MINNESOTA STATE BOARD OF INVESTMENT

Governor Tim Pawlenty

State Auditor Patricia Anderson

Secretary of State Mary Kiffmeyer

Attorney General Mike Hatch

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 8, 2006

&

INVESTMENT ADVISORY
COUNCIL MEETING
March 7, 2006

STATE BOARD OF INVESTMENT

AGENDA AND MINUTES

March 8, 2006

AGENDA
STATE BOARD OF INVESTMENT MEETING
Wednesday, March 8, 2006
9:00 A.M. - Room 123
State Capitol – St. Paul

	TAB
1. Approval of Minutes of December 7, 2005	
2. Report from the Executive Director (Howard Bicker)	**A**
A. Quarterly Investment Review (October 1, 2005 – December 31, 2005)	
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Results of FY05 Financial Audit	
3. Legislative Update	
4. Litigation Update	
3. Report from the Deferred Compensation Review Committee (Peter Sausen)	**C**
4. Reports from the Investment Advisory Council (Mike Troutman)	
A. Stock and Bond Manager Committee	**D**
1. Review of manager performance	
2. A review of GE Asset Management, domestic equity manager for the Assigned Risk Plan	
B. Alternative Investment Committee	**E**
1. Review of current strategy	
2. Recommendation of new investments with one new real estate manager, two existing private equity managers, and two existing yield-oriented private equity managers:	

- Blackstone Real Estate Partners
- Court Square Capital
- Thomas, McNerney & Partners
- DLJ Investment Partners
- GS Mezzanine

Minutes
State Board of Investment
December 7, 2005

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, December 7, 2005 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 7, 2005 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, 2005 (Combined Funds 8.9% vs. Composite 8.6%), 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 outperformed its composite index (Basic Funds 9.1% vs. Composite 8.9%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.7% vs. Composite 8.3%).

Mr. Bicker reported that the Basic Fund's assets increased 3.3% for the quarter ending September 30, 2005 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds slightly underperformed its composite index for the quarter (Basic Funds 4.5% vs. Composite 4.6%) and matched it for the year (Basic Funds 15.4% vs. Composite 15.4%).
Mr. Bicker reported that the market value of the Post Fund's assets increased 3.7% for the quarter ending September 30, 2005, also due to positive investment returns. He said the Post Fund's asset mix is also on target. He stated that the Post Fund matched its composite index for the quarter (Post Fund 4.4% vs. Composite 4.4%) and outperformed it for the year (Post Fund 15.0% vs. Composite 14.8%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 3.7% vs. Domestic Equity Asset Class Target 4.0%) and for the year (Domestic Stocks 14.5% vs. Domestic Equity Asset Class Target 14.6%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 11.7% vs. International Equity Asset Class Target 11.8%) for the year (International Stocks 28.3% vs. International Equity Asset Class Target 28.9%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds –0.4% vs. Fixed Income Asset Class Target –0.7%) and outperformed it for the year (Bonds 3.3% vs. Fixed Income Asset Class Target 2.8%). He noted that the alternative investments had also performed strongly for the year. He concluded his report with the comment that as of September 30, 2005, the SBI was responsible for over $50 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. Mr. Bicker stated that the Post Retirement benefit increase will be 2.5%, payable January 1, 2006.

Mr. Bicker briefly updated members on three legislative items that are of interest to the SBI in the 2006 Legislative Session. He stated that the legislation to cap benefit increases going forward for the Post Retirement Fund is at the Pension Commission. He said that the language giving the SBI some additional budgetary flexibility hopefully will be resubmitted for the 2006 session, possibly in the Supplemental Budget bill. He said that the SBI's compensation plan is currently being reviewed by the Legislative Coordinating Commission.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that the opt-out case with WorldCom has settled and that to date, the State has received $24 million in payments as part of that settlement.

SBI Administrative Committee Report

Mr. Bicker stated that the Legislative Auditor is nearly finished with its financial audit of SBI operations and that he believes that there will be no findings. He noted that all members will receive a comment letter when the audit is finalized. Ms. Kiffmeyer commended staff on the audit report. Mr. Bicker added that the draft of the Annual Report had been distributed for comment and that the final report should be distributed in January 2006. He also noted the upcoming Board meeting dates for 2006.

Stock and Bond Manager Committee Report

Mr. Troutman referred members to Tab C of the meeting materials and briefly reviewed each of the public asset classes. He noted that the Committee had no action items this quarter. Ms. Kiffmeyer noted that the SBI's performance figures are net of fees.

Alternative Investment Committee Report

Mr. Troutman referred members to Tab D of the meeting materials and briefly reviewed the current strategy and approach. He stated that the Committee has decided to maintain its disciplined and measured approach of investing in this asset category.

Mr. Troutman stated that the Committee is recommending new investments with two new managers: Wayzata Investment Partners and Lexington Advisors, Inc., and one existing manager, Welsh, Carson, Anderson and Stowe, and he briefly described the funds. Ms. Kiffmeyer moved approval of the three Committee 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 Wayzata Opportunities Fund, LLC. 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 Wayzata Investment 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 Wayzata Investment 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 $100 million or 20%, whichever is less, in Lexington Capital Partners VI, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Lexington Advisors Inc. 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 Lexington Advisors Inc. 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 $100 million or 20%, whichever is less, in Welsh, Carson, Anderson & Stowe X, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Welsh, Carson, Anderson & Stowe 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 Welsh, Carson, Anderson & Stowe or reduction or termination of the commitment." The motion passed.

The meeting adjourned at 9:35 A.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

INVESTMENT ADVISORY COUNCIL

AGENDA AND MINUTES

March 7, 2006

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING
Tuesday, March 7, 2006
2:00 P.M. - Board Room – First Floor
60 Empire Drive, St. Paul, MN

		TAB
1.	**Approval of Minutes of December 6, 2005**	
2.	**Report from the Executive Director (Howard Bicker)**	**A**
	A. Quarterly Investment Review (October 1, 2005 – December 31, 2005)	
	B. Administrative Report 1. Reports on budget and travel 2. Results of FY05 Financial Audit 3. Legislative Update 4. Litigation Update	**B**
3.	**Report from the Deferred Compensation Review Committee (Peter Sausen)**	**C**
4.	**Reports from the Investment Advisory Council**	
	A. Stock and Bond Manager Committee (John Bohan) 1. Review of manager performance 2. A review of GE Asset Management, domestic equity manager for the Assigned Risk Plan	**D**
	B. Alternative Investment Committee (Malcolm McDonald) 1. Review of current strategy 2. Recommendation of new investments with one new real estate manager, two existing private equity managers, and two existing yield-oriented private equity managers: • Blackstone Real Estate Partners • Court Square Capital • Thomas, McNerney & Partners • DLJ Investment Partners • GS Mezzanine	**E**

Minutes
Investment Advisory Council
December 6, 2005

MEMBERS PRESENT:	Frank Ahrens; Gary Austin; Dave Bergstrom; John Bohan; Kerry Brick; Peggy Ingison; Heather Johnston; P. Jay Kiedrowski; Hon. Ken Maas; Judy Mares; Malcolm McDonald; Daralyn Peifer; Mike Troutman; and Mary Vanek.
MEMBERS ABSENT:	Doug Gorence; and Gary Norstrem.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Tammy Brusehaver-Derby; Stephanie Gleeson; John Griebenow; Andy Christensen; Debbie Griebenow; Mike Menssen; Carol Nelson; and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Peter Sausen; Alberto Quintela; Pete Obermeyer, MSRS Retiree; Jerry Irsfeld, John Fisher, Bob Heimerl, REAM;

The minutes of the September 6, 2005 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, 2005 (Combined Funds 8.9% vs. Composite 8.6%), 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 outperformed its composite index (Basic Funds 9.1% vs. Composite 8.9%) over the last ten years and reported that the Post Fund had also outperformed its composite over the last ten-year period (Post Fund 8.7% vs. Composite 8.3%).

Mr. Bicker reported that the Basic Fund's assets increased 3.3% for the quarter ending September 30, 2005 due to positive investment returns. He said that the asset mix is essentially on target. He reported that the Basic Funds slightly underperformed its composite index for the quarter (Basic Funds 4.5% vs. Composite 4.6%) and matched it for the year (Basic Funds 15.4% vs. Composite 15.4%).

Mr. Bicker reported that the market value of the Post Fund's assets increased 3.7% for the quarter ending September 30, 2005, also due to positive investment returns. He said the Post Fund's asset mix is also on target. He stated that the Post Fund matched its composite index for the quarter (Post Fund 4.4% vs. Composite 4.4%) and outperformed it for the year (Post Fund 15.0% vs. Composite 14.8%).

Mr. Bicker reported that the domestic stock manager group underperformed its target for the quarter (Domestic Stock 3.7% vs. Domestic Equity Asset Class Target 4.0%) and for the year (Domestic Stocks 14.5% vs. Domestic Equity Asset Class Target 14.6%). He said the International Stock manager group underperformed its composite index for the quarter (International Stocks 11.7% vs. International Equity Asset Class Target 11.8%) and for the year (International Stocks 28.3% vs. International Equity Asset Class Target 28.9%). Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds –0.4% vs. Fixed Income Asset Class Target –0.7%) and outperformed it for the year (Bonds 3.3% vs. Fixed Income Asset Class Target 2.8%). He noted that the alternative investments had also performed strongly for the year. He concluded his report with the comment that as of September 30, 2005, the SBI was responsible for over $50 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B of the meeting materials for the quarterly updates on budget and travel. Mr. Bicker stated that the Post Retirement benefit increase will be 2.5%, payable January 1, 2006.

Mr. Bicker briefly updated members on three legislative items that are of interest to the SBI in the 2006 Legislative Session. He stated that the legislation to cap benefit increases going forward for the Post Retirement Fund is at the Pension Commission. He said that the language giving the SBI some additional budgetary flexibility hopefully will be resubmitted for the 2006 session, possibly in the Supplemental Budget bill. He said that the SBI's compensation plan is currently being reviewed by the Legislative Coordinating Commission and that they may vote on the plan in early January 2006.

Mr. Bohan noted that he had seen an article in the Star Tribune regarding actuarial data for the Post Retirement Fund. Mr.Bergstrom noted that the actuarial data used in the article appears to be old data, but that the Fund's deficit information is accurate and that it has improved from recent years.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation. She said that the opt-out case with WorldCom has settled and Mr. Perry said that to date, the State has received $24 million in payments as part of that settlement. She added that the settlements with McKesson and AOL are progressing.

SBI Administrative Committee Report
Mr. Bicker stated that the Legislative Auditor is nearly finished with its financial audit of SBI operations and that he believes that there will be no findings. He noted that all members will receive a comment letter when the audit is finalized. Mr. Bicker added that the draft of the Annual Report had been distributed for comment and that the final report should be distributed in January 2006. He also noted the upcoming meeting dates for 2006. Mr. Troutman noted that at the end of the meeting he would update members on the progress of the Governance Review Process.

Stock and Bond Manager Committee Report

Mr. Bergstrom referred members to Tab C of the meeting materials and reviewed each of the public asset classes. He reported that the Committee discussed Oppenheimer's performance and that staff believe they are a good manager who has maintained their investment approach. He stated that the Committee also discussed the possibility of making some reporting changes to simplify the reporting. In response to a question from Mr. Kiedrowski, Mr. Bicker stated that staff believes Oppenheimer has good people on board and a consistent management approach and that no action is needed at this time. Mr. Perry said that a significant portion of their underperformance was due to substantial underweighting in the energy and utilities sectors of the market. Mr. Troutman added that Oppenheimer was also affected by the change in benchmarks.

In response to a question from Mr. Troutman, Mr. Bicker stated that Marathon has a larger portfolio than most other managers due to their strong performance and because the SBI has not pulled any money from them since they are a closed fund and cannot accept any additional money.

In response to a question from Mr. Bergstrom, Mr. Bicker stated that staff is reviewing GE Asset Management and that they may have a recommendation at the next meeting.

Alternative Investment Committee Report

Ms. Mares referred members to Tab D of the meeting materials and briefly reviewed the current strategy and approach. She stated that the Committee is discussing the difference between investing in follow on funds with existing managers and investments in new funds with new managers. She noted that staff and the Committee are considering whether or not they want to make changes to the review and approval process.

Ms. Mares stated that the Committee is recommending new investments with two new managers: Wayzata Investment Partners and Lexington Advisors, Inc., and one existing manager, Welsh, Carson, Anderson and Stowe. She briefly described the funds. Mr. McDonald moved approval of the three Committee recommendations as stated in the Committee Report. Mr. Kiedrowski seconded the motion. Mr. Bohan recused himself on the vote due to a personal connection with one of the managers. The motion passed.

Mr. Troutman distributed documentation that summarized the information that the Governance Review Committee is reviewing (see **Attachment A**). He briefly reviewed the rationale for the review, the role of the Committee, the IAC background and history and provided an expected timeline of the review process. He said that members will be contacted to be interviewed. Mr. McDonald added that an important aspect of the review is to determine if members wish to make any changes in the IAC's role going forward. Mr. Troutman noted that the IAC may have a special meeting in May to finalize any recommendations that may be presented at the June 2006 Board meeting. In response to a question from Ms. Ingison, Mr. Bicker stated that potential changes in the alternative investment approval process could also be considered during this review process.

Mr. Bicker announced the retirement of Gary Austin as Director of the Teachers Retirement Association, and Mr. Troutman presented him with an appreciation plaque acknowledging the significant contribution he has made during his 13 years of service as an IAC member. Mr. Bicker noted that Mr. Gudorf will also receive a plaque of appreciation for his years of service.

The meeting adjourned at 3:30 P.M.

Respectfully submitted,

Howard Bicker

Howard Bicker
Executive Director

Rational for governance review

- The current process has largely been in place for 20 years. It was created to help staff and Board make the transition from internal management to selection and monitoring of external management firms and investing in a broader range of asset classes.

- This process has benefited from a strong sense of fiduciary responsibility on the part of the IAC and SBI.

- Over time the SBI staff has evolved and gained significant expertise in manager selection and monitoring, and the funds in trust have grown to over $50 billion.

- Prudence strongly suggests that it is time to evaluate how the IAC can best serve the current needs of Board members and staff, and be appropriately structured to meet future needs.

- We are undertaking this review out of a sense of fiduciary responsibility to the beneficiaries of the fund and the taxpayers of the State of Minnesota to continually consider what could improve the management of the funds entrusted to the SBI.

Role of ad hoc committee: Facilitate an effective process for this governance review and ensure that all voices from within the IAC and relevant stakeholders have good input to the process.

Mike Troutman, Chair
David Bergstrom
Doug Gorence
Judy Mares
Malcom McDonald
Howard Bicker (special liaison)
Ann Posey (consultant)

IAC Background and History

In the late 1960's all funds were managed internally. The SBI's Executive Director, Bob Blixt, invited several local money managers to review stock selections and help advise the SBI staff on portfolio management). Blixt successor, Jonathan White, endorsed the process of using an outside advisory group and in the early 1970s the Investment Advisory Council was recognized in statute, giving the SBI authority to appoint IAC members. Later, the Governor was given authority to add and select representatives from active and retired employee groups to the IAC.

In the early 1980's, Howard Bicker was named Executive Director and the SBI decided to employ external money managers to manage the majority of assets. The SBI also began to invest in non-public alternative assets. The Staff, transitioning from internal management, did not have experience in the evaluation, selection and monitoring of external money managers and non-public investments. As new expertise was needed, representatives from the local pension plan sponsor community replaced portfolio managers on the IAC. Statutes were modified to reflect the change in the composition of the IAC and to include the Executive Directors of the State retirement systems whose assets are invested by the SBI.

The current committee structure and process of the IAC today has evolved only slightly from the structure and process developed 20 years ago by Howard Bicker, Judy Mares, Jan Yoemans and John Bohan. The Council fills an advisory role to the SBI. Its responsibilities include:

- Elect IAC Chair and vice Chair
- Review all staff proposals related to investments and make recommendations to SBI
- Review performance of each total program, asset classes and individual managers
- Participate in manager searches
- Participate in service provider searches and reviews
- Other duties as assigned by SBI

Governance review timeline

- Ad hoc committee meets to review process, timeline and questionnaire topics (October 3)
- Gather information from other public systems and sources on governance (October & November)
- Questionnaire drafted (November & December)
- Brief deputies on review process and discuss how to best get input from their principals (early December)
- Test questionnaire on members of ad hoc committee (December)
- Interviews of IAC members and staff (questions/topics to be sent ahead of interview) (January)
- Interviews of SBI members and/or their deputies (questions/topics to be sent ahead of interview) (February)
- Compile information and draft IAC charter and governance recommendations (mid March)
- Feedback and revisions (complete by end of April)
- IAC approval (special meeting in May)
- Present to SBI (June 2006 meeting)

Tab A

LONG TERM OBJECTIVES
Period Ending 12/31/2005

COMBINED FUNDS: $42.1 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Combined Funds over the latest 10 year period.	**8.8% (1)**	0.3 percentage point above target
Provide Real Return (20 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 20 year period.	**10.3%**	7.4 percentage points above CPI

BASIC RETIREMENT FUNDS: $21.8 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 10 year period.	**9.0%**	0.2 percentage point above target

POST RETIREMENT FUND: $20.3 Billion	Result	Compared to Objective
Match or Exceed Composite Index (10 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 10 year period.	**8.5%**	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, 2005

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$34.3 billion	$23.4 billion	$57.7 billion
2. Accrued Liabilities	25.3	23.4	48.7
Asset Measures			
3. Current and Future Actuarial Value	$32.0 billion	$23.4 billion	$55.4 billion
4. Current Actuarial Value	20.4	23.4	43.8
Funding Ratios			
Future Assets vs. Future Obligations (3 ÷ 1)	93%	100%	96%
Current Actuarial Value vs. Accrued Liabilities (4 ÷ 2)	81%	100%	90%*

* 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

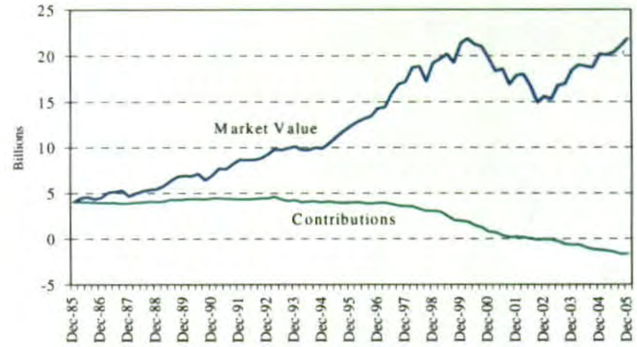
EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 3.7% during the fourth quarter of 2005. Positive investment returns and contributions accounted for the increase.

	Asset Growth During Fourth Quarter 2005 (Millions)
Beginning Value	$ 21,044
Net Contributions	73
Investment Return	699
Ending Value	$ 21,816

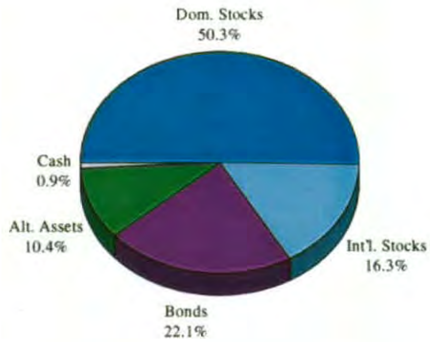


Asset Mix

The allocation to alternatives increased over the quarter due to strong returns.

	Policy Targets	Actual Mix 12/31/2005	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.3%	$10,979
Int'l. Stocks	**15.0**	16.3	3,550
Bonds	**24.0**	22.1	4,828
Alternative Assets*	**15.0**	10.4	2,270
Unallocated Cash	**1.0**	0.9	189
	100.0%	100.0%	$21,816

* Any uninvested allocation is held in domestic stocks

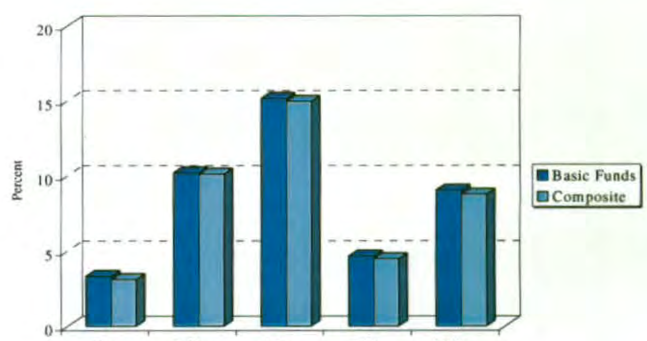


Fund Performance (Net of Fees)

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

Period Ending **12/31/2005**

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Basics	**3.3%**	**10.2%**	**15.2%**	**4.7%**	**9.0%**
Composite	3.1	10.1	15.0	4.5	8.8



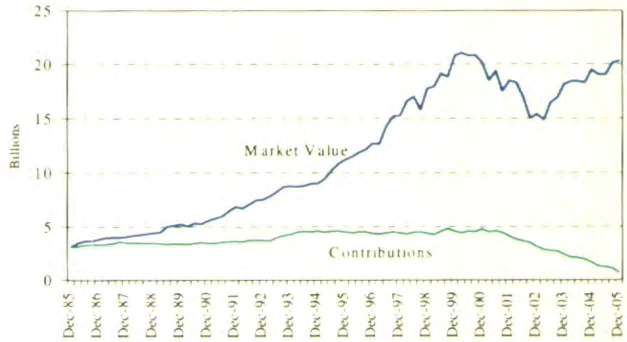
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 1.0% during the fourth quarter of 2005. Positive investment returns accounted for the increase.

	Asset Growth During Fourth Quarter 2005 (Millions)
Beginning Value	$20,099
Net Contributions	-416
Investment Return	612
Ending Value	$20,295

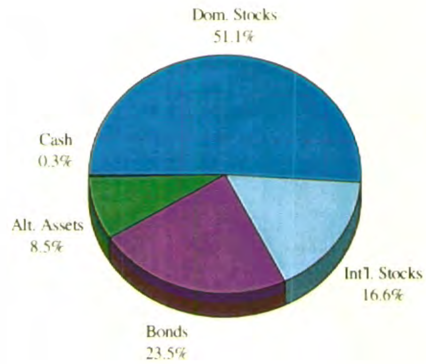


Asset Mix

The allocation to alternatives increased over the quarter due to positive returns.

	Policy Targets	Actual Mix 12/31/2005	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	51.1%	$10,370
Int'l. Stocks	**15.0**	16.6	3,361
Bonds	**25.0**	23.5	4,774
Alternative Assets*	**12.0**	8.5	1,721
Unallocated Cash	**3.0**	0.3	69
	100.0%	100.0%	$20,295

* Any uninvested allocation is held in domestic stocks.

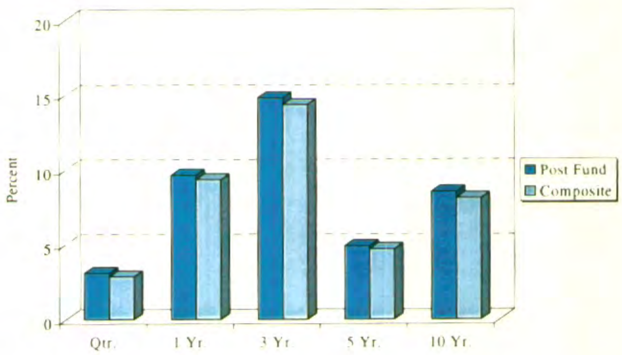


Fund Performance (Net of Fees)

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

Period Ending **12/31/2005**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Post	**3.1%**	**9.6%**	**14.8%**	**4.9%**	**8.5%**
Composite	2.9	9.4	14.4	4.7	8.1



EXECUTIVE SUMMARY

Stock and Bond Manager Performance
(Net of Fees)

Domestic Stocks

The domestic stock manager group (active, semi-passive and passive combined) outperformed its target for the quarter and 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 12/31/2005	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Dom. Stocks	**2.4%**	**6.4%**	**16.1%**	**1.5%**	**8.8%**
Asset Class Target*	2.0	6.1	16.0	1.6	8.8

* 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) matched its target for the quarter and outperformed for the year.

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

Period Ending 12/31/2005	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Int'l. Stocks	**4.3%**	**16.4%**	**24.5%**	**6.0%**	**6.9%**
Asset Class Target*	4.3	16.6	25.5	6.1	5.9

* 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) matched its target for the quarter and outperformed 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.

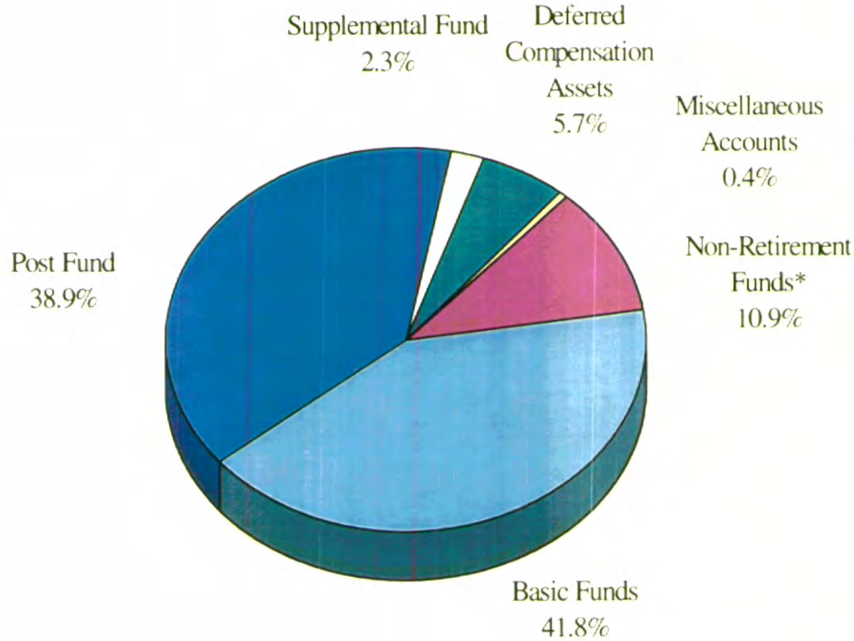
Period Ending 12/31/2005	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Bonds	**0.6%**	**2.8%**	**4.5%**	**6.3%**	**6.5%**
Asset Class Target*	0.6	2.4	3.6	5.9	6.2

* 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 12/31/2005	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Alternatives	**13.2%**	**44.8%**	**25.5%**	**12.1%**	**16.8%**

EXECUTIVE SUMMARY
Funds Under Management



	12/31/2005 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$21.8
Post Retirement Fund	20.3
Supplemental Investment Fund	1.2
State Deferred Compensation Plan Non-SIF Assets	3.0
Non-Retirement Funds*	
Assigned Risk Plan	0.3
Permanent School Fund	0.6
Environmental Trust Fund	0.4
State Cash Accounts	4.4
Miscellaneous Accounts	0.2
Total	$52.2

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Fourth Quarter 2005

(October 1, 2005 - December 31, 2005)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/2005				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Dow Jones Wilshire Composite	2.2%	6.4%	16.4%	2.1%	9.1%
Dow Jones Industrials	2.0	1.7	11.2	2.0	9.8
S&P 500	2.1	4.9	14.4	0.5	9.1
Russell 3000 (broad market)	2.0	6.1	15.9	1.6	9.2
Russell 1000 (large cap)	2.1	6.3	15.4	1.1	9.3
Russell 2000 (small cap)	1.1	4.6	22.1	8.2	9.3
Domestic Fixed Income					
Lehman Aggregate (1)	0.6	2.4	3.6	5.9	6.2
Lehman Gov't./Corp.	0.6	2.4	3.7	6.1	6.2
3 month U.S. Treasury Bills	1.0	3.2	1.8	2.2	3.7
International					
EAFE (2)	4.1	13.5	23.7	4.6	5.8
Emerging Markets Free (3)	7.2	34.5	38.4	19.4	7.0
ACWI Free ex-U.S. (4)	4.4	17.1	26.2	6.7	6.7
World ex-U.S. (5)	3.9	14.5	24.3	4.9	6.2
Salomon Non U.S. Gov't. Bond	-2.6	-9.2	6.5	7.3	4.4
Inflation Measure					
Consumer Price Index CPI-U (6)	-1.0	2.6	2.6	2.3	2.4
Consumer Price Index CPI-W (7)	-1.3	3.5	2.8	2.4	2.5

(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.

(7) Consumer Price Index (CPI) for all wage earners, also known as CPI-W.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The U.S. stock market, as measured by the Russell 3000 index, gained 2.0% during the fourth quarter of 2005. Though warm weather restrained oil prices during the quarter, investors were preoccupied with energy costs, inflation and interest rates. Even so, positive economic and earnings news buoyed the market. Large capitalization stocks outperformed small capitalization stocks, and growth stocks outperformed value stocks. The transportation sector generated the largest total return within the Russell 3000 index, followed by process industries. The energy minerals sector generated the lowest total return.

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

Large Growth	Russell 1000 Growth	3.0%
Large Value	Russell 1000 Value	1.3%
Small Growth	Russell 2000 Growth	1.6%
Small Value	Russell 2000 Value	0.7%

The Russell 3000 returned 6.1% for the year ending December 31, 2005.

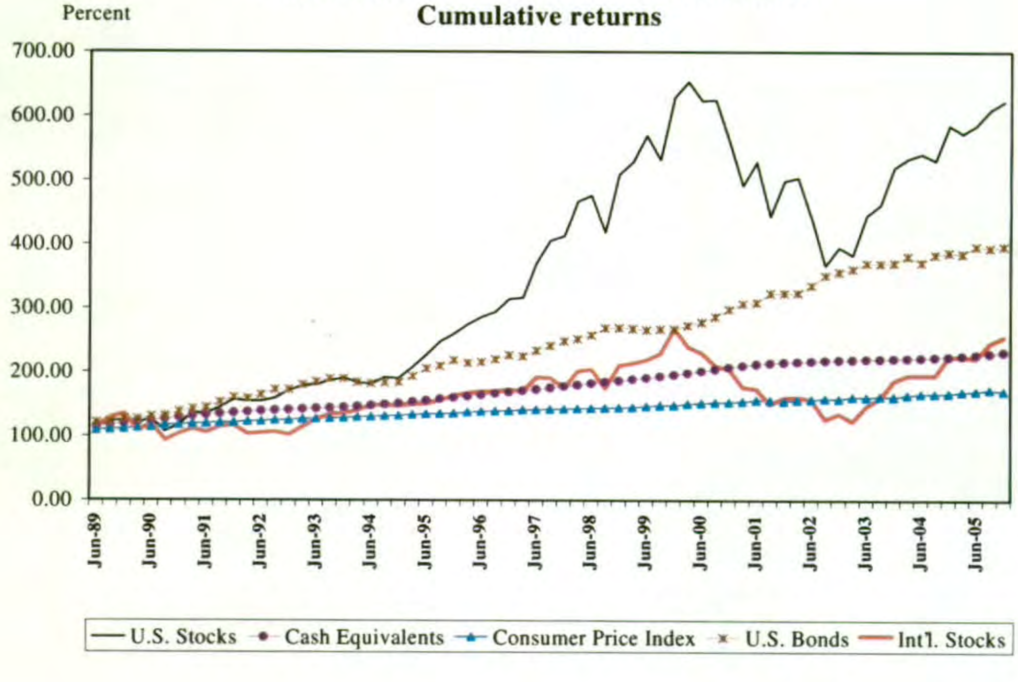
DOMESTIC BONDS

The bond market posted a gain of 0.6% for the quarter and 2.4% for the year. Rates rose during the quarter largely in reaction to continued policy tightening by the Fed (25 bps per meeting at two meetings) and signs that economic growth had rebounded strongly in the 3rd quarter and looked to be gaining momentum into the 4th quarter. Performance in non-Treasury sectors was lackluster during the quarter. In general, longer maturity securities outperformed short and intermediate maturity issues with the flattening of the yield curve.

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

U.S. Treasury	0.7%
Agency	0.5
Credit	0.4
Mortgages	0.6

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 3.9% for the quarter. The quarterly performance of the six largest stock markets is shown below:

United Kingdom	0.2%
Japan	11.9
France	0.7
Switzerland	7.3
Germany	4.4
Canada	2.1

The World ex U.S. index increased by 14.5% 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 7.2% for the quarter. The quarterly performance of the five largest stock markets in the index is shown below:

Korea	15.4%
Taiwan	8.7
South Africa	9.1
Mexico	11.0
Brazil	1.4

The Emerging Markets Free index increased by 34.5% 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

2005 was a relatively strong year for real estate. In general, prices increased and fundamentals improved. In the early part of 2006, investors will need to be aware of the potential negative effect on real estate of increased interest rates and a possible slowing global economy.

PRIVATE EQUITY

U.S. private equity firms raised $152 billion for private equity limited partnerships of all types, from venture capital to buyouts in 2005. This represents an 66% increase relative to the revised 2004 total of $92 billion.

RESOURCE FUNDS

During the fourth quarter of 2005, crude oil averaged $60.15 per barrel, slightly lower than an average price of $63.21 during the prior quarter. 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.

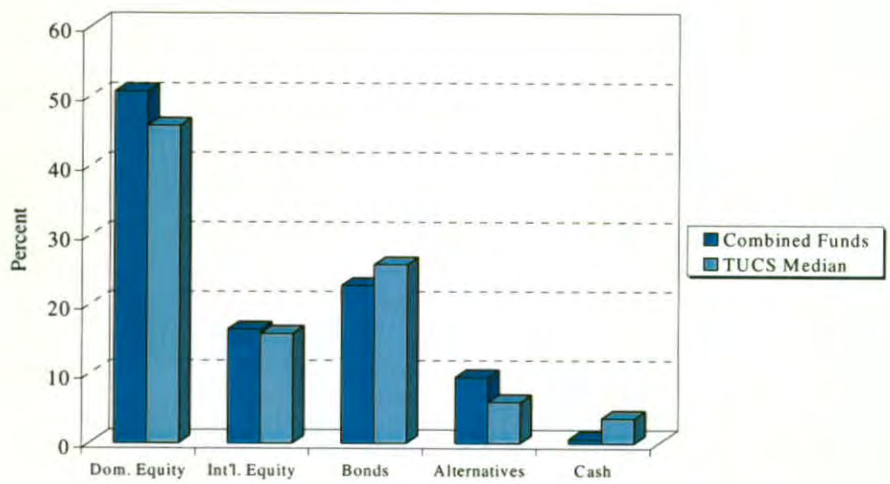
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On December 31, 2005, the actual asset mix of the Combined Funds was:

	$ Millions	**%**
Domestic Stocks	$21,349	50.7%
International Stocks	6,911	16.4
Bonds	9,602	22.8
Alternative Assets	3,991	9.5
Unallocated Cash	258	0.6
Total	$42,111	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	**50.7%**	**16.4%**	**22.8%**	**9.5%**	**0.6%**
Median Allocation in TUCS*	45.8	15.8	25.8	5.9**	3.6

* Public and corporate plans over $1 billion.

