MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 2, 2005

&

INVESTMENT ADVISORY
COUNCIL MEETING
March 1, 2005

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

March 2, 2005

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, March 2, 2005
9:00 A.M. - Room 318
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of December 8, 2004	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2004 – December 31, 2004)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Results of FY04 Financial Audit	
3. Legislative Update	
4. Litigation Update	
5. Update Concerning Pharmaceutical Company Shareholder Resolutions	
6. Roundtable on China	
3. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**C**
1. Review of manager performance	
2. Update on International Equity Program	
3. Increased non-dollar and below investment grade debt authority for Goldman Sachs and Dodge and Cox	
4. Recommendation to grant emerging markets equity managers the authority to cross-hedge currencies	
B. Alternative Investment Committee	**D**
1. Review of current strategy	
2. Recommendation of new investments with four existing managers: • Merit Energy Company • The Banc Funds Company • Blum Capital Partners • Chicago Growth Partners	
3. Recommendation of a new investment with one new manager: • Elevation Associates	

Minutes
State Board of Investment
December 8, 2004

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, December 8, 2004 in Room 123 State Capitol, St. Paul, Minnesota. Governor Tim Pawlenty; State Auditor Patricia Anderson; Secretary of State Mary Kiffmeyer; and Attorney General Mike Hatch were present. The minutes of the September 8, 2004 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, 2004 (Combined Funds 9.4% vs. Composite 9.1%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.8% vs. CPI 3.0%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.5% vs. Composite 9.3%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 9.1% vs. Composite 8.8%).

Mr. Bicker reported that the Basic Fund's assets decreased 0.6% for the quarter ending September 30, 2004 due to negative net contributions. He said that the asset mix is essentially on target. He reported that the Basic Funds matched its composite index for the quarter (Basic Funds 0.5% vs. Composite 0.5%) and outperformed it for the year (Basic Funds 13.8% vs. Composite 13.4%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 0.6% for the quarter ending September 30, 2004, also due to negative net contributions. He said the Post Fund asset mix is on target. He stated that the Post Fund outperformed its composite index for the quarter (Post Fund 0.2% vs. Composite 0.1%) and for the year (Post Fund 13.0% vs. Composite 12.3%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock –1.7% vs. Domestic Equity Asset Class Target –1.9%) and matched it for the year (Domestic Stocks 14.3% vs. Domestic Equity Asset Class Target 14.3%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 0.8% vs. International Equity Asset Class Target 1.0%) and for the year (International Stocks 21.6% vs. International Equity Asset Class Target 22.7%). Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 3.2% vs. Fixed Income Asset Class Target 3.2%) and outperformed it for the year (Bonds 4.7% vs. Fixed Income Asset Class Target 3.7%). He concluded his report with the comment that as of September 30, 2004, the SBI was responsible for over $45 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. He reported that the Post Retirement benefit increase, effective January 1, 2005, is 2.5%. He noted that this is the inflation component of the increase and that there is no investment component for the increase this year.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is involved in four securities cases, two in which the State is serving as lead plaintiff in class actions and two in which the State has opted out of the class action. She said the class action case involving Broadcom is close to coming to trial. She noted that some SBI staff members may participate in witness preparation training. Ms. Eller reported that the second-class action case is against AOL Time Warner. She said this case is in its early stages and that the State is filing its response to the first round of discovery. She added that the state will be reviewing the possibility of amending the complaint due to restatements being announced by AOL. Ms. Eller stated that the State opted out of the class action involving McKesson and that the federal trial is scheduled for October 2005, so she expects the state trial to follow. She noted that there still has not been a ruling on the class certification in the federal trial. Ms. Eller reported that the second opt-out case is with WorldCom, and she said that the State filed its responses to discovery earlier this month. She noted that several large bond holders like the SBI had opted out in hopes of getting a better settlement.

Mr. Bicker reported that SBI staff had submitted the pharmaceutical shareholder resolution with Eli Lilly, Merck, Pfizer and Wyeth, as directed by the Board at its September 7. 2004 meeting. He stated that staff has received responses from three of the firms and that two firms wish to meet with the Proxy Committee for further discussions in January 2005.

Mr. Bicker stated that the Legislative Auditor is nearly finished with its annual audit of the SBI's operations and that he expects a clean audit opinion. He concluded his report by noting that a draft of the Annual Report had been distributed for comments and he also noted the tentative meeting dates for calendar year 2005.

Administrative Committee Report
Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee had met during the quarter to discuss four potential issues for the 2005 legislative session. He said that the retirement systems are proposing a 5% cap on the annual Post Retirement Fund benefit increase, and he said that the Committee is recommending that staff work with the retirement systems on this legislative proposal. Ms. Anderson moved approval of the Committee's recommendation, as stated in the Committee Report which reads: **"The SBI Administrative Committee recommends that the SBI authorize staff to work with the retirement systems on a legislative proposal seeking to cap the Post Fund benefit increase at 5% annually."** The motion passed.

Mr. Sausen said that the retirement systems are also proposing a change in the SBI's budgetary process that would allow the SBI to directly bill operating costs to the retirement systems and other agencies for which assets are invested and to seek an appropriation only for the general fund portion of the SBI's budget. He added that it is proposed that the three retirement system directors also be made members of the Administrative Committee. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "**The SBI Administrative Committee recommends that the SBI authorize staff to request legislation be introduced to change the budget process for the SBI.**" The motion passed.

Mr. Sausen reported that the IAC and the retirement systems have expressed concern over staff turnover, and he said the IAC and the retirement systems are suggesting that the Board seek authority to establish its own compensation plan. He stated that the Administrative Committee took no action on this item. He said that the Committee believes that the IAC should be given the opportunity to present its proposal to the Board, and he introduced Mr. Troutman, Chair of the IAC, to make the presentation. Mr. Troutman stated that the SBI is in the top 10% in size of public pension funds but that it ranks in the bottom quartile in terms of salary levels to attract and retain the quality personnel needed to oversee the SBI's investment program. He said that the IAC and the retirement systems are unanimously encouraging the Board to seek authority to establish its own compensation plan.

Ms. Kiffmeyer stated that she believes that the proposed changes to both the SBI's budget process and compensation plan include appropriate accountability checks and balances. Ms. Anderson stated that she is in support of the compensation recommendation proposed by the IAC and retirement systems. She added that compensation is an area that the legislature needs to address for the entire state system. Mr. Hatch stated that he believes the Board should support the staff and also be cognizant of the Board's fiduciary duty to the retirees and taxpayers. **Mr. Hatch moved approval of the IAC and retirement systems' recommendation to seek authority for the SBI to establish its own compensation plan.** The motion passed.

Mr. Sausen stated that the SBI's alternative investment program continues to be affected by the issue of data requests seeking information about the underlying portfolio companies. He added that a growing number of investment managers are no longer taking money from public funds due to this issue and that there is a possibility that managers with whom the SBI has done business in the past may no longer be interested in doing business with us unless the issue is addressed. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: **"The SBI Administrative Committee recommends that the SBI authorize the Staff to propose legislation which deems as nonpublic financial or proprietary data that SBI receives from alternative investment managers."** Mr. Hatch stated that he believes that agencies often interpret the Data Practices Act too broadly, but he said he would support the motion if the legislation maintained a narrow focus when defining nonpublic financial or proprietary data. Mr. Bicker confirmed that the language change would only apply to the SBI. The motion passed.

Domestic Equity Large-Capitalization Growth Search Committee Report
Mr. Sausen referred members to Tab D of the meeting materials and stated that a large capitalization growth manager search was conducted during the quarter. He said that the Committee interviewed six managers and that all six managers are being recommended for retention by the Committee. Ms. Anderson 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:**

Large Cap Growth Managers	**Location of Investment Team**
Domestic Equity Managers	
Enhanced Investment Technologies, LLC (INTECH)	**Princeton, NJ & Palm Beach Gardens, FL**
Jacobs Levy Equity Management	**Florham Park, NJ**
Sands Capital Management, Inc.	**Arlington, VA**
Transamerica Investment Management, LLC	**San Francisco, CA**
Emerging Managers	
Knelman Asset Management Group	**Minneapolis, MN**
Winslow Capital Management, Inc.	**Minneapolis, MN**

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 Report
Mr. Troutman referred members to Tab E of the meeting materials and briefly reviewed the performance for the quarter. He reported that the Committee is recommending that the contracts of seven current domestic equity managers be renewed. Ms. Anderson 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 the assistance from SBI's legal counsel, to negotiate and execute five year contract extensions with the following firms, subject to inclusion of a provision which provides for immediate termination.**

<u>Emerging Domestic Equity Managers:</u>
Earnest Partners, LLC
Holt-Smith & Yates Advisors
Next Century Growth Investors, LLC
Peregrine Capital Management
Voyageur Asset Management
Winslow Capital Management, Inc.

<u>Passive Domestic Equity Managers:</u>
Barclays Global Investors."

The motion passed.

Alternative Investment Committee Report
Mr. Troutman referred members to Tab F of the meeting materials and reported that the ten year returns from alternative assets is 13.7%, and he said he applauds the action the Board took earlier in the meeting regarding data privacy for alternative investments.

Mr. Troutman stated that the Committee is recommending new investments with two existing managers, Goldman Sachs Capital Partners and Credit Suisse First Boston Strategic Partners, and one new manager, Split Rock Partners. He briefly discussed the three investments. In response to questions from Mr. Hatch, Mr. Bicker stated that Split Rock was previously affiliated with St. Paul Companies and that they are now a separate entity. He stated that the St. Paul Companies would be an investor in the fund like the SBI. He noted Split Rock's strong track record, and he stated that this type of split off into a separate entity is not unusual and that several other alternative investment managers with whom the SBI invests have also started out this way. Ms. Anderson moved approval of all three of the Committee's recommendations, as stated in the Committee Report, which reads: **"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in GS Capital Partners 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 GS 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 GS Capital Partners or reduction or termination of the commitment."**

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute commitments of up to $100 million or 20%, whichever is less, in CSFB Strategic Partners III, up to $25 million or 20%, whichever is less, in CSFB Strategic Partners III RE (Real Estate) and up to $25 million or 20%, whichever is less, in CSFB Strategic Partners III VC (Venture Capital). Approval by the SBI of this potential commitment is not intended

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

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 $60 million or 20%, whichever is less, in Split Rock Partners, 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 Split Rock 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 Split Rock Partners or reduction or termination of the commitment." The motions passed.

The meeting adjourned at 9:45 A.M.

Respectfully submitted,

Howard Bicker
Executive Director

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

March 1, 2005

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, March 1, 2005
2:00 P.M. - Board Room – First Floor
60 Empire Drive
St. Paul, MN

		TAB
1.	**Approval of Minutes of December 7, 2004**	
2.	**Report from the Executive Director (Howard Bicker)**	**A**
	A. Quarterly Investment Review (October 1, 2004 – December 31, 2004)	
	B. Administrative Report 1. Reports on budget and travel 2. Results of FY04 Financial Audit 3. Legislative Update 4. Litigation Update 5. Update Concerning Pharmaceutical Company Shareholder Resolutions 6. Roundtable on China	**B**
3.	**Reports from the Investment Advisory Council (Doug Gorence)**	
	A. Stock and Bond Manager Committee 1. Review of manager performance 2. Update on International Equity Program 3. Increased non-dollar and below investment grade debt authority for Goldman Sachs and Dodge and Cox 4. Recommendation to grant emerging markets equity managers the authority to cross-hedge currencies	**C**
	B. Alternative Investment Committee (Ken Gudorf) 1. Review of current strategy. 2. Recommendation of new investments with four existing managers: • Merit Energy Company • The Banc Funds Company • Blum Capital Partners • Chicago Growth Partners 3. Recommendation of a new investment with one new manager: • Elevation Associates	**D**

Minutes
Investment Advisory Council
December 7, 2004

MEMBERS PRESENT: Frank Ahrens; Gary Austin; Dave Bergstrom; Kerry Brick; P. Jay Kiedrowski; Hon. Ken Maas; Judy Mares; Malcolm McDonald; Gary Norstrem; Mike Troutman; and Mary Vanek.

MEMBERS ABSENT: John Bohan; Doug Gorence; Ken Gudorf; Heather Johnston; Peggy Ingison; Daralyn Peifer.

SBI STAFF: Howard Bicker; Mansco Perry; Jim Heidelberg; Tammy Brusehaver-Derby; John Griebenow; Andy Christensen; Stephanie Gleeson; Susan Sutton; Debbie Griebenow; Mike Menssen; Carol Nelson; and Charlene Olson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Carla Heyl; Peter Sausen; Jerry Irsfeld, John Fisher, REAM; and Conrad DeFiebre, Star Tribune.

The minutes of the September 7, 2004 IAC 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, 2004 (Combined Funds 9.4% vs. Composite 9.1%), and had provided a real rate of return over the latest 20 year period (Combined Funds 10.8% vs. CPI 3.0%). He stated that the Basic Funds have slightly outperformed its composite index (Basic Funds 9.5% vs. Composite 9.3%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 9.1% vs. Composite 8.8%).

Mr. Bicker reported that the Basic Fund's assets decreased 0.6% for the quarter ending September 30, 2004 due to negative net contributions. He said that the asset mix is essentially on target. He reported that the Basic Funds matched its composite index for the quarter (Basic Funds 0.5% vs. Composite 0.5%) and outperformed it for the year (Basic Funds 13.8% vs. Composite 13.4%).

Mr. Bicker reported that the market value of the Post Fund's assets decreased 0.6% for the quarter ending September 30, 2004, also due to negative net contributions. He said the Post Fund asset mix is on target. He stated that the Post Fund outperformed its composite index for the quarter (Post Fund 0.2% vs. Composite 0.1%) and for the year (Post Fund 13.0% vs. Composite 12.3%).

Mr. Bicker reported that the domestic stock manager group outperformed its target for the quarter (Domestic Stock –1.7% vs. Domestic Equity Asset Class Target –1.9%) and matched it for the year (Domestic Stocks 14.3% vs. Domestic Equity Asset Class Target 14.3%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 0.8% vs. International Equity Asset Class Target 1.0%) and for the year (International Stocks 21.6% vs. International Equity Asset Class Target 22.7%) but he noted that the asset class has had strong performance due to the weak dollar. Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 3.2% vs. Fixed Income Asset Class Target 3.2%) and outperformed it for the year (Bonds 4.7% vs. Fixed Income Asset Class Target 3 7%) He concluded his report with the comment that as of September 30, 2004, the SBI was responsible for over $45 billion in assets. In response to questions from Mr. Kiedrowski, Mr. Bicker stated that negative net contributions are normal in the Basics and Post Funds due to people retiring from the Basics and annuities being paid out from the Post Fund.

Executive Director's Administrative Report
Mr Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. He reported that the Post Retirement benefit increase, effective January 1, 2005 is 2.5%. He noted that this is the inflation component of the increase and that there is no investment component for the increase this year.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She stated that the State is involved in four securities cases, two in which the State is serving as lead plaintiff in class actions and two in which the State has opted out of the class action. She said the class action case involving Broadcom is close to coming to trial. She noted that some SBI staff members may participate in witness preparation training. Ms. Eller reported that the second-class action case is against AOL Time Warner. She said this case is in its early stages and that the State is filing its response to the first round of discovery. Ms. Eller stated that the State opted out of the class action involving McKesson and that the federal trial is scheduled for October 2005, so she expects the state trial to follow in November 2005. She noted that there is a tremendous amount of discovery going on with McKesson. Ms. Eller reported that the second opt out case is with WorldCom and she said that the State filed its responses to discovery earlier this month. She noted that several large bond holders like the SBI had opted out in hopes of getting a better settlement. In response to a question from Mr. McDonald, Ms. Eller stated that large pension funds often play an enforcement role by becoming lead plaintiff and that additional dollars often can be recovered.

Mr. Bicker reported that SBI staff had submitted the pharmaceutical shareholder resolution with Eli Lilly, Merck, Pfizer and Wyeth, as directed by the Board at its September 7, 2004 meeting. He stated that staff has received responses back from three of the firms and that two firms wish to meet with the Proxy Committee for further discussions.

Mr. Bicker stated that the Legislative Auditor is nearly finished with its annual audit of the SBI's operations and that he expects a clean audit opinion He said that the Annual

Report had been distributed to members for comments, and he concluded his report by noting the tentative meeting dates for calendar year 2005.

Administrative Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Committee had met during the quarter to discuss four potential issues for the 2005 legislative session. He said that the retirement systems are proposing a 5% cap on the annual Post Retirement Fund benefit increase. In response to a question from Mr. Troutman, Mr. Sausen said that this proposal does require a change in legislation.

Mr. Sausen said that the retirement systems are also proposing a change in the SBI's budgetary process that would allow the SBI to directly bill operating costs to the retirement systems and other agencies for which assets are invested and to seek an appropriation only for the general fund portion of the SBI's budget. He noted that legislative action will be required to make this budget change.

Mr. Sausen reported that the IAC and the retirement systems have expressed concern over staff turnover, and he said the IAC and the retirement systems are suggesting that the Board seek authority to establish its own compensation plan. He stated that the Administrative Committee took no action on this item. He said that the Committee believes that the IAC should be given the opportunity to present its proposal to the Board.

Mr. Sausen stated that the SBI's alternative investment program continues to be affected by the issue of data requests seeking information about the underlying portfolio companies. He added that a growing number of investment managers are no longer taking money from public funds due to this issue and that there is a possibility that managers with whom the SBI has done business in the past may no longer be interested in doing business with us unless the issue is addressed. Mr. Sausen noted that as part of the proposed changes to the SBI's budget process discussed earlier, the recommendation is that the three retirement systems directors be added as members of the Administrative Committee. Mr. Bergstrom stated that all three retirement systems support the proposed change in the SBI's budget process. He stated that the retirement systems also support the change to the SBI's compensation plan. He noted that the SBI's Executive Director's salary level is one of the lowest in the country for investment officers. Mr. Nortstrem noted hat the SBI loses valuable staff members after they gain some experience there due to the salary restrictions.

In response to a question from Mr. Ahrens, Ms. Vanek discussed the rationale of using 5% as the cap for the Post Fund. Mr. Bergstrom noted that he expects the fund to provide only the 2.5% inflation increase for the next ten to fifteen years.

Mr. McDonald moved approval of a motion to endorse the recommendations of the Administrative Committee regarding the cap on the Post benefit increase, the changes to the SBI budget process and the proposed changes involving the alternative investments data privacy, as stated in the Committee Report. Mr. Kiedrowski seconded the motion.

Mr. Maas commented that he believes it is an excellent idea to add the retirement systems' directors to the Administrative Committee. The motion passed.

Mr. McDonald made a motion for the IAC to support the process of seeking authority to establish the SBI's own compensation plan, and that the SBI support legislative efforts made by the retirement systems. Mr. Bergstrom seconded the motion. The motion passed.

Domestic Equity Large-Capitalization Growth Search Committee Report
Mr. Sausen referred members to Tab D of the meeting materials and stated that a large capitalization growth manager search was conducted during the quarter. He said that the Committee interviewed six managers and that all six managers are being recommended for retention by the Committee. In response to questions from Mr. Troutman, Mr. Bicker stated that this search was the last part of the conversion to the Russell 3000, and as with the other segments of the Domestic Equity Program, this will allow us to reduce our exposure and reliance on one or two managers in each segment. Mr. Norstrem moved approval of the Committee recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Stock and Bond Manager Committee Report
Mr. Bergstrom referred members to Tab E of the meeting materials and briefly reviewed the performance for the quarter. He reported that the Committee is recommending that the contracts of seven current domestic equity managers be renewed Mr. Norstrem moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Mr. Bergstrom briefly reviewed the performance by manager. In response to a question from Ms. Mares, Mr. Bicker noted that in future reports the SBI will publish Russell data and not a combination of historical and Russell data in order to make the data easier to understand.

In response to a question from Mr. Maas, Mr. Bicker confirmed that the quarterly Board reports are public records. In response to a question from Mr. Troutman, Mr. Bicker stated that the structure of the international segment will be reviewed by the end of the fiscal year. Mr. Bergstrom briefly reviewed the performance of the non-retirement managers. He discussed some changes in fees being proposed by Fidelity and the impact the change could have on participants.

Alternative Investment Committee Report
Mr. McDonald referred members to Tab F of the meeting materials and he noted the returns over various periods. He stated that the Committee is recommending an investment with Goldman Sachs Capital Partners and he briefly described the fund. He noted that Goldman will only charge fees on funds employed and not on funds committed. Mr. Troutman noted the positive significance of that change in fee structure. Mr. McDonald continued by briefly describing the two other new investments, with Credit Suisse First Boston and Split Rock Partners. Ms. Mares moved approval of all

three of the Committee's recommendation, as stated in the Committee Report. Ms. Vanek seconded the motion. In response to questions from Mr. Troutman, Mr. Bicker clarified that these are not separate allocations within the alternative asset segment but that the SBI breaks out each type of investment for reporting purposes. The motion passed. In response to questions from Mr. Brick, Mr. Bicker explained the difference between the current level of investments and the target level and how the SBI reports on the levels with and without the amount of unfunded commitments.

Ms. Mares stated that she wanted to re-enforce the importance of the recommendation of the Administrative Committee regarding data privacy issues for alternative investments. She noted that alternative investments have been a very successful asset class for the SBI and that it is important to continue making investments in this area.

The meeting adjourned at 10:08 A.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 12/31/2004

COMBINED FUNDS: $39.7 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.	**10.3% (1)**	0.4 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.	**11.1%**	8.1 percentage points above CPI

BASIC RETIREMENT FUNDS: $20.2 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 Basic Funds over the latest 10 year period.	**10.4%**	0.2 percentage point above target

POST RETIREMENT FUND: $19.5 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.	**10.1%**	0.4 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, 2004

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$32.5 billion	$22.5 billion	$55.0 billion
2. Accrued Liabilities	23.9	22.5	46.4
Asset Measures			
3. Current and Future Actuarial Value	$30.8 billion	$22.5 billion	$53.3 billion
4. Current Actuarial Value	20.4	22.5	42.9
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	95%	100%	97%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	85%	100%	93%*

* 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 for Basics.

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

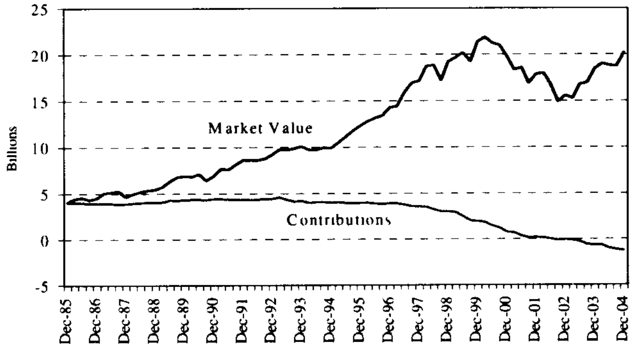
EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 7.9% during the fourth quarter of 2004. Positive investment returns accounted for the increase.

Asset Growth During Fourth Quarter 2004 (Millions)	
Beginning Value	$ 18,715
Net Contributions	-59
Investment Return	1,545
Ending Value	$ 20,201

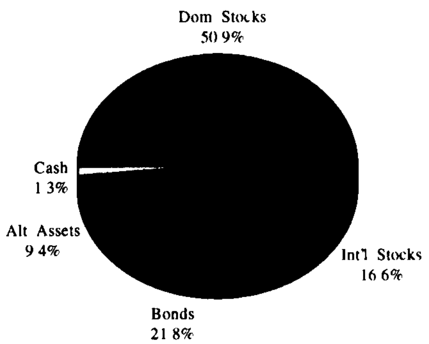


Asset Mix

The allocation to domestic and international stocks increased over the quarter due to positive returns.

	Policy Targets	Actual Mix 12/31/2004	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.9%	$10,280
Int'l. Stocks	**15.0**	16.6	3,357
Bonds	**24.0**	21.8	4,402
Alternative Assets*	**15.0**	9.4	1,901
Unallocated Cash	**1.0**	1.3	261
	100.0%	100.0%	$20,201

* Any uninvested allocation is held in domestic stocks

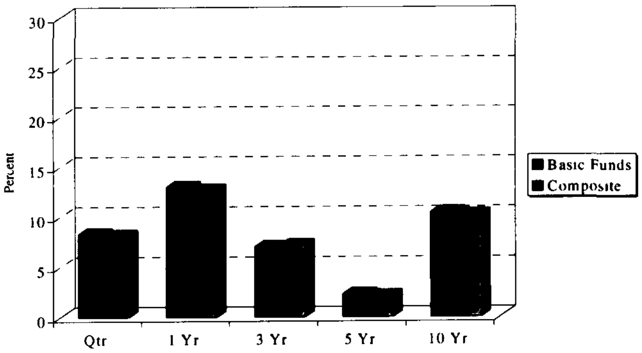


Fund Performance (Net of Fees)

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

Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr.	10 Yr.
Basics	**8.3%**	**13.0%**	**7.0%**	**2.3%**	**10.4%**
Composite	8.1	12.7	7.2	2.1	10.2

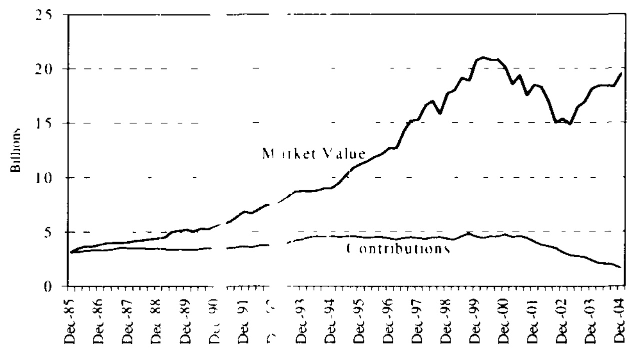


EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 6.5% during the fourth quarter of 2004. Positive investment returns accounted for the increase.

	Asset Growth During Fourth Quarter 2004 (Millions)
Beginning Value	$18,299
Net Contributions	-284
Investment Return	1,465
Ending Value	$19,480

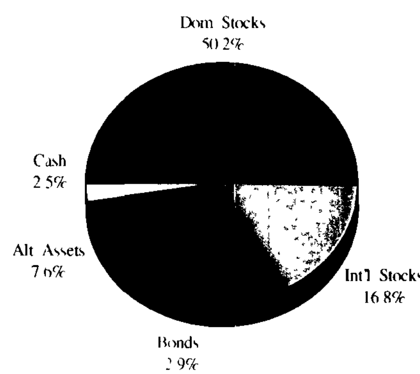


Asset Mix

The allocation to international equities and alternative assets increased due to rebalancing.

	Policy Targets	Actual Mix 12/31/2004	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.2%	$9,780
Int'l Stocks	**15.0**	16.8	3,267
Bonds	**25.0**	22.9	4,465
Alternative Assets*	**12.0**	7.6	1,476
Unallocated Cash	**3.0**	2.5	492
	100.0%	100.0%	$19,480

* Any uninvested allocation is held in domestic stocks.

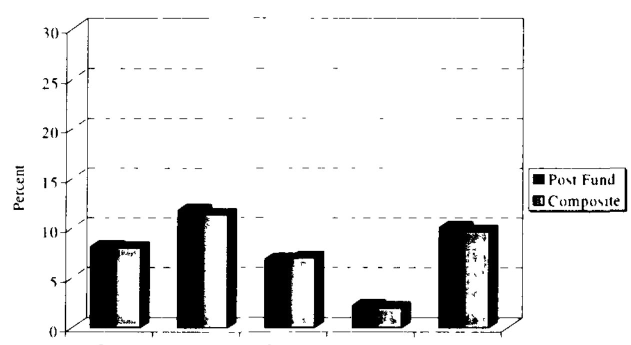


Fund Performance (Net of Fees)

The Post Fund outperformed its composite market index for the quarter and for the year.

Period Ending **12/31/2004**

	Qtr	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)
Post	**8.1%**	**11.8%**	**6.9%**	**2.2%**	**10.1%**
Composite	8.0	11.4	7.0	2.0	9.7



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

Domestic Stocks

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

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

Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Dom. Stocks	**10.2%**	**12.2%**	**4.5%**	**-2.0%**	**11.4%**
Asset Class Target*	10.2	11.9	4.9	-1.9	11.5

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

International Stocks

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 12/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Int'l. Stocks	**15.0%**	**20.0%**	**12.7%**	**-0.3%**	**6.6%**
Asset Class Target*	15.4	20.9	13.0	-0.7	5.4

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

Bonds

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

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 12/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**1.1%**	**5.0%**	**6.5%**	**8.1%**	**8.1%**
Asset Class Target*	1.0	4.3	6.2	7.7	7.7

* 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.

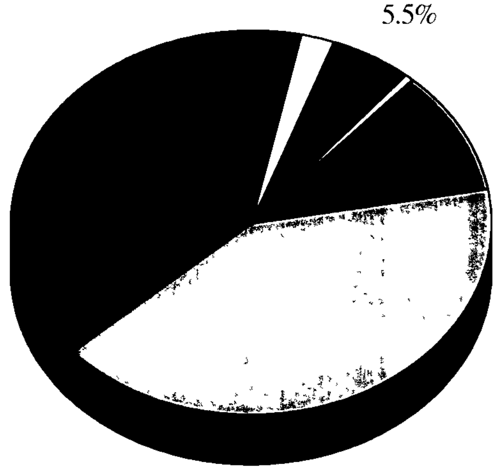
Alternative Investments

Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Alternatives	**5.9%**	**22.7%**	**10.3%**	**10.1%**	**13.8%**

EXECUTIVE SUMMARY

Funds Under Management



	12/31/2004 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$20.2
Post Retirement Fund	19.5
Supplemental Investment Fund	1.1
State Deferred Compensation Plan Non-SIF Assets	2.7
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0 4
State Cash Accounts	3 8
Miscellaneous Accounts	0.3
Total	$48.9

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT
Fourth Quarter 2004
(October 1, 2004 - December 31, 2004)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/2004				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	10.3%	12.6%	5.5%	-1.4%	11.9%
Dow Jones Industrials	7.5	5.3	4.7	0.7	13.1
S&P 500	9.2	10.9	3.6	-2.3	12.1
Russell 3000 (broad market)	10.2	11.9	4.8	-1.2	12.0
Russell 1000 (large cap)	9.8	11.4	4.3	-1.8	12.2
Russell 2000 (small cap)	14.1	18.3	11.5	6.6	11.5
Domestic Fixed Income					
Lehman Aggregate (1)	1.0	4.3	6.2	7.7	7.7
Lehman Gov't./Corp.	0.8	4.2	6.6	8.0	7.8
3 month U.S. Treasury Bills	0.5	1.3	1.3	2.8	4.0
International					
EAFE (2)	15.3	20.2	11.9	-1.1	5.6
Emerging Markets Free (3)	17.3	26.0	22.8	4.6	3.3
ACWI Free ex-U.S. (4)	15.4	21.4	13.6	0.0	6.0
World ex-U.S. (5)	15.2	20.4	12.2	-0.8	5.9
Salomon Non U.S. Gov't. Bond	10.6	12.1	17.5	8.8	7.3
Inflation Measure					
Consumer Price Index (6)	0.2	3.3	2.5	2.5	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 index, advanced 10.2% during the fourth quarter of 2004. Stocks posted strong returns in November, benefiting from a relief rally following the US presidential election. Oil prices declined from their highs and corporate earnings continued to show strength. Despite the weak dollar, GDP growth remained strong. During the quarter, the stock of smaller companies outperformed larger companies. Among large capitalization companies, value stocks outperformed growth stocks. However, among small capitalization companies, growth stocks outperformed value stocks. The distribution services sector generated the largest total return within the Russell 3000 index, while health technology provided the lowest sector return.

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

Large Growth	Russell 1000 Growth	9.2%
Large Value	Russell 1000 Value	10.4%
Small Growth	Russell 2000 Growth	15.1%
Small Value	Russell 2000 Value	13.2%

The Russell 3000 returned 11.9% for the year ending December 31, 2004.

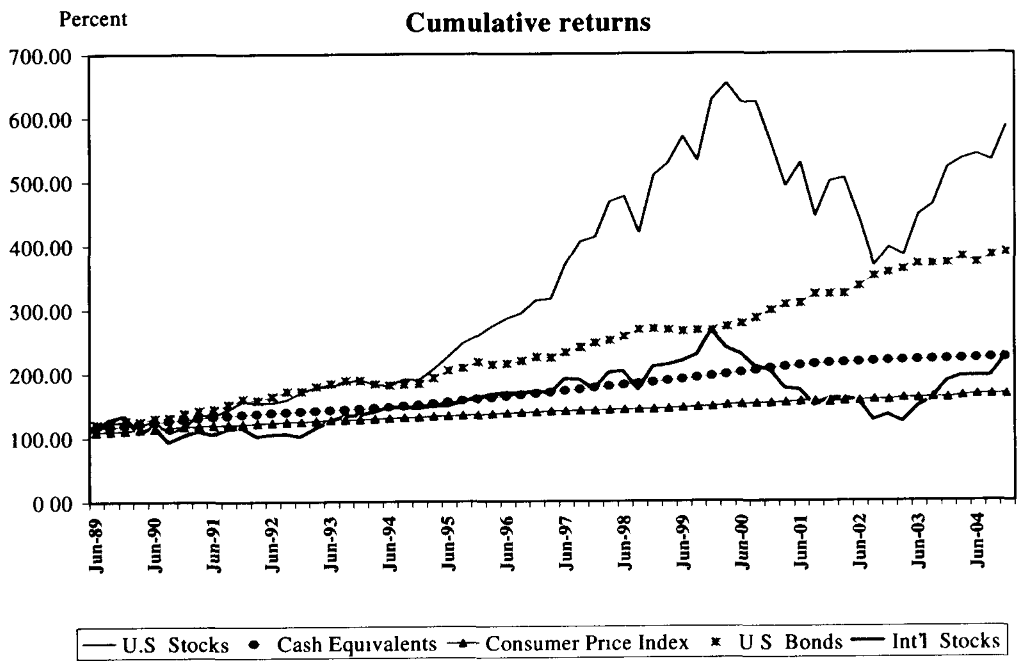
DOMESTIC BONDS

The bond market generated a positive return of 1.0% for the quarter and posted a gain of 4.3% for the year. The quarterly return was helped by the corporate and mortgage returns. With stronger economic conditions, rising prices and continued policy tightening by the Federal Reserve, interest rates rose at the short end of the curve and declined at the long end which resulted in the yield curve flattening significantly during the quarter. The major domestic spread sectors – Agency, Credit, ABS, CMBS, and MBS – continued their winning ways, posting excess returns over duration weighted Treasuries for each month in the quarter.

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

Treasury/Agency	0.2%
Credit	1.3
Mortgages	1.3

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 15.2% for the quarter. The quarterly performance of the six largest stock markets is shown below

United Kingdom	12.6%
Japan	13.1
France	14.9
Switzerland	14.4
Germany	19 3
Canada	12.7

The World ex U S. index increased by 20.4% 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 17.3% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below.

Korea	16 0%
Taiwan	13 3
South Africa	24.2
Mexico	22.6
Brazil	23 2

The Emerging Markets Free index increased by 26 0% 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 latter half of 2004 saw relative improvement in real estate market fundamentals Supply remains in check and recovering demand is expected to contribute to continued improving fundamentals through the first half of 2005

PRIVATE EQUITY

U S private equity firms raised $85 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2004 This represents a 72% increase relative to the revised 2003 total of $49 billion.

RESOURCE FUNDS

During the fourth quarter of 2004, crude oil averaged $48.29 per barrel, significantly higher than an average price of $43 79 during the third quarter of 2004. The sustained high oil prices continue to 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.

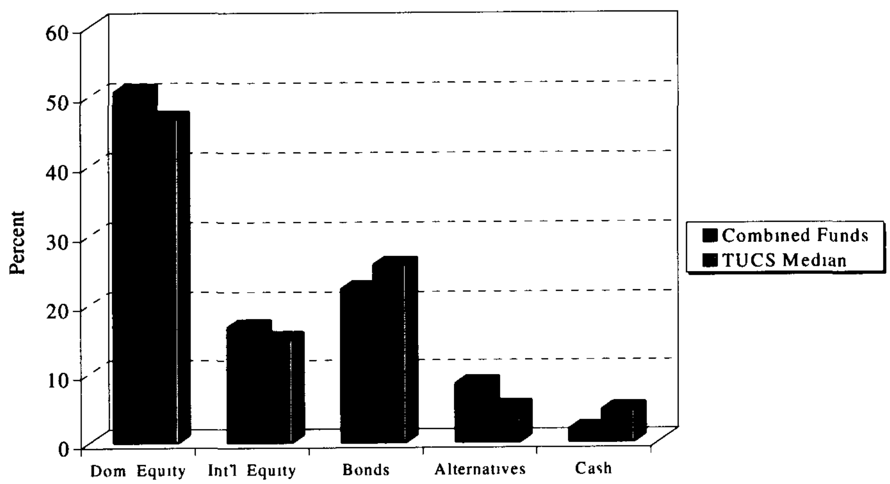
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 2004, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$20,060	50.6%
International Stocks	6,624	16.7
Bonds	8,866	22.3
Alternative Assets	3,377	8.5
Unallocated Cash	753	1.9
Total	$39,680	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	Alternatives	Cash
Combined Funds	**50.6%**	**16.7%**	**22.3%**	**8.5%**	**1.9%**
Median Allocation in TUCS*	46.8	15.0	25.8	5.0**	4.7

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

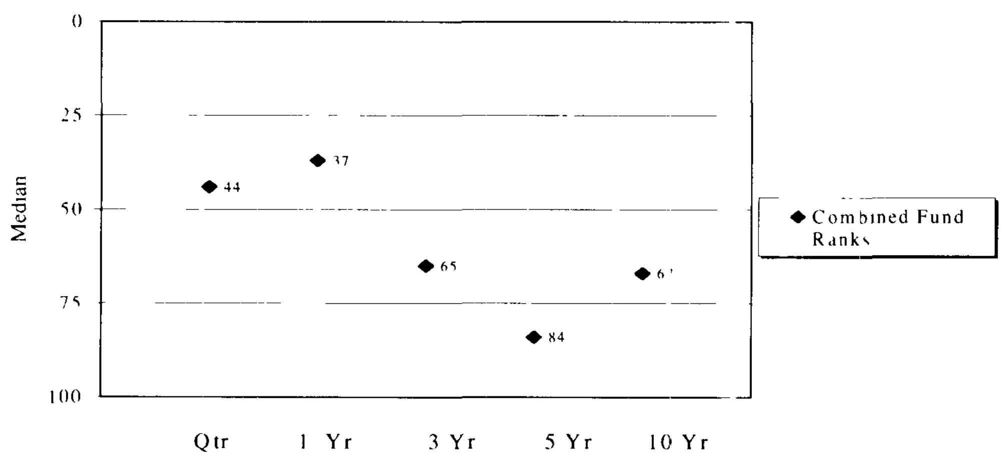
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance

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

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

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

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



Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	44th	37th	65th	84th	67th

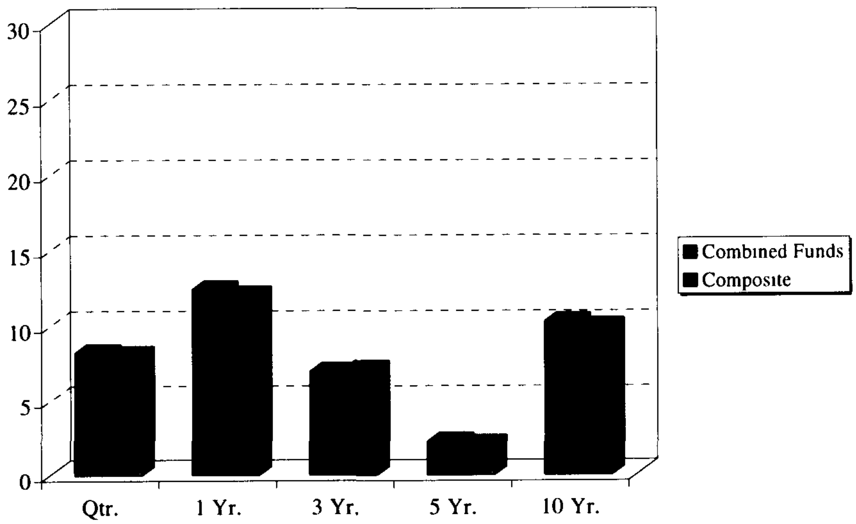
* Compared to public and corporate plans greater than $1 billion, gross of fees

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* 4Q04
Domestic Stocks	Russell 3000	49.8%*
Int'l. Stocks	MSCI ACWI Free ex-U S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	8.7*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr. (Annualized)	10 Yr.
Combined Funds**	**8.2%**	**12.4%**	**6.9%**	**2.2%**	**10.3%**
Composite Index	8.1	12.1	7.1	2.1	9.9

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

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BASIC RETIREMENT FUNDS
Investment Objectives

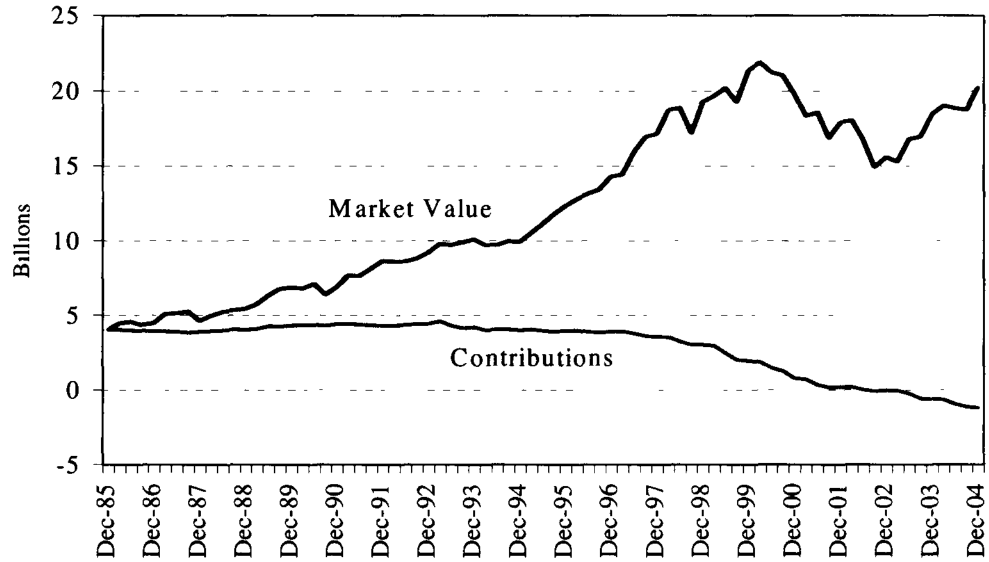
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Funds increased 7.9% during the fourth quarter of 2004. Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	3/04	6/04	9/04	Latest Qtr. 12/04
Beginning Value	$19,244	$21,365	$19,807	$17,874	$15,561	$18,435	$19,007	$18,824	$18,715
Net Contributions	-1,065	-1,186	-572	-247	-592	-32	-289	-197	-59
Investment Return	3,186	-372	-1,361	-2,066	3,466	604	106	88	1,545
Ending Value	$21,365	$19,807	$17,874	$15,561	$18,435	$19,007	$18,824	$18,715	20,201

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

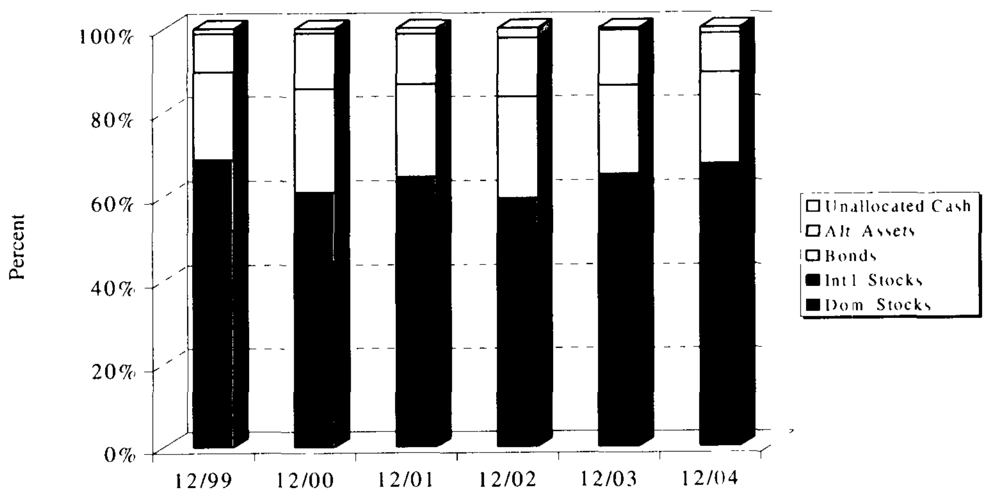
Domestic Stocks	45 0%
Int'l. Stocks	15 0
Bonds	24.0
Alternative Assets*	15 0
Unallocated Cash	1.0

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

In October 2003, the Board provisionally revised its long term asset allocation targets for the Basic Funds, increasing the allocation for alternative investments from 15% to 20% and decreasing fixed income from 24% to 19%.

Over the last year the allocation to domestic equities increased due to rebalancing and positive returns The allocation to alternative investments decreased due to rebalancing.

During the quarter, the domestic and international equity allocations increased due to positive returns.



