated that Brinson has underperformed and that the firm has undergone some management changes. He added that the firm is a value manager and that the firm will continue to be closely monitored. Mr. Bicker said that the firm has experienced tremendous growth and that staff had recently directed them to run a more concentrated portfolio for the SBI. In response to a question from Ms. Mares, Mr. Bicker stated that Brinson's performance would be reviewed again during the following quarter.

He reported that the Committee has taken on the responsibility of reviewing the performance of the 457 Plan's mutual funds and the fixed income options and he referred members to page 53 of Tab G for details. He also noted that some minor housekeeping revisions were made to the investment manager guidelines.

Mr. Bohan stated that the Committee is recommending that the SBI terminate one of the fixed income managers, Investment Advisers, Inc. due to poor performance, significant staff turnover, loss of accounts and assets. He noted that the SBI's portfolio represents approximately 60% of their current assets under management, which is also a concern. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

International Manager Committee Report
Ms. Mares referred members to Tab H of the meeting materials and noted that Marathon had outperformed its benchmark over the last year and she briefly reviewed the quarterly performance data. She stated that the Committee has no formal recommendations at this time and she briefly summarized minor revisions being proposed for the international investment manager guidelines

Alternative Investment Committee Report
Mr. Gudorf referred members to Tab I of the meeting materials and stated that the Committee is recommending two new private equity mezzanine funds for the Post Fund with Goldman Sachs Merchant Banking and DLJ Merchant Banking and he briefly described each of the investments.

Mr. Gudorf stated that the Committee's third recommendation requests pre-approval of three follow-on investments with three existing alternative investment managers: GTCR Golder Rauner, Fox Paine and Merit Energy. He explained that staff and the committee believe the pre-approval process is necessary in order to give the SBI additional flexibility in participating in investments, which may arise and close between quarterly Board meetings.

Mr. Gudorf reported that the final two recommendations involve increases in investment commitments to two funds that were already approved by the Board. He said that the SBI has the opportunity to increase the investment for the Post Fund in Citicorp Mezzanine Fund by $25 million and to increase the investment for the Basic Funds in Thoma Cressey Fund VI by $15 million by purchasing a secondary interest from another institutional investor. Mr. McDonald moved approval of all of the Committee's recommendations, as stated in the Committee Report. Mr. Liu seconded the motion. In response to a request from Mr. Bicker, Mr. Gudorf reviewed the amounts involved in the investments that the Committee is requesting pre-approval for. Mr. Bicker stated that he had discussed the pre-approval recommendation with the Board members and that they believe there should be further Board input on these investments. He stated that staff is preparing an amendment to the Committee's recommendation for the Board's consideration that would add language stating that final approval will come from the

Committee and that the Committee shall consist of the IAC Alternative Investment Committee members, a designee of each Board member, and with assistance from legal counsel. The motion passed.

The meeting adjourned at 2:50 P.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 12/31/99

COMBINED FUNDS: $42.1 Billion	Result	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.	13.5% (1)	10.6 percentage points above CPI
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.	18.9% (1)	0.3 percentage point above composite index
Exceed Median Fund (5 yr.) Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.	32nd percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $21.3 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.	19.3%	0.2 percentage point above target

POST RETIREMENT FUND: $20.8 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.	18.6%	0.6 percentage point above target

(1) Reflects performance of Basic Funds only through 6/30/93, Combined Funds thereafter. Performance is calculated net of fees.

(2) The SBI's stated objective is to rank in the top half (above 50th percentile) of the comparative universe. The SBI will strive to achieve performance which ranks in the top third (above 33rd percentile). Performance is ranked gross of fees.

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1999

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$20.7 billion	$13.1 billion	$33.8 billion
2. Accrued Liabilities	15.0	13.1	28.2
Asset Measures			
3. Current and Future Actuarial Value	$22.4 billion	$13.1 billion	$35.5 billion
4. Current Actuarial Value	15.3	13.1	28.5
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	108%	100%	105%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	102%	100%	101%*

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

Notes:
1. Present value of projected benefits that will be due to all current participants.
2. Liabilities attributed to past service calculated using entry age normal cost method.
3. Present value of future statutory contributions plus current actuarial value.
4. Same as required reserves for Post; Cost plus one-third of the difference between cost and market value for Basics.

Actuarial Assumptions:

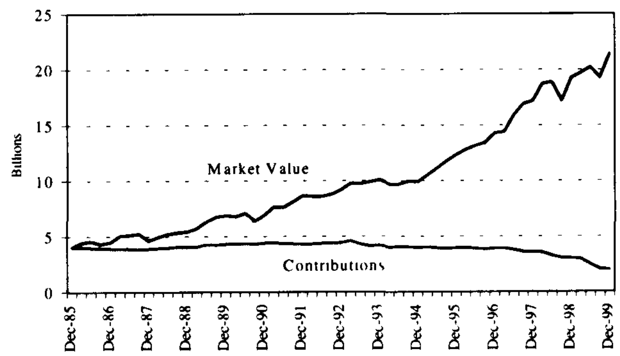
Salary Growth: 6.5%
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 11.1% during the fourth quarter of 1999. Positive investment returns accounted for the increase. Net contributions were negative.



Asset Growth
During Fourth Quarter 1999
(Millions)

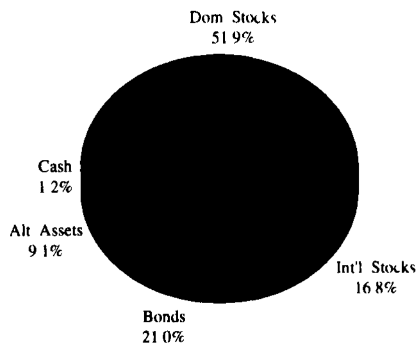
Beginning Value	$ 19,238
Net Contributions	-62
Investment Return	2,189
Ending Value	$ 21,365

Asset Mix

Strong positive returns in worldwide equity markets caused the allocation to domestic and international stocks to increase during the quarter.

	Policy Targets	Actual Mix 12/31/99	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	51.9%	$11,082
Int'l. Stocks	**15.0**	16.8	3,592
Bonds	**24.0**	21.0	4,491
Alternative Assets*	**15.0**	9.1	1,946
Unallocated Cash	**1.0**	1.2	254
	100.0%	100.0%	$21,365

* Any uninvested allocation is held in domestic stocks

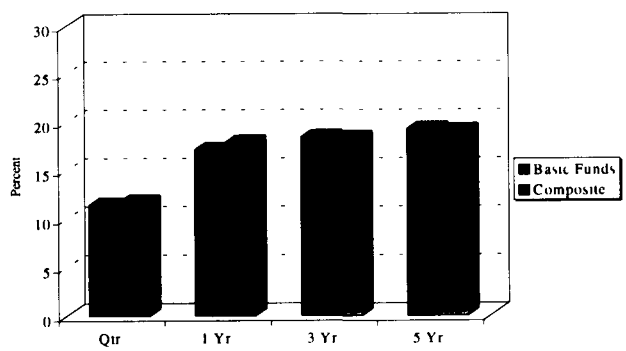


Fund Performance (Net of Fees)

The Basic Funds underperformed its composite market index for the quarter and for the year, but remains ahead for the three and five year periods.

Period Ending **12/31/99**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Basics	**11.4%**	**17.1%**	**18.4%**	**19.3%**
Composite	11.7	17.9	18.3	19.1

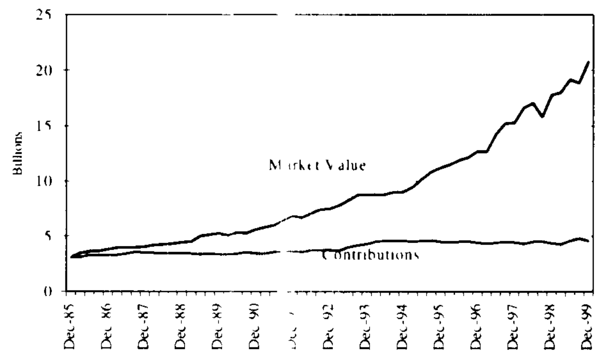


EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 10.2% during the fourth quarter of 1999. The increase was the result of positive investment returns. Net contributions were negative.



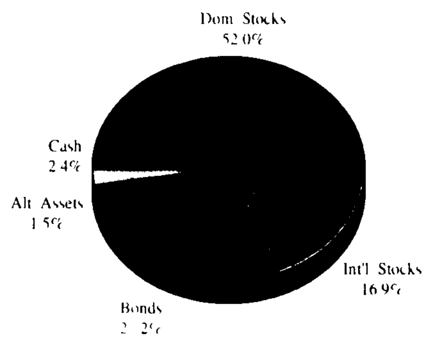
	Asset Growth During Fourth Quarter 1999 (Millions)
Beginning Value	$18,848
Net Contributions	-215
Investment Return	2,135
Ending Value	$20,768

Asset Mix

Strong positive returns in worldwide equity markets caused the allocations to domestic and international stocks to increase during the quarter.

	Policy Targets	Actual Mix 12/31/99	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	52.0%	$10,798
Int'l Stocks	**15.0**	16.9	3,519
Bonds	**27.0**	27.2	5,639
Alternative Assets*	**5.0**	1.5	313
Unallocated Cash	**3.0**	2.4	499
	100.0%	100.0%	$20,768

* Any uninvested allocation is held in bonds

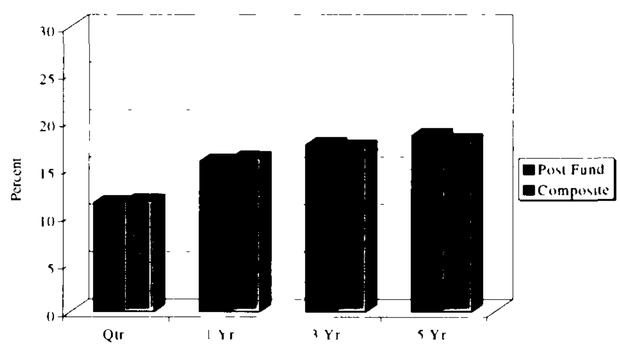


Fund Performance (Net of Fees)

The Post Fund underperformed its composite market index for the quarter and for the year, but remains ahead for the three and five year periods.

Period Ending 12/31/99

	Qtr	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)
Post	**11.4%**	**15.8%**	**17.6%**	**18.6%**
Composite	11.6	16.1	17.3	18.0



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

Domestic Stocks

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

Period Ending 12/31/99

	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Dom. Stocks	**16.5%**	**21.0%**	**25.5%**	**26.6%**
Wilshire 5000	18.3	23.6	26.0	27.1

International Stocks

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

Period Ending 12/31/99

	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Int'l. Stocks	**19.3%**	**33.2%**	**15.7%**	**13.9%**
Composite Index*	17.8	31.6	14.3	11.9

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

Bonds

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

Period Ending 12/31/99

	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Bonds	**0.0%**	**-0.5%**	**5.9%**	**8.0%**
Lehman Agg.	-0.1	-0.8	5.7	7.7

Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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

EAFE-Free: The Morgan Stanley Capital International index of 20 stock markets in Europe, Australasia and the Far East. EAFE-Free includes only those securities foreign investors are allowed to hold.

Emerging Markets Free: The Morgan Stanley Capital International index of 25 markets in developing countries throughout the world.

EXECUTIVE SUMMARY
Funds Under Management

	12/31/99 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$21.3
Post Retirement Fund	20.8
Supplemental Investment Fund	1.7
Non Retirement Funds*	
Assigned Risk Plan	0.7
Permanent School Fund	0.6
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.4
Medical Education Fund	0.3
State Cash Accounts	6.2
Total	$52.3

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Fourth Quarter 1999
(October 1, 1999 - December 31, 1999)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/99				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	18.3%	23.6%	26.0%	27.1%	17.6%
Dow Jones Industrials	11.7	27.3	23.4	27.1	18.3
S&P 500	15.1	21.1	27.7	28.7	18.3
Russell 2000	18.4	21.3	13.1	16.7	13.4
Domestic Fixed Income					
Lehman Aggregate*	-0.1	-0.8	5.7	7.7	7.7
Lehman Gov't./Corp.	-0.4	-2.1	5.5	7.6	7.7
90 Day U.S. Treasury Bills	1.3	4.8	5.0	5.2	5.1
International					
EAFE**	17.0	27.0	15.7	12.8	7.0
Emerging Markets Free***	25.4	66.4	3.2	2.0	11.0
Salomon Non U.S. Gov't. Bond	-1.6	-5.1	2.3	5.9	8.6
Inflation Measure					
Consumer Price Index****	0.2	2.7	2.0	2.4	2.9

* Lehman Brothers Aggregate Bond index. Includes governments, corporates and mortgages.

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

*** Morgan Stanley Capital International Emerging Markets Free index.

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market, as represented by the Wilshire 5000, gained 18.3% in the fourth quarter. Growth stocks outperformed value stocks by a striking margin after a volatile quarter. Technology was the primary driver during the quarter contributing more than two-thirds of the market return.

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

Large Value	6.8%
Small Value	1.6
Large Growth	26.0
Small Growth	38.0

The Wilshire 5000 increased 23.6% for the year ending December 31, 1999.

DOMESTIC BONDS

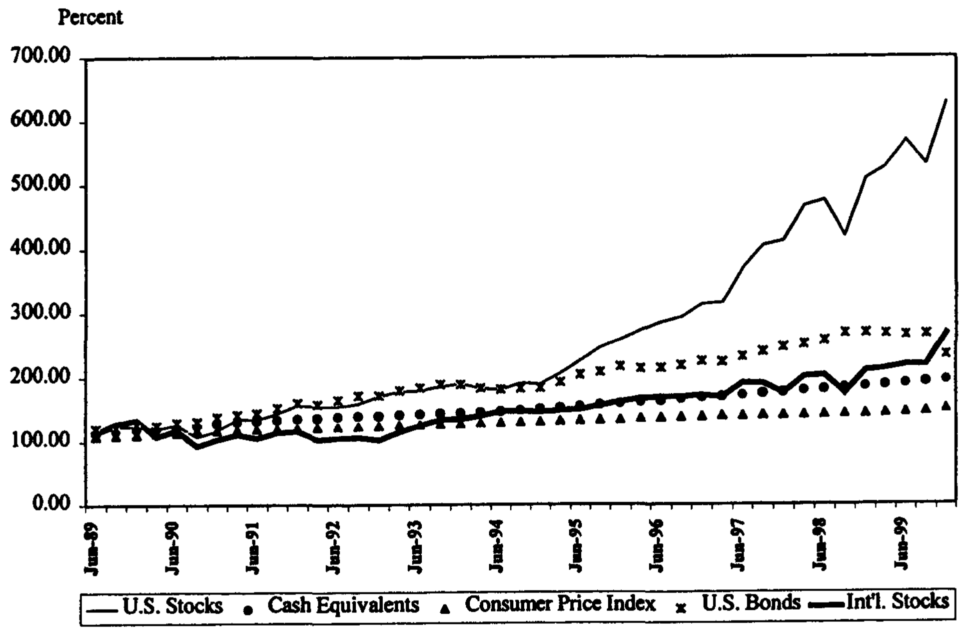
The bond market generated negative returns in the fourth quarter as interest rates continued to climb, causing negative returns in Treasuries. Non-Treasury sectors outperformed as their yield spreads relative to Treasuries tightened during the quarter. Mortgages, now the largest sector of the Lehman Aggregate, benefited from spread tightening and high demand, as investors look for a liquid alternative to the shrinking U.S. Treasury market.

Overall, the Lehman Brothers Aggregate Bond Index returned -0.1% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	-0.6%
Corporates	0.0
Mortgages	0.4

The Lehman Aggregate returned –0.8% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE-Free index) provided a return of 17.0% for the quarter. Performance of the major markets is shown below:

Japan	15.5%
United Kingdom	10.1
Germany	26.9
France	21.4

The EAFE-Free index increased by 26.7% during the latest year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 20 markets located in Europe, Australasia and the Far East (EAFE), adjusted for free-float. The major markets listed above comprise about 67% of the value of the international markets in the index.

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 25.4% for the quarter. The performance of the five largest stock markets in the index is show below:

Korea	19.7%
Mexico	37.0
Taiwan	16.3
South Africa	24.5
Brazil	54.5

The Emerging Markets Free index had a return of 66.4% or the year.

The Emerging Markets Free index is compiled by MSCI and measures performance of 25 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 58% of the value of the index.

REAL ESTATE

U.S. property markets are in their seventh year of recovery and expansion. Although the cycle has reached a mature stage, market fundamentals remain healthy and appear likely to support an extended period of equilibrium.

PRIVATE EQUITY

U.S. private equity firms raised an unprecedented $95.5 billion for private equity limited partnerships of all types, from venture capital to buyouts in 1999. That represents a 3.6% increase from the upwardly revised 1998 total of $92.2 billion. It was the sixth consecutive record year for fundraising.

RESOURCE FUNDS

During the fourth quarter of 1999, West Texas Intermediate crude oil averaged $24.51 per barrel compared to an average price of $21.71 per barrel during the third quarter of 1999. With the relatively high oil prices, oil companies continue to cautiously drill for oil and gas.

COMBINED FUNDS

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

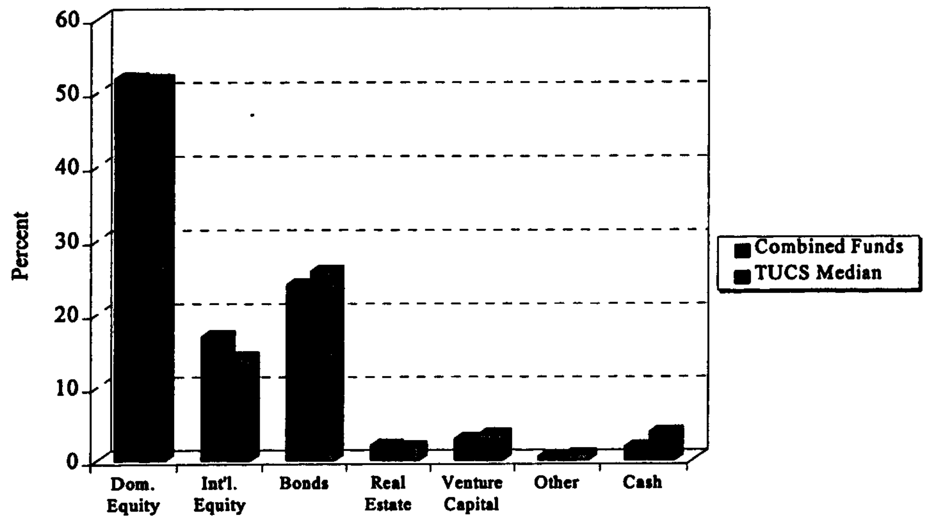
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 1999, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$21,879	51.9%
International Stocks	7,111	16.9
Bonds	10,131	24.0
Alternative Assets	2,259	5.4
Unallocated Cash	753	1.8
Total	$42,133	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Real Estate	Venture Capital	Other	Cash
Combined Funds	51.9%	16.9%	24.0%	2.0%	2.9%	0.5%	1.8%
Median Allocation in TUCS*	51.7	14.0	25.8	1.8	3.5	0.8	3.8

* Public and corporate plans over $1 billion.

COMBINED FUNDS
Performance Compared to Other Pension Funds

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

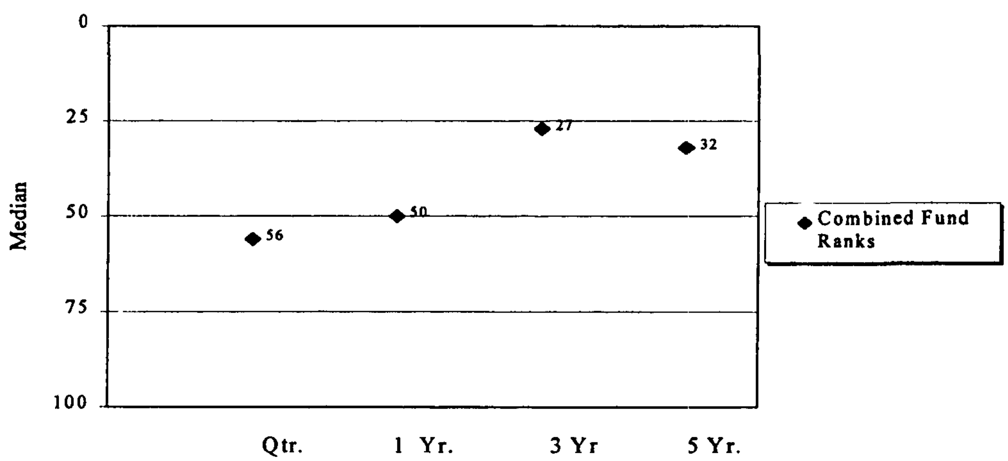
- **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports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

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

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

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

The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).



	Period Ending 12/31/99			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	56th	50th	27th	32nd

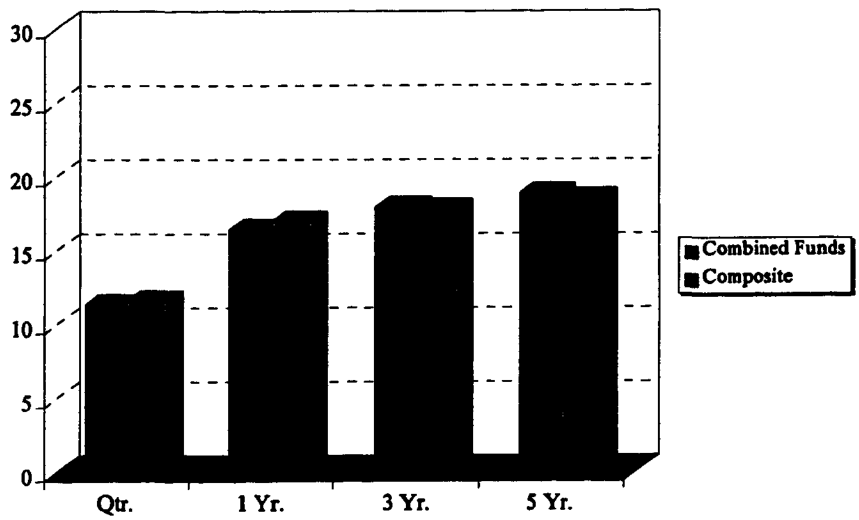
* Compared to public and corporate plans greater than $1 billion, gross of fees.

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Funds Composite* 4Q99
Domestic Stocks	Wilshire 5000	50.0%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.2*
Alternative Assets	Real Estate Funds	2.1*
	Venture Capital Funds	3.1*
	Resource Funds	0.6*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



Period Ending 12/31/99

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	11.4%	16.5%	18.0%	18.9%
Composite Index	11.7	17.0	17.9	18.6

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

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BASIC RETIREMENT FUNDS

Investment Objectives

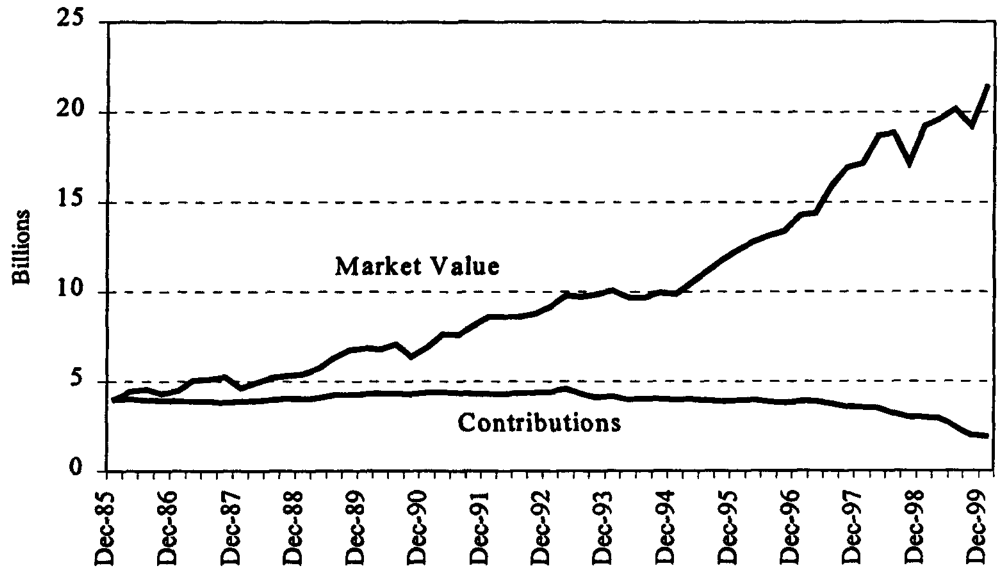
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 300,000 public employees participate in the Basic Funds.

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

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 11.1% during the fourth quarter of 1999. Positive investment returns accounted for the increase during the quarter despite net negative contributions.



Last Five Years
In Millions

	12/94	12/95	12/96	12/97	12/98	3/99	6/99	9/99	Latest Qtr. 12/99
Beginning Value	$10,086	$9,890	$12,338	$14,275	$17,146	$19,244	$19,646	$20,185	$19,238
Net Contributions	-206	-29	-59	-337	-539	-72	-472	-460	-62
Investment Return	10	2,477	1,996	3,208	2,637	474	1,010	-487	2,189
Ending Value	$9,890	$12,338	$14,275	$17,146	$19,244	$19,646	$20,185	$19,238	$21,365

BASIC RETIREMENT FUNDS

Asset Mix

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

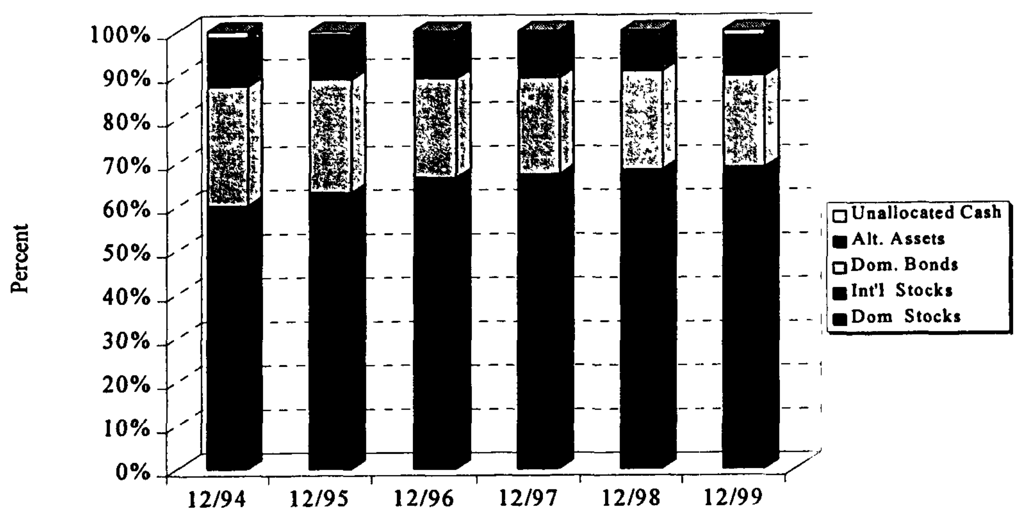
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

Over the last year, strong returns in the international and the private equity markets caused increases to their respective allocations. Domestic equities also achieved strong returns, but its allocation decreased as a result of rebalancings to bonds.

During last quarter, strong positive returns in worldwide equity markets caused the allocation to domestic and international stocks to increase.



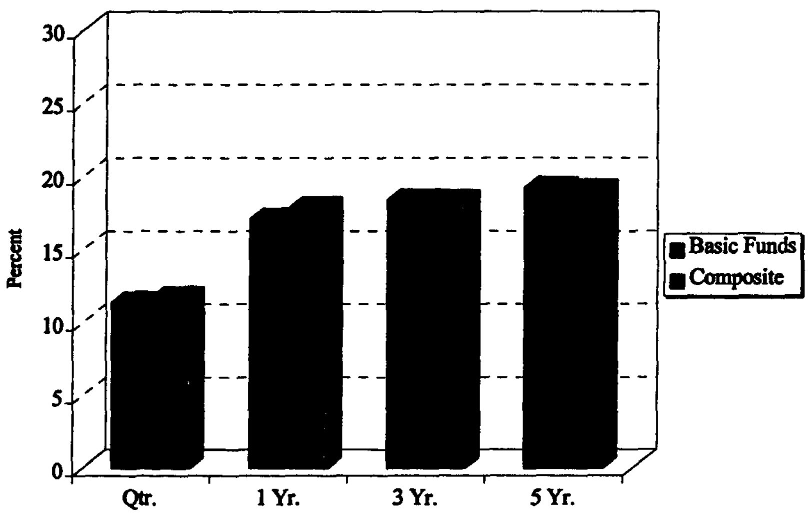
	Last Five Years								Latest Qtr.
	12/94	12/95	12/96	12/97	12/98	3/99	6/99	9/99	12/99
Domestic Stocks	49.7%	51.7%	52.0%	53.6%	53.8%	54.2%	54.5%	50.6%	51.9%
Int'l. Stocks	10.3	11.3	14.5	13.6	14.4	14.5	14.7	15.6	16.8
Bonds	27.5	26.1	22.8	22.2	22.6	22.1	20.8	23.3	21.0
Real Estate	4.6	4.1	3.9	4.1	3.7	3.6	3.6	3.8	3.5
Private Equity	5.6	5.4	5.5	5.0	4.4	4.9	4.7	5.3	4.8
Resource Funds	0.9	0.7	1.0	1.4	0.7	0.5	0.7	0.9	0.8
Unallocated Cash	1.4	0.7	0.3	0.1	0.4	0.2	1.0	0.5	1.2
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 4Q99
Domestic Stocks	45.0%	Wilshire 5000	50.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.8*
		Private Equity Funds	5.3*
		Resource Funds	.9*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



Period Ending 12/31/99

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds**	**11.4%**	**17.1%**	**18.4%**	**19.3%**
Composite Index	11.7	17.9	18.3	19.1

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page15 for the performance of these asset pools. Performance of the Basic Funds' alternative assets is on page 16.

POST RETIREMENT FUND

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

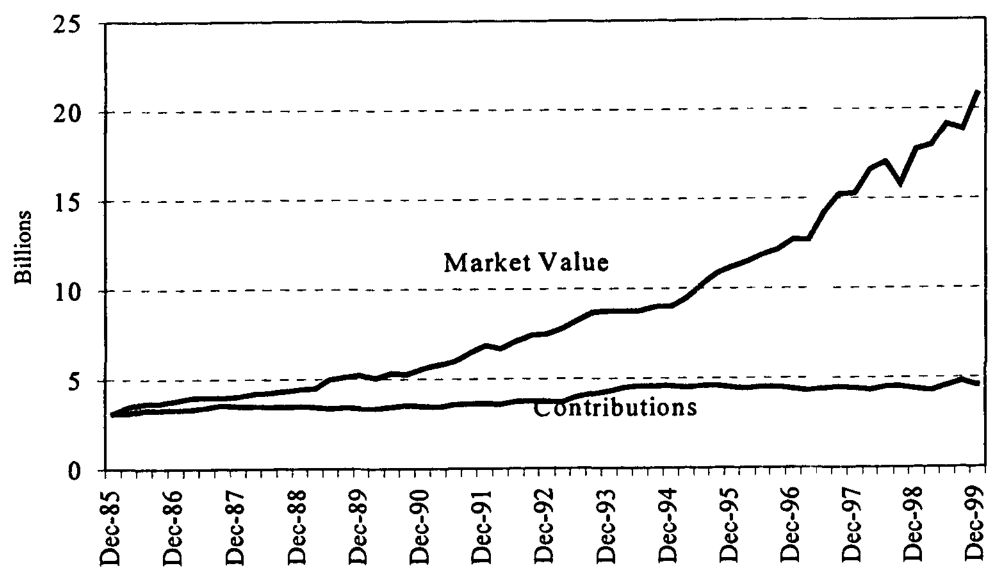
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Retirement Fund increased by 10.2% during the fourth quarter of 1999.

The increase was the result of positive investment returns. Net contributions were negative.



Last Five Years
In Millions

	12/94	12/95	12/96	12/97	12/98	3/99	6/99	Latest Qtr. 9/99	12/99
Beginning Value	$8,766	$9,001	$11,216	$12,705	$15,273	$17,743	$17,970	$19,141	$18,848
Net Contributions	314	-102	-94	23	-45	-107	304	229	-215
Investment Return	-79	2,317	1,583	2,545	2,515	334	868	-523	2,135
Ending Value	$9,001	$11,216	$12,705	$15,273	$17,743	$17,970	$19,141	$18,848	$20,768

POST RETIREMENT FUND
Asset Mix

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

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

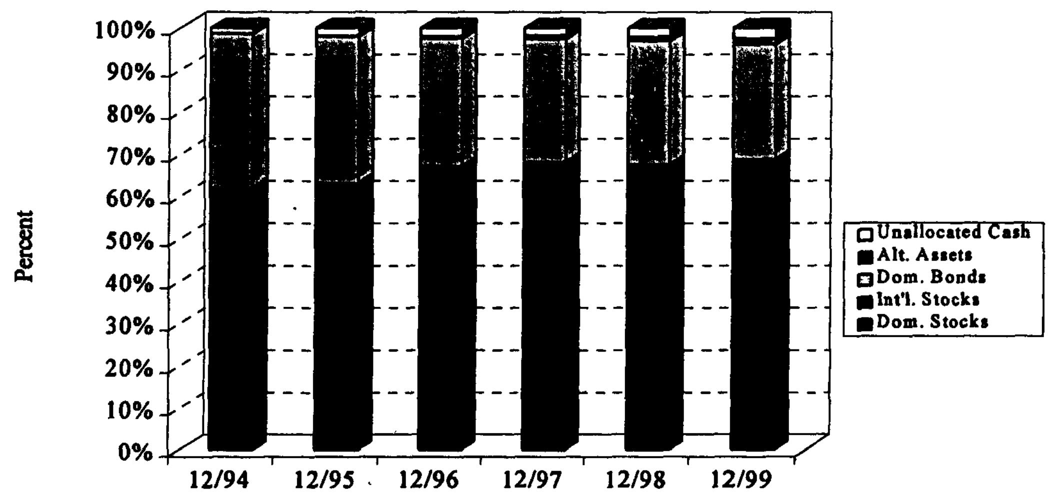
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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

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

Over the last year, strong returns in the international and the private equity markets caused increases to their respective allocations. Domestic equities also achieved strong returns, but its allocation decreased as a result of rebalancings to bonds.

During last quarter, strong positive returns in worldwide equity markets caused the allocation to domestic and international stocks to increase.



