MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 3, 2004

&

INVESTMENT ADVISORY
COUNCIL MEETING
March 2, 2004

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

March 3, 2004

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, March 3, 2004
9:00 A.M. - Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of December 3, 2003	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2003 – December 31, 2003)	
B. Administrative Report	**B**
1. Reports on budget and travel.	
2. Results of FY03 Financial Audit.	
3. Legislative Update.	
4. Litigation Update.	
5. Request by MSRS to approve a record keeping contract for the State's Deferred Compensation Plan.	
3. Domestic Equity Large Capitalization Value Search (Peter Sausen)	**C**
1. Recommendation to hire large capitalization value managers.	
4. Report from the IAC Membership Review Committee (Peter Sausen)	**D**
5. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**E**
1. Review of manager performance.	
2. Update on American Express's acquisition of Threadneedle Asset Management.	
3. Update on the domestic equity large-cap value search.	
4. Update on Deferred Compensation Plan.	
B. Alternative Investment Committee	**F**
1. Review of current strategy.	
2. Recommendation for new investments with five existing managers:	
• TA Associates Realty	
• Goldner Hawn Johnson & Morrison	
• Hellman & Friedman	
• Merit Capital Partners (formerly William Blair Mezzanine)	
• Summit Partners	

Minutes
State Board of Investment
December 3, 2003

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, December 3, 2003 in Room 125 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Pat Anderson Awada; Secretary of State Mary Kiffmeyer; and Attorney General Mike Hatch were present. The minutes of the September 3, 2003 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending September 30, 2003 (Combined Fund 8.1% vs. Composite 8.0%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.3% vs. CPI 3.1%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 8.3% vs. Composite 8.2%) over the last five years and reported that the Post Fund has also outperformed its composite over the last five years period (Post Fund 7.9% vs. Composite 7.7%).

Mr. Bicker reported that the Basic Fund's assets increased 1.0% for the quarter ending September 30, 2003 due to positive investment returns. He said that the asset mix is on target. He reported that the Basic Funds matched its composite index for the quarter (Basic Funds 3.0% vs. Composite 3.0%) and underperformed it for the year (Basic Funds 17.1% vs. Composite 17.5%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 2.8% for the quarter ending September 30, 2003 due to positive investment returns. He said the Post Fund asset mix is on target and that the Post Fund outperformed its composite index for the quarter (Post Fund 3.2% vs. Composite 3.1%) and slightly underperformed it for the year (Post Fund 19.0% vs. Composite 19.1%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stock 3.5% vs. Wilshire 5000 Investable 3.5%) and underperformed it for the year (Domestic Stocks 25.4% vs. Wilshire 5000 Investable 26.1%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 8.5% vs. Int'l Composite 8.7%) and for the year (International Stocks 26.8% vs. Int'l Composite 27.7%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.1% vs. Lehman Aggregate -0.1%) and for the year (Bonds 6.9% vs. Lehman Aggregate 5.4%). He concluded his report with the comment that as of September 30, 2003, the SBI was responsible for over $42 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 announced that the Post Retirement benefit increase for FY03 which is effective January 1, 2004 is 2.1%.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is currently involved in four securities cases. She said that the State has been named lead plaintiff in the class action suit against AOL Time Warner and that motions to dismiss have all been fully briefed. She stated that the Broadcom class action suit has been certified and that recently a motion was filed to reconsider the summary judgment. She noted that the discovery cutoff is March 4, 2004 and that the trial is expected to begin possibly in July 2004. Ms Eller reported that the case against McKesson HBOC is being brought in State court with three other pension funds. She said the proceedings have been very delayed because of the federal criminal charges that have been filed She noted that California has a five year deadline to bring a case to trial, so the State will be seeking relief from that deadline. Ms. Eller stated that the case involving WorldCom was initially filed in State court in Minnesota but that it had moved to federal court in New York and was consolidated with the class claim. She said that the claim is against all the financial institutions that issued the bonds and not against the company itself She noted that the Alaska case, which is almost identical to Minnesota's case, was just tossed out on statute of limitation grounds.

Mr. Bicker reported that the Legislative Auditor had completed its financial audit of the SBI's operations for FY03 and that he expects a "clean opinion". He stated that members will be receiving a draft of the FY03 Annual Report for their review and that the final report will be available in January. He also referred members to the meeting materials for a listing of tentative meeting dates for calendar year 2004.

Deferred Compensation Review Committee

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee is recommending that the Morgan Stanley Midcap Fund in the Deferred Compensation Plan be replaced by the Vanguard Mid Capitalization Index Institutional Fund due to a change in management. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends the Board terminate the relationship with the Morgan Stanley Fund in the State Deferred Compensation Plan. The Committee further recommends that the SBI authorize the Executive Director, with assistance from legal counsel, to negotiate a contract with The Vanguard Group in order to offer the Vanguard Mid Capitalization Index Institutional to participants in the State Deferred Compensation Plan at a date to be determined with the Minnesota State Retirement System."** The motion passed.

Domestic Equity Small-Capitalization Search Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that the SBI had conducted a search for small cap value and growth managers. He said that the Committee interviewed ten candidates and that seven managers are being recommended for hiring, two of which will be part of the Emerging Manager Program. Ms. Awada moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Domestic Equity Search Committee recommends that the following firms be retained for the Domestic Equity Program:**

Small Capitalization Value Managers	
Goldman Sachs Asset Management	**New York, NY**
Hotchkis & Wiley Capital Management	**Los Angeles, CA**
Kenwood Capital Management (Emerging Manager)	**Minneapolis, MN**
Martingale Asset Management	**Boston, MA**
Small Capitalization Growth Managers	
McKinley Capital Management	**Anchorage, AK**
Turner Investment Partners	**Berwyn, PA**
US Bancorp Asset Management (Emerging Manager)	**Milwaukee, WI**

and that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a contract with each firm." The motion passed.

Stock and Bond Manager Committee

Mr. Troutman referred members to Tab E of the meeting materials and stated that the Committee is recommending the termination of Lincoln Equity Management due to concerns regarding restructuring, staffing changes and poor performance. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI terminate its relationship with Lincoln Equity Management, LLC for investment management services in the Domestic Equity Program."** The motion passed.

Mr. Troutman reported that the Committee is recommending the termination of GeoCapital Corporation due to concerns related to performance, lack of transition plan and other organizational issues. Ms. Awada moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI terminate its relationship with GeoCapital Corporation for investment management services in the Domestic Equity Program."** The motion passed.

Mr. Troutman stated that the third recommendation from the Committee is to terminate Artemis Asset Management due to concerns about performance and organizational changes. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI terminate its relationship with Artemis Asset Management LLC for investment management services in the Domestic Equity Program."** The motion passed.

Alternative Investment Committee

Mr. Troutman referred members to Tab F of the meeting materials and stated that the Committee is recommending three investments this quarter. He said the first recommendation is for an investment with an existing resource manager, First Reserve, in First Reserve X, L.P. Ms. Awada moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in First Reserve Fund X L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by First Reserve 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 First Reserve or reduction or termination of the commitment."** The motion passed.

Mr. Troutman stated that the second recommendation is for an investment with an existing yield-oriented resource manager, Merit Energy, in Merit Energy Fund E, L.P. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads. **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Merit Energy Fund E, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Merit Energy upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Merit Energy or reduction or termination of the commitment."** The motion passed.

Mr. Troutman reported that the Committee's third recommendation is for an investment with a new private equity manager, Silver Lake, in Silver Lake Partners II, L.P. Ms Awada moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Silver Lake Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Silver Lake 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 Silver Lake or reduction or termination of the commitment." The motion passed.

The meeting adjourned at 9:25 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

March 2, 2004

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, March 2, 2004
2:00 P.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

	TAB
1. Approval of Minutes of December 2, 2003	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2003 – December 31, 2003)	
B. Administrative Report 1. Reports on budget and travel. 2. Results of FY03 Financial Audit. 3. Legislative Update. 4. Litigation Update. 5. Request by MSRS to approve a record keeping contract for the State's Deferred Compensation Plan.	**B**
3. Domestic Equity Large Capitalization Value Search 1. Recommendation to hire large capitalization value managers.	**C**
4. Report from the IAC Membership Review Committee	**D**
5. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (John Bohan) 1. Review of manager performance. 2. Update on American Express's acquisition of Threadneedle Asset Management. 3. Update on the domestic equity large-cap value search. 4. Update on Deferred Compensation Plan.	**E**
B. Alternative Investment Committee (Ken Gudorf) 1. Review of current strategy. 2. Recommendation for new investments with five existing managers: • TA Associates Realty • Goldner Hawn Johnson & Morrison • Hellman & Friedman • Merit Capital Partners (formerly William Blair Mezzanine) • Summit Partners.	**F**

Minutes
Investment Advisory Council
December 2, 2003

MEMBERS PRESENT:	Frank Ahrens; Gary Austin; Dave Bergstrom; Heather Johnston; Hon. Ken Maas; Judy Mares; Malcolm McDonald; Gary Norstrem; Daralyn Peifer; Mike Troutman; and Mary Vanek.
MEMBERS ABSENT:	Kerry Brick; John Bohan; Ken Gudorf; Doug Gorence; P. Jay Kiedrowski; and Dan McElroy.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Andy Christensen; Tammy Brusehaver-Derby; Stephanie Gleeson; Susan Sutton; John Griebenow; Debbie Griebenow; and Carol Nelson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Carla Heyl; Peter Sausen; Robert Heimerl, Jerry Irsfeld, REAM; Shane McDaniel, Brian Schmidt, Matthew Sznewajs, USbancorp Piper Jaffray; and Pete Obermeyer.

The minutes of the September 2, 2003 meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded its Composite Index over the ten year period ending September 30, 2003 (Combined Funds 8.1% vs. Composite 8.0%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.3% vs. CPI 3.1%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 8.3% vs. Composite 8.2%) over the last five years and reported that the Post Fund has also outperformed its composite over the last five years period (Post Fund 7.9% vs. Composite 7.7%).

Mr. Bicker reported that the Basic Fund's assets increased 1.0% for the quarter ending September 30, 2003 due to positive investment returns. He said that the asset mix is on target. He reported that the Basic Funds matched its composite index for the quarter (Basic Funds 3.0% vs. Composite 3.0%) and underperformed it for the year (Basic Funds 17.1% vs. Composite 17.5%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 2.8% for the quarter ending September 30, 2003 due to positive investment returns. He said the Post Fund asset mix is on target and that the Post Fund outperformed its composite index for the quarter (Post Fund 3.2% vs. Composite 3.1%) and slightly underperformed it for the year (Post Fund 19.0% vs. Composite 19 1%).

Mr Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stock 3.5% vs. Wilshire 5000 Investable 3.5%) and underperformed it for the year (Domestic Stocks 25.4% vs. Wilshire 5000 Investable 26.1%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 8.5% vs. Int'l Composite 8.7%) and for the year (International Stocks 26.8% vs. Int'l Composite 27.7%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds 0.1% vs. Lehman Aggregate -0.1%) and for the year (Bonds 6.9% vs. Lehman Aggregate 5.4%). He concluded his report with the comment that as of September 30, 2003, the SBI was responsible for over $42 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 announced that the Post Retirement benefit increase for FY03 which is effective January 1, 2004 is 2.1%.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is currently involved in four securities cases. Ms. Eller stated that the case involving WorldCom was consolidated with the class claim. She said that the claim is against all the financial institutions that issued the bonds and not against the company itself. She noted that the Alaska case, which is almost identical to Minnesota's case, was just tossed out on statute of limitation grounds and that she expects that ruling to be applied to the other actions, including the State's case. She said the State is evaluating its options. She said that the State has been named lead plaintiff in the class action suit against AOL Time Warner and that motions to dismiss have all been fully briefed. She said that several parties in the case are requesting oral arguments and that it may be a while before the judge makes that ruling. She stated that the Broadcom class action suit has been certified and that recently a motion was filed to reconsider the summary judgment. She noted that the discovery cutoff is March 4, 2004 and that the trial is expected to begin possibly in July 2004. Ms. Eller reported that the case against McKesson HBOC is being brought in State court with three other pension funds. She said the proceedings have been very delayed because of the federal criminal charges that have been filed but that discovery is now proceeding. She noted that California has a five year deadline to bring a case to trial, so the State will be seeking relief from that deadline.

Mr. Bicker reported that the Legislative Auditor had completed its financial audit of the SBI's operations for FY03 and that he expects a "clean opinion" He stated that members will be receiving a draft of the FY03 Annual Report for their review and that the final report will be available in January He also referred members to the meeting materials for a listing of tentative meeting dates for calendar year 2004.

Deferred Compensation Review Committee
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee is recommending that the Morgan Stanley Midcap Fund in the Deferred Compensation Plan be replaced by the Vanguard Mid Capitalization Index Institutional Fund due to a change in management. Mr. McDonald moved approval of endorsing the Committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.

Domestic Equity Small-Capitalization Search Committee
Mr. Sausen referred members to Tab D of the meeting materials and stated that the SBI had conducted a search for small cap value and growth managers. He said that the Committee interviewed ten candidates and that seven managers are being recommended for hiring, two of which will be part of the Emerging Manager Program. Mr. Norstrem moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. In response to a question from Mr. Troutman, Mr. Bicker stated that staff and the Committee believe that the number of managers being recommended provides the SBI with good diversification and also promises sufficient capacity so that if a manager does not work out, there is room for additional assets without having to conduct another search in the near term. He also added that fees had been renegotiated and that the allocations to the managers are past the fee break points. The motion passed. In response to a question from Mr. McDonald, Mr. Bicker confirmed that the manager contracts do not contain dollar amounts to be allocated, and he stated the tentative allocation amounts to the small cap and emerging managers are based on the need to control overall risk and the firms' ability to take assets.

Stock and Bond Manager Committee
Mr. Norstrem referred members to Tab E of the meeting materials and briefly reviewed the stock and bond manager performance.

Mr. Bicker noted that staff has sent letters to all the stock and bond managers requesting information on what actions they are taking regarding their mutual funds to comply with state and federal law and SEC requirements.

Mr. Norstrem stated that the Committee is recommending the termination of Lincoln Equity Management due to concerns regarding restructuring, staffing changes and poor performance. Mr. Norstrem moved approval of the Committee's recommendation, as stated in the Committee Report. The motion passed.

Mr. Norstrem reported that the Committee is recommending the termination of GeoCapital Corporation due to concerns related to performance, lack of a transition plan and other organizational issues. Mr. Norstrem briefly discussed these concerns and moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Bicker stated that staff had recommended either to terminate GeoCapital or to reduce their allocation to $100 million. The discussion continued regarding the upcoming expiration of employment contracts for two of the key portfolio managers and the impact it would have on the firm. In response to a question from Judge Maas, Mr. Bicker reported that the two managers had indicated that they may continue to work, but that it may not be full-time. In response to a question from Ms Mares, Mr Bicker stated that staff does not disagree with the Committee's decision to terminate In response to a question from Mr. Troutman, Mr. Bicker stated that GeoCapital had experienced some serious performance issues during the past few years. Mr. Ahrens commented that the new small cap growth managers in the manager search had better performance than GeoCapital over the same three-year period. Ms. Peifer stated that she believes performance alone would not be sufficient reason to terminate the manager, but that with the reduction in assets under management and concerns about two principals of the firm leaving in the near term, she feels the termination recommendation is appropriate. In response to a question from Ms. Johnston, Mr. Bicker confirmed that the SBI has an immediate escape clause in all its contracts. The motion passed.

Mr. Norstrem stated that the third recommendation from the Committee is to terminate Artemis Asset Management due to concerns about performance and organizational changes. Mr. Norstrem moved approval of the Committee's recommendation, as stated in the Committee Report In response to a question from Mr Troutman, Mr. Bicker stated that staff and the Committee had three areas of concern. He said the manager had one key manager leave, that their style of management does not coincide with how the program is currently structured, and they were not able to explain their performance issues very well, causing staff to lose faith in their ability to make money for the SBI. The motion passed.

In response to questions from Ms. Mares, Mr. Bicker and Ms. Posey reviewed Schroders performance data and noted that Schroders performance since they were retained by the SBI was affected by poor performance during the first few quarters that they were hired. Mr. Bicker added that the firm's performance recently has been much improved.

Alternative Investment Committee
Ms. Mares referred members to Tab F of the meeting materials and stated that the Committee is recommending three investments this quarter. She said the first recommendation is for an investment with an existing resource manager, First Reserve, in First Reserve X, L.P. and she briefly reviewed the investment.

Ms. Mares stated that the Committee's second recommendation is for an investment with an existing yield-oriented resource manager, Merit Energy, in Merit Energy Fund E, L.P. She reported that the third recommendation is for an investment with a new private equity manager, Silver Lake, in Silver Lake Partners II, L.P. Ms. Mares moved approval of all three of the Committee's recommendations, as stated in the Committee Report. In response to a question from Mr. Troutman, Mr. Bicker stated that the fees for the Merit Energy fund are comparable for that type of investment. The motion passed.

In response to a question from Mr. Troutman, Mr. Bicker reviewed the tentative time frame staff is looking at for the alternative investment area. He said that this quarter's activity level is not unusual and that the SBI has a diverse group of existing funds with which it can reinvest in the future, in addition to finding new investments He added that the number of alternative investments recommended each quarter is likely to vary and that staff does not feel rushed to commit their funds over the next five years.

The meeting adjourned at 10:00 A.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 12/31/2003

COMBINED FUNDS: $36.6 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.	**8.9% (1)**	0.1 percentage point above target
Provide Real Return (20 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	**10.8%**	7.8 percentage points above CPI

BASIC RETIREMENT FUNDS: $18.4 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.	**9.1%**	0.1 percentage point above target

POST RETIREMENT FUND: $18.2 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.	**8.7%**	0.2 percentage point above target

(1) Performance is calculated net of fees.

SUMMARY OF ACTUARIAL VALUATIONS

All Eight Plans of MSRS, PERA and TRA Including Post Fund
July 1, 2003

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$32.0 billion	$21.2 billion	$53.2 billion
2. Accrued Liabilities	22.9	21.2	44.1
Asset Measures			
3. Current and Future Actuarial Value	$30.8 billion	$21.2 billion	$52.0 billion
4. Current Actuarial Value	21.1	21.2	42.3
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	96%	100%	98%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	92%	100%	96%*

* 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:

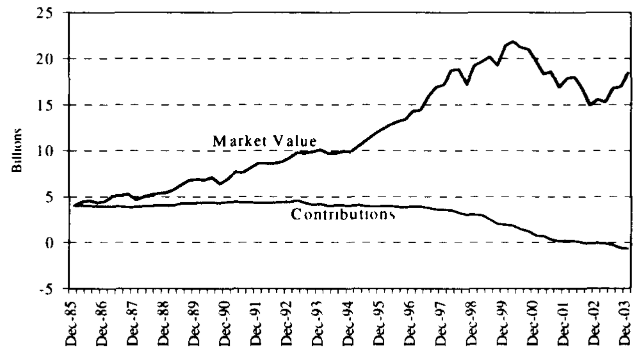
Salary Growth: 6.5%, resulting from a graded rate future increase assumption
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2031

EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 8.8% during the fourth quarter of 2003 Positive investment returns accounted for the increase.



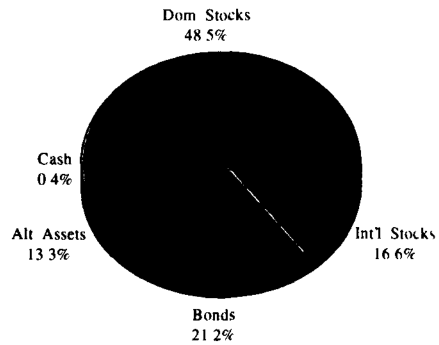
	Asset Growth During Fourth Quarter 2003 (Millions)
Beginning Value	$ 16,952
Net Contributions	-48
Investment Return	1,531
Ending Value	$ 18,435

Asset Mix

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

	Policy Targets	Actual Mix 12/31/2003	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	48.5%	$8,938
Int'l. Stocks	**15.0**	16.6	3,059
Bonds	**24.0**	21.2	3,918
Alternative Assets*	**15.0**	13.3	2,454
Unallocated Cash	**1.0**	0.4	65
	100.0%	100.0%	$18,434

* Any uninvested allocation is held in domestic stocks

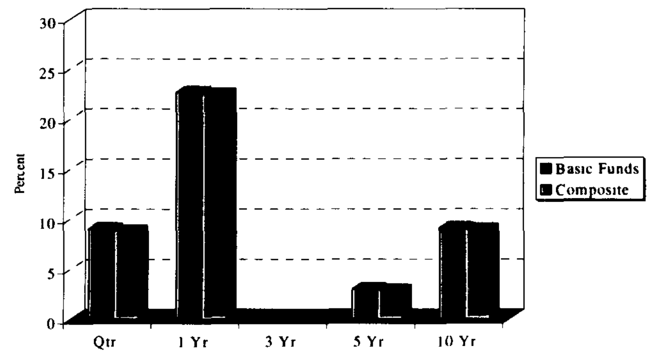


Fund Performance (Net of Fees)

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

Period Ending **12/31/2003**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Basics	**9.0%**	**22.7%**	**0.3%**	**3.0%**	**9.1%**
Composite	8.8	22.4	0.1	2.9	9.0



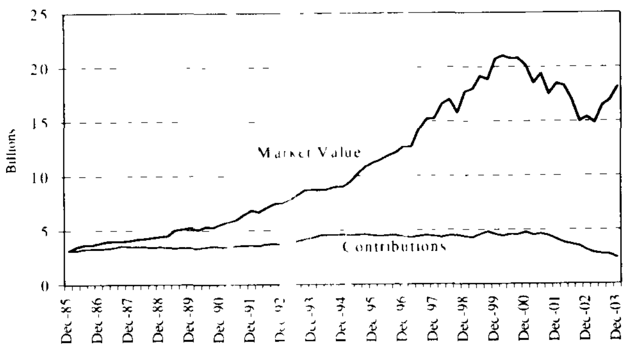
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 7.3% during the fourth quarter of 2003. Positive investment returns accounted for the increase.

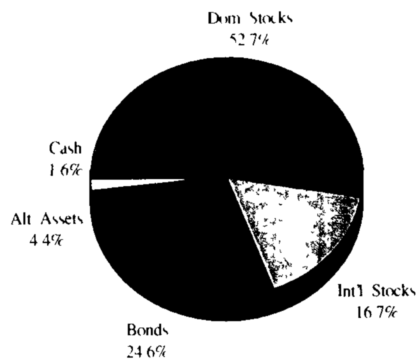
	Asset Growth During Fourth Quarter 2003 (Millions)
Beginning Value	$16,922
Net Contributions	-308
Investment Return	1,548
Ending Value	$18,162



Asset Mix

The international stock allocation increased this quarter due to their relative outperformance of other asset classes. The allocation to domestic stocks decreased due to rebalancing.

	Policy Targets	Actual Mix 12/31/2003	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	52.7%	$9,572
Int'l Stocks	**15.0**	16.7	3,029
Bonds	**25.0**	24.6	4,462
Alternative Assets*	**12.0**	4.4	802
Unallocated Cash	**3.0**	1.6	297
	100.0%	100.0%	$18,162



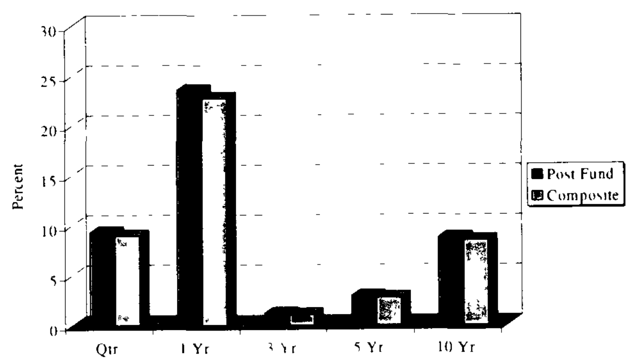
* Any uninvested allocation is held in domestic stocks.

Fund Performance (Net of Fees)

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

Period Ending **12/31/2003**

	Qtr	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)
Post	**9.3%**	**23.5%**	**1.2%**	**2.9%**	**8.7%**
Composite	8.9	22.8	1.1	2.8	8.5



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

Domestic Stocks

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

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

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Dom. Stocks	**12.3%**	**31.0%**	**-3.3%**	**-0.5%**	**10.0%**
Asset Class Target*	12.4	31.2	-3.1	-0.2	10.3

* The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03. From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

International Stocks

The international stock manager group (active and passive combined) underperformed its target for the quarter and one-year time periods.

MSCI ACWI Free ex U.S. (net): The Morgan Stanley Capital International All Country World Index is a free float-adjusted market capitalization Index that is designed to measure equity market performance in the global developed and emerging markets. There are 48 countries included in this index. It does not include the United States.

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Int'l. Stocks	**16.5%**	**38.2%**	**-1.4%**	**1.8%**	**5.2%**
Asset Class Target*	17.1	40.1	-1.6	1.0	4.2

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) effective 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap. From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bonds

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

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

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**0.8%**	**5.7%**	**8.0%**	**6.9%**	**7.2%**
Asset Class Target*	0.3	4.1	7.6	6.6	7 0

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

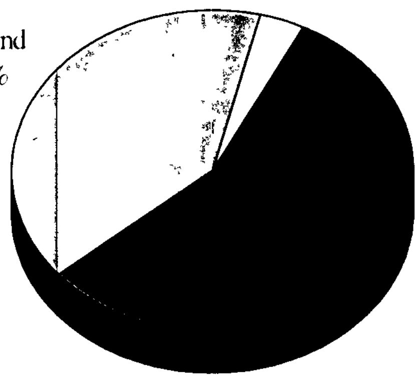
Alternative Investments

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Alternatives	**3.9%**	**11.3%**	**-0.1%**	**9.1%**	**12.4%**

EXECUTIVE SUMMARY

Funds Under Management



	12/31/2003 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$18.4
Post Retirement Fund	18.2
Supplemental Investment Fund	1.7
State Deferred Compensation Plan Non-SIF Assets	1.7
Non-Retirement Funds*	
Assigned Risk Plan	0.2
Permanent School Fund	0.6
Environmental Trust Fund	0.3
State Cash Accounts	4.5
Total	$45.6

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Fourth Quarter 2003
(October 1, 2003 - December 31, 2003)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/2003				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	12.4%	31.6%	-2.5%	0.4%	10.6%
Dow Jones Industrials	13.4	28.3	1.0	4.6	13.1
S&P 500	12.2	28.7	-4.1	-0.6	11.1
Russell 3000 (broad market)	12.4	31.1	-3.1	0.4	10.8
Russell 1000 (large cap)	12.3	29.9	-3.8	-0.1	11.0
Russell 2000 (small cap)	14.5	47.3	6.3	7.1	9.5
Domestic Fixed Income					
Lehman Aggregate (1)	0.3	4.1	7.6	6.6	6.9
Lehman Gov't./Corp.	0.0	4.7	8.0	6.7	7.0
3 month U.S. Treasury Bills	0.2	1.0	2.1	3.5	4.3
International					
EAFE (2)	17.1	38.6	-2.9	-0.1	4.5
Emerging Markets Free (3)	17.8	56.3	12.8	10.6	0.2
ACWI Free ex-U.S. (4)	17.1	41.4	-1.0	1.5	4.7
World ex-U.S. (5)	17.0	39.4	-2.6	0.4	4.7
Salomon Non U.S. Gov't. Bond	6.7	18.5	11.7	5.2	6.7
Inflation Measure					
Consumer Price Index (6)	-0.5	1.9	1.9	2.4	2.4

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

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

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000, advanced by 12.4% during the fourth quarter of 2003. An economic recovery in the U.S. is underway, and corporations have reported strong earnings. The market reacted favorably to the positive news. During the quarter, the stock of small companies outperformed larger companies, and value companies outperformed growth companies. Non-Energy Minerals (metals, minerals, steel, and aluminum) was the best performing sector, while Retail Trade was the worst performing sector in the market.

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

Large Growth	Russell 1000 Growth	10.4%
Small Value	Russell 1000 Value	14.2%
Small Growth	Russell 2000 Growth	12.7%
Small Value	Russell 2000 Value	16.4%

The Russell 3000 returned 31.1% for the year ending December 31, 2003.

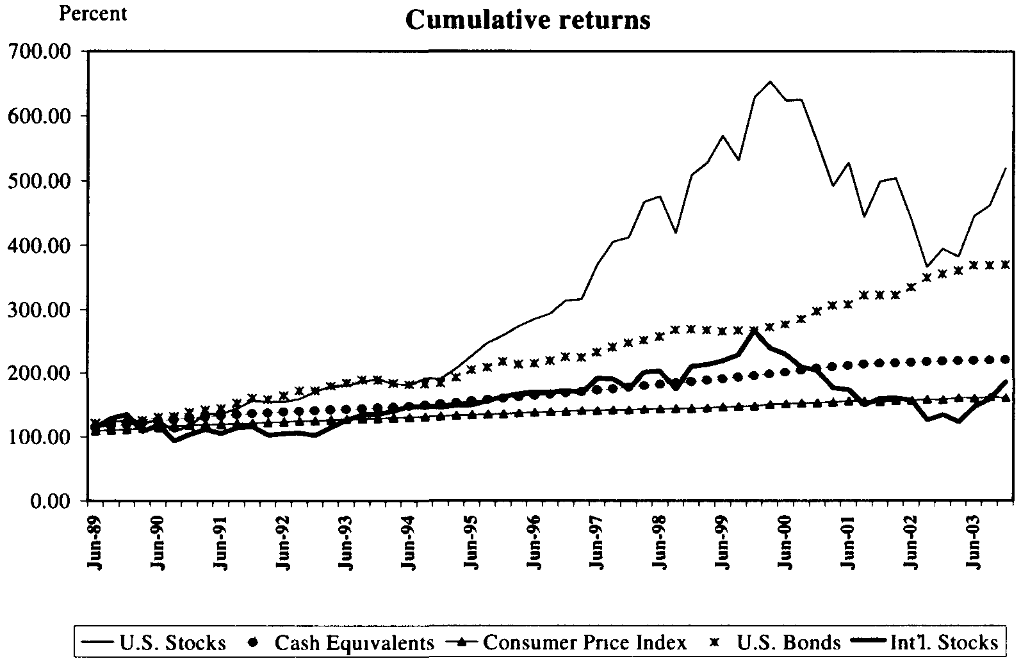
DOMESTIC BONDS

The bond market generated a positive return of 0.3% for the quarter and posted a gain of 4.1% for the year. The quarterly return was helped by positive returns in corporates and mortgages. After a record underperformance in July, mortgages rebounded in the fourth quarter as mortgage spreads and volatility decreased. Corporates outperformed comparable duration Treasuries, continuing its 11-month string of outperformance versus Treasuries. Corporate yield premiums narrowed during the quarter, aided by the positive underlying economic environment, solid earnings reports, and a strong equity market.

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

Treasury/Agency	-0.4%
Credit	0.5
Mortgages	0.9

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, developed international stock markets (as measured by the MSCI World ex U S. index) provided a return of 17 0% for the quarter The quarterly performance of the six largest stock markets is shown below

United Kingdom	18 2%
Japan	8 4
France	22 5
Switzerland	16 2
Germany	31 3
Canada	15.8

The World ex U.S. index increased by 39 4% during the last year.

The World ex U S. index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 22 markets located in Europe, Australasia, Far East, and Canada The major markets listed above comprise about 73% of the value of the international markets in the index

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 17 8% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	14 3%
Taiwan	3 1
South Africa	20 4
Mexico	10.0
Brazil	38 3

The Emerging Markets Free index increased by 56.3% 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 has contributed 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 look for a more restrained supply to lead to improving fundamentals in the latter half of 2004

PRIVATE EQUITY

U S. private equity firms raised $44 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2003 That represents a 26% decrease from the revised prior year total of $59 billion. This is the third year of significant decreases in funds raised.

RESOURCE FUNDS

During the fourth quarter of 2003, crude oil averaged $31.11 per barrel, slightly higher than an average price of $30.21 during the third quarter of 2003. The sustained high oil prices 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.

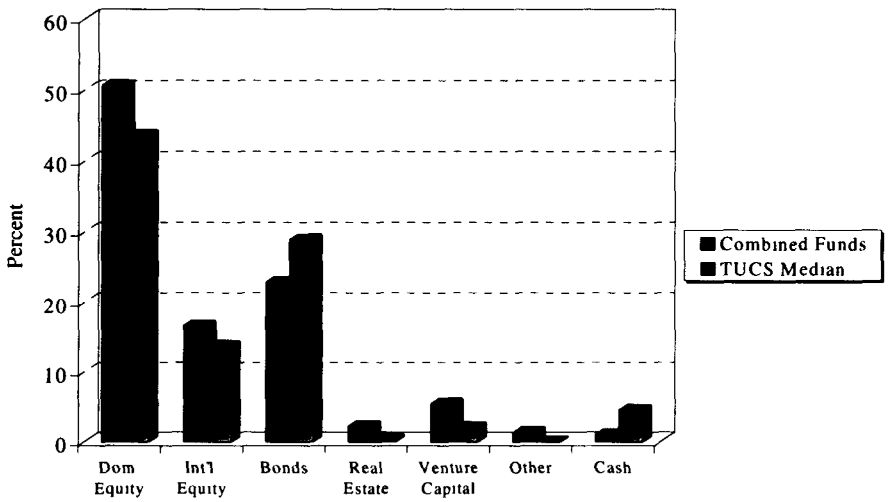
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 2003, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$18,510	50.6%
International Stocks	6,088	16.6
Bonds	8,380	22.9
Alternative Assets	3,256	8.9
Unallocated Cash	363	1.0
Total	$36,597	100.0%

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



	Dom. Equity	Int'l Equity	Bonds	Real Estate	Venture Capital	Other	Cash
Combined Funds	**50.6%**	**16.6%**	**22.9%**	**2.2%**	**5.4%**	**1.3%**	**1.0%**
Median Allocation in TUCS*	47.7	14.8	26.5	0.2	2.7	0.0	4.5

* Public and corporate plans over $1 billion.

COMBINED FUNDS
Performance Compared to Other Pension Funds

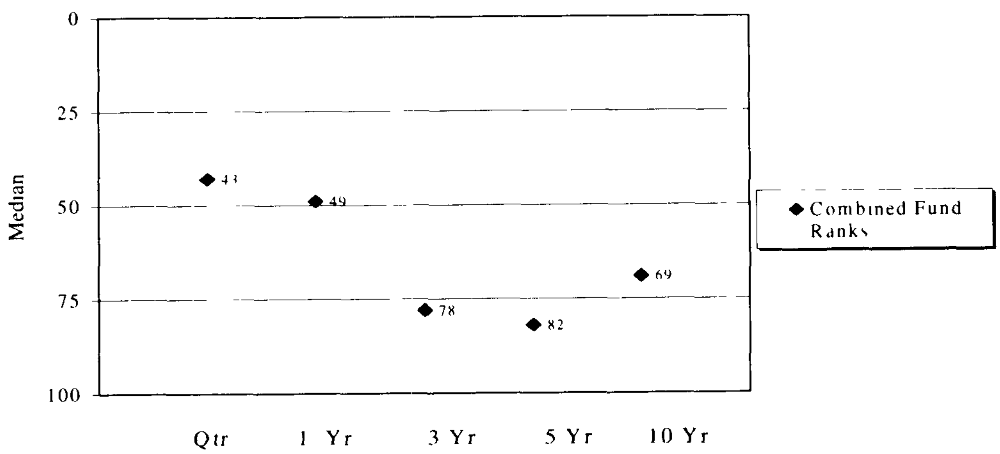
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care There are several reasons why such comparisons will provide an "apples to oranges" look at performance

— **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



Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	43rd	49th	78th	82nd	69th

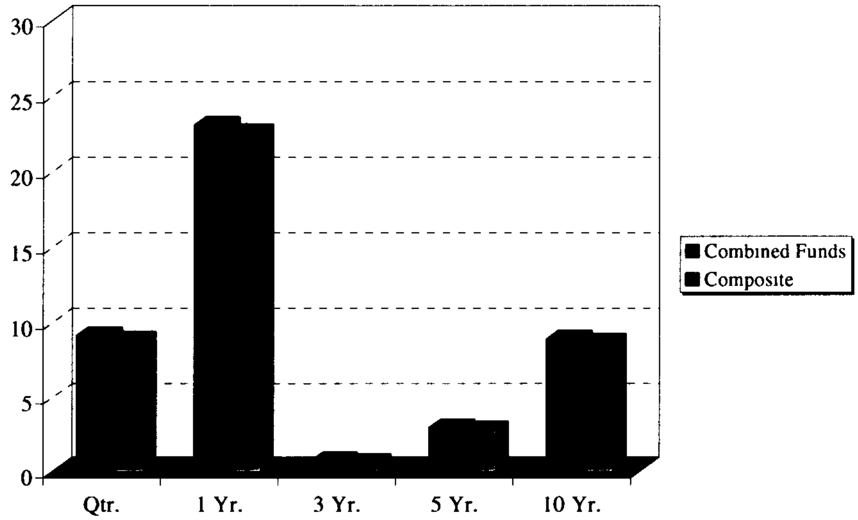
* Compared to public and corporate plans greater than $1 billion, gross of fees

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* 4Q03
Domestic Stocks	Russell 3000	48.7%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	25.7*
Alternative Investments	Alternative Investments	9.3*
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 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Combined Funds**	**9.2%**	**23.1%**	**0.7%**	**3.0%**	**8.9%**
Composite Index	8.9	22.6	0.6	2.8	8.8

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

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BASIC RETIREMENT FUNDS

Investment Objectives

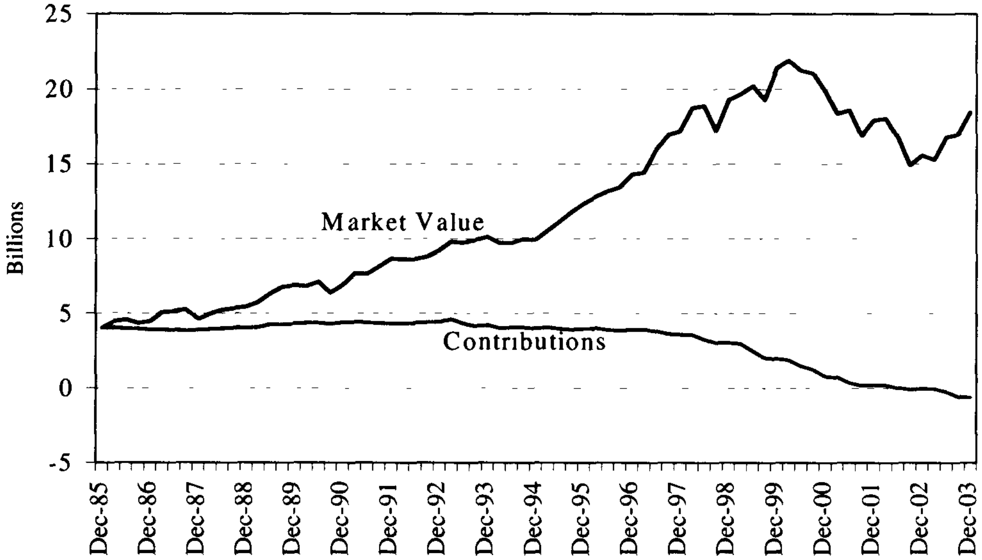
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Funds increased 8.8% during the fourth quarter of 2003. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/98	12/99	12/00	12/01	12/02	3/03	6/03	9/03	Latest Qtr. 12/03
Beginning Value	$17,146	$19,244	$21,365	$19,807	$17,874	$15,561	$15,257	$16,781	$16,952
Net Contributions	-539	-1,065	-1,186	-572	-247	-19	-201	-324	-48
Investment Return	2,637	3,186	-372	-1,361	-2,066	-285	1,725	495	1,531
Ending Value	$19,244	$21,365	$19,807	$17,874	$15,561	$15,257	$16,781	$16,952	$18,435

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.

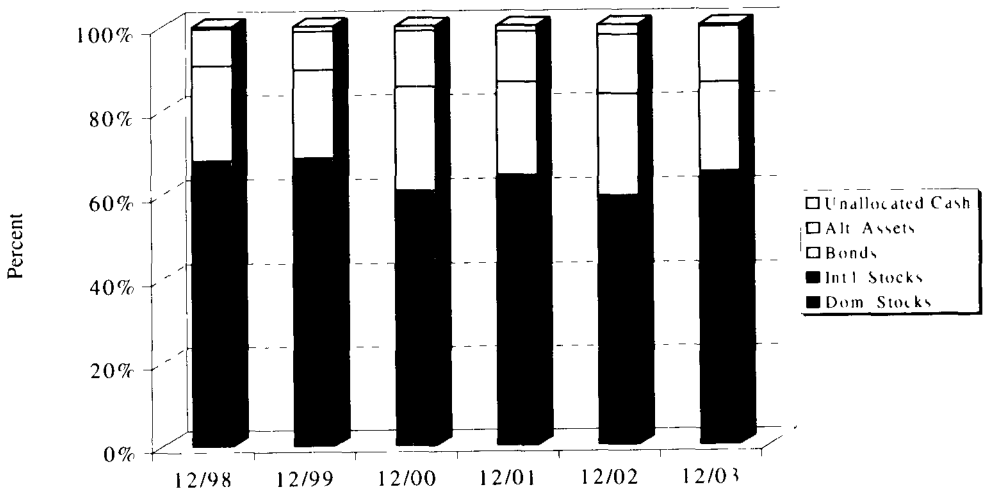
Domestic Stocks	45 0%
Int'l. Stocks	15 0
Bonds	24.0
Alternative Assets*	15 0
Unallocated Cash	1.0

* 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 domestic stocks and international stocks increased due to positive returns and rebalancing from bonds

During the quarter, the domestic stock and international stock allocations increased over the quarter due to their relative outperformance versus other asset classes.



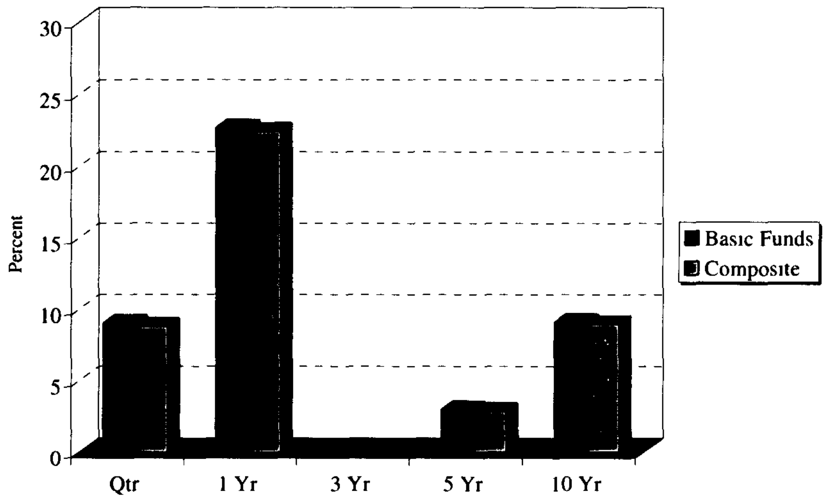
	Last Five Years								Latest Qtr.
	12/98	12/99	12/00	12/01	12/02	3/03	6/03	9/03	12/03
Domestic Stocks	53 8%	51 9%	44.3%	49.5%	45.3%	45.0%	47 7%	47 9%	48 5%
Int'l. Stocks	14.4	16.8	16 6	15 0	14 1	13 4	14 4	15 2	16 6
Bonds	22 6	21 0	24 7	22.1	24.2	25 3	23 5	22 9	21.2
Alternative Assets	8 8	9 1	13.3	12 1	14.1	14.7	13 9	13 3	13 3
Unallocated Cash	0.4	1 2	1 1	1.3	2.3	1.6	0 5	0 2	0 4
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* 4Q03
Domestic Stocks	45.0%	Russell 3000	46.1%*
Int'l. Stocks	15.0	MSCI ACWI Free ex-U.S.	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Investments	15.0	Alternative Investments	13.9*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Basic Funds**	**9.0%**	**22.7%**	**0.3%**	**3.0%**	**9.1%**
Composite Index	8.8	22.4	0.1	2.9	9.0

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See 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

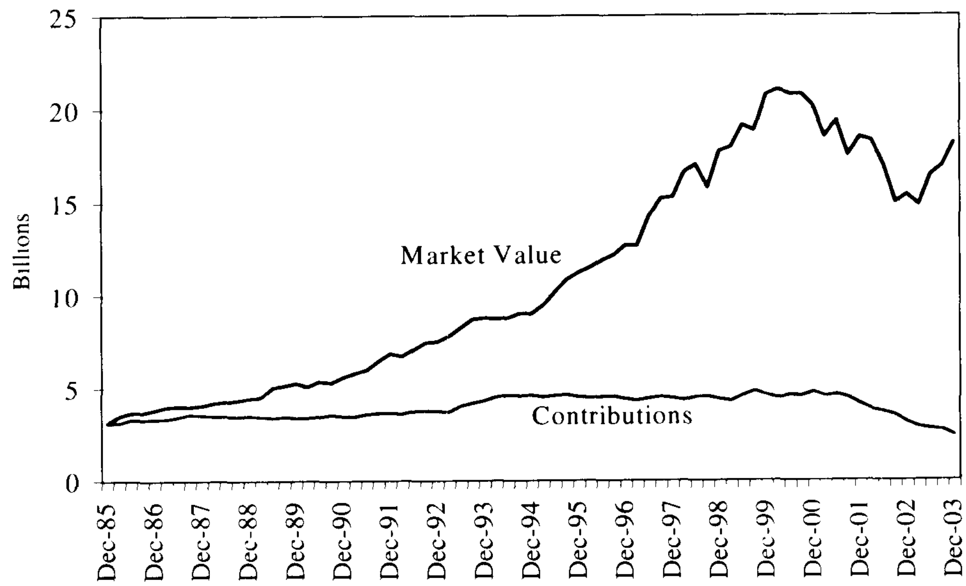
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the 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 7 3% during the fourth quarter of 2003

Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/98	12/99	12/00	12/01	12/02	3/03	6/03	9/03	Latest Qtr. 12/03
Beginning Value	$15,273	17,743	$20,768	$20,153	$18,475	$15,403	$14,853	$16,458	$16,922
Net Contributions	-45	211	167	-647	-1,000	-266	-95	-50	-308
Investment Return	2,515	2,814	-782	-1,031	-2,072	-284	1,700	514	1,548
Ending Value	$17,743	20,768	$20,153	$18,475	$15,403	$14,853	$16,458	$16,922	$18,162

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	45.0%
Int'l. Stocks	15.0
Bonds	25.0
Alternative Assets*	12.0
Unallocated Cash	3.0
	100.0%

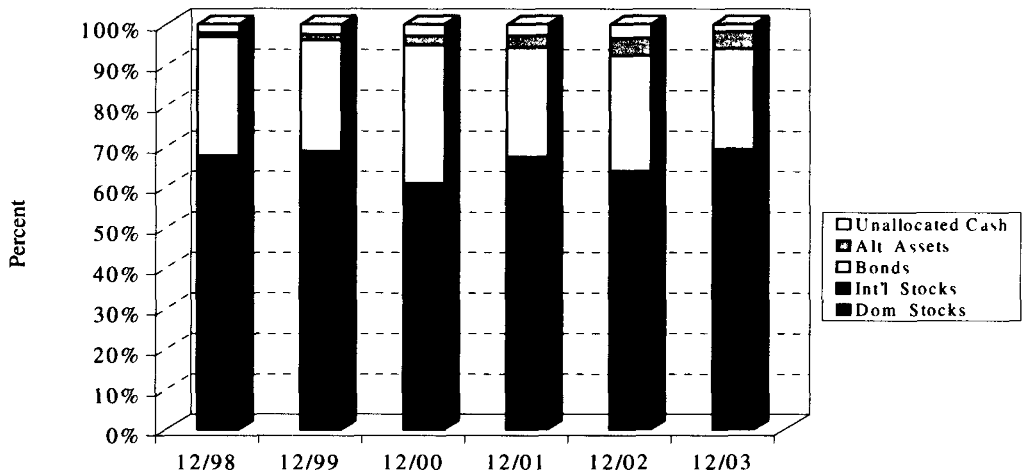
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in domestic stocks.