	Last Five Years								Latest Qtr.
	12/99	12/00	12/01	12/02	12/03	3/04	6/04	9/04	12/04
Domestic Stocks	51.9%	44 3%	49.5%	45.3%	48.5%	47 2%	48 0%	47.4%	50.9%
Int'l Stocks	16.8	16 6	15.0	14 1	16 6	15 5	15 3	15.5	16 6
Bonds	21 0	24 7	22 1	24.2	21.2	21 2	21 0	21.9	21.8
Alternative Assets	9.1	13 3	12 1	14 1	13.3	12 8	12 7	13 1	9.4
Unallocated Cash	1 2	1 1	1 3	2 3	0 4	3 3	3 0	2 1	1 3
Total	100 0%	100 0%	100 0%	100 0%	100.0%	100 0%	100 0%	100 0%	100.0%

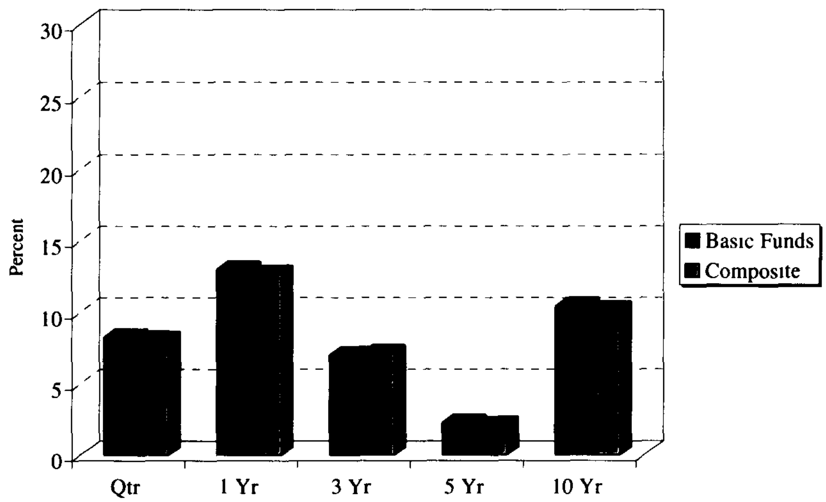
BASIC RETIREMENT FUNDS

Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 4Q04
Domestic Stocks	45.0%	Russell 3000	47.0%*
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	13.0*
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 12/31/2004

				Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basic Funds**	**8.3%**	**13.0%**	**7.0%**	**2.3%**	**10.4%**
Composite Index	8.1	12.7	7.2	2.1	10.2

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools. Effective July 1, 2003, the Basic and Post Funds share the same alternative pool. Performance of the alternative assets is on page 16

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans Approximately 114,000 retirees receive monthly annuities from the assets of the Fund

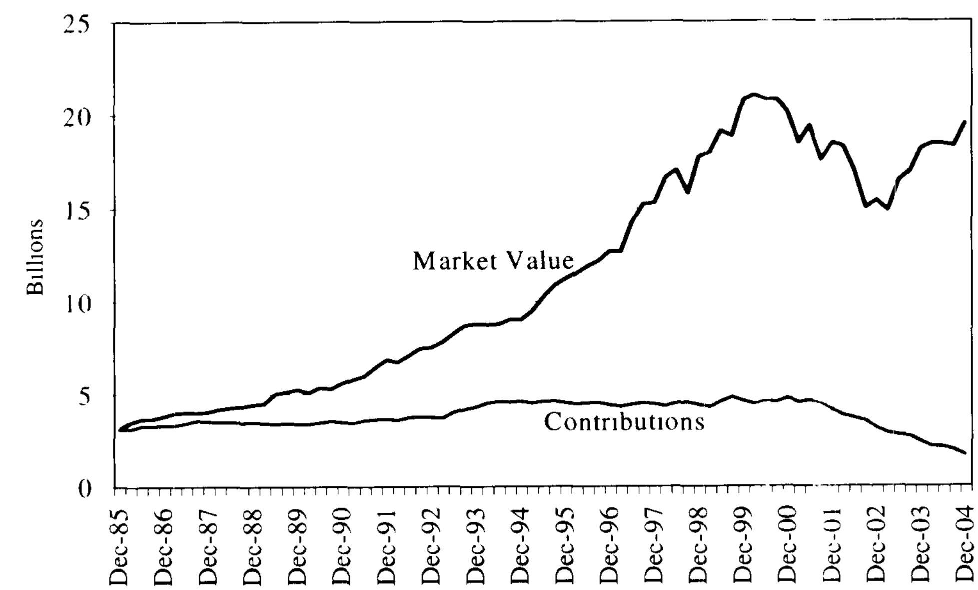
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis If the Post 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 6.5% during the fourth quarter of 2004

Positive investment returns accounted for the increase.



Last Five Years
In Millions

	12/99	12/00	12/01	12/02	12/03	3/04	6/04	9/04	Latest Qtr. 12/04
Beginning Value	17,743	$20,768	$20,153	$18,475	$15,403	$18 162	$18,429	$18,415	$18,299
Net Contributions	211	167	-647	-1,000	-719	261	-47	-157	-284
Investment Return	2,814	-782	-1,031	-2,072	3,478	528	33	41	1,465
Ending Value	20,768	$20,153	$18,475	$15,403	$18,162	$18 429	$18,415	$18,299	$19,480

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%

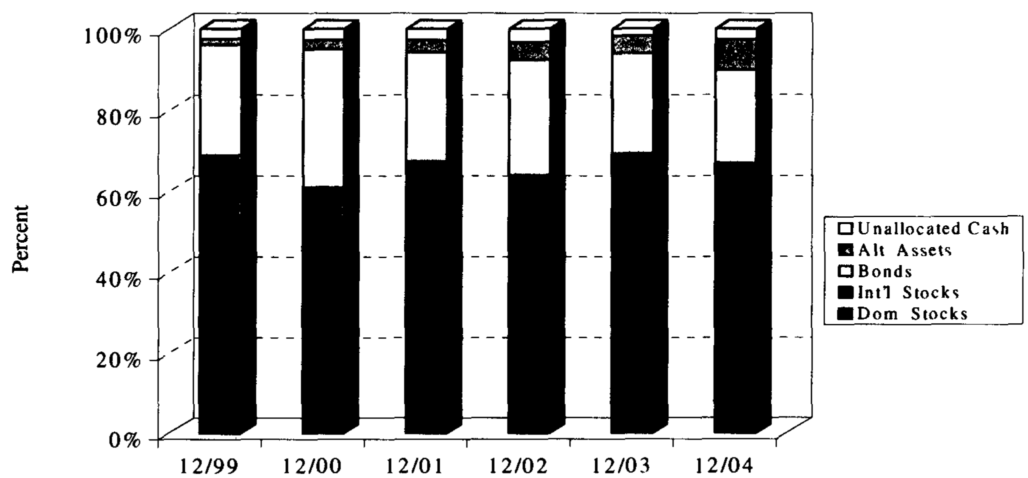
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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

Over the last year, the allocation to domestic stocks decreased due to rebalancing. The allocation to alternative assets increased due to rebalancing and positive returns.

During the quarter, the allocation to international equities and alternative assets increased over the quarter due to rebalancing.



	Last Five years								Latest Qtr.
	12/99	**12/00**	**12/01**	**12/02**	**12/03**	**3/04**	**6/04**	**9/04**	**12/04**
Dom. Stocks	52.0%	47.5%	52.4%	49.6%	52.7%	50.5%	51.4%	50.9%	50.2%
Int'l. Stocks	16.9	13.5	15.1	14.4	16.7	15.7	15.5	15.6	16.8
Bonds	27.2	34.0	26.7	28.3	24.6	25.1	24.6	25.5	22.9
Alt. Assets	1.5	2.3	3.1	4.5	4.4	4.3	4.3	4.4	7.6
Unallocated Cash	2.4	2.7	2.7	3.2	1.6	4.4	4.2	3.6	2.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

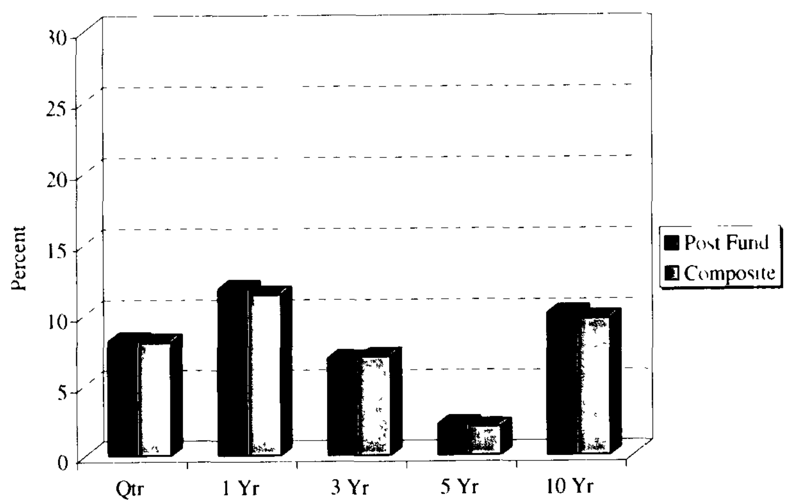
POST RETIREMENT FUND

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* 4Q04
Domestic Stocks	45 0%	Russell 3000	52 7%
Int'l Stocks	15.0	MSCI ACWI Free ex-U S.	15 0
Bonds	25.0	Lehman Aggregate	25 0
Alternative Investments	12.0	Alternative Investments	4 3*
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 12/31/2004

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Post Fund**	**8.1%**	**11.8%**	**6.9%**	**2.2%**	**10.1%**
Composite Index	8 0	11.4	7.0	2 0	9.7

** Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools Effective July 1, 2003, the Basic and Post Funds share the same alternative pool Performance of the alternative assets is on page 16

STOCK AND BOND MANAGERS
Performance of Asset Pools (Net of Fees)

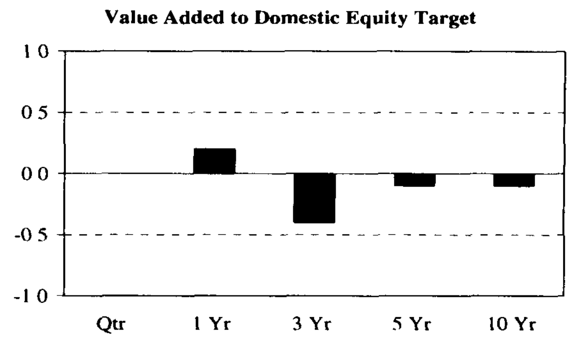
Domestic Stocks

Target: Russell 3000
Expectation: If one-third of the pool is actively managed, one-third is semi-passively managed, and one-third is passively managed, the entire pool is expected to exceed the target by +.18 - .40% annualized, over time.

Period Ending 12/31/2004

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	**10.2%**	**12.2%**	**4.5%**	**-2.0%**	**11.4%**
Asset Class Target*	10.2	11.9	4.9	-1.9	11.5

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



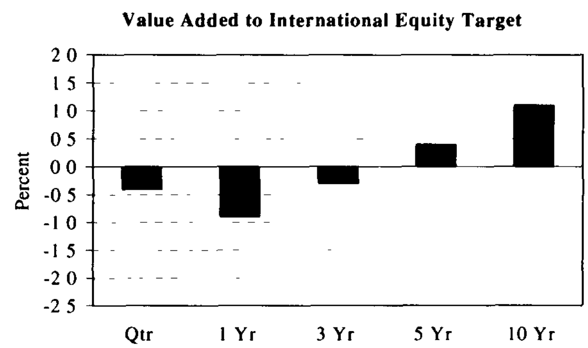
International Stocks

Target: MSCI ACWI Free ex U.S. (net)
Expectation: If at least one-third of the pool is managed actively 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 12/31/2004

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**15.0%**	**20.0%**	**12.7%**	**-0.3%**	**6.6%**
Asset Class Target*	15.4	20.9	13.0	-0.7	5.4

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

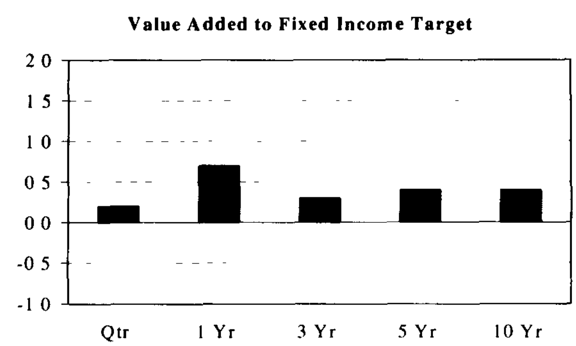


Bonds

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

Period Ending 12/31/2004

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**1.1%**	**5.0%**	**6.5%**	**8.1%**	**8.1%**
Asset Class Target	1.0	4.3	6.2	7.7	7.7



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 12/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Alternatives	5.9%	22.7%	10.3%	10.1%	13.8%
Inflation	0.2%	3.3%	2.5%	2.5%	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 12/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Real Estate	4.2%	13.7%	9.0%	10.6%	11.2%

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 12/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Private Equity	3.4%	25.5%	8.0%	7.7%	15.3%

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 12/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Resource	9.1%	26.4%	16.7%	14.0%	13.0%

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 12/31/2004				
			Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Yield Oriented	11.2%	24.0%	13.5%	13.8%	13.5%

SUPPLEMENTAL INVESTMENT FUND

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

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

2. It is one investment vehicle offered to employees as part of Minnesota State Colleges and University's Individual Retirement Account Plan and College Supplemental Retirement Plan.

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

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

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

On December 31, 2004 the market value of the entire Fund was $1.1 billion.

Investment Options

	12/31/2004 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$501
Growth Share Account – an actively managed, all common stock portfolio.	$142
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$198
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$71
Bond Market Account – an actively managed, all bond portfolio.	$88
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$49
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.	$60

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%	62.3%
Bonds	35.0	34.6
Unallocated Cash	5.0	3.1
	100.0%	100.0%

Period Ending 12/31/2004

		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**6.7%**	**9.2%**	**5.2%**	**1.9%**	**10.3%**
Benchmark*	6.4	8.8	5.5	2.0	10.2

* 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 12/31/2004

		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**10.2%**	**12.2%**	**4.2%**	**-2.3%**	**11.0%**
Benchmark*	10.2	11.9	4.9	-1.9	11.3

* 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 12/31/2004

		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**10.1%**	**12.0%**	**4.9%**	**-1.7%**	**11.7%**
Benchmark*	10.2	11.9	4.9	-1.9	11.6

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

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. At least twenty-five percent of the Account is "passively managed" and 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 12/31/2004

		Annualized			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**15.0%**	**20.1%**	**12.9%**	**-0.2%**	**6.6%**
Benchmark*	15.4	20.9	13.0	-0.7	5.4

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

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

Asset Mix

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

	Period Ending 12/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**1.1%**	**5.0%**	**6.6%**	**8.1%**	**8.1%**
Lehman Agg.	1.0	4.3	6.2	7.7	7.7

MONEY MARKET ACCOUNT

Investment Objective

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

Asset Mix

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

	Period Ending 12/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**0.5%**	**1.6%**	**1.6%**	**3.1%**	**4.4%**
3 month T-Bills	0.5	1.3	1 3	2.8	4.0

FIXED INTEREST ACCOUNT

Investment Objectives

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

Asset Mix

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

	Period Ending 12/31/2004		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Total Account	**1.0%**	**4.1%**	**4.9%**	**5.4%**	**6.0%**
Benchmark*	0.9	3.3	3.0	4.0	5.0

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

DEFERRED COMPENSATION PLAN ACCOUNTS

DESCRIPTION

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

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

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

LARGE CAP EQUITY

Vanguard Institutional Index (passive)

- A passive domestic stock portfolio that tracks the S&P 500

Period Ending 12/31/2004

			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**9.2%**	**10.9%**	**3.6%**	**-2.2%**
S&P 500	9 2	10 9	3 6	-2 3

Janus Twenty (active)

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

Period Ending 12/31/2004

			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**10.6%**	**21.3%**	**4.9%**	**-11.2%**
S&P 500	9 2	10 9	3.6	-2 3

Smith Barney Appreciation Y (active)

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

Period Ending 12/31/2004

			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**7.6%**	**9.3%**	**N/A**	**13.4%**
S&P 500	9 2	10 9	N/A	15 3

MID CAP EQUITY

Vanguard Mid Cap Index (passive)

- A fund that passively invests in companies with medium market capitalizations that tracks the Morgan Stanley Capital International (MSCI) U S. Midcap 450 index

Period Ending 12/31/2004

			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 1/1/04
Fund	**14.8%**	**20.5%**	**N/A**	**20.5%**
MSCI US Mid-Cap 450	14 8	20 5	N/A	20.5

SMALL CAP EQUITY

T. Rowe Price Small Cap (active)

- A fund that invests primarily in companies with small market capitalizations and is expected to outperform the Russell 2000

Period Ending 12/31/2004

			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**12.5%**	**18.8%**	**10.5%**	**11.1%**
Russell 2000	14 1	18 3	11 5	6 6

DEFERRED COMPENSATION PLAN ACCOUNTS

INTERNATIONAL EQUITY

Fidelity Diversified International (active)

- A fund that invests primarily in stocks of companies located outside the United States and is expected to outperform the MSCI index of Europe, Australasia and the Far East (EAFE), over time.

	Period Ending 12/31/2004	Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**13.9%**	**19.7%**	**15.6%**	**4.1%**
MSCI EAFE	15.3	20.2	12.0	-1.1

Vanguard Institutional Developed Markets (passive)

- A fund that passively invests in stocks of companies located outside the United States that tracks the MSCI EAFE index.

	Period Ending 12/31/2004	Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**Since 12/1/03**
Fund	**15.3%**	**20.3%**	**N/A**	**27.3%**
MSCI EAFE	15.3	20.2	N/A	27.1

BALANCED

Dodge & Cox Balanced Fund (active)

A fund that invests in a mix of stock and bonds. The fund invests in mid-to large-cap stocks and in high quality bonds, and is expected to outperform a weighted benchmark of 60% S&P 500/40% Lehman Aggregate, over time.

	Period Ending 12/31/2004	Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**Since 10/1/03**
Fund	**8.1%**	**13.3%**	**N/A**	**19.2%**
Benchmark	5.9	8.3	N/A	12.8

Vanguard Balanced Fund (passive)

- A fund that passively invests in a mix of domestic stocks and bonds. The fund is expected to track a weighted benchmark of 60% Wilshire 5000/40% Lehman Aggregate.

	Period Ending 12/31/2004	Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**Since 12/1/03**
Fund	**6.6%**	**9.5%**	**N/A**	**11.8%**
Benchmark	6.5	9 3	N/A	11.7

FIXED INCOME

Dodge & Cox Income Fund (active)

- A fund that invests primarily in investment grade securities in the U.S. bond market which is expected to outperform the Lehman Aggregate, over time.

	Period Ending 12/31/2004	Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**1.2%**	**3.8%**	**6.8%**	**8.3%**
Lehman Agg.	1.0	4.3	6.2	7.7

Vanguard Total Bond Market Fund (passive)

- A fund that passively invests in a broad, market-weighted bond index that is expected to track the Lehman Aggregate.

	Period Ending 12/31/2004	Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**Since 12/1/03**
Fund	**1.0%**	**4.4%**	**N/A**	**4.9%**
Lehman Agg.	1.0	4.3	N/A	5.0

Money Market Account

- A fund that invests in short-term debt instruments which is expected to outperform the return on 3-month U.S. Treasury Bills.

	Period Ending 12/31/2004	Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Fund	**0.5%**	**1.6%**	**1.6%**	**3.1%**
3-Mo Treas.	0.5	1.3	1.3	2.8

DEFERRED COMPENSATION PLAN ACCOUNTS

FIXED INTEREST ACCOUNT

- A portfolio composed of stable value instruments which are primarily investment contracts and security backed contracts. The account is expected to outperform the return of the 3 year Constant Maturity Treasury + 45 basis points, over time.

Period Ending 12/31/2004

			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.1%**	**4.2%**	**4.9%**	**5.4%**
Benchmark	0.9	3.3	3.0	4.0

FIXED FUND

- The Fixed Fund invests participant balances in the general accounts of three insurance companies that have been selected by the SBI. The three insurance companies provide a new rate each quarter. A blended yield rate is calculated and then credited to the participants.

Period Ending 12/31/2004

The quarterly blended rate is 4.76%

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.

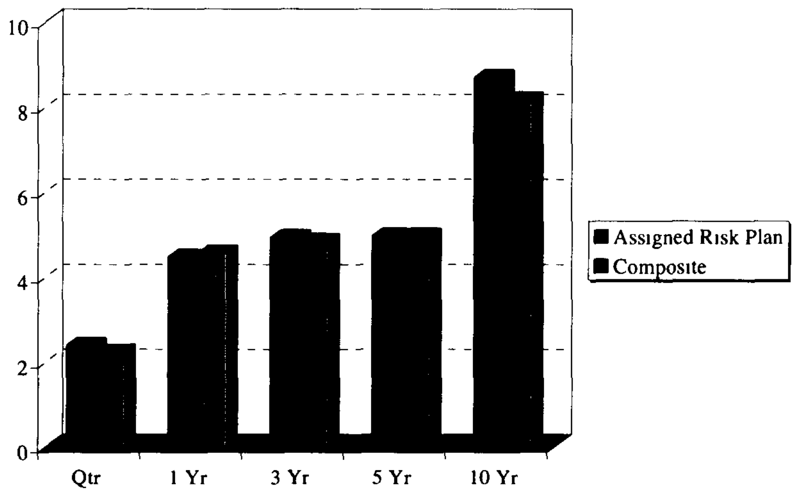
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	12/31/2004 Target	12/31/2004 Actual
Stocks	20.0%	23.4%
Bonds	80.0	76.6
Total	100.0%	100.0%

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

Performance Benchmarks
A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. Since July 1, 1994, the equity benchmark has been the S&P 500 index. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the total fund asset allocation targets.

Market Value
On December 31, 2004 the market value of the Assigned Risk Plan was $289 million.



Period Ending 12/31/2004

	Qtr.	Annualized 1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	2.4%	4.5%	4.9%	5.0%	8.7%
Composite	2.2	4.6	4.9	5.0	8.2
Equity Segment*	8.6	8.8	2.3	-0.5	12.8
Benchmark	9.2	10.9	3.6	-2.3	12.1
Bond Segment*	0.6	3.2	4.8	5.9	6.7
Benchmark	0.5	3.0	4.9	6 5	6.9

* 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

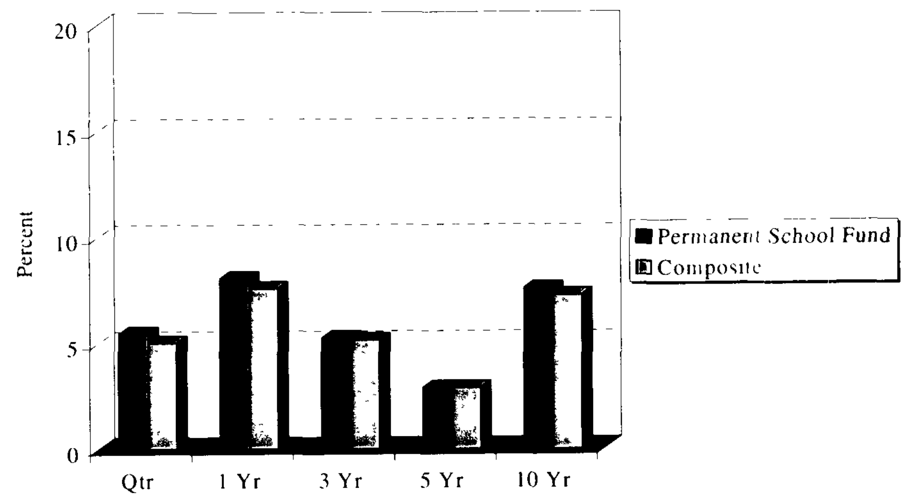
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	12/31/2004 Target	12/31/2004 Actual
Stocks	50 0%	54 0%
Bond	48 0	44.6
Unallocated Cash	2.0	1 4
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, 2004 the market value of the Permanent School Fund was $604 million



Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Fund (1) (2)	5.5%	8 1%	5.3%	2.9%	7.6%
Composite	5 0	7.6	5 2	2 9	7.3
Equity Segment (1) (2)	9 2	10.9	3.7	-2.2	N/A
S&P 500	9 2	10 9	3 6	-2 3	N/A
Bond Segment (1)	1 4	5.0	6 4	8 0	8 3
Lehman Aggregate	1 0	4 3	6 2	7 7	7 7

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

ENVIRONMENTAL TRUST FUND

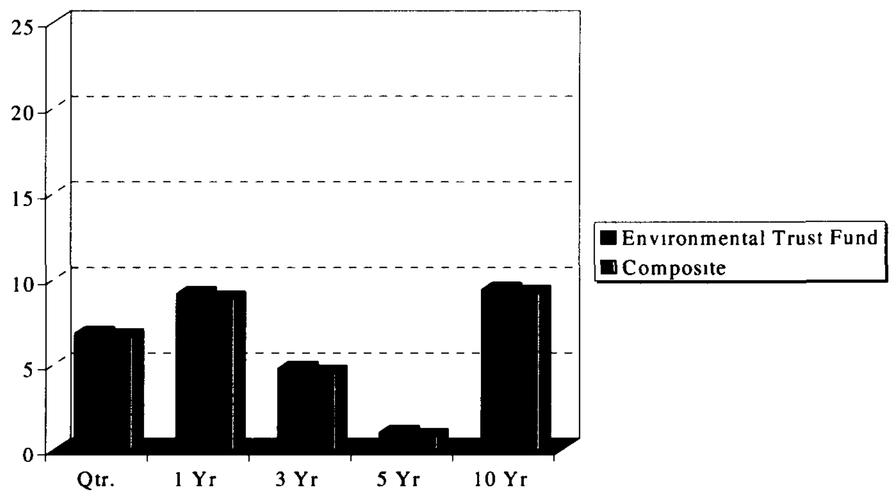
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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

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

Market Value
On December 31, 2004 the market value of the Environmental Trust Fund was $371 million.

	12/31/2004 Target	12/31/2004 Actual
Stocks	70.0%	70.6%
Bonds	28.0	28.8
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
		Annualized			
Total Fund*	6.8%	9.1%	4.8%	1.0%	9.4%
Composite	6.7	8.9	4.6	0.8	9.2
Equity Segment*	9.2	10.9	3.8	-2.2	12.2
S&P 500	9.2	10.9	3.6	-2.3	12.1
Bond Segment*	1.4	5.0	6.6	8.0	8.2
Lehman Agg.	1.0	4.3	6.2	7.7	7.7

* Actual returns are calculated net of fees.

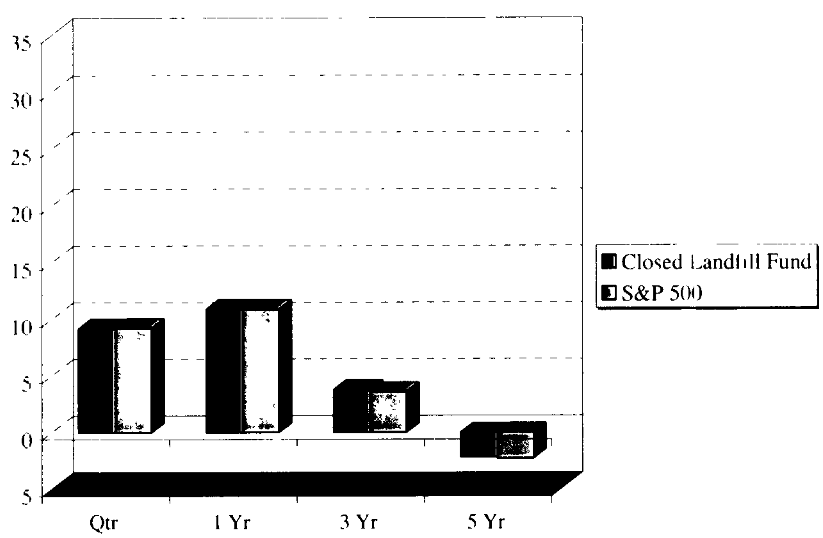
CLOSED LANDFILL INVESTMENT FUND

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, 2004 the market value of the Closed Landfill Investment Fund was $34 0 million



Period Ending 12/31/2004

	Qtr.	1 Yr.	3 Yr.	5 Yr.
			Annualized	
Total Fund (1)	9 2%	10.9%	3 8%	-2.2%
S&P 500 (2)	9.2	10 9	3 6	-2.3

(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 12/31/2004

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$3,400**	**0.5%**	**1.4%**	**1.7%**	**3.4%**	**4.6%**
Custom Benchmark**		0.3	0.8	1.1	2.9	4 2
Trust Fund Cash Pool*	**$80**	**0.4**	**1.3**	**1.4**	**3.1**	**4.4**
Custom Benchmark***		0.3	0.8	0.9	2.4	4.0
3 month T-Bills		0.5	1.3	1.3	2.8	4 0

* 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, 2004 (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	82,170	0	1,607,206	0	3,754,169	1,226,545	693,282	7,363,372
	1 12%		21.83%		50.98%	16.66%	9.41%	100%
Public Employees Retirement Fund	60,517	0	1,147,756	0	2,682,378	876,561	500,144	5,267,356
	1.15%		21.79%		50.92%	16 64%	9.50%	100%
State Employees Retirement Fund	50,712	0	974,616	0	2,274,687	743,588	418,856	4,462,459
	1.14%		21.84%		50 97%	16.66%	9.39%	100%
Public Employees Police & Fire	57,946	0	537,270	0	1,253,952	409.913	230,911	2,489,992
	2.33%		21.58%		50.36%	16.46%	9 27%	100%
Highway Patrol Retirement Fund	2,691	0	51,747	0	120,774	39,481	22,241	236,934
	1.14%		21.84%		50 97%	16.66%	9.39%	100%
Judges Retirement Fund	429	0	8,241	0	19,235	6,288	3,542	37,735
	1.14%		21.84%		50.97%	16.66%	9.39%	100%
Correctional Employees Retirement	2,922	0	56,179	0	131,119	42,862	24,146	257,228
	1.14%		21.84%		50.97%	16.66%	9 39%	100%
Public Employees Correctional	3,963	0	18,514	0	43,211	14,126	7,957	87,771
	4.52%		21 09%		49.23%	16 09%	9.07%	100%
TOTAL BASIC FUNDS	261,350	0	4,401,529	0	10,279,525	3,359,364	1,901,079	20,202,847
	1.29%		21.79%		50 88%	16.63%	9 41%	100%
POST RETIREMENT FUND	491,804	0	4,464,645	0	9,780,095	3,268,917	1,475,900	19,481,361
	2.52%		22.92%		50.20%	16.78%	7.58%	100%
TOTAL BASIC AND POST	753,154	0	8,866,174	0	20,059,620	6,628,281	3,376,979	39,684,208
	1.90%		22.34%		50.55%	16.70%	8.51%	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	15,239 3.04%	173,437 34.62%	0	0	312,369 62.34%	0	0	501,045 100%
Growth Share Account	0	0	0	0	141,803 100.00%	0	0	141,803 100%
Money Market Account	49,046 100.00%	0	0	0	0	0	0	49,046 100%
Common Stock Index	0	0	0	0	197,606 100.00%	0	0	197,606 100%
Bond Market Account	0	0	87,943 100.00%	0	0	0	0	87,943 100%
International Share Account	0	0	0	0	0	71,022 100.00%	0	71,022 100%
Fixed Interest Account	1,619 2.68%	0	58,718 97.32%	0	0	0	0	60,337 100%
TOTAL SUPPLEMENTAL FUNDS	65,904 5.94%	173,437 15.64%	146,661 13.23%	0	651,778 58.78%	71,022 6.41%	0	1,108,802 100%
MN DEFERRED COMP PLAN *	50,658 1.86%	0	1,101,642 40.53%	0	1,387,396 51.05%	178,292 6.56%	0	2,717,988 100%
TOTAL RETIREMENT FUNDS	869,716 2.00%	173,437 0.40%	10,114,477 23.24%	0	22,098,794 50.79%	6,877,595 15.81%	3,376,979 7.76%	43,510,998 100%

* 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	17,575 6.08%	0	205,117 70.92%	0	66,511 23.00%	0	0	289,203 100%
ENVIRONMENTAL FUND	2,187 0.59%	106,953 28.81%	0	262,080 70.60%	0	0	0	371,220 100%
PERMANENT SCHOOL FUND	8,713 1.44%	269,402 44.61%	0	325,871 53.95%	0	0	0	603,986 100%
CLOSED LANDFILL INVESTMENT	55 0.16%	0	0	33,995 99.84%	0	0	0	34,050 100%
TREASURERS CASH	3,400,969 100.00%	0	0	0	0	0	0	3,400,969 100%
HOUSING FINANCE AGENCY	49,287 24.38%	152,855 75.62%	0	0	0	0	0	202,142 100%
MINNESOTA DEBT SERVICE FUND	0	222,964 100.00%	0	0	0	0	0	222,964 100%
MISCELLANEOUS ACCOUNTS	97,905 41.15%	102,232 42.96%	0	37,803 15.89%	0	0	0	237,940 100%
TOTAL CASH AND NON-RETIREMENT	3,576,691 66.70%	854,406 15.93%	205,117 3.83%	659,749 12.30%	66,511 1.24%	0	0	5,362,474 100%
GRAND TOTAL	4,446,407 9.10%	1,027,843 2.10%	10,319,594 21.12%	659,749 1.35%	22,165,305 45.35%	6,877,595 14.07%	3,376,979 6.91%	48,873,472 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 22, 2005

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 February 16, 2005 is included as **Attachment A.**

A report on travel for the period from November 16, 2004 - February 15, 2005 is included as **Attachment B.**

2. Results of FY04 Financial Audit

The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 2004. 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. See **Attachment D.**

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 2, 2005.

5. Update Concerning Pharmaceutical Company Shareholder Resolutions

At its September 7, 2004 meeting, the Board authorized the submission of shareholder resolutions at Eli Lilly and Company; Merck & Co., Inc.; Pfizer Inc.; and Wyeth for inclusion in their 2005 proxy materials. Staff submitted the shareholder proposals concerning the supply of prescription drugs to Canadian pharmacies.

Eli Lilly, Merck and Pfizer will be including the proposal in their proxy materials. Wyeth will not be including the proposal. Wyeth submitted a no action request to the SEC to exclude the proposal from its proxy materials. The SEC concurred, concluding that they will not challenge Wyeth's exclusion of the proposal on the grounds that the Minnesota proposal was duplicative of a proposal submitted earlier by the AFSCME pension plan. The Board will be sending a representative to the annual meetings of these three companies in April. Under SEC rules, a representative of the shareholder must be present to introduce the proposal at an annual meeting.

6. Roundtable on China

Staff will be organizing an Investment Roundtable focusing on the Investment Implications and Opportunities resulting from the Economic Growth of China. The roundtable will take place in the second quarter and Staff will inform the Board and the IAC of the details.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 2005 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH FEBRUARY 16, 2005

ITEM	FISCAL YEAR 2005 BUDGET	FISCAL YEAR 2005 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,800,000	$ 976,399
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	860
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 1,840,000**	**$ 977,259**
STATE OPERATIONS		
RENTS & LEASES	196,000	131,987
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	4,773
PRINTING & BINDING	10,000	3,250
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	5,116
COMMUNICATIONS	20,000	10,441
TRAVEL, IN-STATE	1,000	219
TRAVEL, OUT-STATE	35,000	13,483
SUPPLIES	20,000	13,648
EQUIPMENT	0	7,964
EMPLOYEE DEVELOPMENT	10,000	6,509
OTHER OPERATING COSTS	10,000	3,622
SUBTOTAL	**$ 327,000**	**$ 201,012**
ORIGINAL BUDGET	**$ 2,167,000**	**$ 1,178,271**
BALANCE FORWARD FROM FY 2004	**$ 137,000**	
TOTAL GENERAL FUND	**$ 2,304,000**	**$ 1,178,271**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel November 16, 2004 – February 15, 2005

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring: **Emerging Equity Manager:** Holt-Smith & Yates Advisors	S. Sutton	Madison, WI 12/16-12/17	$282.27
Conference: Elkind Economics Conference sponsored by: Elkind Economics	S. Gleeson	Dallas/Fort Worth, TX 1/12-1/13	$1,170.49
Manager Monitoring: **Alternative Investment Managers:** Blum Capital Partners; Hellman & Friedman; Fox Paine Capital; Gold Hill Venture Lending; Silver Lake Partners; Windjammer Capital; TCW/Crescent Mezzanine Partners **Manager Search:** **Alternative Investment Manager:** Elevation Partners	A. Christensen	Los Angeles/ San Francisco, CA 1/24-1/26	$1,466.72
Manager Monitoring: **Domestic Equity Managers:** Cohen, Klingenstein & Marks; Goldman Sachs Asset Mgmt.; J. P. Morgan Investment Mgmt.; Jacobs Levy Equity Mgmt.; Lord Abbett & Co.; New Amsterdam Partners; Oppenheimer Capital; Systematic Financial Mgmt. **Manager Search:** **Domestic Equity Managers:** Valenzuela Capital Partners	S. Sutton	New York, NY 1/31-2/4	$1,870.42
Manager Monitoring: **Alternative Investment Manager:** Merit Energy Partners	J. Griebenow	Dallas, TX 1/31-2/1	$713.75

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

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters 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, 2004, and have issued our report thereon dated December 14, 2004. 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.

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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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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*.

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 14, 2004

Report Signed On: January 14, 2005

ATTACHMENT D

Bills of Interest to the Minnesota State Board of Investment
2005 Legislative Session
Includes Action Through 2/18/05

Description of Bill	HF/SF # and Author	Current Status
Data Privacy Defined for Alternative Investments	H.F. 674 (Knoblach)	2/17 Passed Gov't Op. and Vet. Affairs; referred to Civil Law
	S.F. 708 (D. Johnson)	Referred to State and Local Gov't Op.
Limit on Post Fund Benefit Increase	H.F. 40 (Smith)	Referred to Gov't Op. and Vet. Affairs
	S.F. 70 (Betzold)	Referred to State and Local Gov't Op.
SBI May Invest County Environmental Trust Funds	H.F. 303 (Rukavina)	Referred to State Government Finance
	S.F. 418 (Tomassoni)	2/14 Passed Environment and Natural Resources On Senate Consent Calendar

Tab C

COMMITTEE REPORT

DATE: February 22, 2005

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on Wednesday, February 16, 2005 to consider the following agenda items:

- Review the manager performance for the period ending December 31, 2004.
- Update on International Equity Program.
- Increased non-dollar and below investment grade debt authority for Goldman Sachs and Dodge and Cox.
- Recommendation to grant emerging markets equity managers the authority to cross-hedge currencies.

Action is required by the SBI / IAC on the last item.

INFORMATION ITEMS:

1. Review of manager performance for the period ending December 31, 2004.

- ***Domestic Equity Managers***

For the period ending December 31, 2004, the **Domestic Equity Manager Program** matched the asset class target* for the quarter, outperformed for the year and underperformed for the three, and five-year time periods.

Time period	Total Program	DE Asset Class Target*
Quarter	10.2%	10.2%
1 Year	12.2	11.9
3 Years	4.5	4.9
5 Years	-2.0	-1.9

* The Domestic Equity 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, 2004, the **Fixed Income Manager Program** outperformed the Lehman Aggregate over all time periods

Time period	Total Program	Lehman Aggregate
Quarter	1.1%	1.0%
1 Year	5.0	4.3
3 Years	6.5	6.2
5 Years	8.1	7.7

The performance evaluation reports for the fixed income managers start on the **blue page A-89** of this Tab.

- *International Equity Managers*

For the period ending December 31, 2004, the **International Equity Program** and the **equity managers** (excluding the currency overlay) underperformed the composite index over the quarter, year and three-year time periods and outperformed over the five-year time period.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	15.0%	15.4%
1 Year	20.0	20.9
3 Year	12.7	13.0
5 Year	-0.3	-0.7

Equity*** Mgrs. Only
15.0%
20.0
12.7
-0.3

* 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-101** of this Tab.

2. Update on International Equity Program.

The international equity program was rebalanced back to policy weight at the end of January 2005. International markets have continued to outperform other asset classes over the recent time period. In accordance with the SBI's rebalancing policy, which mandates a rebalance when an asset class is +/- 10% of its policy weight, $650 million was raised from international equities and allocated to fixed income ($500 million) and to cash (approximately $150 million). The amounts raised from international equities was raised from the following managers:

American Express	$200 million
Britannic	$100 million
INVESCO	$100 million
T. Rowe Price	$150 million
UBS	$100 million

Staff rebalanced the manager portfolios with a view to future search activity. The portfolio's of American Express, INVESCO and UBS were brought in line with each other and brought to a level at which any new active manager might be funded. Marathon's portfolio, which has continued to enjoy strong performance and the benefits of a stable organization, was not used as a source of funds. Marathon announced in the fall of 2004 that it is closed not only to new business but also to all client flows, and therefore it was decided to maintain the SBI's portfolio at its current level.

As part of the SBI's Asset Allocation review in 2003, the Board approved an allocation to enhanced developed markets index management. Staff proposes conducting this search during the second quarter of 2005. Funding for this mandate will come from SSgA's passive developed markets portfolio.

Staff also proposes reviewing several of the SBI's current active developed markets managers. Due to organizational change and performance issues, Staff has concerns primarily about Britannic Asset Management and T. Rowe Price. The Committee suggested that American Express also may be a candidate for review. Based on recommendations to terminate or re-interview current managers, a search to add new active developed markets managers will also be conducted in the second quarter of 2005. The funding for these mandates will come from any terminated manager portfolios.

3. Increased non-dollar and below investment grade debt authority for Goldman Sachs and Dodge and Cox.

In 1988, the State Board of Investment (SBI) received authority to invest in international securities, including fixed income. At its September 1993 meeting, the SBI approved the recommendation to allow fixed income managers to invest up to 10% of their portfolios in non-U.S. bonds.

In 1994, legislation authorized the SBI to invest in non-rated and below investment grade fixed income instruments. At its June 1995 meeting, the Board approved a recommendation to allow fixed income managers, upon making a presentation to the Stock and Bond Committee and receiving the approval of the Committee, to invest up to 10% of their portfolios in below investment grade debt provided that such debt, upon purchase, is rated BB or B.

At its March 2002 meeting, the Board expanded the authority to invest in below investment grade and non-dollar bonds for the active and semi-passive components of the Fixed Income Program. Currently, active managers may invest up to 15% in the below investment grade sector and up to 15% in the non-dollar sector, provided that the combined sectors do not exceed 20% of a managers' total portfolio. Semi-passive managers may invest up to 5% of their portfolios in the below investment grade sector and up to 5% in the non-dollar sector.

Staff proposed that an active manager, Dodge and Cox be granted the authority to invest up to 15% of its portfolio in the below investment grade sector and that a passive manager, Goldman Sachs, be granted authority to invest up to 5% in the below investment grade sector and up to 5% in the non-dollar sector. Each manager gave a presentation to the Committee.

The Committee approved the Staff recommendation that each manager be given the requested authority to invest in the below investment grade and non-dollar sectors.

ACTION ITEMS:

4. **Recommendation to grant emerging markets equity managers the authority to cross-hedge currencies.**

   Morgan Stanley, one of the SBI's emerging markets managers has requested authority to hedge, for a limited time, the South African Rand back to the Euro. Currently, the emerging markets managers may only hedge currency exposure back to the U.S. Dollar and are not allowed to cross hedge against other currencies

   Developed markets managers are allowed to hedge not only back to the U.S. dollar, but may also cross hedge against other eligible markets securities. At the time the emerging markets manager investment guidelines were written, the Euro did not exist. It has become a major currency and Staff believes that allowing emerging markets managers this authority is appropriate and consistent with the SBI's policy for developed markets managers. In some circumstances it may also be advantageous for an emerging markets manager to be allowed to hedge back to other eligible markets currencies. However, as a risk control measure, Staff believes that emerging markets managers should receive prior written authorization from Staff before being allowed to hedge currency exposure to any currency other than the U.S. dollar or the Euro.

   The Committee concurred with Staff's proposal.

RECOMMENDATION:

The Committee recommends that the SBI allow emerging markets managers to hedge foreign currency exposure of underlying equity investments to the U.S. Dollar or to the Euro, and upon written authorization from Staff, to hedge the currency exposure of underlying equity investments to the currencies of other eligible market currencies.