	Last Five years								Latest Qtr.
	12/94	12/95	12/96	12/97	12/98	3/99	6/99	9/99	12/99
Dom. Stocks	51.2%	51.9%	52.7	54.7%	53.2%	53.9%	54.1%	50.9%	52.0%
Int'l. Stocks	11.0	11.4	14.6	13.6	14.5	14.6	14.9	15.7	16.9
Bonds	36.5	34.7	30.2	29.1	29.2	28.8	27.3	30.0	27.2
Alt. Assets	0.1	0.2	0.6	0.9	1.1	1.2	1.3	1.4	1.5
Unallocated Cash	1.2	1.8	1.9	1.7	2.0	1.5	2.4	2.0	2.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND

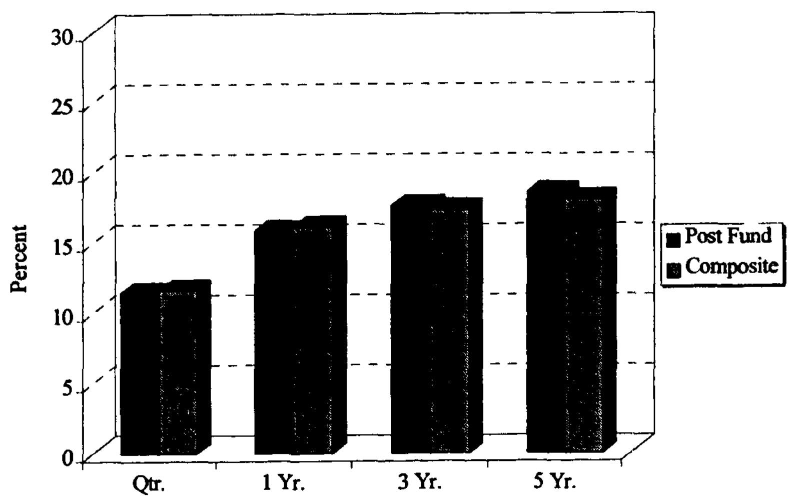
Total Fund Performance (Net of Fees)

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

Asset Class	Post Target	Market Index	Post Composite* 4Q99
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	30.6*
Alternative Assets	5.0	Real Estate Funds	0.4*
		Private Equity Funds	0.8*
		Resource Funds	0.2*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100%

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

The asset mix of the Post Fund moved to a 50% stock allocation during fiscal year 1993.



Period Ending 12/31/99

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Post Fund**	**11.4%**	**15.8%**	**17.6%**	**18.6%**
Composite Index	11.6	16.1	17.3	18.0

** Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page15 for the performance of these asset pools.

STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

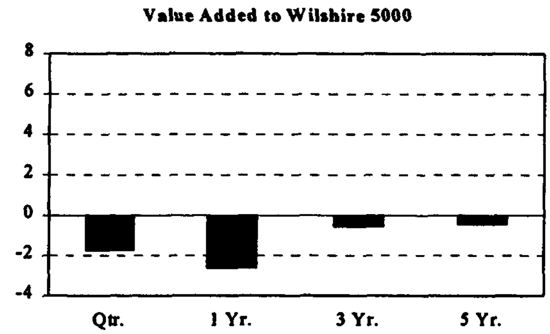
Domestic Stock Pool

Target: Wilshire 5000

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 12/31/99

	Qtr.	Yr.	3 Yrs. (Annualized)	5 Yrs. (Annualized)
Stock Pool	**16.5%**	**21.0%**	**25.5%**	**26.6%**
Wilshire 5000	18.3	23.6	26.0	27.1



International Stock Pool

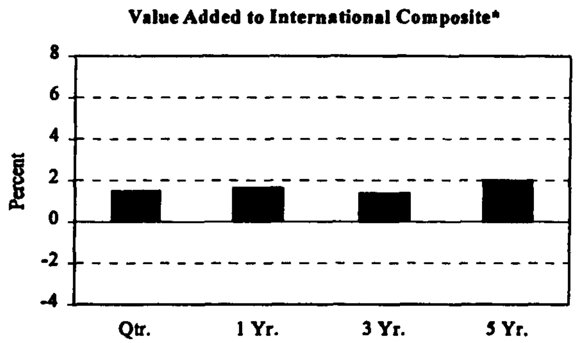
Target: Composite of EAFE-Free and Emerging Markets Free*

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

Period Ending 12/31/99

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yrs. (Annualized)
Int'l. Pool	**19.3%**	**33.2%**	**15.7%**	**13.9%**
Composite Index*	17.8	31.6	14.3	11.9

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



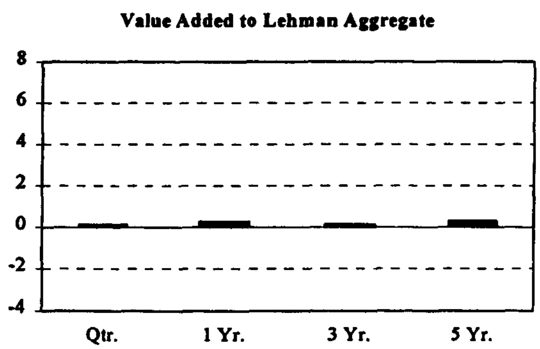
Bond Pool

Target: Lehman Brothers Aggregate Bond Index

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

Period Ending 12/31/99

	Qtr.	Yr.	3 Yrs. (Annualized)	5 Yrs. (Annualized)
Bond Pool	**0.0%**	**-0.5%**	**5.9%**	**8.0%**
Lehman Agg.	-0.1	-0.8	5.7	7.7



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools
(Net of Fees)

Real Estate Pool (Basic Funds only)

Expectation: Real estate investments are expected to exceed the rate of inflation by 3-5% 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, therefore, are relatively immature and returns may not be indicative of future results.

	Period Ending 12/31/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	1.4%	7.5%	16.2%	11.9%
Inflation	0.2	2.7	2.0	2.4

Private Equity Pool (Basic Funds only)

Expectation: Private equity investments are expected to provide annualized returns at least 3% greater than historical public equity returns, over the life of the investment. This equates to an absolute return of approximately 13-14% annualized.

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

	Period Ending 12/31/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	0.6%	28.8%	19.7%	23.4%

Resource Pool (Basic Funds only)

Expectation: Resource investments (primarily oil and gas) are expected to exceed the rate of inflation by 3-5% 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, therefore, are relatively immature and returns may not be indicative of future results.

	Period Ending 12/31/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	3.0%	-2.7%	5.4%	12.0%

Yield Oriented Pool (Post Fund only)

Expectation: Yield oriented investments are expected to provide annualized returns at least 2% greater than historical public debt returns over the life of the investment. This equates to an absolute return of 10-11% annualized. The SBI began adding yield oriented alternative investments to the Post Fund in fiscal year 1996.

The SBI made its first commitment to the alternative investment program for the Post Fund in March 1994. All of the investments, therefore, are relatively immature and returns may not be indicative of future results.

	Period Ending 12/31/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Yield Oriented	1.2%	10.2%	11.9%	12.4%

SUPPLEMENTAL INVESTMENT FUND

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

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

2. It is one investment vehicle offered to employees as part of the state's Deferred Compensation Plan, the Individual Retirement Account Plan and College Supplemental Retirement Plan.

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

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

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

On December 31, 1999 the market value of the entire Fund was $1.7 billion.

Investment Options

	12/31/99 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$667
Growth Share Account – an actively managed, all common stock portfolio.	$347
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$410
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$32
Bond Market Account – an actively managed, all bond portfolio.	$92
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$98
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	$91

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%	65.0%
Bonds	35.0	32.9
Unallocated Cash	5.0	2.1
	100.0%	100.0%

Period Ending 12/31/99

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**10.7%**	**14.2%**	**18.2%**	**19.5%**
Composite*	10.7	13.7	17.9	19.1

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 12/31/99

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**16.1%**	**19.8%**	**25.2%**	**26.0%**
Composite*	18.3	23.6	26.0	26.6

* 95% Wilshire 5000/5% T-Bills Composite through October 1996. 100% Wilshire 5000 since November 1996.

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

The investment objective of the Common Stock Index Account is to generate returns that match those of the U.S. stock market as a whole. The Account is designed to track the performance of the Wilshire 5000, a broad-based equity market indicator.

The Account is invested 100% in common stock.

Period Ending 12/31/99

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**17.6%**	**23.4%**	**26.2%**	**27.0%**
Wilshire 5000	18.3	23.6	26.0	27.1

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. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International index of Europe, Australasia and the Far East (EAFE-Free). The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value.

Period Ending 12/31/99

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yrs. (Annualized)
Total Account	**19.3%**	**33.4%**	**15.7%**	**13.9%**
Composite*	17.8	31.6	14.3	11.9

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

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

Period Ending 12/31/99		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**0.0%**	**-0.5%**	**5.9%**	**8.1%**
Lehman Agg.	-0.1	-0.8	5.7	7.7

Asset Mix

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

MONEY MARKET ACCOUNT

Investment Objective

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

Period Ending 12/31/99		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.4%**	**5.3%**	**5.6%**	**5.7%**
3 month T-Bills	1.3	4.8	5.0	5.2

Asset Mix

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

FIXED INTEREST ACCOUNT

Investment Objectives

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

Period Ending 12/31/99		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 11/1/94
GIC Pool	1.5%	6.2%	6.4%	6.6%

Asset Mix

The Fixed Interest Account is invested primarily in stable value instruments which are guaranteed investment contracts (GIC's) and GIC type investments offered by major U.S. companies and banks. Contributions into the Account are deposited into a single pool of these investments which have varying maturities, typically 3 to 5 years. The pool has a credited interest rate that changes monthly.

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.

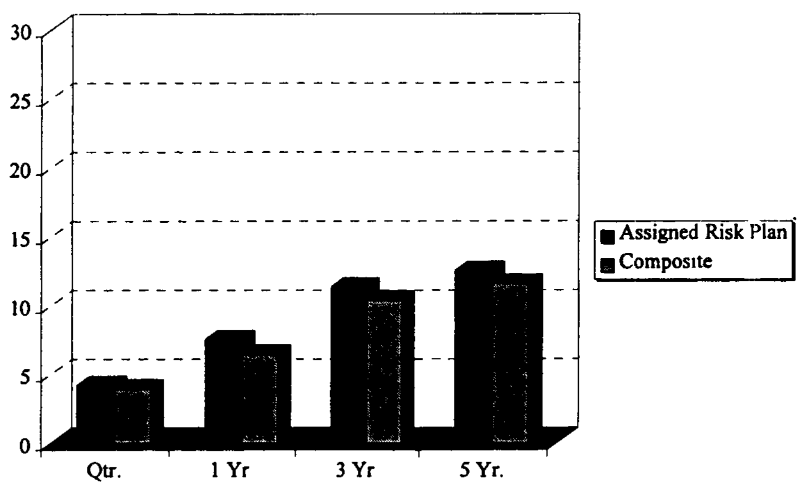
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	12/31/99 Target	12/31/99 Actual
Stocks	20.0%	32.4%
Bonds	80.0	67.6
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 December 31, 1999 the market value of the Assigned Risk Plan was $750 million.



	Period Ending 12/31/99			
			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund*	4.2%	7.5%	11.4%	12.6%
Composite	4.0	6.5	10.4	11.6
Equity Segment*	12.9	21.5	26.9	27.9
Benchmark	15.1	21.1	27.7	28.7
Bond Segment*	0.5	2.0	5.8	7.5
Benchmark	0.4	2.1	5.9	7.3

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

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

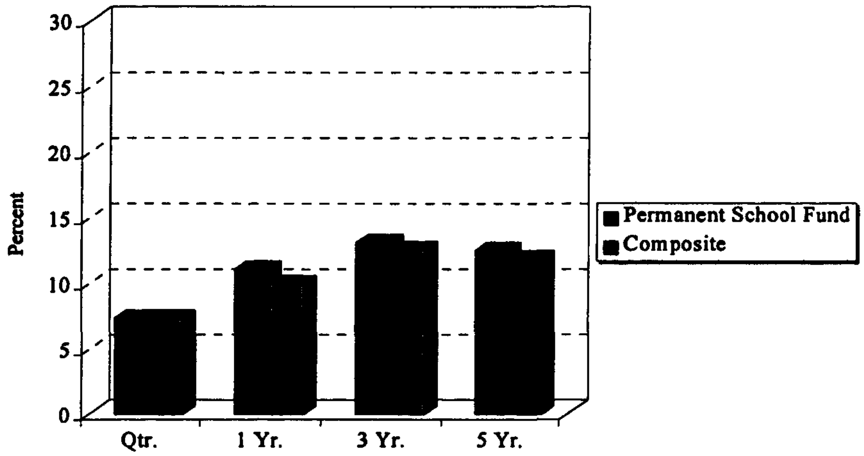
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	12/31/99 Target	12/31/99 Actual
Stocks	50.0%	52.8%
Bond	48.0	45.7
Unallocated Cash	2.0	1.5
	100.0%	100.0%

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

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

Market Value
On December 31, 1999 the market value of the Permanent School Fund was $577 million.



Period Ending 12/31/99	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	7.3%	11.1%	13.1%	12.5%
Composite	7.3	9.9	12.5	11.8
Equity Segment (1) (2)	14.8	21.0	N/A	N/A
S&P 500	15.1	21.1	N/A	N/A
Bond Segment (1)	0.0	0.0	6.1	8.6
Lehman Aggregate	-0.1	-0.8	5.7	7.7

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

ENVIRONMENTAL TRUST FUND

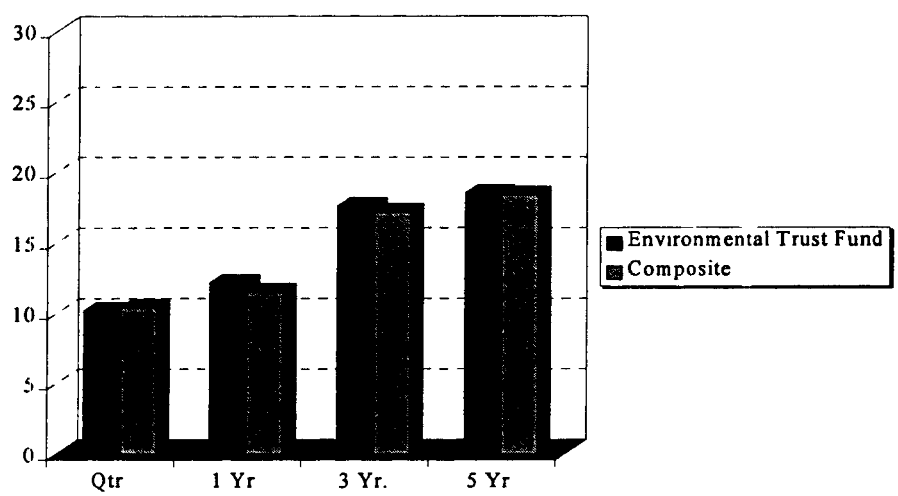
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

Asset Mix
The Environmental Trust Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification. As of July 1, 1999, the asset allocation changed from 50% stocks/50% fixed income to 70% stocks /30% fixed income.

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

Market Value
On December 31, 1999 the market value of the Environmental Trust Fund was $308 million.

	12/31/99 Target	12/31/99 Actual
Stocks	70.0%	71.4%
Bonds	28.0	28.0
Unallocated Cash	2.0	0.6
	100.0%	100.0%



	Period Ending 12/31/99			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	10.2%	12.2%	17.6%	18.5%
Composite	10.4	11.5	17.2	18.4
Equity Segment*	14.8	21.0	27.7	28.6
S&P 500	15.1	21.1	27.7	28.7
Bond Segment*	0.0	0.0	6.5	8.3
Lehman Agg.	-0.1	-0.8	5.7	7.7

* Actual returns are calculated net of fees.

TOBACCO ENDOWMENT FUNDS

Investment Objectives
The investment objectives of the two Tobacco Endowment Funds, the Tobacco Prevention Fund (TPF) and the Medical Education Fund (MEF), are governed primarily by the constraints and goals for the Funds as established by statute. Annual earnings up to five percent of the market value of the Funds, measured each year at the beginning of the fiscal year for the Tobacco Prevention Fund and measured at the beginning of each quarter for the Medical Education Fund, may be distributed for expenditure. In addition, the principal of the Funds must remain inviolate and be returned to the State's general fund along with any remaining interest upon expiration of the Funds on June 30, 2015. The distributions from the TPF are used by the Commissioner of Health to fund public health initiatives. The distributions from the MEF are used for medical education at the University of Minnesota medical school.

Asset Mix
Effective July 1, 1999, the two endowment funds are invested in a laddered fixed income portfolio. This strategy offers the highest probability that the endowment funds will earn five percent annually while keeping the principal inviolate.

Investment Management
SBI staff manages all assets of the two endowment funds. The fixed income portfolio is invested entirely in U.S. Treasury and Government Agency bonds with maturities no greater than the expiration date of the funds. The maturities of the bonds are spread out over the entire life of the endowment funds. This strategy will minimize reinvestment risk and fluctuations in the market values of the funds while adhering to the investment objectives.

Market Value
On December 31, 1999 the market value of the Tobacco Prevention Fund was $414.9 million and the market value of the Medical Education Fund was $264.0 million. These total market values include contributions of $135.3 million and $86.5 million received at the end of December 1999 to each fund respectfully.

Period Ending 12/31/99

Annualized Yield for the current quarter:	Tobacco Prevention Fund	6.47%
	Medical Education Fund	6.36%
Market Value of Funds as of the **beginning** of the current quarter (millions):	Tobacco Prevention Fund	$282.3
	Medical Education Fund	181.5

ANNUAL DATA: TOBACCO ENDOWMENT FUNDS

	Annualized Yield:	Market Value at beginning of FY (millions):	Spendable Earnings Credited from the Fund (millions):
FY99:			
(TPF)	**6.32 %**	**$281.1**	**$7.5**
(MEF)	**6.28**	**180.7**	**4.5**

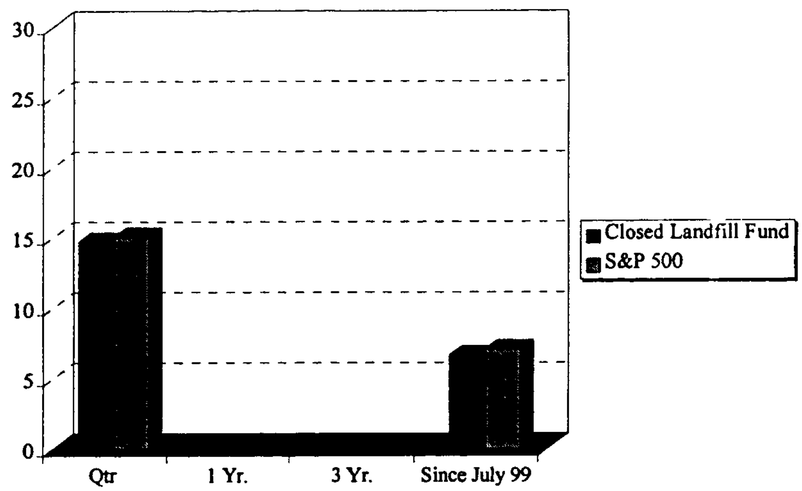
CLOSED LANDFILL INVESTMENT FUND

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 December 31, 1999 the market value of the Closed Landfill Investment Fund was $5.5 million.



	Period Ending 12/31/99			
	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
Total Fund (1)	14.7%	N/A	N/A	6.7
S&P 500 (2)	15.1	N/A	N/A	7.1

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

STATE CASH ACCOUNTS

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 12/31/99

	Market Value (Millions)	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool*	**$5,272**	1.3%	4.9%	5.4%	5.7%
Custom Benchmark**		1.1	4.3	4.9	5.5
Trust Fund Cash Pool*	**64**	1.4	5.2	5.5	5.7
Custom Benchmark***		1.2	4.6	4.9	5.5
3 month T-Bills		1.3	4.8	5.0	5.2

* Actual returns are calculated net of fees.

** Beginning in January 1997, the Treasurer's Cash Pool is measured against a blended benchmark consisting of the Lehman Brother's 1 to 3 year Government Index for the first $1.2 billion and the IBC all Taxable Money Fund Index for the balance of the portfolio. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% 1-3 year Treasuries.

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

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value December 31, 1999 (in Thousands)

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	62,650	-0-	1,802,637	-0-	4,441,456	1,439,935	779,792	8,526,470
	0.73%		21.14%		52.09%	16.89%	9.15%	100%
Public Employees Retirement Fund	135,353	-0-	1,028,787	-0-	2,538,235	822,855	445,822	4,971,052
	02.72%		20.70%		51.06%	16.55%	8.97%	100%
State Employees Retirement Fund	52,460	-0-	975,249	-0-	2,406,144	780,033	422,615	4,636,501
	1.13%		21.03%		51.90%	16.82%	9.12%	100%
Public Employees Police & Fire Fund	164	471	561,200	-0-	1,392,096	450,586	244,412	2,648,929
	0.01%	0.02%	21.18%		52.55%	17.01%	9.23%	100%
Highway Patrol Retirement Fund	14	-0-	59,841	-0-	148,268	48,007	26,036	282,166
	0.00%		21.21%		52.55%	17.01%	9.23%	100%
Judges Retirement Fund	290	-0-	5,383	-0-	13,281	4,306	2,333	25,593
	1.13%		21.03%		51.89%	16.83%	9.12%	100%
Correctional Employees Retirement	3,103	-0-	57,605	-0-	142,121	46,074	24,959	273,862
	1.13%		21.04%		51.90%	16.82%	9.11%	100%
TOTAL BASIC FUNDS	254,034	471	4,490,702	-0-	11,081,601	3,591,796	1,945,969	21,364,573
	1.19%	0.00%	21.02%		51.87%	16.81%	9.11%	100%
POST RETIREMENT FUND	499,165	-0-	5,638,465	-0-	10,797,521	3,519,211	313,312	20,767,674
	2.40%		27.15%		51.99%	16.95%	1.51%	100%
TOTAL BASIC & POST	753,199	471	10,129,167	-0-	21,879,122	7,111,007	2,259,281	42,132,247
	1.79%	0.00%	24.04%		51.93%	16.88%	5.36%	100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	14,275 2.14%	219,288 32.89%	-0-	-0-	433,266 64.97%	-0-	-0-	666,829 100%
Growth Share Account	-0-	-0-	-0-	-0-	346,654 100%	-0-	-0-	346,654 100%
Money Market Account	27,096 100%	-0-	-0-	-0-	-0-	-0-	-0-	27,096 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	410,464 100%	-0-	-0-	410,464 100%
Bond Market Account	-0-	-0-	92,055 100%	-0-	-0-	-0-	-0-	92,055 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	32,121 100%	-0-	32,121 100%
Fixed Interest Account	1,116 1.23%	-0-	89,884 98.77%	-0-	-0-	-0-	-0-	91,000 100%
Money Market Deferred Comp	71,088 100%	-0-	-0-	-0-	-0-	-0-	-0-	71,088 100%
TOTAL SUPPLEMENTAL FUNDS	113,575 6.54%	219,288 12.62%	181,939 10.47%	-0-	1,190,384 68.52%	32,121 1.85%	-0-	1,737,307 100%
TOTAL RETIREMENT FUNDS	866,774 1.98%	219,759 0.50%	10,311,106 23.50%	-0-	23,069,506 52.59%	7,143,128 16.28%	2,259,281 5.15%	43,869,554 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	5,633 0.75%	-0-	504,905 67.35%	-0-	239,133 31.90%	-0-	-0-	749,671 100%
ENVIRONMENTAL FUND	1,856 0.60%	86.182 27.96%	-0-	220.212 71.44%	-0-	-0-	-0-	308.250 100%
PERMANENT SCHOOL FUND	8,938 1.55%	263,818 45.71%	-0-	304,449 52.74%	-0-	-0-	-0-	577,205 100%
TOBACCO SETTLEMENT POOL	2,537 0.37%	676,331 99.63%	-0-	-0-	-0-	-0-	-0-	678,868 100%
CLOSED LANDFILL INVESTMENT	6 0.11%	-0-	-0-	5,484 99.89%	-0-	-0-	-0-	5,490 100%
TREASURERS CASH	5,298,858 100%	-0-	-0-	-0-	-0-	-0-	-0-	5,298,858 100%
HOUSING FINANCE AGENCY	27,641 10.58	233,651 89.42%	-0-	-0-	-0-	-0-	-0-	261,292 100%
MINNESOTA DEBT SERVICE FUND	60,796 26.48%	168,786 73.52%	-0-	-0-	-0-	-0-	-0-	229,582 100%
MISCELLANEOUS ACCOUNTS	242,225 58.51%	136,378 32.95%	-0-	35,351 8.54%	-0-	-0-	-0-	413,954 100%
GRAND TOTAL	6,515,264 12.44%	1,784,905 3.41%	10,816,011 20.64%	565,496 1.08%	23,308,639 44.49%	7,143,128 13.63%	2,259,281 4.31%	52,392,724 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 29, 2000

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 period ending January 31, 2000 is included as **Attachment A.**

   A report on travel for the period from November 16, 1999 - February 15, 2000 is included as **Attachment B.**

2. **Results of FY99 Financial Audit**

   The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 1999. I am pleased to report that the SBI received a "clean opinion" on its financial statements. See **Attachment C.**

3. **Legislative Update**

   A summary of legislative activity of interest to the SBI is in **Attachment D.**

4. **Assigned Risk Plan Manager**

   The Workers Compensation Assigned Risk Plan currently has a surplus. During the 2000 Legislative Session all or a portion of the surplus may be appropriated to be used for other purposes. Disposing of the Plan's surplus would entail selling all or a portion of the stock portfolio, which is currently managed by GE Investment Management. If the Legislature enacts the measure, the SBI's contract with GE Investment Management may have to be terminated. The termination would be made based on legislative action, not at a Board meeting.

5. **Litigation Update**

   The SBI has been designated lead plaintiff in a class action suit against Mercury Finance Corporation. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on March 8, 2000.

6. Update on Tobacco Information

The resolution adopted by the Board at its September 2, 1998 meeting required active managers to divest holdings in stock of companies that derive at least fifteen percent of revenues from tobacco products by September 2001.

From September 30, 1999 to December 31, 1999 shares in SBI active stock portfolios were reduced by 25,557 shares, dropping from approximately 2.30 million shares to approximately 2.28 million shares. The market value of these holdings decreased from approximately $66 million to approximately $47 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment E**.

7. Results of Y2K Preparedness Efforts

During 1999, staff focused considerable attention and resources to address the issue surrounding the Year 2000 computer issue. The staff and the SBI's business partners and service providers encountered no problems as a result of the Year 2000 computer issue. A summary of the results of the SBI's efforts and plans is presented in **Attachment F**.

8. IAC Appointments

The terms of the following Board appointees to the Investment Advisory Council (IAC) have expired:

• Douglas Gorence	Chief Investment Officer U of M Foundation Investment Advisors
• Kenneth Gudorf	Chief Executive Officer Agio Capital Management, LLC
• P. Jay Kiedrowski	Executive Vice President Wells Fargo & Company
• Judith Mares	Financial Consultant Mares Financial Consulting, Inc.

The vacancies were announced in the November 1999 State Register through the Open Appointments Process.

Mr. Gorence, Mr. Gudorf, Mr. Kiedrowski and Ms. Mares have applied for reappointment.

I reviewed this matter with the SBI Deputies/Designees who suggested that the Board take action on the four applications for reappointment at the March 8, 2000 meeting. We received and reviewed two additional applications for membership on the Council by the following:

• John Berkner	Roseville, MN
• John "Patrick" Klett	Afton, MN

While these two candidates possessed admirable financial experiences, we believe that the experience and knowledge of the four members is more closely related to the needs of the State Board of Investment.

RECOMMENDATION:

I recommend that the SBI appoint the following individuals to new terms on the IAC:

Douglas Gorence
Kenneth Gudorf
P. Jay Kiedrowski
Judith Mares

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2000 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JANUARY 31, 2000

ITEM	FISCAL YEAR 2000 BUDGET	FISCAL YEAR 2000 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,812,000	$ 911,921
SEVERENCE PAYOFF	30,000	0
WORKERS COMPENSATION INSURANCE	1,000	359
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,844,000**	**$ 912,280**
STATE OPERATIONS		
RENTS & LEASES	126,000	75,025
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	11,306
PRINTING & BINDING	20,000	7,101
PROFESSIONAL/TECHNICAL SERVICES	35,000	14,368
COMPUTER SYSTEMS SERVICES	0	6,442
COMMUNICATIONS	30,000	15,048
TRAVEL, IN-STATE	3,000	402
TRAVEL, OUT-STATE	65,000	25,253
SUPPLIES	50,000	25,462
EQUIPMENT	50,000	46,840
EMPLOYEE DEVELOPMENT	15,000	10,490
OTHER OPERATING COSTS	42,000	2,688
SUBTOTAL	**$ 466,000**	**$ 240,425**
TOTAL GENERAL FUND	**$ 2,310,000**	**$ 1,152,705**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel November 16, 1999 – February 15, 2000

Purpose	Name (s)	Destination and Date	Total Cost
Manager Monitoring: **Alternative Investment Managers:** Banc Fund, Equity Office Properties Trust, GTCR, Thoma Cressey	J. Griebenow A. Christensen	Chicago, IL 12/15-12/16	$1,418.50
Staff Conference "Emerging Markets Forum" sponsored by Elkind Economics, Inc.	M. Perry	Dallas, TX 1/12-1/13	$531.80
Staff Conference "Risk Management Conference" sponsored by Chicago Board Options Exchange Chicago Board of Trade	M. Menssen	Captiva Island, FL 1/26-1/29	$1,799.84
Manager Monitoring **Fixed Income Managers:** Deutsche Asset Mgmt., Lincoln Capital Mgmt., Morgan Stanley Dean Witter Investment Mgmt., Standish, Ayer & Wood **Domestic Stock Manager:** Franklin Portfolio Associates Trust **Consultant:** Richards & Tierney	L. Buermann J. Matz	Boston, MA, Phila., PA, Chicago, IL 2/3-2/4	$3,352.97

OLA OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Report Summary

Minnesota State Board of Investment
Fiscal Year Ended June 30, 1999

Key Finding and Recommendation:

- The statutory basis SBI has used to calculate participation in the Post Retirement Investment Fund (Post Fund) should not be used as a basis for allocating retirement fund assets to participants for financial reporting purposes. Using fair value (market value) to allocate the Post Fund investments to participants at June 30, 1999, could have resulted in a reallocation of retirement fund assets of up to $30 million for certain retirement funds. We recommended that SBI work with the Department of Finance and the state's retirement fund administrators to develop a method of calculating participation in the Post Fund for financial reporting purposes that uses fair value accounting as a basis for the allocation. (Finding 1, page 3)

Agency Response:

- SBI agreed to work with the Department of Finance and retirement fund administrators to develop the methodology required to allocate the Post Fund investments to participants based on fair value.

Background Information:

- The Minnesota State Board of Investment (SBI) administers the investment of state funds and retirement fund assets of the Minnesota State Retirement System, Teachers Retirement Association, and the Public Employees Retirement Association. SBI also administers investments for other state agencies, including invested treasurer's cash, which is the idle cash in state accounts. At June 30, 1999, SBI administered over $50 billion in state assets.

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Table of Contents

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Jack Hirschfeld, CPA	Audit Director
Patrick Phillips, CPA	Auditor
Scott Tsjomsland, CPA	Auditor
Charlie Gill	Auditor
April Snyder	Auditor
Natalie Steen	Intern

Exit Conference

We discussed this report and other issues involving the internal control structure with the following State Board of Investment staff at an exit conference on January 19, 2000:

Howard Bicker	Executive Director
L. Michael Schmitt	Administrative Director

OLA OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA • James Nobles, Legislative Auditor

Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Minnesota State Board of Investment

Howard J. Bicker, Executive Director
Minnesota State Board of Investment

We have audited the statement of net assets of the Supplemental Investment Fund and the Post Retirement Investment Fund of the Minnesota State Board of Investment for the year ended June 30, 1999, and the related statements of operations, and have issued our report thereon dated December 1, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance
As part of obtaining reasonable assurance about whether the Minnesota State Board of Investment's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting
In planning and performing our audit, we considered the Minnesota State Board of Investment's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control financial reporting. However, we noted certain matters involving the internal control structure over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters

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coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect SBI's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Finding 1 describes a reportable condition.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended solely for the information and use of the Legislative Audit Commission and the Minnesota State Board of Investment, and is not intended to be and should not be used by anyone other than these specified parties

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 1, 1999

Report Signed On: February 7, 2000

Current Finding and Recommendation

1. The statutory basis the Minnesota State Board of Investment (SBI) has used to calculate participation in the Post Retirement Investment Fund (Post Fund) should not be used as a basis for allocating retirement fund assets to participants for financial reporting purposes.

SBI has calculated the individual retirement systems' (Minnesota State Retirement System, Public Employees Retirement Association, and Teachers Retirement Association) participation in the Post Fund at June 30 each year as specified in statute. SBI's formula for determining participation in the Post Fund accounts for each retirement fund's contributions and withdrawals on a cost basis, and adds the statutorily required six percent earnings increase and the annual Post Fund benefit increase. SBI has correctly calculated participation in the Post Fund according to statute and the Post Fund financial statements have been presented fairly, in all material respects, in accordance with generally accepted accounting principles. However, the retirement fund administrators have also used the information to report each retirement fund's share of Post Fund assets in the state's financial statements. The cost basis was acceptable for both statutory reporting and for external financial reporting purposes until fiscal year 1998. At that time, established accounting principles for financial reporting changed. The change in accounting principles will require a new method of calculating participation in the Post Fund for financial reporting purposes.

In March 1997, the Government Accounting Standards Board (GASB) issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement required governmental entities to report investments at fair value (market value) on the balance sheet and to recognize unrealized investment gains and losses on the fair value of investments in the operating statement each year. The state implemented the fair value reporting as required by the GASB in fiscal year 1998. SBI has continued to use the cost basis to calculate statutory participation in the Post Fund. SBI then used the statutory participation percentage to allocate the fair value of investments to the fund participants. Using fair value to allocate the Post Fund investments to participants could have a material impact on the state's financial statements. Table 1 shows a simplified comparison between the cost method and the fair value method of calculating participation in the Post Fund.

Table 1
Comparison of Fair Value to Cost Basis for Computing Participation in the Post Retirement Investment Fund
For Fiscal Year 1999 (1)

Retirement Fund	Cost Basis	Fair Value Basis(2)	Difference
Teachers Retirement Fund	$ 8,669,445,383	$ 8,638,394,071	($31,051,312)
MSRS State Employees Retirement Fund	$ 2,655,240,917	$ 2,664,644,562	$ 9,403,645
Public Employees Retirement Fund	$ 5,624,136,719	$ 5,656,823,857	$ 32,687,138
PERA Police and Fire Fund	$ 927,990,723	$ 909,031,354	($18,959,369)
Police and Fire Consolidation Fund	$ 869,446,198	$ 885,431,496	$ 15,985,298
State Patrol Retirement Fund	$ 290,298,723	$ 283,840,434	($ 6,458,289)
Legislative Retirement Fund	$ 34,465,694	$ 36,281,617	$ 1,815,923
Correctional Employees Retirement Fund	$ 127,997,370	$ 120,866,230	($ 7,131,140)
Judicial Retirement Fund	$ 94,434,292	$ 98,142,398	$ 3,708,106
TOTAL	$19,293,456,019	$19,293,456,019	

(1) Amounts reported in this table are based on year-end values and do not reflect changes in fair value during the year.
(2) Fair value amounts for fiscal year 1999 were calculated by using the fair value of individual retirement fund assets at June 30, 1998, adding current year contributions and withdrawals, and adding the statutorily required six percent earnings increase and the annual Post Fund benefit increase.

Source: Office of the Legislative Auditor Analysis.

Continuing to use the cost basis for determining participation in the Post Fund could distort the financial reporting of investment activity in the state's financial statements. Therefore, we think that SBI needs to work with other state agencies to develop another method of calculating participation in the Post Fund for financial reporting purposes. The new method needs to consider adjusting for fair value changes on a more frequent basis, such as monthly or quarterly.

Recommendation

- *SBI should work with the Department of Finance and the retirement fund administrators to develop a method of calculating participation in the Post Fund for financial reporting purposes that uses fair value accounting as the basis for the allocation.*

Status of Prior Audit Issues
As of December 1, 1999

Most Recent Audit

January 29, 1999, Legislative Audit Report 99-6 covered the fiscal year ended June 30, 1998, and had no reportable issues. The audit scope included the investment functions material to the State of Minnesota's financial statements and the Supplemental Investment Fund and the Post Retirement Investment Fund included in SBI's Annual Report. We audit the State Board of Investment on an annual basis.

