MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 5, 2003

&

INVESTMENT ADVISORY
COUNCIL MEETING
March 4, 2003

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

March 5, 2003

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, March 5, 2003
9:00 A.M. - Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of December 10, 2002	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2002 – December 31, 2002)	
B. Administrative Report 1. Reports on budget and travel. 2. Results of FY02 Financial Audit. 3. Legislative Update. 4. Litigation Update.	**B**
3. Reports from the Investment Advisory Council (Mike Troutman)	**C**
A. Stock and Bond Manager Committee 1. Review of manager performance. 2. Update on Metropolitan West Asset Management liquidation. 3. Annual review of investment manager guidelines. 4. Update on asset allocation study and program reviews.	
B. Alternative Investment Committee 1. Review of current strategy. 2. Investment for the Post Retirement Fund with an existing private equity manager, CSFB Strategic Partners.	**D**

Minutes
State Board of Investment
December 10, 2002

The State Board of Investment (SBI) met at 10:00 A.M. Wednesday, December 10, 2002 in Room 107 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer and Attorney General Mike Hatch were present. The minutes of the September 4, 2002 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, 2002 (Combined Funds 7.9% vs. Inflation 2.5%), trailed the median fund (73rd percentile) for the most recent five year period due to the SBI's higher than average equity exposure and outperformed its composite index (Combined Funds 1.1% vs. Composite 1.0%). He stated that the Basic Funds have exceeded its composite index (Basic Funds 1.3% vs. Composite 1.2%) over the last five years and reported that the Post Fund has outperformed its composite index over the last five years period (Post Fund 0.9% vs. Composite 0.8%).

Mr. Bicker reported that the Basic Fund's assets decreased 11.1% for the quarter ending September 30, 2002 due to negative investment returns. He said that the asset mix is on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds –10.4% vs. Composite –10.3%) and for the year (Basic Funds -10.1% vs. Composite –9.6%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 11.8% for the quarter ending September 30, 2002 due to negative investment returns. He said the Post Fund asset mix is on target and that the Post Fund underperformed its composite index for the quarter (Post Fund –10.9% vs. Composite –10.6%) and for the year (Post Fund –9.7% vs. Composite –8.8%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stocks –17.2% vs. Wilshire 5000 Investable –17.2%) and underperformed it for the year (Domestic Stocks –18.8% vs. Wilshire 5000 Investable –18.2%). He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks –19.8% vs. Int'l Composite –19.4%) but outperformed it for the year (International Stocks –12.3% vs. Int'l Composite –13.6%). Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds 3.6% vs. Lehman Aggregate 4.6%) and for the year (Bonds 7.2% vs. Lehman Aggregate 8.6%). He concluded his report with the comment that as September 30, 2002, the SBI was responsible for over $39 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel.

Mr. Bicker stated that the Post Retirement benefit increase effective January 1, 2003 will be 0.745%. He noted that this is the lowest increase in recent years and was due to weak markets and the short amortization period used to calculate the increase.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the three active litigation cases. She stated that in the Mercury case, final settlement has been approved and that distribution has begun. She reported that motions to dismiss will take place in January for the McKesson case. She said that discovery is proceeding in State Court rather than in Federal Court. She said in the Broadcom case discovery conferences are proceeding and that there is a class certification mandate. She said that the State has also filed lead plaintiff motions in four different jurisdictions against AOL Time Warner. Ms. Eller stated that the State has committed to initiating litigation against the issuers of WorldCom debt.

Mr. Bicker reported that the legislative auditors are finishing the FY02 audit, and that to staff's knowledge, there were no findings. He said that each member will receive a copy of the final report.

Mr Bicker stated that members had received a draft copy of the 2002 Annual Report and he referred members to the Committee Report for a listing of tentative Board Meeting dates for calendar year 2003.

Mr. Bicker distributed a memo to members regarding a recommendation for the Invested Treasurer's Cash Pool (see **Attachment A**). He explained that in the past, a portion of the fund had been invested in longer-term securities in order to enhance the yield of the fund. He said that staff has met with the Department of Finance regarding the State's cash flow needs and that staff is recommending a change to the investment policy for the fund to eliminate the 1 to 3 year maturity investments in the fund. Mr. Hatch moved approval of the recommendation, as stated in Attachment A. Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Kiffmeyer noted her concern regarding the reduction in the Post Fund's benefit increase for retirees. She said she believes that this may be a good time to readdress the lengthening of the amortization period used to calculate the benefit increase. Mr. Bicker stated that he will discuss this issue with the retirement fund directors to see if there is any interest in introducing legislation on this issue again this session.

Ms. Dutcher stated that because of the lack of support for the legislation last year, she is not sure if it is a good investment of staff's resources. Ms. Kiffmeyer said she believes it is part of the State Board of Investment's responsibility to act in the best interests of the participants as a whole.

Administrative Committee Report
Ms. Johnson referred members to Tab C of the meeting materials and stated that the Committee had met during the quarter to consider three recommendations. She said the Committee is recommending approval of the SBI's FY2004-2005 budget request and she moved approval of the recommendation, as stated in the Committee Report which reads: "The SBI Administrative Committee recommends that the SBI approve the FY2004-2005 budget request which begins on page 5 and authorize the Executive Director to seek its approval during the 2003 Legislative Session." Ms. Dutcher seconded the motion. The motion passed.

Ms. Johnson stated that there are two legislative related recommendations from the Committee. She said the first involves giving staff the authority to request legislation to make technical changes to statutes to handle potential changes in the State's 457 Deferred Compensation Plan and the Supplemental Investment Fund. She reported that the second recommendation involves giving staff the authority to work with the retirement funds on a legislative proposal to give the retirement funds and the SBI authority to set salaries for their directors. Mr. Bicker clarified that the salaries must still be within the statutory limits established by the Legislature. Ms. Johnson moved approval of both the Committee's recommendations, as stated in the Committee Report, which reads: "The SBI Administrative Committee recommends that the SBI authorize staff to request legislation be introduced to implement any technical changes to statutes that may be needed to establish daily pricing for funds participating in the State's 457 Deferred Compensation Plan.

Additionally, the Administrative Committee recommends that the SBI authorize staff to work with the statewide retirement systems boards to prepare a legislative proposal to include the SBI in a bill seeking to grant the respective retirement boards and the SBI the authority to set salaries for their respective directors within limits established by the Legislature." Ms. Dutcher seconded the motion. The motion passed.

Ms. Johnson stated that the third recommendation from the Committee is to have the SBI recommend to the Legislative Coordinating Commission that the salary for the SBI Executive Director be set at 95% of the Governor's salary. Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The SBI Administrative Committee recommends that the SBI recommend to the Legislative Coordinating Commission (LCC) that the salary rate for the SBI Executive Director be 95% of the Governor's salary effective July 1, 2002. Further, the Committee recommends that the SBI delegate authority to the Chair of the SBI Administrative Committee to take all administrative steps necessary to implement this recommendation. This includes, but is not limited to, consulting with the Commissioners of Employee Relations, Finance and Administration as required in the law and transmitting the recommendation of the SBI to the LCC." Mr. Hatch seconded the motion. The motion passed.

Mr. Hatch stated that he believes it is important for the SBI to work with the retirement systems and other interested parties to get legislation introduced to lengthen the amortization for the Post benefit increase calculation, and he moved to have staff take such action. Ms. Kiffmeyer seconded the motion. The motion passed.

Accounting System Review Committee Report

Mr. Sausen referred members to Tab D of the meeting materials and reported that the Committee had met during the quarter to evaluate responses to the SBI's request for proposal (RFP) for accounting services. He stated that three firms received the RFP and that only two firms responded. He said that Financial Controls System, the SBI's current vendor, was the only one who met the requirements of the RFP. Governor Ventura moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI counsel, to negotiate and execute a contract with Financial Controls System, Chadds Ford PA, for accounting services for a five year period ending April 30, 2008. 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 obligation 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 Financial Controls System 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 Financial Controls System or reduction or termination of the commitment." Ms. Johnson seconded the motion. The motion passed.

Stock and Bond Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Committee is recommending the termination of Metropolitan West Asset Management as a fixed income manager for the SBI due to performance concerns. In response to a question from Ms. Dutcher, Mr. Bicker stated that staff believes it is better to distribute these bonds to other existing fixed income managers instead of selling them at the bottom of the market. Ms. Johnson moved approval of the Committee's recommendation as stated in the Committee Report, which reads: "The Committee recommends that the SBI terminate the relationship with Metropolitan West Asset Management for investment management services in the Fixed Income Program." Ms. Kiffmeyer seconded the motion. The motion passed.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and stated that there are no new investments being recommended at this time. She noted that staff is canceling three investments (Crescendo V, Levine Leichtman Partners III, and Heller Real Estate Partners II) that had been previously approved by the Board at previous meetings. Mr. Bicker added that there are a variety of reasons these deals are not being completed.

In response to a question from Mr. Hatch, Mr. Bicker said that the stock market had improved since the quarter ending September 30, 2002. He noted that the SBI has exceeded its assumed rate of return over the 22 year period since December 31, 1979. Several members discussed the importance of remembering the long term investment horizon for the funds.

Mr. Hatch made a motion to commend Ms. Yeomans for her years of service on the IAC. Ms. Johnson seconded the motion. The motion passed. Ms. Dutcher, Governor Ventura and Ms. Johnson all thanked the IAC members and staff for their work while they served on the Board. Mr. Bicker also thanked the outgoing members and Ms Yeomans for their work and support.

The meeting adjourned at 10:37 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

MINNESOTA STATE BOARD OF INVESTMENT

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DATE: December 10, 2002

TO: Members, State Board of Investment

FROM: Howard Bicker

SUBJECT: Invested Treasurer's Cash Pool

Since 1996, the Board has maintained a policy of allocating a portion of cash in the Invested Treasurer's Cash Pool (ITC) to longer maturity instruments for the purpose of increasing the yield of the fund. Currently, the policy calls for $500 million of longer maturity securities in the portfolio. The policy also calls for periodically reviewing the maturity structure of the pool to reflect changes in cashflow that are caused by changes in Minnesota's economic environment and legislative mandates.

Staff recently met with the Department of Finance to review the State's cashflow needs. After this meeting it is clear that we should liquidate all longer term securities to maintain maximum liquidity for the State.

If this policy change is approved by the Board, staff will liquidate the longer term portion of the ITC over the next four to eight weeks.

RECOMMENDATION:

Staff recommends that the Board approve a change in the investment of the Invested Treasurer's Cash Pool to eliminate the allocation in one to three year maturity investments.

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

March 4, 2003

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, March 4, 2003
2:00 P.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

	TAB
1. Approval of Minutes of December 2, 2002	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2002 – December 31, 2002)	
B. Administrative Report 1. Reports on budget and travel. 2. Results of FY02 Financial Audit. 3. Legislative Update. 4. Litigation Update.	**B**
3. Reports from the Investment Advisory Council	**C**
A. Stock and Bond Manager Committee (Doug Gorence) 1. Review of manager performance. 2. Update on Metropolitan West Asset Management liquidation. 3. Annual review of investment manager guidelines. 4. Update on asset allocation study and program reviews.	
B. Alternative Investment Committee (Ken Gudorf) 1. Review of current strategy. 2. Investment for the Post Retirement Fund with an existing private equity manager, CSFB Strategic Partners.	**D**

Minutes
Investment Advisory Council
December 2, 2002

MEMBERS PRESENT:	Gary Austin; Ken Gudorf; John Bohan; P. Jay Kiedrowski; Doug Gorence; Gary Norstrem; Han Chin Liu; Daralyn Peifer; Mike Troutman; Mary Vanek; Elaine Voss and Jan Yeomans.
MEMBERS ABSENT:	Anne Barry; Dave Bergstrom; Judy Mares; Malcolm McDonald and Mary Stanton.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Andy Christensen; Tammy Brusehaver-Derby; Stephanie Gleeson; Debbie Griebenow; Erol Sonderegger; Charlene Olson; and Carol Nelson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Jennifer Mohlenhoff, Jake Manahan, Peter Sausen; Robert Heimerl, Lloyd Belford, REAM; Ed Rapp, Education Minnesota; Conrad deFiebre, Star Tribune; and Chris Suedbeck, University of Minnesota.

The minutes of the September 3, 2002 IAC meeting were approved. Mr. Bicker and Ms. Yeomans announced that Ms. Yeomans would be leaving the IAC due to a change in her job responsibilities.

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, 2002 (Combined Funds 7.9% vs. Inflation 2.5%), outperformed its composite index (Combined Funds 1.1% vs. Composite 1.0%) and trailed the median fund (73rd percentile) for the most recent five year period due to the SBI's higher than average equity exposure. He stated that the Basic Funds have exceeded its composite index (Basic Funds 1.3% vs. Composite 1.2%) over the last five years as has the Post Fund (Post Fund 0.9% vs. Composite 0.8%).

Mr. Bicker reported that the Basic Fund's assets decreased 11.1% for the quarter ending September 30, 2002 due to negative investment returns. He said that the asset mix is on target. He reported that the Basic Funds underperformed its composite index for the quarter (Basic Funds –10.4% vs. Composite –10.3%) and for the year (Basic Funds -10.1% vs. Composite –9.6%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 11.8% for the quarter ending September 30, 2002 due mostly to negative investment returns. He said the Post Fund asset mix is on target and that the Post Fund underperformed its composite index for the quarter (Post Fund –10.9% vs. Composite – 10.6%) and for the year (Post Fund –9.7% vs. Composite –8.8%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stocks –17.2% vs. Wilshire 5000 Investable –17.2%) and underperformed it for the year (Domestic Stocks –18.8% vs. Wilshire 5000 Investable – 18.2%). He said that the International Stock manager group underperformed its composite index for the quarter (International Stocks –19.8% vs. Int'l Composite – 19.4%) but outperformed it for the year (International Stocks –12.3% vs. Int'l Composite –13.6%). Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds 3.6% vs. Lehman Aggregate 4.6%) and for the year (Bonds 7.2% vs. Lehman Aggregate 8.6%) due to poor corporate bond performance. He concluded his report with the comment that as of September 30, 2002, the SBI was responsible for over $39 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel.

Mr. Bicker stated that the Post Retirement benefit increase effective January 1, 2003 will be 0.745%. He said that this is the lowest increase in recent years and was due to weak markets and the short amortization period. He noted that the SBI still believes that the amortization period should be lengthened.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the three active litigation cases. She stated that in the Mercury case, final settlement has been approved and that distribution has begun. She reported that motions to dismiss will take place in January for the McKesson case. She said that discovery is proceeding in State Court in California rather than in Federal Court. She said that in the Broadcom case discovery conferences are proceeding. She said that the State has also filed lead plaintiff motions in three different jurisdictions against AOL Time Warner. Ms. Eller stated that the State has committed to initiating litigation against the issuers of WorldCom debt.

Mr. Bicker reported that the legislative auditors are finishing up the FY02 audit, and that to staff's knowledge, there were no findings. He said that each member will receive a copy of the final report.

Mr. Bicker stated that members had received a draft copy of the 2002 Annual Report and he referred members to the Committee Report for a listing of tentative Board and IAC meeting dates for calendar year 2003.

Mr. Bicker stated that an additional agenda item will be presented to the Board regarding a recommendation for the Invested Treasurer's Cash Pool. He explained that in the past, a portion of the fund had been invested in longer-term securities in order to enhance the yield of the fund. He said that staff has met with the Department of Finance regarding the State's cash flow needs and that staff is recommending a change to the investment policy for the fund to eliminate the 1 to 3 year maturity investments in the fund. Mr. Bicker noted that this is an informational item for the IAC.

Administrative Committee Report
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee had met during the quarter and is recommending approval of the SBI's FY2004-2005 budget request.

Mr. Sausen stated that the Committee is recommending that the SBI recommend to the Legislative Coordinating Commission (LCC) that the salary for the SBI Executive Director be set at 95% of the Governor's salary. He noted that this is the second year this recommendation is being made and that last year the LCC took no action, and, therefore, the salary had not been increased. Mr. Kiedrowski stated that he would like to be notified as to whether or not the Committee will meet so he could testify on this issue. Mr. Sausen explained that the LCC is different than most legislative committees and uses a different process. Mr. Kiedrowski asked whether the SBI's Executive Director's salary should be exempt from the statute pertaining to salaries.

Mr. Bicker stated that there are two legislative related recommendations from the Committee. He said the first involves giving staff the authority to request legislation to make technical changes to statutes to handle possible changes in the State's 457 Deferred Compensation Plan and the Supplemental Investment Fund. He reported that the second recommendation involves giving staff the authority to work with the retirement funds on a legislative proposal to give the retirement funds and the SBI authority to set salaries for their directors. He clarified that the salaries must still be within the limits established in statute by the Legislature. Mr. Kiedrowski moved that the IAC also recommend that the Executive Director's salary be increased to 95% of the Governor's salary. Mr. Norstrem seconded the motion. The motion passed. Mr. Troutman moved that the IAC endorse the Committee's recommendation for legislative issues. Mr. Kiedrowski seconded the motion. The motion passed.

Accounting System Review Committee Report
Mr. Sausen referred members to Tab D of the meeting materials and reported that the Committee had met during the quarter to evaluate responses to the SBI's request for proposal (RFP) for accounting services. He stated that three firms received the RFP and that only two firms responded. He said that Financial Controls System, the SBI's current vendor, was the only one who met the requirements of the RFP. Mr. Sausen confirmed that this is an informational item for the IAC.

Stock and Bond Manager Committee Report
Mr. Bohan referred members to Tab E of the meeting materials and reviewed the performance of the stock and bond manager groups. He stated that the Committee is recommending the termination of Metropolitan West Asset Management, a fixed income manager for the SBI due to performance concerns. Mr. Bohan moved approval of the Committee's recommendation. Mr. Gudorf seconded the motion. The motion passed.

Alternative Investment Committee Report
Mr. Gudorf referred members to Tab F of the meeting materials and stated that there are no new investments being recommended at this time. He noted that staff is canceling three investments (Crescendo V, Levine Leichtman Partners III, and Heller Real Estate Partners II) that had been previously approved by the Board at previous meetings. He added that there are a variety of reasons these deals are not being completed.

In response to questions from Mr. Kiedrowski, Mr. Bicker and Mr. Sausen explained the SBI's proxy voting process. Mr. Kiedrowski noted that his comments on this issue are his own and that he is not speaking on behalf of Wells Fargo. He stated that a group from the Center For Ethical Business Cultures, a joint effort of the University of St. Thomas and University of Minnesota business schools, had issued a corporate governance report and that he would like to get the IAC involved in the proxy policy setting process. Mr. Bicker said he'd like to see a copy of the report Mr. Kiedrowski referred to, and he stated the importance of monitoring what other institutional investors and public fund groups are doing before making recommendations as to how to proceed. Mr. Sausen said that the Proxy Committee has always welcomed guests who have issues they would like discussed. A discussion took place among various members about the appropriateness of IAC involvement in the current Proxy Committee structure. Mr. Kiedrowski made a motion to create a subcommittee of the IAC to review the existing proxy voting policies. Ms. Vanek seconded the motion. The motion passed. Mr. Bohan stated that he believes the IAC should concentrate on investment related matters, which is the reason he voted against the motion. Mr. Bicker said staff would work to identify the new sub-committee members.

Mr. Bicker reminded members that staff is in the process of conducting an asset allocation/manager configuration study and that there will be a special meeting of the full IAC to go over the study and recommendations in order to present the final recommendations to the Board at its June 2003 meeting.

Mr. Bicker thanked Ms. Yeomans for all her years of service. The meeting adjourned at 2:57 P.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 12/31/2002

COMBINED FUNDS: $31.0 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.	**7.9%** (1)	5.4 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.	**1.8%**	0.1 percentage point below composite index
Exceed Median Fund (5 yr.) Provide returns that are ranked in the top half of universe of public and corporate plans with over $1 Billion in assets over the latest 5 year period.	**85th percentile** (2)	below the median fund in TUCS

BASIC RETIREMENT FUNDS: $15.6 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.	**1.8%**	0.1 percentage point below target

POST RETIREMENT FUND: $15.4 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.	**1.7%**	0.1 percentage point below 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, 2002

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$25.3 billion	$18.4 billion	$43.7 billion
2. Accrued Liabilities	18.4	18.4	36.8
Asset Measures			
3. Current and Future Actuarial Value	$26.1 billion	$18.4 billion	$44.5 billion
4. Current Actuarial Value	17.6	18.4	36.1
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	103%	100%	102%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	96%	100%	98%*

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

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

Actuarial Assumptions:

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

EXECUTIVE SUMMARY

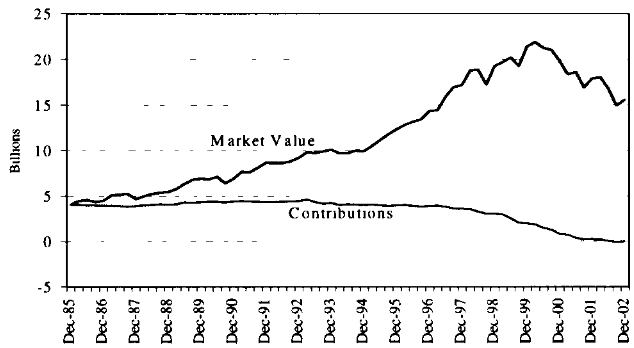
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 4.5% during the fourth quarter of 2002. Positive investment returns and net contributions accounted for the increase

Asset Growth During Fourth Quarter 2002 (Millions)

Beginning Value	$ 14,889
Net Contributions	62
Investment Return	610
Ending Value	$ 15,561

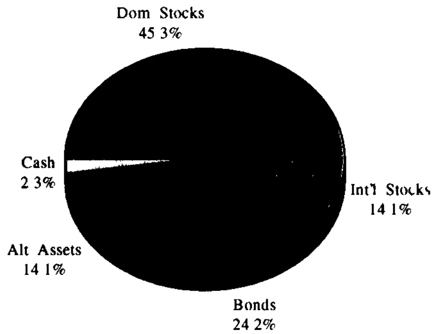


Asset Mix

The domestic stock and international stock allocation increased over the quarter due to their relative outperformance versus the performance of other asset classes.

	Policy Targets	Actual Mix 12/31/2002	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	45.3%	$7,047
Int'l. Stocks	**15.0**	14.1	2,199
Bonds	**24.0**	24.2	3,764
Alternative Assets*	**15.0**	14.1	2,191
Unallocated Cash	**1.0**	2.3	360
	100.0%	100.0%	$15,561

* Any uninvested allocation is held in domestic stocks

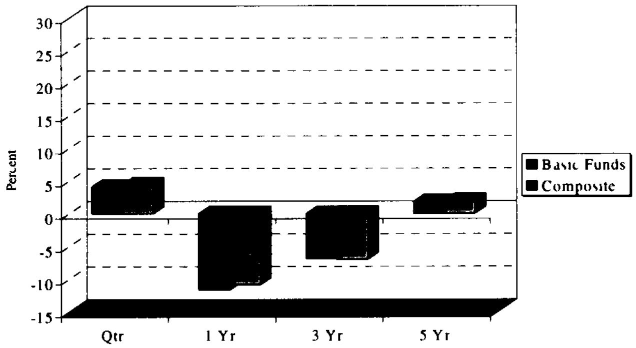


Fund Performance (Net of Fees)

The Basic Funds underperformed its composite market index for the quarter and one-year time time periods.

Period Ending **12/31/2002**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Basics	**4.1%**	**-11.6%**	**-6.9%**	**1.8%**
Composite	4.5	-10.8	-7.0	1.9



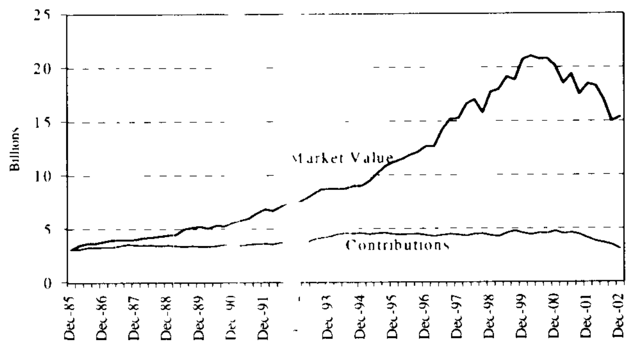
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased by 2.7% during the fourth quarter of 2002. Positive investment returns accounted for the increase.

	Asset Growth During Fourth Quarter 2002 (Millions)
Beginning Value	$14,997
Net Contributions	-388
Investment Return	794
Ending Value	$15,403

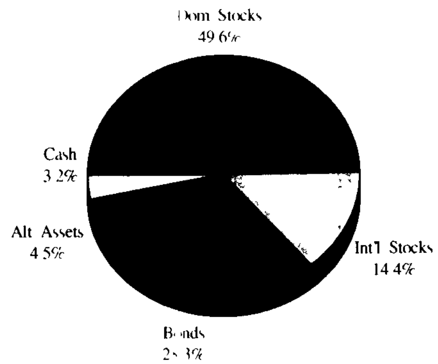


Asset Mix

The domestic and international stock allocation increased over the quarter due to their relative outperformance versus the performance of the other asset classes.

	Policy Targets	Actual Mix 12/31/2002	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	49.6%	$7,645
Int'l Stocks	**15.0**	14.4	2,217
Bonds	**27.0**	28.3	4,359
Alternative Assets*	**5.0**	4.5	696
Unallocated Cash	**3.0**	3.2	486
	100.0%	100.0%	$15,403

* Any uninvested allocation is held in bonds.

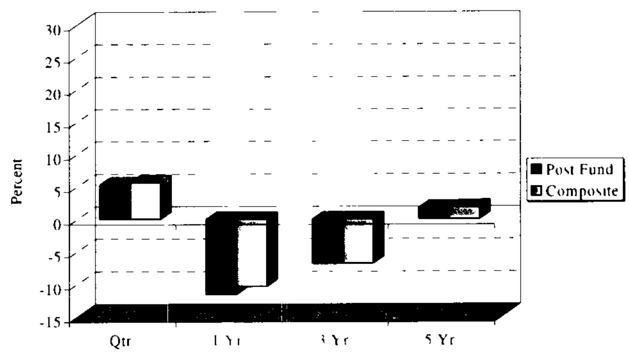


Fund Performance (Net of Fees)

The Post Fund underperformed its composite market index for the quarter and one-year time periods.

	Qtr	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)
Post	**5.3%**	**-11.6%**	**-6.9%**	**1.7%**
Composite	5.7	-10.4	-6.8	1.8

Period Ending **12/31/2002**



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 the year

Period Ending 12/31/2002

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr (Annualized)
Dom. Stocks	**7.5%**	**-22.4%**	**-15.0%**	**-1.7%**
W5000 Investable*	8.1	-21.5	-14 8	-1.4

* Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

International Stocks

The international stock manager group (active and passive combined) outperformed its target for all time periods shown.

Period Ending 12/31/2002

	Qtr	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Int'l. Stocks	**6.9%**	**-13.6%**	**-16.0%**	**-2.5%**
Composite Index*	6.8	-14 8	-17.0	-3.1

* 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 passive combined) outperformed its target for the quarter and the year.

Period Ending 12/31/2002

	Qtr.	1 Yr.	3 Yr (Annualized)	5 Yr. (Annualized)
Bonds	**2.0%**	**8.9%**	**10.0%**	**7.4%**
Lehman Agg.	1.6	10.3	10.1	7.5

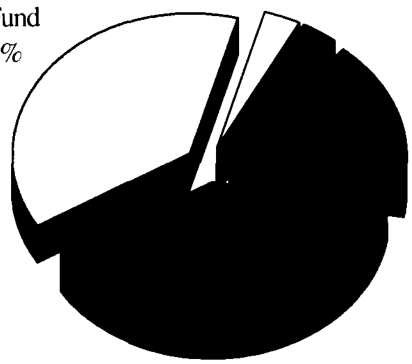
Wilshire 5000 Investable: The Wilshire 5000 Investable stock index reflects the performance of a broad range of publicly traded stocks of companies domiciled in the U.S. It does not include the smallest and least liquid securities in the W5000 that generally are not owned by large pension plans.

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 (MSCI) index of 21 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 26 markets in developing countries throughout the world. Emerging Markets Free includes only those securities foreign investors are allowed to hold.

EXECUTIVE SUMMARY
Funds Under Management



	12/31/2002 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$15.6
Post Retirement Fund	15.4
Supplemental Investment Fund	1.3
State Deferred Compensation Plan Non-SIF Assets	1.4
Non-Retirement Funds*	
Assigned Risk Plan	0.2
Permanent School Fund	0.5
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.5
Medical Education Fund	0.3
Academic Health Center Fund	0.2
State Cash Accounts	4.7
Total	$40.4

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT
Fourth Quarter 2002
(October 1, 2002 - December 31, 2002)

Table of Contents

Page

Capital Market Indices 2

Financial Markets Review 3

Combined Funds 5

Basic Retirement Funds 9

Post Retirement Fund 12

Stock and Bond Manager Pools 15

Alternative Asset Pools 16

Supplemental Investment Fund 17
Fund Description
Income Share Account
Growth Share Account
Common Stock Index Account
International Share Account
Bond Market Account
Money Market Account
Fixed Interest Account

Assigned Risk Plan 20

Permanent School Fund 21

Environmental Trust Fund 22

Tobacco Prevention Fund 23

Medical Education Fund 24

Academic Health Center Account 25

Closed Landfill Investment Fund 26

State Cash Accounts 27

Composition of State Investment Portfolios 28

VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/2002				
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Domestic Equity					
Wilshire 5000	7.8%	-20.9%	-14.4%	-0.9%	8.7%
Dow Jones Industrials	10.5	-15.1	-8.6	2.8	12.0
S&P 500	8.4	-22.1	-14.5	-0.6	9.3
Russell 2000	6.2	-20.5	-7.5	-1.4	7.2
Domestic Fixed Income					
Lehman Aggregate*	1.6	10.3	10.1	7.5	7.5
Lehman Gov't./Corp.	1.7	11.0	10.5	7.6	7.6
3 month U.S. Treasury Bills	0.4	1.7	3.8	4.3	4.5
International					
EAFE**	6.5	-15.9	-17.2	-2.9	4.0
Emerging Markets Free***	10.0	-6.0	-14.0	-4.6	1.3
Salomon Non U.S. Gov't. Bond	6.1	22.0	4.6	5.1	6.4
Inflation Measure					
Consumer Price Index****	-0.1	2.4	2.4	2.3	2.5

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The US stock market, as measured by the Wilshire 5000, returned 7.8% during the fourth quarter. Following the double-digit decline of the third quarter, the market rebounded strongly in October and November, giving back some of the gains in December. The upward movement in stock prices was supported by improving fundamentals, but it was driven by low quality and low price stocks. Every sector generated positive returns for the quarter. Technology and telecom were the best performing sectors with returns of over 20% each. In general, value outperformed growth and large stocks outperformed small during the quarter.

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

Large Value	5.8%
Small Value	8.6
Large Growth	7.1
Small Growth	9.0

The Wilshire 5000 declined –20.9% for the year ending December 31, 2002.

DOMESTIC BONDS

The bond market gained 1.6% during the fourth quarter. The Fed eased 50 basis points to 1.25% in November in an attempt to keep an increasingly fragile economic recovery on track, after holding firm all year. The Fed cut reduced short rates, though longer rates rose modestly as investors slowly shifted from Treasuries back to the riskier sectors of the market.

After a dismal third quarter, corporate bonds rebounded in the fourth quarter as credit spreads declined across the quality spectrum. BBB and single-A credits posted the strongest relative returns, as investors were attracted by historically high yield spreads and the prospect of a moderately improving economic picture.

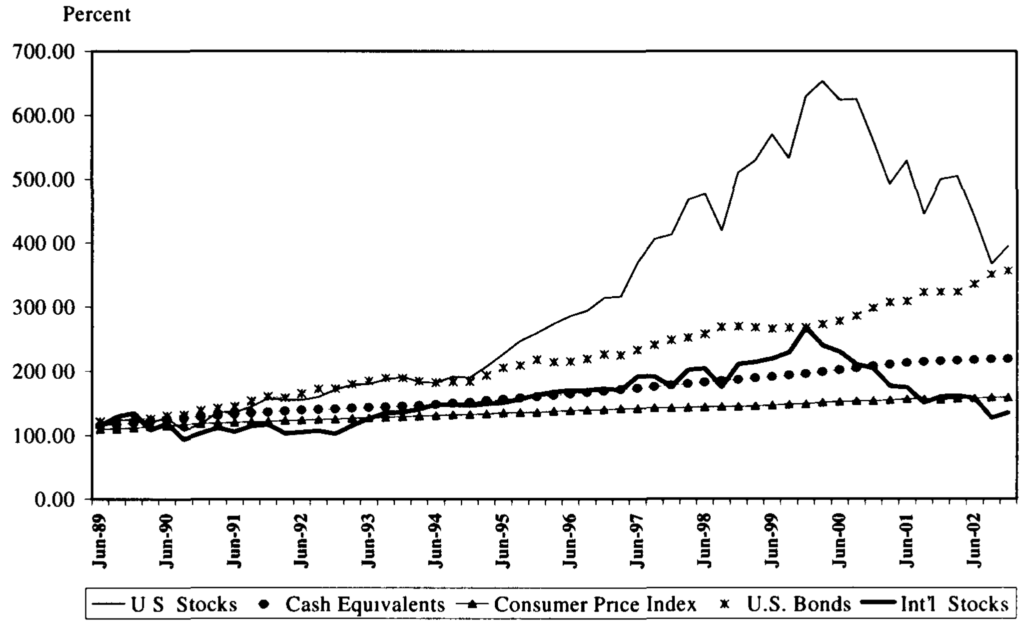
Overall the Lehman Aggregate Bond Index gained 1.6% during the fourth quarter. The sector returns for the Lehman Aggregate index were:

Treasury/Agency	0.7%
Credit	3.1
Mortgages	1.4

The Lehman Aggregate returned 10.3% for the year ending December 31, 2002.

PERFORMANCE OF CAPITAL MARKETS

Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the EAFE index) provided a return of 6 5% for the quarter The quarterly performance of the five largest stock markets is shown below:

United Kingdom	8 7%
Japan	-5.7
France	14 5
Switzerland	3.2
Germany	11.2

The EAFE index decreased by 15 9% during the last year

The EAFE index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 markets located in Europe, Australasia and the Far East The major markets listed above comprise about 72% of the value of the international markets in the index

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 10.0% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	3 4%
Taiwan	6.5
South Africa	21 1
Mexico	7 0
Brazil	42 2

The Emerging Markets Free index decreased by 6.2% during the last year

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

REAL ESTATE

The lackluster performance in both the national and regional economies is contributing to the continued deterioration in property market fundamentals. In this real estate cycle, a significant decline in demand, rather than a gross excess supply as in past cycles, has been the culprit for rising vacancies and sublease space. Analysts expect more restrained supply to lead to improving fundamentals in 2003

PRIVATE EQUITY

U S private equity firms raised $55 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2002 That represents a 52% decrease from the revised prior year total of $114 billion. This is the second year of significant decreases in funds raised

RESOURCE FUNDS

During the fourth quarter of 2002, West Texas Intermediate crude oil averaged $28 26 per barrel, even with an average price of $28 25 during the third quarter of 2002. The sustained high oil prices may reflect the relative instability in the Middle East.

COMBINED FUNDS

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

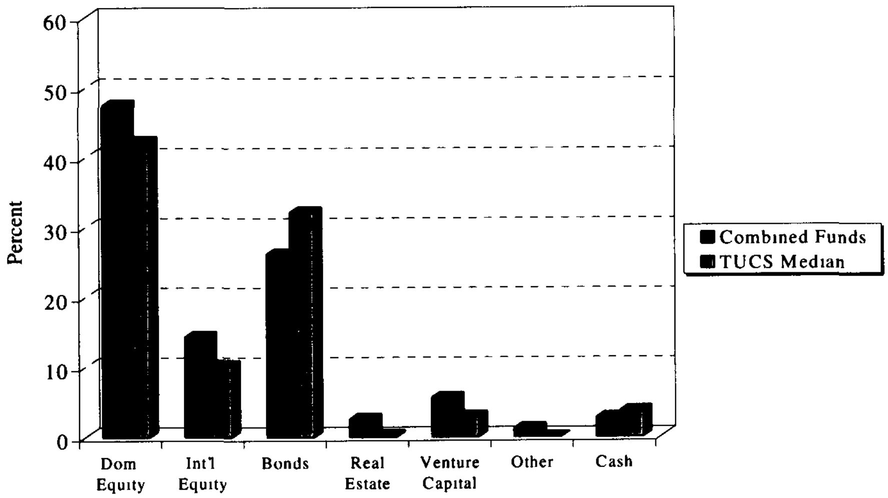
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 2002, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$14,692	47.5%
International Stocks	4,417	14.3
Bonds	8,122	26.2
Alternative Assets	2,887	9.3
Unallocated Cash	846	2.7
Total	$30,964	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	**47.5%**	**14.3%**	**26.2%**	**2.5%**	**5.6%**	**1.2%**	**2.7%**
Median Allocation in TUCS*	42.0	12.7	30.5	0.2	2.9	0.0	3.9

* 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.

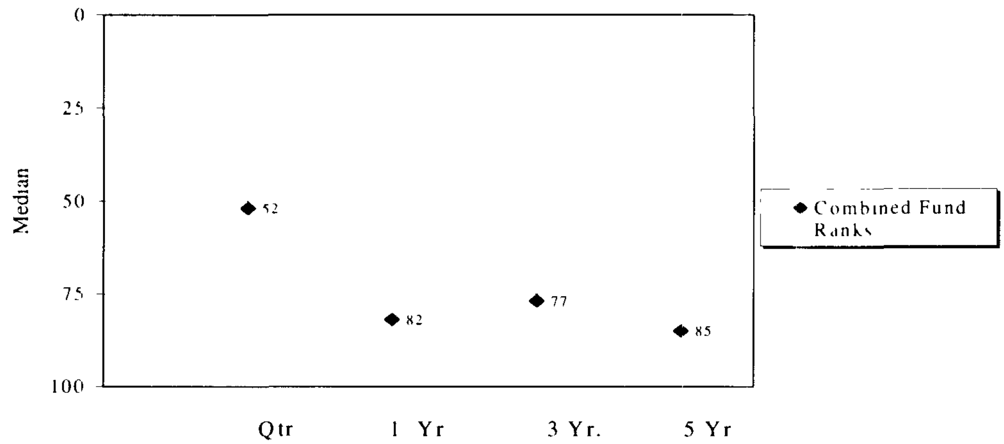
— **Differing Allocations.** Asset allocation will have a dominant effect on return The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports 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 12/31/2002			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Combined Funds Percentile Rank in TUCS*	52nd	82nd	77th	85th

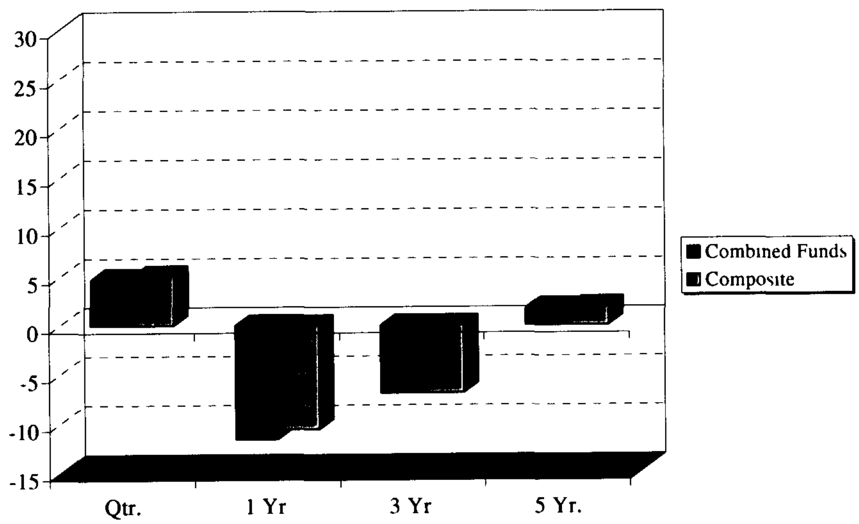
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 4Q02
Domestic Stocks	Wilshire 5000 Investable	48.1%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	25.8*
Alternative Assets	Real Estate Funds	2.4*
	Private Equity Funds	5.5*
	Resource Funds	1.2*
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 12/31/2002

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Combined Funds**	4.7%	-11.6%	-6.9%	1.8%
Composite Index	5.1	-10.6	-6.9	1.9

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

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BASIC RETIREMENT FUNDS

Investment Objectives

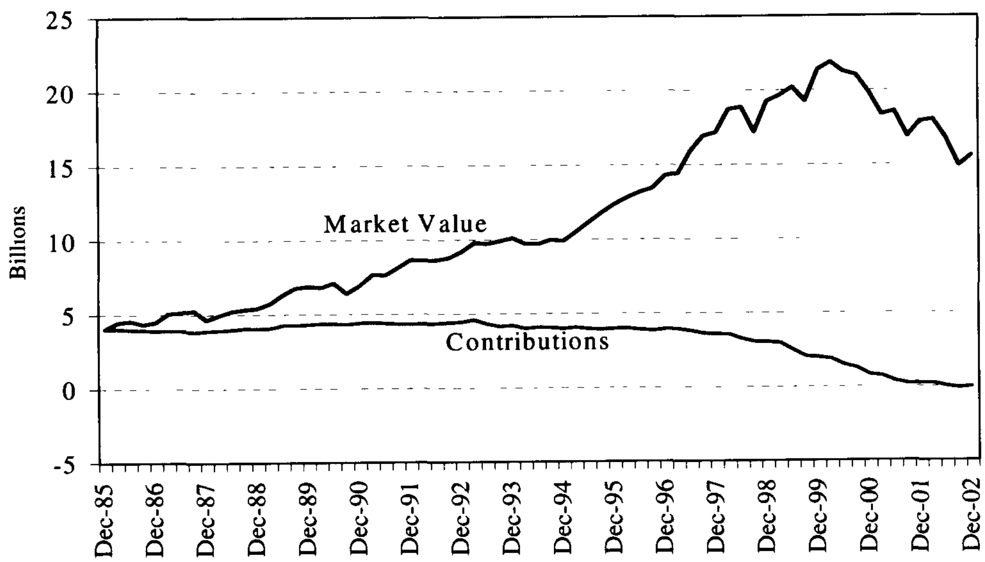
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Funds increased 4.5% during the fourth quarter of 2002. Positive investment returns and net contributions accounted for the increase.