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Fourth Quarter, 2004

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COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending December, 2004
Performance versus Russell Style Benchmarks for All Periods

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	10.8	9.8	15.7	11.4	4.7	4.3	1.1	-1.8	12.3	11.9
New Amsterdam Partners (2)	10.4	9.8	14.8	11.4	8.3	8.8	7.2	5.6	14.8	12.6
UBS Global	10.4	9.8	13.4	11.4	8.1	4.3	6.6	-1.8	11.5	11.0
Voyageur-Chicago Equity	8.8	9.8	10.6	11.4	2.6	4.3			-1.7	-2.1
Aggregate	10.5	9.8	14.5	11.4						
Russell 1000 Growth										
Alliance Capital	9.1	9.2	5.7	6.3	-1.8	-0.2	-6.8	-9.3	15.0	11.3
Cohen, Klingenstein & Marks	12.7	9.2	6.1	6.3	-0.9	-0.2	-7.3	-9.3	10.1	9.6
Holt-Smith & Yates	6.4	9.2	7.3	6.3	-1.9	-0.2			-3.2	-11.1
Zevenbergen Capital	13.8	9.2	13.1	6.3	2.5	-0.2	-13.9	-9.3	10.7	9.6
Aggregate	10.2	9.2	6.1	6.3						
Russell 1000 Value										
Barrow, Hanley	10.4	10.4							15.4	13.1
Earnest Partners	10.4	10.4	18.9	16.5	8.7	8.6			4.1	6.9
Lord Abbett & Co.	11.1	10.4							10.7	13.1
LSV Asset Mgmt	9.8	10.4							14.4	13.1
Oppenheimer	8.1	10.4	12.0	16.5	6.9	8.6	4.8	5.3	13.6	12.2
Systematic Financial Mgmt.	10.5	10.4							12.2	13.1
Aggregate	9.4	10.4	14.3	16.5						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	15.8	15.1	12.2	14.3					12.2	14.3
Next Century Growth	15.1	15.1	6.4	14.3	2.3	5.8			-9.1	-4.2
Turner Investment Partners	12.3	15.1	11.6	14.3					11.6	14.3
Winslow-Small Cap	14.8	15.1	8.9	14.3	4.0	5.8			-1.3	-4.2
Aggregate	14.5	15.1	9.7	14.3						
Russell 2000 Value										
AEAM/Kenwood	12.9	13.2	25.8	22.2					25.8	22.2
Goldman Sachs	10.5	13.2	19.9	22.2					19.9	22.2
Hotchkis & Wiley	13.4	13.2	27.1	22.2					27.1	22.2
Martingale Asset Mgmt	15.3	13.2	30.8	22.2					30.8	22.2
Peregrine Capital	15.2	13.2	23.6	22.2	17.9	16.5			20.0	17.8
Aggregate	13.7	13.2	25.0	22.2						
Active Mgr. Aggregate	10.7	10.4	12.5	12.3						

(1) Since retention by the SBI. Time period varies for each manager.
(2) New Amsterdam Partners' published benchmark is the Russell 1000 core index beginning 10/1/'03. Prior to that date it was the Russell Midcap Index

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

	2004		2003		2002		2001		2000	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	15 7	11 4	32 9	29 9	-25 4	-21.7	-6 6	-12 5	-1 6	-7 8
New Amsterdam Partners (2)	14 8	11 4	34 2	38 0	-17 5	-16 2	-3 3	-5 6	15 0	8.2
UBS Global	13 4	11.4	30 7	29 9	-14 7	-21 7	5 2	-12 5	3 6	-7 8
Voyageur-Chicago Equity	10 6	11 4	23 2	29 9	-20 6	-21 7	-19 4	-12 5		
Aggregate	14 5	11 4								
Russell 1000 Growth										
Alliance Capital	5 7	6 3	22 4	29 7	-26 8	-27 9	-13 7	-20 4	-13 7	-22 4
Cohen, Klingenstein & Marks	6 1	6 3	41 2	29 7	-35 0	-27 9	-25 0	-20 4	-6 0	-22 4
Holt-Smith & Yates	7 3	6 3	22 1	29 7	-28 0	-27 9	-1 7	-20 4		
Zevenbergen Capital	13 1	6 3	49 3	29 7	-36 2	-27 9	-29 0	-20 4	-38 2	-22.4
Aggregate	6 1	6 3								
Russell 1000 Value										
Barrow, Hanley (1)										
Earnest Partners	18 9	16 5	32 0	30 0	-18 1	-15 5	-0 4	-5 6		
Lord Abbett & Co (1)										
LSV Asset Mgmt (1)										
Oppenheimer	12 0	16 5	28 9	30 0	-15 5	-15 5	-7 0	-5 6	11 2	7 0
Systematic Financial Mgmt (1)										
Aggregate	14 3	16 5								
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	12 2	14 3								
Next Century Growth	6 4	14 3	50 7	48 5	-33 3	-30 3	-22 8	-9 2		
Turner Investment Partners	11 6	14 3								
Winslow-Small Cap	8 9	14 3	37 6	48 5	-25 0	-30 3	-6 1	-9 2		
Aggregate	9 7	14 3								
Russell 2000 Value										
AEAM/Kenwood	25 8	22 2								
Goldman Sachs	19 9	22 2								
Hotchkis & Wiley	27 1	22.2								
Martingale Asset Mgmt.	30 8	22 2								
Peregrine Capital	23 6	22 2	44 2	46 0	-8 1	-11 4	12 6	14 0		
Aggregate	25 0	22 2								
Active Mgr. Aggregate	12 5	12 3								

(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

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 2004
Versus Manager Benchmarks (1)

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market	Pool
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Value	
	%	%	%	%	%	%	%	%	%	%	(in millions)	%
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	10 8	9 8	15 7	11 4	4 7	7 0	1 1	3 0	12 3	12 0	$748 1	3 6%
New Amsterdam Partners	10 4	9 8	14 8	11 4	8 3	5 9	7 2	4 9	14 8	14 2	$439 1	2 1%
UBS Global	10 4	9 8	13 4	11 4	8 1	5 0	6 6	0 4	11 5	11 0	$797 8	3 9%
Voyageur-Chicago Equity	8 8	9 8	10 6	11 4	2 6	4 4			-1 7	-1 7	$47 0	0 2%
Aggregate	10 5	9 8	14 5	11 4								
Large Cap Growth (R1000 Growth)												
Alliance Capital	9 1	9 2	5 7	6 3	-1 8	0 7	-6 8	-5 2	15 0	11 3	$463 0	2 2%
Cohen, Klingenstein & Marks	12 7	9 2	6 1	6 3	-0 9	4 1	-7 3	-2 5	10 1	11 6	$424 4	2 0%
Holt-Smith & Yates	6 4	9 2	7 3	6 3	-1 9	4 2			-3 2	3 3	$43 8	0 2%
Zevenbergen Capital	13 8	9 2	13 1	6 3	2 5	1 9	-13 9	-3 1	10 7	13 1	$210 3	1 0%
Aggregate	10 2	9 2	6 1	6 3								
Large Cap Value (R1000 Value)												
Barrow, Hanley	10 4	10 4							15 4	13 1	$284 6	1 4%
Earnest Partners	10 4	10 4	18 9	16 5	8 7	13 4			4 1	14 7	$60 4	0 3%
Lord Abbett & Co	11 1	10 4							10 7	13 1	$273 1	1 3%
LSV Asset Mgmt	9 8	10 4							14 4	13 1	$337 1	1 6%
Oppenheimer	8 1	10 4	12 0	16 5	6 9	6 7	4 8	3 9	13 6	12 8	$769 7	3 7%
Systematic Financial Mgmt	10 5	10 4							12 2	13 1	$165 6	0 8%
Aggregate	9 4	10 4	14 3	16 5								
Small Cap Growth (R2000 Growth)												
McKinley Capital	15 8	15 1	12 2	14 3					12 2	14 3	$190 8	0 9%
Next Century Growth	15 1	15 1	6 4	14 3	2 3	7 0			-9 1	-1 5	$32 9	0 2%
Turner Investment Partners	12 3	15 1	11 6	14 3					11 6	14 3	$141 9	0 7%
Winslow-Small Cap	14 8	15 1	8 9	14 3	4 0	8 2			-1 3	1 7	$139 2	0 7%
Aggregate	14 5	15 1	9 7	14 3								
Small Cap Value (R2000 Value)												
AEAM/Kenwood	12 9	13 2	25 8	22 2					25 8	22 2	$52 7	0 3%
Goldman Sachs	10 5	13 2	19 9	22 2					19 9	22 2	$112 2	0 5%
Hotchkis & Wiley	13 4	13 2	27 1	22 2					27 1	22 2	$118 9	0 6%
Martingale Asset Mgmt	15 3	13 2	30 8	22 2					30 8	22 2	$122 3	0 6%
Peregrine Capital Mgmt	15 2	13 2	23 6	22 2	17 9	17 9			20 0	21 1	$177 2	0 9%
Aggregate	13 7	13 2	25 0	22 2								
Active Mgr. Aggregate	10 7	10 4	12 5	12 3								

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

	2004		2003		2002		2001		2000	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
ACTIVE MANAGERS										
Large Cap Core (R1000)										
Franklin Portfolio	15 7	11 4	32 9	36 9	-25 4	-19 8	-6.6	-5.4	-1 6	0 3
New Amsterdam Partners	14 8	11 4	34 2	37 1	-17 5	-22 2	-3 3	3.7	15 0	3 1
UBS Global	13 4	11 4	30 7	30 8	-14 7	-20 6	5 2	-11 0	3 6	-1 0
Voyageur-Chicago Equity	10 6	11 4	23 2	28 9	-20 6	-20 7	-19 4	-12 0		
Aggregate	14 5	11 4								
Large Cap Growth (R1000 Growth)										
Alliance Capital	5 7	6 3	22 4	26 3	-26 8	-24 0	-13 7	-15 3	-13 7	-11 4
Cohen, Klingenstein & Marks	6 1	6 3	41 2	39 3	-35 0	-23 8	-25 0	-11 2	-6 0	-12 1
Holt-Smith & Yates	7 3	6 3	22 1	31 3	-28 0	-19 0	-1 7	4 6		
Zevenbergen Capital	13 1	6 3	49 3	31 3	-36 2	-24.2	-29 0	-3.2	-38 2	-16 6
Aggregate	6 1	6 3								
Large Cap Value (R1000 Value)										
Barrow, Hanley (1)										
Earnest Partners	18 9	16 5	32 0	41 8	-18 1	-11 6	-0 4	11.5		
Lord Abbett & Co (1)										
LSV Asset Mgmt (1)										
Oppenheimer	12 0	16 5	28 9	31 4	-15 5	-20 7	-7 0	-9 5	11 2	10 3
Systematic Financial Mgmt (1)										
Aggregate	14.3	16 5								
Small Cap Growth (R2000 Growth)										
McKinley Capital	12 2	14 3								
Next Century Growth	6 4	14 3	50 7	48 5	-33 3	-27 8	-22 8	-5 5		
Turner Investment Partners	11 6	14 3								
Winslow-Small Cap	8 9	14 3	37 6	51 3	-25 0	-26 7	-6 1	4 6		
Aggregate	9 7	14 3								
Small Cap Value (R2000 Value)										
AEAM/Kenwood	25 8	22 2								
Goldman Sachs	19 9	22 2								
Hotchkis & Wiley	27 1	22 2								
Martingale Asset Mgmt	30 8	22 2								
Peregrine Capital Mgmt.	23 6	22.2	44 2	44 2	-8 1	-6 9	12 6	22.9		
Aggregate	25 0	22 2								
Active Mgr. Aggregate	12 5	12 3								

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

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 2004
Versus Manager Benchmarks (1)

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (2) Actual %	Since Inception (2) Bmk %	Market Value (in millions)	Pool %
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	9.9	9.8	11.7	11.4	5.6	4.7	-1.3	-2.8	11.6	10.9	$2,679.6	12.9%
Franklin Portfolio	9.8	9.8	11.7	11.4	4.2	4.7	-2.9	-2.8	10.4	10.9	$1,930.7	9.3%
JP Morgan	9.2	9.8	11.7	11.4	4.0	4.7	-2.4	-2.8	11.0	10.9	$2,276.7	11.0%
Semi-Passive Aggregate (R1000)	9.6	9.8	11.7	11.4	4.7	4.7	-2.1	-2.8	11.1	10.9		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	10.1	10.2	12.0	11.9	4.8	4.9	-1.7	-1.9	10.3	10.2	$6,987.5	33.7%
									Since 1/1/84			
Historical Aggregate (3)	**10.2**	**10.1**	**12.2**	**11.9**	**4.5**	**5.1**	**-2.0**	**-1.4**	**11.8**	**12.1**	$20,711.4	100.0% *
SBI DE Asset Class Target (4)		10.2		11.9		4.9		-1.9		12.0		
Russell 3000		10.2		11.9		4.8		-1.2		12.5		
Wilshire 5000		10.3		12.6		5.5		-1.4		12.4		
Russell 1000		9.8		11.4		4.3		-1.8		12.8		
Russell 2000		14.1		18.3		11.5		6.6		10.6		

(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

* Total market value and pool % includes $684.8 million in transition to large capitalization growth managers, which is not shown spearately above

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

	2004		2003		2002		2001		2000	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS										
Barclays Global Investors	11 7	11 4	30 0	28 5	-19 1	-19 7	-7 8	-9 7	-13 8	-16 3
Franklin Portfolio	11 7	11 4	26 9	28 5	-20 2	-19 7	-9 0	-9 7	-15 9	-16 3
JP Morgan	11 7	11 4	28 9	28 5	-21 8	-19 7	-8 7	-9 7	-13 6	-16.3
Semi-Passive Aggregate (R1000)	11 7	11 4	28 8	28 5	-20 3	-19 7	-8 5	-9 7	-14 4	-16 3
PASSIVE MANAGER (R3000)										
Barclays Global Investors	12 0	11 9	30 9	31 2	-21 4	-21 5	-11 8	-11 7	-9 8	-11 0
Historical Aggregate (2)	**12.2**	**11.9**	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**	**-11.0**	**-10.7**
SBI DE Asset Class Target (3)		11 9		31 2		-21 5		-11 7		-10 8
Russell 3000		11 9		31 1		-21 5		-11 5		-7 5
Wilshire 5000		12 6		31 6		-20 9		-11 0		-10 9
Russell 1000		11 4		29 9		-21 7		-12 5		-7 8
Russell 2000		18 3		47 3		-20 5		2 5		-3 0

(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

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

Large Cap Core (R1000)

Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2004

Portfolio Manager: John Cone **Assets Under Management: $748,130,683**

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

The portfolio outperformed the Russell 1000 index by 1.0 percentage point (ppt) during the quarter. Strong overall stock selection overcame the impact of ineffective sector allocation decisions. On a factor basis, the portfolio benefited from exposure to earnings yield.

For the year, the portfolio outperformed the Russell 1000 index by 4.3 ppts. Both overall stock selection and sector allocation decisions contributed to performance. On a factor basis, exposure to earnings yield and momentum aided returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

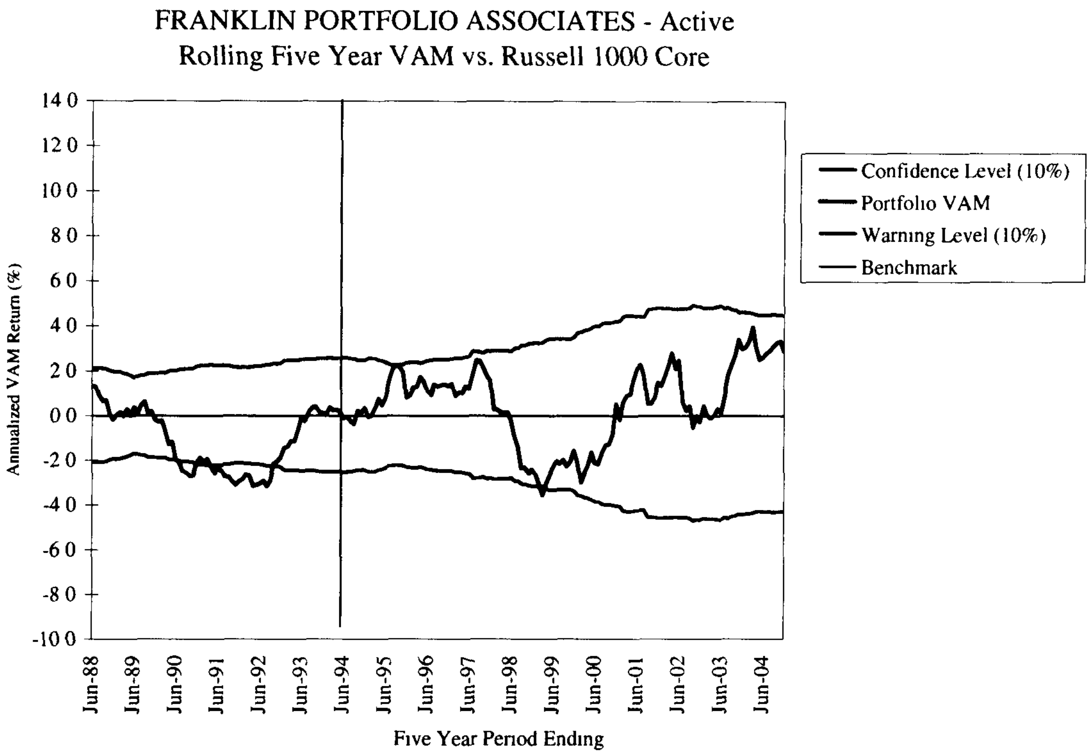
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	10.8%	9.8%	9.8%
Last 1 year	15.7	11.4	11.4
Last 2 years	24.0	20.3	23.5
Last 3 years	4.7	4.3	7.0
Last 4 years	1.7	-0.2	3.7
Last 5 years	1.1	-1.8	3.0
Since Inception (4/89)	12.3	11.9	12.0

Calendar Year Returns

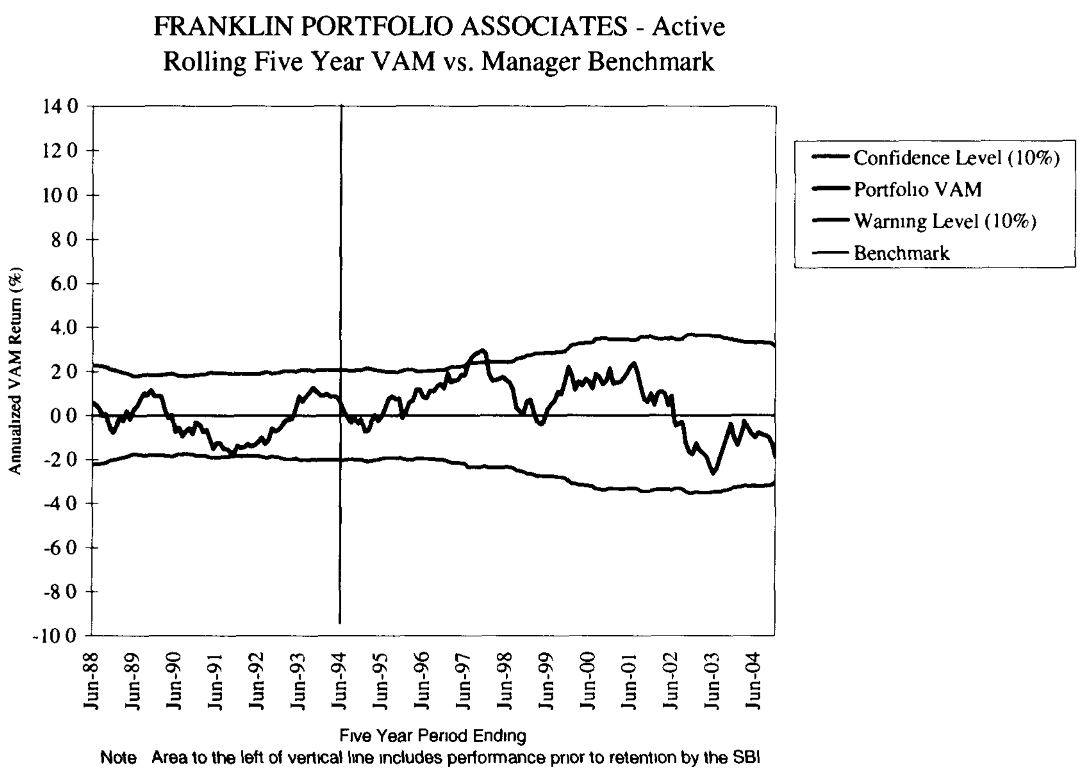
	Actual	Russell 1000 Core	Manager Benchmark
2004	15.7%	11.4%	11.4%
2003	32.9	29.9	36.9
2002	-25.4	-21.7	-19.8
2001	-6.6	-12.5	-5.4
2001	-1.6	-7.8	0.3

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2004

Portfolio Manager: John Cone **Assets Under Management: $748,130,683**



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



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

NEW AMSTERDAM PARTNERS
Periods Ending December, 2004

Portfolio Manager: Michelle Clayman **Assets Under Management: $439,068,064**

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

The portfolio outperformed the Russell 1000 index by 0.6 percentage point (ppt) during the quarter. Underweight allocations to health technology and finance coupled with strong stock selection contributed to performance. An overweight position in health services coupled with effective stock selection proved beneficial.

For the year, the portfolio outperformed the Russell 1000 index by 3.4 ppts. Strong overall stock selection, particularly within the finance and health technology sectors, contributed to performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)	Manager Benchmark
Last Quarter	10.4%	9.8%	9.8%
Last 1 year	14.8	11.4	11.4
Last 2 years	24.1	24.0	23.6
Last 3 years	8.3	8.8	5.9
Last 4 years	5.3	5.0	5.3
Last 5 years	7.2	5.6	4.9
Since Inception (4/94)	14.8	12.6	14.2

Calendar Year Returns

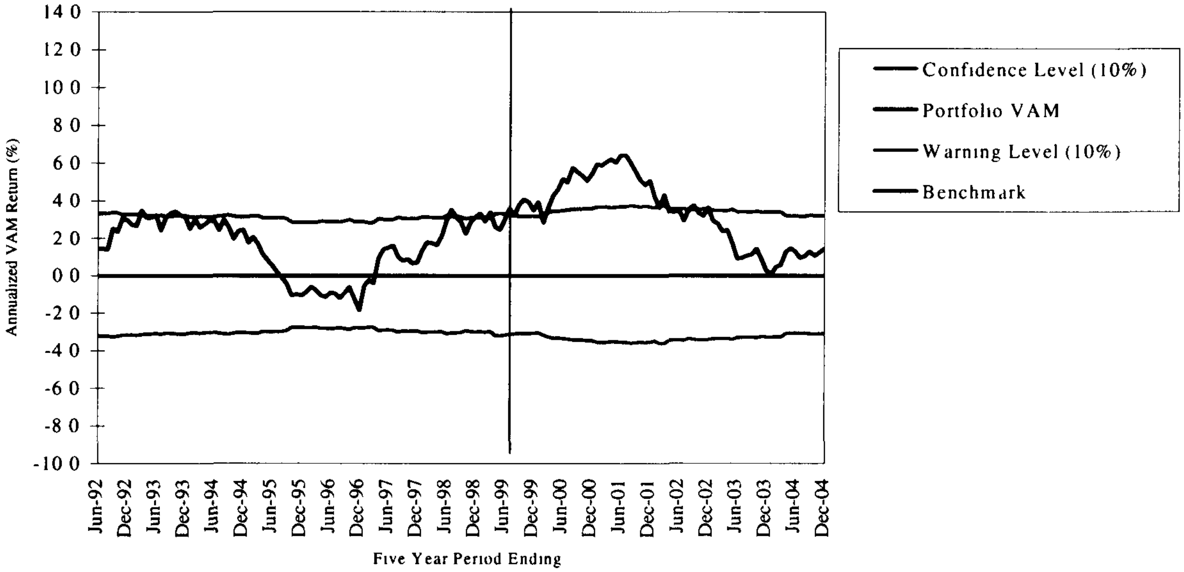
	Actual	Russell Index (1)	Manager Benchmark
2004	14.8%	11.4%	11.4%
2003	34.2	38.0	37.1
2002	-17.5	-16.2	-22.2
2001	-3.3	-5.6	3.7
2000	15.0	8.2	3.1

(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, 2004

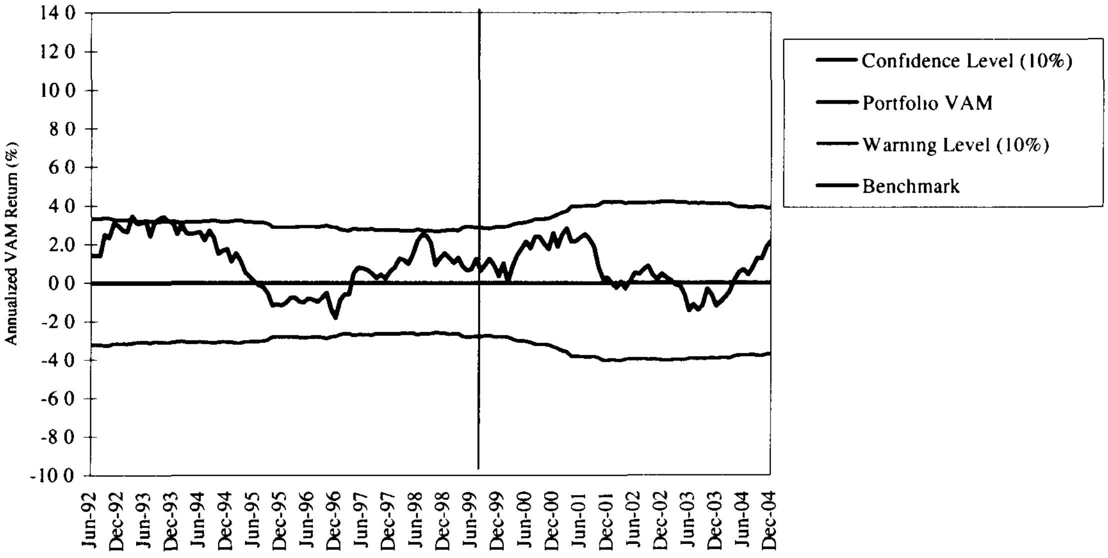
Portfolio Manager: Michelle Clayman **Assets Under Management: $439,068,064**

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

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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2004

Portfolio Manager: John Leonard | **Assets Under Management: $797,813,181**

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

The portfolio outperformed the Russell 1000 index for the quarter by 0.6 percentage point (ppt). Strong stock selection within health technology and communications overcame the negative impact of overweight positions in these underperforming sectors. An overweight allocation to transportation combined with strong stock selection aided returns.

For the year, the portfolio outperformed the Russell 1000 index by 2.0 ppts. An underweight position in electronic technology coupled with strong stock selection contributed to performance. An overweight allocation to health services combined with effective stock selection proved beneficial.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	10.4%	9.8%	9.8%
Last 1 year	13.4	11.4	11.4
Last 2 years	21.8	20.3	20.7
Last 3 years	8.1	4.3	5.0
Last 4 years	7.4	-0.2	0.7
Last 5 years	6.6	-1.8	0.4
Since Inception (7/93)	11.5	11.0	11.0

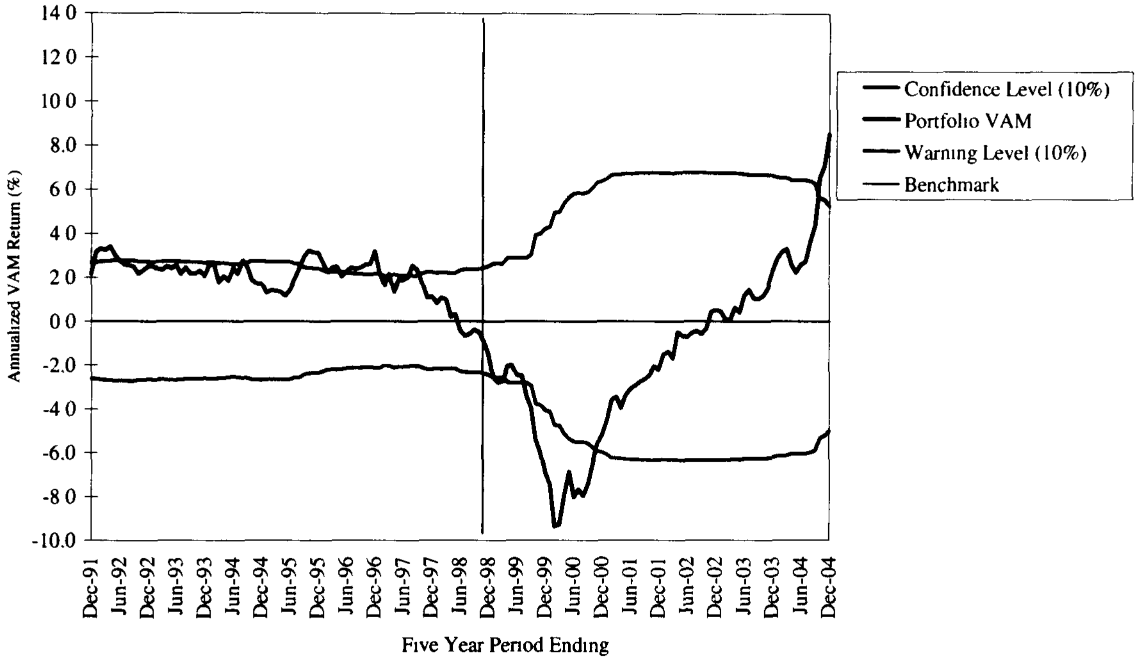
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
2004	13.4	11.4	11.4
2003	30.7	29.9	30.8
2002	-14.7	-21.7	-20.6
2001	5.2	-12.5	-11.0
2000	3.6	-7.8	-1.0

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2004

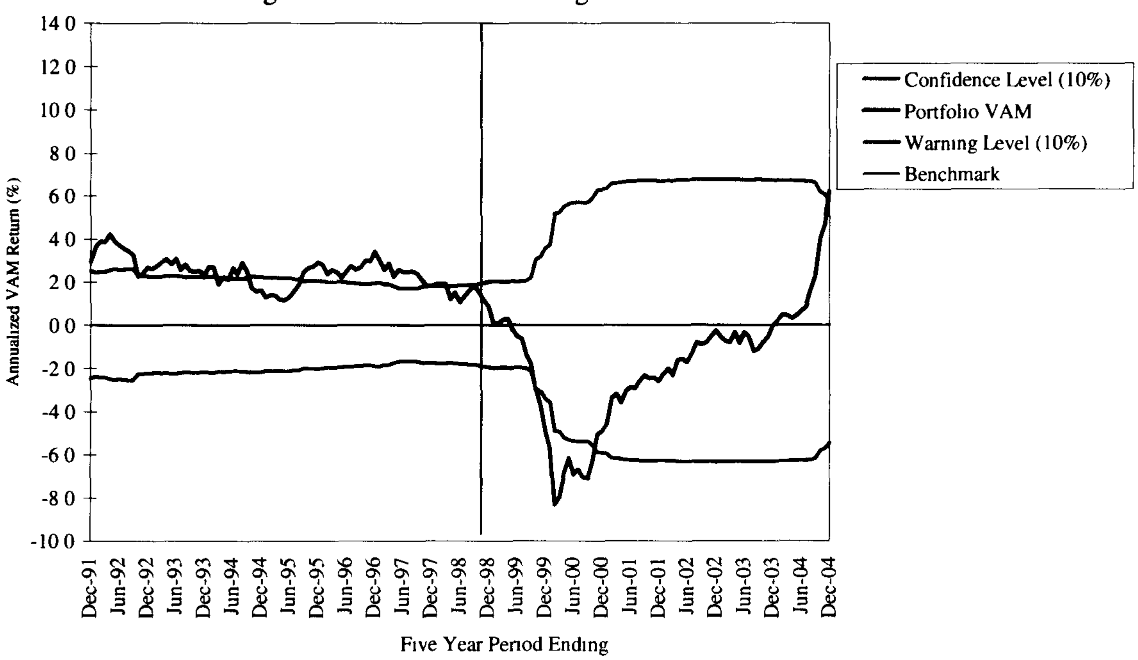
Portfolio Manager: John Leonard **Assets Under Management: $797,813,181**

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

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

VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Charles Henderson **Assets Under Management: $46,989,654**

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 underperformed the Russell 1000 Index by 1 0 percentage point (ppt) during the quarter. Effective sector allocation decisions were not enough to mitigate weak overall stock selection For the year, the portfolio underperformed the Russell 1000 Index by 1.2 ppts Strong overall stock selection was not enough to overcome ineffective sector allocation decisions An overweight position in distribution services coupled with weak stock selection detracted from performance

During the quarter, the strategy gained 9 new tax-exempt accounts valued at $933 million No accounts were lost during the period

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	8 8%	9 8%	9 8%
Last 1 year	10 6	11 4	11 4
Last 2 years	16 7	20 3	19 8
Last 3 years	2 6	4 3	4 4
Last 4 years	-3 4	-0 2	0 0
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-1 7	-2 1	-1 7

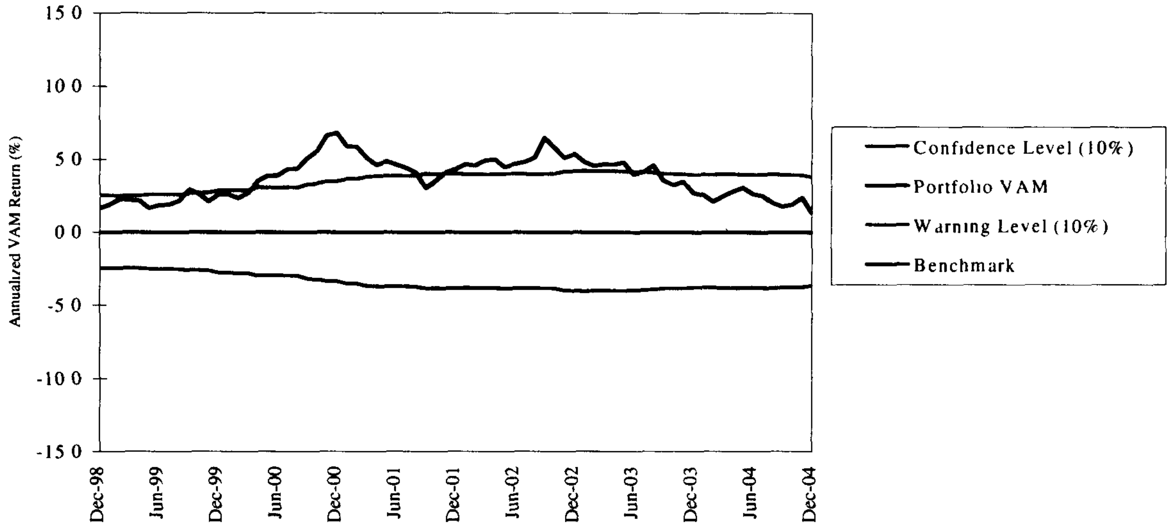
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
2004	10 6%	11 4%	11.4%
2003	23 2	29 9	28 9
2002	-20 6	-21 7	-20 7
2001	-19 4	-12 5	-12 0
2000	N/A	N/A	N/A

VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2004

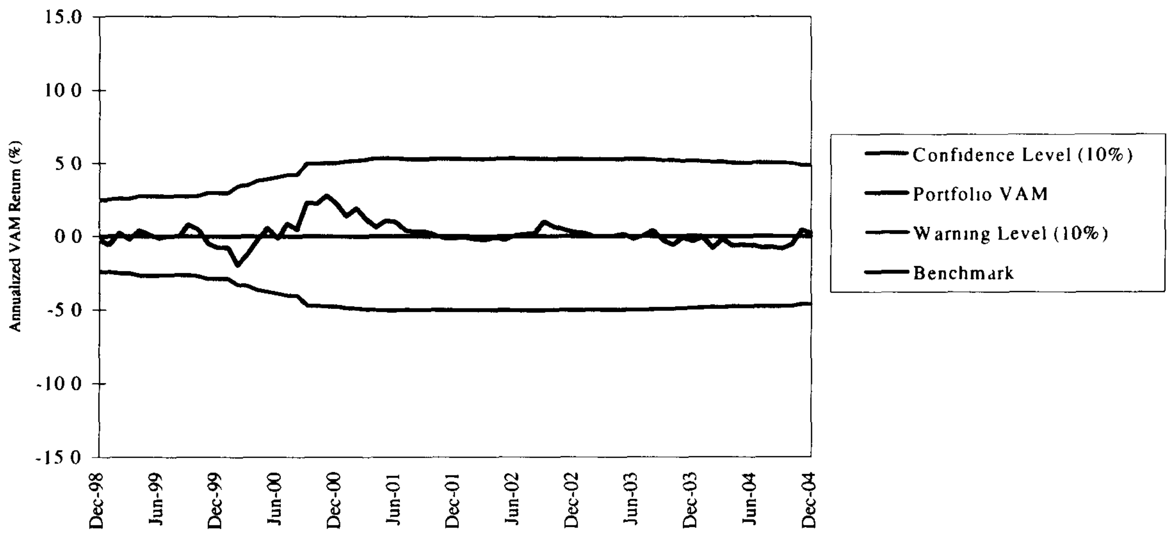
Portfolio Manager: Charles Henderson **Assets Under Management: $46,989,654**

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



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

Voyageur Asset Management
Rolling Five Year VAM vs. Manager Benchmark



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

Large Cap Growth (R1000 Growth)

Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Jack Koltes **Assets Under Management: $462,971,666**

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

The portfolio underperformed the Russell 1000 Growth Index by 0 1 percentage point (ppt) during the quarter Weak stock selection within the technology services, consumer non-durables, and retail trade sectors detracted from performance

For the year, the portfolio underperformed the Russell 1000 Growth Index by 0 6 ppt Weak stock selection within the finance health technology, and retail trade sectors outweighed the positive impact of allocation decisions within those areas

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

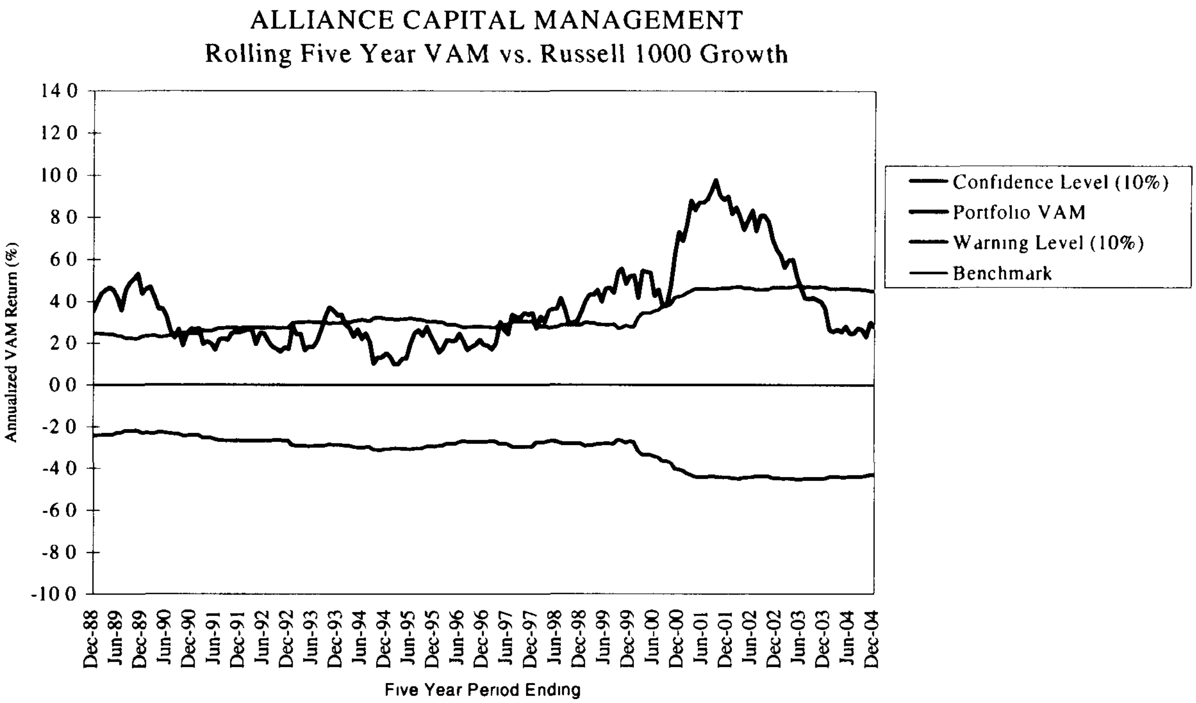
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	9 1%	9.2%	9 2%
Last 1 year	5 7	6 3	6 3
Last 2 years	13 7	17 4	15 9
Last 3 years	-1 8	-0 2	0.7
Last 4 years	-4.9	-5 7	-3 6
Last 5 years	-6.8	-9 3	-5.2
Since Inception (1/84)	15 0	11 3	11.3

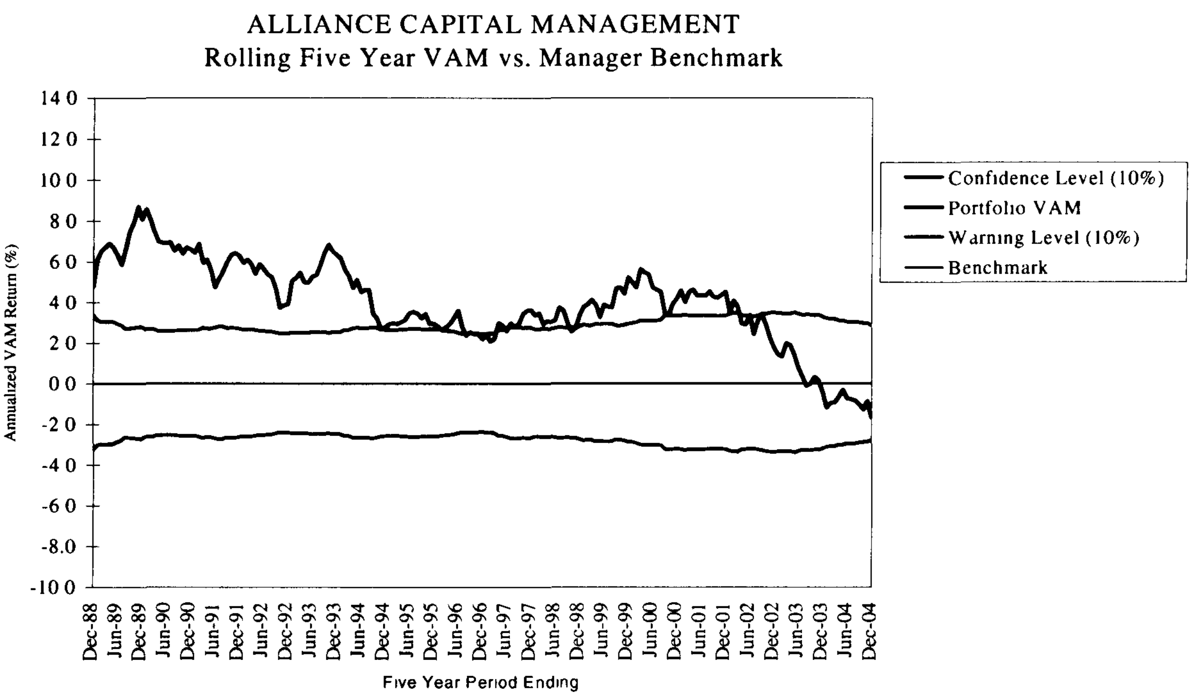
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	5 7%	6 3%	6 3%
2003	22 4	29 7	26 3
2002	-26 8	-27 9	-24 0
2001	-13 7	-20 4	-15 3
2000	-13 7	-22 4	-11.4

ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Jack Koltes **Assets Under Management: $462,971,666**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2004

Portfolio Manager: George Cohen — **Assets Under Management: $424,415,748**

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

The portfolio outperformed the Russell 1000 Growth index by 3 5 percentage points (ppt) over the quarter. The portfolio benefited from strong overall stock selection and effective sector allocation decisions Stock selection was particularly strong within the finance and retail trade sectors

For the year, the portfolio underperformed the Russell 1000 Growth index by 0 2 ppt Though overall stock selection was strong, it was not enough to mitigate the negative impact of sector allocation decisions. An overweight position in electronic technology coupled with weak stock selection detracted from performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	12 7%	9 2%	9 2%
Last 1 year	6 1	6 3	6.3
Last 2 years	22 4	17 4	21.7
Last 3 years	-0 9	-0 2	4.1
Last 4 years	-7 6	-5 7	0.1
Last 5 years	-7.3	-9.3	-2 5
Since Inception (4/94)	10 1	9.6	11 6

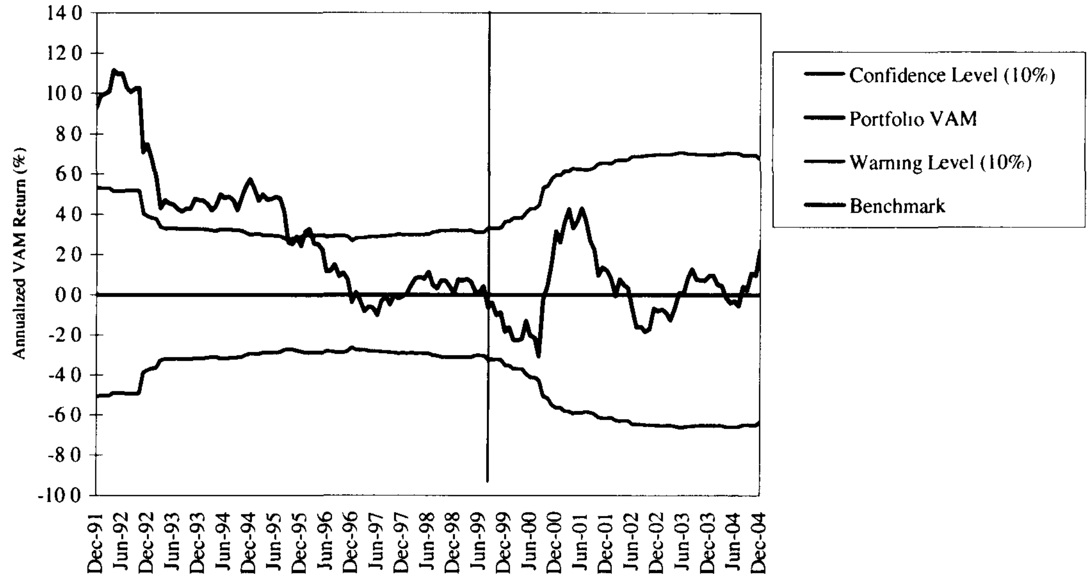
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	6 1%	6 3%	6 3%
2003	41 2	29 7	39 3
2002	-35 0	-27 9	-23 8
2001	-25 0	-20 4	-11.2
2000	-6 0	-22 4	-12 1

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2004

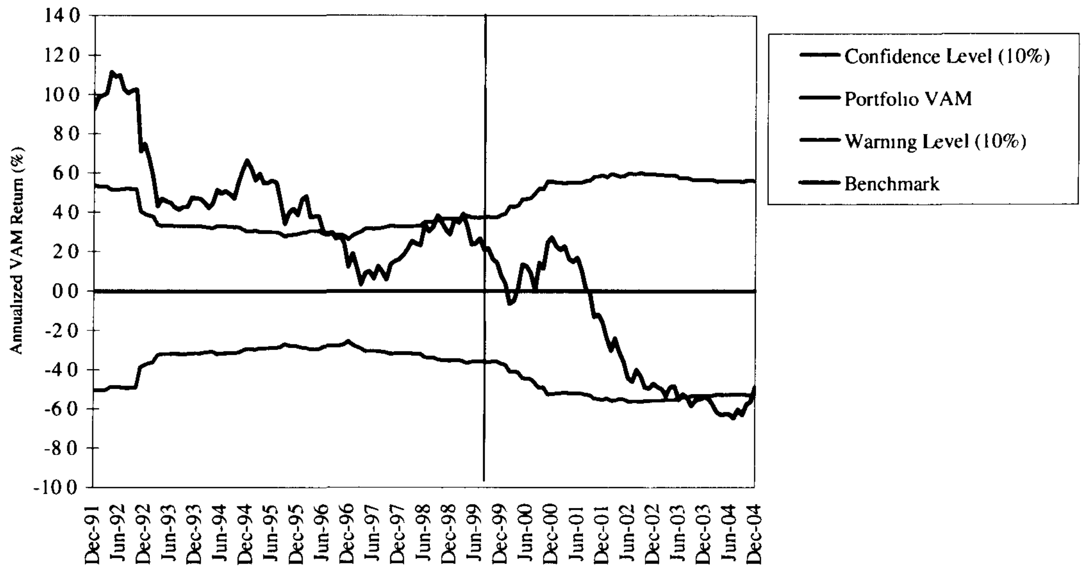
Portfolio Manager: George Cohen | **Assets Under Management: $424,415,748**

COHEN KLINGENSTEIN & MARKS
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

COHEN KLINGENSTEIN & MARKS
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

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2004

Portfolio Manager: Kristin Yates | **Assets Under Management: $43,794,211**

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

The portfolio underperformed the Russell 1000 Growth index by 2.8 percentage points (ppt) during the quarter. Weak overall stock selection, particularly within the electronic technology and technology services sectors, detracted from performance. For the year, the portfolio outperformed the Russell 1000 Growth index by 1.0 ppt. An overweight allocation to retail trade coupled with strong stock selection positively impacted returns.