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 domestic stocks and international stocks increased due to positive returns and rebalancing from bonds.

During the quarter, the international stock allocation increased over the quarter due to their relative outperformance of other asset classes. The allocation to domestic stock decreased due to rebalancing.



	Last Five years								Latest Qtr.
	12/98	**12/99**	**12/00**	**12/01**	**12/02**	**3/03**	**6/03**	**9/03**	**12/03**
Dom. Stocks	53.2	52.0%	47.5%	52.4%	49.6%	50.1%	51.9%	53.2%	52.7%
Int'l. Stocks	14.5	16.9	13.5	15.1	14.4	13.5	14.7	15.7	16.7
Bonds	29.2	27.2	34.0	26.7	28.3	29.1	27.2	26.1	24.6
Alt. Assets	1.1	1.5	2.3	3.1	4.5	4.9	4.6	4.5	4.4
Unallocated Cash	2.0	2.4	2.7	2.7	3.2	2.5	1.6	0.5	1.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

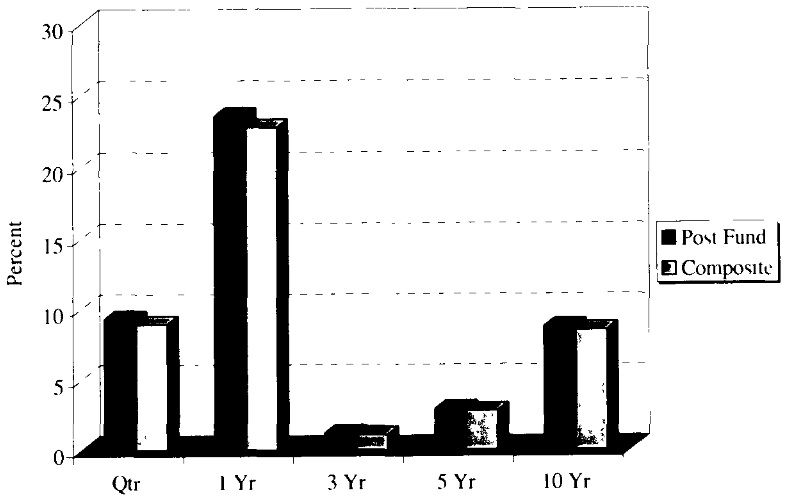
POST RETIREMENT FUND

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* 4Q03
Domestic Stocks	45 0%	Russell 3000	50.0%
Int'l Stocks	15 0	MSCI ACWI Free ex-U S.	15 0
Bonds	25 0	Lehman Aggregate	27.4*
Alternative Investments	12.0	Alternative Investments	4.6*
Unallocated Cash	3 0	3 Month T-Bills	3.0
	100.0%		100 0%

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



		Period Ending 12/31/2003		Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Post Fund**	**9.3%**	**23.5%**	**1.2%**	**2.9%**	**8.7%**
Composite Index	8 9	22 8	1 1	2 8	8 5

** 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.

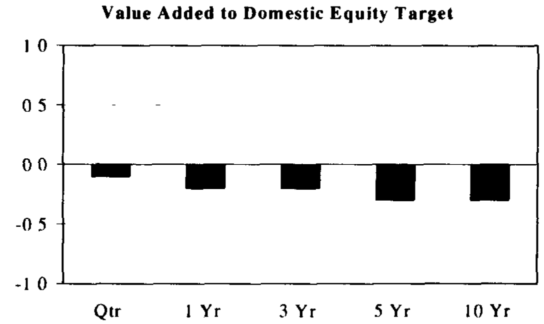
STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

Domestic Stocks

Target: Russell 3000

Expectation: If one-third of the pool is actively managed, one-third is semi-passively managed, and one-third is passively managed, the entire pool is expected to exceed the target by +.18 - .40% annualized, over time.



Period Ending 12/31/2003

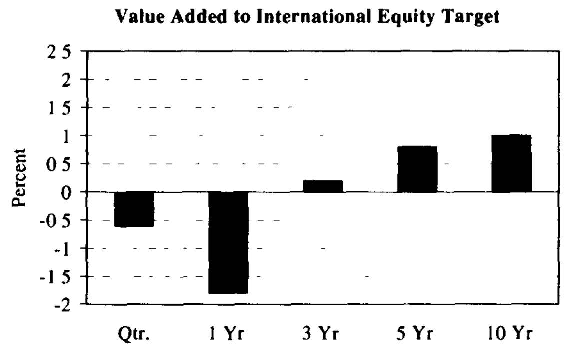
	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Domestic Stocks	**12.3%**	**31.0%**	**-3.3%**	**-0.5%**	**10.0%**
Asset Class Target*	12.4	31.2	-3.1	-0.2	10.3

* The Domestic Equity Asset Class Target is the Russell 3000 effective 10/1/03 From 7/1/99 to 9/30/03, it was the Wilshire 5000 Investable Index. From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments.

International Stocks

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

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



Period Ending 12/31/2003

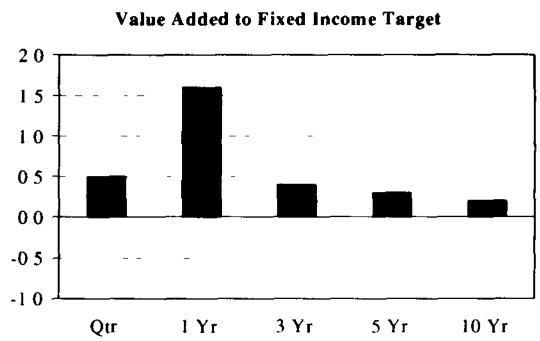
	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Int'l. Stocks	**16.5%**	**38.2%**	**-1.4%**	**1.8%**	**5.2%**
Asset Class Target*	17.1	40.1	-1.6	1.0	4.2

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U.S. (net) effective 10/1/03. From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross). From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bonds

Target: Lehman Brothers Aggregate Bond Index

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



Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**0.8%**	**5.7%**	**8.0%**	**6.9%**	**7.2%**
Asset Class Target	0.3	4.1	7 6	6.6	7.0

ALTERNATIVE INVESTMENTS
Performance of Asset Categories
(Net of Fees)

Alternative Investments

Expectation: **The alternative investments** are measured against themselves using actual portfolio returns

	Period Ending 12/31/2003		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	3.9%	11.3%	-0.1%	9.1%	12.4%
Inflation	-0.5%	1.9%	1.9%	2.4%	2.4%

Real Estate Investments (Equity emphasis)

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

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

	Period Ending 12/31/2003		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	3.5%	11.4%	6.8%	9.3%	10.0%

Private Equity Investments (Equity emphasis)

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

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

	Period Ending 12/31/2003		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	4.8%	10.0%	-7.1%	8.3%	14.1%

Resource Investments (Equity emphasis)

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

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

	Period Ending 12/31/2003		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	-3.3%	13.4%	3.0%	8.2%	10.8%

Yield Oriented Investments (Debt emphasis)

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

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

	Period Ending 12/31/2003		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	Since 3/1/94
Yield Oriented	4.7%	13.1%	8.1%	11.1%	11.8%

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, 2003 the market value of the entire Fund was $1.7 billion.

Investment Options

	12/31/2003 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$625
Growth Share Account – an actively managed, all common stock portfolio.	$236
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$333
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$72
Bond Market Account – an actively managed, all bond portfolio.	$148
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$98
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.	$145

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%	61 9%
Bonds	35 0	32.4
Unallocated Cash	5 0	5.7
	100.0%	100.0%

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**7.7%**	**19.7%**	**0.9%**	**2.8%**	**9.3%**
Benchmark*	7 5	19 7	1 3	2.9	9 2

* 60% Russell 3000/35% Lehman Aggregate Bond Index/5% T-Bills Composite since 10/1/03 60% Wilshire 5000/35% Lehman Aggregate Bond Index/5% T Bills composite through 9/30/03

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**12.2%**	**30.9%**	**-3.5%**	**-1.0%**	**9.6%**
Benchmark*	12 4	31 2	-3.1	-0 2	10.1

* Russell 3000 since 10/1/03 100% Wilshire 5000 Investable from July 1999 to September 2003 100% Wilshire 5000 from November 1996 to June 1999 95% Wilshire 5000/5% T-Bills Composite through October 1996

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

The investment objective of the Common Stock Index Account is to generate returns that track those of the U S. stock market as a whole The Account is designed to track the performance of the Russell 3000, a broad-based equity market indicator

The Account is invested 100% in common stock.

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**12.4%**	**30.9%**	**-3.2%**	**0.2%**	**10.6%**
Benchmark*	12 4	31 2	-3.1	0 0	10.4

* Russell 3000 since 10/1/03 Wilshire 5000 Investable from 7/1/00 to 9/30/03 Wilshire 5000 through 6/30/00

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U S At least twenty-five percent of the Account is "passively managed" and is designed to track the return of 22 markets included in the Morgan Stanley Capital International World ex U S. Index The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value

Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	Since 9/1/94 (Annualized)
Total Account	**16.5%**	**38.4%**	**-1.3%**	**1.9%**	**4.5%**
Benchmark*	17.1	40.1	-1 6	1.0	3.2

* The Int'l Equity Asset Class Target is MSCI ACWI Free ex U S (net) since 10/1/03 From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) + Emerging Markets Free (EMF) (net), and from 7/1/99 to 12/31/00 was MSCI EAFE Free (net) + EMF (gross) From 7/1/99 to 9/30/03, the weight of each index fluctuated with market cap From 12/31/96 to 6/30/99 the target was fixed at 87% EAFE-Free/13% EMF On 5/1/96 the portfolio transitioned from 100% EAFE Free to the 12/31/96 fixed weights 100% EAFE-Free prior to 5/1/96

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

Period Ending 12/31/2003					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.8%**	**5.7%**	**8.0%**	**7.0%**	**7.1%**
Lehman Agg	0.3	4.1	7.6	6 6	7.0

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 12/31/2003					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.3%**	**1.4%**	**2.5%**	**3.9%**	**4.7%**
3 month T-Bills	0.2	1.0	2.1	3 5	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 12/31/2003					
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	Since 11/1/94
Total Account	**1.1%**	**4.7%**	**5.6%**	**5.8%**	**6.2%**
Benchmark*	0.7	2.6	3.4	4.5	5.3

* 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

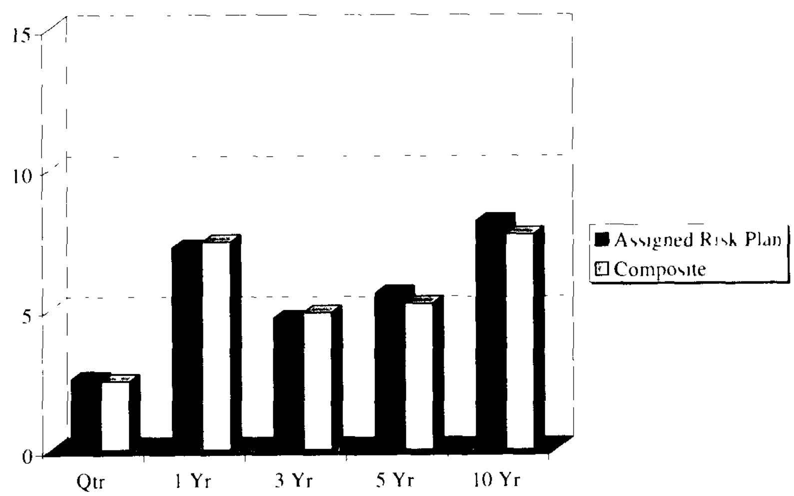
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds The actual asset mix will fluctuate in response to changes in the Plan's liability stream

	12/31/2003 Target	12/31/2003 Actual
Stocks	20 0%	25 1%
Bonds	80.0	74 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, 2003 the market value of the Assigned Risk Plan was $248 million



Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	2.5%	7 2%	4 7%	5 6%	8 2%
Composite	2 4	7 4	4 9	5 2	7 7
Equity Segment*	10.2	23 7	-3 3	1 8	11 8
Benchmark	12.2	28 7	-4 1	-0 6	11 1
Bond Segment*	0 2	2 6	5 9	5 6	6 2
Benchmark	0 1	2 5	6 8	6 4	6 6

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

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

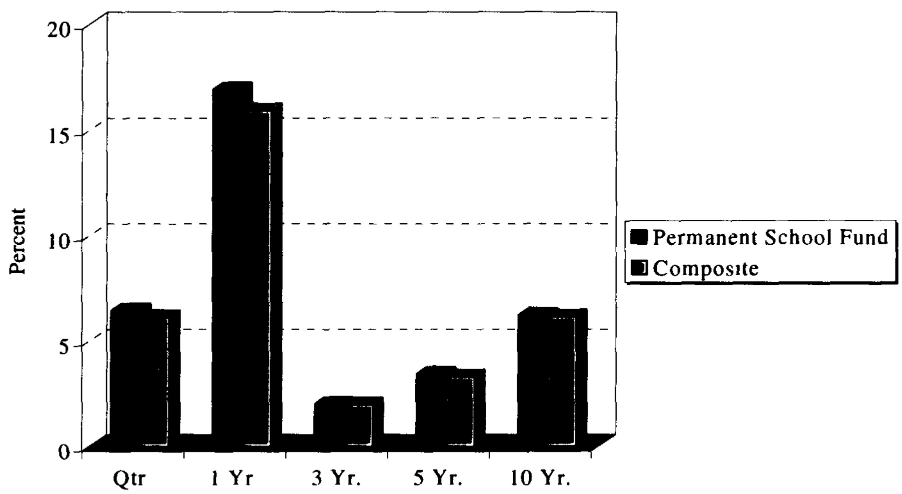
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	12/31/2003 Target	12/31/2003 Actual
Stocks	50.0%	53.8%
Bond	48.0	44.7
Unallocated Cash	2.0	1.5
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, 2003 the market value of the Permanent School Fund was $564 million.



	Period Ending 12/31/2003				
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund (1) (2)	6.5%	16.9%	2.0%	3.5%	**6.3%**
Composite	6.2	15.9	2.0	3.3	6.2
Equity Segment (1) (2)	12.1	28.7	-4.0	-0.5	N/A
S&P 500	12.2	28.7	-4.1	-0.6	N/A
Bond Segment (1)	0.6	5.5	7.8	6.9	7.2
Lehman Aggregate	0.3	4.1	7.6	6.6	7.0

(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

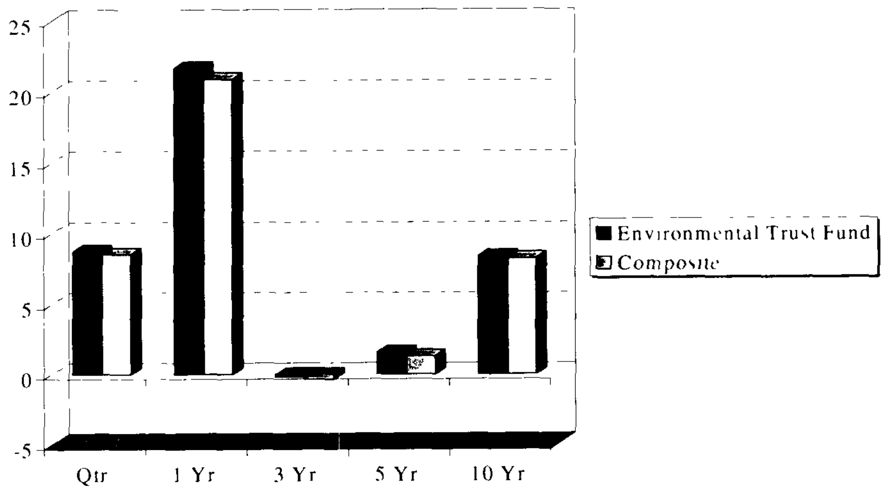
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending

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, 2003 the market value of the Environmental Trust Fund was $328 million.

	12/31/2003 Target	12/31/2003 Actual
Stocks	70 0%	70.7%
Bonds	28 0	28.7
Unallocated Cash	2 0	0 6
Total	100.0%	100 0%



	Period Ending 12/31/2003				
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Fund*	8 8%	21 7%	-0.2%	1 6%	8.4%
Composite	8.5	20 9	-0 4	1.3	8 2
Equity Segment*	12 2	28 9	-3.9	-0 4	11.2
S&P 500	12 2	28 7	-4 1	-0 6	11 1
Bond Segment*	1 0	5.9	8 0	7 0	7 4
Lehman Agg	0 3	4 1	7.6	6.6	7 0

* Actual returns are calculated net of fees.

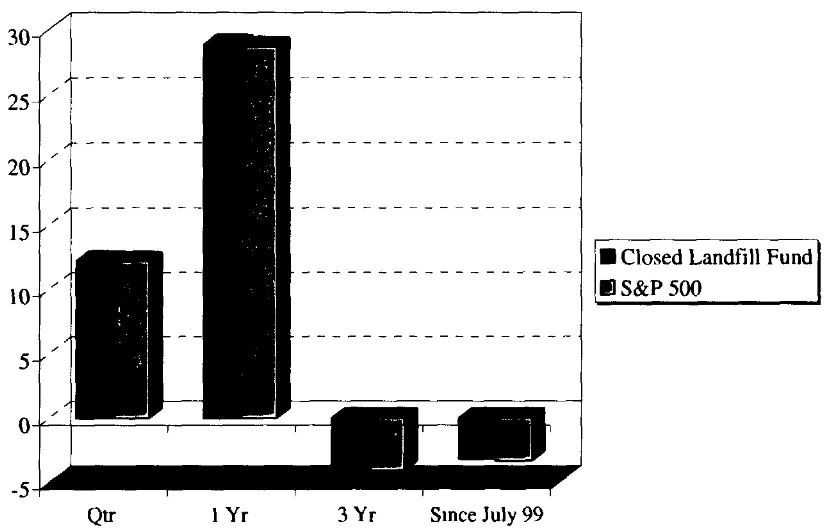
CLOSED LANDFILL INVESTMENT FUND

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, 2003, the market value of the Closed Landfill Investment Fund was $19.3 million.



Period Ending 12/31/2003

	Qtr.	1 Yr.	3 Yr.	Since 7/1/99
Total Fund (1)	12.2%	28.9%	-3.9%	-3.2%
S&P 500 (2)	12.2	28.7	-4.1	-3.3

(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 12/31/2003

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$3,537**	**0.3%**	**1.3%**	**2.9%**	**4.2%**	4.8%
Custom Benchmark**		0.1	0.6	2.5	3.6	4.5
Trust Fund Cash Pool*	**$111**	**0.3**	**1.2**	**2.4**	**3.8**	4.7
Custom Benchmark***		0.1	0.6	1.8	3.2	4.2
3 month T-Bills		0.2	1.0	2.1	3.5	4.3

* Actual returns are calculated net of fees.

** Beginning in January 2003, the Treasurer's Cash Pool is measured against the MFR Money Market Index. From January 1997 to December 2002 the fund was measured against a blended benchmark consisting of the Lehman Brother's 1-3 year Government Index and the 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.

MINNESOTA STATE BOARD OF INVESTMENT

Composition of State Investment Portfolios By Type of Investment

Market Value December 31, 2003 (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	31,821	0	1,453,578	0	3,313,202	1,134,758	905,556	6,838,915
	0.47%		21.25%		48.45%	16.59%	13.24%	100%
Public Employees Retirement Fund	13,167	0	1,005,001	0	2,292,361	784,564	627,876	4,722,969
	0.28%		21 28%		48.54%	16.61%	13 29%	100%
State Employees Retirement Fund	11,317	0	866,303	0	1,975,430	676,293	539,693	4,069,036
	0.28%		21.29%		48.55%	16.62%	13.26%	100%
Public Employees Police & Fire	6,459	0	476,722	0	1,091,133	372,131	307,956	2,254,401
	0.29%		21.14%		48.40%	16.51%	13.66%	100%
Highway Patrol Retirement Fund	610	0	46,715	0	106,524	36,469	29,103	219,421
	0.28%		21.29%		48.55%	16.62%	13.26%	100%
Judges Retirement Fund	82	0	6,288	0	14,339	4,909	3,918	29,536
	0 28%		21.29%		48.55%	16.62%	13.26%	100%
Correctional Employees Retirement	660	0	50,543	0	115,253	39,457	31,488	237,401
	0.28%		21 29%		48.55%	16.62%	13.26%	100%
Public Employees Correctional	1,372	0	13,211	0	30,124	10,313	8,230	63,250
	2 17%		20 89%		47 63%	16.30%	13.01%	100%
TOTAL BASIC FUNDS	65,488	0	3,918,361	0	8,938,366	3,058,894	2,453,820	18,434,929
	0 36%		21.25%		48 49%	16.59%	13.31%	100%
POST RETIREMENT FUND	297,071	0	4,461,683	0	9,571,884	3,028,968	802,402	18,162,008
	1 63%		24.57%		52.70%	16.68%	4.42%	100%
TOTAL BASIC AND POST	362,559	0	8,380,044	0	18,510,250	6,087,862	3,256,222	36,596,937
	0 99%		22 90%		50.58%	16.63%	8.90%	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	35,675 5.70%	202,540 32.38%	0	0	387,257 61.92%	0	0	625,472 100%
Growth Share Account	0	0	0	0	236,019 100.00%	0	0	236,019 100%
Money Market Account	40,297 100.00%	0	0	0	0	0	0	40,297 100%
Common Stock Index	0	0	0	0	332,994 100.00%	0	0	332,994 100%
Bond Market Account	0	0	147,766 100.00%	0	0	0	0	147,766 100%
International Share Account	0	0	0	0	0	72,438 100.00%	0	72,438 100%
Fixed Interest Account	540 0.37%	0	144,751 99.63%	0	0	0	0	145,291 100%
Money Market Deferred Comp	57,647 100 00%	0	0	0	0	0	0	57,647 100%
TOTAL SUPPLEMENTAL FUNDS	134,159 8.09%	202,540 12.22%	292,517 17.64%	0	956,270 57.68%	72,438 4.37%	0	1,657,924 100%
MN DEFERRED COMP PLAN *	0	0	777,315 44.68%	0	848,214 48.75%	114,304 6.57%	0	1,739,833 100%
TOTAL RETIREMENT FUNDS	496,718 1.24%	202,540 0.51%	9,449,876 23.63%	0 0.00%	20,314,734 50.79%	6,274,604 15.69%	3,256,222 8.14%	39,994,694 100%

* 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	4,301	0	181,678	0	61,793	0	0	247,772
	1.74%		73.32%		24.94%			100%
ENVIRONMENTAL FUND	2,013	93,843	0	231,669	0	0	0	327,525
	0.62%	28.65%		70.73%				100%
PERMANENT SCHOOL FUND	8,490	252,018	0	303,313	0	0	0	563,821
	1.50%	44.70%		53.80%				100%
CLOSED LANDFILL INVESTMENT	29	0	0	19,307	0	0	0	19,336
	0.15%			99.85%				100%
TREASURERS CASH	3,535,644	0	0	0	0	0	0	3,535,644
	100.00%							100%
HOUSING FINANCE AGENCY	47,538	182,995	0	0	0	0	0	230,533
	20.62%	79.38%						100%
MINNESOTA DEBT SERVICE FUND	15,417	223,095	0	0	0	0	0	238,512
	6.46%	93.54%						100%
MISCELLANEOUS ACCOUNTS	350,992	97,867	0	33,685	0	0	0	482,544
	72.74%	20.28%		6.98%				100%
GRAND TOTAL	4,461,142	1,052,358	9,631,554	587,974	20,376,527	6,274,604	3,256,222	45,640,381
	9.77%	2.31%	21.10%	1.29%	44.65%	13.75%	7.13%	100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 24, 2004

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, 2004 is included as **Attachment A**.

A report on travel for the period from November 16, 2003 - February 15, 2004 is included as **Attachment B**.

2. Results of FY03 Financial Audit

The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 2003. 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 3, 2004.

5. Request by MSRS to approve a record keeping contract for the State's Deferred Compensation Plan.

The SBI is required by law to approve record keeping contracts for the State Deferred Compensation Plan. The request by MSRS to renew the contract with Great West/Minnesota Life is included as **Attachment D**.

STATE BOARD OF INVESTMENT
FISCAL YEAR 2004 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO-DATE THROUGH JANUARY 31, 2004

ITEM	FISCAL YEAR 2004 BUDGET	FISCAL YEAR 2004 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,900,000	$ 915,567
SEVERENCE PAYOFF	22,000	38,414
WORKERS COMPENSATION INSURANCE	1,000	860
MISCELLANEOUS PAYROLL	2,000	148
SUBTOTAL	**$ 1,925,000**	**$ 954,989**
STATE OPERATIONS		
RENTS & LEASES	196,000	111,949
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	7,067
PRINTING & BINDING	10,000	2,598
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	5,066
COMMUNICATIONS	20,000	9,164
TRAVEL, IN-STATE	3,000	89
TRAVEL, OUT-STATE	45,000	13,330
SUPPLIES	20,000	8,412
EQUIPMENT	0	0
EMPLOYEE DEVELOPMENT	15,000	390
OTHER OPERATING COSTS	15,000	5,941
SUBTOTAL	**$ 349,000**	**$ 164,006**
ORIGINAL BUDGET	**$ 2,274,000**	**$ 1,118,995**
BUDGET REDUCTION (UNALLOTMENT)	**$ 39,000**	
TOTAL GENERAL FUND	**$ 2,235,000**	**$ 1,118,995**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel November 16, 2003 – February 15, 2004

Purpose	Name(s)	Destination and Date	Total Cost
Conference: IMN Fixed Income Conference sponsored by: Information Management Network	M. Menssen	Boca Raton, FL 12/2-12/4	$119.50
Manager Monitoring: Alternative Investment Manager: KKR	H. Bicker	New York, NY 1/7-1/8	$1,267.84

ATTACHMENT C

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

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

Representative Tim Wilkin, 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, 2003, and have issued our report thereon dated December 5, 2003. 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 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 5, 2003

Report Signed On: January 23, 2004

Status of Prior Audit Issues
As of December 5, 2003

Most Recent Audit

January 30, 2003, Legislative Audit Report 03-04 covered the fiscal year ended June 30, 2002. 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 financial statements included in the Minnesota State Board of Investment's (SBI) Annual Report. We audit SBI on an annual basis. There were no reportable issues in that 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 or the State Agricultural Society, the state constitutional officers, or the judicial branch.

ATTACHMENT D

MSRS

Minnesota State Retirement System

February 18, 2004

Members
Minnesota State Board of Investment
60 Empire Drive, Suite 355
St. Paul, MN 55103

RE: DEFERRED COMPENSATION PLAN RECORD KEEPING CONTRACT

Dear Members of the Minnesota State Board of Investment:

The Minnesota State Retirement System (MSRS) Board of Directors is recommending that Great West/Minnesota Life be retained as the record keeper for the Minnesota Deferred Compensation Plan. The MSRS Board has approved the contract with Great West/Minnesota Life, and I am requesting the State Board of Investment's approval of the contract as required under Minnesota Statutes 352.96, subdivision 3.

The MSRS Board published a *Request For Proposal* for record keeping services in March 2003, and received proposals from the following four vendors:

CitiStreet
Great West/Minnesota Life
Nationwide
Wells Fargo

A committee of the MSRS Board met to review the proposals and recommended that Great West/Minnesota Life be awarded a five year contract. The committee's recommendation was based on fees and the firm's excellent service history with the Minnesota Deferred Compensation Plan over the past five years. The full MSRS Board accepted the committee's recommendation on July 24, 2003, and approved the contract at its November 19, 2003 meeting. The contract was reviewed by attorneys at the Attorney General's Office.

On behalf of the MSRS Board, I want to thank all of you and your staff for the extraordinary efforts to continue to improve the Minnesota Deferred Compensation Plan. We are pleased to be reducing administrative fees from .28 percent to .25 percent effective July 1, 2004.

If you have any questions, please call me directly at (651) 296-1510.

Sincerely,

Dave Bergstrom

Dave Bergstrom
Executive Director

cc: MSRS Board of Directors

Tab C

COMMITTEE REPORT

DATE: February 24, 2004

TO: Members, State Board of Investment

FROM: Domestic Equity Search Committee

SUBJECT: Domestic Equity Large Capitalization Value Search

The SBI conducted a search for large capitalization value managers as a result of the decision by the Minnesota State Board of Investment (SBI), at its September 2003 meeting, to control misfit risk, or style bias, in the Domestic Equity Program by allocation assets to active managers based on market capitalization and style. Accordingly, the SBI needs to reallocate assets into the large capitalization value area to match the weight in the asset class target, the Russell 3000 Index. Currently, the SBI has only one regular and two emerging managers in the large capitalization value area. Staff proposed that the Search Committee select several large capitalization value managers to recommend to the Board for inclusion in the Domestic Equity Program.

The Search Committee met on February 3, 2004 to conduct a search for large capitalization value managers in the Domestic Equity Program. The members of the Search Committee included:

Name	Representing
Peter Sausen, Chair	Governor Pawlenty
Christie Eller	State Attorney General Hatch
Carla Heyl	State Auditor Anderson
Alberto Quintela	Secretary of State Kiffmeyer
John Bohan	Investment Advisory Council
Judy Mares	Investment Advisory Council
Dave Bergstrom	Investment Advisory Council

Process

To initiate the search, Staff requested information from 26 large capitalization value managers. These managers came from the SBI's Domestic Equity short list of prospective managers, as well as recommendations from Richard's & Tierney and others. Staff also screened databases seeking candidates who had sufficient return history, assets under management, and good performance relative to the R1000 Value Index. Each of these candidates was asked to respond to a questionnaire, provide a monthly return history for its composite and five separate accounts, and provide five years of portfolio holdings for a representative account.

Staff reviewed each manager's response to the questionnaire and eliminated the managers that do not fit the SBI's requirements. An important consideration was that the portfolio manager be benchmark oriented and manage the portfolio to the R1000 Value Index. Managers were screened out if their process was biased significantly toward over weighting mid or small capitalization stocks relative to the R1000 Value Index, they had experienced significant staff turnover, or had insufficient institutional assets under management in the product. Richards & Tierney assisted by providing portfolio analysis for each candidate.

The Search Committee interviewed six candidates, and based on the interviews, questionnaire responses, and other information provided, the Search Committee is recommending that four (4) firms be retained by the SBI for inclusion in the Domestic Equity Program. Information on each of the recommended firms is attached starting on page 3 of this tab.

RECOMMENDATION:

The Domestic Equity Search Committee recommends that the following firms be retained for the Domestic Equity Program:

Large Capitalization Value Managers	Location of Investment Team
Barrow, Hanley, Mewhinney & Strauss, Inc.	Dallas, TX
Lord Abbett & Co. LLC	Jersey City, NJ
LSV Asset Management	Chicago, IL
Systematic Financial Management, L.P.	Teaneck, NJ

and that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a contract with each firm.

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: **December 31, 2003**

Firm's Name: **Barrow, Hanley, Mewhinney & Strauss, Inc.**

Name of Product: **Large Cap Value Equity**

Investment Philosophy:
Our approach to the equity market is based on the underlying philosophy that markets are inefficient. These inefficiencies can best be exploited through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis. We do not attempt to time the market or rotate in and out of broad market sectors as we believe that it is difficult, if not impossible, to add incremental value on a consistent basis by market timing.

We stay fully invested with a defensive, conservative orientation based on our belief that superior returns can be achieved while taking below average risks. We implement this strategy by constructing portfolios of individual stocks that reflect all three value characteristics: price/earnings and price/book ratios below the market and dividend yields above the market (S&P 500). Our strategy of emphasizing *low price/book ratios* as well *as high dividend yields* provides a measure of protection in down markets, helping to preserve assets. In periods of economic recovery and rising equity markets, profitability and earnings growth are rewarded by the expansion of price/earnings ratios and the generation of excess returns.

Investment Process:
With over 9000 stocks in the U.S., BHMS must focus its fundamental research effort and target a specific sector of the market. The starting point for our stock selection process is those companies with market capitalizations of $1 billion or greater, approximately 1,400 stocks. (Our primary focus is on companies with market caps of more than $3 billion.)

We implement our strategy by constructing portfolios of individual stocks that reflect all three value characteristics; price/earnings and price/book ratios *below* the market and dividend yields *above* the market (S&P 500). While many large cap value managers utilize two of these value measures, very few apply all three.

The BHMS large cap value decision-making process involves quantitative and qualitative analysis and analytical tools to ensure adherence to our value discipline. The companies that meet our three-pronged definition of value and are projected to achieve earnings growth above that of the market are registered on the BHMS Security Guidance List. This list, which is updated weekly, averages 250 companies and summarizes the historical data and financial forecasts for each entry. The financial information reported on the Security Guidance List becomes the input for two valuation models, the Dividend Discount model and the Relative Return model, which we use as analytical tools to ensure adherence to the value style, as well as consistency and uniformity of our investment process. A stock must be attractive on both models before it may be purchased.

Stocks that appear attractive on both the Dividend Discount and Relative Return models are placed on the Buy List, a final universe of approximately 75 stocks. While our portfolios generally consist of 40-50 stocks, the Buy List must be more expansive. A number of our clients have directed us to observe investment restrictions within their portfolios and these limitations increase the need for alternative "buy" candidates, which are used in place of holdings in the unrestricted portfolios.

In the creation of our portfolios, we anticipate taking 3% positions, implying 33 stocks, equally weighted in the portfolio. Nevertheless, portfolios generally consist of 40-50 stocks due to the buying and selling of stocks at different times. Stocks are held for an average of three to four years, resulting in an average annual portfolio turnover of 25%-30%. We will not take more than a 15% weighting, at cost, in any industry group. Sector weightings are a residual of our bottom-up stock selection process and may vary widely in comparison to the S&P 500. We remain "fully invested" with a typical cash position of less than 3%.

The two valuation models that instill discipline in our final stock selection process are also used to accomplish the same on the sell side. Once placed in a portfolio, a stock is monitored using the two valuation models. The models are updated on a weekly basis, at a minimum. When a stock becomes fairly valued on either model, the liquidation process begins. We do not try to judge when the holding might reach a speculative level of overvaluation.

Ownership: 100% owned by parent company, Old Mutual plc

While all of the legal ownership belongs to Old Mutual, BHMS principals continue to have substantial "*economic*" ownership in the firm. In addition to base salary, our incentive compensation plan for investment professionals includes profit sharing bonuses, equity ownership in the firm through "phantom stock" in BHMS, and participation in a long-term incentive plan with OMAM (US). Our incentive compensation program has enabled our firm to attract and retain talented investment professionals, thereby achieving an organizational stability almost unheard of in the investment management business.

	12/31/03
Firm's total assets under management:	$32,400 Million
Assets under management in this product:	$27,400 Million
Number of Accounts in this product:	188 accounts
Number of Clients in this product:	119 clients
Number of Portfolio Managers on this product:	6
Number of Analysts on this product:	8*

* In addition to our six equity analysts, our two small cap portfolio managers serve as senior analysts for our large cap strategy. All 14 of our equity portfolio managers and analysts work as a team for the purposes of generating and researching investment ideas for our large cap, mid cap, and small cap value equity strategies.

Largest Accounts (9/30/03):

Account Name	Account Type	Account Value*
1. Vanguard *Windsor II* Fund	Mutual Fund	$14 billion
2. American Airlines	Mutual Fund/Corporate	$625 million
3. Verizon Communications	Corporate	$500 million
4. State of Hawaii	Public	$500 million
5. NRECA	Corporate	$500 million

*Due to client confidentiality, we do not reveal exact account sizes.

	Investment Manager:	BARROW HANLEY - REP1				
	Benchmark:	FRANK RUSSELL 1000 VALUE				

	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q1	8.28		9 67		-1.26	
Q2	0.46		2 92		-2.39	
Q3	5.88		4 94		0 90	
Q4	-0.13	15.03	-0.27	18.12	0.14	-2.62
94 Q1	-5.09		-3.49		-1.65	
Q2	3.31		0 62		2.67	
Q3	2 53		2 55		-0.02	
Q4	-2.71	-2.19	-1.58	-1.99	-1.14	-0.20
95 Q1	10.54		9.50		0.94	
Q2	6.90		8 96		-1.89	
Q3	11 54		8 74		2.57	
Q4	5.75	39.37	6.64	38.35	-0.83	0.74
96 Q1	8.38		5 66		2.57	
Q2	4 13		1 72		2.37	
Q3	3.12		2.91		0.20	
Q4	9.29	27.18	9.98	21.64	-0.63	4.56
97 Q1	-0.45		2.56		-2.94	
Q2	15 52		14 74		0.68	
Q3	8 12		9 96		-1 67	
Q4	4.19	29.56	4 47	35.18	-0.26	-4.16
98 Q1	13 50		11 66		1 65	
Q2	2 99		0 45		2.53	
Q3	-12 44		-11 58		-0.97	
Q4	12.59	15.22	16 60	15.63	-3.44	-0.35
99 Q1	2.35		1.43		0.91	
Q2	10.81		11 28		-0 42	
Q3	-15.35		-9.80		-6.15	
Q4	-6.27	-10.01	5 44	7.35	-11.10	-16.17
00 Q1	-0.86		0 48		-1.33	
Q2	1.35		-4 69		6.33	
Q3	12 04		7 86		3.87	
Q4	11.58	25.61	3 60	7.01	7.70	17.38
01 Q1	1 47		-5 86		7.78	
Q2	5 61		4.88		0.70	
Q3	-9 72		-10 95		1.38	
Q4	7.11	3.63	7.37	-5.59	-0.25	9.77
02 Q1	5 69		4.09		1.54	
Q2	-6 04		-8 52		2.71	
Q3	-16 55		-18 77		2.74	
Q4	4.21	-13 64	9 22	-15.52	-4.59	2.23
03 Q1	-4.14		-4 86		0 76	
Q2	20 19		17 27		2.49	
Q3	-0 10		2 06		-2 12	
Q4	15.84	33.33	14.19	30.03	1 44	2.54
Latest						
1 yı		33.33		30.03		2.54
3 yr		6.07		1.22		4.79
5 yr		6 17		3.56		2.52
Cumulative 9301 - 0312		13 47		12 43		0.93
Std Dev		15.02		14.25		5.58

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: 1/5/04

Firm's Name: Lord Abbett & Co. LLC

Name of Product: Large Cap Value Separate Account

Investment Philosophy:
Utilizing a value-based, disciplined investment process that employs both informed judgment and quantitative analysis, Lord Abbett seeks to invest in companies with improving business fundamentals that are attractively valued. We believe that, over time, this approach will generate above-average total return with favorable overall risk characteristics.

As a value manager, Lord Abbett believes that the market systematically misprices stocks and groups of stocks. By coupling valuation criteria with thorough research of corporate and industry fundamentals, we can make informed judgments about where the market would price these stocks at fair value. We then construct a portfolio to exploit discrepancies where it is perceived that these differences will be closed over a reasonable period of time or where there may be a catalyst for the market to recognize the potential they represent. This process is implemented while maintaining sensitivity to both benchmark and macro-economic risk exposures.

Investment Process:
Our process is a traditional fundamental active stock selection approach. The process dynamically integrates both quantitative and fundamental activities in narrowing a broad universe of candidate securities. Valuation analysis and other analytics help us to identify targets of opportunity, supplementing our ongoing fundamental research; and quantitative risk management assures that we produce a portfolio with an explicit and measurable relationship to the benchmark that is our target for outperformance.

Lord Abbett's research universe contains roughly 750 stocks with market caps above $2 billion. We apply both quantitative valuation models and fundamental research as our underlying methodology to process information on our initial universe of securities. Every week, a proprietary DDM valuation model is run on the universe using normalized earnings and long-term growth rates to avoid cyclical valuation distortions. The issues are ranked into deciles, after solving for highest to lowest expected return. Stocks in the top four deciles are considered the "value universe" and often are deep value, cyclical companies or companies with fundamental business problems. The value universe provides a focal point to marshal the firm's traditional, bottom-up fundamental research effort.

Our analysts conduct research on compelling stocks in their assigned industries, in an effort to identify those with the strongest fundamentals and the most attractive valuations. The analysts have specific sector and industry assignments and are responsible for developing stock ideas for inclusion in the portfolios. They follow a number of large cap companies to meet their primary objective of identifying potential investments with strong fundamentals not yet fully reflected in their stock prices. Our analysts' primary focus is on the timely recognition of change, or a catalyst, that might cause a stock price to reach higher valuation target over a 12-18 month time horizon

The analysts and portfolio management team spend considerable time traveling and meeting with company management. Analysts and portfolio managers share the latest information on key companies on a daily basis. On a formal weekly basis, analysts propose actions to the team, where these actions will be tested in discussion with other team members.

Ownership:
Lord Abbett is 100% employee owned by forty-six individuals who actively participate in the management and operation of the firm's investment activities.

	12/31/03 – Preliminary Data
Firm's total assets under management:	$72,200 Million
Assets under management in this product:	$30,900 Million*
Number of Accounts in this product:	88*
Number of Portfolio Managers on this product:	7
Number of Analysts on this product:	5

*Represents all separate accounts, mutual funds, wrap fee and sub advisory relationships managed in the large cap value equity style.