** May include assets other than alternatives.

COMBINED FUNDS
Performance Compared to Other Pension Funds

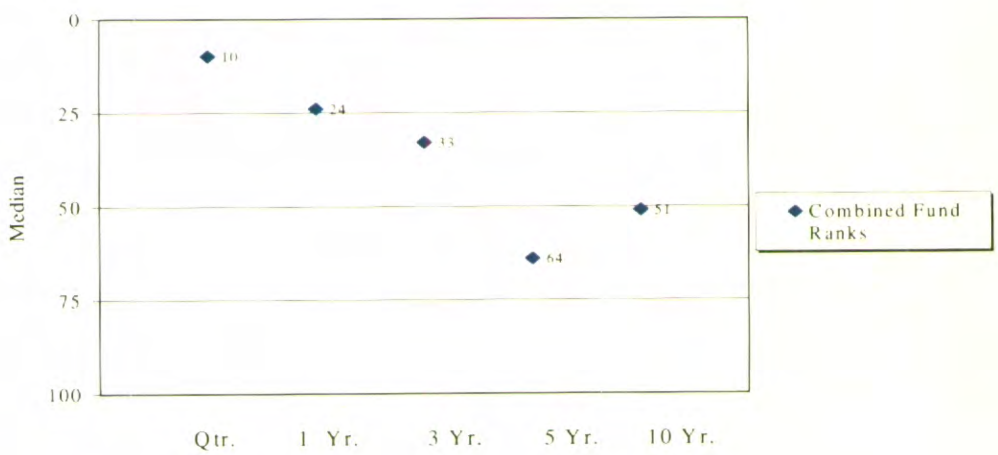
While the SBI is concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

— **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 12/31/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Combined Funds Percentile Rank in TUCS*	10th	24th	33rd	64th	51st

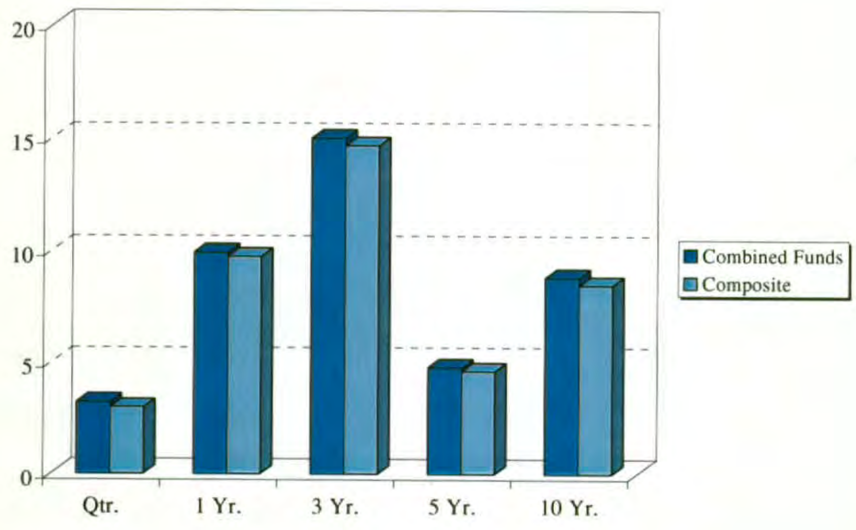
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 4Q05
Domestic Stocks	Russell 3000	49.7%*
Int'l. Stocks	MSCI ACWI Free ex-U.S.	15.0
Bonds	Lehman Aggregate	24.5
Alternative Investments	Alternative Investments	8.8*
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 12/31/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr. (Annualized)	10 Yr.
Combined Funds**	**3.2%**	**9.9%**	**15.0%**	**4.8%**	**8.8%**
Composite Index	3.0	9.7	14.7	4.6	8.5

**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

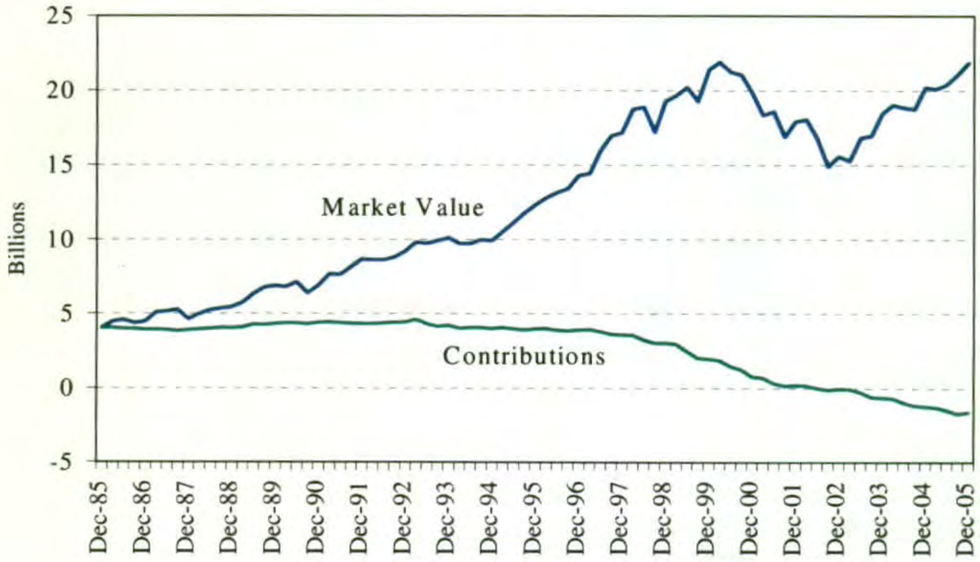
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 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 3.7% during the fourth quarter of 2005. Positive investment returns and contributions accounted for the increase.



Last Five Years
In Millions

	12/00	12/01	12/02	12/03	12/04	3/05	6/05	9/05	Latest Qtr. 12/05
Beginning Value	$21,365	$19,807	$17,874	$15,561	$18,435	$20,201	$20,075	$20,375	$21,044
Net Contributions	-1,186	-572	-247	-592	-577	-75	-168	-241	73
Investment Return	-372	-1,361	-2,066	3,466	2,343	-51	468	910	699
Ending Value	$19,807	$17,874	$15,561	$18,435	$20,201	$20,075	$20,375	$21,044	$21,816

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.

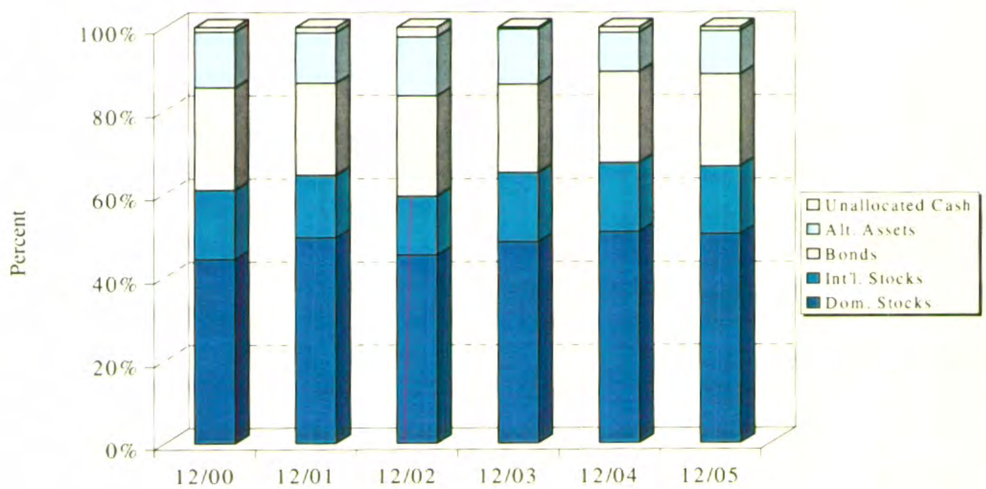
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

* 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 alternatives increased due to strong returns.

During the quarter, the international equity allocation increased due to positive returns.



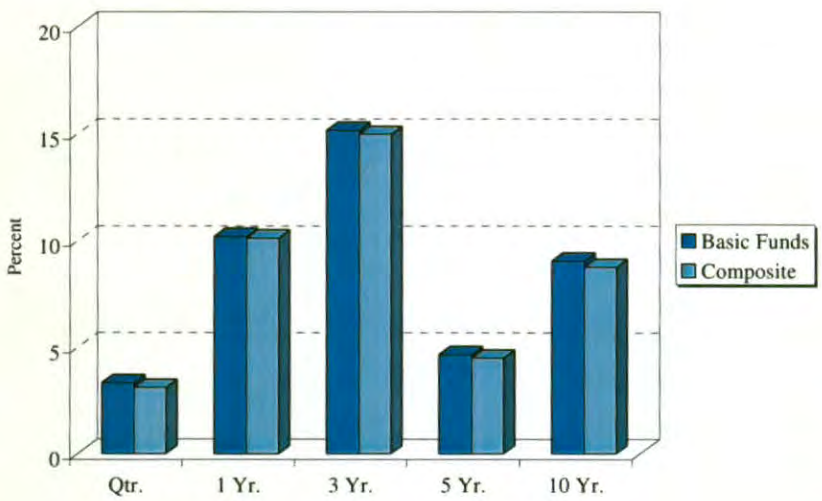
	Last Five Years								Latest Qtr.
	12/00	**12/01**	**12/02**	**12/03**	**12/04**	**3/05**	**6/05**	**9/05**	**12/05**
Domestic Stocks	44.3%	49.5%	45.3%	48.5%	50.9%	50.4%	50.7%	50.7%	50.3%
Int'l. Stocks	16.6	15.0	14.1	16.6	16.6	15.1	14.9	16.0	16.3
Bonds	24.7	22.1	24.2	21.2	21.8	23.2	23.4	22.6	22.1
Alternative Assets	12.1	14.1	13.3	13.3	9.4	9.9	9.8	9.8	10.4
Unallocated Cash	1.1	1.3	2.3	0.4	1.3	1.4	1.2	0.9	0.9
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* 4Q05
Domestic Stocks	45.0%	Russell 3000	50.2%*
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	9.8*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



				Annualized	
Period Ending 12/31/2005	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Basic Funds**	**3.3%**	**10.2%**	**15.2%**	**4.7%**	**9.0%**
Composite Index	3.1	10.1	15.0	4.5	8.8

**Returns are reported net of fees.

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

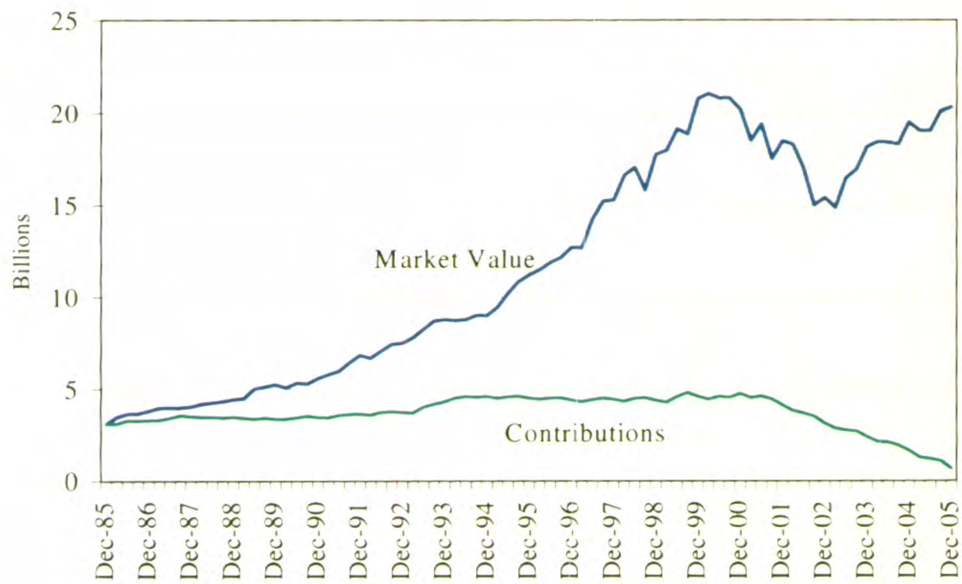
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the 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 1.0% during the fourth quarter of 2005.

Positive investment returns accounted for the increase.



Last Five Years In Millions

	12/00	12/01	12/02	12/03	12/04	3/05	6/05	9/05	Latest Qtr. 12/05
Beginning Value	$20,768	$20,153	$18,475	$15,403	$18,162	$19,480	$19,033	$19,390	$20,099
Net Contributions	167	-647	-1,000	-719	-749	-365	-75	-128	-416
Investment Return	-782	-1,031	-2,072	3,478	2,067	-82	432	837	612
Ending Value	$20,153	$18,475	$15,403	$18,162	$19,480	$19,033	$19,390	$20,099	$20,295

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%

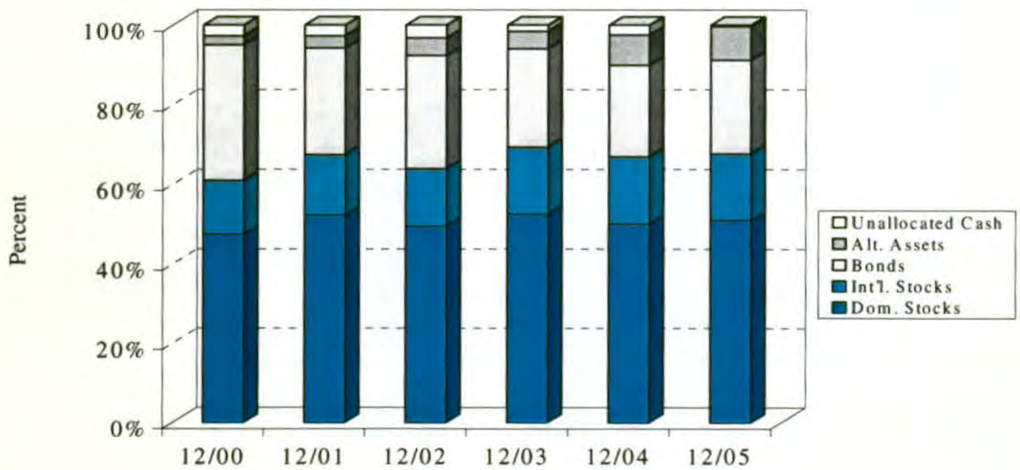
* Alternative assets include equity-oriented real estate, venture capital, resource, and yield-oriented funds. Any uninvested allocation is held in domestic stocks.

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 alternatives increased due to strong returns.

During the quarter, the allocation to international equities increased over the quarter due to positive returns.



	Last Five years								Latest Qtr.
	12/00	12/01	12/02	12/03	12/04	3/05	6/05	9/05	12/05
Dom. Stocks	47.5%	52.4%	49.6%	52.7%	50.2%	49.9%	50.4%	50.6%	51.1%
Int'l. Stocks	13.5	15.1	14.4	16.7	16.8	15.3	15.0	16.2	16.6
Bonds	34.0	26.7	28.3	24.6	22.9	24.5	24.8	23.7	23.5
Alt. Assets	2.3	3.1	4.5	4.4	7.6	8.0	7.6	7.8	8.5
Unallocated Cash	2.7	2.7	3.2	1.6	2.5	2.3	2.2	1.7	0.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

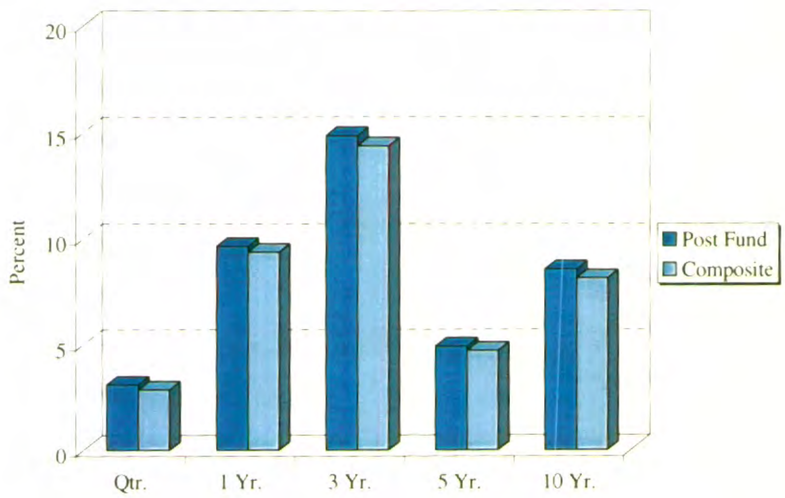
POST RETIREMENT FUND

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* 4Q05
Domestic Stocks	45.0%	Russell 3000	49.2%
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	7.8*
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 12/31/2005

	Qtr.	1 Yr.	3 Yr.	5 Yr. (Annualized)	10 Yr.
Post Fund**	**3.1%**	**9.6%**	**14.8%**	**4.9%**	**8.5%**
Composite Index	2.9	9.4	14.4	4.7	8.1

** Returns are reported net of fees.

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

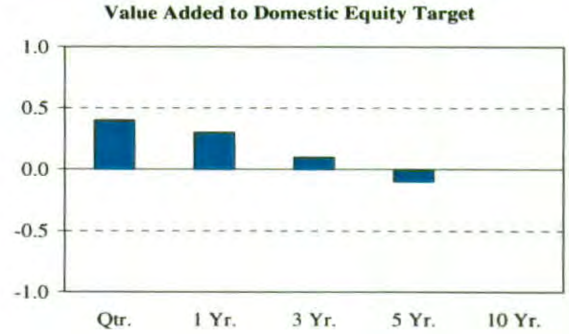
STOCK AND BOND MANAGERS

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 12/31/2005

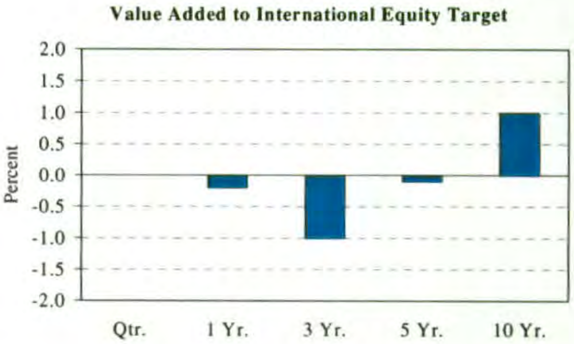
		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Stocks	**2.4%**	**6.4%**	**16.1%**	**1.5%**	**8.8%**
Asset Class Target*	2.0	6.1	16.0	1.6	8.8

* 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 12/31/2005

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Int'l. Stocks	**4.3%**	**16.4%**	**24.5%**	**6.0%**	**6.9%**
Asset Class Target*	4.3	16.6	25.5	6.1	5.9

* 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 12/31/2005

		Annualized			
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Bonds	**0.6%**	**2.8%**	**4.5%**	**6.3%**	**6.5%**
Asset Class Target	0.6	2.4	3.6	5.9	6.2

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 12/31/2005	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Alternatives	13.2%	44.8%	25.5%	12.1%	16.8%
Inflation	-1.0%	2.6%	2.6%	2.3%	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 12/31/2005	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Real Estate	2.6%	18.1%	14.4%	10.4%	12.3%

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 12/31/2005	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Private Equity	13.9%	46.7%	26.5%	8.1%	18.1%

Resource Investments (Equity emphasis)

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

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

Period Ending 12/31/2005	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Resource	21.0%	197.3%	62.1%	32.7%	24.2%

Yield Oriented Investments (Debt emphasis)

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

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

Period Ending 12/31/2005	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Yield Oriented	19.1%	37.3%	24.4%	16.5%	14.9%

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, 2005 the market value of the entire Fund was $1.2 billion.

Investment Options

	12/31/2005 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$518
Growth Share Account – an actively managed, all common stock portfolio.	$144
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$190
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$89
Bond Market Account – an actively managed, all bond portfolio.	$110
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$60
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.	$70

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%	64.0%
Bonds	35.0	34.4
Unallocated Cash	5.0	1.6
	100.0%	100.0%

Period Ending 12/31/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**1.6%**	**5.0%**	**11.1%**	**3.3%**	**8.1%**
Benchmark*	1.5	4.8	10.9	3.4	8.0

* 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 12/31/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**2.6%**	**6.4%**	**16.0%**	**1.4%**	**8.6%**
Benchmark*	2.0	6.1	16.0	1.6	8.7

* 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 12/31/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**2.0%**	**6.2%**	**15.9%**	**1.5%**	**9.1%**
Benchmark*	2.0	6.1	16.0	1.6	8.8

* 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 12/31/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Account	**4.4%**	**16.5%**	**24.7%**	**6.1%**	**7.0%**
Benchmark*	4.3	16.6	25.5	6.1	5.9

* 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 12/31/2005				
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.6%**	**2.8%**	**4.5%**	**6.3%**	**6.6%**
Lehman Agg.	0.6	2.4	3.6	5.9	6.2

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 12/31/2005				
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**0.9%**	**3.2%**	**2.0%**	**2.5%**	**4.1%**
3 month T-Bills	1.0	3.2	1.8	2.2	3.7

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 12/31/2005				
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Account	**1.1%**	**4.3%**	**4.4%**	**5.0%**	**5.7%**
Benchmark*	1.2	4.4	3.4	3.6	4.8

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

DEFERRED COMPENSATION PLAN ACCOUNTS

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

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

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

Investment Options

	12/31/2005 Market Value (in Millions)
Vanguard Institutional Index (passive)	$417
Janus Twenty (active)	$332
Smith Barney Appreciation Y (active)	$114
Vanguard Mid Cap Index (passive)	$90
T. Rowe Price Small Cap (active)	$376
Fidelity Diversified International (active)	$196
Vanguard Institutional Developed Markets (passive)	$37
Dodge & Cox Balanced Fund (active)	$219
Vanguard Balanced Fund (passive)	$167
Dodge & Cox Income Fund (active)	$80
Vanguard Total Bond Market Fund (passive)	$48
Money Market Account	$50
Fixed Interest Account	$118
Fixed Fund	$719

DEFERRED COMPENSATION PLAN ACCOUNTS

LARGE CAP EQUITY

Vanguard Institutional Index (passive)
- A passive domestic stock portfolio that tracks the S&P 500.

Period Ending 12/31/2005		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**2.1%**	**5.0%**	**14.4%**	**0.6%**
S&P 500	2.1	4.9	14.4	0.5

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

Period Ending 12/31/2005		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.4%**	**9.4%**	**19.3%**	**-1.8%**
S&P 500	2.1	4.9	14.4	0.5

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 12/31/2005		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**1.7%**	**4.6%**	**N/A**	**9.1%**
S&P 500	2.1	4.9	N/A	10.2

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 12/31/2005		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 1/1/04
Fund	**3.0%**	**14.1%**	**N/A**	**17.2%**
MSCI US Mid-Cap 450	3.0	13.9	N/A	17.2

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 12/31/2005		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**3.3%**	**8.4%**	**19.5%**	**9.3%**
Russell 2000	1.1	4.6	22.1	8.2

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 12/31/2005		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**5.2%**	**17.2%**	**25.9%**	**9.5%**
MSCI EAFE	4.1	13.5	23.7	4.6

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 12/31/2005		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**3.9%**	**13.6%**	**N/A**	**20.5%**
MSCI EAFE	4.1	13.5	N/A	20.4

DEFERRED COMPENSATION PLAN ACCOUNTS

BALANCED

Dodge & Cox Balanced Fund (active)

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

Period Ending 12/31/2005				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 10/1/03
Fund	**2.1%**	**6.6%**	**N/A**	**13.4%**
Benchmark	1.5	4.0	N/A	8.8

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 12/31/2005				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**1.6%**	**4.8%**	**N/A**	**8.4%**
Benchmark	1.6	4.8	N/A	8.3

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 12/31/2005				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.5%**	**2.0%**	**3.9%**	**6.5%**
Lehman Agg.	0.6	2.4	3.6	5.9

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 12/31/2005				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 12/1/03
Fund	**0.7%**	**2.5%**	**N/A**	**3.7%**
Lehman Agg.	0.6	2.4	N/A	3.7

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 12/31/2005				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**0.9%**	**3.2%**	**2.0%**	**2.5%**
3-Mo. Treas.	1.0	3.2	1.8	2.2

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 12/31/2005				
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Fund	**1.1%**	**4.3%**	**4.4%**	**5.0%**
Benchmark	1.2	4.4	3.4	3.6

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 12/31/2005

The quarterly blended rate is: 4.55%

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.

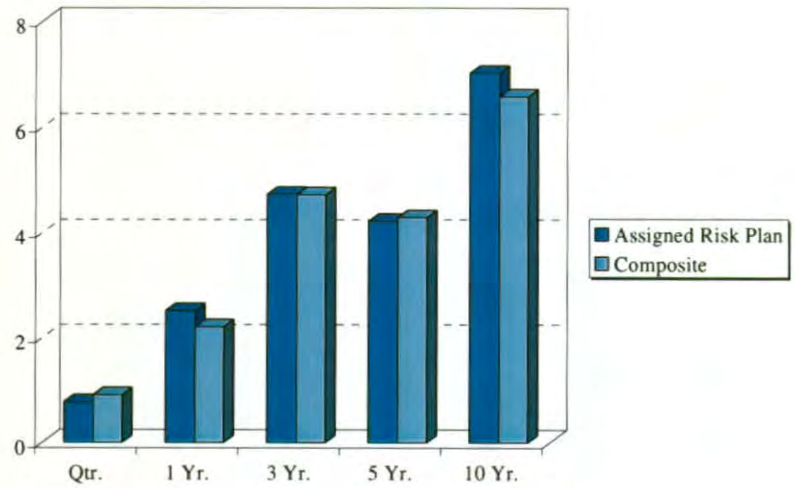
Asset Mix
The Assigned Risk Plan is invested in a portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	12/31/2005 Target	12/31/2005 Actual
Stocks	20.0%	22%
Bonds	80.0	78
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, 2005 the market value of the Assigned Risk Plan was $316 million.



Period Ending 12/31/2005

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund*	**0.8%**	**2.5%**	**4.7%**	**4.2%**	**7.0%**
Composite	0.9	2.2	4.7	4.3	6.6
Equity Segment*	**1.6**	**2.6**	**11.4**	**0.2**	**9.7**
Benchmark	2.1	4.9	14.4	0.5	9.1
Bond Segment*	**0.5**	**2.5**	**2.8**	**4.7**	**5.4**
Benchmark	0.6	2.1	2.5	5.1	5.7

* 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.

	12/31/2005 Target	12/31/2005 Actual
Stocks	50.0%	52.9%
Bond	48.0	45.7
Unallocated Cash	2.0	1.4
Total	100.0%	100.0%

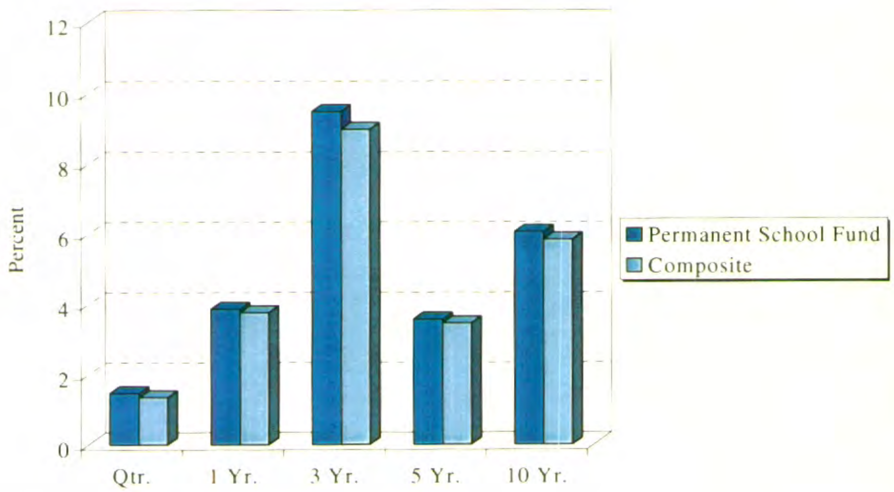
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

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, 2005 the market value of the Permanent School Fund was $633 million.



Period Ending 12/31/2005

	Qtr.	1 Yr. (Annualized)	3 Yr. (Annualized)	5 Yr. (Annualized)	10 Yr. (Annualized)
Total Fund (1) (2)	**1.5%**	**3.9%**	**9.5%**	**3.6%**	**6.1%**
Composite	1.4	3.8	9.0	3.5	5.9
Equity Segment (1) (2)	**2.1**	**4.9**	**14.4**	**0.6**	**N/A**
S&P 500	2.1	4.9	14.4	0.5	N/A
Bond Segment (1)	**0.8**	**2.8**	**4.4**	**6.2**	**6.5**
Lehman Aggregate	0.6	2.4	3.6	5.9	6.2

(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

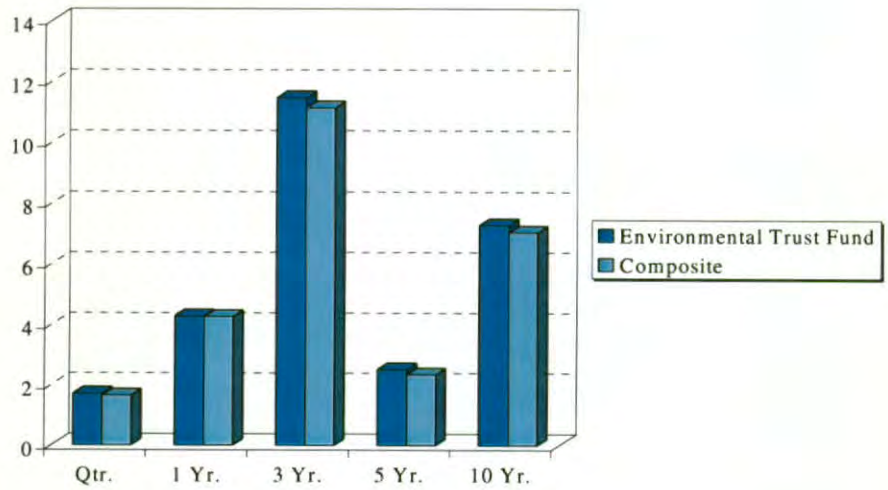
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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, 2005 the market value of the Environmental Trust Fund was $400 million.

	12/31/2005 Target	12/31/2005 Actual
Stocks	70.0%	69.5%
Bonds	28.0	29.9
Unallocated Cash	2.0	0.6
Total	100.0%	100.0%



	Period Ending 12/31/2005				
			Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.	10 Yr.
Total Fund*	**1.7%**	**4.3%**	**11.5%**	**2.5%**	**7.3%**
Composite	1.7	4.3	11.1	2.3	7.0
Equity Segment*	**2.1**	**4.9**	**14.5**	**0.6**	**9.2**
S&P 500	2.1	4.9	14.4	0.5	9.1
Bond Segment*	**0.8**	**2.8**	**4.6**	**6.3**	**6.6**
Lehman Agg.	0.6	2.4	3.6	5.9	6.2

* Actual returns are calculated net of fees.

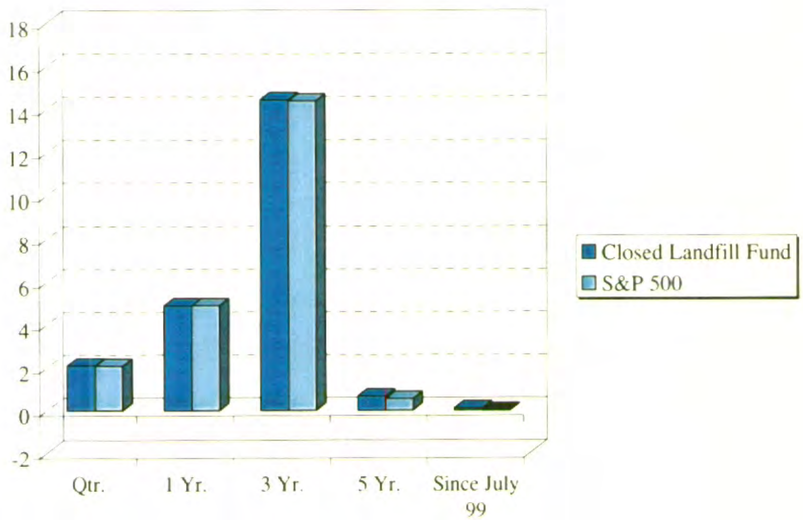
CLOSED LANDFILL INVESTMENT FUND

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, 2005, the market value of the Closed Landfill Investment Fund was $44.0 million.



Period Ending 12/31/2005

	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.	Since 7/1/1999
Total Fund (1)	**2.1%**	**4.9%**	**14.5%**	**0.7%**	**0.1%**
S&P 500 (2)	2.1	4.9	14.4	0.5	0.0

(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 12/31/2005

	Market Value (Millions)	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.	10 Yr.
Treasurer's Cash Pool*	**$3,949**	**1.0%**	**3.3%**	**2.0%**	**2.7%**	**4.2%**
Custom Benchmark**		0.9	2.6	1.4	2.2	3.8
Trust Fund Cash Pool*	**$49**	**1.0**	**3.3**	**1.9**	**2.4**	**4.1**
Custom Benchmark***		0.9	2.6	1.4	1.8	3.5
3 month T-Bills		1.0	3.2	1.8	2.2	3.7

* Actual returns are calculated net of fees.