Staff conducted a site visit. The philosophy, process, and organization were reviewed in detail. Equity ownership was broadened at year end to include Ryan Erickson (PM) and Beth Korth (COO). Upon leaving, equity holders must sell their shares back to the firm.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	6.4%	9.2%	9.2%
Last 1 year	7.3	6.3	6.3
Last 2 years	14.5	17.4	18.1
Last 3 years	-1.9	-0.2	4.2
Last 4 years	-1.8	-5.7	4.3
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-3.2	-11.1	3.3

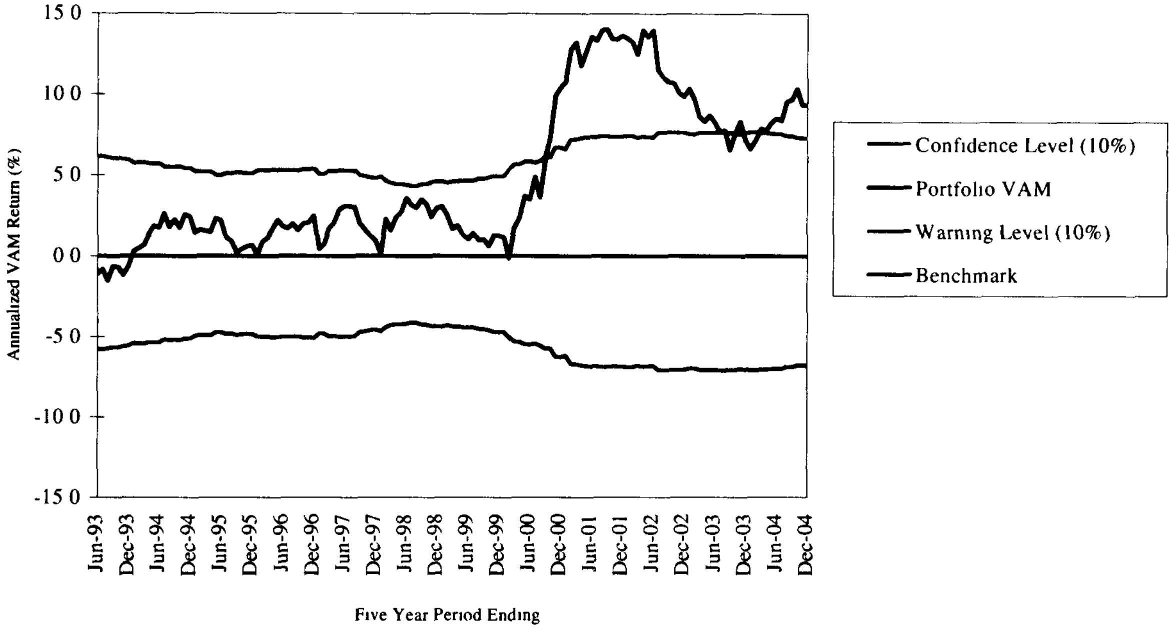
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	7.3%	6.3%	6.3%
2003	22.1	29.7	31.3
2002	-28.0	-27.9	-19.0
2001	-1.7	-20.4	4.6
2000	N/A	N/A	N/A

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2004

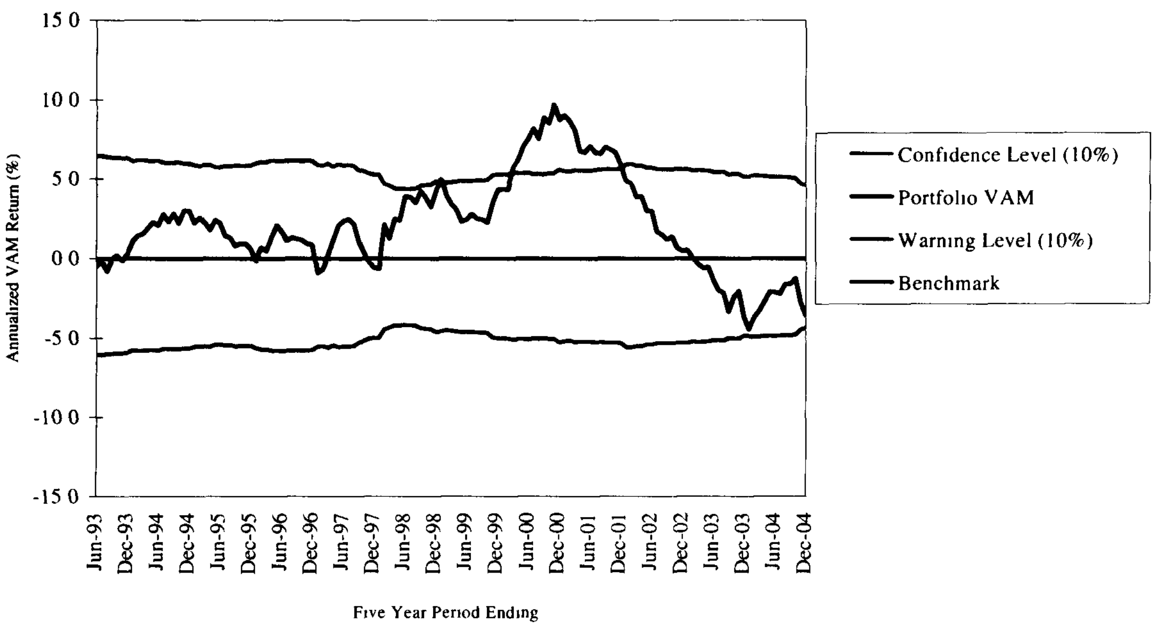
Portfolio Manager: Kristin Yates | **Assets Under Management: $43,794,211**

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



Note Shaded area includes performance prior to retention by the SBI

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



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

ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2004

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $210,317,358**

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

The portfolio outperformed the Russell 1000 Growth index by 4.6 percentage points (ppt) during the quarter Strong overall stock selection, particularly within technology services and electronic technology, positively impacted performance. An overweight allocation to consumer services coupled with effective stock selection contributed to returns

For the year, the portfolio outperformed the Russell 1000 Growth index by 6 8 ppt Strong stock selection outweighed the negative impact of overall sector allocation Overweight positions in technology services and consumer services coupled with strong stock selection contributed to performance.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

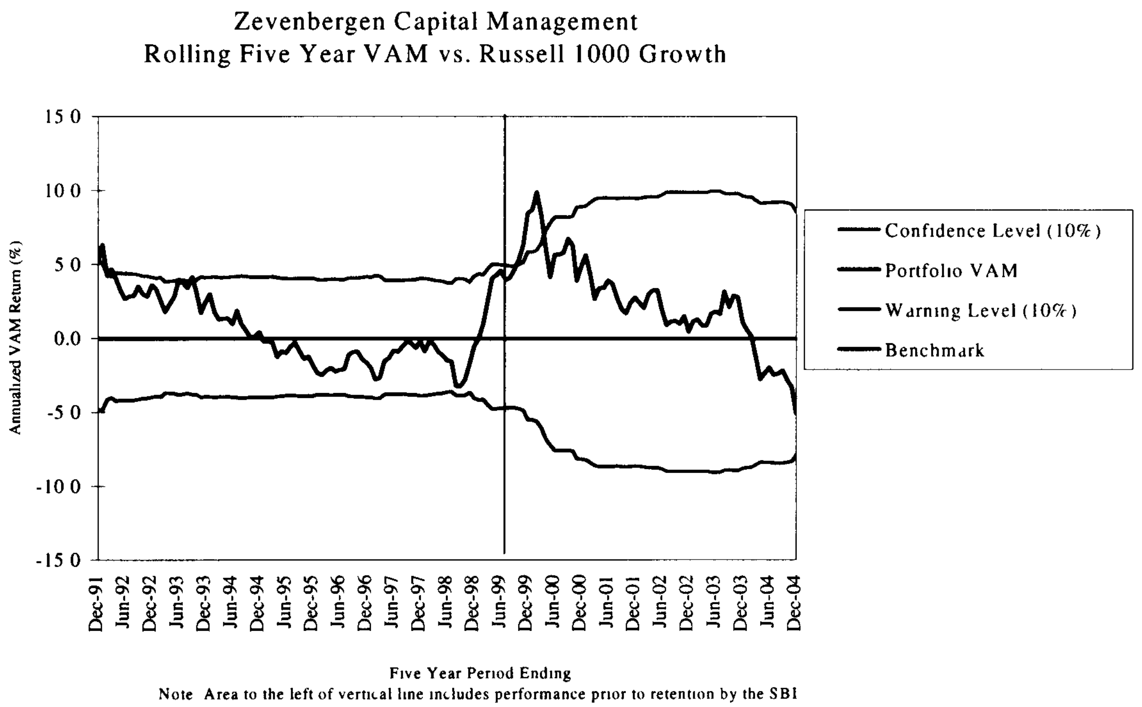
	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	13.8%	9 2%	9 2%
Last 1 year	13 1	6 3	6 3
Last 2 years	29 9	17 4	18.2
Last 3 years	2 5	-0 2	1 9
Last 4 years	-6 5	-5 7	0 6
Last 5 years	-13 9	-9.3	-3 1
Since Inception (4/94)	10 7	9 6	13 1

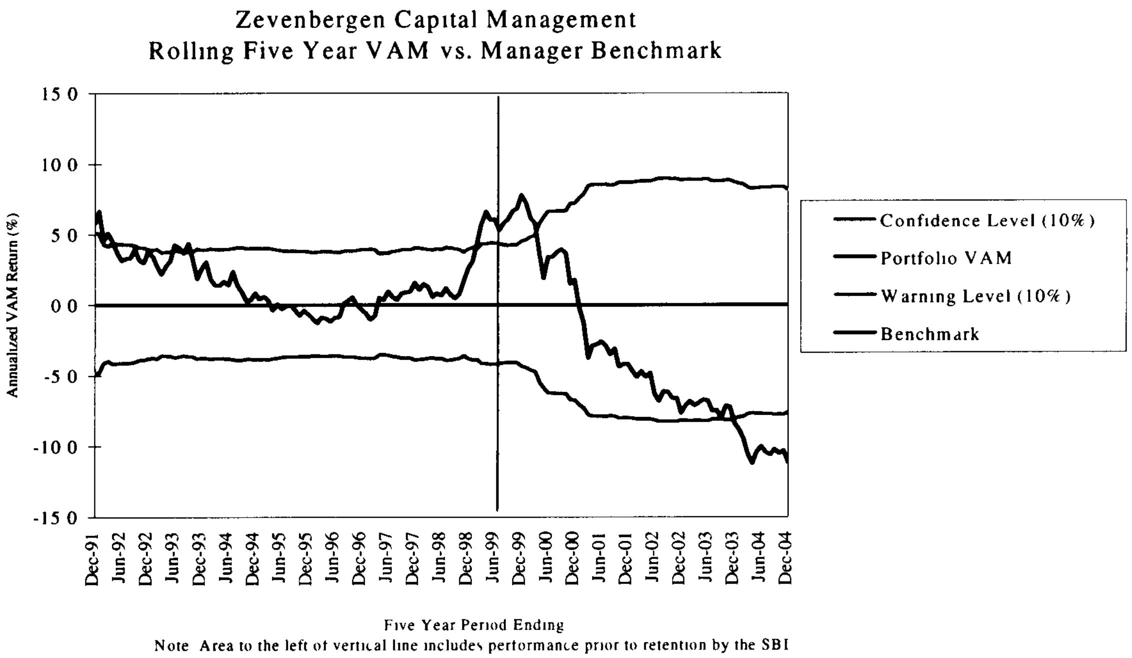
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2004	13 1%	6 3%	6 3%
2003	49 3	29 7	31.3
2002	-36 2	-27 9	-24 2
2001	-29.0	-20 4	-3 2
2000	-38 2	-22 4	-16 6

ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2004

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $210,317,358**





Large Cap Value (R1000 Value)

Large Cap Value (R1000 Value)

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BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending December, 2004

Portfolio Manager: Tim Culler — **Assets Under Management: $284,645,898**

Investment Philosophy

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

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

Staff Comments

For the quarter, the portfolio matched the Russell 1000 Value index An overweight position in health services coupled with effective stock selection contributed to performance. However, an overweight position in the underperforming health technology sector, combined with weak stock selection, detracted from returns

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	10.4%	10.4%	10 4%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (3/04)	15 4	13 1	13 1

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

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

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending December, 2004

Portfolio Manager: Tim Culler **Assets Under Management: $284,645,898**

VAM Graphs will be drawn for period ending 6/30/06

EARNEST PARTNERS, LLC
Periods Ending December, 2004

Portfolio Manager: Paul Viera | **Assets Under Management: $60,410,501**

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

The portfolio matched the return of the Russell 1000 Value index during the quarter. An overweight allocation to consumer services coupled with strong stock selection contributed to performance. However, an overweight position in the underperforming health technology sector, combined with weak stock selection, detracted from returns.

For the year, the portfolio outperformed the Russell 1000 Value index by 2.4 percentage points. An overweight position in energy minerals combined with strong stock selection proved beneficial. Stock selection was particularly effective within the consumer services and consumer durables sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

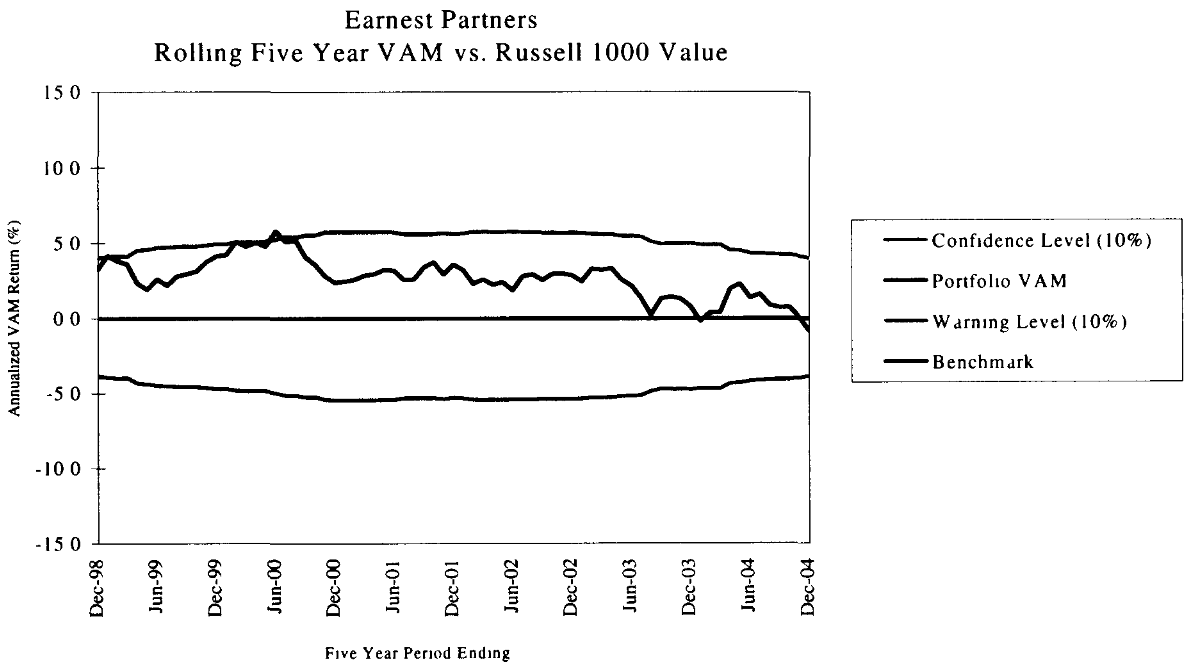
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	10.4%	10.4%	10.4%
Last 1 year	18.9	16.5	16.5
Last 2 years	25.3	23.1	28.5
Last 3 years	8.7	8.6	13.4
Last 4 years	6.4	4.8	12.9
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	4.1	6.9	14.7

Calendar Year Returns

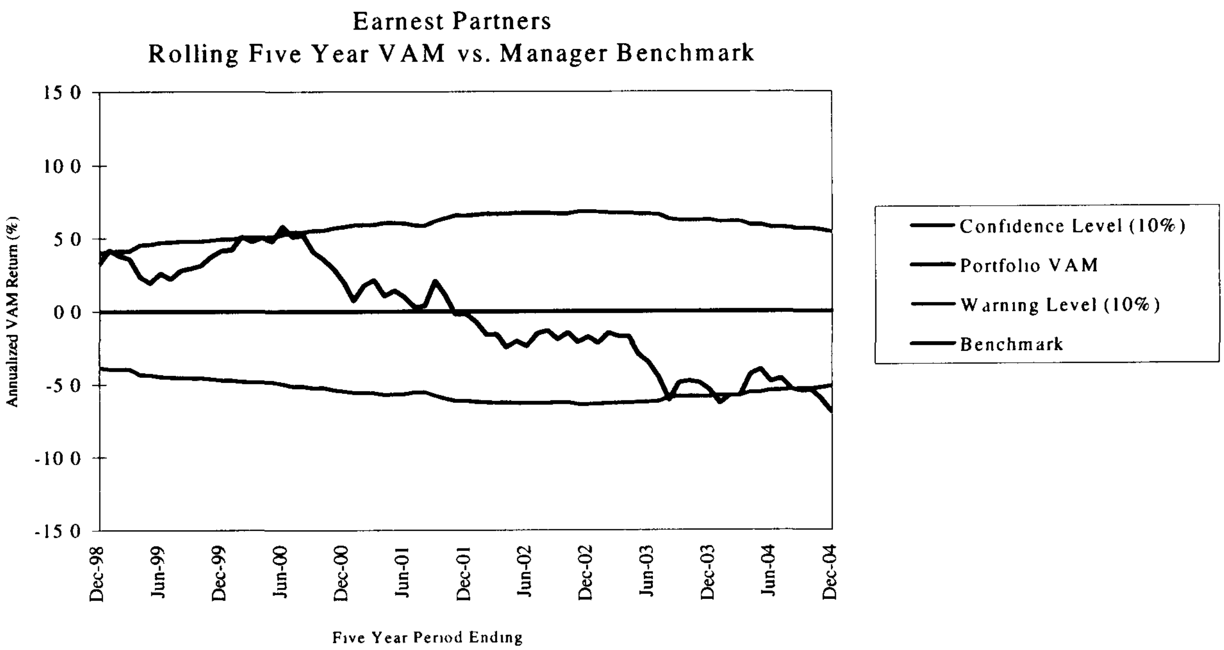
	Actual	Russell 1000 Value	Manager Benchmark
2004	18.9%	16.5%	16.5%
2003	32.0	30.0	41.8
2002	-18.1	-15.5	-11.6
2001	-0.4	-5.6	11.5
2000	N/A	N/A	N/A

EARNEST PARTNERS, LLC
Periods Ending December, 2004

Portfolio Manager: Paul Viera **Assets Under Management: $60,410,501**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

LORD ABBETT & CO. LLC
Periods Ending December, 2004

Portfolio Manager: Eli Saltzmann **Assets Under Management: $273,065,232**

Investment Philosophy

Utilizing a value-based, disciplined investment process that employs both informed judgment and quantitative analysis, Lord Abbett seeks to invest in companies with improving business fundamentals that are attractively valued. This process is implemented via a traditional fundamental active stock selection approach.

As a value manager, Lord Abbett believes that the market systematically misprices stocks. By coupling valuation criteria with thorough research of corporate and industry fundamentals, informed judgments can be made about where the market would price these stocks at fair value. The portfolio is constructed to exploit pricing discrepancies where it is perceived that 1) these price differences will be closed over a reasonable period of time, or 2) there may be a catalyst for price appreciation. This process is implemented while maintaining sensitivity to both benchmark and macro-economic risk exposures.

Staff Comments

For the quarter, the portfolio outperformed the Russell 1000 Value index by 0.7 percentage point. Effective sector allocation decisions overcame the negative impact of weak overall stock selection. An overweight position in electronic technology coupled with strong stock selection contributed to performance. An underweight allocation to energy minerals coupled with effective stock selection proved beneficial.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	11.1%	10.4%	10.4%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (3/04)	10.7	13.1	13.1

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

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

Portfolio Manager: Eli Saltzmann | **Assets Under Management: $273,065,232**

VAM Graphs will be drawn for period ending 6/30/06

LSV ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Josef Lakonishok **Assets Under Management: $337,120,409**

Investment Philosophy

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

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

Staff Comments

For the quarter, the portfolio underperformed the Russell 1000 Value by 0 6 percentage point Ineffective sector allocations combined with overall weak stock selection detracted from performance An underweight position in consumer services represented a missed opportunity, weak stock selection enhanced the negative impact An overweight position in energy minerals coupled with ineffective stock selection hindered returns

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	9.8%	10 4%	10 4%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (3/04)	14 4	13 1	13.1

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

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

Portfolio Manager: Josef Lakonishok **Assets Under Management: $337,120,409**

VAM Graphs will be drawn for period ending 6/30/06

OPPENHEIMER CAPITAL
Periods Ending December, 2004

Portfolio Manager: John Lindenthal | **Assets Under Management: $769,689,292**

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

The portfolio underperformed the Russell 1000 Value index by 2.3 percentage points (ppt) during the quarter. Weak overall stock selection, particularly within finance and consumer non-durables, detracted from performance. The cash position, which was 7.1% effective 12/31/04, also hindered returns.

For the year, the portfolio underperformed the Russell 1000 Value index by 4.5 ppt. An overweight position in the underperforming health technology sector hindered returns. An underweight allocation to energy minerals represented a missed opportunity; weak stock selection further detracted from performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	8.1%	10.4%	10.4%
Last 1 year	12.0	16.5	16.5
Last 2 years	20.2	23.1	23.7
Last 3 years	6.9	8.6	6.7
Last 4 years	3.2	4.8	2.4
Last 5 years	4.8	5.3	3.9
Since Inception (7/93)	13.6	12.2	12.8

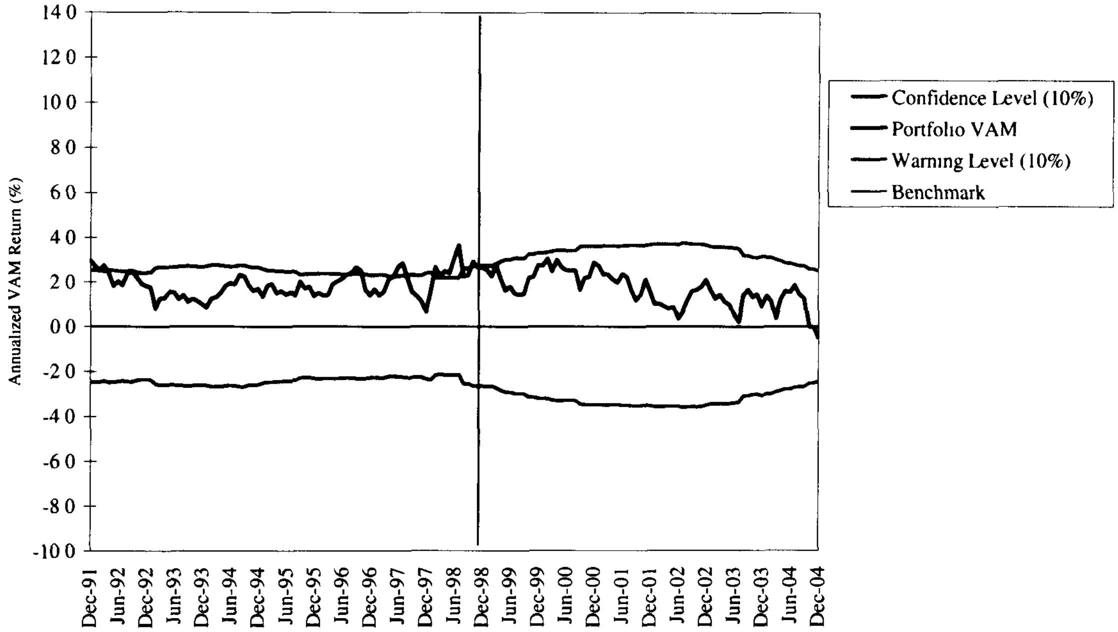
Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004	12.0%	16.5%	16.5%
2003	28.9	30.0	31.4
2002	-15.5	-15.5	-20.7
2001	-7.0	-5.6	-9.5
2000	11.2	7.0	10.3

OPPENHEIMER CAPITAL
Periods Ending December, 2004

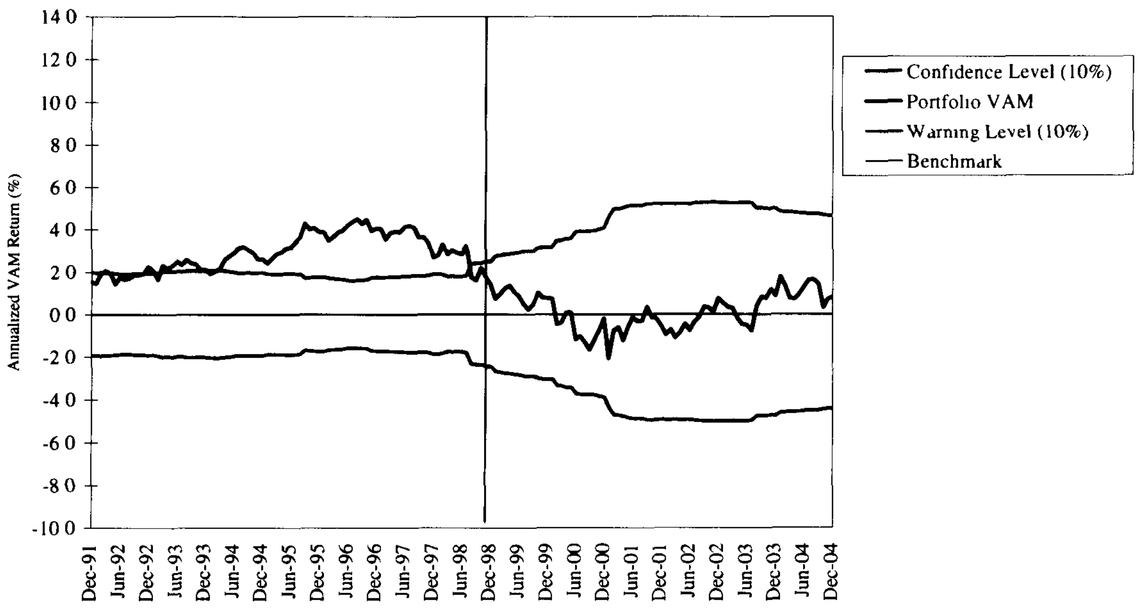
Portfolio Manager: John Lindenthal **Assets Under Management: $769,689,292**

OPPENHEIMER CAPITAL
Rolling Five Year VAM vs. Russell 1000 Value



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

OPPENHEIMER CAPITAL
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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending December, 2004

Portfolio Manager: Kevin McCreesh | **Assets Under Management: $165,581,877**

Investment Philosophy

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

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

Staff Comments

The portfolio outperformed the Russell 1000 Value index by 0 1 percentage point during the quarter Strong overall stock selection overcame the negative impact of sector allocation decisions. Stock selection was particularly effective within the utilities, retail trade and communications sectors The earnings surprise element within the stock selection model proved effective

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	10 5%	10.4%	10 4%
Last 1 year	N/A	N/A	N/A
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (3/04)	12 2	13 1	13 1

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2004*	N/A	N/A	N/A
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

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

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending December, 2004

Portfolio Manager: Kevin McCreesh **Assets Under Management: $165,581,877**

VAM Graphs will be drawn for period ending 6/30/06

Small Cap Growth (R2000) Growth

Small Cap Growth (R2000 Growth)

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MCKINLEY CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $190,796,756**

Investment Philosophy

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

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

Staff Comments

The portfolio outperformed the Russell 2000 Growth index by 0 7 percentage point (ppt) during the quarter Strong overall stock selection outweighed the negative impact of overall sector allocation An overweight position in the electronic technology sector coupled with favorable stock selection contributed to performance

For the year, the portfolio underperformed the Russell 2000 Growth index by 2 1 ppts. Overall sector allocation and stock selection detracted from performance Underweight positions in health technology and industrial services hindered returns; weak stock selection in both sectors exacerbated the negative impact The product closed to new clients effective 1/1/05

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	15 8%	15 1%	15.1%
Last 1 year	12 2	14 3	14.3
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	12.2	14 3	14 3

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2004	12 2%	14 3%	14.3%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

MCKINLEY CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $190,796,756**

VAM Graphs will be drawn for period ending 3/31/06.

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2004

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $32,867,029**

Investment Philosophy

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

Staff Comments

The portfolio matched the performance of the Russell 2000 Growth index during the quarter. For the year, the portfolio underperformed the Russell 2000 Growth index by 7.9 percentage points. Several stock specific disappointments early in the period depressed the full year results.

To increase their proprietary research capabilities, the firm hired Kaj Doerring, formerly with Think Equity Partners. Mr. Doerring has extensive medical experience and a strong network of contacts in health care. Next Century officially exited the mutual fund business 12/31/04. A group of former Strong employees continues to own 20% of Next Century Growth and receives 10% of its profits.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

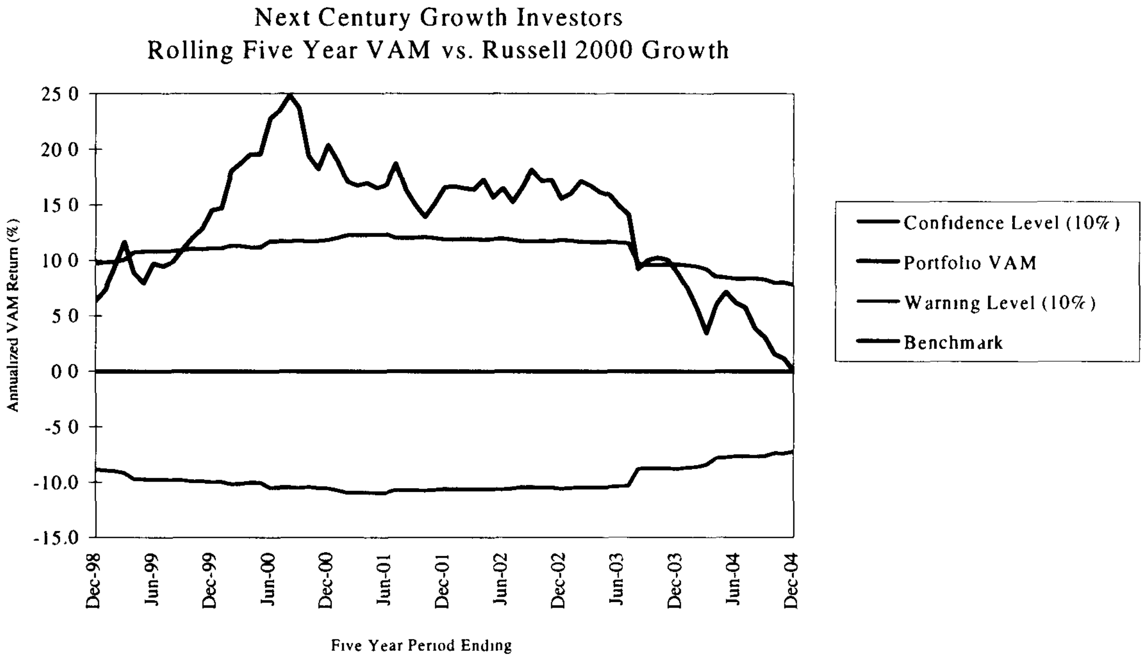
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	15.1%	15.1%	15.1%
Last 1 year	6.4	14.3	14.3
Last 2 years	26.6	30.3	30.3
Last 3 years	2.3	5.8	7.0
Last 4 years	-4.7	1.8	3.8
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-9.1	-4.2	-1.5

Calendar Year Returns

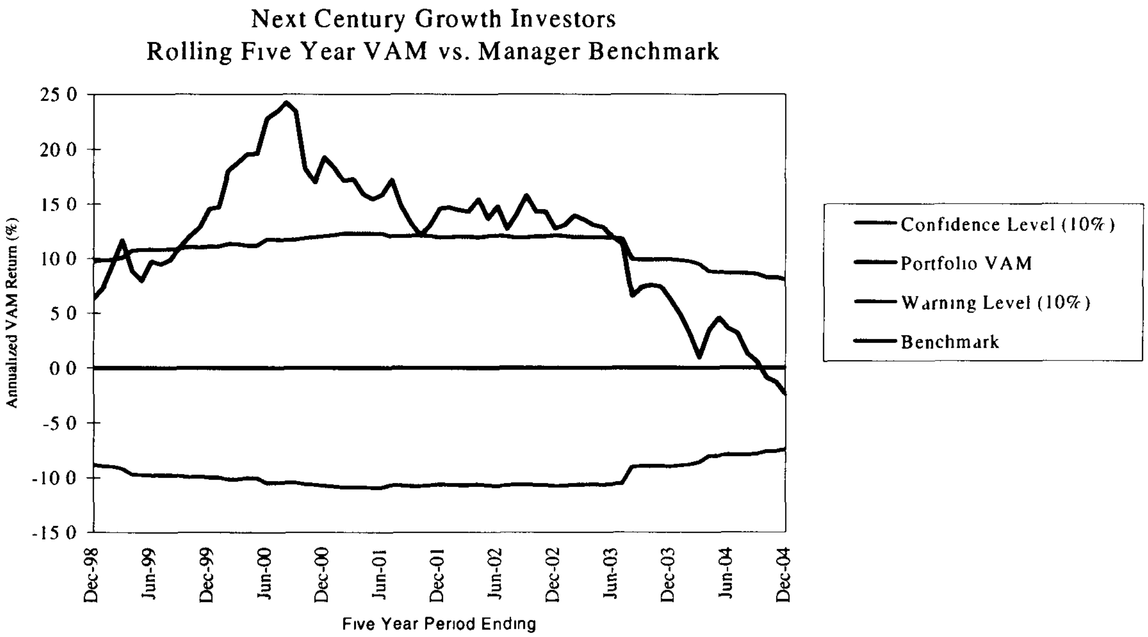
	Actual	Russell 2000 Growth	Manager Benchmark
2004	6.4%	14.3%	14.3%
2003	50.7	48.5	48.5
2002	-33.3	-30.3	-27.8
2001	-22.8	-9.2	-5.5
2000	N/A	N/A	N/A

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2004

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $32,867,029**



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



Note Shaded area includes performance prior to retention by the SBI

TURNER INVESTMENT PARTNERS
Periods Ending December, 2004

Portfolio Manager: William McVail **Assets Under Management: $141,943,790**

Investment Philosophy

The team's investment philosophy is based on the belief that earnings expectations drive stock prices The team adds value primarily through stock selection and pursues a bottom up strategy Ideal candidates for investment are growth companies that have above average earnings prospects, reasonable valuations, favorable trading volume, and price patterns Each security is subjected to three separate evaluation criteria fundamental analysis (80%), quantitative screening (10%), and technical analysis (10%)

Proprietary computer models enable the team to assess the universe based on multiple earnings growth and valuation factors The factors are specific to each economic sector Fundamental analysis is the heart of the stock selection process and helps the team determine if a company will exceed, meet or fall short of consensus earnings expectations Technical analysis is used to evaluate trends in trading volume and price patterns for individual stocks as the team searches for attractive entry and exit points

Staff Comments

The portfolio underperformed the Russell 2000 Growth index by 2 8 percentage points (ppt) during the quarter Overall stock selection detracted from performance, and was particularly weak within the health technology, technology services, and consumer services sectors

For the year, the portfolio underperformed the Russell 2000 Growth index by 2 7 ppt Both overall sector allocation and stock selection negatively impacted performance Ineffective stock selection within the electronic technology, producer manufacturing, and industrial services sectors hindered performance

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	12 3%	15 1%	15 1%
Last 1 year	11 6	14 3	14 3
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	11 6	14 3	14 3

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2004	11 6%	14 3%	14 3%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

TURNER INVESTMENT PARTNERS
Periods Ending December, 2004

Portfolio Manager: William McVail **Assets Under Management: $141,943,790**

VAM Graphs will be drawn for period ending 3/31/06.

WINSLOW CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Joseph Docter | **Assets Under Management: $139,199,727**

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

The portfolio underperformed the Russell 2000 Growth index by 0 3 percentage point (ppt) during the quarter Overall favorable sector allocation was not enough to offset the impact of overall weak stock selection Ineffective stock selection within the health technology and consumer durables sectors detracted from performance

For the year, the portfolio underperformed the Russell 2000 Growth index by 5 4 ppt Weak stock selection, particularly within the electronic technology, finance, and consumer durables sectors, detracted from performance Two holdings, O2Micro International and Select Comfort, together cost 2 9% in relative return during the period Lack of exposure to energy cost the portfolio 1 3% relative to the index

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

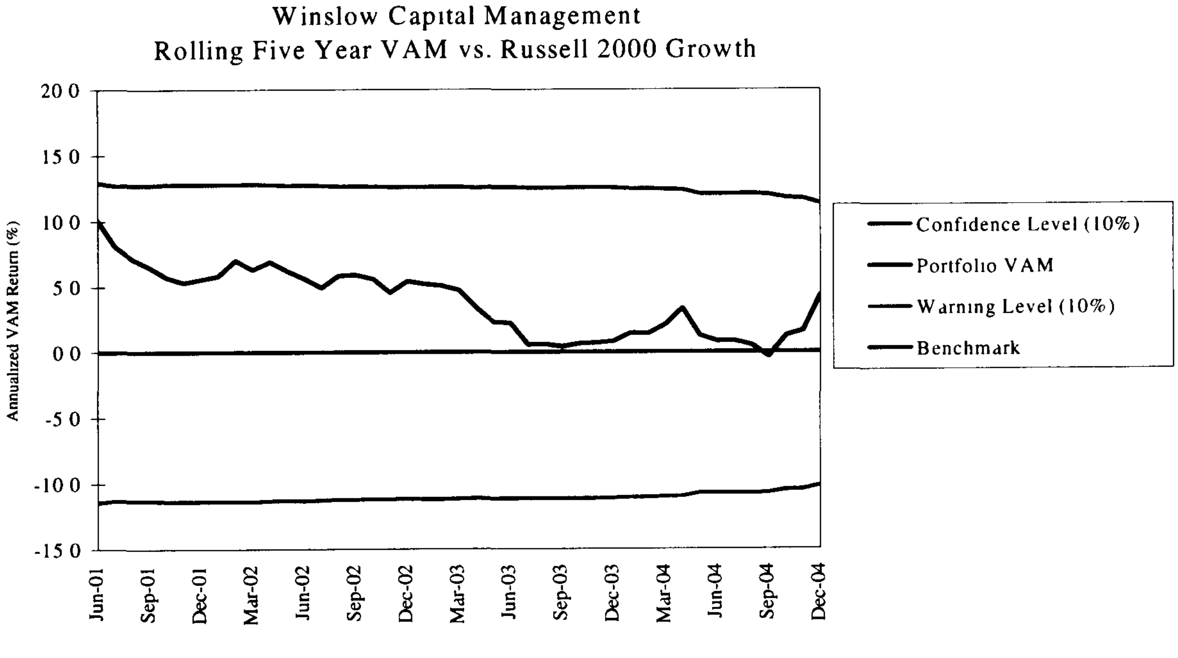
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	14 8%	15.1%	15 1%
Last 1 year	8 9	14 3	14 3
Last 2 years	22 4	30 3	31.5
Last 3 years	4 0	5 8	8 2
Last 4 years	1 3	1 8	7 3
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	-1 3	-4 2	1 7

Calendar Year Returns

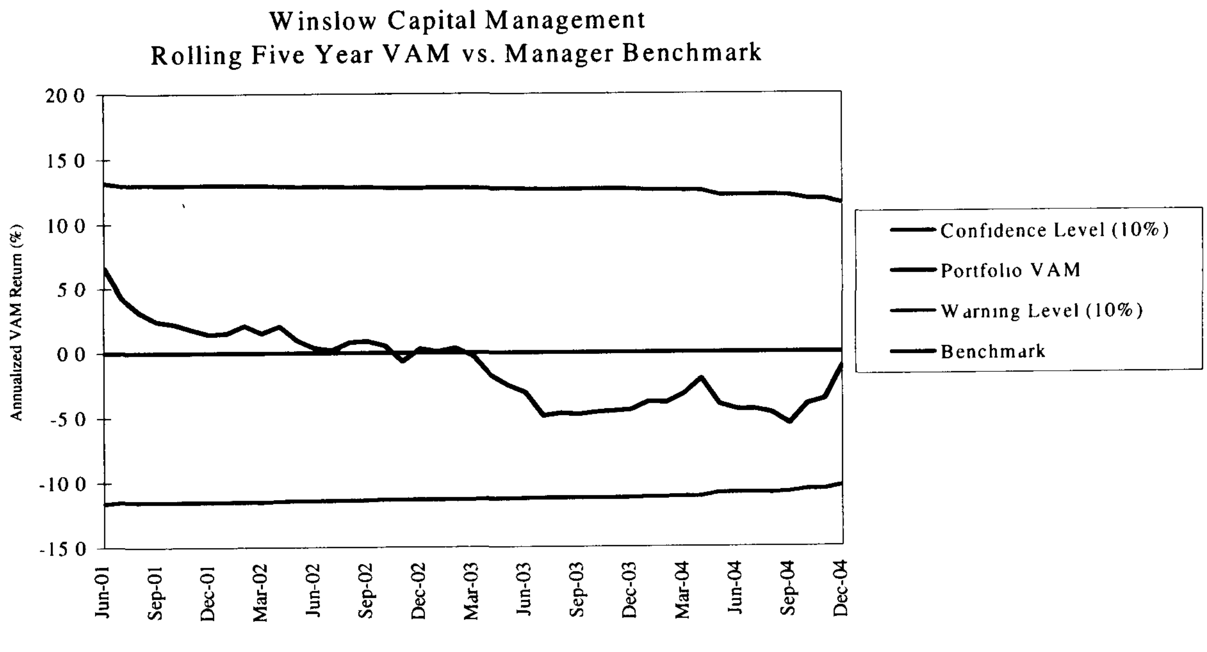
	Actual	Russell 2000 Growth	Manager Benchmark
2004	8 9%	14 3%	14 3%
2003	37 6	48 5	51 3
2002	-25 0	-30 3	-26 7
2001	-6 1	-9 2	4 6
2000	N/A	N/A	N/A

WINSLOW CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Joseph Docter **Assets Under Management: $139,199,727**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Small Cap Value (R2000 Value)

Small Cap Value (R2000 Value)

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KENWOOD CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $52,685,443**

Investment Philosophy

The portfolio management team relies primarily on quantitative appraisal, fundamental analysis supplements the model-based stock selection discipline The goal is to systematically tilt client portfolios toward stocks that offer a superior return-to-risk tradeoff In order to achieve consistency of performance, risk management is integrated into all aspects of the investment process Risk is monitored at the security, sector, and portfolio level

The centerpiece of the stock selection process is a quantitative model that ranks stocks based upon potential excess return Key elements of the model include assessments of valuation, earnings, and market reaction. Models are created for twelve sectors using sector-specific criteria Qualitative analysis assesses liquidity, litigation/regulatory risk, and event risk The team focuses on bottom up stock selection within a sector neutral framework

Staff Comments

The portfolio underperformed the Russell 2000 Value index by 0 3 percentage point (ppt) during the quarter Strong overall stock selection was not enough to counteract the negative impact of sector allocation decisions Weak stock selection within consumer non-durables detracted from performance An underweight position in technology services coupled with weak stock selection hindered returns

For the year, the portfolio outperformed the Russell 2000 Value index by 3 6 ppts Strong overall stock selection overcame the negative impact of weak sector allocation decisions Stock selection was particularly effective within the finance sector

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	12 9%	13 2%	13 2%
Last 1 year	25 8	22 2	22.2
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	25 8	22 2	22 2

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	25 8%	22 2%	22 2%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

KENWOOD CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $52,685,443**

VAM Graphs will be drawn for period ending 3/31/06.

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Chip Otness | **Assets Under Management: $112,157,977**

Investment Philosophy

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

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

Staff Comments

The portfolio underperformed the Russell 2000 Value index by 2.7 percentage points (ppt) during the quarter. Weak overall stock selection coupled with ineffective sector allocation decisions hindered returns. Stock selection was particularly weak within the process industries, technology services, and retail trade sectors.

For the year, the portfolio underperformed the Russell 2000 Value index by 2.3 ppt. Sector allocation decisions detracted from performance; weak overall stock selection exacerbated the negative impact. Stock selection was particularly ineffective within the process industries and retail trade sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	10.5%	13.2%	13.2%
Last 1 year	19.9	22.2	22.2
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	19.9	22.2	22.2

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	19.9%	22.2%	22.2%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Chip Otness **Assets Under Management: $112,157,977**

VAM Graphs will be drawn for period ending 3/31/06.