Last Five Years
In Millions

	12/97	12/98	12/99	12/00	12/01	3/02	6/02	9/02	Latest Qtr. 12/02
Beginning Value	$14,275	$17,146	$19,244	$21,365	$19,807	17,874	$18,014	$16,741	$14,889
Net Contributions	-337	-539	-1,065	-1,186	-572	-14	-176	-119	62
Investment Return	3,208	2,637	3,186	-372	-1,361	154	-1,097	-1,733	610
Ending Value	$17,146	$19,244	$21,365	$19,807	$17,874	$18,014	$16,741	$14,889	$15,561

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.

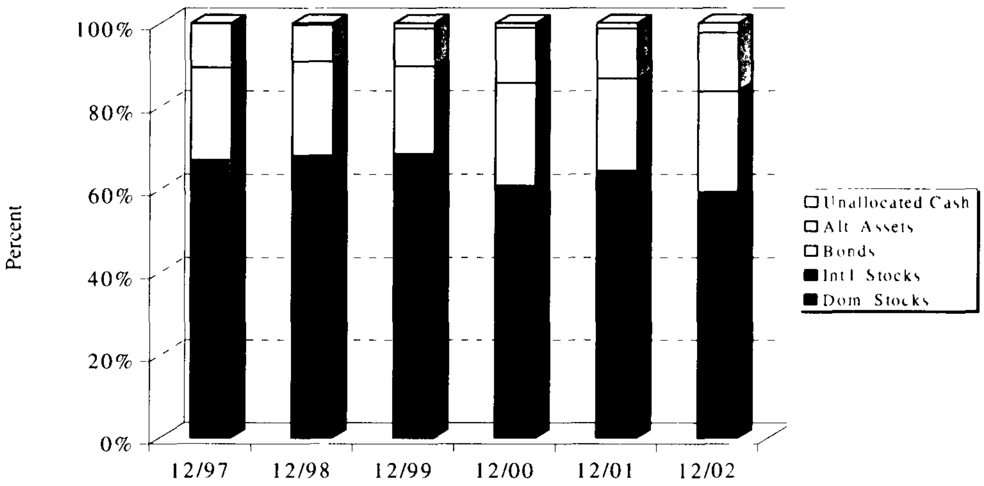
Domestic Stocks	45 0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15 0
Unallocated Cash	1 0

* 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, the allocation to bonds increased due to positive returns The allocation to domestic stocks and international stocks decreased due to negative returns.

During the quarter, the domestic stock and international stock allocation increased due to their relative outperformance versus the performance of the other asset classes



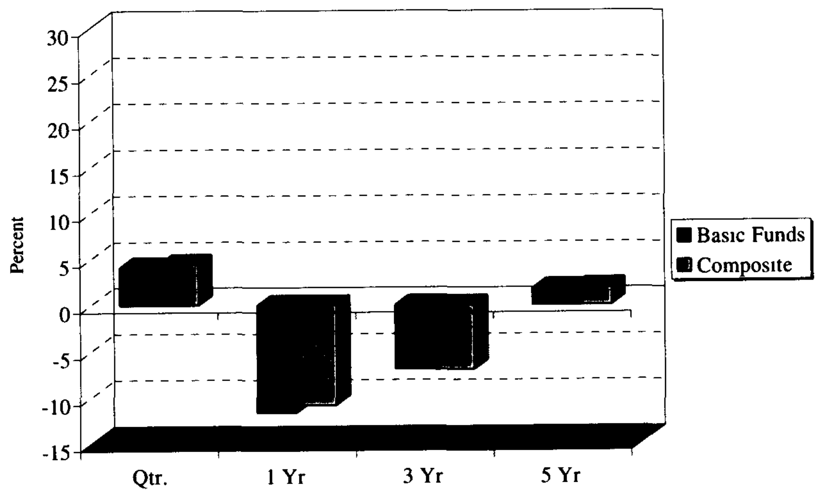
	Last Five Years								Latest Qtr.
	12/97	12/98	12/99	12/00	12/01	3/02	6/02	9/02	12/02
Domestic Stocks	53 6%	53 8%	51.9%	44.3%	49.5%	49.6%	46.2%	43.9%	45.3%
Int'l Stocks	13 6	14.4	16.8	16.6	15.0	15 4	16 1	13 7	14.1
Bonds	22.2	22 6	21.0	24.7	22 1	22.1	24.2	24.5	24.2
Real Estate	4 1	3.7	3.5	4.1	3.4	3 4	3.6	3 9	3.8
Private Equity	5 0	4 4	4.8	8.0	7.4	7.4	8 0	9.1	8.7
Resource Funds	1.4	0.7	0 8	1.2	1.3	1.6	1.7	1.8	1.6
Unallocated Cash	0 1	0.4	1.2	1.1	1.3	0 5	0 2	3 1	2.3
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* 4Q02
Domestic Stocks	45.0%	Wilshire 5000 Investable	45.1%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.9*
		Private Equity Funds	9.2*
		Resource Funds	1.8*
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 12/31/2002			
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basic Funds**	**4.1%**	**-11.6%**	**-6.9%**	**1.8%**
Composite Index	4.5	-10.8	-7.0	1.9

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. 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 114,000 retirees receive monthly annuities from the assets of the Fund

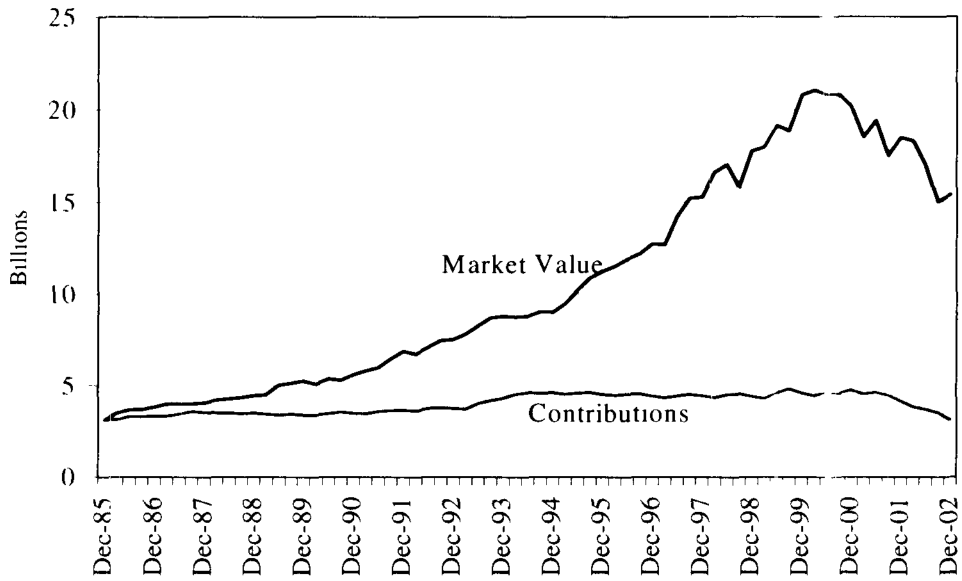
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Fund increased by 2.7% during the fourth quarter of 2002.

Positive investment returns accounted for the increase.



	Last Five Years In Millions							Latest Qtr.	
	12/97	**12/98**	**12/99**	**12/00**	**12/01**	**3/02**	**6/02**	**9/02**	**12/02**
Beginning Value	$15,273	$17,743	$20,768	$20,768	$20,153	$18,475	$18,311	$16,995	$14,997
Net Contributions	-45	211	167	167	-647	-301	-134	-173	-388
Investment Return	2,515	2,814	-782	-782	-1,031	141	-1,182	-1,825	794
Ending Value	$17,743	$20,768	$20,153	$20,153	$18,475	$18,311	$16,995	$14,997	$15,403

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
	100.0%

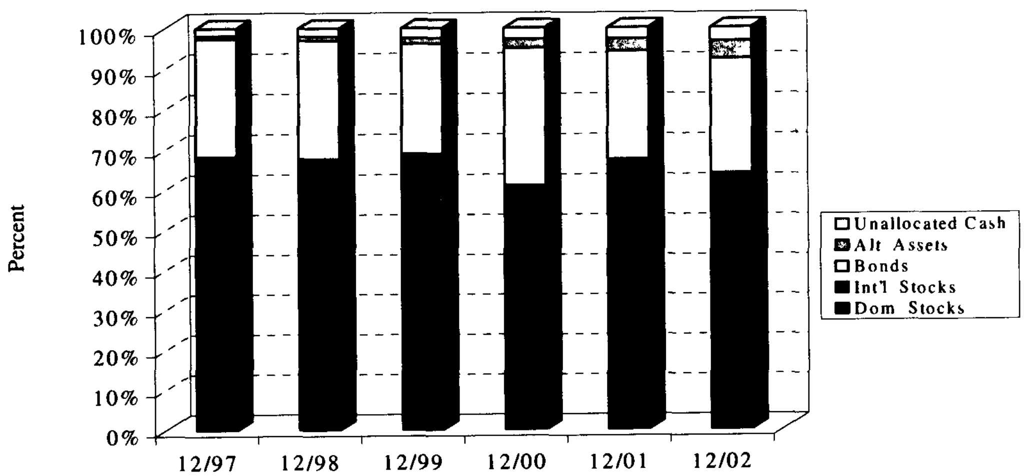
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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, the allocation to bonds increased due to positive returns. The allocation to domestic stocks and international stocks decreased due to negative returns.

During the quarter, the domestic stock and international stock allocation increased due to their relative outperformance versus the performance of the other asset classes.



	Last Five years								Latest Qtr.
	12/97	12/98	12/99	12/00	12/01	3/02	6/02	9/02	12/02
Dom. Stocks	54.7%	53.2	52.0%	47.5%	52.4%	52.9%	49.4%	48.2%	49.6%
Int'l. Stocks	13.6	14.5	16.9	13.5	15.1	15.5	15.7	13.9	14.4
Bonds	29.1	29.2	27.2	34.0	26.7	26.8	30.0	28.9	28.3
Alt. Assets	0.9	1.1	1.5	2.3	3.1	3.1	4.0	4.6	4.5
Unallocated Cash	1.7	2.0	2.4	2.7	2.7	1.7	0.9	4.4	3.2
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* 4Q02
Domestic Stocks	50 0%	Wilshire 5000 Investable	50.0%
Int'l Stocks	15 0	Int'l. Composite	15 0
Bonds	27 0	Lehman Aggregate	27.4*
Alternative Assets	5.0	Real Estate Funds	1.2*
		Private Equity Funds	2 6*
		Resource Funds	0.8*
Unallocated Cash	3 0	3 Month T-Bills	3 0
	100.0%		100.0%

*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

	Period Ending 12/31/2002			
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Post Fund**	**5.3%**	**-11.6%**	**-6.9%**	**1.7%**
Composite Index	5.7	-10.4	-6.8	1 8

** Returns are reported net of fees.

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

STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

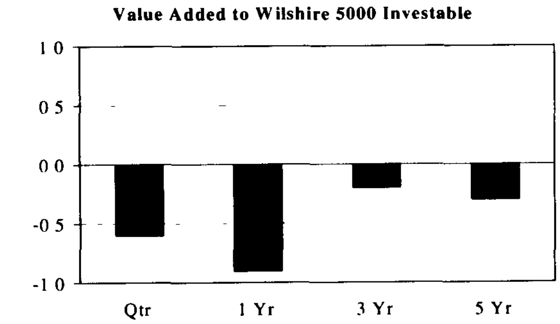
Domestic Stocks

Target: Wilshire 5000 Investable

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 12/31/2002			
		Annualized		
	Qtr.	**1 Yr.**	**3 Yrs.**	**5 Yrs.**
Domestic Stocks	**7.5%**	**-22.4%**	**-15.0%**	**-1.7%**
W5000 Investable*	8.1	-21.5	-14.8	-1.4

* Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99. W5000 prior to 7/1/99.



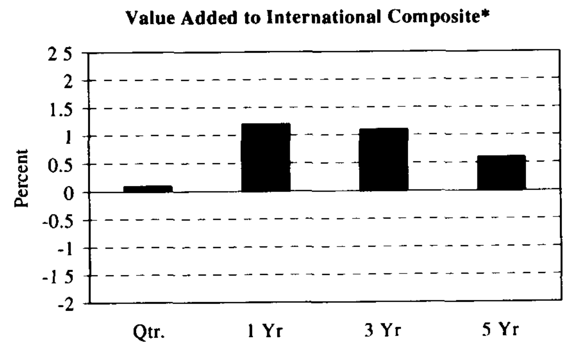
International Stocks

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

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

	Period Ending 12/31/2002			
		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yrs.**
Int'l. Stocks	**6.9%**	**-13.6%**	**-16.0%**	**-2.5%**
Composite Index*	6.8	-14.8	-17.0	-3.1

* 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.

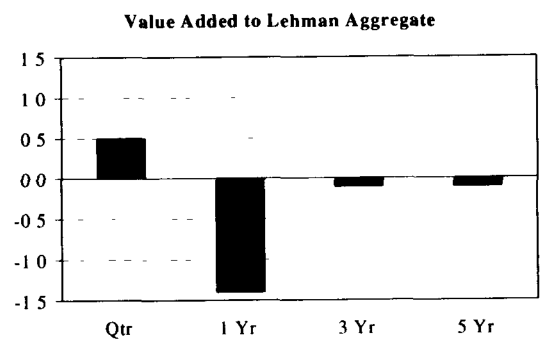


Bonds

Target: Lehman Brothers Aggregate Bond Index

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

	Period Ending 12/31/2002			
		Annualized		
	Qtr.	**1 Yr.**	**3 Yrs.**	**5 Yrs.**
Bonds	**2.0%**	**8.9%**	**10.0%**	**7.4%**
Lehman Agg.	1.6	10.3	10.1	7.5



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 12/31/2002		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Real Estate	1.4%	2.3%	9.3%	7.7%
Inflation	-0 1	2 4	2.4	2 3

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 12/31/2002		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Private Equity	-5.7%	-8.7%	1.6%	8.0%

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 12/31/2002		Annualized	
	Qtr	**Yr.**	**3 Yrs.**	**5 Yrs.**
Resource Funds	-9.9%	10.9%	10.3%	-3.9%

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

	Period Ending 12/31/2002		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Yield Oriented	1.3%	4.1%	10.8%	11.7%

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, 2002 the market value of the entire Fund was $1.3 billion.

Investment Options

	12/31/2002 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$500
Growth Share Account – an actively managed, all common stock portfolio.	$181
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$246
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$41
Bond Market Account – an actively managed, all bond portfolio.	$150
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$101
Fixed Interest Account – a portfolio of guaranteed investment contracts (GIC's) and GIC type investments which offer a fixed rate of return for a specified period of time.	$120

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	59.1%
Bonds	35.0	38.3
Unallocated Cash	5.0	2.6
	100.0%	100.0%

Period Ending 12/31/2002

		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**5.7%**	**-10.9%**	**-5.7%**	**2.3%**
Composite*	5.6	-9.8	-5.4	2.6

* 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 12/31/2002

		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**7.2%**	**-22.9%**	**-15.3%**	**-2.1%**
Composite*	8.1	21.5	-14.8	-1.4

* 100% Wilshire 5000 Investable since July 1999. 100% Wilshire 5000 from November 1996 to June 1999. 95% Wilshire 5000/5% T-Bills Composite through October 1996

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 12/31/2002

		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**8.1%**	**-21.4%**	**-14.5%**	**-0.9%**
Wilshire 5000 Investable*	8.1	21.5	-14.9	-1.2

* Wilshire 5000 through June 2000. Wilshire 5000 Investable thereafter.

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. At least one-third of the Account is "passively managed" and is designed to track the return of 21 markets included in the Morgan Stanley 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 12/31/2002

		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yrs.**
Total Account	**6.9%**	**-13.4%**	**-15.8%**	**-2.4%**
Composite*	6.8	14.8	-17.0	-3.1

* 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 of the broad domestic bond market by investing in fixed income securities.

Period Ending 12/31/2002		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**2.0%**	**9.0%**	**10.0%**	**7.5%**
Lehman Agg.	1.6	10.3	10.1	7.5

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

MONEY MARKET ACCOUNT

Investment Objective
The investment objective of the Money Market Account is to purchase short-term, liquid debt securities that pay interest rates that are competitive with those available in the money market.

Period Ending 12/31/2002		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**0.4%**	**1.9%**	**4.3%**	**4.7%**
3 month T-Bills	0.4	1.7	3.8	4.3

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 12/31/2002		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.3%**	**5.8%**	**6.1%**	**6.2%**
Benchmark*	0.7	3.3	4.7	5.0

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

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

ASSIGNED RISK PLAN

Investment Objectives

The Assigned Risk Plan has two investment objectives to minimize the mismatch between assets and liabilities and to provide sufficient liquidity for the payment of on-going claims and operating expenses.

Asset Mix

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

	12/31/2002 Target	12/31/2002 Actual
Stocks	20 0%	20.1%
Bonds	80.0	79 9
Total	100 0%	100 0%

Investment Management

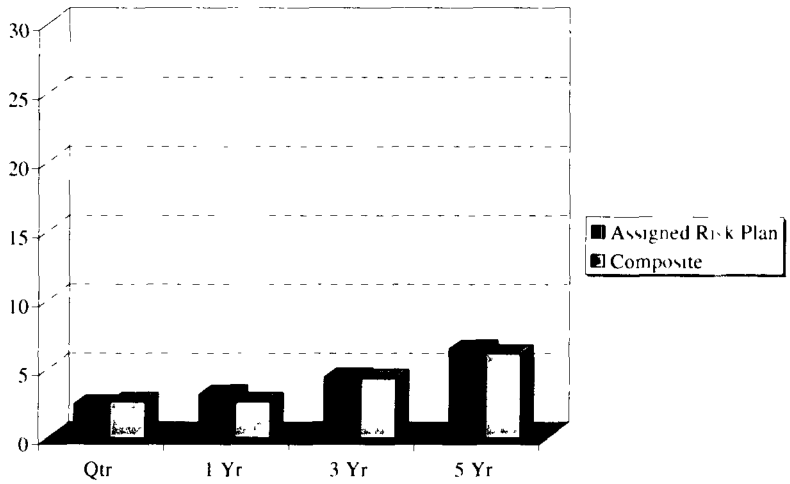
Voyageur Asset Management manages the bond segment of the Fund GE Investment Management manages the equity segment.

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, 2002 the market value of the Assigned Risk Plan was $232 million



Period Ending 12/31/2002

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr.
Total Fund*	2 4%	3.2%	4.4%	6 5%
Composite	2 6	2 6	4 3	6 1
Equity Segment*	7 2	-20 5	-10 1	1.9
Benchmark	8 4	-22.1	-14 5	-0 6
Bond Segment*	1 3	8 8	7.9	6.6
Benchmark	1 1	9.3	9.2	7 4

* 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.

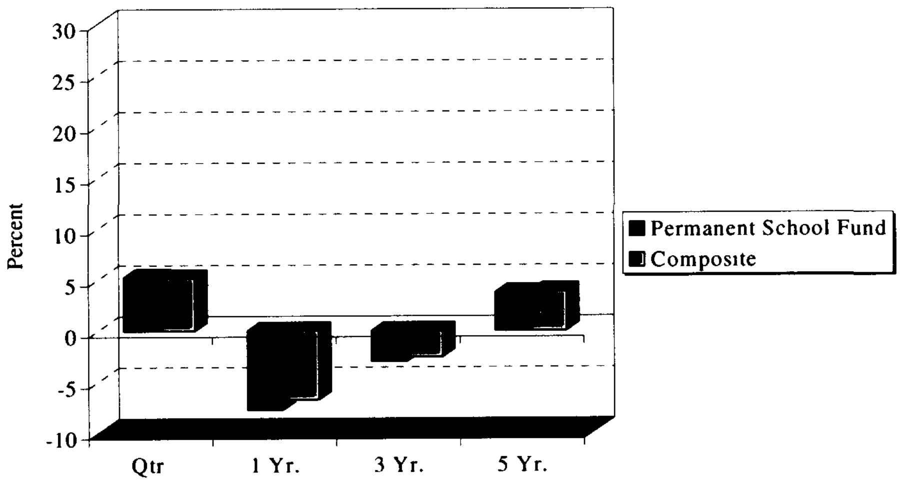
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	12/31/2002 Target	12/31/2002 Actual
Stocks	50.0%	48.9%
Bond	48.0	49.3
Unallocated Cash	2.0	1.8
Total	100.0%	100.0%

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

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

Market Value
On December 31, 2002 the market value of the Permanent School Fund was $487 million.



	Period Ending 12/31/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	5.2%	-7.7%	-3.0%	3.7%
Composite	5.2	-6.8	-2.6	3.9
Equity Segment (1) (2)	8.4	-21.8	-14.4	-0.5
S&P 500	8.4	-22.1	-14.5	-0.6
Bond Segment (1)	2.4	8.8	9.8	7.5
Lehman Aggregate	1.6	10.3	10.1	7.5

(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

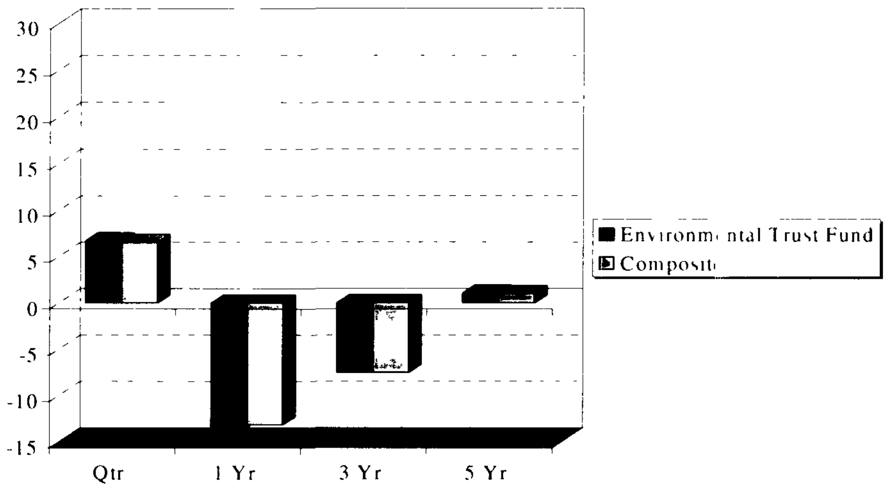
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending

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, 2002 the market value of the Environmental Trust Fund was $261 million

	12/31/2002 Target	12/31/2002 Actual
Stocks	70.0%	70.8%
Bonds	28 0	28 4
Unallocated Cash	2.0	0.8
Total	100 0%	100 0%



	Period Ending 12/31/2002			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	6.7%	-13.4%	-7.5%	1 0%
Composite	6.5	-13 1	-7.5	1.0
Equity Segment*	8 4	-21.8	-14 4	-0.5
S&P 500	8.4	-22 1	-14.5	-0 6
Bond Segment*	2 4	8.8	9 8	7 5
Lehman Agg.	1 6	10.3	10 1	7 5

* Actual returns are calculated net of fees

TOBACCO PREVENTION FUND

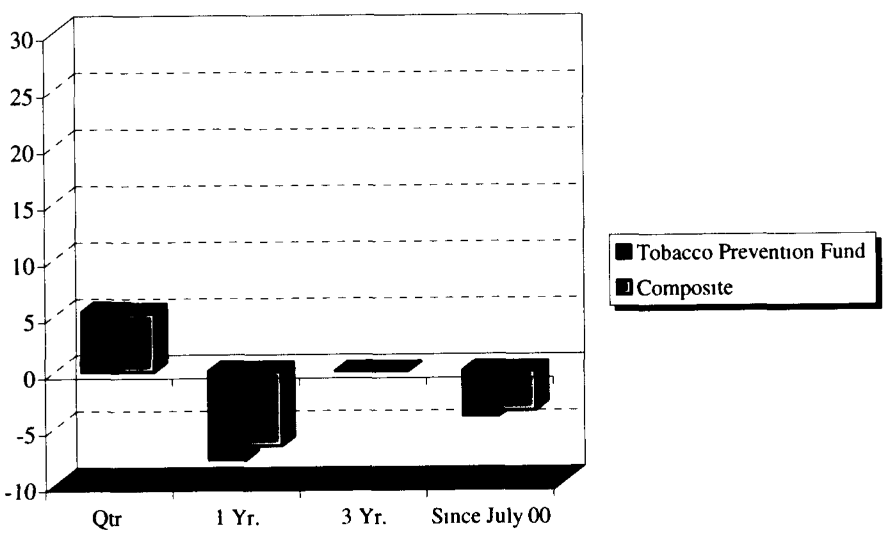
Investment Objectives
The investment objective of the Tobacco Prevention Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

Asset Mix
The Fund is invested in a balanced portfolio of stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification.

	12/31/2002 Target	12/31/2002 Actual
Stocks	50.0%	50.3%
Bonds	50.0	49.4
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%

Investment Management
SBI staff manages all assets of the Tobacco Prevention Fund.

Market Value
On December 31, 2002 the market value of the Tobacco Prevention Fund was $451 million.



Period Ending 12/31/2002

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	5.3%	-7.8%	N/A	-4.0%
Composite	5.2	-6.6	N/A	-3.5
Equity Segment*	8.4	-21.8	N/A	-16.9
S&P 500	8.4	-22.1	N/A	-17.1
Bond Segment*	2.4	8.8	N/A	10.1
Lehman Agg.	1.6	10.3	N/A	10.5

* Actual returns are calculated net of fees.

MEDICAL EDUCATION FUND

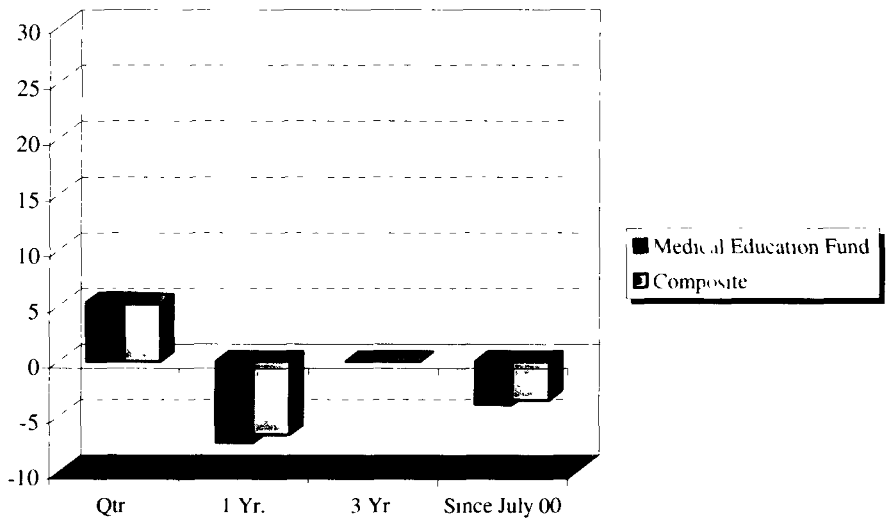
Investment Objectives
The investment objective of the Medical Education Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending

Asset Mix
The Fund is invested in a balanced portfolio of stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification

Investment Management
SBI staff manages all assets of the Medical Education Fund

Market Value
On December 31, 2002 the market value of the Medical Education Fund was $285 million.

	12/31/2002 Target	12/31/2002 Actual
Stocks	50.0%	49.8%
Bonds	50 0	49 9
Unallocated Cash	0 0	0.3
Total	100 0%	100 0%



Period Ending 12/31/2002

	Qtr.	1 Yr.	3 Yr.	Since 7/1/00
Total Fund*	5.3%	-7.3%	N/A	-3 9%
Composite	5 2	-6 6	N/A	-3.5
Equity Segment*	8 4	-21 8	N/A	-16.9
S&P 500	8 4	-22.1	N/A	-17 1
Bond Segment*	2 4	8.8	N/A	10 1
Lehman Agg	1.6	10 3	N/A	10.5

* Actual returns are calculated net of fees.

ACADEMIC HEALTH CENTER FUND

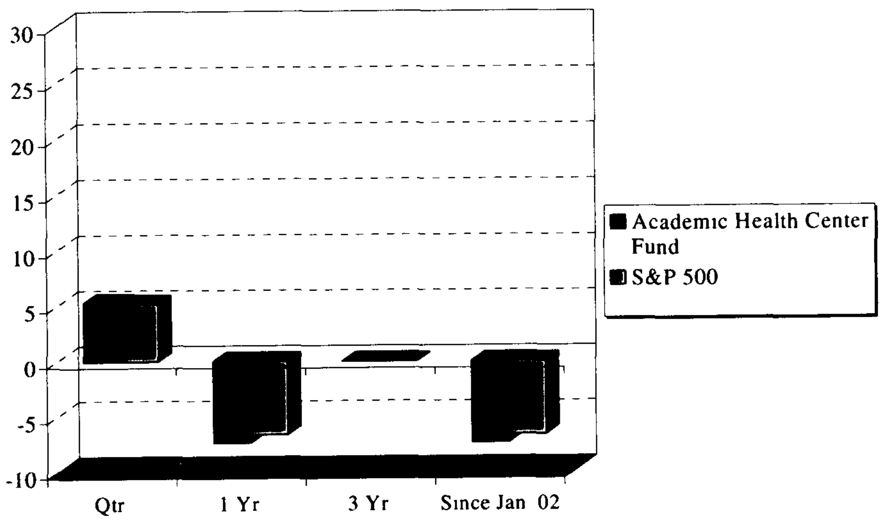
Investment Objectives
The investment objective of the Academic Health Center Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

Asset Mix
The Fund is invested in a balanced portfolio of stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds act as a deflation hedge and provide portfolio diversification.

Investment Management
SBI staff manages all assets of the Academic Health Center Fund.

Market Value
On December 31, 2002 the market value of the Medical Education Fund was $201.0 million.

	12/31/2002 Target	12/31/2002 Actual
Stocks	50.0%	49.9%
Bonds	50.0	49.8
Unallocated Cash	0.0	0.3
Total	100.0%	100.0%



Period Ending 12/31/2002

	Qtr.	1 Yr.	3 Yr.	Since 1/1/02
Total Fund*	5.3%	-7.3	N/A	-7.3%
Composite	5.2	-6.6	N/A	-6.6
Equity Segment*	8.4	-21.8	N/A	-21.8
S&P 500	8.4	-22.1	N/A	-22.1
Bond Segment*	2.4	8.8	N/A	8.8
Lehman Agg.	1.6	10.3	N/A	10.3

* Actual returns are calculated net of fees.

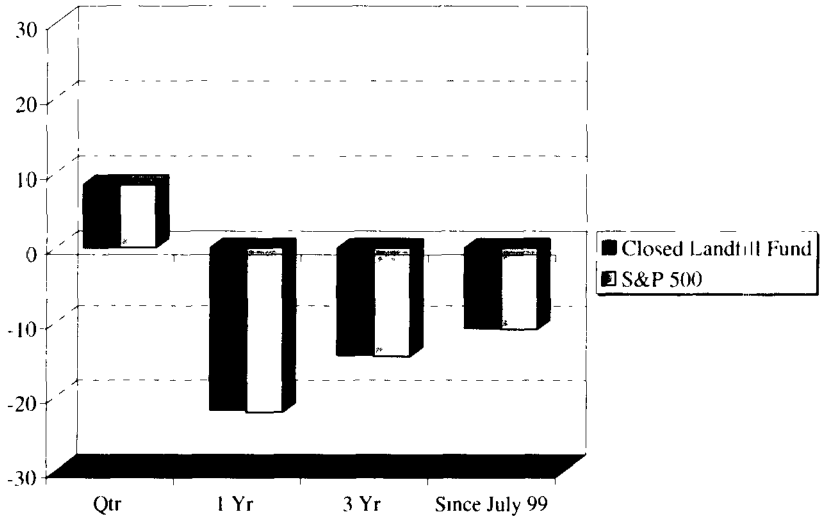
CLOSED LANDFILL INVESTMENT FUND

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

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

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

Market Value
On December 31, 2002 the market value of the Closed Landfill Investment Fund was $15.0 million.



Period Ending 12/31/2002

	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
Total Fund (1)	8.4%	-21.8%	-14 4%	-10.8%
S&P 500 (2)	8.4	-22.1	-14.5	-10 9

(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 12/31/2002

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool*	**$3,756**	**0.5%**	**2.3%**	**4.9%**	**5.1%**
Custom Benchmark**		0.4	1.7	4.4	4.6
Trust Fund Cash Pool*	**$77**	**0.4**	**1.8**	**4.3**	**4.8**
Custom Benchmark***		0.3	1.3	3.6	4.1
3 month T-Bills		0.4	1.7	3.8	4.3

* 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 1-3 year Government Index and the IBC All Taxable Money Fund Index. The proportion of each component of the blended benchmark is adjusted periodically as the asset allocation of the Cash Pool is modified. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% Lehman Brothers 1-3 Year Treasury Index.

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

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Composition of State Investment Portfolios By Type of Investment
Market Value December 31, 2002 (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	124,717	0	1,411,199	0	2,643,123	825,465	818,814	5,823,318
	2 14%		24 23%		45 39%	14 18%	14 06%	100%
Public Employees Retirement Fund	73,006	0	939,744	0	1,760,729	549,693	545,321	3,868,493
	1.89%		24.29%		45.51%	14 21%	14.10%	100%
State Employees Retirement Fund	65,357	0	828,985	0	1,551,716	482,674	486,188	3,414,920
	1.91%		24 28%		45.44%	14.13%	14.24%	100%
Public Employees Police & Fire	66,614	0	471,621	13	883,648	275,870	273,683	1,971,449
	3.38%		23.92%	0.00%	44.82%	14.00%	13.88%	100%
Highway Patrol Retirement Fund	3,547	0	45,660	0	85,550	26,708	26,496	187,961
	1.89%		24.29%		45 51%	14.21%	14.10%	100%
Judges Retirement Fund	454	0	5,845	0	10,952	3,419	3,392	24,062
	1.89%		24.29%		45.51%	14.21%	14 10%	100%
Correctional Employees Retirement	4,006	0	51,569	0	96,621	30,165	29,925	212,286
	1.89%		24.29%		45.51%	14.21%	14.10%	100%
Public Employees Correctional	22,688	0	8,843	0	16,568	5,173	5,131	58,403
	38.85%		15 14%		28 37%	8.86%	8.78%	100%
TOTAL BASIC FUNDS	360,389	0	3,763,466	13	7,048,907	2,199,167	2,188,950	15,560,892
	2.32%		24.18%	0.00%	45.30%	14.13%	14.07%	100%
POST RETIREMENT FUND	486,080	0	4,358,353	0	7,645,151	2,217,313	695,911	15,402,808
	3.16%		28.30%		49.63%	14.39%	4.52%	100%
TOTAL BASIC AND POST	846,469	0	8,121,819	13	14,694,058	4,416,480	2,884,861	30,963,700
	2 73%		26.23%	0.00%	47.46%	14.26%	9.32%	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	12,892 2.58%	191,447 38.27%	0	0	295,885 59.15%	0	0	500,224 100%
Growth Share Account	0	0	0	0	180,545 100.00%	0	0	180,545 100%
Money Market Account	34,176 100.00%	0	0	0	0	0	0	34,176 100%
Common Stock Index	0	0	0	0	245,869 100.00%	0	0	245,869 100%
Bond Market Account	0	0	149,919 100.00%	0	0	0	0	149,919 100%
International Share Account	0	0	0	0	0	40,643 100.00%	0	40,643 100%
Fixed Interest Account	61 0.05%	0	120,284 99.95%	0	0	0	0	120,345 100%
Money Market Deferred Comp	66,932 100.00%	0	0	0	0	0	0	66,932 100%
TOTAL SUPPLEMENTAL FUNDS	114,061 8.52%	191,447 14.30%	270,203 20.18%	0	722,299 53.96%	40,643 3.04%	0	1,338,653 100%
MN DEFERRED COMP PLAN *	0	0	719,226 50.74%	0	625,845 44.16%	72,240 5.10%	0	1,417,311 100%
TOTAL RETIREMENT FUNDS	960,530 2.85%	191,447 0.57%	9,111,248 27.02%	13 0.00%	16,042,202 47.57%	4,529,363 13.43%	2,884,861 8.56%	33,719,664 100%

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

	Cash and Short Term Securities	Bond Internal	Bond External	Stock Internal	Stock External	External Int'l	Alternative Assets	Total
ASSIGNED RISK PLAN	4,395 1.89%	0	182,047 78.44%	0	45,661 19.67%	0	0	232,103 100%
ENVIRONMENTAL FUND	1,959 0.75%	74,218 28.43%	0	184,869 70.82%	0	0	0	261,046 100%
PERMANENT SCHOOL FUND	8,633 1.77%	240,065 49.31%	0	238,195 48.92%	0	0	0	486,893 100%
TOBACCO SETTLEMENT POOL	3,004 0.32%	465,353 49.65%	0	468,974 50.03%	0	0	0	937,331 100%
CLOSED LANDFILL INVESTMENT	25 0.17%	0	0	14,979 99.83%	0	0	0	15,004 100%
TREASURERS CASH	3,740,264 100.00%	0	0	0	0	0	0	3,740,264 100%
HOUSING FINANCE AGENCY	91,296 31.73%	196,412 68.27%	0	0	0	0	0	287,708 100%
MINNESOTA DEBT SERVICE FUND	59,916 22.77%	203,259 77.23%	0	0	0	0	0	263,175 100%
MISCELLANEOUS ACCOUNTS	256,693 60.44%	142,711 33.60%	0	25,299 5.96%	0	0	0	424,703 100%
GRAND TOTAL	5,126,715 12.70%	1,513,465 3.75%	9,293,295 23.02%	932,329 2.31%	16,087,863 39.85%	4,529,363 11.22%	2,884,861 7.15%	40,367,891 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 25, 2003

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, 2003 is included as **Attachment A**.

   A report on travel for the period from November 16, 2002 - February 15, 2003 is included as **Attachment B**.

2. **Results of FY02 Financial Audit**

   The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 2002. I am pleased to report that the SBI received a "clean opinion" on its financial statements. See **Attachment C**.

3. **Legislative Update**

   An update on any legislative activity of interest to the SBI.