** Beginning in January 2003, the Treasurer's Cash Pool is measured against the iMoneyNet, All Taxable Money Fund Report Average. From January 1997 to December 2002 the fund was measured against a blended benchmark consisting of the Lehman Brother's 1-3 year Government Index and the iMoneyNet, All Taxable Money Fund Report Average. The proportion of each component of the blended benchmark is adjusted periodically as the asset allocation of the Cash Pool is modified. 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 iMoneyNet, All Taxable Money Fund Report Average. 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, 2005 (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	74,288	0	1,714,135	0	3,912,943	1,260,144	805,821	7,767,331
	0.96%		22.07%		50.38%	16.22%	10.37%	100%
Public Employees Retirement Fund	52,540	0	1,279,546	0	2,903,207	940,769	601,608	5,777,670
	0.91%		22.15%		50.25%	16.28%	10.41%	100%
State Employees Retirement Fund	14,612	0	1,089,644	0	2,472,331	801,146	512,328	4,890,061
	0.30%		22.28%		50.56%	16.38%	10.48%	100%
Public Employees Police & Fire	19,298	0	593,156	0	1,345,833	436,111	278,891	2,673,289
	0.72%		22.19%		50.35%	16.31%	10.43%	100%
Highway Patrol Retirement Fund	119	0	56,244	0	128,091	41,504	26,596	252,554
	0.05%		22.27%		50.72%	16.43%	10.53%	100%
Judges Retirement Fund	1,219	0	10,611	0	24,076	7,802	4,990	48,698
	2.50%		21.79%		49.44%	16.02%	10.25%	100%
Correctional Employees Retirement	24,749	0	60,097	0	136,355	44,185	28,257	293,643
	8.43%		20.47%		46.43%	15.05%	9.62%	100%
Public Employees Correctional	2,013	0	24,700	0	56,043	18,161	11,612	112,529
	1.79%		21.95%		49.80%	16.14%	10.32%	100%
TOTAL BASIC FUNDS	188,838	0	4,828,133	0	10,978,879	3,549,822	2,270,103	21,815,775
	0.87%		22.13%		50.32%	16.27%	10.41%	100%
POST RETIREMENT FUND	69,283	0	4,774,896	0	10,370,059	3,360,777	1,720,318	20,295,333
	0.34%		23.53%		51.09%	16.56%	8.48%	100%
TOTAL BASIC AND POST	258,121	0	9,603,029	0	21,348,938	6,910,599	3,990,421	42,111,108
	0.61%		22.80%		50.70%	16.41%	9.48%	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	8,340	178,042	0	0	331,658	0	0	518,040
	1.61%	34.37%			64.02%			100%
Growth Share Account	0	0	0	0	144,474	0	0	144,474
					100.00%			100%
Money Market Account	59,910	0	0	0	0	0	0	59,910
	100.00%							100%
Common Stock Index	0	0	0	0	189,964	0	0	189,964
					100.00%			100%
Bond Market Account	0	0	109,685	0	0	0	0	109,685
			100.00%					100%
International Share Account	0	0	0	0	0	89,406	0	89,406
						100.00%		100%
Fixed Interest Account	955	0	69,440	0	0	0	0	70,395
	1.36%		98.64%					100%
TOTAL SUPPLEMENTAL FUNDS	69,205	178,042	179,125	0	666,096	89,406	0	1,181,874
	5.86%	15.06%	15.16%		56.36%	7.56%		100%
MN DEFERRED COMP PLAN *	50,323	0	1,212,844	0	1,485,440	232,964	0	2,981,571
	1.69%		40.68%		49.82%	7.81%		100%
TOTAL RETIREMENT FUNDS	377,649	178,042	10,994,998	0	23,500,474	7,232,969	3,990,421	46,274,553
	0.82%	0.38%	23.76%		50.79%	15.63%	8.62%	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	2,436 0.77%	0	245,239 77.71%	0	67,924 21.52%	0	0	315,599 100%
ENVIRONMENTAL FUND	2,382 0.60%	119,677 29.92%	0	277,931 69.48%	0	0	0	399,990 100%
PERMANENT SCHOOL FUND	8,976 1.42%	289,140 45.68%	0	334,801 52.90%	0	0	0	632,917 100%
CLOSED LANDFILL INVESTMENT	75 0.17%	0	0	43,963 99.83%	0	0	0	44,038 100%
TREASURERS CASH	3,952,737 100.00%	0	0	0	0	0	0	3,952,737 100%
HOUSING FINANCE AGENCY	24,825 12.17%	179,173 87.83%	0	0	0	0	0	203,998 100%
MINNESOTA DEBT SERVICE FUND	0	195,624 100.00%	0	0	0	0	0	195,624 100%
MISCELLANEOUS ACCOUNTS	52,217 25.99%	102,822 51.17%	0	45,895 22.84%	0	0	0	200,934 100%
TOTAL CASH AND NON-RETIREMENT	4,043,648 68.01%	886,436 14.91%	245,239 4.12%	702,590 11.82%	67,924 1.14%	0	0	5,945,837 100%
GRAND TOTAL	4,421,297 8.47%	1,064,478 2.04%	11,240,237 21.52%	702,590 1.35%	23,568,398 45.13%	7,232,969 13.85%	3,990,421 7.64%	52,220,390 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 28, 2006

TO: Members, State Board of Investment

FROM: Howard Bicker

1. **Reports on Budget and Travel**

   A report on the SBI's administrative budget for the period ending January 31, 2006 is included as **Attachment A**.

   A report on travel for the period from November 16, 2005 - February 15, 2006 is included as **Attachment B**.

2. **Results of FY05 Financial Audit**

   The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 2005. I am pleased to report that the SBI received a "clean opinion" on its financial statements. See **Attachment C**.

3. **Legislative Update**

   I will present a verbal update on any legislation activity of interest to the SBI.

4. **Litigation Update**

   SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on March 8, 2006.

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STATE BOARD OF INVESTMENT
FISCAL YEAR 2006 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JANUARY 31, 2006

ITEM	FISCAL YEAR 2006 BUDGET	FISCAL YEAR 2006 ACTUAL
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,900,000	$ 918,428
SEVERENCE PAYOFF	37,000	0
WORKERS COMPENSATION INSURANCE	1,000	800
MISCELLANEOUS PAYROLL	2,000	0
SUBTOTAL	**$ 1,940,000**	**$ 919,228**
STATE OPERATIONS		
RENTS & LEASES	205,000	118,998
REPAIRS/ALTERATIONS/MAINTENANCE	15,000	2,796
PRINTING & BINDING	10,000	3,492
PROFESSIONAL/TECHNICAL SERVICES	0	0
COMPUTER SYSTEMS SERVICES	10,000	4,599
COMMUNICATIONS	20,000	9,257
TRAVEL, IN-STATE	1,000	430
TRAVEL, OUT-STATE	50,000	13,440
SUPPLIES	30,000	7,079
EQUIPMENT	20,000	3,388
EMPLOYEE DEVELOPMENT	10,000	3,850
OTHER OPERATING COSTS	10,000	5,433
SUBTOTAL	**$ 381,000**	**$ 172,762**
ORIGINAL BUDGET	**$ 2,321,000**	**$ 1,091,990**
UNALLOCATED BALANCE FORWARD - FY 2005	**$ 102,387**	
TOTAL GENERAL FUND	**$ 2,423,387**	**$ 1,091,990**

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STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel November 16, 2005 –February 15, 2006

Purpose	Name(s)	Destination and Date	Total Cost
Conference: 14th Annual Public Fund Boards Forum	C. Heyl	San Francisco, CA 12/3-12/7	$1,102.70
Conference: Public Funds Summit sponsored by: Opal Financial Group	H. Bicker	Phoenix, AZ 1/10-1/13	$792.60
Manager Monitoring: **Alternative Investment Managers:** Blackstone Real Estate; Citigroup Venture Capital Partners; DLJ/CSFB Mezzanine; Goldman Sachs Mezzanine Partners	A. Christensen	New York, NY 2/2-2/3	$1,401.10
Manager Monitoring: **Domestic Equity Managers:** Barrow, Hanley, Mewhinney & Strauss; Enhanced Investment Technologies (INTECH) **Manager Monitoring:** **Emerging Equity Manager:** Earnest Partners	S. Sutton	West Palm Beach, FL Atlanta, GA Dallas, TX 2/6-2/9	$1,704.56

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OLA 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*

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Minnesota State Board of Investment

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

We have audited the financial statements of the Supplemental Investment Fund and the Post Retirement Investment Fund of the Minnesota State Board of Investment as of and for the year ended June 30, 2005, and have issued our report thereon dated January 13, 2006. 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.

Room 140 Centennial Building, 658 Cedar Street, St. Paul, Minnesota 55155-1603 • Tel: 651/296-4708 • Fax: 651/296-4712
E-mail: auditor@state.mn.us • TDD Relay: 651/297-5353 • Website: www.auditor.leg.state.mn.us

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 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: January 13, 2006

Report Signed On: February 13, 2006

Tab C

COMMITTEE REPORT

DATE: February 28, 2006

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

SUBJECT: MnSCU Defined Contribution Retirement Plan

The Minnesota State Colleges and Universities (MnSCU) is currently working through a restructuring of their faculty and administrators defined contribution retirement plan with the goal of having a new plan in place effective July 1, 2006. MnSCU administers a defined contribution retirement program as its primary retirement plan. MnSCU administers three plans together as one program. MnSCU wishes to select a central recordkeeper and to rationalize the array of investment options offered to their participants. By statute, the SBI must select investment options for the plan.

The Deferred Compensation Review Committee met in December 2005 to select seven actively managed mutual funds and six passively managed mutual funds that would allow MnSCU to negotiate recordkeeping and administrative arrangements with one provider. The choices made by the Committee in November were in asset classes that were agreed to by MnSCU and were tentative subject to final approval by the SBI at the March 2006 Board meeting.

At its January 2006 meeting, the MnSCU board agreed to retain TIAA-CREF for recordkeeping and administrative services (education and communication materials), to provide the same group of ten TIAA-CREF investment products currently offered to their participants, and to offer the set of mutual fund options selected by the Deferred Compensation Review Committee. In its response to the MnSCU recordkeeping RFP, TIAA-CREF reported that they could recordkeep any mutual fund company funds. Unfortunately, after being informed of the list of funds tentatively selected by the Committee in December, TIAA-CREF reported that they did not have and could not come to an agreement with Fidelity. Therefore, the Committee had to meet again to select replacement funds for Fidelity funds in the large cap blend and balanced asset classes. The Committee stated its first choices were the two Fidelity funds, but due to TIAA-CREF's inability to recordkeep the Fidelity funds, the replacement funds selected were the Committee's second choices.

At its January 2006 meeting MnSCU also agreed that the default option in the Plan, which is used when participants do not make an investment choice and is currently the SIF Income Share Account, was a plan design decision not an investment decision. MnSCU chose to have the default option in their restructured Plan be a combination of two TIAA-CREF funds. The Committee voiced its strong support for the staff preference to have the low-cost Vanguard Balanced Index Fund, which is very similar to the Income Share Account, be the new default option.

The Committee also noted that the Historical Society use of TIAA-CREF for its defined contribution plan, which is statutorily tied to the MnSCU plan selections, should continue because the Historical Society plan is small and the simplified structure of one provider is appropriate.

RECOMMENDATION:

The Deferred Compensation Review Committee recommends that the SBI approve the provision by TIAA-CREF of the same TIAA-CREF investment options currently offered to MnSCU Plan participants.

The Committee further recommends that the SBI approve the following mutual funds for the MnSCU Plan provided that the contracts entered into between MnSCU and the mutual fund companies offering these mutual funds substantively incorporate the same terms and conditions as existing contracts between the SBI and mutual fund company providers for the State Deferred Compensation Plan.

Actively Managed		*Passively Managed*	
Large Cap Blend	**Legg Mason Value Trust Portfolio (Institutional Class)**	**Large Cap Blend**	**Vanguard Institutional Index**
Mid Cap Blend	**Vanguard Strategic Equity (Admiral Shares)**	**Mid Cap Blend**	**Vanguard Mid Capitalization Index (Admiral Share)**
Small Cap Blend	**Legg Mason Royce Premier (Institutional Class)**	**Small Cap Blend**	**Vanguard Small Cap Index (Admiral Shares)**
Balanced	**Dodge & Cox Balanced**	**Balanced**	**Vanguard Balanced Index (Admiral Shares)**
Fixed Income	**Legg Mason Western Asset Core Plus (Institutional Class)**	**Fixed Income**	**Vanguard Total Bond Market Index (Admiral Shares)**
International Equity	**T. Rowe Price International Growth and Income**	**International Equity**	**Vanguard Developed Markets Index**
Money Market	**Vanguard Prime Money Market Fund**		

Approval by the SBI of these potential mutual fund company offerings 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 these mutual fund companies upon this approval.

RECOMMENDATION:

The Deferred Compensation Review Committee recommends that the SBI approve a contract between TIAA-CREF and the Historical Society provided the contract incorporates substantively the same terms and conditions as the existing contract between TIAA-CREF and the Historical Society.

Tab D

COMMITTEE REPORT

DATE: February 28, 2006

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 15, 2006 to consider the following agenda items:

- Review the manager performance for the period ending December 31, 2005.
- A review of GE Asset Management, domestic equity manager for the Assigned Risk Plan.

No action is required by the SBI / IAC.

INFORMATION ITEMS:

1. Review the manager performance for the period ending December 31, 2005.

- *Domestic Equity Program*

For the period ending December 31, 2005, the **Domestic Equity Program** outperformed during the quarter, year, and three year periods and narrowly underperformed the benchmark over the five year time period.

Time period	Total Program	DE Asset Class Target*
Quarter	2.4%	2.0%
1 Year	6.4	6.1
3 Years	16.1	16.0
5 Years	1.5	1.6

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

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

- ***Fixed Income Program***

For the period ending December 31, 2005, the **Fixed Income Program** outperformed the Lehman Aggregate over all time periods.

Time period	Total Program	Lehman Aggregate
Quarter	0.6%	0.6%
1 Year	2.8	2.4
3 Years	4.5	3.6
5 Years	6.3	5.9

The performance evaluation reports for the fixed income managers start on the **blue page A-101** of this Tab.

- ***International Equity Program***

For the period ending December 31, 2005, the **International Equity Program** and the **equity managers** (excluding the currency overlay) matched the composite index over the quarter and underperformed over the one, three and five-year time periods.

Time Period	Total* Program	Int'l Equity Asset Class Target**
Quarter	4.3%	4.3%
1 Year	16.4	16.6
3 Year	24.5	25.5
5 Year	6.0	6.1

Equity*** Mgrs. Only
4.3%
16.6
24.5
6.0

* 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-113** of this Tab.

2. Review of GE Asset Management, Domestic Equity Manager for the Assigned Risk Plan.

GE Asset Management has managed the equity portion of the Assigned Risk Plan since January 1995 in its U.S. Multi-Style Equity Strategy. Staff requested that GE meet with the Stock and Bond Committee to discuss organizational changes, revisions to its investment strategy, and portfolio underperformance.

Over the past several years, the leadership of GE's Equity Team has transitioned as a result of the retirement of Gene Bolton as Chief Investment Officer in September 2003 and Peter Hathaway as Manager of Value Portfolios at the end of 2002. Dave Carlson was promoted from Manager of Growth Portfolios to CIO and has 24 years experience with the firm. Additionally, there are new Growth and Value Portfolio Managers for the U.S. Equity Team, each with more than 20 years of experience with GE. Additionally, the Co-Director of Research will retire after 35 years with GE at the end of 2006. He will be replaced by the other Co-Director of the team who has been with GE for more than 20 years.

The GE U.S. Multi-Style strategy is comprised of a value, a growth, and a research portfolio. As of October 2005, the three portfolios are weighted 40%, 40%, and 20%, respectively. This was the third rebalancing of the Multi-Style portfolio since 1998. Periodically, GE rebalances the Multi-Style portfolio to reflect its cyclical viewpoint regarding the relative attractiveness of growth versus value given recent market movements and forecast opportunities ahead. Additionally, GE removed their constraint of sector neutrality compared to the benchmark to allow for greater flexibility to overweight or underweight sectors depending upon convictions.

The Multi-Style performance has underperformed its benchmark, the S&P 500, in each of the past three calendar years. However, the portfolio outperformed in each of the four preceding calendar years. While cumulative performance for the past five years is negative, GE has outperformed since the inception of the portfolio. A noticeable characteristic of performance of the portfolio has been its ability to outperform in "down" markets, but generally it has underperformed in "up" markets.

Given the personnel and strategy changes, and Staff's concern regarding the recent underperformance of the portfolio, Staff requested that GE present an organizational update and portfolio review to the Committee. Dave Carlson, the CIO, addressed steps that GE is taking to improve performance. The Committee decided to take no action regarding GE at this time and requested that Staff present another review of GE in one year.

STATE BOARD OF INVESTMENT

Domestic Equity Manager Evaluation Reports

Fourth Quarter, 2005

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COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending December, 2005

	Quarter		1 Year		3 Years		5 Years	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	3.0	2.1	6.4	6.3				
Russell 1000 Growth Aggregate	5.0	3.0	7.3	5.3				
Russell 1000 Value Aggregate	1.4	1.3	6.0	7.1				
Russell 2000 Growth Aggregate	0.6	1.6	4.7	4.2				
Russell 2000 Value Aggregate	1.4	0.7	7.7	4.7				
Active Manager Aggregate	2.8	1.9	6.5	6.0				
Semi-Passive Aggregate	2.4	2.1	6.2	6.3				
Passive Manager (BGI)	2.0	2.0	6.2	6.1				
Historical Aggregate	2.4	2.0	6.4	6.1				
SBI DE Asset Class Target		2.0		6.1				
Russell 3000 Index		2.0		6.1				

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
Russell 1000 Core Aggregate	6.4	6.3	14.5	11.4						
Russell 1000 Growth Aggregate	7.3	5.3	6.1	6.3						
Russell 1000 Value Aggregate	6.0	7.1	14.3	16.5						
Russell 2000 Growth Aggregate	4.7	4.2	9.7	14.3						
Russell 2000 Value Aggregate	7.7	4.7	25.0	22.2						
Active Manager Aggregate	6.5	6.0	12.5	12.3						
Semi-Passive Aggregate	6.2	6.3	11.7	11.4						
Passive Manager (BGI)	6.2	6.1	12.0	11.9						
Historical Aggregate	6.4	6.1	12.2	11.9						
SBI DE Asset Class Target		6.1		11.9						
Russell 3000 Index		6.1		11.9						

COMBINED RETIREMENT FUNDS
ACTIVE DOMESTIC STOCK MANAGERS
Periods Ending December, 2005
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	1.8	2.1	3.4	6.3	16.7	15.4	2.1	1.1	11.8	11.6
New Amsterdam Partners (2)	1.6	2.1	7.6	6.3	18.3	17.8	5.7	5.3	14.2	12.0
UBS Global	4.8	2.1	8.6	6.3	17.2	15.4	7.6	1.1	11.3	10.6
Voyageur-Chicago Equity	3.8	2.1	3.9	6.3	12.2	15.4	-2.0	1.1	-0.7	-0.6
Aggregate	3.0	2.1	6.4	6.3						
Russell 1000 Growth										
Alliance Capital	6.3	3.0	14.2	5.3	13.9	13.2	-1.4	-3.6	14.9	11.0
Cohen, Klingenstein & Marks	2.9	3.0	-0.9	5.3	14.1	13.2	-6.3	-3.6	9.1	9.2
Holt-Smith & Yates	4.0	3.0	1.5	5.3	10.0	13.2	-1.2	-3.6	-2.3	-8.3
INTECH	3.9	3.0	7.8	5.3					7.8	5.3
Jacobs Levy	3.9	3.0	5.3	5.3					5.3	5.3
Lazard Asset Mgmt.	5.0	3.0	6.6	5.3					6.6	5.3
Sands Capital	7.1	3.0	10.9	5.3					10.9	5.3
Winslow-Large Cap	3.8	3.0	10.5	5.3					10.5	5.3
Zevenbergen Capital	6.9	3.0	9.0	5.3	22.6	13.2	-3.6	-3.6	10.5	9.2
Aggregate	5.0	3.0	7.3	5.3						
Russell 1000 Value										
Barrow, Hanley	-0.5	1.3	9.6	7.1					14.4	11.5
Earnest Partners	2.5	1.3	15.6	7.1	22.0	17.5	8.2	5.3	6.1	6.9
Lord Abbett & Co.	2.4	1.3	3.5	7.1					8.1	11.5
LSV Asset Mgmt.	1.1	1.3	12.5	7.1					15.5	11.5
Oppenheimer	1.9	1.3	1.0	7.1	13.4	17.5	2.8	5.3	12.5	11.7
Systematic Financial Mgmt.	0.9	1.3	10.3	7.1					12.9	11.5
Aggregate	1.4	1.3	6.0	7.1						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	-1.8	1.6	0.2	4.2					6.0	9.1
Next Century Growth	5.6	1.6	25.2	4.2	26.2	20.9	0.7	2.3	-3.7	-2.7
Summit Creek Advisors	0.2	1.6	4.4	4.2	16.1	20.9	2.0	2.3	-0.2	-2.7
Turner Investment Partners	3.0	1.6	6.2	4.2					8.9	9.1
Aggregate	0.6	1.6	4.7	4.2						
Russell 2000 Value										
RiverSource/Kenwood	0.4	0.7	4.8	4.7					14.8	13.1
Goldman Sachs	3.0	0.7	4.1	4.7					11.7	13.1
Hotchkis & Wiley	2.5	0.7	10.4	4.7					18.4	13.1
Martingale Asset Mgmt.	-0.7	0.7	6.2	4.7					17.9	13.1
Peregrine Capital	1.6	0.7	10.1	4.7	25.2	23.2	15.2	13.6	18.2	15.3
Aggregate	1.4	0.7	7.7	4.7						
Active Mgr. Aggregate (3)	2.8	1.9	6.5	6.0						

(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.

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

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

	2005		2004		2003		2002		2001	
	Actual %	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**	**Actual %**	**Bmk %**
LARGE CAP										
Russell 1000 Core										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	29.9	-25.4	-21.7	-6.6	-12.5
New Amsterdam Partners (2)	7.6	6.3	14.8	11.4	34.2	38.0	-17.5	-16.2	-3.3	-5.6
UBS Global	8.6	6.3	13.4	11.4	30.7	29.9	-14.7	-21.7	5.2	-12.5
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	29.9	-20.6	-21.7	-19.4	-12.5
Aggregate	6.4	6.3								
Russell 1000 Growth										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	29.7	-26.8	-27.9	-13.7	-20.4
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	29.7	-35.0	-27.9	-25.0	-20.4
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	29.7	-28.0	-27.9	-1.7	-20.4
INTECH (1)	7.8	5.3							7.8	5.3
Jacobs Levy (1)	5.3	5.3							5.3	5.3
Lazard Asset Mgmt. (1)	6.6	5.3							6.6	5.3
Sands Capital (1)	10.9	5.3							10.9	5.3
Winslow-Large Cap (1)	10.5	5.3							10.5	5.3
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	29.7	-36.2	-27.9	-29.0	-20.4
Aggregate	7.3	5.3	6.1	6.3						
Russell 1000 Value										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	30.0	-18.1	-15.5	-0.4	-5.6
Lord Abbett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	30.0	-15.5	-15.5	-7.0	-5.6
Systematic Financial Mgmt. (1)	10.3	7.1								
Aggregate	6.0	7.1	14.3	16.5						
SMALL CAP										
Russell 2000 Growth										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-30.3	-22.8	-9.2
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	48.5	-25.0	-30.3	-6.1	-9.2
Turner Investment Partners	6.2	4.2	11.6	14.3						
Aggregate	4.7	4.2	9.7	14.3						
Russell 2000 Value										
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital	10.1	4.7	23.6	22.2	44.2	46.0	-8.1	-11.4	12.6	14.0
Aggregate	7.7	4.7	25.0	22.2						
Active Mgr. Aggregate (3)	6.5	6.0	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.

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

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 2005
Versus Manager Benchmarks

	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 %
ACTIVE MANAGERS												
Large Cap Core (R1000)												
Franklin Portfolio	1.8	2.1	3.4	6.3	16.7	17.5	2.1	4.2	11.8	11.6	$773.5	3.5%
New Amsterdam Partners	1.6	2.1	7.6	6.3	18.3	17.5	5.7	5.5	14.2	13.5	$472.5	2.1%
UBS Global	4.8	2.1	8.6	6.3	17.2	15.7	7.6	1.8	11.3	10.7	$866.4	3.9%
Voyageur-Chicago Equity	3.8	2.1	3.9	6.3	12.2	15.1	-2.0	1.3	-0.7	-0.3	$48.8	0.2%
Aggregate	3.0	2.1	6.4	6.3								
Large Cap Growth (R1000 Growth)												
Alliance Capital	6.3	3.0	14.2	5.3	13.9	12.2	-1.4	-1.9	14.9	11.0	$528.8	2.4%
Cohen, Klingenstein & Marks	2.9	3.0	-0.9	5.3	14.1	15.9	-6.3	1.1	9.1	11.0	$420.5	1.9%
Holt-Smith & Yates	4.0	3.0	1.5	5.3	10.0	13.7	-1.2	4.5	-2.3	3.6	$79.2	0.4%
INTECH	3.9	3.0	7.8	5.3					7.8	5.3	$300.5	1.4%
Jacobs Levy	3.9	3.0	5.3	5.3					5.3	5.3	$124.3	0.6%
Lazard Asset Mgmt.	5.0	3.0	6.6	5.3					6.6	5.3	$27.7	0.1%
Sands Capital	7.1	3.0	10.9	5.3					10.9	5.3	$220.6	1.0%
Winslow-Large Cap	3.8	3.0	10.5	5.3					10.5	5.3	$28.7	0.1%
Zevenbergen Capital	6.9	3.0	9.0	5.3	22.6	13.7	-3.6	1.5	10.5	12.4	$229.3	1.0%
Aggregate	5.0	3.0	7.3	5.3								
Large Cap Value (R1000 Value)												
Barrow, Hanley	-0.5	1.3	9.6	7.1					14.4	11.5	$312.0	1.4%
Earnest Partners	2.5	1.3	15.6	7.1	22.0	20.9	8.2	11.7	6.1	13.3	$69.8	0.3%
Lord Abbett & Co.	2.4	1.3	3.5	7.1					8.1	11.5	$282.7	1.3%
LSV Asset Mgmt.	1.1	1.3	12.5	7.1					15.5	11.5	$379.4	1.7%
Oppenheimer	1.9	1.3	1.0	7.1	13.4	17.9	2.8	3.3	12.5	12.3	$777.3	3.5%
Systematic Financial Mgmt.	0.9	1.3	10.3	7.1					12.9	11.5	$182.6	0.8%
Aggregate	1.4	1.3	6.0	7.1								
Small Cap Growth (R2000 Growth)												
McKinley Capital	-1.8	1.6	0.2	4.2					6.0	9.1	$191.1	0.9%
Next Century Growth	5.6	1.6	25.2	4.2	26.2	20.9	0.7	3.8	-3.7	-0.5	$41.1	0.2%
Summit Creek Advisors	0.2	1.6	4.4	4.2	16.1	21.7	2.0	6.7	-0.2	2.1	$145.4	0.7%
Turner Investment Partners	3.0	1.6	6.2	4.2					8.9	9.1	$150.7	0.7%
Aggregate	0.6	1.6	4.7	4.2								
Small Cap Value (R2000 Value)												
RiverSource/Kenwood	0.4	0.7	4.8	4.7					14.8	13.1	$55.2	0.3%
Goldman Sachs	3.0	0.7	4.1	4.7					11.7	13.1	$116.8	0.5%
Hotchkis & Wiley	2.5	0.7	10.4	4.7					18.4	13.1	$131.2	0.6%
Martingale Asset Mgmt.	-0.7	0.7	6.2	4.7					17.9	13.1	$129.9	0.6%
Peregrine Capital Mgmt.	1.6	0.7	10.1	4.7	25.2	22.7	15.2	16.1	18.2	17.9	$195.2	0.9%
Aggregate	1.4	0.7	7.7	4.7								
Active Mgr. Aggregate (1)	2.8	1.9	6.5	6.0								

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

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

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
ACTIVE MANAGERS										
Large Cap Core (R1000)										
Franklin Portfolio	3.4	6.3	15.7	11.4	32.9	36.9	-25.4	-19.8	-6.6	-5.4
New Amsterdam Partners	7.6	6.3	14.8	11.4	34.2	37.1	-17.5	-22.2	-3.3	3.7
UBS Global	8.6	6.3	13.4	11.4	30.7	30.8	-14.7	-20.6	5.2	-11.0
Voyageur-Chicago Equity	3.9	6.3	10.6	11.4	23.2	28.9	-20.6	-20.7	-19.4	-12.0
Aggregate	6.4	6.3	14.5	11.4						
Large Cap Growth (R1000 Growth)										
Alliance Capital	14.2	5.3	5.7	6.3	22.4	26.3	-26.8	-24.0	-13.7	-15.3
Cohen, Klingenstein & Marks	-0.9	5.3	6.1	6.3	41.2	39.3	-35.0	-23.8	-25.0	-11.2
Holt-Smith & Yates	1.5	5.3	7.3	6.3	22.1	31.3	-28.0	-19.0	-1.7	4.6
INTECH (1)	7.8	5.3								
Jacobs Levy (1)	5.3	5.3								
Lazard Asset Mgmt. (1)	6.6	5.3								
Sands Capital (1)	10.9	5.3								
Winslow-Large Cap (1)	10.5	5.3								
Zevenbergen Capital	9.0	5.3	13.1	6.3	49.3	31.3	-36.2	-24.2	-29.0	-3.2
Aggregate	7.3	5.3	6.1	6.3						
Large Cap Value (R1000 Value)										
Barrow, Hanley (1)	9.6	7.1								
Earnest Partners	15.6	7.1	18.9	16.5	32.0	41.8	-18.1	-11.6	-0.4	11.5
Lord Abbett & Co. (1)	3.5	7.1								
LSV Asset Mgmt. (1)	12.5	7.1								
Oppenheimer	1.0	7.1	12.0	16.5	28.9	31.4	-15.5	-20.7	-7.0	-9.5
Systematic Financial Mgmt. (1)	10.3	7.1								
Aggregate	6.0	7.1	14.3	16.5						
Small Cap Growth (R2000 Growth)										
McKinley Capital	0.2	4.2	12.2	14.3						
Next Century Growth	25.2	4.2	6.4	14.3	50.7	48.5	-33.3	-27.8	-22.8	-5.5
Summit Creek Advisors	4.4	4.2	8.9	14.3	37.6	51.3	-25.0	-26.7	-6.1	4.6
Turner Investment Partners	6.2	4.2	11.6	14.3						
Aggregate	4.7	4.2	9.7	14.3						
Small Cap Value (R2000 Value)										
RiverSource/Kenwood	4.8	4.7	25.8	22.2						
Goldman Sachs	4.1	4.7	19.9	22.2						
Hotchkis & Wiley	10.4	4.7	27.1	22.2						
Martingale Asset Mgmt.	6.2	4.7	30.8	22.2						
Peregrine Capital Mgmt.	10.1	4.7	23.6	22.2	44.2	44.2	-8.1	-6.9	12.6	22.9
Aggregate	7.7	4.7	25.0	22.2						
Active Mgr. Aggregate (2)	6.5	6.0	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) The Active Manager Aggregate Benchmark is the aggregate of the weighted average of the active manager benchmarks and is not the Russell 3000.

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 2005
Versus Manager Benchmarks (1)

	Quarter		1 Year		3 Years		5 Years		Since Inception (2)		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
SEMI-PASSIVE MANAGERS												
Barclays Global Investors	2.7	2.1	7.6	6.3	16.0	15.0	3.1	2.0	11.2	10.4	$2,882.2	13.1%
Franklin Portfolio	2.4	2.1	6.1	6.3	14.5	15.0	1.8	2.0	10.0	10.4	$2,048.1	9.3%
JP Morgan	2.0	2.1	4.7	6.3	14.7	15.0	1.5	2.0	10.4	10.4	$2,384.2	10.8%
Semi-Passive Aggregate (R1000)	2.4	2.1	6.2	6.3	15.2	15.0	2.2	2.0	10.6	10.4		
PASSIVE MANAGER (R3000)												
Barclays Global Investors	2.0	2.0	6.2	6.1	15.9	16.0	1.5	1.6	9.9	9.8	$7,418.9	33.7%
									Since 1/1/84			
Historical Aggregate (3)	**2.4**	**2.0**	**6.4**	**6.1**	**16.1**	**16.0**	**1.5**	**2.1**	**11.6**	**11.9**	$22,015.0	100.0%
SBI DE Asset Class Target (4)		2.0		6.1		16.0		1.6		11.8		
Russell 3000		2.0		6.1		15.9		1.6		12.2		
Wilshire 5000		2.2		6.4		16.4		2.1		12.1		
Russell 1000		2.1		6.3		15.4		1.1		12.5		
Russell 2000		1.1		4.6		22.1		8.2		10.3		

(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.

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

	2005		2004		2003		2002		2001	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %
SEMI-PASSIVE MANAGERS										
Barclays Global Investors	7.6	6.3	11.7	11.4	30.0	28.5	-19.1	-19.7	-7.8	-9.7
Franklin Portfolio	6.1	6.3	11.7	11.4	26.9	28.5	-20.2	-19.7	-9.0	-9.7
JP Morgan	4.7	6.3	11.7	11.4	28.9	28.5	-21.8	-19.7	-8.7	-9.7
Semi-Passive Aggregate (R1000)	6.2	6.3	11.7	11.4	28.8	28.5	-20.3	-19.7	-8.5	-9.7
PASSIVE MANAGER (R3000)										
Barclays Global Investors	6.2	6.1	12.0	11.9	30.9	31.2	-21.4	-21.5	-11.8	-11.7
Historical Aggregate (2)	**6.4**	**6.1**	**12.2**	**11.9**	**31.0**	**31.4**	**-22.4**	**-21.1**	**-11.1**	**-9.9**
SBI DE Asset Class Target (3)		6.1		11.9		31.2		-21.5		-11.7
Russell 3000		6.1		11.9		31.1		-21.5		-11.5
Wilshire 5000		6.4		12.5		31.6		-20.9		-11.0
Russell 1000		6.3		11.4		29.9		-21.7		-12.5
Russell 2000		4.6		18.3		47.3		-20.5		2.5

(1) Active and Emerging Manager benchmarks are Russell Style Indexes beginning 10/1/03, and were custom benchmarks prior to 10/1/03.
(2) Includes the performance of terminated managers.
(3) The Domestic Equity Asset Class Target is the Russell 3000 Index effective 10/1/03. From 7/1/99 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.

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

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Large Cap Core (R1000)

(Blank)

Large Cap Core (R1000)

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FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2005

Portfolio Manager: John Cone **Assets Under Management: $773,487,739**

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 underperformed the Russell 1000 index by 0.3 percentage point (ppt) during the quarter. An overweight position in energy minerals coupled with weak stock selection detracted from performance. Overweight allocations to technology services and health services pressured returns; ineffective stock selection enhanced the negative impact.

For the year, the portfolio underperformed the Russell 1000 index by 2.9 ppts. An underweight position in technology services coupled with weak stock selection hindered returns. An overweight position in consumer non-durables and weak stock selection detracted from performance. Exposure to growth factors proved detrimental.