State of Minnesota Audit Follow-up process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

MINNESOTA
STATE
BOARD OF
INVESTMENT

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January 28, 2000

Mr. James R. Nobles
Legislative Auditor
Centennial Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The staff of the State Board of Investment (SBI) acknowledges that the retirement systems have been reporting participation in the Post Retirement Fund using a fair market value that is calculated using the percentage ownership at statutory cost. Current Government Accounting Standards Board (GASB) requirements are that governmental entities report on a fair value (market value) basis.

The staff of the SBI will work with the staff at the retirement systems and the Department of Finance to develop the methodology required to report on a fair value basis.

The responsibility for implementing this recommendation will be given to the Administrative Director.

Sincerely,

L. Michael Schmitt
Administrative Director

ATTACHMENT D

Bills of Interest to the Minnesota State Board of Investment
2000 Legislative Session
Includes Action Through 2/16/99

Description of Bill	HF/SF # and Author	Current Status
SBI Housekeeping Bill - Includes tobacco endowment funds investment flexibility	SF 2795 (Metzen)	Hearing Senate Govt'l. Operations 2/17
Post Retirement Fund Bill - 10 year amortization of investment gains from 5 years	SF 2674 (Stumpf)	Referred to Govt'l Operations
403(b) Annuity for Teachers - Removes SBI from selection of authorized vendors for employer match opportunity	SF 1559 (Oliver) HF 1838 (Davids)	Hearing Pension Commission 2/21

ATTACHMENT E

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
September 30, 1999

Domestic Common Stocks and American Depository Receipts (ADR's)

Company	Percent Revenue from Tobacco in 1997	SBI Shares 09/30/99	SBI Cost Value 09/30/99	SBI Market Value 09/30/99
Philip Morris Cos., Inc.	46	1,794,627	$47,985,514	$61,353,811
Universal Corp.	74*	45,000	1,464,701	1,175,625
Subtotal		**1,839,627**	**$49,450,215**	**$62,529,436**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 09/30/99	SBI Cost Value 09/30/99	SBI Market Value 09/30/99
Compagnie Financiere Richemont	68*	80,000	$ 2,751,015	$ 840,000
Rembrandt Group Ltd.	>50	385,000	3,376,822	2,919,672
Subtotal		**465,000**	**$ 6,127,837**	**$ 3,759,672**
Total SBI Holdings		**2,304,627**	**$55,578,052**	**$66,289,108**

Sources: The publication, "The Tobacco Industry," Eighth Edition, 1998, by the Investor Responsibility Research Center (IRRC), Washington D.C. is the source for the tobacco revenue information. SBI holdings data are from SBI bank records.

*1998 data

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
December 31, 1999

Domestic Common Stocks and American Depository Receipts (ADR's)

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/99	SBI Cost Value 12/31/99	SBI Market Value 12/31/99
Philip Morris Cos., Inc.	46	1,769,070	$47,364,850	$41,020,311
Universal Corp.	74*	45,000	1,464,701	1,026,563
Subtotal		**1,814,070**	**$48,829,551**	**$42,046,874**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/99	SBI Cost Value 12/31/99	SBI Market Value 12/31/99
Compagnie Financiere Richemont	68*	80,000	$ 2,751,015	$ 1,128,000
Rembrandt Group Ltd.	>50	385,000	3,376,822	3,665,475
Subtotal		**465,000**	**$ 6,127,837**	**$ 4,793,475**
Total SBI Holdings		**2,279,070**	**$54,957,388**	**$46,840,349**

Sources: The publication, "The Tobacco Industry," Eighth Edition, 1998, by the Investor Responsibility Research Center (IRRC), Washington D.C. is the source for the tobacco revenue information. SBI holdings data are from SBI bank records.

*1998 data

ATTACHMENT F

MINNESOTA STATE BOARD OF INVESTMENT

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DATE: February 29, 2000

TO: Members, State Board of Investment

FROM: Mansco Perry

SUBJECT: Results of Y2K Preparedness Efforts

During 1999, Staff focused considerable attention and resources to address the issues surrounding the Year 2000 computer issue. At the June and December State Board of Investment meetings, staff presented progress reports detailing it's contingency plans to minimize the SBI's exposure to the risk of compliance failure. Staff was requested to provide the Board with a summary of its efforts and, results of the implementation at the first SBI meeting of Year 2000.

In summary, the staff and the SBI's business partners and service providers encountered no problems as a result of the Year 2000 computer issue.

Following are the results of implementation of the contingency plans:

- Staff partnered with the Department of Finance and the State Treasurers' office to establish a contingent banking relationship with State Street Bank to provide payment and clearing services for the state cash management operation. This relationship served as a backup measure to our current state cash custodian, Norwest/Wells Fargo. Staff sent funds totaling almost $1 billion to this account at the end of December 1999. The funds were returned to the Norwest/Wells Fargo account throughout January 2000 and the account was closed.

- Staff's internal computer systems were shut down at the close of business on December 30, 2000. During the New Years weekend, staff started and tested the systems without failure. The systems were functioning properly at the beginning of business on January 3, 2000.

- Staff postponed its normal portfolio asset rebalancing until February 1, 2000. The delay in the process did not adversely impact the SBI's normal operations.

- Each quarter, the SBI's domestic equity managers and our consultant, Richards and Tierney, must reconstruct the manager's custom benchmarks and the Dynamic Completeness Fund benchmarks. Generally, this process occurs prior to the end of the quarter. To avoid potential complications, staff worked with Richards and Tierney and the managers to put the benchmarks in place earlier. This process did not adversely impact the investment process.

- The SBI's custodian banks, State Street Bank and Norwest/Wells Fargo, and our accounting services provider, Financial Control Systems had taken appropriate steps to address Y2K compliance issues. All systems utilized by the SBI from these vendors experienced no problems.

- SBI staff contacted all investment managers under contract with the SBI on January 3, 2000. All managers reported that their systems were up and running and experienced no Year 2000 system or computer failures.

- The securities lending group at State Street Bank monitored their program throughout the New Years' holiday weekend and reported that no problems were experienced.

- Staff did not restrict the trading activity of SBI managers as a result of the Year 2000 concerns. In discussions with managers prior to year-end, staff believed managers would act prudently Our assessment is that investment managers took the concerns seriously and acted appropriately. Staff does not believe the trading activities of our investment managers adversely impacted SBI portfolios during year-end operations.

- SBI staff reviewed our disaster recovery plan during December. While there was no action required, staff was prepared to react to potential problems. Several staff members checked our offices over the holiday weekend to ensure that necessary services were working (phones, utilities, etc.) and that our computer systems were functioning properly.

- Lastly, staff has monitored Y2K events in international markets. There were no incidents related to Y2K which had any adverse impact on world securities markets. There have been several reports of Y2K incidents in Africa and Europe. However, it appears that the efforts and cooperation resulted in the world not experiencing serious Y2K problems so far.

While the potential problems we planned for did not occur, the SBI prepared to minimize the risk associated with such.

Tab C

COMMITTEE REPORT

DATE: February 29, 2000

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on February 17, 2000 to consider the following agenda items:

- Review of manager performance for the period ending December 31, 1999.
- Update on funding of fixed income managers.
- Review of fixed income manager Standish, Ayer & Wood.
- Recommendation to conduct a search for the Emerging Equity Manager Program.
- Recommendation to renew BGI's passive equity management contract.
- Approval of updated Tobacco Fund Investment Policy Paper.

Action is required by the SBI / IAC on the last three items.

INFORMATION ITEMS:

1. Review of manager performance for the period ending December 31, 1999.

- *Equity Managers*

For the period ending December 31, 1999, the **domestic equity manager program** under-performed the Wilshire 5000 for all time periods. The **current managers** out-performed the aggregate benchmark for the one, three, five-year and since inception time periods and under-performed for the quarter.

Time period	Total Program	Wilshire 5000
Quarter	16.5%	18.3%
1 Year	21.0	23.6
3 Years	25.5	26.0
5 Years	26.6	27.1

Current Mgrs. Only	Aggregate Benchmark
16.5%	16.7%
22.4	21.6
27.0	25.8
28.0	26.7

The performance evaluation reports for the domestic equity managers start on the **first "blue page"** of this Tab.

- *Fixed Income Managers*

For the period ending December 31, 1999, the **fixed income manager program** and **current managers** outperformed the Lehman Aggregate and the aggregate benchmark during all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	0.0%	-0.1%
1 Year	-0.5	-0.8
3 Years	5.9	5.7
5 Years	8.0	7.7

Current Mgrs. Only	Aggregate Benchmark
0.0%	-0.1%
-0.6	-0.8
5.9	5.7
8.1	7.7

The performance evaluation reports for the fixed income managers start on the **third "blue page"** of this Tab.

2. Update on funding of new fixed income managers.

At their December 8, 1999 Board meeting, the State Board of Investment voted to hire three additional active fixed income managers. The managers were funded on February 1, 2000 at the following levels:

Deutsche Asset Management	$600 million
Dodge & Cox Investment Managers	$600 million
Metropolitan West Asset Management	$250 million

Funding for the three new fixed income managers came from the liquidation of Investment Adviser's account and asset class rebalancing.

3. Review of fixed income manager, Standish, Ayer & Wood.

The Committee reviewed material prepared by Staff on Standish, Ayer & Wood. Standish has significantly lagged their benchmark for the past two years. As a result of the poor results, the firm's performance on a rolling five-year basis has plotted below the benchmark line on the VAM graph for one year. When this occurs, the SBI's Manager Continuation Policy requires a review.

Standish's poor performance has been caused by security selection within the high yield sector. Standish was granted permission, and began investing in high yield securities in January 1996. However, over the past year and a half, high yield has detracted significantly from overall portfolio performance. Staff held extensive discussions and several meetings with Standish. It was determined that the poor performance was not attributed to the market environment or their investment philosophy, but that Standish has made poor investment decisions within the high yield sector. Last quarter, Staff rescinded Standish's ability to purchase additional high yield securities.

In response to these problems, Standish has taken several steps to improve their performance and address SBI's concerns. To improve their decision-making process, Standish hired a senior credit professional who has been given the responsibility of improving the firm's credit research and monitoring capabilities. Standish has also shifted some sectors between analysts and reassigned one analyst to an administrative role. A search is currently underway for two additional credit analysts. Within the portfolio, Standish has moved to a higher quality and higher liquidity focus, and lowered allocation limits to individual credits to increase diversification. Standish has also implemented several enhancements that Staff believes will improve their investment process.

Staff recommended, and the Committee concurred, that no action should be taken with regard to Standish, Ayer & Wood at this time. Although recent performance has been poor, the firm has demonstrated the ability to add value in the past. Standish has implemented several changes to improve their investment decision-making process and the Committee will evaluate the effects these changes have on performance over the next few quarters and reassess the situation at that time.

ACTION ITEMS:

4. Recommendation to conduct a search for the Emerging Equity Manager Program.

On April 1, 2000, the Emerging Equity Manager Program will be six years old. During the next quarter, a review of the program will be conducted. While the Program in aggregate has been successful, some adjustments may be warranted at this time. In anticipation of changes to the Program, the Committee has concurred with a recommendation from staff to conduct a search for new active equity managers to refresh the Program. It is anticipated that if a search were conducted a recommendation would be presented at the June 2000 Board meeting.

RECOMMENDATION:

The Committee recommends that a search committee be formed to review potential managers for the SBI's Emerging Equity Manager Program.

5. Recommendation to renew BGI's passive equity management contract.

Barclays Global Investors has been the Wilshire 5000 Index manager for the Domestic Equity program since July 1995. Their performance has been satisfactory and the Committee approved the recommendation by staff to renew their contract. The new contract will cover a five-year period.

RECOMMENDATION:

The Committee recommends that the SBI renew its contractual relationship with Barclays Global Investors for passive equity investment management services.

6. Tobacco Fund Investment Policy Paper

The Committee discussed revisions to the staff position paper concerning increased investment flexibility for the Tobacco Endowment Funds. The revisions would take effect upon successful passage of the SBI's administrative bill, which contains language to increase investment flexibility for the funds.

The Tobacco Endowment Funds were created by 1999 legislation. The statutory language restricts investment flexibility by stating that the principal of the Funds must remain inviolate.

The proposed change to the statutory language would eliminate the inviolate nature of the principal and would allow for the introduction of equities. Introducing equities into the funds would make the investment structure of the funds similar to those of the Environmental Trust Fund and the Permanent School Fund and allow for the potential of increased long-term returns.

The Committee adopted the revisions with the understanding that they would be effective only if the proposed legislation is enacted. The revised Tobacco Fund Investment Policy Paper begins on **page 5** of this tab.

RECOMMENDATION:

The Committee recommends that the SBI adopt the revised Tobacco Fund Investment Policy Paper, which recommends a change in asset allocation to 50% equities and 50% fixed income pending the approval of a revised bill before the current legislature.

NOT OFFICIAL
DRAFT

TOBACCO SETTLEMENT FUNDS

ASSET ALLOCATION AND INVESTMENT STRUCTURE

Staff Position Paper

Revised – February 2000

TOBACCO SETTLEMENT FUNDS
ASSET ALLOCATION AND INVESTMENT STRUCTURE

Table of Contents

TOBACCO SETTLEMENT FUNDS

ASSET ALLOCATION AND INVESTMENT STRUCTURE

INTRODUCTION

In 1998, the State of Minnesota settled a lawsuit with a number of tobacco companies. The total settlement was $6.1 billion with payments spread over a 20-year period. During the 1999 Legislative Session, two tobacco endowment funds were established using a portion of the proceeds already received and the future payments out to January 2001. This paper will address the following topics: 1) The purpose and funding of the endowment funds; 2) Rationale for the asset allocation and investment structure of the endowment funds; and 3) Description of the accounting procedures.

PURPOSE AND FUNDING

During the 1999 Legislative Session, two new endowment funds were created which will be funded from a portion of the State's tobacco settlement proceeds.

One endowment fund is the Medical Education Endowment Fund, which will receive 39 percent of the proceeds. Up to five (5) percent of the market value of the endowment fund, will be distributed to the University of Minnesota Board of Regents and to the Commissioner of Health. The allocations to the University will be used to help pay the costs of operating its medical school. The allocations to the Commissioner of Health will be used to fund other medical education expenses. By law, all earnings of the Medical Education Endowment Fund must be credited to the Fund.

The second endowment fund is the Tobacco Use Prevention and Local Public Health Endowment Fund, which will receive 61 percent of the proceeds. Up to five (5) percent of the market value of the endowment fund, will be distributed to the Commissioner of Health and may be used to reduce tobacco use among the youth of the State and for other public health initiatives. All earnings of this endowment fund must be credited to the Fund.

Both the Medical Education Endowment Fund and the Tobacco Use Prevention and Local Public Health Endowment Fund will expire on June 30, 2015. Upon expiration, the remaining balance of the endowment funds must be returned to the general fund.

The endowment funds are funded from the proceeds of the State's tobacco lawsuit according to the payment schedule stipulated in the settlement with the State. The funding comes from six (6) "one (1) time payments". The first two (2) payments were made on September 5, 1998 and January 4, 1999, totaling $459,800,000, and were the initial deposits to the Funds on July 1, 1999. Two (2) additional "one (1) time payments have been appropriated for deposit into the endowment funds. On January 3, 2000, $221,785,000 was deposited and $242,500,000 is scheduled to be deposited on January 2, 2001. The final two (2) "one (1) time payments" scheduled for January of 2002 and 2003, have not yet been appropriated. A portion of the settlement in the form of annual payments of $204 million in each of 20 years will not be used to fund the endowments.

ASSET ALLOCATION

The Medical Education Endowment Fund and the Tobacco Use Prevention and Local Public Health Endowment Fund will be invested by the State Board of Investment. The funds possess the following three goals:

1) To grow the principal of the fund in real terms over the long run.
2) To provide a rate of return consistent with the risk-return relationship of the fund.
3) To assure to the extent possible that the level of the annual distributions from this fund demonstrate low volatility.

To accomplish the preceding goals, the endowment funds should be invested in an asset allocation mix of 50 percent domestic equities and 50 percent domestic bonds. To achieve the first two goals, equities must be included in the asset mix to generate positive real returns. To accomplish the third goal, fixed income securities need to be included to maintain the overall portfolio volatility at a reasonable level.

Equities must be included in the asset mix so that the overall portfolio can generate a total return that will be greater than the rate of inflation after the 5% distribution is made. Since the long term absolute return of domestic equities has been about 11%, an asset allocation mix with a reasonable allocation to domestic equities will generate a portfolio return, after the 5% distribution, that has a reasonable probability of being greater than the long term rate of inflation.

The proper asset allocation and the level of overall risk that the fund can tolerate and still meet its goals must be determined. The higher the allocation to domestic equities the greater the portfolio volatility will be. For example, an allocation of 100% to domestic equities would produce a superior return but with a correspondingly higher level of risk. Therefore at least one other asset class must be added to the portfolio. Historically, domestic fixed income has served as the best diversifier to domestic equities. The tables below show the volatility and a correlation matrix for domestic and international equities and fixed income.

	Volatility
Domestic Equities	18%
International Equities	20
Domestic Bonds	8
International Bonds	12

Correlations

	Domestic Equities	International Equities	Domestic Bonds	International Bonds
Domestic Equities	1.00			
International Equities	0.60	1.00		
Domestic Bonds	0.35	0.20	1.00	
International Bonds	0.10	0.50	0.60	1.00

Relative to international equities, domestic bonds have a lower absolute volatility than international equities and a lower correlation to domestic equities. Compared to international bonds, the domestic bond market is more liquid and has a lower absolute volatility, mainly because there is no currency risk. In addition, the domestic bond market has lower transaction costs which offsets the lower correlation that international bonds provide.

The question now becomes, what is the minimum allocation to domestic bonds that will allow the funds to accomplish the third objective of stable distributions and still generate a portfolio return that accomplishes the first two objectives. Shown below is a table with various asset allocation mixes and their associated returns and volatilities.

Asset Mix (Equities/Bonds)	30/70	50/50	70/30
Expected Return	8.16	8.96	9.76
Volatility	8.91	10.95	13.54

Currently, the Permanent School Fund has a 50/50 asset mix while the Environmental Trust Fund has a 70/30 asset mix. Since the Tobacco Trust Funds will end in 2015, they should be run somewhat more on the conservative side. This would favor either the 30/70 or 50/50 asset mix. However the 50/50 asset mix, which generates an additional 0.80% expected return, will provide a higher probability of accomplishing the real rate of return goals while maintaining the volatility at a reasonable level.

INVESTMENT STRUCTURE

The easiest and least expensive approach to invest in domestic equities would be to invest the Tobacco Endowment Funds' assets in the Internal S&P 500 Index Pool that is currently being used by the Permanent School and Environmental Trust Funds. This investment vehicle offers the lowest cost in regard to fees and transaction costs while providing equity returns. Given the more conservative nature of the Tobacco Endowment Funds, a consistent market return would be preferable to risking a return that underperforms the market due to potentially poor active management decisions.

In developing the bond portfolio investment structure, the first decision is whether it should be run actively or more passively. Given the conservative nature of the portfolio, it would be best to manage the portfolio on a semi-passive basis. This would allow the portfolio to generate a more consistent market return based on an appropriate fixed income benchmark.

In selecting a fixed income benchmark, several risks must be considered. They are: 1) duration risk; 2) default risk; and 3) prepayment risk. Each of the three risk variables will impact the yield and total rate of return of a portfolio. Some fixed income indexes have a longer duration, which will provide a higher yield, but will also incur higher short-term volatility. Other fixed income indexes have lower quality bonds that generate a higher yield, but will also increase the default risk of the portfolio. Additional fixed income indexes have bonds whose principal maturities are uncertain. These bonds provide a higher initial yield because of the prepayment uncertainty, but if the bonds prepay differently from expectations, portfolio yield is increased or decreased.

The index chosen must balance the higher yield that can be provided versus additional risk that can be incurred. Given the more conservative nature of the portfolio and the desire that it produce fairly consistent distributions, it would be best that the index have a duration close to the overall domestic fixed income market and a relatively low default risk. Keeping the duration close to the overall market would prevent the portfolio from becoming too volatile causing it to generate widely fluctuating annual distributions. Reducing the default risk will prevent the portfolio from any large loss of principal due to specific event risk. Prepayment risk is not as much of a factor since there is no loss of principal and it does not materially affect the volatility of the portfolio. As to the potential for a lower yield due to unexpected prepayments, that will be minimized if the portfolio is semi-passively managed relative to the benchmark.

The index that best meets the above requirements is the Lehman Aggregate Index. This index has a duration equal to the overall domestic fixed income market and has a very low default risk due to the index's AAA average quality rating.

Therefore, the most efficient way to acquire fixed income exposure for the Tobacco Endowment Funds' assets would be to invest the assets in the Internal Fixed Income Trust Pool, which uses the Lehman Aggregate as its benchmark and is managed on a semi-passive basis. Both the Permanent School and Environmental Trust Funds use this pool for their fixed income exposure. The pool provides exposure to the broad domestic investment grade bond market at a very low cost.

RECOMMENDED INVESTMENT STRUCTURE

Staff recommends that one-half of the Tobacco Endowment Funds' assets be invested in the Internal S&P 500 Index Pool. This would provide an investment vehicle that would generate a consistent domestic equity market return at very little cost For the balance of the portfolio, staff recommends that it be invested in the Internal Trust Fixed Income Pool that uses the Lehman Aggregate as its benchmark. A fixed income portfolio structured in this fashion would provide reasonably high yield with a market like volatility and low default risk.

ACCOUNTING

The two (2) endowment funds' assets will be managed in two (2) commingled pools (The Internal S&P 500 Equity Pool and the Internal Fixed Income Trust Pool). The Internal S&P 500 Equity and the Fixed Income Trust Pools are unit valued accounts that are valued on a monthly basis. All unit value transactions occur on the first business day of the month based on the unit value determined as of the end of the last business day of the preceding month.

Transfers of the distributions will occur on an annual basis for the Medical Education Endowment Fund and the Tobacco Use Prevention and Local Public Health Endowment Fund. The distribution is limited to five (5) percent of the market value of each endowment fund at the beginning of the fiscal year. On the transfer date the appropriate amount will be moved via wire transfer from the SBI's custodial bank to the State Treasury and deposited into the state's general account. The Department of Finance will be notified of the amount of the transfers and will be responsible for the distribution of these funds.

RECOMMENDATION

Staff recommends that the Medical Education and Tobacco Use Prevention and Local Public Health Endowment Funds be invested in asset allocation structure of 50% domestic equities and 50% domestic fixed income. Staff further recommends that the endowment funds invest the domestic equity portion of the allocation in the Internal S&P 500 Index Pool and the domestic fixed income allocation be invested in the Internal Fixed Income Trust Pool. This approach will provide a reasonable probability that the Tobacco Endowment Funds will generate a long term rate of return that will: 1) grow the annual distribution in real terms over time; 2) provide a reasonable rate of return on contributed principal; and 3) generate reasonably consistent annual distributions.

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Fourth Quarter, 1999

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 1999

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
Alliance Capital	24 3	20 5	38 0	30 3	45 4	34 7	39.3	32 4	22 7	17 0	$2,148 64	9 3%
Brinson Partners	-3.9	15.6	-8 5	21.6	10.5	24 0	19.1	25.3	15 5	20 0	$631 90	2.7%
Cohen, Klingenstein & Marks	17 1	22.3	24.8	28.6	30 9	30 0	30 0	29 0	27.8	25.4	$445.84	1 9%
Forstmann-Leff	13 4	13 9	38 3	20 5	35 4	17 8	33.4	21 2	17 6	13 9	$891 62	3 9%
Franklin Portfolio	18.5	11.7	26.2	16.3	24 5	21.2	26.0	23 3	18.0	16 4	$682 41	3.0%
GeoCapital	53 5	28.2	59 8	25.9	26 6	12 5	25.7	17 5	19 5	16 1	$797 75	3 5%
Lincoln	19 9	21 9	26.7	29.2	32.0	36 1	32 7	33.8	25.9	26 7	$1,079 67	4 7%
Oppenheimer	12.8	11 7	10 7	14 9	21.2	23 6	26.5	25.5	20 9	20 1	$848 90	3.7%
Emerging Managers (2)	23.4	20 8	25.9	27.0	26 9	25 7	26 2	25.7	23 2	22 8	$664 22	2 9%
Semi-Passive Managers (3)												
Franklin Portfolio	13.0	13 5	12 9	16.3	23 8	24 9	25 6	26 4	25 6	26 4	$2,423.78	10 5%
JP Morgan	11.2	13.5	14 0	16.3	24 1	24 9	26 1	26.4	26 1	26 4	$2,531.37	11 0%
Barclays Global Investors	12.9	13.5	14.1	16 3	23 2	24.9	26 3	26.4	26.3	26 4	$2,498 02	10 8%
Passive Manager (4)												
Barclays Global Investors	17.6	18.3	23 3	23.6	26.2	26 0			25 5	25 4	$7,425 42	32 2%
									Since 1/1/84			
Current Aggregate	16.5	16 7	22 4	21 6	27 0	25.8	28 0	26 7	18.6	15 9	$23,069 57	100.0%
Historical Aggregate (5)	**16.5**	**16.7**	**21.0**	**21.3**	**25.5**	**25.4**	**26.6**	**26.5**	**16.6**	**16.7**		
Wilshire Adjusted		18.3		23 6		26 0		27 1		16 9		
Wilshire 5000		18.3		23 6		26 0		27 1		17 1		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Aggregate of emerging manager group. The benchmark reflects a composite of the individual manager customized benchmarks since inception of the program on 4/1/94
(3) Semi-passive managers retained 1/95. All use completeness fund benchmark
(4) Passive manager retained 7/95 to manage a Wilshire 5000 index fund
(5) Includes the performance of terminated managers

ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Jack Koltes | **Assets Under Management: $2,148,641,204**

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

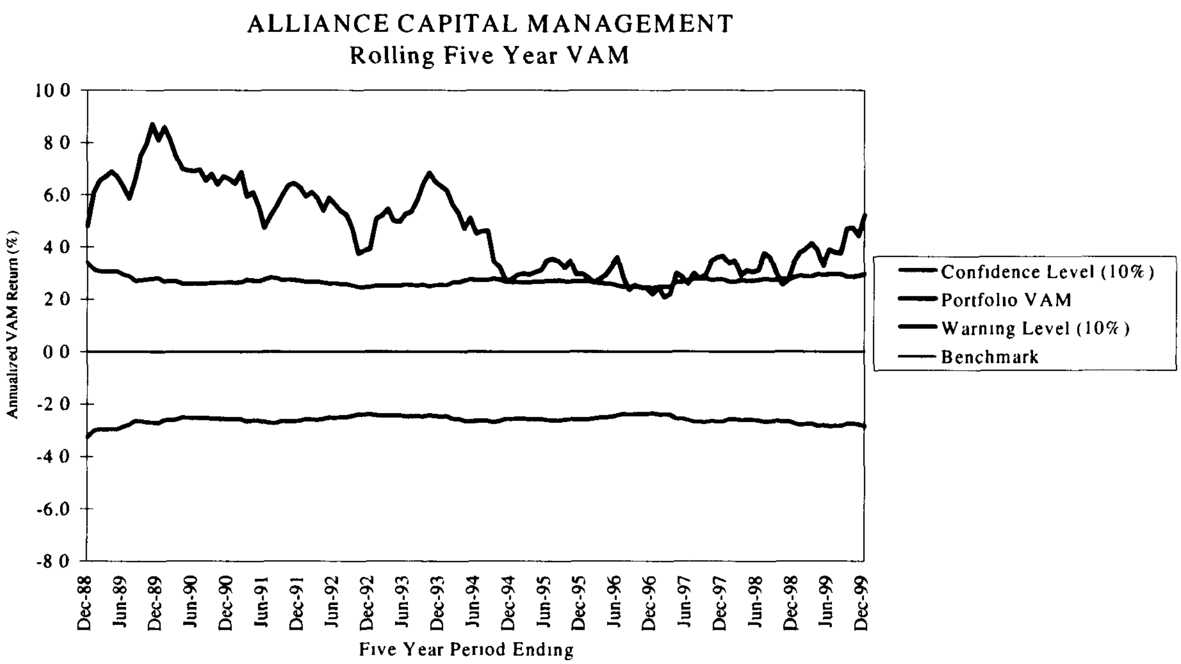
Staff performed an annual review of Alliance at their Minneapolis office in December 1999. Alliance continues to outperform their benchmark due to strong stock selection in the technology and retailing sectors. The organization and investment process have remained stable and the visit uncovered no areas of concern.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	24.3%	20.5%
Last 1 year	38.0	30.3
Last 2 years	43.7	34.4
Last 3 years	45.4	34.7
Last 4 years	39.6	31.7
Last 5 years	39.3	32.4
Since Inception (1/84)	22.7	17.0

Recommendation

No action required.



BRINSON PARTNERS
Periods Ending December, 1999

Portfolio Manager: Jeff Diermeier **Assets Under Management: $631,904,861**

Investment Philosophy

Brinson Partners 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 also believe both a macroeconomic theme approach and a bottom-up stock selection process can provide insight into finding opportunistic investments Brinson uses their own discounted free cash flow model as their primary analytical tool for estimating the intrinsic value of a company

Staff Comments

Brinson Partners has underperformed its custom benchmark for the most recent quarter and year The performance shortfall for Brinson can be attributed to a number of factors in two broad categories: 1) Brinson's investment style has been out of favor with the market, and 2) fundamental disappointments and consequently lower stock prices for a number of Brinson's portfolio holdings Staff met with Brinson about their performance in December Brinson continues to believe in their investment process and the organization remains stable Staff will continue to monitor Brinson closely

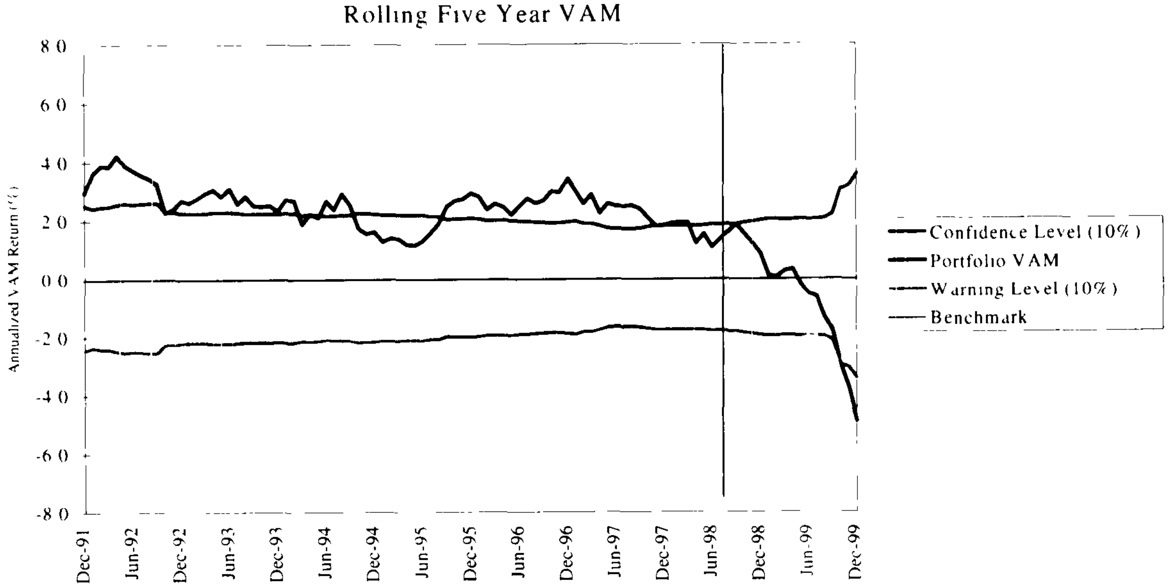
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3 9%	15 6%
Last 1 year	-8.5	21 6
Last 2 years	3 6	20 2
Last 3 years	10 5	24.0
Last 4 years	14.3	23.1
Last 5 years	19 1	25 3
Since Inception (7/93)	15 5	20 0

Recommendation

No action required

BRINSON PARTNERS
Rolling Five Year VAM



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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 1999

Portfolio Manager: George Cohen **Assets Under Management: $445,838,094**

Investment Philosophy

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

Staff Comments

Cohen, Klingenstein & Marks (CKM) underperformed their custom benchmark for the quarter and year. Performance for both the quarter and year was negatively impacted due to CKM's underweight in the technology sector. CKM has outperformed for all other time periods. In addition, CKM continues to implement their investment strategy and recently hired a senior portfolio manager/analyst to the investment team.

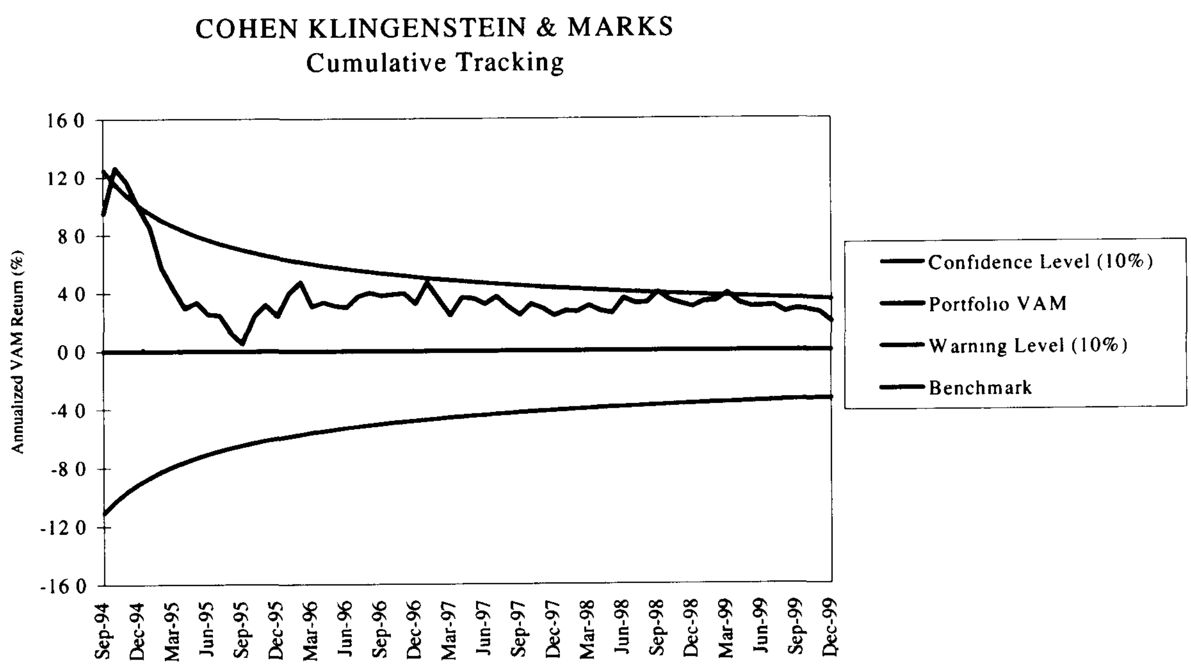
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	17.1%	22.3%
Last 1 Year	24.8	28.6
Last 2 Years	31.3	30.0
Last 3 Years	30.9	30.0
Last 4 Years	30.1	27.9
Last 5 Years	30.0	29.0
Since Inception. (4/94)	27.8	25.4

* Custom benchmark since inception date.

Recommendation

No action required.