4. **Litigation Update**

   The SBI is involved in class action and securities litigation suits. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on March 5, 2003.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2003 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO-DATE THROUGH JANUARY 31, 2003

ITEM	FISCAL YEAR 2003 BUDGET	FISCAL YEAR 2003 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 2,023,035	$ 1,094,743
SEVERENCE PAYOFF	22,000	0
WORKERS COMPENSATION INSURANCE	1,000	876
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 2,048,035**	**$ 1,095,619**
STATE OPERATIONS		
RENTS & LEASES	192,000	108,643
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	8,675
PRINTING & BINDING	15,000	5,043
PROFESSIONAL/TECHNICAL SERVICES	10,000	0
COMPUTER SYSTEMS SERVICES	10,000	4,398
COMMUNICATIONS	20,000	9,221
TRAVEL, IN-STATE	3,000	221
TRAVEL, OUT-STATE	65,000	17,395
SUPPLIES	40,000	12,865
EQUIPMENT	20,000	0
EMPLOYEE DEVELOPMENT	15,000	4,242
OTHER OPERATING COSTS	25,000	6,294
SUBTOTAL	**$ 430,000**	**$ 176,997**
ORIGINAL BUDGET	**$ 2,478,035**	**$ 1,272,616**
BUDGET REDUCTION (UNALLOTMENT)	**$ 90,000**	
TOTAL GENERAL FUND	**$ 2,388,035**	**$ 1,272,616**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel November 16, 2002 – February 15, 2003

Purpose	Name(s)	Destination and Date	Total Cost
Other: Wisconsin State Investment Board	M. Menssen	Madison, WI 12/9-12/10	$110.15

ATTACHMENT C

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*

Senator Ann H. Rest, 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 financial statements of the Supplemental Investment Fund and the Post Retirement Investment Fund of the Minnesota State Board of Investment as of and for the year ended June 30, 2002, and have issued our report thereon dated December 6, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial

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E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 6, 2002

Report Signed On: January 23, 2003

Status of Prior Audit Issues As of November 30, 2002

Most Recent Audit

January 17, 2002, Legislative Audit Report 02-02 covered the fiscal year ended June 30, 2001. 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 the Minnesota State Board of Investment's annual report. We audit SBI on an annual basis. There were no reportable issues in this report.

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 of the State Agricultural Society, the state constitutional officers, or the judicial branch.

Tab C

COMMITTEE REPORT

DATE: February 25, 2003

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Wednesday, February 13, 2003 to consider the following agenda items:

- Review the manager performance for the period ending December 31, 2002.
- Update on Metropolitan West Asset Management liquidation.
- Annual review of investment manager guidelines.
- Update on asset allocation study and program reviews.

No action is required by the SBI / IAC.

INFORMATION ITEMS:

1. Review of manager performance for the period ending December 31, 2003.

- *Domestic Equity Managers*

For the period ending December 31, 2002, the **Domestic Equity Manager Program** under-performed the Wilshire 5000 Investable over all time periods. The **current managers** out-performed the Aggregate Benchmark during the five-year time period, but under-performed during the quarter, one and three-year time periods.

Time period	Total Program	Wilshire 5000 Investable
Quarter	7.5%	8.1%
1 Year	-22.4	-21.5
3 Years	-15.0	-14.8
5 Years	-1.7	-1.4

Current Mgrs. Only	Aggregate Benchmark
7.5%	8.6%
-22.4	-21.1
-14.8	-14.0
-0.6	-0.8

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

- *Fixed Income Managers*

For the period ending December 31, 2002, the **Fixed Income Manager Program** out-performed the Lehman Aggregate for the quarter, but under-performed over the one, three and five-year time periods. The **current managers** also out-performed the Aggregate Benchmark for the quarter, and under-performed over the one and three-year time periods, but matched the benchmark over the five-year time period.

Time period	Total Program	Lehman Aggregate
Quarter	2.0%	1.6%
1 Year	8.9	10.3
3 Years	10.0	10.1
5 Years	7.4	7.5

Current Mgrs. Only	Aggregate Benchmark
2.0%	1.6%
8.9	10.3
10.0	10.1
7.5	7.5

The performance evaluation reports for the fixed income managers start on the **blue page A-33** of this Tab.

- *International Equity Managers*

For the period ending December 31, 2002, the **International Equity Program** and the **equity managers** (excluding the currency overlay) out-performed over all time periods.

Time Period	Total* Program	Composite Index**
Quarter	6.9	6.8
1 Year	-13.6	-14.8
3 Year	-16.0	-17.0
5 Year	-2.5	-3.1

Equity*** Mgrs. Only
6.9
-13.6
-16.0
-2.5

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

** The international benchmark is EAFE-Free plus Emerging Markets Free. 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-Free to the 12/31/96 fixed weights Prior to 5/1/96, the benchmark was 100% EAFE-Free

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

The performance evaluation reports for the international equity managers start on the **blue page A-45** of this Tab.

2. **Update on Metropolitan West Asset Management liquidation.**

   Following Metropolitan West's termination from the active fixed income program on December 10, 2002, staff executed a transition plan to transfer the portfolio's assets to the remaining fixed income managers. The initial transfers occurred on January 2, 2003. A small number of positions were targeted for sale rather than transfer based on the combined credit opinions of external managers and staff. Two positions remain in the transition portfolio pending credit review; upon completion of the analyses these assets may be sold. Staff expects the transition to be completed by the end of this quarter.

3. **Annual review of investment manager guidelines.**

   The Minnesota State Board of Investment (SBI) has established guidelines that govern the investment actions of the investment managers. While these guidelines may be changed at any time, they are part of the formal contractual agreement between the manager and the SBI. The guidelines address issues such as return objectives, benchmarks, authorized investments, performance evaluation, communication, and reporting requirements.

   Staff reviews the guidelines at least annually for accuracy and completeness. This year, there were no substantive changes to the guidelines. Rather, the review resulted in changes that clarify language throughout the investment guidelines, particularly in the risk/return objectives and account reconciliation paragraphs. Staff will ensure that the guidelines are modified appropriately as changes in the investment program warrant.

   The investment guidelines for all asset classes start on **page 5** of this tab.

4. **Update on asset allocation study and program reviews.**

   Staff updated the Stock and Bond Manager Committee on the discussions taking place regarding the asset allocation study and program structure review.

   The Asset Allocation Committee of the IAC will meet in April to review staff recommendations. The full IAC will meet in June to review the final recommendations. It is anticipated that the SBI will act upon the proposed asset allocations and manager structure at its June meeting.

Investment Manager Guidelines

External Domestic Equity

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL ACTIVE DOMESTIC COMMON STOCK MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~The Manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager's objective is to produce positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into a range of 5.0 to 7.0.~~

~~(b) Excess Return: The Manager is expected to out-perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of active risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of __ to __ *(varies by Manager, e.g. a large capitalization manager may have a range of 4 to 6 and a small capitalization manager 7 to 10)*, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARKS

~~Each~~ The ~~m~~Manager must provide and maintain a customized benchmark ~~(normal)~~ portfolio. approved by the SBI, for the purpose of performance evaluation and risk measurement. The final custom benchmark must be delivered to Richards & Tierney in Chicago ~~at a time which is~~ consistent with the quarterly rebalancing schedule provided by Richards & Tierney or SBI staff.

The benchmark portfolio provided by the Manager must satisfy the following characteristics:

(a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate**. The benchmark is consistent with the Manager's investment style or biases.

(e) **Reflective of current investment opinions**. The Manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance**. The benchmark must be available prior to the start of an evaluation period

3. ELIGIBLE INVESTMENTS

The ~~investment~~ ~~m~~Managers ~~will be~~ is restricted to trading common stocks, stock index futures, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. The investments of ~~each~~ the ~~m~~Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on such an exchange.

(c) The Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) The Managers ~~are~~ is expected to hold concentrated portfolios. Generally, this would be less than 45 securities for large cap portfolios and no more than 120 securities for mid to small cap portfolios. The Manager may request SBI approval to deviate from these guidelines.

(i) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~(j) With respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.~~

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis~~;~~.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight any~~ discuss all organizational changes~~,~~ ~~which may impact~~ affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

6. PROXY VOTING

~~The SBI is responsible for proxy voting.~~ The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager

8. SEPARATE ACCOUNT AND DAILY PRICING

~~Manager will manage the Account on a separate account basis.~~ <u>The SBI's portfolio will be managed as a separate account.</u> All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the <u>prior</u> written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month-to-date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month-end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month-end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

<u>The Manager shall assist in account reconciliation as follows:</u>

<u>(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):</u>

(1) **Mid-Month Share and Pricing Reconciliation** - the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
________________________	________________________
Date ____________________	Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL EMERGING DOMESTIC COMMON STOCK MANAGERS

The investment actions of Minnesota State Board of Investment (SBI) external ~~active~~ emerging domestic common stock managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~An active manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager's objective is to produce large positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into a range of 7.0 to 10.0.~~

~~(b) Excess Return: The Manager is expected to out perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of active risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of __ to __ *(varies by Manager, e.g. a large capitalization manager may have a range of 4 to 6 and a small capitalization manager 7 to 10)*, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARKS

~~Each~~ The ~~m~~Manager must provide and maintain a customized benchmark (normal) portfolio, approved by the SBI, for the purpose of performance evaluation and risk measurement. The final custom benchmark must be delivered to Richards & Tierney in Chicago ~~at a time which is~~ consistent with the quarterly rebalancing schedule provided by Richards & Tierney or SBI staff.

The benchmark portfolio provided by the Manager must satisfy the following characteristics.

(a) **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable.** It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate.** The benchmark is consistent with the Manager's investment style or biases.

(e) **Reflective of current investment opinions.** The Manager has current investment opinions (be they positive, negative, or neutral) on the securities, which make up the benchmark.

(f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.

3. ELIGIBLE INVESTMENTS

The ~~investment~~ ~~m~~Managers ~~will be~~ is restricted to trading common stocks, stock index futures, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. The investments of ~~each~~ the ~~m~~Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on-such an exchange.

(c) The Manager may not purchase restricted stock, letter stock, and private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) The Managers ~~are~~ is expected to hold concentrated portfolios. Generally, this would be less than 45 securities for large cap portfolios and no more than 120 securities for mid to small cap portfolios. The Manager may request SBI approval to deviate from these guidelines.

(i) Stock options, if authorized, and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~(j) With respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.~~

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy within twelve (12) business days after quarter end. The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight any~~ discuss all organizational changes ~~which may impact~~ affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf

6. PROXY VOTING

~~The SBI is responsible for proxy voting.~~ The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to the total funds of the SBI and does not constitute a general obligation of the State of Minnesota The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

~~Manager will manage the Account on a separate account basis.~~ The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month-to-date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ____________________	Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) external semi-passive domestic common stock managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~A semi-passive manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager is expected to produce positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will be greater than 1.0 but no more than 2.00.~~

(b) ~~Excess Return: The Manager is expected to out perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.10 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of active risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of 1.0 to 2.0, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK INDEX

The benchmark will be a customized Dynamic Completeness Fund/~~customized~~ benchmark furnished by the SBI. The Manager is provided with an annual calendar which shows the quarterly rebalancing schedule. The Manager is expected to provide the SBI with periodic feedback in terms of the benchmark's composition, liquidity, names, and ~~timing~~ delivery. SBI reserves the right to change the benchmark ~~index~~ upon prior notification to Manager.

3. ELIGIBLE INVESTMENTS

The ~~investment~~ ~~m~~Managers ~~will be~~ is restricted to trading common stocks, stock index futures, and the SBI STIF fund. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. The investments of ~~each~~ the ~~m~~Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on an exchange regulated by an agency of the United States or Canadian national government.

(c) The Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) Stock index futures, purchased through a regulated future exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~(i) With respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.~~

(i) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis~~:~~.

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis~~;~~.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight any~~ discuss all organizational changes~~,~~ ~~which may impact~~ affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

6. PROXY VOTING

~~The SBI is responsible for proxy voting~~ The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

~~Manager will manage the Account on a separate account basis~~ The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month-to-date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month-end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month-end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
____________________	____________________
Date ________________	Date ________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) external passive domestic common stock manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~A passive manager is expected to deliver cumulative returns in line with the returns of a predetermined benchmark. The Manager is expected to control the variability or risk of the actual returns relative to the benchmark returns.~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the passive manager's annual standard deviation of excess returns relative to the benchmark will be 0.60 or less.~~

(b) ~~Excess Return: The Manager is expected to slightly under perform the benchmark return overtime due to fees and trading expenses. Overtime, the annual return shortfall relative to the benchmark should be no more than 0.10%.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark provided to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark of 0.60 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return shortfall relative to the benchmark, due to fees and trading expenses, should be no more than 0.10%.

2. BENCHMARK INDEX

The benchmark~~s~~ ~~will be~~ is the Wilshire 5000 Investable as defined by the benchmark construction and maintenance rules in Appendix A. The Manager is provided with an annual calendar which shows the quarterly rebalancing schedule. SBI reserves the right to change the benchmark~~s~~ upon notification to the ~~m~~Manager.

3. ELIGIBLE INVESTMENTS

The ~~investment~~ ~~m~~Manager ~~will be~~ is restricted to trading common stocks that are in the benchmark index as delivered from the benchmark builder, stock index futures, and the SBI STIF fund. The Manager may sell any securities removed from the target index over a reasonable period of time. The investments must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within twelve (12) business days after quarter-end The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight any~~ discuss all organizational changes ~~which may impact~~ affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

6. PROXY VOTING

~~The SBI is responsible for proxy voting.~~ The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

~~Manager will manage the Account on a separate account basis.~~ The SBI's portfolio will be managed as a separte account. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month to date performance and~~

~~net asset value data in the requested format based on values at the close of business on the 4th business day prior to month end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month-end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows.

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** - the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** - the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ________________	Date ________________

APPENDIX A

Wilshire 5000 Investable
Benchmark Construction & Maintenance Rules

On behalf of the Minnesota State board of Investment (MN SBI), Richards & Tierney, Inc. will construct and maintain a custom Target portfolio (Target)~~. This portfolio will be~~ as defined by the MN SBI ~~domestic equity asset category Target~~. ~~It~~ This portfolio will be used as a performance comparison for MN SBI total domestic equity program and as the benchmark for the passive portfolio managed by BGI (Passive manager). The following outlines the process and procedures that R&T will use to construct and maintain the Target ~~overtime:~~ .

Definition of Terms

Effective Date:	The month-end date for which the Target becomes effective for the subsequent performance interval
Selection Date:	Month-end date one month before the Effective Date
Build Date:	The date R&T constructs the Target (between Selection Date and Effective Date)
Delivery Date:	The date R&T delivers the revised Target based on Selection Date Shares and ~~Holdings~~ Securities to Passive Manager. This date will be prior to the Effective Date
Refresh Date:	Denotes a re-constitution of the Target. Refresh periods are expected to occur each calendar quarter-end, but may occur at other month-end dates to accommodate specific needs of MN SBI

Target Construction Rules

- The Target will be constructed each calendar quarter-end and/or at times consistent with significant planned ~~and significant~~ changes to MN SBI's domestic ~~equity structure~~ program.
- The Target will be based on the Wilshire 5000(W5000) ~~Holdings~~ constituent securities and Shares Outstanding as of the Selection Date. R&T will adjust the W5000 Selection Date ~~Holdings~~ securities based on the following criteria
- Eliminate stocks that are restricted by MN SBI
- Eliminate stocks with market ~~capitalization's~~ capitalizations less than the smallest stock in the 9th decile of the NYSE
- Eliminate ~~ADR's~~ ADRs, ~~REIT's~~ REITs, Dual Class Stocks, ~~MLP's~~ MLPs, Closed-end and Exchange Traded Funds, Unit Trusts, Preferred Stocks.
- Eliminate stocks that trade less than 50% of prior month's trading days
- ~~Eliminate stocks with share price equal to or less than $2.00~~

Rules to update the Target between Refresh periods

- Passive Manager will adjust the Target for all corporate actions since the Selection Date
- The objective of these rules is to minimize, where possible, trading by the Passive manager.
- The Rules are:
- Selection Date Share amounts do not change throughout 'Refresh period" unless there is a corporate action
- Stock splits Number of shares adjusted in Target on x-date
- IPO's: No new securities added unless already in Selection Date list
- Share issuance and buy backs: No adjustments made until next Refresh Date
- Spin-offs: if spun-off company not Target eligible - hold spun-off shares until subsequent month-end then sell at close price
- Spin-offs: if spun-off company is Target eligible - hold spun-off shares until next Refresh
- Takeovers for cash: hold cash until next subsequent month-end then reinvest in Target pro-rata
- Takeovers for cash and shares: Target will be adjusted to reflect the average election backwards effective to x-date. This is an after-the-fact piece of information. ~~BGI~~ The Passive Manager will have to make an election prior to knowledge of the average election. This is the same condition that exists with continuously updated published indices.(such as W5000 and R3000)
- Takeovers for shares: Target shares are adjusted for the acquiring company, acquired company is deleted from Target on x-date of transition. Shares not Target eligible are handled per spin-off Rules.
- Dividends and cash payments: accrued as non-interest bearing until month-end and then reinvested pro-rata (See Takeovers for cash)

These Rules will be used as the basis for monthly performance calculations for the Target

Investment Manager Guidelines

International Equity

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL DEVELOPED MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) active international developed markets equity managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

~~An active manager is expected to deliver cumulative returns in excess of the returns of a predetermined benchmark net of fees and expenses. The Manager's objective is to produce large positive excess returns relative to the benchmark compared to the amount of active risk of their investment process.~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into the range of 7.0 to 10.0.~~

(b) ~~Excess Return: The Manager is expected to out-perform the benchmark consistently overtime. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of active risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of __ to __ *(varies by Manager, e.g. a large capitalization manager may have a range of 4 to 6 and a small capitalization manager 7 to 10)*, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. ~~PERFORMANCE~~ BENCHMARK

The ~~performance~~ benchmark ~~for the portfolio will be~~ is the Morgan Stanley Capital International (MSCI) Index of Europe, Australasia and the Far East (EAFE). The benchmark ~~will be the Provisional~~ is EAFE, ~~(or its successor)~~, unhedged, ~~net of~~ with dividends~~, and capitalization weighted~~ net of tax withholdings. SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE MARKETS

Subject to the constraints in #4 below, the Manager is authorized to purchase common stocks only in the countries included in the EAFE-Free index and in Canada. Manager may not purchase the shares of companies domiciled in emerging market countries.

4. ELIGIBLE INVESTMENTS

Subject to the constraints in #3 above, the Manager will be restricted to trading common stocks, preferred stocks, currency forwards and the SBI's STIF fund. The Manager may hold warrants, if received from underlying assets The Manager must have the SBI's written approval to purchase exchange traded funds, warrants, open-end country funds and closed-end country or regional funds, stock index futures and options, and currency futures and options ~~provided:~~ . The investments of the Manager must satisfy the following criteria and constraints.

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements may not be purchased in the Account

(d) Debt securities, except cash equivalents may not be purchased in the Account.

(e) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI in writing.

(f) The stock of companies domiciled in the US shall not be held in the Account. However, with the SBI's prior written authorization. Manager may hold open-end and closed-end funds, which invest primarily in international securities.

(g) American Depository Receipts (ADR's), Great Britain Depository Receipts (GDR's), and securities issued by Canada or its provinces may be held in the Account provided they are depository eligible and can be priced on a daily basis. Non-U.S. securities issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, they will be publicly-traded securities in their local market(s) and can be priced on a daily basis.

(h) Upon written authorization by the SBI, stock options and stock index futures, purchased through a governmentally regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

(i) Currency forwards may be used to adjust the effective non-US currency exposure of the portfolio. Manager is permitted to hedge all or any portion of the non-US currency exposure back to the US dollar and may also attempt to add value from anticipated declines in the value of any non-US currency, through hedging out of one non-US currency into another non-US currency. The Manager is permitted to increase the exposure to any non-US currency of an eligible market beyond that established by the equity security holdings of the portfolio or that of the country allocation within the benchmark; provided, however, that the total currency exposure may not exceed the total market value of the portfolio. The Manager has no obligation to hedge currency risk and will not be required to do so.

~~(j) With respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of their revenue from the manufacture of consumer tobacco products.~~

(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight any~~ discuss all organizational changes ~~which may impact~~ affecting the management of the SBI's Account, and affirm account reconciliation with the Custodial Bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The Manager is responsible for monitoring both the long term and short term credit ratings of each counterparty bank and the Manager will notify the SBI of any downgrade in either rating promptly.

8. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

9. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

10. SEPARATE ACCOUNT AND DAILY PRICING

~~Manager will manage the Account on a separate account basis~~ The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

11. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month-to-date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month-end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month-end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached).

(1) **Mid-Month Share and Pricing Reconciliation** : the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** the Manager must provide preliminary net asset values and month-to date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI s custodian bank via facsimile or affirmation by Trade Date + 1 at 11 00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

12. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

13. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised. ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ______________	Date ______________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
PASSIVE INTERNATIONAL DEVELOPED MARKETS MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Passive Fund Manager will be governed and evaluated by the following guidelines:

1. RETURN/TRACKING ERROR OBJECTIVE

~~A passive manager is expected to deliver cumulative returns in line with the returns of a predetermined benchmark. The Manager is expected to control the variability or risk of the actual returns relative to the benchmark returns.~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the passive manager's annual standard deviation of excess returns relative to the benchmark will be 0.60 or less.~~

(b) ~~Excess Return: The Manager is expected to closely match the benchmark return after fees and trading expenses. Overtime, the annual return relative to the benchmark should be 0.10%.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark provided to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark of 0.60 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return relative to the benchmark should be at least 0.10%.

2. BENCHMARK INDEX

The benchmark index ~~will be~~ is the Morgan Stanley Capital International (MSCI) Index of Europe, Australasia and the Far East (EAFE). The benchmark ~~will be the Provisional~~ is EAFE ~~(or its successor)~~, unhedged, ~~net of~~ with dividends net of tax withholdings. ~~, and capitalization weighted~~. SBI reserves the right to change the benchmark upon notification to Manager.

3. ELIGIBLE INVESTMENTS

The Manager ~~will be~~ is restricted to trading stocks in the benchmark index, stock index futures, and the SBI's STIF fund subject to the following constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established by SBI's Manager Continuation Policy These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight any~~ discuss all organizational changes ~~which may impact~~ affecting the management of the SBI's Account, and affirm account reconciliation with the custodian.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

6. PROXY VOTING

~~The SBI is responsible for proxy voting. The SBI may delegate responsibility for proxy voting in certain countries to the Manager. If so, such delegation will be made in writing along with appropriate voting policy direction.~~

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that the SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

~~Manager will manage the Account on a separate account basis~~ The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from~~

~~Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level.~~ ~~**Notification must be sent to ccfong@statestreet.com**~~ ~~by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must~~ ~~**return these pricing requests by 5:00 PM EST**~~ ~~on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

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(2) **Performance & Net Asset Value Comparison** - the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

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10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Date ~~December 2001~~ March 2003

Executive Director/
Assistant Executive Director

Firm Representative

________________________ ________________________

Date ____________________ Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNATIONAL EMERGING MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) international emerging markets equity managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

~~The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark net of fees and expenses relative to the amount of active risk in their investment process. The following are understood to be targets for the Manager:~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the Manager's annual standard deviation of excess returns relative to the benchmark will fall into the range of 8.0 to 12.0.~~

(b) ~~Excess Return: The Manager is expected to out-perform the benchmark consistently over a 3 to 5 year period. The Managers' goal is to achieve an information ratio of 0.20 or greater. The information ratio is the amount of excess return relative to the benchmark per unit of active risk or the annualized excess return relative to the benchmark net of fees and expenses divided by the annual standard deviation of excess returns relative to the benchmark.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of __ to __ *(varies by Manager, e.g. a large capitalization manager may have a range of 4 to 6 and a small capitalization manager 7 to 10)*, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. ~~PERFORMANCE~~ BENCHMARK

The ~~performance~~ benchmark ~~for the Account will be~~ is the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) index. The benchmark ~~will be~~ is the ~~Provisional~~ EMF ~~(or its successor)~~, unhedged, ~~net of~~ with dividends net of tax withholdings ~~and capitalization weighted~~. SBI reserves the right to change the benchmark upon notification to the ~~m~~Manager.

3. ELIGIBLE MARKETS

Subject to the constraints in #4 below and as otherwise provided in #6 below, the Manager is authorized to purchase securities in the following markets:

Group I. The Manager is not restricted regarding publicly traded securities of companies in the following markets:

Argentina	Cyprus	Luxembourg	Slovenia
Barbados	Czech Republic	Malawi	Taiwan
Bermuda	Estonia	Mauritius	Trinidad & Tobago
Bolivia	Greece	Mexico	Tunisia
Botswana	Hungary	Panama	Uruguay
Canada	Jamaica	Papua New Guinea	
Chile	Latvia	Poland	
Costa Rica	Lithuania	Slovak Republic	

Group II. The Manager may purchase publicly traded securities of companies in the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the Manager chooses to invest in one or more of these markets, the Manager must notify the SBI in writing of its decision to do so.

Bangladesh	Israel	Nepal	Thailand
Brazil	Korea, Republic of	Nigeria	Turkey
Bulgaria	Kuwait	Peru	Venezuela
Colombia	Malaysia	Philippines	Vietnam
Ghana	Mauritania	Romania	Zambia
Guatemala	Mongolia	South Africa	Zimbabwe
India	Morocco	Sri Lanka	
Indonesia	Namibia	Swaziland	

Group III. The Manager may invest in publicly traded securities of companies in the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the Manager chooses to invest in one or more of these markets, the Manager must appear at a meeting of the SBI Administrative Committee to present its reason(s) for the decision to do so.

Burma	Jordan	Russia
China	Kazakhstan	Saudi Arabia
Cote d'Ivoire	Kenya	Syria
Croatia	Lebanon	Turkmenistan
Dominican Republic	Liberia	Ukraine
Ecuador	Oman	United Arab Emerates
Egypt	Pakistan	Uzbekistan
Iran	Paraguay	

4. ELIGIBLE INVESTMENTS

Subject to the constraints in #3 above, the Manager will be restricted to trading common stocks, preferred stocks, closed-end funds, currency forwards and the SBI's STIF fund. The Manager may hold open-end funds that have been converted from closed-end funds held by the account. The Manager must have the SBI's written approval to purchase open-end funds, exchange traded funds, warrants, rights, equity futures and options, and currency futures and options. ~~provided:~~ The investments of the Manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements, defined as those securities for which a public market does not exist, may not be purchased.

(d) Debt securities, except cash equivalents may not be purchased.

(e) The stock of companies in, or open and closed-end funds investing principally in, any of the following countries shall not be held in the Account: U.S.; Canada; and all EAFE markets unless the company/fund gets all or substantially all of its revenue from an emerging market country(ies) as set out in #3 above. Notwithstanding the foregoing sentence, Manager may hold closed-end funds (or open-end funds that have been converted from closed-end funds held by the Account), provided all or substantially all of the assets of such instruments or funds satisfy this constraint. In addition, Manager may purchase securities listed in Hong Kong to gain exposure to China.

(f) For emerging market countries outside the EMF benchmark, eligible securities shall not exceed 10% of the Account's market value in aggregate at the time of purchase.

(g) Depository Receipts may be held in the Account provided they are issued by an emerging market company, are depository eligible, and can be priced on a daily basis. Non-U.S. securities and Depository Receipts issued pursuant to Rule 144A may be purchased for the Account if, upon issuance, these securities (or their underlying shares in the case of Depository Receipts) will be publicly-traded securities in their local market(s) or another regulated market and can be priced on a daily basis.

(h) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the Account at any time. If a holding should breach this level or the Manager desire to hold a larger position, the Manager must notify the SBI <u>in writing</u>.

(i) Currency forwards may be used to adjust the effective non-U.S. country exposure of the Account from 0 to 100%. Hedging back to USD is permitted. Cross hedging is not permitted. The Manager has no obligation to hedge currency risk and will not be required to do so.

~~(j) With respect to tobacco related stocks, the Account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of their revenue from the manufacture of consumer tobacco products. If a new company should be added to the list, the Manager would have 90 days to divest that restricted company.~~

<u>(j) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.</u>

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~and highlight any~~ discuss all organizational changes ~~that may impact~~ affecting the management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will use reasonable efforts to promptly inform SBI staff and the SBI's custodian of any material legal claims available to SBI relating to any of the Assets in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. COUNTERPARTY BANKS

Each counterparty bank and/or counterparty group used by the Manager to execute currency transactions must have a counterparty credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring the counterparty credit ratings of each counterparty bank and/or counterparty group, and the Manager will promptly notify the SBI of any counterparty rating downgrade below the A1/P1 level.

8. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right with respect to all proxies, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

9. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account ~~in connection with the Account~~ must be reviewed and approved by a legal representative of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. ~~, and that the~~ The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

10. SEPARATE ACCOUNT AND DAILY PRICING

~~Manager will manage the Account on a separate account basis~~ The SBI portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles other than closed-end funds and open-end funds permitted under "Eligible Investments" above may not be held in the Account without the written approval of the SBI.

11. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**, or for same day settlement trades **10:30 AM EST**. Any trades or affirmations that will not meet these deadlines should be submitted the following day. Any trades received after these deadlines on the last business day will be reflected in the following month~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month to date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month end. This report must be sent to~~

~~**minnrecon@statestreet.com** on the 3rd business day prior to month-end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

12. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

13. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised ~~December 2001~~ March 2003

Executive Director/
Assistant Executive Director

____

Date ____________________

Firm Representative

____

Date ____________________

Investment Manager Guidelines

External Fixed Income

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL ACTIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active fixed income managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~**Risk Constraint**~~
~~The portfolio's annualized standard deviation of excess returns should not exceed 2.50 percentage points over rolling five-year periods.~~

~~**Return Objective**~~
~~The portfolio is expected to achieve annualized returns of 25 basis points above the benchmark, over rolling five year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five year periods. The information ratio is the ratio of the portfolio's annualized excess return above the benchmark to the annualized standard deviation of the excess returns.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 2.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The ~~designated~~ benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). ~~Performance will be monitored and evaluated against the Lehman Aggregate.~~ The SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments and interest rate futures on U.S. Treasury securities. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

With the SBI's prior written authorization, the Manager may invest up to 15 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in below investment grade corporate bonds rated among the top two below investment grade rating categories (BB or B) by a nationally-recognized rating agency, such as Moody's or Standard & Poors, provided that 1) participation is limited to 20 percent of a single offering; 2) participation is limited to 10 percent of an issuer's total outstanding obligations; 3) the manager shall not hold more than 2 percent of the market value of the portfolio in any one issuer, and 4) the total value of such instruments plus the value of any non-dollar investments allowed under 3.(h) below not exceed 20 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is less.

(c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by a nationally recognized rating agency would have a rating of BBB of better.

(g) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

(h) With prior written authorization from SBI, the Manager may invest up to 15 percent of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in non-dollar denominated bonds, provided that the total value of such instruments plus the value of any below investment grade corporate investments allowed under 3.(b) above not exceed 20 percent of the total portfolio, measured on a market value or contribution to duration basis, whichever is less. Non-dollar denominated bonds purchased must be rated in the top four quality categories by a nationally-recognized rating agency, and the manager shall not hold more than 5 percent of the market value of the portfolio in any one issuer. The manager shall have discretion to hedge the portfolio's currency exposure, up to the amount invested in non-dollar bonds, using currency forwards, futures or options. All currency transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

(i) Interest rate options and interest rate futures on U.S. Treasury securities must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be ~~done on a fully collateralized basis~~ entered into and maintained with a fully offsetting amount of cash or cash equivalents. The portfolio may not be leveraged in any way.

4. DURATION

The option-adjusted duration of the portfolio must be within +/- 2 years of the duration of the Lehman Brothers Aggregate Index.

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within twelve (12) business days after quarter end. The commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight~~ discuss all organizational changes ~~that may impact~~ affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed ~~on~~ as a separate account ~~basis~~. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the portfolio without the prior written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month-to-date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** -- the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21^{st} calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23^{rd} calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** - the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4^{th} business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3^{rd} business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~June 2002~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ________________	Date ________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external semi-passive fixed income managers will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~Risk Constraint~~
~~The portfolio's annualized standard deviation of excess returns should not exceed 0.50 percentage points over rolling five-year periods.~~

~~Return Objective~~
~~The portfolio is expected to achieve annualized returns of at least 10 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.20 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return above the benchmark to the annualized standard deviation of the excess returns.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 0.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARK

The ~~designated~~ benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). ~~Performance will be monitored and evaluated against the Lehman Aggregate.~~ The SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments, interest rate futures on U.S. Treasury securities. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations of corporations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

(g) Interest rate options and interest rate futures on U.S. Treasury securities must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be entered into and maintained with a fully offsetting amount of cash or securities. The portfolio may not be leveraged in any way.

4. INVESTMENT CONSTRAINTS

The investment parameters are based on contribution to duration. Contribution to duration is the sector percentage multiplied by the sector's duration.

Sector Weighting Guidelines

Treasury/Agency Sector	+/- 50% of the Lehman Brothers Government sector contribution to duration.
Mortgage Sector	+/- 50% of the Lehman Brothers Mortgage-Backed sector contribution to duration.
Corporate Sector	+/- 50% of the Combined Lehman Brothers Corporate and Asset-Backed sectors contribution to duration.
Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate contribution to duration. These must be eligible securities as defined in #3 above.

* Issues collateralized by securities that are part of the index are not considered to be outside the index. For instance, CMO's collateralized by mortgages that are part of the index are not considered to be outside the index.

Corporate Credit Guidelines

AAA/AA +/- 75% of the combined Lehman Brothers Corporate AAA and AA contribution to duration

A/BBB +/- 50% of the combined Lehman Brothers Corporate A and BBB contribution to duration

Duration Guidelines

The option-adjusted duration of the portfolio must be within +/- 0.2 years of the duration of the Lehman Brothers Aggregate Index.

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within twelve (12) business days of the end of each quarter. The commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight~~ discuss all organizational changes ~~that may impact~~ affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed ~~on~~ as a separate account ~~basis~~. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the portfolio without the prior written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month-to-date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month-end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month-end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violation of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised. ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ______________________	Date ______________________

Investment Manager Guidelines

Assigned Risk Plan

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ASSIGNED RISK PLAN
COMMON STOCK MANAGER

The investment actions of the Manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

~~The Manager will be evaluated, in part, based on performance in delivering cumulative returns in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the residual risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:~~

~~(a) An actual portfolio that has an active risk level relative to the benchmark within the range of 1.0 to 3.0 annual standard deviations, and~~

(b) ~~A portfolio information ratio (annualized excess return over the benchmark divided by the annualized standard deviation of excess return over the benchmark) of 0.10 or greater.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark within a range of __ to __ *(varies by Manager, e.g. a large capitalization manager may have a range of 4 to 6 and a small capitalization manager 7 to 10)*, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARKS

The ~~designated~~ benchmark is the S&P 500 (Standard & Poor's 500 Stock Index). ~~Performance will be monitored and evaluated against the S&P 500.~~ SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS

The Manager ~~will be~~ is restricted to trading common stocks, stock index futures and cash equivalents. The Manager may hold equity options, preferred stocks and warrants if received from underlying assets. The Manager must have the SBI's written approval to purchase exchange traded funds, equity options, preferred stocks and warrants. The Manager's investments must satisfy the following criteria and constraints.

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on an exchange regulated by an agency of the United States or Canadian national government. These include American Depository Receipts (ADR's) traded on such an exchange.

(c) The Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from SBI, Manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The Manager shall not hold more than three (3) percent of the total outstanding shares of any corporation in the SBI's portfolio.

(g) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) Stock index futures, purchased through a regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All futures transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

~~(i) With respect to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.~~

(i) The Manager may not purchase stocks from the SBI's List of Restricted Tobacco Stocks. The SBI will periodically provide the Manager with an updated List.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter end. The Commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight~~ discuss all organizational changes ~~that may impact~~ affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

6. PROXY VOTING

~~The SBI is responsible for proxy voting.~~ The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the SBI to do so.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed on as a separate account ~~basis~~. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month-to-date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

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~~five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

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(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

Revised ~~July 2002~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ________________	Date ________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ASSIGNED RISK PLAN
BOND MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Assigned Risk Plan Bond Manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVE

The Manager is expected to deliver cumulative returns in excess of the benchmark. Excess returns are expected to be 10 basis points net of fees over time on an annualized basis.

2. BENCHMARK

The benchmark portfolio for this Account is constructed to complement the liability stream out to ten years of the Assigned Risk Plan. The benchmark ~~consists of~~ is composed using the following indexes:

10% 90 day T-Bill
25% Merrill 1-3 Government
15% Merrill 3-5 Government
25% Merrill 5-10 Government
25% Merrill Mortgage Master

Performance will be monitored and evaluated against this custom benchmark.

The SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS

Fixed income investments must satisfy the following criteria and constraints:

(a) Government obligations of the U.S., its agencies, Canada, its provinces, or U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of *Minnesota Statutes* (MS) 11A.24 subdivision 2.

(b) Other obligations not specified in (a) must meet the provisions of MS 11A.24 subdivision 4.

(c) All futures and options positions must be purchased through a regulated exchange and must be entered into and maintained with a fully offsetting amount of cash or cash equivalents. Over-the-counter instruments are not permitted.

(d) Manager is not constrained regarding:

(1) transactions turnover
(2) use of covered call options as hedging devices
(3) number of fixed income issues which must be held at any given point in time
(4) the use of fixed income index futures or options to adjust the effective total portfolio duration.

(e) The Manager may purchase cash equivalent reserves, as necessary, or they may be invested in the SBI's STIF fund, managed by its custodian bank.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager~~s are~~ is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after the quarter-end. The commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight~~ discuss all organizational changes ~~that may impact~~ affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

6. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

7. SEPARATE ACCOUNT AND DAILY PRICING

The SBI's portfolio will be managed ~~on~~ as a separate account ~~basis~~. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian. Commingled vehicles may not be held in the Account without the prior written approval of the SBI.

8. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent in the requested format to minnrecon@statestreet.com** by the 23rd calendar day (or the next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, the Manager will provide preliminary month to date performance and net asset value data in the requested format based on values at the close of business on the 4th business day prior to month end. This report must be sent to **minnrecon@statestreet.com** on the 3rd business day prior to month end each month. (For example, January 31, 2002 falls on Thursday, so the report should be e-mailed on Tuesday, January 29, 2002 based on values at close of business on Monday, January 28, 2002.)~~

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~~five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** - the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** - the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

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9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Manager will be notified in advance of changes to the investment guidelines.

Revised: February 2002 March 2003

Executive Director/
Assistant Executive Director

____

Date ____________________

Firm Representative

____

Date ____________________

Investment Manager Guidelines

Internal Investments

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
INCOME SHARE ACCOUNT

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~**Risk Constraint**~~
~~The portfolio's annualized standard deviation of excess returns will not exceed 2.0% over rolling five-year periods.~~

~~**Return Objective**~~
~~The portfolio is expected to achieve annualized returns of at least 20 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return over the benchmark to the annualized standard deviation of the excess returns.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 2.0, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARKS

~~The Manager's benchmark is used to evaluate performance and measure risk.~~ The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may trade fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of such obligations shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager may not hold more than 5% of the portfolio in one issuer.

The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, which ever is less, in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations.

(c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

(g) Interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

(h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director ~~/~~ or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, ~~future~~ discuss current investment strategy, and discuss all issues or events affecting the ~~highlight any organizational changes which may impact~~ management of the SBI's account.

6. **OPTIONS AND FUTURES TRADING AGREEMENT**

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

7. **SEPARATE ACCOUNT AND DAILY PRICING**

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

8. **ACCOUNT RECONCILIATION**

~~The Manager must report all trades to the SBI's custodian bank. State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent to ccfong@statestreet.com** identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month end.~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) Mid-Month Share and Pricing Reconciliation – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) Performance & Net Asset Value Comparison – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director ~~SBI~~, in writing, if ~~these~~ the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
________________________	________________________
Date ____________________	Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
TRUST FUND POOL

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~**Risk Constraint**~~
~~The portfolio's annualized standard deviation of excess returns will not exceed 1.50% over rolling five-year periods.~~

~~**Return Objective**~~
~~The portfolio is expected to achieve annualized returns of at least 15 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return over the benchmark to the annualized standard deviation of the excess returns.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in excess of a predetermined benchmark provided to the Manager. The Manager is responsible for actively managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark not to exceed 1.5, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio information ratio of 0.20 or greater. The information ratio is the annualized excess return over the benchmark, net of fees and expenses, divided by the annualized standard deviation of excess return over the benchmark.

2. BENCHMARKS

~~The Manager's benchmark is used to evaluate performance and measure risk.~~ The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may trade fixed income instruments, interest rate options and futures on U.S. Treasuries, and cash equivalents. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Manager may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

  (1) the principal and interest of obligations shall be payable in United States dollars; and

  (2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

  (3) the Manager may not hold more than 5% of the portfolio in one issuer.

  The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, whichever is less, in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations.