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Jim Miles and David Green | **Assets Under Management: $118,855,940**

Investment Philosophy

The firm seeks to exploit mis-priced securities in the small cap market by investing in "undiscovered" or "out of favor" companies The team invests in stocks where the present value of the company's future cash flows exceeds the current market price This approach exploits equity market inefficiencies created by irrational investor behavior and lack of Wall Street research coverage of smaller capitalization stocks The team employs a disciplined, bottom-up investment process that emphasizes internally generated fundamental research

The investment process begins with a quantitative screen based on market capitalization, trading liquidity and enterprise value/normalized EBIT, supplemented with ideas generated from the investment team Internal research is then utilized to identify the most attractive valuation opportunities within this value universe. The primary focus of the research analyst is to determine a company's "normal" earnings power, which is the basis for security valuation

Staff Comments

For the quarter, the portfolio outperformed the Russell 2000 Value index by 0 2 percentage point (ppt) An overweight allocation to consumer durables coupled with strong stock selection positively impacted returns Underweight positions in finance and utilities coupled with strong stock selection contributed to performance

For the year, the portfolio outperformed the Russell 2000 Value index by 4 9 ppts Strong overall stock selection supported performance, and was particularly notable within the consumer sectors The small cap strategy is now closed to new investors

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	13 4%	13 2%	13 2%
Last 1 year	27 1	22 2	22 2
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	27.1	22.2	22.2

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	27 1%	22 2%	22 2%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $118,855,940**

VAM Graphs will be drawn for period ending 3/31/06.

MARTINGALE ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: William Jacques **Assets Under Management: $122,344,870**

Investment Philosophy

Martingale's investment process seeks to exploit the long-term link between undervalued company fundamentals and current market prices to achieve superior investment returns Martingale has a long history of employing sound quantitative methods

The valuation process is comprised of well-researched valuation indicators that have stood the test of time, with improvements made only after careful evaluation, testing and analysis Multiple characteristics of quality, value and momentum are examined The quality of company management is assessed by reviewing commitment to R&D, accounting practices with regard to earnings and cash flow from operations, and the ability to manage inventory

The average holding period of a stock is typically one year Every holding is approached as an investment in the business, with the intention of holding it until either objectives are reached, or it becomes apparent that there are better opportunities in other stocks

Staff Comments

For the quarter, the portfolio outperformed the Russell 2000 Value index by 2 1 percentage points (ppt) The portfolio benefited from strong overall stock selection and effective sector allocation decisions Stock selection was particularly strong within the non-energy minerals, producer manufacturing, and finance sectors

For the year, the portfolio outperformed the Russell 2000 Value index by 8 6 ppt Strong overall stock selection overcame the negative impact of sector allocation decisions An underweight position in finance coupled with strong stock selection contributed to performance An overweight allocation to non-energy minerals coupled with strong stock selection aided returns

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	15 3%	13 2%	13 2%
Last 1 year	30 8	22 2	22.2
Last 2 years	N/A	N/A	N/A
Last 3 years	N/A	N/A	N/A
Last 4 years	N/A	N/A	N/A
Last 5 years	N/A	N/A	N/A
Since Inception (1/04)	30 8	22 2	22.2

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2004	30 8%	22 2%	22 2%
2003	N/A	N/A	N/A
2002	N/A	N/A	N/A
2001	N/A	N/A	N/A
2000	N/A	N/A	N/A

MARTINGALE ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: William Jacques **Assets Under Management: $122,344,870**

VAM Graphs will be drawn for period ending 3/31/06.

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $177,208,532**

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

The portfolio outperformed the Russell 2000 Value index by 2.0 percentage points (ppt) during the quarter. Strong stock selection, particularly within electronic technology, finance, and consumer services, contributed to performance. For the year, the portfolio outperformed the Russell 2000 Value index by 1.4 ppt. Underweight allocations to consumer non-durables and health technology, coupled with strong stock selection, proved beneficial.

The strategy reached $1.1 billion in assets at year-end. Peregrine continues to closely monitor strategy asset size. The portfolio managers are comfortable that they can manage this level of assets with no liquidity issues; however, they may close to new clients sometime in 2005.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

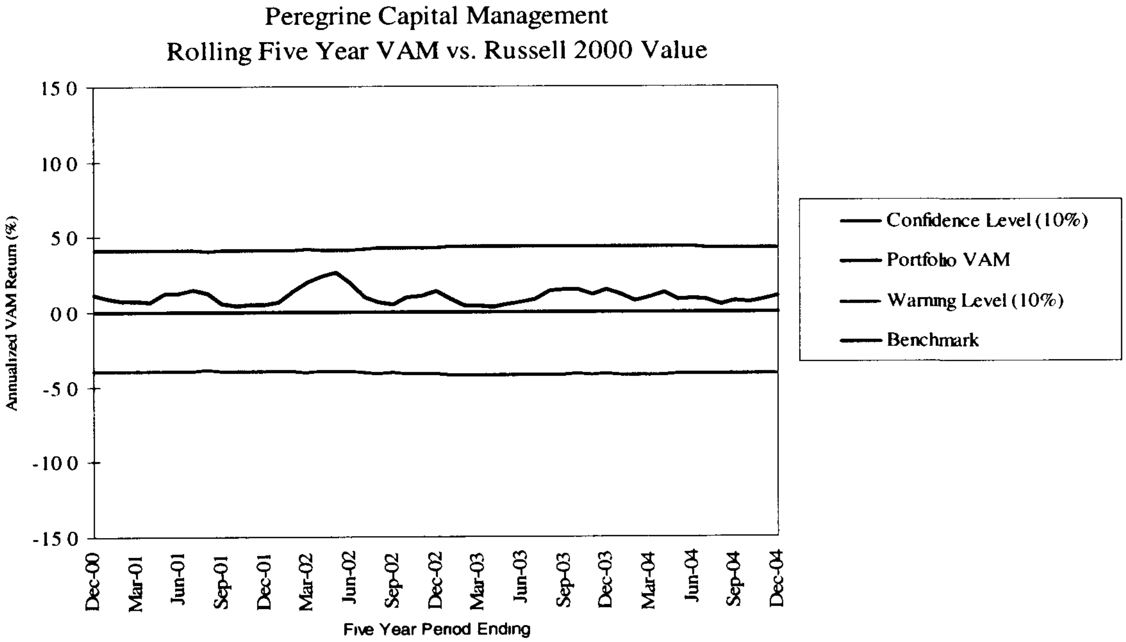
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	15.2%	13.2%	13.2%
Last 1 year	23.6	22.2	22.2
Last 2 years	33.5	33.6	32.8
Last 3 years	17.9	16.5	17.9
Last 4 years	16.5	15.9	19.2
Last 5 years	N/A	N/A	N/A
Since Inception (7/00)	20.0	17.8	21.1

Calendar Year Returns

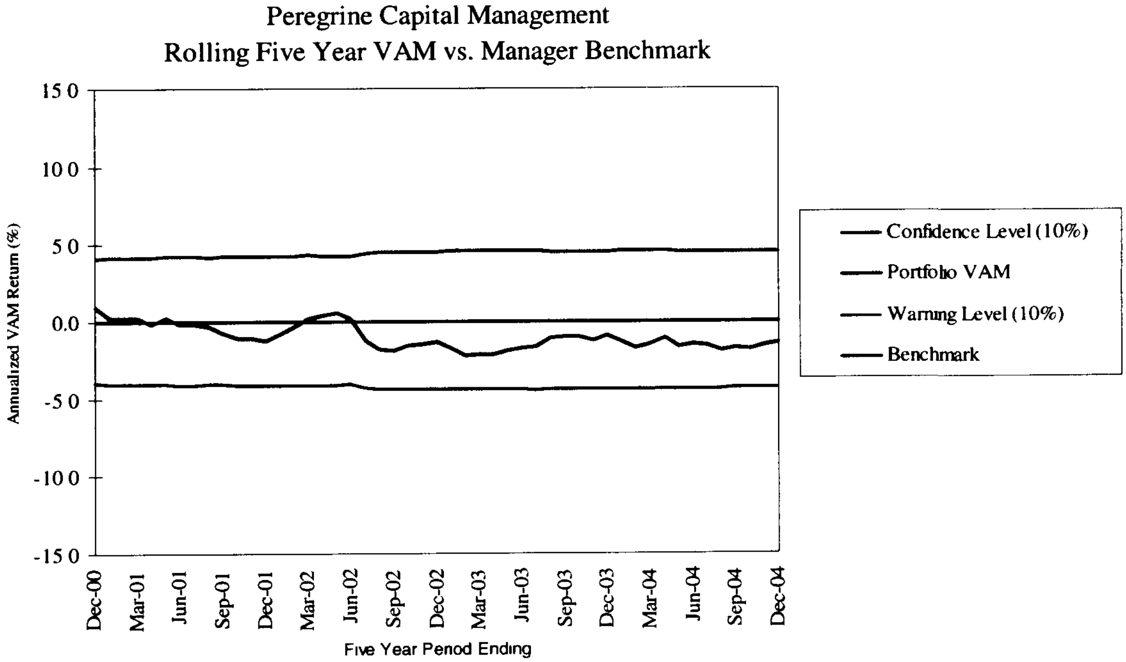
	Actual	Russell 2000 Value	Manager Benchmark
2004	23.6%	22.2%	22.2%
2003	44.2	46.0	44.2
2002	-8.1	-11.4	-6.9
2001	12.6	14.0	22.9
2000	N/A	N/A	N/A

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $177,208,532**



Note Shaded area includes performance prior to retention by the SBI



Note Shaded area includes performance prior to retention by the SBI

Semi-Passive and Passive

Semi-Passive and Passive

Table of Contents

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2004

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,679,594,104**

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

The portfolio outperformed the Russell 1000 index by 0.1 percentage point (ppt) during the quarter. Overweight positions in electronic technology and technology services, coupled with strong stock selection, contributed to performance. The portfolio benefited from relative valuation and earnings quality investment themes.

For the year, the portfolio outperformed the Russell 1000 index by 0.3 ppt. Overweight allocations to the transportation and communications sectors, combined with strong stock selection, aided returns. Investment themes that added value included relative valuation and earnings quality. The residual income and enterprise valuation models were both successful.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	9.9%	9.8%
Last 1 year	11.7	11.4
Last 2 years	20.5	19.6
Last 3 years	5.6	4.7
Last 4 years	2.0	0.9
Last 5 years	-1.3	-2.8
Since Inception (1/95)	11.6	10.9

Calendar Year Returns

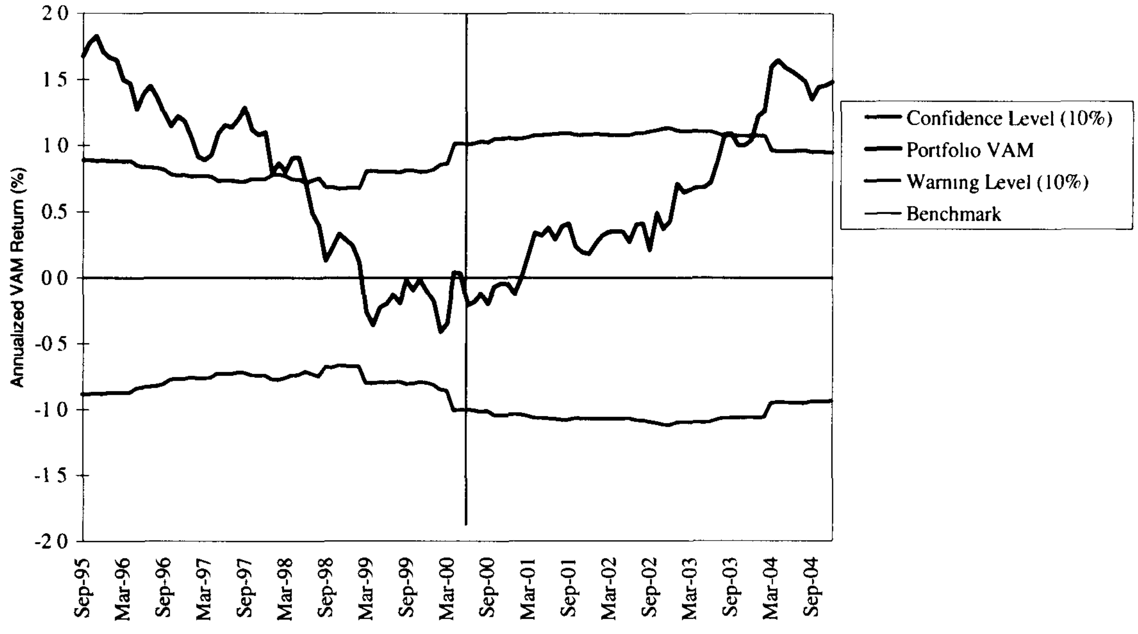
	Actual	Manager Benchmark*
2004	11.7%	11.4%
2003	30.0	28.5
2002	-19.1	-19.7
2001	-7.8	-9.7
2000	-13.8	-16.3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04.

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2004

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,679,594,104**

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2004

Portfolio Manager: John Cone | **Assets Under Management: $1,930,680,538**

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

The portfolio matched the return of the Russell 1000 index during the quarter. Strong overall stock selection contributed to performance and was particularly effective within the health technology, finance, and producer manufacturing sectors. On a factor basis, an overweight to earnings yield proved beneficial.

For the year, the portfolio outperformed the Russell 1000 index by 0.3 percentage point. Overall stock selection, particularly within the consumer durables, health technology, and finance sectors, positively impacted performance. Exposure to earnings yield aided returns.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	9.8%	9.8%
Last 1 year	11.7	11.4
Last 2 years	19.0	19.6
Last 3 years	4.2	4.7
Last 4 years	0.7	0.9
Last 5 years	-2.9	-2.8
Since Inception (1/95)	10.4	10.9

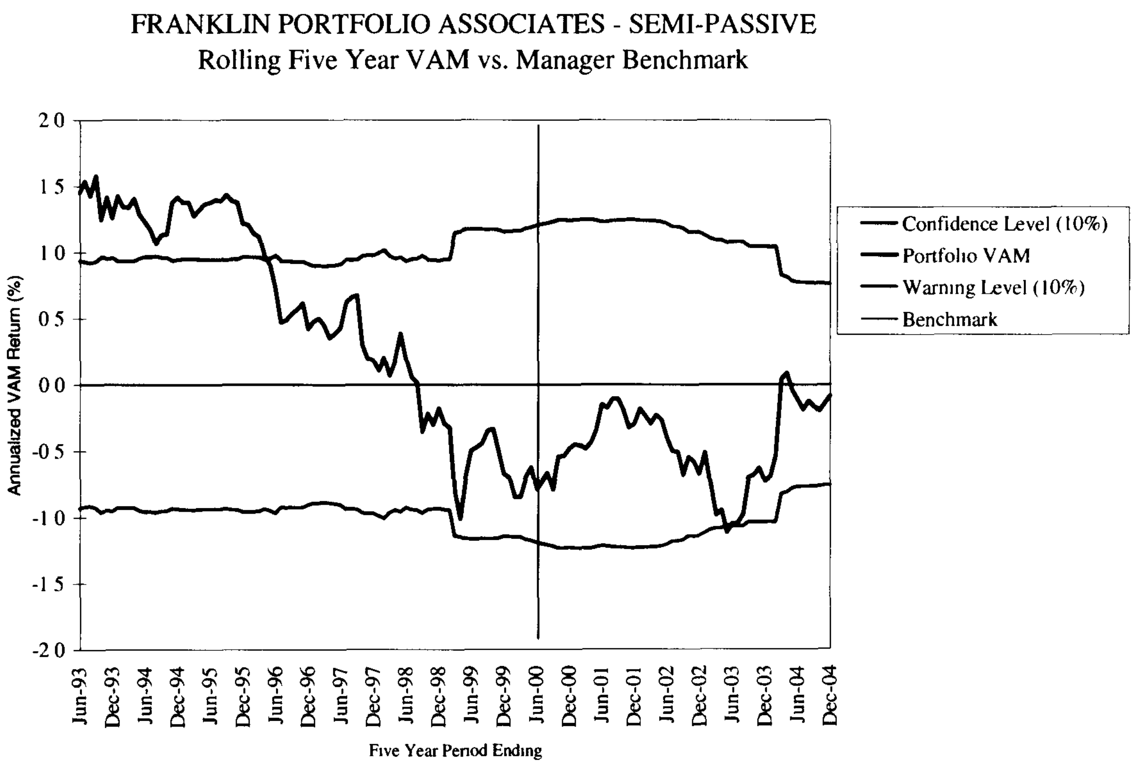
Calendar Year Returns

	Actual	Manager Benchmark*
2004	11.7%	11.4%
2003	26.9	28.5
2002	-20.2	-19.7
2001	-9.0	-9.7
2000	-15.9	-16.3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2004

Portfolio Manager: John Cone | **Assets Under Management: $1,930,680,538**



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, 2004

Portfolio Manager: Tim Devlin | **Assets Under Management: $2,276,707,383**

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

The portfolio underperformed the Russell 1000 index by 0.6 percentage point (ppt) during the quarter. Overall weak stock selection and ineffective sector allocation decisions detracted from performance. For the year, the portfolio outperformed the Russell 1000 index by 0.3 ppt. Strong stock selection contributed to performance, and was particularly effective within the finance, producer manufacturing, and transportation sectors.

JP Morgan plans to form a strategic partnership with Highbridge Capital Management, a New York-based hedge fund. Under the proposed agreement, JP Morgan will acquire a majority interest in Highbridge, which will continue as a separate entity run by its founders.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	9.2%	9.8%
Last 1 year	11.7	11.4
Last 2 years	20.0	19.6
Last 3 years	4.0	4.7
Last 4 years	0.7	0.9
Last 5 years	-2.4	-2.8
Since Inception (1/95)	11.0	10.9

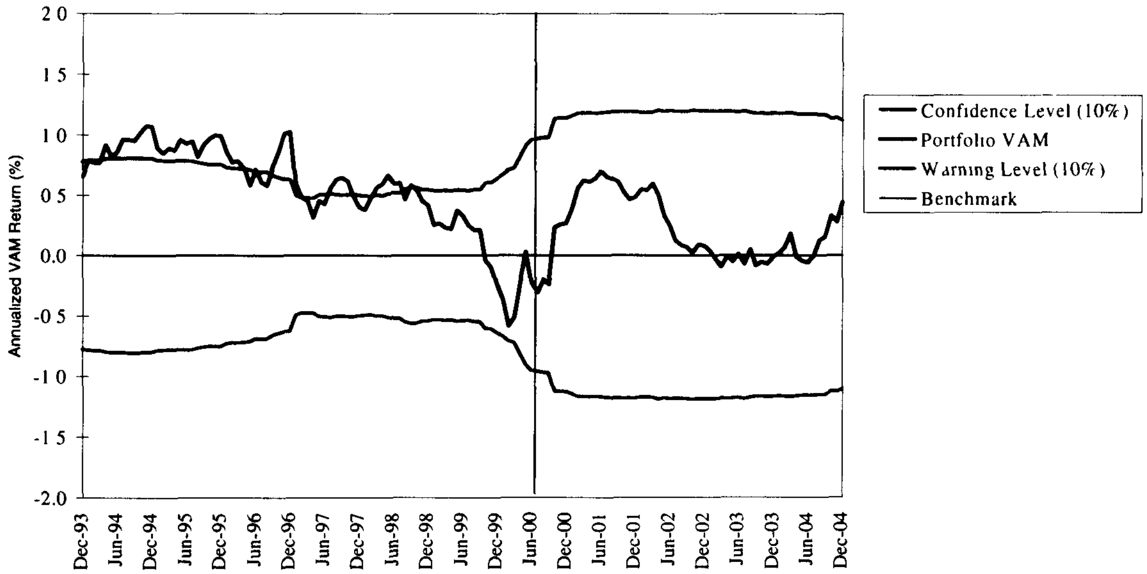
Calendar Year Returns

	Actual	Manager Benchmark*
2004	11.7%	11.4%
2003	28.9	28.5
2002	-21.8	-19.7
2001	-8.7	-9.7
2000	-13.6	-16.3

* Completeness Fund until 12/31/03, Russell 1000 beginning 1/1/04

Portfolio Manager: Tim Devlin **Assets Under Management: $2,276,707,383**

JP MORGAN - SEMI-PASSIVE
Rolling Five Year VAM vs. Manager Benchmark



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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2004

Portfolio Manager: Amy Schioldager — **Assets Under Management: $6,987,462,485**

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 portfolio underperformed the Russell 3000 index by 0 1 percentage point (ppt) during the quarter The strength of small and micro cap stocks relative to large cap stocks pressured returns The portfolio is generally underweight small-cap and micro cap stocks due to liquidity and transaction cost concerns

For the year, the portfolio outperformed the Russell 3000 index by 0 1 ppt

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	10 1%	10.2%
Last 1 year	12 0	11 9
Last 2 years	21 1	21 2
Last 3 years	4 8	4 9
Last 4 years	0 4	0 5
Last 5 years	-1 7	-1 9
Since Inception (7/95)	10 3	10 2

Calendar Year Returns

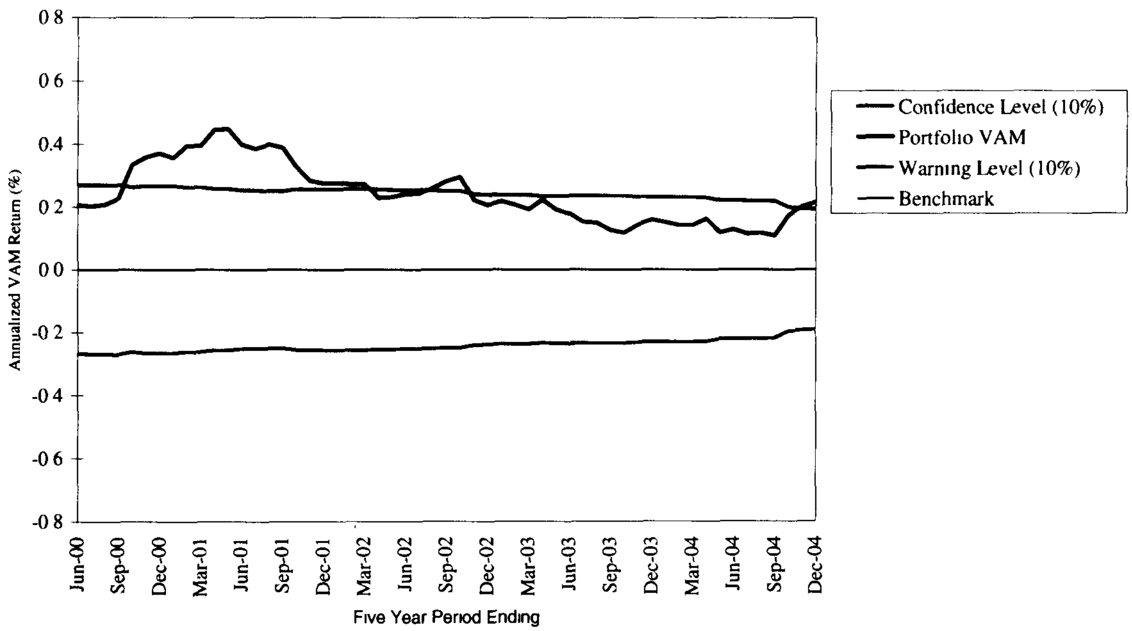
	Actual	Manager Benchmark*
2004	12 0%	11 9%
2003	30 9	31 2
2002	-21 4	-21 5
2001	-11 8	-11 7
2000	-9 8	-11 0

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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2004

Portfolio Manager: Amy Schioldager **Assets Under Management: $6,987,462,485**

BARCLAYS GLOBAL INVESTORS - PASSIVE
Rolling Five Year VAM vs. Domestic Equity Target
(Russell 3000 as of 10/1/2003)



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 2004

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending December, 2004

	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)	1 3	1 0	5 1	4.3	5.0	6.2	7.0	7.7	6.5	6.7	$820.4	9.2%
Deutsche	1.1	1.0	5 1	4.3	6.8	6.2			8.4	7.8	$663.5	7.4%
Dodge & Cox	1.3	1.0	4.1	4.3	7.5	6 2			9.0	7.8	$830.2	9.3%
Morgan Stanley	1 1	1.0	4.6	4.3	5 9	6 2	7.9	7 7	9.7	9.5	$790.2	8.8%
Western	1.6	1.0	6 6	4 3	8.4	6 2	9.5	7.7	10.8	9.4	$1,344 2	15.0%
Semi-Passive Managers												
BlackRock	0 9	1.0	4.5	4.3	6.4	6.2	7.9	7.7	7 3	7.0	$1,505.6	16.8%
Goldman	1.0	1 0	5.1	4.3	6.6	6.2	8.1	7.7	7 0	6.7	$1,494.2	16.7%
Lincoln	1.0	1.0	4 6	4.3	6.4	6 2	7.9	7.7	8.2	8 1	$1,506.0	16 8%
											$8,954.3	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**1.1**	**1.0**	**5.0**	**4.3**	**6.5**	**6.2**	**8.1**	**7.7**	**9.6**	**9.4**		
Lehman Aggregate (3)		1.0		4.3		6 2		7.7		9.5		

(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, 2004

Portfolio Manager: Colin Lundgren **Assets Under Management: $820,376,366**

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 the benchmark for the quarter and for the year. The quarterly performance was helped by its allocation to high yield, the short duration position, and credit selection. The one-year outperformance was due to their allocation to high yield corporate bonds, allocation to non-dollar bonds, and issue selection in investment grade corporates

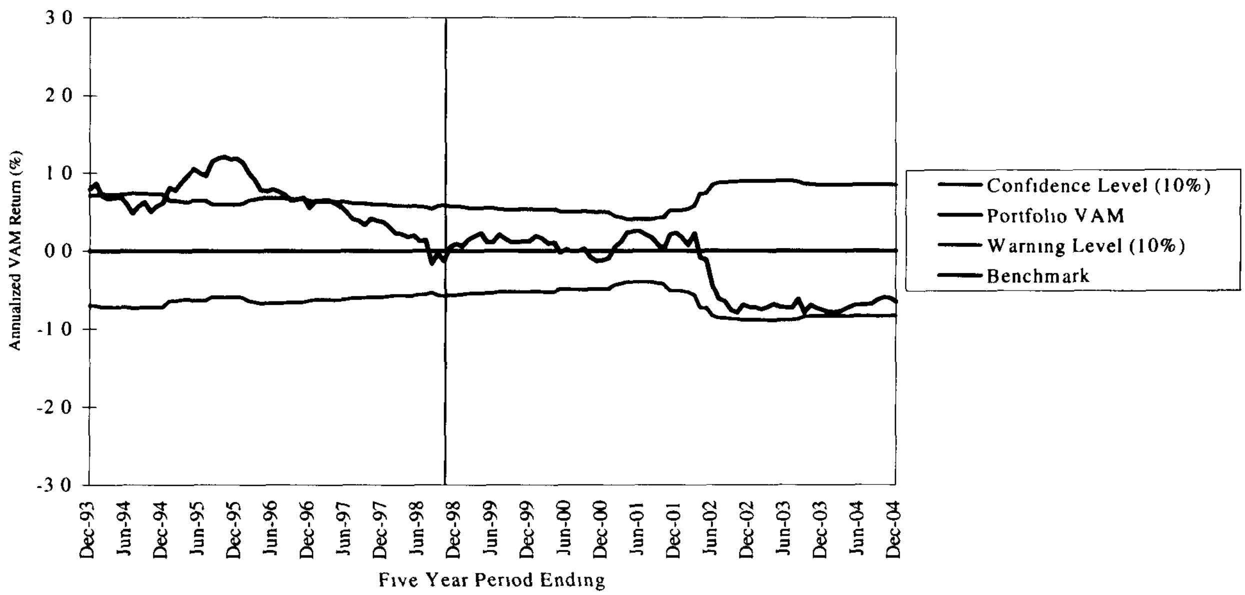
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	1.0%
Last 1 year	5.1	4.3
Last 2 years	4.7	4.2
Last 3 years	5.0	6.2
Last 4 years	5.9	6.8
Last 5 years	7.0	7.7
Since Inception (7/93)	6 5	6.7

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - FIXED INCOME
Rolling Five Year VAM



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

DEUTSCHE ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Warren Davis **Assets Under Management: $663,470,734**

Investment Philosophy

Deutsche believes there are significant pricing inefficiencies inherent in bond markets and that diligent credit analysis, security structure evaluation, and relative value assessment can be used to exploit these inefficiencies The firm avoids interest rate forecasting and sector rotation because they believe these strategies will not deliver consistent out performance versus the benchmark over time The firm's valued added is derived primarily from individual security selection. Portfolio managers and analysts research bonds within their sector of expertise and construct portfolios from the bottom-up, bond by bond. Sector weightings are a byproduct of the bottom-up security selection. Deutsche was retained by the SBI in February 2000.

Staff Comments

Deutsche Asset's outperformance for the quarter and the year was primarily due to the overweight position and issue selection in the credit sector A slight overweight to mortgage-backed securities also helped performance

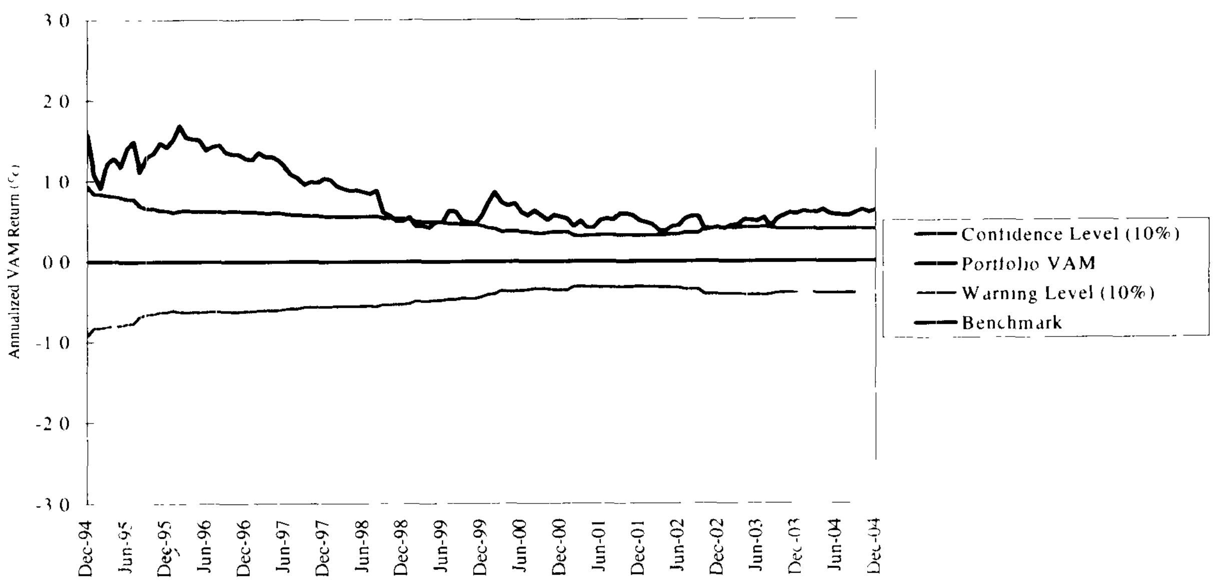
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1 1%	1.0%
Last 1 year	5.1	4.3
Last 2 years	5 2	4 2
Last 3 years	6 8	6.2
Last 4 years	7.4	6 8
Last 5 years	N/A	N/A
Since Inception (2/00)	8 4	7 8

Recommendations

No action required

DEUTSCHE ASSET MANAGEMENT
Rolling Five Year VAM



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

DODGE & COX INVESTMENT MANAGERS
Periods Ending December, 2004

Portfolio Manager: Dana Emery **Assets Under Management: $830,240,735**

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

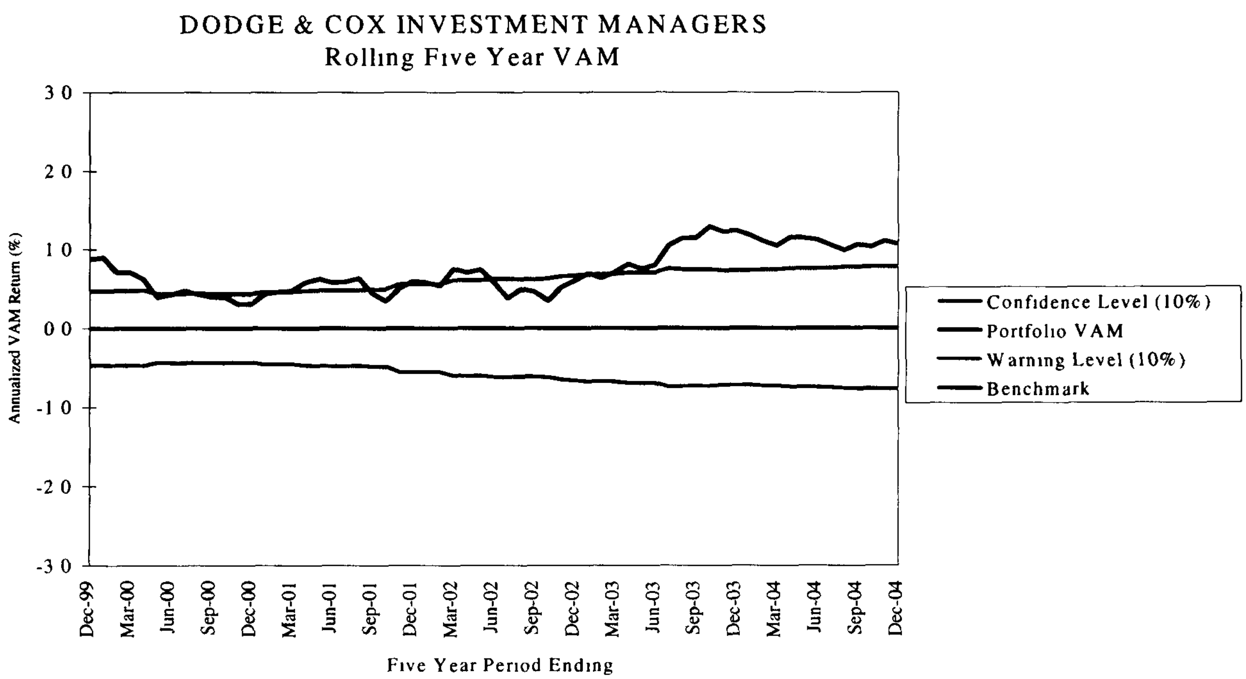
Dodge & Cox exceeded the quarterly benchmark. The quarterly performance was helped by the portfolio's shorter than benchmark duration position. Over the year, the duration position in the long part of the yield curve, hurt the portfolio. An overweight and security selection within the corporate sector has helped returns for both time periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	1.0%
Last 1 year	4.1	4.3
Last 2 years	5.7	4.2
Last 3 years	7.5	6.2
Last 4 years	8.3	6.8
Last 5 years	N/A	N/A
Since Inception (2/00)	9.0	7.8

Recommendations

No action required.



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: David Horowitz | **Assets Under Management: $790,226,252**

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

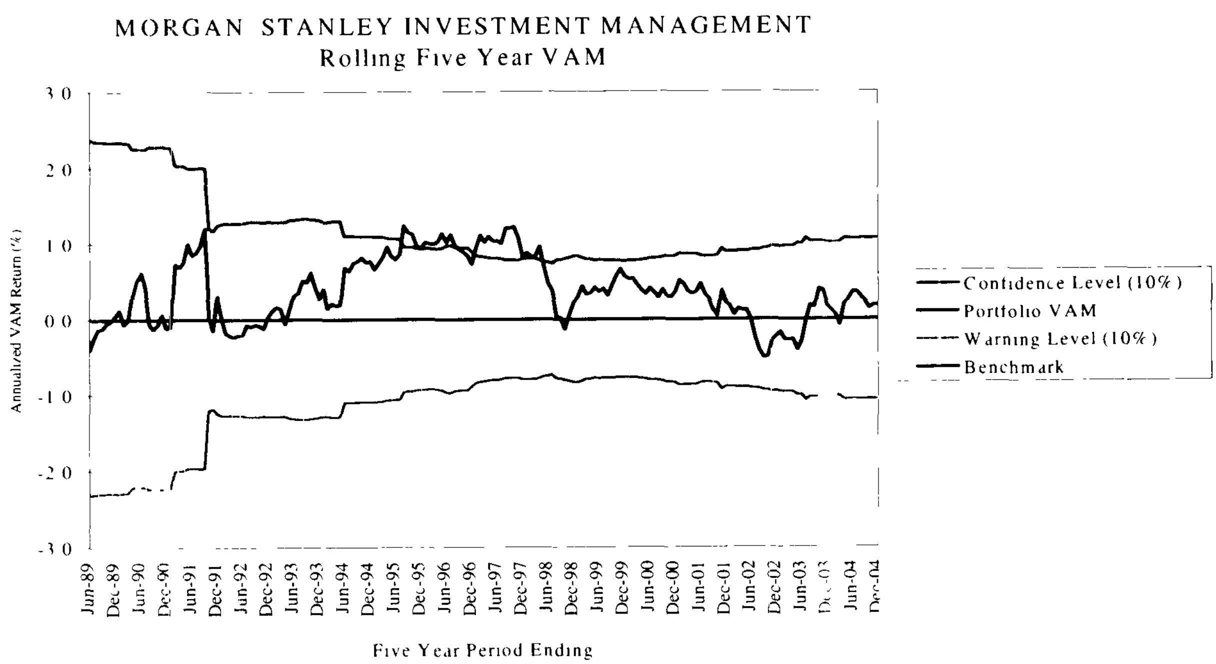
Morgan Stanley's quarterly outperformance was due to their shorter than benchmark duration bet. For the year, the portfolio outperformed due to their corporate and mortgage security selections.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	1 0%
Last 1 year	4 6	4 3
Last 2 years	4 9	4 2
Last 3 years	5 9	6 2
Last 4 years	7 1	6 8
Last 5 years	7.9	7 7
Since Inception (7/84)	9 7	9.5

Recommendations

No action required



WESTERN ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Ken Leech **Assets Under Management: $1,344,150,352**

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

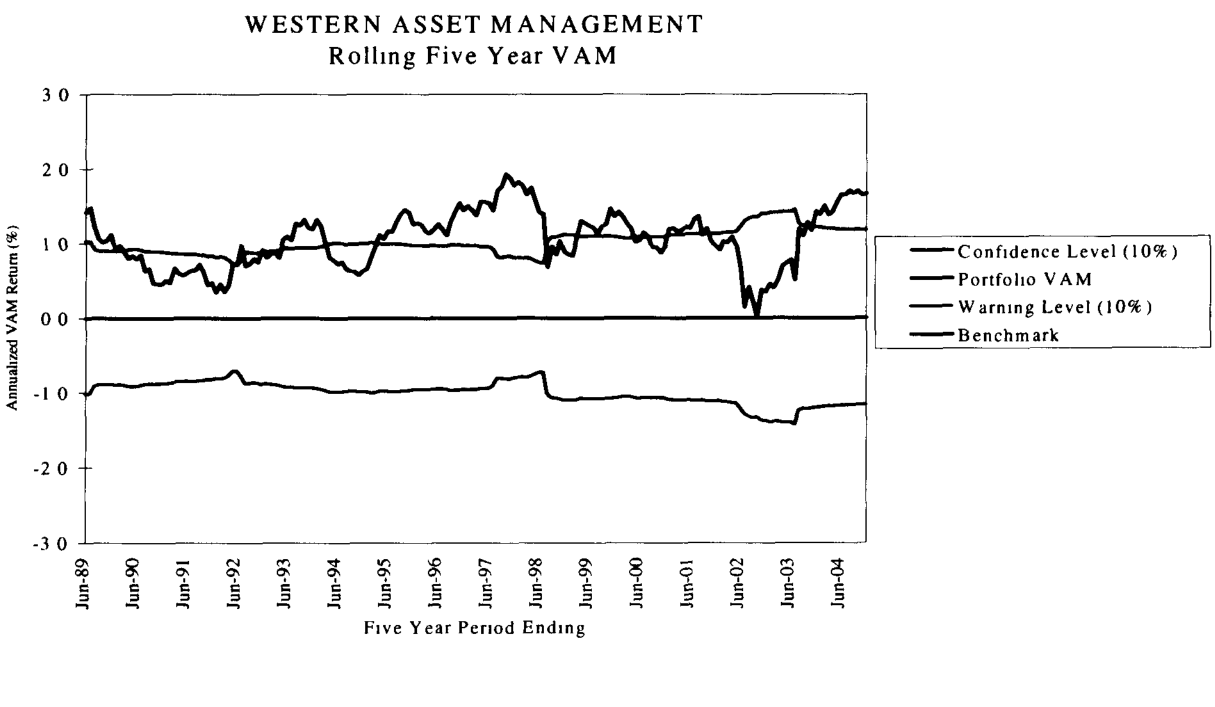
Several of the portfolio strategies helped Western outperform the quarterly and one-year benchmark. An overweight of the lower quality sectors contributed to the quarterly outperformance. The outperformance for both periods also benefited from moderate exposure to TIPS. The one-year return was also helped by a moderate overweight of the credit sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.0%
Last 1 year	6.6	4.3
Last 2 years	7.9	4.2
Last 3 years	8.4	6.2
Last 4 years	9.0	6.8
Last 5 years	9.5	7.7
Since Inception (7/84)	10.8	9.4

Recommendations

No action required.



BLACKROCK, INC.
Periods Ending December, 2004

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,505,605,685**

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 slightly trailed the quarterly benchmark. An underweight to the mortgage sector and the corporate sector detracted from performance. The one-year return was helped by the yield-flattening bias.

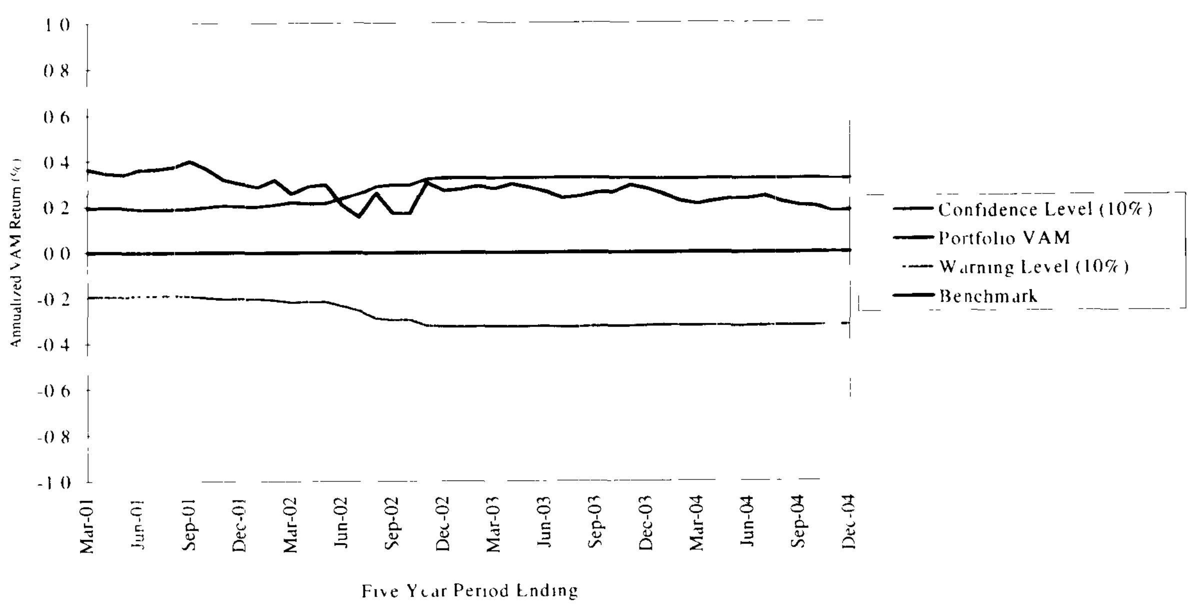
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	1.0%
Last 1 year	4.5	4.3
Last 2 years	4.5	4.2
Last 3 years	6.4	6.2
Last 4 years	6.9	6.8
Last 5 years	7.9	7.7
Since Inception (4/96)	7.3	7.0

Recommendation

No action required

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,494,206,139**

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, Goldman matched their benchmark. The one-year outperformance was helped by an overweight to the mortgage sector and security selection.