FORSTMANN-LEFF ASSOCIATES
Periods Ending December, 1999

Portfolio Manager: Joel Leff | **Assets Under Management: $891,624,900**

Investment Philosophy

Forstmann-Leff is a classic example of a "rotational" manager The firm focuses almost exclusively on asset mix and sector weighting decisions Based upon its macroeconomic outlook, the firm will move aggressively into and out of equity sectors over the course of a market cycle The firm tends to purchase liquid, medium to large capitalization stocks In the past, Forstmann-Leff has made sizable market timing moves at various points during a market cycle.

Staff Comments

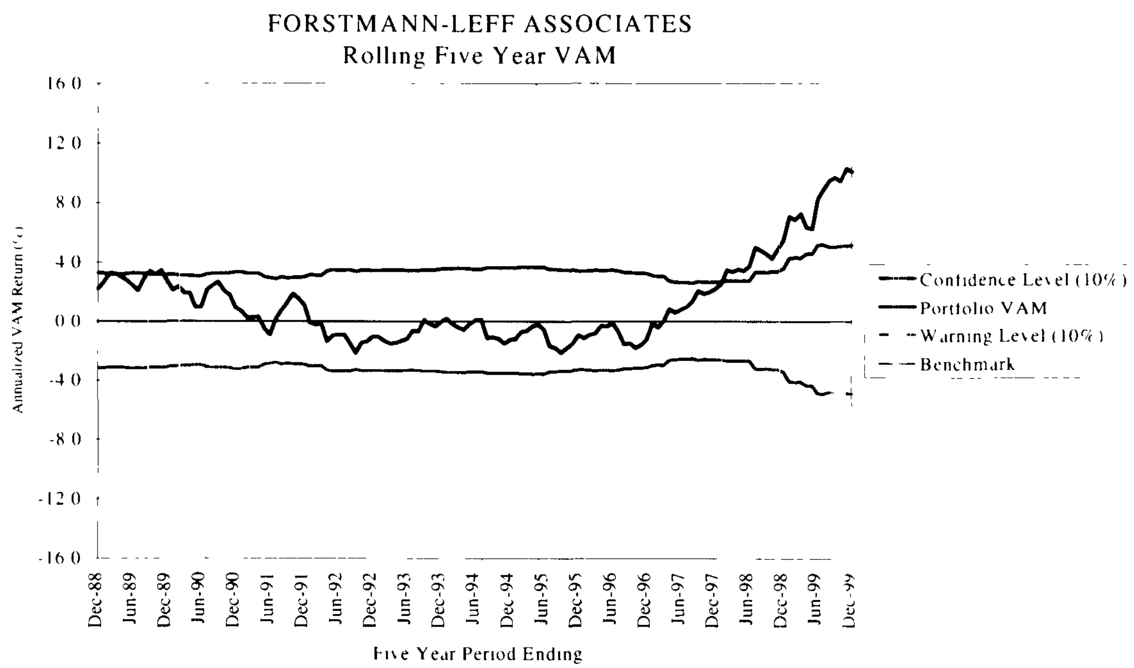
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13 4%	13.9%
Last 1 year	38 3	20 5
Last 2 years	34 2	15 0
Last 3 years	35 4	17 8
Last 4 years	33.7	18 5
Last 5 years	33.4	21 2
Since Inception (1/84)	17.6	13 9

Recommendation

No action required



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 1999

Portfolio Manager: John Nagorniak **Assets Under Management: $682,412,983**

Investment Philosophy
Active

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

Staff Comments

No comments at this time.

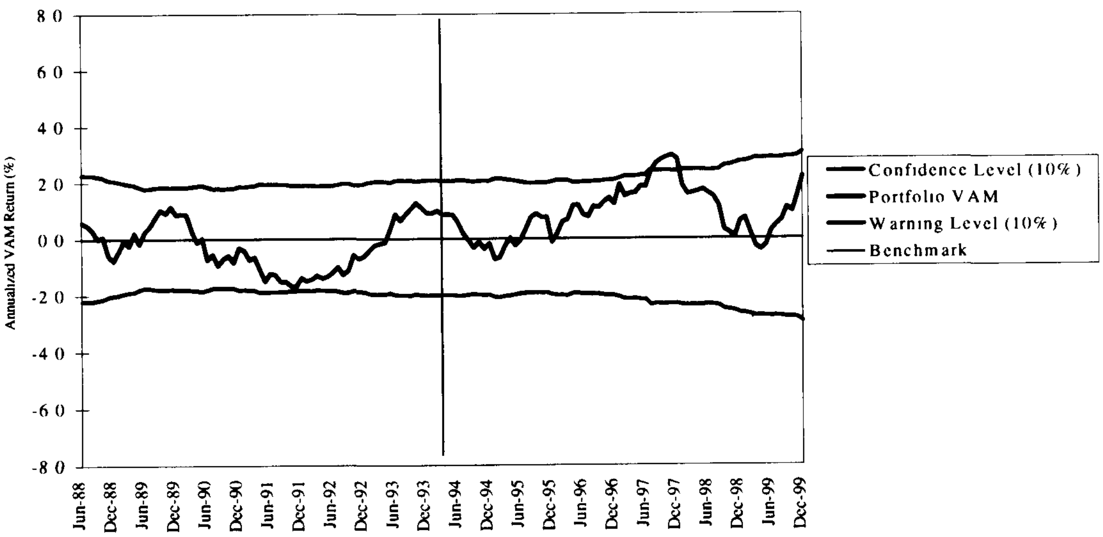
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18.5%	11.7%
Last 1 year	26.2	16.3
Last 2 years	18.2	17.3
Last 3 years	24.5	21.2
Last 4 years	24.5	20.7
Last 5 years	26.0	23.3
Since Inception (4/89)	18.0	16.4

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



Five Year Period Ending

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

GEOCAPITAL CORP.
Periods Ending December, 1999

Portfolio Manager: Barry Fingerhut **Assets Under Management: $797,752,859**

Investment Philosophy

GeoCapital invests primarily in small capitalization equities with the intent to hold them as they grow into medium and large capitalization companies. The firm uses a theme approach and individual stock selection analysis to invest in the growth/technology and special situation areas of the market In the growth/technology area, GeoCapital looks for companies that will have above average growth due to good product development and limited competition. In the special situation area, the key factors are corporate assets, free cash flow, and a catalyst that will cause a positive change in the company The firm generally stays fully invested, with any cash positions due to a lack of attractive investment opportunities

Staff Comments

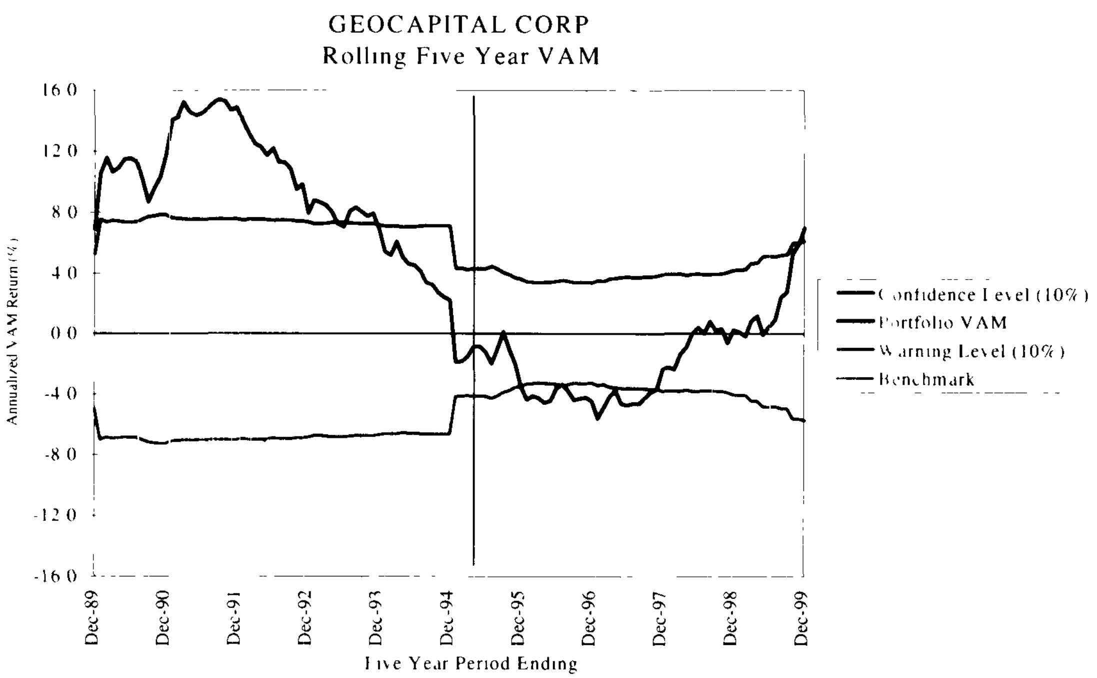
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	53 5%	28 2%
Last 1 year	59 8	25 9
Last 2 years	30 7	11 5
Last 3 years	26 6	12.5
Last 4 years	24 7	11 8
Last 5 years	25 7	17 5
Since Inception (4/90)	19 5	16 1

Recommendation

No action required



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

LINCOLN CAPITAL MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Parker Hall | **Assets Under Management: $1,079,672,928**

Investment Philosophy

Lincoln Capital concentrates on established medium to large capitalization companies that have demonstrated historically strong growth and will continue to grow. The firm uses traditional fundamental company analysis and relative price/earnings valuation disciplines in its stock selection process. In addition, companies held by Lincoln generally exhibit premium price/book ratios, high return on equity, strong balance sheets and moderate earnings variability.

Staff Comments

No comments at this time.

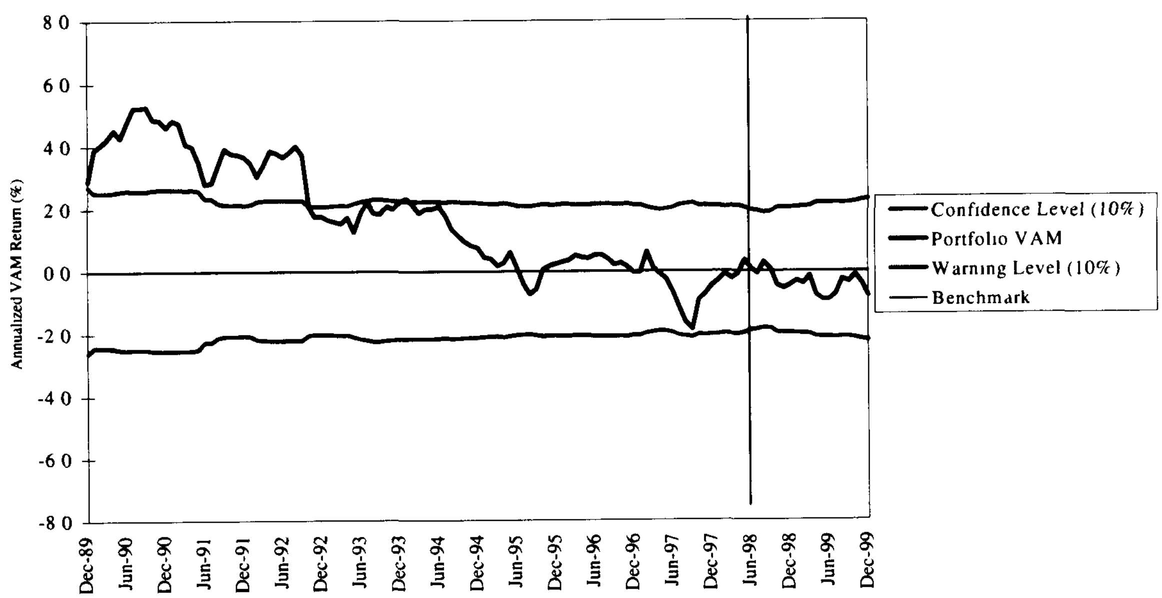
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	19.9%	21.9%
Last 1 year	26.7	29.2
Last 2 years	34.3	36.7
Last 3 years	32.0	36.1
Last 4 years	30.6	33.0
Last 5 years	32.7	33.8
Since Inception (7/93)	25.9	26.7

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT - Domestic Equity
Rolling Five Year VAM



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

OPPENHEIMER CAPITAL
Periods Ending December, 1999

Portfolio Manager: John Lindenthal **Assets Under Management: $848,903,719**

Investment Philosophy

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

Staff Comments

No comments at this time

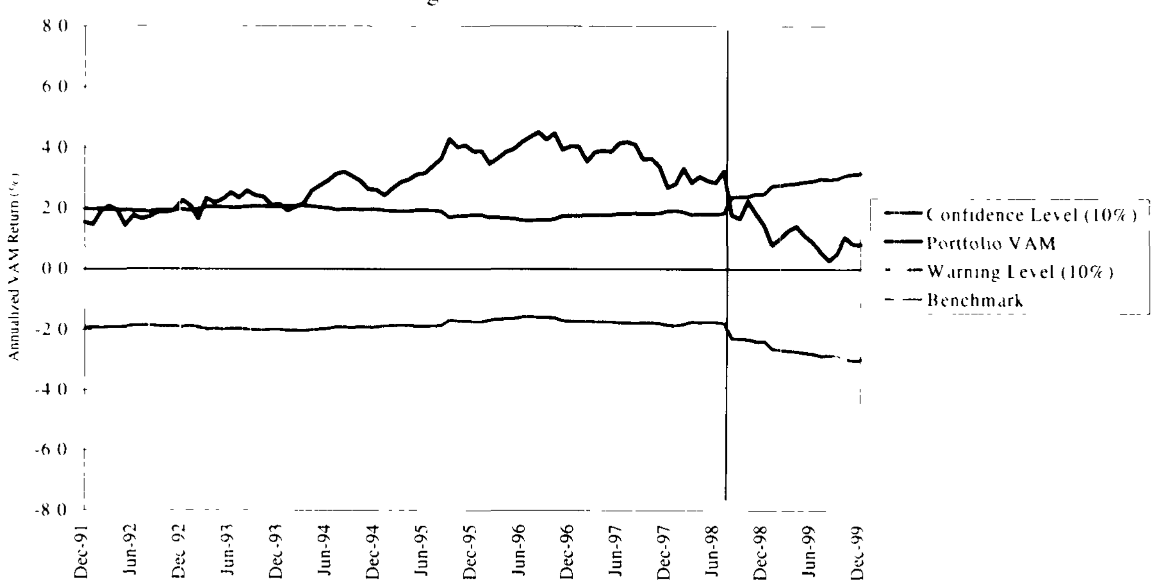
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.8%	11.7%
Last 1 year	10 7	14.9
Last 2 years	16 1	19.5
Last 3 years	21 2	23 6
Last 4 years	22 7	23 2
Last 5 years	26 5	25 5
Since Inception (7/93)	20.9	20 1

Recommendation

No action required

OPPENHEIMER CAPITAL
Rolling Five Year VAM



Five Year Period Ending

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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 1999

Portfolio Manager: John Nagorniak **Assets Under Management: $2,423,781,863**

Investment Philosophy
Semi-Passive

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models. A composite ranking then provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold, and proceeds are reinvested in stocks from the top deciles in the ranking system. They use the BARRA risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark. For this semi-passive mandate, they seek to achieve a residual risk of 1.5% or less. The firm remains fully invested at all times.

Staff Comments

No comments at this time.

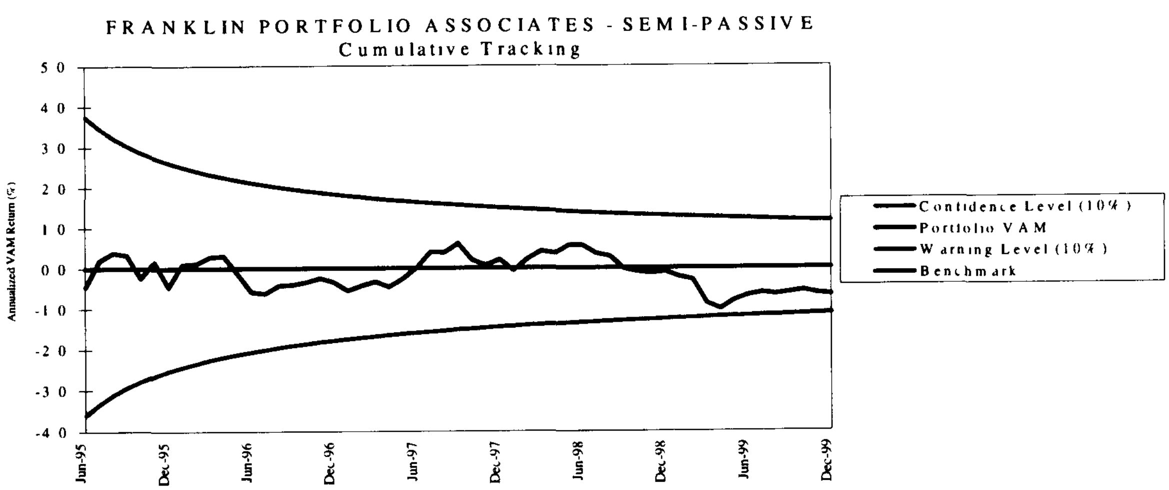
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	13.0%	13.5%
Last 1 year	12.9	16.3
Last 2 years	17.6	19.9
Last 3 years	23.8	24.9
Last 4 years	23.2	24.1
Last 5 years	25.6	26.4
Since Inception (1/95)	25.6	26.4

* Completeness Fund

Recommendation

No action required.



J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending December, 1999

Portfolio Manager: Jim Wiess **Assets Under Management: $2,531,367,932**

Investment Philosophy
Semi-Passive

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

Staff Comments

J.P. Morgan underperformed during the quarter and year due to an environment ill suited to their Dividend Discount Rate (DDR) approach to security valuation. The year, and the fourth quarter in particular, was a period where momentum investing dominated. In J.P. Morgan's DDR process, an increase in a stock's price, other things being equal, will result in a lower DDR and a decline in the stock's attractiveness. Therefore, J.P. Morgan's exposure to momentum type stocks is minimal resulting in poor performance during these periods.

Quantitative Evaluation

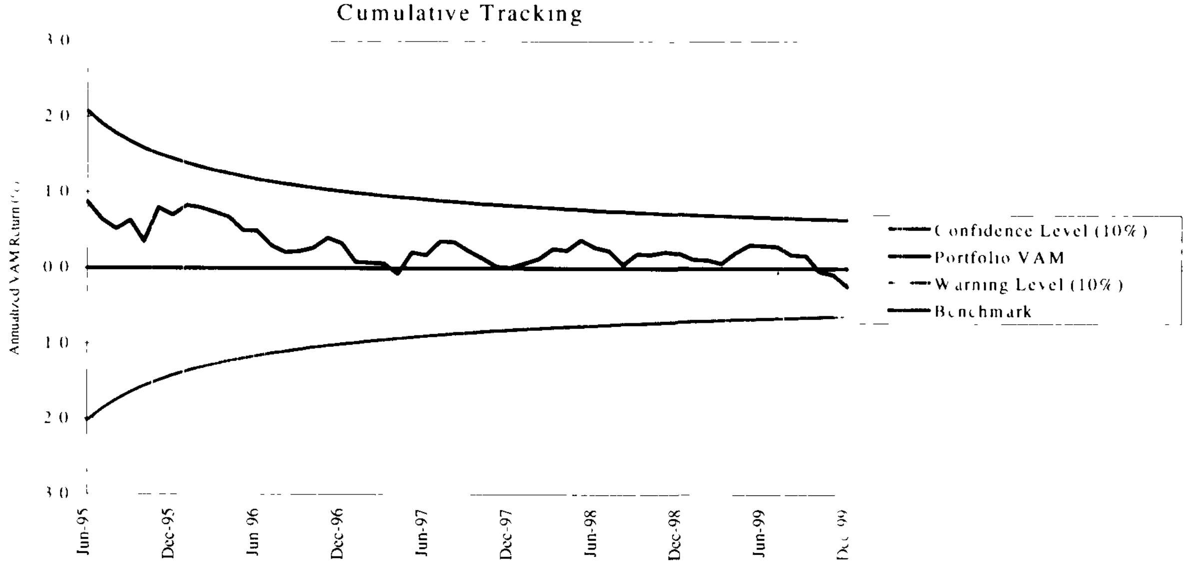
	Actual	Benchmark*
Last Quarter	11.2%	13.5%
Last 1 year	14.0	16.3
Last 2 years	19.2	19.9
Last 3 years	24.1	24.9
Last 4 years	23.5	24.1
Last 5 years	26.1	26.4
Since Inception (1/95)	26.1	26.4

* Completeness Fund

Recommendation

No action required

JP MORGAN - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending December, 1999

Portfolio Manager: Nancy Feldkircher **Assets Under Management: $2,498,023,225**

Investment Philosophy
Semi-Passive

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

Staff Comments

No comments at this time.

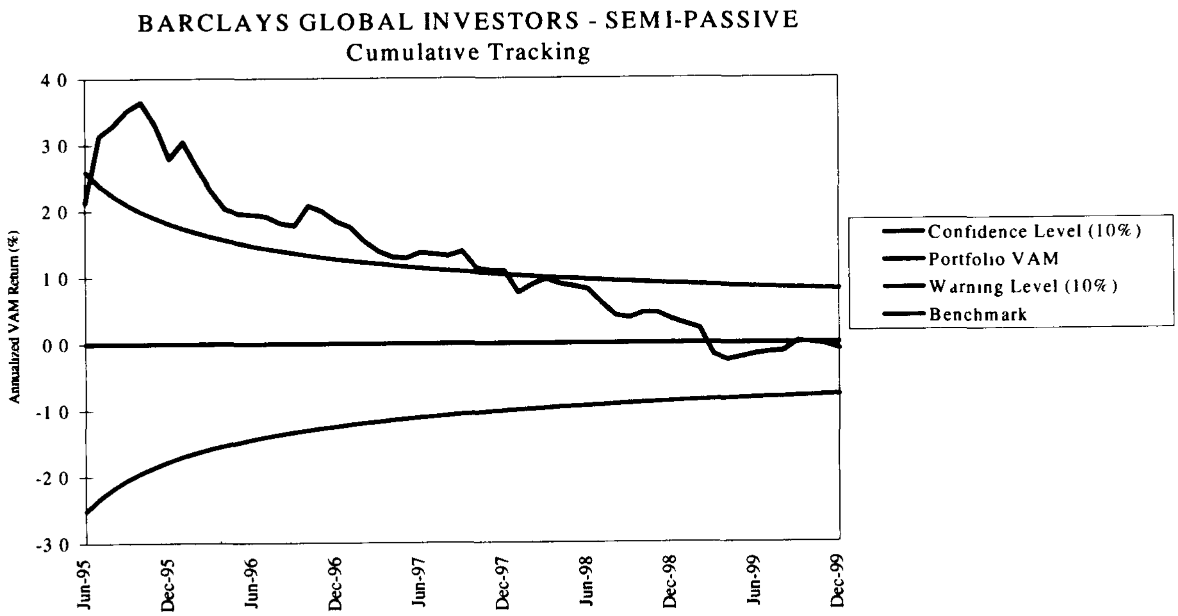
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	12.9%	13.5%
Last 1 year	14.1	16.3
Last 2 years	17.7	19.9
Last 3 years	23.2	24.9
Last 4 years	23.1	24.1
Last 5 years	26.3	26.4
Since Inception (1/95)	26.3	26.4

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending December, 1999

Portfolio Manager: Rich Johnson **Assets Under Management: $7,425,419,258**

Investment Philosophy
Passive

Barclays Global Investors passively manages the portfolio against the Wilshire 5000 by minimizing tracking error and trading costs, and maximizing control over all investment and operational risks. Their strategy is to fully replicate the larger capitalization segments of the market and to use an optimization approach for the smaller capitalization segments. The optimizer weighs the cost of a trade against its contribution to expected tracking error to determine which trades should be executed

Staff Comments

No comments at this time

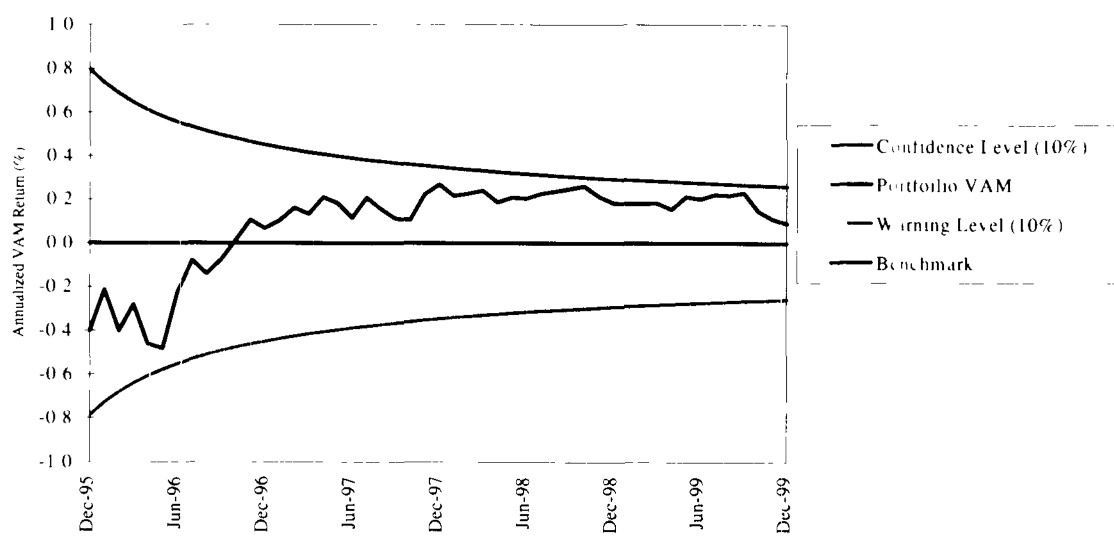
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.6%	18 3%
Last 1 year	23 3	23.6
Last 2 years	23.3	23.5
Last 3 years	26.2	26 0
Last 4 years	25 0	24.8
Last 5 years	N.A.	N.A.
Since Inception (7/95)	25 5	25.4

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Fourth Quarter, 1999

COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending December, 1999

	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 %		
Active Managers												
CIC Asset	3 3	6.4	0 6	5 5	11 6	17.3	18 5	22.0	16 1	19.9	$70 86	10.7%
Compass Capital	9 0	14 0	6 9	15.8	18 6	25.8	21 6	26.6	19.6	23 4	83 95	12 6%
New Amsterdam	17.1	21 6	15.0	32 1	25.5	26 6	26 1	25.7	21.9	22.9	93.57	14.9%
Valenzuela Capital	8.8	7.8	-6 7	3.7	8 9	11.2	17.1	16 8	15 0	14.9	67 05	11 5%
Wilke/Thompson	21 9	20.9	16 8	27 7	15 1	15.7	14 3	17.8	14 0	15.7	63.82	9.6%
Winslow Capital	29 1	25 8	20 7	39.1	26 7	33.7	24.2	30.7	22 4	27 1	95 96	14 4%
Zevenbergen Capital	51.8	37 8	94.3	56.6	57 2	37 8	43.6	33.2	37 7	29 4	189 01	28.5%
											$664.22	**100.0%**
									Since 4/1/94			
Current Aggregate	23.4	20.8	25 3	27.8	26 1	25.5	25.7	25.7	22 9	22 8		
Historical Aggregate (2)	**23.4**	**20.8**	**25.9**	**27.0**	**26.9**	**25.7**	**26.2**	**25.7**	**23.2**	**22.8**		

(1) Since retention by the SBI.

(2) Includes the performance of terminated managers.

CIC ASSET MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Jorge Castro **Assets Under Management: $70,863,293**

Investment Philosophy

CIC Asset Management (CIC) uses a disciplined relative value approach to manage equities. CIC believes that purchasing companies at attractive prices provides superior long-term performance with lower volatility. This investment process is designed for clients who desire equity market exposure with both incremental value added and downside protection due to reasonable dividend yields, moderate price to book values and low normalized price to earnings ratios. Finally, the process provides a synergy between quantitative valuation techniques and "Graham & Dodd" fundamental analysis.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.3%	6.4%
Last 1 Year	0.6	5.5
Last 2 Years	2.0	9.8
Last 3 Years	11.6	17.3
Last 4 Years	14.1	18.8
Last 5 Years	18.5	22.0
Since Inception (4/94)	16.1	19.9

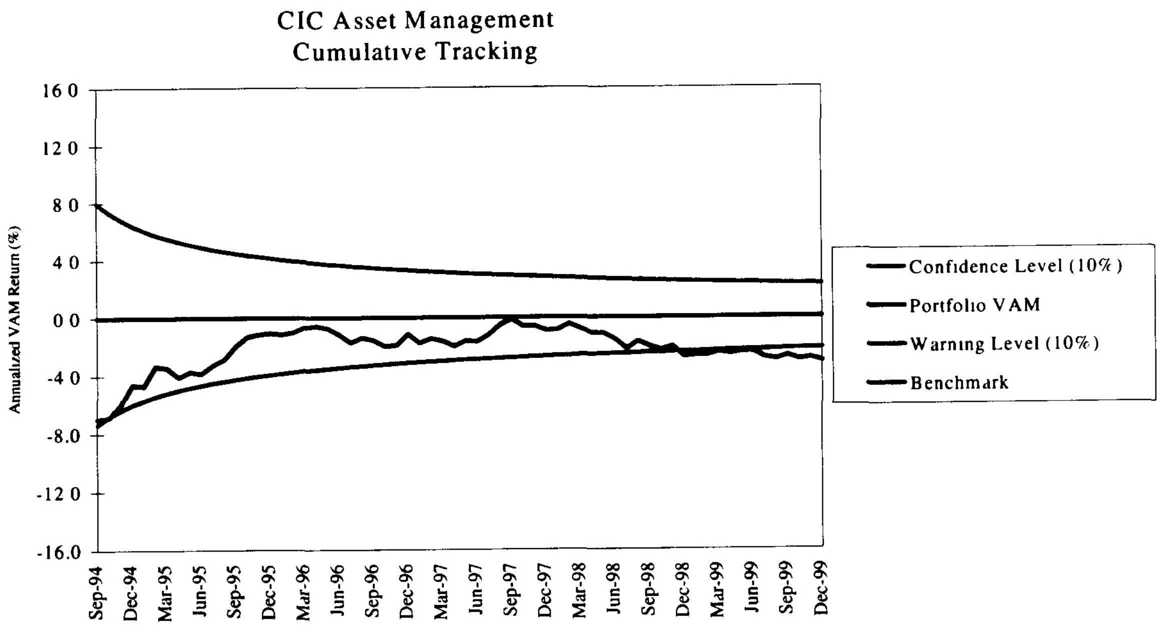
* Custom benchmark since inception date.

Staff Comments

CIC underperformed their benchmark for the quarter and the year. During the quarter, the portfolio's underweight in the technology sector and overweight in the poorly performing energy sector hurt performance. Over the past year, CIC's underperformance can be attributed to poor sector and stock selection.

Recommendation

No recommendation at this time.



COMPASS CAPITAL MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Charles Kelley **Assets Under Management: $83,947,304**

Investment Philosophy

Compass Capital Management (CCM) combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value) They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy and over long time periods, but which may experience earnings pressure with downturns in the economy Particular focus is given to growth in sales, earnings, dividends, book value and the underlying industry. Due to their "growing company" orientation, their portfolios generally do not hold utility, bank, deep cyclical (auto companies for example), or oil and gas stocks

Staff Comments

Compass underperformed their benchmark for the quarter and the year due to the portfolio's underweight in the technology sector Over the past year, the portfolio's weight in technology stocks has consistently been less than half the technology sector weight in the benchmark The portfolio's concentration in mid to large cap stocks also hurt performance, as the best performance has been concentrated in the very largest cap stocks

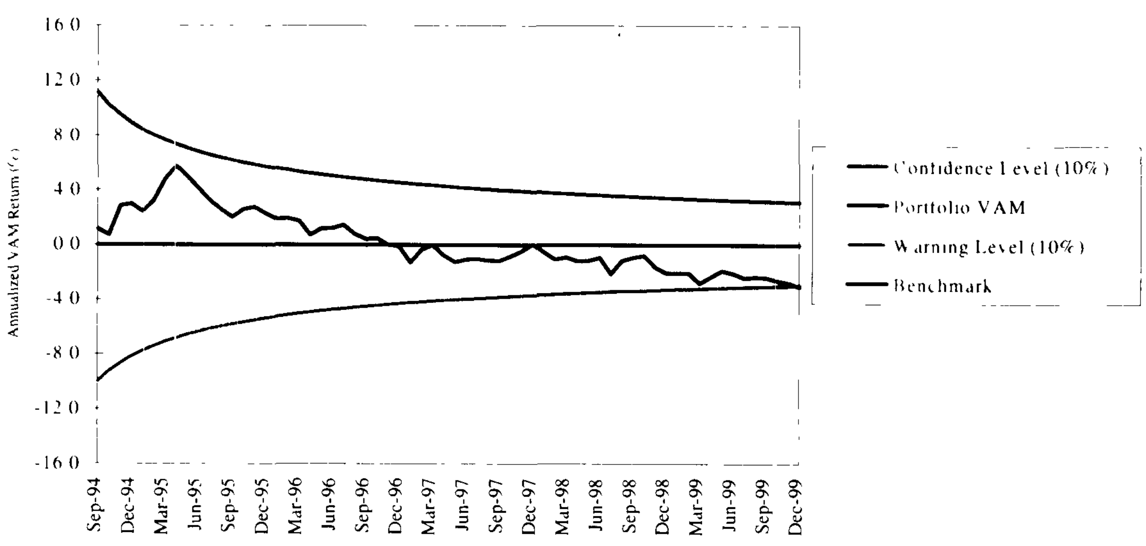
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.0%	14 0%
Last 1 Year	6.9	15 8
Last 2 Years	11 5	22 1
Last 3 Years	18 6	25.8
Last 4 Years	18.9	25 6
Last 5 Years	21 6	26 6
Since Inception (4/94)	19 6	23 4

* Custom benchmark since inception date.

Recommendation

No recommendation at this time



NEW AMSTERDAM PARTNERS
Periods Ending December, 1999

Portfolio Manager: Michelle Clayman **Assets Under Management: $93,566,876**

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

Staff met with New Amsterdam in the SBI office during the fourth quarter to review their investment process and strategy and discuss recent performance. New Amsterdam underperformed their benchmark for the quarter due to weak sector selection, primarily the portfolio's underweight in technology. Stock selection during the quarter was additive. Over the past year, the New Amsterdam portfolio suffered from weak sector and stock selection, again primarily due to an underweighting in the technology sector.