Largest Large Cap Value Separate Accounts as of 9/30/03:

Account Assets	Account Type	Inception Date
$410.6 million	Public	10/30/2002
$333.0 million	Public	3/25/2003
$180.3 million	Corporate	3/1/1977
$150.6 million	Corporate	8/1/1977
$148.4 million	Corporate	8/22/1978

	Investment Manager:	LORD ABBETT - REP1				
	Benchmark:	FRANK RUSSELL 1000 VALUE				
	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
82 Q2	-2.63		-1.22		-1.42	
Q3	11.42		11.16		0.23	
Q4	20.97	31.24	16.15	27.54	4.15	2.90
83 Q1	11.77		10.72		0.95	
Q2	7.34		11.18		-3.46	
Q3	2.44		2.58		-0.13	
Q4	3.90	27.69	1.60	28.28	2.27	-0.46
84 Q1	-3.34		-0.38		-2.97	
Q2	-4.89		-3 66		-1.28	
Q3	9.92		11.78		-1.67	
Q4	4.22	5.31	2.62	10.10	1.55	-4.35
85 Q1	7.53		9.39		-1.70	
Q2	7.30		9.21		-1.76	
Q3	-4.47		-4.21		-0.27	
Q4	17.00	28.95	14.92	31.51	1.81	-1.95
86 Q1	15.69		13.92		1.56	
Q2	2.53		3.78		-1.20	
Q3	-4.41		-2.21		-2.25	
Q4	5.56	19.69	3.79	19.98	1.71	-0.24
87 Q1	18.72		16.41		1.99	
Q2	6.29		3.84		2.36	
Q3	5.76		5.84		-0.08	
Q4	-21.91	4.22	-21.45	0.50	-0.59	3.70
88 Q1	5.95		10.37		-4.00	
Q2	8.82		7.79		0.96	
Q3	-1.15		1.25		-2.37	
Q4	2.31	16.61	2.25	23.16	0.07	-5.32
89 Q1	5.29		7.48		-2.04	
Q2	6.87		7.83		-0.89	
Q3	8.95		8.34		0.57	
Q4	4.57	28.20	-0.30	25.19	4.88	2.41
90 Q1	1.83		-2.88		4.85	
Q2	4.97		1.72		3.20	
Q3	-11.06		-13.96		3.37	
Q4	9.40	4.02	8.14	-8.08	1.17	13.16
91 Q1	9.68		13.10		-3.02	
Q2	-0.68		0.10		-0.77	
Q3	5.12		5.31		-0.18	
Q4	5.68	21.02	4.53	24.62	1.10	-2.89
92 Q1	-2.56		1.13		-3.65	
Q2	3.74		4.18		-0.42	
Q3	2.73		2.07		0.64	
Q4	5.22	9.26	5.83	13.81	-0.57	-4.00

	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q1	6 50		9 67		-2 89	
Q2	1.84		2 92		-1 05	
Q3	5 96		4 94		0 98	
Q4	2.89	18.25	-0.27	18.12	3 17	0.11
94 Q1	-2 79		-3.49		0 73	
Q2	2.17		0.62		1 54	
Q3	7.54		2.55		4 87	
Q4	-1.06	5.68	-1.58	-1.99	0 53	7.82
95 Q1	9.18		9.50		-0 29	
Q2	7.73		8.96		-1 13	
Q3	7.49		8.74		-1 15	
Q4	5.50	33.38	6.64	38.35	-1 07	-3.59
96 Q1	4.91		5 66		-0 71	
Q2	0.77		1 72		-0 93	
Q3	2.27		2 91		-0 62	
Q4	8.43	17.24	9.98	21.64	-1 40	-3.62
97 Q1	2.92		2.56		0 34	
Q2	14 49		14.74		-0 22	
Q3	6 74		9.96		-2 93	
Q4	1.12	27.17	4.47	35.18	-3 21	-5.93
98 Q1	9.11		11.66		-2 28	
Q2	-0.69		0.45		-1 13	
Q3	-12 17		-11 58		-0 66	
Q4	18.80	13.06	16.60	15.63	1 89	-2.22
99 Q1	1.49		1.43		0 06	
Q2	12.84		11.28		1 40	
Q3	-7.57		-9.80		2 47	
Q4	7.17	13.44	5.44	7.35	1 64	5 68
00 Q1	-4.12		0.48		-4 57	
Q2	-0.51		-4 69		4 38	
Q3	12.92		7 86		4 69	
Q4	11.00	19.56	3.60	7.01	7.15	11.73
01 Q1	-8.40		-5.86		-2 71	
Q2	6 18		4.88		1.24	
Q3	-14 14		-10.95		-3.58	
Q4	15.80	-3.30	7.37	-5.59	7.85	2.42
02 Q1	5.25		4.09		1 11	
Q2	-8 71		-8.52		-0 21	
Q3	-18.69		-18.77		0 11	
Q4	10.73	-13.49	9.22	-15.52	1.38	2.41
03 Q1	-5.21		-4.86		-0 36	
Q2	18.69		17 27		1 20	
Q3	3 28		2 06		1 19	
Latest						
1 yr		17 75		17.16		0 50
3 yr		3 94		0.85		3 06
5 yr		8 11		3 02		4 94
Cumulative		15 62		14 73		0 78
Std Dev		15 06		14 70		4 06

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: 1/6/04

Firm's Name: LSV Asset Management

Name of Product: Large Cap- Value Equity (U.S.)

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

The Large Cap Value Equity (U.S.) strategy's primary emphasis is the use of quantitative techniques to select individual securities in what would be considered a bottom-up approach. A risk control discipline limits the over- or under-exposure of the portfolio to industry concentrations. Value factors and security selection dominate sector/industry factors as explanators of performance. The competitive strength of this strategy is that it avoids introducing to the process any judgmental biases and behavioral weaknesses that often influence investment decisions.

Investment Process:
The portfolio decision making process is strictly quantitative and driven by (1) a proprietary model which ranks securities based on fundamental measures of value and indicators of near-term appreciation potential and, (2) a risk control process that controls for residual benchmark risk while maximizing the expected return of the portfolio.

The objective of the model is to pick undervalued stocks with high near-term appreciation potential. Stocks are ranked simultaneously on an array of variables in order to arrive at an overall expected return ranking for each stock in the universe. The model contains three principal blocks of variables. The first block of variables contains traditional value measures such as the cash flow-to-price ratio and the book-to-market ratio. We use several measures in this block and no single measure dominates the ranking process. The second block of variables is also used to assess whether a security is undervalued. This block consists of past performance measures which measure changes in the stock price, earnings, etc. over the previous 5 years. Stocks are ranked highly if their 5-year performance has been poor. Our third block of variables is used to assess the near-term appreciation potential of a stock. Since undervalued stocks can remain undervalued for a long time and get even cheaper, we use this third block to determine whether the market is beginning to change its assessment of an undervalued stock in a positive direction. In this block, we look at short-term movements in stock price, earnings, and analyst forecasts to assess near-term appreciation potential.

A universe of approximately 10,000 equity securities is screened for market capitalization greater than $500 million (with no maximum limit) and for liquidity which yields an investable universe of approximately 1,400 securities. These securities are ranked by our proprietary quantitative model. driven by a security's fundamental measures of value, past performance and indicators of near-term potential. The top 15% of stocks by expected return rank (approximately 200 securities) are then optimized for risk control. The optimization is constrained by specific industry and company limitations to achieve diversification. This produces a buy list of approximately 90 to 100 securities. As market action changes the weight composition of securities in the portfolio, stock positions which have appreciated significantly will be scaled back. For all but the largest stocks by market cap, positions are scaled back when they reach 2.5% of the portfolio weight. No stock (regardless of market cap) will comprise more than 5% of the portfolio weight. A stock is sold entirely if its expected return ranking falls below the top 40% of stocks in the universe

Ownership:
The principles of LSV, Josef Lakonishok, Robert Vishny, Christopher LaCroix, Menno Vermeulen, Tremaine Atkinson, James Owens, Han Qu, Eric Miller and Tracy Bolger collectively own 53.6% of the partnership, SEI Funds, Inc. owns 46.4%. SEI's relationship is entirely as a venture capitalist, owning a minority interest in *LSV* and is not involved in the management of the firm.

	12/31/03
Firm's total assets under management:	$18,256 Million
Assets under management in this product:	$ 9,980 Million
Number of Accounts in this product:	169
Number of Portfolio Managers on this product:	3*
Number of Analysts on this product:	3*

*Josef Lakonishok, Rob Vishny and Menno Vermeulen make up the LSV portfolio management team. The role of our investment management team includes quantitative modeling, research, performance measurement and attribution analysis, benchmarking, optimization and programming. Three quantitative analysts, Han Qu, Simon Zhang and Puneet Manasharamani, support Lakonishok, Vishny and Vermeulen in their research of behavioral finance and portfolio management activities.

Largest Accounts (9/30/03):
Corporate, $560 million
Corporate, $406 million
Corporate, $377 million
Corporate, $365 million
Corporate, $355 million
Public, $341 million

	Investment Manager:	LSV - REP1				
	Benchmark:	FRANK RUSSELL 1000 VALUE				

	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q4	1.55	1.55	1.90	1.90	-0.34	-0.34
94 Q1	-1.42		-3 49		2.15	
Q2	1 79		0 62		1.16	
Q3	4 41		2.55		1.81	
Q4	-2.09	2.59	-1.58	-1.99	-0.51	4.67
95 Q1	9 78		9.50		0.25	
Q2	10.01		8 96		0.96	
Q3	9.78		8.74		0 95	
Q4	3.75	37.54	6.64	38.35	-2.70	-0.58
96 Q1	9.82		5 66		3.94	
Q2	2.71		1.72		0 97	
Q3	3 49		2.91		0.57	
Q4	10.51	29.01	9.98	21 64	0.49	6.06
97 Q1	1.90		2.56		-0.64	
Q2	15 76		14 74		0.88	
Q3	14 18		9 96		3.84	
Q4	-0.17	34.45	4.47	35.18	-4 44	-0.54
98 Q1	12 72		11 66		0 95	
Q2	-2.21		0 45		-2.65	
Q3	-14 58		-11.58		-3 39	
Q4	16.33	9.53	16.60	15 63	-0.24	-5.28
99 Q1	-0 82		1 43		-2.22	
Q2	12.06		11.28		0 70	
Q3	-9 49		-9.80		0 34	
Q4	3.76	4.37	5 44	7.35	-1.59	-2.77
00 Q1	-0 42		0.48		-0 89	
Q2	-0.74		-4 69		4.14	
Q3	8 62		7.86		0.70	
Q4	6.76	14 62	3 60	7.01	3.05	7.11
01 Q1	1.29		-5 86		7.59	
Q2	6 23		4.88		1 29	
Q3	-10.79		-10.95		0 18	
Q4	9.60	5.21	7.37	-5 59	2.07	11.44
02 Q1	9.30		4 09		5 01	
Q2	-6.71		-8 52		1 98	
Q3	-17 03		-18.77		2 15	
Q4	5.10	-11.08	9.22	-15.52	-3.77	5.26
03 Q1	-5.07		-4 86		-0.22	
Q2	19.55		17.27		1 94	
Q3	3 99		2.06		1.89	
Q4	15.28	36.05	14.19	30.03	0.96	4.63
Latest						
1 yr		36.05		30 03		4.63
3 yr		8.37		1 22		7 07
5 yr		8.77		3.56		5.03
Cumulative 9312 - 0312		15 14		11 98		2.83
Std Dev		14 65		14 75		5 08

*Fourth Quarter 1993 has one month of performance, December

MINNESOTA STATE BOARD OF INVESTMENT

SUMMARY INFORMATION

Date of response submission: January 6, 2004

Firm's Name: Systematic Financial Management, L.P.

Name of Product: Large Cap Value – Earnings Surprise

Investment Philosophy:
Our Large Cap Value investment process originates with applying a **Quantitative Screen** to all companies with market capitalization exceeding $2.5 billion (approximately 1,000 companies). Companies are ranked by sector based on low forward P/E and a positive earnings catalyst, which is determined by a proprietary 16-factor model that is designed to be predictive of future positive earnings surprises.

We favor companies with low forward P/E multiples and a positive earnings catalyst (positive earnings surprise, positive estimate revisions, improving margins, and auspicious balance sheet and income statement attributes). Cash flow is analyzed to confirm earnings and to avoid companies that may have employed accounting gimmicks to report earnings in excess of Wall Street expectations.

Investment Process:
The screening process generates a research focus list of 150 companies upon which we conduct rigorous fundamental analysis to confirm each stock's value and catalysts for appreciation.

Once a company earns a position on our research focus list, our qualitative research and comprehensive due diligence process derive important investment criteria. The first step gauges **Investor Expectations**. We believe stock prices are a reflection of consensus earnings estimates, and as revisions of those estimates rise or fall, stock prices will follow suit.

When companies report earnings that fall short of Wall Street estimates, future earnings estimates are generally revised lower, causing share prices to depreciate. Companies in this stage of their earnings cycle often appear to be attractive, based upon valuation. We believe these companies represent a "value trap" and should be avoided. Companies such as these tend to persistently disappoint investors, leading to P/E ratio compression and further stock price decline.

Our investment strategy attempts to avoid stocks in the value trap by focusing only on companies with confirmed fundamental improvement as evidenced by a genuine positive earnings surprise. In the face of deteriorating fundamentals, many companies will attempt to guide Wall Street estimates downward, in order to exceed expectations, and create a "statistical" earnings surprise. We are not interested in buying these types of companies for our clients' portfolios. A genuine earnings surprise occurs only when a company exceeds flat to rising earnings estimates due to improving fundamentals.

Once we determine that a company has reported a genuine earnings surprise, we begin the Financial Statement Analysis portion of the research process. The goal here is to identify the source of the earnings surprise, determine whether it's sustainable, and ascertain if it's likely to trigger upward revisions to earnings estimates. We first examine the operational or "above the line" items of the income statement (sales growth, gross margins, and operating expenses) and compare them to expectations. Next, we examine all "below the line" items (other income, tax rate, interest expense and shares outstanding). We are seeking operational earnings surprises, driven by improving revenues and operating margins that are likely to trigger positive estimate revisions and expanding P/E ratios. Surprises driven by "below the line" items are inherently unsustainable, and unlikely to be rewarded by the market.

Next we examine balance sheet and cash flow statements to validate the quality of earnings. We seek to avoid companies where management is using aggressive or misleading accounting techniques to overstate profitability. Earnings based upon accrual accounting are subject to numerous managerial estimates and assumptions. By doctoring these subjective elements, management can easily inflate earnings by accelerating revenue recognition, deferring expenses, or both. Therefore, we heavily emphasize cash flow analysis, which is much more difficult to manipulate than earnings. Some red flags we look for that could indicate deceptive accounting techniques include: profits growing faster than cash flow, sales growth slower than expected coupled with an unexpectedly rapid rate of inventory growth, unusual increases in accounts receivable, margin deterioration, and frequent or large charges against earnings.

Once we are convinced an earnings catalyst for price appreciation is in place, we begin the third step in the process, assessing Company Valuation. Our objective is to evaluate the attractiveness of each company on both an absolute and a relative basis. Ideally, the company should trade at a discount to the market benchmark, its peers in its economic sector / industry group, and at the lower end of it own historical valuation range. In addition to price to earnings ratios, we employ a variety of valuation measures including, price to cash flow, price to sales, price to book, and dividend yield. Certain valuation approaches are more (or less) important for different companies depending upon their industry/sector classification and at which stage they are at in their earnings life cycle.

The final component is Fundamental Due Diligence. We combine both public information (Wall Street research, company sponsored conference calls, presentations or web casts, SEC filings, annual reports, etc.) with proprietary research methods to understand the key drivers to company fundamentals. A portfolio of our best ideas is constructed with a minimum of 65 companies.

Portfolios are constructed through a bottom-up security selection process, acquiring the most attractive companies based on our in-depth fundamental analysis. Purchase decisions are made by our 13-member investment team with lead responsibility coming from senior members Joe Joshi, Kevin McCreesh, and Ron Mushock A portfolio of our best ideas is constructed with a minimum of 65 companies. As risk controls, we limit the portfolio to a maximum of 30 percent in any one economic sector and five percent in any individual stock at market. Additionally, our sector weightings generally remain within +/- five percent of the benchmark. We employ a fully invested strategy; therefore, cash is typically less than five percent of the portfolio.

Our sell discipline reflects the inverse of our selection methodology. We sell stocks when price appreciation causes company valuation to expand to fair value. In addition, we sell companies if other investment opportunities present more attractive prospects from a valuation and expected return basis. We also sell companies if our analysis leads us to anticipate downward estimate revisions. Finally, in the less likely event of a reported negative earnings surprise, we eliminate the position from our portfolio.

Ownership:
Senior professionals of the firm share ownership of Systematic with Affiliated Managers Group a holding company that invests in money management firms. AMG currently owns 55 percent of the firm, while five active senior employees of Systematic own the remaining 45 percent. AMG is a passive financial partner of Systematic; employees retain autonomous control of the investment philosophy and process as well as comprehensive management of the firm.

	12/31/03
Firm's total assets under management:	$6,576.5 Million
Assets under management in this product:	$2,150.9 Million
Number of Accounts in this product:	39 Institutional Accounts
Number of Portfolio Managers on this product:	4
Number of Analysts on this product:	4

Largest Accounts:

Taft-Hartley	$435 Million
Corporate	$300 Million
Public	$225 Million
Corporate	$200 Million
Public	$140 Million

	Investment Manager:	SYSTEMATIC FINANCIAL - REP2				
	Benchmark:	FRANK RUSSELL 1000 VALUE				

	----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
96 Q3	10.98 *		6.95 *		3.77 *	
Q4	14.16	26.69	9.98	17.62	3.80	7.71
97 Q1	-0.76		2.56		-3.24	
Q2	16.26		14.74		1.32	
Q3	19.22		9.96		8.42	
Q4	-3.27	33.05	4.47	35.18	-7.41	-1.58
98 Q1	11.80		11.66		0.13	
Q2	-1.98		0.45		-2.42	
Q3	-21.54		-11.58		-11.26	
Q4	23.58	6.26	16.60	15.63	5.98	-8.10
99 Q1	2.76		1.43		1.31	
Q2	14.15		11.28		2.58	
Q3	-7.01		-9.80		3.09	
Q4	7.44	17.20	5.44	7.35	1.90	9.17
00 Q1	3.63		0.48		3.13	
Q2	-5.40		-4.69		-0.75	
Q3	10.50		7.86		2.44	
Q4	5.34	14.10	3.60	7.01	1.68	6.62
01 Q1	-3.74		-5.86		2.24	
Q2	4.01		4.88		-0.83	
Q3	-14.08		-10.95		-3.51	
Q4	7.57	-7.47	7.37	-5.59	0.18	-1.99
02 Q1	3.58		4.09		-0.49	
Q2	-8.60		-8.52		-0.08	
Q3	-16.82		-18.77		2.40	
Q4	6.29	-16.29	9.22	-15.52	-2.68	-0.91
03 Q1	-2.44		-4.86		2.55	
Q2	19.44		17.27		1.85	
Q3	2.82		2.06		0.74	
Q4	13.73	36.27	14.19	30.03	-0.40	4.80
Latest						
1 yr		36.27		30.03		4.80
3 yr		1.81		1.22		0.59
5 yr		7.13		3.56		3.45
Cumulative 9608 - 0312		13.32		11.15		1.95
Std Dev		18.23		16.38		6.66

*Third Quarter 1996 has two months of performance, August & September

Tab D

COMMITTEE REPORT

DATE: February 24, 2004

TO: Members, State Board of Investment

FROM: IAC Membership Review Committee

SUBJECT: Recommended Appointments to IAC

The terms of four members of the Investment Advisory Council expired in January 2004. The members continue to serve until their successors are appointed. If a successor has not been appointed by July 1, 2004, then the member's term will extend until January 2008. The four members are as follows:

- Douglas J. Gorence — Chief Investment Officer
U of M Foundation Investment Advisors
- Kenneth F. Gudorf — Chief Executive Officer
Agio Capital Partners
- P. Jay Kiedrowski — Executive Vice Prèsident
Wells Fargo & Company
- Judith Mares — Financial Consultant
Mares Financial Consulting, Inc.

Each of the above named have submitted applications for reappointment to the IAC. The above named applicants have extensive professional plan sponsor and institutional investor experience, which are meaningful characteristics for service on the IAC.

There were no additional applications for membership on the Council.

RECOMMENDATION:

The Committee recommends that the Board reappoint the following as members of the Investment Advisory Council, with terms expiring in January 2008:

- **Douglas J. Gorence**
- **Kenneth F. Gudorf**
- **P. Jay Kiedrowski**
- **Judith Mares**

Tab E

COMMITTEE REPORT

DATE: February 24, 2004

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Thursday, February 12, 2004 to consider the following agenda items:

- Review the manager performance for the period ending December 31, 2003.
- Update on American Express's acquisition of Threadneedle Asset Management.
- Update on the domestic equity large-cap value search.
- Update on Deferred Compensation Plan.

Action is not 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, 2003, the **Domestic Equity Manager Program** under-performed the asset class target* for the quarter, one, three, and five-year time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	12.3%	12.4%
1 Year	31.0	31.2
3 Years	-3.3	-3.1
5 Years	-0.5	-0.2

* The DE Asset Class Target is the Russell 3000 since 10/1/03, the Wilshire 5000 Investable from 7/1/99 to 9/30/03, and the Wilshire 5000 prior to 7/1/99.

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

- *Fixed Income Managers*

For the period ending December 31, 2003, the **Fixed Income Manager Program** out-performed the Lehman Aggregate over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	0.8%	0.3%
1 Year	5.7	4.1
3 Years	8.0	7.6
5 Years	6.9	6.6

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

- *International Equity Managers*

For the period ending December 31, 2003, the **International Equity Program** and the **equity managers** (excluding the currency overlay) under-performed the composite index over the quarter and the year and outperformed over the three and five-year time periods.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	16.5	17.1
1 Year	38.2	40.1
3 Year	-1.4	-1.6
5 Year	1.8	1.0

Equity*** Mgrs. Only
16.5
38.2
-1.4
1.7

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

** Since 10/1/03, the international equity asset class target is the MSCI ACWI Free ex. U.S. (net) From 7/1/99 to 9/30/03 the target was the MSCI EAFE-Free plus Emerging Markets Free index The weighting of each index fluctuated with market capitalization. From 12/31/96 to 6/30/99, the target was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE-Free to the 12/31/96 fixed weights Prior to 5/1/96, the target was 100% EAFE-Free

*** 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-57** of this Tab.

2. **Update on American Express's acquisition of Threadneedle Asset Management.**

American Express acquired Threadneedle Asset Management as of September 30th, 2003. The Threadneedle team, joined by Ed Gaunt, the former portfolio manager for Japan with American Express, assumed management of the SBI's portfolio as of November 7th, 2003.

Threadneedle is the fourth largest retail mutual fund manager in the UK, with a total of $83 billion U.S. dollars in assets under management across a variety of client types. American Express' acquisition of Threadneedle was based on Threadneedle's depth of resources, and American Express' conviction that Threadneedle's investment process and risk controls will deliver enhanced returns to their clients.

Staff feels that this organization is deeper in resources, has demonstrated stronger performance in Europe, which is over 70% of the index, and has had a very stable investment team. We expect these strengths to enhanced performance going forward.

3. **Update on the domestic equity large capitalization value search.**

The SBI conducted a search for large capitalization value managers as a result of the decision by the Minnesota State Board of Investment (SBI), at its September 2003 meeting, to control misfit risk, or style bias, in the Domestic Equity Program by allocating assets to active managers based on market capitalization and style. Accordingly, the SBI needs to reallocate assets into the large capitalization value area to match the weight in the asset class target, the Russell 3000. The SBI will address the underweight by hiring several large capitalization value managers and reallocating assets to them.

The Search Committee met on February 3, 2004, and interviewed six large capitalization value managers for the Domestic Equity Program. The Search Committee is recommending that the following four (4) firms be retained by the SBI for inclusion in the Domestic Equity Program:

Barrow, Hanley, Mewhinney & Strauss, Inc.
Lord Abbett & Co. LLC
LSV Asset Management
Systematic Financial Management, L.P.

The results and recommendations from the Search Committee appear in **Tab C**.

4. **Update on Deferred Compensation Plan.**

At its September 2003 meeting, the Board approved a recommendation to restructure the Deferred Compensation Plan (Plan) from an offering of both daily valued mutual funds and the monthly valued Supplemental Investment Fund (SIF) accounts to offering only daily valued investment options. Five of the SIF options will be replaced by daily valued mutual funds. Assets of the Plan in the SIF accounts will be transferred as follows:

SIF Option	**New Daily Valued Mutual Fund**
Growth Share	Smith Barney Appreciation Y
Common Stock Index	Vanguard Institutional Index Plus
Income Share	Vanguard Balanced Index
Bond Market	Vanguard Total Bond Market Index
International Share	Vanguard Developed Market Index

This new group of daily valued mutual funds were made available to participants during the fourth quarter 2003 and Plan assets remaining in the SIF options will be transferred at the close of business on February 27. These new funds will be in addition to the mutual fund options which have been offered since the current structure of the 457 Plan was put into place in 1999.

Additionally, the Fixed Interest Account of the SIF will be restructured to provide a daily valued option for the Plan.

Note that the Board terminated the INVESCO Total Return Fund and replaced it with the Dodge & Cox Balanced Fund during the fourth quarter 2003 The Board also terminated the Morgan Stanley Mid Cap Fund and replaced it with the Vanguard Mid Capitalization Index Fund during the first quarter 2004.

Beginning March 1, 2004, all Plan options will be daily priced. The new structure will have a set of passively managed options and a set of actively managed options.

New Plan Structure

	Passive	**Active**
Equity	Vanguard Institutional Index Plus Vanguard Mid Capitalization Index	Janus Twenty Smith Barney Appreciation Y T. Rowe Price Small Cap Stock
Balanced	Vanguard Balanced Index	Dodge & Cox Balanced
Bond	Vanguard Total Bond Market Index	Dodge & Cox Income
International	Vanguard Developed Markets Index	Fidelity Diversified Int'l
Money Market		SIF Money Market
Fixed		SIF Fixed Interest MN Fixed Fund

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Fourth Quarter, 2003

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COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 2003
Versus Manager Benchmarks (1)

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
Alliance Capital	8.9	10.4	22.4	26.3	-8.2	-6.6	-1.7	-1.2	15.4	11.6	$957.4	4.9%
Cohen, Klingenstein & Marks	8.9	10.4	41.2	39.3	-11.7	-1.9	-4.2	1.3	10.5	12.1	$591.1	3.0%
Franklin Portfolio	12.5	12.3	32.9	36.9	-2.5	1.3	2.8	3.9	12.1	12.0	$745.8	3.8%
New Amsterdam Partners	12.1	12.3	34.2	37.1	2.3	3.4	7.2	8.5	14.8	14.5	$382.5	2.0%
Oppenheimer	13.2	14.2	28.9	31.4	0.4	-1.9	4.5	3.6	13.7	12.4	$880.9	4.5%
UBS Global	13.5	12.3	30.7	30.8	5.5	-2.6	2.1	2.2	11.4	11.0	$897.1	4.6%
Emerging Managers												
Bay Isle Financial	13.0	14.2	23.3	32.1	-3.5	1.0			-2.5	3.1	$45.7	0.2%
Earnest Partners	12.9	14.2	32.0	41.8	2.5	11.8			0.3	14.2	$50.8	0.3%
Holt-Smith & Yates	10.8	10.4	22.1	31.3	-4.7	3.6			-6.0	2.4	$40.8	0.2%
Next Century Growth	9.0	12.7	50.7	48.5	-8.1	0.5			-13.2	-5.7	$30.9	0.2%
Peregrine Capital	14.7	16.4	44.2	44.2	14.3	18.2			19.0	20.7	$167.8	0.9%
Voyageur-Chicago Equity	9.4	12.3	23.2	28.9	-7.6	-3.5			-4.9	-5.1	$42.5	0.2%
Winslow-Small Cap	11.2	12.7	37.6	51.3	-1.1	5.1			-4.0	-1.7	$152.4	0.8%
Zevenbergen Capital	13.0	10.4	49.3	31.3	-12.2	-1.2	-4.1	4.7	10.4	13.8	$126.5	0.6%
Semi-Passive Managers												
Barclays Global Investors	12.5	12.8	30.0	28.5	-1.0	-2.3	-0.9	-1.9	11.6	10.8	$2,783.1	14.3%
Franklin Portfolio	12.3	12.8	26.9	28.5	-2.7	-2.3	-2.7	-1.9	10.3	10.8	$1,728.8	8.9%
JP Morgan	13.3	12.8	28.9	28.5	-2.8	-2.3	-2.0	-1.9	10.9	10.8	$2,423.0	12.4%
Passive Manager												
Barclays Global Investors	12.4	12.4	30.9	31.2	-3.2	-3.1	0.2	0.0	10.1	10.0	$6,502.6	33.4%
									Since 1/1/84			
Historical Aggregate (3)	**12.3**	**12.4**	**31.0**	**31.4**	**-3.3**	**-2.2**	**-0.5**	**0.2**	**11.8**	**12.2**	$19,466.5	100.0% *
SBI DE Asset Class Target (4)		12.4		31.2		-3.1		-0.2		12.0		
Rusell 3000		12.4		31.1		-3.1		0.4		12.5		
Wilshire 5000		12.4		31.6		-2.5		0.4		12.4		
Russell 1000		12.3		29.9		-3.8		-0.1		12.8		
Russell 2000		14.5		47.3		6.3		7.1		10.2		

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

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

(3) Includes the performance of terminated managers

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

* Includes the performance of managers terminated in December 2003

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending December, 2003
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	Active
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
LARGE CAP												
Russell 1000 Core												
Franklın Portfolıo	12 5	12 3	32 9	29 9	-2 5	-3 8	2 8	-0 1	12 1	12 0	$745 8	14 6%
New Amsterdam Partners (2)	12 1	12 3	34 2	38 0	2 3	3 0	7 2	6 9	14 8	12 7	$382 5	7 5%
UBS Global	13 5	12 3	30 7	29 9	5 5	-3 8	2 1	-0 1	11 4	11 0	$897 1	17 5%
Voyageur-Chıcago Equıty	9 4	12 3	23 2	29 9	-7 6	-3 8			-4 9	-5 7	$42 5	0 8%
Aggregate R1000 Core Mgrs	12 8											
Russell 1000 Growth												
Allıance Capıtal	8 9	10 4	22 4	29 7	-8 2	-9 4	-1 7	-5 1	15 4	11 5	$957 4	18 7%
Cohen, Klıngensteın & Marks	8 9	10 4	41 2	29 7	-11 7	-9 4	-4 2	-5 1	10 5	10 0	$591 1	11 6%
Holt-Smıth & Yates	10 8	10 4	22 1	29 7	-4 7	-9 4			-6 0	-15 5	$40 8	0 8%
Zevenbergen Capıtal	13 0	10 4	49 3	29 7	-12 2	-9 4	-4 1	-5 1	10 4	10 0	$126 5	2 5%
Aggregate R1000 Growth Mgrs	9 5											
Russell 1000 Value												
Bay Isle Fınancıal	13 0	14 2	23 3	30 0	-3 5	1 2			-2 5	4 3	$45 7	0 9%
Earnest Partners	12 9	14 2	32 0	30 0	2 5	1 2			0 3	4 3	$50 8	1 0%
Oppenheımer	13 2	14 2	28 9	30 0	0 4	1 2	4 5	3 6	13 7	11 8	$880 9	17 2%
Aggregate R1000 Value Mgrs	13 2											
SMALL CAP												
Russell 2000 Growth												
Next Century Growth	9 0	12 7	50 7	48 5	-8 1	-2 0			-13 2	-8 9	$30 9	0 6%
Wınslow-Small Cap	11 2	12 7	37 6	48 5	-1 1	-2 0			-4 0	-8 9	$152 4	3 0%
Aggregate R2000 Growth Mgrs	11 9											
Russell 2000 Value												
Peregrıne Capıtal	14 7	16 4	44 2	46 0	14 3	13 8			19 0	16 6	$167 8	3 3%
Aggregate R2000 Value Mgrs	14 9											

(1) Sınce retentıon by the SBI Tıme perıod varıes for each manager

(2) New Amsterdam Partners' publıshed benchmark ıs the Russell 1000 core ındex begınnıng 10/1/03
Prıor to that date ıt was the Russell Mıdcap Index

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

	2003		**2002**		**2001**		**2000**		**1999**		**1998**	
	Actual %	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**
Active Managers												
Alliance Capital	22.4	26.3	-26.8	-24.0	-13.7	-15.3	-13.7	-11.4	38.0	30.3	49.6	38.6
Cohen, Klingenstein & Marks	41.2	39.3	-35.0	-23.8	-25.0	-11.2	-6.0	-12.1	24.8	28.6	38.2	31.3
Franklin Portfolio	32.9	36.9	-25.4	-19.8	-6.6	-5.4	-1.6	0.3	26.2	16.3	10.7	18.3
New Amsterdam Partners	34.2	37.1	-17.5	-22.2	-3.3	3.7	15.0	3.1	15.0	32.1	26.2	18.5
Oppenheimer	28.9	31.4	-15.5	-20.7	-7.0	-9.5	11.2	10.3	10.7	14.9	21.5	24.4
UBS Global	30.7	30.8	-14.7	-20.6	5.2	-11.0	3.6	-1.0	-8.5	21.6	17.3	18.8
Emerging Managers												
Bay Isle Financial	23.3	32.1	-26.1	-17.2	-1.6	-5.9						
Earnest Partners	32.0	41.8	-18.1	-11.6	-0.4	11.5						
Holt-Smith & Yates	22.1	31.3	-28.0	-19.0	-1.7	4.6						
Next Century Growth	50.7	48.5	-33.3	-27.8	-22.8	-5.5						
Peregrine Capital	44.2	44.2	-8.1	-6.9	12.6	22.9						
Voyageur-Chicago Equity	23.2	28.9	-20.6	-20.7	-19.4	-12.0						
Winslow-Small Cap	37.6	51.3	-25.0	-26.7	-6.1	4.6						
Zevenbergen Capital	49.3	31.3	-36.2	-24.2	-29.0	-3.2	-38.2	-16.6	94.3	56.6	54.5	30.7
Semi-Passive Managers												
Franklin Portfolio	26.9	28.5	-20.2	-19.7	-9.0	-9.7	-15.9	-16.3	12.9	16.3	22.4	23.7
JP Morgan	28.9	28.5	-21.8	-19.7	-8.7	-9.7	-13.6	-16.3	14.0	16.3	24.6	23.7
Barclays Global Investors	30.0	28.5	-19.1	-19.7	-7.8	-9.7	-13.8	-16.3	14.1	16.3	21.4	23.7
Passive Manager												
Barclays Global Investors	30.9	31.2	-21.4	-21.5	-11.8	-11.7	-9.8	-11.0	23.3	23.6	23.4	23.4
Historical Aggregate (2)	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**	**-11.0**	**-10.7**	**21.0**	**21.3**	**23.5**	**23.4 ***
SBI DE Asset Class Target (3)	31.2		-21.5		-11.7		-10.8		22.2		23.4	
Russell 3000		31.1		-21.5		-11.5		-7.5		20.9		24.1
Wilshire 5000		31.6		-20.9		-11.0		-10.9		23.6		23.4
Russell 1000		29.9		-21.7		-12.5		-7.8		20.9		27.0
Russell 2000		47.3		-20.5		2.5		-3.0		21.3		-2.5

(1) Active and Emerging Manager benchmarks are Russell Style Indexes beginning 10/1/03 and were custom benchmarks prior to 10/1/03
(2) Includes the performance of terminated managers
(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03
From 7/1/9 to 9/30/03, it was the Wilshire 5000 Investable Index
From 11/1/93 to 6/30/99, the target was the Wilshire 5000 as reported with no adjustments
Prior to 11/1/93, the Wilshire 5000 was adjusted to reflect SBI mandated restrictions which included liquor and tobacco, American Home Products and South Africa

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

* Includes the performance of managers terminated in December 2003

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

	2003		2002		2001		2000		1999		1998	
	Actual %	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**
LARGE CAP												
Russell 1000 Core												
Franklin Portfolio	32 9	29 9	-25 4	-21 7	-6 6	-12 5	-1 6	-7 8	26 2	20 9	10 7	27 0
New Amsterdam Partners (2)	34 2	38 0	-17 5	-16 2	-3 3	-5 6	15 0	8 2	15 0	18 2	26 2	10 1
UBS Global	30 7	29 9	-14 7	-21.7	5 2	-12 5	3 6	-7 8	-8 5	20 9	17 3	27 0
Voyageur-Chicago Equity	23 2	29 9	-20 6	-21 7	-19 4	-12 5						
Russell 1000 Growth												
Alliance Capital	22 4	29 7	-26 8	-27 9	-13 7	-20 4	-13 7	-22 4	38 0	33 2	49 6	38 7
Cohen, Klingenstein & Marks	41 2	29 7	-35 0	-27 9	-25 0	-20 4	-6 0	-22 4	24 8	33 2	38 2	38 7
Holt-Smith & Yates	22 1	29 7	-28 0	-27 9	-1 7	-20 4						
Zevenbergen Capital	49 3	29 7	-36 2	-27 9	-29 0	-20 4	-38 2	-22 4	94 3	33 2	54 5	38 7
Russell 1000 Value												
Bay Isle Financial	23 3	30 0	-26 1	-15 5	-1 6	-5 6						
Earnest Partners	32 0	30 0	-18 1	-15 5	-0 4	-5 6						
Oppenheimer	28 9	30 0	-15 5	-15 5	-7 0	-5 6	11 2	7 0	10 7	7 3	21 5	15 6
SMALL CAP												
Russell 2000 Growth												
Next Century Growth	50 7	48 5	-33 3	-30 3	-22 8	-9 2						
Winslow-Small Cap	37 6	48 5	-25 0	-30 3	-6 1	-9 2						
Russell 2000 Value												
Peregrine Capital	44 2	46 0	-8 1	-11 4	12 6	14 0						

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

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

ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Jack Koltes **Assets Under Management: $957,405,612**

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 under performed by 1 5 percentage points during the quarter Stock selection in technology, retail and consumer non-durables was the primary detractor The firm gained one account at $138 million and lost 21 accounts valued at $1 14 billion in the large growth product, which is 2 6% of the total $43 bil in the product The loss in accounts is due to Alliance's recent weak performance and its implication in the mutual fund industry trading issue

Alliance reached an agreement with the Securities and Exchange Commission (SEC) for the resolution of regulatory claims against Alliance with respect to market timing activities in some of their U.S retail mutual funds They have also reached an agreement with the N Y Attorney General, which is subject to final documentation The SEC explicitly acknowledged Alliance's cooperation concerning the resolution of claims

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

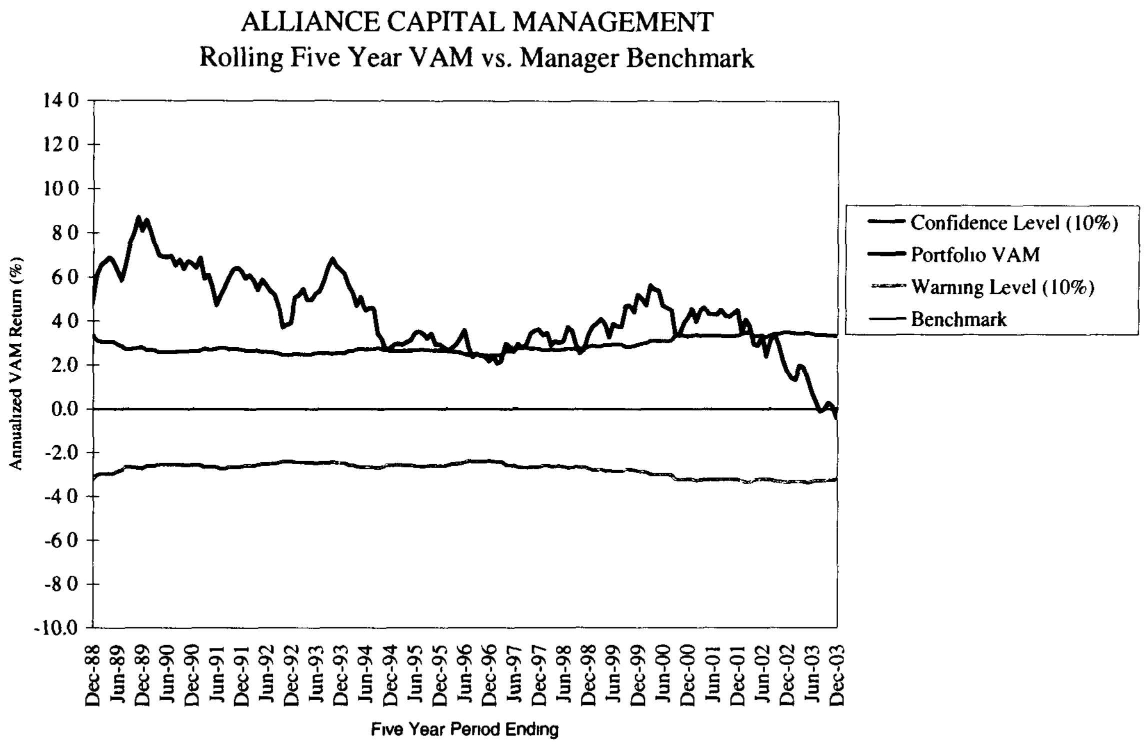
	Actual	Manager Benchmark	Russell 1000 Growth
Last Quarter	8.9%	10.4%	10 4%
Last 1 year	22 4	26 3	29 7
Last 2 years	-5 4	-2 0	-3 3
Last 3 years	-8.2	-6 6	-9 4
Last 4 years	-9 6	-7 8	-12.8
Last 5 years	-1.7	-1 2	-5 1
Since Inception (1/84)	15 4	11 6	11 5

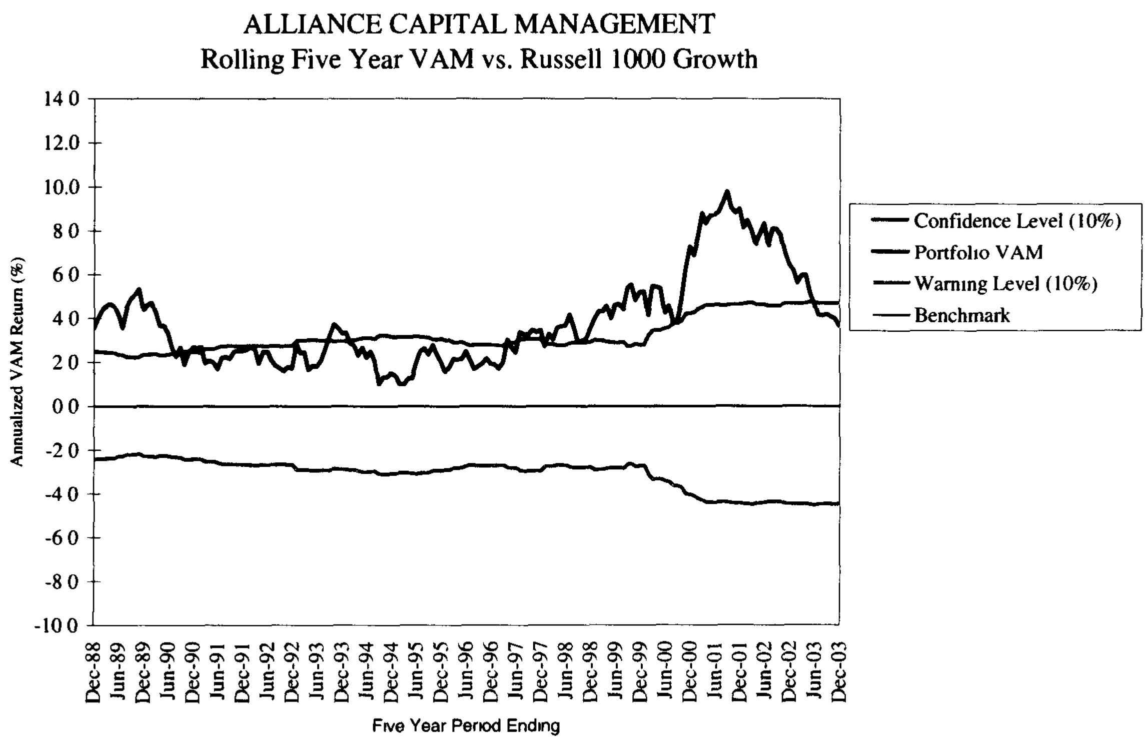
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Growth
2003	22 4%	26 3%	29 7%
2002	-26 8	-24 0	-27 9
2001	-13 7	-15.3	-20.4
2000	-13 7	-11 4	-22 4
1999	38 0	30 3	33 2
1998	49 6	38 6	38.7

ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Jack Koltes **Assets Under Management: $957,405,612**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2003

Portfolio Manager: George Cohen **Assets Under Management: $591,082,367**

Investment Philosophy

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

Staff Comments

Cohen underperformed the benchmark by 1.5 percentage points for the quarter due to stock selection, particularly in technology. The largest detraction came from overweighting EMC Corp., Solectron Corp., and Micron Technology.