(c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

(d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

(f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

(g) Interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

(h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director ~~/~~ or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, ~~and future~~ discuss current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

6. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

7. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

8. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent to ccfong@statestreet.com** by the 23rd calendar day (or next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) **Mid-Month Share and Pricing Reconciliation** – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) **Performance & Net Asset Value Comparison** – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

9. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI Executive Director and Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
____________________________	____________________________
Date ____________________	Date ____________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) internal passive domestic common stock manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

~~A passive manager is expected to deliver cumulative returns in line with the returns of a predetermined benchmark. The Manager is expected to control the variability or risk of the actual returns relative to the benchmark returns.~~

~~(a) Active Risk: Annualized standard deviation of excess returns relative to the benchmark is a measure of the variability, or active risk, of the Manager's investment process. It is expected that the passive manager's annual standard deviation of excess returns relative to the benchmark will be 0.20 or less.~~

~~(b) Excess Return: The Manager is expected to slightly under perform the benchmark return overtime due to trading expenses. Overtime, the annual return shortfall relative to the benchmark should be no more than 0.10%.~~

The Manager will be evaluated, in part, based on performance in delivering cumulative returns, net of fees and expenses, in line with a predetermined benchmark provided to the Manager. The Manager is responsible for managing the absolute level and composition of the active risk of the Manager's portfolio relative to the benchmark. The Manager's objectives are:

(a) An actual portfolio that has an active risk level relative to the benchmark of 0.20 or less, where active risk is the annualized standard deviation of the Manager's excess returns relative to the benchmark. And,

(b) A portfolio that tracks the return of the benchmark closely. Over time, the annual return shortfall relative to the benchmark, due to fees and trading expenses, should be no more than 0.10%.

2. BENCHMARK INDEX

The benchmark is the Standard & Poors 500 (S&P 500). SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS

The Manager will be restricted to trading common stocks that are in the benchmark index, stock index futures, and the SBI STIF fund. The investments must satisfy the following criteria and constraints:

(a) Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.

(b) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be entered into and maintained with a fully offsetting amount of cash or cash equivalents.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition Manager will meet with the Executive Director ~~/~~ or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. The Manager is expected to report on the tracking of the portfolio relative to the benchmark.

The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, ~~and~~ discuss ~~future~~ current investment strategy, and discuss all issues or events affecting the management of the SBI's account.

6. PROXY VOTING

~~The SBI is responsible for proxy voting.~~ The Manager may not vote proxies on behalf of the SBI's account unless specifically requested by the Executive Director or Assistant Executive Director to do so.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager on behalf of the SBI's account must be reviewed and approved by legal representatives of the SBI before entering into the agreement. ~~The~~ Any such agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers ~~for any individual SBI manager is~~ should be limited to the total market value of the assets for ~~that~~ the ~~m~~Manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced on a daily basis and accessible by the custodian.

9. ACCOUNT RECONCILIATION

~~The Manager must report all trades to the SBI's custodian bank, State Street Bank, via facsimile or affirmation by **Trade Date +1 at 11:00 AM EST**. For same day settlement trades, the deadline is **10:30 AM EST**. Any trades received after these deadlines on the last business day will be reflected in the following month.~~

~~To ensure fast, accurate month-end reporting, Managers are required to do a three-week reconciliation. The Manager should run a priced holdings download from Insight or Global Quest as of the 21st calendar day of each month (or the closest business day to the 21st). A reconciliation should be done by identifying all share discrepancies and any pricing discrepancies over 5% at the security level. **Notification must be sent to ccfong@statestreet.com** by the 23rd calendar day (or next business day if a weekend) identifying any discrepancies or stating that no discrepancies were found. In addition, a representative from State Street will contact the Manager to confirm preliminary month-to-date performance prior to month-end.~~

~~The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. If State Street Bank is unable to get a price for a particular security, price requests will be sent to the Manager on the last five (5) business days of each month. The Manager must **return these pricing requests by 5:00 PM EST** on each of the last five business days to facilitate timely valuation of the Account. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.~~

The Manager shall assist in account reconciliation as follows:

(a) To ensure fast, accurate month-end reporting, the Manager is required to complete two forms each month (copies are attached):

(1) Mid-Month Share and Pricing Reconciliation – the Manager must reconcile with the custodial bank using State Street's Insight or Global Quest systems. The date of the reconciliation must be as of the business day closest to the 21st calendar day. The reconciliation will include a comparison of the number of shares for each security and an identification of security price differences of 5% or greater at the security level. The Manager must email the completed reconciliation form (copy attached) to minnrecon@statestreet.com no later than the business day closest to the 23rd calendar day. On this form, the Manager must note all discrepancies or positively state that there are no discrepancies.

(2) Performance & Net Asset Value Comparison – the Manager must provide preliminary net asset values and month-to-date performance as of the close of business on the 4th business day prior to month-end. The completed form must be emailed to minnrecon@statestreet.com no later than the 3rd business day prior to month-end.

(b) The Manager must report all trades to the SBI's custodian bank via facsimile or affirmation by Trade Date + 1 at 11:00 AM EST. For same day settlement trades, the deadline is 10:30 AM EST. Any trades after these deadlines should not be sent until the following day to ensure a smooth and accurate pricing process.

(c) The account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the custodian bank. If the custodian bank is unable to get a price for a particular security, price requests will be sent to the Manager during the last five business days of each month. The Manager must return these pricing requests by 5:00 PM EST on the day received to facilitate timely valuation of the Account The Manager may appeal to the SBI if the Manager and custodian bank cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager must report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

10. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director ~~SBI~~, in writing, if ~~these~~ the Manager becomes aware of any violations of these guidelines ~~are violated in any way~~.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

11. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ________________	Date ________________

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
INTERNAL SHORT-TERM CORPORATE FIXED-INCOME

The investment actions of the State Board of Investment (SBI) internal short-term corporate fixed-income manager will be governed and evaluated using the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the fund is to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolio is expected to deliver annualized returns that beat the benchmark over time.

2. BENCHMARKS

The benchmark is the Lehman 1-3 year government treasury index. SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The investments must satisfy the following criteria:

(a) The Manager may invest funds in fixed income securities with one to three years remaining to maturity and issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any providence thereof provided that:

  (1) The principal and interest of obligations of corporations incorporated or organized under the laws of the United States or any state, or the Dominion of Canada or any providence thereof shall be payable in United States dollars; and

  (2) obligations shall be A+/A1 rated or better by two nationally recognized rating organizations.

(b) Yankee corporate bonds with one to three years remaining to maturity, encompassing those foreign-domiciled issuers who borrow U.S. dollars and pay in U.S. dollars, and A+/A1-rated or better, by two nationally recognized rating organizations.

(c) Euro-dollar corporate obligations with one to three years remaining to maturity denominated in U.S. dollars and are A+/A1-rated or better by two nationally recognized rating organizations.

(d) Up to 20% of the portfolio may be invested in U.S. dollar-denominated yankee or euro-dollar securities;

(e) Cash will be swept to the ITC fund.

(f) No one issuer may exceed 10% of the portfolio's total value.

4. IMPLEMENTATION

(a) The Manager is required to limit capital realized net daily gains and losses to not more than 10% of the daily cash income distribution of the Invested Treasurer's Cash Pool unless prior permission of the Head of Short-Term Trading and either the SBI Executive Director or Assistant Executive Director has been received.

(b) Manager must have a clear description of a security before purchase. Manager must be able to certify daily the exact principal outstanding, the interest rate and the calculation method for each security.

(c) Portfolio duration will deviate no more than +/-.2 years from the benchmark.

5. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

6. COMMUNICATION

On a monthly basis the Manager will meet with the Short-Term Traders to discuss cash flows and other relevant issues. The Manager is expected to report monthly on returns and portfolio statistics to the Director / and Assistant Director. In addition, Manager will meet with the Executive Director / and Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

7. CUSTODY OF ASSETS

All assets will be held in custody by the State's custodial bank. All securities held in the portfolio must be capable of being priced by the custodian on a daily basis.

8. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the Executive Director or Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~8.~~ 9. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised. ~~December 2001~~ March 2003

Executive Director/ Assistant Executive Director	Firm Representative
____________________	____________________
Date ________________	Date ________________

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
INTERNAL POOLED CASH MANAGEMENT

The investment actions of the Minnesota State Board of Investment (SBI) internal pooled cash manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the funds are to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolios are expected to deliver annualized returns in excess of the benchmark return over time.

2. INVESTED TREASURER'S CASH FUND BENCHAMRK

The major cash pool, the Invested Treasurer's Cash Fund, is evaluated against a blended benchmark. Currently that benchmark is composed of the Lehman 1-3 Year Government Bond Index (currently $0) and the balance of the portfolio will be measured against the IBC All Taxable Money Fund Average Index. SBI reserves the right to change the benchmark upon notification to the Manager. Other cash portfolios are difficult to evaluate due to their unique purposes and funding requirements.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may hold only fixed income investments that meet the criteria in *Minnesota Statutes,* section 11A.24. References to quality categories of rating organizations do not include modifiers that may be used within categories. The investments must satisfy the following criteria and constraints listed below:

a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by the full faith and credit of the Government. The obligations in which the Board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank of Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

b) U.S. and Canadian corporate obligations, including private placements, must be payable in U.S. dollars and be rated in the top three long term debt quality categories by a nationally recognized statistical rating organization (NRSRO).

c) Bankers acceptances and deposit notes of U.S. banks rated in the top three deposit quality categories by a NRSRO.

d) Commercial paper, including asset backed commercial paper and rated private placement commercial paper, of U.S. corporations or their Canadian subsidiaries rated in the top commercial paper quality category by a NRSRO. The Manager shall not hold at time of purchase more than the lesser of 10 percent of the issuers total outstanding commercial paper or 5% of the market value of the portfolio in one issuer.

e) Asset backed securities, including private placements, that are U.S. dollar denominated and rated in the top two long term debt quality categories by a NRSRO.

f) Repurchase agreements must be backed by collateral meeting the requirements of *Minnesota Statutes,* section 11A.24 and:

   1. With a dealer, the dealer must be a primary dealer recognized by the New York Federal Reserve Bank, and:

      a) if done on a tri-party basis, the dealer must have short-term obligation ratings no lower than A2/P2.

      b) if done on a hold in custody basis, the dealer must have short-term obligation ratings no lower than A1/P1 and have net excess regulatory capital of at least $200 million.

   2. With a bank, the bank must have deposit ratings of A1/P1 and be among the largest one hundred banks as rated by deposits.

   3. If collateral is delivered to the state's federal reserve account, the counterparty may be any federally regulated bank or dealer.

g) Mortgage securities that are U.S. dollar denominated and rated in the top three categories by a NRSRO.

h) International securities must be payable in U.S. dollars and must meet the same quality criteria as domestic securities.

i) The Cash Pools may not hold a security that exceeds five years to its final legal maturity.

j) The Cash Pools may not hold structured securities that are leveraged or tied to more than one index.

In aggregate, the investments must satisfy the following constraints:

a) A portfolio must not be leveraged.

b) Up to 20 percent of a portfolio may be invested in international securities.

c) Up to 5 percent of a portfolio may exceed three years to maturity.

4. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with the Executive Director or Assistant Executive Director quarterly to review the results of the Manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

5. SEPARATE ACCOUNT

The SBI's portfolio will be managed as a separate account. All assets will be held in custody by the SBI's custodian bank.

6. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI Executive Director and Assistant Executive Director, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

7. FUTURE MODIFICAITONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised March 2003

Executive Director/ Assistant Executive Director	Firm Representative
______________________	______________________
Date ____________________	Date ____________________

Investment Manager Guidelines

Stable Asset Manager

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EXTERNAL STABLE ASSET MANAGER

The investment actions of State Board of Investment (SBI) external stable asset manager will be governed and evaluated using the following guidelines:

1. INVESTMENT OBJECTIVES

The Manager's portfolio is expected to:

- preserve principal
- provide adequate liquidity for inter-fund transfers and withdrawals
- achieve market returns over the benchmark while controlling investment return volatility within acceptable limits

The Manager is expected to deliver cumulative returns in excess of the returns of the benchmark, over time, net of fees and expenses.

2. BENCHMARKS

The Manager's portfolio is compared to the average yield of the rolling three-year Constant Maturity Treasury (CMT) security plus 45 basis points.

The Manager's portfolio will maintain a minimum average credit quality rating of AA for contract issues and AA- for securities underlying alternative investment contracts.

3. ACCEPTABLE INVESTMENTS

The Manager may trade high quality fixed income securities, cash equivalents and investment contracts that have a stated maturity and that satisfy the following constraints and criteria:

(a) Guaranteed Investment Contracts/Bank Investment Contracts: Investment contracts issued by banks or insurance companies must be from a financial institution that has at the time of issuance a credit rating of at least AA- with Standard & Poor's or at least AA3 with Moody's, and the contract may have a maturity of no more than five years.

(b) Separate Account Contracts: Separate account contracts issued by insurance companies, in which the assets are held in a separate account of the issuer and are protected from other creditors of the company must be issued by an insurance company on the Manager's approved list at the time of issuance.

The maturity of such contract may not exceed five years, and the underlying assets must satisfy the provisions of *Minnesota Statutes* 11A.24 and the criteria described elsewhere in this section.

(c) Security-Backed Investment Contracts: Security-backed investment contracts (wrappers) must provide benefit responsiveness, be issued by financial institutions or other corporations that are rated at least A+ and have an average maturity of no more than seven years. Fixed income securities purchased by the Manager which underlie these contracts must be rated AAA or better if a single security is used or must have an average portfolio rating of AA- or higher for multiple security portfolios. All securities must individually satisfy the provisions of Minnesota Statutes, section 11A.24 and the criteria outlined under "Acceptable Underlying Assets"

(d) Acceptable Underlying Assets of security-backed investment contracts are:

(1) Treasury Securities.
(2) Agency Obligations, including mortgage pass-through securities and mortgage-backed securities backed by U.S. agencies but not including interest-only, principal-only, or inverse floater instruments.
(3) Asset Backed Securities rated in the highest two rating categories.
(4) Other Fixed Income Securities must be rated A or better and be publicly traded, or AAA if used in a single security contract.

(e) Short-Term Investments with maturities no longer than twelve months must comply with the provisions of *Minnesota Statutes*, section 11A.24, subdivision 4.

(f) The Manager may hold units of the Wells Fargo Stable Return Fund for EBT (Stable Return Fund) up to a maximum of 25 percent of the portfolio. The Stable Return Fund should serve as a buffer fund to provide liquidity for participant withdrawals and contributions. Cash equivalents (short-term investments) should be minimal and should not exceed 3 percent of the portfolio.

(g) The Manager may not invest in evergreen investment contracts that have no fixed maturity nor in actively managed security-backed investment contracts that are actively managed by another manager.

4. PERFORMANCE EVALUATION

~~Manager performance is evaluated in terms of excess returns of monthly portfolio returns, and the continuity of the Manager's organization relative to the portfolio.~~ <u>Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines,</u>

which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. PORTFOLIO CONSIDERATIONS

(a) Credit, Risk and Diversification

The average quality of the instruments held in the portfolio will be at least AA. The average quality of securities underlying security-backed contracts will be at least AA-. The Manager will use its internal credit review process to determine acceptable contract issuers. No more than 7.5 percent of the portfolio may be invested with or guaranteed by any one financial institution measured on the basis of net principal exposure to the institution.

(b) Weighted Average Maturity

The weighted average maturity of the total portfolio must be at least 2 years and no more than 3.5 years.

(c) Legal Review

The Manager will perform any needed legal review of investment contracts as part of its investment product review.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the Manager Continuation Policy, within twelve (12) business days after quarter-end ~~on a quarterly basis~~. The commentary will summarize performance results over the most recent quarter and year, discuss ~~future~~ current investment strategy, ~~highlight~~ discuss all organizational changes ~~that may impact~~ affecting the management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager may not commence or file any litigation on behalf of the SBI including class action lawsuits. The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. ACCOUNT RECONCILIATION

The SBI's custodian bank will set book values for portfolio investments and such values will be used to measure performance of the SBI's portfolio. The Manager will provide all information requested by the SBI's custodian bank and will transmit values for its Stable Return Fund. The Manager agrees to accept the values established by the custodian. The Manager will review the custodian's values on a monthly basis and report any differences or discrepancies to the custodian. The Manager may appeal to the SBI if the Manager and the custodian cannot arrive at mutually agreeable values. At the end of the each quarter, the Manager will report to the SBI that the Manager agrees with the custodian's values for the quarter.

8. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if the Manager becomes aware of any violations of these guidelines.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

~~8.~~ 9. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to ensure that the Manager is in compliance with Minnesota statutes and SBI policy. The Manager will be notified in advance of changes to these guidelines.

Revised ~~July 2002~~ March 2003

Executive Director/
Assistant Executive Director

Firm Representative

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Date _______________________

Date _______________________

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Fourth Quarter, 2002

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 2002

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active Managers												
Alliance Capital	2 9	8 3	-26.8	-24 0	-18 3	-17 0	2 4	0 6	15 1	10 8	$782 4	5 1%
Cohen, Klingenstein & Marks	9 9	11 7	-35.0	-23 8	-22.9	-15 9	-4 6	0.1	7 5	9 4	$418 7	2 7%
Forstmann-Leff	-0 1	7 2	-36.0	-21.0	-20 5	-3 1	-1 9	3 8	10 6	11 1	$430 6	2 8%
Franklin Portfolio	2 6	10 3	-25 4	-19 8	-11.8	-8 7	-0 9	0 9	10 7	10 4	$561.2	3 6%
GeoCapital	9 8	15 6	-31 5	-23 2	-27 9	-13 1	-8 5	-4 0	6 1	8 4	$216 8	1 4%
Lincoln	7 6	9 2	-26 3	-26.3	-26 4	-23 1	-6 4	-3 2	6 2	8 2	$429 8	2 8%
New Amsterdam Partners	7 0	6 9	-17 5	-22.2	-2 8	-6 0	5 9	5 4	12 8	12.1	$285 1	1 8%
Oppenheimer	9.2	8.9	-15.5	-20 7	-4.4	-7 5	3 3	2 5	12 2	10 6	$683 4	4 4%
UBS Global	9 9	8 8	-14 7	-20 6	-2 4	-11 2	-0 1	0 2	9 5	9 1	$686 1	4.5%
Emerging Managers (2)	6 8	7.7	-23 1	-18.5	-12.7	-5 8	0 9	5 3	9 5	12 6	$568 8	3 7%
Semi-Passive Managers												
Barclays Global Investors	9 0	8 4	-19 1	-19 7	-13 7	-15 4	-2 3	-2 7	9.5	8 8	$2,140 2	13 9%
Franklin Portfolio	7 4	8 4	-20 2	-19.7	-15.2	-15 4	-3 3	-2 7	8 4	8 8	$1,362 6	8 8%
JP Morgan	7.9	8 4	-21 8	-19.7	-14 9	-15.4	-2 6	-2.7	8 8	8 8	$1,880 3	12 2%
Passive Manager												
Barclays Global Investors	8 1	8 1	-21.4	-21 5	-14 5	-14 9	-1 0	-1 2	7 6	7 4	$4,968 4	32 2%
									Since 1/1/84			
Current Aggregate	7 5	8 6	-22 4	-21.1	-14.8	-14 0	-0 6	-0 8	12.6	10 5	$15,414 4	100 0%
Historical Aggregate (3)	**7.5**	**8.6**	**-22.4**	**-21.1**	**-15.0**	**-14.1**	**-1.7**	**-1.0**	**10.9**	**11.2**		
Wilshire 5000 Investable (4)		8 1		-21 5		-14 8		-1 4		11 1		
Wilshire 5000		7 8		-20 9		-14 4		-0 9		11 4		

(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) Includes the performance of terminated managers
(4) Restated to incorporate the Wilshire 5000 Investable Index beginning 7/1/99
From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments
Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions, which included liquor and tobacco, American Home Products and South Africa

ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Jack Koltes | **Assets Under Management: $782,403,949**

Investment Philosophy

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

Staff Comments

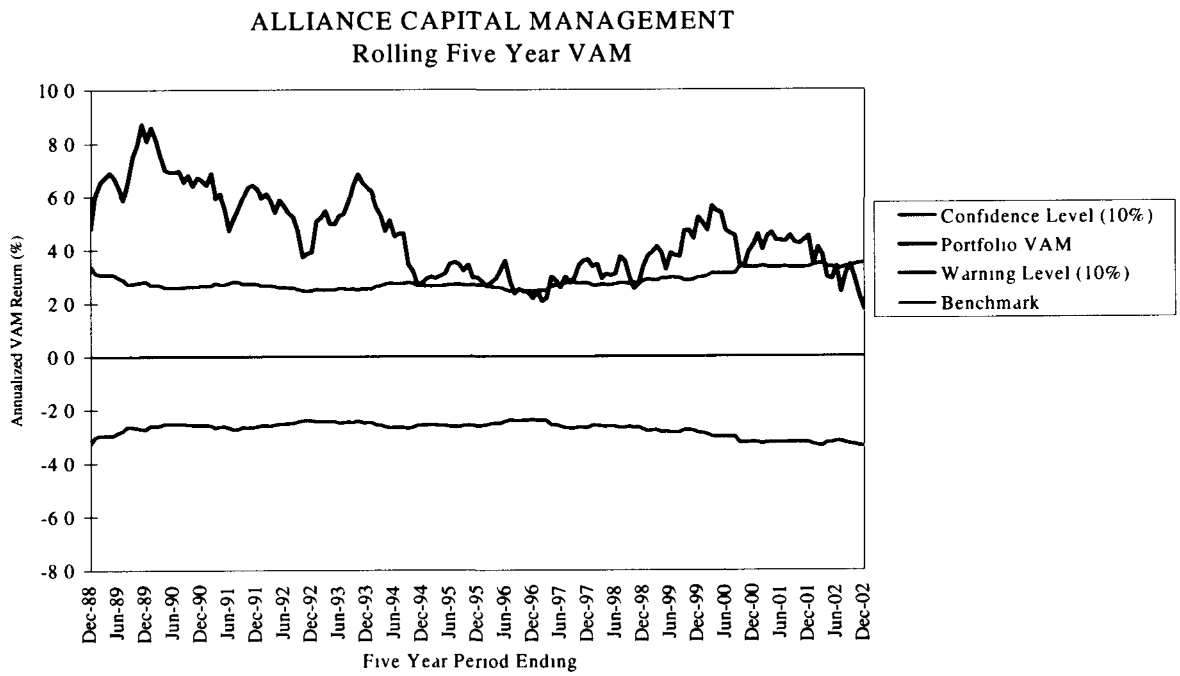
Alliance experienced its worst relative quarter in several years as the firm held Tenet Healthcare, a target of an investigation over Medicare payments. A large underweight to technology also hurt results during the quarter. In addition, poor quality and low priced stocks performed exceptionally well during the quarter. Alliance is a manager that favors high quality growth companies, so their performance suffered during this period. Over the past year, Tenet as well as General Electric and Tyco were the largest detractors from performance. The large underweight to technology, maintained throughout the year, was a large contributor to performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	8.3%
Last 1 year	-26.8	-24.0
Last 2 years	-20.6	-19.7
Last 3 years	-18.3	-17.0
Last 4 years	-6.9	-7.1
Last 5 years	2.4	0.6
Since Inception (1/84)	15.1	10.8

Recommendation

No action required.



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2002

Portfolio Manager: George Cohen **Assets Under Management: $418,728,182**

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 lagged the benchmark during the quarter and past year. During the quarter, a small cash allocation was the largest detractor A position in Coca-Cola also hurt results. Cohen's overweight to technology, in place since early 2001 based on Cohen's prediction for a technology led recovery, helped during the quarter, but significantly detracted over the past year as the sector under performed Cohen's stock selection in this area also detracted for the year The firm's Worldcom position cost nearly 400 basis points in relative performance over the past year

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9 9%	11.7%
Last 1 Year	-35 0	-23.8
Last 2 Years	-30.2	-17 7
Last 3 Years	-22.9	-15.9
Last 4 Years	-13.1	-6 5
Last 5 Years	-4.6	0.1
Since Inception (4/94)	7.5	9 4

Recommendation

No action required

COHEN KLINGENSTEIN & MARKS
Rolling Five Year VAM

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

FORSTMANN-LEFF ASSOCIATES
Periods Ending December, 2002

Portfolio Manager: Bill Harnisch | **Assets Under Management: $430,574,678**

Investment Philosophy

Forstmann-Leff is a classic example of a "rotational" manager. The firm focuses initially on 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.

Staff Comments

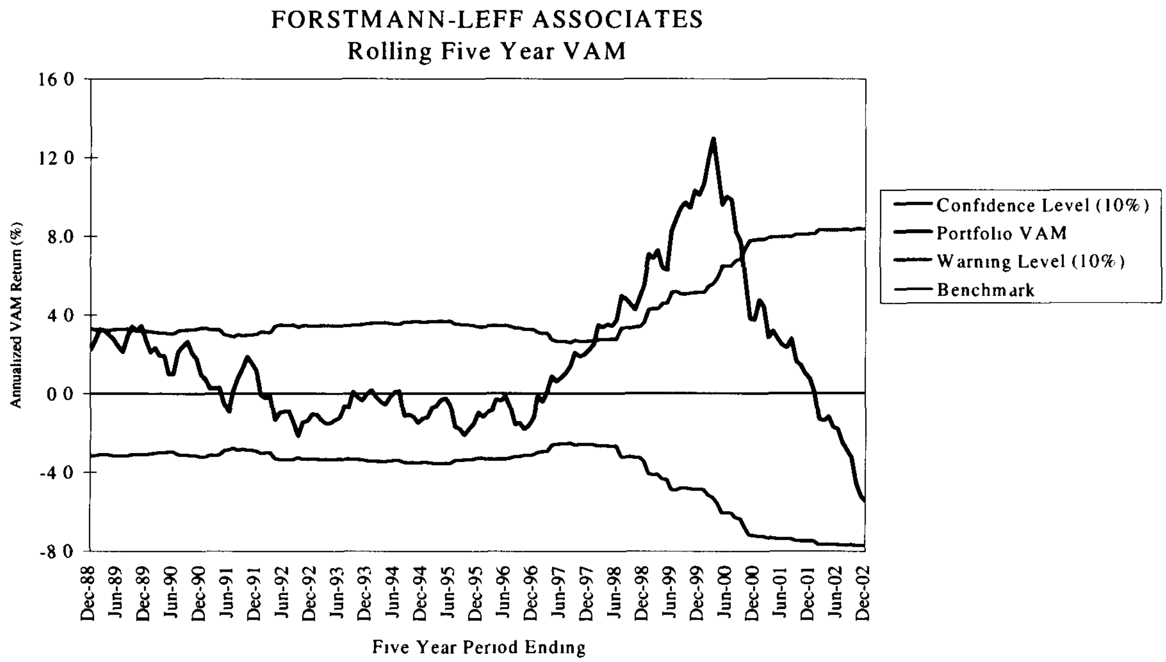
Forstmann under performed across several sectors due to sector allocation decisions and stock selection. A position in Tenet was particularly damaging, detracting 200 basis points of relative performance. Over the past year, the healthcare, technology, and consumer discretionary sectors were the source of almost all the under performance. Positions in HealthSouth and Tenet detracted the most as both companies faced investigations and an unfavorable federal ruling on Medicare payments.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	7.2%
Last 1 year	-36.0	-21.0
Last 2 years	-24.3	-12.2
Last 3 years	-20.5	-3.1
Last 4 years	-8.7	2.3
Last 5 years	-1.9	3.8
Since Inception (1/84)	10.6	11.1

Recommendation

No action required.



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2002

Portfolio Manager: John Cone **Assets Under Management: $561,194,874**

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

Staff met recently with Franklin to discuss performance and their current research efforts Franklin significantly under performed during the quarter. Their value and momentum models did not favor companies with deteriorating fundamentals and low quality balance sheets, exactly the companies that performed exceptionally well during the fourth quarter

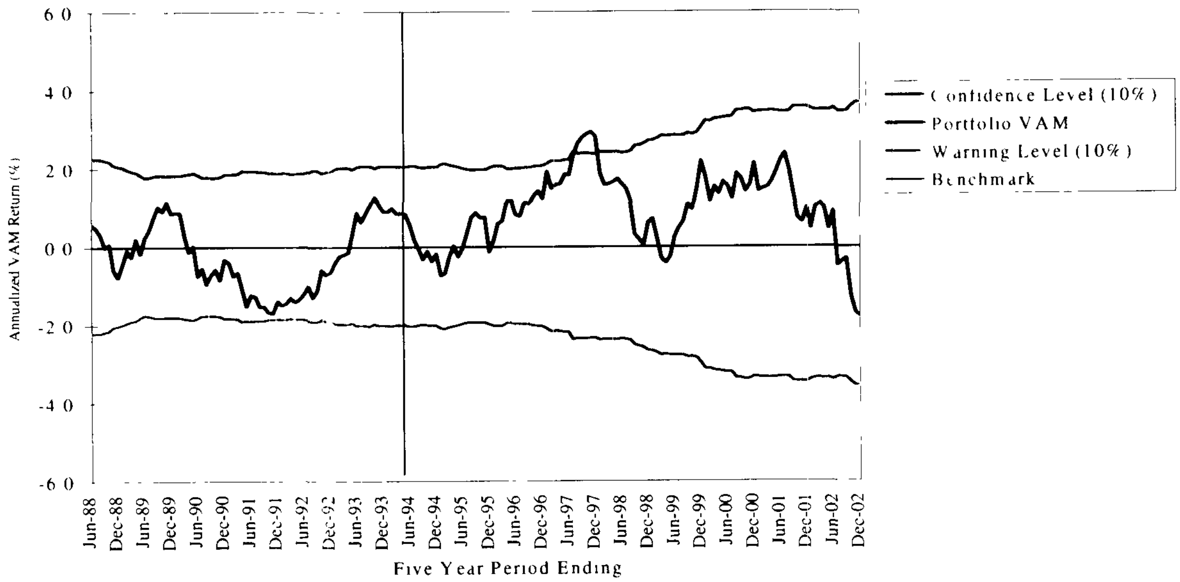
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2 6%	10 3%
Last 1 year	-25.4	-19.8
Last 2 years	-16 5	-12.9
Last 3 years	-11.8	-8 7
Last 4 years	-3 6	-3.0
Last 5 years	-0 9	0.9
Since Inception (4/89)	10.7	10 4

Recommendation

No action required

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



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

GEOCAPITAL CORP.
Periods Ending December, 2002

Portfolio Manager: Barry Fingerhut **Assets Under Management: $216,795,749**

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

Staff met with GeoCapital recently to discuss their performance and receive an update on the organization. The organization has been stable, and their process remains bottom up with significant time and effort spent with corporate managements to understand their strategic, financial and management strengths. They focus on emerging growth/technology and special situation investments.

During the quarter, the portfolio trailed the benchmark due to stock selection across the technology, consumer discretionary, and energy sectors. Over the past year, stock selection was poor in technology, consumer discretionary, and financials with positive selection in energy helping results.

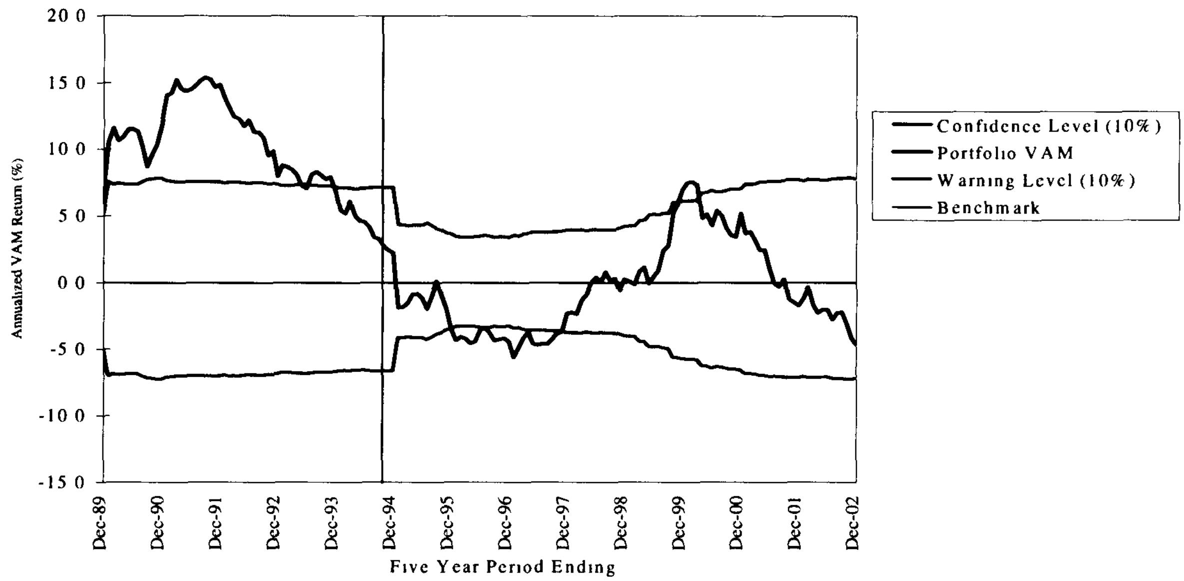
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.8%	15.6%
Last 1 year	-31.5	-23.2
Last 2 years	-27.9	-13.1
Last 3 years	-27.9	-13.1
Last 4 years	-12.0	-4.7
Last 5 years	-8.5	-4.0
Since Inception (4/90)	6.1	8.4

Recommendation

No action required.

GEOCAPITAL CORP
Rolling Five Year VAM



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, 2002

Portfolio Manager: David Fowler **Assets Under Management: $429,752,496**

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

Staff met with several members of Lincoln during the quarter to discuss the long anticipated sale of the firm. Lincoln's fixed income business was sold, while the equity team is now an independent entity, employee owned, and re-capitalized. Lincoln is planning to replace two analysts lost in the fourth quarter.

Lincoln's performance for the quarter slightly lagged the benchmark, while they have matched the benchmark over the past year.

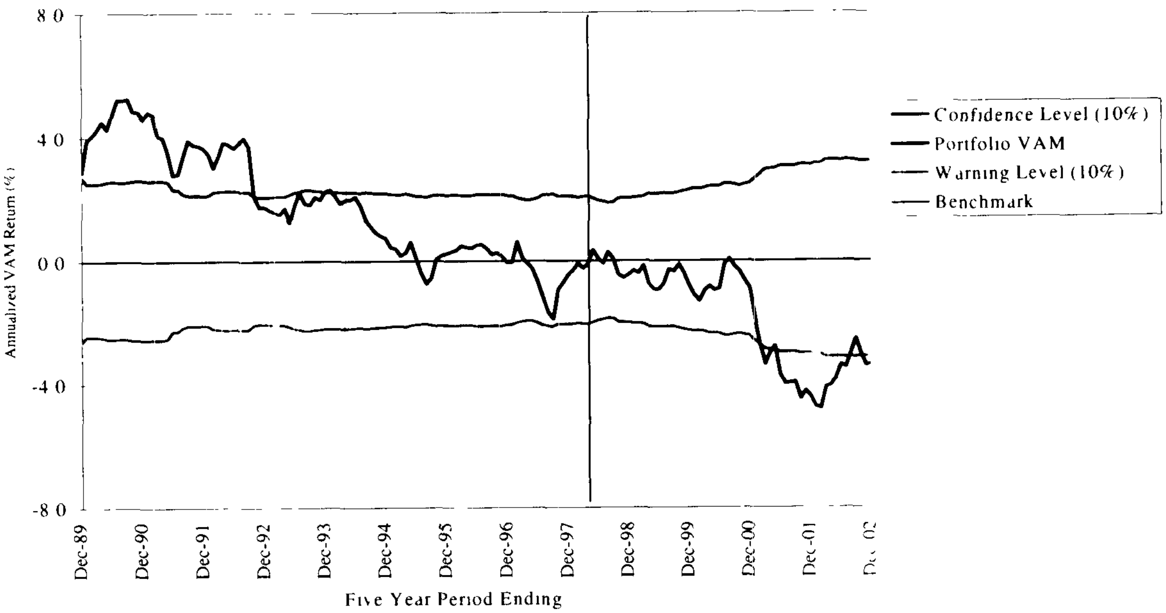
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.6%	9.2%
Last 1 year	-26.3	-26.3
Last 2 years	-28.4	-22.3
Last 3 years	-26.4	-23.1
Last 4 years	-15.7	-12.4
Last 5 years	-6.4	-3.2
Since Inception (7/93)	6.2	8.2

Recommendation

We continue to monitor the firm very closely.

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

NEW AMSTERDAM PARTNERS
Periods Ending December, 2002

Portfolio Manager: Michelle Clayman | **Assets Under Management: $285,107,584**

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

New Amsterdam beat the index over the past quarter and year. Positive stock selection in financials, materials and processing offset weak results in consumer staples and technology. Over the past year, stock selection and sector allocations contributed to positive relative performance. Though New Amsterdam does not make sector bets, their fundamental analysis will lead them to over or under weight sectors at various times.

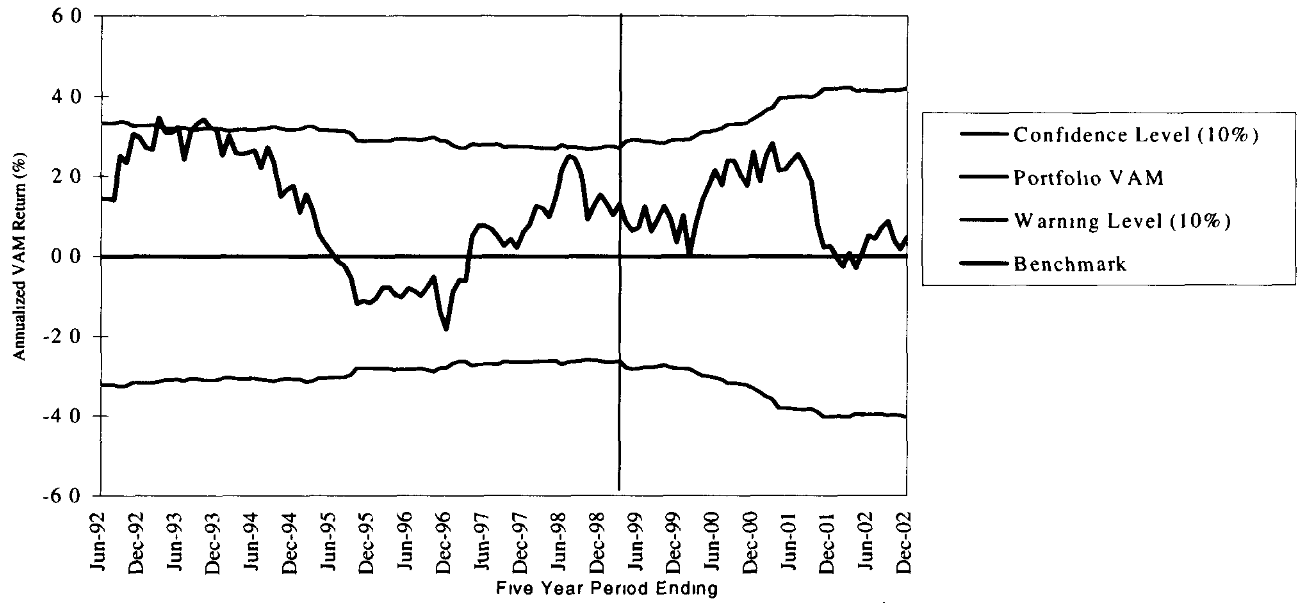
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.0%	6.9%
Last 1 Year	-17.5	-22.2
Last 2 Years	-10.7	-10.2
Last 3 Years	-2.8	-6.0
Last 4 Years	1.4	2.4
Last 5 Years	5.9	5.4
Since Inception (4/94)	12.8	12.1

Recommendation

No action required.