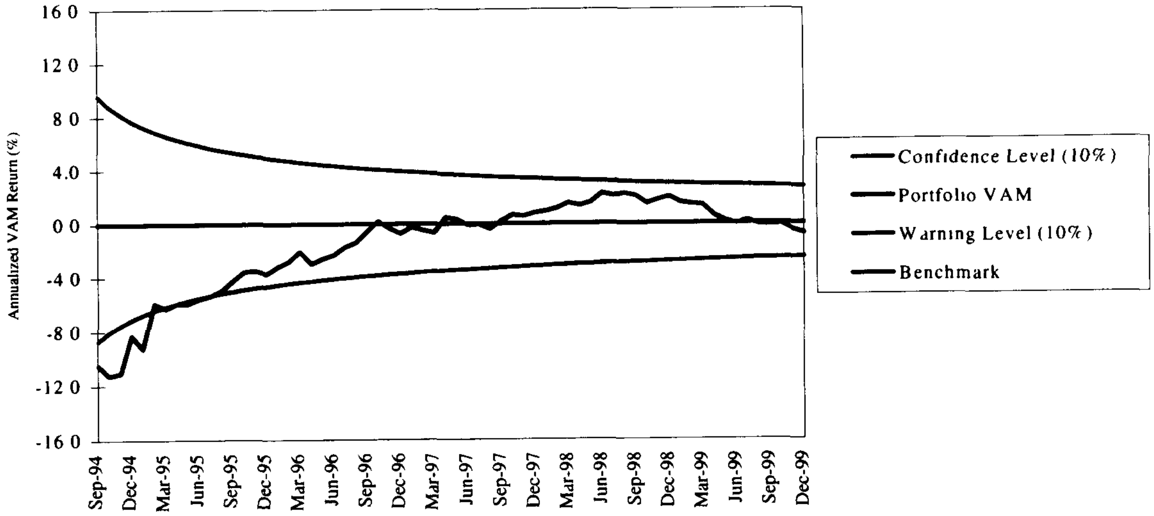
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	17.1%	21.6%
Last 1 Year	15.0	32.1
Last 2 Years	20.5	25.1
Last 3 Years	25.5	26.6
Last 4 Years	25.1	24.5
Last 5 Years	26.1	25.7
Since Inception (4/94)	21.9	22.9

* Custom benchmark since inception date.

Recommendation

No action required.



VALENZUELA CAPITAL MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Tom Valenzuela | **Assets Under Management: $67,052,038**

Investment Philosophy

Valenzuela Capital Management (VCM) believes that stock selection and adherence to valuation analysis are the backbone of superior performance. Their investment philosophy is one of risk averse growth. VCM seeks companies undergoing strong rates of change in earnings, cash flow and returns. These companies are experiencing positive changes in revenues, gross and operating margins and financial structure To be considered for investment, these stocks must sell at or below market valuations VCM believes that below-market valuations provide downside protection during weak market periods. In strong markets, the portfolios will be driven by both earnings growth and multiple expansion

Staff Comments

Valenzuela outperformed their benchmark during the quarter Over the past year, Valenuela has significantly lagged the benchmark primarily as a result of poor stock selection

Quantitative Evaluation

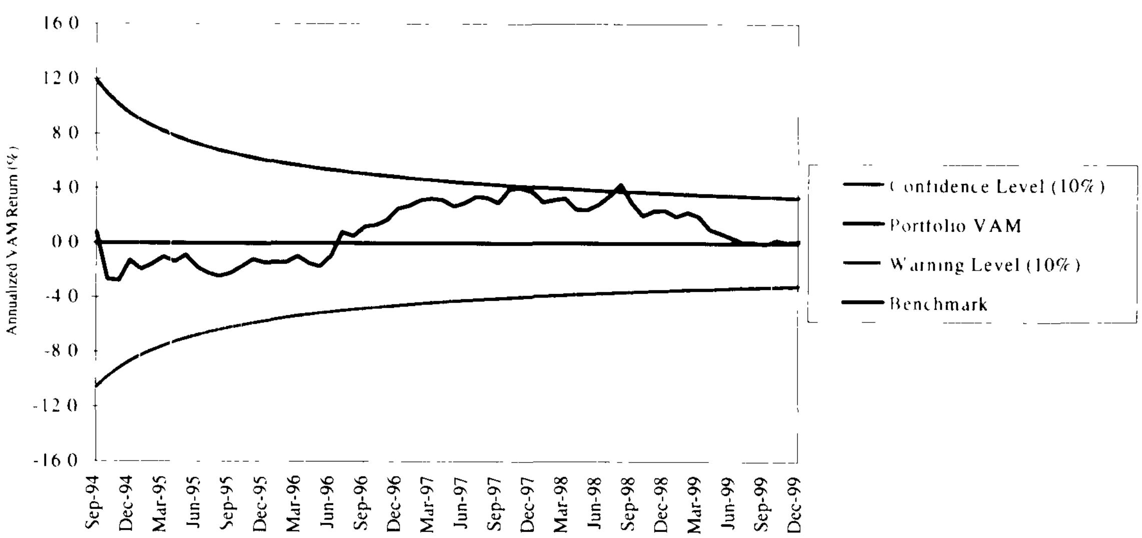
	Actual	Benchmark*
Last Quarter	8 8%	7 8%
Last 1 Year	-6 7	3 7
Last 2 Years	-3 5	3.1
Last 3 Years	8 9	11 2
Last 4 Years	14 3	13 4
Last 5 Years	17 1	16.8
Since Inception (4/94)	15.0	14.9

* Custom benchmark since inception date

Recommendation

No action required

Valenzuela Capital Partners
Cumulative Tracking



WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Periods Ending December, 1999

Portfolio Manager: Mark Thompson **Assets Under Management: $63,824,780**

Investment Philosophy

The investment philosophy of Wilke/Thompson (W/T) is to invest in high quality growth companies that demonstrate the ability to sustain strong secular earnings growth, notwithstanding overall economic conditions. W/T's investment approach involves a bottom-up fundamental process. The stock selection process favors companies with strong earnings, high unit growth, a proprietary market niche, minimum debt, conservative accounting and strong management practices. They formulate investment ideas by networking with the corporate managers of their current and prospective holdings, as well as with regional brokers, venture capitalists, and other buy-side portfolio managers.

Staff Comments

During the past quarter, Wilke/Thompson slightly outperformed the benchmark, primarily due to good stock selection within the technology sector. During the past year, the portfolio significantly underperformed the benchmark due to poor sector selection.

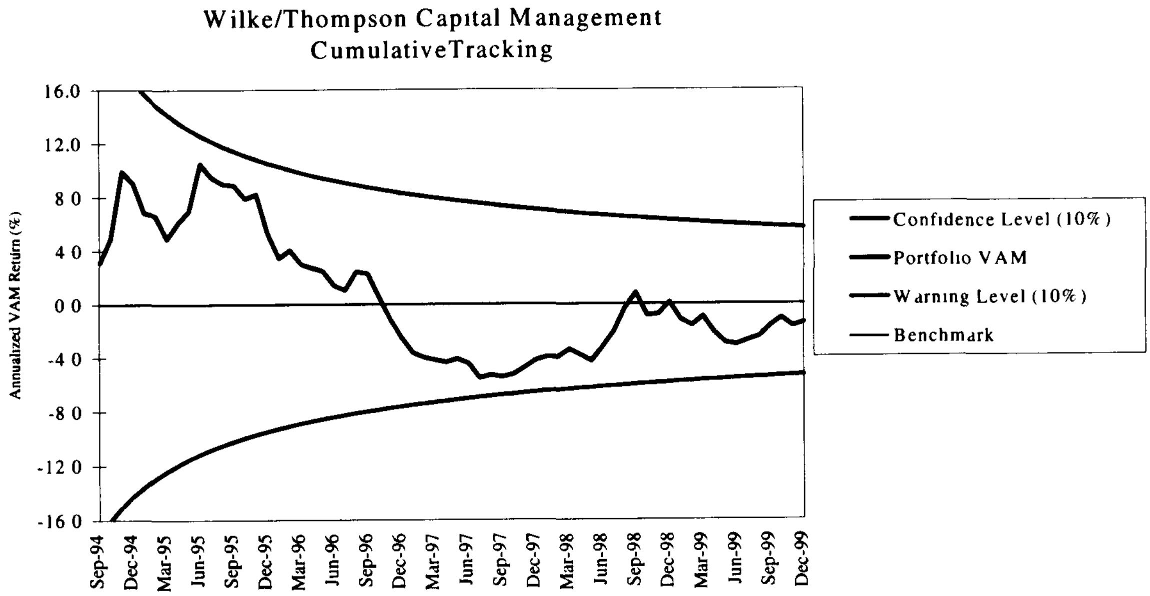
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	21.9%	20.9%
Last 1 Year	16.8	27.7
Last 2 Years	19.1	14.7
Last 3 Years	15.1	15.7
Last 4 Years	10.2	15.2
Last 5 Years	14.3	17.8
Since Inception (4/94)	14.0	15.7

* Custom benchmark since inception date.

Recommendation

No recommendation at this time.



WINSLOW CAPITAL MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Clark Winslow | **Assets Under Management: $95,959,430**

Investment Philosophy

Winslow Capital Management (WCM) believes that investing in companies with above average earnings growth provides the best opportunities for superior portfolio returns over time WCM believes that a high rate of earnings growth is often found in medium capitalization growth companies of $1 to $10 billion market capitalization Thus, to seek superior portfolio returns while maintaining good liquidity, Winslow Capital emphasizes a growth strategy buying securities of both medium and large cap companies The objective is to achieve a weighted average annual earnings growth rate of 15-20% over a 2-3 year time horizon

Staff Comments

Winslow surpassed their benchmark over the last quarter but lagged significantly over the past year. Over the past quarter, Winslow's overweight and stock selection in technology stocks caused the outperformance. Strong stock selection in the consumer service sector also contributed to performance The significant underperformance over the past year was due to poor sector selection.

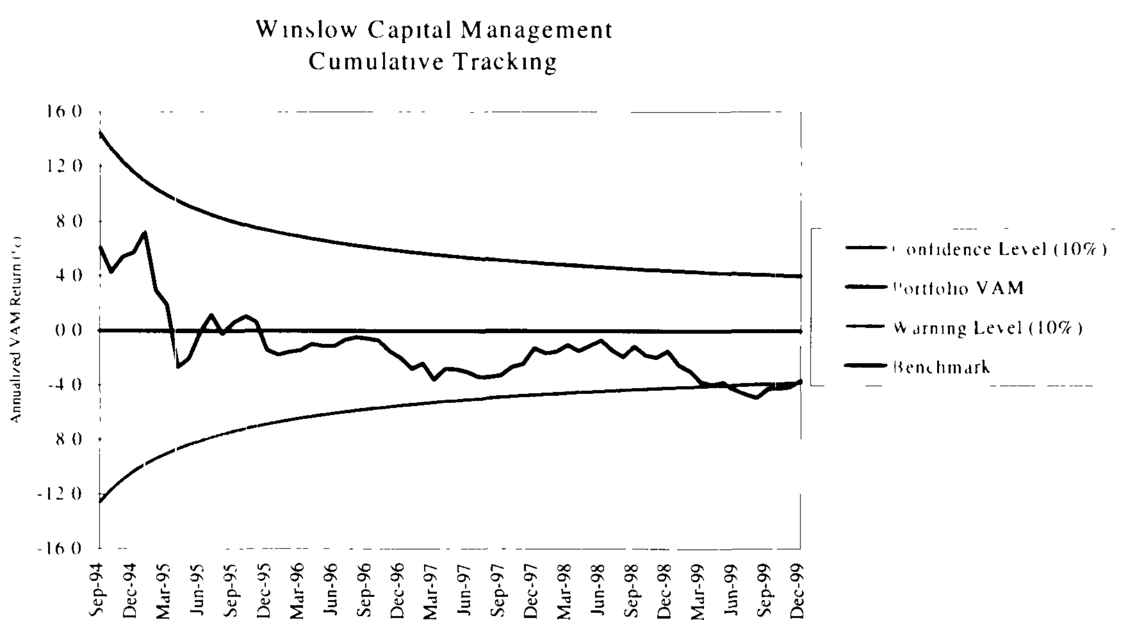
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	29.1%	25 8%
Last 1 Year	20 7	39.1
Last 2 Years	25 8	36 7
Last 3 Years	26 7	33 7
Last 4 Years	24.5	30.5
Last 5 Years	24.2	30 7
Since Inception (4/94)	22.4	27 1

* Custom benchmark since inception date.

Recommendation

No recommendation at this time



ZEVENBERGEN CAPITAL INC
Periods Ending December, 1999

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $189,009,269**

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 significantly outperformed their benchmark for the quarter and the year on the strength of their technology and telecommunications holdings. While the portfolio was underweight the technology sector relative to the benchmark during the quarter, excellent stock selection drove their outperformance.

Quantitative Evaluation

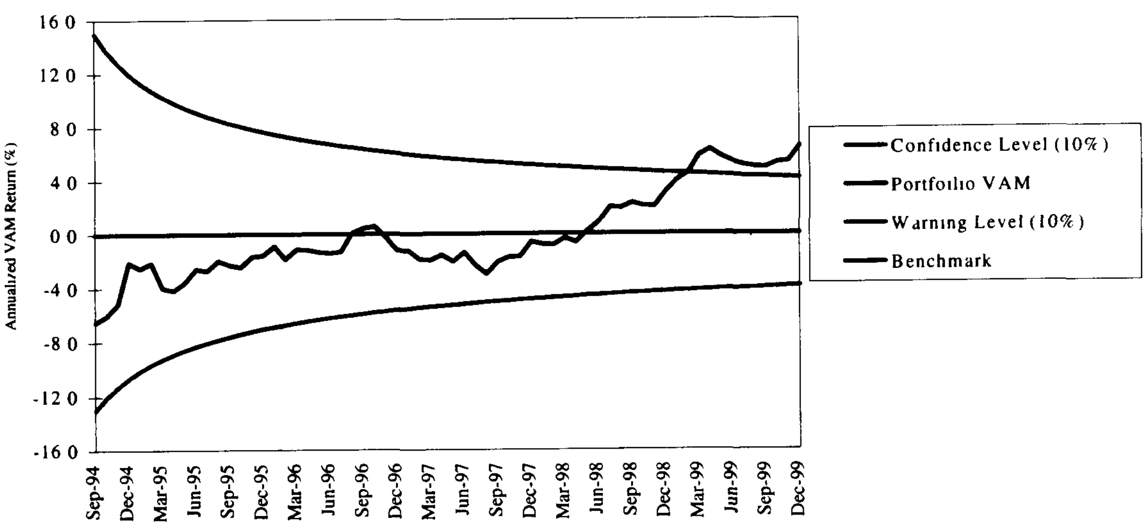
	Actual	Benchmark*
Last Quarter	51.8%	37.8%
Last 1 Year	94.3	56.6
Last 2 Years	73.3	43.0
Last 3 Years	57.2	37.8
Last 4 Years	47.5	33.8
Last 5 Years	43.6	33.2
Since Inception (4/94)	37.7	29.4

* Custom benchmark since inception date.

Recommendation

No recommendation at this time.

Zevenbergen Capital Management
Cumulative Tracking



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 1999

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending December, 1999

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
American Express (AMG)	0.4	-0.1	-0.7	-0.8	6.1	5.7	8.0	7.9	6.1	5.9	$748.00	7.3%
IAI	0 1	-0.1	-1.3	-0.8	5.4	5.7	7.0	7.7	10.0	10 0	656.62	6.4%
Morgan Stanley	0.2	-0.1	-0.5	-0.8	5 5	5 7	8.3	7.7	10.3	10.0	1,223.53	12.0%
Standish	-0.9	-0.1	-1.8	-0.8	4.7	5.7	7.4	7.7	5.5	5.9	708.02	6.9%
Western	0.5	-0.1	0.2	-0.8	6.7	5.7	9.2	7.7	11.2	10.0	1,431.26	14.0%
Semi-Passive Managers												
BlackRock	0 0	-0.1	-0.2	-0.8	6.1	5.7			6 5	6.1	1,981.85	19 4%
Goldman	-0.1	-0.1	-0.5	-0.8	5.7	5.7	7.8	7.7	6.1	5.9	1,597.62	15.6%
Lincoln	-0.1	-0.1	-0.8	-0.8	5.8	5.7	7.8	7.7	8.3	8 2	1,875.37	18.3%
											$10,222.26	**100.0%**
									Since 7/1/84			
Current Aggregate	0.0	-0.1	-0.6	-0.8	5.9	5.7	8.1	7.7	10 5	10.0		
Historical Aggregate (2)	**0.0**	**-0.1**	**-0.5**	**-0.8**	**5.9**	**5.7**	**8.0**	**7.7**	**10.0**	**9.9**		
Lehman Aggregate (3)		-0.1		-0.8		5.7		7.7		9 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.

AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Jim Snyder **Assets Under Management: $747,997,815**

Investment Philosophy

AMG uses duration management combined with in-depth fundamental analysis of the corporate sector to add value to the portfolio. Active duration management begins with an economic overview and interest rate outlook. These factors help AMG determine the direction of both short and long-term interest rates which leads to the portfolio duration decisions. After AMG determines duration, they use their extensive research capabilities to determine sector allocation and to select individual issues.

Staff Comments

American Express outperformed for the quarter and the year. Overweight positions in the corporate and mortgage sectors and a slightly shorter than benchmark duration as rates rose are the primary reasons for the outperformance. High yield also contributed to the portfolio's outperformance.

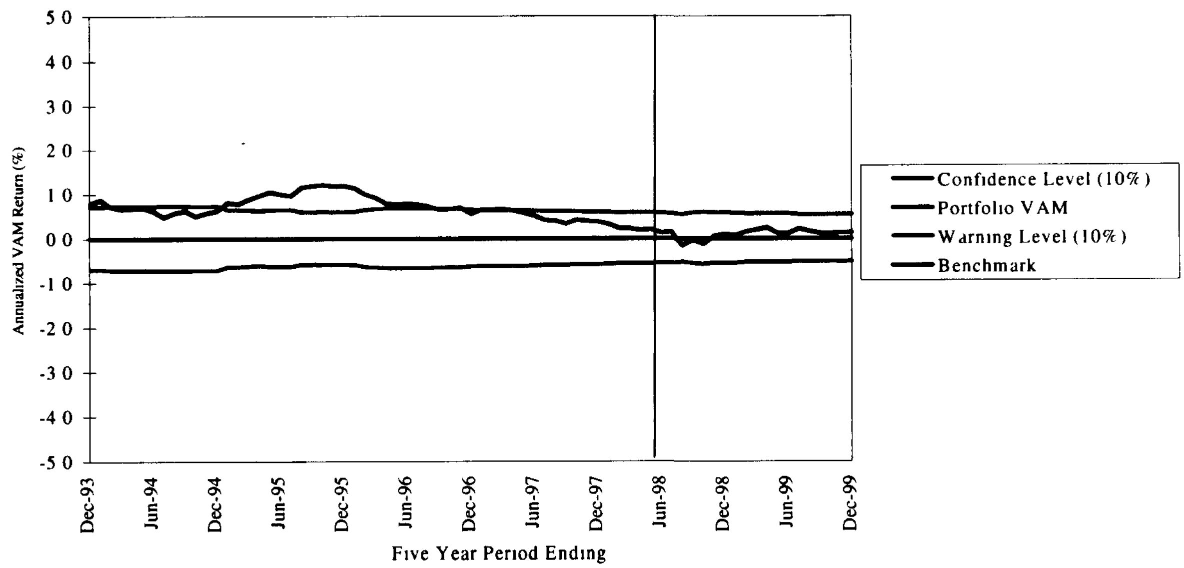
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	-0.1%
Last 1 year	-0.7	-0.8
Last 2 years	4.1	3.8
Last 3 years	6.1	5.7
Last 4 years	5.0	5.2
Last 5 years	8.0	7.9
Since Inception (7/93)	6.1	5.9

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
(Formerly Miller, Anderson & Sherrerd)
Periods Ending December, 1999

Portfolio Manager: Tom Bennett **Assets Under Management: $1,223,531,866**

Investment Philosophy

Morgan Stanley focuses its investments in misunderstood or under-researched classes of securities. Over the years this approach has led the firm to emphasize mortgage-backed and specialized corporate securities in its portfolios Based on its economic and interest rate outlook, the firm establishes a desired maturity level for its portfolios Changes are made gradually over an interest rate cycle and extremely high cash positions are never taken Total portfolio maturity is always kept within an intermediate three-to-seven year duration band Unlike other firms that invest in mortgage securities, Morgan Stanley intensively researches and, in some cases, manages the mortgage pools in which it invests

Staff Comments

During the quarter, staff attended Morgan Stanley's fixed income conference and met with our portfolio manager and the various sector specialists involved in the management of our account Morgan Stanley outperformed for the quarter and the year despite having a longer than benchmark duration over the entire period The long duration stance was offset by overweight corporate and mortgage positions and strong security selection within the corporate sector.

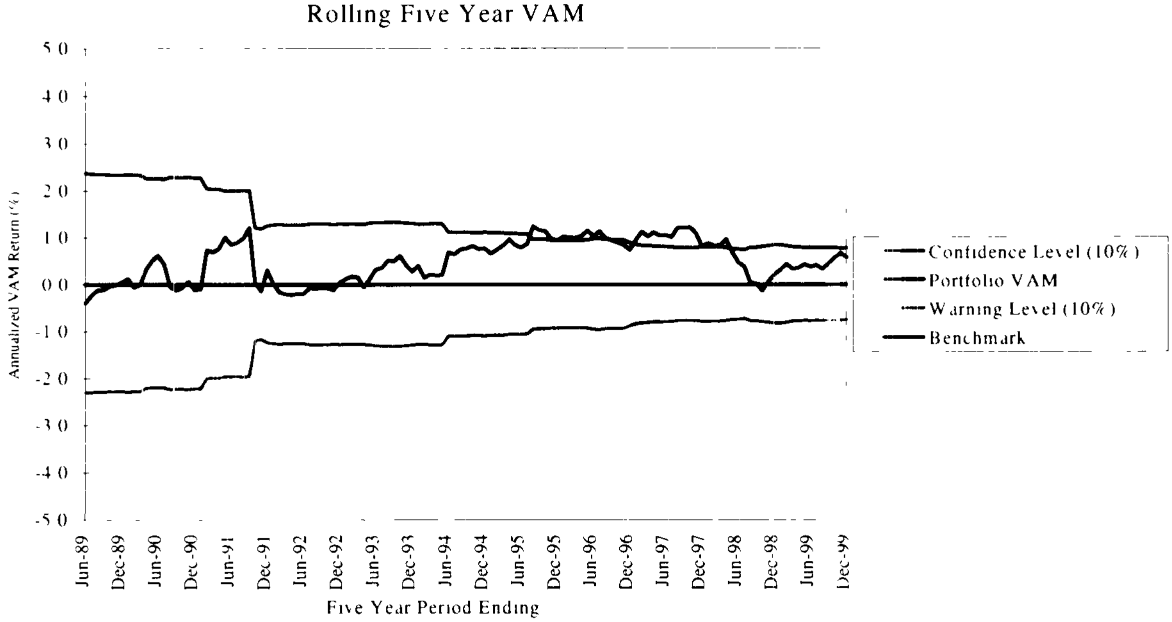
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	-0 1%
Last 1 year	-0 5	-0.8
Last 2 years	3 4	3.8
Last 3 years	5 5	5.7
Last 4 years	5 8	5 2
Last 5 years	8 3	7 7
Since Inception (7/84)	10.3	10 0

Recommendations

No action required

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Rolling Five Year VAM



STANDISH, AYER & WOOD
Periods Ending December, 1999

Portfolio Manager: Austin Smith **Assets Under Management: $708,017,766**

Investment Philosophy

Standish adds value by capitalizing on market inefficiencies and trading actively through intra and inter-sector swapping. The firm does not forecast interest rates but adds value to the portfolio by buying non-Treasury issues. Key to the approach is active sector trading and relative spread analysis of both sectors and individual issues. In addition to sector spreads, the firm also analyzes how secular trends affect bond pricing. The firm believes that 65% of its value added comes from inter-sector swapping in non-government sectors.

Staff Comments

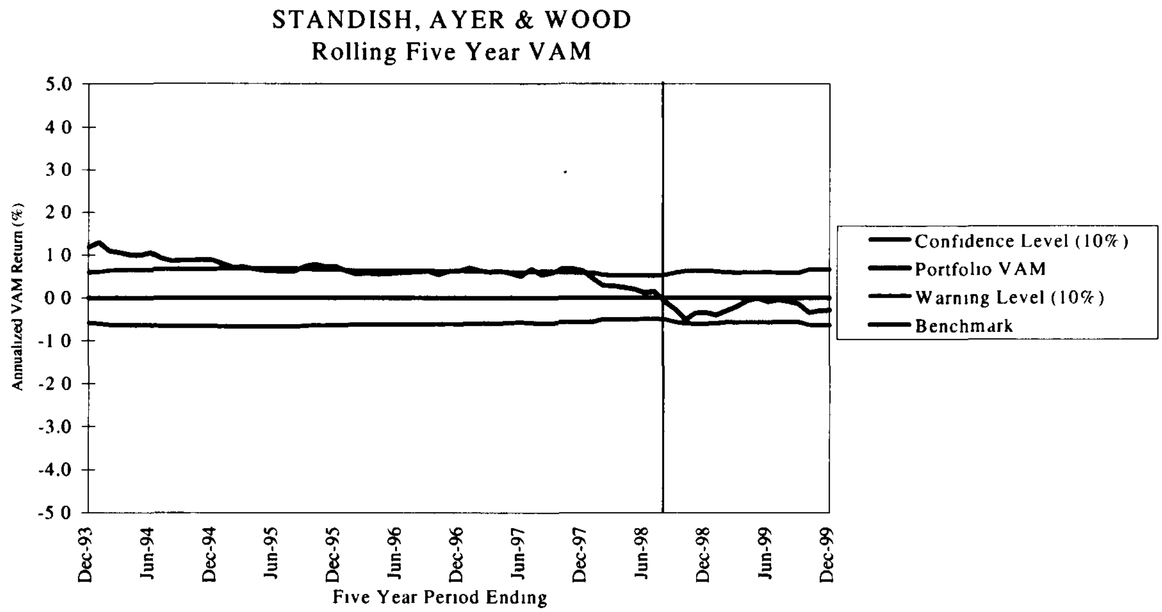
Staff met with Standish in their Boston office in early February to review the changes they have implemented to improve their credit analysis and security selection process. Standish significantly underperformed the benchmark for both the quarter and the year. Poor security selection was the primary cause of the underperformance with several individual corporate credits significantly damaging overall returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.9%	-0.1%
Last 1 year	-1.8	-0.8
Last 2 years	2.3	3.8
Last 3 years	4.7	5.7
Last 4 years	4.9	5.2
Last 5 years	7.4	7.7
Since Inception (7/93)	5.5	5.9

Recommendations

No action required.



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

WESTERN ASSET MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Ken Leech **Assets Under Management: $1,431,262,398**

Investment Philosophy

Western recognizes the importance of interest rate changes on fixed income portfolio returns However, the firm believes that successful interest rate forecasting, particularly short run forecasting, is extremely difficult to accomplish consistently Thus, the firm attempts to keep portfolio maturity in a narrow band near that of the market, making only relatively small, gradual shifts over an interest rate cycle. It prefers to add value primarily through appropriate sector decisions Based on its economic analysis, Western will significantly overweight particular sectors, shifting these weights as economic expectations warrant. Issue selection, like maturity decisions, are of secondary importance to the firm

Staff Comments

Western outperformed the benchmark for both the quarter and the year The portfolio's duration was longer than the benchmark over the past quarter which had a negative impact on returns Offsetting the duration was an overweight in long duration corporates, which performed well as yield spreads narrowed An overweight in mortgages also contributed to performance as prepayment speeds and volatility decreased High yield also contributed to performance. Over the past year, Western has benefited from an overweight in spread products as well as strong security selection

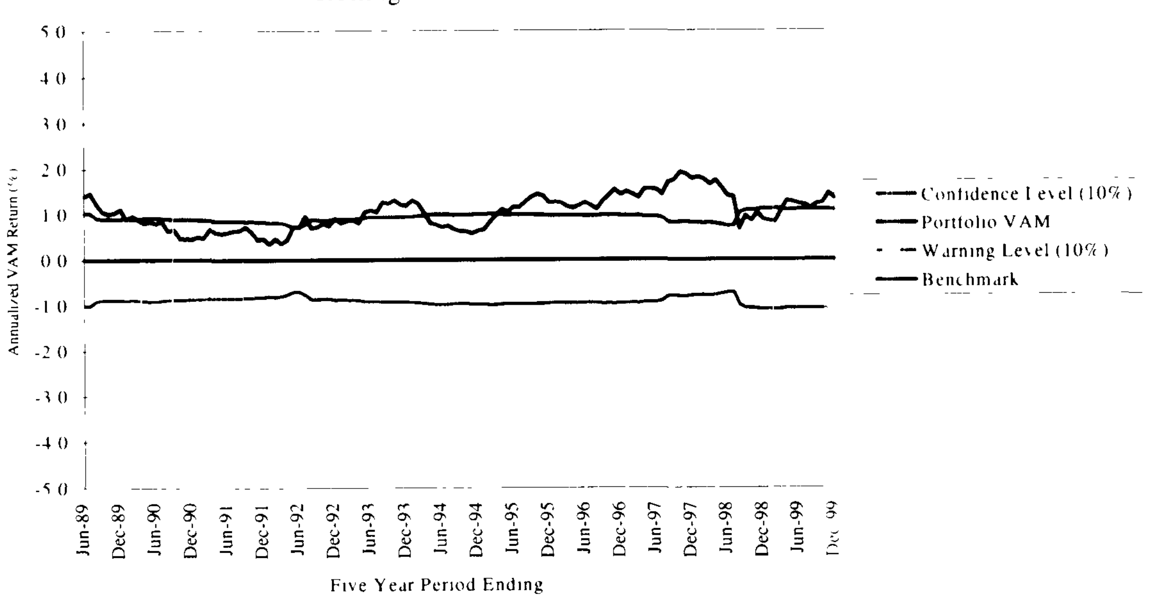
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	-0.1%
Last 1 year	0.2	-0.8
Last 2 years	4.0	3.8
Last 3 years	6.7	5.7
Last 4 years	6.5	5.2
Last 5 years	9.2	7.7
Since Inception (7/84)	11.2	10.0

Recommendations

No action required

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,981,848,222**

Investment Philosophy

BlackRock uses a controlled-duration style. BlackRock's enhanced index strategy can be described as active management with tighter duration and sector constraints to ensure that the portfolio's aggregate risk characteristics and tracking error never significantly differ from the desired index. BlackRock's value added is derived primarily from sector and security selection driven by relative value analysis while applying disciplined risk control techniques.

Staff Comments

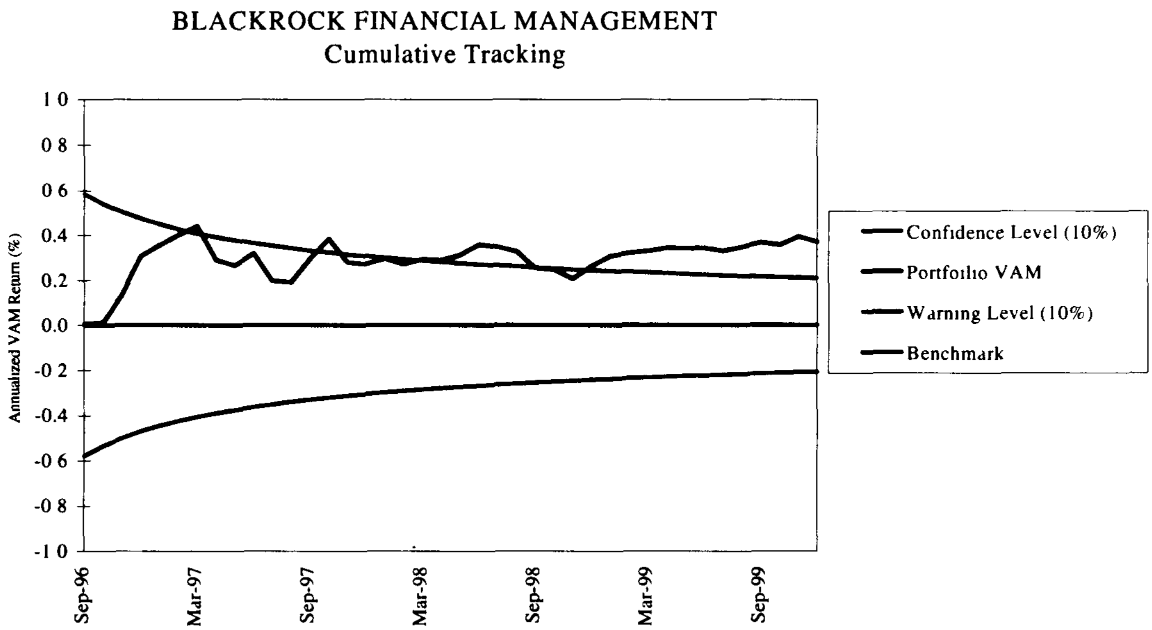
Although BlackRock underperformed the benchmark slightly over the past quarter, the past year's performance significantly exceeded the benchmark. Contributing to performance over the past year was BlackRock's duration and yield curve management, an overweight in the corporate sector, and the portfolio's commercial mortgage holdings. An underweight in mortgages detracted slightly from performance over the past year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.1%
Last 1 year	-0.2	-0.8
Last 2 years	4.3	3.8
Last 3 years	6.1	5.7
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/96)	6.5	6.1

Recommendation

No action required.



GOLDMAN SACHS
Periods Ending December, 1999

Portfolio Manager: Sharmin Mossavar Rahmani — **Assets Under Management: $1,597,621,203**

Investment Philosophy

Goldman is an enhanced index manager who focuses on security selection When analyzing treasuries, the firm models Treasury coupons with an arbitrage based pricing model This model determines the spread between actual and intrinsic market yields and determines whether the security is rich or cheap. Goldman takes a highly quantitative and analytical approach to value mortgage securities as well Goldman uncovers undervalued securities using proprietary research and internally developed models In the corporate sector, Goldman performs its own credit review of each issue Goldman adds value to the corporate sector with extensive research, market knowledge, and trading skill

Staff Comments

Goldman Sachs matched the benchmark for the quarter and outperformed over the past year Over the past year the portfolio benefited from its overweight position in the corporate sector as well as strong security selection within the sector The portfolio's overweight in the asset-backed sector also contributed to performance

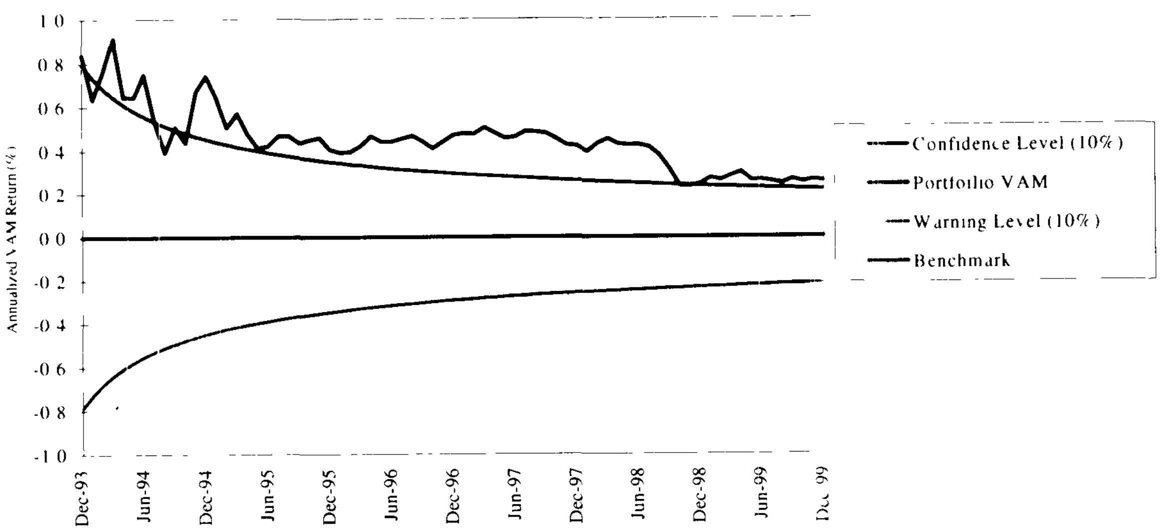
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0 1%	-0 1%
Last 1 year	-0.5	-0 8
Last 2 years	3 7	3 8
Last 3 years	5 7	5.7
Last 4 years	5.4	5 2
Last 5 years	7 8	7 7
Since Inception (7/93)	6 1	5.9

Recommendations

No action required

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,875,366,597**

Investment Philosophy

Lincoln is an enhanced index manager that uses a quantitative approach to managing the portfolio. Lincoln calculates the index's expected return for changes in 54 variables. These variables include interest rates, yield curve shape, call features and sector spreads. Lincoln then constructs a portfolio to match the expected returns for a given change in any of the variables. Lincoln relaxes the return tolerances, defined as the difference between the portfolio's expected returns and that for the index, for an enhanced index fund. The portfolio's securities are selected from a universe of liquid issues using a proprietary risk-valuation model. A linear program or portfolio optimizer then constructs the most undervalued portfolio that still matches the return characteristics of the index.