During the year, the portfolio has been structured to have a high weight in technology (36% vs. 19% in the benchmark), and a lower weighting in Economic Cyclicals (11% vs. 21%) and Health Care (14% vs. 21%). The large sector bets accounted for most of the value added during the past year. There was strong performance in the technology sector where the portfolio's overweight was a significant advantage.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Growth
Last Quarter	8.9%	10.4%	10.4%
Last 1 year	41.2	39.3	29.7
Last 2 years	-4.2	3.0	-3.3
Last 3 years	-11.7	-1.9	-9.4
Last 4 years	-10.3	-4.6	-12.8
Last 5 years	-4.2	1.3	-5.1
Since Inception (4/94)	10.5	12.1	10.0

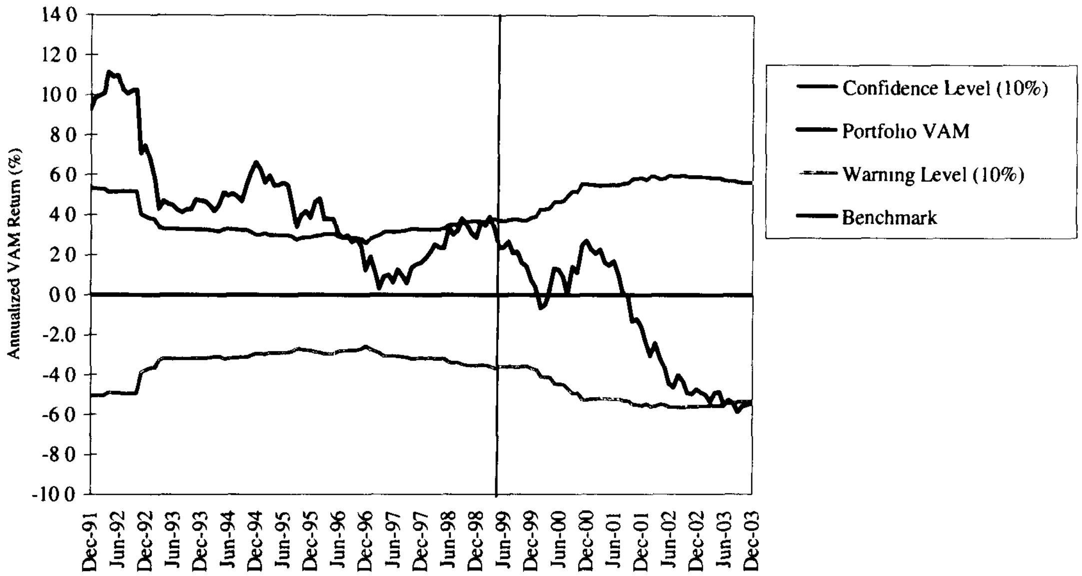
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Growth
2003	41.2%	39.3%	29.7%
2002	-35.0	-23.8	-27.9
2001	-25.0	-11.2	-20.4
2000	-6.0	-12.1	-22.4
1999	24.8	28.6	33.2
1998	38.2	31.3	38.7

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2003

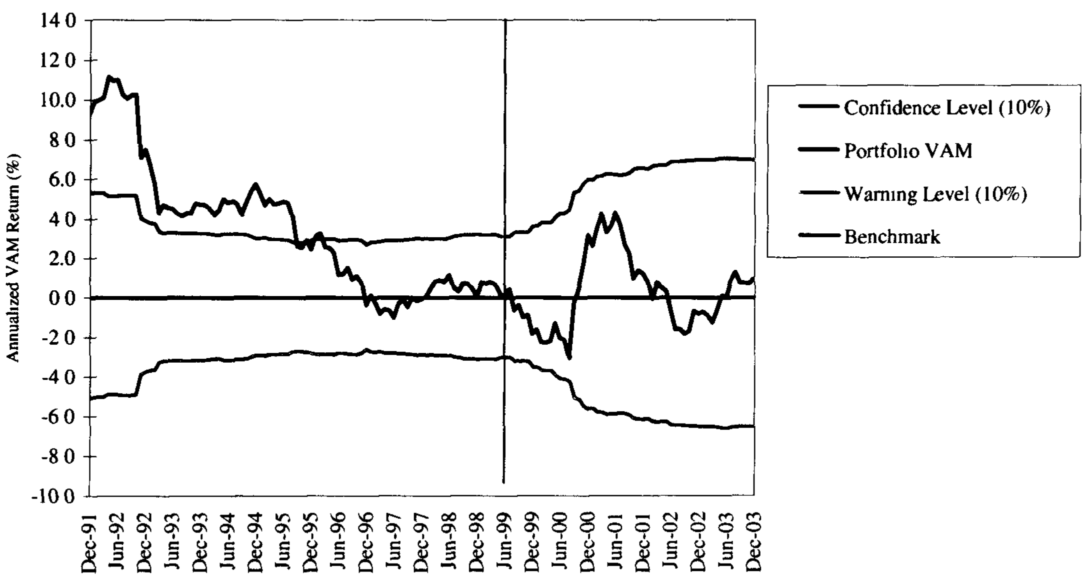
Portfolio Manager: George Cohen **Assets Under Management: $591,082,367**

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



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

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



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2003

Portfolio Manager: John Cone **Assets Under Management: $745,820,145**

Investment Philosophy – Active Style

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

Staff Comments

Franklin's out performance over the quarter was due to its tilt toward stocks with lower price-to-earnings ratio

For the past year, Franklin under performed the benchmark by 4.0 percentage points. This was a result of several holdings that performed poorly during the year, including Eastman Kodak, UnumProvident, and Amerada Hess.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Core
Last Quarter	12.5%	12.3%	12.3%
Last 1 year	32.9	36.9	29.9
Last 2 years	-0.5	4.8	0.9
Last 3 years	-2.5	1.3	-3.8
Last 4 years	-2.3	1.0	-4.8
Last 5 years	2.8	3.9	-0.1
Since Inception (4/89)	12.1	12.0	12.0

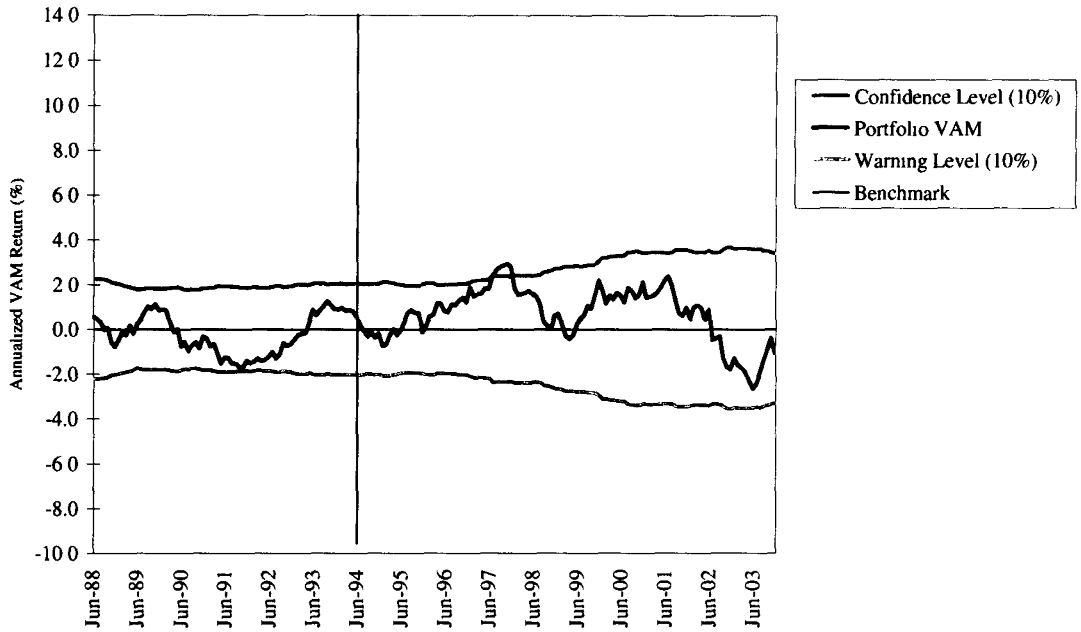
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Core
2003	32.9%	36.9%	29.9%
2002	-25.4	-19.8	-21.7
2001	-6.6	-5.4	-12.5
2000	-1.6	0.3	-7.8
1999	26.2	16.3	20.9
1998	10.7	18.3	27.0

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2003

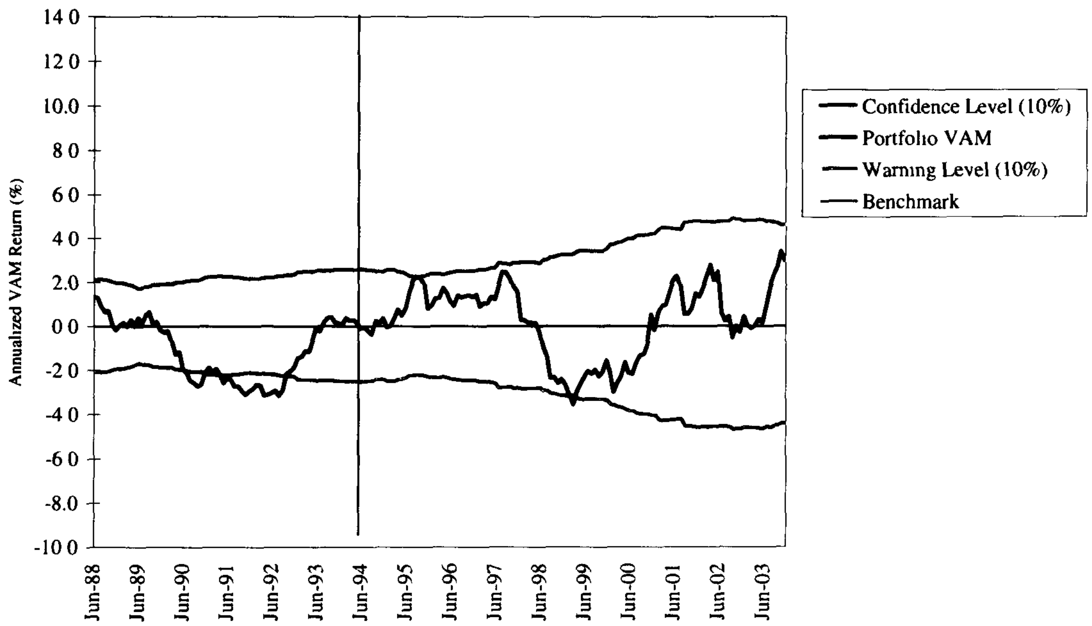
Portfolio Manager: John Cone | **Assets Under Management: $745,820,145**

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM vs. Manager Benchmark



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

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM vs. Russell 1000 Core



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

NEW AMSTERDAM PARTNERS
Periods Ending December, 2003

Portfolio Manager: Michelle Clayman **Assets Under Management: $382,504,183**

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

Performance for the quarter was inline with the manager benchmark New Amsterdam's stock selection was strong, but an overweight position in retail detracted from performance During the year, performance was hurt by an underweight in retail trade, and poor stock selection in health, technology, and utilities. Stock picking in consumer and technology services added the most value.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell Index (1)
Last Quarter	12.1%	12 3%	12.3%
Last 1 year	34 2	37.1	38 0
Last 2 years	5 2	3.3	7.5
Last 3 years	2.3	3 4	3 0
Last 4 years	5 3	3.3	4 3
Last 5 years	7.2	8.5	6.9
Since Inception (4/94)	14.8	14 5	12 7

Calendar Year Returns

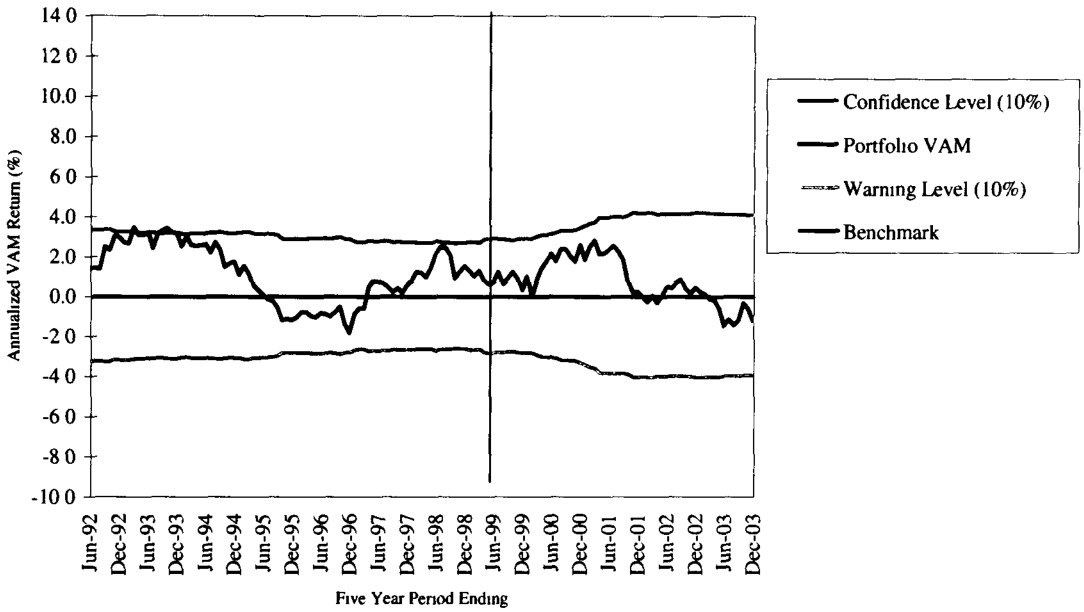
	Actual	Manager Benchmark	Russell Index (1)
2003	34 2%	37.1%	38.0%
2002	-17 5	-22.2	-16.2
2001	-3 3	3 7	-5 6
2000	15.0	3 1	8.2
1999	15.0	32.1	18.2
1998	26 2	18 5	10 1

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

NEW AMSTERDAM PARTNERS
Periods Ending December, 2003

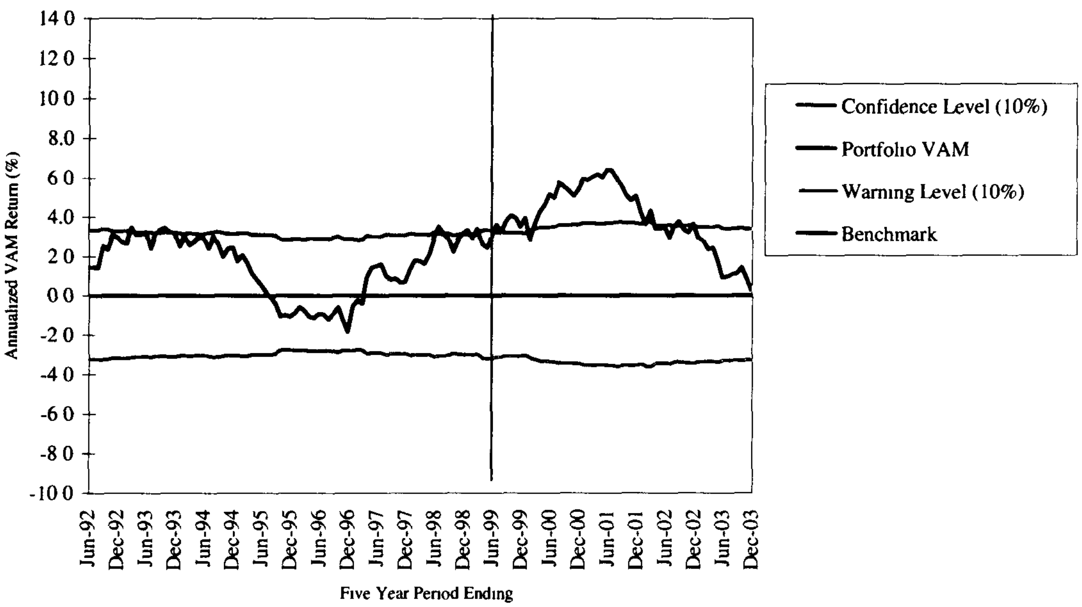
Portfolio Manager: Michelle Clayman **Assets Under Management: $382,504,183**

NEW AMSTERDAM PARTNERS
Rolling Five Year VAM vs. Manager Benchmark



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

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



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

OPPENHEIMER CAPITAL
Periods Ending December, 2003

Portfolio Manager: John Lindenthal | **Assets Under Management: $880,892,395**

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

Oppenheimer trailed the manager benchmark for the quarter. A 7% cash position hurt performance Technology investments also detracted from relative returns, a result of poor stock selection FleetBoston Financial added value to the portfolio during the quarter, as did Countrywide Financial and Freddie Mac

For the year, underperformance was a result of a larger than normal cash position Investments in materials and industrials hurt relative performance.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Value
Last Quarter	13 2%	14.2%	14.2%
Last 1 year	28.9	31.4	30.0
Last 2 years	4.4	2 1	4 8
Last 3 years	0 4	-1 9	1 2
Last 4 years	3.0	1 0	2.6
Last 5 years	4.5	3.6	3.6
Since Inception (7/93)	13 7	12.4	11.8

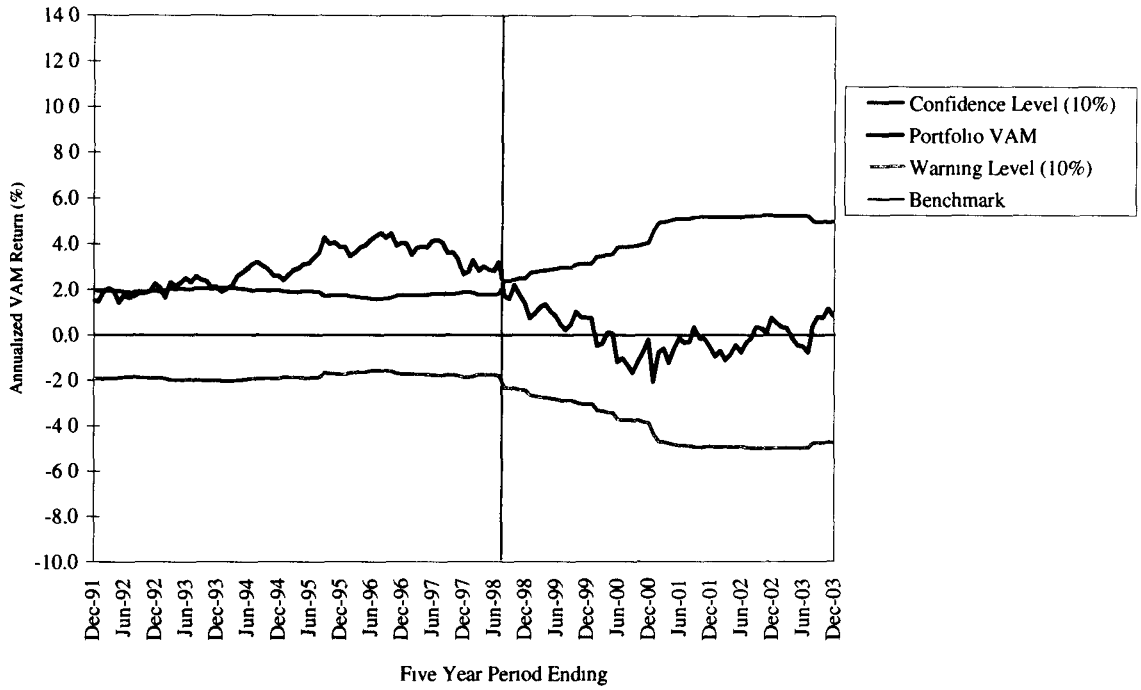
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Value
2003	28 9%	31.4%	30.0%
2002	-15.5	-20 7	-15 5
2001	-7 0	-9.5	-5 6
2000	11.2	10 3	7 0
1999	10 7	14 9	7 3
1998	21 5	24.4	15.6

OPPENHEIMER CAPITAL
Periods Ending December, 2003

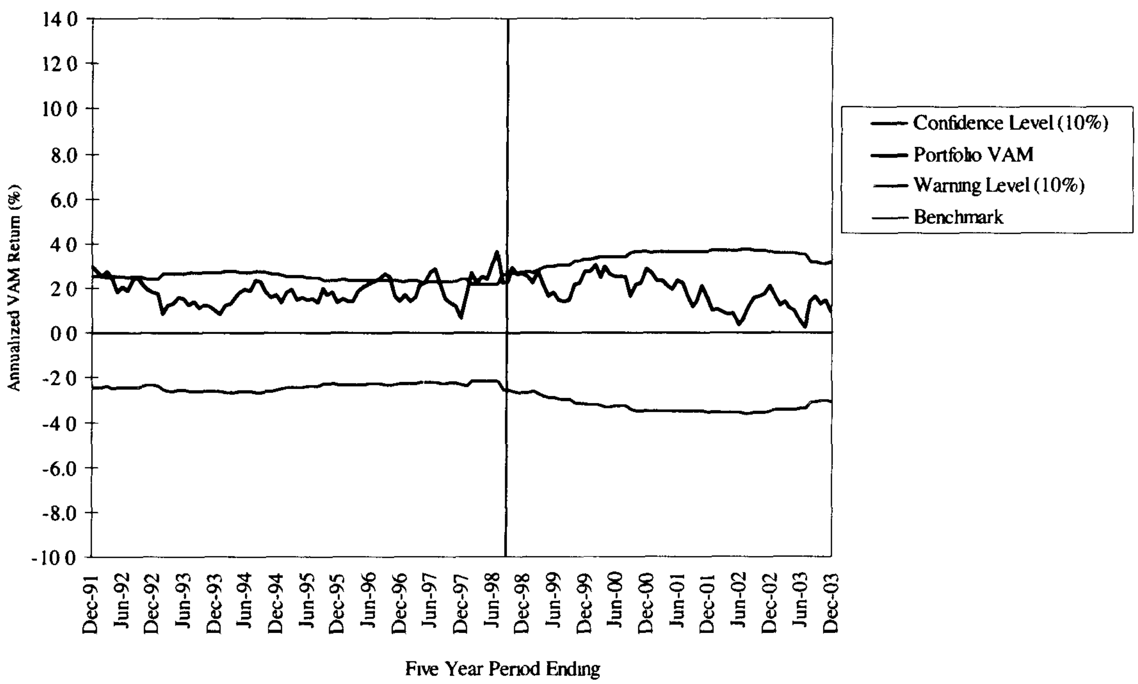
Portfolio Manager: John Lindenthal | **Assets Under Management: $880,892,395**

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Manager Benchmark



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

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2003

Portfolio Manager: John Leonard | **Assets Under Management: $897,065,949**

Investment Philosophy

UBS uses a relative value approach to equity investing They believe that the market price will ultimately reflect the present value of the cash flows the security will generate for the investor They focus on a bottom-up stock selection process to provide insight into finding opportunistic investments. UBS uses a proprietary discounted free cash flow model as the primary analytical tool for estimating the intrinsic value of a company

Staff Comments

During the quarter the portfolio benefited from strong stock selection and risk factor allocations. Industry selection was slightly positive with heavy allocations to industrial parts, medical services, and railroad stocks.

For the year, UBS nearly matched the manager benchmark return, but was hurt by having less market sensitive stocks in the portfolio than the benchmark during a strong return environment.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Core
Last Quarter	13.5%	12.3%	12 3%
Last 1 year	30.7	30 8	29.9
Last 2 years	5.6	1 9	0.9
Last 3 years	5.5	-2 6	-3.8
Last 4 years	5 0	-2.2	-4.8
Last 5 years	2 1	2 2	-0 1
Since Inception (7/93)	11 4	11 0	11.0

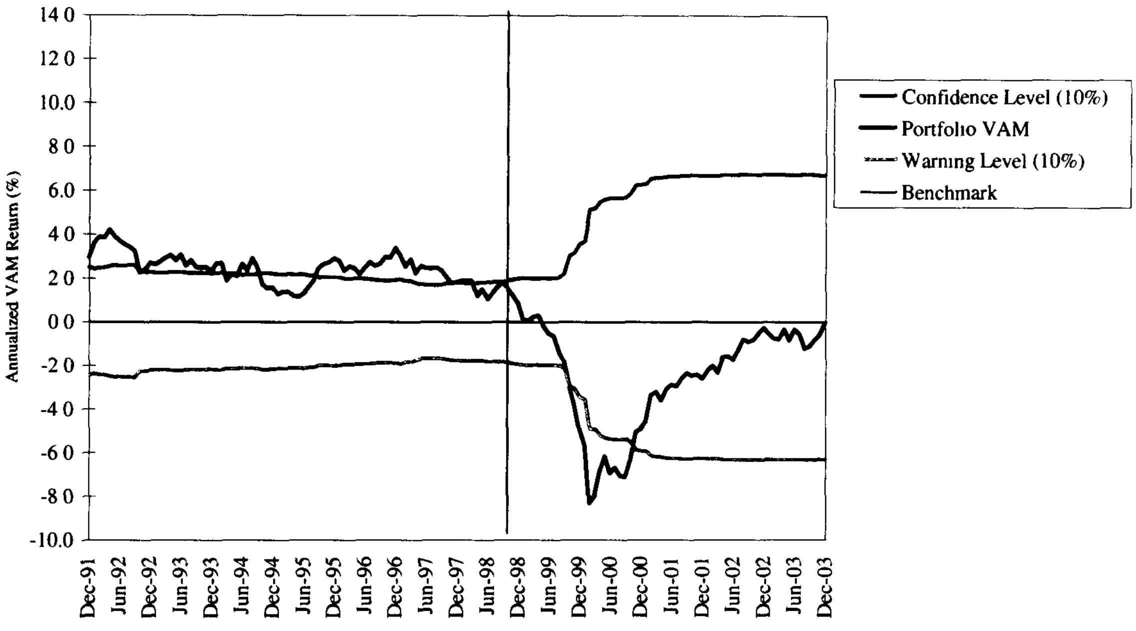
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Core
2003	30.7%	30.8%	29.9%
2002	-14 7	-20 6	-21.7
2001	5.2	-11.0	-12.5
2000	3.6	-1 0	-7.8
1999	-8 5	21 6	20 9
1998	17 3	18.8	27 0

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2003

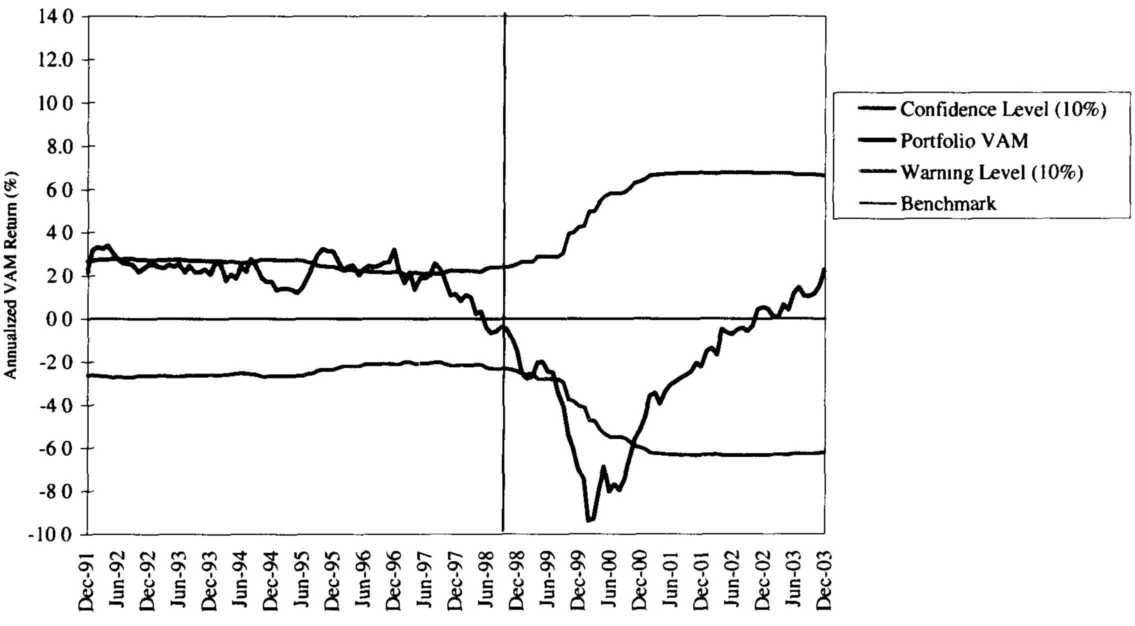
Portfolio Manager: John Leonard **Assets Under Management: $897,065,949**

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Manager Benchmark



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Rolling Five Year VAM vs. Russell 1000 Core



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

BAY ISLE FINANCIAL CORP.
Periods Ending December, 2003

Portfolio Manager: William Schaff **Assets Under Management: $45,713,504**

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

For the quarter and year, Bay Isle lagged the benchmark due to an underweighting in cyclical companies, a heavy concentration in the media group, and an overweight to more stable technology service companies, while underweighting the better performing electronic technology industry.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Value
Last Quarter	13.0%	14.2%	14.2%
Last 1 year	23.3	32.1	30.0
Last 2 years	-4 5	4.6	4.8
Last 3 years	-3.5	1.0	1.2
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-2 5	3.1	4.3

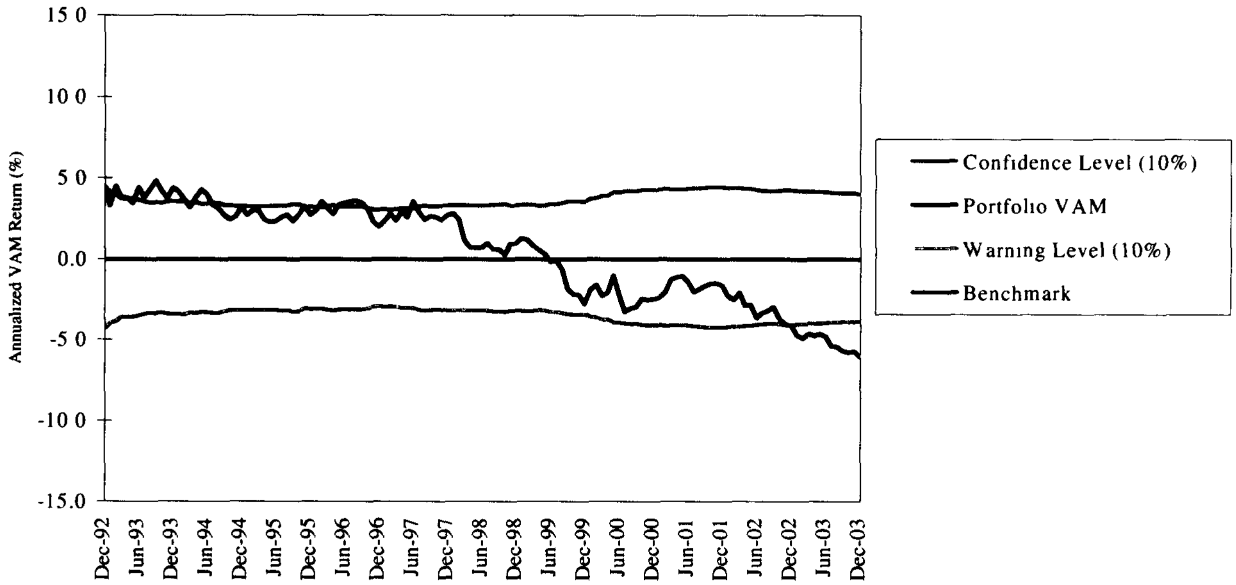
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Value
2003	23.3%	32.1%	30.0%
2002	-26.1	-17.2	-15.5
2001	-1 6	-5.9	-5.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

BAY ISLE FINANCIAL CORP.
Periods Ending December, 2003

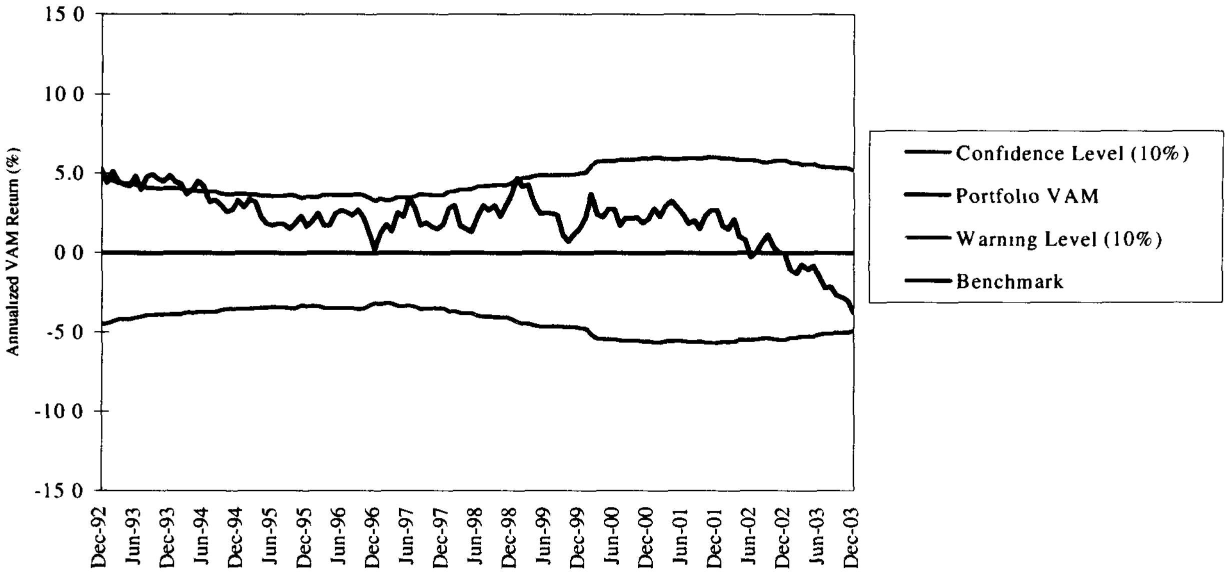
Portfolio Manager: William Schaff **Assets Under Management: $45,713,504**

Bay Isle Financial Management
Rolling Five Year VAM vs. Manager Benchmark



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

Bay Isle Financial Management
Rolling Five Year VAM vs. Russell 1000 Value



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

EARNEST PARTNERS, LLC
Periods Ending December, 2003

Portfolio Manager: Paul Viera | **Assets Under Management: $50,819,513**

Investment Philosophy

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

Staff Comments

Earnest partners underperformed by 1.3 percentage points for the quarter due to a few holdings in health services and health technology industries, as well as a 4% cash position. Lincare was the largest loser as the new Medicare drug benefit rules may constrain the price that can be charged for its products.

For the year, Earnest Partners underperformed their benchmark, but outperformed the R1000 Value index by 2%. Stock selection in electronic technology added value.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Value
Last Quarter	12.9%	14.2%	14.2%
Last 1 year	32.0	41.8	30.0
Last 2 years	4.0	11.9	4.8
Last 3 years	2.5	11.8	1.2
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	0.3	14.2	4.3

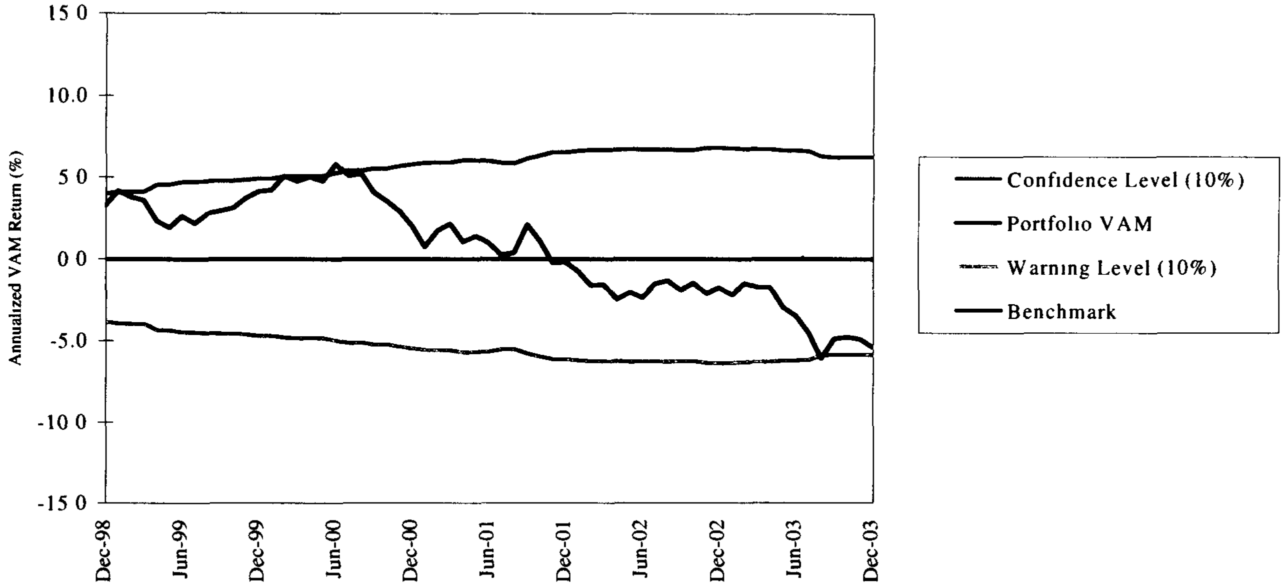
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Value
2003	32.0%	41.8%	30.0%
2002	-18.1	-11.6	-15.5
2001	-0.4	11.5	-5.6
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

EARNEST PARTNERS, LLC
Periods Ending December, 2003

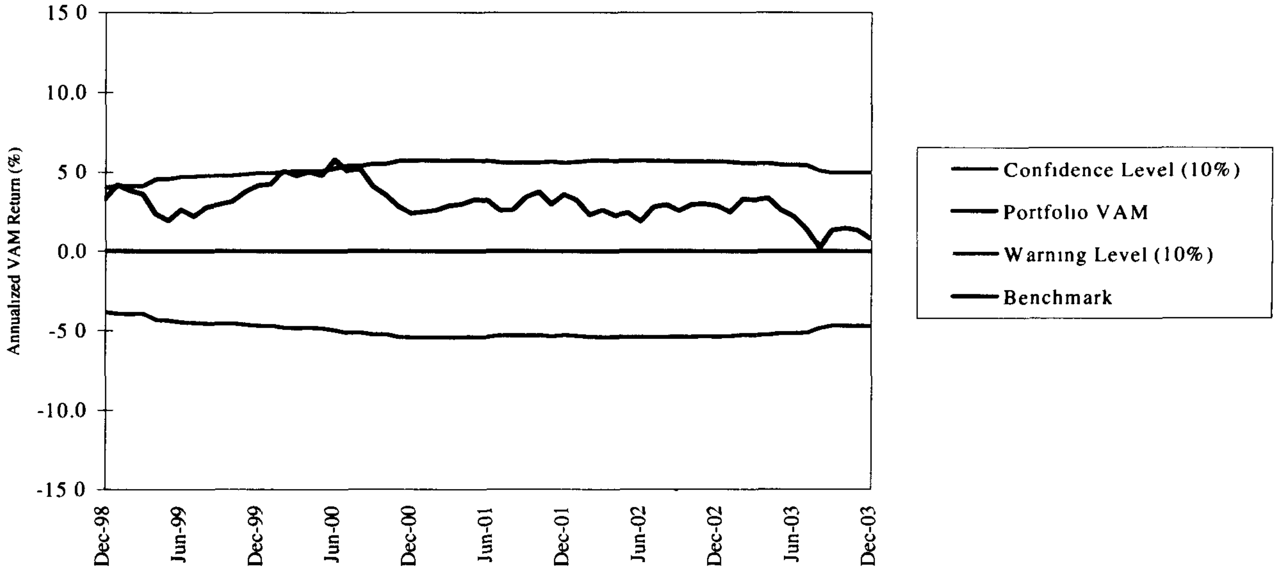
Portfolio Manager: Paul Viera | **Assets Under Management: $50,819,513**

Earnest Partners
Rolling Five Year VAM vs. Manager Benchmark



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

Earnest Partners
Rolling Five Year VAM vs. Russell 1000 Value



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

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2003

Portfolio Manager: Kristin Yates **Assets Under Management: $40,808,690**

Investment Philosophy

Holt-Smith & Yates invest in companies demonstrating superior growth in earnings over a long period of time. They use bottom-up fundamental analysis, focusing on historical and forecasted sales and earnings trends, profit margin trends, debt levels and industry conditions. They seek to purchase large-cap companies that meet their strict valuation criteria and have superior fundamentals to that of the benchmark Companies must currently have a five year projected growth rate of over 20% and a PEG (P/E ratio to growth rate) ratio of below 150% They hold concentrated portfolios; industry positions are limited to one stock per industry, and the portfolio has low turnover

Staff Comments

For the quarter, the portfolio outperformed the benchmark, but retail names such as Best Buy and Kohl's hurt performance as they had disappointing sales.

For the year, the portfolio trailed the benchmark by 9.2 percentage points due to stock selection in electronic technology, technology services, and finance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Growth
Last Quarter	10 8%	10.4%	10 4%
Last 1 year	22.1	31 3	29.7
Last 2 years	-6 2	3 1	-3.3
Last 3 years	-4 7	3.6	-9.4
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-6 0	2 4	-15.5

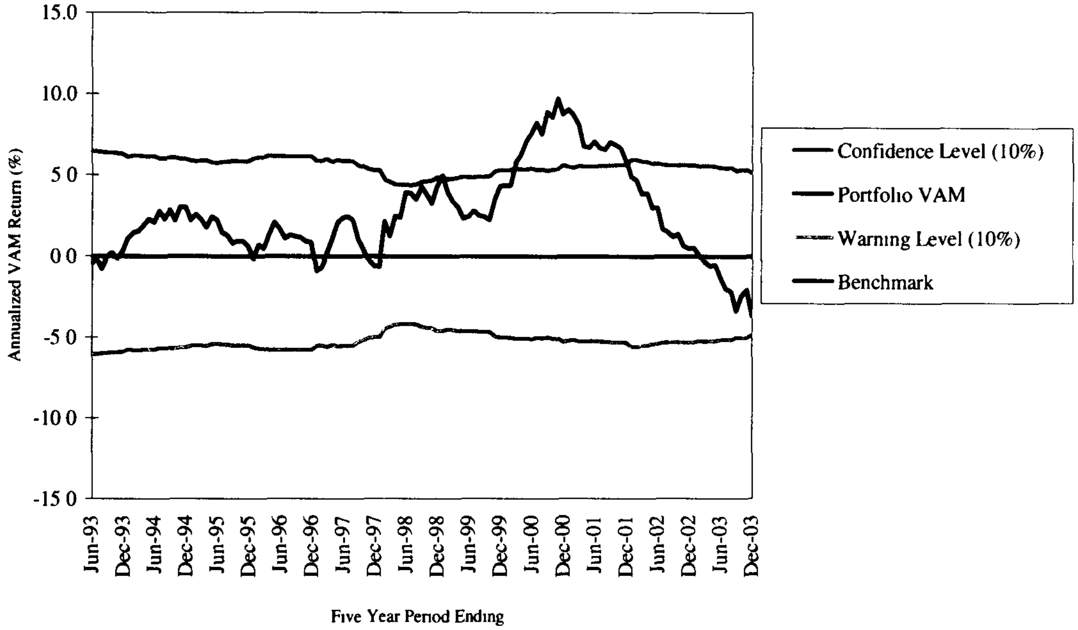
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Growth
2003	22.1%	31.3%	29 7%
2002	-28 0	-19 0	-27.9
2001	-1 7	4.6	-20.4
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2003

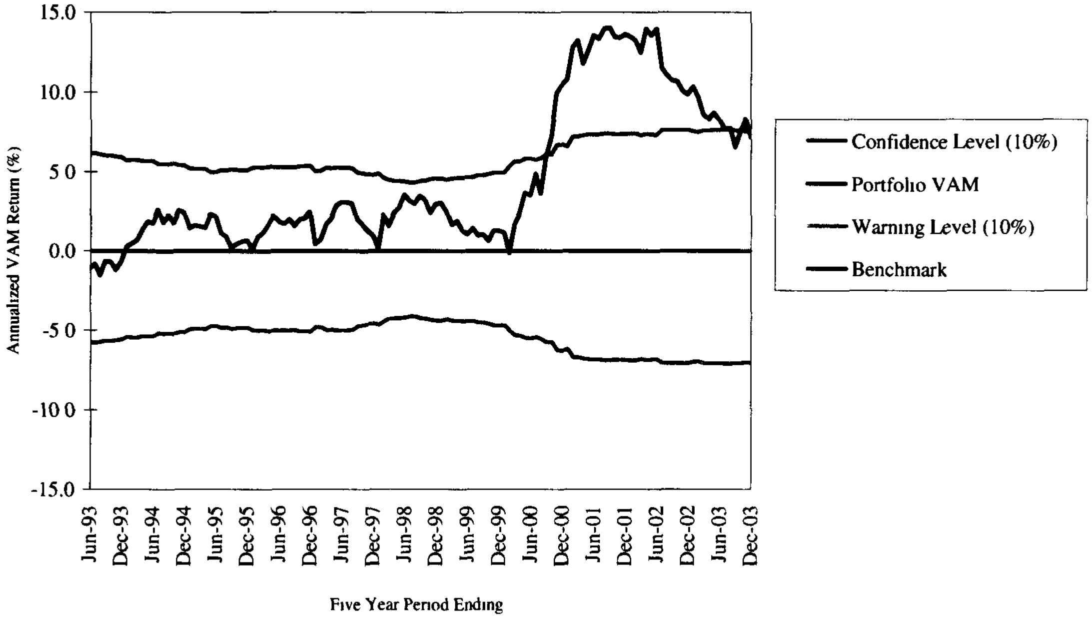
Portfolio Manager: Kristin Yates | **Assets Under Management: $40,808,690**

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



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

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



Note Shaded area includes performance prior to retention by the SBI

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2003

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $30,888,347**

Investment Philosophy

Next Century Growth's (NCG) goal is to invest in the highest quality and fastest growing companies in America. They believe that growth opportunities exist regardless of the economic cycle. NCG uses fundamental analysis to identify companies that will surpass consensus earnings estimates, which they believe to be the number one predictor of future out-performance. Their investment process focuses on growth companies that have superior top line revenue growth (15% or greater), high profitability, and strong balance sheets, and are well poised to outperform the market. NCG believes in broad industry diversification; sector exposures are limited to twice the benchmark weighting and individual positions to five percent.

Staff Comments

Next Century trailed the benchmark by 3.7 percentage points during the quarter as slower growing sectors such as energy, basic materials, and industrials led the market. These are areas that are underweighted in the portfolio.