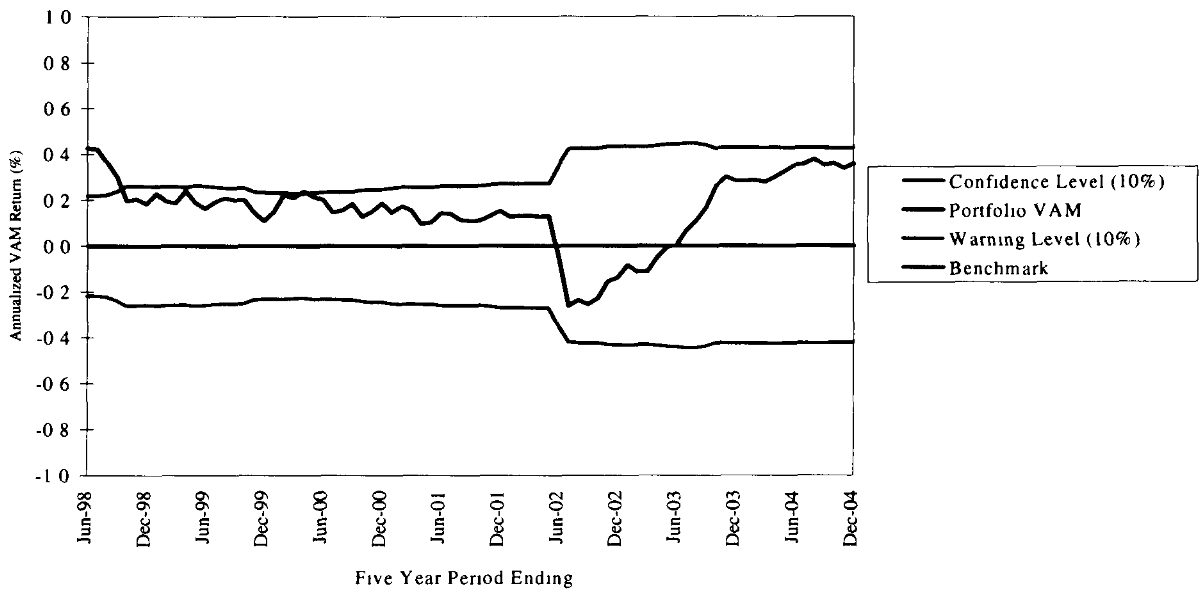
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	1.0%
Last 1 year	5.1	4.3
Last 2 years	5.4	4.2
Last 3 years	6.6	6.2
Last 4 years	7.2	6.8
Last 5 years	8.1	7.7
Since Inception (7/93)	7.0	6.7

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



LINCOLN CAPITAL FIXED INCOME MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,506,020,063**

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

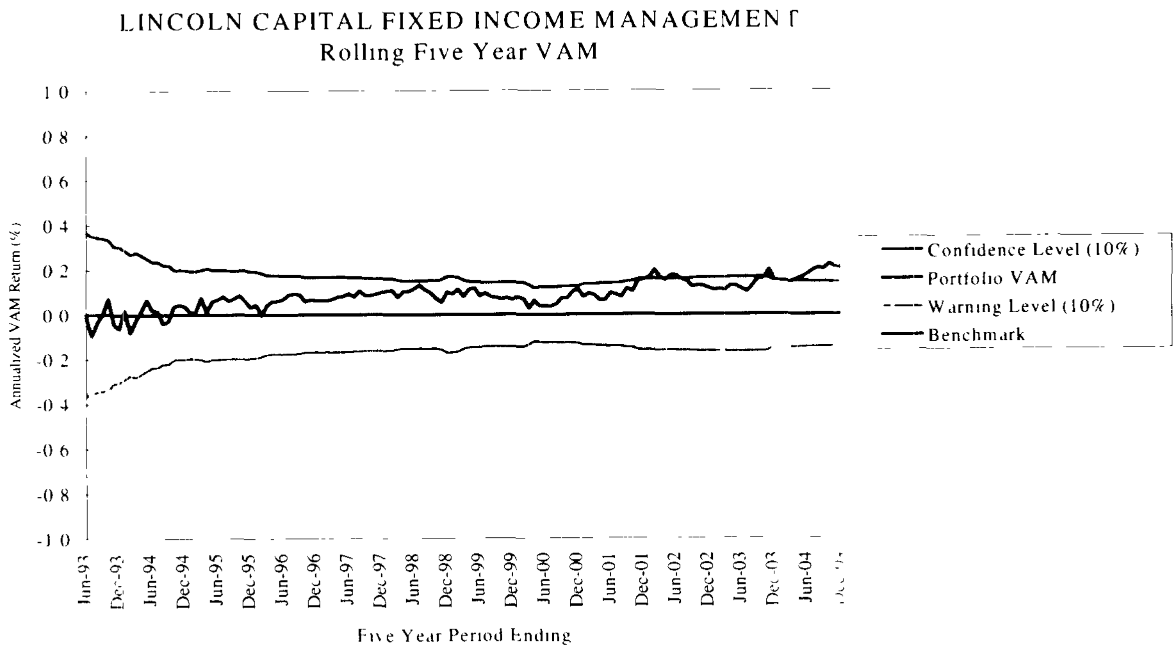
Lincoln matched the benchmark for the quarter and outperformed for the year The one-year return was helped by security selection in the corporate, mortgage and asset-backed sectors

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	1.0%
Last 1 year	4 6	4.3
Last 2 years	4 5	4 2
Last 3 years	6 4	6 2
Last 4 years	6.9	6 8
Last 5 years	7 9	7 7
Since Inception (7/88)	8 2	8 1

Recommendations

No action required



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 2004

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending December, 2004

	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	15.2	17.5	20.4	9.3	12.0			-5.2	-0.3	$592.0	8.8%
Britannic (Blairlogie)	15.4	15.2	18.8	20.4	10.7	12.0			-1.6	-0.3	$387.6	5.8%
Invesco	14.2	15.2	21.4	20.4	13.1	12.0			3.8	-0.3	$567.7	8.5%
Marathon (3)	15.7	15.2	24.6	20.4	19.1	16.4	6.7	2.5	9.2	6.2	$664.0	9.9%
T Rowe Price	13.8	15.2	11.6	20.4	6.5	12.0	-4.0	-1.1	5.5	5.5	$597.5	8.9%
UBS Global	13.8	15.2	20.1	20.4	11.1	12.0	2.6	-1.1	8.7	7.0	$587.3	8.8%
Active Emerging Markets												
Alliance Capital	17.9	17.2	28.6	25.5	25.3	22.9			12.8	12.9	$234.5	3.5%
Capital International	14.9	17.2	19.5	25.5	17.8	22.9			7.4	12.9	$190.4	2.8%
Morgan Stanley	18.1	17.2	24.2	25.5	23.5	22.9			12.8	12.9	$235.6	3.5%
Passive Developed Markets (2)												
State Street	15.1	15.2	20.6	20.4	12.3	12.0	-0.9	-1.1	7.6	7.3	$2,638.5	39.4%
									Since 10/1/92			
Equity Only (4) (6)	15.0	15.4	20.0	20.9	12.7	13.0	-0.3	-0.7	7.8	7.2	$6,695.2	100.0%
Total Program (5) (6)	**15.0**	**15.4**	**20.0**	**20.9**	**12.7**	**13.0**	**-0.3**	**-0.7**	**8.1**	**7.2**	**$6,695.2**	
SBI Int'l Equity Target (6)		15.4		20.9		13.0		-0.7		7.2		
MSCI ACWI Free ex U.S. (7)		15.4		20.9		13.1		-0.3		7.7		
MSCI World ex U.S. (net)		15.2		20.4		12.2		-0.8		7.5		
MSCI EAFE Free (net)		15.3		20.2		11.9		-1.1		7.3		
MSCI Emerging Markets Free (8)		17.2		25.5		22.4		4.4		7.3		

(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 Markets Free (net), and from 7/1/99 to 12/31/00 the target was MSCI EAFE Free (net) plus Emerging Markets Free (gross). From 7/1/99 to 9/30/03, the weighting of each index fluctuated with market capitalization. From 10/1/01 to 5/31/02 all international benchmarks being reported were the MSCI Provisional indices. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE Free (net)/13% Emerging Markets Free (gross). On 5/1/96, the portfolio began transitioning from 100% EAFE Free (net) to the 12/31/96 fixed weights. 100% EAFE Free (net) prior to 5/1/96.
(7) MSCI ACWI Free ex U.S. (gross) through 12/31/00. MSCI ACWI Free ex U.S. (net) thereafter.
(8) MSCI Emerging Markets Free (gross) through 12/31/00. MSCI Emerging Markets Free (net) thereafter.

AMERICAN EXPRESS ASSET MANAGEMENT INTERNATIONAL, INC.
Periods Ending December, 2004

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $591,992,593**

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

The portfolio underperformed during the quarter, primarily due to the negative effects of country allocation decisions. Stock selection in Germany, Sweden, Italy and Japan was also negative, but was offset by positive stock selection in Australia and Canada.

For the year, the portfolio underperformed. Performance was negatively impacted by both country allocation and stock selection decisions. Stock selection in Japan, Finland, and the UK was particularly negative.

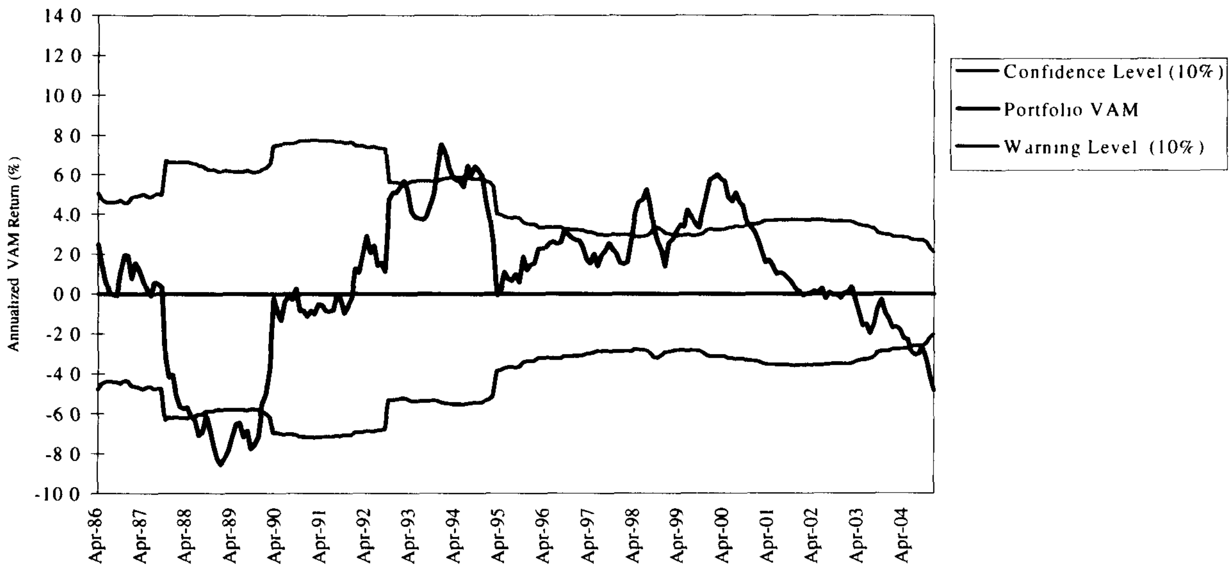
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.1%	15.2%
Last 1 year	17.5	20.4
Last 2 years	23.7	29.1
Last 3 years	9.3	12.0
Last 4 years	-1.9	2.5
Last 5 years	N/A	N/A
Since Inception (3/00)	-5.2	-0.3

Recommendations

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

AMERICAN EXPRESS ASSET MANAGEMENT INT'L
Rolling Five Year VAM



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

BRITANNIC ASSET MANAGEMENT (Blairlogie)
Periods Ending December, 2004

Portfolio Manager: James Smith | **Assets Under Management: $387,642,356**

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 modestly outperformed during the quarter. Stock selection overall added value, particularly in the UK, Japan and Canada. The portfolio's overweight positions in Greece and Germany, two of the better performing markets, further enhanced returns.

For the year, the portfolio underperformed. While stock selection overall was positive, country and sector weighting decisions detracted from performance. The portfolio's 2% average cash position also contributed negatively.

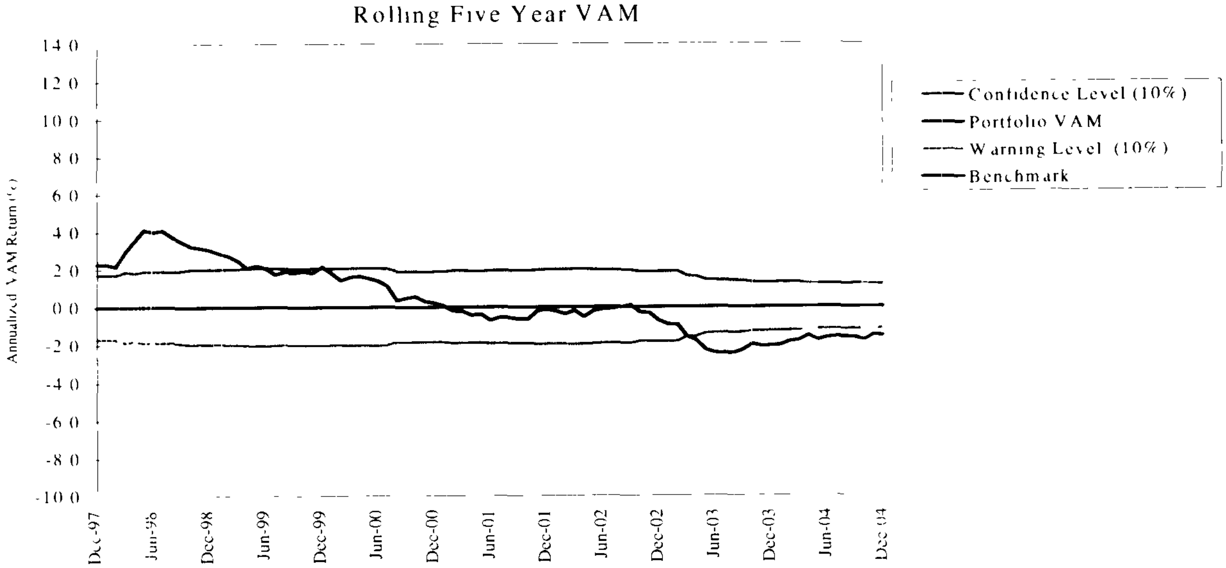
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.4%	15.2%
Last 1 year	18.8	20.4
Last 2 years	27.8	29.1
Last 3 years	10.7	12.0
Last 4 years	1.2	2.5
Last 5 years	N/A	N/A
Since Inception (3/00)	-1.6	-0.3

Recommendations

Staff is monitoring the firm due to performance concerns.

BRITANNIC ASSET MANAGEMENT
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing SBI account

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending December, 2004

Portfolio Manager: Erik Granade **Assets Under Management: $567,717,677**

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

Country and sector weighting decisions contributed to the portfolio's underperformance during the quarter. In addition, stock selection in the UK consumer staples and discretionary sectors, as well as in the Japanese information technology and financials sectors, was negative

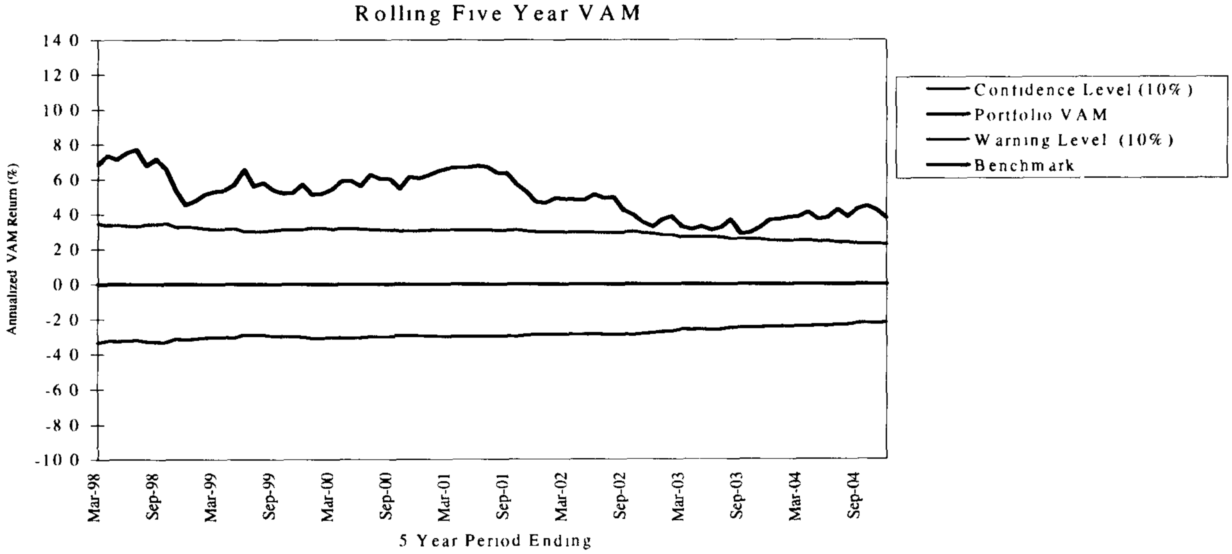
The portfolio outperformed for the year. Stock selection across every major European market, as well as in Japan, was positive.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.2%	15.2%
Last 1 year	21.4	20 4
Last 2 years	27.0	29.1
Last 3 years	13.1	12.0
Last 4 years	5.3	2.5
Last 5 years	N/A	N/A
Since Inception (3/00)	3.8	-0.3

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

MARATHON ASSET MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: William Arah **Assets Under Management: $663,951,594**

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

The portfolio outperformed modestly during the quarter Stock selection overall was positive, particularly in the UK, France and Australia, as well as in the industrials and financials sectors.

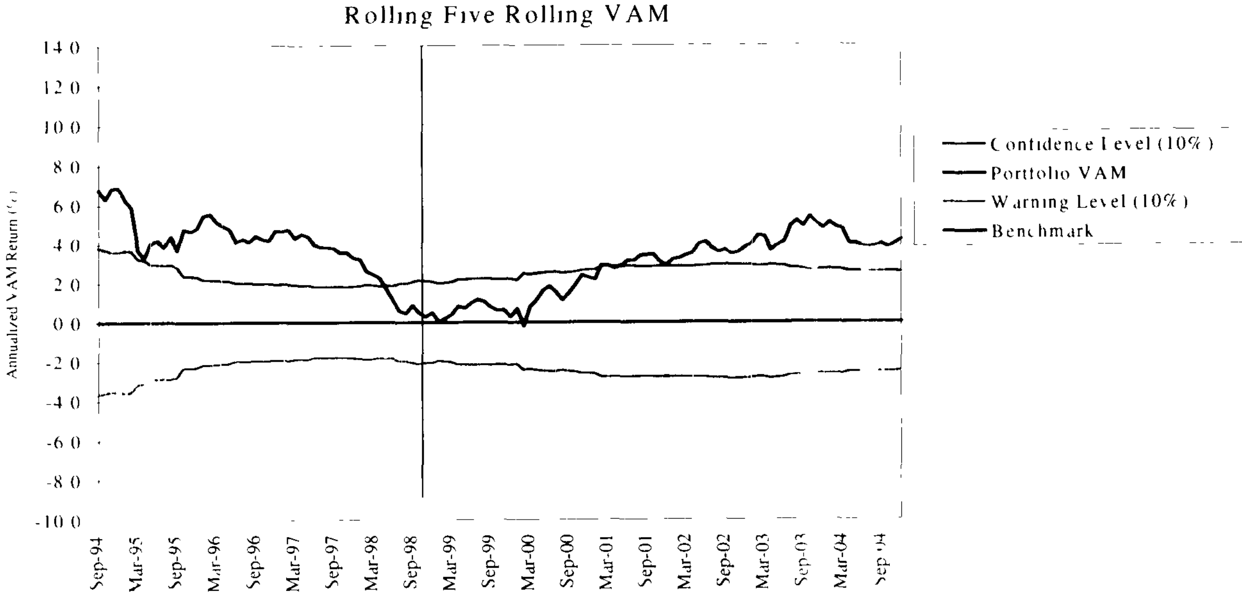
For the year, stock selection was the major contributor to the portfolio's outperformance. Country and sector weighting decisions also added value

Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	15 7%	15.2%
Last 1 year	24.6	20.4
Last 2 years	35 4	33 3
Last 3 years	19.1	16 4
Last 4 years	9.7	6 4
Last 5 years	6 7	2.5
Since Inception (11/93)	9.2	6 2

Recommendations

No action required



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

T. ROWE PRICE INTERNATIONAL, INC.
Periods Ending December, 2004

Portfolio Manager: Mark Bickford-Smith **Assets Under Management: $597,500,141**

Investment Philosophy

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

Staff Comments

The portfolio underperformed during the quarter. Stock selection in Australia, Canada, Italy and France was particularly weak. The portfolio's underweight position in Australia also detracted from returns.

For the year, the portfolio underperformed significantly. Negative stock selection across every major European market, as well as Japan and Australia, was the most significant contributor to weak returns.

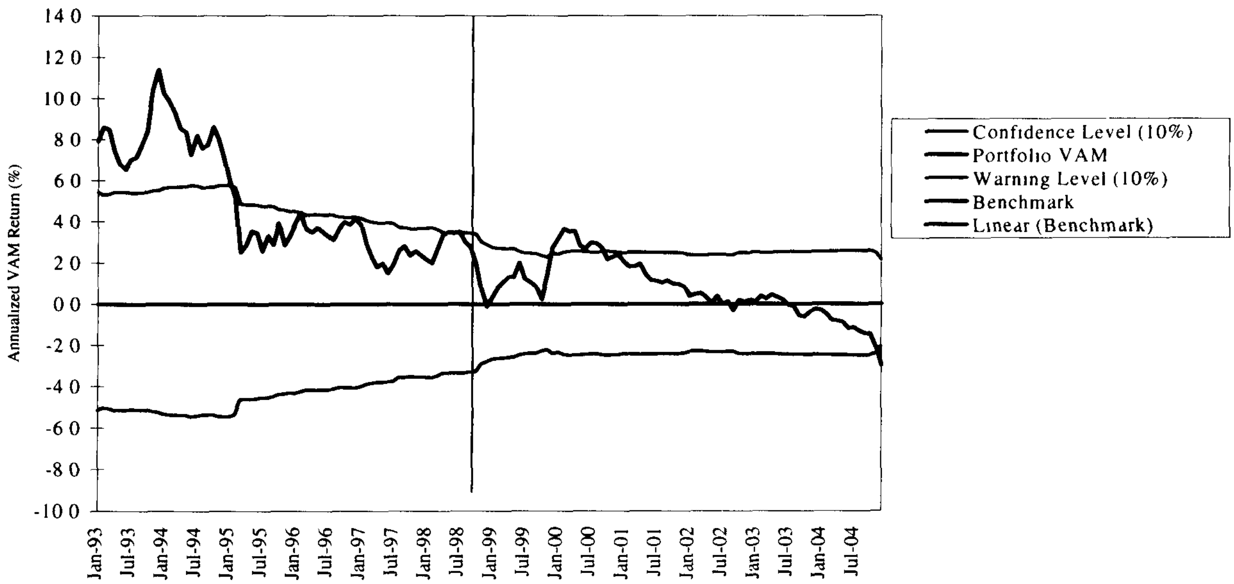
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.8%	15.2%
Last 1 year	11.6	20.4
Last 2 years	20.4	29.1
Last 3 years	6.5	12.0
Last 4 years	-1.2	2.5
Last 5 years	-4.0	-1.1
Since Inception (11/93)	5.5	5.5

Recommendations

Staff is monitoring the firm closely due to performance concerns.

T. ROWE PRICE INTERNATIONAL
Rolling Five Year VAM



5 Year Period Ending

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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2004

Portfolio Manager: Thomas Madsen | **Assets Under Management: $587,347,846**

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

Country weighting decisions contributed to the portfolio's underperformance during the quarter The portfolio's overweight position in the UK and underweight positions in Italy, Spain and Australia also detracted from returns Stock selection in the consumer discretionary, industrials and energy sectors was negative

The portfolio underperformed slightly during the year While stock selection overall was positive, this was offset by the negative effects of stock selection in the information technology, consumer discretionary and telecom sectors

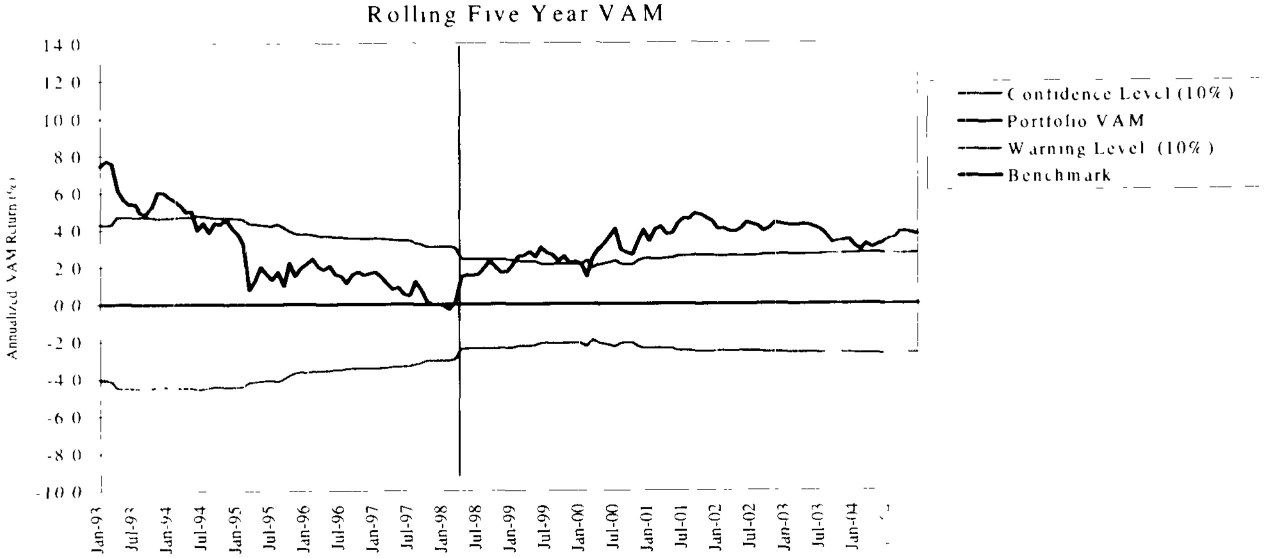
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.8%	15.2%
Last 1 year	20 1	20 4
Last 2 years	26 0	29.1
Last 3 years	11.1	12 0
Last 4 years	3.7	2 5
Last 5 years	2 6	-1 1
Since Inception (4/93)	8 7	7 0

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, 2004

Portfolio Manager: Edward Baker **Assets Under Management: $234,488,714**

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 overall added value during the quarter, particularly in India, South Africa, Taiwan and Turkey The portfolio's overweight position in the telecom sector, one of the top performers during the period, was also beneficial.

For the year, stock selection in the telecom, financials, materials and information technology sectors was very strong and contributed to the portfolio's outperformance.

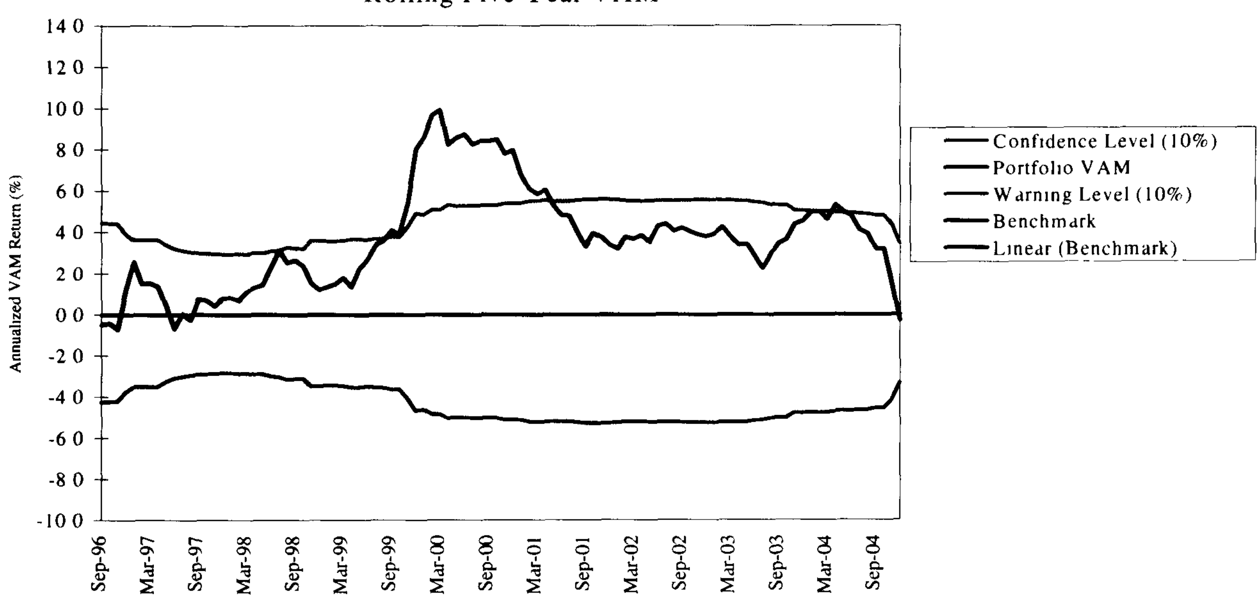
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.9	17.2
Last 1 year	28.6	25.5
Last 2 years	40.8	39.9
Last 3 years	25.3	22.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	12.8	12.9

Recommendations

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



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

CAPITAL INTERNATIONAL, INC.
Periods Ending December, 2004

Portfolio Manager: Victor Kohn **Assets Under Management: $190,372,491**

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 significantly during the quarter and the year Poor stock selection in South Africa and Russia overwhelmingly accounted for the portfolio s weak returns over both time periods

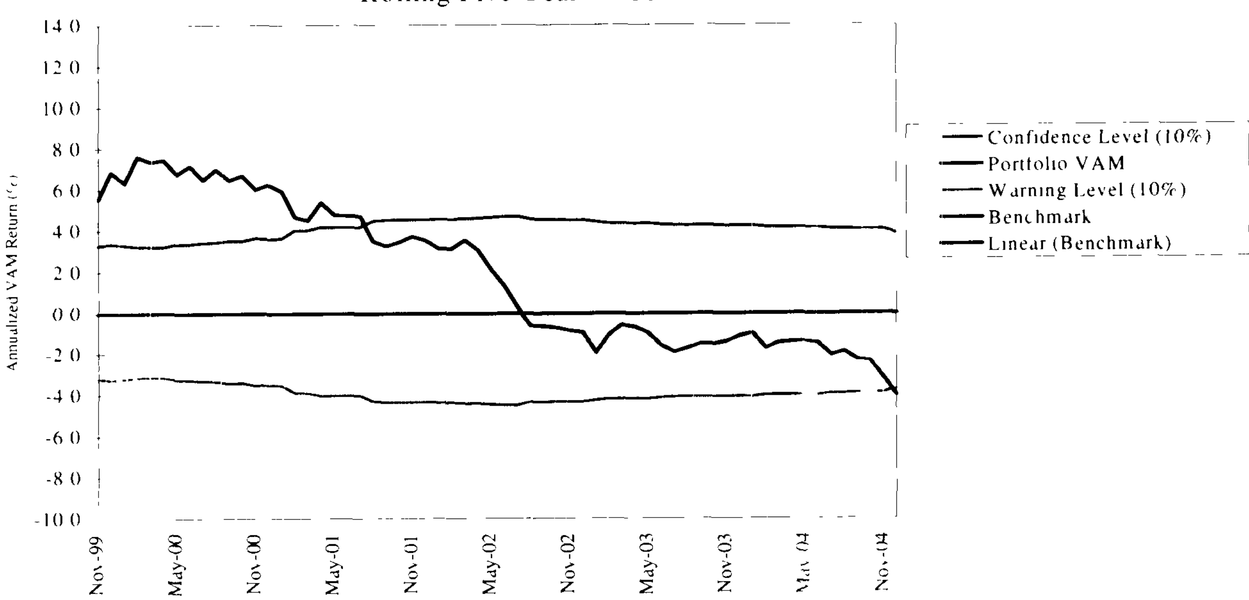
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14 9	17.2
Last 1 year	19 5	25 5
Last 2 years	35 7	39 9
Last 3 years	17 8	22 9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	7 4	12 9

Recommendations

Staff is monitoring the firm due to performance concerns

CAPITAL INTERNATIONAL, INC
Rolling Five Year VAM



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

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Narayan Ramachandran | **Assets Under Management: $235,638,557**

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

The portfolio outperformed during the quarter. Strong stock selection in South Africa, Brazil and Turkey together with underweight positions in China and Malaysia was beneficial.

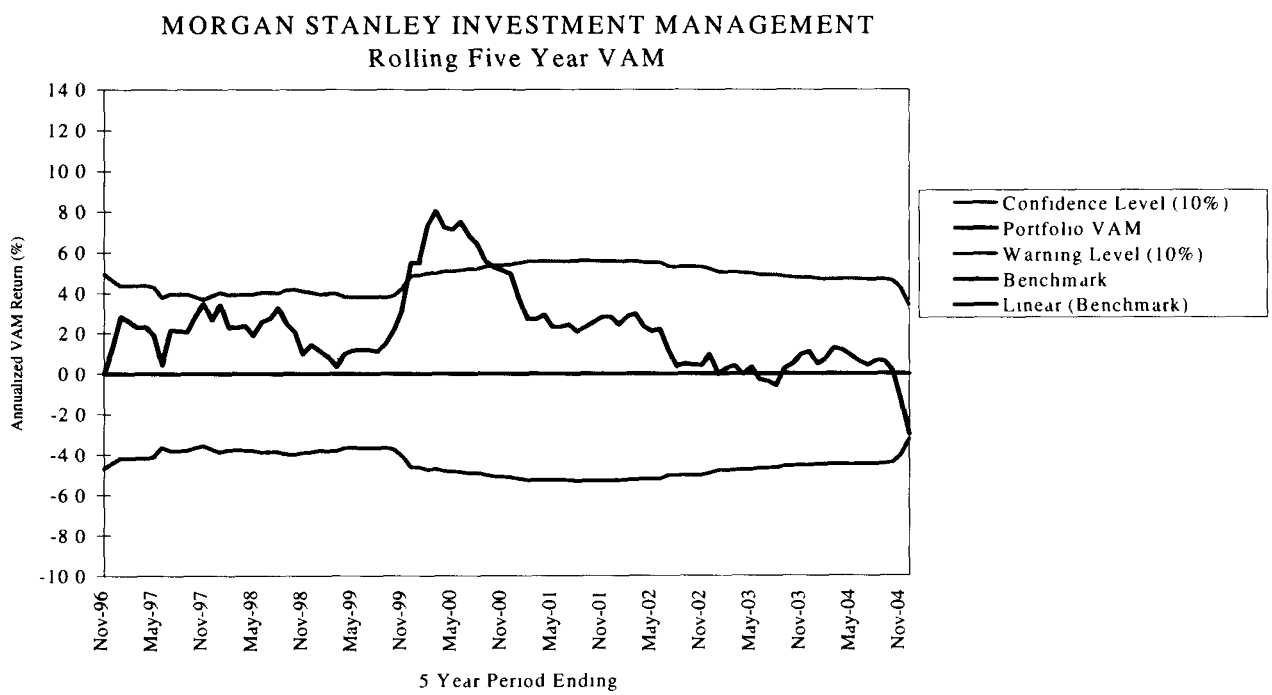
For the year, the portfolio underperformed. Negative stock selection in Korea and the energy and materials sectors detracted from returns. The portfolio's 3% average cash position during this period was also a drag on performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18 1%	17.2%
Last 1 year	24.2	25.5
Last 2 years	40.5	39.9
Last 3 years	23.5	22 9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (3/01)	12.8	12.9

Recommendations

No action required.



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

STATE STREET GLOBAL ADVISORS
Periods Ending December, 2004

Portfolio Manager: Lynn Blake **Assets Under Management: $2,638,486,322**

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

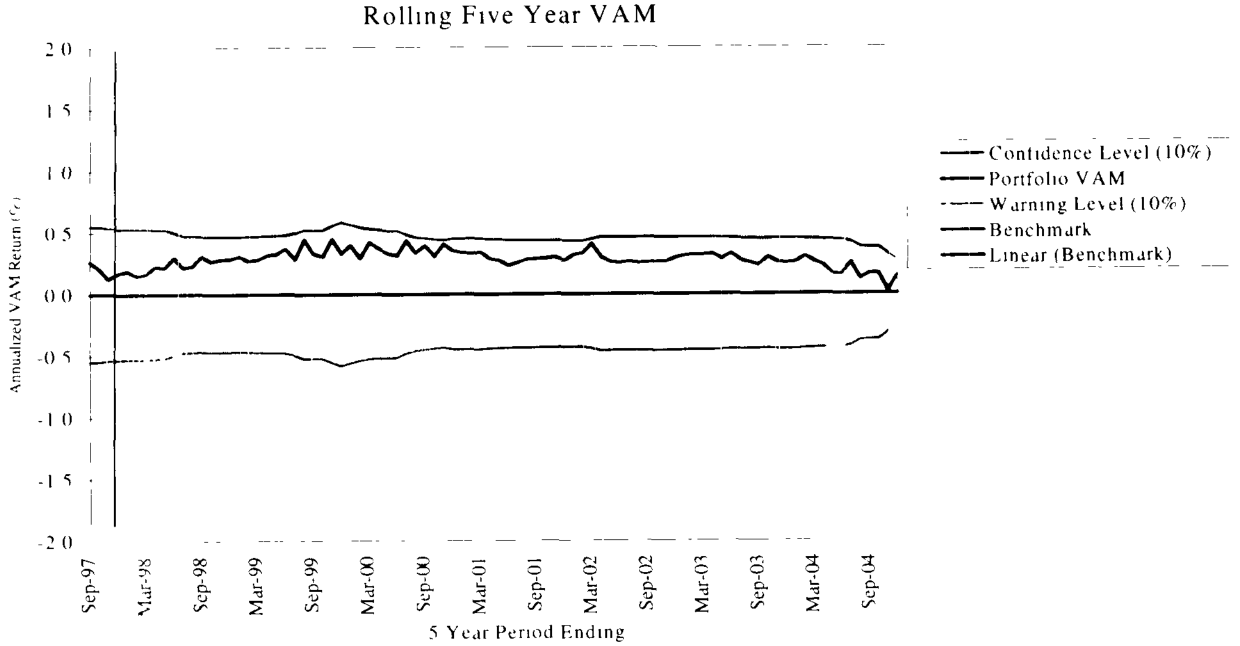
The passive portfolio's tracking error during the quarter and the year is within expectation The modest negative tracking error during the quarter was due primarily to the cash drag from dividend and reclaim receivables The positive tracking error during the year can in part be attributed to the higher dividend income received in the portfolio relative to the net return of the benchmark

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15 1%	15 2%
Last 1 year	20.6	20 4
Last 2 years	29 3	29.1
Last 3 years	12 3	12.0
Last 4 years	2 7	2.5
Last 5 years	-0 9	-1.1
Since Inception (10/92)	7.6	7 3

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, 2004

NON - RETIREMENT MANAGERS
Periods Ending December, 2004

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)
GE Investment Management (S&P 500 Index)*	8.6	9.2	8.8	10.9	2.3	3.6	-0.5	-2.3	12.8	12.1	$67.7
Voyageur Asset Management (Custom Benchmark)*	0.6	0.5	3.2	3.0	4.8	4.9	5.9	6.6	6.8	6.9	$221.5
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.0	0.9	4.1	3.3	4.9	3.0	5.4	4.0	6.0	5.1	$168.0
Internal Stock Pool (S&P 500 Index)*	9.2	9.2	10.9	10.9	3.8	3.6	-2.2	-2.3	11.1	11.0	$659.7
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	1.5	1.0	5.1	4.3	6.3	6.2	7.9	7.7	8.3	8.0	$173.4
Internal Bond Pool - Trust (Lehman Aggregate)*	1.4	1.0	5.0	4.3	6.6	6.2	8.0	7.7	7.9	7.4	$410.6

* Benchmarks for the Funds are noted 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, 2004

Portfolio Manager: Dave Carlson **Assets Under Management: $67,664,935**

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 Technology and materials sectors. The one-year underperformance was impacted by an overweight to the Financials sector, and stock selection in the Utilities and Information Technologies sector.

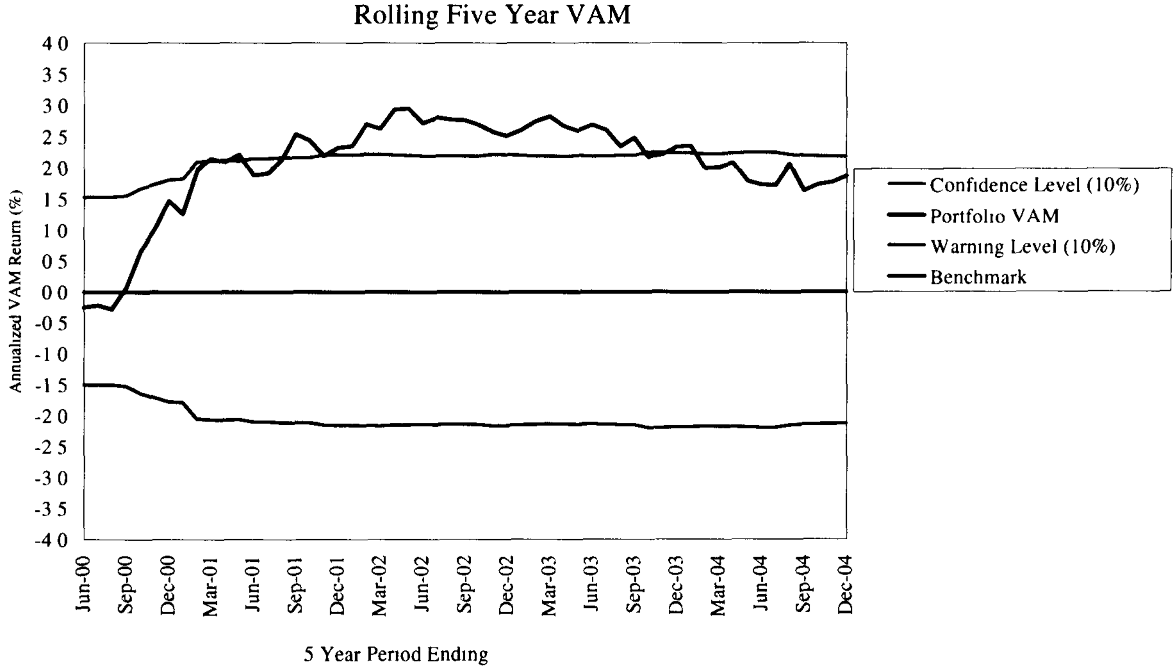
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.6%	9.2%
Last 1 year	8.8	10.9
Last 2 years	16.0	19.5
Last 3 years	2.3	3.6
Last 4 years	-0.4	-0.5
Last 5 years	-0.5	-2.3
Since Inception (1/95)	12.8	12.1

Recommendation

No recommendation at this time.

GE INVESTMENT MANAGEMENT
Rolling Five Year VAM



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending December, 2004

Portfolio Manager: Tom McGlinch **Assets Under Management: $221,536,463**

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 exceeded the benchmark for the quarter and for the year. The returns for both periods were helped by the portfolio's strategy to increase the exposure to high-quality high yielding investments

The addition of John Huber, Managing Director, Chief Investment Officer – Fixed Income in September of 2004 has been a smooth transition Staff will continue to monitor this change

Quantitative Evaluation

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

*Custom benchmark since inception date

Recommendation

No action required

VAM will be drawn for period ending 6/30/05.

GALLIARD CAPITAL MANAGEMENT
Periods Ending December, 2004

Portfolio Manager: Karl Tourville **Assets Under Management: $168,006,609**

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.

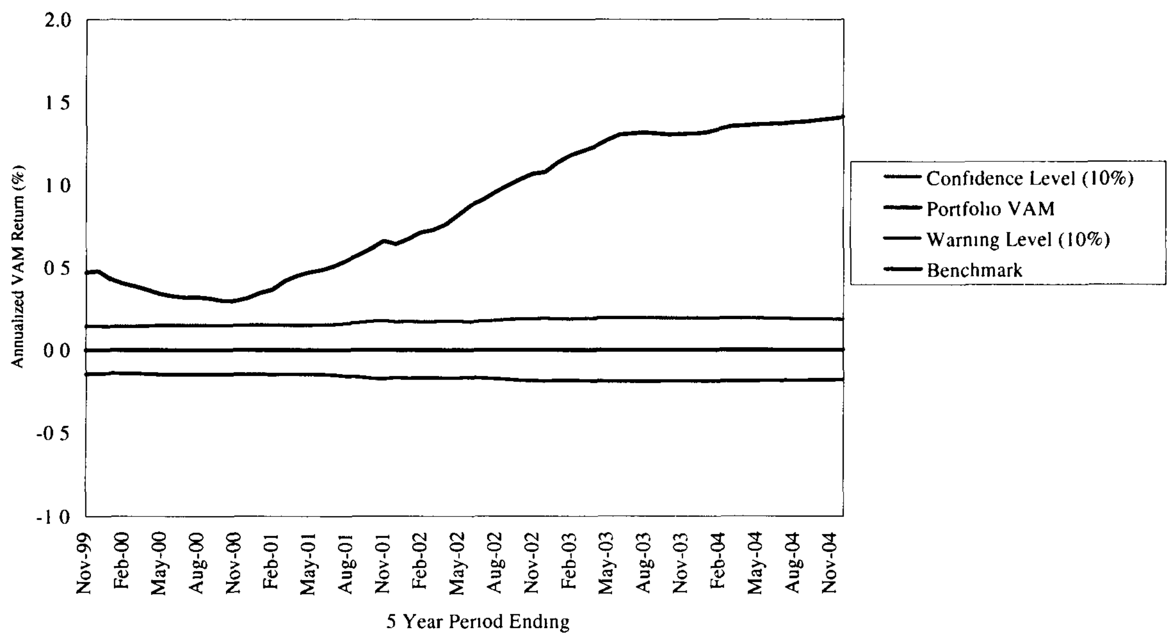
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	0.9%
Last 1 year	4.1	3.3
Last 2 years	4.4	2.9
Last 3 years	4.9	3.0
Last 4 years	5.2	3 4
Last 5 years	5.4	4.0
Since Inception (11/94)	6.0	5.1

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending December, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $659,747,077**

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 and one-year benchmark

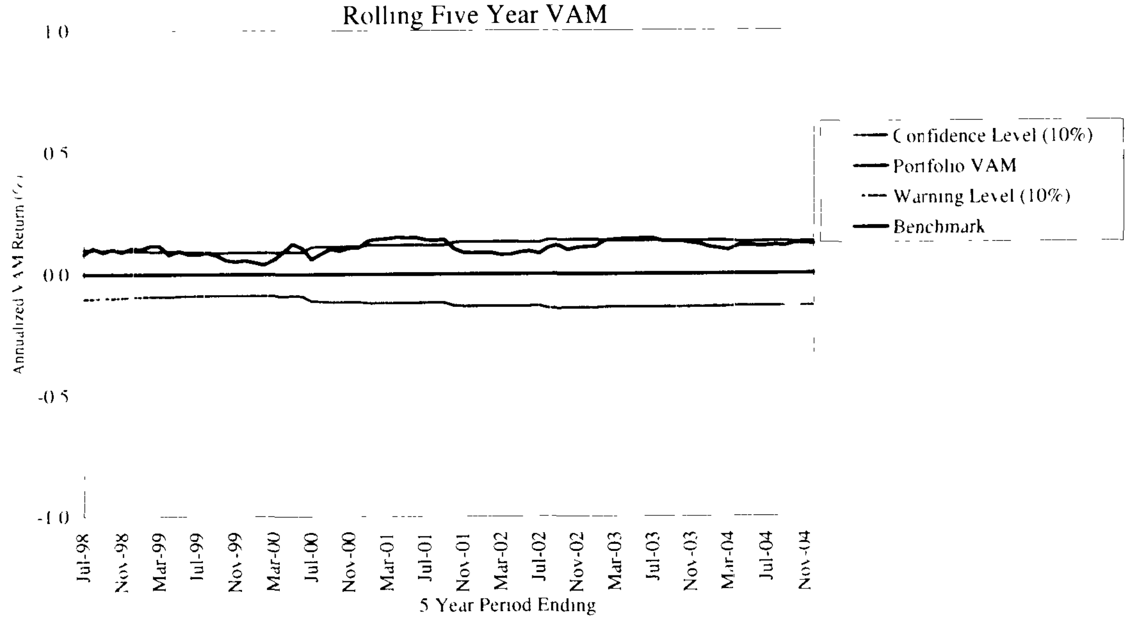
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9 2%	9 2%
Last 1 year	10 9	10.9
Last 2 years	19 5	19 5
Last 3 years	3 8	3 6
Last 4 years	-0 4	-0 5
Last 5 years	-2 2	-2 3
Since Inception (7/93)	11 1	11 0

Recommendation

No action required

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Rolling Five Year VAM



INTERNAL BOND POOL - Income Share Account
Periods Ending December, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $173,437,484**

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

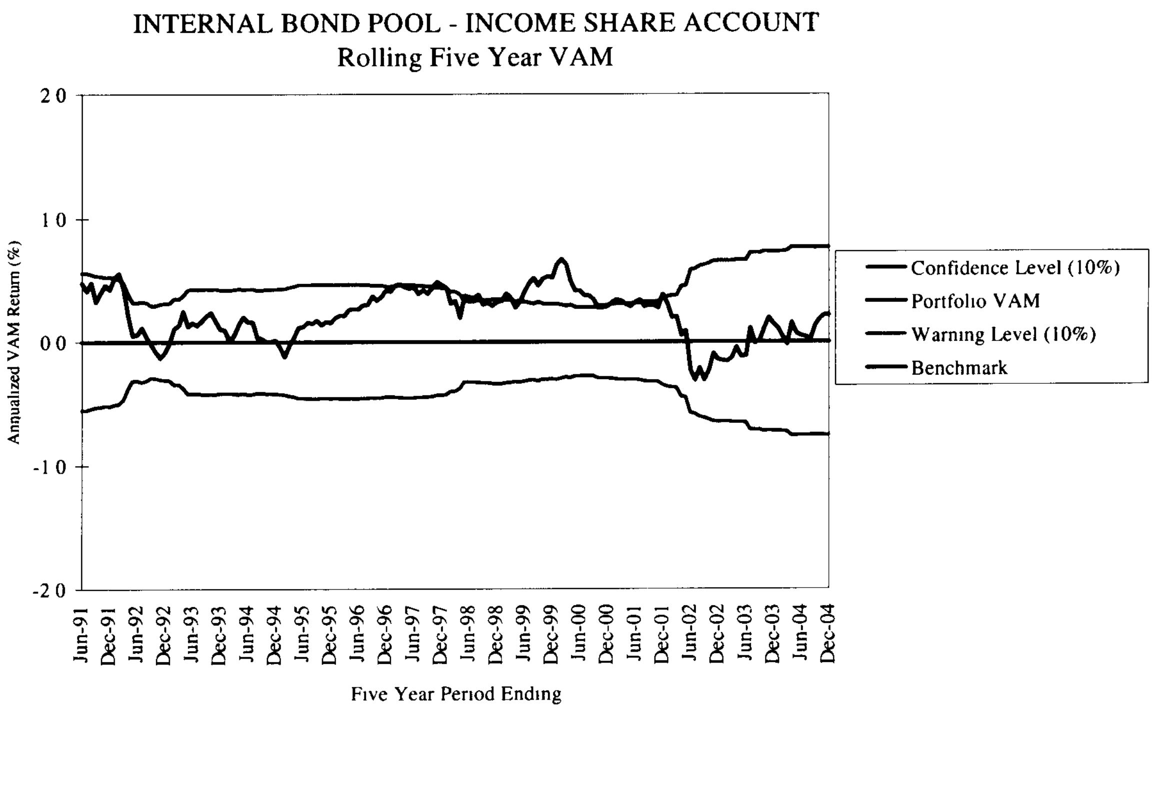
The internal bond pools outperformed the quarterly and one-year benchmarks. Performance for both periods was helped by an overweight to corporates, especially in the BBB portion, a short duration position, and a slight overweight to mortgages.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.5%	1 0%
Last 1 year	5.1	4.3
Last 2 years	5.4	4.2
Last 3 years	6.3	6.2
Last 4 years	7.1	6.8
Last 5 years	7.9	7.7
Since Inception (7/86)	8.3	8.0

Recommendation

No action required.