Recommendation

No action required

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	1.8%	2.1%	2.1%
Last 1 year	3.4	6.3	6.3
Last 2 years	9.4	8.8	8.8
Last 3 years	16.7	15.4	17.5
Last 4 years	4.3	4.8	6.8
Last 5 years	2.1	1.1	4.2
Since Inception (4/89)	11.8	11.6	11.6

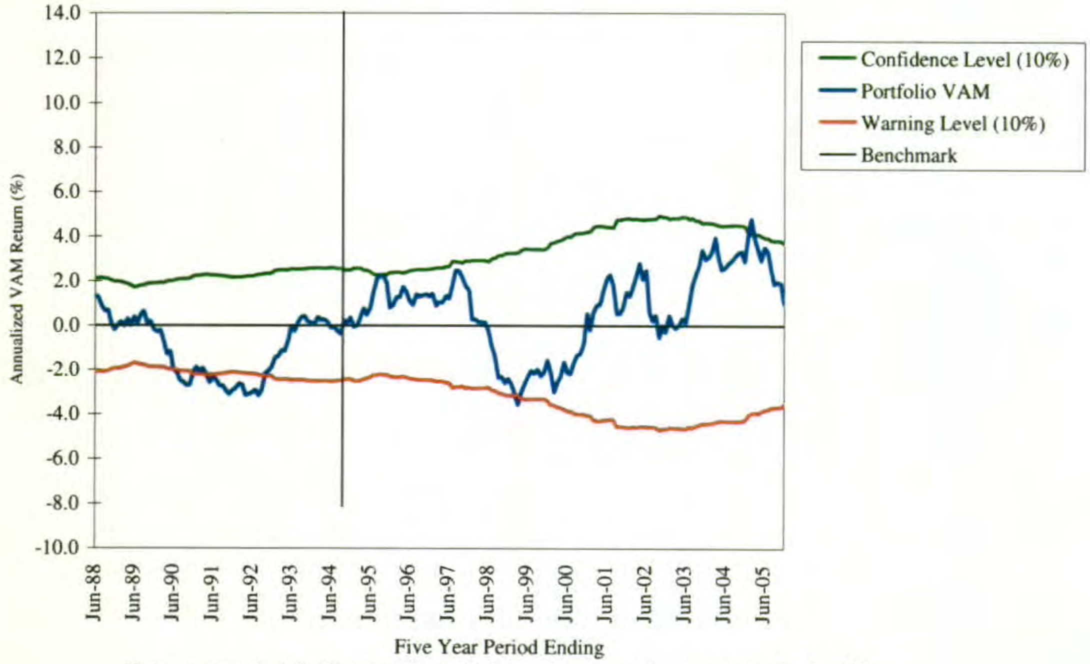
Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
2005	3.4%	6.3%	6.3%
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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2005

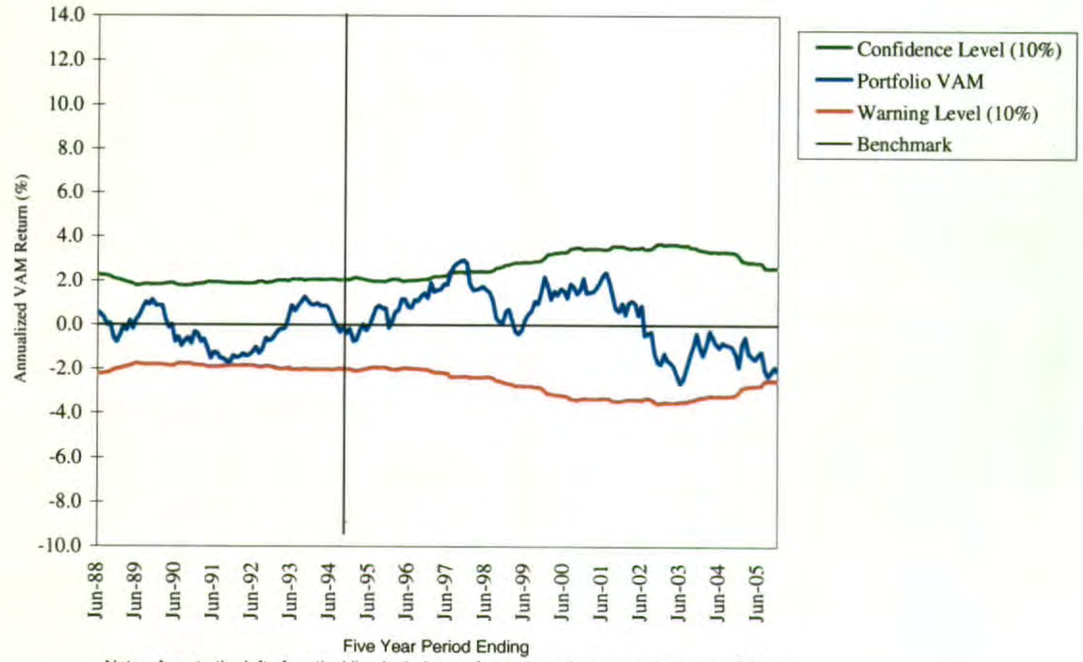
Portfolio Manager: John Cone **Assets Under Management: $773,487,739**

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



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

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



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

NEW AMSTERDAM PARTNERS
Periods Ending December, 2005

Portfolio Manager: Michelle Clayman **Assets Under Management: $472,517,768**

Investment Philosophy

New Amsterdam Partners believes that investment results are evaluated by actual return, and therefore, investment opportunities should be evaluated by expected return. They believe that all valid techniques depend on forecasts of the amounts and timing of future cash flows. Thus, the firm focuses on forecasted earnings growth, yield, price-to-book ratio, and forecasted return on equity. They believe that the disciplined application of their valuation techniques, in conjunction with sound financial analysis of companies, is the key to understanding and maximizing investment returns.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell Index (1)	Manager Benchmark
Last Quarter	1.6%	2.1%	2.1%
Last 1 year	7.6	6.3	6.3
Last 2 years	11.1	8.8	8.8
Last 3 years	18.3	17.8	17.5
Last 4 years	8.1	8.2	6.0
Last 5 years	5.7	5.3	5.5
Since Inception (4/94)	14.2	12.0	13.5

Calendar Year Returns

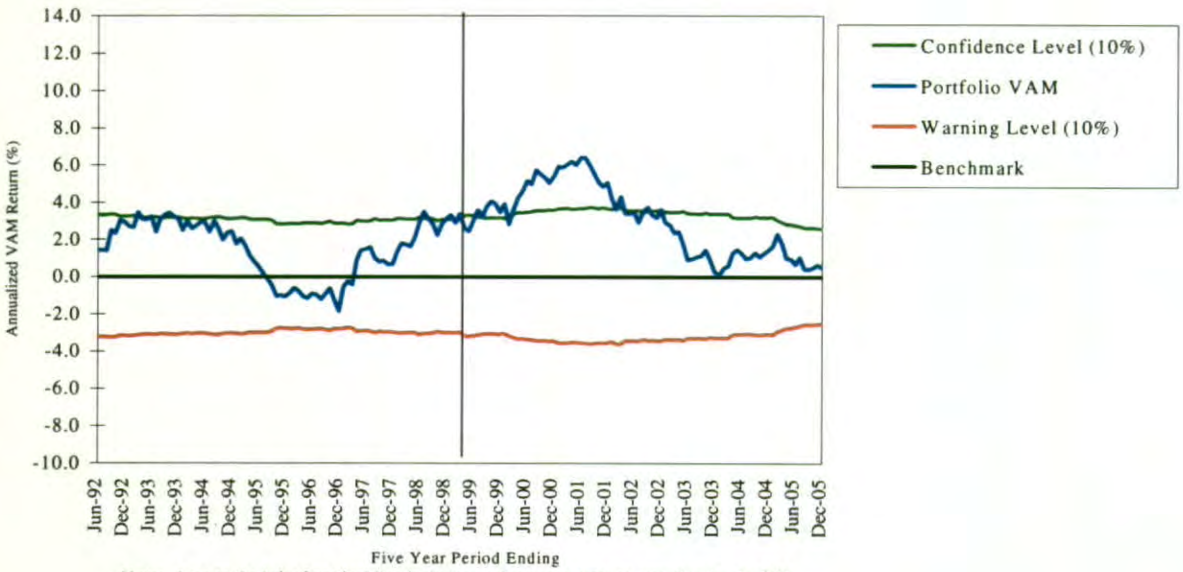
	Actual	Russell Index (1)	Manager Benchmark
2005	7.6%	6.3%	6.3%
2004	14.8	11.4	11.4
2003	34.2	38.0	37.1
2002	-17.5	-16.2	-22.2
2001	-3.3	-5.6	3.7

(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, 2005

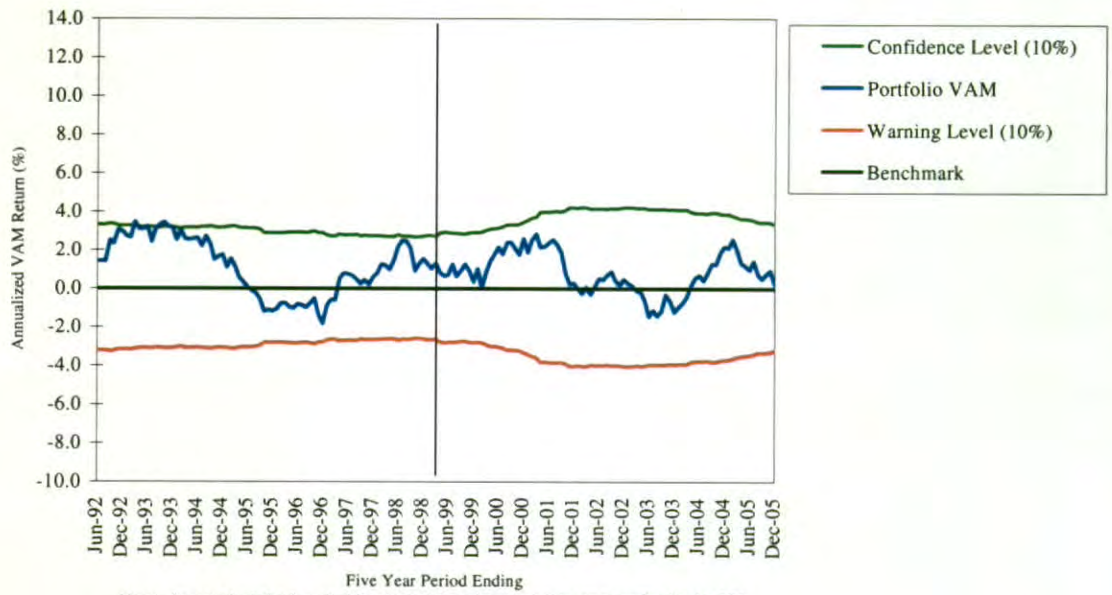
Portfolio Manager: Michelle Clayman **Assets Under Management: $472,517,768**

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, 2005

Portfolio Manager: John Leonard **Assets Under Management: $866,392,450**

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 by 2.7 percentage points (ppt) during the quarter. Strong stock selection within the health technology sector aided returns. An overweight allocation to finance coupled with strong stock selection proved beneficial.

For the year, the portfolio outperformed with Russell 1000 index by 2.3 ppt. Strong stock selection within health technology contributed to performance. An overweight position in transportation aided returns; strong stock selection enhanced the positive impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

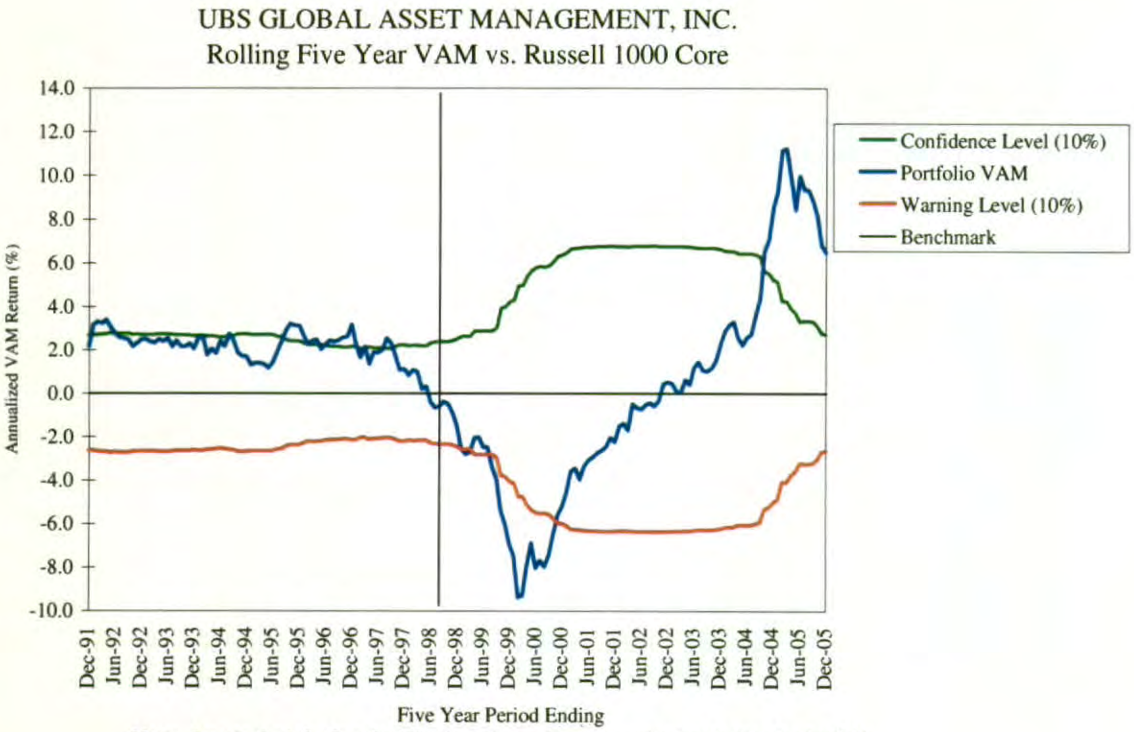
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	4.8%	2.1%	2.1%
Last 1 year	8.6	6.3	6.3
Last 2 years	11.0	8.8	8.8
Last 3 years	17.2	15.4	15.7
Last 4 years	8.3	4.8	5.3
Last 5 years	7.6	1.1	1.8
Since Inception (7/93)	11.3	10.6	10.7

Calendar Year Returns

	Actual	Russell 1000 Core	Manager Benchmark
2005	8.6%	6.3%	6.3%
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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2005

Portfolio Manager: John Leonard **Assets Under Management: $866,392,450**



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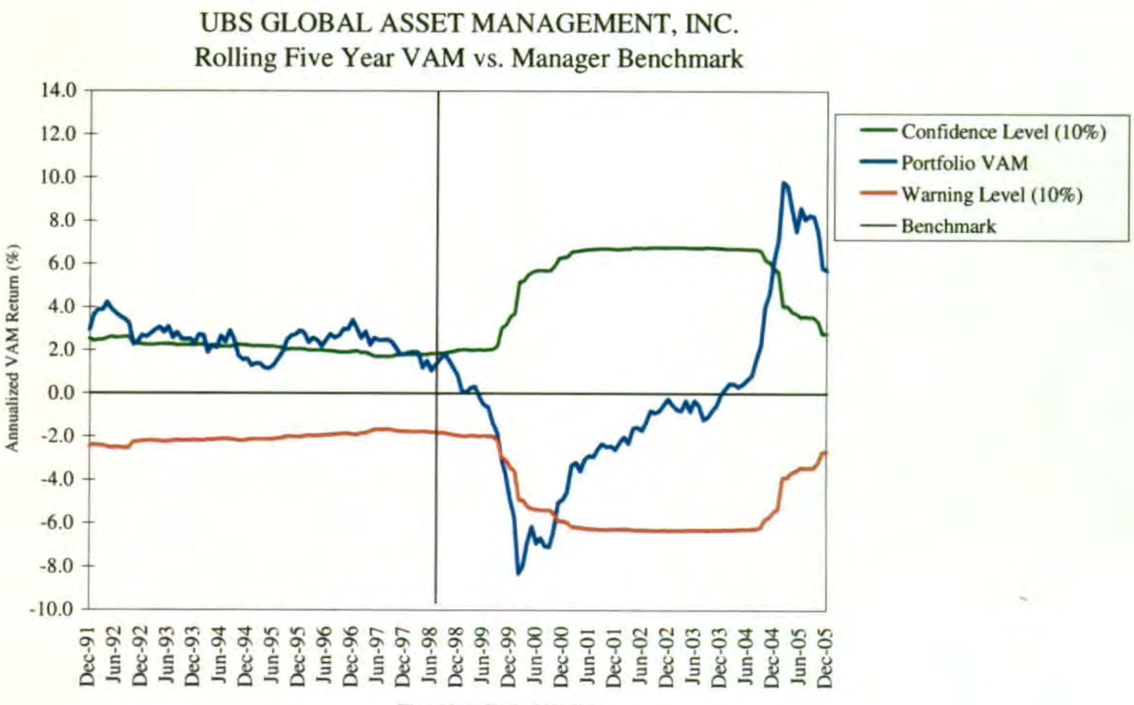


Note: Area to the left of vertical line includes performance prior to retention by the SBI.

VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Charles Henderson **Assets Under Management: $48,808,430**

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

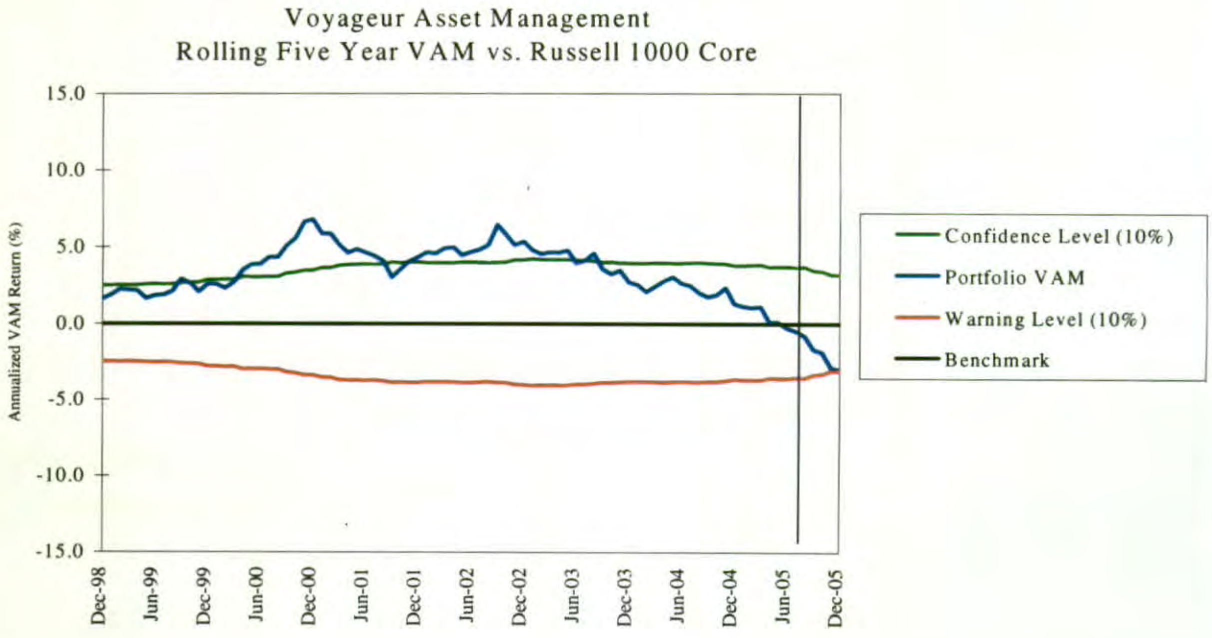
	Actual	Russell 1000 Core	Manager Benchmark
Last Quarter	3.8%	2.1%	2.1%
Last 1 year	3.9	6.3	6.3
Last 2 years	7.2	8.8	8.8
Last 3 years	12.2	15.4	15.1
Last 4 years	2.9	4.8	4.9
Last 5 years	-2.0	1.1	1.3
Since Inception (7/00)	-0.7	-0.6	-0.3

Calendar Year Returns

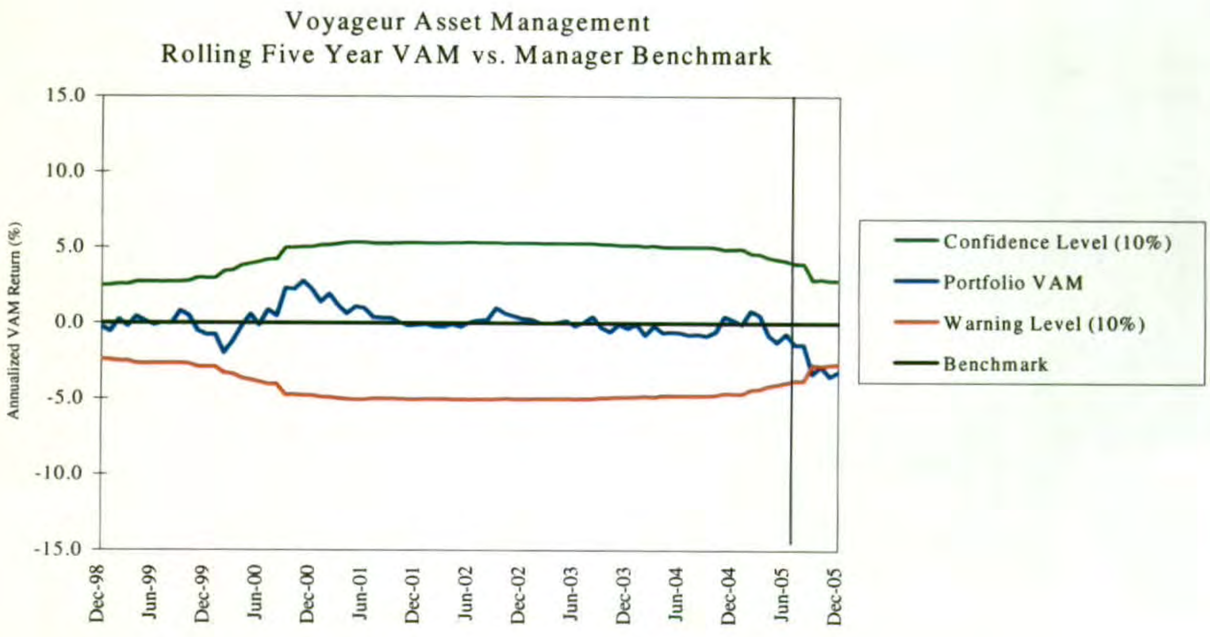
	Actual	Russell 1000 Core	Manager Benchmark
2005	3.9%	6.3%	6.3%
2004	10.6	11.4	11.4
2003	23.2	29.9	28.9
2002	-20.6	-21.7	-20.7
2001	-19.4	-12.5	-12.0

VOYAGEUR ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Charles Henderson **Assets Under Management: $48,808,430**



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



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

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Large Cap Growth (R1000 Growth)

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Large Cap Growth (R1000 Growth)

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Jack Koltes **Assets Under Management: $528,820,003**

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.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	6.3%	3.0%	3.0%
Last 1 year	14.2	5.3	5.3
Last 2 years	9.9	5.8	5.8
Last 3 years	13.9	13.2	12.2
Last 4 years	2.0	1.2	1.8
Last 5 years	-1.4	-3.6	-1.9
Since Inception (1/84)	14.9	11.0	11.0

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	14.2%	5.3%	5.3%
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

Staff Comments

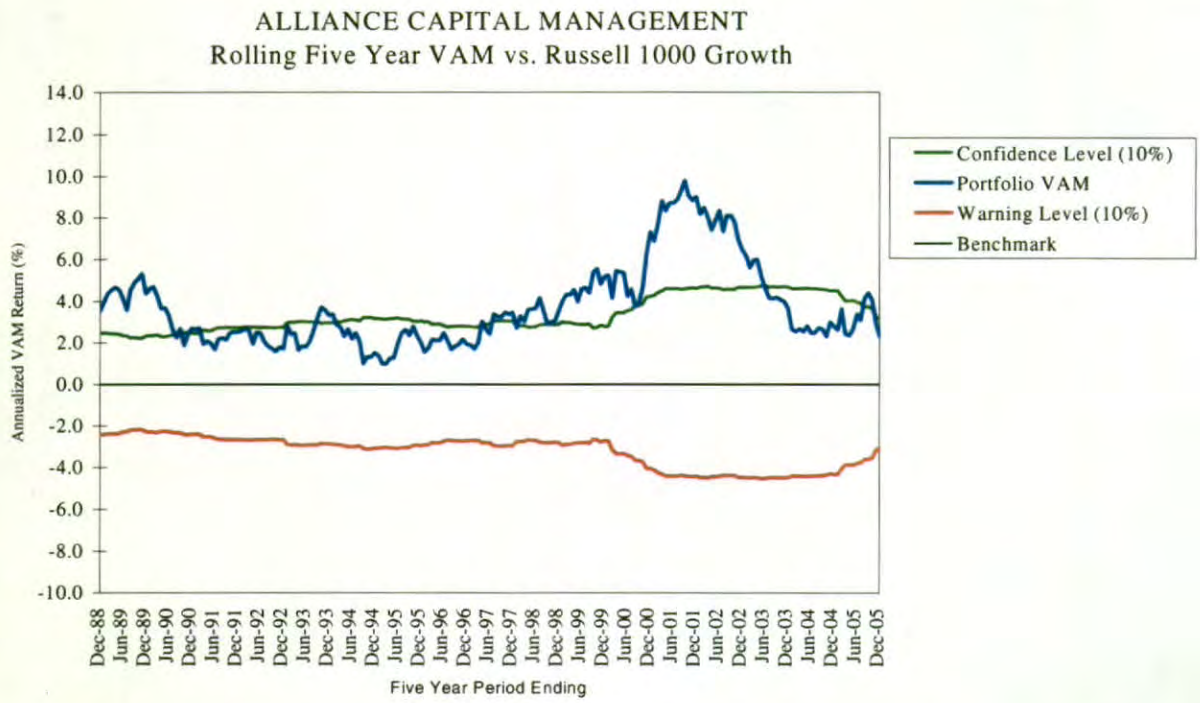
No comment at this time.

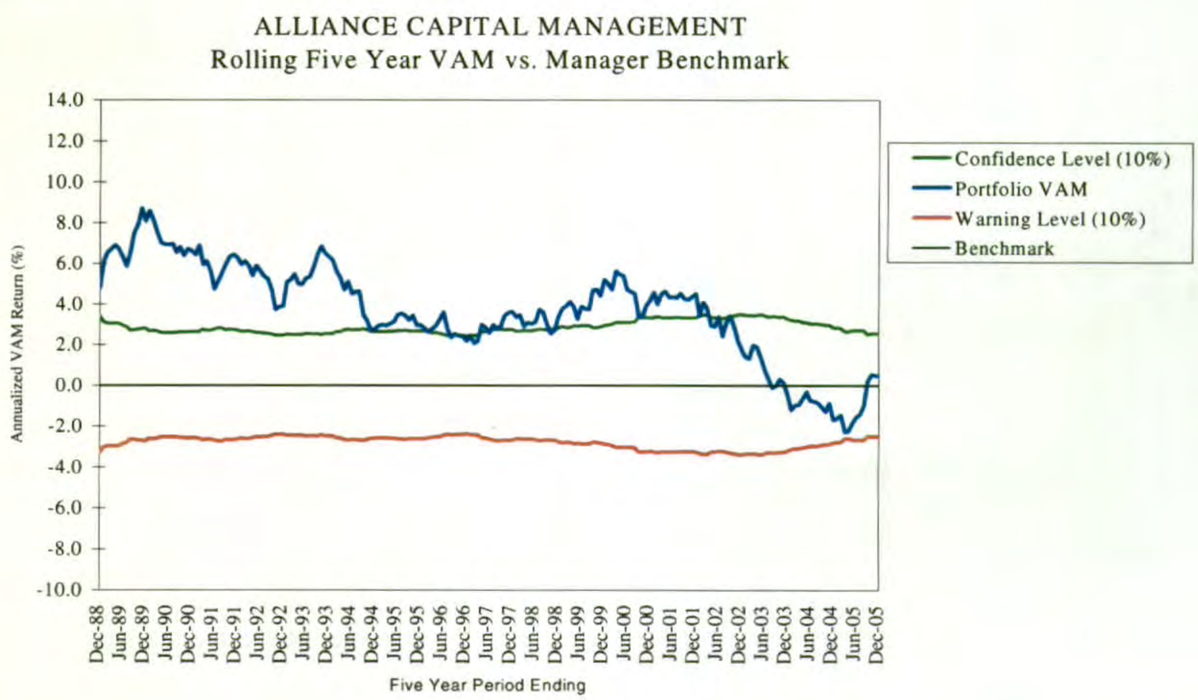
Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Jack Koltes **Assets Under Management: $528,820,003**





COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2005

Portfolio Manager: George Cohen **Assets Under Management: $420,534,508**

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 underperformed the Russell 1000 Growth index by 0.1 percentage point (ppt) during the quarter. Overweight allocations to electronic technology and retail trade coupled with weak stock selection negatively impacted performance. Lack of exposure to health services represented a missed opportunity as the sector outperformed.

For the year, the portfolio underperformed the Russell 1000 Growth index by 4.4 ppt. Overweight positions in electronic technology, consumer services, and consumer non-durables detracted from performance. Weak stock selection enhanced the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	2.9%	3.0%	3.0%
Last 1 year	-0.9	5.3	5.3
Last 2 years	2.5	5.8	5.8
Last 3 years	14.1	13.2	15.9
Last 4 years	-0.9	1.2	4.4
Last 5 years	-6.3	-3.6	1.1
Since Inception (4/94)	9.1	9.2	11.0

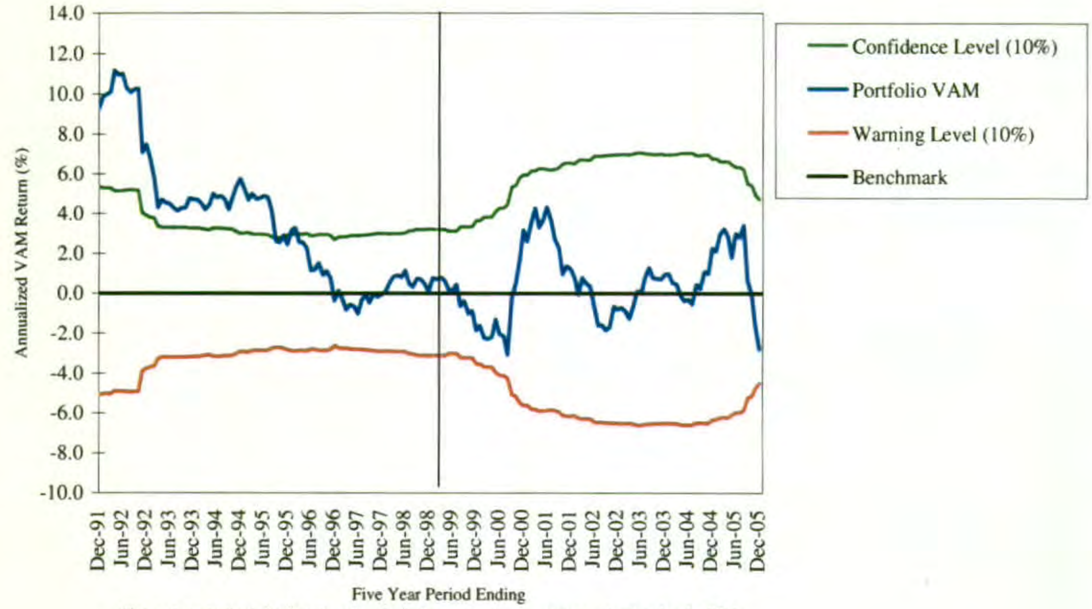
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	-0.9%	5.3%	5.3%
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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 2005

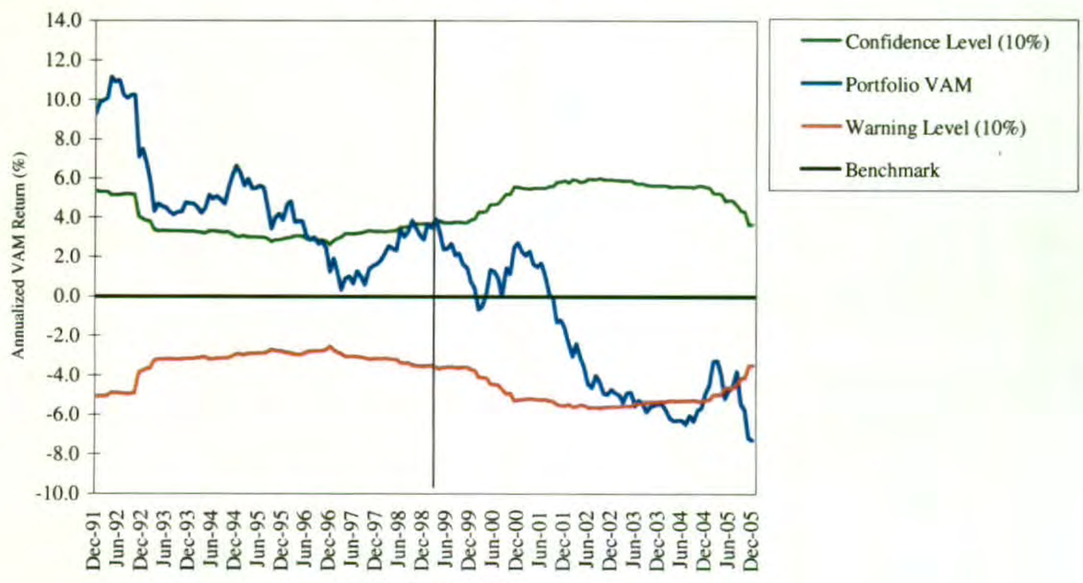
Portfolio Manager: George Cohen — **Assets Under Management: $420,534,508**

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



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

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



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

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2005

Portfolio Manager: Ryan Erickson **Assets Under Management: $79,198,380**

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 outperformed the Russell 1000 Growth index by 1.0 percentage point during the quarter. Underweight allocations to health technology and consumer services proved beneficial. Strong stock selection within these sectors enhanced the positive impact.