For the year, the portfolio outperformed the benchmark, due to stock selection in the healthcare, semiconductor, business services, and retailing areas.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

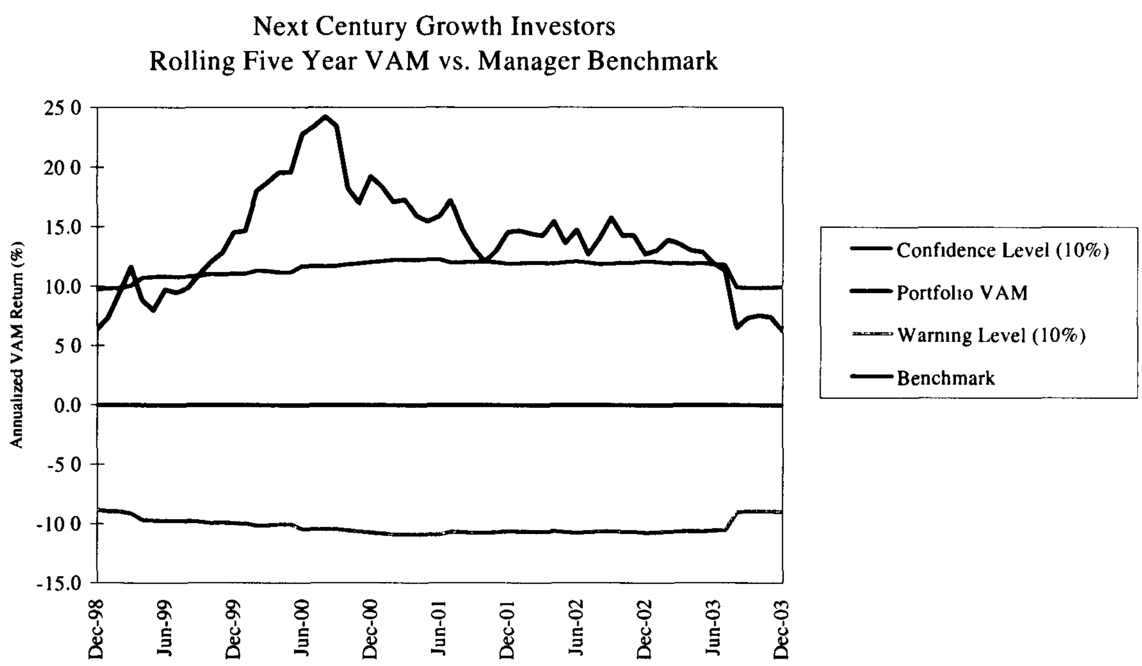
	Actual	Manager Benchmark	Russell 2000 Growth
Last Quarter	9.0%	12.7%	12.7%
Last 1 year	50.7	48.5	48.5
Last 2 years	0.2	3.6	1.8
Last 3 years	-8.1	0.5	-2.0
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-13.2	-5.7	-8.9

Calendar Year Returns

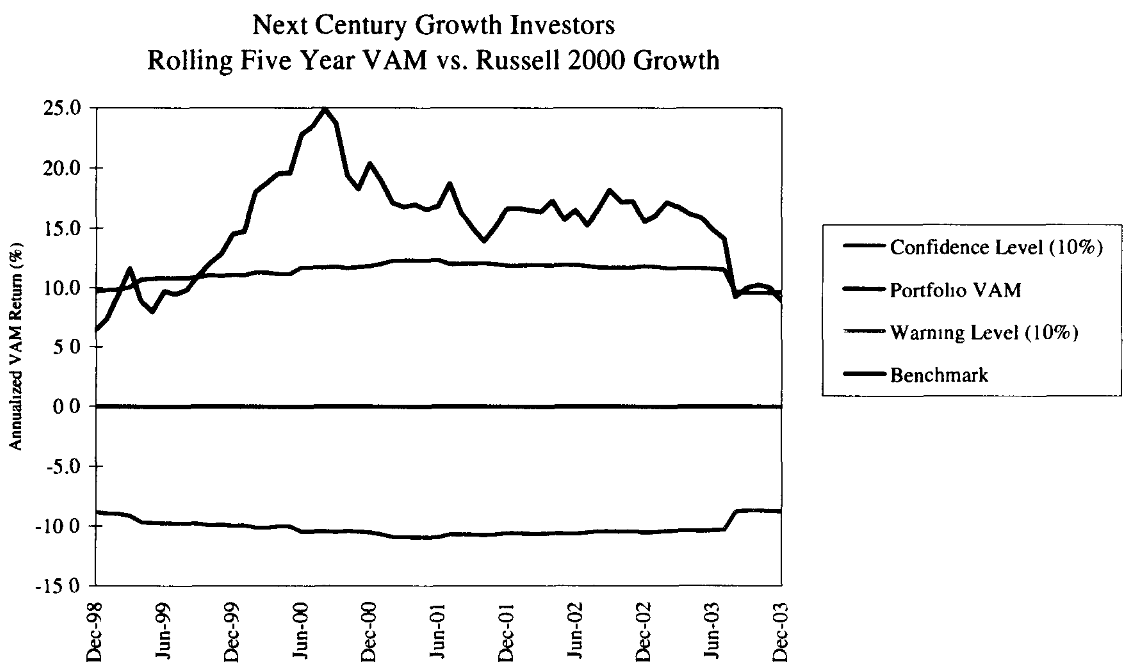
	Actual	Manager Benchmark	Russell 2000 Growth
2003	50.7%	48.5%	48.5%
2002	-33.3	-27.8	-30.3
2001	-22.8	-5.5	-9.2
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2003

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $30,888,347**



Note Shaded area includes performance prior to retention by the SBI



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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Doug Pugh and Tasso Coin | **Assets Under Management: $167,788,646**

Investment Philosophy

Peregrine's Small Cap Value investment process begins with the style's proprietary valuation analysis, which is designed to identify the small cap value stocks most likely to outperform The valuation analysis identifies the most under-priced securities on a sector-by-sector basis Drawing on thirty years of data, the analysis looks at different combinations of sixty fundamental factors most relevant in each independent sector to identify stocks that offer significant value relative to the companies' underlying fundamentals The focus of the team's fundamental research is to determine if one or more of the style's "Value Buy Criteria" are present. These include short-term problems, unrecognized assets, take-over potential, and catalysts for change. The portfolio is diversified and sector weights are aligned closely with the benchmark. This allows stock selection to drive performance

Staff Comments

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 2000 Value
Last Quarter	14.7%	16.4%	16.4%
Last 1 year	44 2	44 2	46 0
Last 2 years	15 1	15.8	13 7
Last 3 years	14.3	18 2	13 8
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	19.0	20 7	16 6

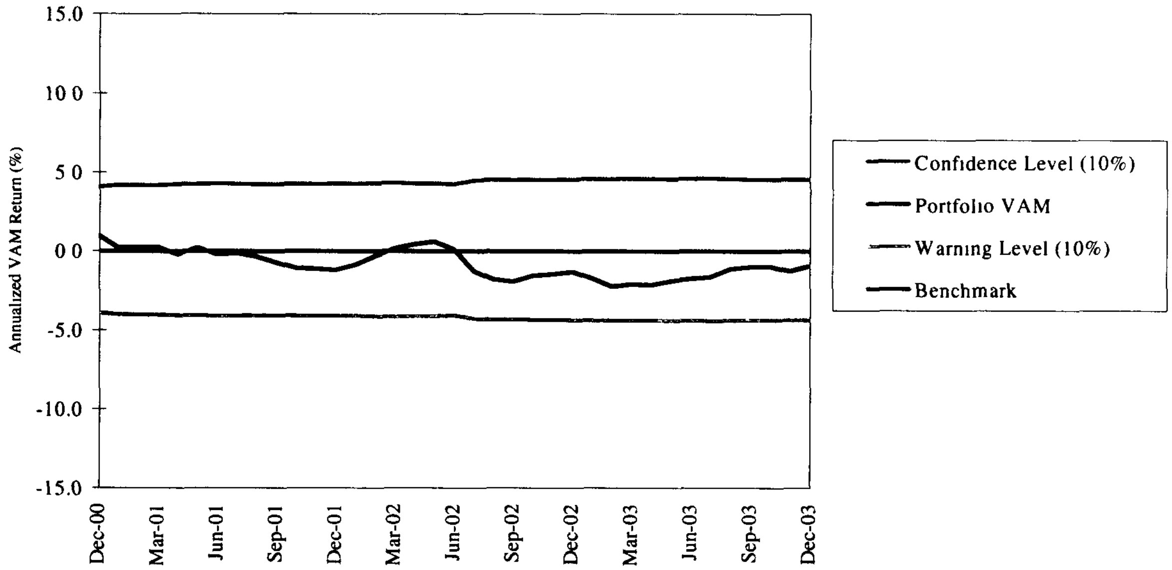
Calendar Year Returns

	Actual	Manager Benchmark	Russell 2000 Value
2003	44 2%	44.2%	46 0%
2002	-8 1	-6 9	-11 4
2001	12 6	22.9	14.0
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2003

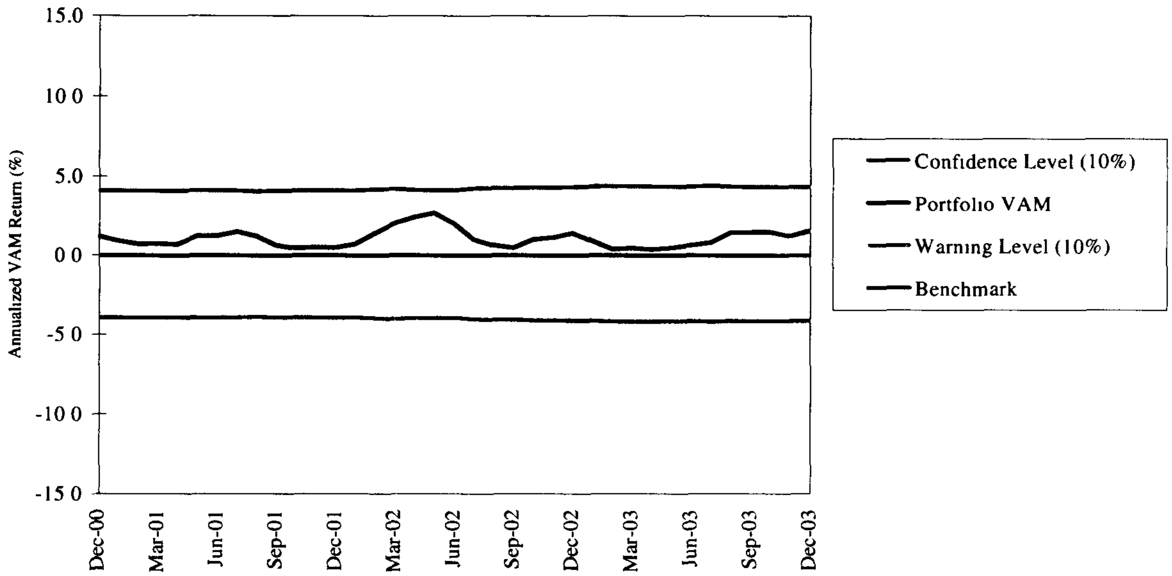
Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $167,788,646**

Peregrine Capital Management
Rolling Five Year VAM vs. Manager Benchmark



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

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



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

VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Charles Henderson **Assets Under Management: $42,504,931**

Investment Philosophy

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

Staff Comments

The portfolio trailed during the quarter as a result of having no holdings in the energy sector and an overweight in the relatively weak healthcare area.

For the year, holdings in the finance, technology services, and healthcare sectors caused the portfolio to trail the benchmark by 5.7 percentage points.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

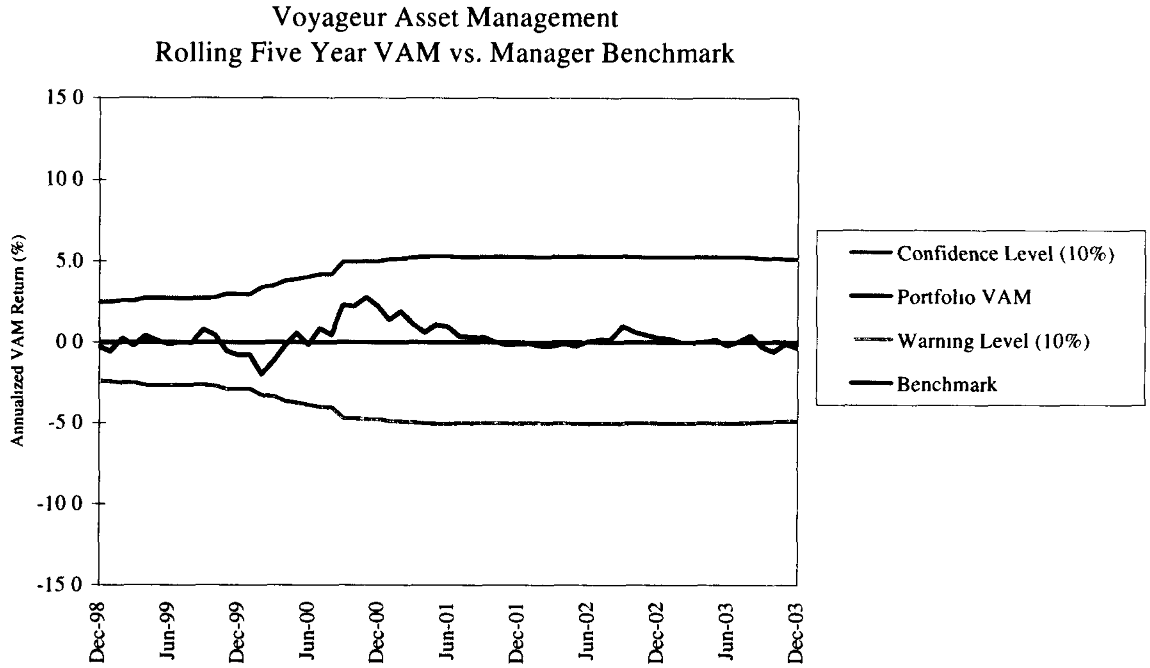
	Actual	Manager Benchmark	Russell 1000 Core
Last Quarter	9.4%	12.3%	12.3%
Last 1 year	23.2	28.9	29.9
Last 2 years	-1.1	1.1	0.9
Last 3 years	-7.6	-3.5	-3.8
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-4.9	-5.1	-5.7

Calendar Year Returns

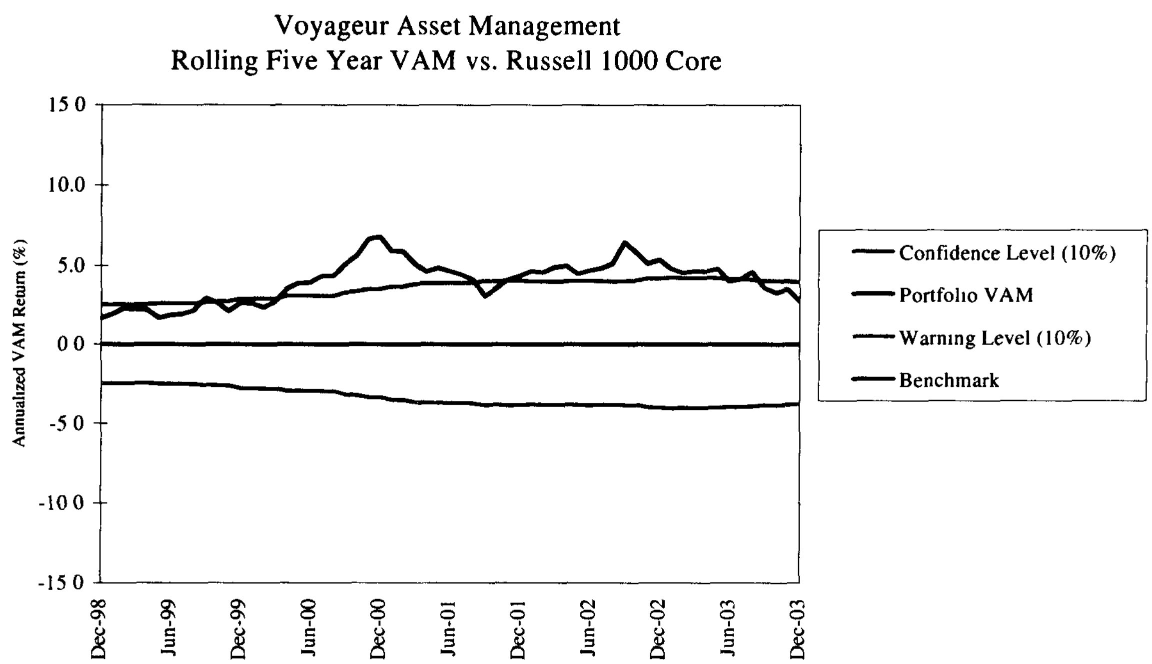
	Actual	Manager Benchmark	Russell 1000 Core
2003	23.2%	28.9%	29.9%
2002	-20.6	-20.7	-21.7
2001	-19.4	-12.0	-12.5
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Charles Henderson **Assets Under Management: $42,504,931**



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



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

WINSLOW CAPITAL MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Joseph Docter **Assets Under Management: $152,403,188**

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

For the quarter and year, Winslow underperformed dramatically relative to the benchmark. They attribute it to the valuation sensitivity they employ in their process. During the year, higher price-to-earnings stocks significantly outperformed those with lower valuations Holding fast to their discipline kept them out of the best performing stocks.

For the year, Winslow experienced underperformance of 13.7 percentage points Much of it came from holdings in the health services and commercial services areas. An underweight in electronic technologies also contributed to the negative relative performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 2000 Growth
Last Quarter	11.2%	12.7%	12.7%
Last 1 year	37 6	51.3	48 5
Last 2 years	1 6	5 3	1 8
Last 3 years	-1.1	5 1	-2.0
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-4 0	-1 7	-8.9

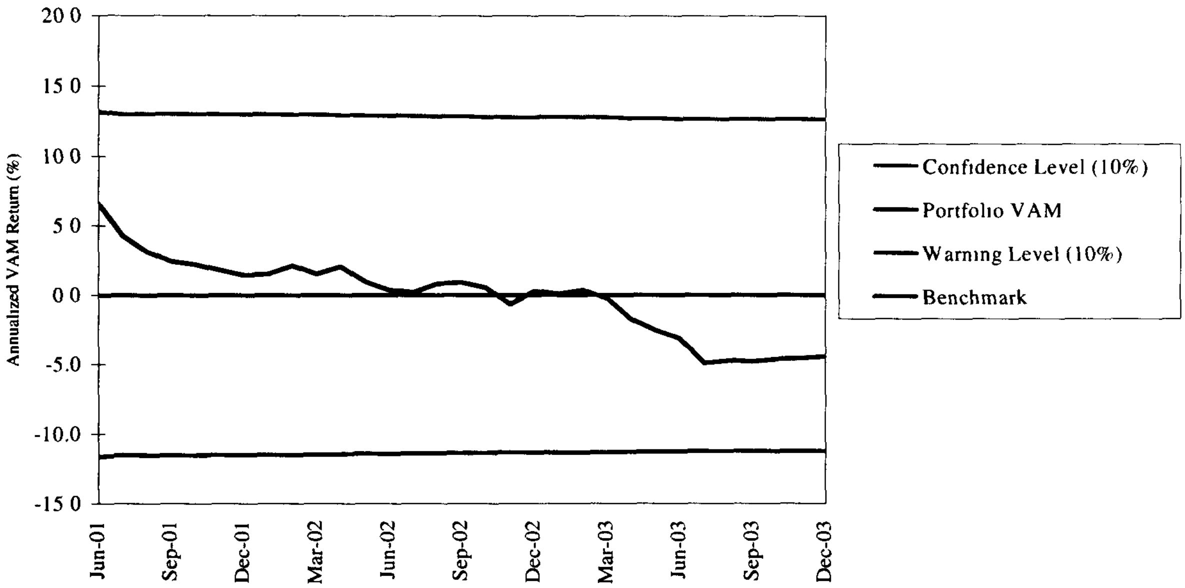
Calendar Year Returns

	Actual	Manager Benchmark	Russell 2000 Growth
2003	37 6%	51.3%	48 5%
2002	-25 0	-26 7	-30.3
2001	-6 1	4.6	-9 2
2000	N/A	N/A	N/A
1999	N/A	N/A	N/A
1998	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT
Periods Ending December, 2003

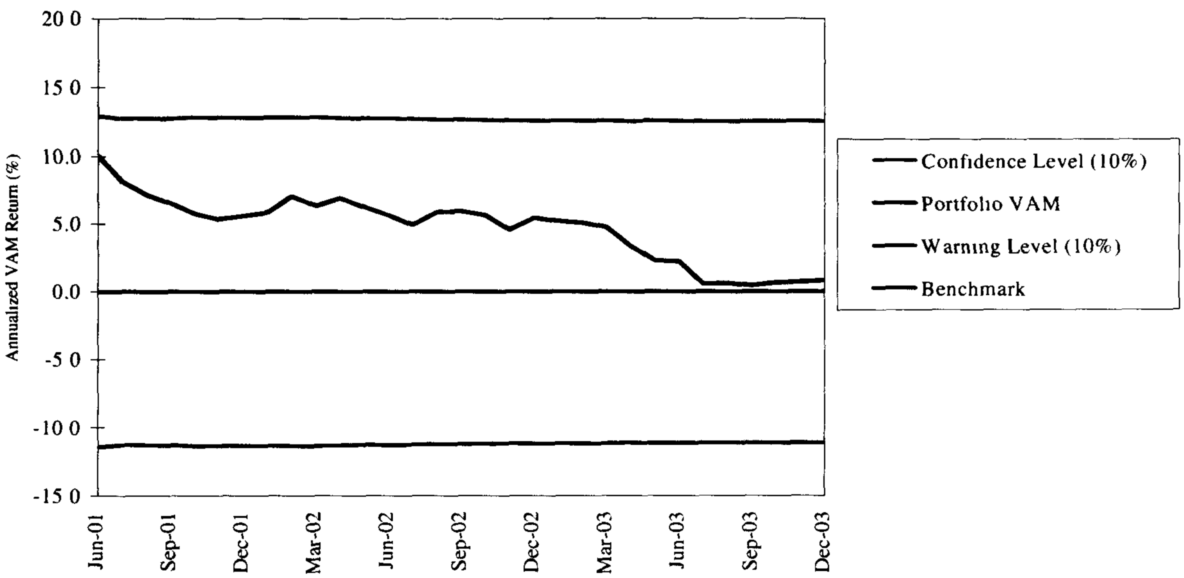
Portfolio Manager: Joseph Docter **Assets Under Management: $152,403,188**

Winslow Capital Management
Rolling Five Year VAM vs. Manager Benchmark



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

Winslow Capital Management
Rolling Five Year VAM vs. Russell 2000 Growth



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

ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2003

Portfolio Manager: **Nancy Zevenbergen** **Assets Under Management: $126,508,634**

Investment Philosophy

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

Staff Comments

Zevenbergen was modestly ahead of both benchmarks for the quarter and beat the manager benchmark by 18 percentage points for the one-year period. Their strong performance came from holdings in the consumer services, finance, and technology services sector. Holdings that performed well included: Hotels.com, Ebay, Capital One Financial Corp, Yahoo! Inc, and Genentech

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark	Russell 1000 Growth
Last Quarter	13.0%	10.4%	10.4%
Last 1 year	49.3	31.3	29.7
Last 2 years	-2.4	-0.2	-3.3
Last 3 years	-12.2	-1.2	-9.4
Last 4 years	-19.6	-5.3	-12.8
Last 5 years	-4.1	4.7	-5.1
Since Inception (4/94)	10.4	13.8	10.0

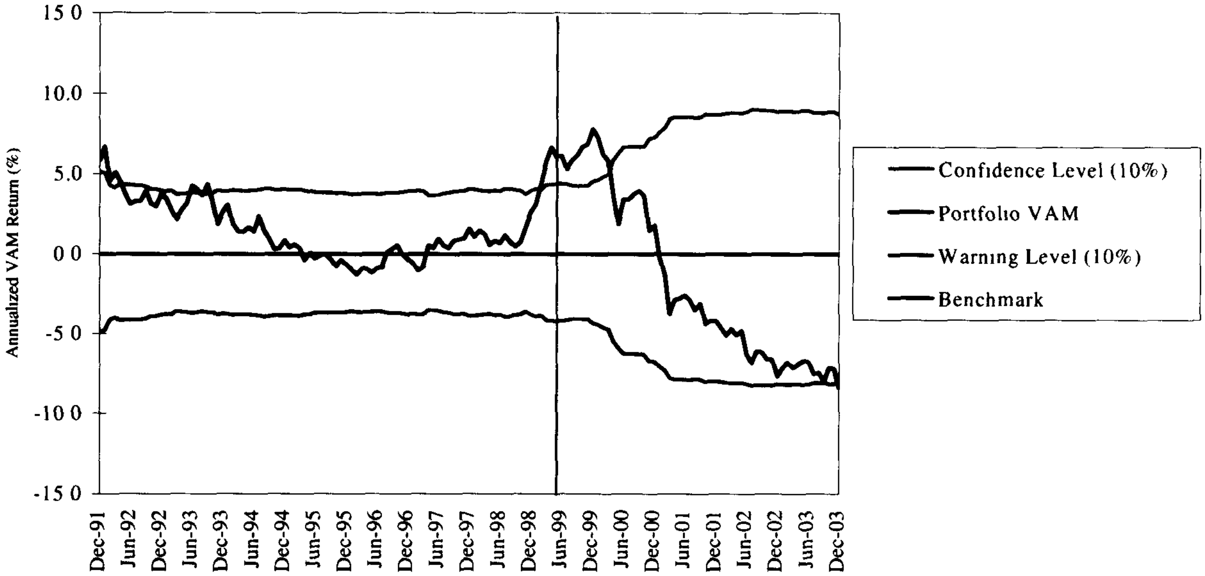
Calendar Year Returns

	Actual	Manager Benchmark	Russell 1000 Growth
2003	49.3%	31.3%	29.7%
2002	-36.2	-24.2	-27.9
2001	-29.0	-3.2	-20.4
2000	-38.2	-16.6	-22.4
1999	94.3	56.6	33.2
1998	54.5	30.7	38.7

ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2003

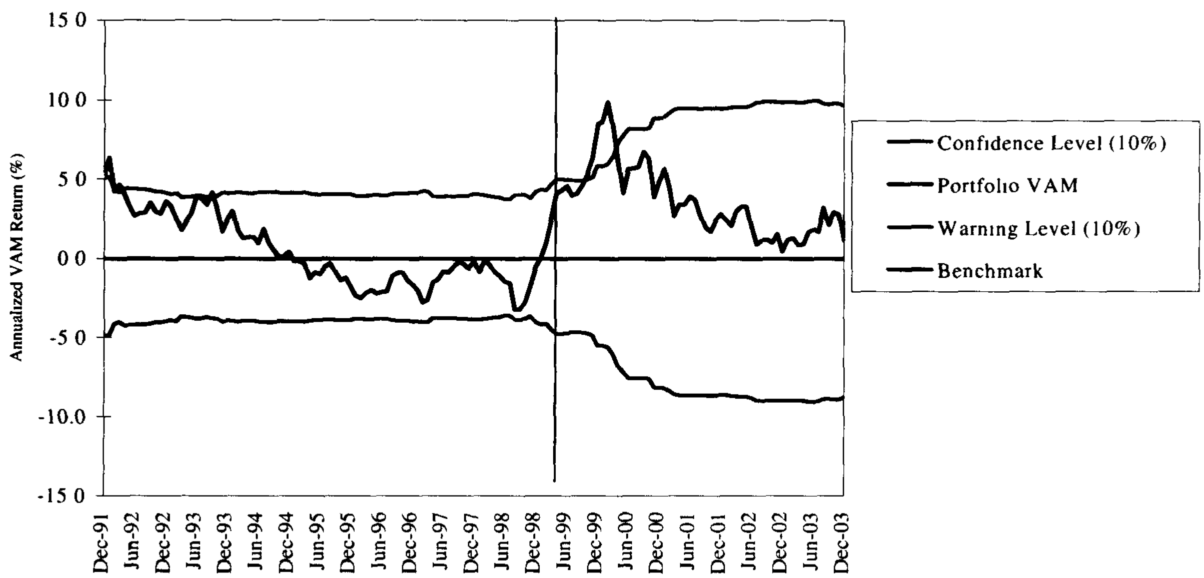
Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $126,508,634**

Zevenbergen Capital Management
Rolling Five Year VAM vs. Manager Benchmark



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

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



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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2003

Portfolio Manager: Rhonda Vitanye | **Assets Under Management: $2,783,101,198**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

BGI underperformed for the quarter due to their analyst estimate revision inputs, a part of their model which did not work during the quarter In addition, stock specific news events that are not captured through their existing insights hurt performance

For the year, relative valuation was the primary contributor to outperformance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	12.5%	12 8%
Last 1 year	30 0	28 5
Last 2 years	2 6	1 5
Last 3 years	-1 0	-2 3
Last 4 years	-4 4	-6 0
Last 5 years	-0 9	-1 9
Since Inception (1/95)	11.6	10 8

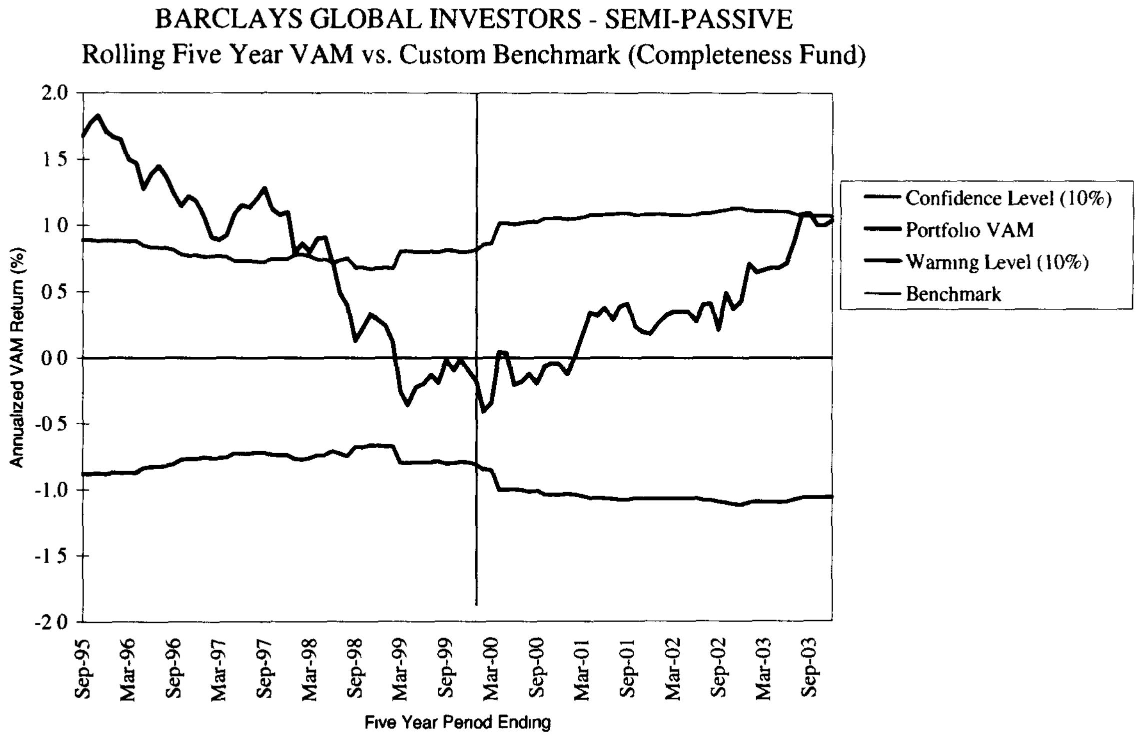
Calendar Year Returns

	Actual	Custom Benchmark*
2003	30 0%	28 5%
2002	-19 1	-19.7
2001	-7 8	-9 7
2000	-13 8	-16 3
1999	14 1	16.3
1998	21.4	23 7

* Completeness Fund.

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2003

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,783,101,198**



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2003

Portfolio Manager: John Cone | **Assets Under Management: $1,728,783,868**

Investment Philosophy – Semi-Passive Style

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models A composite ranking then provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold, and proceeds are reinvested in stocks from the top deciles in the ranking system. They use the BARRA risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark. For this semi-passive mandate, they seek to achieve a residual risk of 1 5% or less The firm remains fully invested at all times

Staff Comments

Franklin trailed the DCF benchmark for the quarter by 0 5 percentage points due to stock selection The worst performing stocks were SanDisk, Blockbuster, Microsoft, and Fox Entertainment. Performance was also hurt by not owning FleetBoston Financial

For the year, the portfolio was hurt by an overweight in telecommunications and consumer services, and an underweight in industrials

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	12 3%	12.8%
Last 1 year	26.9	28.5
Last 2 years	0.6	1 5
Last 3 years	-2.7	-2 3
Last 4 years	-6 2	-6.0
Last 5 years	-2 7	-1 9
Since Inception (1/95)	10.3	10 8

Calendar Year Returns

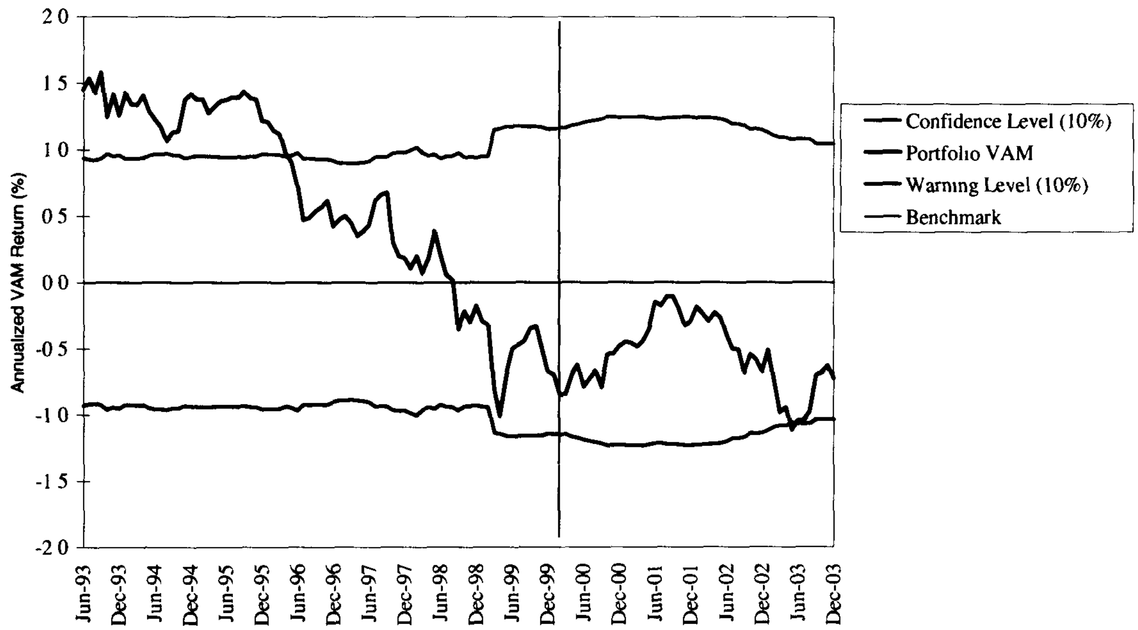
	Actual	Custom Benchmark*
2003	26 9%	28.5%
2002	-20 2	-19 7
2001	-9 0	-9.7
2000	-15 9	-16 3
1999	12 9	16.3
1998	22 4	23 7

* Completeness Fund

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2003

Portfolio Manager: John Cone **Assets Under Management: $1,728,783,868**

FRANKLIN PORTFOLIO ASSOCIATES - SEMI-PASSIVE
Rolling Five Year VAM vs. Custom Benchmark (Completeness Fund)



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, 2003

Portfolio Manager: Tim Devlin **Assets Under Management: $2,422,979,690**

Investment Philosophy – Semi-Passive Style

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

Staff Comments

No comments at this time

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	13.3%	12.8%
Last 1 year	28.9	28.5
Last 2 years	0.4	1.5
Last 3 years	-2.8	-2.3
Last 4 years	-5.6	-6.0
Last 5 years	-2.0	-1.9
Since Inception (1/95)	10.9	10.8

Calendar Year Returns

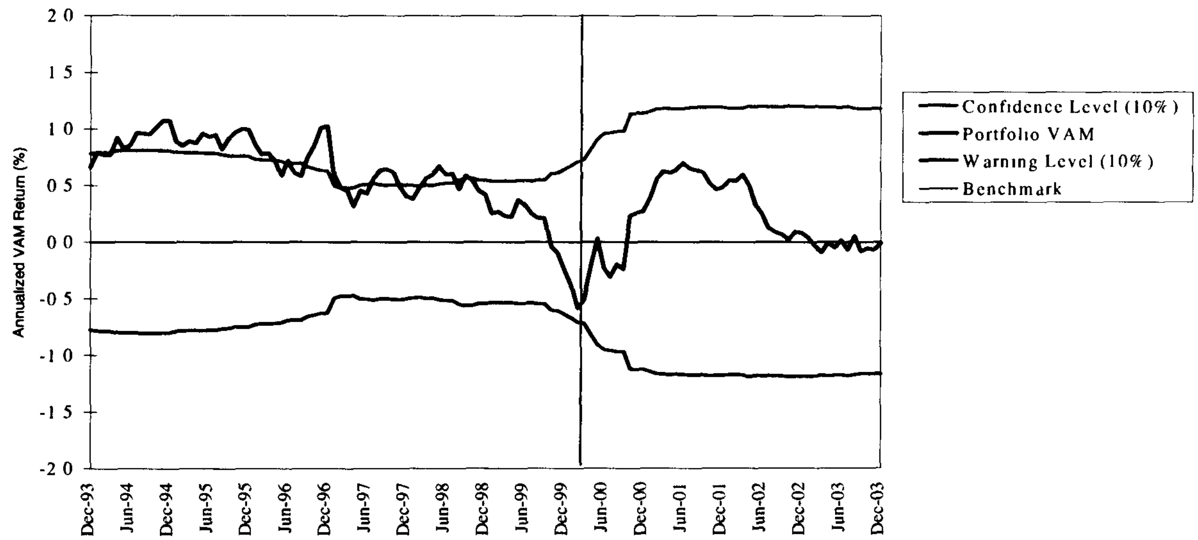
	Actual	Custom Benchmark*
2003	28.9%	28.5%
2002	-21.8	-19.7
2001	-8.7	-9.7
2000	-13.6	-16.3
1999	14.0	16.3
1998	24.6	23.7

* Completeness Fund

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending December, 2003

Portfolio Manager: Tim Devlin **Assets Under Management: $2,422,979,690**

JP MORGAN - SEMI-PASSIVE
Rolling Five Year VAM vs. Custom Benchmark (Completeness Fund)



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, 2003

Portfolio Manager: Amy Schioldager **Assets Under Management: $6,502,632,814**

Investment Philosophy – Passive Style

Barclays Global Investors passively manages the portfolio against the asset class target 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

The passive portfolio matched the benchmark during the quarter and trailed by 0 3 percentage points for the year. The underperformance is attributed to the relative out performance of small and micro cap stocks over the broader market. The fund is generally underweight small and micro cap stocks due to low liquidity and higher transaction costs.

This portfolio began tracking the Russell 3000 Index on October 1, 2003

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Custom Benchmark*
Last Quarter	12 4%	12.4%
Last 1 year	30 9	31.2
Last 2 years	1.4	1.5
Last 3 years	-3.2	-3 1
Last 4 years	-4.9	-5 1
Last 5 years	0.2	0 0
Since Inception (7/95)	10 1	10 0

Calendar Year Returns

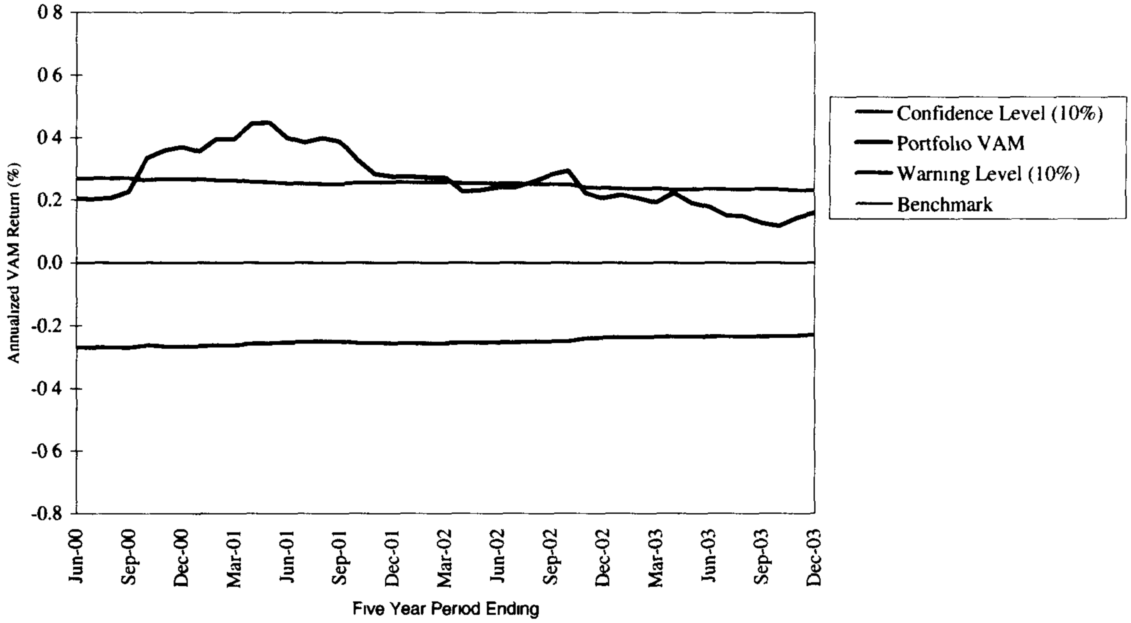
	Actual	Custom Benchmark*
2003	30 9%	31.2%
2002	-21 4	-21.5
2001	-11 8	-11.7
2000	-9.8	-11.0
1999	23 3	23.6
1998	23 4	23 4

* Domestic Equity Target (Russell 3000 Index as of 10/1/03)

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2003

Portfolio Manager: Amy Schioldager — **Assets Under Management: $6,502,632,814**

BARCLAYS GLOBAL INVESTORS - PASSIVE
Rolling Five Year VAM vs. Domestic Equity Target
(Russell 3000 as of 10/1/03)



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 2003

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending December, 2003

	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)	0.5	0.3	4.3	4.1	6.1	7.6	5.8	6.6	6.6	6.9	$780.9	9.2%
Deutsche	0.5	0.3	5.2	4.1	8.2	7.6			9.2	8.7	$631.4	7.4%
Dodge & Cox	1.4	0.3	7.4	4.1	9.7	7.6			10.4	8.7	$797.7	9.4%
Morgan Stanley	1.1	0.3	5.1	4.1	8.0	7.6	6.8	6.6	10.0	9.7	$755.2	8.9%
Western	1.9	0.3	9.2	4.1	9.8	7.6	8.1	6.6	11.0	9.7	$1,260.5	14.8%
Semi-Passive Managers												
BlackRock	0.5	0.3	4.4	4.1	7.7	7.6	6.9	6.6	7.6	7.3	$1,440.4	16.9%
Goldman	0.6	0.3	5.7	4.1	7.9	7.6	6.9	6.6	7.2	6.9	$1,422.2	16.7%
Lincoln	0.4	0.3	4.4	4.1	7.7	7.6	6.8	6.6	8.4	8.3	$1,439.6	16.9%
											$8,527.8	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**0.8**	**0.3**	**5.7**	**4.1**	**8.0**	**7.6**	**6.9**	**6.6**	**9.8**	**9.6**		
Lehman Aggregate (3)		0.3		4.1		7.6		6.6		9.7		

(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, 2003

Portfolio Manager: Colin Lundgren **Assets Under Management: $780,868,702**

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 for the quarter and the year. The quarterly and yearly outperformance was due to issue and industry selection in investment grade corporates and by their allocation to high yield corporate bonds.

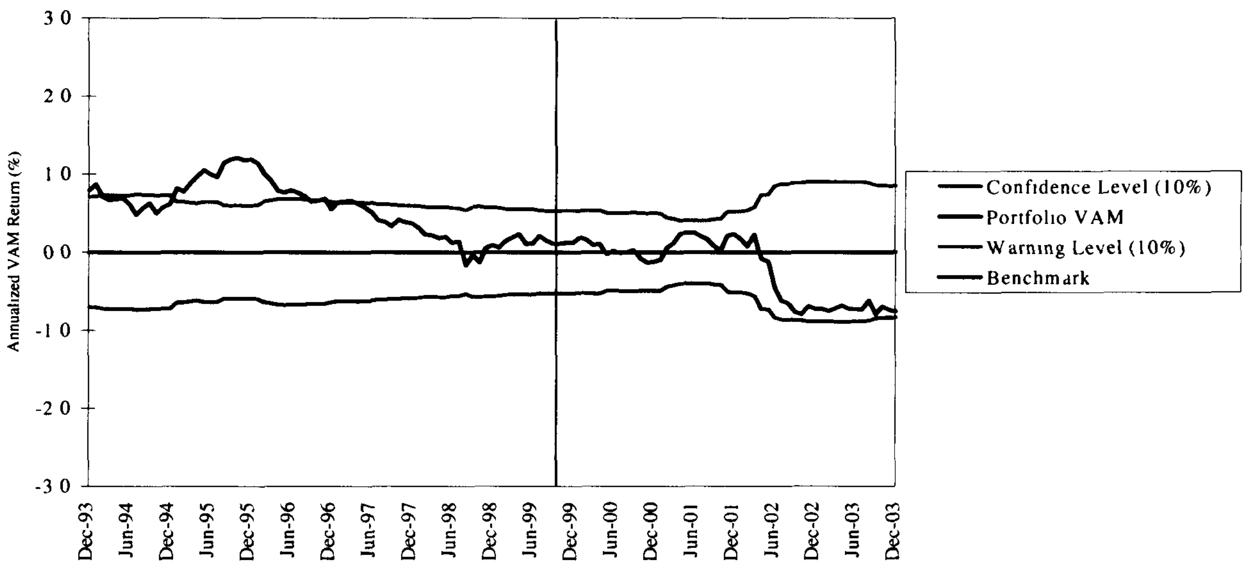
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	0.3%
Last 1 year	4.3	4.1
Last 2 years	4.9	7.1
Last 3 years	6.1	7.6
Last 4 years	7.5	8.6
Last 5 years	5.8	6.6
Since Inception (7/93)	6.6	6.9

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - FIXED INCOME
Rolling Five Year VAM



Five Year Period Ending

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

DEUTSCHE ASSET MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Warren Davis **Assets Under Management: $631,421,925**

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 Asset's outperformance for the fourth quarter and the year was primarily due to the overweight in the corporate sector, especially in the BBB sector Also an overweight position in asset back securities and increasing exposure to mortgage pass throughs in the late summer added value.