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending December, 2004

Portfolio Manager: Mike Menssen | **Assets Under Management: $410,619,952**

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 pools outperformed the quarterly and one-year benchmarks Performance for both periods was helped by an overweight to corporates, especially in the BBB portion, a short duration position, and a slight overweight to mortgages

Quantitative Evaluation

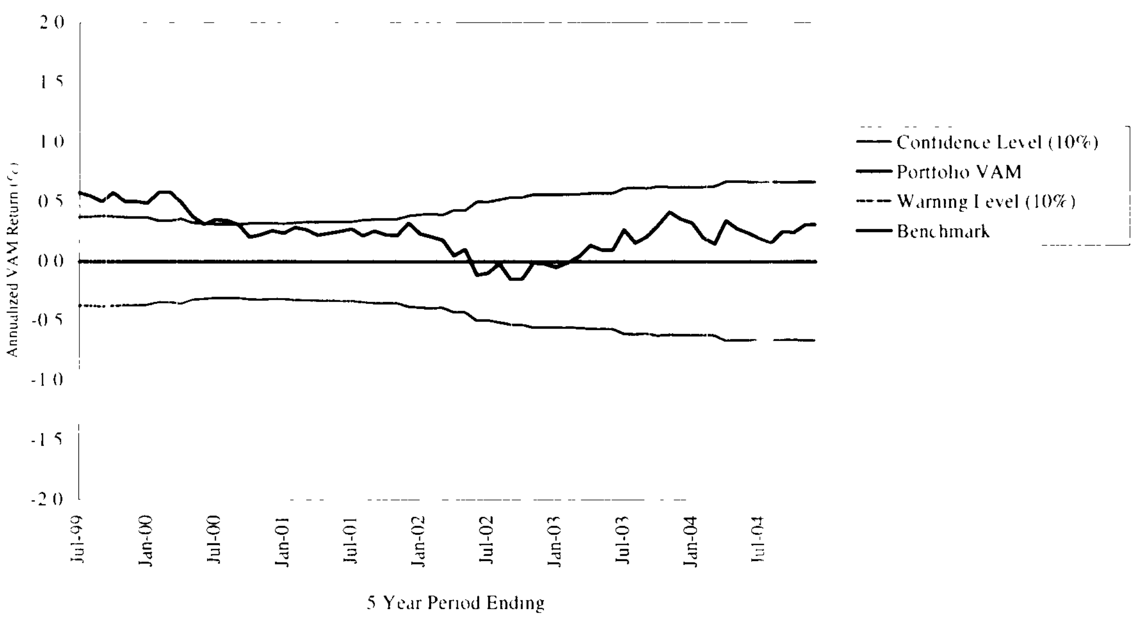
	Actual	Benchmark
Last Quarter	1 4%	1 0%
Last 1 year	5 0	4 3
Last 2 years	5 5	4 2
Last 3 years	6 6	6 2
Last 4 years	7 2	6 8
Last 5 years	8 0	7 7
Since Inception (7/94)*	7 9	7 4

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, 2004

MN STATE 457 DEFERRED COMPENSATION PLAN

MUTUAL FUND MANAGERS

Periods Ending December, 2004

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI * %	Since Retention by SBI * %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	10.6	9.2	21.3	10.9	4.9	3.6	-11.2	-2.3	-4.6	-0.8	$300.9
Smith Barney Appr Y (S&P 500)	7.6	9.2	9.3	10.9	4.4	3.6	2.2	-2.3	13.4	15.3	$113.9
Vanguard Institutional Index Plus (S&P 500)	9.2	9.2	10.9	10.9	3.6	3.6	-2.2	-2.3	-0.7	-0.8	$409.5
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	14.8	14.8	20.5	20.5	11.4	11.3	10.3	10.0	20.5	20.5	$52.0
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	12.5	14.1	18.8	18.3	10.5	11.5	11.1	6.6	11.9	8.0	$356.6
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	8.1	5.9	13.3	8.3	11.0	5.0	11.6	2.0	19.2	12.8	$177.3
Vanguard Balanced Index Inst. Fund (60% Wilshire 5000, 40% Lehman Agg)	6.6	6.5	9.5	9.3	6.0	6.1			11.8	11.7	$167.5
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	1.2	1.0	3.8	4.3	6.8	6.2	8.3	7.7	7.6	7.1	$75.3
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	1.0	1.0	4.4	4.3	5.6	6.2	7.3	7.7	4.9	5.0	$44.5
International:											
Fidelity Diversified International (MSCI EAFE-Free)	13.9	15.3	19.7	20.2	15.6	12.0	4.1	-1.1	9.9	2.7	$153.1
Vanguard Inst. Dev. Mtks Index Fund (MSCI EAFE)	15.3	15.3	20.3	20.2	12.2	11.9			27.3	27.1	$25.8

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

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

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

* Vanguard Mid-Cap Index Fund retained January 2004, Smith Barney, Vanguard Inst. Dev. Mkt , Vanguard Balanced, Vanguard Total Bond Mkt retained December 2003; Dodge & Cox Balanced Fund retained in October 2003; all others, July 1999

Fixed Fund:	%
Blended Yield Rate for current quarter***:	4.8
Bid Rates for current quarter:	
Great West Life	3.8
Minnesota Life	3.6
Principal Life	3.9

***The Blended Yield Rate for the current quarter includes the return on the existing porfolio assets and 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, 2004

State's Participation in Fund: $300,928,800
Total Assets in Fund: $13,604,100,000

Portfolio Manager: Scott W. Schoelzel

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 outperformed the quarterly and one-year benchmark. The portfolio was helped by stock selection, specifically UnitedHealthGroup and eBay.

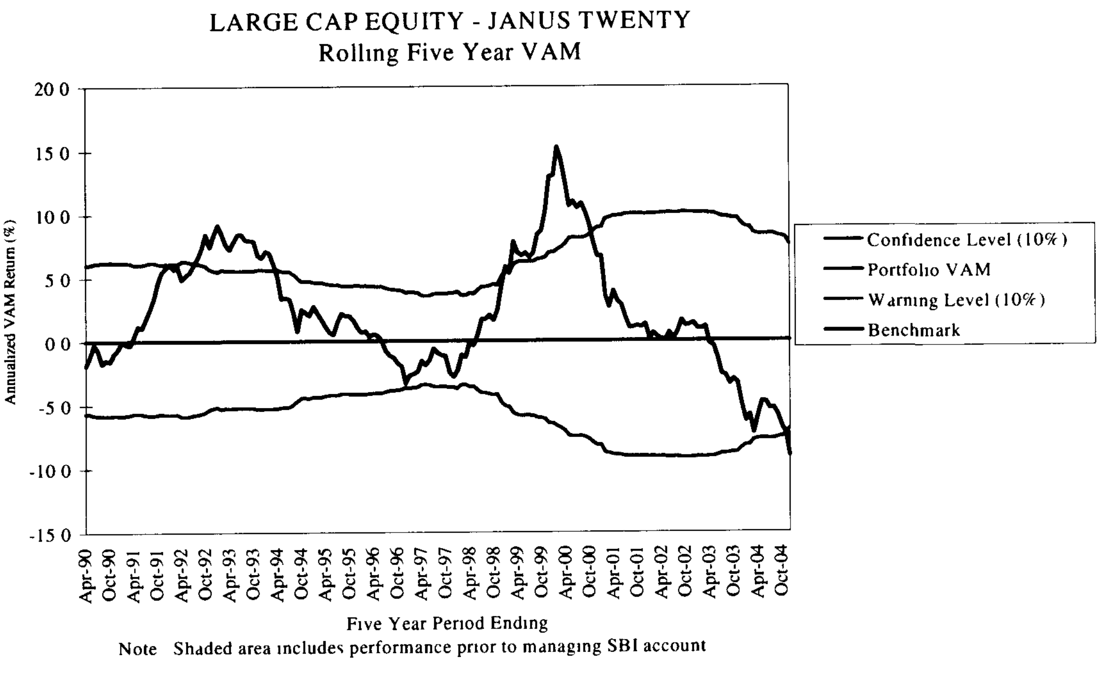
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	10.6%	9.2%
Last 1 year	21.3	10.9
Last 2 years	23.3	19.5
Last 3 years	4.9	3.6
Last 4 years	-4.9	-0.5
Last 5 years	-11.2	-2.3
Since Retention by SBI (7/99)	-4.6	-0.8

*Benchmark is the S&P 500.

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – SMITH BARNEY APPRECIATION Y
Periods Ending December, 2004

State's Participation in Fund: $113,887,696

Portfolio Manager: Hersh Coen | **Total Assets in Fund: $5,904,500,000**

Investment Philosophy
Smith Barney Appreciation Y

The Fund invests in U.S. growth and value stocks, primarily blue-chip companies that are dominant in their industries. Investments are selected from among a core base of stocks with a strong financial history, recognized industry leadership, and effective management teams that strive to earn consistent returns for shareholders. The portfolio manager looks for companies that he believes are undervalued with the belief that a catalyst will occur to unlock these values.

Staff Comments

Smith Barney trailed the quarterly and one-year benchmark. Stock selection in the Consumer Discretionary and Financial sectors, along with the portfolio's cash position, hurt performance for both periods.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	7.6%	9.2%
Last 1 year	9.3	10.9
Last 2 years	16.9	19.5
Last 3 years	4.4	3.6
Last 4 years	2.5	-0.5
Last 5 years	2.2	-2.3
Since Retention by SBI (12/03)	13.4	15.3

*Benchmark is the S&P 500

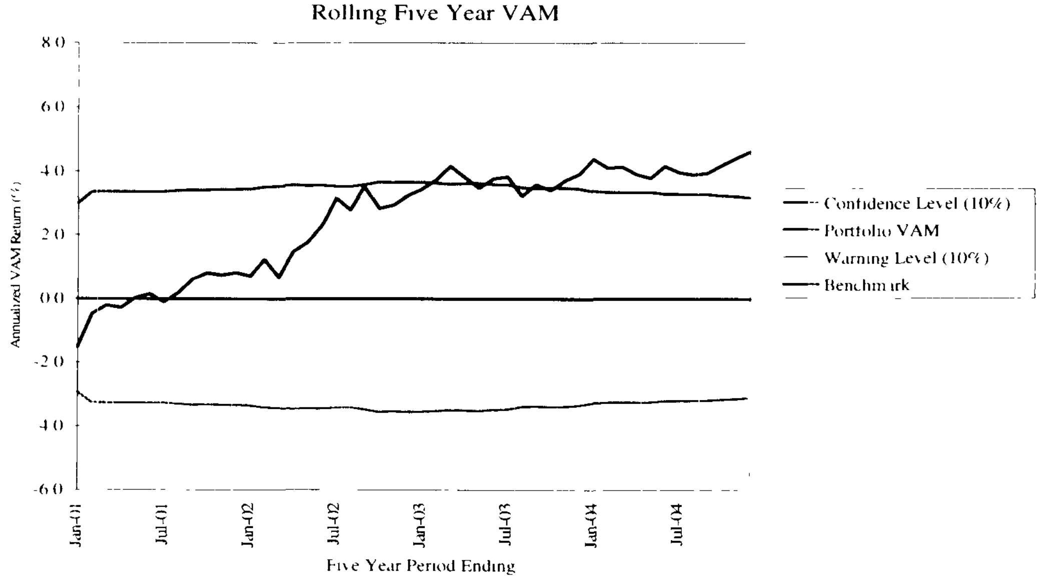
Numbers in black are returns since retention by SBI

Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

LARGE CAP EQUITY - SMITH BARNEY APPRECIATION Y
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, 2004

State's Participation in Fund: $409,518,533
Portfolio Manager: George U. Sauter | **Total Assets in Fund: $13,493,410,820**

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

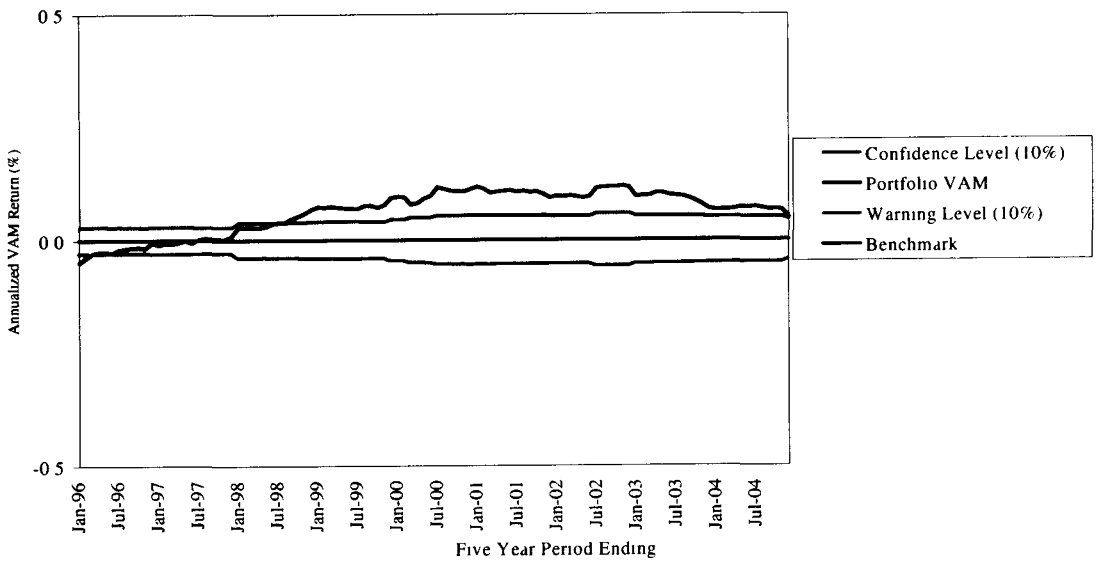
	Actual	Benchmark*
Last Quarter	9.2%	9.2%
Last 1 year	10.9	10.9
Last 2 years	19.5	19.5
Last 3 years	3.6	3.6
Last 4 years	-0.5	-0.5
Last 5 years	-2.2	-2.3
Since Retention by SBI (7/99)	-0.7	-0.8

*Benchmark is the S&P 500.

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending December, 2004

Portfolio Manager: George U. Sauter

State's Participation in Fund: $51,962,995
Total Assets in Fund: $2,055,501,483

Investment Philosophy
Vanguard Mid-Cap Index

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

Staff Comments

No comment at this time

Quantitative Evaluation

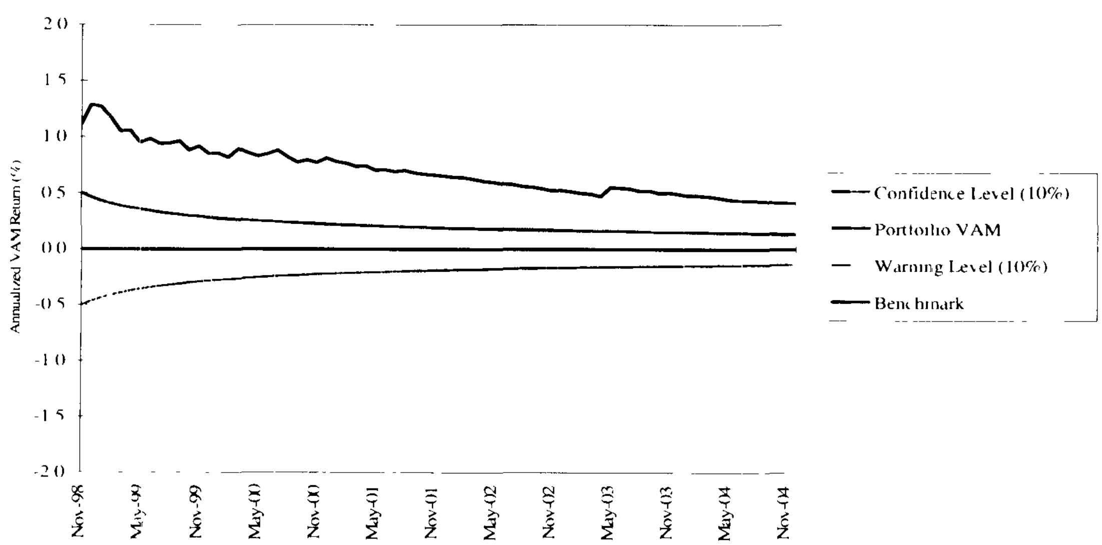
	Actual	Benchmark*
Last Quarter	14 8%	14 8%
Last 1 year	20 5	20 5
Last 2 years	27 2	27 0
Last 3 years	11 4	11 3
Last 4 years	8 4	8 2
Last 5 years	10 3	10 0
Since Retention by SBI (1/04)	20 5	20 5

*Benchmark is the MSCI US Mid Cap 450.
Numbers in black are returns since retention by SBI
Numbers in blue include returns prior to retention by SBI

Recommendation

No action required

MID-CAP EQUITY - VANGUARD MID-CAP INDEX
Cumulative VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP STOCK FUND
Periods Ending December, 2004

Portfolio Manager: Gregory A. McCrickard

State's Participation in Fund: $356,559,875.60
Total Assets in Fund: $6,364,281,207.20

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 trailed the quarterly benchmark due to stock selection in the Energy sector. The strategy's stock selection in information technology and a significant overweight in industrials and business services sector helped the one-year outperformance.

Quantitative Evaluation

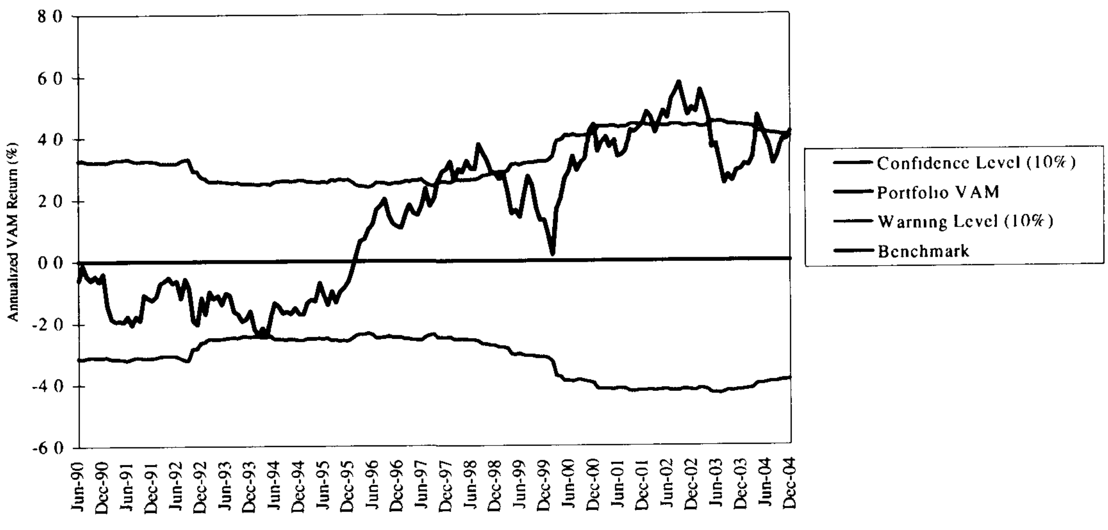
	Actual	Benchmark*
Last Quarter	12.5%	14.1%
Last 1 year	18.8	18.3
Last 2 years	25.4	32.0
Last 3 years	10.5	11.5
Last 4 years	9.6	9.2
Last 5 years	11.1	6.6
Since Retention by SBI (7/99)	11.9	8.0

*Benchmark is the Russell 2000.

Recommendation

No action required.

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



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

STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending December, 2004

State's Participation in Fund: $177,336,985

Portfolio Manager: John Gunn **Total Assets in Fund: $20,740,646,324**

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 exceeding their respective benchmarks. The equity portfolio was helped by an overweight in the Consumer Discretionary sector and security selection. The fixed income portfolio benefited by its shorter than benchmark duration

Quantitative Evaluation

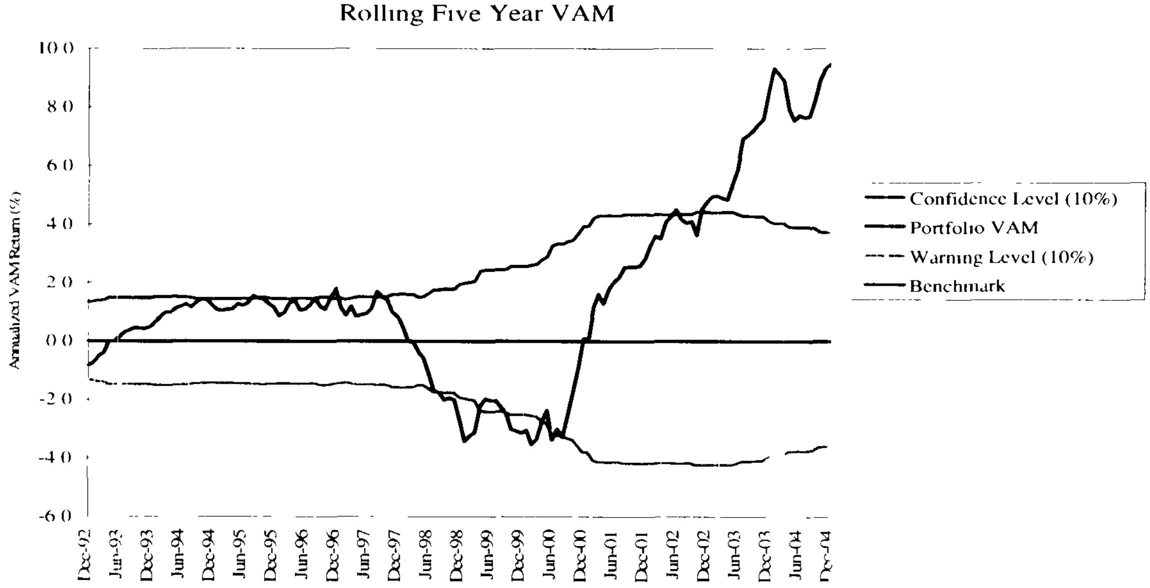
	Actual	Benchmark*
Last Quarter	8.1%	5 9%
Last 1 year	13.3	8 3
Last 2 years	18 8	13 3
Last 3 years	11 0	5 0
Last 4 years	10 8	2 7
Last 5 years	11 6	2 0
Since Retention By SBI (10/03)	19.2	12 8

*Benchmark is 60% S&P 500, 40% Lehman Aggregate
Numbers in black are returns since retention by SBI
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required

BALANCED - DODGE & COX BALANCED FUND
Rolling Five Year VAM



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – VANGUARD BALANCED INDEX INSTITUTIONAL FUND
Periods Ending December, 2004

State's Participation in Fund: $167,521,094
Portfolio Manager: George U. Sauter **Total Assets in Fund: $1,655,875,407**

Investment Philosophy
Vanguard Balanced Index Fund

The fund's assets are divided between stocks and bonds, with an average of 60% of its assets in stocks and 40% in bonds. The fund's stock segment attempts to track the performance of the Wilshire 5000 Total Market Index, an unmanaged index that covers all regularly traded U.S. stocks. The fund's bond segment attempts to track the performance of the Lehman Brothers Aggregate Bond Index, an unmanaged index that covers virtually all taxable fixed-income securities.

Staff Comments

No comment at this time.

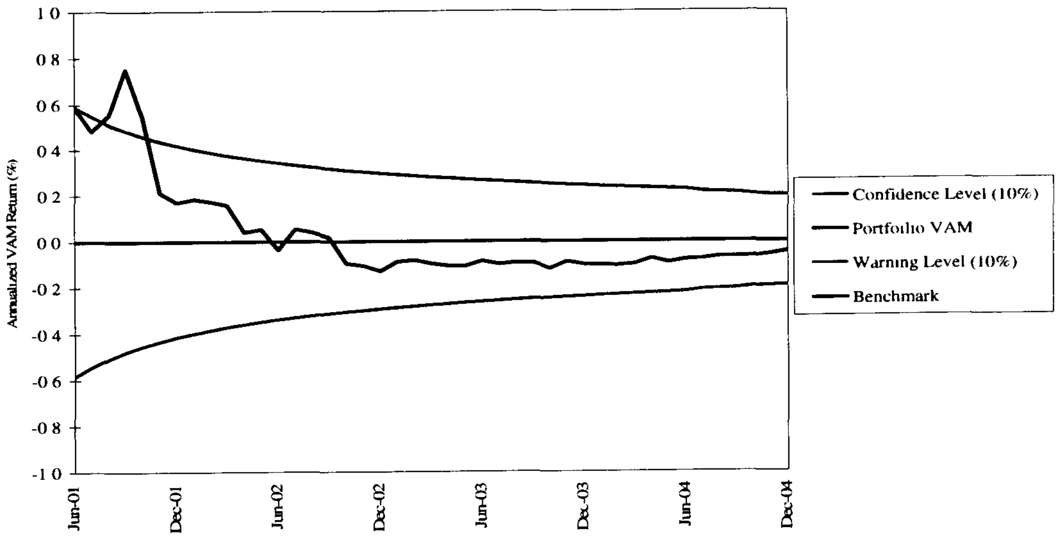
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.6%	6.5%
Last 1 year	9.5	9.3
Last 2 years	14.6	14.6
Last 3 years	6.0	6.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	11.8	11.7

*Benchmark is 60% Wilshire, 40% Lehman Aggregate.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending December, 2004

Portfolio Manager: Dana Emery	**State's Participation in Fund: $75,297,044**
	Total Assets in Fund: $7,870,196,518

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 & Cox exceeded the quarterly benchmark. The fund's shorter than benchmark duration was the primary source of outperformance

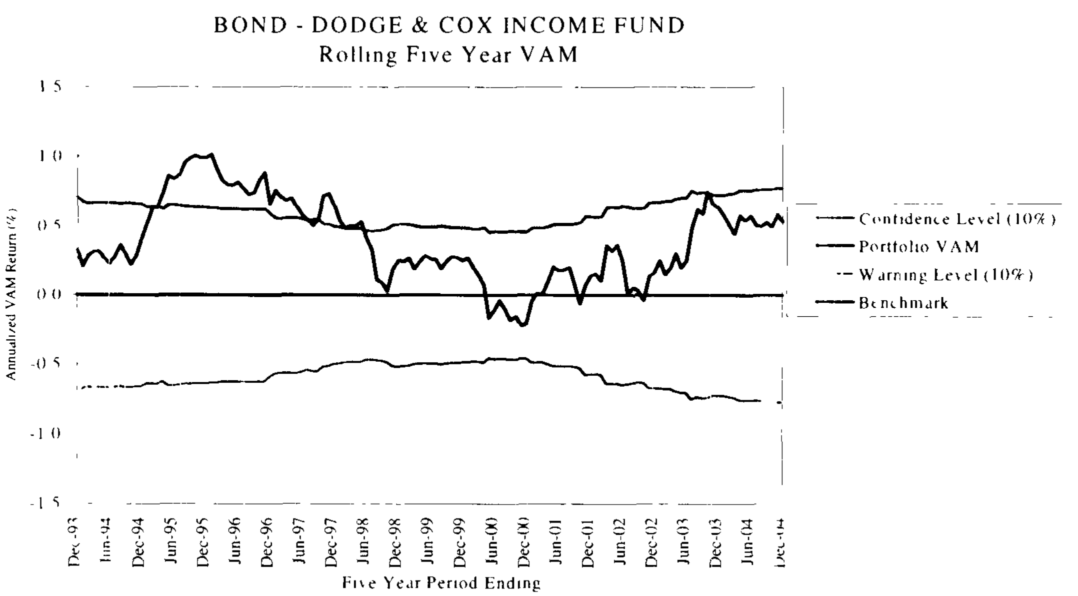
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.2%	1 0%
Last 1 year	3.8	4 3
Last 2 years	4.9	4.2
Last 3 years	6.8	6 2
Last 4 years	7.7	6.8
Last 5 years	8.3	7 7
Since Retention By SBI (10/03)	7.6	7 1

*Benchmark is the Lehman Aggregate

Recommendation

No action required



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending December, 2004

State's Participation in Fund:	**$44,540,938**
Total Assets in Fund:	**$7,443,885,995**

Portfolio Manager: Robert Auwaerter

Investment Philosophy
Vanguard Total Bond Market Index Institutional

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

Staff Comments

No comment at this time.

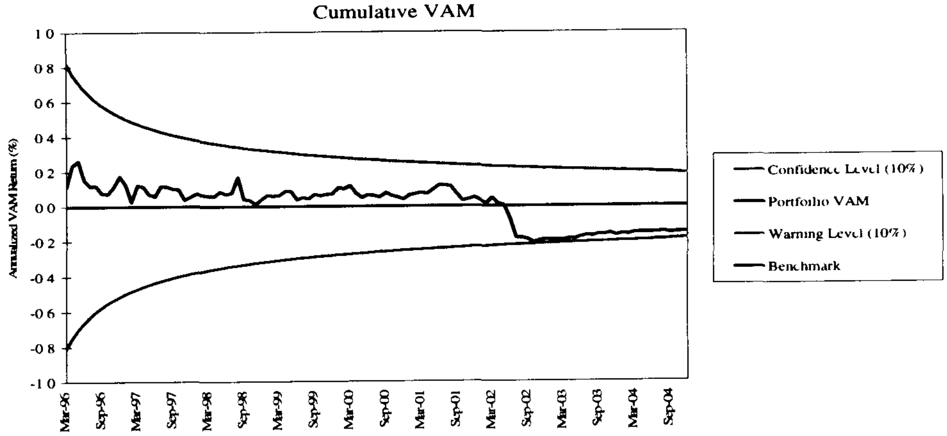
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.0%	1.0%
Last 1 year	4.4	4.3
Last 2 years	4 2	4 2
Last 3 years	5 6	6 2
Last 4 years	6.3	6.8
Last 5 years	7.3	7.7
Since Retention by SBI (12/03)	4.9	5.0

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

Recommendation

No action required.



Note Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending December, 2004

	State's Participation in Fund: $153,100,897
Portfolio Manager: William Bower	**Total Assets in Fund: $23,419,830,000**

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 underperformed the quarterly benchmark due to stock selection in the health care sector. The one-year return was hurt by stock selection in the financial and materials sectors.

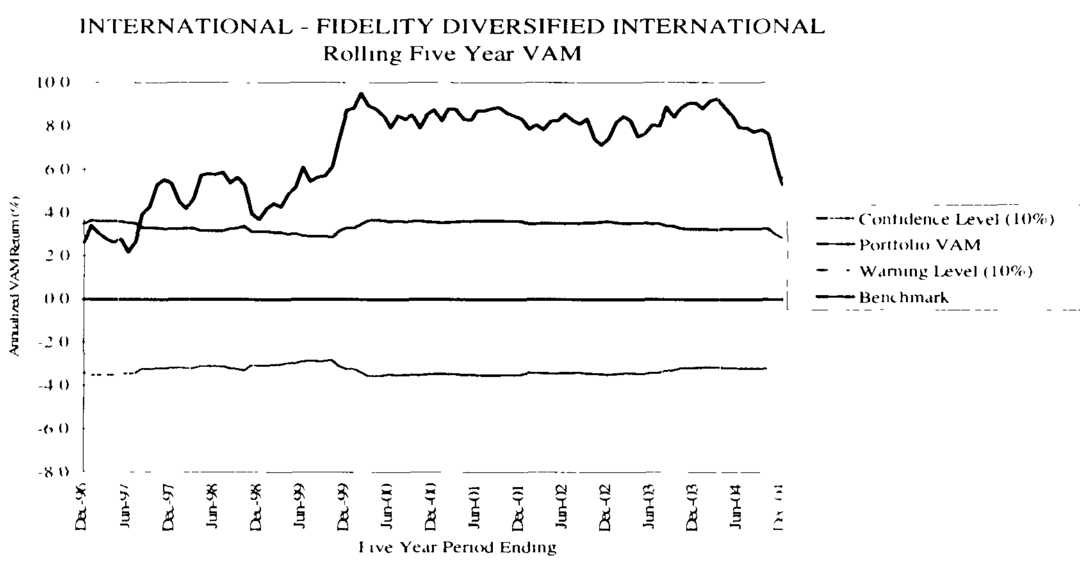
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	13.9%	15.3%
Last 1 year	19.7	20.2
Last 2 years	30.5	29.1
Last 3 years	15.6	12.0
Last 4 years	7.6	2.5
Last 5 years	4.1	-1.1
Since Retention By SBI (7/99)	9.9	2.7

*Benchmark is the MSCI EAFE-Free

Recommendation

No action required



MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKET INDEX
Periods Ending December, 2004

State's Participation in Fund: $25,823,394
Portfolio Manager: George U. Sauter **Total Assets in Fund:** $1,194,822,713

Investment Philosophy
Vanguard Institutional Developed Market Index

The fund seeks to track the performance of the MSCI EAFE Index by passively investing in two other Vanguard funds—the European Stock Index Fund and the Pacific Stock Index Fund. The combination of the two underlying index funds, in turn, seeks to track the investment results of the Morgan Stanley Capital International (MSCI) Europe, Australasia, Far East (EAFE) Index. The MSCI EAFE Index includes approximately 1,000 common stocks of companies located in Europe, Australia, Asia, and the Far East.

Staff Comments

No comment at this time.

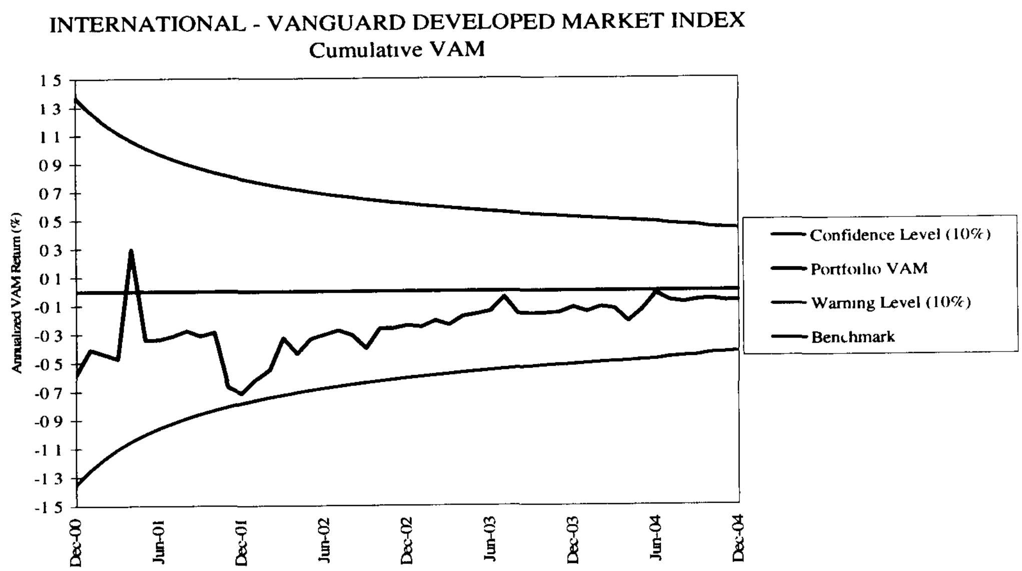
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	15.3%	15.3%
Last 1 year	20.3	20.2
Last 2 years	29.3	29.1
Last 3 years	12 2	11 9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	27.3	27.1

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

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, 2004

Total Assets in MN Fixed Fund: $638,117,304 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $683,822,352 **
**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: $267,213,563

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: $147,951,997

Assets in Prior MN 457 Plan: $0

Total Assets: $147,951,997

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: $196,638,335

Assets in Prior MN 457 Plan: $45,705,049

Total Assets: $242,343,384

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, 2004

Current Quarter

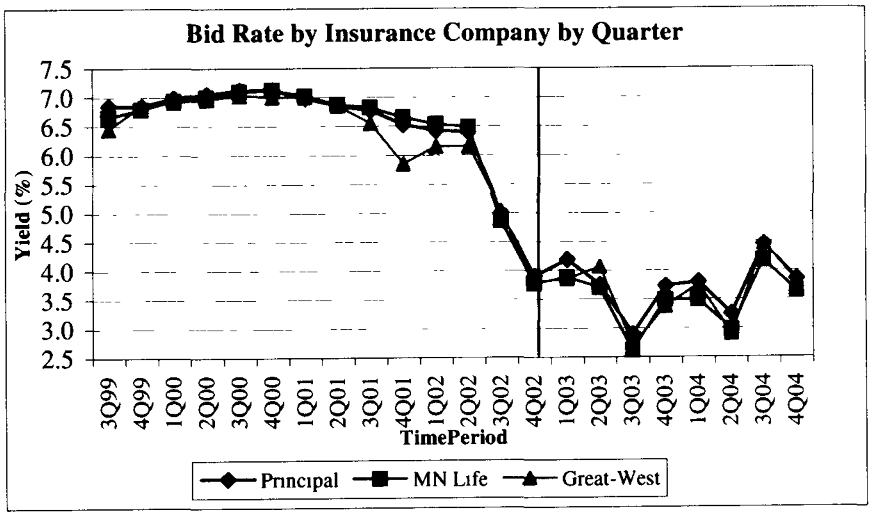
Dollar Amount of Bid: $33,000,000 **Blended Rate: 4.76%**

Bid Rates:

Principal Life	3.85%	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	3.64%	
Great-West Life	3.80%	

Dollar Amount in existing Minnesota Life portfolio: $0

Rate on existing Minnesota Life portfolio: n/a%



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.

	1Q04	2Q04	3Q04	4Q04
Principal Life	50.0%	100.0%	50.0%	40.0%
Minnesota Life	0.0%	0.0%	0.0%	20.0%
Great-West Life	50.0%	0.0%	50 0%	40.0%

Staff Comments

For the fourth quarter, Minnesota Life had a lower allocation of bid dollars since their bid was more than 17 b.p. lower than the top bid. The top two bids were within 8 b.p. of each other.

COMMITTEE REPORT

DATE: February 22, 2005

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on February 16, 2005 to review the following information and action agenda items:

- Review of current strategy
- New investments with four existing managers, Merit Energy Company, Chicago Growth Partners, Blum Capital Partners, The Banc Funds Company, and one new manager, Elevation Associates.

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 resource manager, Merit Energy, in Merit Energy Partners F, L.P.

Merit Energy Partners is seeking investors for a new $1.5 billion resource fund. This fund is a successor to four prior resource funds managed by Merit Energy Partners in which the SBI has an aggregate investment of $262 million. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of oil and gas producing property investments.

More information on Merit Energy Partners F, L.P. is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Merit Energy Partners F, 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 Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Merit Energy Partners or reduction or termination of the commitment.

2) Investment with an existing private equity manager, The Banc Funds Company, in Banc Fund VII, L.P.

The Banc Funds Company is seeking investors for a new $450 million private equity fund. This fund is a successor to six prior private equity funds managed by The Banc Funds Company. The SBI has invested in three of the six prior funds for an aggregate investment of $93 million. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of banking and other financial services company investments.

More information on Banc Fund VII, 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 Banc Fund VII, 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 The Banc Funds Company upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on The Banc Funds Company or reduction or termination of the commitment.

3) **Investment with an existing private equity manager, Blum Capital Partners, in Blum Strategic Partners III, L.P.**

Blum Capital Partners is seeking investors for a new $950 million private equity fund. This fund is a successor to two prior private equity funds managed by Blum Capital Partners in which the SBI has an aggregate investment of $100 million. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Blum Strategic Partners III, L.P. 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 $75 million or 20%, whichever is less, in Blum Strategic Partners III, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Blum Capital Partners upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Blum Capital Partners or reduction or termination of the commitment.

4) **Investment with an existing private equity manager, Chicago Growth Management VIII, in Chicago Growth Partners VIII, L.P.**

Chicago Growth Management VIII is seeking investors for a new $400 million private equity fund. This fund is a successor to four prior private equity funds managed by Chicago Growth Management VIII. The SBI invested $50 million in Fund VII. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of lower middle market company investments.

More information on Chicago Growth Partners VIII, 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 $50 million or 20%, whichever is less, in Chicago Growth Partners VIII, 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 Chicago Growth Management VIII upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Chicago Growth Management VIII or reduction or termination of the commitment.

5) **Investment with a new private equity manager, Elevation Associates, in Elevation Partners, L.P.**

Elevation Associates is seeking investors for a new $1.5 billion private equity fund. This fund is a new fund being formed by experienced private equity investors and corporate executives to target a diversified portfolio of media and entertainment investments.

More information on Elevation Partners, L.P. 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 Elevation Partners, 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 Elevation Associates upon this approval. Until the Executive Director on behalf of the SBI executes a formal agreement, further due diligence and negotiations may result in the imposition of additional terms and conditions on Elevation Associates or reduction or termination of the commitment.