During the quarter, Senior Portfolio Manager Ryan Erickson, CFA, was promoted to CIO. Erickson replaces Kristin Yates, who is no longer an employee of the firm. Staff continues to have confidence in Erickson's investment management capabilities and will continue to monitor the situation closely.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	4.0%	3.0%	3.0%
Last 1 year	1.5	5.3	5.3
Last 2 years	4.4	5.8	5.8
Last 3 years	10.0	13.2	13.7
Last 4 years	-1.1	1.2	4.4
Last 5 years	-1.2	-3.6	4.5
Since Inception (7/00)	-2.3	-8.3	3.6

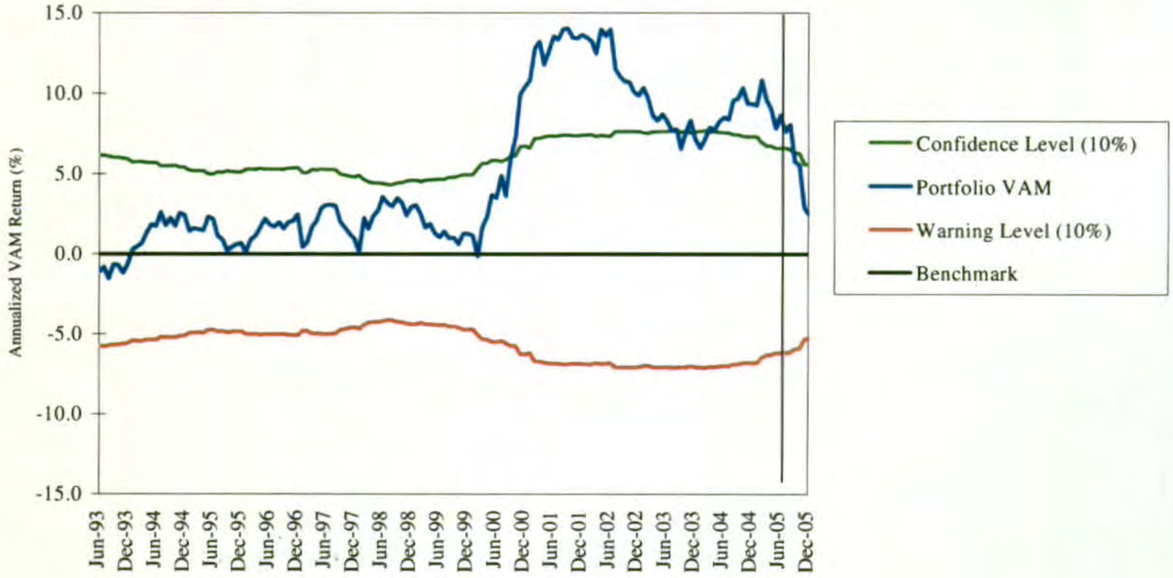
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	1.5%	5.3%	5.3%
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

HOLT-SMITH & YATES ADVISORS
Periods Ending December, 2005

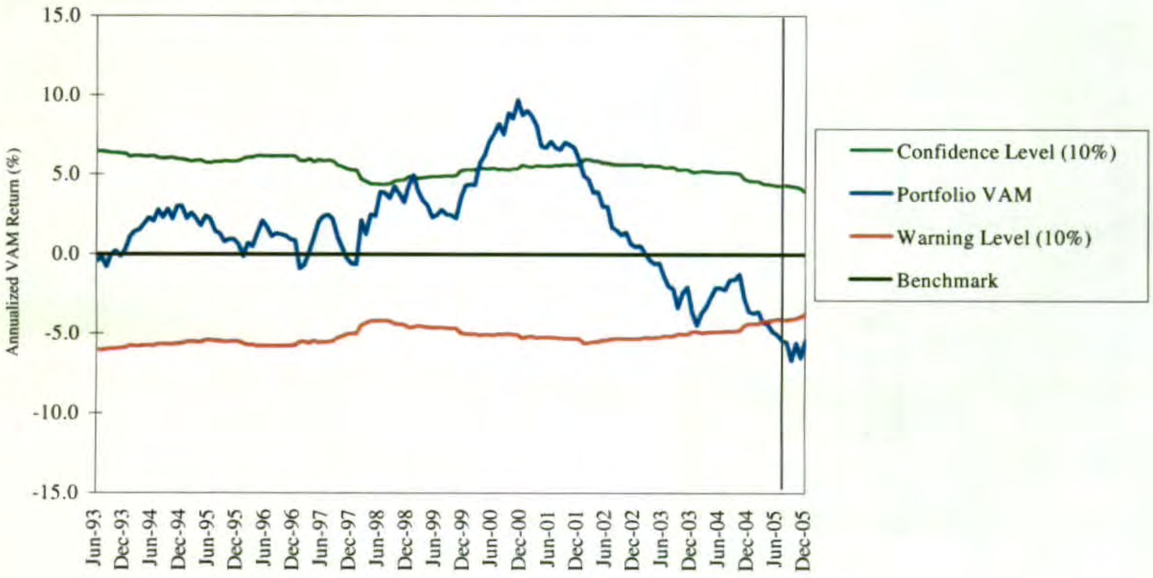
Portfolio Manager: Ryan Erickson **Assets Under Management: $79,198,380**

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



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

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



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

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending December, 2005

Portfolio Manager: Robert Fernholz **Assets Under Management: $ 300,546,198**

Investment Philosophy

Through the application of a proprietary mathematical process, the investment strategy is designed to determine more efficient weightings of the securities within the Russell 1000 Growth benchmark. No specific sector or security selection decisions based on fundamentals are required. Risk parameters include: 1) minimize absolute standard deviation or maximize information ratio, 2) security positions limited to lesser of 2.5% or 10 times maximum index security weight, and 3) beta equal to or less than benchmark beta. Target security positions are established using an optimization routine designed to build a portfolio that will outperform a passive benchmark over the long term. Rebalancing to target proportions occurs every six (6) business days, and partial re-optimization occurs weekly.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	3.9%	3.0%	3.0%
Last 1 year	7.8	5.3	5.3
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 (1/05)	7.8	5.3	5.3

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	7.8%	5.3%	5.3%
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

INTECH (ENHANCED INVESTMENT TECHNOLOGIES, LLC)
Periods Ending December, 2005

Portfolio Manager: Robert Fernholz **Assets Under Management: $300,546,198**

VAM Graphs will be drawn for period ending 3/31/07.

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Bruce Jacobs and Ken Levy | **Assets Under Management: $124,302,716**

Investment Philosophy

The strategy combines human insight and intuition, finance and behavioral theory, and state-of-the-art quantitative and statistical methods. Security expected returns generated from numerous models become inputs for the firm's proprietary portfolio optimizer. The optimizer is run daily with the objective of maximizing the information ratio, while ensuring proper diversification across market inefficiencies, securities, industries, and sectors. Extensive data scrubbing is conducted on a daily basis using both human and technology resources. Liquidity, trading costs, and investor guidelines are incorporated within the optimizing process.

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 0.9 percentage point during the quarter. Strong overall stock selection contributed to performance, and was particularly effective within the electronic technology, consumer non-durables and health technology sectors.

For the year, the portfolio matched the return of the Russell 1000 Growth index. The portfolio benefited from an underweight allocation to consumer services coupled with strong stock selection. An underweight position in technology services represented a missed opportunity as the sector outperformed. Weak stock selection enhanced the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	3.9%	3.0%	3.0%
Last 1 year	5.3	5.3	5.3
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 (1/05)	5.3	5.3	5.3

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	5.3%	5.3%	5.3%
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

JACOBS LEVY EQUITY MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Bruce Jacobs and Ken Levy **Assets Under Management: $124,302,716**

VAM Graphs will be drawn for period ending 3/31/07

LAZARD ASSET MANAGEMENT LLC
Periods Ending December, 2005

Portfolio Manager: Jim Tatera **Assets Under Management: $27,709,832**

Investment Philosophy

The strategy invests in companies exhibiting substantial growth opportunities, strong business models, solid management teams, and the probability for positive earnings surprises. The approach emphasizes earnings growth as the fundamental driver of stock prices over time. The process combines quantitative, qualitative and valuation criteria. The quantitative component addresses fundamentals and is focused on operating trends. Qualitative analysis involves confirmation of company fundamentals through discussions with company contacts and related parties. Valuation models focus on relative rankings of the fundamentals within the industry, the market overall and the company itself.

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 2.0 percentage points (ppt) during the quarter. For the year, the portfolio outperformed the Russell 1000 Growth index by 1.3 ppt. In both periods, an underweight allocation to health technology coupled with strong stock selection contributed to performance. An overweight allocation to finance along with effective stock selection proved beneficial.

Staff conducted a site visit during the quarter. Philosophy, process, and performance were reviewed in detail, as well as the resources provided by Lazard to the Minneapolis team. The team has spent time educating the Lazard sales & marketing staff on their product.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	5.0%	3.0%	3.0%
Last 1 year	6.6	5.3	5.3
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 (1/05)	6.6	5.3	5.3

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	6.6%	5.3%	5.3%
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

LAZARD ASSET MANAGEMENT LLC
Periods Ending December, 2005

Portfolio Manager: Jim Tatera | **Assets Under Management: $27,709,832**

VAM Graphs will be drawn for period ending 3/31/07

SANDS CAPITAL MANAGEMENT LLC
Periods Ending December, 2005

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $220,630,863**

Investment Philosophy

The manager invests in high-quality, seasoned and growing businesses. Bottom-up, company-focused, long-term oriented research is the cornerstone of the investment process. The strategy focuses on six (6) key investment criteria: 1) sustainable above average earnings growth; 2) leadership position in a promising business space; 3) significant competitive advantages or unique business franchise; 4) management with a clear mission and value added focus; 5) financial strength; and 6) rational valuation relative to the overall market and the company's business prospects.

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 4.1 percentage points (ppt) during the quarter. For the year, the portfolio outperformed the Russell 1000 Growth index by 5.6 ppt. In both periods, strong overall stock selection contributed to performance, and was particularly effective within the technology services and health technology sectors.

During the quarter the firm completed its restructuring from an S-corporation to an LLC. The LLC structure will allow true employee equity ownership and is expected to aid in staff retention.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	7.1%	3.0%	3.0%
Last 1 year	10.9	5.3	5.3
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 (1/05)	10.9	5.3	5.3

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	10.9%	5.3%	5.3%
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

SANDS CAPITAL MANAGEMENT LLC
Periods Ending December, 2005

Portfolio Manager: Frank Sands, Sr. **Assets Under Management: $220,630,863**

VAM Graphs will be drawn for period ending 3/31/07

WINSLOW CAPITAL MANAGEMENT, INC.
Periods Ending December, 2005

Portfolio Manager: Clark Winslow **Assets Under Management: $28,697,151**

Investment Philosophy

The strategy identifies companies that can grow earnings above consensus expectations to build portfolios with forward weighted earnings growth in the range of 15-20% annually. A quantitative screen is employed for factors such as revenue and earnings growth, return on invested capital, earnings consistency, earnings revisions, low financial leverage and high free cash flow rates relative to net income. Resulting companies are subjected to a qualitative assessment within the context of industry sectors. Detailed examination of income statements, cash flow and balance sheet projections is conducted, along with a judgment on the quality of management. Attractively valued stocks are chosen based on P/E relative to the benchmark, sector peers, the company's sustainable future growth rate and return on invested capital. Final portfolio construction includes diversification by economic sectors, earnings growth rates, price/earnings ratios and market capitalizations.

Staff Comments

The portfolio outperformed the Russell 1000 Growth index by 0.8 percentage point (ppt) during the quarter. For the year, the portfolio outperformed the Russell 1000 Growth index by 5.2 ppt. In both periods, strong stock selection within technology services contributed to performance. Additionally, an overweight allocation to health services coupled with strong stock selection proved beneficial.

Staff conducted a site visit during the quarter. Philosophy, process, organization and performance were reviewed in detail. The strategy continues to gain high ratings from various consulting firms, and Winslow is now a manager within one of Russell's manager-of-manager funds.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	3.8%	3.0%	3.0%
Last 1 year	10.5	5.3	5.3
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 (1/05)	10.5	5.3	5.3

Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	10.5%	5.3%	5.3%
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

Portfolio Manager: Clark Winslow **Assets Under Management: $28,697,151**

VAM Graphs will be drawn for period ending 3/31/07

ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2005

Portfolio Manager: Nancy Zevenbergen | **Assets Under Management: $229,253,019**

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 3.9 percentage points (ppt) for the quarter. Strong stock selection within the electronic technology and consumer services sectors contributed to performance. For the year, the portfolio outperformed the Russell 1000 Growth index by 3.7 ppt. Strong stock selection within the technology services, retail trade, electronic technology and health technology sectors aided returns.

Staff conducted a site visit during the quarter. Philosophy, process, organization, and 3Q05 performance were reviewed in detail. The firm had no exposure to energy at that time, and no plans to add it in the future. The team indicated that the PE spread between growth and value is very narrow and large caps are looking a bit more expensive than other market caps.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Growth	Manager Benchmark
Last Quarter	6.9%	3.0%	3.0%
Last 1 year	9.0	5.3	5.3
Last 2 years	11.0	5.8	5.8
Last 3 years	22.6	13.2	13.7
Last 4 years	4.1	1.2	2.7
Last 5 years	-3.6	-3.6	1.5
Since Inception (4/94)	10.5	9.2	12.4

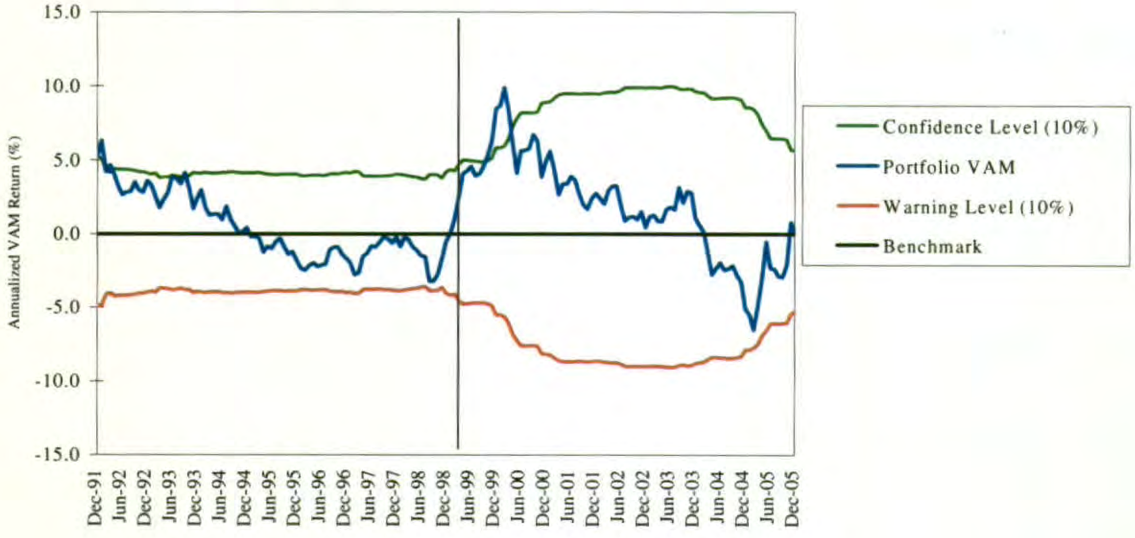
Calendar Year Returns

	Actual	Russell 1000 Growth	Manager Benchmark
2005	9.0%	5.3%	5.3%
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

ZEVENBERGEN CAPITAL INC.
Periods Ending December, 2005

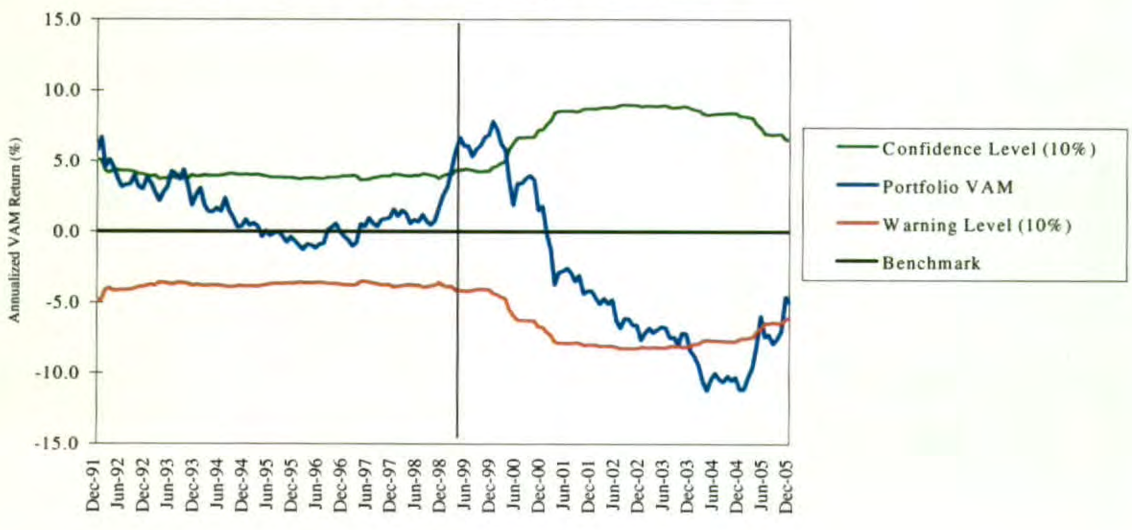
Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $229,253,019**

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



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

Zevenbergen Capital Management
Rolling Five Year VAM vs. Manager Benchmark



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

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Large Cap Value (R1000 Value)

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Large Cap Value (R1000 Value)

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BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.
Periods Ending December, 2005

Portfolio Manager: Tim Culler | **Assets Under Management: $311,965,351**

Investment Philosophy

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

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	-0.5%	1.3%	1.3%
Last 1 year	9.6	7.1	7.1
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 (4/04)	14.4	11.5	11.5

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	9.6%	7.1%	7.1%
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

* 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: Tim Culler **Assets Under Management: $311,965,351**

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

EARNEST PARTNERS, LLC
Periods Ending December, 2005

Portfolio Manager: Paul Viera **Assets Under Management: $69,809,091**

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

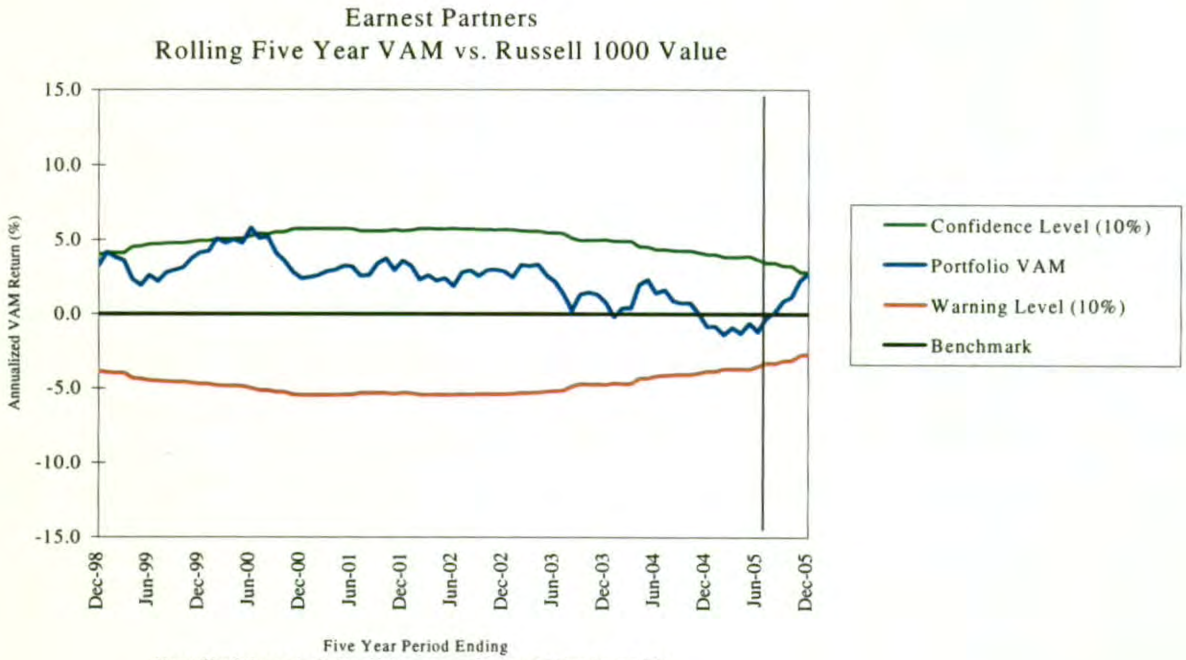
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	2.5%	1.3%	1.3%
Last 1 year	15.6	7.1	7.1
Last 2 years	17.2	11.7	11.7
Last 3 years	22.0	17.5	20.9
Last 4 years	10.4	8.2	11.8
Last 5 years	8.2	5.3	11.7
Since Inception (7/00)	6.1	6.9	13.3

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	15.6%	7.1%	7.1%
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

EARNEST PARTNERS, LLC
Periods Ending December, 2005

Portfolio Manager: Paul Viera **Assets Under Management: $69,809,091**



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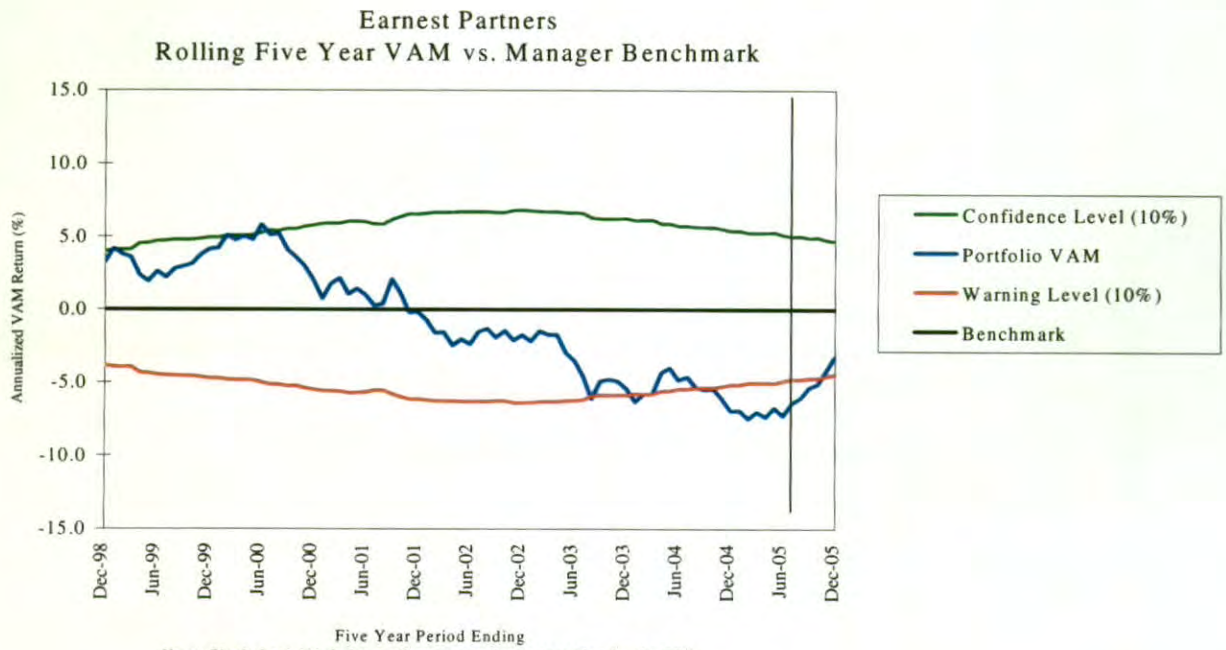


Note: Shaded area includes performance prior to retention by the SBI.

LORD ABBETT & CO. LLC
Periods Ending December, 2005

Portfolio Manager: Eli Saltzmann **Assets Under Management: $282,697,964**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	2.4%	1.3%	1.3%
Last 1 year	3.5	7.1	7.1
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 (4/04)	8.1	11.5	11.5

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	3.5%	7.1%	7.1%
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

* 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: $282,697,964**

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

LSV ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Josef Lakonishok **Assets Under Management: $379,359,284**

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.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.1%	1.3%	1.3%
Last 1 year	12.5	7.1	7.1
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 (4/04)	15.5	11.5	11.5

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	12.5%	7.1%	7.1%
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

* 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.

Staff Comments

The portfolio underperformed the Russell 1000 Value index by 0.2 percentage point (ppt) during the quarter. An overweight position in energy minerals pressured returns. An underweight allocation to finance detracted from performance.

For the year, the portfolio outperformed the Russell 1000 Value index by 5.4 ppts. An overweight position in energy minerals coupled with strong stock selection proved beneficial. Strong stock selection within the utilities and electronic technology sectors contributed to performance.

Recommendation

No action required.

LSV ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Josef Lakonishok **Assets Under Management: $379,359,284**

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

OPPENHEIMER CAPITAL
Periods Ending December, 2005

Portfolio Manager: John Lindenthal **Assets Under Management: $777,306,254**

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

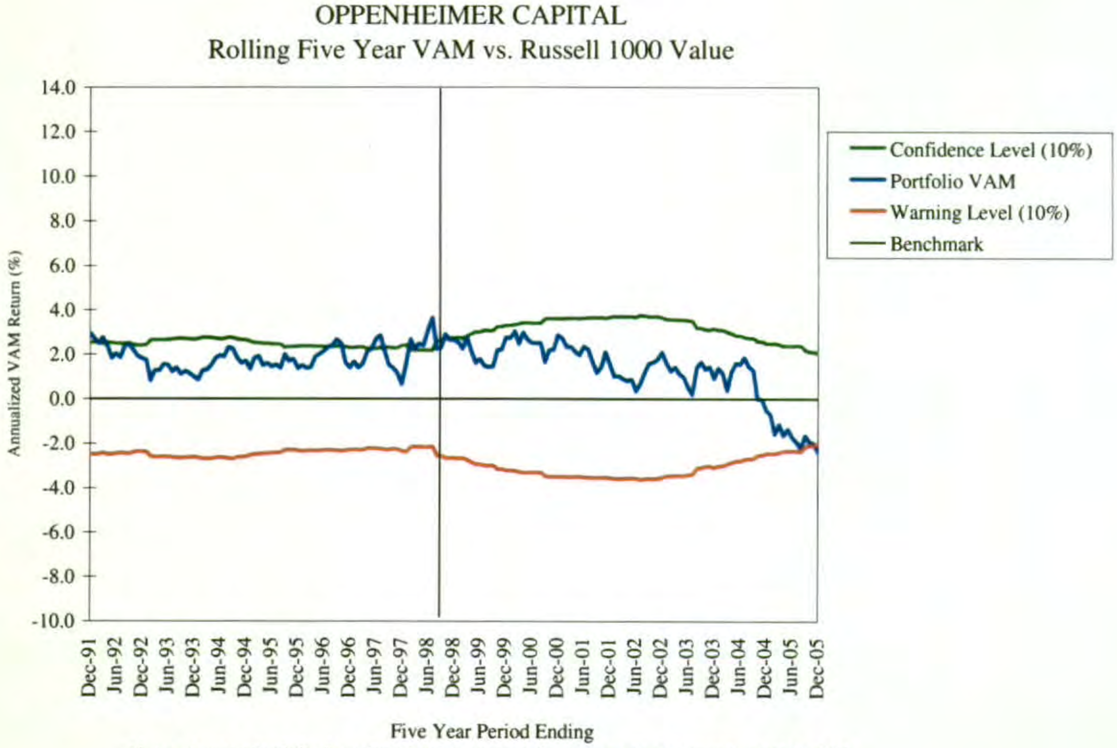
	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	1.9%	1.3%	1.3%
Last 1 year	1.0	7.1	7.1
Last 2 years	6.4	11.7	11.7
Last 3 years	13.4	17.5	17.9
Last 4 years	5.4	8.2	6.8
Last 5 years	2.8	5.3	3.3
Since Inception (7/93)	12.5	11.7	12.3

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	1.0%	7.1%	7.1%
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

OPPENHEIMER CAPITAL
Periods Ending December, 2005

Portfolio Manager: John Lindenthal **Assets Under Management: $777,306,254**



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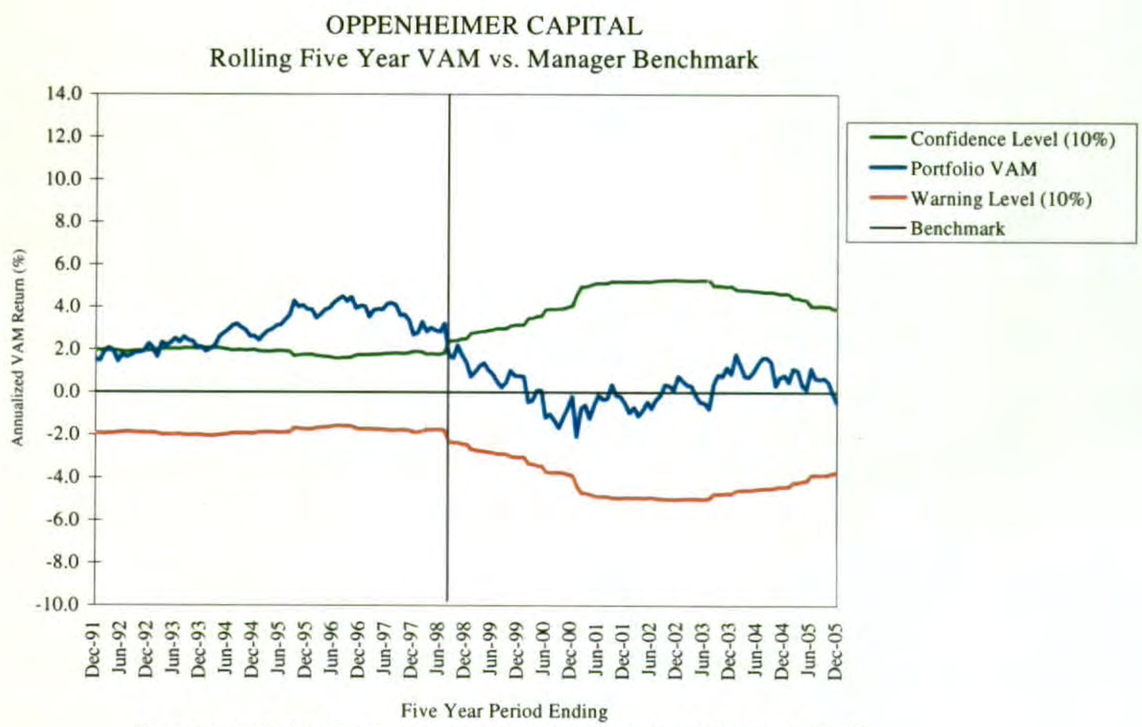

Note: Area to the left of vertical line includes performance prior to retention by the SBI.

SYSTEMATIC FINANCIAL MANAGEMENT, L.P.
Periods Ending December, 2005

Portfolio Manager: Kevin McCreesh | **Assets Under Management: $182,585,096**

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 underperformed the Russell 1000 Value index by 0.4 percentage point (ppt) during the quarter. Weak stock selection within the energy minerals sector detracted from performance. Underweight allocations to process industries and technology services represented missed opportunities as the sectors outperformed; weak stock selection enhanced the negative impact.

For the year the portfolio outperformed the Russell 1000 Value index by 3.2 ppts. Despite underweight allocations to finance and energy minerals, strong stock selection in these sectors contributed to performance.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 1000 Value	Manager Benchmark
Last Quarter	0.9%	1.3%	1.3%
Last 1 year	10.3	7.1	7.1
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 (4/04)	12.9	11.5	11.5

Calendar Year Returns

	Actual	Russell 1000 Value	Manager Benchmark
2005	10.3%	7.1%	7.1%
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

* 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, 2005

Portfolio Manager: Kevin McCreesh | **Assets Under Management: $182,585,096**

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

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Small Cap Growth (R2000) Growth

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Small Cap Growth (R2000 Growth)

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MCKINLEY CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $191,128,510**

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

Staff conducted a site visit during the quarter. The organization, investment philosophy & process, compliance, trading, and disaster recovery were reviewed in detail. Staff was impressed with the organization and the strategic focus on the business entity.