Staff Comments

Staff recently visited Lincoln Capital at their office in Chicago to review the firm's investment process and the portfolio. Lincoln matched the benchmark over the last quarter and year.

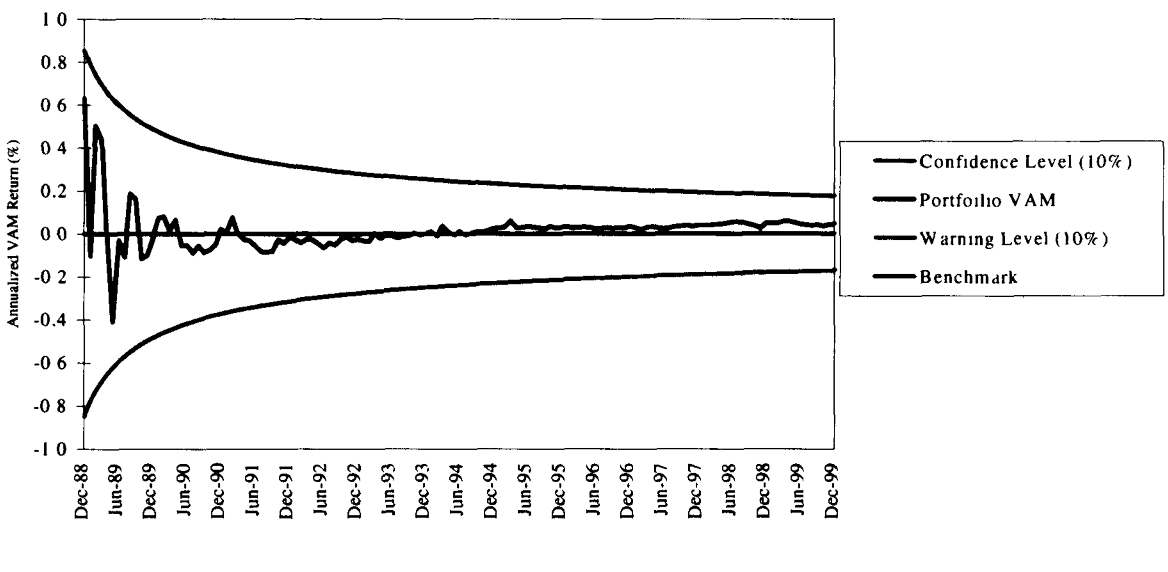
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	-0.1%
Last 1 year	-0.8	-0.8
Last 2 years	3.9	3.8
Last 3 years	5.8	5.7
Last 4 years	5.3	5.2
Last 5 years	7.8	7.7
Since Inception (7/88)	8.3	8.2

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Fourth Quarter, 1999

COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending December, 1999

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	($ millions)
GE Investment Management (1)	12 9	14.9	21.5	21.0	26.9	27.6	27.9	28.6	27.9	28 6	$242.95
Voyageur Asset Management (2)	0.5	0.4	2 0	2.1	5 8	5.9	7 5	7 3	7 3	7.0	506.72
Internal Stock Pool (3)	14 8	14.9	21 0	21.0	27 7	27 6	28.6	28 6	22 6	22.5	565 50
Internal Bond Pool - Income Share (4)	0.0	-0.1	-0.5	-0.8	6.1	5 7	8.3	7.7	8.5	8 1	219.29
Internal Bond Pool - Trust (5)	0.0	-0.1	0.0	-0.8	6.1	5 7	8 3	7.7	7 7	7.2	371.79

(1) GE Investment Management was retained by the SBI in January 1995.
The benchmark is the S&P 500 Index.
(2) Voyageur Asset Management was retained by the SBI in July 1991
The benchmark is a custom index.
(3) The Internal Stock Pool was initiated in July 1993.
The benchmark is the S&P 500 Index.
(4) The Income Share Account was initiated in July 1986.
The benchmark is the Lehman Aggregate.
Prior to July 1994, this index reflects the Salomon BIG.
(5) The Trust Account was initiated in July 1994.
The benchmark is the Lehman Aggregate.

Periods Ending December, 1999

Tobacco Settlement Funds: Tobacco Prevention Fund
Medical Education Fund

Annualized Yield for the current Quarter.	Tobacco Prevention Fund	6.47%
	Medical Education Fund	6 36%
Market Value of Funds as of the beginning of the current quarter (millions):	Tobacco Prevention Fund	$282.3
	Medical Education Fund	$181.5

GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Periods Ending December, 1999

Portfolio Manager: Gene Bolton **Assets Under Management: $242,945,772**

Investment Philosophy
Assigned Risk Plan

GE Investment's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. Three portfolio managers with value or growth orientations are supported by a team of analysts. The three portfolios are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up perspective.

Staff Comments

The GE semi-passive portfolio underperformed relative to the S&P 500 benchmark during the fourth quarter of 1999. The narrow market and the dominance of growth over value stock made it difficult for a valuation discipline to succeed. The portfolio's under-weighting in the technology sector, relative to the benchmark, was the single largest drag on performance. Despite this fourth quarter performance, the portfolio outperformed during the one year time period.

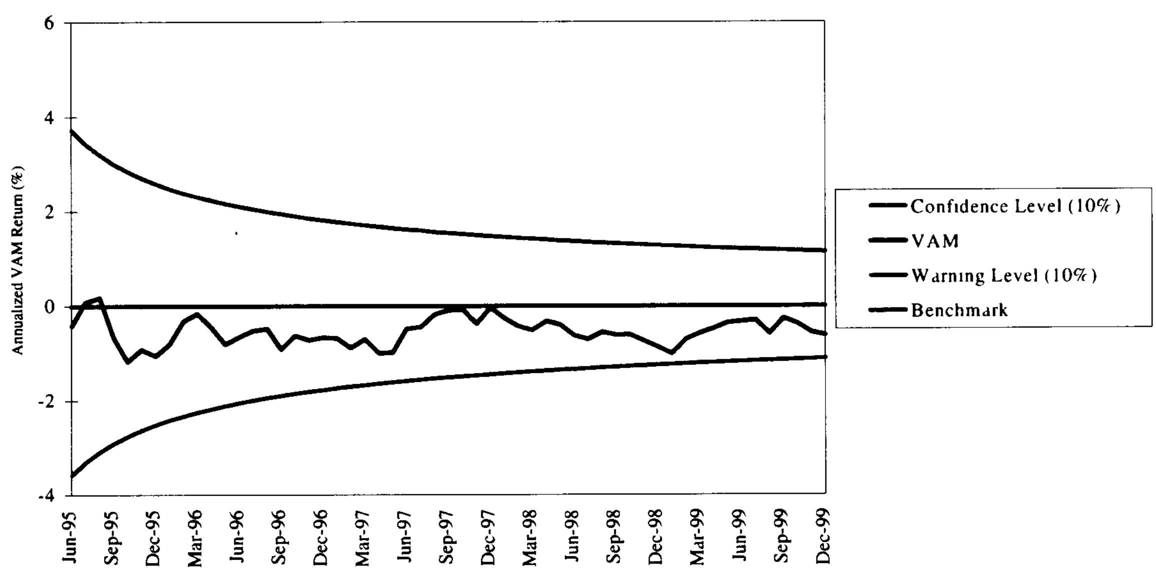
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.9%	14.9%
Last 1 year	21.5	21.0
Last 2 years	23.1	24.8
Last 3 years	26.9	27.6
Last 4 years	25.9	26.4
Last 5 years	27.9	28.6
Since Inception (1/95)	27.9	28.6

Recommendation

No recommendation at this time

GE INVESTMENT MANAGEMENT
Cumulative Tracking



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending December, 1999

Portfolio Manager: Melissa A. Uppgren | **Assets Under Management: $506,721,986**

Investment Philosophy
Assigned Risk Plan

Voyageur uses a top-down approach to fixed income investing. Their objective is to obtain superior long-term investment returns over a pre-determined benchmark that reflects the quality constraints and risk tolerance of the Assigned Risk Plan. Due to the specific liability requirement of the plan, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

Staff Comments

The portfolio outperformed the custom benchmark for the quarter. An over-weighting of spread product, a bias toward larger more liquid newly issued securities and a portfolio duration slightly shorter than that of the benchmark provided the boost to performance.

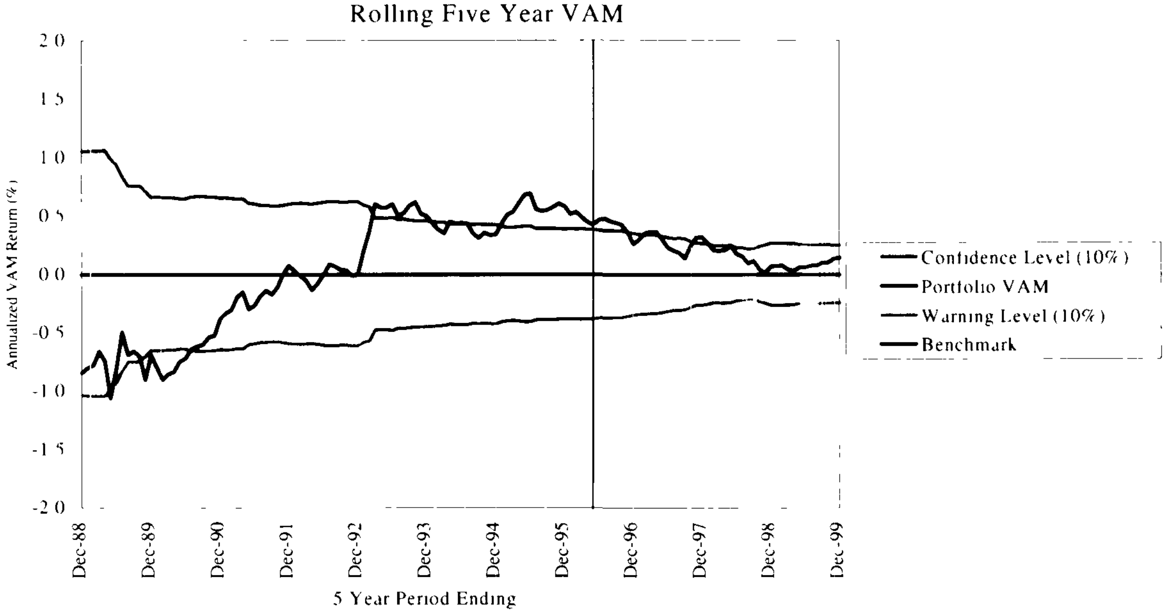
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	0.4%
Last 1 year	2.0	2.1
Last 2 years	4.7	4.8
Last 3 years	5.8	5.9
Last 4 years	5.5	5.6
Last 5 years	7.5	7.3
Since Inception (7/91)	7.3	7.0

Recommendation

No action required.

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year VAM



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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending December, 1999

Portfolio Manager: Mike Menssen | **Assets Under Management: $565,496,214**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

The current manager assumed responsibility for the account in December 1996. The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index. The optimization model's estimate of tracking error with this strategy is approximately 10 basis points per year.

Staff Comments

No comments at this time.

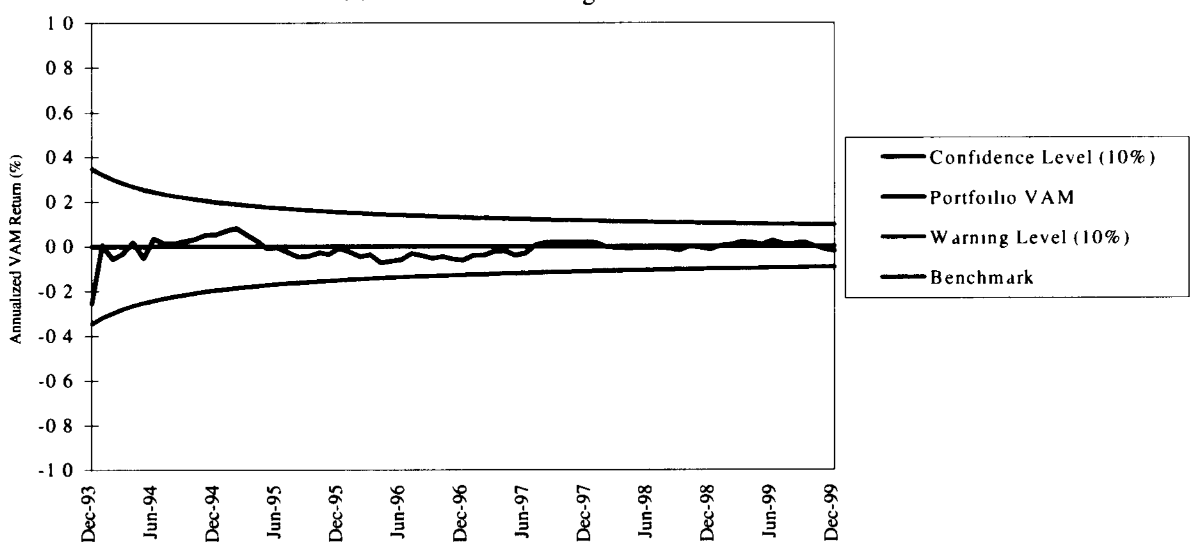
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.8%	14.9%
Last 1 year	21.0	21.0
Last 2 years	24.8	24.8
Last 3 years	27.7	27.6
Last 4 years	26.5	26.4
Last 5 years	28.6	28.5
Since Inception (7/93)	22.6	22.5

Recommendation

No action required.

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



INTERNAL BOND POOL - Income Share Account
Periods Ending December, 1999

Portfolio Manager: Mike Menssen **Assets Under Management: $219,287,512**

Investment Philosophy
Income Share Account

The current manager assumed responsibility for this portfolio in December 1996. The investment approach emphasizes sector and security selection The approach utilizes sector trading and relative spread analysis of both sectors and individual issues The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook

Staff Comments

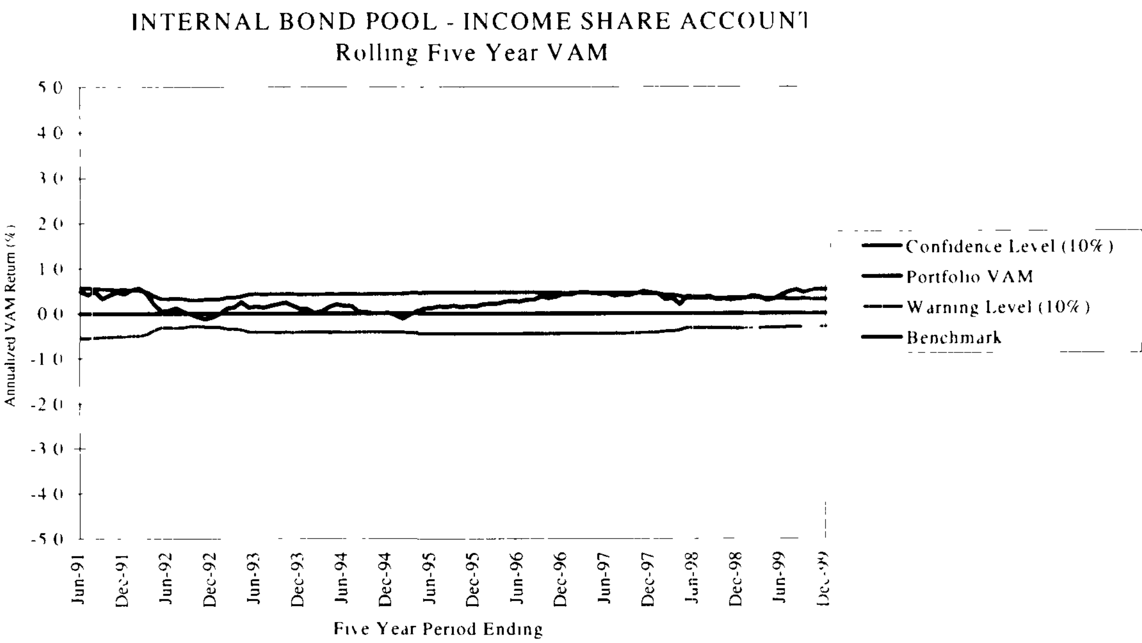
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.1%
Last 1 year	-0 5	-0.8
Last 2 years	4 1	3 8
Last 3 years	6 1	5 7
Last 4 years	5 6	5 2
Last 5 years	8 3	7 7
Since Inception (7/86)	8.5	8 1

Recommendation

No action required



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending December, 1999

Portfolio Manager: Mike Menssen **Assets Under Management: $371,791,147**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

The current manager assumed responsibility for the portfolio in December 1996. The internal bond portfolio's investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be shortened or lengthened depending on changes in the economic outlook.

Staff Comments

No comments at this time.

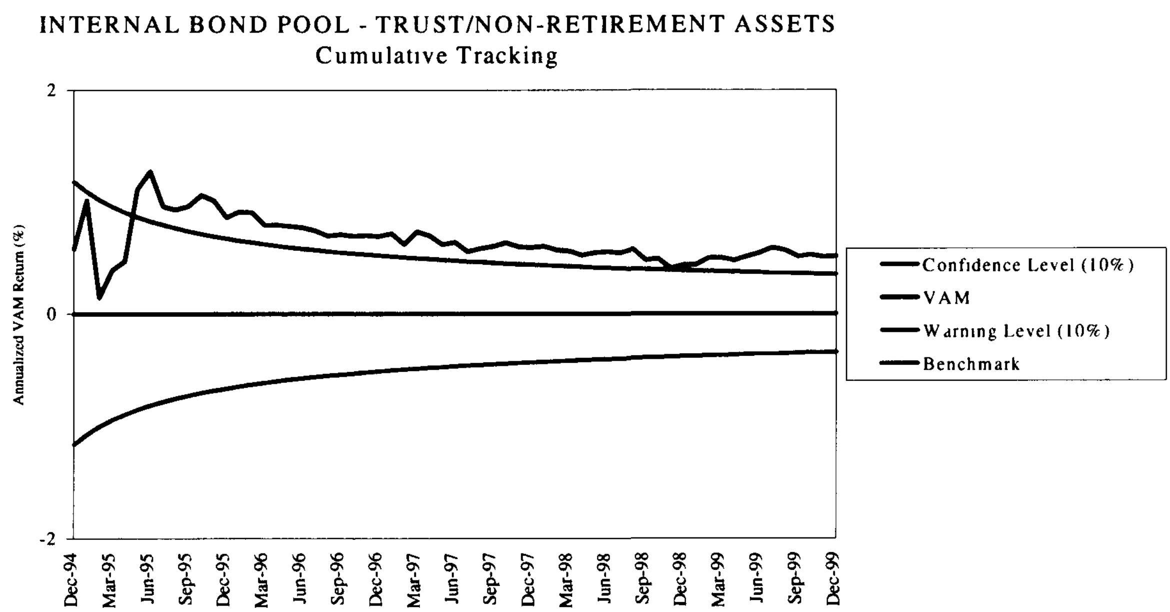
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	-0.1%
Last 1 year	0.0	-0.8
Last 2 years	4.2	3.8
Last 3 years	6.1	5.7
Last 4 years	5.6	5.2
Last 5 years	8.3	7.7
Since Inception (7/94)*	7.7	7.2

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

Recommendation

No action required.



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Fourth Quarter, 1999

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending December, 1999

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI* %	Since Retention by SBI* %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty	38.4	14.9	64.9	21.0	54.8	27.6	45.2	28.6	40.0	7.7	389.04
(S&P 500)**											
Small Cap Equity:											
T. Rowe Price Small-Cap Equity	12.5	18.4	14.7	21.3	12.6	13.1	18.2	16.7	9.7	11.0	193.94
(Russell 2000)											
Equity Index:											
Vanguard Institutional Index	15.0	14.9	21.2	21.0	27.7	27.6	28.7	28.6	7.8	7.7	186.98
(S&P 500)											
Balanced:											
INVESCO Total Return	1.0	8.7	-1.4	11.4	11.9	18.7	15.3	20.1	-7.5	4.9	104.84
(60% S&P 500/40% Lehman Gov-Corp)											
Bond:											
Dodge & Cox Income Fund	0.1	-0.1	-0.8	-0.8	5.7	5.7	8.0	7.7	0.5	0.6	23.37
(Lehman Aggregate)											
International:											
Fidelity Diversified International	30.4	17.0	50.6	26.7	25.1	15.6	22.6	12.8	37.4	22.1	74.89
(MSCI EAFE-Free)											

Numbers in black are returns **since** retention by SBI.

Numbers in blue include returns **prior** to retention by SBI.

*The mutual fund managers were retained by the SBI in July 1999.

**Benchmarks for the Funds are notated in parentheses below the Fund names.

Fixed Fund:	%
Blended Yield Rate for current quarter	6.1
Bid Rates for current quarter:	
Great West Life	6.9
Minnesota Life	6.8
Principal Life	6.9

***The Blended Yield Rate for the current quarter includes the return on the existing porfolio assets and also the Liquidity Buffer Account (money market). The Bid Rates for the current quarter are for the new cash flow only.

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY - JANUS TWENTY
Periods Ending December, 1999

Portfolio Manager: Scott W. Schoelzel	State's Participation in Fund:	$389,035,413
	Total Assets in Fund:	$36,909,400,000

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

The Janus Twenty fund had significant outperformance relative to its' S&P 500 benchmark in all time periods. The fund's holdings in wireless communications and internet infrastructure companies gained significant ground during the recent quarter. Key retail stocks also boosted fund performance in this time period.

Quantitative Evaluation

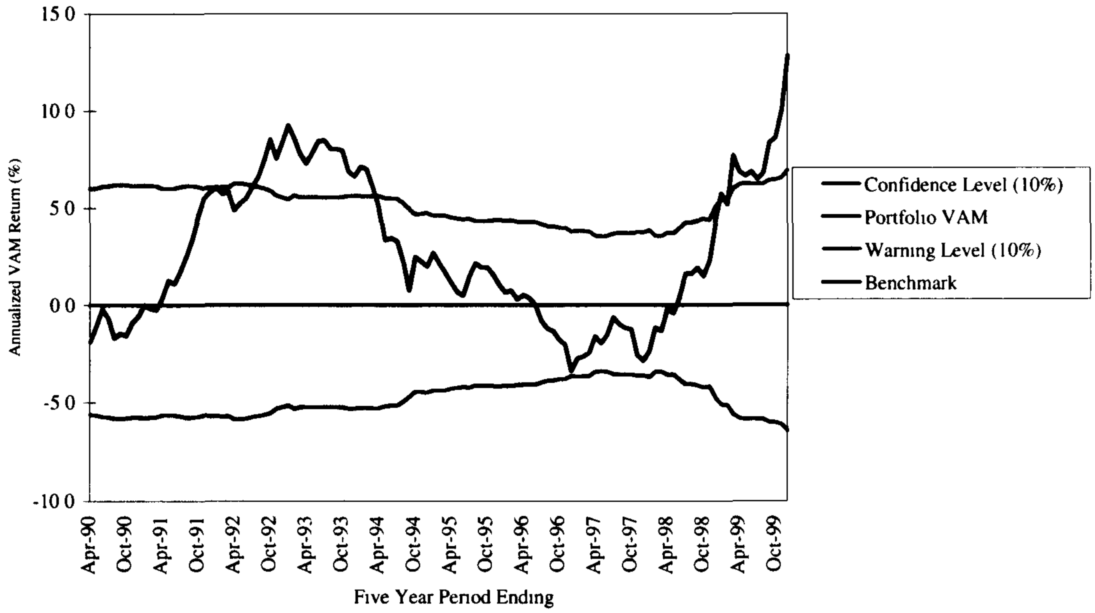
	Actual	Benchmark*
Last Quarter	38.4%	14.9%
Last 1 year	64 9	21.0
Last 2 years	69 1	24.8
Last 3 years	54 8	27.6
Last 4 years	47 6	26.4
Last 5 years	45 2	28.6
Since Retention by SBI (7/99)	40.0	7.7

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

Recommendation

No action required.

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP EQUITY FUND
Periods Ending December, 1999

State's Participation in Fund: $193,940,909

Portfolio Manager: Gregory A. McCrickard | **Total Assets in Fund: $1,740,325,811**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds

Staff Comments

During the fourth quarter, the T Rowe Price Small-Cap Equity fund experienced positive performance, but did not match its Russell 2000 benchmark. While technology and telecommunications holdings performed very well, a tilt towards value stock limited the fund's gains.

Quantitative Evaluation

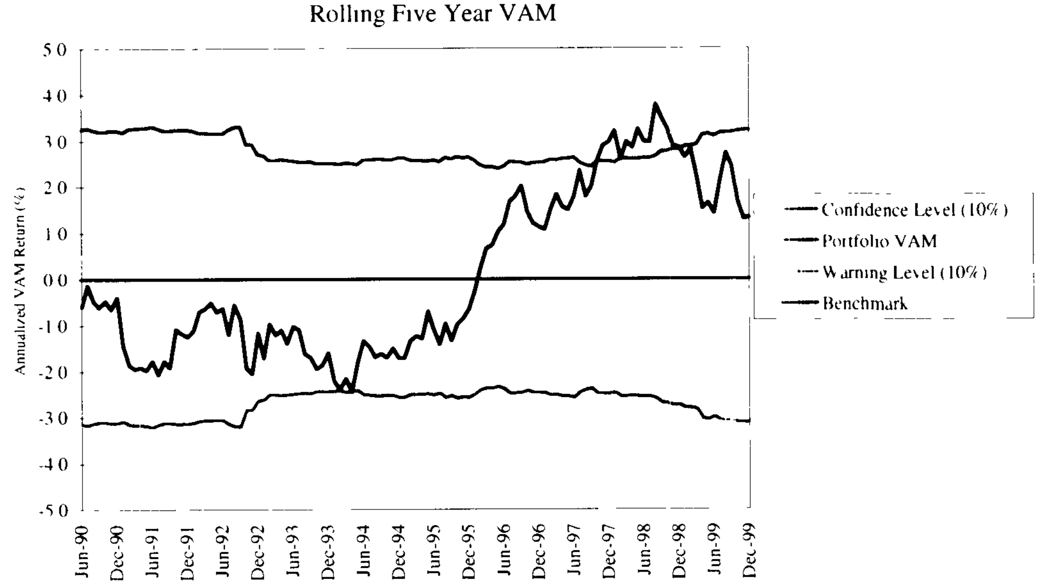
	Actual	Benchmark*
Last Quarter	12.5%	18 4%
Last 1 year	14 7	21 3
Last 2 years	5 2	8 7
Last 3 years	12 6	13 1
Last 4 years	14 6	13 9
Last 5 years	18 2	16 7
Since Retention by SBI (7/99)	9 7	11 0

*Benchmark is the Russell 2000.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI

Recommendation

No action required

SMALL CAP EQUITY - T ROWE PRICE SMALL CAP EQUITY FUND
Rolling Five Year VAM



Five Year Period Ending
Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX
Periods Ending December, 1999

State's Participation in Fund: $186,983,108

Portfolio Manager: George U. Sauter **Total Assets in Fund: $28,918,081,704**

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 comments at this time.

Quantitative Evaluation

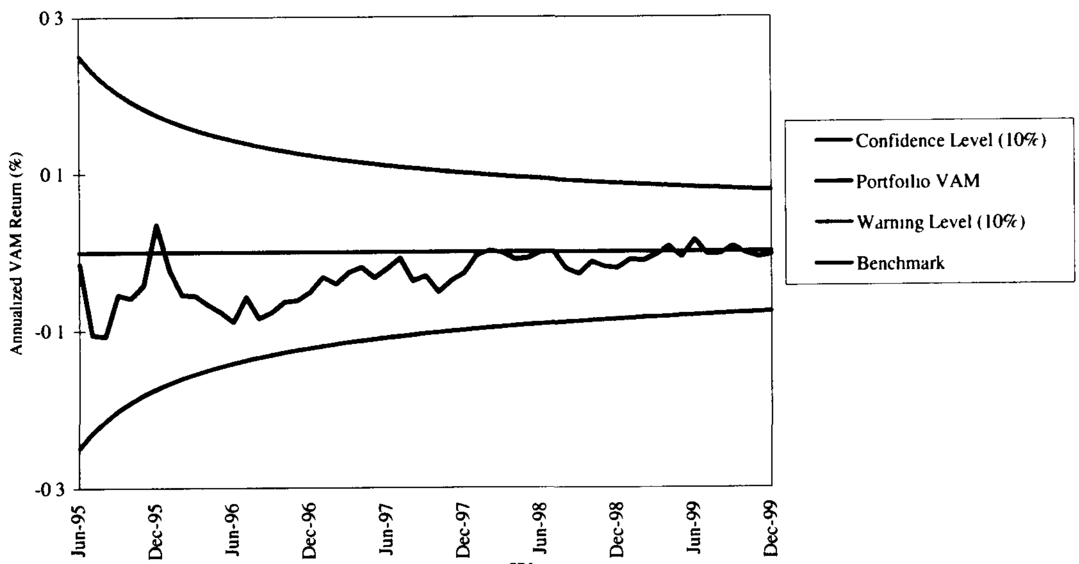
	Actual	Benchmark*
Last Quarter	15.0%	14.9%
Last 1 year	21.2	21.0
Last 2 years	25.0	24.8
Last 3 years	27.7	27.6
Last 4 years	26.5	26 4
Last 5 years	28.7	28.6
Since Retention by SBI (7/99)	7.8	7.7

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

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX
Cumulative Tracking



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – INVESCO TOTAL RETURN
Periods Ending December, 1999

State's Participation in Fund: $104,841,658

Portfolio Manager: Edward Mitchell, Jr. **Total Assets in Fund: $2,933,350,824**

Investment Philosophy
Invesco Total Return

This fund is designed for investors who want to invest in a mix of stocks and bonds in the same fund. The fund seeks both capital appreciation and current income. The managers start from a 60% stock / 40% bond asset allocation and adjusts the mix based on the expected risks and returns of each asset class. The fund invests in mid- to large-cap value stocks and in high quality bonds with the bond portfolio having a duration somewhat less than the bond market as a whole.

Staff Comments

The INVESCO Total Return Fund underperformed in all time periods. The fund's strategy of avoiding the premium priced technology stocks, seeking out underpriced securities in medium to large companies and finally taking a value approach to security selection was not rewarded. The fixed income component of the fund was also impacted by negative returns. Staff continues to meet with INVESCO at SBI offices quarterly.

Quantitative Evaluation

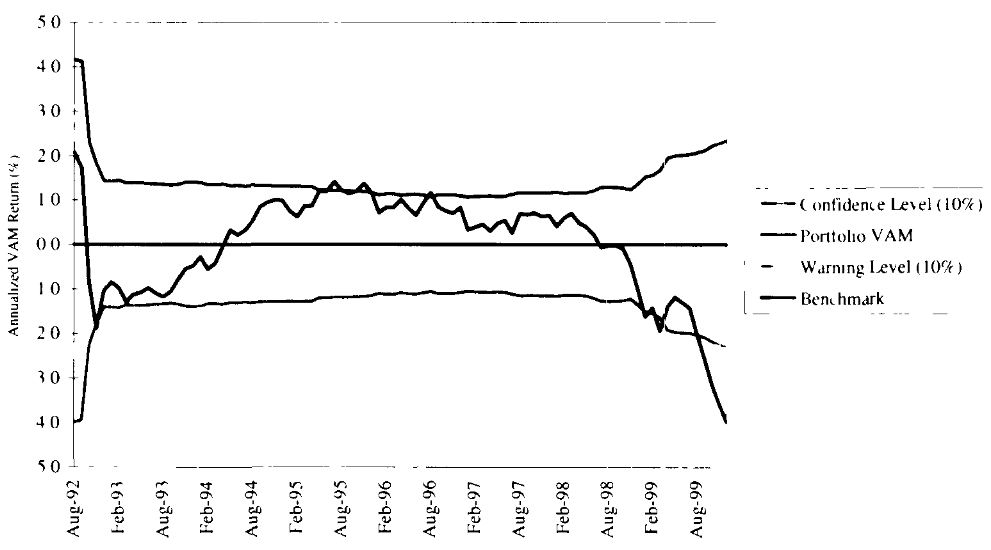
	Actual	Benchmark*
Last Quarter	1.0%	8.7%
Last 1 year	-1.4	11.4
Last 2 years	5.9	16.4
Last 3 years	11.9	18.7
Last 4 years	12.2	17.7
Last 5 years	15.3	20.1
Since Retention by SBI (7/99)	-7.5	4.9

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

Recommendation

No action required

BALANCED - INVESCO TOTAL RETURN
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending December, 1999

State's Participation in Fund: $23,374,342
Portfolio Manager: Dana Emery **Total Assets in Fund: $973,962,370**

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 comments at this time.

Quantitative Evaluation

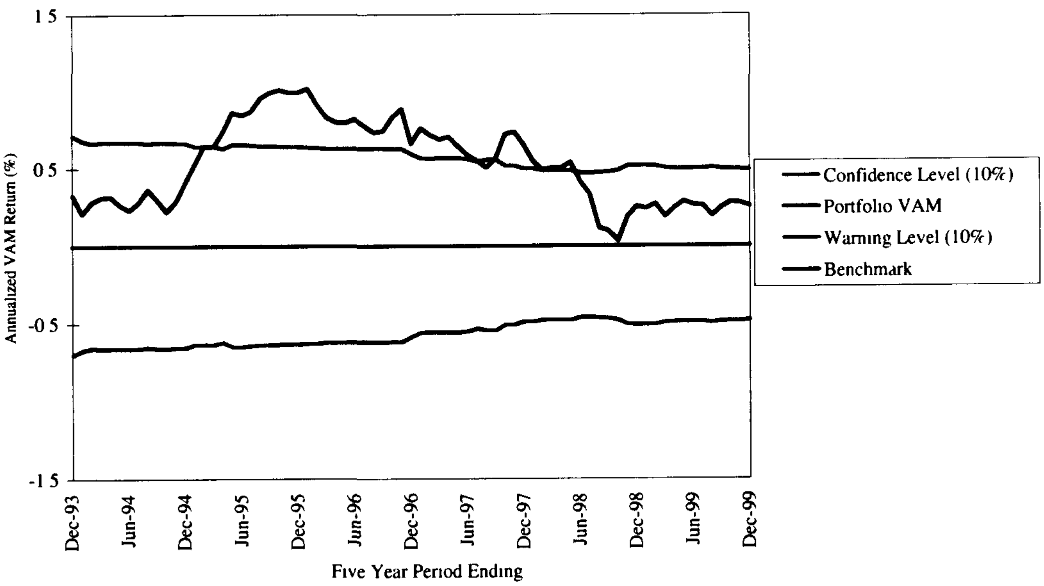
	Actual	Benchmark*
Last Quarter	0.1%	-0.1%
Last 1 year	-0 8	-0.8
Last 2 years	3.5	3.8
Last 3 years	5.7	5.7
Last 4 years	5.1	5.2
Last 5 years	8.0	7.7
Since Retention By SBI (7/99)	0.5	0.6

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

Recommendation

No action required.