NEW AMSTERDAM PARTNERS
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, 2002

Portfolio Manager: John Lindenthal | **Assets Under Management: $683,352,429**

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

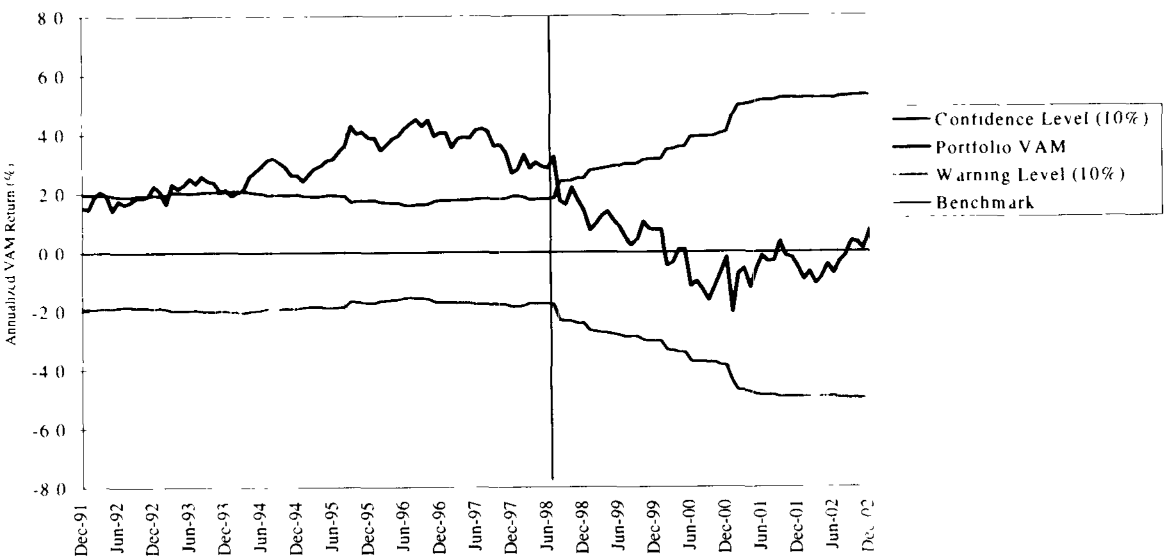
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9 2%	8.9%
Last 1 year	-15 5	-20.7
Last 2 years	-11 4	-15 3
Last 3 years	-4 4	-7.5
Last 4 years	-0 8	-2.3
Last 5 years	3 3	2 5
Since Inception (7/93)	12 2	10 6

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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2002

Portfolio Manager: John Leonard | **Assets Under Management: $686,147,854**

Investment Philosophy

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

Staff Comments

No comments at this time.

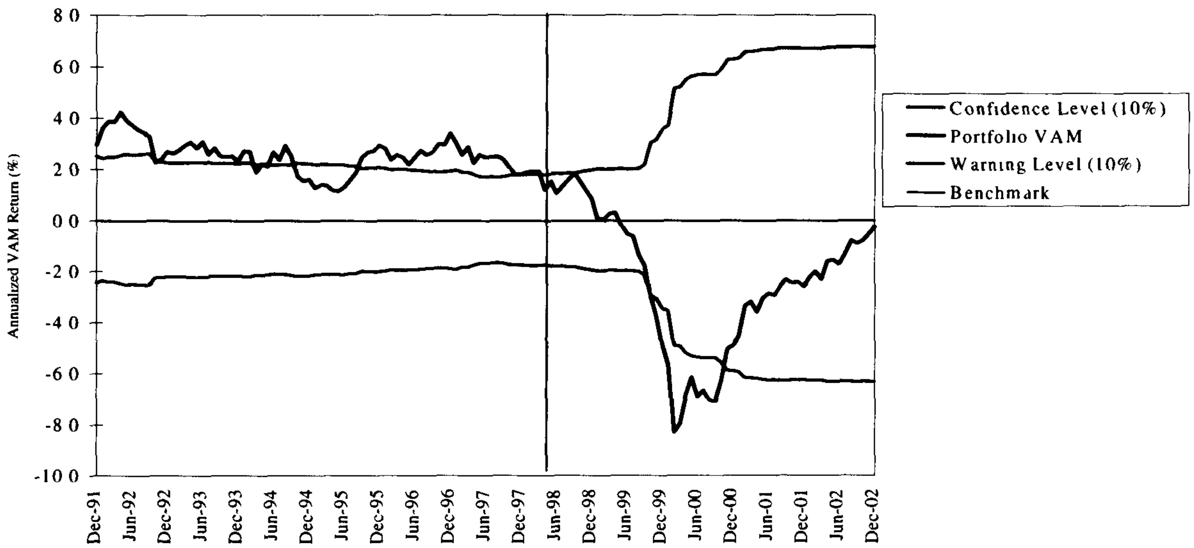
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.9%	8.8%
Last 1 year	-14.7	-20.6
Last 2 years	-5.3	-15.9
Last 3 years	-2.4	-11.2
Last 4 years	-4.0	-4.0
Last 5 years	-0.1	0.2
Since Inception (7/93)	9.5	9.1

Recommendation

No action required.

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM



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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2002

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,140,185,881**

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

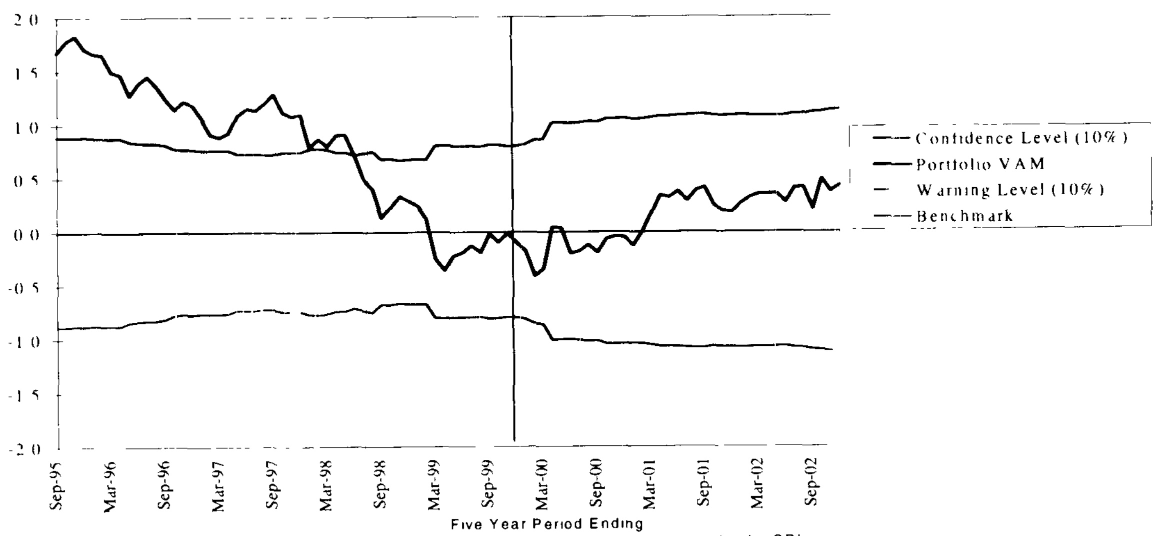
	Actual	Benchmark*
Last Quarter	9 0%	8.4%
Last 1 year	-19 1	-19.7
Last 2 years	-13.6	-14 9
Last 3 years	-13.7	-15 4
Last 4 years	-7 4	-8.3
Last 5 years	-2.3	-2 7
Since Inception (1/95)	9.5	8 8

* Completeness Fund

Recommendation

No action required

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
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, 2002

Portfolio Manager: John Cone **Assets Under Management: $1,362,646,590**

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

Staff met with Franklin to discuss organizational and performance issues. The firm lost a portfolio manager to a promotion within the parent company as CEO of Mellon Global Investors – Japan. They will be replacing him in the next quarter or so. Staff does not believe this change will adversely affect our portfolio.

The portfolio under performed during the quarter, as their value and momentum models did not favor companies with deteriorating fundamentals and low quality balance sheets, exactly the companies that performed exceptionally well during the fourth quarter.

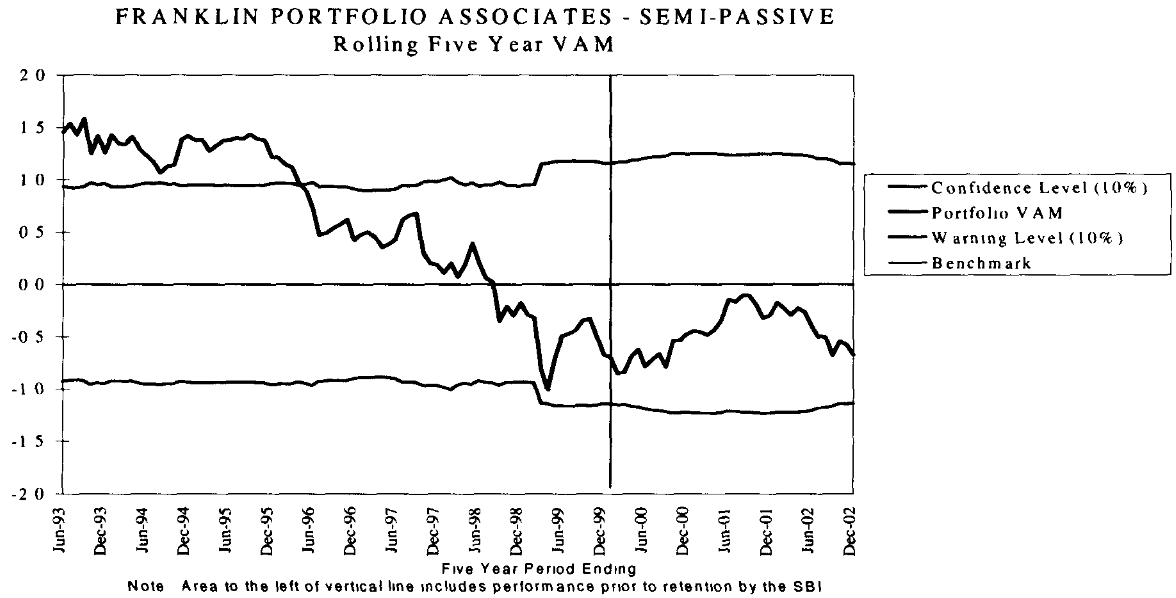
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	7.4%	8.4%
Last 1 year	-20.2	-19.7
Last 2 years	-14.8	-14.9
Last 3 years	-15.2	-15.4
Last 4 years	-8.9	-8.3
Last 5 years	-3.3	-2.7
Since Inception (1/95)	8.4	8.8

* Completeness Fund

Recommendation

No action required.



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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending December, 2002

Portfolio Manager: Tim Devlin **Assets Under Management: $1,880,283,047**

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

Staff met recently with JP Morgan to review the organization and recent performance The firm has had modest turnover in their analyst staff, but most of the 20 fundamental analysts have been with the firm 3+ years. They continue to apply their process, which did not work particularly well in 2002. They overweight stocks with higher long-term earnings growth expectations at attractive prices. As the stock price drops the stock becomes more attractive. so they buy more of it. If the price continues to decline. performance is hurt.

During the quarter and past year the firm slightly under performed on negative stock selection

Quantitative Evaluation

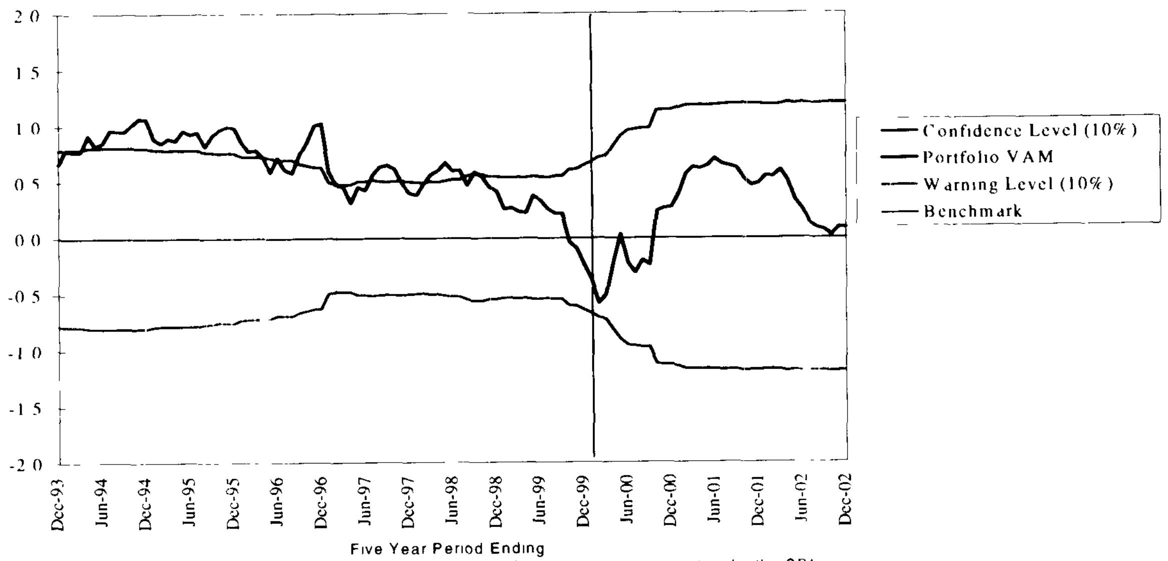
	Actual	Benchmark*
Last Quarter	7.9%	8.4%
Last 1 year	-21 8	-19 7
Last 2 years	-15 5	-14.9
Last 3 years	-14 9	-15.4
Last 4 years	-8 4	-8 3
Last 5 years	-2.6	-2 7
Since Inception (1/95)	8.8	8.8

* Completeness Fund

Recommendation

No action required

JP MORGAN - SEMI-PASSIVE
Rolling Five Year VAM



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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2002

Portfolio Manager: Amy Schioldager | **Assets Under Management: $4,968,357,638**

Investment Philosophy
Passive

Barclays Global Investors passively manages the portfolio against the Wilshire 5000 Investable by minimizing tracking error and trading costs, and maximizing control over all investment and operational risks. Their strategy is to invest across the broad market while excluding smaller, illiquid securities from the investment universe. An optimized approach is taken to security selection. The optimizer weighs the cost of a trade against its contribution to expected tracking error to determine which trades should be executed.

Staff Comments

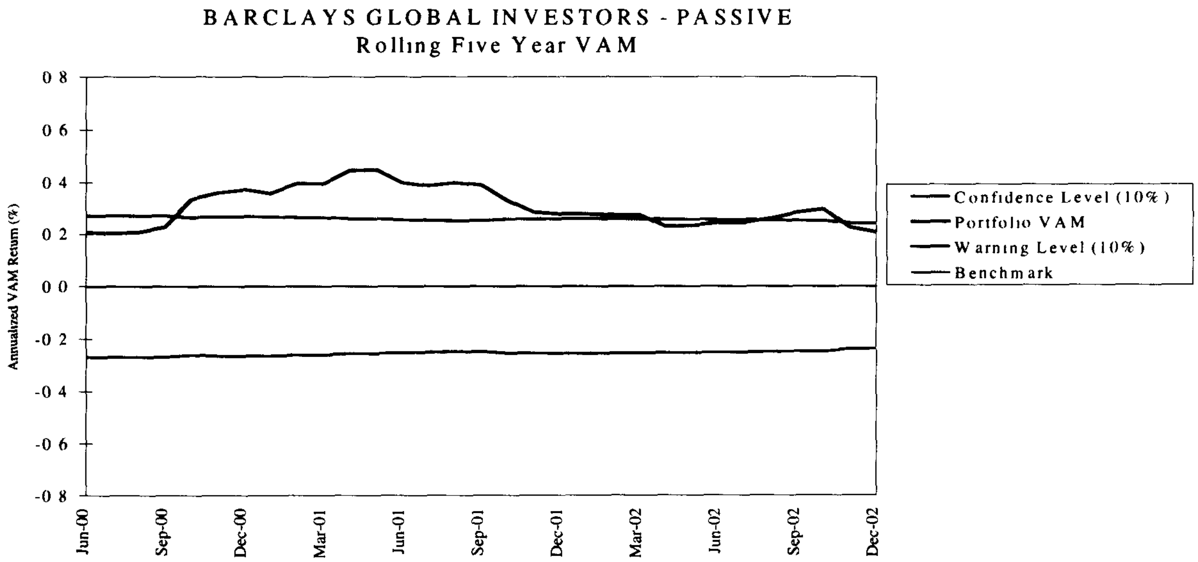
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.1%	8.1%
Last 1 year	-21.4	-21.5
Last 2 years	-16.8	-16.7
Last 3 years	-14.5	-14.9
Last 4 years	-6.3	-6.6
Last 5 years	-1.0	-1.2
Since Inception (7/95)	7.6	7.4

Recommendation

No action required.



STATE BOARD
OF INVESTMENT

Emerging
Stock
Manager
Evaluation
Reports

Fourth Quarter, 2002

COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending December, 2002

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (1) Actual %	Since Inception (1) Bmk %	Market Value (in millions)	Pool %
Active Managers												
Artemis	6.8	4.5	-21.5	-20 5					-16.2	-7.9	$32.3	5.7%
Bay Isle Financial	3.0	7.8	-26.1	-17 2					-11.3	-6.6	$37.1	6.5%
Earnest Partners	7 6	10 1	-18.1	-11.6					-10.2	4 7	$38 5	6 8%
Holt-Smith & Yates	7.8	8.2	-28.0	-19.0					-15.3	-7.2	$33.4	5.9%
Next Century Growth	-0.9	9 9	-33.3	-27.8					-30 3	-21.3	$20.5	3.6%
Peregrine Capital	9 9	6.4	-8.1	-6 9					10.2	12.5	$116 4	20.5%
Valenzuela Capital	0.4	7.8	-17.6	-11.2	-3.3	2.1	-3.4	2.5	8.4	10 4	$60.6	10.7%
Voyageur-Chicago Equity	4.0	4.8	-20.6	-20.7					-14.3	-16.0	$34 5	6.1%
Winslow-Small Cap	11.7	8 4	-25.0	-26.7					-16.9	-17.3	$110.8	19.5%
Zevenbergen Capital	5 5	8.6	-36.2	-24.2	-34.6	-15.1	-3.4	4 6	6 7	12.0	$84.7	14.9%
											$568.8	**100.0%**
									Since 4/1/94			
Current Aggregate	6.8	7.7	-23.1	-18 5	-14.5	-6.1	2.3	5 8	11.1	12 5		
Historical Aggregate (2)	**6.8**	**7.7**	**-23.1**	**-18.5**	**-12.7**	**-5.8**	**0.9**	**5.3**	**9.5**	**12.6**		

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

(2) Includes the performance of terminated managers.

ARTEMIS INVESTMENT MANAGEMENT, LLC

Periods Ending December, 2002

Portfolio Manager: Joyce Capuano **Assets Under Management: $32,330,209**

Investment Philosophy

Artemis believes that excess rates of return above benchmark indices are derived from investments in companies that initiate and embrace change in their businesses. They want to identify those small cap companies that they believe (1) have catalysts that can accelerate future earnings and cash flow growth rates; and (2) are attractively valued relative to their respective peer groups. In order to implement their investment philosophy, they use relative value analysis, which is a bottom-up, stock picking approach driven by fundamental research and frequent meetings with company managements. The portfolio is diversified in terms of growth rates and opportunities for exposure in all economic sectors.

Staff Comments

Artemis out performed their benchmark for the quarter on a mix of sector allocation and stock selection. Although Artemis does not make intentional sector bets, they will deviate from benchmark sector weights based on their fundamental work. Positive stock selection within the consumer staples, consumer discretionary, and energy contributed to results for the quarter. These results were offset by stock selection within technology and a small cash position held throughout the quarter.

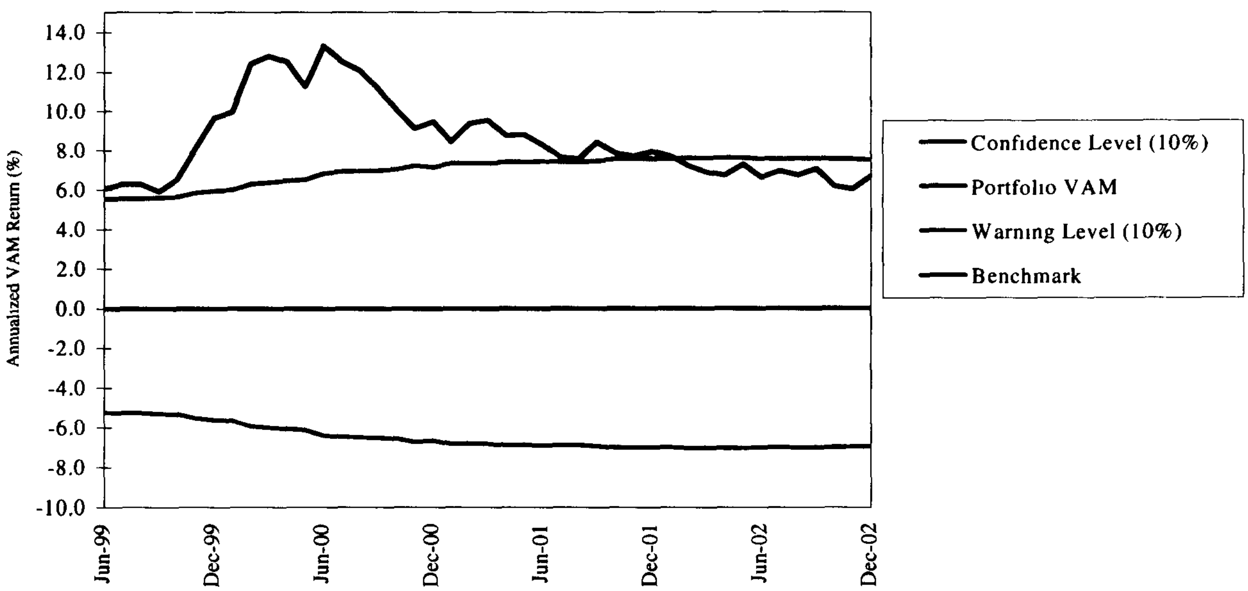
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.8%	4.5%
Last 1 Year	-21.5	-20.5
Last 2 Years	-8.9	-5.7
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-16.2	-7.9

Recommendation

No action required.

Artemis Investment Management
Rolling Five Year VAM



BAY ISLE FINANCIAL CORP.
Periods Ending December, 2002

Portfolio Manager: William Schaff **Assets Under Management: $37,066,148**

Investment Philosophy

Bay Isle Financial believes that companies with strong fundamentals and management will outperform and that these companies can be found at a discount to fair value. To capitalize on these ideas, they perform rigorous fundamental analysis on cash flow growth and balance sheet strength and evaluate a company's business, major competitors and management strength. Bay Isle closely monitors risk levels relative to the benchmark and the portfolio is diversified across most industry sectors.

Staff Comments

Bay Isle lagged the benchmark during the quarter on both negative sector allocations and stock selection Lower than benchmark weightings in technology and telecom, based on Bay Isle's view of continued business deterioration in these sectors, hurt results as these sectors performed well in the quarter. Poor stock selection in financial services, which accounted for 30 percent of the portfolio, was the largest detractor. Active bets in Mellon Financial, Wells Fargo, and Bank of New York cost almost 130 basis points in relative performance. A small allocation to cash also hurt during the quarter

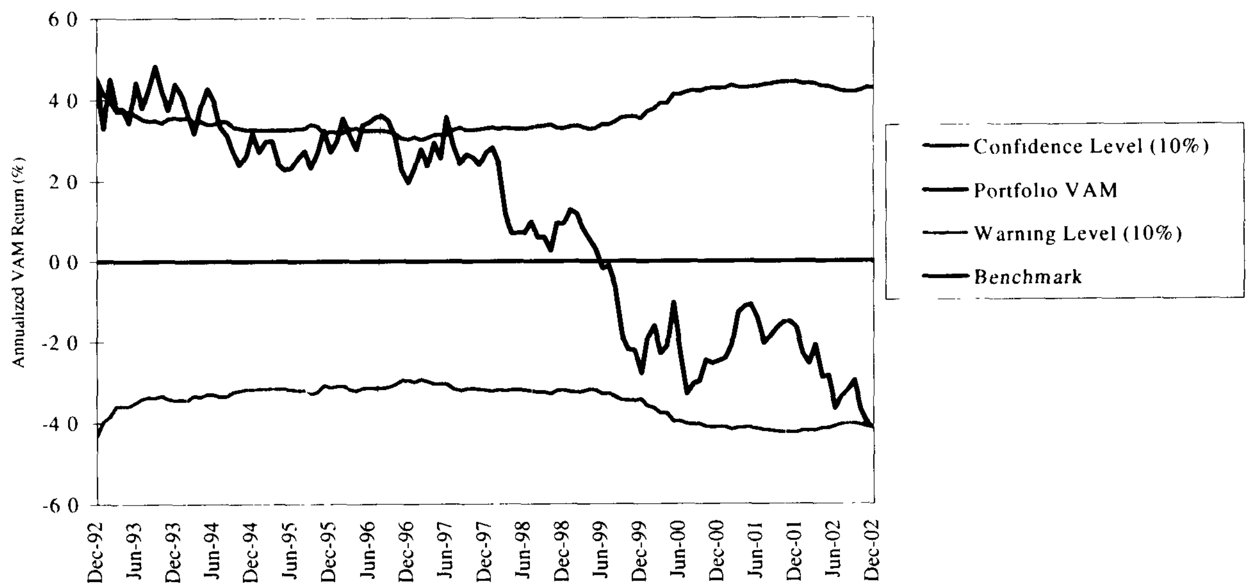
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	7.8%
Last 1 Year	-26 1	-17 2
Last 2 Years	-14.7	-11.7
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-11 3	-6.6

Recommendation

No action required

Bay Isle Financial Management
Rolling Five Year VAM



EARNEST PARTNERS, LLC

Periods Ending December, 2002

Portfolio Manager: Paul Viera | **Assets Under Management: $38,486,272**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.6%	10.1%
Last 1 Year	-18.1	-11.6
Last 2 Years	-9.7	-0.7
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-10.2	4.7

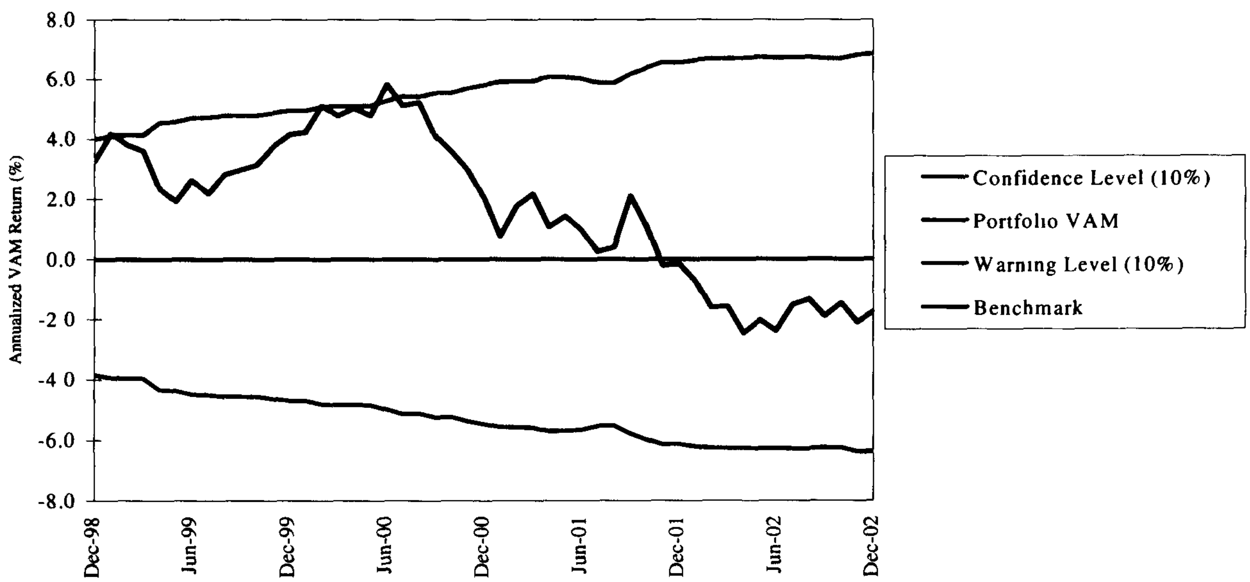
Staff Comments

Staff met with Earnest Partners at their Atlanta office during the quarter to perform due diligence, meet with a number of their fundamental analysts, and review their quantitative screening process and risk control methods. Earnest lagged the benchmark during the quarter due to both negative sector allocation decisions and stock selection. Although the firm does not make intentional sector bets, deviations from benchmark sectors are a result of their fundamental work. Excellent selection in financial services was largely offset by a more than double the benchmark weighting in the sector, which lagged the market return. A significant underweight and poor selection in technology hurt results as well. A large active bet in Yum! Brands, operator of KFC, Pizza Hut, and Taco Bell restaurants cost the portfolio nearly 150 basis points in the quarter.

Recommendation

No action required.

EARNEST Partners
Rolling Five Year VAM



HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2002

Portfolio Manager: Kristin Yates **Assets Under Management: $33,417,726**

Investment Philosophy

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

Staff Comments

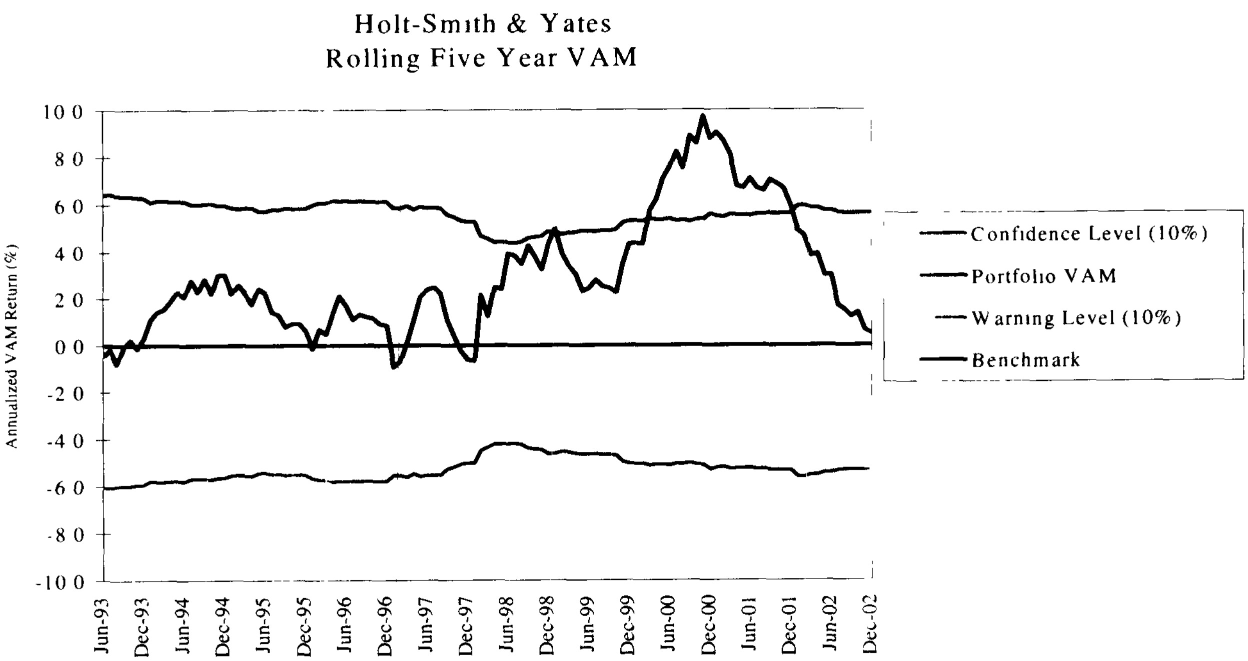
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7 8%	8 2%
Last 1 Year	-28.0	-19.0
Last 2 Years	-15.8	-7.9
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-15.3	-7.2

Recommendation

No action required



NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2002

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $20,495,212**

Investment Philosophy

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

Staff Comments

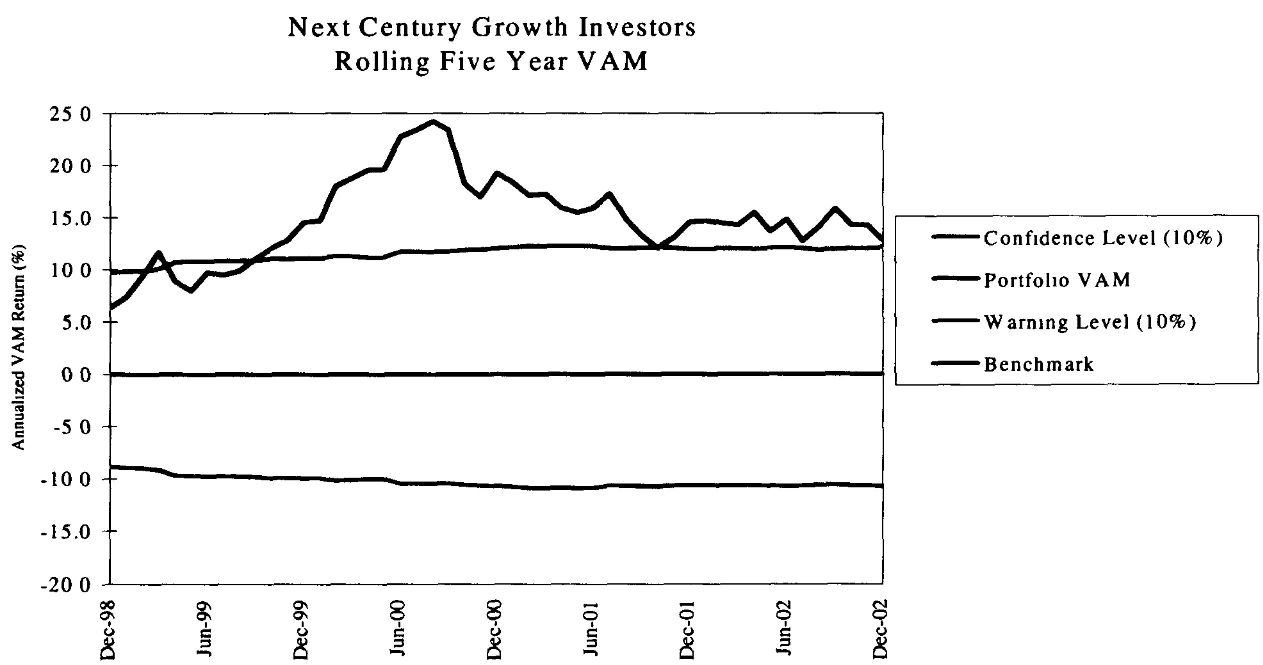
Next Century under performed their benchmark for the quarter, which detracted from results over the past year. An underweight to and stock selection in technology was the largest detractor. A large overweight in consumer discretionary stocks, which lagged the market during the quarter, compounded by stock selection in the sector also hurt performance. Stock selection in a number of other sectors also hurt relative performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.9%	9.9%
Last 1 Year	-33.3	-27.8
Last 2 Years	-28.2	-17.4
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-30.3	-21.3

Recommendation

No action required.



PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $116,382,217**

Investment Philosophy

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

Staff Comments

No comments at this time

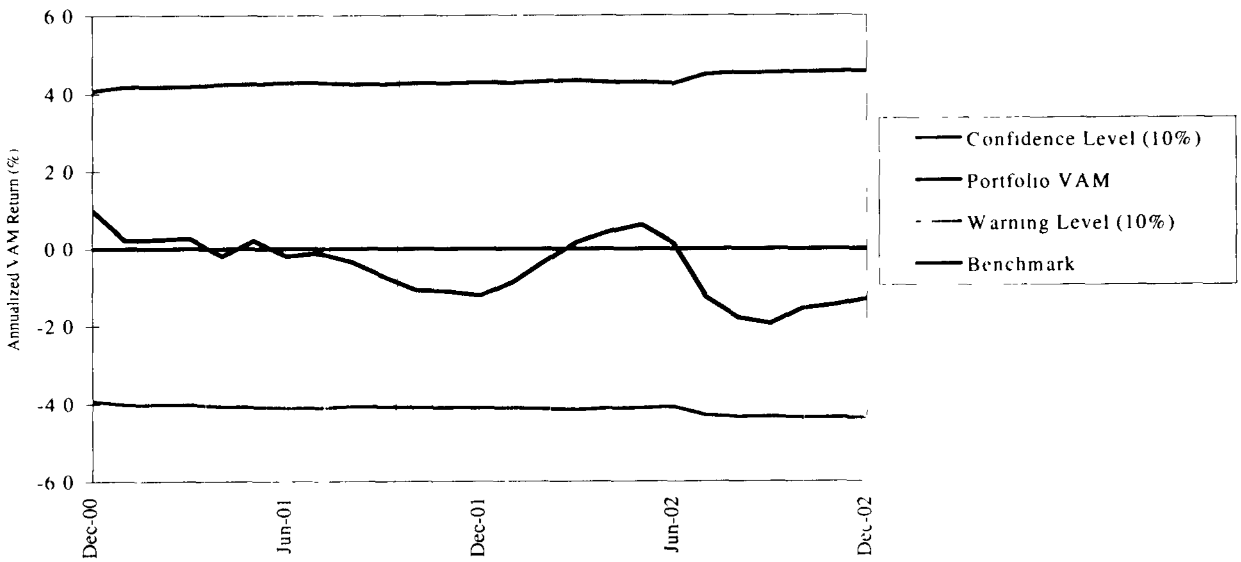
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9 9%	6.4%
Last 1 Year	-8 1	-6.9
Last 2 Years	1.7	7.0
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	10.2	12 5

Recommendation

No action required.

Peregrine Capital Management
Rolling Five Year VAM



VALENZUELA CAPITAL MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Tom Valenzuela — **Assets Under Management: $60,625,284**

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 significantly lagged the benchmark during the quarter, dragging down relative performance over the past year as well. Stock selection was the main detractor, though sector allocations also hurt. Selection was weakest in technology, financials, and energy. A small cash position hurt results as well.

During the quarter, Valenzuela terminated their most senior analyst, primarily for budgetary reasons. Tom Valenzuela will be taking over his coverage responsibilities.

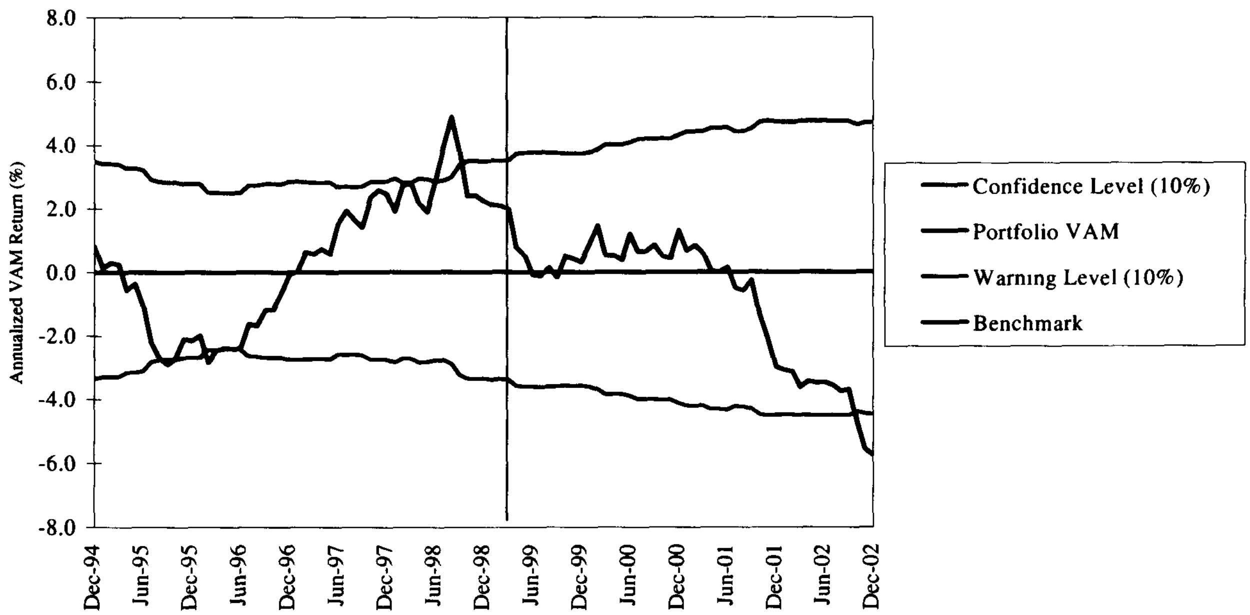
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	7.8%
Last 1 Year	-17.6	-11.2
Last 2 Years	-12.8	-3.7
Last 3 Years	-3.3	2.1
Last 4 Years	-4.2	2.5
Last 5 Years	-3.4	2.5
Since Inception (4/94)	8.4	10.4

Recommendation

We are closely monitoring Valenzuela.