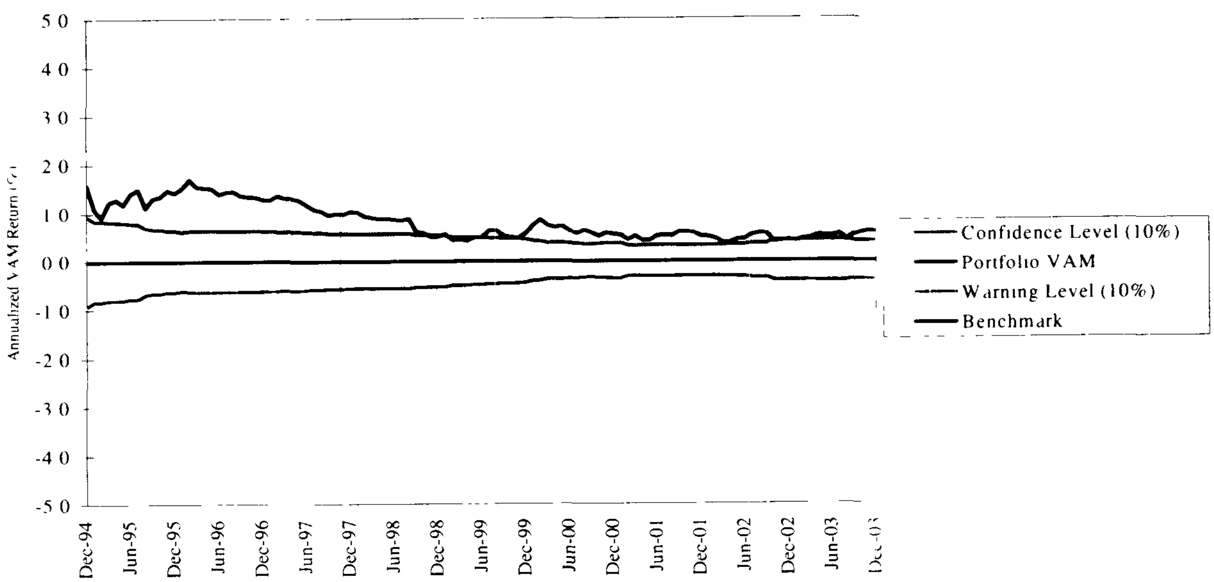
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0 5%	0 3%
Last 1 year	5 2	4 1
Last 2 years	7.7	7.1
Last 3 years	8 2	7 6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	9 2	8 7

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, 2003

Portfolio Manager: Dana Emery **Assets Under Management: $797,698,578**

Investment Philosophy

Dodge & Cox manages a high quality, diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover inefficiencies in market sectors and individual securities. The firm combines this fundamental research with a disciplined program of risk analysis. To seek superior returns over the long-term, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk. Dodge & Cox was retained by the SBI in February 2000.

Staff Comments

Dodge & Cox outperformed the benchmark for the quarter and the year. For both periods the portfolio benefited from an overweight position in corporate securities and a shorter than benchmark duration. Also the performance for the year was helped by mortgage securities that have more stable cashflows than the benchmark mortgage securities.

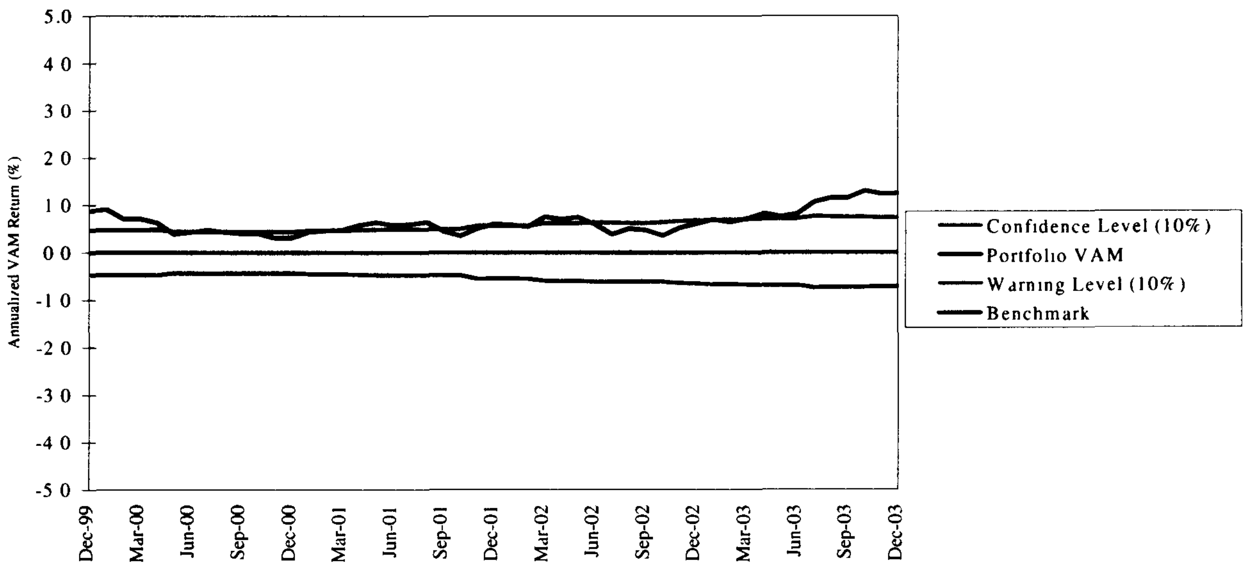
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.4%	0.3%
Last 1 year	7.4	4.1
Last 2 years	9.2	7.1
Last 3 years	9.7	7.6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/00)	10.4	8.7

Recommendations

No action required.

DODGE & COX INVESTMENT MANAGERS
Rolling Five Year VAM



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: David Horowitz **Assets Under Management: $755,170,042**

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's quarterly outperformance was due to their shorter than benchmark duration bet, a higher-coupon mortgage strategy, and their corporate bond selection. For the year, the portfolio outperformed because of their corporate overweight, and their corporate and mortgage security selections.

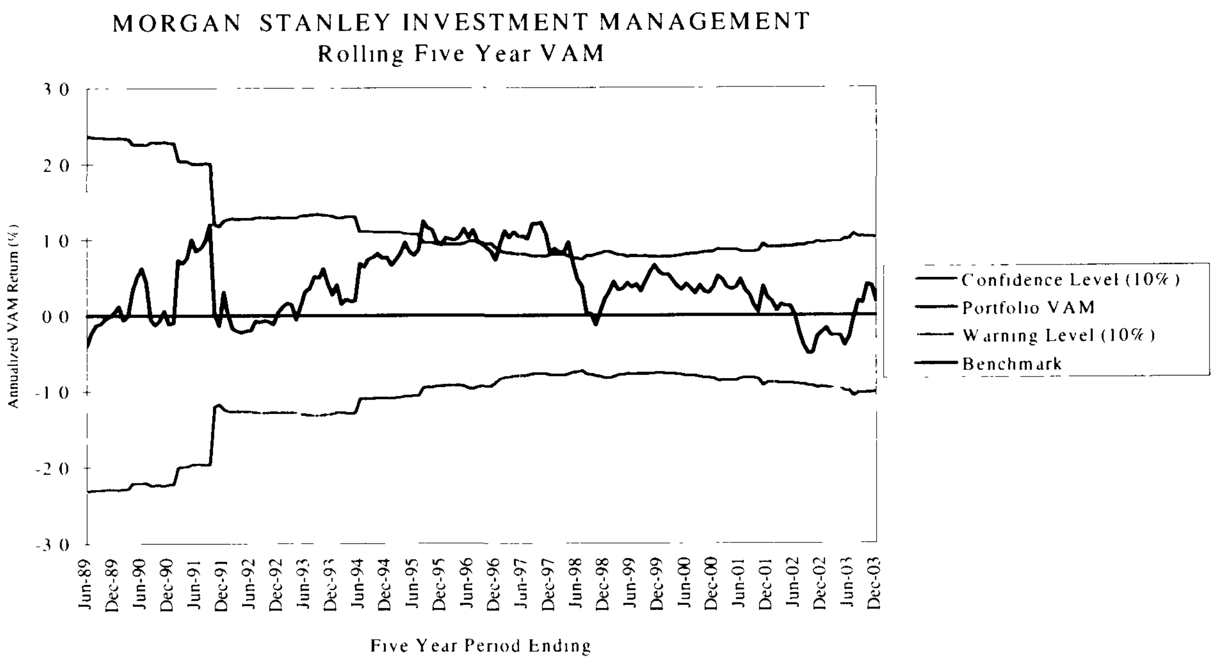
In January, Morgan Stanley announced the retirement of Tom Bennet and Steve Esser. Their official departure will be sometime late in the first quarter. Tom Bennet's administrative duties have been assigned to Raj Dupta. At this time the successor for Steve to run the investment grade corporate group has not been determined.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	0.3%
Last 1 year	5.1	4.1
Last 2 years	6.5	7.1
Last 3 years	8.0	7.6
Last 4 years	8.6	8.7
Last 5 years	6.8	6.6
Since Inception (7/84)	10.0	9.7

Recommendations

No action required



WESTERN ASSET MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Ken Leech | **Assets Under Management: $1,260,502,914**

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

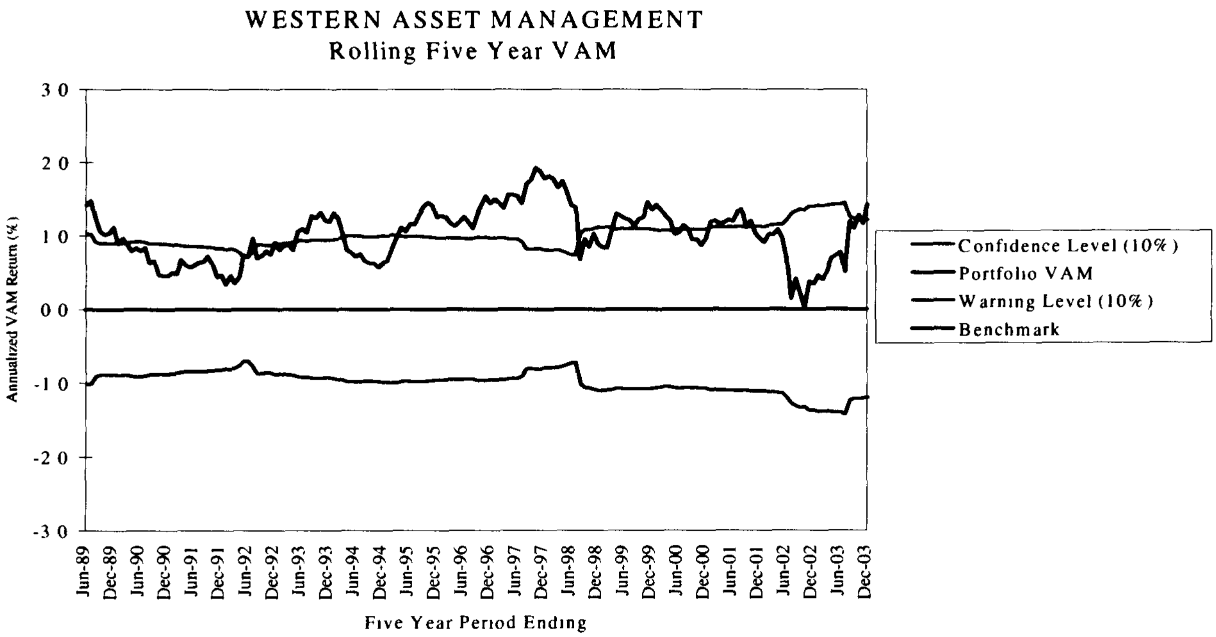
An overweight to corporate bonds, concentrated in longer maturities at the lower end of the investment grade universe, helped Western outperform the quarterly and one-year benchmark. The outperformance for both periods also benefited from moderate exposure to high yield bonds. Also allocations to TIPS and non-dollar funds generated positive excess returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.9%	0.3%
Last 1 year	9.2	4.1
Last 2 years	9.3	7.1
Last 3 years	9.8	7.6
Last 4 years	10.2	8.6
Last 5 years	8.1	6.6
Since Inception (7/84)	11.0	9.7

Recommendations

No action required.



BLACKROCK, INC.
Periods Ending December, 2003

Portfolio Manager: Keith Anderson **Assets Under Management: $1,440,360,256**

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's outperformance was due to issue selection in the spread sectors and active rotation between the various sectors of the bond market

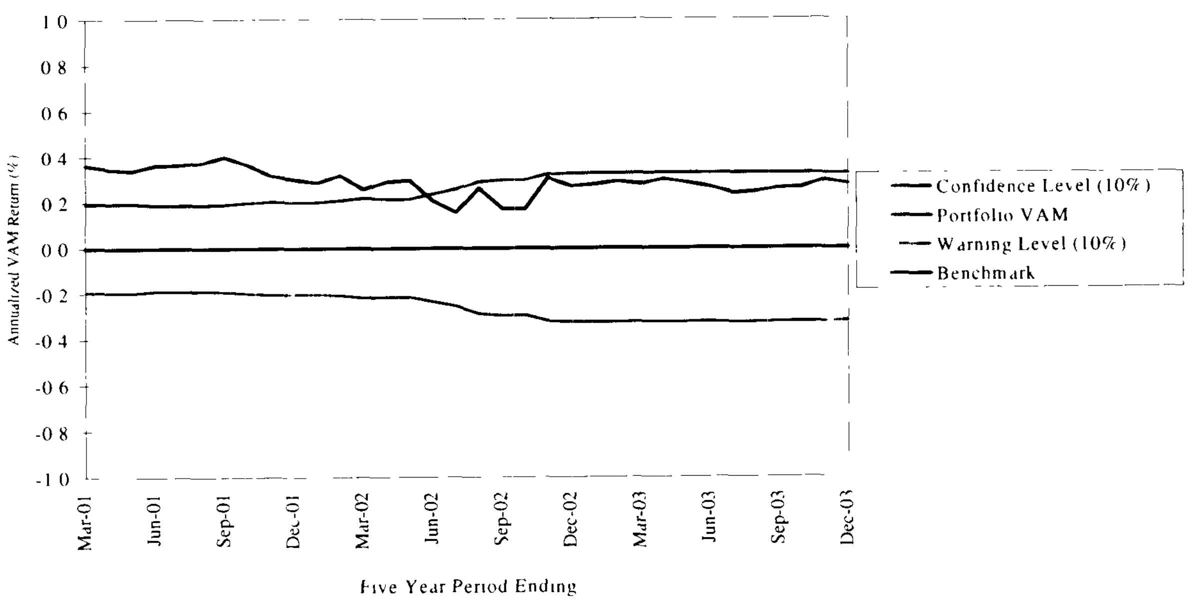
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	0 3%
Last 1 year	4.4	4.1
Last 2 years	7.3	7 1
Last 3 years	7 7	7 6
Last 4 years	8 8	8 6
Last 5 years	6.9	6 6
Since Inception (4/96)	7 6	7.3

Recommendation

No action required

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,422,157,027**

Investment Philosophy

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

Staff Comments

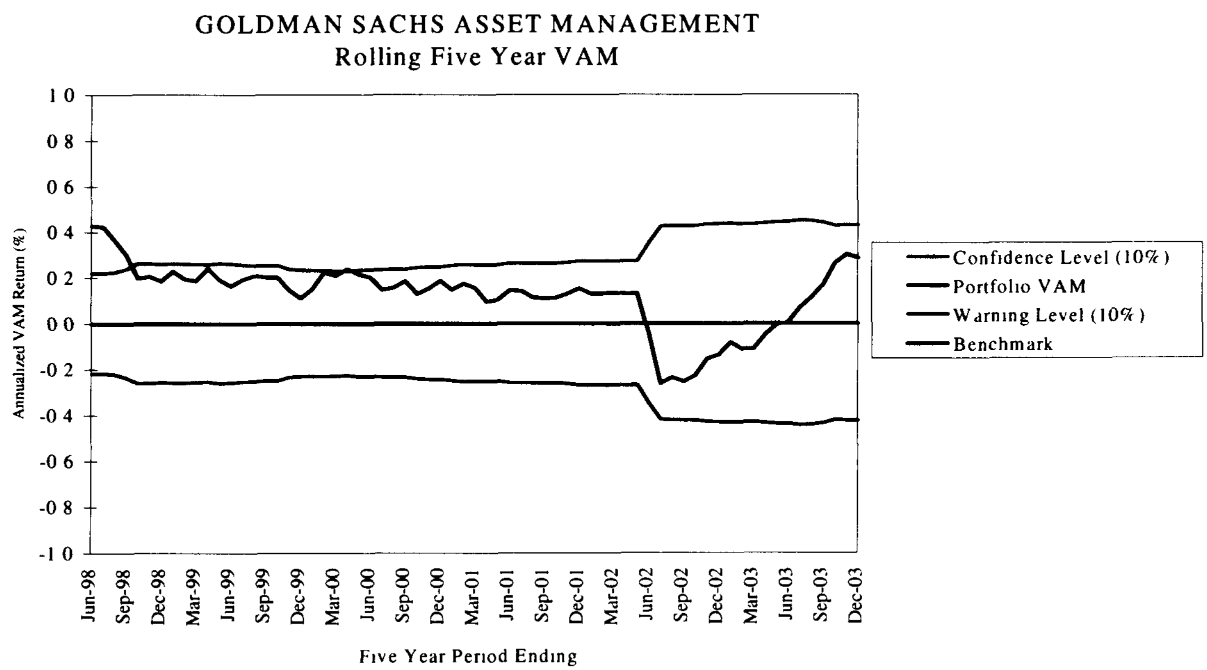
For the quarter and year, security selection in the corporate area emphasizing sectors that would benefit from an economic turnaround was the primary driver of their outperformance. Also their overweighting to low coupon and 15 year mortgages also contributed to their positive returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.3%
Last 1 year	5.7	4.1
Last 2 years	7.3	7.1
Last 3 years	7.9	7.6
Last 4 years	8.9	8.6
Last 5 years	6.9	6.6
Since Inception (7/93)	7.2	6.9

Recommendations

No action required.



LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,439,632,728**

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

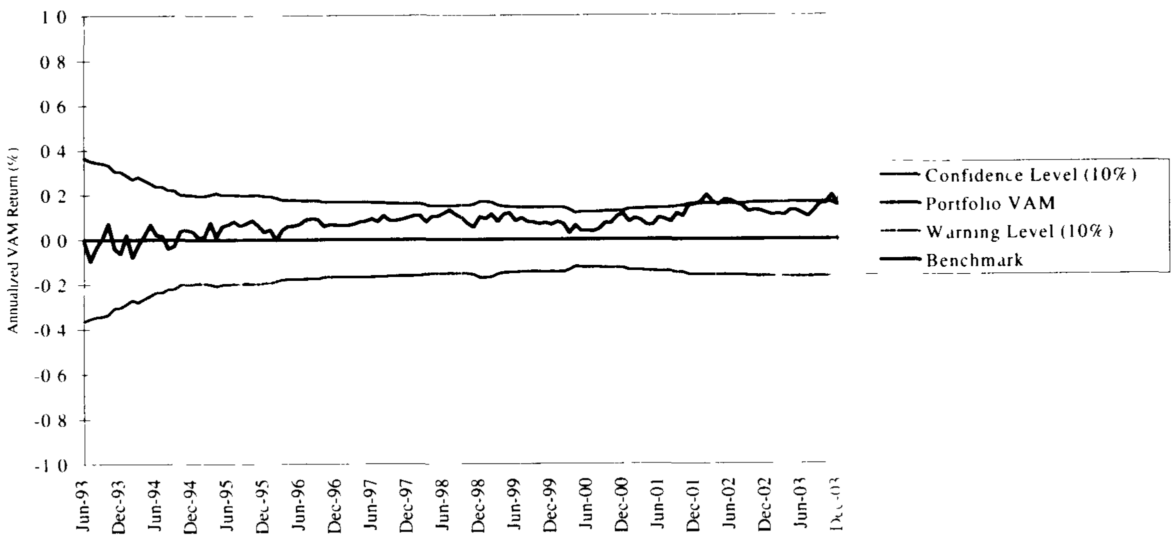
Lincoln outperformed the benchmark for the quarter and the year. The portfolio was helped during the quarter by security selection in the corporate sector. The one-year return benefited from security selection in the corporate and mortgage back sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.3%
Last 1 year	4.4	4.1
Last 2 years	7.2	7 1
Last 3 years	7.7	7 6
Last 4 years	8.8	8.6
Last 5 years	6.8	6.6
Since Inception (7/88)	8 4	8.3

Recommendations

No action required.



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 2003

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending December, 2003

	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 Developed Markets (2)												
American Express	14 1	17 0	30 2	38 5	-7 7	-2 9			-10 4	-5 1	$503 9	8 2%
Britannic (Blairlogie)	16 3	17 0	37 5	38 5	-4 0	-2 9			-6 4	-5 1	$326 3	5 3%
Invesco	16 8	17 0	33 0	38 5	0 4	-2 9			-0 3	-5 1	$622 4	10 1%
Marathon (3)	15 4	17 0	47 2	47 6	5.2	2 2	8.6	3 6	7 8	4 9	$693 8	11 3%
T Rowe Price	16 2	17 0	30 0	38 5	-5 1	-2 9	-0 3	-0 1	4 9	4 2	$535 4	8 7%
UBS Global	16 9	17 0	32 3	38 5	-1 2	-2 9	3 4	-0 1	7 6	5 8	$656 0	10 6%
Active Emerging Markets												
Alliance Capital	16 4	17 8	54 1	55 8					7 9	8 8	$166 2	2 7%
Capital International	16 2	17 8	54 2	55 8					3 6	8 8	$148 1	2 4%
Morgan Stanley	19 5	17 8	58 8	55 8					9 2	8 8	$159 4	2 6%
Schroders	18 3	17 8	57 2	55 8					6 2	8 8	$160 7	2 6%
Passive Developed Markets (2)												
State Street	17 0	17 0	38 6	38 5	-2 7	-2 9	0 2	-0 1	6 5	6 2	$2,188 1	35 5%
									Since 10/1/92			
Equity Only (4) (6)	16 5	17 1	38 2	40 1	-1 4	-1 6	1 7	1 0	6 7	6 0	$6,160 3	100 0%
Total Program (5) (6)	**16.5**	**17.1**	**38.2**	**40.1**	**-1.4**	**-1.6**	**1.8**	**1.0**	**7.1**	**6.0**	**$6,160.3**	
SBI Int'l Equity Target (6)		17 1		40 1		-1 6		1 0		6 0		
MSCI ACWI Free ex U S (7)		17 1		40 8		-1 3		1 3		6 5		
MSCI World ex U S (net)		17 0		39 4		-2 6		0 4		6 5		
MSCI EAFE Free (net)		17 1		38 6		-2 9		-0 1		6 2		
MSCI Emerging Markets Free (8)		17 8		55 8		12 5		10 5		5 9		

(1) Since retention by the SBI Time period varies for each manager
(2) Since 10/1/03, the Active and Passive Developed Markets managers benchmark is MSCI World ex U S (net) Prior to that date, it was MSCI EAFE Free (net) From 10/1/01 to 5/31/02 the benchmark was the Provisional MSCI EAFE Free (net)
(3) As of 10/1/03, Marathon's benchmark is MSCI World ex U S (net) Through 9/30/03 Marathon was measured against a custom composite benchmark 55% Citigroup EMI EPAC and 45% Citigroup PMI EPAC
(4) Equity managers only Includes impact of terminated managers
(5) Includes impact of currency overlay on the passive EAFE portfolio from 12/1/95-10/31/00
(6) Since 10/1/03, the International Equity asset class target is MSCI ACWI Free ex U S (net) From 1/1/01 to 9/30/03, the target was MSCI EAFE Free (net) plus Emerging MarketsFree (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross) From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross) On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights 100% EAFE Free (net) prior to 5/1/96
(7) MSCI ACWI Free ex U S (gross) through 12/31/00 MSCI ACWI Free ex U S (net) thereafter
(8) MSCI Emerging Markets Free (gross) through 12/31/00 MSCI Emerging Markets Free (net) thereafter

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending December, 2003

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $503,855,933**

Investment Philosophy

American Express Asset Management's (AEAM) process identifies investment themes which they feel will drive improved return on capital, and will provide attractive investment opportunities. 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

Negative stock selection throughout markets in Europe and also in Japan were the primary contributors to the portfolio's underperformance for the quarter. For the year, stock selection in Europe also contributed negatively as did the portfolio's underweight to the Asia ex-Japan region.

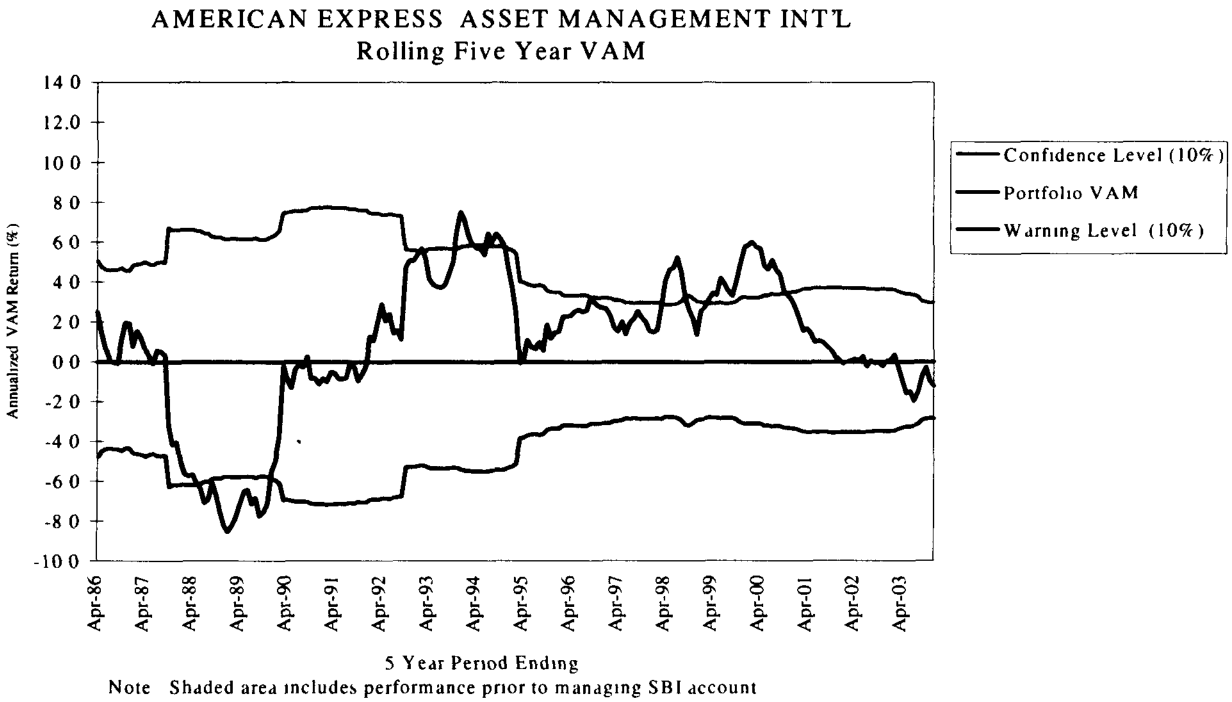
The Threadneedle team, now part of American Express, assumed management of the SBI's portfolio as of November 7, 2003.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.1%	17.0%
Last 1 year	30.2	38.5
Last 2 years	5.4	8.1
Last 3 years	-7.7	-2.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-10.4	-5.1

Recommendations

Staff is closely monitoring the firm due to organizational change and performance concerns.



Note Shaded area includes performance prior to managing SBI account

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending December, 2003

Portfolio Manager: James Smith | **Assets Under Management: $326,333,915**

Investment Philosophy

Britannic's process incorporates a top-down model, with 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 by region and sector 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

The portfolio underperformed moderately during the quarter due to stock selection in the UK and in Canada, and an underweight to Spain. For the year, stock selection in Japan, and in the Asia ex-Japan region detracted from performance

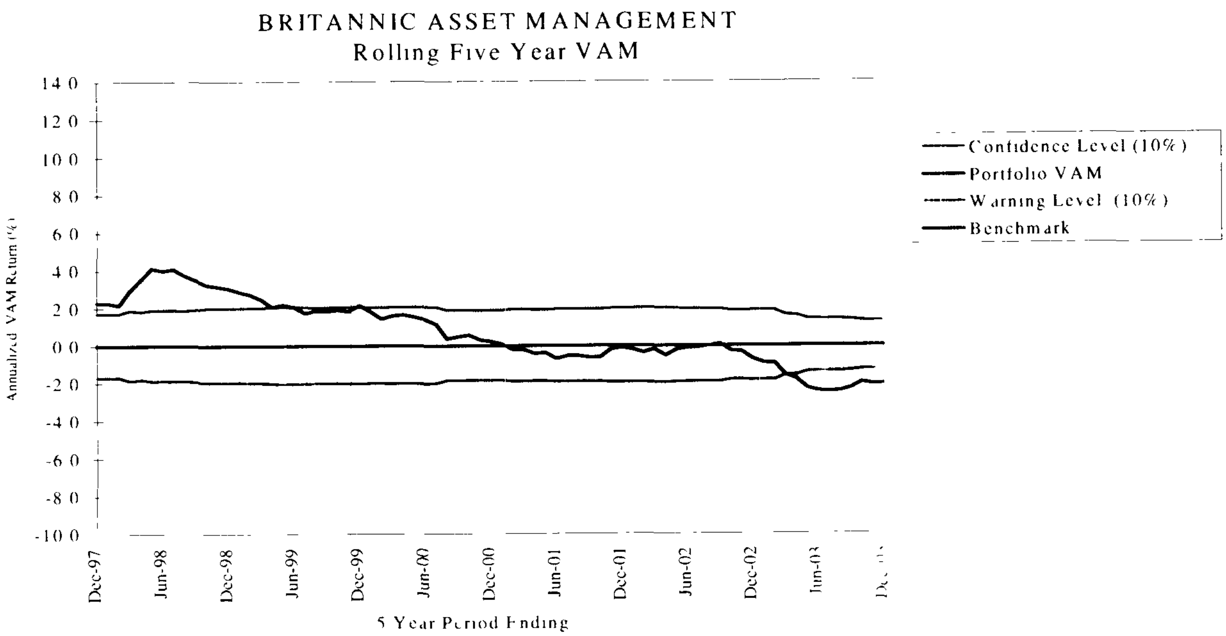
Gavin Dobson, one of the original founders of Blairlogie, announced that he would be leaving the firm for personal reasons His responsibilities were focused on developing international client relationships. James Smith, the CIO of the former Blairlogie investment process, remains an integrated member of the Britannic team

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16 3%	17.0%
Last 1 year	37.5	38 5
Last 2 years	6 8	8 1
Last 3 years	-4.0	-2.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-6 4	-5 1

Recommendations

Staff is monitoring the firm due to performance concerns



Note Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending December, 2003

Portfolio Manager: Erik Granade | **Assets Under Management: $622,378,727**

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 Japan, and an underweight to Germany, contributed to the portfolio's narrow underperformance during the quarter. For the year, the portfolio's Japanese holdings trailed the market.

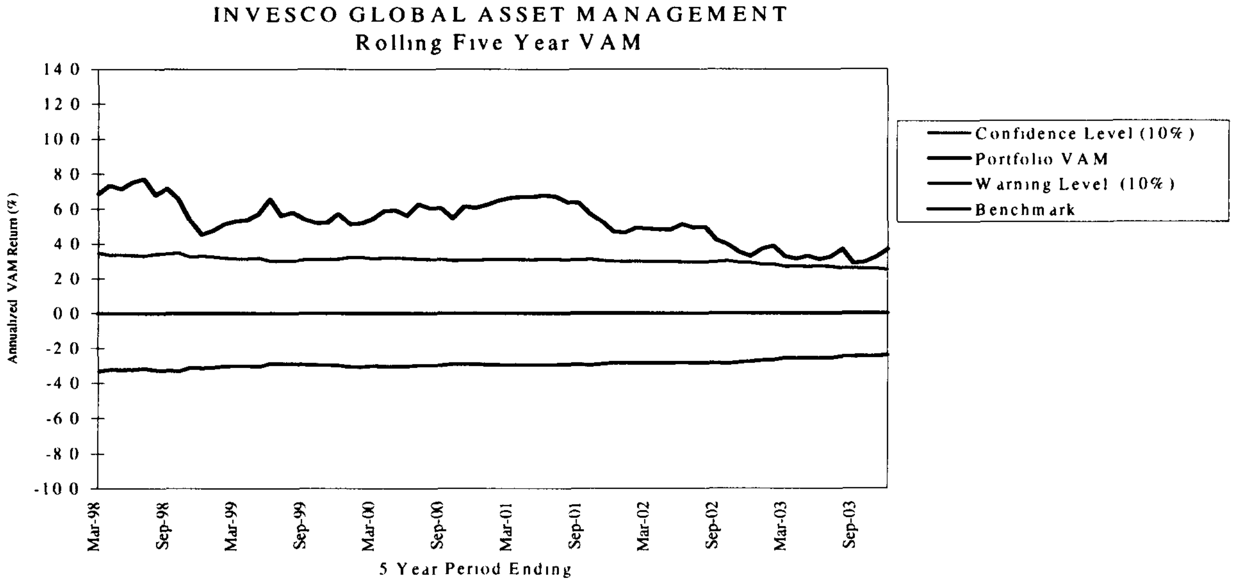
Staff spoke with INVESCO to discuss recent civil actions by the Securities and Exchange Commission (SEC) and New York Attorney General against the mutual fund division of AMVESCAP (parent company). A resolution has not yet been announced. INVESCO Global Asset Management, which manages the SBI's portfolio, is a different unit within AMVESCAP. It is regulated by the SEC, and files a separate FORM ADV from its parent company.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.8%	17.0%
Last 1 year	33.0	38.5
Last 2 years	9.2	8.1
Last 3 years	0.4	-2.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/00)	-0.3	-5.1

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: William Arah **Assets Under Management: $693,844,948**

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

Staff spoke with the portfolio manager during the quarter to review investment performance and the organization. The portfolio underperformed during the recent period due to an underweight to Europe and, in consequence, the failure of the portfolio to derive the full dollar benefit from the strengthening of the Euro currency An overweight position in Japan and in Hong Kong also detracted from recent performance

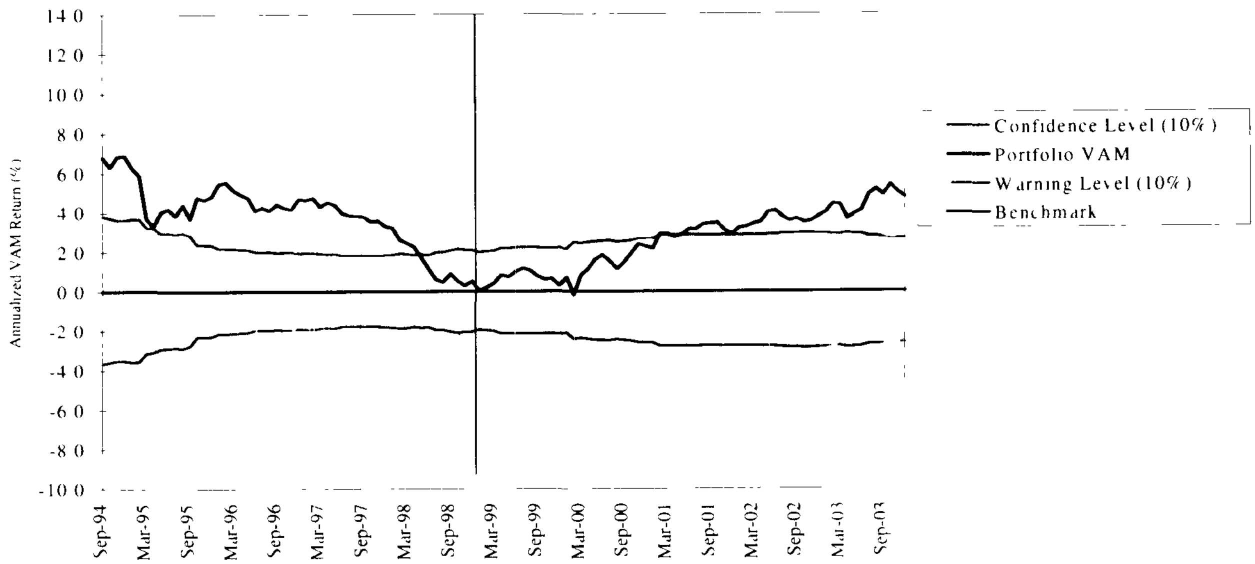
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	15.4%	17 0%
Last 1 year	47 2	47 6
Last 2 years	16 4	14 4
Last 3 years	5 2	2 2
Last 4 years	2.7	-1 6
Last 5 years	8 6	3 6
Since Inception (11/93)	7 8	4 9

Recommendations

No action required

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



5 Year Period Ending

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

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending December, 2003

Portfolio Manager: David Warren | **Assets Under Management: $535,395,690**

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

Staff met with the firm during the quarter to review investment performance and the organization. T. Rowe Price will be changing from a dual portfolio system (one with a sector focus, and the other with a country focus), to a single portfolio system in order to streamline decision-making. Underperformance for the quarter was due to an underweight to Germany, and negative stock selection in Japan and in Sweden.

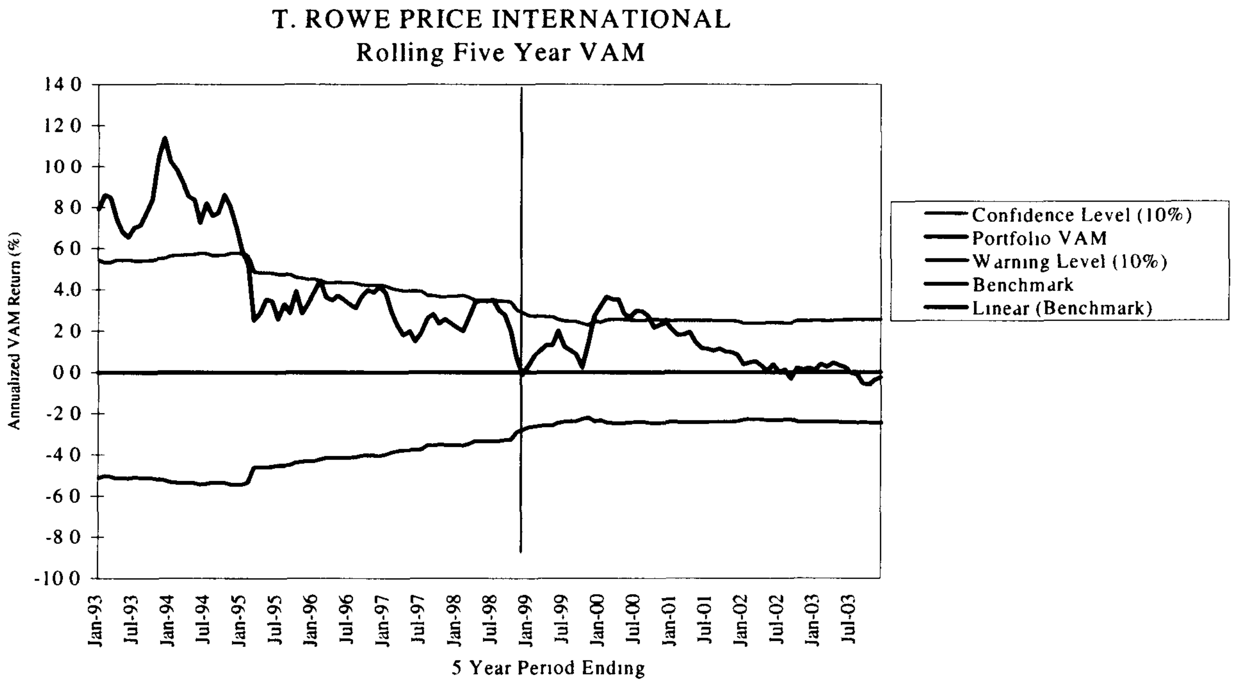
For the one-year period, stock selection was negative in Japan and across several European markets including Sweden and the UK.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.2%	17.0%
Last 1 year	30.0	38.5
Last 2 years	4.0	8.1
Last 3 years	-5.1	-2.9
Last 4 years	-7.6	-5.8
Last 5 years	-0.3	-0.1
Since Inception (11/93)	4.9	4.2

Recommendations

No action required.



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2003

Portfolio Manager: Thomas Madsen **Assets Under Management: $655,983,428**

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

Staff met with the firm during the quarter to review recent performance The portfolio narrowly underperformed in the recent period While stock selection overall was positive, country allocation was negative, primarily due to the portfolio's underweight to Germany

Both country allocation, and stock selection decisions detracted from performance for the year

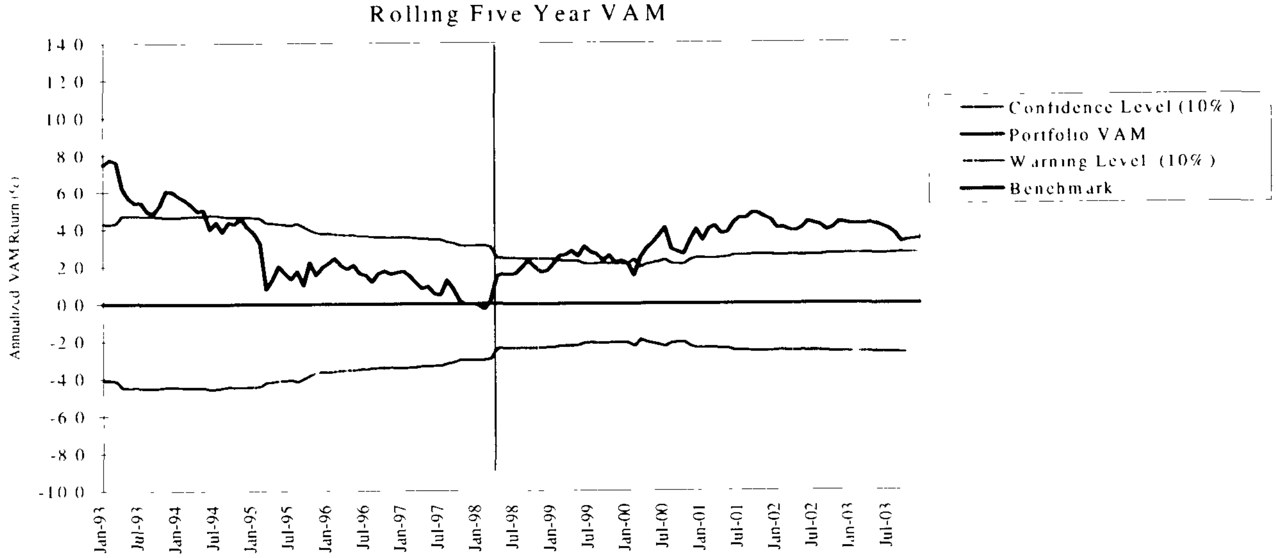
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16 9%	17 0%
Last 1 year	32.3	38 5
Last 2 years	6.8	8.1
Last 3 years	-1 2	-2 9
Last 4 years	-1 4	-5 8
Last 5 years	3.4	-0.1
Since Inception (4/93)	7 6	5.8

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, 2003

Portfolio Manager: Edward Baker | **Assets Under Management: $166,151,187**

Investment Philosophy

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

Staff Comments

Stock selection for the quarter was disappointing across all regions, particularly Latin America and Asia. For the year, holdings in Mexico contributed negatively.