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account.

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending December, 1999

	State's Participation in Fund:	**$74,890,793**
Portfolio Manager: Gregory Fraser	**Total Assets in Fund:**	**$4,908,461,753**

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 comments at this time

Quantitative Evaluation

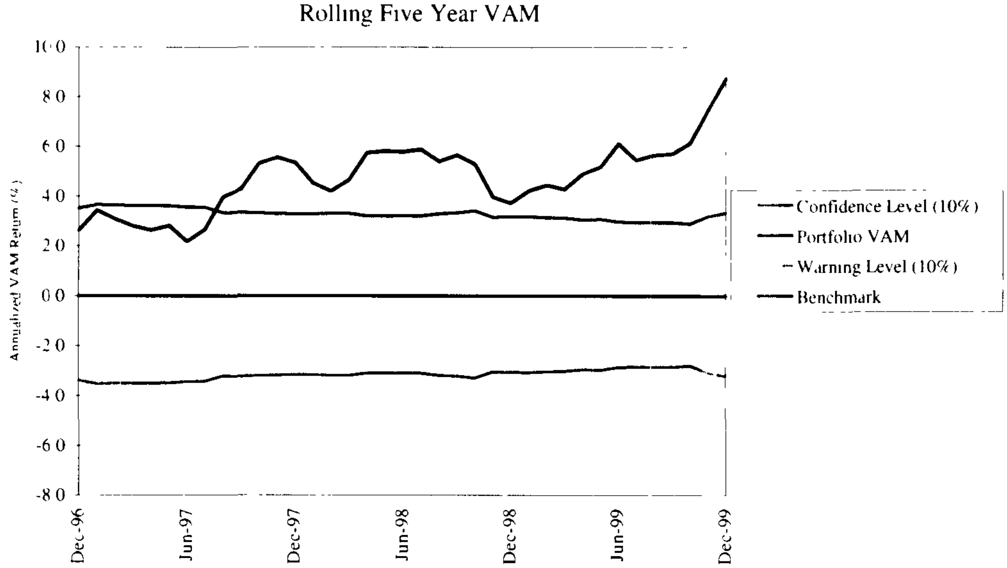
	Actual	Benchmark*
Last Quarter	30.4%	17.0%
Last 1 year	50.6	26.7
Last 2 years	31.3	23.4
Last 3 years	25.1	15.6
Last 4 years	23.8	13.2
Last 5 years	22.6	12.8
Since Retention By SBI (7/99)	37.4	22.1

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

Recommendation

No action required

INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending December, 1999

Total Assets in MN Fixed Fund: $50,363,964 *
*Includes $5-10M in Liquidity Buffer Account

Total Assets in 457 Plan: $605,291,124 **
**Includes all assets in new and old fixed options

Principal Life

Ratings:	Moody's	Aa2
	S&P	AA
	A.M. Best	A+
	Duff & Phelps	AA+

Assets in MN Fixed Fund: $14,195,104

Investment Philosophy

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

Minnesota Life

Ratings:	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA

Assets in MN Fixed Fund:	$11,292,321
Assets in Prior MN 457 Plan:	$235,327,922
Total Assets:	$246,620,243

Investment Philosophy

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

Great West Life

Ratings:	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA

Assets in MN Fixed Fund:	$9,843,879
Assets in Prior MN 457 Plan:	$319,599,239
Total Assets:	$329,443,118

Investment Philosophy

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments. To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third-party rating agencies or by the manager if private placements. Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria.

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending December, 1999

Current Quarter

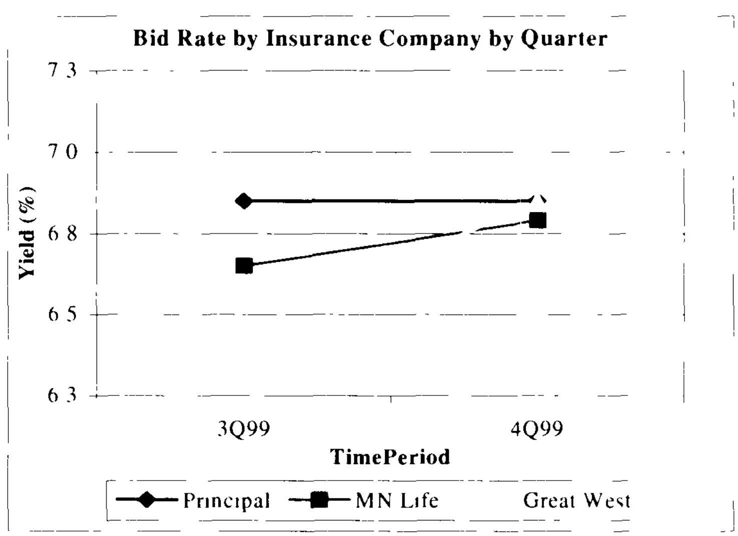
Dollar Amount of Bid: $20,500,000 **Blended Rate: 6.14%**

Bid Rates:

Principal Life	6.85%
Minnesota Life	6.79%
Great West Life	6.85%

Dollar Amount in existing Minnesota Life portfolio: $235,327,922

Rate on existing Minnesota Life portfolio: 6.09 %



Staff Comments on Bid Rates

The spread in the bid rates by the three insurance companies on the new inflow of dollars into the MN Fixed Fund in the fourth quarter narrowed from the bid rates of the prior quarter

Percentage Allocation of Dollars by Quarter

	3Q99	4Q99
Principal Life	50%	33.3%
Minnesota Life	30%	33.3%
Great West Life	20%	33.3%

Staff Comments

In the most recent quarter, the percentage allocation of the bid dollars to each insurance company was equal because all three companies' bid rates were within ten basis points of each other

Tab D

COMMITTEE REPORT

DATE: February 29, 2000

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

FROM: **International Manager Committee**

The International Manager Committee met on February 16, 2000 to consider the following agenda items:

- Review of manager performance for the period ending December 31, 1999.
- Update on funding of new international managers.

No Board/IAC action is required at this time.

INFORMATION ITEMS:

1. Review of manager performance for the period ending December 31, 1999.

For the period ending December 31, 1999, the **International Equity Program** outperformed its composite index for all time periods. Performance of the **equity managers** (excluding the currency overlay) also outperformed the target for all time periods.

Time Period	Total Program	Composite Index*	Equity Mgrs. Only
Quarter	19.3%	17.8%	19.2%
1 Year	33.2	31.6	32.7
3 Year	15.7	14.3	14.7
5 Year	13.9	11.9	13.1

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

Performance evaluation (VAM) reports are behind the **"blue page"** in this Tab section.

2. Update on funding of new international managers.

At the December 8, 1999 meeting, the State Board of Investment concurred with the International Search Committee recommendation to retain four additional active managers to manage equities in the developed international markets. All four managers were funded on February 1, 2000 at the following levels:

American Express Asset Management	$300 Million
Blairlogie Capital Management	$100 Million
INVESCO Global Asset Management	$400 Million
Montgomery Asset Management, LLC	$300 Million

The $1.1 Billion that funded the new managers was withdrawn from the EAFE index fund. This reallocation of funds places the International Equity Program within the SBI's objective of having at least one-third of the assets actively managed and one-third passively managed.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 1999

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending December, 1999

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Equity Pool %
Active EAFE												
Brinson (1)	16.6	17.0	24.8	26.7	16.0	15.6	15.4	12 8	13.4	13 4	$693.86	9.7%
Marathon (2)	12.3	17.0	35.6	26.7	12.3	15.6	10.5	12.8	11 2	11.2	498 00	7 0%
Rowe Price (2)	25.1	17.0	35.0	26.7	17.2	15.6	15.9	12.8	13.9	11 2	791.54	11.1%
Scudder (2)	22.3	17.0	43.3	26.7	19.5	15.6	18 4	12 8	15.2	11.2	605.43	8.5%
Active Emerging Markets												
City of London (3)	24.3	25.4	56.0	66.4	5.5	3.2			6.4	3.7	303.99	4.3%
Genesis (4)	27.3	25.4	46.4	66.4	0.1	3 2			0 5	1 5	270.31	3.8%
Montgomery (4)	33.8	25.4	64 3	66.4	0.7	3.2			1.1	1 5	281.00	3.9%
Passive EAFE												
State Street (5)	17.0	17.0	27.6	26.7	16.1	15.6	13 2	12.8	13 8	13 5	3,696.81	51.8%
									Since 10/1/92			
Equity Only*	19.2	17.8	32.7	31.6	14.7	14.3	13 1	11.9	13.7	12.9	7,140.94	100.0%
Total Program**	**19.3**	**17.8**	**33.2**	**31.6**	**15.7**	**14.3**	**13.9**	**11.9**	**14.2**	**12.9**	**$7,143.13**	

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

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

(1) Fully active since 10/1/99. Active country/passive stock from inception to 9/30/99 Retained April 1, 1993.
(2) Fully active. Retained November 1, 1993. Marathon's performance against custom benchmark returns can be seen on page 6.
(3) Retained November 1, 1996.
(4) Retained May 1, 1996.
(5) Retained October 1, 1992

Impact of Currency Overlay Program

Cumulative Dollar Value Added (Since inception, December 1, 1995) $154,066,206

BRINSON PARTNERS
Periods Ending December, 1999

Portfolio Manager: Richard Carr **Assets Under Management: $693,855,039**

Investment Philosophy

Brinson uses a proprietary valuation model to rank the relative attractiveness of individual markets based on fundamental considerations. Inputs include forecasts for growth, inflation, risk premiums and foreign exchange movements. Quantitative tools are used to monitor and control portfolio risk, while qualitative judgments from the firm's professionals are used to determine country allocations. Brinson establishes an allocation range around the target index to define the limits of their exposure to individual countries and to assure diversification. Brinson constructs its country index funds using a proprietary optimization system.

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

Staff Comments

Brinson's portfolio was converted to a fully active mandate in October 1999. The portfolio manager also reduced the number of stocks from over 300 to a concentrated portfolio of approximately 60 names. Performance for the quarter and the year was reduced due to the high level of turnover and the resulting transaction costs. In addition, currency allocation strategies held down performance for the quarter and the year. The one-year performance was also negatively impacted by the underweight to Asia ex-Japan.

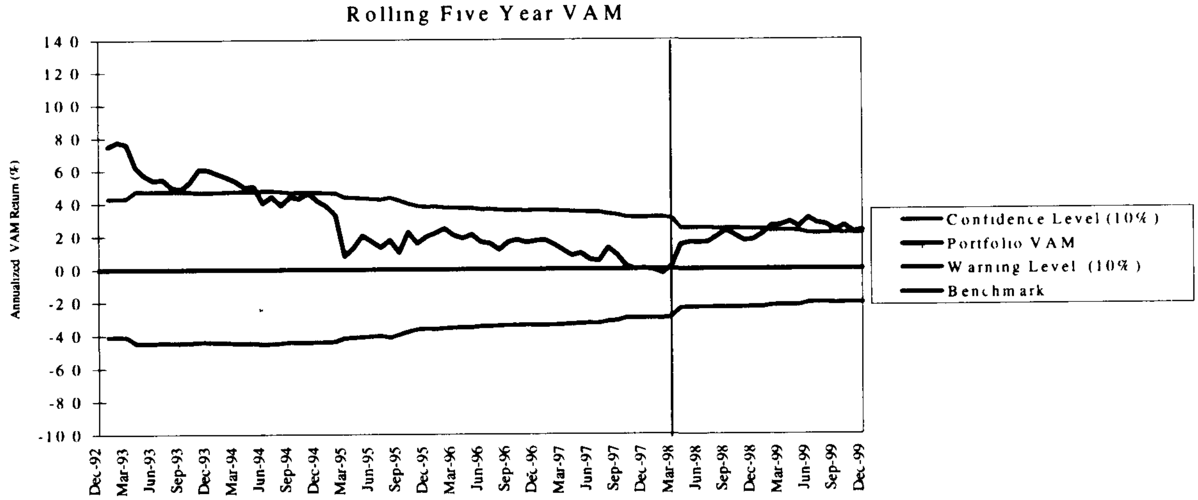
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.6%	17.0%
Last 1 year	24.8	26.7
Last 2 years	22.1	23.4
Last 3 years	16.0	15.6
Last 4 years	14.9	13.2
Last 5 years	15.4	12.8
Since Inception (4/93)	13.4	13.4

Recommendations

No action required.

BRINSON PARTNERS, INC (INT'L)
Rolling Five Year VAM



5 Year Period Ending

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

MARATHON ASSET MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: William Arah **Assets Under Management: $497,996,557**

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

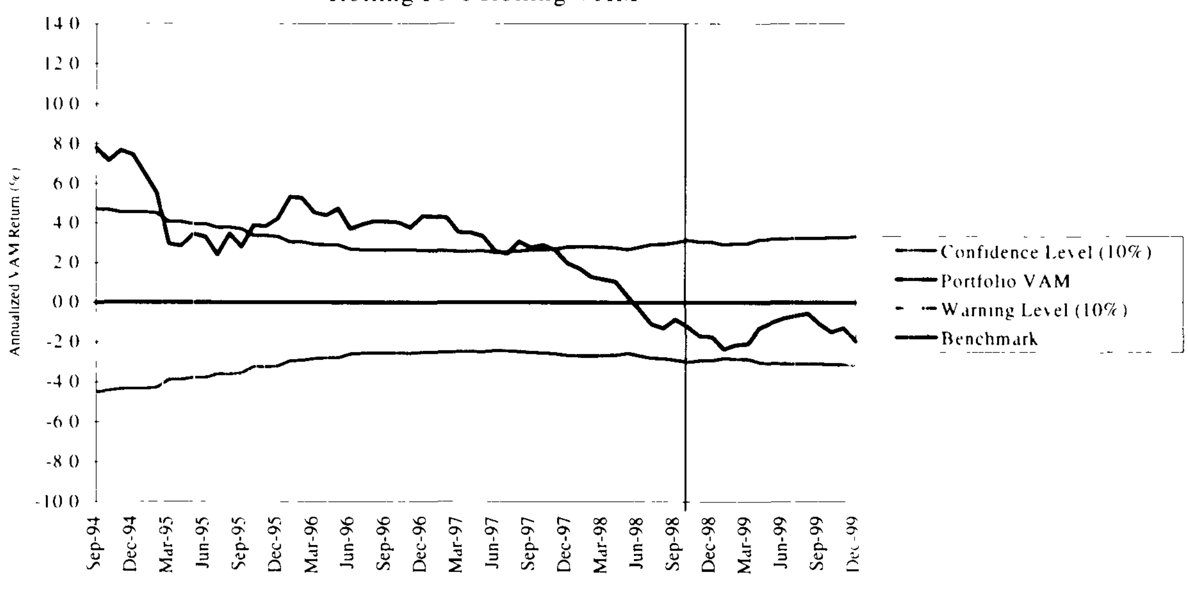
Marathon's relative performance during the quarter suffered mostly from stock selection in Europe, reflecting the underweight in technology and telecoms in the region. The portfolio continues to have three main biases Asian overweight, a significantly lower average market cap than that of the index, and favoring value sectors in the portfolio The value bias has resulted in the telecom sector to be less than half weighted. Of the three main biases in the portfolio, the bias towards Asian shares was the only one functioning during the year.

Quantitative Evaluation

	Actual	EAFE Benchmark	Custom Benchmark
Last Quarter	12.3%	17 0%	12 9%
Last 1 year	35 6	26 7	27 2
Last 2 years	21 5	23 4	20 7
Last 3 years	12 3	15 6	12.0
Last 4 years	11 6	13 2	10.8
Last 5 years	10 5	12 8	10.3
Since Inception (11/93)	11 2	11 2	9.4

Recommendations

No action required



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

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Periods Ending December, 1999

Portfolio Manager: David Warren **Assets Under Management: $791,543,327**

Investment Philosophy

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

Staff Comments

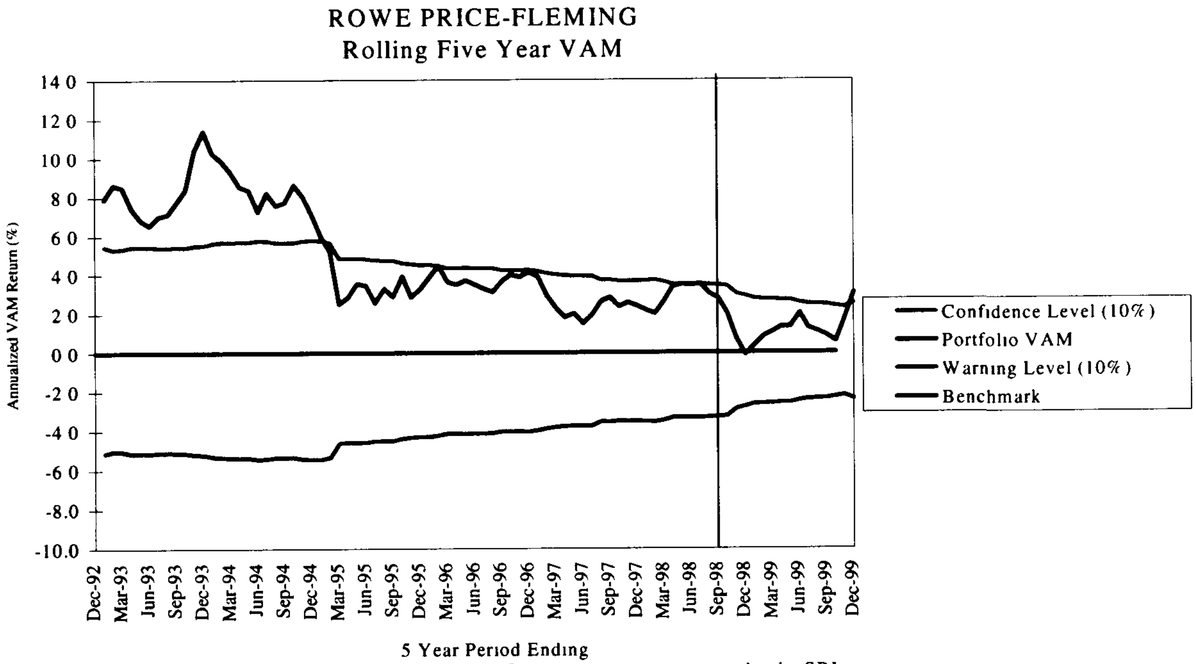
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	25.1%	17.0%
Last 1 year	35.0	26.7
Last 2 years	24.7	23.4
Last 3 years	17.2	15.6
Last 4 years	16.7	13.2
Last 5 years	15.9	12.8
Since Inception (11/93)	13.9	11.2

Recommendations

No action required.



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

SCUDDER, STEVENS & CLARK
Periods Ending December, 1999

Portfolio Manager: Deborah Chaplin | **Assets Under Management: $605,434,080**

Investment Philosophy

Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities. The investment process focuses on three areas: country analysis, global themes and unique situations. Ideas from all three areas are integrated into Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries.

Staff Comments

No comments at this time.

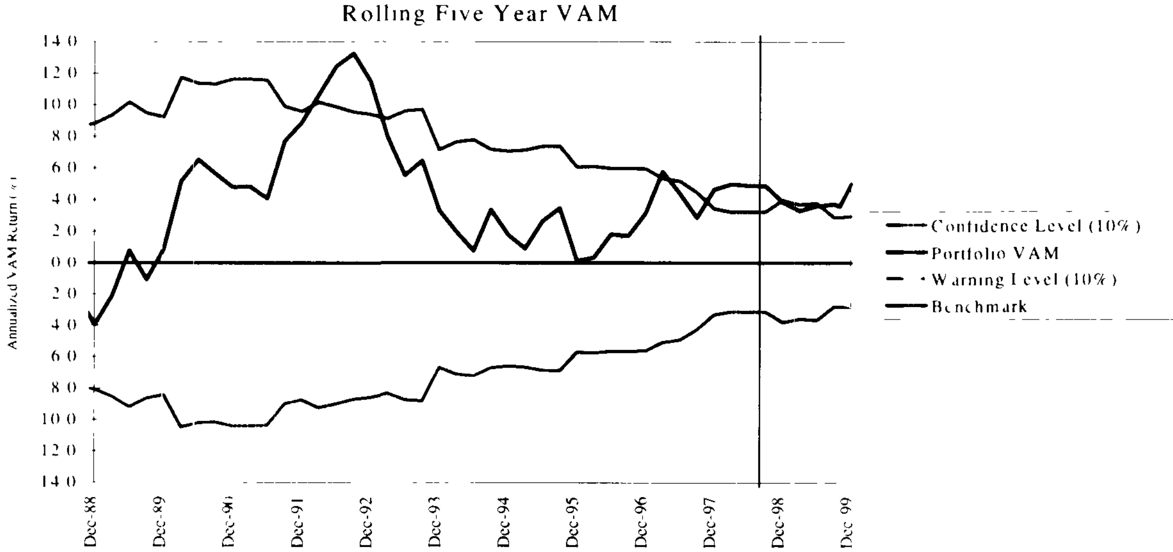
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	22.3%	17.0%
Last 1 year	43.3	26.7
Last 2 years	26.1	23.4
Last 3 years	19.5	15.6
Last 4 years	18.8	13.2
Last 5 years	18.4	12.8
Since Inception (11/93)	15.2	11.2

Recommendations

No action required.

SCUDDER KEMPER INVESTMENTS
Rolling Five Year VAM



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

CITY OF LONDON
Periods Ending December, 1999

Portfolio Manager: Barry Olliff | **Assets Under Management: $303,994,656**

Investment Philosophy

City of London is an emerging markets specialist. The firm invests in closed-end country and regional funds to enhance performance when discounts to net asset value (NAV) narrow and to assure broad diversification within markets. They perform two levels of analysis. The first level is to compile macro-economic data for each country in their universe. Countries are ranked nominally according to the relative strength of their fundamentals and the expected upward potential of their stock markets. The second level is research on closed-end country and regional funds which use analyzed funds for corporate activity, liquidation dates, liquidity and discounts to NAV. They also analyze the quality and expertise of the closed-end fund managers. Countries are then re-ranked according to the relative pricing and discounts to NAV of country specific funds.

Staff Comments

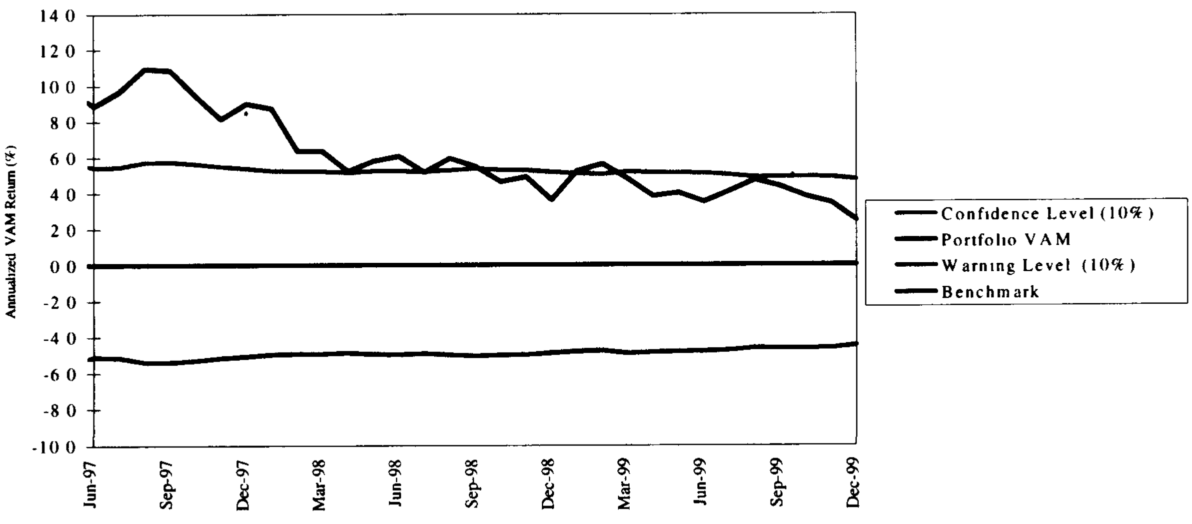
City of London underperformed the benchmark for the quarter and the year. This underperformance was led once again by country allocation decisions. The underweight exposure to Brazil, South Africa and Turkey was the main reason for underperformance in both periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	24.3%	25.4%
Last 1 year	56.0	66.4
Last 2 years	9.3	11.5
Last 3 years	5.5	3.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	6.4	3.7

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

GENESIS ASSET MANAGERS, LTD.
Periods Ending December, 1999

Portfolio Manager: Paul Greatbatch — **Assets Under Management: $270,308,519**

Investment Philosophy

Genesis is an emerging markets specialist The firm believes that the critical factor for successful investment performance in emerging markets is stock selection They also believe that structural changes in emerging markets will continue to create both winners and losers in the corporate sector Finally, they believe that following index stocks will not necessarily expose an investor to the highest returns since those stocks are typically concentrated in large capitalization companies that have already attained a certain level of recognition They identify those countries in which structural change will most likely generate growth opportunities for business and/or where the environment is supportive of a flourishing private sector Stock selection is based on Genesis' estimate of the value of the company's future real earnings stream over five years relative to its current price The portfolio consists of the most undervalued stocks across all markets with emphasis on growth with value

Staff Comments

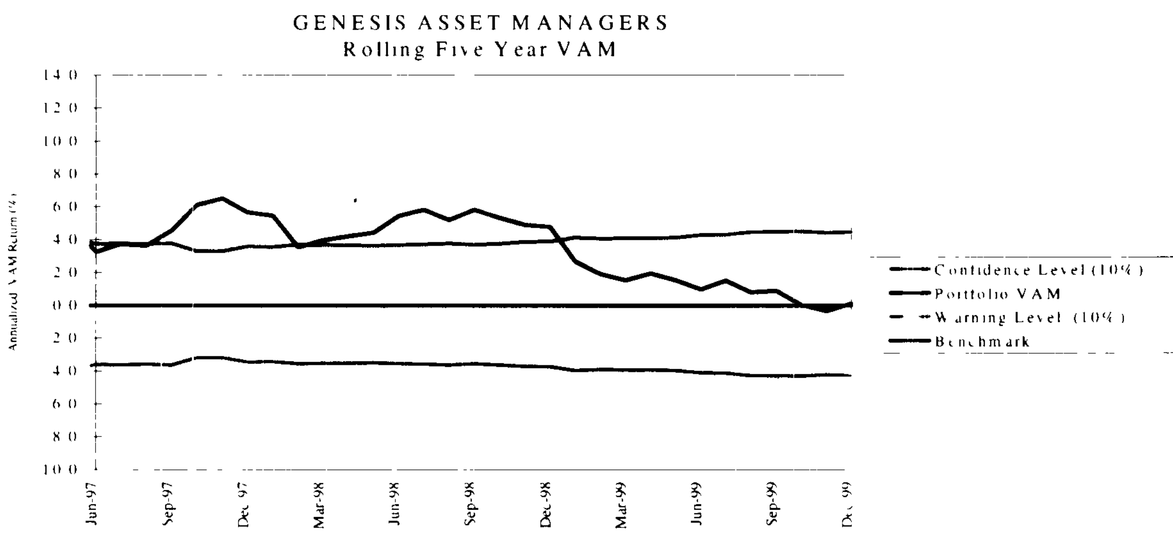
Genesis outperformed for the quarter and underperformed for the year. Underweighting Asia was the primary drag on the one year return An overweight to Latin America had a negative impact the first half of the year and detracted from the one year performance Quarterly performance was helped by the portfolio's overweight to Latin America, with most of the gains resulting from country exposure as opposed to stock outperformance

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	27 3%	25 4%
Last 1 year	46 4	66 4
Last 2 years	1 7	11 5
Last 3 years	0 1	3 2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	0 5	1 5

Recommendations

No action required



Note Shaded area includes performance prior to managing SBI account

MONTGOMERY ASSET MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Josephine Jimenez | **Assets Under Management: $280,998,150**

Investment Philosophy

Montgomery is an emerging markets specialist. The firm combines quantitative investment techniques and fundamental stock selection to take advantage of market inefficiencies and low correlations within the emerging markets. Their top-down analysis begins with a quantitative approach which evaluates historical volatility and correlations between markets. The model identifies attractive countries which are then qualitatively analyzed for "event risk" which the model cannot take into account. Fundamental analysis is used to evaluate the financial condition, quality of management, and competitive position of each stock. Stocks will come from two tiers. Tier 1 will be 60-100 blue chip stocks. Tier 2 will be 100-150 smaller cap stocks with substantial growth potential. Characteristics of selected stocks may include low PE's to internal growth rates, above average earnings growth potential or undervalued/hidden assets.

Staff Comments

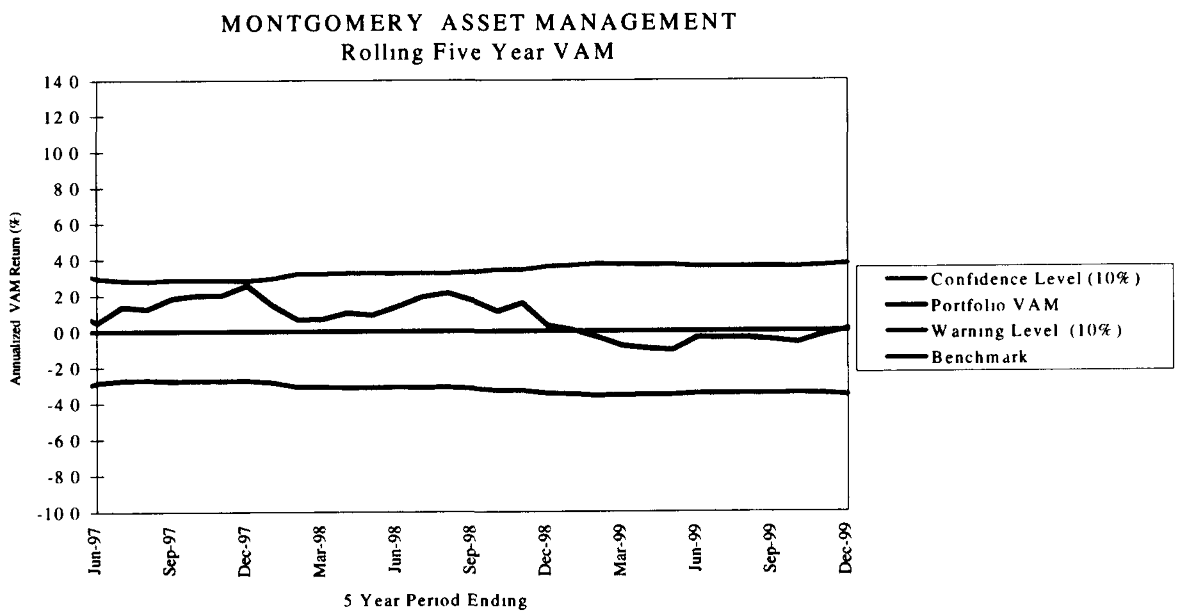
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	33.8%	25.4%
Last 1 year	64.3	66.4
Last 2 years	2.1	11.5
Last 3 years	0.7	3.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	1.1	1.5

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

STATE STREET GLOBAL ADVISORS
Periods Ending December, 1999

Portfolio Manager: Lynn Blake **Assets Under Management: $3,696,810,429**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 20 markets located in Europe, Australia and the Far East (EAFE) They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free index SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs. The MSCI EAFE-Free reinvests dividends at the Belgian tax rate The portfolio reinvests dividends at the lower U S. tax rate, which should result in modest positive tracking error, over time

Staff Comments

No comments at this time

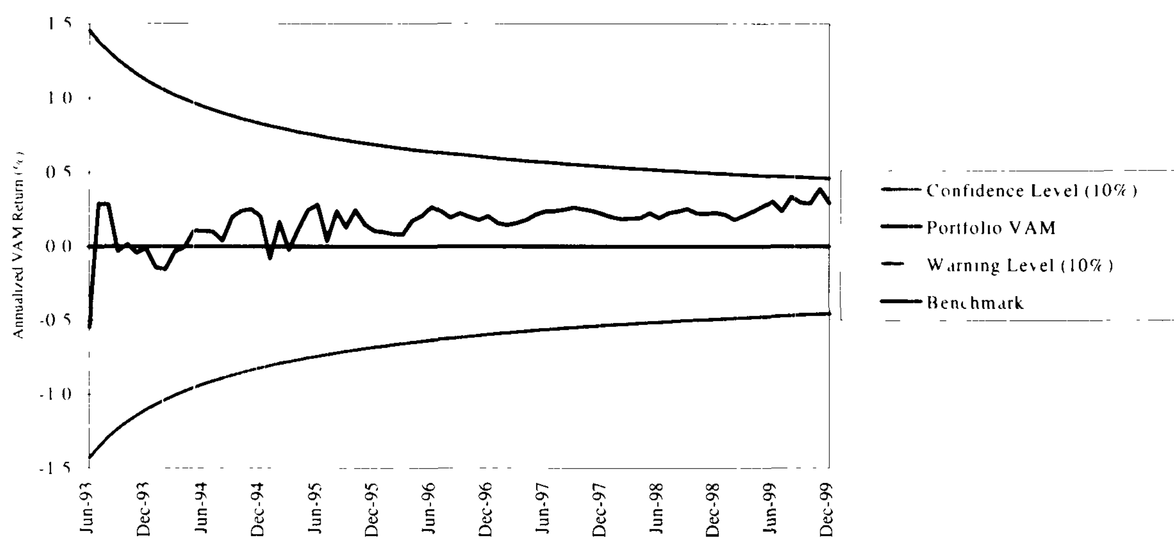
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17 0%	17.0%
Last 1 year	27 6	26 7
Last 2 years	23 9	23 4
Last 3 years	16 1	15 6
Last 4 years	13.7	13 2
Last 5 years	13 2	12.8
Since Inception (10/92)	13.8	13 5

Recommendation

No action required

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



RECORD TREASURY MANAGEMENT
Periods Ending December, 1999

Portfolio Manager: Neil Record | **Notional Portfolio Value: $1,015,738,641**

Investment Philosophy

Record Treasury avoids all forms of forecasting in its approach to currency management. Rather, the firm employs a systematic model which uses a form of dynamic hedging. The firm creates a portfolio of synthetic currency options using forward contracts. Like traditional options, Record's "in-house options" allow the client to participate in gains associated with foreign currency appreciation and avoid losses associated with foreign currency depreciation. As with all dynamic hedging programs, Record will tend to sell foreign currency as it weakens and buy as it strengthens.

The SBI has chosen to limit currency management to currencies that comprise 5% or more of the EAFE index: Japanese Yen, British Pound Sterling, Swiss Franc, and the Euro. Each currency is split into equal tranches that are monitored and managed independently. The strike rate for each tranche is set at 2% out-of-the money at the start date of each tranche. This requires a 2% strengthening of the US dollar to trigger a hedge for that tranche.

Staff Comments

At the December 8, 1999 meeting, the State Board of Investment concurred with the recommendation to terminate Record Treasury. All hedged currencies were unhedged on December 10, 1999. Record Treasury will remain under contract until all forward contracts expire over the next twelve months

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	17.2%	17.0%
Last 1 Year	28.5	27.6
Last 2 Years	23.9	23.9
Last 3 Years	17.8	16.1
Last 4 Years	15.6	13.6
Last 5 Years	N/A	N/A
Since Inception (12/95)	16.3	14.4

Recommendations

No action required.