ATTACHMENT A

Minnesota State Board of Investment

Pooled Alternative Investments

Combined Retirement Funds

December 31, 2004

Basic Retirement Funds Market Value	$20,200,861,355
Post Retirement Fund Market Value	$19,479,433,577
Amount Available for Investment	**$2,095,973,374**

	Current Level	Target Level	Difference
Market Value (MV)	$3,271,687,859	$5,367,661,233	$2,095,973,374
MV +Unfunded	$5,059,702,746	$8,051,491,849	$2,991,789,103

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$1,505,725,216	$985,450,602	$2,491,175,818
Real Estate	$664,153,169	$105,873,271	$770,026,440
Resource	$226,311,215	$98,656,344	$324,967,559
Yield-Oriented	$875,498,259	$598,034,671	$1,473,532,930
Total	$3,271,687,859	$1,788,014,888	$5,059,702,746

ATTACHMENT B

Minnesota State Board of Investment
- Alternative Investments -

As of December 31, 2004

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	766,880	87,675,320	1,517,672	4 24	9 75
Colony Investors III	100,000,000	100,000,000	37,775,918	112,790,261	0	12 83	7 00
CSFB Strategic Partners RE II	25,000,000	0	0	0	25,000,000	N/A	0 00
Equity Office Properties Trust	258,062,214	258,062,214	112,718,861	367,108,482	0	15 09	13 10
Heitman							
Heitman Advisory Fund II	30,000,000	30,000,000	57,915	43,528,725	0	3 98	19 11
Heitman Advisory Fund V	20,000,000	20,000,000	496,092	35,450,332	0	8 68	13 08
Lasalle Income Parking Fund	15,000,000	14,644,401	2,379,022	29,673,614	355,599	12 49	13 28
Morgan Stanley (Lend Lease)	42,058,542	42,058,542	172,951,229	8,822,500	0	6 83	23 23
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	14,738,141	70,289,242	0	11 48	10 58
Realty Associates Fund IV	50,000,000	50,000,000	37,454,980	54,174,102	0	11 78	7 91
Realty Associates Fund V	50,000,000	50,000,000	48,461,704	23,572,881	0	9 14	5 60
Realty Associates Fund VI	50,000,000	46,000,000	42,616,752	7,492,894	4,000,000	7 72	2 51
Realty Associates Fund VII	75,000,000	0	0	0	75,000,000	N/A	0 00
UBS Realty	42,376,529	42,376,529	193,735,674	0	0	7 45	22 67
Real Estate Total	877,497,285	771,624,014	664,153,169	840,578,353	105,873,271		
Resource							
Apache Corp III	30,000,000	30,000,000	7,745,910	49,589,648	0	12 34	18 00
First Reserve							
First Reserve I	15,000,000	15,000,000	67,154	14,552,526	0	(0 24)	23 25
First Reserve II	7,000,000	7,000,000	110,855	14,879,948	0	5 97	21 91
First Reserve V	16,800,000	16,800,000	186,942	50,261,377	0	16 22	14 67
First Reserve VII	40,000,000	40,000,000	9,657,283	50,753,407	0	10 46	8 50
First Reserve VIII	100,000,000	100,000,000	61,414,597	85,379,991	0	10 50	6 67
First Reserve IX	100,000,000	97,105,290	69,519,177	46,435,424	2,894,710	10 97	3 73
First Reserve X	100,000,000	11,790,393	11,790,393	0	88,209,607	N/A	0 16
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	999,999	30,582,945	2,293,371	9 20	13 40
Simmons - SCF Fund III	25,000,000	23,380,337	14,574,449	49,774,101	1,619,663	18 97	9 50
Simmons - SCF Fund IV	50,000,000	46,361,007	39,657,457	29,153,378	3,638,993	9 62	6 75
T. Rowe Price	27,143,765	27,143,765	10,587,000	29,789,644	0	21 27	N/A
Resource Total	527,943,765	429,287,421	226,311,215	451,152,389	98,656,344		
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	39,508,984	16,331,131	3,815,692	15 55	2 63
CT Mezzanine Partners	100,000,000	36,804,097	5,224,818	45,722,329	63,195,903	19 47	3 28
Citicorp Mezzanine							
Citicorp Mezzanine Partners	100,000,000	74,173,115	56,295,447	41,638,988	25,826,885	14 96	5 17
Citicorp Mezzanine Partners III	40,000,000	40,000,000	9,140,250	44,321,419	0	9 48	10 00
DLJ Investment Partners II	50,000,000	17,727,950	4,024,368	22,100,298	32,272,051	9 63	5 00
Gold Hill Venture Lending	40,000,000	6,028,091	6,028,091	0	33,971,909	N/A	0 26
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	90,054,587	54,801,326	50,391,787	9,945,413	7 12	4 84
GS Mezzanine Partners III	75,000,000	22,794,511	21,010,891	3,162,156	52,205,489	11 63	1 48
GTCR Capital Partners	80,000,000	69,589,422	51,392,900	36,640,672	10,410,578	7 51	5 14
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fd II	13,500,000	13,397,500	3,106,530	18,560,775	102,500	9 72	9 43
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	13,340,851	20,144,651	224,948	8 32	8 08
Institutional Commercial Mortgage Fd IV	14,300,000	14,300,000	10,148,237	11,005,969	0	8 32	7 01
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	33,632,547	16,205,209	0	8 41	5 42
KB Mezzanine Partners Fund II	25,000,000	25,000,000	4,148,193	7,151,873	0	(17 60)	9 25
Merit Capital Partners (fka William Blair)							
William Blair Mezz. Fund III	60,000,000	57,621,600	42,901,459	29,774,400	2,378,400	9 13	5 00
Merit Mezzanine Fund IV	75,000,000	0	0	0	75,000,000	N/A	0 00
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	42,289,951	28,561,345	0	21 68	8 50
Merit Energy Partners C	50,000,000	50,000,000	115,188,687	9,726,816	0	27 96	6 18
Merit Energy Partners D	88,000,000	87,339,199	129,202,924	4,301,741	660,801	26 46	3 60
Merit Energy Partners E	100,000,000	41,442,316	41,442,316	0	58,557,684	N/A	0 21
Prudential Capital Partners							
Prudential Capital Partners I	100,000,000	85,546,237	69,008,426	27,176,706	14,453,763	6 90	3 70
Prudential Capital Partners II	100,000,000	0	0	0	100,000,000	N/A	0 00
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	77,747	31,406,578	2,000,000	30 57	10 75
Summit Sub Debt Fund II	45,000,000	40,275,000	15,571,627	69,146,304	4,725,000	57 34	7 42
Summit Sub. Debt Fund III	45,000,000	4,275,000	4,307,601	0	40,725,000	N/A	0 88
T. Rowe Price	52,990,378	52,990,378	126,800	51,844,812	0	(11 58)	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partner	40,000,000	37,130,039	4,664,912	48,557,040	2 869 961	12 80	8 75
TCW/Crescent Mezzanine Partner II	100,000,000	87,479,046	22,229,383	104,582,858	12,520,954	12 56	6 11
TCW/Crescent Mezzanine Partners III	75,000,000	52,106,244	45,666,831	29,158,477	22,893,756	24 22	3 76
Windjammer Mezz. & Equity Fund II	66,708,861	37,430,877	31,016,161	12,865,078	29,277,984	6 79	4 75
Yield-Oriented Total	1,788,199,239	1,190,164,568	875,498,259	780,479,412	598,034,671		

Minnesota State Board of Investment
- Alternative Investments -

As of December 31, 2004

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Private Equity							
Adams Street Partners (Brinson)							
Brinson Partners I	5,000,000	3,800,000	280 331	9 190 295	1 200 000	13 26	16 64
Brinson Partners II	20,000,000	20,000,000	496 721	37 502 515	0	24 11	14 09
Affinity Ventures	4,000,000	720,000	711 387	0	3,280 000	N/A	0 50
Bank Fund V	48,000,000	48,000,000	66,975 024	19 031,432	0	14 75	6 46
Blackstone Capital Partners							
Blackstone Capital Partners II	50 000,000	47,271,190	4,005 750	94 456,397	2 728,810	34 33	11 11
Blackstone Capital Partners IV	70,000,000	32,981,405	34,525 509	7 946 998	37 018 595	36 40	2 47
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	48,771,954	35,925 513	50 242 050	1,228,046	11 40	6 03
Blum Strategic Partners II	50,000,000	48,069 217	42,595 980	22 160,065	1,930,783	18 90	3 46
Chicago Growth Partners VII (fka William Blair)	50,000,000	38 100 000	34,626 385	0	11 900 000	(5 32)	3 82
Citigroup Venture Capital Equity	100 000,000	53,898,324	39,094 040	25 366,335	46 101,676	10 71	3 06
Contrarian Capital Fund II	37,000,000	33,244,395	23,561 775	22 175,376	3,755 605	5 06	7 59
Coral Partners							
Coral Partners Fund II	10,000,000	8,069,315	405 365	36 553 687	1 930,685	24 92	14 43
Coral Partners Fund IV	15,000,000	15,000,000	3,933,905	11 107 747	0	0 04	10 45
Coral Partners Fund V	15,000,000	14,625,000	4,295 157	2 016 216	375 000	(17 59)	6 54
Crescendo							
Crescendo II	15,000,000	15 000,000	1,216,614	20 347 039	0	21 59	8 00
Crescendo III	25,000,000	25,000,000	3,128,970	8 084 795	0	(25 72)	6 15
Crescendo IV	101,500,000	83,737,500	25,336,488	4 018 614	17,762 500	(29 17)	4 81
CSFB/DLJ							
CSFB Strategic Partners	100,000,000	77,774,500	47 735,428	70 387 071	22 225 500	24 26	3 95
CSFB Strategic Partners II	100,000,000	44,980,641	44,904,541	24 858 482	55,019 359	64 28	1 46
CSFB Strategic Partners III	100,000,000	0	0	0	100,000 000	N/A	0 00
CSFB Strategic Partners VC	25,000,000	0	0	0	25 000 000	N/A	0 00
DLJ Merchant Banking Partners III	125,000 000	95,334,242	76,116,552	53 933,640	29 665 758	11 64	4 25
DSV Partners IV	10 000,000	10 000,000	1 261,732	27 596,934	0	9 48	19 73
First Century Partners III	10,000,000	10,000,000	69 884	15 098 689	0	7 50	20 05
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000,000	40,000,000	29,769,910	5 976,096	0	(2 22)	6 69
Fox Paine Capital Fund II	50 000 000	36 625,004	30,801,405	6 587,483	13 374 996	1 45	4 50
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey Fund III	14,000 000	14,000,000	168,195	78 123,015	0	30 87	17 17
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	209 988	41 020 323	0	24 86	10 92
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000 000	20,673,184	25 769 093	0	9 30	8 50
GTCR Golder Rauner							
GTCR VI	90,000,000	89,137 778	30,003,079	68 918 378	862 222	4 08	6 50
GTCR Fund VII	175,000,000	146,781,249	107,546,841	73 783,317	28,218 751	9 37	4 90
GS Capital Partners 2000	50,000,000	36,203,310	30,295,119	16 222,578	13 796 690	11 44	4 33
GHJM Marathon Fund							
GHJM Marathon Fund IV	40,000,000	38 481,000	16,259,523	3 354,631	1 519 000	5 41	5 71
GHJM Marathon Fund V	28,985,714	4 321,759	4 321,759	0	24 663 955	N/A	0 08
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	5,485,593	6 708 498	7,886 316	33 92	10 28
Hellman & Friedman Capital Partners IV	150,000,000	127,908 844	98,893 516	43 782 346	22 091 156	7 85	5 00
Hellman & Friedman Capital Partners V	160,000,000	10,226,429	10,226,429	0	149 773,571	N/A	0 08
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	0	224 428 114	0	28 10	18 71
KKR 1987 Fund	145,950,000	145,373,652	6 646 706	394 557 545	576 348	8 82	17 11
KKR 1993 Fund	150,000 000	150 000,000	16,292,822	28 622 338	0	16 21	11 03
KKR 1996 Fund	200 000,000	200 000,000	80,144,063	259 615 399	0	13 10	8 33
KKR Millennium Fund	200 000 000	70 696,000	69,954,571	6 700 690	129 304 000	1 87	2 06
Matrix Partners III	10 000,000	10 000 000	315,936	7 327 244	0	75 13	14 65
Piper Jaffray Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	10,000,000	5,656 865	648 415	0	(5 84)	7 84
Piper Jaffray Healthcare Fund III	20,000,000	19,400,002	8,913 374	[illegible] 494 843	599 998	(14 30)	5 94
Piper Jaffray Healthcare Fund IV	7,700,000	3,256,543	2,516,513	4 891	4,443 457	(24 96)	1 27
Silver Lake Partners II	100,000,000	11 724,649	11,517,639	0	88,275,351	N/A	0 50
Summit Partners							
Summit Ventures I	10,000,000	10,000,000	0	21 939 965	0	13 84	20 04
Summit Ventures II	30,000,000	28 500,000	88,689	74 524 292	1 500,000	28 82	16 64
Summit Ventures V	25,000,000	23,375,000	7,794 205	1 768 055	1 625 000	2 81	6 75
T Rowe Price	588 426,750	588,426 750	53,002,313	56 669 221	0	8 28	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,915,000	18,501,986	881 225	1,085 000	(5 84)	6 37
Thoma Cressey Fund VII	50 000,000	21 730 000	12,512,257	1 086 262	28,270 000	17 65	4 35
Thomas, McNerney & Partners	30,000,000	8 475,000	6,966,747	0	21 525 000	(16 22)	2 15
Vestar Capital Partners IV	55 000,000	37 062,526	27,527 344	18 023 871	17 937 474	9 95	5 05
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	37,746,105	20 056 531	0	49 25	10 00
Warburg Pincus Equity Partners	100 000,000	100,000,000	54,215,017	6 057,874	0	4 61	6 52
Warburg Pincus Private Equity VIII	100,000,000	68 000 000	60,724,060	460 150	32 000 000	(0 32)	2 71
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	100,000,000	76 447,281	6 761,268	0	(3 67)	6 44
Welsh, Carson, Anderson & Stowe IX	125,000,000	90 000,000	72,188,344	3 991 889	35 000 000	7 25	4 51
Zell/ Chilmark	30,000,000	30,000,000	194,786	76 414 975	0	17 66	14 47
Private Equity Total	4 188,927,803	3,204 677 201	1 504,948 163	3,328 662 381	984 250,602		

ATTACHMENT C

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Funds:	Merit Energy Partners F (FI, FII and FIII), L.P.
Type of Funds:	Resource Limited Partnerships
Total Fund Size:	Targeted $1.1 billion, with a hard cap of $1.5 billion.
Fund Manager:	Merit Energy Company
Manager Contact:	William K. Gayden 13727 Noel Road, Suite 500 Dallas, TX 75240 Phone: (972) 701-8377 Fax: (972) 960-1252

II. Organization & Staff

Merit Energy Company was founded in 1989 by Bill Gayden as a private firm specializing in direct investments in oil and gas assets. Merit currently employs nearly 700 people, with operations in 13 states, the Gulf of Mexico and Canada, with net production in excess of 100,000 barrels of oil equivalent per day. Merit's proved reserves at December 31, 2004 amounted to approximately 411 million barrels of oil equivalent.

Currently, Merit manages twenty oil and gas investment limited partnerships. These partnerships are long term in nature, emphasizing a focus on preservation of capital and the reinvestment of cash flow into property development, or additional acquisitions. Six partnerships are currently being liquidated by distributing all discretionary cash flow to the limited partners. Since inception, two other limited partnerships have been successfully liquidated.

III. Investment Strategy

Merit's investment focus is to acquire properties with proved developed reserves that provide acceptable rates of return in the twelve to fourteen percent range, assuming flat prices for oil and gas. To maintain a relatively low risk profile, Merit seeks to recover the majority of the value from the proved developed reserves while also allowing investors to benefit from any future development or higher commodity prices.

Merit operates a substantial percentage of its properties. By placing an emphasis on control of physical operations, Merit is able to use its engineering and geological expertise to control costs and be a low cost producer.

Merit Energy Fund F will actually be comprised of three funds (FI, FII and FIII). Funds I and II, will be structured for institutional investors and are essentially the same except for the potential use of leverage in Fund FII up to 35% of Fund EII assets. Fund III will be a small fund holding its assets as direct working interests suitable primarily for taxable investors and individuals.

IV. Investment Performance

Previous fund performance as of December 31, 2004 for Merit Energy Partners Funds with SBI participation is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Merit B	1996	$130 million	$24 million	21.7%
Merit C	1998	$300 million	$50 million	28.0%
Merit D	2000	$465 million	$88 million	26.5%
Merit E	2003	$825 million	$100 million	n/a

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

V. General Partners Investment

3% of the Partnership's total program size will be provided by the General Partner.

VI. Takedown Schedule

Capital will be called as needed on 16 days' notice.

VII. Fees

The General Partner will receive an annual management fee of 1.25% on the greater of invested capital or book value up to the committed capital amount, and 1% on additional amounts (due to retained earnings). There will be a first year minimum amount due (0.5% of committed capital). In addition, the General Partner will be reimbursed at cost for its general and administrative expenses associated with managing the oil and gas properties and partnerships, allocated equitably among all of the partnerships the General Partner manages.

VIII. Allocations and Distributions

Cash distributions are made annually for each fiscal year during the investment period (i) first, in an amount equal to 6% of the lesser of called capital commitments or actual capital account, and (ii) second, in an amount equal to the General Partner's carried interest (13% of annual profits). After the expiration of the investment period, beginning in year ten, 100% of available cash flow will be distributed to partners quarterly.

Allocations of profit will be made annually, generally as follows: (i) 100% to the capital contributing partners until they receive accumulative 8%, then (ii) 100% to the General Partner as a carried interest until it has received 13% of cumulative profits (after depletion) as a carried interest, then (iii) 87% to the capital contributing partners and 13% to the General Partner as a carried interest.

Working Interest Allocation: In addition to the 13% carried interest at the partnership level the General Partner will also be allocated a 2% carry at the working interest ownership level, which will bring the total carried interests to 15%. The majority of the General Partner's investment will also be at this level (2% of the total 3% General Partner investment).

IX. Investment Period and Term

Capital may be called for the first six years of the partnership, with a capital call notice of not less than 16 days. Reinvestment of cash flow is permitted for an additional three years. The term of each limited partnership is fifteen years from inception.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Banc Fund VII L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$450 million
Fund Manager:	The Banc Funds Company, L.L.C.
Manager Contact:	Charles Moore 208 South LaSalle St. Chicago Ill. 60604 Phone: 312-855-6020

II. Organization and Staff

The Banc Funds Company (TBFC), a company organized and controlled by Charles Moore, will manage Banc Fund VII.

The 13 person Fund management team is lead by senior managers who have worked together since the inception of Fund I in 1986.

TBFC has significant prior banking operations, professional accounting and banking regulatory experience. Fund management will be responsible for the day-to-day operations of Banc Fund VII, including researching, negotiating and making investments, and managing the Fund's portfolio. The Fund will have a Valuation Committee composed of experienced investors with expertise in investment management and banking.

Banc Fund V is the seventh fund raised and managed by the General Partner.

III. Investment Strategy

While Fund VII will have a broad charter to invest in financial services companies, the principal investment areas that the Fund contemplates are:

1. Subregional depository companies (commercial banks, savings banks, savings and loan associations) with assets ranging from about $0.5 billion to $7.0 billion. This is the historical investment focus of the predecessor funds.

2. Other depository companies with assets ranging from about $7 billion to $12 billion. This is an emerging tier of acquisition targets that bankers sometimes refer to as supercommunity banks. A supercommunity bank is a collection of small, local subregional banks that have been acquired and operate under one holding company. They differ from subregionals only in asset size, in having a greater resource base, and in operating somewhat more broadly geographically.

3. Mutually organized thrifts and insurance companies that may undertake mutual-to-stock conversions, as well as other small and medium-sized non-depositories, including investment banks, securities broker/dealers, consumer finance, mortgage companies, investment advisers, and life and property-casualty insurance companies.

4. Business service companies that provide outsourcing, transaction processing, and other information management services to U.S. financial service companies.

Currently, Fund VII is expected to invest most of its capital in banking companies as described in points one and two above.

IV. Investment Performance

Previous investment performance as of September 30, 2004 for Banc Funds is shown below:

Fund	Inception Date	Total Commitments	SBI Investment	Net IRR from Inception
Fund I (liquidated by 1994)	1986	$51 million		15.1%
Fund II (liquidated by 1997)	1989	$60 million		20.1%
Fund III (liquidated by 2001)	1992	$125 million	$20 million	18.5%
Fund IV (liquidated by 2004)	1996	$150 million	$25 million	16.4%
Fund V	1998	$300 million	$48 million	14.8%
Fund VI	2002	$320 million		10.4%

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 invest approximately 2% of the capital contributed by all Limited Partners on the same schedule as the Limited Partners' capital contributions are made

VI. Takedown Schedule

1% of committed capital at closing with the balance called as needed on 10 days' notice in amounts equal to at least 3% of committed capital.

VII. Fees

The management fee will be based on capital called, not committed capital. The Fund will pay the Fund Manager 5% of the first $20 million of Fund VII's capital that is taken down and 1.79% of the next $280 million of capital that is taken down, and 2 % of amounts, if any, over $300 million. When all capital is called, the management fee will set at 2% of contributed capital. Any investment banking fees will be credited 100% to fund investors.

The Fund will bear the expenses incident to the organization of the Fund.

VIII. Allocations and Distributions

The Fund Manager will have 20% carried interest in Fund net capital gains, and in certain types of high-yield income. The Fund Manager will not receive carried interest until the General Partner has returned to the Limited Partners 100% of their capital contributions.

IX. Investment Period and Term

The Fund will be established with a 9.5 year life. The first eight years will be devoted to building and managing the portfolio and the last one and one half years will concentrate on maximizing value and liquidating the portfolio.

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Blum Strategic Partners III, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$950 million
Fund Manager:	Blum Capital Partners, L.P.
Manager Contact:	Jeff Cozad or Scott Hartman 909 Montgomery Street San Francisco, CA 94133 (415) 288-7234 / (415) 288-7240 jcozad@blumcapital.com / shartman@blumcapital.com

II. Organization and Staff

Blum Capital has 17 investment professionals. These professionals—with prior backgrounds in public and private equity, investment banking, management consulting, venture capital, investment research, real estate, law and public accounting—have been instrumental in developing public and private investments, in a variety of industries, and successfully executing these investments.

The General Partner of the Partnership will be an affiliate of Blum Capital Partners. The Blum Capital team includes eight partners. Richard Blum and Colin Lind have been partners for the past 18 years and together have been the chief architects of Blum Capital's investment process.

The business backgrounds of Blum Capital's two most senior executives are described below:

- Richard C. Blum, Chairman, began his career with Sutro & Co., Inc., in 1958. Mr. Blum resigned from Sutro in 1975 to form the predecessor to Blum Capital and at the time of his departure was a director, major stockholder and member of the executive committee of Sutro. Mr. Blum currently serves as a director on a number of boards, including the following portfolio companies: CB Richard Ellis (Chairman), Korea First Bank and URS Corporation (Vice Chairman). In addition, Mr. Blum also serves as a director of Northwest Airlines Corporation, Glenborough Realty Trust, Inc., and is Co-Chairman of Newbridge Capital. He is a former director of the following public companies: Playtex Products, Inc., National Education Corporation, Taft Broadcasting Corporation, Advanced Systems, Inc., Triad Systems, Inc., Shaklee Corporation, Sumitomo Bank of California and the Princeville Development Corporation. Mr. Blum is the founder and Chairman of the American Himalayan Foundation and is Honorary Consul to the Kingdom of Nepal. In addition, Mr. Blum serves on the Board of Regents of the University of California and is a member of the Advisory Board of the Business School at UC Berkeley. Mr. Blum has a B.A. and an MBA from the University of California at Berkeley.

- N. Colin Lind, Managing Partner, has been a partner of Richard Blum's for the past 18 years. Prior to joining Blum Capital in 1986, Mr Lind was Vice President of R. H. Chappell Co., a private investment bank specializing in development-stage companies, where he also assumed responsibility for the workout of a 15-company venture capital portfolio. He was previously a vice president of research at two regional brokerage firms. Mr. Lind is currently a director of the following portfolio companies: Kinetic Concepts, Inc. and PRG Schultz International, and has previously been a director of three other public and seven venture capital-backed companies. Mr. Lind has a Bachelor of Business Science in Finance (Honors) from the University of Cape Town, South Africa. He has also studied at the University of Oslo, Norway.

III. Investment Strategy

The investment strategy of the Partnership will be a continuation and enhancement of the strategy that has been successfully employed by Blum Strategic Partners I and II and by Blum Capital over the past 29 years. Blum Capital has sought to uncover companies that it believes have fundamentally sound businesses, make meaningful investments in the companies at compelling valuations, build relationships with management, and implement strategies or extraordinary transactions to provide a superior return on invested capital. The Partnership expects to source its investments both through opportunities in the public and private markets and through the extensive network of personal contacts of its senior executives.

The foundation of Blum Capital's investment strategy is a value-oriented approach that is research intensive and emphasizes preservation of capital. Blum Capital seeks to invest in fundamentally "good businesses," which it defines as businesses that have the ability to generate meaningful returns on invested capital over an extended period of time. In identifying good businesses, Blum Capital looks for the following attributes:

- Businesses that provide a demonstrable convenience to customers or a high value-added product or service.

- Businesses capable of withstanding industry turmoil or a period of mismanagement.

- Slowly evolving businesses with simple business models.

- Businesses with recurring revenue streams with no need to continually recreate demand.

- Businesses with a minimum of "uncontrollable" factors affecting their results.

- Businesses that do not have a concentrated customer base.

- Businesses that generate surplus cash flow after funding their growth.

Blum Capital invests in a company only if it can do so at what it believes is a compelling valuation. When it acquires a stake in a publicly traded company, Blum Capital seeks to buy into the company at a valuation at which a knowledgeable buyer could pay a substantial control premium and still be able to earn a return in excess of 25% per annum in a transaction, after paying the premium. When it invests in a private company, Blum Capital seeks a transaction where, through improving the company's operating strategies and financial restructuring, it can target a return in excess of 30% per annum. Blum Capital's method of uncovering a good business that it can buy at a compelling valuation is to focus on companies undergoing significant transition.

Blum Capital considers itself a "relationship investor" in that its goal in an investment is to work with management to implement strategies that maximize shareholder value over time and close the value gap Blum Capital perceives when it makes its initial investment. Blum Capital will not pursue hostile transactions. In rare instances, however, it may be required to take steps to defend the value of its investment if it believes management is pursuing a course of action clearly detrimental to the interests of the company's shareholders.

The Partnership will target both strategic block investments and control transactions.

The core focus of Blum Capital's investment strategy is on companies with market capitalizations of $350 million to $3.0 billion. There are approximately 2,200 companies in this universe. Notwithstanding this core focus, Blum Capital, from time to time, will find opportunities to invest outside of this targeted range. Furthermore, Blum Capital will typically seek to acquire positions ranging in size (at acquisition cost) from $50 to $200 million. The Partnership may acquire such stakes through open market purchases, negotiated transactions, or a combination of both. In certain cases, the acquisition of a strategic block may lead to a control transaction; in other instances, the Partnership will dispose of its position in the company's stock in the public markets or other means once Blum Capital believes the company's share price more fully reflects its potential value. In the absence of a control transaction, Blum Capital generally views the value-creation process in a strategic block investment as a two-to-three year process.

In its control transactions, the Partnership will make investments in which it assumes a lead role in the strategic direction or restructuring of a company as the control investor, or as part of a group of investors with control. These types of investments are generally oriented to a medium to longer term value-creation and exit strategy. Control transactions will be effected in a number of different ways, including:

(i) Acquiring control of a company subsequent to a strategic block investment, either through additional purchases of the company's stock in the public markets or in a negotiated transaction or both.

(ii) Making a negotiated private investment in a publicly traded company.

(iii) Acquiring control of a company that is not publicly traded in a negotiated transaction.

In general, where Blum Capital contemplates a control investment in a company that is publicly traded, it does not consider taking the company private to be a critical element of its strategy. In fact, by repurchasing 25% of a company's outstanding shares in the open market at low valuations, while incurring only a modest amount of leverage, a company can often produce investment returns equal to or greater than purchasing 100% of a company at a premium valuation and incurring substantial leverage Blum Capital will pursue a going-private strategy only when it considers that such a strategy is in the best interests of the Partnership and the company.

IV. Investment Performance

Previous fund performance as of December 31, 2004 for the SBI's investments with Blum funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Blum Strategic Partners, L.P.	1998	$639 million	$50 million	13.3%
Blum Strategic Partners II, L.P.	2001	$950 million	$50 million	25.2%

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

V. General Partner's Investment

Equal to or greater than 3% of committed capital.

VI. Takedown Schedule

Commitments will be drawn down on an as-needed basis, with a minimum ten (10) business days' prior notice

VII. Fees

During the Commitment Period, 1.5% of Total Commitments. After the Commitment Period, 1.25% of any unreturned Funded Commitments invested in Portfolio Companies.

The Management Fee will be reduced by (i) 100% of any transaction or monitoring fees paid by Portfolio Companies to the General Partner; and (ii) 100% of any break-up fees received by the General Partner, in each case net of certain unreimbursed expenses incurred by the General Partner.

The Partnership will bear up to $1.25 million of organizational expenses but will not bear any placement fees.

VIII. Allocations and Distributions

Limited Partners will receive (i) a return of capital, fees and expenses and aggregate net losses from write-downs; (ii) an 8% preferred return (subject to a catch-up by the General Partner); and (iii) 80% of the distributions thereafter.

20% of the after-tax distributions to which the General Partner would otherwise be entitled will be escrowed pending the future performance of the Partnership and may be subject to reallocation and distribution to the Limited Partners upon termination of the Partnership.

IX. Investment Period and Term

Commitment period is five years from the final closing.

The term is ten years, subject to two consecutive one-year extensions at the discretion of the General Partner.

ATTACHMENT F

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Chicago Growth Partners VIII, L.P. ("CGP VIII" or the "Fund")
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$400 million
Fund Manager	Chicago Growth Management VIII, L.P.
Manager Contact:	Bob Blank Chicago Growth Partners 303 West Madison Street Suite 2500 Chicago, IL 60606 Phone: (312) 698-6322 Fax: (312) 201-0703 E-mail: rblank@cgp.com

II. Organization and Staff

The Principals of CGP are Robert Blank, David Chandler, Robert Healy, Dr. Arda Minocherhomjee, and Timothy Murray. In 2004, the Principals decided to spin out of William Blair to form their own firm, Chicago Growth Partners ("CGP"). These Principals are primarily responsible for managing William Blair Capital Partners VII ("WBCP VII," or "Fund VII") as well as prior WBCP private equity funds (collectively, the "Prior Funds"). The funds that the CGP Principals have been primarily responsible for managing have combined committed capital of $937 million. In addition to the five Principals, whom collectively have over 70 years of private equity experience, the team includes a Senior Vice President of Marketing, four Vice Presidents and five Investment Associates. In total, CGP is comprised of twenty-one individuals. All investment decisions will be made exclusively by CGP's five Principals.

III. Investment Strategy

Consistent with the Prior Funds, CGP VIII's goal is to identify and invest in quality, lower middle market growth companies that possess sustainable, strong business fundamentals. To accomplish this objective, CGP intends to continue investing across the range of industries in which the CGP Team has expertise and experience, including healthcare, business and consumer services, growth-oriented industrials and information technology. In addition to pursuing a strategy of diversification by selected industries, CGP VIII will seek to create a balanced portfolio by investment stage. Investments will generally range from $10 to $40 million in size and will include equity capital for growth stage companies as well as leveraged recapitalizations and buyouts of more mature growth companies.

CGP's professionals are experienced in investing in control and non-control as well as leveraged and non-leveraged investments. Therefore, CGP VIII will be able to pursue attractive companies and industries without constraints related to ownership requirements and the use of financial leverage. The flexibility to pursue companies at various stages of development and in various industries allows the management group to find and efficiently close investments in various economic and financial market environments.

Over the past two decades, the Principals have developed and refined tactics and disciplines tailored for growth investing. The disciplines include proactive deal sourcing, a rigorous investment review process, financial structures tailored for growth investing and value-added portfolio monitoring and support.

Proactive Deal Sourcing: The CGP Team employs consistent marketing and deal sourcing efforts focused on developing proprietary deal flow in growth industries. Over two-thirds of the Fund VII investments were sourced on a proprietary basis. Further, over 25% of Fund VII investments have been made with management teams with whom previous WBCP sponsored funds have invested.

Rigorous Investment Review: The CGP Team utilizes a rigorous investment review process focused on growth investments. The CGP "market-first" investment review process takes advantage of the CGP Team's experience in recognizing markets with sustainable growth trends and companies which are well positioned in those markets.

Structures for Growth Investing: CGP utilizes its strong relationships with financing sources to create structures that provide the greatest flexibility for growth companies. Oftentimes, CGP will structure initial investments with little or no leverage in order to support growth objectives.

Portfolio Monitoring and Value-Added Resources: After investing in a company, the CGP Team takes a proactive role on the company's board of directors. This board-level involvement is augmented by CGP's internal value-add expertise, with specific focus on operations, information technology and marketing. This operations team exists to drive cost savings and revenue growth initiatives and to facilitate management best practices sharing within the CGP portfolio.

The Fund may not make cash investments in (a) any issuer, the board of directors of which opposes such investment, (b) any company or issuer as to which any existing WBCP fund has made an investment, except with the approval of the Advisory Board, (c) any partnership or other collective investment vehicle pursuant to which the Fund is subject to a management fee or carried interest, except to the extent the General Partner reduces the management fee or carried interest with respect to such investment in an amount or percentage equal to the amount of percentage of the management fee or carried interest to which the Fund is subject, (d) the securities of portfolio companies organized outside of the United States which aggregate more than 20% of the Fund's aggregate Commitments, (e) the securities of any one portfolio company (including guarantees of such portfolio company's obligations) which aggregate more that 15% of the Partner's aggregate Commitments, (f) publicly traded securities which aggregate more that 15% of the Fund's aggregate Commitments, (g) any entity whose primary purpose is the development of or speculation in real estate and (h) any entity whose primary purpose is the exploration for, or development of, oil or natural gas reserves. In addition, investments in any company organized outside the United States are subject to certain other restrictions set forth in the Agreement.

IV. Investment Performance

Previous fund performance as of December 31, 2004 for the Prior Funds for which CGP previously are responsible 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
WBCP IV	1998	$76.5 million	--	15.4%
WBCP V	1995	$182.1 million	--	31.1%
WBCP VI	1998	$269.7 million	--	-4.5%
WBCP VII	2001	$403.0 million	$50.0 million	6.1%

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 approximately $11 million.

VI. Takedown Schedule

Each Partner's commitment will be payable when called by the General Partner upon at least 10 business days notice to meet anticipated Fund expenses and to make investments.

VII. Fees

Prior to the sixth anniversary of the Effective Date, the Fund will pay the General Partner an annual management fee equal to 2% of aggregate commitments. Commencing with the first management fee due date after the sixth anniversary, the management fee will equal 2% of (i) the aggregate funded commitments, less (ii) distributions constituting returns of capital and the aggregate amount of permanent writeoffs. 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 General Partner may elect to waive a portion of the management fee in exchange for a reduction in the General Partner's capital contribution obligation and/or a corresponding interest in Fund profits. The management fee will commence as of the Fund's effective date based on aggregate commitments.

VIII. Allocations and Distributions

Net proceeds from dispositions of investments in portfolio companies, 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 commitments until the cumulative amount distributed equals the following: (i) funded commitments attributable to all realized investments plus the amount of any write-downs; (ii) 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 rate of 7% per annum compounded annually from the last day of each month in which there is a drawdown;

(b) second, 100% to the General Partner until such time as the General Partner has received, as its carried interest, 20% of the sum of the distributed 7% preferred return and distributions made pursuant to this paragraph (b); and

(c) thereafter, 80% to all partners in proportion to commitments and 20% to the General Partner.

All short-term interest income, other than short-term interest income received from portfolio companies, will be distributed 100% to the Partners ratably in proportion to their respective interests in the assets generating such income

IX. Investment Period and Term

The Fund term will be ten years from the Effective Date, subject to extension by the General Partner for up to three additional one year terms unless a majority of the Limited Partner interests object to any such extension.

ATTACHMENT G

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Elevation Partners
Type of Fund:	Private Equity
Total Fund Size:	Targeting $1.5 billion
Fund Manager:	The general partner of the Partnership is Elevation Associates, L.P., a Delaware limited partnership (the "General Partner" or "GP"). Fred Anderson, Marc Bodnick, Bono, Roger McNamee, Bret Pearlman, and John Riccitiello are the managers of Elevation Associates, L.L.C., the general partner of the GP.
Manager Contact:	2800 Sand Hill Road, Suite 160 Menlo Park, CA 94025 (650) 687-6700

II. Organization and Staff

Elevation Management, L.L.C. (together with its affiliates, "Elevation" or the "Firm") is establishing Elevation Partners, L.P. ("Elevation Partners" or the "Partnership"). The Partnership will be led by six highly accomplished professionals including: (i) John Riccitiello, the former President and Chief Operating Officer of Electronic Arts, the global market leader in the interactive entertainment industry, and Fred Anderson, the former Executive Vice President and Chief Financial Officer of Apple Computer, one of the leading companies in the personal computing, electronic media, and music industries; (ii) Roger McNamee, a co-founder, and Marc Bodnick, a founding principal, of Silver Lake Partners; (iii) Bret Pearlman, a former Senior Managing Director of The Blackstone Group; and (iv) Bono, one of the most successful artists and creative leaders in the history of the global entertainment industry.

The Firm's staff includes 9 other investment professionals, and will include a total of 11-12 other professionals by year-end 2005.

III. Investment Strategy

Partnership Objectives

Elevation seeks to achieve superior private equity returns by investing with the strategic insights of an experienced industry participant, the operating advantages of a world-class manager, and the return objectives of a disciplined financial investor. Elevation's investment strategy targets the media and entertainment sectors, with a focus on content and intellectual property. Elevation's media, entertainment, and consumer-related industry expertise, technology insights, and network of relationships are expected to provide significant competitive advantages, including early awareness of investment opportunities and proprietary deal flow.

The Partnership expects to invest in companies with enterprise values ranging from approximately $50 million to in excess of $20 billion. Elevation generally expects each transaction to require between $50 million and $250 million in equity from the Partnership. Specifically, the types of companies in which Elevation will invest include "orphaned intellectual property" businesses and traditional media, entertainment, and consumer-related companies where sales growth and profitability can be improved and transformed through (i) the strategic use of technology, (ii) strategic licensing, or (iii) improvements in core marketing, distribution, or operating processes

Investment Opportunity
Elevation believes that three industry dynamics have combined to create an environment in the media and entertainment sectors in which many valuable assets will become available for acquisition by private equity buyers.

Technology disruption. Elevation believes that four key technology transitions have disrupted the business models of many media and entertainment businesses: (i) analog to digital, (ii) narrowband to broadband, (iii) fixed location to location-independent consumption, and (iv) passive to interactive entertainment. One consequence of this rapid change and uncertainty is that many of the owners of large media, entertainment, and consumer-related assets have assumed a defensive posture toward technology. Many companies have been slow to embrace technology in their own management cultures. These biases are shared by a number of financial investors that traditionally have invested in media, entertainment, and consumer-related sectors.

Failed synergies. During the 1980's and 1990's, aggressive consolidation in the media and entertainment industries resulted in the build-up of a number of large conglomerates. These conglomerates were built in response to two core beliefs: (i) content and distribution could be combined to achieve market power and (ii) significant synergies could be achieved by combining assets across multiple categories In many cases, the uneven results of consolidation have proven these assumptions incorrect, as newly expanded conglomerates have often failed to capture the benefit of asset portfolios that seemingly offered rich synergy opportunities. Individual divisions are often starved for focused management, adequate resources, and access to broader distribution.

Misaligned management incentives. Misaligned management incentives are often a result of smaller divisions lacking adequate scale to influence the overall results of the parent company. Another problem for many media and entertainment companies is that management incentives are often more focused on near-term "top line" sales rather than on overall, long-term profitability.

Elevation believes that these industry challenges will create private equity opportunities – opportunities that will require operational expertise to address issues in marketing, operations, and distribution, as well as technology savvy to gain advantage from new technologies. This is an ideal environment for Elevation's focused form of private equity investing.

Investment Strategy

The Partnership's investment strategy will have three core elements: (i) a focus on market-leading companies, (ii) a commitment to partnering with management, and (iii) a dedication to adding value through operational excellence. In the spirit of the Two Ways to Win model (discussed below), Elevation will invest in equity and equity-like securities of companies with both an attractive core business model and a potential for substantial new growth. The Partnership will employ industry-leading private equity skills to invest in attractive businesses at prices that support private equity returns. The Partnership will then use its operational experience to enhance returns by adding value to those core operations. Growth opportunities will come from applying Elevation's technology and operational expertise to help each portfolio company expand into new distribution channels and geographic segments and pursue new licensing opportunities.

Elevation seeks to partner with management teams, and it will do so by deploying capital in investment structures that are effective both for the Partnership and for the target company. Elevation will be flexible with respect to transaction structure, and will structure each investment in a manner best suited to the investment opportunity. The Elevation team includes principals with extensive experience in buyouts and structured investments. Past funds co-managed by members of the Elevation team delivered superior results with these and other structures.

Investment Strategy: Two Ways to Win

Central to Elevation's approach is the Two Ways to Win strategy. Elevation will invest in companies with (i) an attractive core business model and (ii) the potential for new growth. The Partnership will employ industry-leading private equity skills to invest in attractive businesses at prices that support private equity returns. The First Way to Win arises when the Partnership can leverage its operational experience to improve returns by adding value to a company's core operations, often with a focus on improving marketing/distribution economics and operational efficiencies. The Second Way to Win arises from the application of Elevation's technology, media, entertainment, and consumer-related domain expertise to help each portfolio company take advantage of new distribution channels, geographic segments, and licensing opportunities.

Investment Focus

The Firm will focus on three types of investments:

• *Attractive divisions and subsidiaries that do not fit growth, profit margin, or strategic objectives of a parent's core business.* Technology and business model disruption, failed synergies, and misaligned incentives have reduced the profitability of such businesses, creating an incentive for the parent company to sell.

• *Public companies that have fallen out of favor and are reasonably priced in relation to their growth, cash flow characteristics, and financial potential.* Many media and entertainment companies are reasonably priced by conventional valuation metrics. The median enterprise value-to-sales multiple for public companies in these sectors as of January 30, 2005 was 1.6x.

• *Media, entertainment, and intellectual property assets owned by corporations or private owners who want to divest them or who are seeking a value added strategic partner.* Many valuable media and entertainment assets are intellectual property-denominated and exist on a standalone basis, owned by either individuals or corporations. These assets can be accumulated and exploited in a way that enhances their value dramatically.

Traditional private equity investors have historically been attracted to the most stable, cash-generating portions of media, entertainment, and consumer-related industries. Relatively few private equity transactions have been done in intellectual property-centric industries, notwithstanding the attractive financial characteristic of those businesses. Elevation will invest in "orphaned IP" businesses as well as traditional media, entertainment, and consumer-related companies where sales growth and profitability can be improved and transformed.

Elevation also believes that many media and entertainment companies will embrace an partner that can add value by (i) understanding key technology trends; (ii) helping portfolio companies improve business processes related to forecasting and marketing; (iii) providing relationships and access to key players in the technology industry; (iv) offering operating insight and guidance based on successful industry experience; and (v) committing to an investment time horizon long enough to participate in the benefit of fundamental changes in the business.

IV. Investment Performance

While some of the principals have worked together on deals in the past at various firms, Elevation Partners is a first-time fund. Performance for Roger McNamee's previous funds is listed below.

Fund	Inception Date	Total Commitments	Net IRR
Integral I	1991	$105 million	22%
Integral II	1994	$127 million	22%
Integral III	1996	$189 million	57%
Integral IV	1998	$324 million	26%
Integral V	2000	$719 million	-11%
Integral VI	2002	$334 million	15%
Silver Lake I	1999	$2,200 million	27%

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

V. General Partner's Investment

The GP is committing at least $50 million, of which at least $30 million will be committed by the Firm's professionals. Others with whom the Firm has been associated will commit up to $20 million.

VI. Takedown Schedule

Commitments generally will be drawn down on an as-needed basis with a minimum of 10 days' prior notice.

VII. Fees

Management Fees
The Partnership will pay a management fee ("Management Fee") to the GP quarterly in advance. During the Investment Period: 1.5% per annum of the commitments. After the Investment Period: 1.25% per annum of the cost basis of Portfolio Investments remaining in the Partnership. Prior to March 1 of each year, the GP may waive a portion of the following year's Management Fee (the "Waiver Election Amount"). Capital Contributions by the Limited Partners ("LPs") with respect to such waived amount will be invested in Portfolio Investments. The GP will be entitled to an amount, solely out of profits from Portfolio Investments, equal to the Waiver Election Amount plus the profit thereon. Such waived amounts will reduce the amount the GP is otherwise required to fund with respect to its unfunded commitment.

Other Fees
Transaction, consulting, management, and other similar fees ("Other Fees") paid to or received by the GP in connection with Portfolio Investments or its unconsummated transactions shall be treated as follows: 100% of Other Fees shall be applied to reduce the Management Fee; provided, that such fees shall reduce the Management Fee by only 50% until such time as the difference between (i) the reduction amount calculated as if such reduction was based on 80% of Other Fees and (ii) the reduction amount calculated based on 50% of Other Fees equals 0.8% of aggregate Commitments of limited partners of the Partnership and Parallel Funds. To the extent such offsets would reduce the Management Fee for a given quarterly period below zero, such offsets will be carried forward and reduce future installments of the Management Fee.

VIII. Allocations and Distributions

Distributions of Disposition Proceeds and Current Income (together, "Investment Proceeds") in respect of each Portfolio Investment will generally be allocated in the first instance to the LPs and the GP pro rata in proportion to each of their Capital

Contributions with respect to such Portfolio Investment. Each LP's share of Investment Proceeds otherwise distributable to such LP will be further allocated between such LP and the GP in the following amounts and order of priority:

a. Return of Capital and Costs: First, 100% to such LP until such LP has received distributions of Investment Proceeds from such Portfolio Investment and all Portfolio Investments that have been previously disposed of ("Realized Investments") equal to (i) such LP's capital contributions for all Realized Investments; (ii) such LP's direct payments or capital contributions for Organization Expenses, Management Fees, Placement Fees, Waiver Election Amounts, and Partnership Expenses allocable to the Realized Investments; and (iii) such LP's pro rata share of any net unrealized losses on writedowns of the Partnership's other Portfolio Investments (taken in the aggregate); and

b. 8% Preferred Return: Second 100% to such LP until the cumulative distributions of Investment Proceeds to such LP represent an 8% annual rate of return on the cumulative capital returned by the distributions made; and

c. GP Catch-up: Third, 20% to such LP and 80% to the GP until the cumulative distributions to the GP from Realized Investments pursuant to this clause c. equal 20% of the total amounts distributed to all Partners pursuant to clause b. and this clause c.; and

d. 80/20% Split: Thereafter, 80% to such LP and 20% to the GP (the distributions described in clause c. and this clause d. being referred to collectively as "Carried Interest").

IX. Investment Period and Term

Capital calls may be required from time to time for a period of six years from the Initial Closing of the Partnership (the "Investment Period"). The Partnership will terminate ten years from the final Closing, but may be extended at the discretion of the GP for up to two consecutive one-year periods.