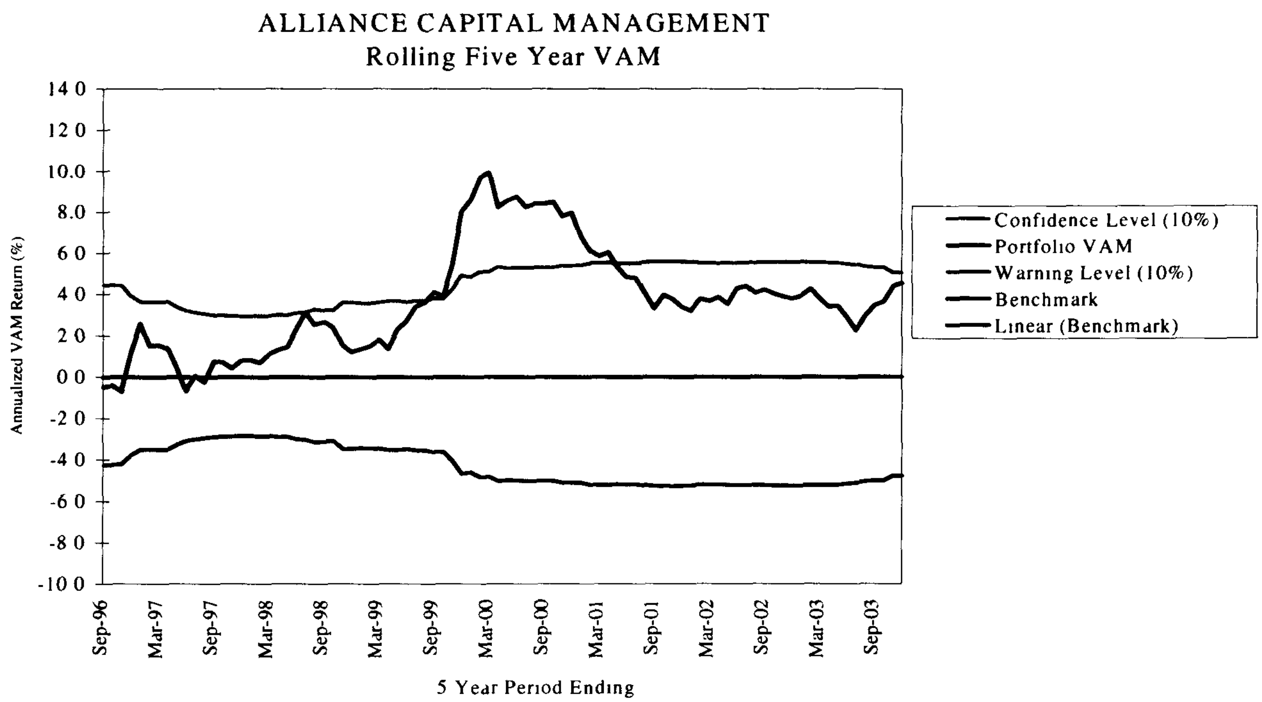
Alliance reached an agreement with the Securities and Exchange Commission (SEC) for the resolution of regulatory claims against Alliance Capital with respect to market timing activities in some of their U.S. retail mutual funds. They have also reached an agreement with the New York Attorney General, which is subject to final documentation. The SEC explicitly acknowledged Alliance's cooperation concerning the resolution of claims.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.4	17.8
Last 1 year	54.1	55.8
Last 2 years	23.7	21.6
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)	7.9	8.8

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

CAPITAL INTERNATIONAL, INC.
Periods Ending December, 2003

Portfolio Manager: Victor Kohn | **Assets Under Management: $148,101,512**

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 underperformed during the quarter due to negative stock selection in Korean and South African financials An overweight position in Mexico, which had relative underperformance, as well as an underweight in China, which benefited from growing economic momentum, also detracted from returns For the year, holdings in Korea and the underweight position in China were again, the portfolio's largest detractors

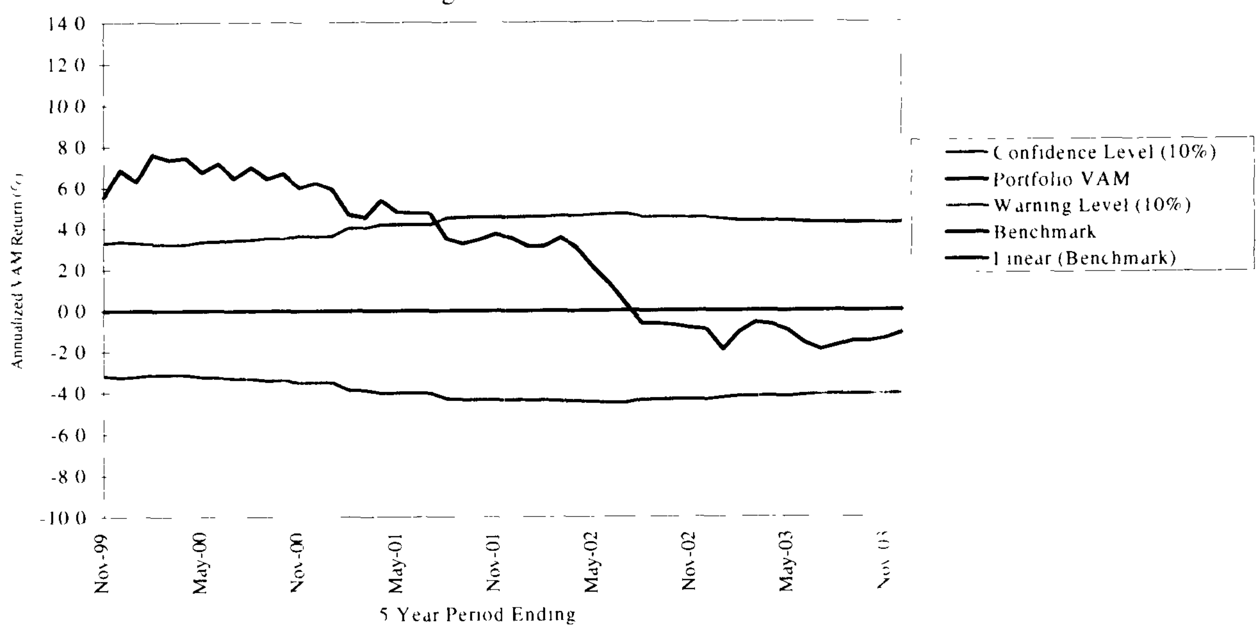
Capital announced that in their multi-manager system, one of the nine portfolio managers of the SBI's portfolio will be retiring. Currently there are no plans to replace him

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16 2	17.8
Last 1 year	54 2	55.8
Last 2 years	16 9	21 6
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)	3 6	8 8

Recommendations

No action required



Note Shaded area includes performance prior to managing SBI account

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending December, 2003

Portfolio Manager: Narayan Ramachandran | **Assets Under Management: $159,437,728**

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

For the quarter and the year, the portfolio gained equally from both country and stock selection decisions. Over both periods, stock selection was strong in Korea and Russia, and an overweight position in Turkey was especially beneficial.

Morgan Stanley announced that they have promoted Ruchir Sharma to co-head of the Emerging Markets Equity Team. He has been with the team for eight years, and has been the lead portfolio manager for the India-dedicated strategies for the past three years.

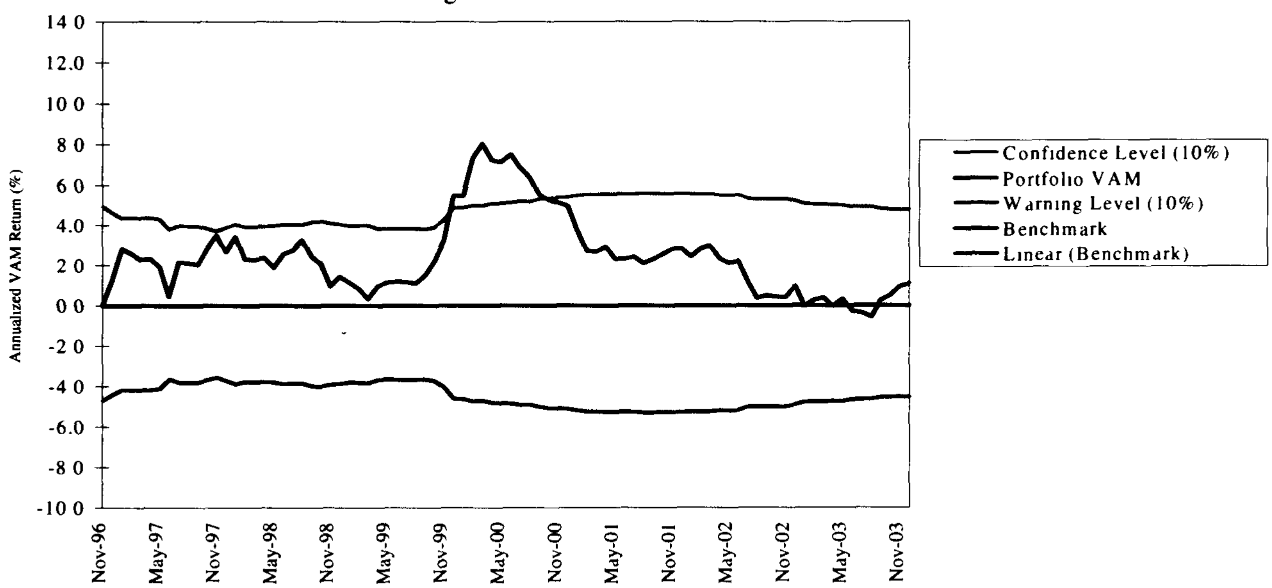
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	19.5%	17.8%
Last 1 year	58.8	55.8
Last 2 years	23.1	21.6
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)	9.2	8.8

Recommendations

No action required.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending

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

SCHRODERS INVESTMENT MANAGEMENT NORTH AMERICA INC.
Periods Ending December, 2003

Portfolio Manager: Peter Clark | **Assets Under Management: $160,729,232**

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

Performance for the quarter exceeded the benchmark. Overall, country weighting decisions added value, while stock selection detracted. The portfolio benefited from overweight positions in China, Thailand, and India, and from an underweight position in Taiwan.

Over the year, the largest contributions came from holdings in industrial companies in Korea and electronics stocks in Taiwan.

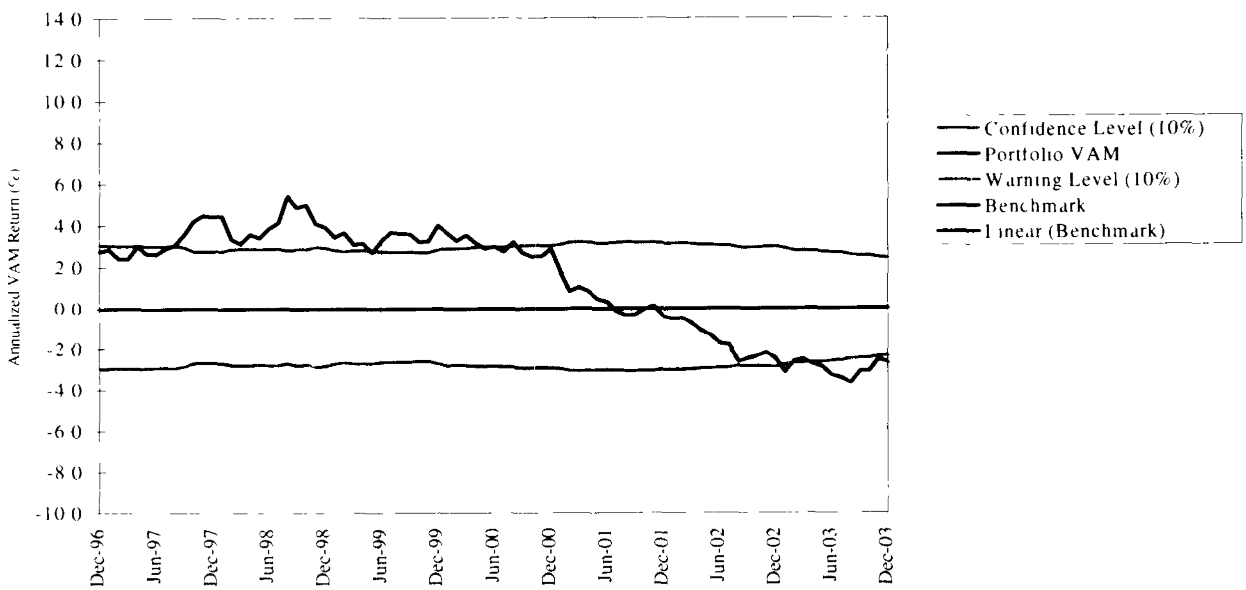
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18.3	17.8
Last 1 year	57.2	55.8
Last 2 years	20.6	21.6
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)	6.2	8.8

Recommendations

Staff is monitoring the firm due to organizational change and performance concerns.

SCHRODERS INVESTMENT MANAGEMENT
Rolling Five Year VAM



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

STATE STREET GLOBAL ADVISORS
Periods Ending December, 2003

Portfolio Manager: Lynn Blake **Assets Under Management: $2,188,080,389**

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 (net) 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 (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S. pension fund, which should result in modest positive tracking error, over time.

Staff Comments

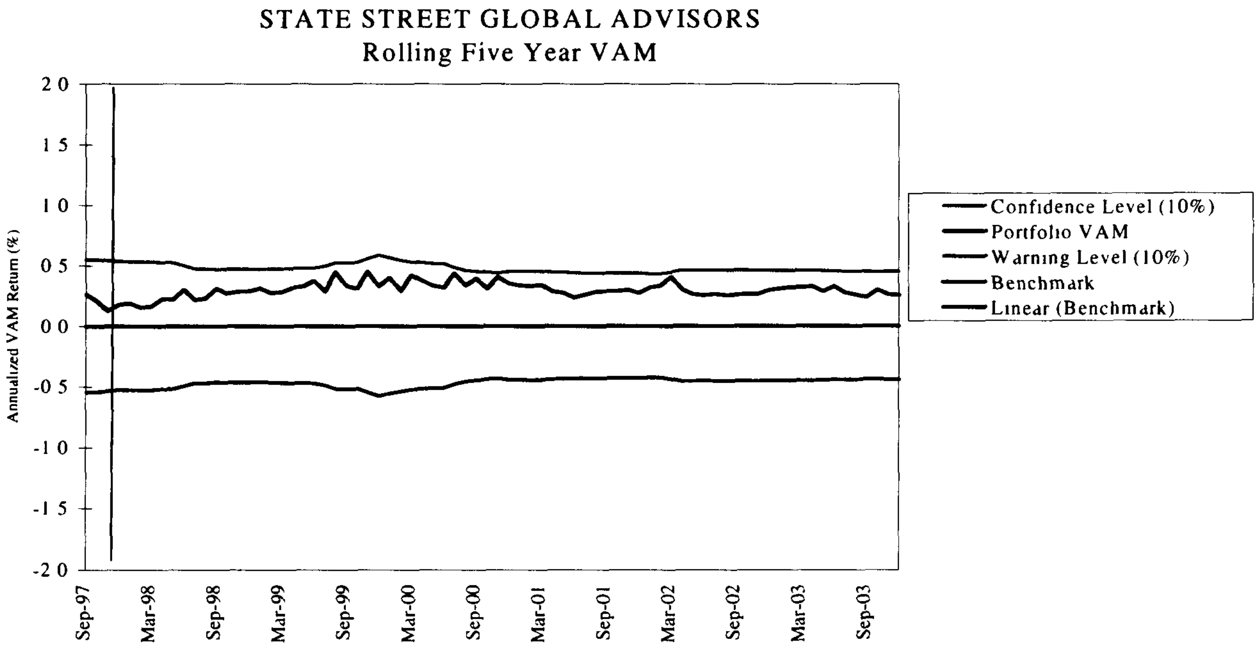
The portfolio closely tracked the index both for the quarter and the year. Performance is within expectation for the recent time periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.0%	17.0%
Last 1 year	38.6	38.5
Last 2 years	8.3	8.1
Last 3 years	-2.7	-2.9
Last 4 years	-5.7	-5.8
Last 5 years	0.2	-0.1
Since Inception (10/92)	6.5	6.2

Recommendation

No action required.



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

STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Fourth Quarter, 2003

NON - RETIREMENT MANAGERS
Periods Ending December, 2003

	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)
GE Investment Management (S&P 500 Index)*	10 2	12 2	23 7	28 7	-3 3	-4.1	1 8	-0.6	13 3	12.2	$62 2
Voyageur Asset Management (Custom Benchmark)*	0 2	0 1	2 6	2 5	5 9	6.8	5 6	6 4	7.1	7 2	$185.5
Galliard Capital Management (3 yr Constant Maturity Treasury + 45 bp)*	1 1	0.7	4 7	2 6	5 6	3 4	5 8	4 5	6 2	5 3	$145 3
Internal Stock Pool (S&P 500 Index)*	12 2	12 2	28 9	28 7	-3 9	-4 1	-0 5	-0 6	11 1	11.0	$588.0
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	0 9	0 3	5 8	4 1	7 8	7 6	6.8	6 6	8 5	8.2	$202 5
Internal Bond Pool - Trust (Lehman Aggregate)*	1 0	0 3	5 9	4 1	8 0	7 6	7 0	6 6	8 2	7.8	$377 1

* 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, 2003

Portfolio Manager: Dave Carlson | **Assets Under Management: $62,249,108**

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 trailed the benchmark for the quarter, primarily due to stock selection in the consumer staples, technology, industrials and healthcare sectors. The portfolio underperformed the one-year benchmark due to stock selection in technology, and healthcare sectors.

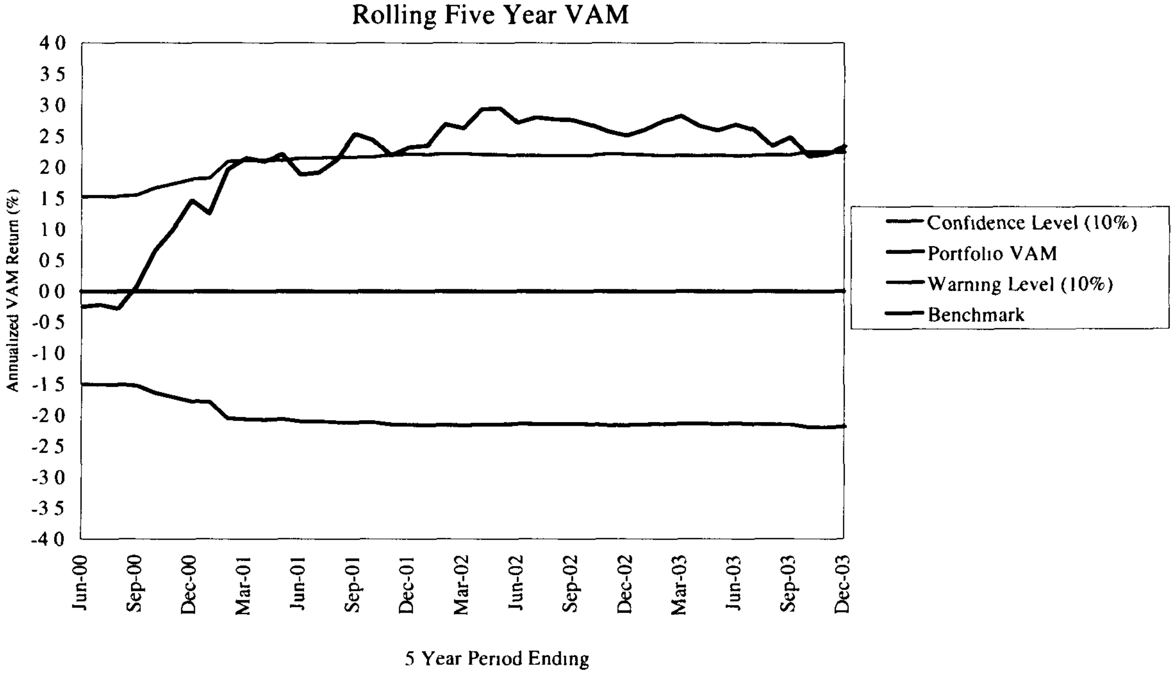
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.2%	12.2%
Last 1 year	23.7	28.7
Last 2 years	-0.8	0.1
Last 3 years	-3.3	-4.1
Last 4 years	-2.7	-5.3
Last 5 years	1.8	-0.6
Since Inception (1/95)	13.3	12.2

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending December, 2003

Portfolio Manager: Tom McGlinch **Assets Under Management: $185,521,629**

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 outperformed for the quarter and the year The returns for both periods were helped by the portfolio duration being shorter than the benchmark and an overweight to the agency and mortgage securities.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.2%	0 1%
Last 1 year	2 6	2.5
Last 2 years	5.6	5 8
Last 3 years	5 9	6.8
Last 4 years	6 5	7 5
Last 5 years	5 6	6.4
Since Inception (7/91)	7 1	7 2

*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, 2003

Portfolio Manager: Karl Tourville **Assets Under Management: $145,291,384**

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.

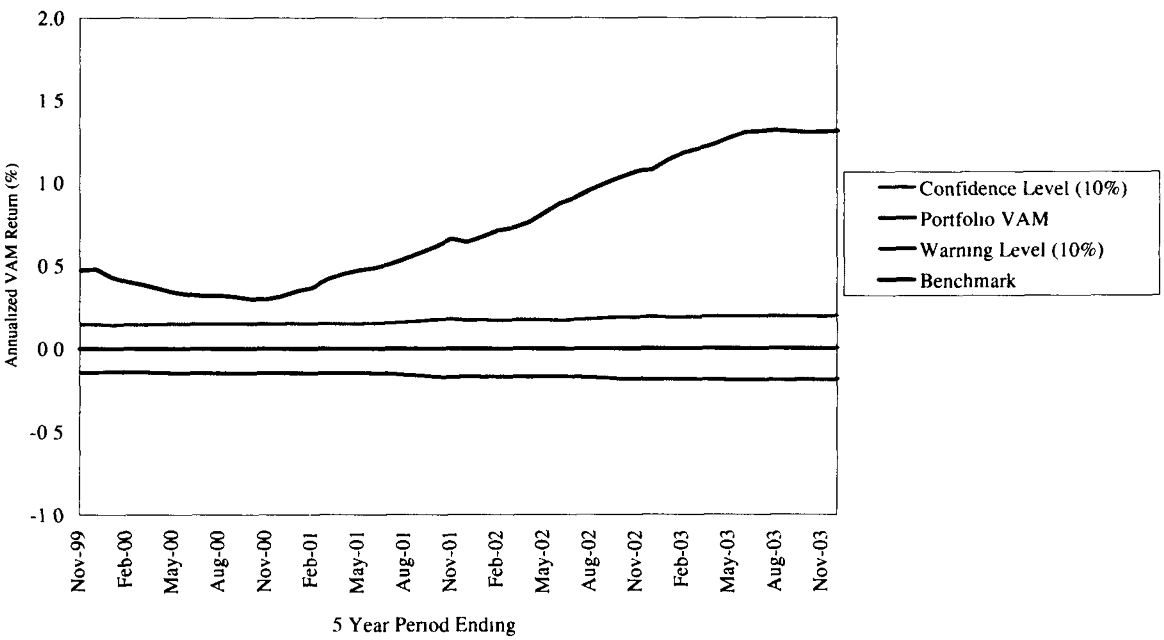
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	0.7%
Last 1 year	4.7	2.6
Last 2 years	5.2	2.9
Last 3 years	5.6	3.4
Last 4 years	5.8	4.1
Last 5 years	5.8	4.5
Since Inception (11/94)	6.2	5.3

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending December, 2003

Portfolio Manager: Mike Menssen **Assets Under Management: $587,972,619**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

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

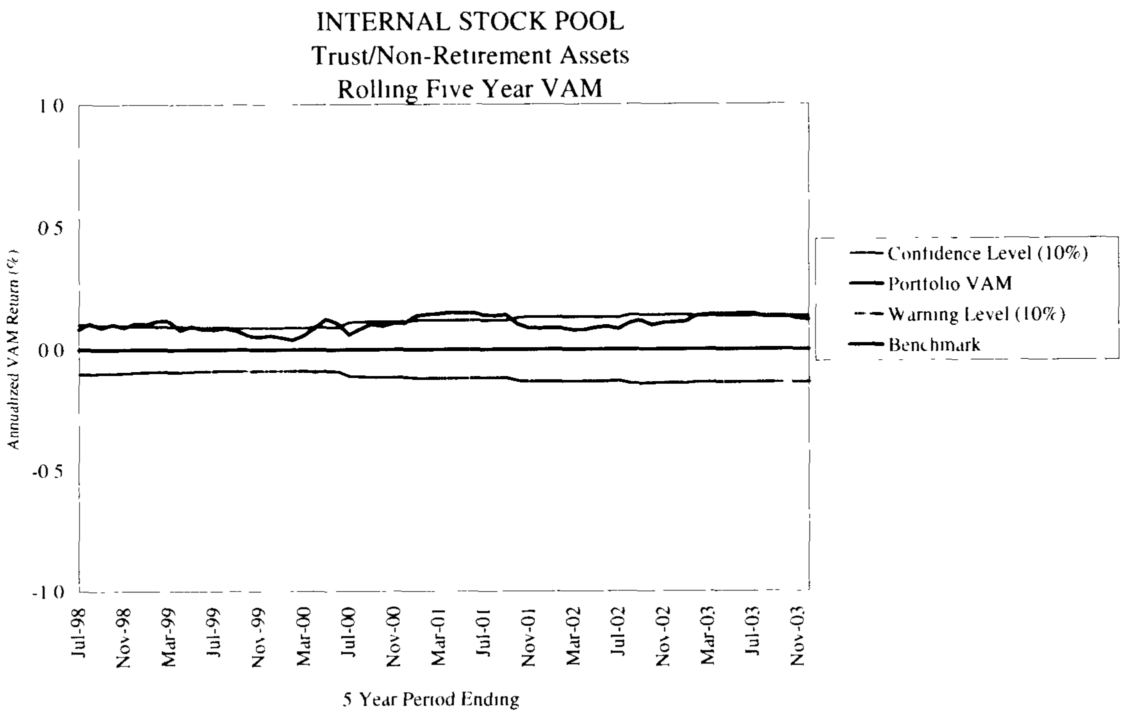
The portfolio matched the quarterly benchmark and had positive tracking error for the year The positive tracking error for the one-year period was due to the timing of the high volume of trading in the index early in the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12 2%	12.2%
Last 1 year	28 9	28 7
Last 2 years	0.4	0.1
Last 3 years	-3.9	-4 1
Last 4 years	-5 2	-5 3
Last 5 years	-0 5	-0.6
Since Inception (7/93)	11 1	11 0

Recommendation

No action required



INTERNAL BOND POOL - Income Share Account
Periods Ending December, 2003

Portfolio Manager: Mike Menssen **Assets Under Management: $202,540,720**

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 an overweight in the corporate sector. An overweight in the BBB portion of the corporate sector and an overweight in corporates in total helped the one-year outperformance.

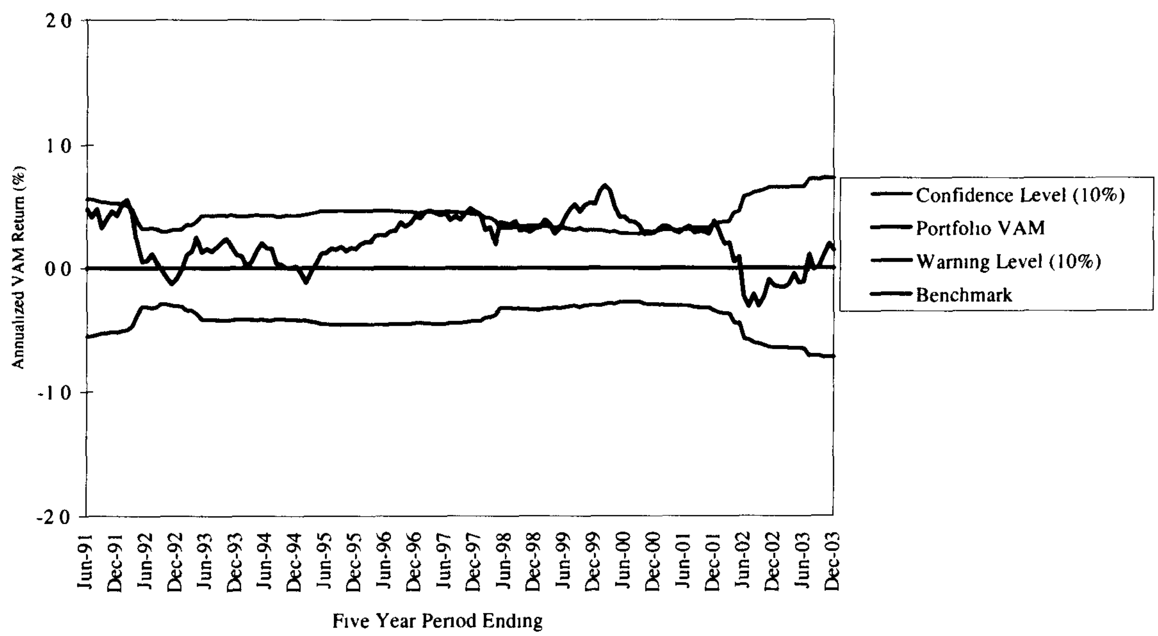
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.3%
Last 1 year	5.8	4.1
Last 2 years	7.0	7.1
Last 3 years	7.8	7.6
Last 4 years	8.7	8.6
Last 5 years	6.8	6.6
Since Inception (7/86)	8.5	8.2

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending December, 2003

Portfolio Manager: Mike Menssen **Assets Under Management: $377,112,535**

Investment Philosophy
Environmental Trust Fund
Permanent School Trust Fund

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 an overweight in the corporate sector. An overweight in the BBB portion of the corporate sector and an overweight in corporates in total helped the one-year outperformance.

Quantitative Evaluation

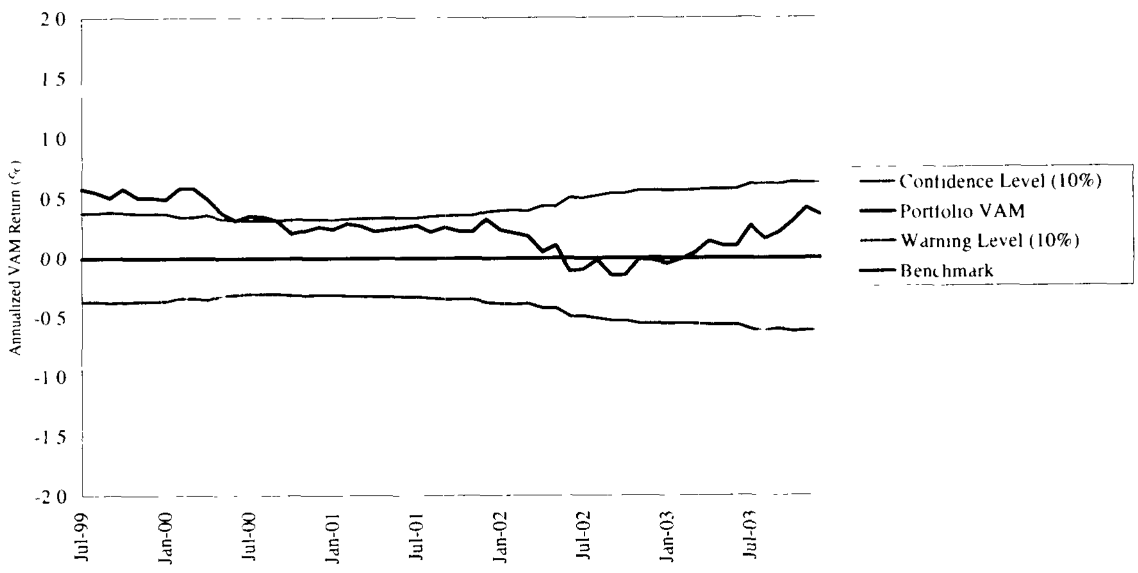
	Actual	Benchmark
Last Quarter	1.0%	0.3%
Last 1 year	5 9	4 1
Last 2 years	7.3	7 1
Last 3 years	8.0	7 6
Last 4 years	8.8	8 6
Last 5 years	7 0	6.6
Since Inception (7/94)*	8.2	7 8

Recommendation

No action required

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

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



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Fourth Quarter, 2003

MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending December, 2003

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 (1) %	Since Retention by SBI (1) %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty	10.3	12.2	25.3	28.7	-12.3	-4.1	-5.6	-0.6	-9.5	-3.2	$238.0
(S&P 500) (2)											
Mid Cap Equity:											
Morgan Stanley Mid-Cap Value Instl.	14.0	13.3	41.9	35.6	-0.7	5.1	5.6	9.8	0.7	7.8	$26.4
(S&P Mid-Cap 400) (2)											
Small Cap Equity:											
T. Rowe Price Small-Cap Stock	13.7	14.5	32.3	47.3	6.6	6.3	10.3	7.1	10.4	5.9	$303.8
(Russell 2000) (2)											
Equity Index:											
Vanguard Institutional Index Plus	12.2	12.2	28.7	28.7	-4.0	-4.1	-0.5	-0.6	-3.1	-3.2	$208.3
(S&P 500) (2)											
Balanced: (3)											
Dodge & Cox Balanced Fund	9.9	7.3	24.5	18.5	10.0	1.0	11.4	2.7	9.9	7.3	$113.0
(60% S&P 500/40% Lehman Agg) (2)											
Bond:											
Dodge & Cox Income Fund	1.1	0.3	6.0	4.1	9.0	7.6	7.3	6.6	8.5	7.7	$73.4
(Lehman Aggregate) (2)											
International:											
Fidelity Diversified International	15.2	17.1	42.4	38.6	3.9	-2.9	9.0	-0.1	7.8	-0.9	$114.3
(MSCI EAFE-Free) (2)											

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

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

(1) Dodge & Cox Balanced Fund retained in October 2003, Morgan Stanley was retained in January 2002; all others, July 1999

(2) Benchmarks for the Funds are noted in parentheses below the Fund names.

(3) INVESCO Total Return Fund was terminated on November 20, 2003.

Fixed Fund:	%
Blended Yield Rate for current quarter***:	5.1
Bid Rates for current quarter:	
Great West Life	3.4
Minnesota Life	3.5
Principal Life	3.7

***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, 2003

State's Participation in Fund: $237,961,613

Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $9,627,900,000**

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. The portfolio was hurt by its holdings in the consumer discretionary sector.

Quantitative Evaluation

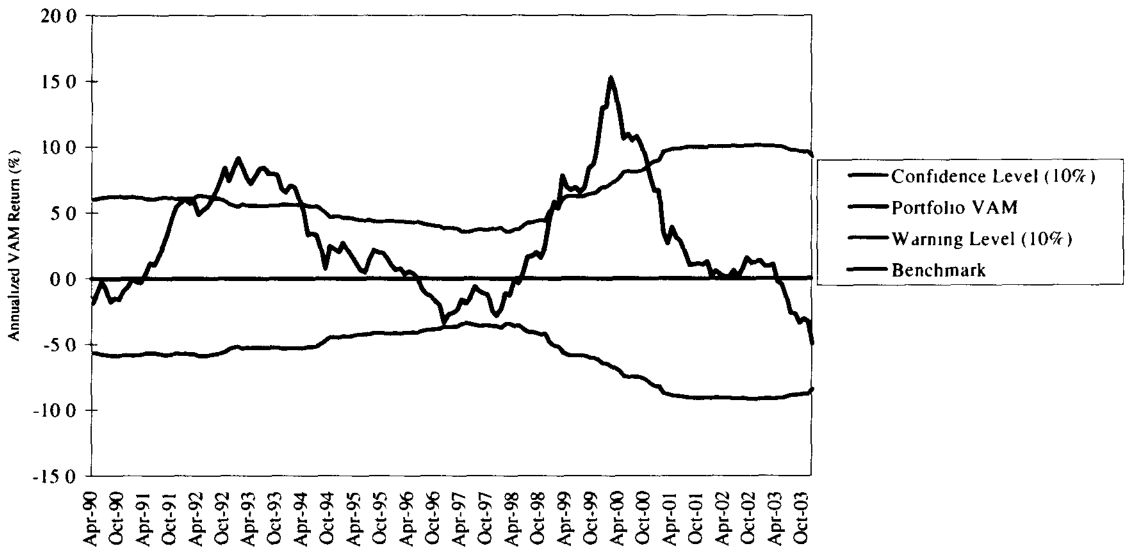
	Actual	Benchmark*
Last Quarter	10.3%	12.2%
Last 1 year	25.3	28.7
Last 2 years	-2.4	0.1
Last 3 years	-12.3	-4.1
Last 4 years	-17.8	-5.3
Last 5 years	-5 6	-0 6
Since Retention by SBI (7/99)	-9.5	-3.2

*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



Five Year Period Ending
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, 2003

State's Participation in Fund: $26,367,870
Portfolio Manager: James Gilligan | **Total Assets in Fund: $453,575,709**

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 and one-year periods. The portfolio was helped by stock selection within the financial services sector

In December, the SBI voted to replace Morgan Stanley due to the portfolio manager changes. Morgan Stanley will be terminated as of February 27, 2004

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	14.0%	13.3%
Last 1 year	41.9	35.6
Last 2 years	0.7	7.8
Last 3 years	0.7	5.1
Last 4 years	2.3	8.6
Last 5 years	5.6	9.8
Since Retention By SBI (1/02)	0.7	7.8

*Benchmark is the S&P Midcap 400
Numbers in black are returns since retention by SBI
Numbers in blue include returns prior to retention by SBI

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, 2003

Portfolio Manager: Gregory A. McCrickard

State's Participation in Fund: $303,811,636
Total Assets in Fund: $5,183,240,000

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 hurt during the quarter by underweighting the health care sector and overweighting information technology. The one-year underperformance was due to stock selection.

Quantitative Evaluation

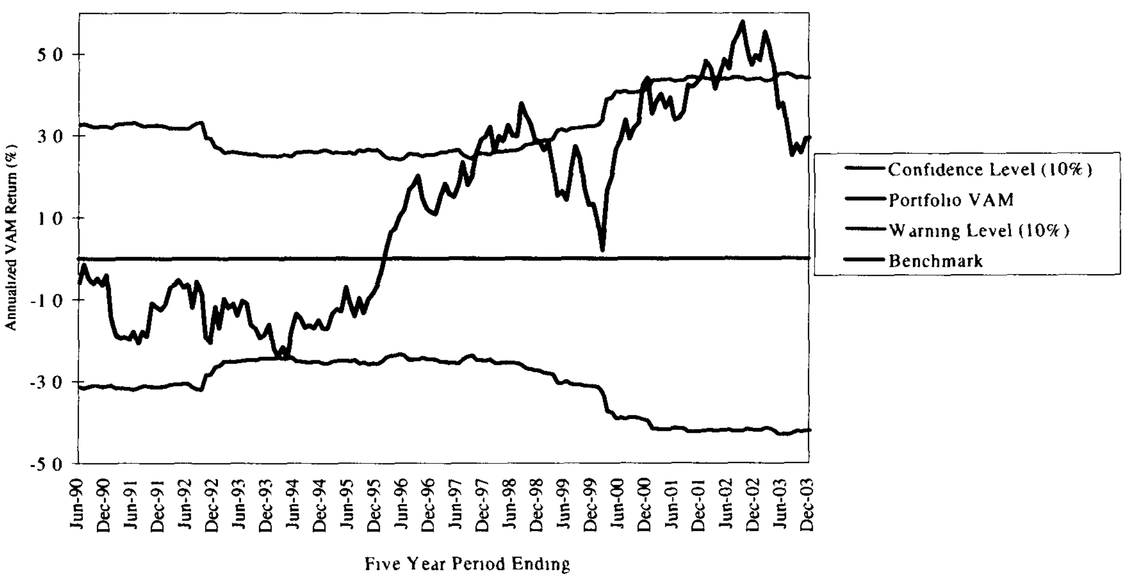
	Actual	Benchmark*
Last Quarter	13.7%	14.5%
Last 1 year	32.3	47.3
Last 2 years	6.6	8.2
Last 3 years	6.6	6.3
Last 4 years	9.2	3.9
Last 5 years	10.3	7 1
Since Retention by SBI (7/99)	10.4	5.9

*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



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, 2003

State's Participation in Fund: $208,287,921

Portfolio Manager: George U. Sauter | **Total Assets in Fund: $8,805,413,418**

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

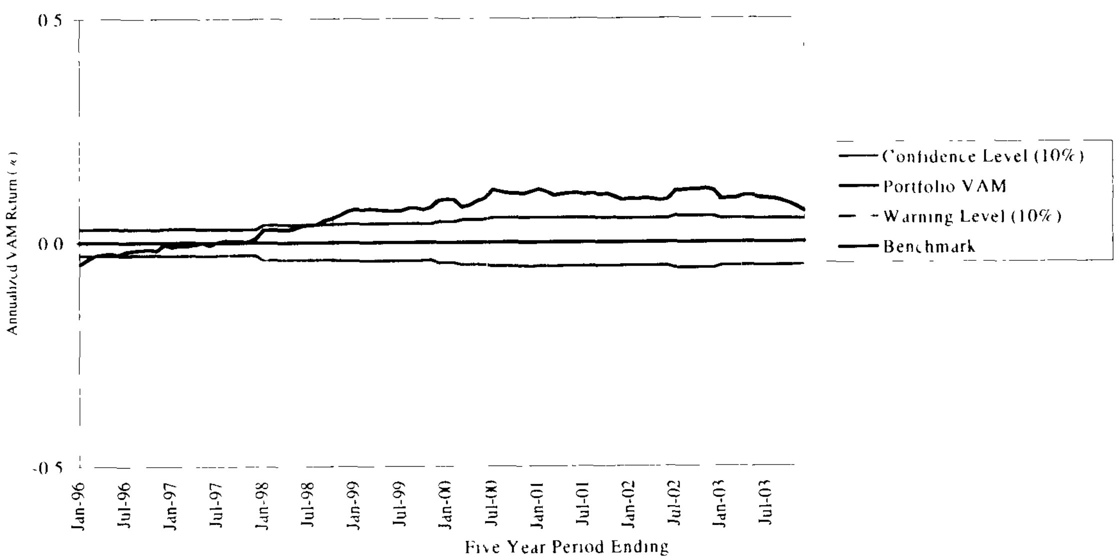
	Actual	Benchmark*
Last Quarter	12.2%	12 2%
Last 1 year	28 7	28 7
Last 2 years	0 2	0 1
Last 3 years	-4 0	-4 1
Last 4 years	-5 3	-5 3
Last 5 years	0 5	-0 6
Since Retention by SBI (7/99)	-3 1	-3 2

*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
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX BALANCED FUND
Periods Ending December, 2003

State's Participation in Fund: $113,047,955

Portfolio Manager: Bryan Cameron | **Total Assets in Fund: $13,195,628,382**

Investment Philosophy
Dodge & Cox Balanced Fund

The Fund seeks regular income, conservation of principal and an opportunity for long-term growth of principal and income. The Fund invests in a diversified portfolio of common stocks preferred stocks and fixed income securities.

Staff Comments

Dodge & Cox outperformed the quarterly benchmark due to the equity portfolio and fixed income portfolio both exceeding their respective benchmarks. The equity portfolio was helped by stock selection in the Information Technology sector as well as an overweight in the materials sector. The fixed income portfolio had a shorter duration than the benchmark and was also overweight corporate securities.

Quantitative Evaluation

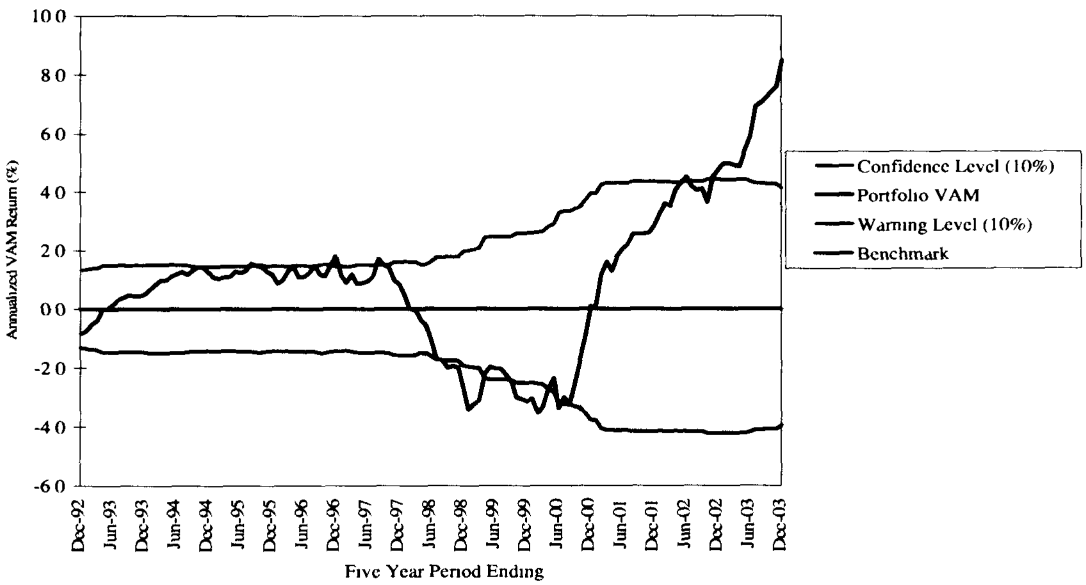
	Actual	Benchmark*
Last Quarter	9.9%	7.3%
Last 1 year	24 5	18 5
Last 2 years	9.9	3.4
Last 3 years	10.0	1.0
Last 4 years	11.2	0 5
Last 5 years	11 4	2.7
Since Retention By SBI (10/03)	9.9	7.3

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

Recommendation

No action required.

BOND - DODGE & COX BALANCED FUND
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, 2003

State's Participation in Fund: $73,357,938
Portfolio Manager: **Total Assets in Fund: $5,697,371,208**

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 the benchmark for the quarter and the year The outperformance for both periods was helped by the portfolio's shorter-than benchmark duration position as well as an overweight position in corporate securities.

Quantitative Evaluation

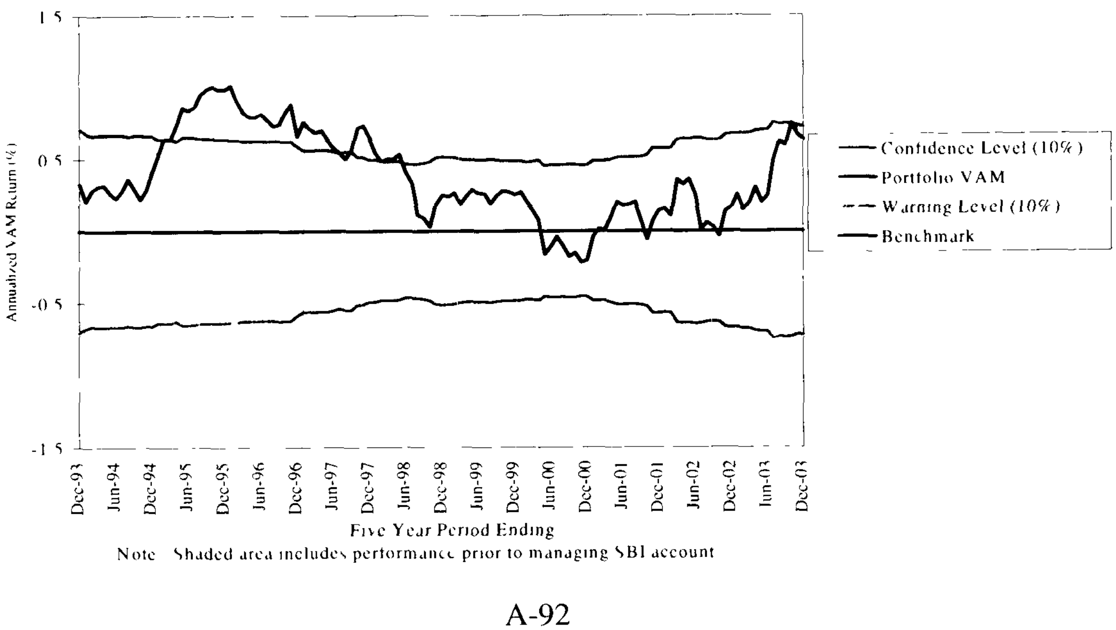
	Actual	Benchmark*
Last Quarter	1 1%	0 3%
Last 1 year	6.0	4.1
Last 2 years	8 3	7.1
Last 3 years	9.0	7 6
Last 4 years	9 4	8.6
Last 5 years	7 3	6 6
Since Retention By SBI (10/03)	8 5	7.7

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

Recommendation

No action required

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending December, 2003

State's Participation in Fund: $114,303,693

Portfolio Manager: William Bower | **Total Assets in Fund: $13,559,000,000**

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 trailed the quarterly benchmark due to stock selection in the energy sector, as well as an underweight and unfavorable stock selection in the better-performing financial sector. The one-year outperformance was due to the strong stock selection in the energy sector, as did an overweight and stock selection in the consumer discretionary sector.