During the quarter, the firm hired John B. Guerard, Jr. into the role of Co-Director of Global Quantitative Research. Mr. Guerard has extensive experience as a practitioner and academic; his bio is included in the quarterly commentary.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	-1.8%	1.6%	1.6%
Last 1 year	0.2	4.2	4.2
Last 2 years	6.0	9.1	9.1
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)	6.0	9.1	9.1

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2005	0.2%	4.2%	4.2%
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

MCKINLEY CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Robert Gillam, Sr. **Assets Under Management: $191,128,510**

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

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2005

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $41,147,571**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

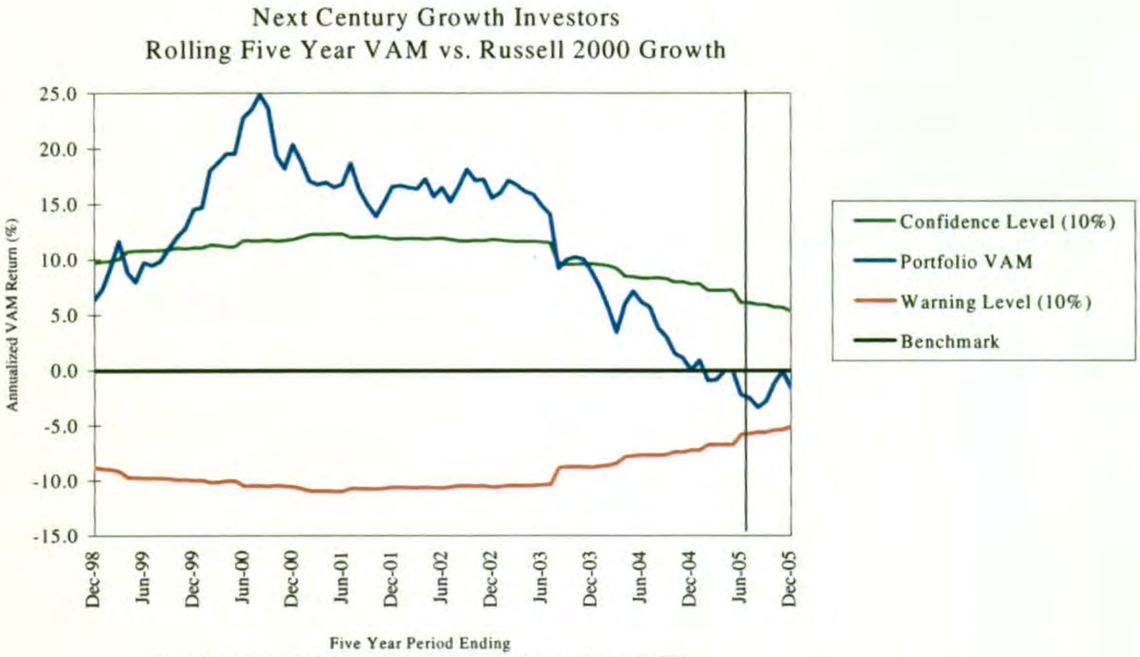
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	5.6%	1.6%	1.6%
Last 1 year	25.2	4.2	4.2
Last 2 years	15.4	9.1	9.1
Last 3 years	26.2	20.9	20.9
Last 4 years	7.6	5.4	6.3
Last 5 years	0.7	2.3	3.8
Since Inception (7/00)	-3.7	-2.7	-0.5

Calendar Year Returns

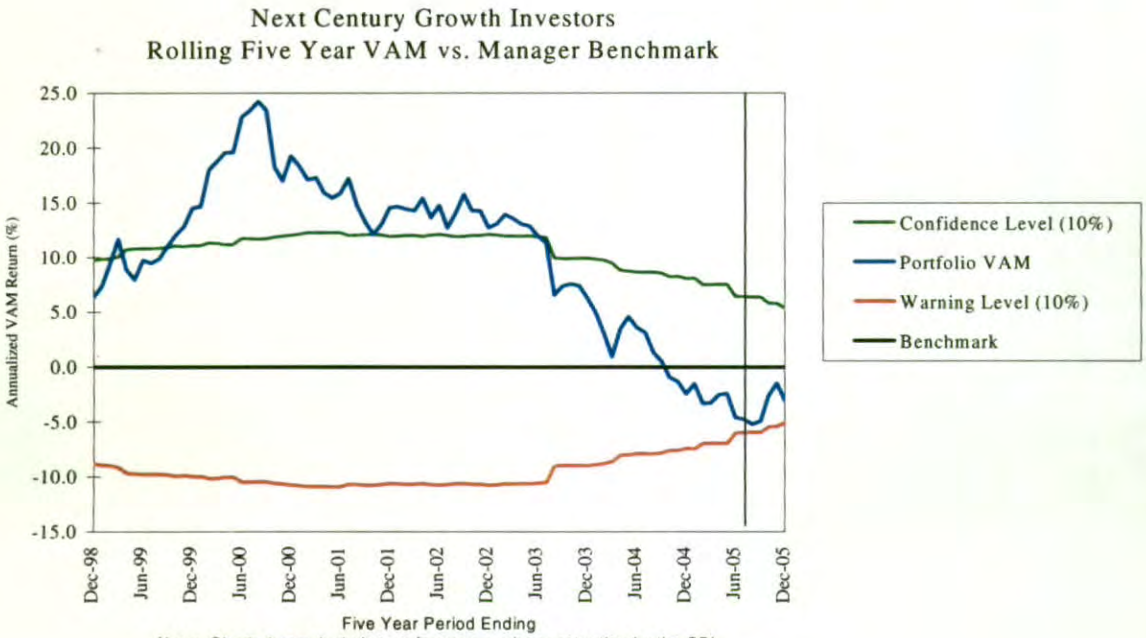
	Actual	Russell 2000 Growth	Manager Benchmark
2005	25.2%	4.2%	4.2%
2004	6.4	14.3	14.3
2003	50.7	48.5	48.5
2002	-33.3	-30.3	-27.8
2001	-22.8	-9.2	-5.5

NEXT CENTURY GROWTH INVESTORS, LLC
Periods Ending December, 2005

Portfolio Manager: Thomas Press and Don Longlet **Assets Under Management: $41,147,571**



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



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

SUMMIT CREEK ADVISORS, LLC
Periods Ending December, 2005

Portfolio Manager: Joseph Docter | **Assets Under Management: $145,393,499**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

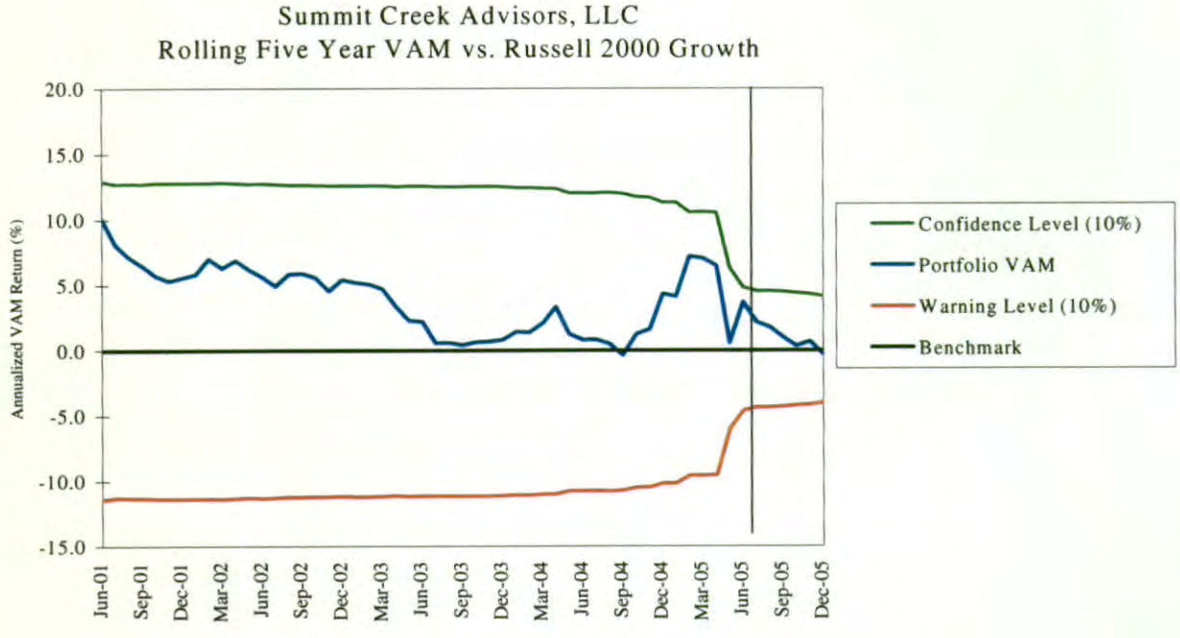
	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	0.2%	1.6%	1.6%
Last 1 year	4.4	4.2	4.2
Last 2 years	6.7	9.1	9.1
Last 3 years	16.1	20.9	21.7
Last 4 years	4.1	5.4	7.2
Last 5 years	2.0	2.3	6.7
Since Inception (7/00)	-0.2	-2.7	2.1

Calendar Year Returns

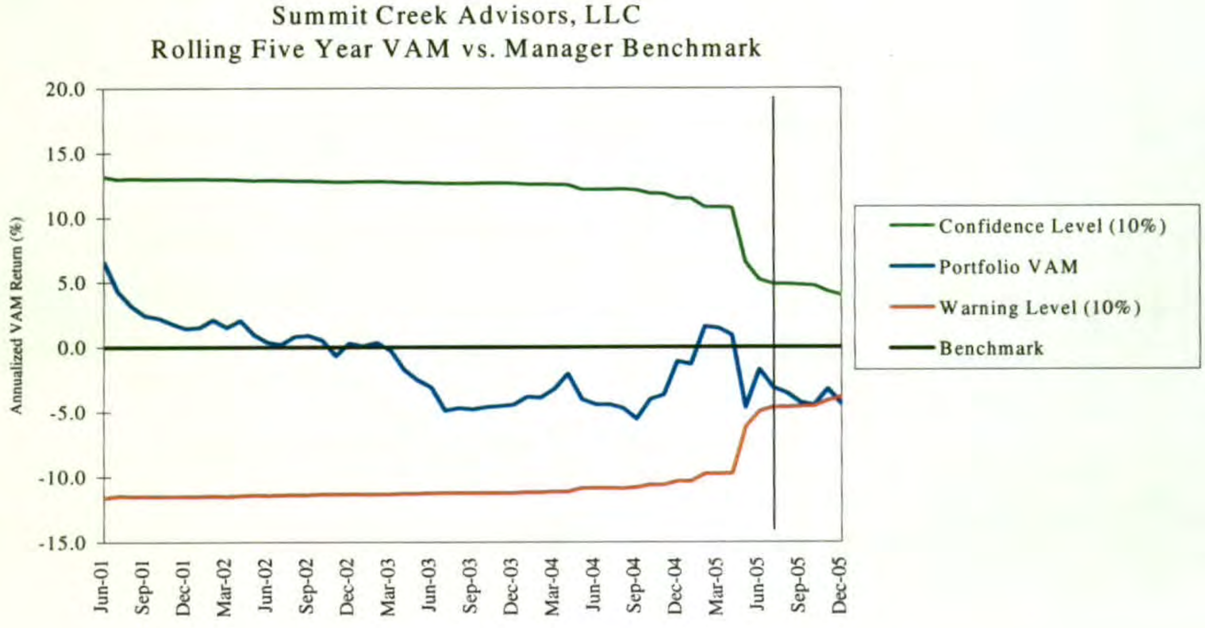
	Actual	Russell 2000 Growth	Manager Benchmark
2005	4.4%	4.2%	4.2%
2004	8.9	14.3	14.3
2003	37.6	48.5	51.3
2002	-25.0	-30.3	-26.7
2001	-6.1	-9.2	4.6

SUMMIT CREEK ADVISORS, LLC
Periods Ending December, 2005

Portfolio Manager: Joseph Docter | **Assets Under Management: $145,393,499**



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



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

TURNER INVESTMENT PARTNERS
Periods Ending December, 2005

Portfolio Manager: William McVail **Assets Under Management: $150,708,659**

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 outperformed the Russell 2000 Growth index by 1.4 percentage points (ppt) during the quarter. Strong stock selection supported returns, and was particularly effective within the finance, consumer non-durables, and retail trade sectors.

For the year, the portfolio outperformed the Russell 2000 Growth index by 2.0 ppt. Overall stock selection contributed to performance and was particularly strong within the commercial services, finance, and non-energy minerals sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Growth	Manager Benchmark
Last Quarter	3.0%	1.6%	1.6%
Last 1 year	6.2	4.2	4.2
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)	8.9	9.1	9.1

Calendar Year Returns

	Actual	Russell 2000 Growth	Manager Benchmark
2005	6.2%	4.2%	4.2%
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

Portfolio Manager: William McVail **Assets Under Management: $150,708,659**

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

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Small Cap Value (R2000 Value)

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Small Cap Value (R2000 Value)

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GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Chip Otness **Assets Under Management: $116,790,439**

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.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	3.0%	0.7%	0.7%
Last 1 year	4.1	4.7	4.7
Last 2 years	11.7	13.1	13.1
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)	11.7	13.1	13.1

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	4.1%	4.7%	4.7%
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

Staff Comments

No comment at this time.

Recommendation

No action required.

Portfolio Manager: Chip Otness **Assets Under Management: $116,790,439**

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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $131,211,067**

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

The portfolio outperformed the Russell 2000 Value index by 1.8 percentage points (ppt) during the quarter. Strong stock selection within the consumer non-durables sector aided returns. An underweight allocation to utilities coupled with strong stock selection contributed to performance.

For the year, the portfolio outperformed the Russell 2000 Value index by 5.7 ppt. Strong overall stock selection contributed to performance, and was particularly effective within the consumer, technology services, and process industries sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	2.5%	0.7%	0.7%
Last 1 year	10.4	4.7	4.7
Last 2 years	18.4	13.1	13.1
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)	18.4	13.1	13.1

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	10.4%	4.7%	4.7%
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

HOTCHKIS & WILEY CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Jim Miles and David Green **Assets Under Management: $131,211,067**

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

MARTINGALE ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: William Jacques | **Assets Under Management: $129,920,086**

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

The portfolio underperformed the Russell 2000 Value index by 1.4 percentage points (ppt) during the quarter. Weak overall stock selection, particularly within the consumer non-durables and process industries sectors, pressured returns.

For the year, the portfolio outperformed the Russell 2000 Value index by 1.5 ppt. Exposure to momentum and sustainable growth factors proved beneficial. Strong overall stock selection contributed to performance, and was particularly effective within the finance, electronic technology, and health technology sectors.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	-0.7%	0.7%	0.7%
Last 1 year	6.2	4.7	4.7
Last 2 years	17.9	13.1	13.1
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)	17.9	13.1	13.1

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	6.2%	4.7%	4.7%
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

Portfolio Manager: William Jacques **Assets Under Management: $129,920,086**

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

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $195,153,083**

Investment Philosophy

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

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

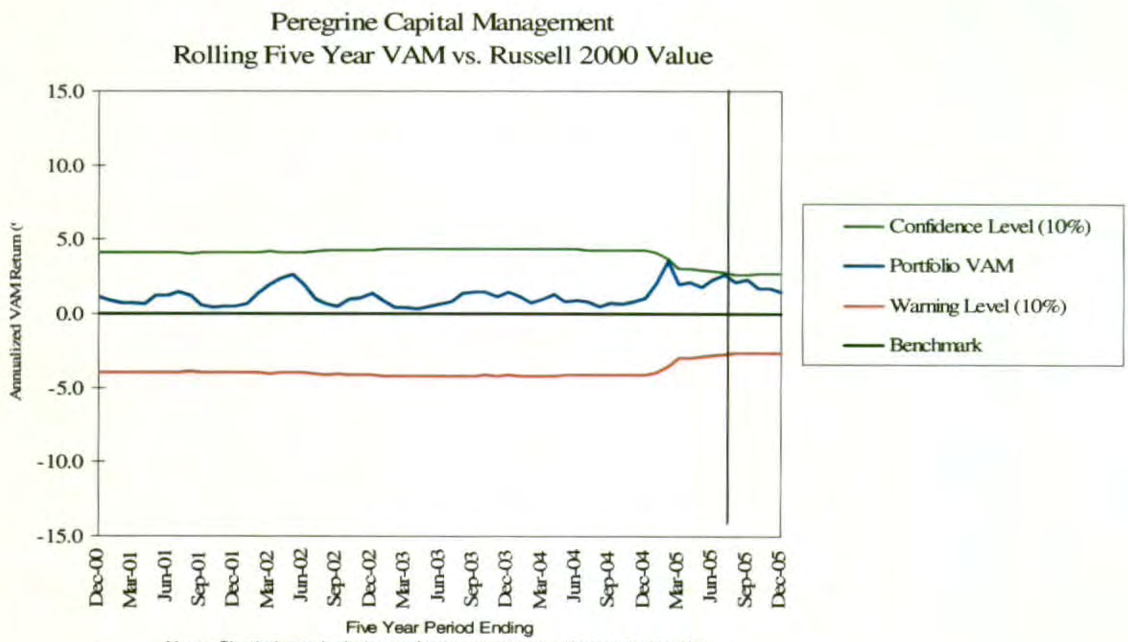
	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	1.6%	0.7%	0.7%
Last 1 year	10.1	4.7	4.7
Last 2 years	16.7	13.1	13.1
Last 3 years	25.2	23.2	22.7
Last 4 years	15.9	13.4	14.5
Last 5 years	15.2	13.6	16.1
Since Inception (7/00)	18.2	15.3	17.9

Calendar Year Returns

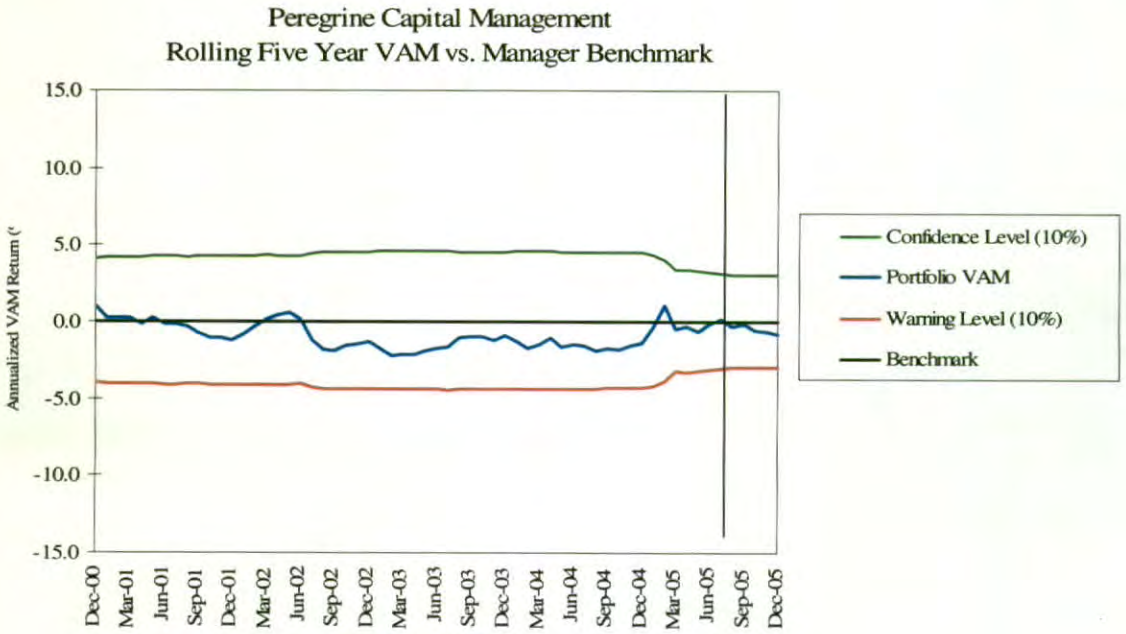
	Actual	Russell 2000 Value	Manager Benchmark
2005	10.1%	4.7%	4.7%
2004	23.6	22.2	22.2
2003	44.2	46.0	44.2
2002	-8.1	-11.4	-6.9
2001	12.6	14.0	22.9

PEREGRINE CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Doug Pugh and Tasso Coin **Assets Under Management: $195,153,083**



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



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

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $55,225,166**

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

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Russell 2000 Value	Manager Benchmark
Last Quarter	0.4%	0.7%	0.7%
Last 1 year	4.8	4.7	4.7
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)	14.8	13.1	13.1

Calendar Year Returns

	Actual	Russell 2000 Value	Manager Benchmark
2005	4.8%	4.7%	4.7%
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

RIVERSOURCE INVESTMENTS/KENWOOD CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Jacob Hurwitz and Kent Kelley **Assets Under Management: $55,225,166**

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

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Semi-Passive and Passive

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Semi-Passive and Passive

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BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2005

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,882,247,082**

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 0.6 percentage point (ppt) during the quarter. Strong overall stock selection positively impacted returns, and was particularly effective within the electronic technology, retail trade, and health care sectors. The earnings quality and sentiment themes added value.

For the year, the portfolio outperformed the Russell 1000 index by 1.3 ppt. Strong stock selection within the health technology and electronic technology sectors aided returns. An underweight position in consumer services, coupled with strong stock selection contributed to performance. The earnings quality and sentiment themes added value.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.7%	2.1%
Last 1 year	7.6	6.3
Last 2 years	9.6	8.8
Last 3 years	16.0	15.0
Last 4 years	6.1	5.1
Last 5 years	3.1	2.0
Since Inception (1/95)	11.2	10.4

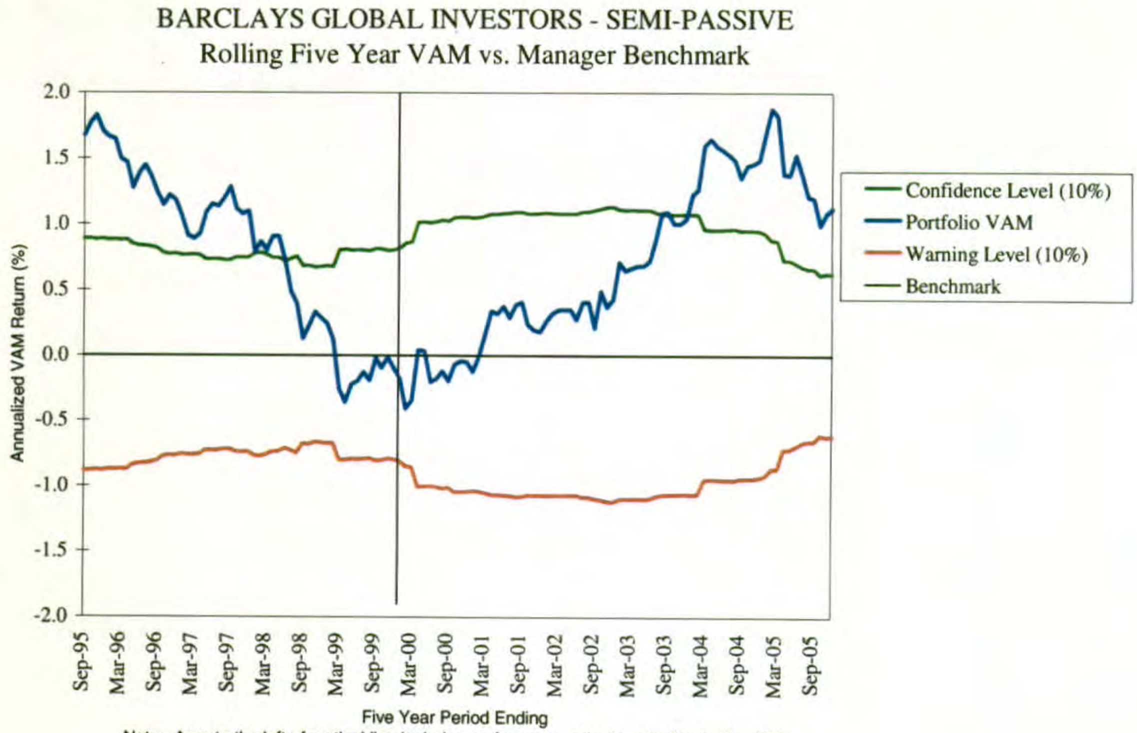
Calendar Year Returns

	Actual	Manager Benchmark*
2005	7.6%	6.3%
2004	11.7	11.4
2003	30.0	28.5
2002	-19.1	-19.7
2001	-7.8	-9.7

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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2005

Portfolio Manager: Rhonda Vitanye **Assets Under Management: $2,882,247,082**



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2005

Portfolio Manager: John Cone **Assets Under Management: $2,048,145,671**

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 outperformed the Russell 1000 index by 0.3 percentage point (ppt) during the quarter. Strong overall stock selection contributed to performance, and was particularly notable within the electronic technology and health technology sectors.

For the year, the portfolio underperformed the Russell 1000 index by 0.2 ppt. Underweight allocations to technology services and consumer non-durables represented missed opportunities as the sectors outperformed. Weak stock selection enhanced the negative impact.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.4%	2.1%
Last 1 year	6.1	6.3
Last 2 years	8.8	8.8
Last 3 years	14.5	15.0
Last 4 years	4.6	5.1
Last 5 years	1.8	2.0
Since Inception (1/95)	10.0	10.4

Calendar Year Returns

	Actual	Manager Benchmark*
2005	6.1%	6.3%
2004	11.7	11.4
2003	26.9	28.5
2002	-20.2	-19.7
2001	-9.0	-9.7

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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 2005

Portfolio Manager: John Cone | **Assets Under Management: $2,048,145,671**

FRANKLIN PORTFOLIO ASSOCIATES - 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.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending December, 2005

Portfolio Manager: Tim Devlin **Assets Under Management: $2,384,226,022**

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 0.1 percentage point (ppt) during the quarter. Strong overall stock selection was not enough to mitigate the impact of weak overall sector allocation decisions. For the year, the portfolio underperformed the Russell 1000 index by 1.6 ppt. Weak stock selection within the health technology and electronic technology sectors detracted from performance.

Bud Kroll, Global Head of Structured Equity, will begin a one-year leave of absence effective 2/1/06 and will assume a new role upon his return. Senior portfolio manager Ralph Zingone will become Head of the US Structured Equity portfolio team effective 2/1/06. Eric Remole, an external hire with significant experience, will become Head of Quantitative Research effective 2/1/06. Staff reviewed these changes; no adverse impact on the SBI portfolio is anticipated.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.0%	2.1%
Last 1 year	4.7	6.3
Last 2 years	8.2	8.8
Last 3 years	14.7	15.0
Last 4 years	4.2	5.1
Last 5 years	1.5	2.0
Since Inception (1/95)	10.4	10.4

Calendar Year Returns

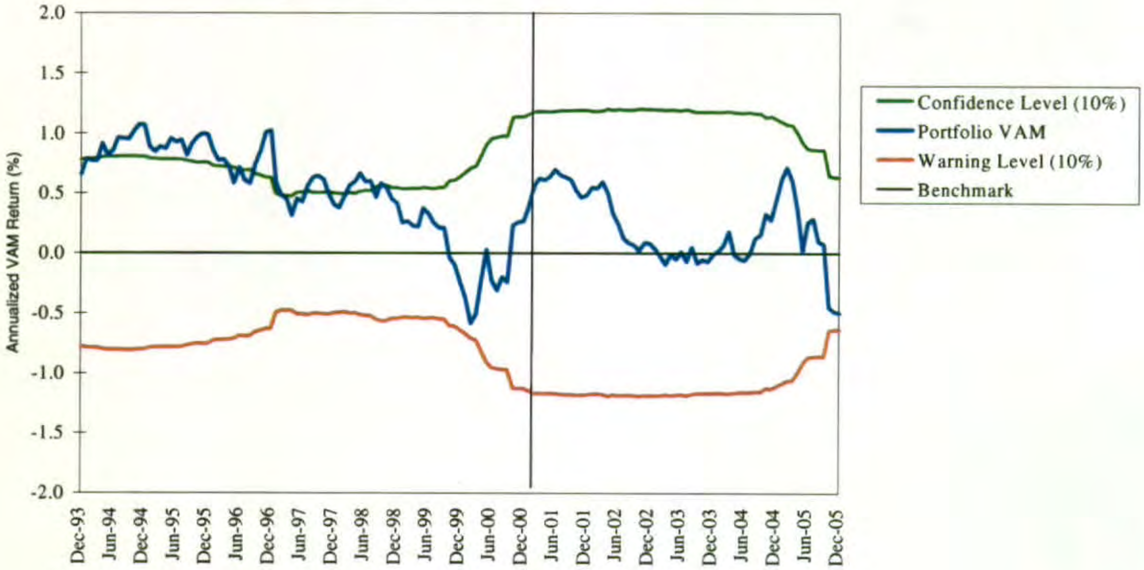
	Actual	Manager Benchmark*
2005	4.7%	6.3%
2004	11.7	11.4
2003	28.9	28.5
2002	-21.8	-19.7
2001	-8.7	-9.7

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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending December, 2005

Portfolio Manager: Tim Devlin **Assets Under Management: $2,384,226,022**

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



Five Year Period Ending

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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2005

Portfolio Manager: Amy Schioldager **Assets Under Management: $7,418,938,315**

Investment Philosophy – Passive Style

Barclays Global Investors seeks to minimize 1) tracking error, 2) transaction costs, and 3) investment and operational risks. The portfolio is passively managed against the asset class target using a proprietary optimization process that integrates a transaction cost model. The resulting portfolio closely matches the characteristics of the benchmark with less exposure to illiquid stocks.

Staff Comments

No comment at this time.

Recommendation

No action required.

Quantitative Evaluation

Period Returns
(Annualized for multi-year periods)

	Actual	Manager Benchmark*
Last Quarter	2.0%	2.0%
Last 1 year	6.2	6.1
Last 2 years	9.0	9.0
Last 3 years	15.9	16.0
Last 4 years	5.2	5.2
Last 5 years	1.5	1.6
Since Inception (7/95)	9.9	9.8

Calendar Year Returns

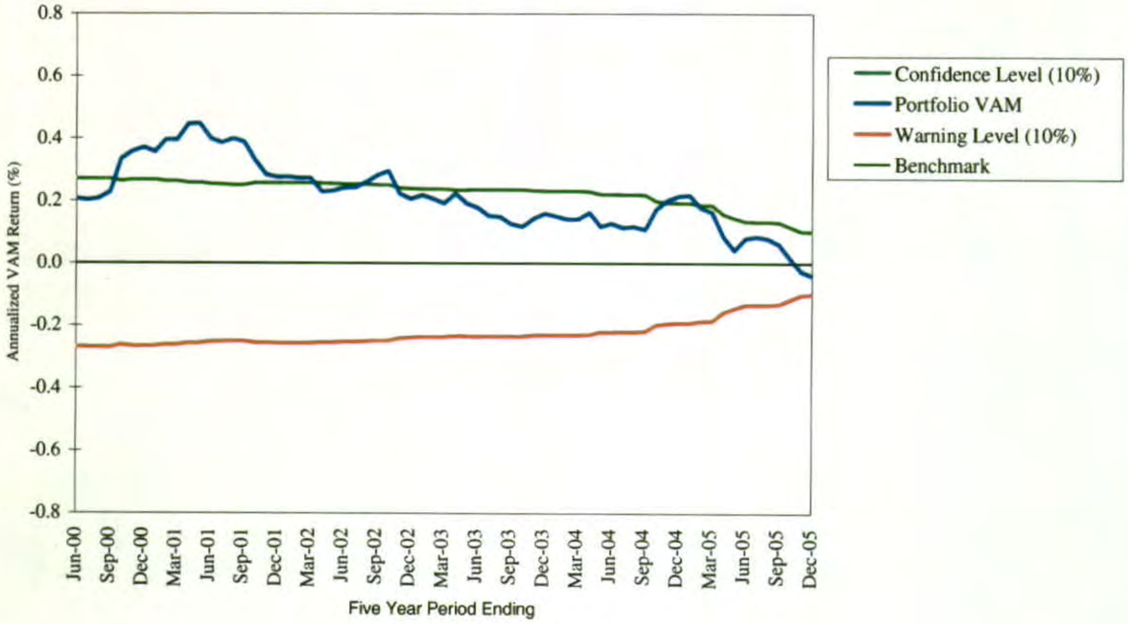
	Actual	Manager Benchmark*
2005	6.2%	6.1%
2004	12.0	11.9
2003	30.9	31.2
2002	-21.4	-21.5
2001	-11.8	-11.7

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

BARCLAYS GLOBAL INVESTORS
Periods Ending December, 2005

Portfolio Manager: Amy Schioldager **Assets Under Management: $7,418,938,315**

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



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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 2005

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COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending December, 2005

	Quarter		1 Year		3 Years		5 Years		Since (1) Inception		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
Aberdeen	0.5	0.6	2.7	2.4	4.4	3.6	6.5	5.9	7.4	6.9	$885.7	9.1%
Dodge & Cox	0.5	0.6	2.5	2.4	4.6	3.6	7.1	5.9	7.9	6.9	$901.7	9.3%
Morgan Stanley	0.9	0.6	4.1	2.4	4.6	3.6	6.5	5.9	9.5	9.1	$853.6	8.8%
RiverSource	0.6	0.6	2.6	2.4	4.0	3.6	5.2	5.9	6.2	6.3	$841.4	8.7%
Western	0.4	0.6	2.7	2.4	6.1	3.6	7.7	5.9	10.4	9.1	$1,380.5	14.2%
Semi-Passive Managers												
BlackRock	0.6	0.6	2.7	2.4	3.9	3.6	6.0	5.9	6.8	6.5	$1,617.0	16.6%
Goldman	0.6	0.6	2.8	2.4	4.5	3.6	6.3	5.9	6.6	6.3	$1,617.8	16.7%
Lehman	0.6	0.6	2.5	2.4	3.8	3.6	6.0	5.9	7.8	7.7	$1,614.3	16.6%
											$9,711.9	**100.0%**
									Since 7/1/84			
Historical Aggregate (2)	**0.6**	**0.6**	**2.8**	**2.4**	**4.5**	**3.6**	**6.3**	**5.9**	**9.2**	**9.0**		
Lehman Aggregate (3)		0.6		2.4		3.6		5.9		9.1		

(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.

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ABERDEEN ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Warren Davis **Assets Under Management: $885,653,721**

Investment Philosophy

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

Staff Comments

Aberdeen trailed the benchmark for the quarter due to the overweight position in the credit sector. The one-year return was helped by security selection in the credit sector, commercial mortgage-backed securities, and asset-backed securities.

Aberdeen Asset Management acquired Deutsche's UK-based institutional equity, fixed income, global equity, multi-asset and DWS Retail business, including the Philadelphia-based Active Fixed Income Business in November, as expected. There have been no changes to the Philadelphia-based Active Fixed Income Business.

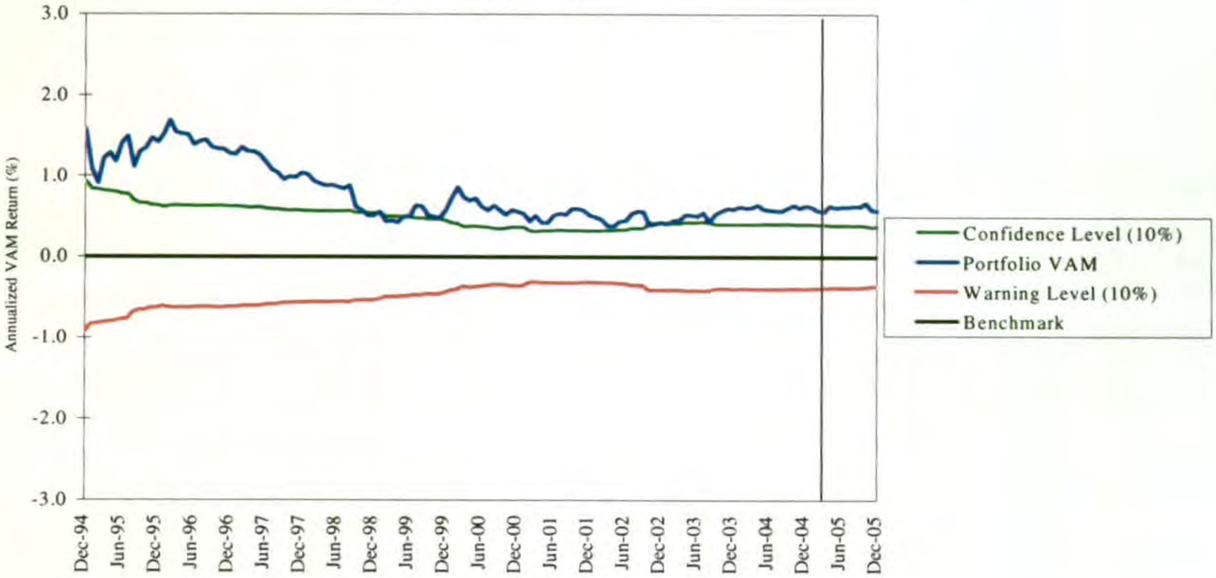
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	0.6%
Last 1 year	2.7	2.4
Last 2 years	3.9	3.4
Last 3 years	4.4	3.6
Last 4 years	5.8	5.2
Last 5 years	6.5	5.9
Since Inception (2/00)	7.4	6.9

Recommendations

No action required.

ABERDEEN ASSET MANAGEMENT
Rolling Five Year VAM



Five Year Period Ending

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

DODGE & COX INVESTMENT MANAGERS
Periods Ending December, 2005

Portfolio Manager: Dana Emery **Assets Under Management: $901,677,398**

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

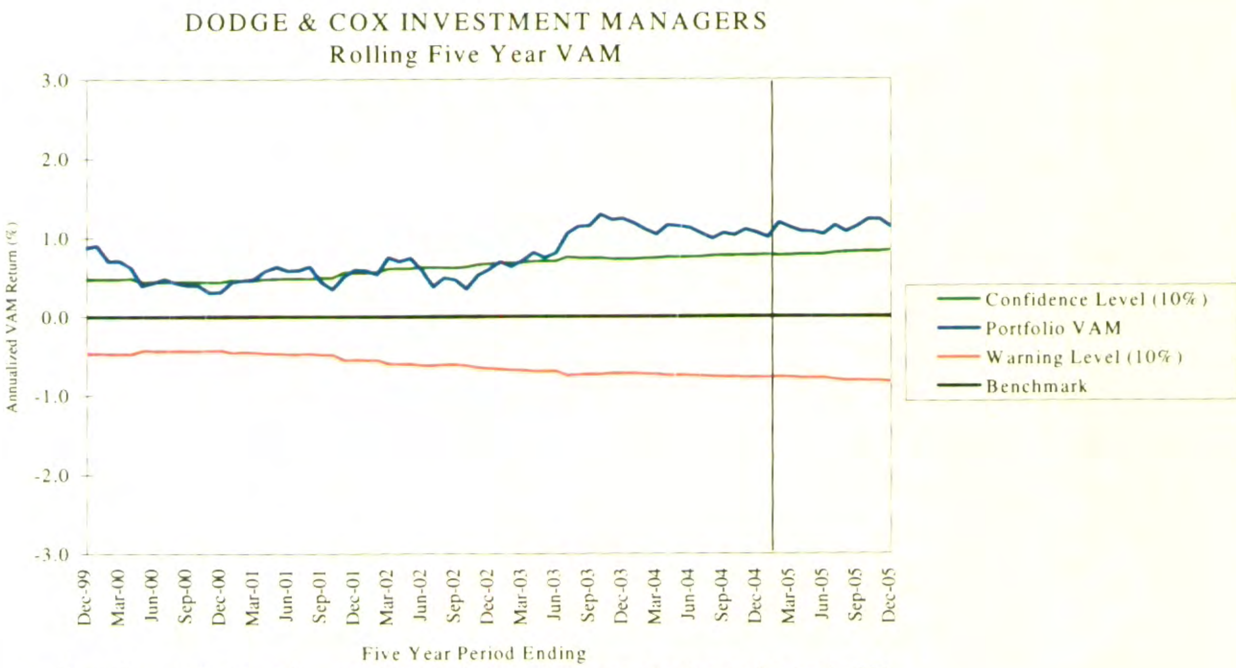
Dodge & Cox underperformed the quarterly benchmark. Security selection hurt performance, specifically Ford Motor Credit. The one-year outperformance was helped by their shorter effective duration and positioning along the yield curve.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	0.6%
Last 1 year	2.5	2.4
Last 2 years	3.3	3.4
Last 3 years	4.6	3.6
Last 4 years	6.2	5.2
Last 5 years	7.1	5.9
Since Inception (2/00)	7.9	6.9

Recommendations

No action required.