Valenzuela Capital Partners
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Charles Henderson **Assets Under Management: $34,510,127**

Investment Philosophy

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

Staff Comments

No comments at this time

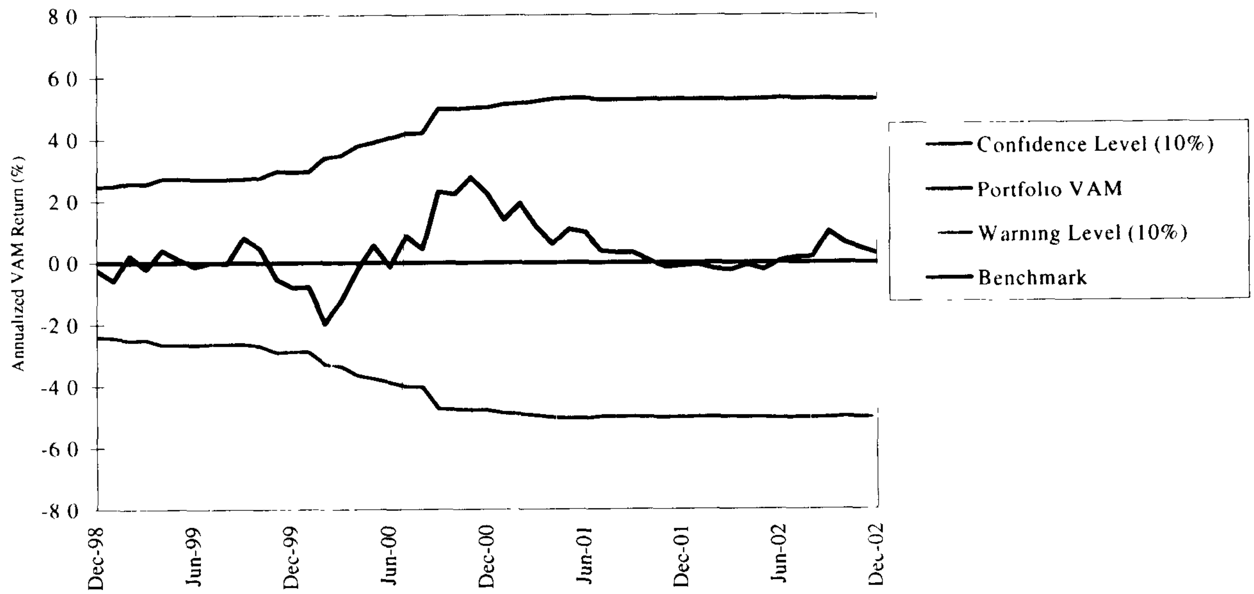
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4 0%	4.8%
Last 1 Year	-20.6	-20.7
Last 2 Years	-20.0	-16.5
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-14 3	-16 0

Recommendation

No action required

Voyageur Asset Management
Rolling Five Year VAM



WINSLOW CAPITAL MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Joseph Docter | **Assets Under Management: $110,779,991**

Investment Philosophy

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

Staff Comments

Staff met with Winslow in their Minneapolis office during the quarter to review our portfolio, discuss recent performance and receive an update on the organization. Winslow had a good relative quarter on very strong stock selection in the healthcare, consumer discretionary, and technology sectors. These results were partially offset by negative sector allocations, particularly in technology where Winslow maintained a large underweight as a result of their fundamental work.

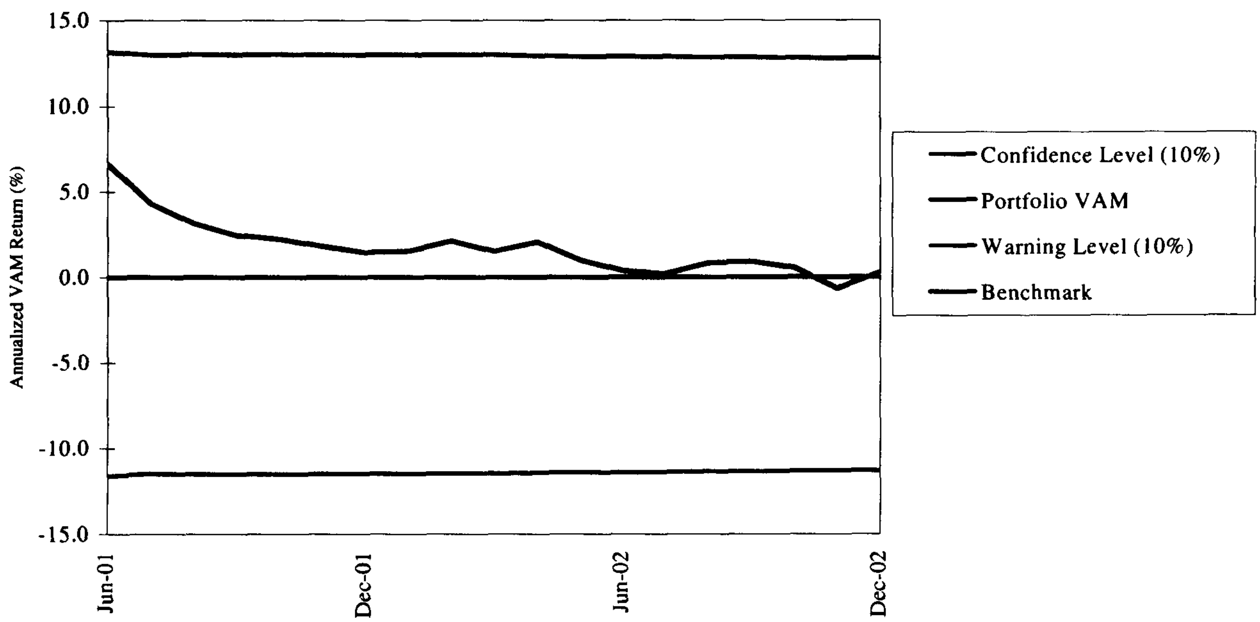
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.7%	8.4%
Last 1 Year	-25.0	-26.7
Last 2 Years	-16.1	-12.4
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (7/00)	-16.9	-17.3

Recommendation

No action required.

Winslow Capital Management
Rolling Five Year VAM



ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2002

Portfolio Manager: Nancy Zevenbergen **Assets Under Management:** $84,734,966

Investment Philosophy

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

Staff Comments

Staff met with Zevenbergen recently in our office to discuss performance and review their investment process. The firm's relative performance has suffered over the past three years as growth stocks have not performed well However, the firm has remained true to its style and is still intently focused on companies with greater than market revenue and earnings growth prospects. Performance over the past quarter was due to weak stock selection in the healthcare and financial services sectors offset partially by strong selection in the consumer discretionary sector, where active bets in eBay and Yahoo! helped results

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5 5%	8.6%
Last 1 Year	-36.2	-24.2
Last 2 Years	-32 7	-14.3
Last 3 Years	-34.6	-15 1
Last 4 Years	-14.1	-1.0
Last 5 Years	-3 4	4.6
Since Inception (4/94)	6.7	12.0

Recommendation

No action required.

Zevenbergen Capital Management
Rolling Five Year VAM

STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 2002

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending December, 2002

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
American Express (AMG)	2.0	1.6	5.5	10.3	8.6	10.1	6.8	7.5	6.8	7.2	$730.8	8.8%
Deutsche	0.9	1.6	10.2	10.3					10.7	10.4	$597.8	7.2%
Dodge & Cox	2.5	1.6	11.1	10.3					11.5	10.4	$716.0	8.7%
Metropolitan West*	1.1	1.6	-3 3	10.3					4.5	10.4	$286.2	3.5%
Morgan Stanley	2.1	1.6	7.9	10.3	10.0	10.1	7.3	7.5	10.3	10.1	$718.6	8.7%
Western	3.0	1.6	9.4	10.3	10.6	10.1	7.9	7.5	11.1	10.0	$1,150.9	13.9%
Semi-Passive Managers												
BlackRock	2.1	1.6	10 4	10.3	10.3	10.1	7.8	7.5	8.1	7.8	$1,383.8	16.7%
Goldman	2.0	1.6	8.9	10.3	9.9	10.1	7.4	7 5	7.3	7.2	$1,328.0	16.1%
Lincoln	1.6	1.6	10.1	10.3	10.3	10.1	7.7	7.5	8.7	8 6	$1,360.2	16.4%
											$8,272.2	**100.0%**
									Since 7/1/84			
Current Aggregate	2.0	1.6	8.9	10.3	10.0	10.1	7.5	7.5	10.5	10.0		
Historical Aggregate (2)	**2.0**	**1.6**	**8.9**	**10.3**	**10.0**	**10.1**	**7.4**	**7.5**	**10.0**	**9.9**		
Lehman Aggregate (3)		1.6		10.3		10.1		7.5		10.1		

* Metropolitan West's Active Bond account was terminated effective December 10, 2002. The manager ceased trading on that day.

(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, 2002

Portfolio Manager: Jim Snyder **Assets Under Management: $730,767,598**

Investment Philosophy

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

Staff Comments

American Express outperformed during the quarter due to a significant rebound in both lower quality investment grade and high yield Corporate bonds, to which the portfolio was overweight. Mortgage issue selection added slightly to performance over the quarter. For the full year, American Express underperformed as the result of an overweight to BBB-rated Corporates and poor issue selection within the sector. From an organizational perspective, Staff continues to monitor the firm closely as the team is restructured under the leadership of Michelle Keeley, the head of Fixed Income.

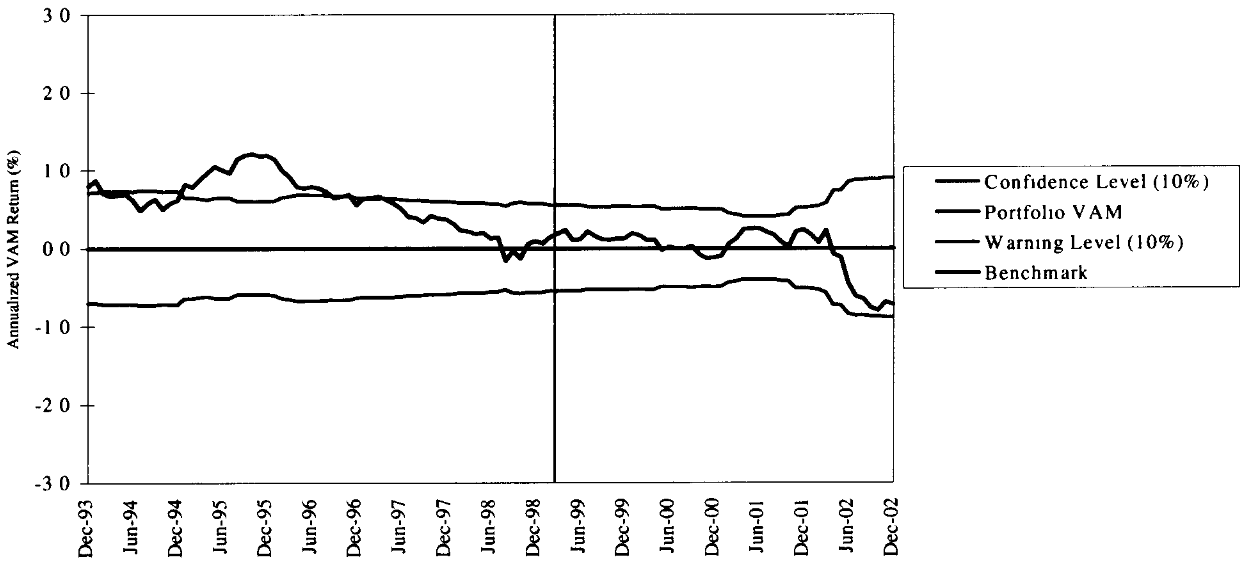
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	1.6%
Last 1 year	5.5	10.3
Last 2 years	7.0	9.3
Last 3 years	8.6	10.1
Last 4 years	6.2	7.3
Last 5 years	6.8	7.5
Since Inception (7/93)	6.8	7.2

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



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

DEUTSCHE ASSET MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Warren Davis **Assets Under Management: $597,820,007**

Investment Philosophy

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

Staff Comments

Deutsche underperformed over the quarter as the result of poor relative performance in the Asset-backed sector, to which the portfolio was overweight Within Corporates, the portfolio's underweight to Industrials in favor of Utilities and Finance issuers also hurt performance A generally higher quality bias in Corporates hurt relative performance during the quarter, as higher beta credit outperformed. For the full year, the portfolio's positions in the Utility, Auto, and Telecom corporate sectors detracted from performance, while issue selection within Mortgages and an overweight to Asset-Backed securities helped performance

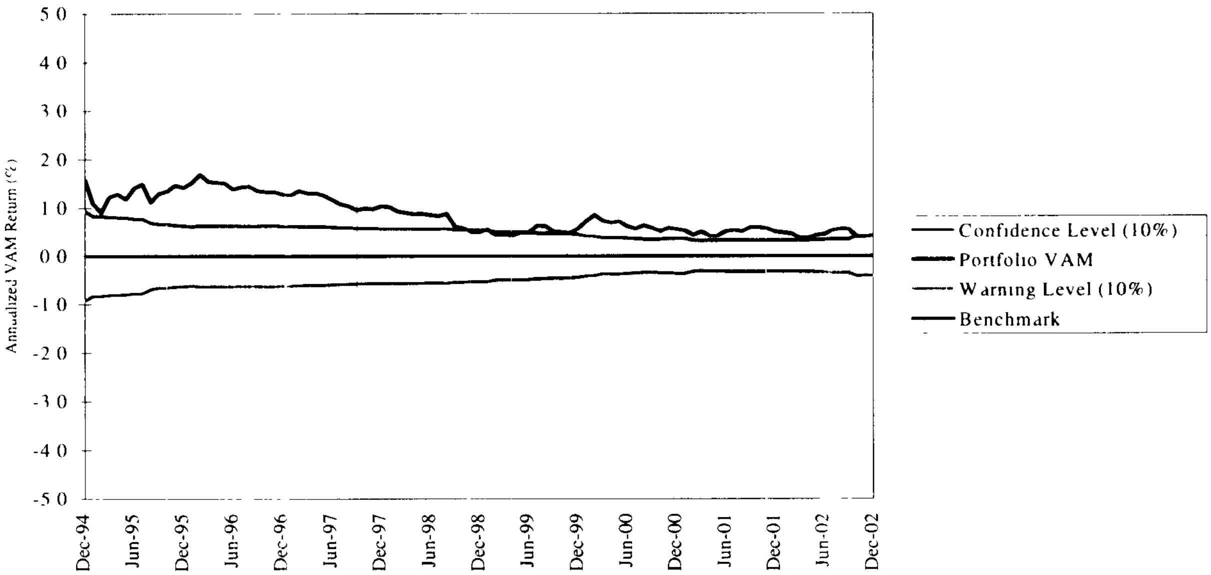
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0 9%	1 6%
Last 1 year	10 2	10 3
Last 2 years	9.7	9 3
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	10.7	10.4

Recommendations

No action required

DEUTSCHE ASSET MANAGEMENT
Rolling Five Year VAM



Five Year Period Ending

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending December, 2002

Portfolio Manager: Dana Emery **Assets Under Management: $715,980,026**

Investment Philosophy

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

Staff Comments

Dodge and Cox outperformed the Lehman Aggregate during the quarter as the portfolio's overweights to the Corporate and Mortgage sectors paid off, due in part to careful security selection within these sectors. For the year, Dodge and Cox benefited from a falling rate environment, strong issue selection in Corporates and Mortgages and an allocation to TIPS which rallied as real rates declined over the year.

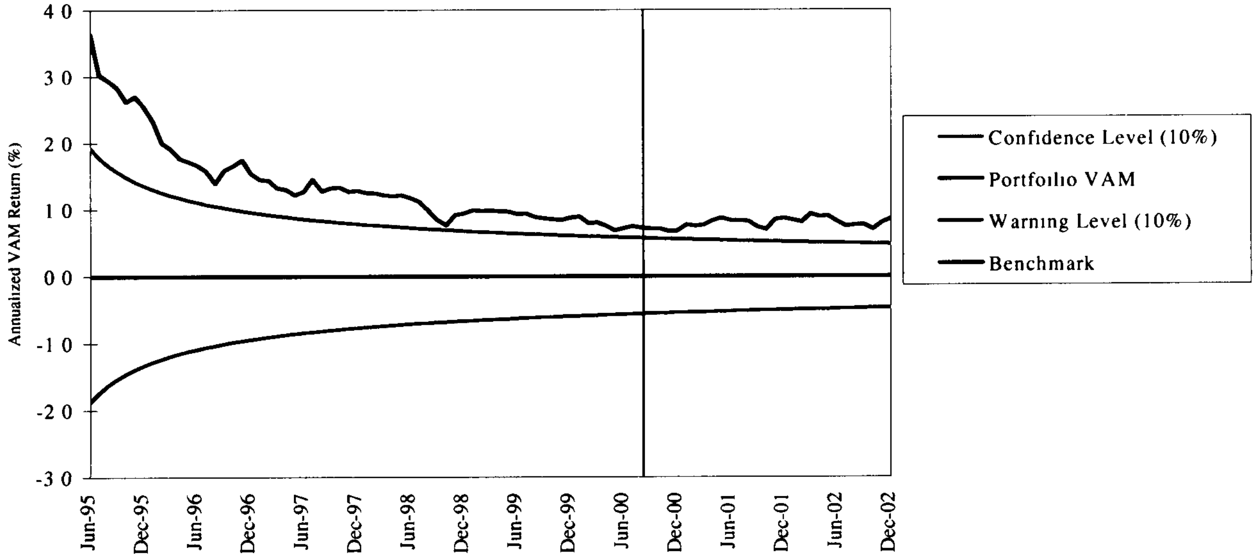
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.5%	1.6%
Last 1 year	11.1	10.3
Last 2 years	10.9	9.3
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	11.5	10.4

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Cumulative Tracking



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: David Horowitz | **Assets Under Management: $718,608,535**

Investment Philosophy

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

Staff Comments

Morgan Stanley outperformed over the quarter as spread product – particularly Corporates and Agency Mortgages - outperformed Treasuries during the quarter. The portfolio's emphasis on lower quality investment grade Corporates helped performance, as did active yield curve positioning during the quarter. For the full year, Morgan underperformed the benchmark as the result of an overweight to Corporates, an emphasis on lower quality names within that sector, and a generally shorter than benchmark duration position, which lost value as rates fell during the year.

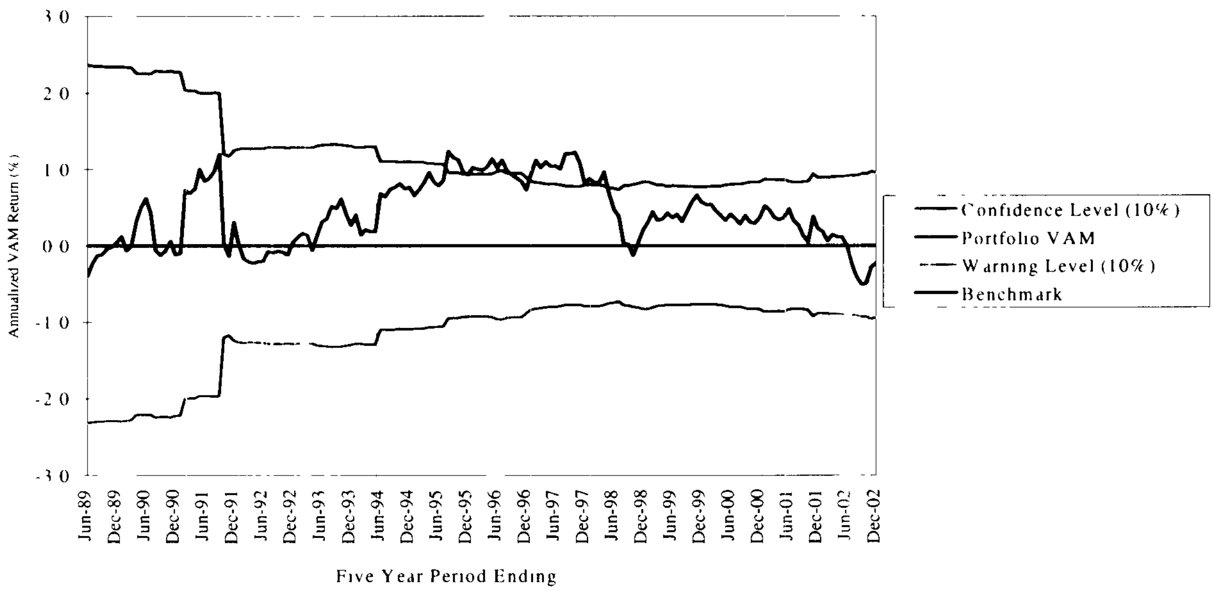
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	1.6%
Last 1 year	7.9	10.3
Last 2 years	9.4	9.3
Last 3 years	10.0	10.1
Last 4 years	7.2	7.3
Last 5 years	7.3	7.5
Since Inception (7/84)	10.3	10.1

Recommendations

No action required

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Rolling Five Year VAM



WESTERN ASSET MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Ken Leech **Assets Under Management: $1,150,880,504**

Investment Philosophy

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

Staff Comments

Western Asset outperformed during the quarter as credit spreads tightened meaningfully during the quarter, helping both the portfolio's overweight position in lower quality investment grade Corporate bonds and its opportunistic high yield exposure. Both the Mortgage overweight and a position in Euro-denominated bonds also helped performance. For the year, Western underperformed due to the portfolio's credit overweight and negative issue selection in Corporates. The portfolio's longer than benchmark duration and an exposure to TIPS helped performance over the year.

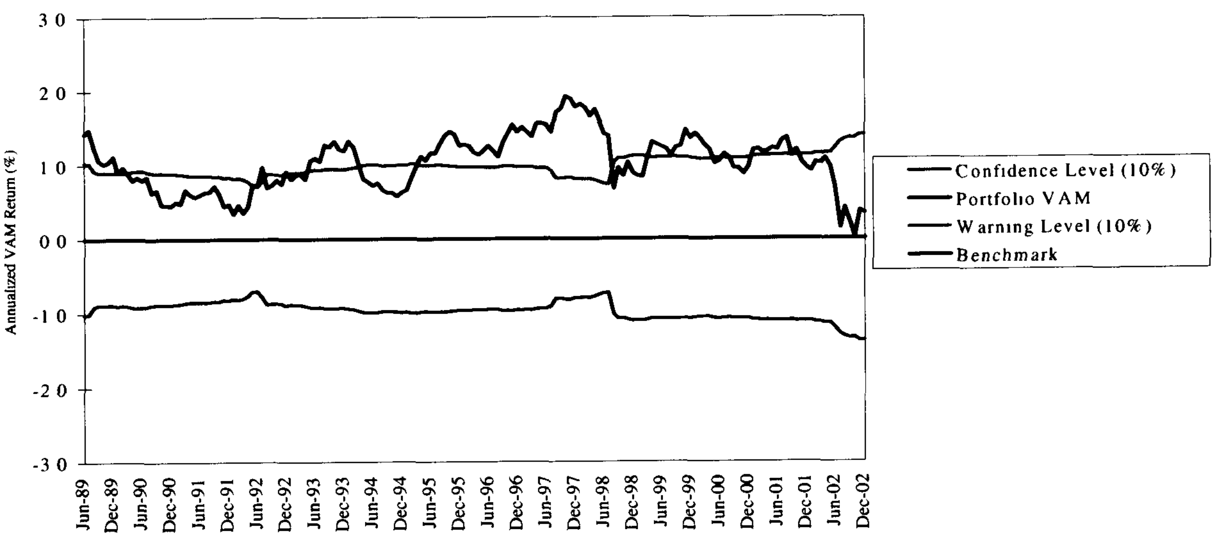
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	1.6%
Last 1 year	9.4	10.3
Last 2 years	10.0	9.3
Last 3 years	10.6	10.1
Last 4 years	7.9	7.3
Last 5 years	7.9	7.5
Since Inception (7/84)	11.1	10.0

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Keith Anderson **Assets Under Management: $1,383,821,666**

Investment Philosophy

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

Staff Comments

BlackRock outperformed during the quarter as the result of positive issue selection in the Mortgage and Corporate sectors and an underweight duration position relative to the benchmark. Over the full year, BlackRock's slight outperformance was the result of an underweight position in Corporates in favor of the Mortgage, Asset-Backed and Commercial Mortgage-Backed sectors, and positive issue selection in Mortgages

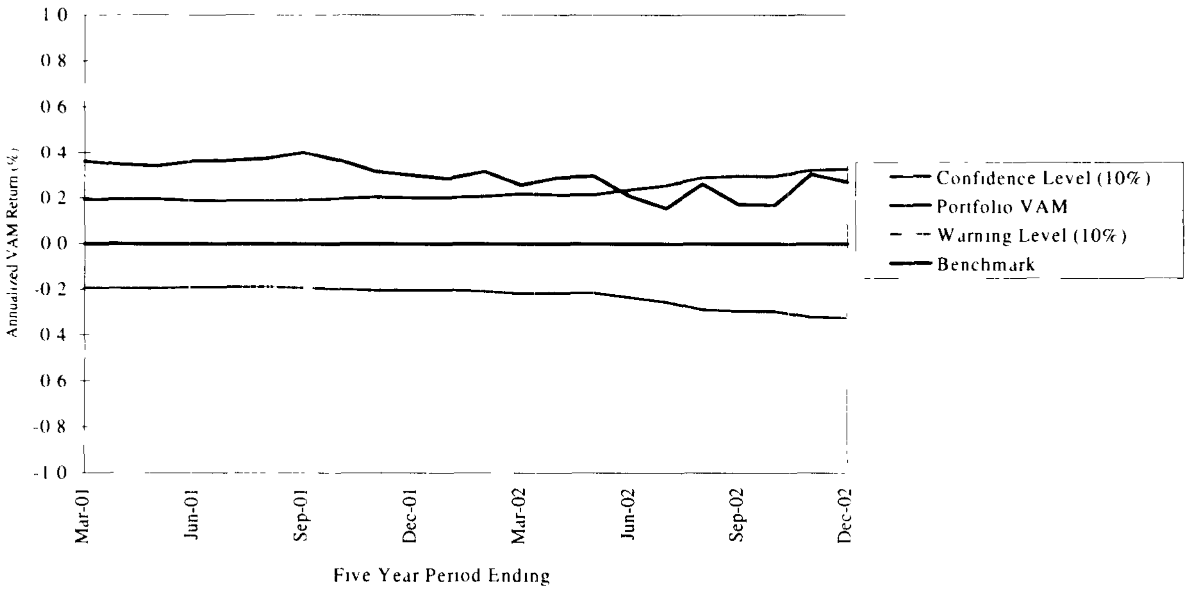
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	1.6%
Last 1 year	10.4	10.3
Last 2 years	9.4	9.3
Last 3 years	10.3	10.1
Last 4 years	7.6	7.3
Last 5 years	7.8	7.5
Since Inception (4/96)	8.1	7.8

Recommendation

No action required

BLACKROCK FINANCIAL MANAGEMENT
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,327,976,566**

Investment Philosophy

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

Staff Comments

Goldman Sachs' performance over the quarter was driven by a rebound in the Corporate sector, to which the portfolio has been overweight. In addition, good issue selection in the Mortgage sector helped performance. Over the full year, the portfolio's overweight to Corporate bonds, and in particular Telecom and BBB-rated Corporates, significantly detracted from performance as higher "beta" Corporates underperformed materially.

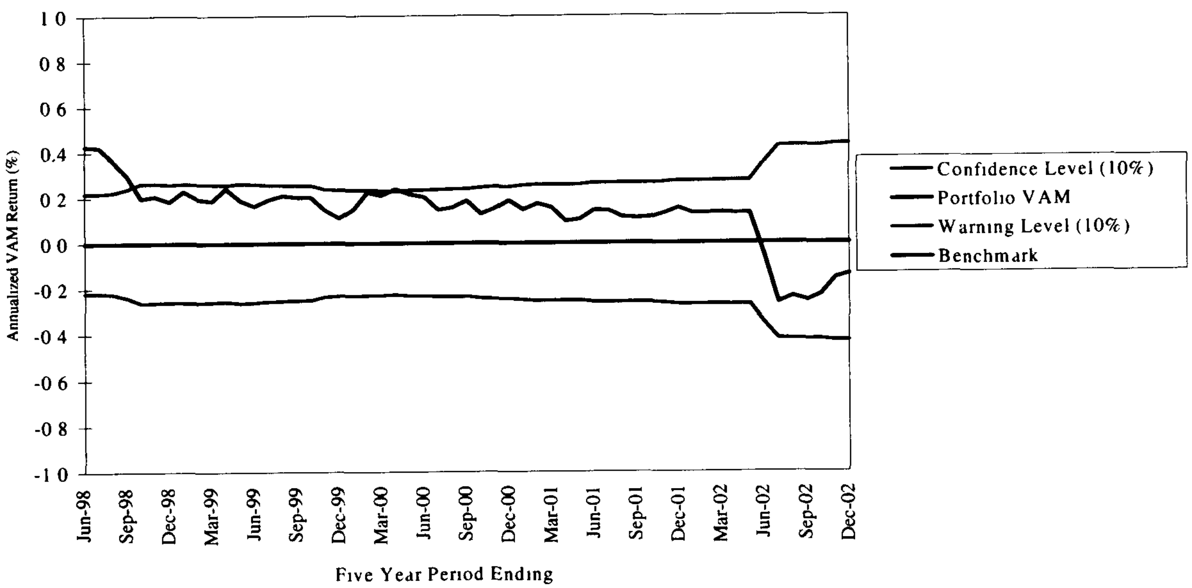
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	1.6%
Last 1 year	8.9	10.3
Last 2 years	8.9	9.3
Last 3 years	9.9	10.1
Last 4 years	7.2	7.3
Last 5 years	7.4	7.5
Since Inception (7/93)	7.3	7.2

Recommendations

No action required.

GOLDMAN SACHS
Rolling Five Year VAM



LINCOLN CAPITAL MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,360,206,072**

Investment Philosophy

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

Staff Comments

Lincoln's performance matched the benchmark during the quarter and lagged slightly for the year Over the quarter, Lincoln's performance was helped by good security selection within Corporates and Mortgages and an overweight position within Corporates. The poor performance of one asset-backed holding, National Premier Financial Trust, was a significant drag on performance for the quarter and year

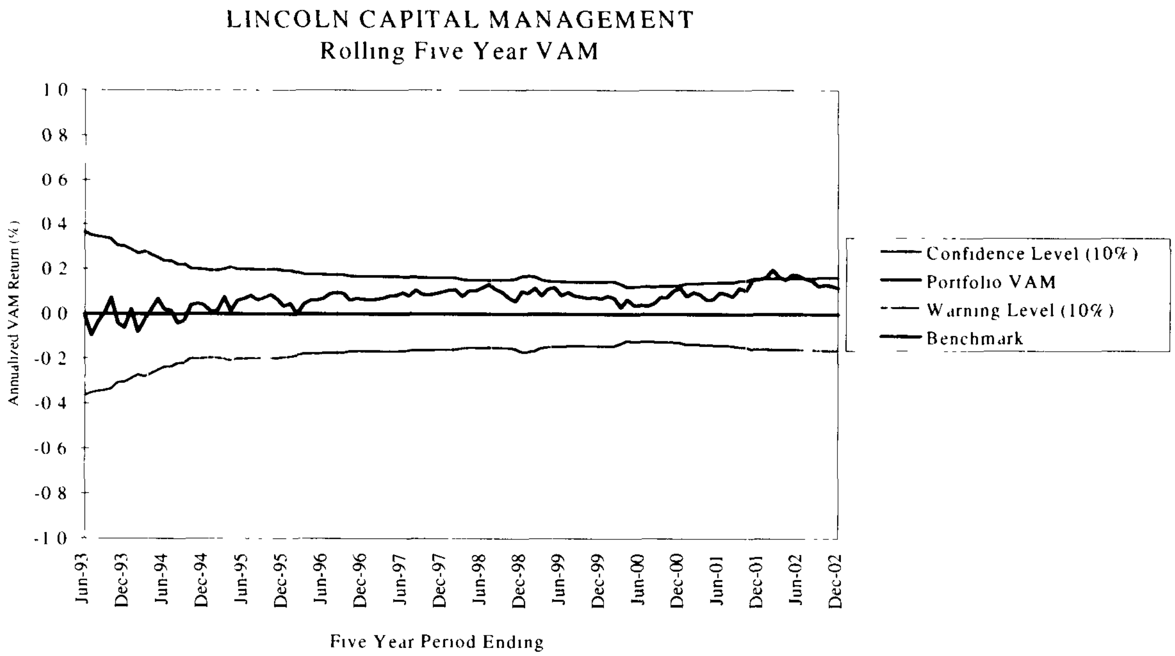
During the quarter, Lincoln announced that Lehman Brothers would acquire its fixed income operations, leaving the equity group as a stand-alone entity. The fixed income group at Lincoln will remain intact and their process unchanged Staff will monitor Lincoln's progress closely to make sure that the acquisition does not impact negatively the team or the investment process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 6%	1.6%
Last 1 year	10 1	10 3
Last 2 years	9.4	9 3
Last 3 years	10.3	10.1
Last 4 years	7 4	7.3
Last 5 years	7.7	7 5
Since Inception (7/88)	8 7	8.6

Recommendations

No action required



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 2002

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending December, 2002

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Active EAFE												
American Express	5.2	6.5	-14.7	-15.6					-21.5	-17.0	$387.1	8.7%
Britannic (Blairlogie)	5.1	6.5	-17.0	-15.6					-18.3	-17.0	$237.3	5.3%
Invesco	6.4	6.5	-10.3	-15.6					-10.0	-17.0	$468.0	10.5%
Marathon	4.1	5.1	-8.0	-11.3	-8.9	-14.0	2.2	-1.5	4.1	1.1	$471.4	10.6%
T. Rowe Price	9.8	6.5	-16.8	-15.6	-17.5	-17.2	-2 7	-2.9	2.5	1.0	$411.8	9.2%
UBS Global	9.1	6.5	-13.8	-15.6	-10.6	-17.2	1.3	-2.9	5.4	2.9	$495.7	11.1%
Active Emerging Markets												
Alliance Capital	8.4	10.0	-0.8	-5.1					-10.4	-9.8	$107.9	2.4%
Capital International	11.5	10.0	-11.3	-5.1					-15.8	-9.8	$96.1	2.2%
Morgan Stanley	8.4	10.0	-4.6	-5.1					-10.2	-9.8	$100.4	2.3%
Schroders	10.2	10.0	-7.5	-5.1					-13.5	-9.8	$102.3	2.3%
Passive EAFE												
State Street	6.5	6.5	-15.3	-15.6	-17.1	-17.2	-2.6	-2.9	3.8	3.5	$1,579.1	35 4%
									Since 10/1/92			
Equity Only (2) (4)	6.9	6.8	-13.6	-14.8	-16.0	-17.0	-2.5	-3.1	4.1	3.2	$4,457.1	100.0%
Total Program (3) (4)	**6.9**	**6.8**	**-13.6**	**-14.8**	**-16.0**	**-17.0**	**-2.5**	**-3.1**	**4.4**	**3.2**	**$4,457.1**	

(1) Since retention by the SBI. Time period varies for each manager.
(2) Equity managers only. Includes impact of terminated managers.
(3) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00.
(4) From October 1, 2001 to May 31, 2002 all international benchmarks being reported were the MSCI Provisional indices. The overall 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.

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending December, 2002

Portfolio Manager: Mark Burgess **Assets Under Management: $387,116,366**

Investment Philosophy

American Express Asset Management's (AEAM) objective is to identify inefficiencies in market value at the regional, country and stock level. Their investment process concentrates on identifying non-consensus views that they can exploit. AEAM's core international equity approach is a blend of top-down and bottom up styles with an emphasis on large cap growth stocks. They start the decision making process with the development of their geopolitical and macroeconomic outlook. The bottom-up stage of their process begins with real-time relative valuation comparisons of the stocks in their investable universe. The most attractively priced stocks then go through in depth fundamental analysis.

Staff Comments

The portfolio underperformed during the quarter due to negative stock selection in Europe, particularly in the industrials and the healthcare sectors. The portfolio's small cash position was also a drag on performance.

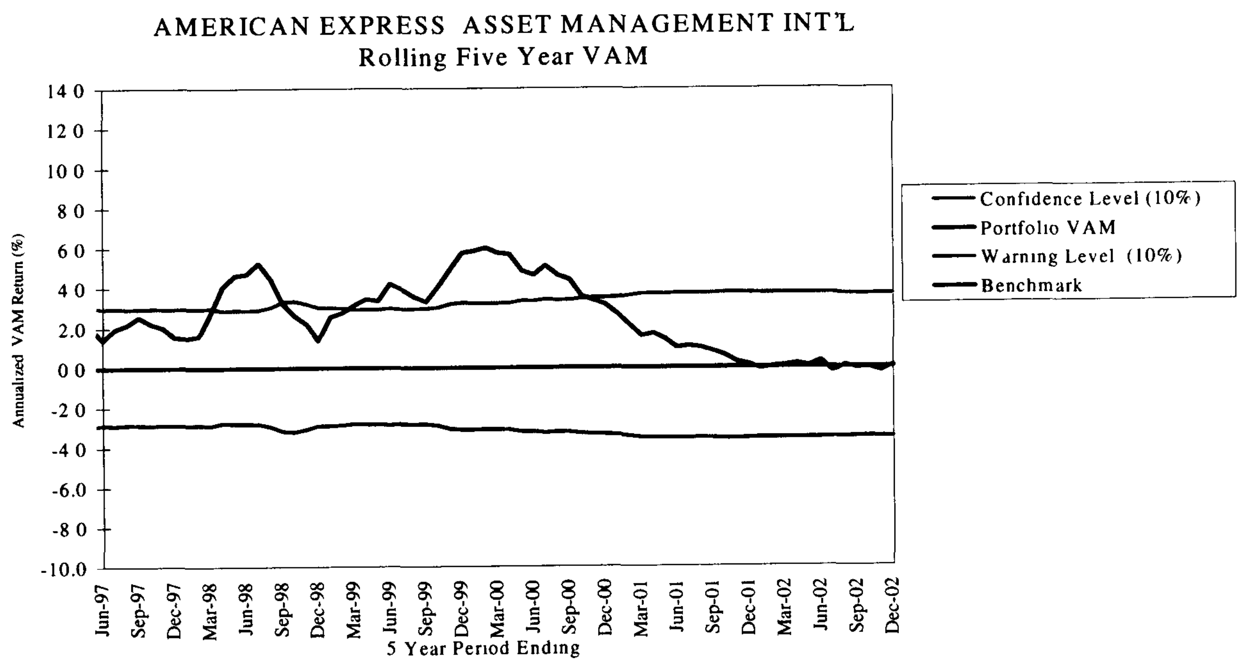
For the year, stock selection in Europe was positive. Within this region, holdings in the information technology and the consumer discretionary sectors added the most value. The underweight to Japan and Europe, which was the worst performing region over the year, was also beneficial.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.2%	6.5%
Last 1 year	-14.7	-15.6
Last 2 years	-22.2	-18.7
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-21.5	-17.0

Recommendations

No action required.



Note. Shaded area includes performance prior to managing SBI account

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending December, 2002

Portfolio Manager: James Smith **Assets Under Management: $237,322,518**

Investment Philosophy

Britannic is primarily a top-down manager, but incorporates bottom-up stock selection. They seek to combine qualitative and quantitative judgment, but believe that objective, measurable facts must always be the starting point for making sound investment decisions. Britannic has developed country and sector models which analyze a broad-based collection of current and historical data The models rank countries and sectors according to their overall score on variables which are grouped into five categories including Value, Macro, Earnings, Monetary and Technical. Regional analysts then select the best companies based on fundamental analysis. The objective of the process is to add value over the benchmark consistently in any market environment while controlling risk and volatility. Britannic's portfolio is broadly diversified in developed markets both by country and by sector, and has a large-cap emphasis.

Staff Comments

Staff met with Britannic during the quarter to discuss recent lay-offs in the organization which did not effect the SBI's investment team

The portfolio's performance shortfall during the quarter was due to negative stock selection in Europe, along with Japanese financial holdings. Within Europe, the portfolio's cyclical bias left it underexposed to the Technology, Media, and Telecom sectors in late November, and to the defensive sectors at year-end, which were favored by the market.