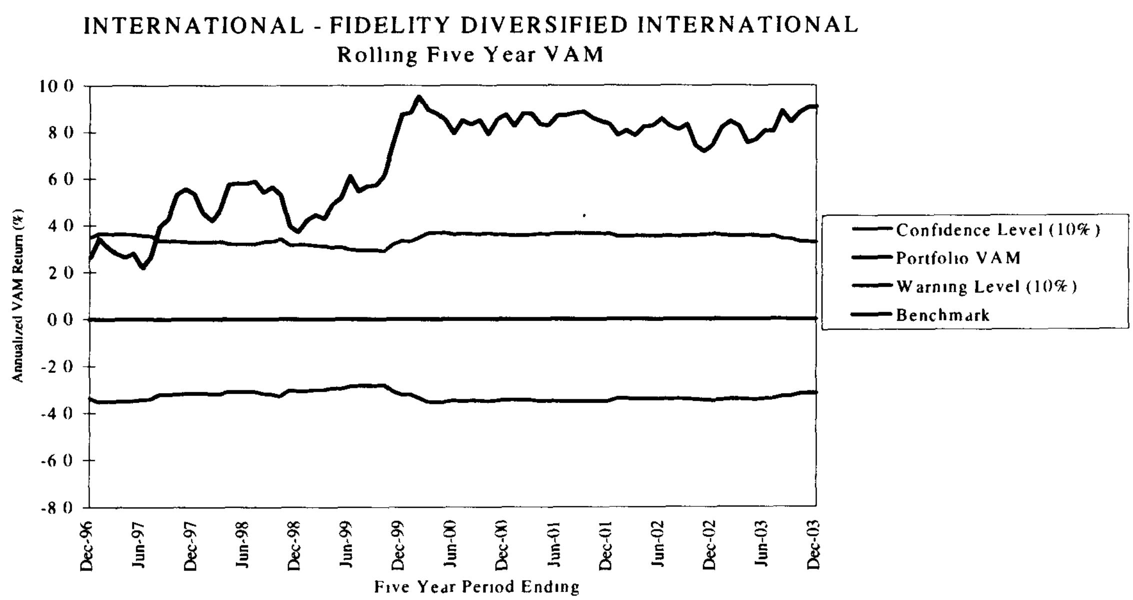
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	15.2%	17.1%
Last 1 year	42.4	38.6
Last 2 years	13.6	8.1
Last 3 years	3.9	-2.9
Last 4 years	0.5	-5.8
Last 5 years	9.0	-0.1
Since Retention By SBI (7/99)	7.8	-0.9

*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, 2003

Total Assets in MN Fixed Fund: $518,303,873 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $662,694,795 **
**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: $206,619,160

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: $120,839,046

Assets in Prior MN 457 Plan: $46,943,994

Total Assets: $167,783,040

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: $85,165,147

Assets in Prior MN 457 Plan: $97,446,928

Total Assets: $182,612,074

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, 2003

Current Quarter

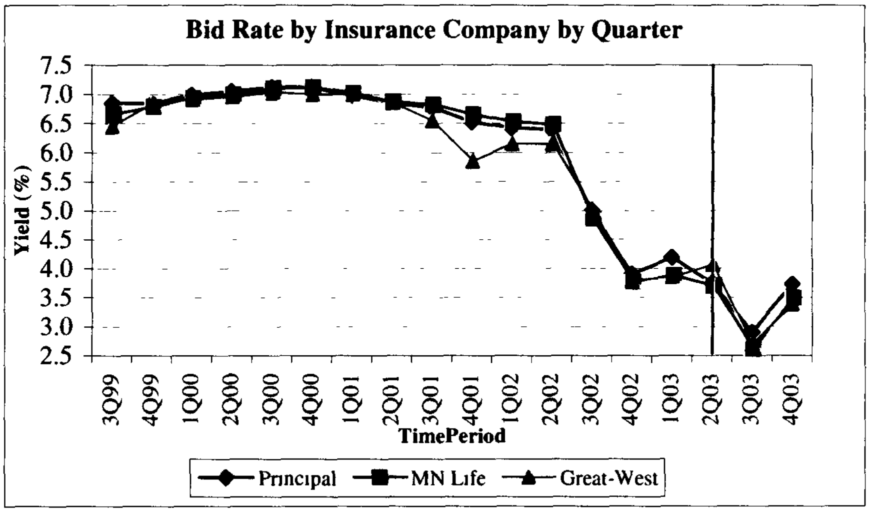
Dollar Amount of Bid: $31,400,000 **Blended Rate: 5.13%**

Bid Rates:

Principal Life	3.73%	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	3.49%	
Great-West Life	3.38%	

Dollar Amount in existing Minnesota Life portfolio: $46,943,994

Rate on existing Minnesota Life portfolio: 4.80 %



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.

	1Q03	2Q03	3Q03	4Q03
Principal Life	100.0%	0.0%	75.0%	75.0%
Minnesota Life	0.0%	0.0%	0.0%	25.0%
Great-West Life	0.0%	100.0%	25.0%	0.0%

Staff Comments

For the fourth quarter, Principal received 75% of the bid dollars and Minnesota Life received 25%.

Tab F

COMMITTEE REPORT

DATE: February 24, 2004

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on February 12, 2004 to review the following information and action agenda items:

- Review of current strategy
- New investments with five existing managers:
  1. TA Associates Realty
  2. Goldner Hawn Johnson & Morrison
  3. Hellman & Friedman.
  4. Merit Capital Partners (formerly William Blair Mezzanine)
  5. Summit 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 12% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity, resource, and yield-oriented investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

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

- The private equity investment strategy, which includes leveraged buyouts and venture capital, is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location.

- The strategy for resource investments is to establish and maintain a portfolio of resource investment vehicles that provide an inflation hedge and additional diversification. Resource investments will include oil and gas investments, energy service industry investments and other investments that are diversified geographically and by type.

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

ACTION ITEMS

1) Investment with an existing real estate manager, TA Associates Realty, in TA Realty Associates Fund VII.

TA Associates Realty is seeking investors for a new $750 million real estate fund. This fund is a successor to other similar real estate funds managed by TA Associates Realty. The SBI has invested in four prior TA Associates Realty funds This fund, like the prior funds, will seek to earn attractive returns through investments in broadly diversified real estate investments.

More information on TA Realty Associates Fund VII, 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 $75 million or 20%, whichever is less, in TA Realty Associates Fund VII. 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 TA Associates Realty 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 TA Associates Realty or reduction or termination of the commitment.

2) **Investment with an existing private equity manager, Goldner Hawn Johnson & Morrison (GHJM), in GHJM Marathon Fund V, L.P.**

GHJM is seeking investors for a new $350 million private equity fund. This fund is a successor to the other private equity funds managed by GHJM including Fund IV in which the SBI has an investment. This fund, like the prior funds, will seek to earn attractive returns through private equity investments in middle market companies.

More information on GHJM Marathon Fund V, L.P. is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in GHJM Marathon Fund V, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by GHJM 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 GHJM or reduction or termination of the commitment.

3) **Investment with an existing private equity manager, Hellman & Friedman, in Hellman & Friedman Capital Partners V.**

Hellman & Friedman is seeking investors for a new $3 billion private equity fund. This fund is a successor to the four other private equity funds managed by Hellman & Friedman. The SBI has investments in two other Hellman & Friedman funds. This fund, like the prior funds, will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Hellman & Friedman Capital Partners V is included as **Attachment E**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $200 million or 20%, whichever is less, in Hellman & Friedman Capital Partners V. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any

liability for reliance by Hellman & Friedman upon this approval. Until 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 Hellman & Friedman or reduction or termination of the commitment.

4) **Investment with an existing yield-oriented manager, Merit Capital Partners (formerly William Blair Mezzanine), in Merit Mezzanine Fund IV, L.P.**

Merit Capital Partners is seeking investors for a new $425 million yield-oriented fund. This fund is a successor to other similar yield-oriented funds managed by Merit Capital Partners. The SBI has invested in one prior Merit Capital Partners fund. This fund, like the prior funds, will seek to earn attractive returns through investments in a diversified portfolio of yield-oriented mezzanine investment opportunities.

More information on Merit Mezzanine Fund IV, L P. is included as **Attachment F**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Merit Mezzanine Fund IV, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Merit Capital 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 Merit Capital Partners or reduction or termination of the commitment.

5) **Investment with an existing yield-oriented manager, Summit Partners, in Summit Subordinated Debt Fund III.**

Summit Partners is seeking investors for a new $400 million yield-oriented fund. This fund is a successor to the other yield-oriented funds managed by Summit Partners and, like the prior funds, will seek to earn attractive returns through a diversified portfolio of yield-oriented subordinated debt investments. The SBI has invested in two prior Summit Subordinated Debt funds.

More information on Summit Subordinated Debt Fund III is included as **Attachment G**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Summit Subordinated Debt Fund III. 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 Summit 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 Summit Partners or reduction or termination of the commitment.

Minnesota State Board of Investment

Pooled Alternative Investments
Combined Retirement Funds
December 31, 2003

Basic Retirement Funds Market Value	$18,434,935,220
Post Retirement Fund Market Value	$18,162,017,127
Amount Available for Investment	**$1,819,545,865**

	Current Level	Target Level	Difference
Market Value (MV)	$3,125,136,474	$4,944,682,338	$1,819,545,865
MV +Unfunded	$4,569,439,157	$7,417,023,507	$2,847,584,351

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$1,451,183,254	$885,791,254	$2,336,974,508
Real Estate	$649,172,910	$16,873,271	$666,046,181
Resource	$251,747,163	$142,130,897	$393,878,060
Yield-Oriented	$773,033,147	$399,507,261	$1,172,540,408
Total	$3,125,136,474	$1,444,302,683	$4,569,439,157

ATTACHMENT B

Minnesota State Board of Investment
- Alternative Investments -

As of December 31, 2003

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
Colony Capital							
Colony Investors II	80,000,000	78,482,328	3,758,394	83,222,200	1,517,672	3 77	8 75
Colony Investors III	100,000,000	100,000,000	44,387,987	86,277,673	0	9 80	6 00
Equity Office Properties Trust	258,062,214	258,062,214	110,899,566	359,366,802	0	15 32	12 10
Heitman							
Heitman Advisory Fund II	30,000,000	30,000,000	26,381	43,528,725	0	3 97	18 11
Heitman Advisory Fund V	20,000,000	20,000,000	1,084,944	34,356,290	0	8 56	12 07
Lasalle Income Parking Fund	15,000,000	14,644,401	1,507,320	28,197,193	355,599	11 72	12 28
Lend Lease Real Estate Investments	40,000,000	40,000,000	152,063,316	5,990,278	0	6 52	22 22
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	30,251,072	55,896,154	0	12 05	9 58
Realty Associates Fund IV	50,000,000	50,000,000	46,803,249	40,846,688	0	11 90	6 91
Realty Associates Fund V	50,000,000	50,000,000	52,782,800	14,646,025	0	9 13	4 60
Realty Associates Fund VI	50,000,000	35,000,000	31,899,136	3,949,976	15,000,000	6 17	1 51
UBS Realty	42,376,529	42,376,529	173,708,745	0	0	7 26	21 67
Real Estate Total	775,438,743	758,565,472	649,172,910	756,278,005	16,873,271		
Resource							
Apache Corp III	30,000,000	30,000,000	6,065,790	48,394,256	0	12 08	17 00
First Reserve							
First Reserve I	15,000,000	15,000,000	72,561	14,552,526	0	-0 24	22 25
First Reserve II	7,000,000	7,000,000	114,215	14,879,948	0	5 97	20 90
First Reserve V	16,800,000	16,800,000	195,350	50,261,377	0	16 22	13 67
First Reserve VII	40,000,000	40,000,000	24,437,234	32,624,672	0	9 91	7 50
First Reserve VIII	100,000,000	100,000,000	86,705,419	57,668,718	0	11 50	5 67
First Reserve IX	100,000,000	70,364,430	64,803,754	2,181,818	29,635,570	-3 78	2 73
First Reserve X	100,000,000	0	0	0	100,000,000	N/A	0 00
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	3,727,529	29,659,989	2,293,371	9 91	12 40
Simmons - SCF Fund III	25,000,000	23,342,086	27,143,395	32,776,662	1,657,914	18 76	8 50
Simmons - SCF Fund IV	50,000,000	41,455,957	31,773,915	26,263,325	8,544,043	8 28	5 75
T. Rowe Price	21,888,430	21,888,430	6,708,000	10,154,374	0	-16 45	N/A
Resource Total	522,688,430	380,557,533	251,747,163	319,417,666	142,130,897		
Yield-Oriented							
Carbon Capital	50,000,000	26,965,544	27,207,561	3,118,278	23,034,456	13 61	1 63
CT Mezzanine Partners	100,000,000	36,956,255	19,360,040	27,852,720	63,043,745	17 53	2 28
Churchill Capital Partners II	20,000,000	19,977,338	2,435,986	24,999,698	22,662	10 30	11 18
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	10,405,568	44,176,104	0	10 47	9 00
Citicorp Mezzanine III	100,000,000	58,525,852	46,095,900	26,517,093	41,474,148	13 56	4 16
DLJ Investment Partners II	50,000,000	17,602,999	11,137,676	13,860,675	32,397,001	9 21	4 00
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	83,016,826	77,027,293	13,304,384	16,983,174	5 21	3 83
GS Mezzanine Partners III	75,000,000	6,455,083	6,455,083	0	68,544,917	N/A	0 47
GTCR Capital Partners	80,000,000	69,589,422	47,537,411	31,727,252	10,410,578	5 13	4 13
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fund II	13,500,000	13,397,500	4,609,063	16,721,805	102,500	9 76	8 43
Institutional Commercial Mortgage Fund III	21,500,000	21,275,052	18,847,534	13,250,582	224,948	8 33	7 08
Institutional Commercial Mortgage Fund IV	14,300,000	14,300,000	12,488,597	7,541,582	0	8 23	6 00
Institutional Commercial Mortgage Fund V	37,200,000	37,200,000	36,157,318	10,813,339	0	8 59	4 42
KB Mezzanine Partners Fund II	25,000,000	24,999,999	4,458,006	7,151,873	1	-19 08	8 25
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	38,352,307	17,405,297	0	19 32	7 50
Merit Energy Partners C	50,000,000	49,999,999	79,025,582	6,455,320	1	21 98	5 17
Merit Energy Partners D	88,000,000	84,491,965	92,676,835	1,477,056	3,508,035	12 91	2 60
Prudential Capital Partners	100,000,000	57,782,185	56,196,526	7,335,701	42,217,815	6 18	2 70
Summit Sub Debt Fund II	45,000,000	39,375,000	23,753,377	59,688,836	5,625,000	59 11	6 41
T Rowe Price	52,990,378	52,990,378	146,000	51,844,812	0	-11 53	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	37,130,039	12,022,267	42,963,482	2,869,961	14 20	7 75
TCW/Crescent Mezzanine Partner II	100,000,000	87,479,046	36,294,833	78,279,171	12,520,954	10 53	5 10
TCW/Crescent Mezzanine Partners III	75,000,000	41,090,580	39,408,165	11,447,219	33,909,420	17 53	2 75
William Blair Mezz Fund III	60,000,000	49,101,600	37,169,846	17,102,400	10,898,400	4 35	4 00
Windjammer Mezz. & Equity Fund II	66,708,861	34,989,315	33,764,374	3,699,730	31,719,546	3 92	3 75
Yield-Oriented Total	1,428,199,239	1,028,691,978	773,033,147	538,734,411	399,507,261		

Minnesota State Board of Investment
- Alternative Investments -

As of December 31, 2003

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
<u>Private Equity</u>							
Adams Street (formerly Brinson Partners)							
Adams Street Fund I	5,000,000	3,800,000	273,630	9,190 116	1,200,000	13 28	15 64
Adams Street Fund II	20,000,000	20 000,000	749,668	37,286,517	0	24 14	13 09
Bank Fund							
Banc Fund IV	25,000,000	25,000,000	18,232,592	32,913 660	0	14 20	7 87
Banc Fund V	48,000,000	48,000,000	61,305,360	10,726,912	0	12 71	5 46
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	5,721,475	90,554,100	2,728,810	34 20	10 11
Blackstone Capital Partners IV	70,000,000	14,762,853	14,762,853	205	55,237,147	-2 95	1 47
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	48,772,544	35,603,461	26,257,374	1,227,456	2 88	5 02
Blum Strategic Partners II	50,000,000	29,120,173	22,141,623	6,796,006	20,879,827	-0 41	2 45
Citigroup Venture Capital	100,000,000	41,945,829	29,276,535	17,441 824	58,054,171	7 37	2 05
Contrarian Capital Fund II	37,000,000	33,244,395	27,894,836	11,093,911	3,755,605	2 76	6 58
Coral Partners							
Coral Partners Fund II	10,000,000	8,069,315	385,579	36,553 687	1,930,685	24 93	13 43
Coral Partners Fund IV	15,000,000	15,000,000	5,554,683	10,744,034	0	2 16	9 45
Coral Partners Fund V	15,000,000	14,625 000	7,947,656	152 481	375,000	-15 45	5 54
Crescendo Ventures							
Crescendo II	15 000,000	15,000,000	2,285,481	20,347,039	0	23 36	7 00
Crescendo III	25,000,000	25,000,000	3,703,212	8,084,795	0	-27 73	5 15
Crescendo IV	101,500,000	78,662 500	27,118,818	292,567	22,837,500	-35 98	3 81
DLJ/CSFB							
Merchant Banking Partners III	125,000,000	83,595,825	77,831,165	15,916,691	41,404,175	2 27	3 25
Strategic Partners	100,000 000	67,787,380	38,117,745	42,088,006	32,212,620	10 93	2 95
Strategic Partners II	100,000,000	30,505,505	26,645,526	3,934,773	69,494,495	N/A	0 45
DSV Partners IV	10,000,000	10,000,000	1,262,169	27,596,934	0	9 50	18 72
First Century Partners III	10,000,000	10,000,000	979,162	15,098,689	0	8 05	19 04
Fox Paine Capital							
Fox Paine Capital Fund I	40,000,000	40,000,000	48 394,960	0	0	4 67	5 69
Fox Paine Capital Fund II	50 000,000	28,203,727	19,863,868	4,903,712	21,796,273	-13 98	3 50
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000 000	4,364,149	55,950,902	0	30 11	16 17
Golder, Thoma, Cressey & Rauner Fund IV	20,000 000	20,000,000	237,271	41,020,323	0	24 88	9 91
Golder, Thoma, Cressey & Rauner Fund V	30,000 000	30,000,000	17,156,421	25,769,093	0	8 41	7 50
GTCR Golder Rauner							
GTCR Fund VI	90,000 000	89 137,778	39,853,383	49,263,209	862,222	-0 01	5 50
GTCR Fund VII	175,000 000	124 031,250	100,040,585	34,299,153	50,968,750	4 25	3 90
GS Capital Partners 2000	50,000 000	32 815,136	30,876,394	1,311,795	17,184,864	-1 58	3 33
GHJM Marathon Fund IV	40,000 000	33 481,000	11,299,525	29,521 800	6,519,000	4 53	4 71
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113 684	5,308,678	59,050,221	7,886,316	33 59	9 28
Hellman & Friedman Capital Partners IV	150,000 000	100,273,735	75,180,117	36,659,565	49,726,265	10 20	4 00
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	12,390,836	202,853,074	0	28 04	17 71
KKR 1987 Fund	145,950,000	145,373,652	54,027,086	345,591,206	576,348	8 84	16 10
KKR 1993 Fund	150,000,000	150,000,000	28,478,681	267,416,234	0	16 30	10 03
KKR 1996 Fund	200,000,000	200,000,000	150,917,076	153,644,954	0	11 19	7 33
KKR Millenium Fund	200,000,000	21,598 000	20,838,000	774,670	178,402,000	-16 56	1 06
Lumina Ventures	30,000 000	4 500,000	3,658,451	0	25,500,000	-25 74	1 15
Matrix Fund III	10,000 000	10,000,000	321,064	77,327,244	0	75 13	13 65
Piper Jaffray Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	10,000 000	7,180,704	1,648,415	0	-2 72	6 83
Piper Jaffray Healthcare Fund III	20,000,000	18,800,002	10,766,267	2,494,843	1,199,998	-11 67	4 94
Piper Jaffray Healthcare Fund IV	10 000,000	1,541 035	1,461,276	4,891	8,458,965	N/A	0 27
Summit Ventures							
Summit Venture I	10 000 000	10 000,000	11,765	20,369,277	0	13 17	19 04
Summit Ventures II	30,000,000	28,500,000	198,087	74,422,009	1,500,000	28 82	15 64
Summit Ventures V	25,000 000	22,875,000	10,510,725	10,722,032	2,125,000	-2 75	5 75
T Rowe Price	569,804 913	569,804,913	57,138,927	532,836,816	0	7 26	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000 000	33,915,000	19,558,168	7,018 738	1,085,000	-6 83	5 36
Thoma Cressey Fund VII	50,000 000	18 250,000	17,151,357	1,243,656	31,750,000	0 63	3 35
Vestar Capital Partners IV	55,000 000	26,187,238	15,175,161	8 349,709	28,812,762	-5 42	4 04
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	46,160,418	187,992,281	0	49 69	9 00
Warburg, Pincus Equity Partners	100,000,000	100,000,000	62,311,103	47 610,255	0	3 21	5 51
Warburg Pincus Private Equity VIII	100,000,000	36 000,000	32,650,271	4,446,150	64 000,000	1 57	1 71
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	99 000,000	69,765,597	0	1,000,000	-8 31	5 44
Welsh, Carson, Anderson & Stowe IX	125,000,000	75,000,000	47,211 462	21 241,816	50,000,000	-5 03	3 51
William Blair Capital Partners	50,000,000	24,900,000	22,733,999	0	25,100,000	-6 56	2 81
Zell/Chilmark Fund L P	30,000 000	30 000 000	198,194	76 414,975	0	17 67	13 47
Private Equity Total	3,804,620,252	2,918,828 998	1,451 183,254	2,805 243,339	885,791,254		

REAL ESTATE MANAGER PROFILE

I. Background Data

Name of Fund:	The Realty Associates Fund VII
Type of Fund:	Real Estate Limited Partnership
Total Fund Size:	$750 million
Fund Manager:	TA Associates Realty 28 State Street Boston, MA 02109 Phone (617) 476-2700 Fax (617) 476-2799
Manager Contact:	Michael A. Ruane

II. Organization and Staff

TA Associates Realty (TA) was formed in 1983. TA currently has 21 key executives and a total staff of fifty-one in the primary functional areas of acquisitions, portfolio management, finance and accounting.

Property management at the local level is typically administered through third party contractors. These contractors are responsible for all aspects of the day to day operations and are overseen by the asset management group at TA.

The Realty Associates Fund VII is the seventh commingled, closed-end fund for TA. Total real estate assets under management, including both commingled and separate accounts, exceeds $7 billion.

III. Investment Strategy

The investment strategy of The Realty Associates Fund VII is to create portfolios that are diversified as to property type, location, age, lease, structure, tenant size, credit and type of business. The portfolios primarily consist of office, industrial, multifamily and retail properties.

There will be not more than 35% of the Capital Commitments in any one market, nor more than 20% in any one property. Small to medium-sized properties generally ranging from

$10 to $40 million per property are the planned typical investment Leverage will not exceed 50% of the value of the real estate investments at the time the indebtedness is incurred.

IV. Investment Performance

Previous fund performance as of December 31, 2003 for the SBI's investments with TA Realty is shown below :

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Realty Assoc. VI	2003	$738 million	$50 million	6.2%
Realty Assoc. V	1999	$562 million	$50 million	9.1%
Realty Assoc. IV	1996	$450 million	$50 million	11.9%
Realty Assoc. III	1994	$487 million	$40 million	12.1%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. Takedown Schedule

Capital will be called as needed.

VI. Management Fee

Year	*Fee*	*Basis*
1	.500%	Committed Capital
2	.800%	Committed Capital
3	1.100%	Committed Capital
4	1.200%	Committed Capital
5	.875%	Aggregate Invested Equity
6	.850%	Aggregate Invested Equity
7	.800%	Aggregate Invested Equity
8 and thereafter	.600%	Aggregate Invested Equity

VII. Term

The acquisition period will last between two and four years depending on the ultimate size of the fund and the state of the real estate markets during the acquisition phase. Liquidation is expected within ten years from being fully invested.

VIII. Distributions

Distributions are made quarterly at the discretion of the advisor, after appropriate reserves are established. The advisor may reinvest proceeds from sales or debt financing during the two to four year property acquisition period.

Distributions are allocated 100% to the investors until they have received a return of capital and an annual compound preference return equal to inflation. Thereafter, distributions will be shared 95% to investors and 5% to the advisor.

At 1% real, all income is divided 94.0% to the investor and 6.0% to the advisor;

At 2% real, all income is divided 92.5% to the investors and 7.5% to the advisor;

At 3% real, all income is divided 90.5% to the investors and 9.5% to the advisor;

At 4% real, all income is divided 88.5% to the investors and 11.5% to the advisor;

At 5% real, all income is divided 86.5% to the investors and 13.5% to the advisor;

At 6% real, all income is divided 84.5% to the investors and 15.5% to the advisor;

At 7% real, all income is divided 82.5% to the investors and 17.5% to the advisor;

At 8% real and thereafter, all income is divided 80% to the investors and 20% to the advisor.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Marathon Fund Limited Partnership V
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$350 million
Fund Manager:	Marathon Fund Limited Partnership V Goldner Hawn Johnson and Morrison Inc. 5250 Wells Fargo Center Minneapolis, Minnesota 55402 Telephone: (612) 338-5912 Facsimile: (612) 338-2860
Manager Contact:	Mike Israel

II. Organization & Staff

The Sponsor of the partnership is Goldner Hawn Johnson & Morrison Incorporated (GHJ&M), a Minneapolis-based private equity investment firm specializing in investing in middle market businesses. Van Zandt Hawn, Timothy Johnson, John Morrison and Michael Sweeney are the Managing Directors of the Sponsor. A team of investment professionals that currently consists of seven individuals at the Principal, Vice President and Associate levels supports the Managing Directors.

III. Investment Strategy

GHJ&M will continue to employ the same basic investment strategy that the firm has practiced since the inception of the firm in 1989. GHJ&M will seek control equity investments of $15 to $40 million per investment in transactions with overall company enterprise values generally ranging from $50 to $250 million. Investments will be selected from a universe of high-quality middle market companies based in the Midwestern United States, with a particular focus on the Upper Midwest and/or in industry sectors concentrated in the Upper Midwest.

IV. *Investment Performance*

Previous fund performance as of December 31, 2003 for the GHJ&M funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Pre-Fund Deltak Co.	1990	$1.3 million	$0	55.4%
Funds I/II	1990	$37 million	$0	21.7%
Fund III	1996	$86 million	$0	12.0%
Fund IV	1999	$200 million	$40 million	4.5%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results

V. *General Partners Investment*

The General Partner will commit not less than 2% of aggregate Partnership commitments.

VI. *Takedown Schedule*

Commitments will be drawn down during the Commitment Period on an "as needed" basis with a minimum of ten-business days' prior written notice to the Limited Partners.

VII. *Fees*

During the Commitment Period, the Partnership will pay the General Partner an annual management fee (the "Management Fee"), payable semi-annually in advance, equal to 2% of aggregate Commitments After the expiration of the Commitment Period, the Management Fee will equal 2% of (i) the aggregate capital contributions for investments, less (ii) distributions constituting returns of capital used to fund investments and write-offs. In addition, the Management Fee will be reduced by: (i) 80% of any directors' fees, financial consulting fees or advisory fees earned by the General Partner from portfolio companies; (ii) 80% of any transaction fees paid by portfolio companies to the General Partner; and (iii) 80% of any break-up fees from transactions not completed that are paid to the General Partner.

The Partnership will reimburse the General Partner for up to $1 million of the Partnership's organizational and startup expenses

VIII. Investment Period and Term

Generally, the investment period will be six years, commencing on the date of the first closing of the Partnership.

The term of the Partnership will be ten years, but may be extended for up to a maximum of three consecutive one-year periods at the discretion of the General Partner with the consent of the Advisory Board.

IX. Distributions

Net proceeds attributable to the disposition of investments in portfolio companies, as well as distributions of securities in kind, together with any dividends or interest income received with respect to investments in portfolio companies, generally will be distributed in the following order of priority:

(a) first, 100% to all Partners in proportion to funded Commitments until the cumulative amount distributed in respect of investments then and previously disposed of equals the aggregate of the following:

(i) the funded Commitments attributable to all realized investments, plus the amount of write-down, if any, with respect to each unrealized investment written down as of that time;

(ii) the funded Commitments attributable to all organizational expenses, management fees and other expenses paid to date and allocated to realized investments and unrealized investments to the extent they are written down as of that time; and

(iii) a preferred return on amounts included in (i) and (ii) above at the rate of 8% per annum compounded annually (the "Preferred Return");

(b) second, 20% to all Partners in proportion to funded Commitments and 80% to the General Partner until such time as the General Partner has received, as its carried interest, 20% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph (b); and

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

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Hellman & Friedman Capital Partners V, L.P. ("The Fund")
Type of Fund:	Private Equity
Total Fund Size:	$3 billion
Fund Manager:	Hellman & Friedman Capital Partners V, L.P.
Manager Contact:	Mitch Cohen One Maritime Plaza, 12th Flr. San Francisco, CA 94111 415-788-5111

II. Organization and Staff

Hellman & Friedman LLC ("H&F" or the "Firm") was organized in 1984 and raised its first institutional private equity partnership in 1987. During its history, the Firm has raised and managed approximately $5 billion of committed capital and invested in over 40 companies.

III. Investment Strategy

Over their history, Hellman & Friedman has developed a focused, consistent investment philosophy that has been executed with a disciplined, but flexible approach. The foundation of this investment philosophy is the importance of concentrating on the quality of the company's business to drive investment results. Their focus is to invest in partnership with experienced management teams only in outstanding business franchises with defensible competitive positions, that generate high levels of free cash flow and that have predictable revenue growth.

Hellman & Friedman focus on making larger scale equity investments of $100 to $300+ million, primarily in the United States, with additional emphasis on opportunities in Australia and the developed markets of Europe. Their industry expertise and relationships have generally allowed them to identify opportunities early, with most investments being the result of long-term projects with significant gestation periods, not the result of auctions and intermediated processes. As a result, it is expected that HFCP V will have a limited number of investments (10 to 15), consistent with the history of the previous partnerships.

While Hellman & Friedman have a targeted philosophy about the types of businesses in which they would like to invest, they are flexible about the form and structure of their investments, which often serve as transition capital, ranging from facilitating ownership changes in privately held companies to financing growth. As a result, they have significant experience investing in non-control positions, which is often an important component for investments in many service businesses. Hellman & Friedman have also invested in a variety of transaction structures ranging from buyouts to restructurings to various types of minority investments.

IV. Investment Performance

Previous fund performance as of December 31, 2003 for Hellman & Friedman and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Hellman & Friedman IV	2000	$2.2 billion	$150 million	10%
Hellman & Friedman III	1995	$1.5 billion	$40 million	34%
Hellman & Friedman II	1991	$877 million	--	22%
Hellman & Friedman I	1987	$327 million	--	12%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results

V. General Partner's Investment

The General Partner and its affiliates will make an aggregate Commitment of at least $150 million to the Partnership.

VI. Takedown Schedule

Partners must make their capital contributions upon ten business days' written notice by the General Partner to fund Investments, Management Fees, organizational expenses and partnership expenses.

VII. Fees

The Partnership will pay a management fee ("Management Fee") to the Advisor quarterly in advance in respect of each Limited Partner. The Management Fee with respect to a Limited Partner will equal (i) 1.50% per annum of such Limited Partner's total Commitment during the Commitment Period and (ii) as of the first fiscal quarter following the earlier of the end of the Commitment Period or the formation of a successor equity partnership with investment objectives substantially similar to those of the

Partnership, 0.75% per annum of such Limited Partner's capital contributions with respect to Investments then held by the Partnership.

Limited Partners joining the Partnership at Subsequent Closings will contribute (from their Remaining Commitments) their allocable share of the Management Fee that otherwise would have been payable had all Limited Partners been admitted at the Initial Closing, plus additional amounts thereon at the prime rate plus 2% from the date such Management Fees would have been paid. Such amounts will reduce these Limited Partners' Remaining Commitments.

The Management Fee may be paid from drawdowns which will reduce Remaining Commitments or out of investment profits.

The Advisor may elect to waive a portion of Management Fees payable to it for particular periods. Such amounts will be funded by Limited Partners and invested in Investments as capital contributions are called. The Advisor or an affiliate thereof will be entitled to special allocations and distributions relating to the waived amounts as set forth in the Partnership Agreement

VIII. Allocations and Distributions

Investment profits will consist of income and gains from Investments net of all losses, Management Fees and partnership expenses. Investment profits of the Partnership generally will be allocated 80% to the Partners and 20% to the General Partner; provided that until cumulative investment profits exceed cumulative investment losses, items of investment profit and loss will be allocated to the Partners in proportion to their percentage interests in each Investment.

Net profits and losses attributable to temporary investments will be allocated among the Partners in proportion to their respective percentage interests in the Partnership.

Distributions of proceeds from the sale or other disposition of Investments generally will be made as follows: (i) the portion of the distribution representing the cost of the securities sold or otherwise disposed of will be distributed to all Partners in accordance with their percentage interests in such Investment; and (ii) the balance of the distribution, to the extent that it represents investment profits, will be made to the Partners in proportion to the allocations of such investment profits described in the Partnership Agreement.

Notwithstanding the foregoing, the amount distributable to the General Partner will be reduced to the extent that the aggregate distributions of investment profits to the General Partner would exceed 20% of the cumulative net realized investment profits of the Partnership and the General Partner will not receive any carry distribution in excess of the positive balance in its carry account after giving effect to the allocation provisions described above.

Investment profits in the form of interest or dividends, profits from the Partnership's temporary investments and certain profits from Bridge Investments, net of related expenses and losses, will be distributed from time to time in the discretion of the General Partner in proportion to the allocations described above.

The Partnership may deduct or withhold from any cash distribution any portion of such distribution to the extent of any reasonable reserves established by the General Partner for the Partnership's actual and contingent obligations, including reserves for Management Fees, partnership expenses or in connection with actual or potential Investments. Cash distributions otherwise due to a defaulting Partner are subject to offset against such defaulting Partner's obligations to the Partnership.

IX. Investment Period and Term

Commitments may be called and invested for six years from the date of the Limited Partners' initial contribution of capital to the Partnership (the "Commitment Period").

Unless terminated sooner, the Partnership will have a term of ten years from the date of the initial capital call notice. At the General Partner's discretion and with the consent of the Advisory Board, the term may be extended for two successive one-year periods to allow for the orderly termination of the Partnership. The Partnership is subject to earlier dissolution and termination upon the occurrence of certain events described in the Partnership Agreement.

YIELD-ORIENTED MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Merit Mezzanine Fund IV, L.P. ("The Fund")
Type of Fund:	Yield-Oriented
Total Fund Size:	$425 million
Fund Manager:	Merit Capital Partners IV, L.P. (formerly William Blair Mezzanine Partners)
Manager Contact:	Marc Walfish 303 West Madison St., Ste. 2100 Chicago, IL 60606 312-592-6111

II. Organization and Staff

Based in Chicago, the five senior managers of the General Partner will be Thomas F. Campion, David M. Jones, Timothy J. MacKenzie, Terrance M. Shipp and Marc J. Walfish, who managed Funds I, II and III while at William Blair Capital. In 2003, the entire William Blair mezzanine debt team decided to spin out and form Merit Capital Partners. These individuals have an average experience in the mezzanine industry of almost twenty years. Together, the principals have been integrally involved in over $1 billion of mezzanine investments.

III. Investment Strategy

Fund IV's investment objective is to provide investors with a superior risk-adjusted return by constructing a diversified portfolio of mezzanine investments providing significant current income and capital appreciation generated from the equity participation. It is anticipated that the current income component will average approximately 11% to 12% annually, with the balance of the return derived from equity-related gains.

To achieve these targeted returns, the principals will continue to pursue a strategy of proactive, value-added investing based on the following fundamental principles:

Disciplined Investing Approach and Diversification: The General Partner will adhere to the same disciplined investing philosophy its principals have employed in the past. The focus will remain on investing in stable, established, well-managed, middle-market companies demonstrating strong and consistent earnings and cash flow. The General Partner will focus on companies with defensible market positions in industries with significant barriers to entry. The target portfolio will be diversified by making approximately 20 separate investments, avoiding industry concentration while financing recapitalizations and growth situations as well as management buyouts

Unique Investment Origination Capabilities and Transaction Control: The General Partner expects the performance of Fund IV to be enhanced by its direct origination capabilities, combined with Fund IV's objective to be the lead mezzanine investor in substantially all of its investments. These two factors minimize competitive bidding situations, increasing Fund IV's ability to structure investments, set terms and obtain favorable pricing.

IV. Investment Performance

Previous fund performance as of September 30, 2003 for Merit Capital Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
William Blair Mezz. Fund III	1999	$311 million	$60 million	4%
William Blair Mezz. Fund II	1997	$190 million	--	15%
William Blair Mezz Fund I	1993	$115 million	--	15%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results.

V. General Partner's Investment

The General Partner will commit at least S7 million to Fund IV.

VI. Takedown Schedule

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

VII. Fees

Commencing on the Effective Date and during the Commitment Period, Fund IV will pay the General Partner an annual management fee (the "Management Fee") equal to 1.75% of aggregate Commitments, payable quarterly in advance. In the year immediately following the expiration of the Commitment Period, the Management Fee will be equal to 1.75% of Invested Capital (as defined in the PPM). Upon the occurrence of a "Triggering Event" (defined as the earlier of (i) the sixth anniversary of the Effective Date and (ii) the effective date of a new mezzanine fund of the type described under "Other Mezzanine Funds" in the PPM), the Management Fee will be reduced in accordance with the schedule described in the PPM.

VIII. Allocations and Distributions

Income from short-term investments (e.g., Treasury bills, certificates of deposit, etc.) will be allocated to the Capital Accounts of the Partners in proportion to their Commitments.

Portfolio interest income, dividends and gains and losses will be allocated 80% to all Partners in proportion to their Commitments and 20% to the General Partner. Organizational expenses payable by Fund IV will be allocated to all Partners in proportion to their Commitments, while the Management Fee and other Fund IV expenses generally will be allocated 80% to the Capital Accounts of all Partners in proportion to their Commitments, and 20% to the Capital Account of the General Partner.

Fund IV will pay the Management Fee and certain other expenses, including organizational expenses payable to third parties up to $750,000, portfolio expenses (such as interest, brokerage and registration), general legal, accounting and auditing expenses, and extraordinary expenses (such as litigation, if any). The General Partner will bear the normal expenses incurred in administering Fund IV, including salaries, rent, travel and other administrative expenses. Fund IV also will pay expenses relating to mezzanine transactions that are not consummated. It is anticipated that expenses incurred in connection with consummated transactions will be borne by the portfolio company. The General Partner will bear the cost (through an offset against the Management Fee or otherwise) of any placement fees payable to any placement agent in connection with the formation of Fund IV. Limited Partners will not bear any such fees.

Notwithstanding the above, income, gains, losses and expenses will be allocated as follows:

First, 100% to the accounts of all Partners in proportion to their Commitments, until such time as they have been allocated a compounded annual rate of 7% on their investment (the "Preferred Return");

Second, 100% to the General Partner until such time as the General Partner has been allocated (excluding allocations to the General Partner with respect to its Commitment) its 20% profit participation; and

Thereafter, in the manner described in the section above (See "Allocation of Income, Gains, Losses & Expenses"); that is, generally 80% to all Partners in proportion to their Commitments and 20% to the General Partner.

IX. Investment Period and Term

The Fund will have a five-year investment period and a term of ten years, with discretion of the General Partner to extend the term for not more than three one-year periods to allow for the orderly termination and liquidation of Fund IV's investments.

YIELD-ORIENTED MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Summit Subordinated Debt Fund III, L.P. ("The Fund")
Type of Fund:	Yield-Oriented
Total Fund Size:	$400 million
Fund Manager:	Summit Partners SD III, L.P.
Manager Contact:	Marty Mannion 222 Berkeley St., 18th Floor Boston MA 02116 617-824-1010

II. Organization and Staff

Summit Partners ("Summit" or the "Firm") is a global private equity and venture capital firm that invests principally in private and profitable emerging growth companies. The General Partners of Summit have managed eight private equity funds with combined capital of approximately $4.6 billion, and two subordinated debt funds with combined capital of $476 million.

Summit's Managing Partners have been with Summit for an average of 16 years, with the average tenure of all Partners (excluding the Founding Managing Partners) being 13 years. Summit currently has a staff of more than 50 investment professionals.

III. Investment Strategy

The objective of the Fund is to continue the investment strategy implemented by Summit Subordinated Debt Fund, L.P. and Summit Subordinated Debt Fund II, L.P. Investments by the Fund will generally be made in connection with the acquisition or recapitalization of growing middle-market private companies or divisions/subsidiaries of larger companies. In general, these acquisitions or recapitalizations will use a prudent amount of leverage to enhance potential returns to the Partners. Typically, the financial structure of these transactions will include senior debt, subordinated debt, and equity. Summit has significant experience developing capital structures to satisfy the long-term strategic and financial goals of portfolio companies while optimizing the risk/reward characteristics of its investments.

Banks and other financial institutions will typically provide the senior debt portion of the capital structure. The collateral value of the company's assets and the level of annual operating cash flow available to service senior debt will generally determine the amount of senior debt. Senior lenders will be entitled to receive principal and interest payments before most other creditors, and the portfolio company's assets will generally secure senior debt. Senior lenders will occasionally have a small equity interest in the portfolio company.

The subordinated debt layer of the capital structure of a portfolio company will typically consist of unsecured subordinated debt, redeemable preferred securities, or similar interests carrying a current coupon, together with equity participation rights. The subordinated debt or similar security instrument will generally receive higher interest rates and substantially more equity than senior lenders. The equity component may be in the form of common stock, warrants, or, occasionally, convertible securities. The terms and specific risk/return profiles of the subordinated debt securities are likely to vary from transaction to transaction. On occasion, the Fund may invest in preferred stock with dividends paid currently or accrued and paid at maturity.

IV. Investment Performance

Previous fund performance as of September 30, 2003 for Summit Partners Subordinated Debt and the SBI's investments with previous funds, where applicable. is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Summit Subordinated Debt Fund II	1997	$335 million	$45 million	59%
Summit Subordinated Debt Fund I	1994	$141 million	$20 million	31%

Previous Fund investments may be relatively immature and therefore, returns may not be indicative of future results

V. General Partner's Investment

The General Partner (together with its affiliates) will contribute a minimum of $8 million, either directly or through parallel partnerships.

VI. Takedown Schedule

Limited Partners will make their capital contributions in installments as called by the General Partner on not less then 10 business days' notice.

VII. Fees

The Partnership will pay the General Partner an annual management fee equal to 0.5 percent of the aggregate committed capital of the Partnership plus one percent of the aggregate capital contributed to the Partnership. In years 8, 9, and 10, the annual management fee will be reduced by 10 percent each year. These fees will be reduced by directors' fees, consulting fees, or any transaction fees paid by portfolio companies to the General Partner. Summit Partners, L.P. (the "Management Company"), an affiliate of the General Partner, will provide management and administrative services to the Partnership.

VIII. Allocations and Distributions

Distributions will generally be made in the following order of priority:

First, 100 percent to the Partners in proportion to their paid-in capital contributions until they have received distributions equal in value to a return of 8 percent per annum, calculated as simple interest from the relevant draw-down dates to the dates of distribution, on their paid-in capital contributions (the "Preferential Return");

Second, 100 percent to the Partners in proportion to their paid-in capital contributions until they have received distributions equal in value to the sum of (i) the Fund's cost basis in any investments disposed of at or before the date of distribution, (ii) any write-downs below cost of investments held by the Fund as of the date of distribution, net of any write-ups (determined on a portfolio basis), and (iii) the aggregate amount of paid-in capital contributions used to meet expenses or liabilities of the Fund;

Third, 100 percent to the General Partner until it has received additional distributions (its "Carried Interest") equal to 20 percent of the aggregate amounts distributed to Partners other than distributions made to Partners pursuant to clause Second; and

Fourth, thereafter, 80 percent to the Partners in accordance with their paid-in capital contributions and 20 percent to the General Partner as Carried Interest distributions.

Distributions relating to the Fund's disposition of only a part of an investment will be subject to the formula set forth above, based on the original cost of the disposed portion of that investment. The Fund may make distributions to all Partners in amounts intended to defray the tax liabilities attributable to their interests in the Fund, to the extent that the other distributions described above are insufficient. On liquidation, distributions will be made to all Partners in proportion to the positive balances in their respective capital accounts.

IX. Investment Period and Term

The term of the Partnership will be 10 years, with an option to extend for two additional periods consisting of two years each, at the General Partner's discretion with the consent of two-thirds in interest of the Limited Partners.