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

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: David Horowitz **Assets Under Management: $853,590,964**

Investment Philosophy

MSDW focuses on four key portfolio decisions: interest-rate sensitivity, yield-curve exposure, credit quality, and prepayment risk. The firm is a value investor, purchasing securities they believe are relatively cheap and holding them until relative values change or until other securities are identified which are better values. In developing interest-rate strategy, the firm relies on value-based criteria to determine when markets are offering generous compensation for bearing interest-rate risk, rather than trying to anticipate interest rates. Value is added in the corporate sector by selecting the cheapest bonds and controlling credit risk through diversification. MSDW has developed significant expertise in mortgage securities, which are often used to replace U.S. Treasuries in portfolios. Morgan Stanley was retained by the SBI in July 1984.

Staff Comments

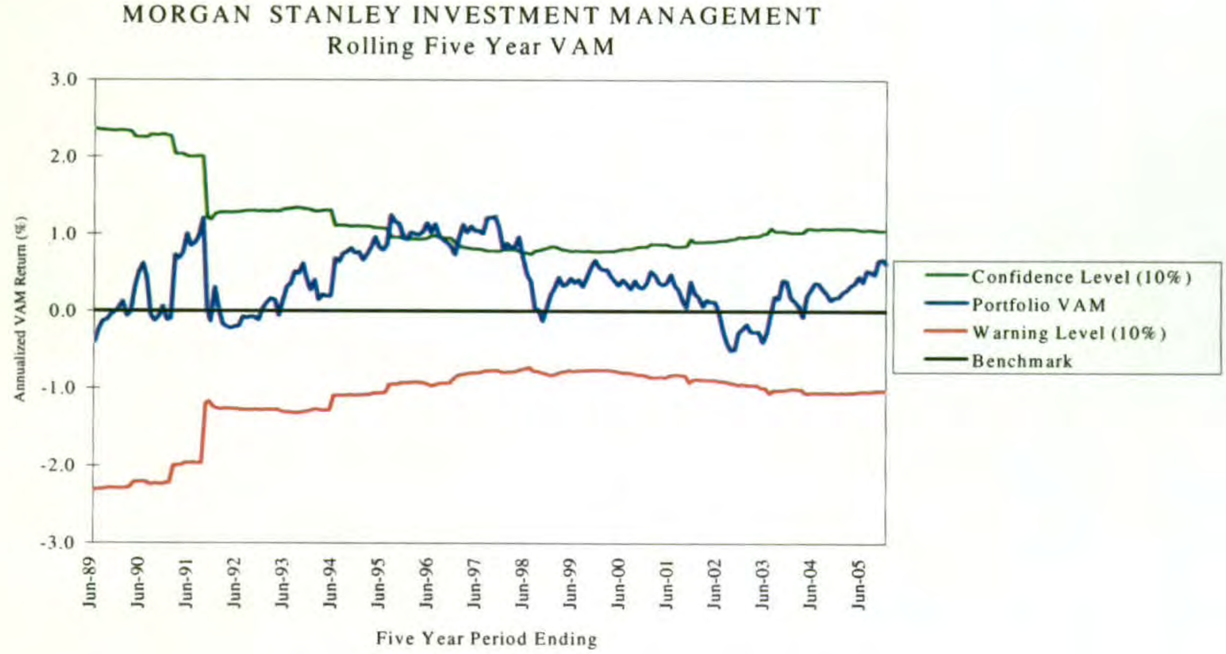
Morgan Stanley outperformed for the quarter and the year. The portfolio benefited from its below benchmark interest rate bet for both time periods as well as security selection in the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.6%
Last 1 year	4.1	2.4
Last 2 years	4.4	3.4
Last 3 years	4.6	3.6
Last 4 years	5.4	5.2
Last 5 years	6.5	5.9
Since Inception (7/84)	9.5	9.1

Recommendations

No action required.



RIVERSOURCE INVESTMENTS
Periods Ending December, 2005

Portfolio Manager: Colin Lundgren **Assets Under Management: $841,430,809**

Investment Philosophy

RiverSource (formerly American Express) manages portfolios using a top-down approach culminating with in-depth fundamental research and credit analysis. Five portfolio components are actively managed: duration, maturity structure, sector selection, industry emphasis, and security selection. Duration and maturity structure are determined by the firm's economic analysis and interest rate outlook. This analysis also identifies sectors and industries expected to produce the best risk adjusted return. In-depth fundamental research and credit analysis combined with proprietary valuation disciplines is used to identify attractive individual securities. RiverSource was retained by the SBI in July 1993.

Staff Comments

RiverSource matched the benchmark for the quarter and outperformed for the year. The quarterly performance was helped by its short duration position. The one-year outperformance was due to their positioning along the yield curve, short duration position, their allocation to high yield corporate bonds, and allocation to TIPS.

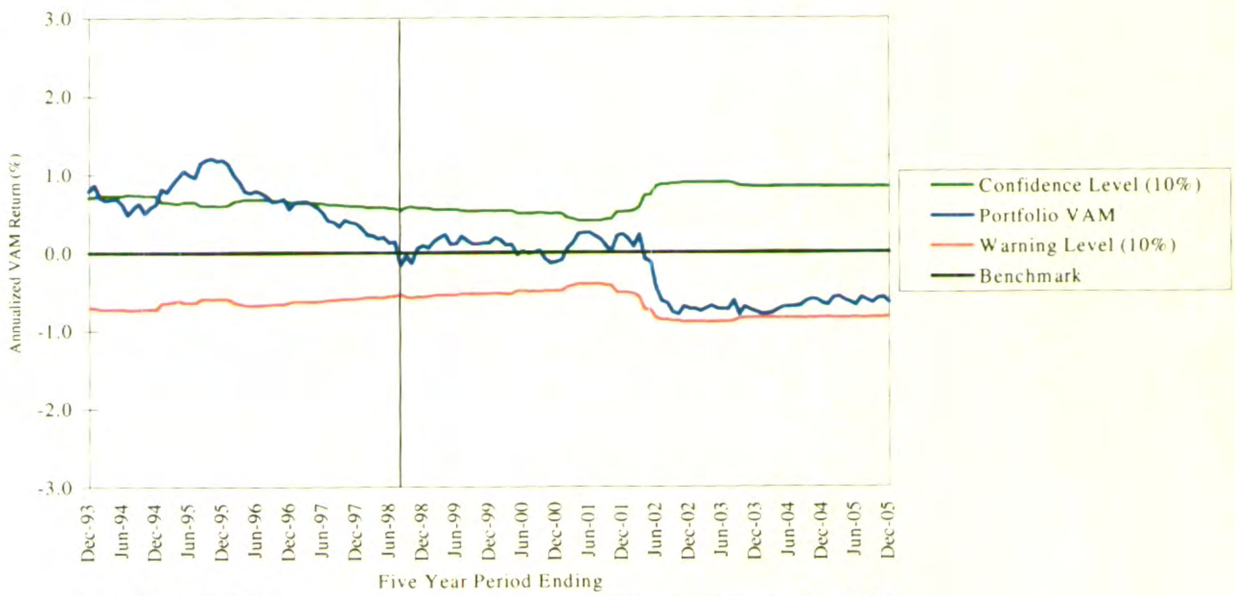
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	2.6	2.4
Last 2 years	3.8	3.4
Last 3 years	4.0	3.6
Last 4 years	4.4	5.2
Last 5 years	5.2	5.9
Since Inception (7/93)	6.2	6.3

Recommendations

No action required.

RIVERSOURCE INVESTMENTS - FIXED INCOME
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Ken Leech **Assets Under Management: $1,380,460,759**

Investment Philosophy

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

Staff Comments

Western trailed the quarterly benchmark but outperformed the one-year benchmark. The quarterly return was negatively impacted by their yield curve positioning and security selection in the credit sector. A modest exposure to high-yield and non-dollar sectors helped performance over the one-year period.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.6%
Last 1 year	2.7	2.4
Last 2 years	4.7	3.4
Last 3 years	6.1	3.6
Last 4 years	7.0	5.2
Last 5 years	7.7	5.9
Since Inception (7/84)	10.4	9.1

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM

BLACKROCK, INC.
Periods Ending December, 2005

Portfolio Manager: Keith Anderson **Assets Under Management: $1,616,987,401**

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 matched the quarterly benchmark and outperformed for the year. The short duration position, an overweight to asset-backed securities, and an underweight to corporates helped the one-year performance.

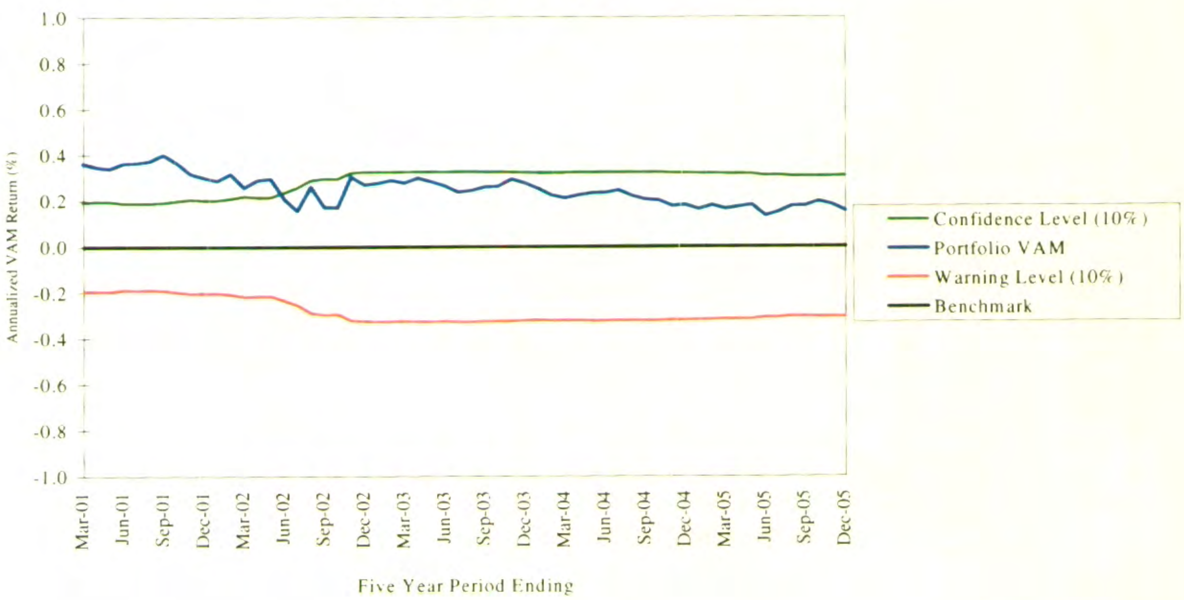
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	2.7	2.4
Last 2 years	3.6	3.4
Last 3 years	3.9	3.6
Last 4 years	5.4	5.2
Last 5 years	6.0	5.9
Since Inception (4/96)	6.8	6.5

Recommendation

No action required.

BLACKROCK, INC.
Rolling Five Year VAM



GOLDMAN SACHS ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Jonathon Beinner **Assets Under Management: $1,617,797,323**

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. Goldman outperformed for the year due to a short duration bias, mortgage security selection, and an underweight to corporates.

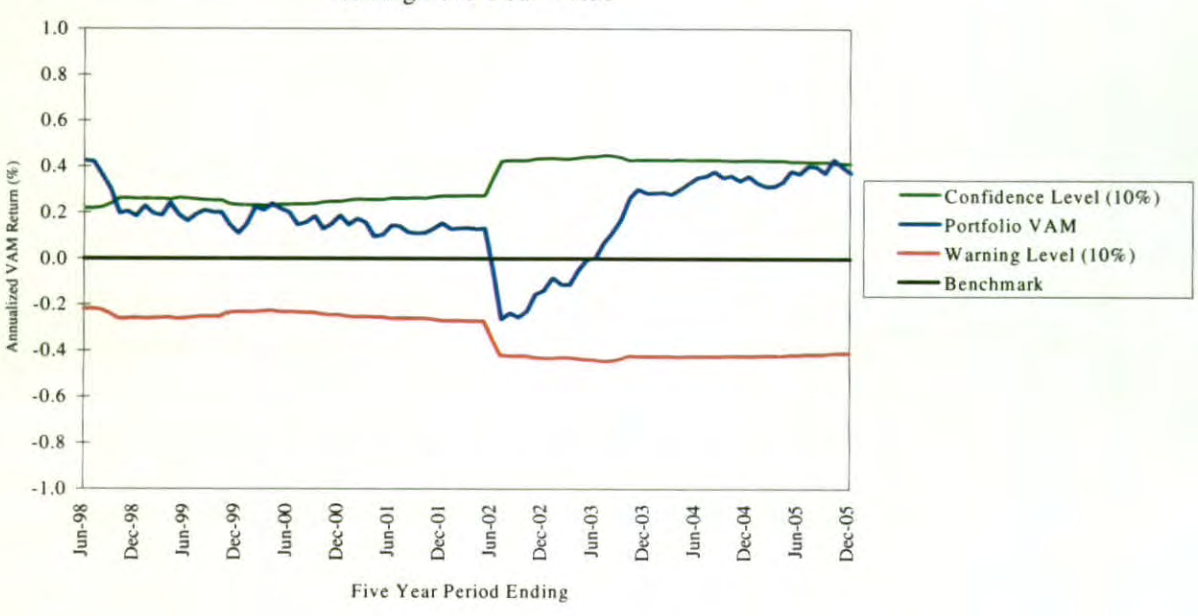
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	2.8	2.4
Last 2 years	3.9	3.4
Last 3 years	4.5	3.6
Last 4 years	5.6	5.2
Last 5 years	6.3	5.9
Since Inception (7/93)	6.6	6.3

Recommendations

No action required.

GOLDMAN SACHS ASSET MANAGEMENT
Rolling Five Year VAM



Five Year Period Ending

LEHMAN BROTHERS ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,614,286,525**

Investment Philosophy

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

Staff Comments

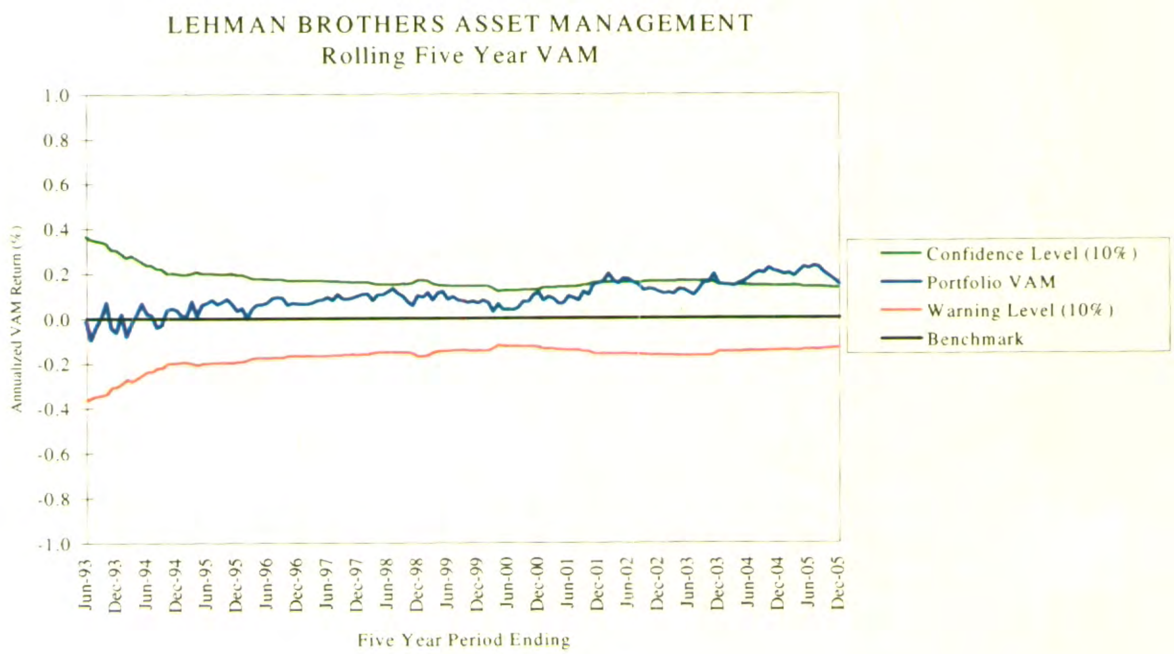
Lehman matched the benchmark for the quarter and outperformed for the year. The one-year return was helped by an overweight in the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	2.5	2.4
Last 2 years	3.5	3.4
Last 3 years	3.8	3.6
Last 4 years	5.4	5.2
Last 5 years	6.0	5.9
Since Inception (7/88)	7.8	7.7

Recommendations

No action required.



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 2005

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COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending December, 2005

	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)												
Acadian	3.4	3.9							21.0	15.3	$306.1	4.4%
Fidelity	5.1	3.9							17.0	15.3	$290.2	4.1%
Invesco	3.3	3.9	10.6	14.5	21.3	24.0	6.3	4.8	5.0	2.1	$512.9	7.3%
J.P. Morgan	4.7	3.9							14.0	15.3	$283.9	4.1%
Marathon (3)	3.9	3.9	16.4	14.5	28.7	26.7	11.0	8.0	9.7	6.9	$772.5	11.0%
McKinley	3.0	3.9							17.2	15.3	$293.1	4.2%
RiverSource	3.3	3.9	14.2	14.5	20.4	24.0	1.1	4.8	-2.2	2.1	$300.6	4.3%
UBS Global	3.9	3.9	10.0	14.5	20.5	24.0	4.9	4.8	8.8	7.5	$531.8	7.6%
Active Emerging Markets												
Alliance Capital	6.5	7.2	32.7	34.0	38.0	37.9			16.6	16.9	$311.2	4.4%
Capital International	9.9	7.2	38.4	34.0	36.6	37.9			13.1	16.9	$263.4	3.8%
Morgan Stanley	7.5	7.2	34.3	34.0	38.4	37.9			16.9	16.9	$316.5	4.5%
Semi-Passive Developed Markets (2)												
AQR	4.5	3.9							17.1	15.3	$229.9	3.3%
Fidelity	3.5	3.9							15.8	15.3	$230.7	3.3%
State Street	4.3	3.9							15.9	15.3	$230.7	3.3%
Passive Developed Markets (2)												
State Street	3.9	3.9	14.6	14.5	24.2	24.0	4.9	4.8	8.1	7.8	$2,125.9	30.4%
									Since 10/1/92			
Equity Only (4) (6)	4.3	4.3	16.4	16.6	24.5	25.5	6.0	6.1	8.4	7.8	$7,000.0	100.0%
Total Program (5) (6)	**4.3**	**4.3**	**16.4**	**16.6**	**24.5**	**25.5**	**6.0**	**6.1**	**8.7**	**7.8**	**$7,000.0**	
SBI Int'l Equity Target (6)		4.3		16.6		25.5		6.1		7.8		
MSCI ACWI Free ex. U.S. (7)		4.3		16.6		25.7		6.3		8.3		
MSCI World ex U.S. (net)		3.9		14.5		24.3		4.9		8.0		
MSCI EAFE Free (net)		4.1		13.5		23.7		4.6		7.7		
MSCI Emerging Markets Free (8)		7.2		34.0		37.9		19.1		9.2		

(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). Since inception of 7/1/05, the Semi-Passive Developed Markets managers benchmark is MSCI World ex U.S. (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.

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ACADIAN ASSET MANAGEMENT, INC.
Periods Ending December, 2005

Portfolio Manager: John Chisholm **Assets Under Management: $306,093,497**

Investment Philosophy

Acadian believes there are inefficiencies in the global equity markets that can be exploited by a disciplined quantitative investment process. In evaluating markets and stocks, Acadian believes it is most effective to use a range of measures, including valuation, price trends, financial quality and earnings information. Risk control is a critical part of the Acadian approach. Acadian's process seeks to capture value-added at both the stock and the sector/country level. The process is active and bottom-up, but each stock forecast also contains a sector/country forecast. Selection is made from a very broad investment universe using disciplined, factor-driven quantitative models. Portfolios are constructed with an optimizer and are focused on targeting a desired level of active risk relative to a client's chosen benchmark index.

Staff Comments

Acadian underperformed modestly for the quarter, but has outperformed significantly since inception. During the fourth quarter, strong stock selection overall was offset by negative return to active country allocations. The portfolio's underweight to Japan, the best performing market during the quarter, and overweights to Norway and Spain, which lagged during the period, detracted from performance. The portfolio's overweight position in the energy sector, which reversed this quarter and was among the worst performing sectors, also had a negative effect on returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	21.0	15.3

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

FIDELITY MANAGEMENT TRUST COMPANY
Periods Ending December, 2005

Portfolio Manager: Michael Strong **Assets Under Management: $290,183,903**

Investment Philosophy

International Growth is a core, growth-oriented strategy that provides diversified exposure to the developed international markets. The investment process combines active stock selection and regional asset allocation. Four portfolio managers in London, Tokyo, Hong Kong, and Boston construct regional sub-portfolios, selecting stocks based on Fidelity analysts' bottom-up research and their own judgment and expertise. Portfolio guidelines seek to ensure risk is commensurate with the performance target and to focus active risk on stock selection. Resulting portfolios typically contain between 200-250 holdings.

Staff Comments

Fidelity's Growth strategy outperformed for the quarter and since inception time periods. During the quarter, both stock selection and the resulting country allocations added value. Relative outperformance was driven by strong stock selection in Japanese information technology stocks and in securities in the financial sector overall. The portfolio's underweight positions in Spain and the United Kingdom were also beneficial.

Fidelity Investments is in the process of creating a new investment operation. This new firm, Pyramis Global Advisors, a unit of Fidelity Investments, will focus on institutional clients and will become independent of Fidelity Management & Research Company, which currently manages Fidelity's existing mutual funds.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.1%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	17.0	15.3

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

INVESCO GLOBAL ASSET MANAGMENT
Periods Ending December, 2005

Portfolio Manager: Erik Granade **Assets Under Management: $512,870,555**

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

INVESCO underperformed for both the quarter and the year. Over both time periods, stock selection overall was the primary contributor to the concentrated portfolio's relative underperformance. Stock selection in Japan and in the consumer discretionary sector was a significant negative contributor over the quarter and the year.

INVESCO announced a reduction to the global equity team. Two of the portfolio managers, of the twenty-one member investment team, will be departing. They both had joined the global team in 2004 from INVESCO's U.S. equity team. Their research coverage is shared by other members of the team.

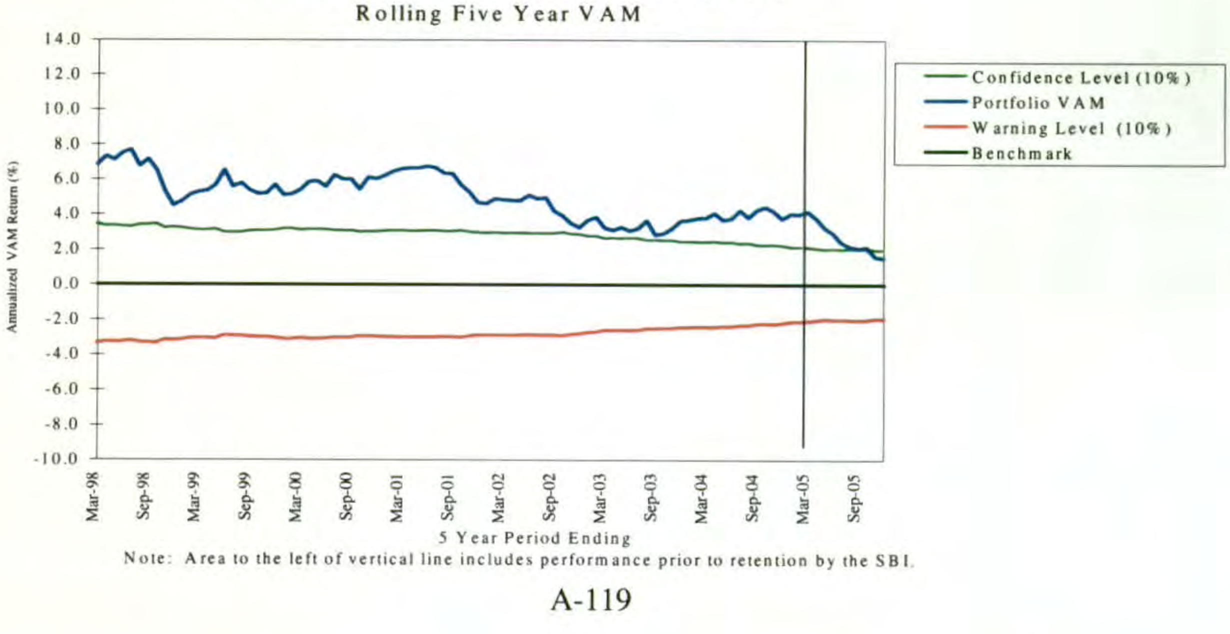
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.9%
Last 1 year	10.6	14.5
Last 2 years	15.9	17.4
Last 3 years	21.3	24.0
Last 4 years	12.5	12.6
Last 5 years	6.3	4.8
Since Inception (3/00)	5.0	2.1

Recommendations

No action required.

INVESCO GLOBAL ASSET MANAGEMENT
Rolling Five Year VAM



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

J.P. MORGAN INVESTMENT MANAGEMENT INC.
Periods Ending December, 2005

Portfolio Manager: James Fisher **Assets Under Management: $283,944,666**

Investment Philosophy

JP Morgan's international equity strategy seeks to add value through active stock selection, while remaining diversified by both sector and region. The portfolio displays a large capitalization size bias and a slight growth orientation. Stock selection decisions reflect the insights of approximately 150 locally based investors, ranking companies within their respective local markets. The most attractive names in each region are then further validated by a team of Global Sector Specialists who seek to take the regional team rankings and put these into a global context. The team of six senior portfolio managers draws together the insights of both the regional and global specialists, constructing a portfolio of the most attractive names.

Staff Comments

J.P. Morgan outperformed for the quarter, but has underperformed since inception. The fourth quarter's performance was driven equally by stock selection and country allocation. Stock selection in Canada and the United Kingdom as well as in the energy and healthcare sectors was beneficial. The portfolio's overweight positions in the Netherlands and Switzerland, and underweight positions in Spain and Australia also added value.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.7%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	14.0	15.3

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

MARATHON ASSET MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: William Arah **Assets Under Management: $772,510,571**

Investment Philosophy

Marathon uses a blend of flexible, qualitative disciplines to construct portfolios which exhibit a value bias. Style and emphasis will vary over time and by market, depending on Marathon's perception of lowest risk opportunity. Since they believe that competition determines profitability, Marathon is attracted to industries where the level of competition is declining and they will hold a sector position as long as the level of competition does not increase. At the stock level, Marathon tracks a company's competitive position versus the attractiveness of their products or services and attempts to determine whether the company is following an appropriate reinvestment strategy for their current competitive position.

Staff Comments

Marathon matched the benchmark for the quarter and outperformed for the year. During the fourth quarter, stock selection in the United Kingdom, France and in the consumer staples and telecom sectors was strong. However, stock selection in Japan and Canada and the portfolio's overweight to Hong Kong did not add value.

For the year, stock selection overwhelmingly contributed to the portfolio's strong relative returns. Selection in Japan and in the Asia ex-Japan region along with Italy and the United Kingdom in Europe was particularly beneficial.

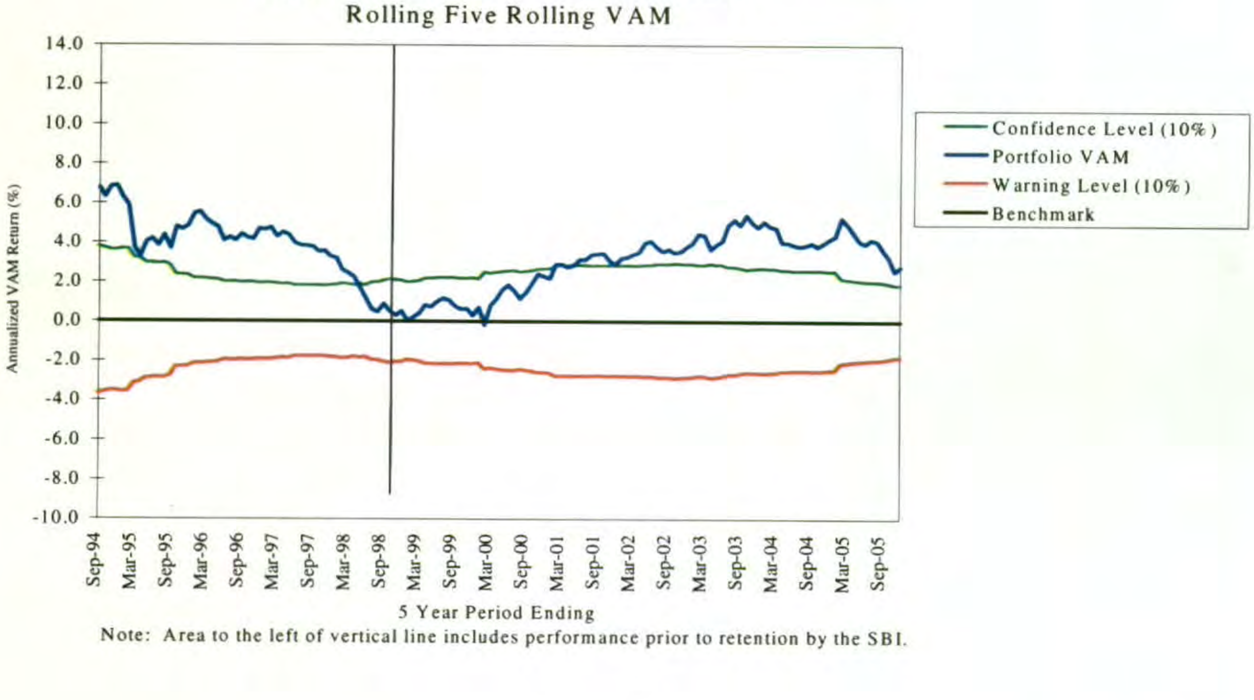
Quantitative Evaluation

	Actual	Custom Benchmark
Last Quarter	3.9%	3.9%
Last 1 year	16.4	14.5
Last 2 years	20.4	17.4
Last 3 years	28.7	26.7
Last 4 years	18.4	15.9
Last 5 years	11.0	8.0
Since Inception (11/93)	9.7	6.9

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

MCKINLEY CAPITAL MANAGEMENT, INC.
Periods Ending December, 2005

Portfolio Manager: Robert Gillam, Jr. **Assets Under Management: $293,130,497**

Investment Philosophy

At McKinley Capital, investment decisions are based on the philosophy that excess market returns can be achieved through the construction and active management of a diversified, fundamentally sound portfolio of inefficiently priced common stocks whose earnings growth rates are accelerating above market expectations. A disciplined quantitative investment process drives all product strategies. The firm can be described as a bottom-up growth manager. They employ both a systematic screening process and a qualitative overview to construct and manage portfolios. Investment ideas are initially generated by the quantitative investment process. The balance of the qualitative overlay seeks to identify securities with earnings estimates that are reasonable and sustainable. All portfolios managed by McKinley Capital use the same investment process and construction methodology to manage portfolios.

Staff Comments

McKinley underperformed for the quarter, but has outperformed since inception. Overall, country allocations detracted from performance, particularly the portfolio's overweight to Norway. Stock selection was positive, but selection in Japanese financials and Swiss stocks detracted significantly from returns.

During the quarter, McKinley added John B. Guerard Jr. as Co-Director of Global Quantitative Research. Mr. Guerard joins McKinley from Rutgers University where he was an Adjunct faculty member. Previously, he co-managed the Japan Equity Fund at Daiwa Securities Trust Co. with Nobel Prize winner Dr. Harry Markowitz.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	17.2	15.3

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

RIVERSOURCE INVESTMENTS
Periods Ending December, 2005

Portfolio Manager: Alex Lyle and Ed Gaunt **Assets Under Management: $300,563,973**

Investment Philosophy

RiverSource's philosophy focuses on key forces of change in markets and the companies that will benefit. The firm believes that in a global marketplace, where sustainable competitive advantage is rare, their research should focus on the dynamics of change. A good understanding of the likely impact of these changes at a company level, complemented with an appreciation of the ability of management to exploit these changes, creates significant opportunities to pick winners and avoid losers.

Staff Comments

Riversource narrowly underperformed for the quarter and the year. During the quarter, stock selection overall did not add value. The portfolio's overweight to the energy sector was the single largest negative contributor to returns. Stock selection in the industrials and information technology sectors also did not add value.

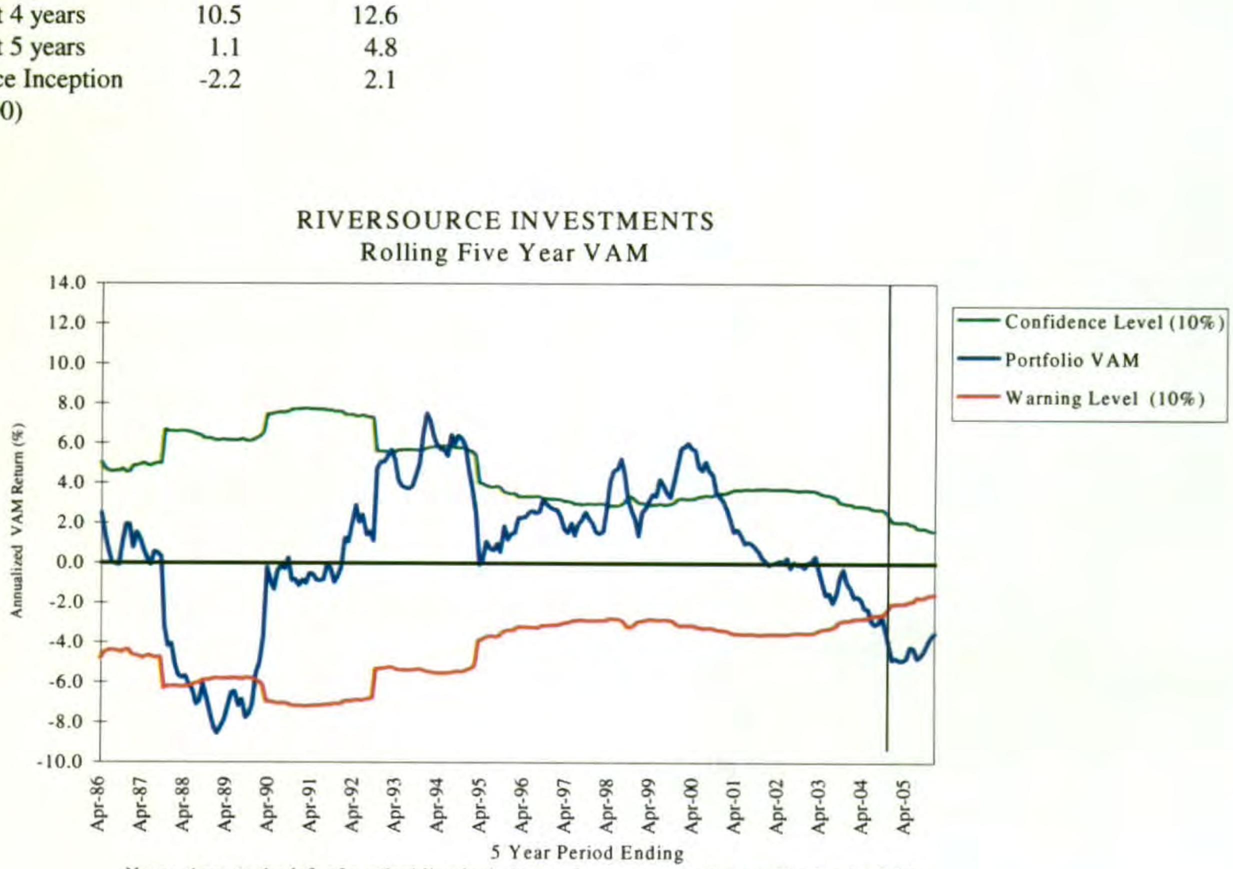
For the year, stock selection overall added value. However, the portfolio's underweight to Canada, the best performing country, and overweight to Hong Kong detracted from returns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.9%
Last 1 year	14.2	14.5
Last 2 years	15.8	17.4
Last 3 years	20.4	24.0
Last 4 years	10.5	12.6
Last 5 years	1.1	4.8
Since Inception (3/00)	-2.2	2.1

Recommendations

No action required.