Stock selection in Europe also detracted from performance for the year

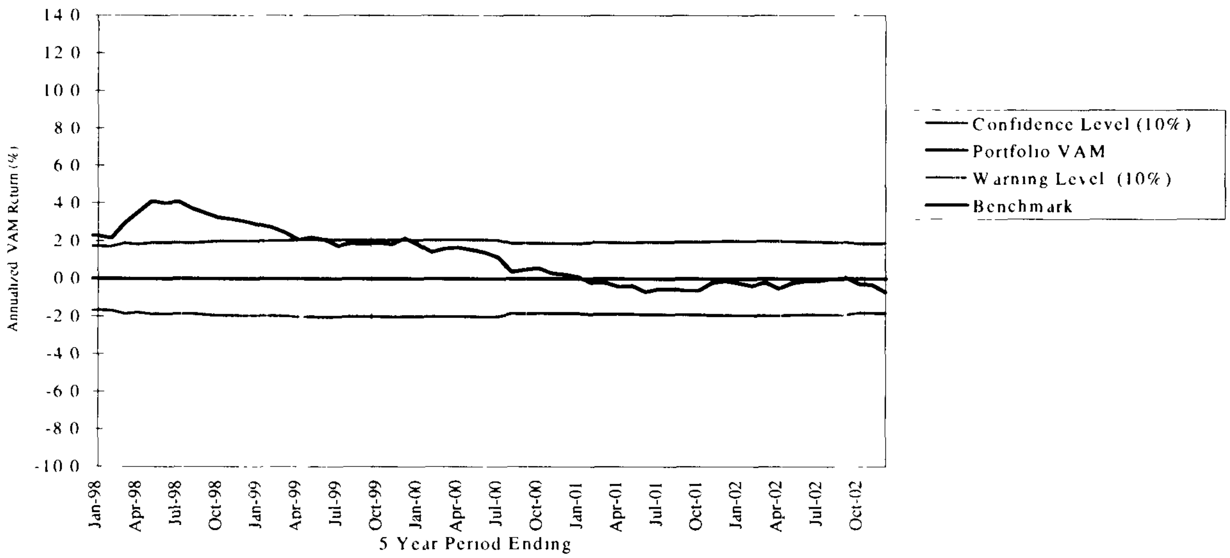
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.1%	6.5%
Last 1 year	-17 0	-15 6
Last 2 years	-19.8	-18.7
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-18 3	-17 0

Recommendations

No action required.

BRITANNIC ASSET MANAGEMENT
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending December, 2002

Portfolio Manager: Erik Granade **Assets Under Management: $467,990,011**

Investment Philosophy

INVESCO believes they can add value by identifying and investing in companies whose share price does not reflect the proven and sustainable growth of the company's earnings and assets. They also believe that a systematic process that identifies mis-valued companies, combined with a consistently applied portfolio design process, can control the predictability and consistency of returns. Portfolios are constructed on a bottom-up basis; they select individual companies rather than countries, themes, or industry groups. This is the first of four cornerstones of their investment approach. Secondly, they conduct financial analysis on a broad universe of non-U.S. companies whose key financial data is adjusted to be comparable across borders and currencies. Third, Invesco believes that using local investment professionals enhances fundamental company research. Finally, they manage risk and assure broad diversification relative to clients' benchmarks through a statistics-based portfolio construction approach rather than resorting to country or industry constraints.

Staff Comments

Stock selection in the UK and in Switzerland very modestly detracted from performance over the quarter.

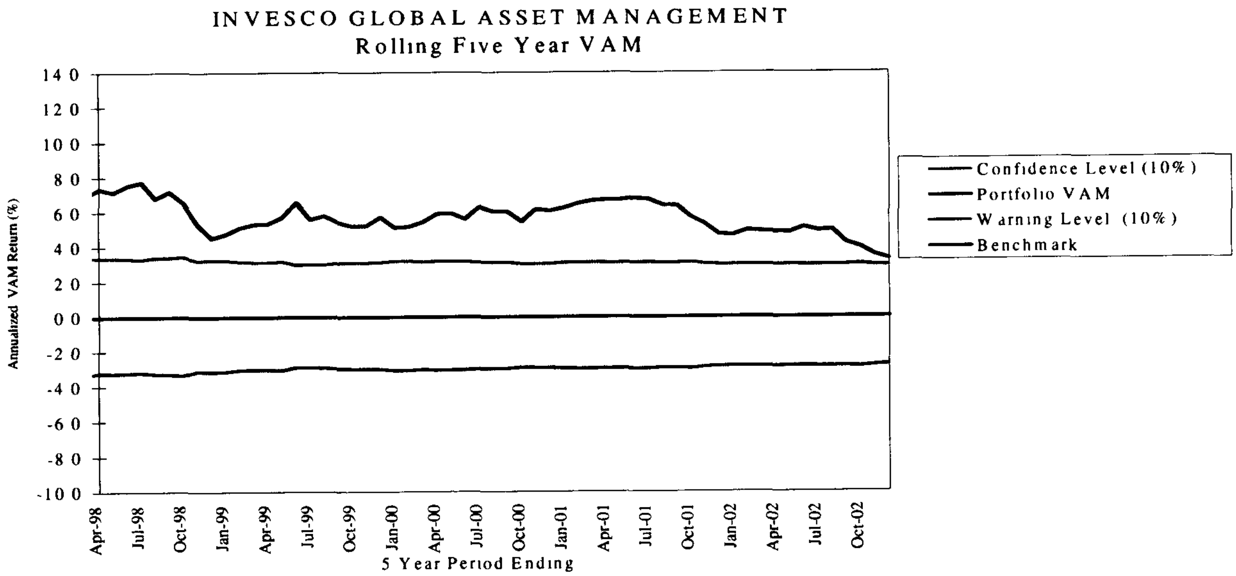
The portfolio's significant outperformance over the one-year time period has been driven almost entirely by positive stock selection, particularly in financials which is one of the largest sectors in the benchmark. The portfolio has a bias in favor of high-quality consumer oriented banks, and an underweight exposure to the insurance sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.4%	6.5%
Last 1 year	-10.3	-15.6
Last 2 years	-12.7	-18.7
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-10.0	-17.0

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: William Arah **Assets Under Management: $471,384,321**

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

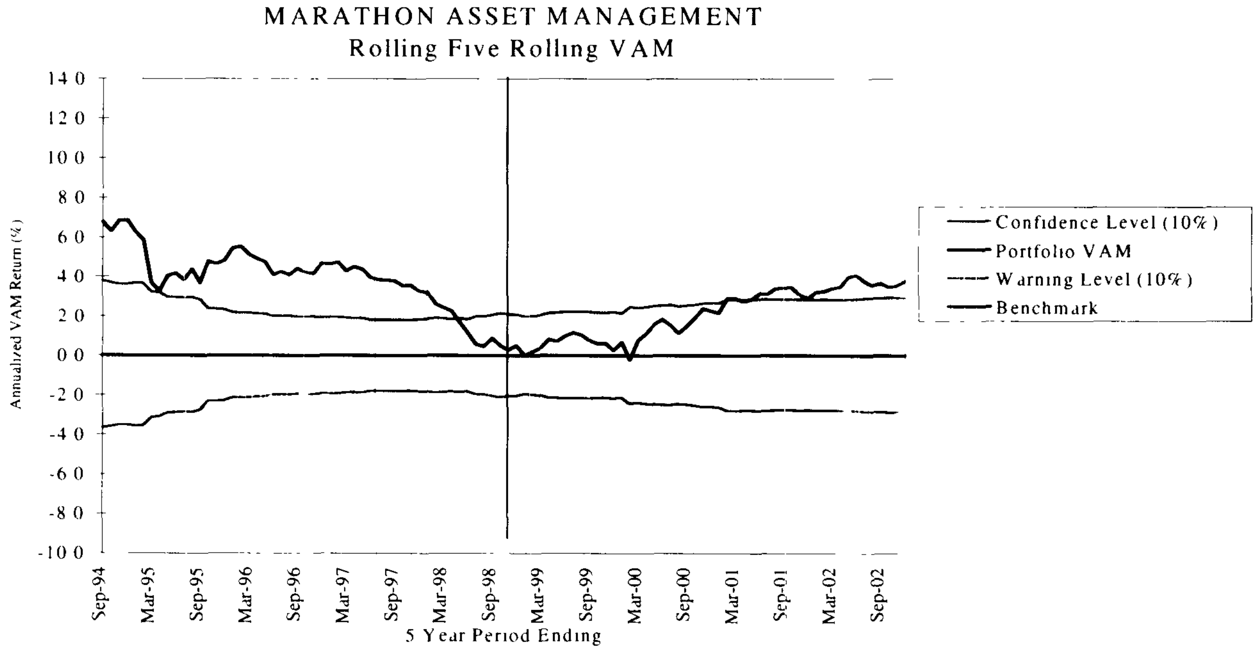
Recent underperformance was due in part to negative stock selection in Europe, particularly the UK. The portfolio did not benefit from being overweight industrials which underperformed, and underweight both financials and telecoms which performed well An overweight to Japan and the Asia region further detracted from performance.

Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	4 1%	5.1%
Last 1 year	-8.0	-11.3
Last 2 years	-11.1	-15.0
Last 3 years	-8.9	-14.0
Last 4 years	0.6	-5.2
Last 5 years	2 2	-1.5
Since Inception (11/93)	4.1	1.1

Recommendations

No action required



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

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending December, 2002

Portfolio Manager: David Warren | **Assets Under Management: $411,843,099**

Investment Philosophy

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

Staff Comments

The portfolio significantly outperformed during the quarter primarily due to stock selection in Japan. Stock selection within the financials and consumer discretionary sectors was also positive.

Over the one-year period, the portfolio underperformed due to an underweight in Japan and Australia, and an overweight in France, Sweden and the Netherlands. Stock selection was weak in the UK and Germany.

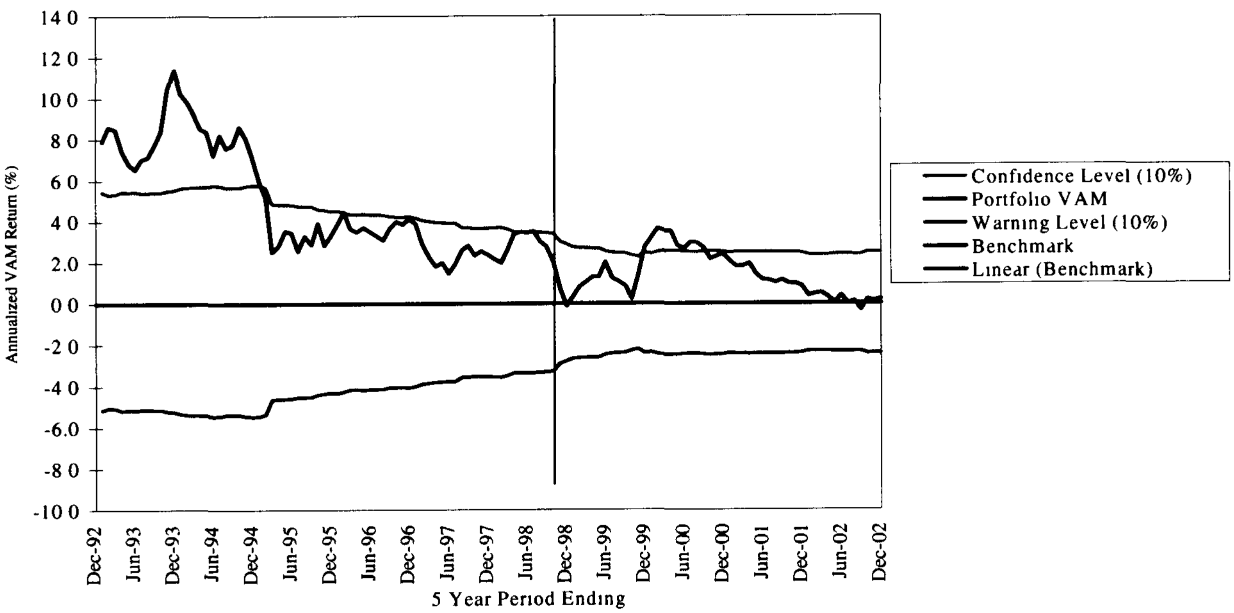
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.8%	6.5%
Last 1 year	-16.8	-15.6
Last 2 years	-19.0	-18.7
Last 3 years	-17.5	-17.2
Last 4 years	-6.7	-7.9
Last 5 years	-2.7	-2.9
Since Inception (11/93)	2.5	1.0

Recommendations

No action required.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2002

Portfolio Manager: Thomas Madsen | **Assets Under Management: $495,746,220**

Investment Philosophy

UBS is a fundamental, long-term, value-oriented investor UBS uses a proprietary valuation model to rank the relative attractiveness of individual markets based on fundamental considerations Inputs include forecasts for growth, inflation rates, risk premiums and foreign exchange movements Quantitative tools are used to monitor and control portfolio risk, while qualitative judgments from the firm's professionals are used to determine final allocations. UBS establishes an allocation range around the target index to define the limits of their exposure to individual countries and to assure diversification.

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

Staff Comments

The portfolio performed well both over the quarter and the year. Stock selection in the financials and information technology sectors was particularly additive during the quarter, along with an underweight position in Japan.

The main drivers of the portfolio's outperformance for the year were stock selection and sector allocation in the media, technology hardware, telecom, and real estate industries.

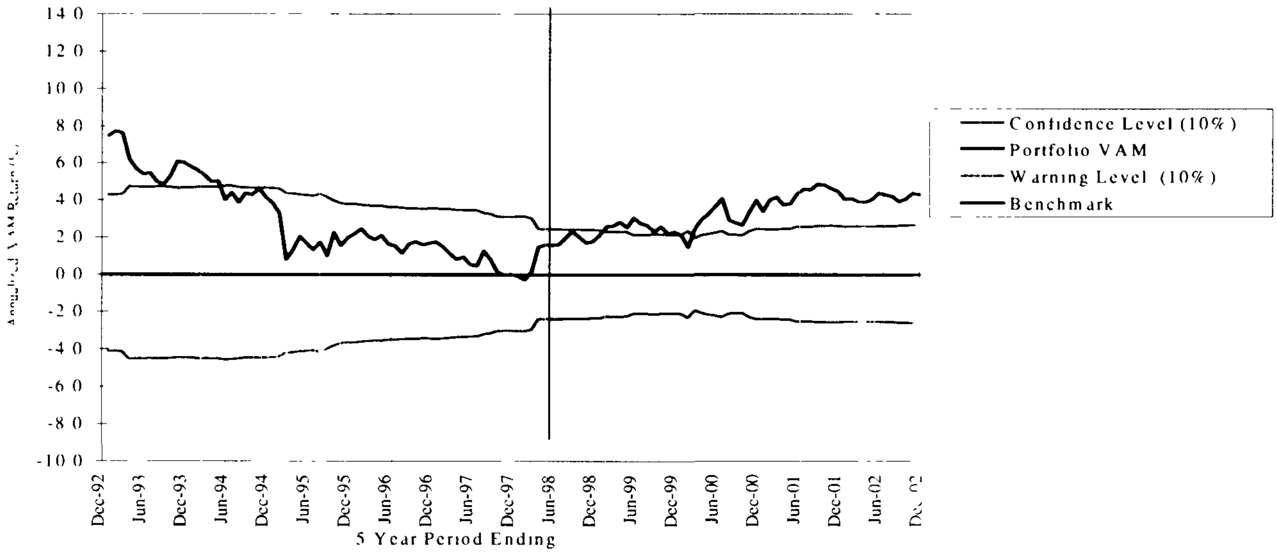
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.1%	6 5%
Last 1 year	-13.8	-15.6
Last 2 years	-14.7	-18.7
Last 3 years	-10.6	-17.2
Last 4 years	-2.8	-7.9
Last 5 years	1.3	-2.9
Since Inception (4/93)	5 4	2.9

Recommendations

No action required

UBS GLOBAL ASSET MANAGEMENT, 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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending December, 2002

Portfolio Manager: Edward Baker — **Assets Under Management: $107,853,503**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.4	10.0
Last 1 year	-0.8	-5.1
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-10.4	-9.8

Staff Comments

Holdings in India and Korea detracted from the portfolio's performance during the quarter. Domestically oriented holdings in Mexico and defensive names in Brazil also did not perform well.

The portfolio's outperformance over the year can be attributed to strong stock selection in both the Latin American and Europe/Middle East/Africa regions.

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2003.

CAPITAL INTERNATIONAL, INC.
Periods Ending December, 2002

Portfolio Manager: Victor Kohn — **Assets Under Management: $96,075,339**

Investment Philosophy

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

Staff Comments

The portfolio outperformed during the quarter, benefiting from an overweight position in Brazil and Turkey, an underweight position in Korea, and strong stock selection in Mexico. Stock selection in the information technology and consumer staples sectors was positive

For the year, the overweight position in Brazil contributed the most to the portfolio's underperformance, followed by an underweight position in South Africa where the manager continues to feel that social and political issues pose long-term risks to the economy and stocks.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.5	10.0
Last 1 year	-11.3	-5 1
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-15 8	-9.8

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2003.

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Narayan Ramachandran **Assets Under Management: $100,381,524**

Investment Philosophy

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

Staff Comments

Stock selection in Taiwan, South Africa, and Russia contributed to the portfolio's underperformance during the quarter. Country selection was also negative due to an underweight position in Brazil and in South Africa, and an overweight position in Turkey.

The portfolio outperformed for the year. Country selection contributed positively while stock selection was mixed.

During the quarter, Michael Perlman, co-portfolio manager of Latin America left the organization and was replaced by Scott Piper who has eight years of investment experience in Latin America.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.4%	10.0%
Last 1 year	-4.6	-5.1
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-10.2	-9.8

Recommendations

No action required.

VAM Graph will be drawn for period ending 3/31/2003.

SCHRODERS INVESTMENT MANAGEMENT NORTH AMERICA INC.
Periods Ending December, 2002

Portfolio Manager: Peter Clark **Assets Under Management: $102,250,068**

Investment Philosophy

Schroders believes in investing in growth at a reasonable price They focus on identifying companies that can leverage the superior economic growth in emerging markets to generate above-average growth in earnings and cash flow Their style aims to generate consistency of performance by taking multiple active positions in what are highly inefficient markets Schroders uses a combination of top-down analysis and bottom-up stock selection, which varies with the state of development of the market

Staff Comments

The portfolio outperformed during the quarter due to positive stock selection in Asia, in particular from software services stocks in India A Russian utility holding also added value

For the year, the portfolio's underperformance was due to stock selection in Taiwanese technology stocks, Chinese telecoms, consumer and telecom stocks in Brazil, and an underweight position in the materials sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.2	10.0
Last 1 year	-7 5	-5.1
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	-13.5	-9 8

Recommendations

No action required

VAM Graph will be drawn for period ending 3/31/2003.

STATE STREET GLOBAL ADVISORS
Periods Ending December, 2002

Portfolio Manager: Lynn Blake | **Assets Under Management: $1,579,135,578**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 21 markets located in Europe, Australia and the Far East (EAFE). They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free 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

The portfolio closely tracked the benchmark during the quarter.

Over the year, a small cash position contributed to the portfolio's positive tracking error as equity markets declined. In addition, the dividend income received in the portfolio was higher than the net (dividend) return of the benchmark, which also contributed to the portfolio's positive tracking error.

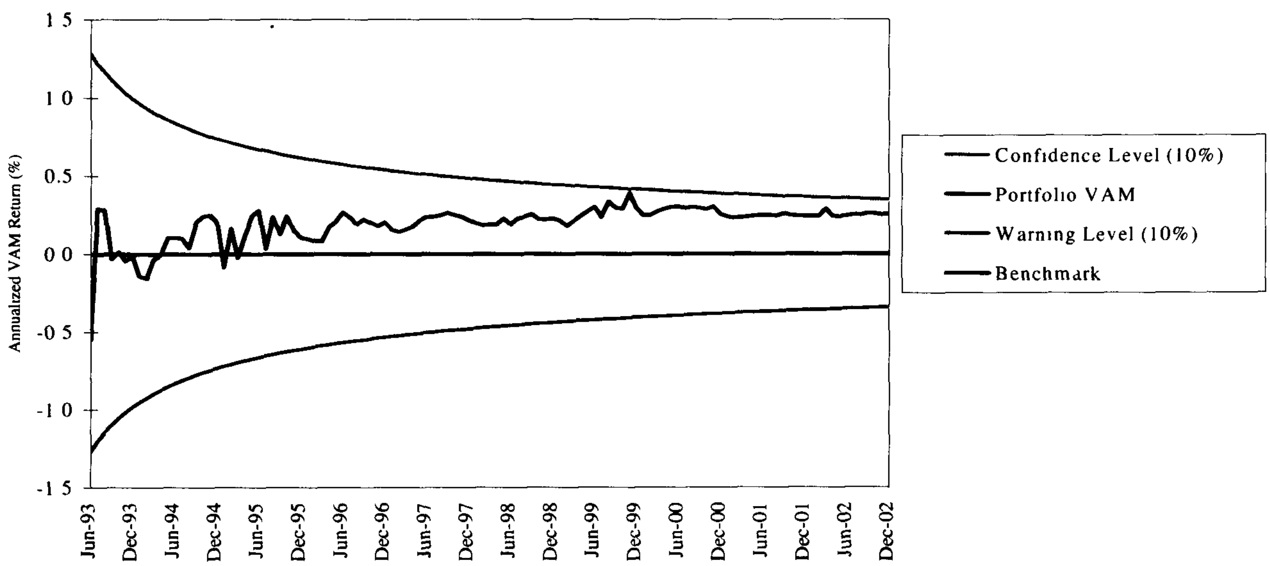
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.5%	6.5%
Last 1 year	-15.3	-15.6
Last 2 years	-18.5	-18.7
Last 3 years	-17.1	-17.2
Last 4 years	-7.6	-7.9
Last 5 years	-2.6	-2.9
Since Inception (10/92)	3.8	3.5

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Fourth Quarter, 2002

NON - RETIREMENT MANAGERS
Periods Ending December, 2002

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market Value
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)
GE Investment Management (S&P 500 Index)*	7.2	8.4	-20.5	-22.1	-10.1	-14.5	1.9	-0.6	12.0	10.3	$46.7
Voyageur Asset Management (Custom Benchmark)*	1.3	1.1	8.8	9.3	7.9	9.2	6.6	7.4	7.5	7.6	$185.4
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.3	0.7	5.8	3.3	6.1	4.7	6.2	5.0	6.4	5.6	$120.3
Internal Stock Pool (S&P 500 Index)*	8.4	8.4	-21.8	-22.1	-14.4	-14.5	-0.5	-0.6	9.4	9.3	$932.3
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	2.5	1.6	8.1	10.3	9.7	10.1	7.4	7.5	8.7	8.4	$191.4
Internal Bond Pool - Trust (Lehman Aggregate)*	2.4	1.6	8.8	10.3	9.8	10.1	7.5	7.5	8.5	8.2	$808.3

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

(1) Since retention by the SBI. Time period varies by manager.
(2) Prior to July 1994, the benchmark was the Salomon BIG

GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending December, 2002

Portfolio Manager: Gene Bolton **Assets Under Management: $46,668,633**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

GE underperformed the benchmark for the quarter, primarily due to an underweight in technology and telecommunications. The portfolio outperformed the one-year benchmark due to solid stock selection across several sectors.

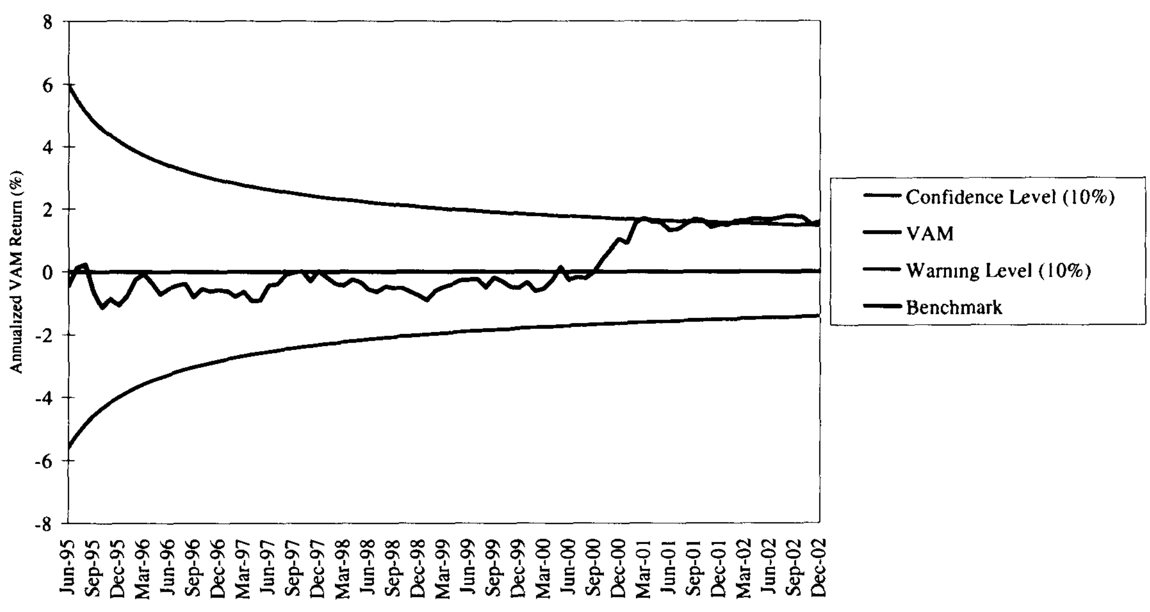
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.2%	8.4%
Last 1 year	-20.5	-22.1
Last 2 years	-14.5	-17.1
Last 3 years	-10.1	-14.5
Last 4 years	-3.1	-6.8
Last 5 years	1.9	-0.6
Since Inception (1/95)	12.0	10.3

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending December, 2002

Portfolio Manager: Tom McGlinch **Assets Under Management: $185,416,932**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

Voyageur's quarterly outperformance was helped by a shorter duration than the benchmark. The one-year underperformance was due to its shorter duration and over-weight in the mortgage sector.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1 3%	1 1%
Last 1 year	8 8	9.3
Last 2 years	7 6	9.0
Last 3 years	7 9	9 2
Last 4 years	6 4	7 4
Last 5 years	6.6	7.4
Since Inception (7/91)	7.5	7 6

*Custom benchmark since inception date

Recommendation

No action required

VAM Graph will be drawn for period ending 3/31/04.

GALLIARD CAPITAL MANAGEMENT
Periods Ending December, 2002

Portfolio Manager: Karl Tourville **Assets Under Management: $120,345,092**

Investment Philosophy

Galliard Capital Management manages the Fixed Interest Account in the Supplemental Investment Fund. The stable value fund is managed to protect principal and provide competitive interest rates using instruments somewhat longer than typically found in money market-type accounts. The manager invests cash flows to optimize yields. The manager invests in high quality instruments diversified among traditional guaranteed investment contracts (GIC's) and alternative investment contracts with U.S. and non-U.S. financial institutions. To maintain necessary liquidity, the manager invests a portion of the portfolio in its Stable Return Fund and in cash equivalents. The Stable Return Fund is a large, daily priced fund consisting of a wide range of stable value instruments that is available to retirement plans of all sizes.

Staff Comments

No comments at this time.

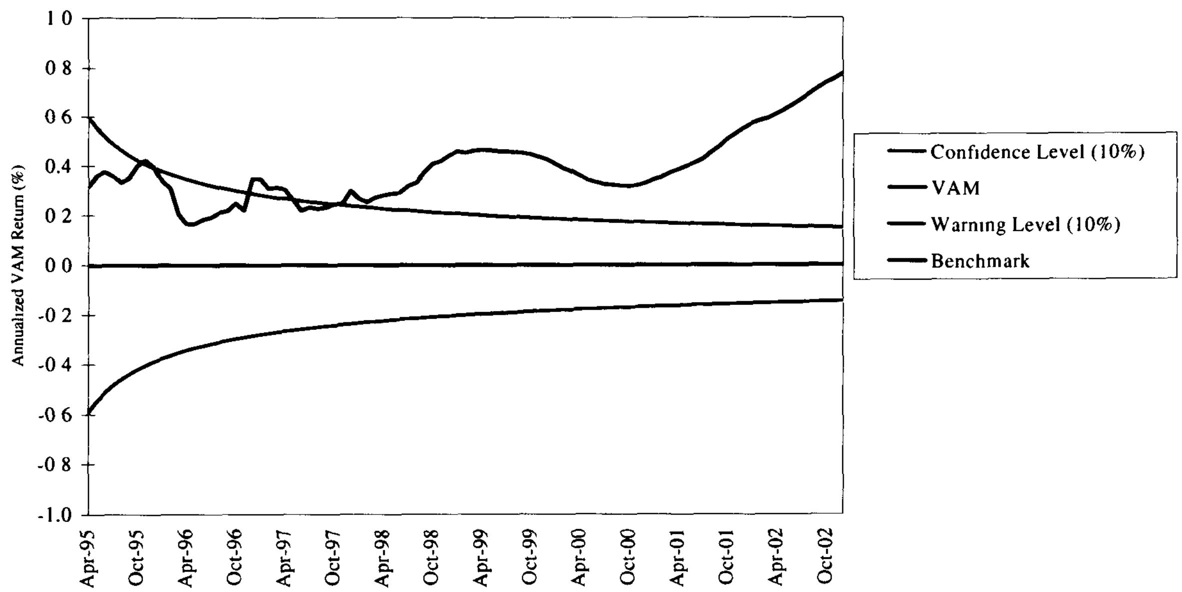
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	0.7%
Last 1 year	5.8	3.3
Last 2 years	6.0	3.8
Last 3 years	6.1	4.7
Last 4 years	6.1	5.0
Last 5 years	6 2	5.0
Since Inception (11/94)	6.4	5.6

Recommendation

No action required.

Galliard Capital Management
Cumulative Tracking



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending December, 2002

Portfolio Manager: Mike Menssen **Assets Under Management: $932,316,277**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund
Tobacco Endowment Funds

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

Staff Comments

The portfolio matched the index for the quarter and outperformed for the year The positive tracking error for the one-year period was due to the timing of the high volume of trading in the index.

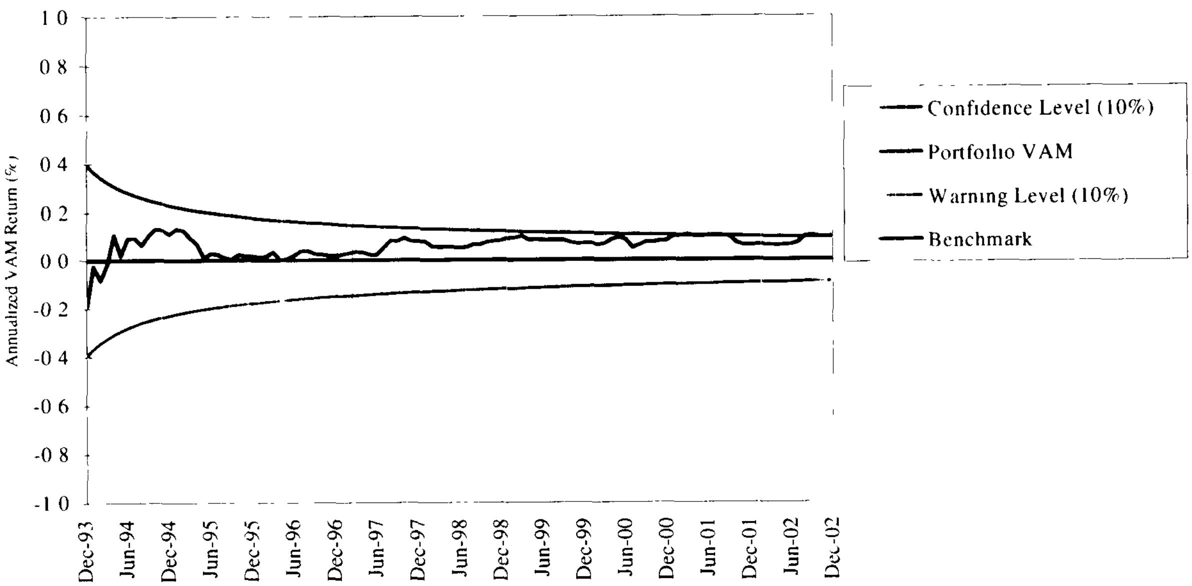
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8 4%	8 4%
Last 1 year	-21 8	-22.1
Last 2 years	-17.0	-17.1
Last 3 years	-14 4	-14 5
Last 4 years	-6 7	-6 8
Last 5 years	-0.5	-0.6
Since Inception (7/93)	9.4	9.3

Recommendation

No action required

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



INTERNAL BOND POOL - Income Share Account
Periods Ending December, 2002

Portfolio Manager: Mike Menssen | **Assets Under Management: $191,448,981**

Investment Philosophy
Income Share Account

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

Staff Comments

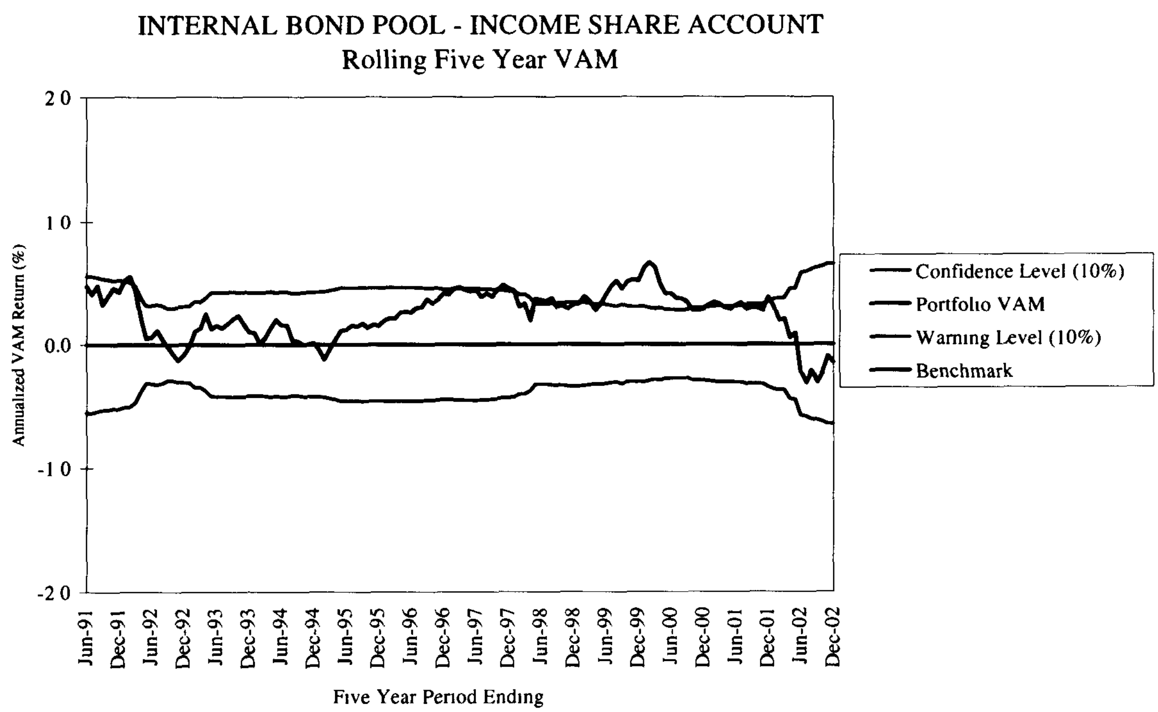
The internal bond pool outperformed the quarterly benchmark. The outperformance was primarily due to overweights in the telecommunications, cable, media and automotive sectors. The overweight to those sectors hurt the one-year performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.5%	1.6%
Last 1 year	8.1	10.3
Last 2 years	8.8	9.3
Last 3 years	9.7	10.1
Last 4 years	7.0	7.3
Last 5 years	7.4	7.5
Since Inception (7/86)	8.7	8.4

Recommendation

No action required.



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending December, 2002

Portfolio Manager: Mike Menssen | **Assets Under Management: $808,258,577**

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund
Tobacco Endowment Funds

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

Staff Comments

The internal bond pool outperformed the quarterly benchmark. The outperformance was primarily due to overweights in the telecommunications, cable, media and automotive sectors The overweight to those sectors hurt the one-year performance.

Quantitative Evaluation

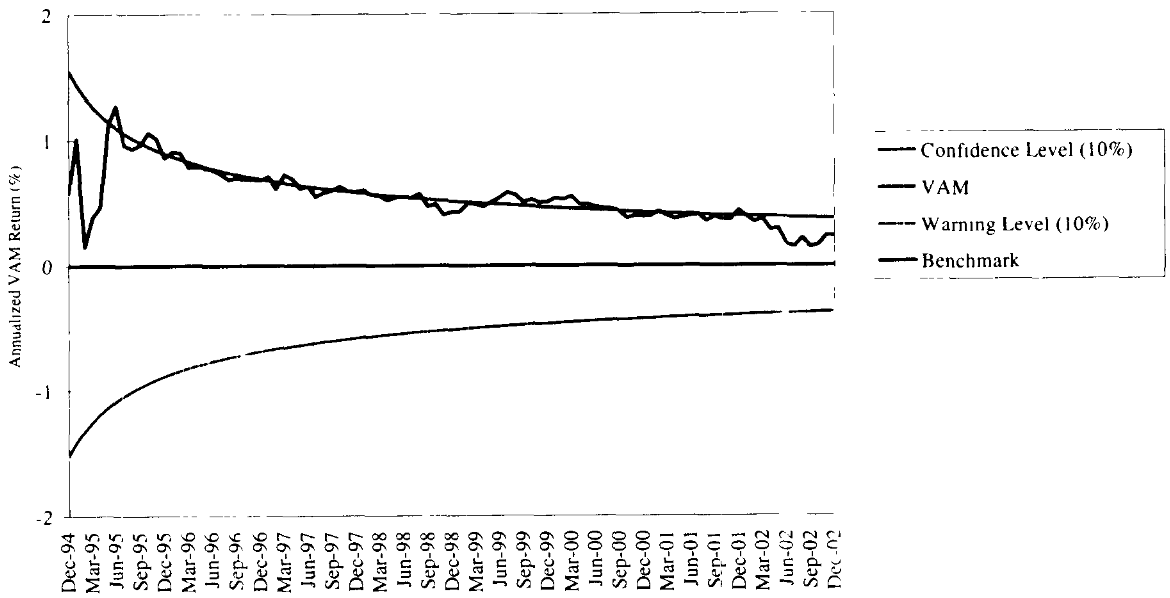
	Actual	Benchmark
Last Quarter	2.4%	1 6%
Last 1 year	8 8	10.3
Last 2 years	9.0	9.3
Last 3 years	9.8	10.1
Last 4 years	7.3	7.3
Last 5 years	7.5	7 5
Since Inception (7/94)*	8 5	8.2

Recommendation

No action required

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

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Cumulative Tracking



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Fourth Quarter, 2002

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending December, 2002

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	3.2	8.4	-24.0	-22.1	-28.6	-14.5	0.8	-0.6	-17.6	-10.7	$191.3
(S&P 500)**											
Mid Cap Equity:											
Morgan Stanley Mid-Cap Value Instl	7.5	5.8	-28.6	-14.4	-8.2	0.8	1.4	6.9	-28.6	-14.4	$7.88
(S&P Mid-Cap 400)											
Small Cap Equity:											
T. Rowe Price Small-Cap Stock	7.2	6.2	-14.2	-20.5	2.5	-7.5	3.6	-1.3	4.8	-3.7	$226.0
(Russell 2000)**											
Equity Index:											
Vanguard Institutional Index Plus	8.4	8.4	-22.0	-22.1	-14.5	-14.5	-0.5	-0.6	-10.7	-10.7	$147.9
(S&P 500)**											
Balanced:											
INVESCO Total Return	5.3	5.9	-12.4	-9.8	-5.8	-5.7	-1.3	2.6	-7.1	-3.6	$79.7
(60% S&P 500/40% Lehman Gov-Corp)**											
Bond:											
Dodge & Cox Income Fund	2.5	1.6	10.8	10.3	10.6	10.1	7.7	7.5	9.2	8.8	$64.5
(Lehman Aggregate)**											
International:											
Fidelity Diversified International	6.1	6.5	-9.4	-15.6	-10.5	-17.2	4.3	-2.9	-0.4	-9.9	$72.2
(MSCI EAFE-Free)**											

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

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

*Morgan Stanley was retained in January 2002; all others, July 1999

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

Fixed Fund:	%
Blended Yield Rate for current quarter***.	5.8
Bid Rates for current quarter:	
Great West Life	3.8
Minnesota Life	3.8
Principal Life	3.9

***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 determine the allocation of new cash flow

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending December, 2002

State's Participation in Fund: $191,348,798
Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $9,475,900,000**

Investment Philosophy
Janus Twenty

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

Staff Comments

Janus underperformed the quarterly and one-year benchmark. An overweight position in healthcare services and an underweight position in the telecommunications and technololgy sectors were detractors to the Fund's performance for the quarter

Quantitative Evaluation

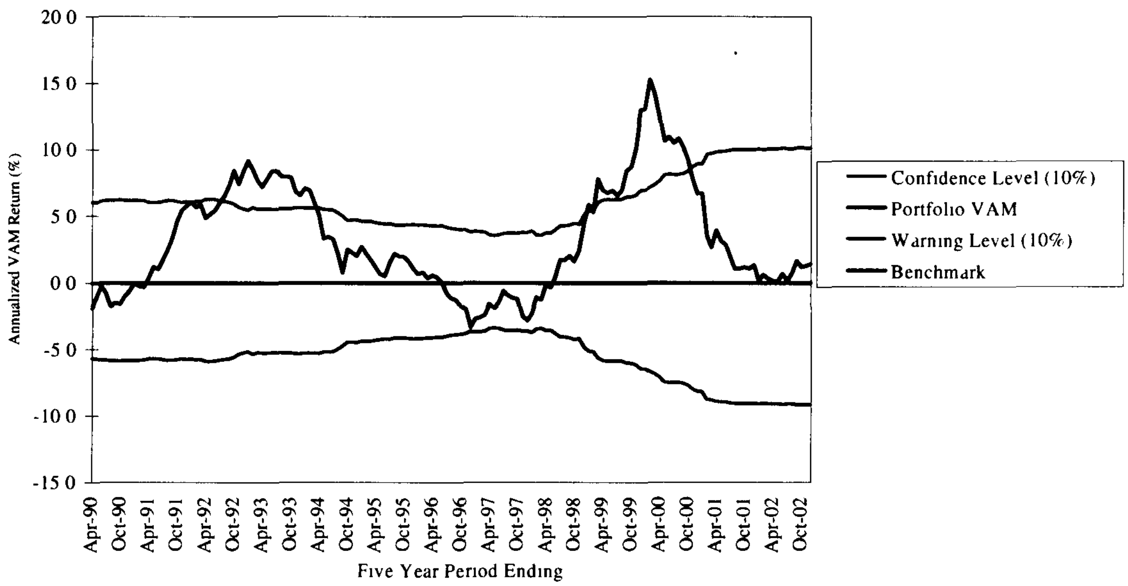
	Actual	Benchmark*
Last Quarter	3.2%	8.4%
Last 1 year	-24.0	-22.1
Last 2 years	-26.7	-17.1
Last 3 years	-28.6	-14.5
Last 4 years	-12.0	-6.8
Last 5 years	0.8	-0.6
Since Retention by SBI (7/99)	-17.6	-10.7

*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
MORGAN STANLEY MID-CAP VALUE INSTITUTIONAL
Periods Ending December, 2002

Portfolio Manager: William Gerlach

State's Participation in Fund: $7,876,116
Total Assets in Fund: $2,235,800,000

Investment Philosophy
Morgan Stanley Mid-Cap Value Institutional

The investment objective of this fund is capital growth. The strategy is to produce a portfolio that focuses on medium-sized companies that are viewed as undervalued The fund normally invests in all economic sectors of the market and distinguishes itself through a value-driven approach to security selection, which combines quantitative and fundamental elements Economic sector weights are normally kept within 5 percentage points of those of the S&P MidCap 400 Index The fund focuses on companies with market capitalizations from $500 million to $5 billion.