(1) Actual unhedged return of the entire EAFE-Free index fund managed by State Street Global Advisers. Includes return of underlying stock exposure, as reported by State Street Bank.

Tab E

COMMITTEE REPORT

DATE: February 29, 2000

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on February 16, 2000 to review the following information and action items:

- Review of current strategy.
- Investment for the Basic Retirement Fund with an existing private equity manager, Crescendo Venture Management.
- Investment for the Basic Retirement Fund with an existing private equity manager, DLJ Merchant Banking.
- Pre-approval, subject to final approval from a Committee comprised of the Alternative Investment Committee and a designee of each Board member, of a follow-on investment with an existing private equity manager: Welsh, Carson, Anderson & Stowe IX, L.P. for the Basic Retirement Fund.

The Board/IAC action is required on the last three items.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs. Currently, the SBI has an investment at market value of $729 million in twenty (20) commingled real estate funds and REITs.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. Currently, the SBI has an investment at market value of $1.02 billion in forty-four (44) commingled private equity funds.

- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of $173 million in eleven (11) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Since the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. The SBI has an investment at market value of $309 million in eighteen (18) yield oriented funds for the Post Fund: five (5) are in real estate, eleven (11) are in private equity and two (2) are in resource funds.

ACTION ITEMS:

1) Investment for the Basic Retirement Fund with an existing private equity manager, Crescendo Venture Management, in Crescendo IV, L.P.

Crescendo Venture Management is seeking investors for a new $750 million private equity fund, Crescendo IV, L.P. This Fund is the fourth private equity fund managed by Crescendo Venture Management, L.L.C. Crescendo IV, L.P. will focus, like prior funds, on assembling a diverse portfolio of venture capital and private equity investments primarily in the technology and communications sectors.

More information on Crescendo IV, L.P. is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Crescendo IV, L.P. This commitment will be allocated to the Basic Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Crescendo Venture Management upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Crescendo Venture Management or reduction or termination of the commitment.

2) **Investment for the Basic Retirement Fund with an existing private equity manager, DLJ Merchant Banking, in DLJ Strategic Partners, L.P.**

DLJ Merchant Banking is seeking investors for a new $500 million private equity fund, DLJ Strategic Partners, L.P. This Fund will seek to earn attractive returns through opportunistic purchases of limited partnership interests from limited partners in private equity investment funds (secondary interests).

More information on DLJ Strategic Partners, L.P. is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in DLJ Strategic Partners, L.P. This commitment will be allocated to the Basic Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by DLJ Merchant Banking upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on DLJ Merchant Banking or reduction or termination of the commitment.

3) **Pre-approval, subject to final approval from a Committee comprised of the Alternative Investment Committee and a designee of each Board member, of a follow-on investment with an existing private equity manager, Welsh, Carson, Anderson & Stowe in Welsh, Carson, Anderson, & Stowe IX, L.P. for the Basic Retirement Funds.**

Welsh, Carson, Anderson & Stowe (WCAS) is seeking investors for a new $4.5 billion private equity fund, Welsh, Carson, Anderson, & Stowe IX, L.P. This Fund, like prior funds, will specialize in management buyouts and other private equity investments in the information technology and healthcare industries. It focuses on control positions in medium-sized, growth-oriented companies.

Staff and a Committee comprised of the Alternative Investment Committee and a designee of each Board member want the flexibility to review and execute an investment with this existing manager potentially before the next quarterly SBI meeting in June 2000.

More information on Welsh, Carson, Anderson & Stowe IX, L.P. is included as **Attachment E.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with final approval from the Committee, which will be comprised of members of the IAC Alternative Investment Committee and a designee of each Board member, and assistance from the SBI's legal counsel, to negotiate and execute a $200 million or 20%, whichever is less, investment for the Basic Retirement Funds with an existing private equity manager, Welsh, Carson, Anderson & Stowe, in Welsh, Carson, Anderson & Stowe IX, L.P.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Welsh, Carson, Anderson & Stowe upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Welsh, Carson, Anderson & Stowe or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments

Basic Retirement Funds

December 31, 1999

Market Value of Basic Retirement Funds	$21,365,068,344
Amount Available for Investment	**$1,284,451,263**

	Current Level	Target Level	Difference
Market Value	$1,920,308,989	$3,204,760,252	$1,284,451,263
MV +Unfunded	$2,396,155,071	$4,273,013,669	$1,876,858,598

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$728,750,306	$31,567,456	$760,317,762
Private Equity	$1,018,936,100	$336,313,046	$1,355,249,146
Resource	$172,622,583	$107,965,580	$280,588,163
Total	$1,920,308,989	$475,846,082	$2,396,155,071

Minnesota State Board of Investment

Alternative Investments

Post Retirement Funds

December 31, 1999

Market Value of Post Retirement Funds	$20,768,285,448
Amount Available for Investment	**$729,713,442**

	Current Level	Target Level	Difference
Market Value	$308,700,830	$1,038,414,272	$729,713,442
MV +Unfunded	$691,282,270	$2,076,828,545	$1,385,546,275

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$74,965,335	$12,884,878	$87,850,213
Private Equity	$187,452,275	$341,714,715	$529,166,990
Resource	$46,283,220	$27,981,847	$74,265,067
Total	$308,700,830	$382,581,440	$691,282,270

ATTACHMENT B

State of Minnesota
- Alternative Investments -

As of December 31, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
Aetna	42,376,529	42,376,529	125,107,598	0	0	6.94	17.67
AEW V	15,000,000	15,000,000	315,841	11,169,287	0	-2.85	12 04
Colony Capital							
Colony Investors II	40,000,000	38,682,764	19,729,282	26,032,528	1,317,236	8.13	4.75
Colony Investors III	100,000,000	85,605,379	81,723,171	3,257,240	14,394,621	-3.09	2.00
Equity Office Properties Trust	140,388,854	140,388,854	206,979,035	35,276,674	0	13.38	8.10
First Asset Realty	916,185	916,185	234,077	836,088	0	4.78	5.67
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,835,332	20,036,722	0	1.71	15.39
Heitman Advisory Fund II	30,000,000	30,000,000	3,651,133	39,508,962	0	3.95	14.11
Heitman Advisory Fund III	20,000,000	20,000,000	208,246	22,109,452	0	1.34	12.94
Heitman Advisory Fund V	20,000,000	20,000,000	13,848,764	19,175,516	0	8.38	8.07
Lasalle Income Parking Fund	15,000,000	14,644,401	13,488,048	7,389,231	355,599	7.36	8.28
Lend Lease Real Estate	40,000,000	40,000,000	115,768,154	1,430,080	0	6.39	18.22
RREEF USA Fund III	75,000,000	75,000,000	852,162	120,584,287	0	4.74	15.64
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	52,500,120	14,791,376	0	13 01	5.58
Realty Associates Fund IV	50,000,000	50,000,000	54,738,906	7,942,169	0	11.82	2.91
Realty Associates Fund V Corporation	50,000,000	34,500,000	34,631,169	351,540	15,500,000	2.40	0.60
TCW							
TCW Realty Fund III	40,000,000	40,000,000	364,241	48,390,849	0	2.05	14.41
TCW Realty Fund IV	30,000,000	30,000,000	1,752,908	27,223,733	0	-0.37	13.16
Funds in Liquidation (AEW III, AEW IV)	35,000,000	35,000,000	22,119	28,558,020	0	N/A	N/A
Real Estate - Basic Totals	803,681,568	772,114,112	728,750,306	434,063,754	31,567,456		
Real Estate-Post							
Colony Investors II	40,000,000	38,682,764	19,729,282	26,032,528	1,317,236	8.13	4.75
Westmark Realty Advisors							
Westmark Coml MTG Fund II	13,500,000	13,397,500	11,377,727	6,393,564	102,500	9.60	4.43
Westmark Coml MTG Fund III	21,500,000	21,275,052	20,527,718	4,607,304	224,948	7.77	3.08
Westmark Coml MTG Fund IV	14,300,000	14,300,000	13,569,604	1,169,074	0	3.28	2.00
Westmark Coml MTG Fund V	21,000,000	9,759,806	9,761,003	27,801	11,240,194	2.99	0.38
Real Estate - Post Totals	110,300,000	97,415,122	74,965,335	38,230,270	12,884,878		
Real Estate Totals	913,981,568	869,529,234	803,715,640	472,294,024	44,452,334		

State of Minnesota
- Alternative Investments -

As of December 31, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource - Basic							
Apache	30,000,000	30,000,000	2,887,350	42,821 459	0	10.75	13.00
First Reserve							
First Reserve I	15,000,000	15,000,000	6,788,000	6,664 976	0	-0.79	18.25
First Reserve II	7,000,000	7,000,000	8,139,498	5,646 333	0	5.45	16.90
First Reserve IV	12,300,000	12,300,000	0	31,030,962	0	13.15	11.62
First Reserve V	16,800,000	16,800,000	15,232,453	35,518 244	0	16.60	9.67
First Reserve VII	40,000,000	40,000,000	40,858,964	7,411 411	0	12.75	3.50
First Reserve VIII	100,000,000	33,698,116	34,943,013	0	66,301,884	2.57	1.67
Morgan Oil & Gas	15,000,000	15,000,000	3,638,228	20,906,987	0	6.85	11.35
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	18,943,552	6,661 613	2,152,471	8 39	8.40
Simmons - SCF Fund III	25,000,000	19,583,775	24,652,178	10,226,217	5,416,225	18.43	4.50
Simmons - SCF Fund IV	50,000,000	15,905,000	16,539,346	0	34,095,000	-2.21	1.75
Resource - Basic Totals	328,100,000	220,134,420	172,622,583	166,888,201	107,965,580		
Resource - Post							
Merit Energy Partners							
Merit Energy Partners B L P	24,000,000	22,549,305	22,573,807	1,902,425	1,450,695	5.23	3 50
Merit Energy Partners C	50,000,000	23,468,848	23,709,413	32,173	26,531,152	2 28	1 17
Resource - Post Totals	74,000,000	46,018,153	46,283,220	1,934 598	27,981,847		
Resource Totals	402,100,000	266,152,573	218,905,803	168,822 799	135,947,427		

State of Minnesota
- Alternative Investments -

As of December 31, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital - Basic							
Allied	5,000,000	5,000,000	211,774	6,059,302	0	3.59	14.29
Bank Fund							
Banc Fund III	20,000,000	20,000,000	23,636,240	17,256,146	0	16.11	7.18
Bànc Fund IV	25,000,000	25,000,000	23,457,725	5,747,439	0	6.71	3.87
Banc Fund V	48,000,000	19,200,000	16,685,587	15,419	28,800,000	-17.75	1.46
Blackstone Capital Partners II	50,000,000	49,068,876	48,134,357	43,480,389	931,124	44.37	6.11
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	627,888	8,302,616	0	10.33	11.64
Brinson Partners II	20,000,000	19,379,998	3,539,034	34,931,236	620,002	26.00	9.09
Churchill Capital Partners II	20,000,000	20,000,000	6,603,385	22,276,938	0	13.52	7.18
Contrarian Capital II	37,000,000	37,000,000	35,774,917	12,446	0	-2.03	2.58
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	949,239	6,111,237	0	0.11	13.53
Coral Partners Fund II	10,000,000	8,069,315	6,771,355	28,272,175	1,930,685	25.13	9.43
Coral Partners Fund IV	15,000,000	13,500,000	10,277,711	3,119,933	1,500,000	-0.36	5.45
Coral Partners Fund V	15,000,000	6,035,815	5,832,004	152,481	8,964,185	-1.15	1.54
Crescendo							
Crescendo II	15,000,000	14,094,773	16,092,798	2,851,552	905,227	20.78	3.00
Crescendo III	25,000,000	15,000,000	14,451,350	2,641,808	10,000,000	25.33	1.15
DSV	10,000,000	10,000,000	3,521,534	21,875,219	0	8.69	14.72
First Century	10,000,000	10,000,000	3,322,912	14,103,791	0	9.34	15.04
Fox Paine and Company	40,000,000	30,280,634	29,188,835	0	9,719,366	-9.56	1.69
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	7,478,552	51,021,716	0	30.37	12.17
Golder, Thoma, Cressey, Rauner Fund IV	20,000,000	19,750,000	13,981,525	29,895,960	250,000	30.00	5.91
Golder, Thoma, Cressey, Rauner Fund V	30,000,000	28,500,000	33,774,532	4,989,654	1,500,000	17.39	3.50
GTCR Fund VI	90,000,000	54,487,778	58,010,563	12,312,466	35,512,222	45.58	1.50
GHJM Marathon Fund IV	40,000,000	5,390,000	5,366,068	0	34,610,000	-15.60	0.71
Hellman & Friedman							
Hellman & Friedman III	40,000,000	32,432,434	17,143,162	40,843,214	7,567,566	34.97	5.28
Hellman & Friedman IV	150,000,000	0	0	0	150,000,000	N/A	0.00
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	18,225,532	202,769,605	0	28.48	13.71
KKR 1987 Fund	145,950,000	145,373,652	195,116,924	254,091,551	576,348	11.50	12.10
KKR 1993 Fund	150,000,000	150,000,000	51,889,828	257,492,790	0	19.80	6.03
KKR 1996 Fund	200,000,000	122,941,675	120,558,908	30,772,275	77,058,325	14.26	3.33
Matrix							
Matrix Partners II	10,000,000	10,000,000	1,087,464	21,440,166	0	14.02	14.37
Matrix Partners III	10,000,000	10,000,000	1,773,505	74,927,244	0	75.11	9.65
Piper Jaffrey Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	8,000,000	6,761,677	658,415	2,000,000	-4.67	2.83
Piper Jaffray Healthcare Fund III	9,631,250	5,910,344	5,651,300	0	3,720,906	-10.42	0.94
RCBA Strategic Partners, L.P.	50,000,000	31,333,804	36,158,176	72,120	18,666,196	20.34	1.02
Summit Partners							
Summit Ventures II, L.P.	30,000,000	28,500,000	2,986,327	66,855,422	1,500,000	28.46	11.64
Summit Ventures V, L.P.	25,000,000	14,375,000	13,181,066	1,204,772	10,625,000	0.09	1.75
T. Rowe Price	267,244,106	267,244,106	32,301,955	254,855,145	-267,244,106	12.59	N/A
Thoma Cressey VI	35,000,000	8,400,000	7,883,852	0	26,600,000	-11.25	1.36
Vestar Capital Partners IV	55,000,000	0	0	0	55,000,000	N/A	0.04
Warburg Pincus							
Warburg, Pincus Equity Partners	100,000,000	34,000,000	34,069,088	93,000	66,000,000	0.65	1.51
Warburg, Pincus Ventures, L.P.	50,000,000	50,000,000	54,508,274	50,440,184	0	28.71	5.00
Welsh, Carson, Anderson & Stowe VIII	100,000,000	51,000,000	51,752,709	0	49,000,000	2.16	1.44
Zell/ Chilmark L.P.	30,000,000	30,000,000	189,646	76,414,975	0	17.69	9.47
Fund in Liquidation (Summit I)	10,000,000	10,000,000	7,024	20,369,277	0	13.17	15.04
Venture Capital - Basic Totals	2,067,202,618	1,463,645,466	1,018,936,100	1,668,730,075	336,313,046		

State of Minnesota
- Alternative Investments -

As of December 31, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital - Post							
Citicorp							
Citicorp Mezzanine II	40,000,000	40,000,000	35,782,860	16,445,876	0	17 13	5 00
Citicorp Mezzanine III	100,000,000	2,191,559	2,191,559	0	97,808,441	0 00	0.11
GTCR Capital Partners	80,000,000	16,000,000	16,000,000	0	64,000,000	0 00	0.13
Kleinwort Benson	25,000,000	24,099,398	21,865,320	3,729,021	900,603	3.54	4 25
Summit Partners							
Summit Sub Debt Fund I	20,000,000	18,000,000	1,720,450	26,591,083	2,000,000	27 66	5 75
Summit Sub Debt Fund II	45,000,000	22,500,000	17,591,801	18,501,523	22,500,000	37.26	2.41
T. Rowe Price	15,580,892	15,580,892	1,962,064	13,140,046	-15,580,892	-9 03	N/A
TCW/Crescent Mezzanine							
TCW Crescent Mezzanine Partner	40,000,000	39,783,392	30,798,164	14,782,030	216,608	7 79	3.75
TCW Crescent Mezzanine Partner II	100,000,000	65,130,045	59,540,058	5,924,576	34,869,955	1.36	1.10
William Blair Mezzanine III	60,000,000	0	0	0	60,000,000	N/A	0 00
Windjammer Mezzanine & Equity Fund II	75,000,000	0	0	0	75,000,000	N/A	0.00
Venture Capital - Post Totals	600,580,892	243,285,285	187,452,275	99,114,155	341,714,715		
Venture Capital Totals	2,667,783,509	1,706,930,752	1,206,388,375	1,767,844,230	678,027,760		

ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. BACKGROUND DATA

NAME OF FUND:	Crescendo IV, L.P. (the "Fund")
FUND MANAGER:	Crescendo Ventures IV, LLC
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	$750 million
MANAGER CONTACTS:	Jeff Tollefson 800 LaSalle Avenue, Suite 2250 Minneapolis, MN 55402 Phone: (612) 607-2800 Fax: (612) 607-2801 David Spreng 480 Cowper Street, Suite 300 Palo Alto, CA 94301 Phone: (650) 470-1200 Fax: (650) 470-1201 Website: http://www.crescendoventures.com

II. ORGANIZATION & STAFF

Crescendo IV, L.P., a Delaware limited partnership (the "Fund"), is being formed to generate substantial capital gains primarily from venture capital investments in early-stage companies in the communications infrastructure, communication services and eBusiness fields. The Fund will be the fifth of a series of related funds and is being established to continue the successful venture capital investing of its predecessor funds, Crescendo I, L.P. ("Crescendo I"), a Delaware limited partnership, Crescendo II, L.P. ("Crescendo II"), a Delaware limited partnership, Crescendo World Fund, LLC ("Crescendo World Fund"), a Delaware limited liability company and Crescendo III, L.P. ("Crescendo III"), a Delaware limited partnership (collectively, with the Fund, the "Crescendo Funds").

The Principals of Crescendo, namely R. David Spreng, Jeffrey R. Tollefson, Anthony S. Daffer, Lorraine S. Fox, Roeland A. Boonstoppel and Jeffrey J. Hinck bring nearly 45 years of combined experience in the venture capital industry and collectively manage the four prior Crescendo Funds. The Principals are complemented by other members of the Crescendo team, including three additional investment professionals and ten members of the finance and administration group, all of whom bring a diverse set of skills and experiences to the Fund. They have initiated, negotiated, closed and managed numerous equity investments of the type targeted by the Fund.

III. INVESTMENT STRATEGY

The overall objective of the Fund is to achieve substantial rates of return through the long-term capital appreciation of equity investments in a diversified portfolio of well-managed companies. It is from this broad statement of objective that the Fund's investment strategies are developed.

The Principals will implement an investment strategy and process which they have developed and practiced in prior portfolios. Highlights of this strategy are outlined below.

- <u>Invest In High Growth Markets</u>
  The Fund will seek investments in the high growth markets of Communications and eBusiness. These industries represent an attractive investment emphasis due to many factors, including: substantial and diverse market opportunities, worldwide sales potential, changing regulatory environments and technological innovation.

- <u>Early-Stage Focus</u>
  A significant portion of the Fund's assets will be invested in early-stage companies which the Principals believe to possess substantial potential for capital appreciation. Early-stage opportunities often offer pre-money valuations which the Principals find more attractive than the pre-money valuations of companies which are more advanced, thereby allowing the Fund to gain a position of influence at a lower cost. Many of the early-stage companies in which the Fund will invest will be start-up companies created by Crescendo as part of its venture catalyst and accelerator programs.

- <u>Pursue International Opportunities</u>
  Because market opportunities exist on a worldwide basis in the target industries, the Fund will particularly seek companies that have product offerings that can be competitive and effectively distributed in multinational markets. The Principals' global perspective and relationship network gives them the ability to assist portfolio companies in identifying market opportunities and establishing corporate relationships in countries outside the United States. In addition to helping domestic portfolio companies become global, the Principals will also look to directly invest Fund assets in early-stage technology and service companies operating outside of the United States.

- <u>Leverage Unique Relationships</u>
  Over the course of their venture capital and professional careers, the Principals have developed strong personal and corporate relationships with many people and institutions that are capable of adding significant value to the Fund and its

portfolio companies. This includes numerous entrepreneurs, industry executives, venture capital firms, corporate partners, angel investors, investment bankers and limited partners.

- Add Value to Portfolio Investments
  The Principals will seek investments in companies where they will be able to exercise significant influence and guidance in helping the management team build the business. The Principals expect to maintain a close working relationship with a company's management, and to add value, as needed, with product and business strategy, management team development and financial planning. They also believe that their history of success in guiding portfolio companies in these areas will contribute to the enjoyment of a competitive advantage in marketing the Fund to potential portfolio companies.

The Fund will not make direct investments in real estate, commodities and securities bearing unlimited liability, or securities of any company the board of directors of which opposes such investment. Additionally, except with the approval of the Majority in Interest of the Limited Partners (as such term is defined in the Limited Partnership Agreement), the Fund (a) will not invest more than 15% of its committed capital in any single investment; (b) will not invest more than 15% of its committed capital in any other investment pool or partnership; (c) will not invest more than 15% of its committed capital in publicly traded securities; and (d) will not invest more than 10% of its committed capital in bridge financings

IV. INVESTMENT PERFORMANCE

Previous fund performance as of December 31, 1999 for Crescendo Ventures and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Crescendo I	1995	$12.6 million		450.21%
Crescendo II	1997	$83.4 million	$15 million	68.23%
Crescendo World Fund	1997	$115 million		41.41%
Crescendo III	1998	$244.9 million	$25 million	75.56%

V. GENERAL PARTNER'S INVESTMENT

The General Partner will contribute 1% of the Fund's aggregate capital commitments to the capital of the Fund. Such contributions will be made at the same time as the Investors' contributions are made.

VI. TAKEDOWN SCHEDULE

Each Investor will be required to make capital contributions from time to time when called by the General Partner upon at least 14 days notice, in order to fund investments and fees and expenses of the Fund.

VII. FEES

The Fund will bear all of its operating and other expenses, including but not limited to legal, auditing and accounting fees and expenses, as well as custodial fees, taxes, commissions, brokerage, investment banking fees and consulting fees. The Fund will pay the Management Company an annual management fee equal to 2.25% of committed capital, payable at the beginning of each quarter. Commencing December 31, 2007, the Management Fee will become equal to 2.25% of the cost basis of securities still held by the Fund at the beginning of its fiscal year. In the event the Fund makes any investment in another investment pool or partnership on which there is a carried interest or management fee, the General Partner and the Management Company will waive their carried interest and Management Fee, respectively, payable from the Fund with respect to such investments, to the extent necessary to avoid duplication of the payment of carried interest and management fees between the two funds.

VIII. ALLOCATIONS AND DISTRIBUTIONS

The Fund's net income and losses generally will be allocated each year (i) 20% to the General Partner and (ii) 80% to the Investors and the General Partner in proportion to their capital contributions.

Annual cash distributions will be made to each partner to cover estimated income tax liabilities from Fund operations. Additionally, the General Partner (i) shall distribute any proceeds from the sale or exchange of securities of portfolio companies as soon as practicable following such sale or exchange (and in any event, except with Advisory Committee approval, within ninety (90) days after the receipt by the Fund of such proceeds) subject to the retention of such amounts as are necessary to pay Fund expenses (including Management Fee) and to make permitted reinvestments, and (ii) may, in its discretion, make additional distributions of cash and marketable securities. Any such distributions will be made in the following manner:

Prior to Payout (i.e., receipt by the Investors of distributions equal to their capital contributions), any distributions (other than tax distributions) will be made subject to the "Fair Value Test." The Fair Value Test means that the sum of the amount of cumulative distributions to the Investors, plus the amount of the Investors' fair value capital accounts, after giving effect to the proposed distribution, is equal to at least 125% of the Investors' capital contributions.

If the Fair Value Test is not satisfied, distributions (other than tax distributions) prior to Payout will be made to the partners of the Fund (including the General Partner) in proportion to their capital contributions.

If the Fair Value Test is satisfied, distributions (other than tax distributions) prior to Payout will be made, at the discretion of the General Partner, either (i) among the partners of the Fund in proportion to their capital contributions, or (ii) to the General Partner until the General Partner has received 20% of any net capital transaction gains of the Fund, and then among the partners of the Fund (including the General Partner) in proportion to their capital contributions.

After Payout, all distributions (other than tax distributions) will be made among the partners of the Fund in accordance with their Capital Account balances.

IX. INVESTMENT PERIOD AND TERM

The Fund's investment period will be approximately six years and the Fund's term will be a period of ten years from the Fund's final closing, but may be extended for up to one year in the discretion of the General Partner and for additional periods with the approval of two-thirds of the Investors. Until the Fund has invested or reserved or committed for investment at least 75% of its investable capital, the General Partner will not close on any additional investment funds (other than the Parallel Funds) with investment objectives substantially the same as those of the Fund.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. BACKGROUND DATA

NAME OF FUND:	DLJ Strategic Partners, L.P. (the "Fund")
FUND MANAGER:	Donaldson, Lufkin and Jenrette (DLJ)
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	Approximately $500 million
MANAGER CONTACT:	Larry Schloss DLJ Merchant Banking Partners 277 Park Avenue New York, New York 10172 Phone: (212) 892-3639 Fax: (212) 892-7272

II. ORGANIZATION & STAFF

DLJ Strategic Partners, L.P. (the "Fund") is being formed by the merchant banking group ("DLJMB") of Donaldson, Lufkin & Jenrette, Inc. ("DLJ"), a large investment banking firm, to invest in limited partnership interests acquired from other limited partners in private equity funds (secondary interests).

Each investment must be approved by the Investment Committee which will include certain key executives of DLJ. A dedicated team to provide day to day management of the Fund is currently being assembled. DLJ Strategic Partners, L.P. will also draw upon the resources of DLJMB's 63 dedicated professionals worldwide and DLJ's 1,000 investment banking professionals to augment its expertise and capacity where appropriate.

III. INVESTMENT STRATEGY

The Fund will seek to earn attractive returns through opportunistic purchases of limited partnership interests from limited partners in private equity investment funds.

DLJ Strategic Partners, L.P. will utilize DLJ's large network of professionals to source secondary interest deal flow. That network has a unique "reach" into the private equity institutional marketplace that includes:

1. A large Merchant Banking business with over $12 billion under management.

2. A large dedicated Private Equity sales force.
   - 32 Private Funds Group Professionals
   - Raised over $43 billion for 66 funds in past 5 years.
   - Covers 3800 institutional accounts.
   - Currently only "sell" into institutional investors.

3. DLJ Investment Banking relationships
   - Over 1000 investment bankers worldwide
   - Actively call on 300 largest financial buyers and 100 venture capitalists

4. DLJ High Yield Group
   - Dominant #1 underwriter for the past 6 years.
   - Biggest source of high yield issuers are LBO Fund portfolio companies.
   - Underwrote over 20% of high yield bonds in 1999.
   - Largest High Yield Research Group in U.S. with over 14 analysts covering more than 500 issuers whether or not underwritten by DLJ.

5. DLJ Asset Management manages investment vehicles of private equity with over $3 billion, including $2 billion fund of funds.

IV. INVESTMENT PERFORMANCE

There is no prior fund performance since this a new venture within DLJ.

V. GENERAL PARTNER'S INVESTMENT

At least, $50 million.

VI. TAKEDOWN SCHEDULE

As needed, upon at least seven days notice.

VII. FEES

There will be no management fee charged to the Limited Partners or to the Fund.

Donaldson, Lufkin & Jenrette Securities Corporation ("DLJSC"), an affiliate of the Managing General Partner, will receive an acquisition fee at the time of each acquisition by the Fund of a Portfolio Investment (each, an "Acquisition Fee") equal to 1% of the sum of *(a)* the purchase price of each Portfolio Partnership then acquired and *(b)* without duplication, the undrawn capital committed by the Fund to each Portfolio partnership then acquired.

VIII. ALLOCATIONS AND DISTRIBUTIONS

Distribution or sales proceeds received with respect to a Portfolio Investment will be distributed to all Partners participating in such Portfolio Investment. Each such Partner's proportionate share thereof generally will be distributed in the following order of priority:

(a) *Return of Capital*: First, 100% to such Partner until the cumulative distributions to such Partner with respect to such Portfolio Investment equal the capital contributions of such Partner used by the Fund to acquire or make capital contributions in respect of such Portfolio Investment;

(b) *Preferred Return*: Second, 100% to such Partner until the cumulative distributions to such Partner from or in respect of such Portfolio Investment pursuant to this paragraph (b) equal a preferred return on the capital contributions of such Partner used by the Fund to acquire or make capital contributions in respect of such Portfolio Investment at the rate of 8% per annum, compounded annually;

(c) *Catch-Up*: Third, 100% to the General Partners until the General Partners have received 5% of the sum of the distributions made to such partner pursuant to paragraph (b) and to the General partners pursuant to this paragraph (c), in each case with respect to such Portfolio Investment; and

(d) *95/5 Split*: Thereafter, 95% to such Partner and 5% to the General Partners (the distributions to the General Partners described in paragraph (c) and in this paragraph (d) being referred to collectively as the General Partners' "Carried Interest").

Each purchase by the Fund of an investment in a Portfolio Partnership shall be treated as a separate Portfolio Investment for purposes of the distribution provisions as outlined above. All distributions not directly attributable to a particular Portfolio Investment generally will be made to the Partners in proportion to their capital contributions used to acquire the investment giving rise to the distribution.

IX. INVESTMENT PERIOD AND TERM

The Fund may draw down Capital Commitments from the Partners to make investments at any time through the third anniversary of the final Closing (the "Investment Period"). After the end of the Investment Period, the Partners will be released from any further obligation with respect to their unfunded Capital Commitments, except to the extent necessary to *(i)* fund Fund liabilities and expenses incurred during the term of the Fund, *(ii)* complete Fund investments that are in process as of the end of the Investment Period and (iii) make capital contributions as required by the terms of the funds in which Portfolio Investments have been made (the "Portfolio Partnerships").

During the Investment Period, *(i)* capital contributed to the Fund with respect to a Portfolio Investment that is returned to the Partners within 13 months of such contribution, other than with respect to distributions made by a Portfolio partnership and *(ii)* capital required to be reinvested under the terms of one or more Portfolio Partnerships will be added back to unfunded Capital Commitments and may be drawn down again by the Fund.

The term of the Fund will be ten years from the end of the Investment Period, subject to four additional one-year extensions as determined by the Managing General Partner to allow for *(i)* the orderly liquidation of the Fund's investments and *(ii)* the termination dates of the Portfolio Partnerships.

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. BACKGROUND DATA

Name of Fund:	Welsh, Carson, Anderson & Stowe IX, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$4.5 billion
Fund Manager:	Welsh, Carson, Anderson & Stowe 320 Park Avenue Suite 2500 New York, NY 10022-6815 Phone: (212) 893-9500 Fax: (212) 893-9575
Manager Contact:	Bruce Anderson

II. ORGANIZATION AND STAFF

Welsh, Carson, Anderson & Stowe ("WCAS") has raised approximately $7.6 billion in equity and subordinated debt through 11 limited partnerships. The firm has been active for over 21 years in completing management buyouts and other private equity investments in both the healthcare and information services industries.

WCAS has offices in New York and New Jersey and has 31 employees, including 16 investment professionals.

WCAS IX (the "Fund") is the twelfth fund raised by WCAS.

III. INVESTMENT STRATEGY

WCAS specializes in management buyouts and other private equity investments in the information technology and healthcare industries. It focuses on control positions in medium-sized, growth-oriented companies. The Firm is generally able to provide all or most of the required capital in a transaction through its equity and captive subordinated debt funds. Once a transaction is completed, the General Partners are actively involved in setting portfolio company strategy, organization, acquisitions and financing.

The Fund will not invest more than:

- 20% of aggregate commitments in any single investment (the three largest investments will not exceed 50%),
- 20% of aggregate commitments in investments outside North America,
- 5% of aggregate commitments in publicly traded securities.

In addition, the Fund will not pursue any hostile transactions.

IV. *INVESTMENT PERFORMANCE*

Previous fund performance as of December 31, 1999 and the SBI's investments with previous funds, where applicable, is shown below. The WCAS funds are equity partnerships, whereas the WCAS CP funds are captive subordinated debt partnerships.

Fund Name	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Equity Funds				
WCAS #	1979	$ 33.3 million		19.4%
WCAS II #	1980	$ 31.7 million		14.2%
WCAS III	1983	$ 80.8 million		8.5%
WCAS IV	1985	$ 177.9 million		13.8%
WCAS V	1989	$ 371.4 million		33.2%
WCAS VI	1993	$ 604.2 million		20.2%
WCAS VII	1995	$ 1,425.7 million		23.2%
WCAS VIII	1998	$3,001.0 million	$100 million	52.0%
Sub. Debt Funds				
WCAS CP	1987	$ 208.8 million		18.3%
WCAS CP II	1990	$ 354.3 million		16.0%
WCAS CP III	1997	$ 1,279.2 million		33.5%

WCAS and WCAS II have been fully liquidated.

V. GENERAL PARTNERS INVESTMENT

The Principals will invest one percent (1%) of the capital of the Fund. In addition, they will co-invest three percent (3%) of the capital invested by the Partnership in each transaction on the same terms as those obtained by the Fund.

VI. TAKEDOWN SCHEDULE

One percent (1%) at the closing of the Fund's first investment, with the balance to be called as needed with ten days' advance notice.

VII. FEES

The Partnership will pay an annual fee of 1.5% of total commitments. In years seven through twelve, the payments will be based on committed capital less the cost basis of securities sold, distributed or written off.

Fifty percent (50%) of all transaction, break-up, consulting or director fees resulting from investment activities will reduce the quarterly management fee and thereby inure to the benefit of the Fund.

The Fund will pay all organizational expenses, which will not exceed $1,000,000.

VIII. ALLOCATIONS/DISTRIBUTIONS

Allocations

Net operating profits, gains or losses for any fiscal year will be allocated to the Partners in the following manner:

- In proportion to their relative capital contributions, if and to the extent that the capital accounts of the Limited Partners at the beginning of such fiscal year (including any prior distributions), plus the profits, gains or losses so allocated, *are equal to or less than* the capital contributions paid in by the Limited Partners, and

- 80% to all Partners, in proportion to their relative capital contributions, and 20% to the General Partner if and to the extent that the Limited Partner's capital accounts (including any prior distributions), plus such profits, gains or losses *exceed* the capital contributions paid in by the Limited Partners.

All short-term income from money market investments will be allocated based upon capital contributions.

Distributions
The Principals may, but are not required to, make distributions of cash and securities held by the Fund. Such distributions will be made as follows:

- Distributions of cash and securities will be made (a) to all Partners, in proportion to their relative capital contributions, to the extent of the cost basis of such securities, and (b) 80% to all Partners, in proportion to their relative capital contributions, and 20% to the General Partner with respect to any remaining securities;

- Upon termination of the Fund, liquidating distributions of cash and securities will be made to all Partners in proportion to their respective capital accounts.

Including reinvestments, the Fund may not invest more than 125% of aggregate capital commitments of all the Partners over the life of the Fund. Any amounts invested in securities that are sold, redeemed or otherwise realized for cash within 12 months after the date of investment shall not be included in determining such aggregate amount.

IX. INVESTMENT PERIOD AND TERM

The Fund will have a commitment period of six years and a term of 12 years, subject to extension for additional periods with the consent of two-thirds of the Partnership interests.