Staff Comments

Morgan Stanley outperformed the benchmark for the quarter. The portfolio was helped by strong stock selection across several sectors

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	7.5%	5 8%
Last 1 year	-28 6	-14.4
Last 2 years	-16 9	7 5
Last 3 years	8 2	0 8
Last 4 years	1 9	4 2
Last 5 years	1 4	6 9
Since Retention By SBI (1/02)	-29 4	-19 8

Recommendation

No action required

MID CAP EQUITY - MORGAN STANLEY
Rolling Five Year VAM

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

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending December, 2002

State's Participation in Fund: $226,030,957
Portfolio Manager: Gregory A. McCrickard **Total Assets in Fund: $3,009,790,000**

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

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

Staff Comments

T. Rowe-Price was helped by strong stock selection in a variety of sectors that helped the portfolio's quarterly and one-year results versus the index.

Quantitative Evaluation

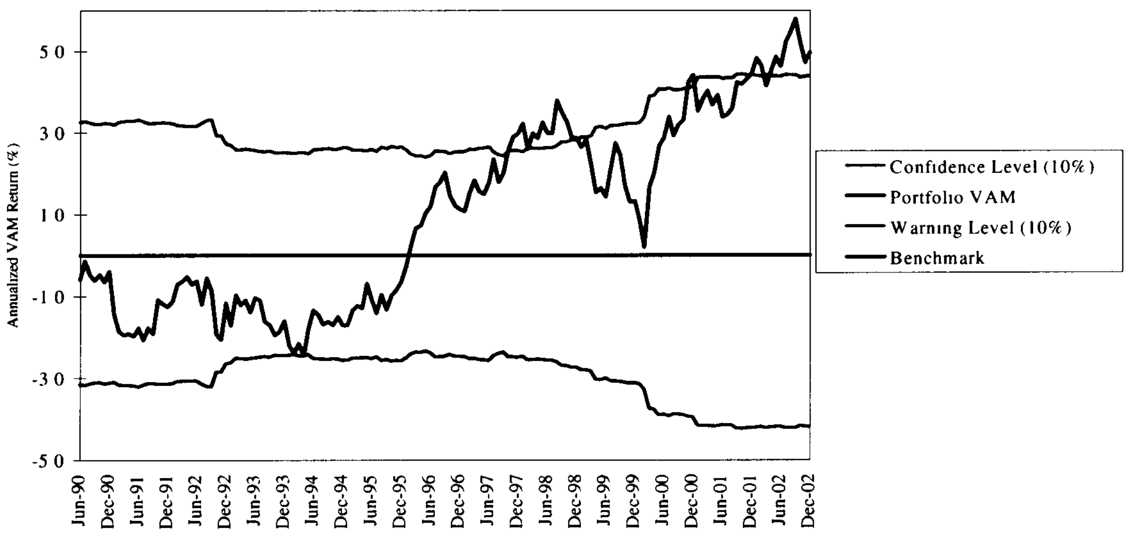
	Actual	Benchmark*
Last Quarter	7.2%	6.2%
Last 1 year	-14.2	-20.5
Last 2 years	-4.3	-9.7
Last 3 years	2.5	-7.5
Last 4 years	5.4	-1.0
Last 5 years	3.6	-1.3
Since Retention by SBI (7/99)	4.8	-3.7

*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 PLUS
Periods Ending December, 2002

	State's Participation in Fund: $147,934,741
Portfolio Manager: George U. Sauter	**Total Assets in Fund: $9,042,246,978**

Investment Philosophy
Vanguard Institutional Index

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

Staff Comments

No comment at this time

Quantitative Evaluation

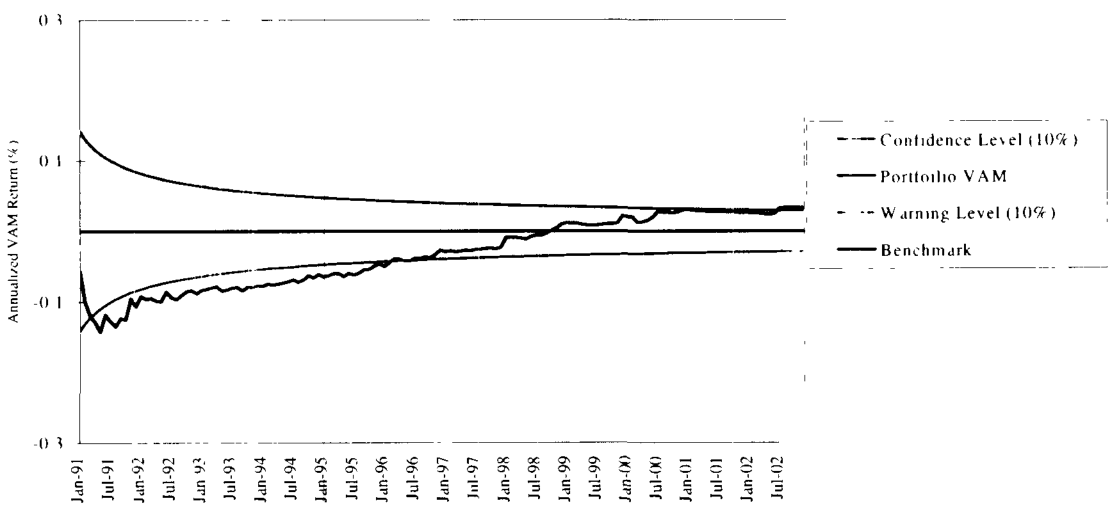
	Actual	Benchmark*
Last Quarter	8.4%	8.4%
Last 1 year	-22.0	-22 1
Last 2 years	-17 1	-17.1
Last 3 years	-14 5	-14.5
Last 4 years	-6 7	6 8
Last 5 years	-0 5	0 6
Since Retention by SBI (7/99)	-10 7	-10 7

*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, 2002

Portfolio Manager: Charlie Mayer

State's Participation in Fund: $79,688,390
Total Assets in Fund: $826,600,000

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

INVESCO trailed the quarterly and one-year benchmark. The quarterly return was hurt by the underperforming bond portion of the portfolio. The fund was negatively impacted by its exposure to the telecommunication and technology sectors over the last year.

Quantitative Evaluation

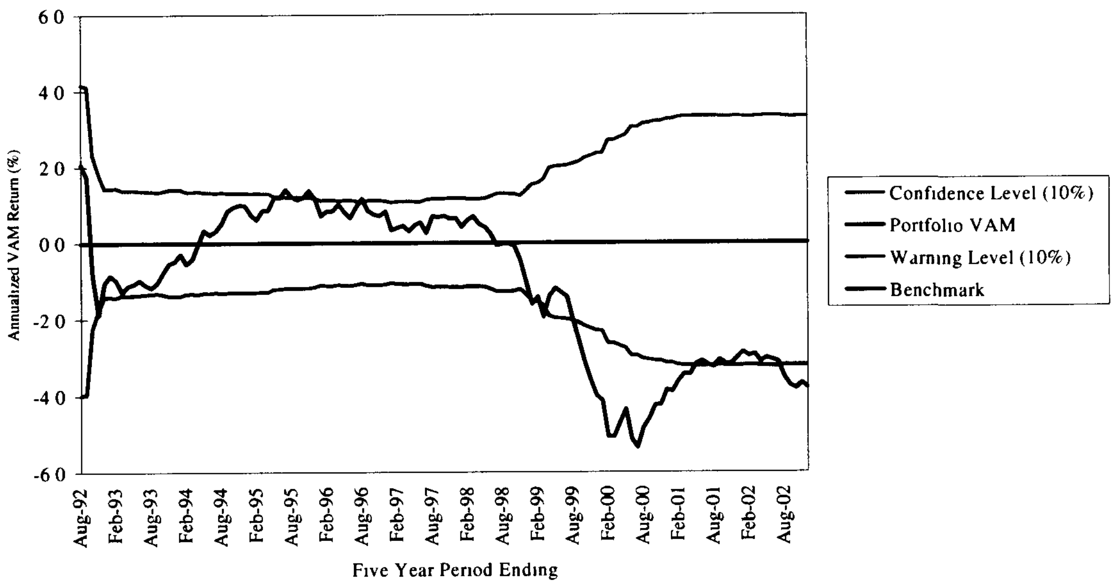
	Actual	Benchmark*
Last Quarter	5.3%	5.9%
Last 1 year	-12.4	-9.8
Last 2 years	-6.9	-6.8
Last 3 years	-5.8	-5.7
Last 4 years	-4.7	-1 7
Last 5 years	-1 3	2 6
Since Retention by SBI (7/99)	-7.1	-3.6

*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, 2002

State's Participation in Fund: $64,533,027
Portfolio Manager: Dana Emery **Total Assets in Fund: $3,404,826,189**

Investment Philosophy
Dodge & Cox Income Fund

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues While the fund invests primarily in the U S bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole

Staff Comments

Dodge and Cox outperformed for the quarter and one-year time periods The portfolio's overweight position to corporate securities helped the quarterly return. The one-year performance was helped by the security selection.

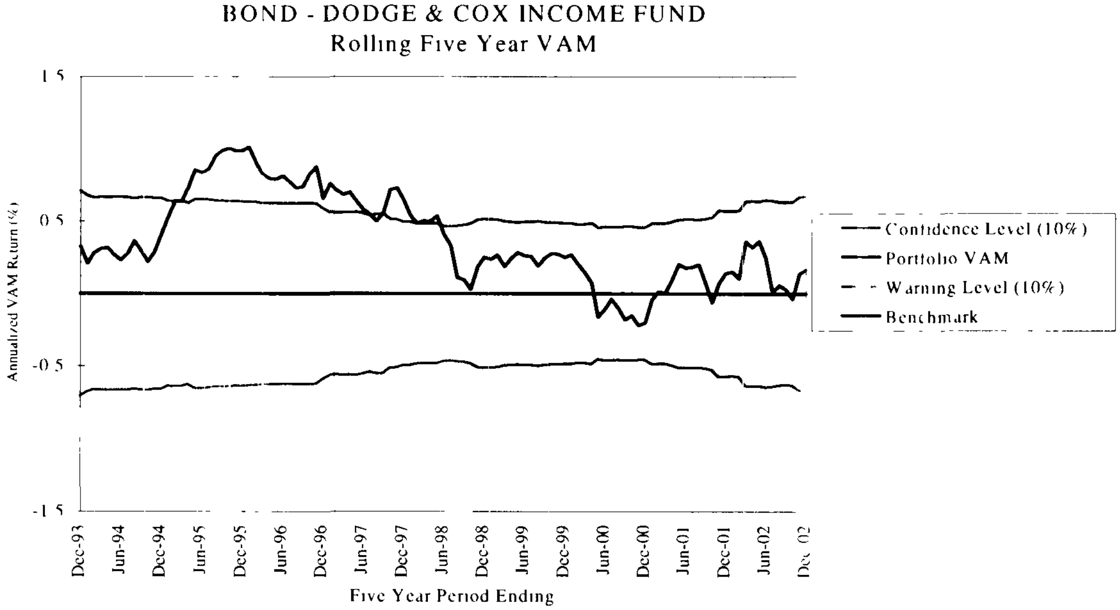
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.5%	1 6%
Last 1 year	10.8	10 3
Last 2 years	10.5	9.3
Last 3 years	10 6	10.1
Last 4 years	7 6	7 3
Last 5 years	7 7	7 5
Since Retention By SBI (7/99)	9 2	8 8

*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



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL - FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending December, 2002

	State's Participation in Fund: $72,240,125
Portfolio Manager: William Bower	**Total Assets in Fund: $7,135,310,000**

Investment Philosophy
Fidelity Diversified International

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of $100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

Staff Comments

Fidelity lagged the quarterly benchmark due to an underweight and unfavorable stock selection in the telecommunication services and financial sectors. The one-year outperformance was due to the strong stock selection across all sectors, particularly the financial sector.

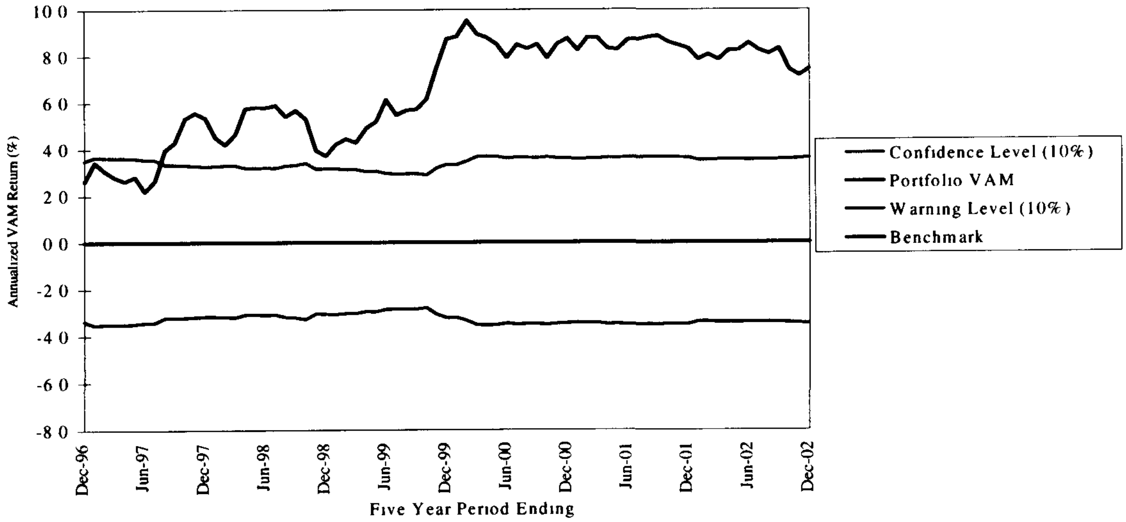
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.1%	6.5%
Last 1 year	-9.4	-15.6
Last 2 years	-11.2	-18.7
Last 3 years	-10.5	-17.2
Last 4 years	2 0	-7 9
Last 5 years	4 3	-2 9
Since Retention By SBI (7/99)	-0.4	-9.9

*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.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending December, 2002

Total Assets in MN Fixed Fund: $385,077,879 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $627,647,008 **
**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: $101,626,774

Investment Philosophy

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

Minnesota Life

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

Assets in MN Fixed Fund: $113,485,205

Assets in Prior MN 457 Plan: $103,266,605

Total Assets: $216,751,809

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: $80,895,943

Assets in Prior MN 457 Plan: $139,305,524

Total Assets: $220,201,468

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, 2002

Current Quarter

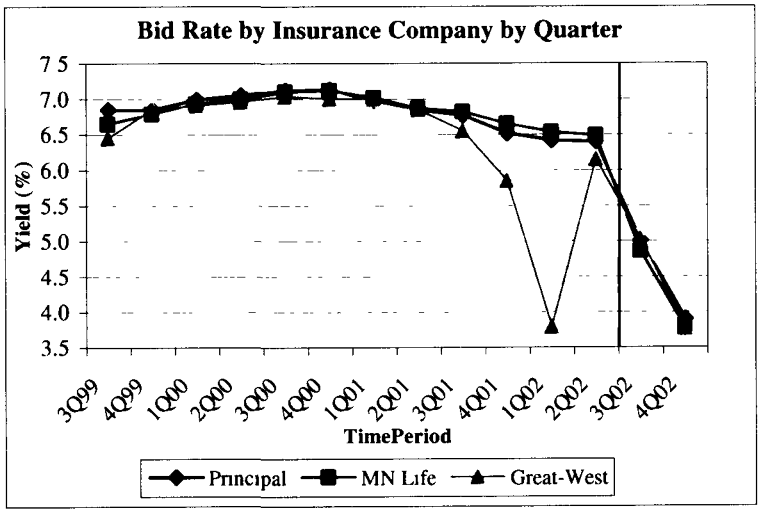
Dollar Amount of Bid: $39,700,000 **Blended Rate: 5.78%**

Bid Rates:

Principal Life	3.90%	Contracts were renewed in June 2002. Bid rates are now effective for five years on new cashflows. The bid rate bands were narrowed to 8 b.p. from 10 b.p. and additional scenarios were added. All changes were effective for 3Q 2002 bids.
Minnesota Life	3.77%	
Great-West Life	3.79%	

Dollar Amount in existing Minnesota Life portfolio: $103,266,605

Rate on existing Minnesota Life portfolio: 5.78 %



Staff Comments on Bid Rates

The line on the graph indicates when the contracts were renewed and the bid rates for the new cash flows became effective for five year periods. Prior to that, the bids were effective for a quarter for the total portfolio.

Staff Comments

	1Q02	2Q02	3Q02	4Q02
Principal Life	30.0%	40.0%	40.0%	40.0%
Minnesota Life	50.0%	40.0%	30.0%	30.0%
Great-West Life	20.0%	20 0%	30.0%	30.0%

For the fourth quarter, Minnesota Life and Great-West Life had a lower percentage allocation of bid dollars as their bid rate was more than 8 bp less than the top bid.

Tab D

COMMITTEE REPORT

DATE: February 25, 2003

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on February 14, 2003 to review the following information and action agenda items:

- Review of current strategy.
- Investment for the Post Retirement Fund with an existing private equity manager, CSFB Strategic Partners.

Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 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.

- 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.

- 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.

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.

ACTION ITEMS

1) **Investment for the Post Retirement Fund with an existing private equity manager, CSFB Strategic Partners, in CSFB Strategic Partners II.**

CSFB Strategic Partners is seeking investors for a new $1.75 billion private equity fund. This fund is a successor to other similar private equity funds managed by CSFB Strategic Partners. The SBI has invested in a prior CSFB Strategic Partners fund. This fund, like the prior fund, will seek to earn attractive returns through opportunistic purchases of existing limited partnership interests from limited partners in private equity investment funds (secondary interests)

More information on CSFB Strategic Partners II, 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 CSFB Strategic Partners II. This commitment is contingent upon changes to the asset allocation parameters for the Post Retirement Fund. These changes are expected to be recommended to the SBI for approval at its June 2003 meeting. 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 CSFB Strategic Partners upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on CSFB Strategic Partners or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
December 31, 2002

Market Value of Basic Retirement Funds	$15,561,116,620
Amount Available for Investment	**$0**

	Current Level	Target Level	Difference
Market Value	$2,174,810,989	$2,334,167,493	$159,356,504
MV +Unfunded	$3,358,932,425	$3,112,223,324	($246,709,101)

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$574,537,479	$53,162,182	$627,699,661
Private Equity	$1,349,008,934	$1,055,684,517	$2,404,693,452
Resource	$251,264,576	$75,274,736	$326,539,312
Total	$2,174,810,989	$1,184,121,436	$3,358,932,425

Minnesota State Board of Investment

Alternative Investments

Post Retirement Funds

December 31, 2002

Market Value of Post Retirement Funds	$15,403,068,629
Amount Available for Investment	**$89,150,723**

	Current Level	Target Level	Difference
Market Value	$681,002,708	$770,153,431	$89,150,723
MV +Unfunded	$1,206,156,317	$1,540,306,863	$334,150,546

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$170,818,162	$109,744,001	$280,562,162
Private Equity	$387,064,268	$350,842,047	$737,906,314
Resource	$123,120,279	$64,567,562	$187,687,841
Total	$681,002,708	$525,153,609	$1,206,156,317

ATTACHMENT B

Minnesota State Board of Investment
- Alternative Investments -
As of December 31, 2002

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
Colony Capital							
Colony Investors II	40,000,000	39,241,164	4,340,402	39,697,500	758,836	4.26	7.75
Colony Investors III	100,000,000	97,952,253	52,206,808	69,829,466	2,047,747	8 74	5.00
Equity Office Properties Trust	140,388,854	140,388,854	48,346,792	223,359,987	0	15 46	11 10
Heitman Advisory Fund V	20,000,000	20,000,000	7,400,759	24,479,357	0	7 46	11 07
Lasalle Income Parking Fund	15,000,000	14,644,401	6,058,204	22,126,093	355,599	11 34	11.28
Lend Lease Real Estate Investments	40,000,000	40,000,000	138,995,120	4,763,551	0	6 38	21.22
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	49,144,025	35,983,959	0	12 77	8 58
Realty Associates Fund IV	50,000,000	50,000,000	54,492,246	28,472,852	0	12 25	5 91
Realty Associates Fund V	50,000,000	50,000,000	51,965,913	10,368,463	0	8 80	3 60
Realty Associates Fund VI	50,000,000	0	0	90,101	50,000,000	N/A	0 51
UBS Realty	42,376,529	42,376,529	161,019,649	0	0	7 22	20 67
Funds in Liquidation (AEW III, Heitman I, II & III, REEF III)	165,000,000	165,000,000	567,562	233,679,593	0		
Real Estate - Basic Total	752,765,383	699,603,201	574,537,479	692,850,921	53,162,182		
Real Estate-Post							
Carbon Capital	50,000,000	15,124,203	15,179,437	0	34,875,797	N/A	0 63
Colony Investors II	40,000,000	39,241,164	4,338,302	39,697,500	758,836	4 25	7 75
CT Mezzanine Partners II	100,000,000	26,218,080	27,038,208	4,978,252	73,781,920	20 68	1 28
Equity Office Properties Trust	117,673,360	117,673,360	48,346,792	69,702,844	0	7 85	1 75
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fund II	13,500,000	13,397,500	5,678,929	15,137,015	102,500	9 71	7 43
Institutional Commercial Mortgage Fund III	21,500,000	21,275,052	19,782,410	10,972,281	224,948	8 56	6 08
Institutional Commercial Mortgage Fund IV	14,300,000	14,300,000	13,706,851	5,359,586	0	8 43	5 00
Institutional Commercial Mortgage Fund V	37,200,000	37,200,000	36,747,233	7,677,625	0	9 28	3 42
Real Estate - Post Total	394,173,360	284,429,359	170,818,162	153,525,102	109,744,001		
Real Estate Total	1,146,938,743	984,032,560	745,355,641	846,376,023	162,906,183		

Minnesota State Board of Investment
- Alternative Investments -
As of December 31, 2002

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Private Equity-Basic</u>							
Bank Fund							
Banc Fund IV	25,000,000	25,000,000	29,917,750	13 568,828	0	12 37	6 87
Banc Fund V	48,000,000	48,000,000	54,388,320	6 009,818	0	9 69	4 46
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	23,078,063	71 655,149	2 728,810	35 17	9 11
Blackstone Capital Partners IV	70,000,000	0	0	0	70 000,000	N/A	0 47
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	49,502,440	36,611,982	21 086,305	497,560	3 67	4 02
Blum Strategic Partners II	50,000,000	21,697,620	20,043,173	439,702	28,302,380	-5 40	1 45
Brinson Partners II	20,000,000	20,000,000	1,145,218	36 710,522	0	24 15	12 09
Churchill Capital Partners II	20,000,000	20,000,000	4,019,868	23 353,067	0	10 49	10 18
Citigroup Venture Capital Equity Partners	100,000,000	28,304,654	26,577,532	117,642	71,695,346	-7 87	1 05
Contrarian Capital Fund II	37,000,000	33,244,395	27,593,013	3,706,267	3,755,605	-1 23	5 59
Coral Partners							
Coral Partners Fund II	10,000,000	8,069,315	580,795	36,117,047	1,930,685	24 93	12 43
Coral Partners Fund IV	15,000,000	15,000,000	6,823,936	10,744,034	0	4 38	8 45
Coral Partners Fund V	15,000,000	14,250,000	8,083,482	152,481	750,000	-18 77	4 54
Crescendo							
Crescendo II	15,000,000	15,000,000	2,921,392	20,347,039	0	25 03	6 00
Crescendo III	25,000,000	25,000,000	4,662,171	8,084,795	0	-29 53	4 15
Crescendo IV	101,500,000	68,512,500	23,663,053	292,567	32 987,500	-42 20	2 81
DLJ							
DLJ Merchant Banking Partners III	125,000,000	62,893 083	59,063,334	4,212,278	62 106,917	-6 21	2 25
DLJ Strategic Partners	100,000,000	52,125,513	46,726,905	11,801,314	47,874,487	10 33	1 95
DSV Partners IV	10,000,000	10,000,000	1,262,256	27,596,934	0	9 53	17 72
First Century Partners III	10,000,000	10,000,000	1,563,856	14,955,832	0	8 36	18 05
Fox Paine Capital							
Fox Paine Capital Fund	40,000,000	40,000,000	31,700,240	0	0	-7 17	4 69
Fox Paine Capital Fund II	50,000,000	10,125,118	7,625,722	0	39,874,882	-29 75	2 50
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	4,356,549	55,522,386	0	30 18	15 17
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	1,121,412	40 094,29	0	24 92	8 91
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	21,984,752	19 459,194	0	8 50	6 50
GTCR Golder Rauner							
GTCR Fund VI	90,000,000	89,137,778	41,358,832	49,263,209	862,222	0 96	4 50
GTCR Fund VII	175,000,000	113,203,125	92 046,281	33 875,156	61,796,875	8 62	2 90
GS Capital Partners 2000	50,000,000	18,243,969	15,767,952	0	31,756,031	-10 46	2 33
GHJM Marathon Fund IV	40,000,000	29,881,000	27,013,470	0	10,119,000	-8 05	3 71
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113 684	6,647,912	54,957,136	7,886,316	33 28	8 28
Hellman & Friedman Capital Partners IV	150,000,000	72,246,289	43,752,284	36,659,565	77,753,711	13 14	3 00
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	11,552,866	202,769,842	0	28 07	16 71
KKR 1987 Fund	145,950 000	145,373,652	70,385,043	330,955,577	576,348	9 12	15 10
KKR 1993 Fund	150,000,000	150,000,000	31,850,205	260,983,320	0	16 45	9 03
KKR 1996 Fund	200,000,000	199,999,988	196,953,875	99,089,020	12	11 00	6 33
KKR Millennium Fund	200,000,000	5,154,000	5,154,000	0	194,846,000	N/A	0 06
Lumina Ventures	30,000,000	2,250,000	2,250,000	0	27,750,000	N/A	0 15
Matrix Partners III	10,000,000	10,000,000	505,572	77,327,244	0	75 13	12 65
Piper Jaffrey Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	9 900,000	8,886,563	1,648,415	100,000	1 64	5 83
Piper Jaffray Healthcare Fund III	20,000,000	17,600,002	13,970,975	1 599,596	2,399,998	-5 65	3 94
Summit Ventures V	25,000,000	20,625 000	10 192 779	9,124,562	4 375,000	-2 65	4 75
T Rowe Price	533,761,495	533,761,495	26,954,909	501,774,231	0	-2 74	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,565,000	22,680,067	2 948,483	1,435,000	-10 27	4 36
Thoma Cressey Fund VII	50,000,000	8,500,000	7,186,495	0	41,500,000	-15 18	2 35
Vestar Capital Partners IV	55,000,000	18,976,167	17,948,624	369,185	36,023,833	-6 45	3 04
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	48,216,803	182,607,453	0	50 49	8 00
Warburg, Pincus Equity Partners	100,000,000	100,000,000	67,771,247	26 692,840	0	-2 53	4 51
Warburg Pincus Private Equity VIII	100,000,000	24,000,000	23,535,552	179,500	76,000,000	N/A	0 71
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	97,000,000	58,970,665	0	3 000,000	-14 85	4 44
Welsh, Carson, Anderson & Stowe IX	125,000,000	48,750,000	37,948,706	0	76,250,000	-16 43	2 51
William Blair Capital Partners VII	50,000,000	13,950,000	13,282,841	0	36,050,000	-4 73	1 82
Funds in Liquidation (Brinson I, Matrix II, Summit I &II, and Zell/Chilmark)	85,000,000	82,300,000	709,644	224,844,063	2,700,000		
Private Equity - Basic Total	3,688,576,834	2,632,892,316	1,349,008,934	2,523,695,888	1,055,684,517		

Minnesota State Board of Investment
- Alternative Investments -
As of December 31, 2002

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity-Post							
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	15,014,449	37,726,917	0	10 11	8 00
Citicorp Mezzanine III	100,000,000	35,368,162	28,511,413	13,647,507	64,631,838	9 51	3 16
DLJ Investment Partners II	50,000,000	16,225,353	17,427,723	2,591,844	33,774,647	6 82	3 00
GS Mezzanine Partners II	100,000,000	61,500,342	56,914,323	1,513,884	38,499,658	-6 31	2 83
GTCR Capital Partners	80,000,000	60,729,336	52,038,725	20,264,819	19,270,664	8 11	3 13
KB Mezzanine Partners Fund II	25,000,000	24,999,999	8,058,069	7,151,873	1	-13 51	7.25
Prudential Capital Partners	100,000,000	41,753,523	39,883,675	3,437,436	58,246,477	2 65	1.70
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	63,216	30,985,377	2,000,000	30 40	8 75
Summit Sub. Debt Fund II	45,000,000	29,250,000	14,947,742	57,201,346	15,750,000	61 01	5 42
T. Rowe Price	52,990,378	52,990,378	98,800	51,844,812	0	-12 65	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	36,756,265	19,816,833	35,379,894	3,243,735	16 10	6 75
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	40,095,719	71,049,400	12,520,954	10 70	4 10
TCW/Crescent Mezzanine Partners III	75,000,000	32,749,602	32,097,955	885,247	42,250,398	-3 47	1 75
William Blair Mezzanine Fund III	60,000,000	38,961,600	37,822,942	3,350,400	21,038,400	2 82	3 00
Windjammer Mezzanine & Equity Fund II	66,708,861	27,093,586	24,272,683	2,010,279	39,615,275	-2 50	2 75
Private Equity - Post Total	954,699,239	603,857,192	387,064,268	339,041,036	350,842,047		
Private Equity Total	4,643,276,073	3,236,749,509	1,736,073,202	2,862,736,923	1,406,526,564		

Minnesota State Board of Investment
- Alternative Investments -
As of December 31, 2002

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource-Basic							
Apache Corp III	30,000,000	30,000,000	3,384,690	47,252,553	0	11 60	16 00
First Reserve							
First Reserve VII	40,000,000	40,000,000	21,146,986	30,397,909	0	8 14	6 50
First Reserve VIII	100,000,000	100,000,000	99,439,016	27,392,824	0	9 00	4 67
First Reserve IX	100,000,000	45,128,068	44,041,655	0	54,871,932	-2 80	1 73
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	6,171,101	27,805,395	2,152,471	10 42	11 40
Simmons - SCF Fund III	25,000,000	22,021,139	34,107,608	20,535,049	2,978,862	18 60	7 50
Simmons - SCF Fund IV	50,000,000	34,728,528	35,795,266	11,856,257	15,271,472	8 03	4 75
T Rowe Price	21,888,430	21,888,430	6,784,000	9,858,468	0	-24 34	N/A
Funds in Liquidation (First Reserve I, II, & V)	38,800,000	38,800,000	394,255	79,693,851	0		
Resource - Basic Total	422,688,430	347,413,694	251,264,576	254,792,306	75,274,736		
Resource-Post							
Merit Energy Partners							
Merit Energy Partners B	24,000 000	24,000,000	30,693,511	14,785,927	0	17 01	6 50
Merit Energy Partners C	50,000 000	36,155,565	53,938,470	3,905 941	13,844,435	20 74	4 18
Merit Energy Partners D	88,000,000	37,276,873	38,488,298	147,000	50,723,127	5 33	1 60
Resource - Post Total	162,000,000	97,432,438	123,120,279	18,838,868	64,567,562		
Resource Total	584,688,430	444,846,132	374,384,855	273,631,174	139,842,298		

ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE – POST FUND

I. BACKGROUND DATA

NAME OF FUND:	CSFB Strategic Partners II, L.P. (the "Fund")
FUND MANAGER:	Credit Suisse First Boston Private Equity
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	Target of $1.25 billion
MANAGER CONTACT:	Steve Can CSFB Private Equity, Inc. Eleven Madison Avenue New York, New York 10010 Phone: (212) 538-7680

II. ORGANIZATION & STAFF

CSFB Strategic Partners II, L.P. ("Strategic Partners II" or the "Fund") is being formed by Credit Suisse First Boston Private Equity ("CSFB Private Equity") to seek capital appreciation through the purchase of secondary interests in high-quality private equity funds from investors seeking liquidity prior to the termination of those funds.

CSFB Private Equity believes it is the largest private equity fund manager in the world, with approximately $26 billion of capital commitments and principal investing activities covering a full range of private equity asset types. Strategic Partners II represents CSFB Private Equity's second fund dedicated to secondary investments. Strategic Partners I, which had its initial closing for third-party investors in January 2001, has capital commitments of $832 million.

Strategic Partners II will capitalize on the unique, global resources of CSFB Private Equity as well as CSFB, one of the world's largest investment banks. The Fund will benefit from a broad, often proprietary, flow of investment opportunities from CSFB's large network of relationships with corporate, public pension and individual investors. Strategic Partners II will also leverage the expertise of more than 25,000 CSFB employees to gain market and company insights that are critical in determining the proper pricing of secondary investments.

The Fund will be led by Stephen H. Can, who has significant expertise in secondary investing and was responsible for establishing Strategic Partners I. Prior to joining CSFB Private Equity, Mr. Can was in the Private Markets group at the IBM U.S.

Retirement Fund where he co-managed a $7.9 billion private markets portfolio and focused on approximately $1 billion of secondary opportunities. He leads a team of 12 investment professionals in the Secondary Group who have extensive financial acumen and have successfully analyzed, negotiated and closed over 50 secondary transactions.

III. INVESTMENT STRATEGY

Strategic Partners II will pursue secondary opportunities primarily in leveraged buyout and mezzanine funds, although real estate, venture capital, distressed securities and fund of funds will also be considered. The Fund will invest opportunistically in cases where the seller's original commitment ranges in size from $100,000 for a single fund holding to $100 million or more for a portfolio of holdings. While the Fund has a global investment mandate, it is anticipated that most of its commitments will be made to funds managed by U.S. and Western European sponsors.

The Fund will follow the strategy of Strategic Partners I to maximize risk-adjusted investment returns by focusing on fundamental analysis and extensive information gathering. The Secondary Group pursues a highly analytic investment approach encompassing detailed analyses of underlying portfolio companies, based on financial and operational data and comparative industry research, and emphasizing pricing discipline rather than volume.

As a leading global investment bank and asset management firm, CSFB has strong relationships with companies and private equity managers. In assessing potential transactions, the Secondary Group has access to a global base of 478 research analysts and 1,600 investment bankers. The Secondary Group believes that this network affords it a critical information edge in analyzing funds and their holdings. In the secondary area, information on underlying funds and their portfolio companies and prospects is often unavailable, making informed analysis difficult. CSFB's professionals' insights on market trends, industry issues and company-specific prospects, which may be shared with the Secondary Group to the extent consistent with client confidentiality, are uniquely available to the Secondary Group, and give the Secondary Group a vital competitive advantage in properly evaluating and pricing secondary purchases.

The Secondary Group believes it will benefit significantly from CSFB's top market positions in private equity, fund placements and high yield, areas that are vital to sourcing and evaluating secondary investments. The investment experience of its professionals should provide industry perspectives which augment the Secondary Group's investment analysis. CSFB's Private Fund Group is the #1 placement agent for private equity funds globally, and its relationships with fund sponsors and investors should provide attractive secondary deal flow. CSFB's High Yield unit, ranked the #1 global high yield underwriter and the #1 global high yield research group, will be a valuable resource in evaluating portfolio companies and in developing relationships with private fund investors.

IV. INVESTMENT PERFORMANCE

Previous performance as of September 30, 2002 for CSFB Strategic Partners I is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
CSFB Strategic Partners I	Jan. 2001	$832 million	$100 million	11.8%

Previous fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. GENERAL PARTNER'S INVESTMENT

At least, $100 million.

VI. TAKEDOWN SCHEDULE

As needed, upon at least ten days notice.

VII. MANAGEMENT FEES AND ALLOCATION AND DISTRIBUTION

Existing investors in Strategic Partners I will have the right to invest in Fund II an amount not to exceed their capital commitment to Strategic Partners I ($100 million for the MSBI) on terms as to fees and carried interest no less favorable than the terms contained in Strategic Partners I.

Strategic Partners I fees included an acquisition fee at the time of each acquisition by the Fund of a Portfolio Investment equal to 1% of the sum of *(a)* the purchase price of each Portfolio Partnership then acquired and *(b)* without duplication, the undrawn capital committed by the Fund to each Portfolio partnership then acquired.

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

(a) 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) 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) 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) 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.

The fee structure and allocation and distribution schedule below applies to two types of investors:
1) Fund II investors who were not in Fund I;
2) Fund II investors who choose to commit an amount greater than their Fund I commitment, on that excess commitment.

Each Limited Partner will pay an annual management fee, payable semi-annually in advance to the Investment Manager during the term of the Partnership. During the Commitment Period, the management fee will be equal to 1.0% per annum of such Limited Partner's Commitment, effective upon the Initial Closing. After the Commitment Period, the management fee will be equal to 1.0% per annum of the reported value of the Fund's investments.

Also, all Partnership distributions will be divided among the Partners as follows:

(i) First, to all Partners pro rata, until the cumulative amount distributed to all Partners is equal to the total capital contributions applied to secondary investments;

(ii) Second, to all Partners pro rata, to provide an 8% compound annual internal rate of return on the amount described in (i) above. ;

(iii) Third, 100% to the General Partner until the General Partner has received in the aggregate 10% of the total amount distributed pursuant to clause (ii) and this clause (iii); and

(iv) Thereafter, 90% to all Partners pro rata and 10% to the General Partner (the amounts distributed to the General Partner pursuant to clause (iii) and this clause (iv).

IX. INVESTMENT PERIOD AND TERM

The Partnership will terminate ten years from the end of its five year commitment period, but may be extended in the discretion of the General Partner for up to four successive one-year periods.

Amounts drawn down, whether to make investments or pay management fees and Partnership Expenses, will reduce a Partner's Commitment and generally may not be restored to unused Commitments unless (i) the amount is drawn down in anticipation of a potential investment and the investment is not consummated or (ii) the amount relates to a secondary investment that gives rise to distributions within 13 months after the investment is made, in which case the amount of distributable cash shall be available for reinvestment by the Partnership in other secondary investments. Distributions are subject to recall to the extent they represent amounts distributed by an Underlying Fund that are themselves subject to recall by the Underlying Fund.