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

UBS GLOBAL ASSET MANAGEMENT, INC.
Periods Ending December, 2005

Portfolio Manager: Thomas Madsen **Assets Under Management: $531,812,249**

Investment Philosophy

UBS's investment research process focuses on identifying discrepancies between a security's fundamental or intrinsic value and its observed market price both across and within international equity markets. UBS exploits these discrepancies using a disciplined fundamental approach. The research analysts evaluate companies in their markets around the world and assign relative price/intrinsic value rankings based on the present value of the future cash flows. The portfolio management team draws upon the analysts' stock and industry-level research and synthesizes it with the firm's macro analysis of the global economy, country specific views and various market-driven issues to systematically develop portfolio strategy. UBS develops currency strategies separately and in coordination with country allocations. They utilize currency equilibrium bands to determine which currencies are over or under valued.

Staff Comments

UBS's portfolio matched the benchmark return for the quarter, and underperformed for the year. For the quarter, poor stock selection in Japan, Finland and France was offset by strong selection in Italy, Canada and the Netherlands. During the year, stock selection overall was significantly negative, particularly in Japan and the United Kingdom, the two largest markets in the index.

UBS announced that Michael Fry, Global Head of Portfolio Construction, is leaving the firm. As a result, Tom Madsen, Head of Global Equities, will take a more active, day-to-day role in the management of global equity portfolios.

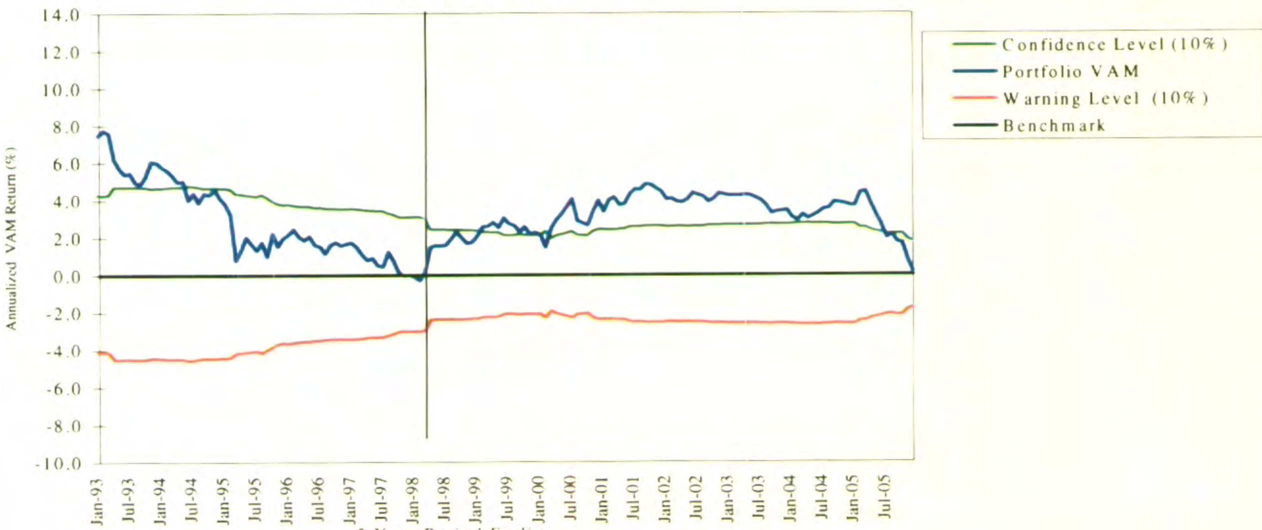
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.9%	3.9%
Last 1 year	10.0	14.5
Last 2 years	14.9	17.4
Last 3 years	20.5	24.0
Last 4 years	10.8	12.6
Last 5 years	4.9	4.8
Since Inception (4/93)	8.8	7.5

Recommendations

No action required.

UBS GLOBAL ASSET MANAGEMENT, INC. (INT'L)
Rolling Five Year VAM



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

ALLIANCE CAPITAL MANAGEMENT INTERNATIONAL
Periods Ending December, 2005

Portfolio Manager: Edward Baker | **Assets Under Management: $311,245,465**

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

Alliance underperformed for the quarter and the year. Stock selection overall was the primarily contributor to negative relative returns. During the quarter and the year, stock selection in Russia, India and South Africa and in the materials sector detracted significantly from performance.

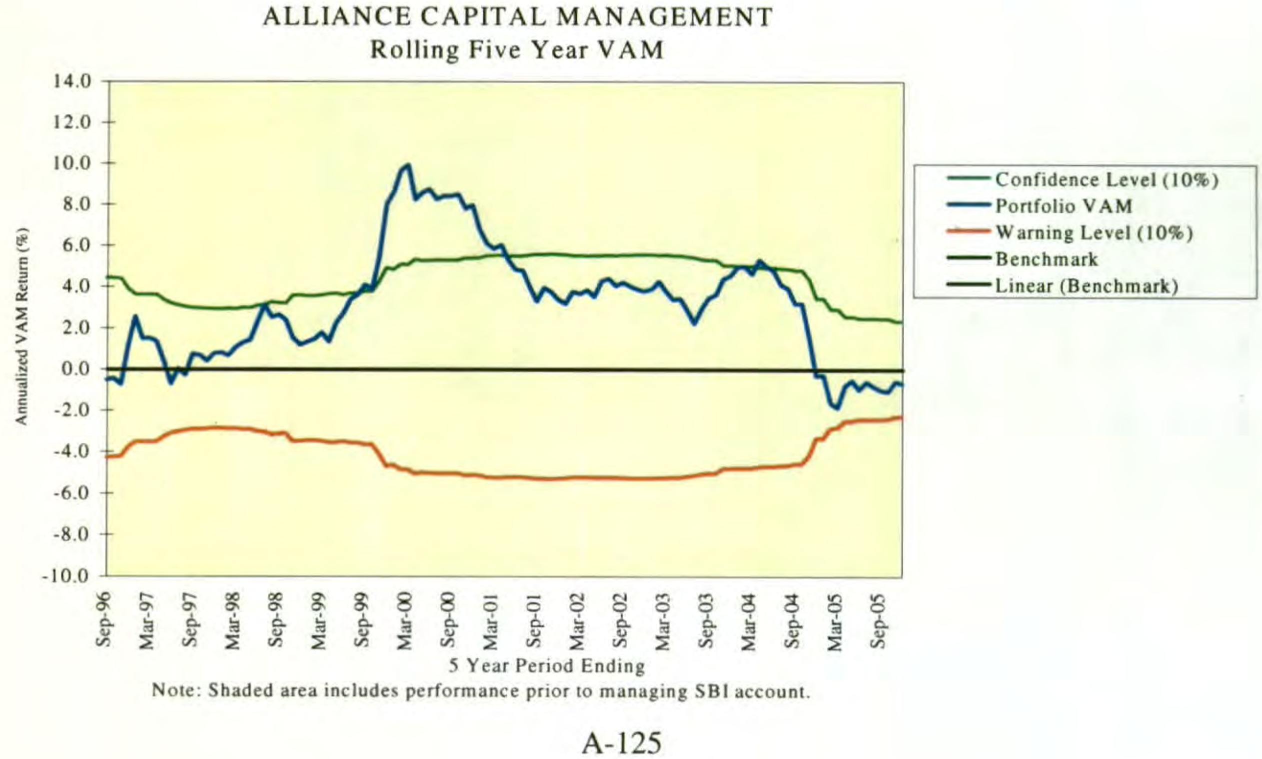
Alliance announced that Gaiti Ali, the portfolio manager for the Eastern Europe, Middle East and Africa (EMEA) region, will be leaving the firm. She will be replaced by, Michael Levy, the back-up portfolio manager for that region who has been with Alliance for twelve years and with the emerging markets team for six years. He was also previously Head of Emerging Markets Research and is a very experienced team member.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.5	7.2
Last 1 year	32.7	34.0
Last 2 years	30.7	29.7
Last 3 years	38.0	37.9
Last 4 years	27.1	25.6
Last 5 years	N/A	N/A
Since Inception (3/01)	16.6	16.9

Recommendations

Staff is closely monitoring the firm due to personnel turnover.



Note: Shaded area includes performance prior to managing SBI account.

CAPITAL INTERNATIONAL, INC.
Periods Ending December, 2005

Portfolio Manager: Victor Kohn **Assets Under Management: $263,407,217**

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

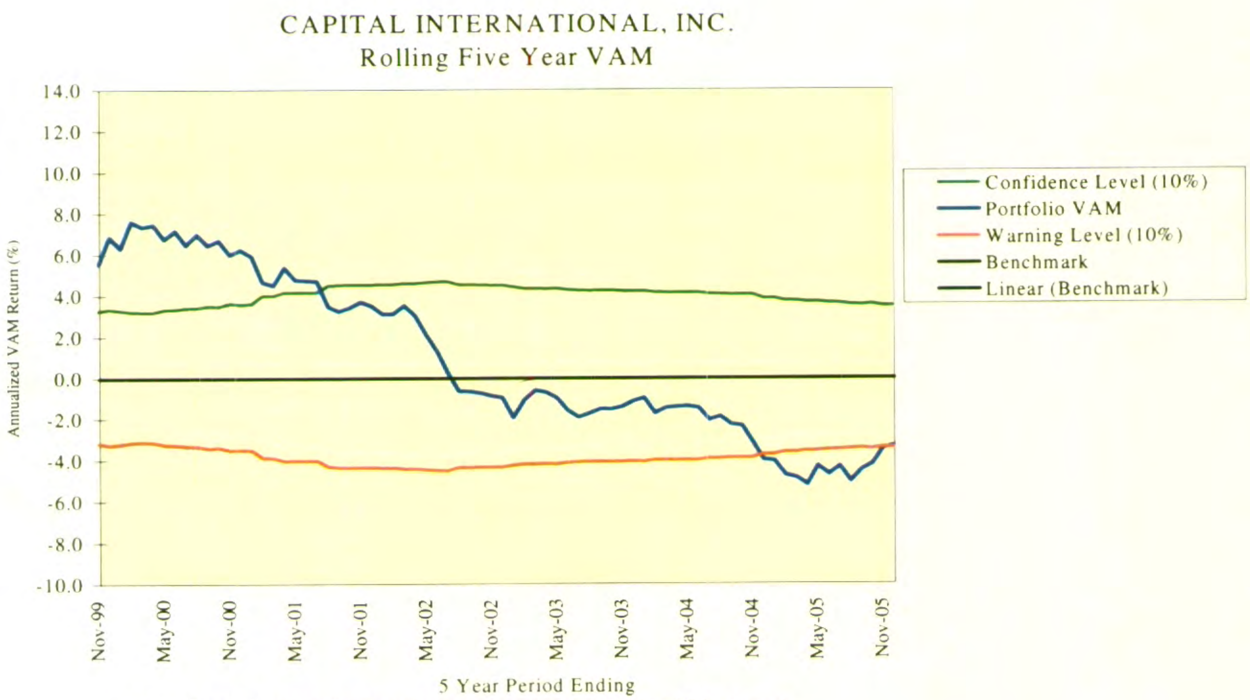
Capital outperformed significantly for the quarter and the year. Both stock selection and allocation decisions added value over both periods. Selection in Brazil, Korea, and Taiwan as well as in the materials and industrials sectors was considerably beneficial to relative returns over the quarter and the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.9	7.2
Last 1 year	38.4	34.0
Last 2 years	28.6	29.7
Last 3 years	36.6	37.9
Last 4 years	22.6	25.6
Last 5 years	N/A	N/A
Since Inception (3/01)	13.1	16.9

Recommendations

Staff is closely monitoring the firm due to longer term performance concerns.



Note: Shaded area includes performance prior to managing SBI account.

MORGAN STANLEY INVESTMENT MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Narayan Ramachandran **Assets Under Management: $316,503,984**

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

Morgan Stanley outperformed over the quarter and the year. During the quarter, stock selection overall added value. Selection in Russia, Hungary and India, as well as in the industrials, energy and telecom sectors was particularly positive. For the year, allocation decisions benefited relative returns. The portfolio's underweight in Taiwan and overweight in Russia, Mexico and Brazil, as well as selection in all four markets contributed significantly to returns.

Morgan Stanly announced that Ashutosh Sinha and Ahmad Zuaiter, two of the sixteen member portfolio management team will be leaving the firm, each to start a hedge fund.

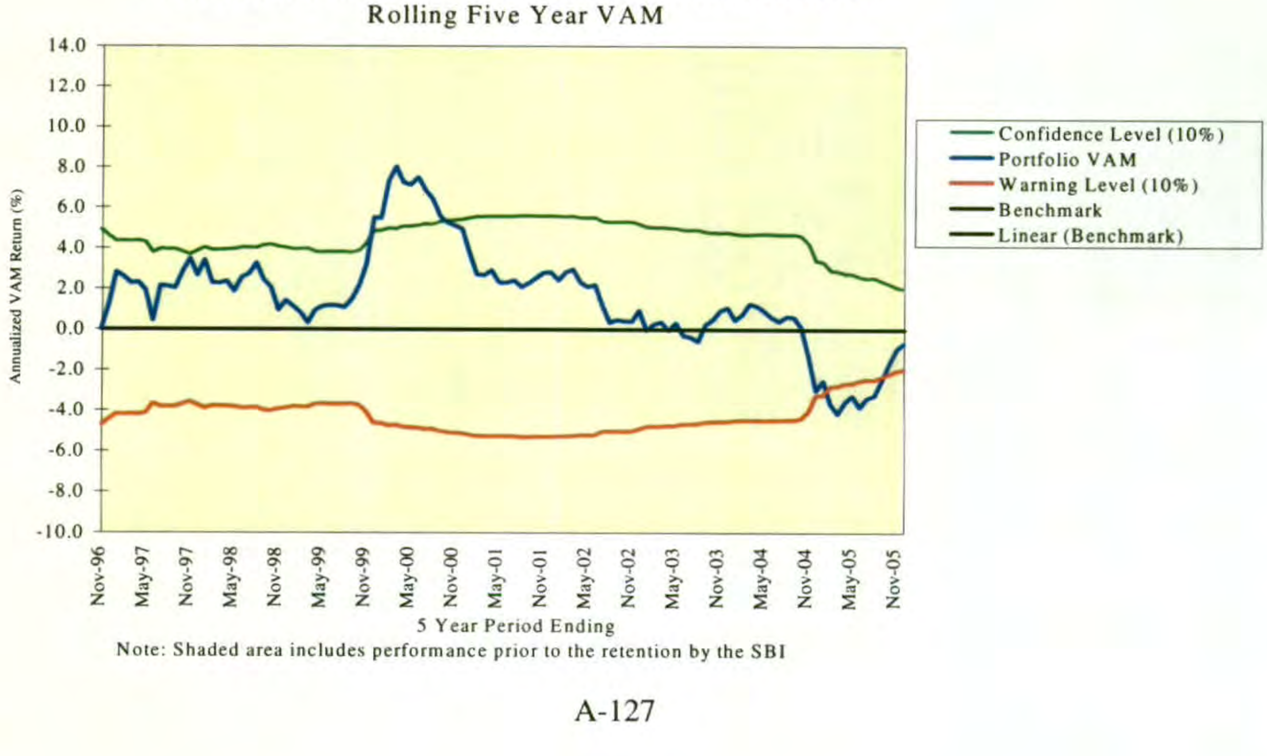
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.5%	7.2%
Last 1 year	34.3	34.0
Last 2 years	29.2	29.7
Last 3 years	38.4	37.9
Last 4 years	26.1	25.6
Last 5 years	N/A	N/A
Since Inception (3/01)	16.9	16.9

Recommendations

Staff is closely monitoring the firm due to personnel turnover.

MORGAN STANLEY INVESTMENT MANAGEMENT
Rolling Five Year VAM



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

AQR CAPITAL MANAGEMENT, LLC
Periods Ending December, 2005

Portfolio Manager: Cliff Asness | **Assets Under Management: $229,885,640**

Investment Philosophy

AQR employs a disciplined quantitative approach emphasizing both top-down country/currency allocation and bottom-up security selection decisions to generate excess returns. AQR's investment philosophy is based on the fundamental concepts of value and momentum. AQR's international equity product incorporates stock selection, country selection, and currency selection models as the primary alpha sources. Dynamic strategy allocation (between the three primary alpha sources) and style weighting are employed as secondary alpha sources.

Staff Comments

AQR outperformed for both the quarter and since inception time periods. Currency selection overall added value as did stock selection in the United Kingdom and in the financials sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.5%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	17.1	15.3

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

FIDELITY MANAGEMENT TRUST COMPANY
Periods Ending December, 2005

Portfolio Manager: Cesar Hernandez **Assets Under Management: $230,700,559**

Investment Philosophy

Select International combines active stock selection with quantitative risk control to provide consistent excess returns above the benchmartk while minimizing relative volatility and risk. By combining five regional sub-portfolios in the U.K., Canada, Continental Europe, Japan, and the Pacific Basin ex Japan, the portfolio manager produces a portfolio made up of the best ideas of the firm's research analysts. Each regional portfolio is created so that stock selection is the largest contributor to active return while systematic, sector, and factor risks are minimized. The portfolio manager uses a combination of proprietary and third-party optimization models to monitor and control risk within each regional module. Resulting portfolios typically contain between 275-325 holdings.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	15.8	15.3

Staff Comments

Fidelity's Select strategy narrowly underperformed for the quarter, but has outperformed since inception. During the quarter, stock selection overall was modestly negative, particularly in the industrials and consumer staples sectors. The portfolio's overweight to the energy sector also detracted from returns.

Fidelity Investments is in the process of creating a new investment operation. This new firm, Pyramis Global Advisors, a unit of Fidelity Investments, will focus on institutional clients and will become independent of Fidelity Management & Research Company, which currently manages Fidelity's existing mutual funds.

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending December, 2005

Portfolio Manager: Paul Moghtader **Assets Under Management: $230,686,537**

Investment Philosophy

SSgA's Alpha strategy is managed using a quantitative process. Stock selection provides the best opportunity to add consistent value. Industry factors have come to dominate country factors and an approach that uses industry weights to add incremental value complements stock selection. Unwanted biases are controlled for through disciplined risk-control techniques. Country and regional allocations are a result of the security selection process but are managed to remain with +/- 5% of the benchmarks allocation. Sector and industry allocations are managed to be within +/- 3% of the benchmarks allocation. The portfolio managers on this team have extensive experience and insight, which is used in conjunction with the models to create core portfolios.

Staff Comments

SSgA's Alpha strategy added value relative to the benchmark over the quarter and since inception time periods. Stock selection overall, and in particular in the United Kingdom and in Switzerland as well as in the financials and utilities sectors, added value during the quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	3.9%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/05)	15.9	15.3

Recommendations

No action required.

VAM Graphs will be drawn for period ending 9/30/07.

STATE STREET GLOBAL ADVISORS
Periods Ending December, 2005

Portfolio Manager: Lynn Blake | **Assets Under Management: $2,125,904,749**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) World ex U.S. index of 22 markets located in the developed markets outside of the United States (including Canada). SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs. The MSCI World ex U.S. (net) index reinvests dividends assuming a withholding tax on dividends, according to the Luxembourg tax rate. Whereas the portfolio reinvests dividends using all available reclaims and tax credits available to a U.S. pension fund, which should result in modest positive tracking error, over time.

Staff Comments

SSgA's passive strategy's tracking error is within expectation over all time periods.

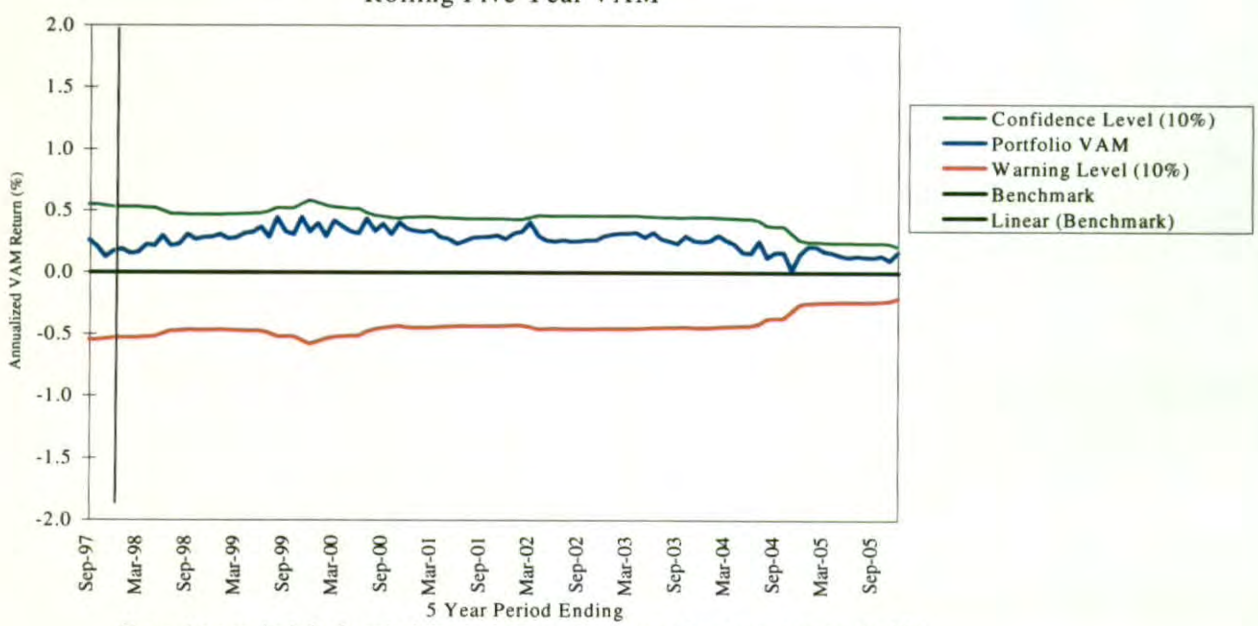
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.9%	3.9%
Last 1 year	14.6	14.5
Last 2 years	17.5	17.4
Last 3 years	24.2	24.0
Last 4 years	12.8	12.6
Last 5 years	4.9	4.8
Since Inception (10/92)	8.1	7.8

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Rolling Five Year VAM



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

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STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Fourth Quarter, 2005

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NON - RETIREMENT MANAGERS
Periods Ending December, 2005

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)
GE Asset Management (S&P 500 Index)*	1.6	2.1	2.6	4.9	11.4	14.4	0.2	0.5	11.8	11.4	$69.4
Voyageur Asset Management (Custom Benchmark)*	0.5	0.6	2.5	2.1	2.8	2.5	4.7	5.1	6.5	6.5	$246.2
Galliard Capital Management (3 yr. Constant Maturity Treasury + 45 bp)*	1.1	1.2	4.3	4.4	4.4	3.4	5.0	3.6	5.8	5.0	$187.9
Internal Stock Pool (S&P 500 Index)*	2.1	2.1	4.9	4.9	14.5	14.4	0.6	0.5	10.6	10.5	$702.6
Internal Bond Pool - Income Share (Lehman Aggregate)*(2)	0.8	0.6	2.7	2.4	4.5	3.6	6.2	5.9	8.0	7.7	$178.0
Internal Bond Pool - Trust (Lehman Aggregate)*	0.8	0.6	2.8	2.4	4.6	3.6	6.3	5.9	7.4	7.0	$448.1

* 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.

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GE ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending December, 2005

Portfolio Manager: Dave Carlson | **Assets Under Management: $69,426,139**

Investment Philosophy
Assigned Risk Plan

GE's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. A value portfolio, a growth portfolio and a research portfolio are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up perspective.

Staff Comments

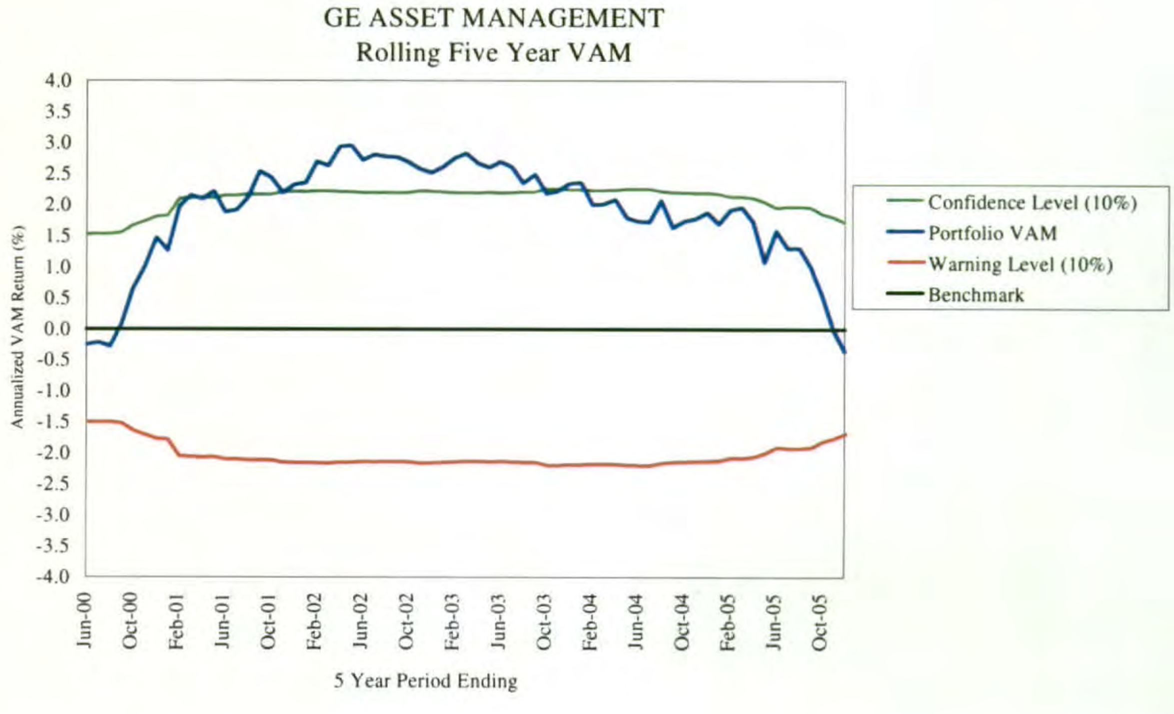
GE trailed the benchmark for the quarter and the year. An overweight in pharmaceutical companies, security selection in the consumer discretionary sector, and an underweight in financial services detracted from the quarterly performance. The one-year underperformance was impacted by stock selection in the information technology, healthcare, and financials sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	2.1%
Last 1 year	2.6	4.9
Last 2 years	5.7	7.9
Last 3 years	11.4	14.4
Last 4 years	2.4	3.9
Last 5 years	0.2	0.5
Since Inception (1/95)	11.8	11.4

Recommendation

No recommendation at this time.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending December, 2005

Portfolio Manager: Tom McGlinch **Assets Under Management: $246,199,996**

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 slightly trailed the benchmark for the quarter due to their exposure to TIPS. The portfolio outperformed for the year and was helped by a sizeable barbell position.

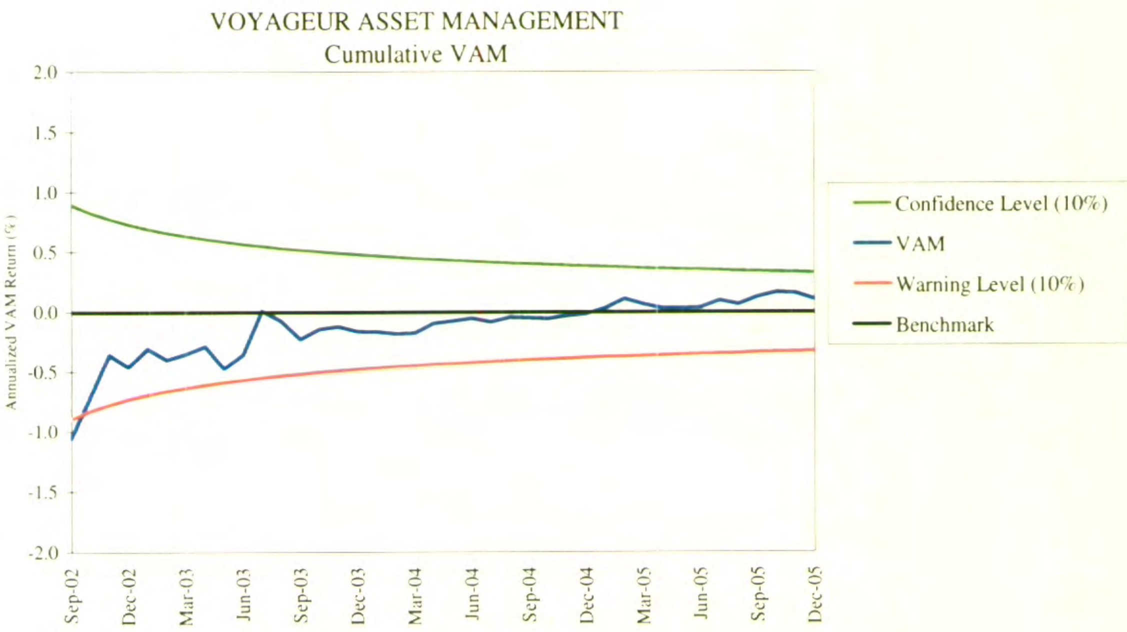
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.5%	0.6%
Last 1 year	2.5	2.1
Last 2 years	2.9	2.5
Last 3 years	2.8	2.5
Last 4 years	4.3	4.2
Last 5 years	4.7	5.1
Since Inception (7/91)	6.5	6.5

*Custom benchmark since inception date.

Recommendation

No action required.



GALLIARD CAPITAL MANAGEMENT
Periods Ending December, 2005

Portfolio Manager: Karl Tourville | **Assets Under Management: $187,935,318**

Investment Philosophy

Galliard Capital Management manages the Fixed Interest Account in the Supplemental Investment Fund. The stable value fund is managed to protect principal and provide competitive interest rates using instruments somewhat longer than typically found in money market-type accounts. The manager invests cash flows to optimize yields. The manager invests in high quality instruments diversified among traditional investment contracts and alternative investment contracts with U.S. and non-U.S. financial institutions. To maintain necessary liquidity, the manager invests a portion of the portfolio in its Stable Return Fund and in cash equivalents. The Stable Return Fund is a large, daily priced fund consisting of a wide range of stable value instruments that is available to retirement plans of all sizes.

Staff Comments

Galliard slightly trailed its quarterly benchmark.

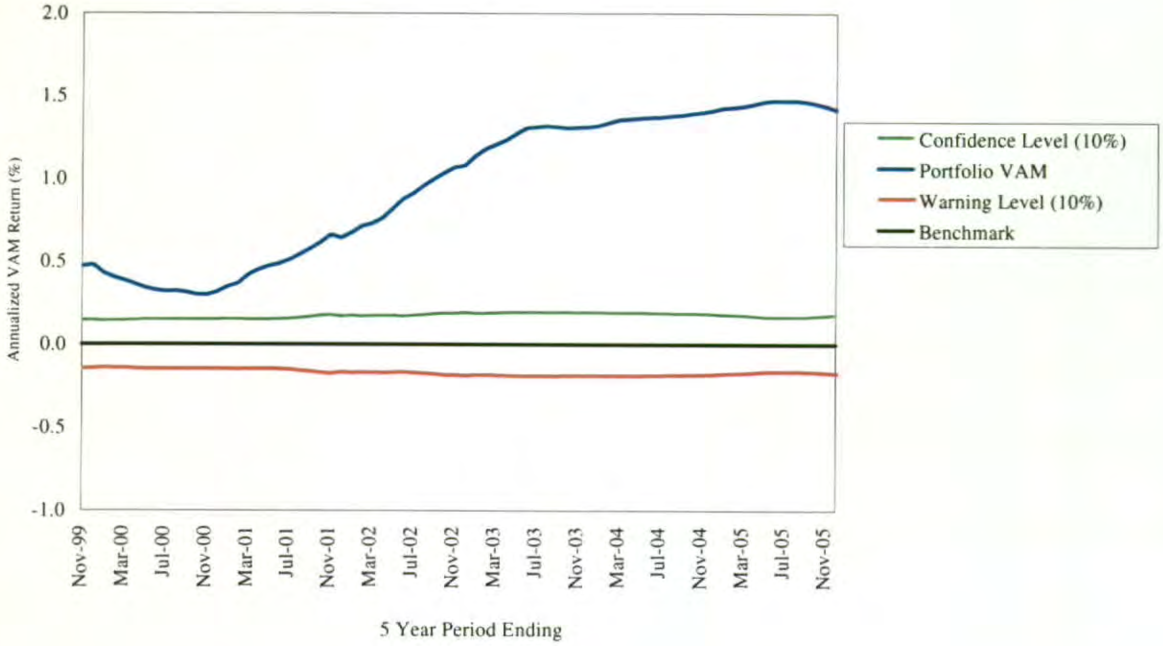
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	1.2%
Last 1 year	4.3	4.4
Last 2 years	4.2	3.8
Last 3 years	4.4	3.4
Last 4 years	4.7	3.4
Last 5 years	5.0	3.6
Since Inception (11/94)	5.8	5.0

Recommendation

No action required.

Galliard Capital Management
Rolling Five Year VAM



INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending December, 2005

Portfolio Manager: Mike Menssen | **Assets Under Management: $702,589,968**

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

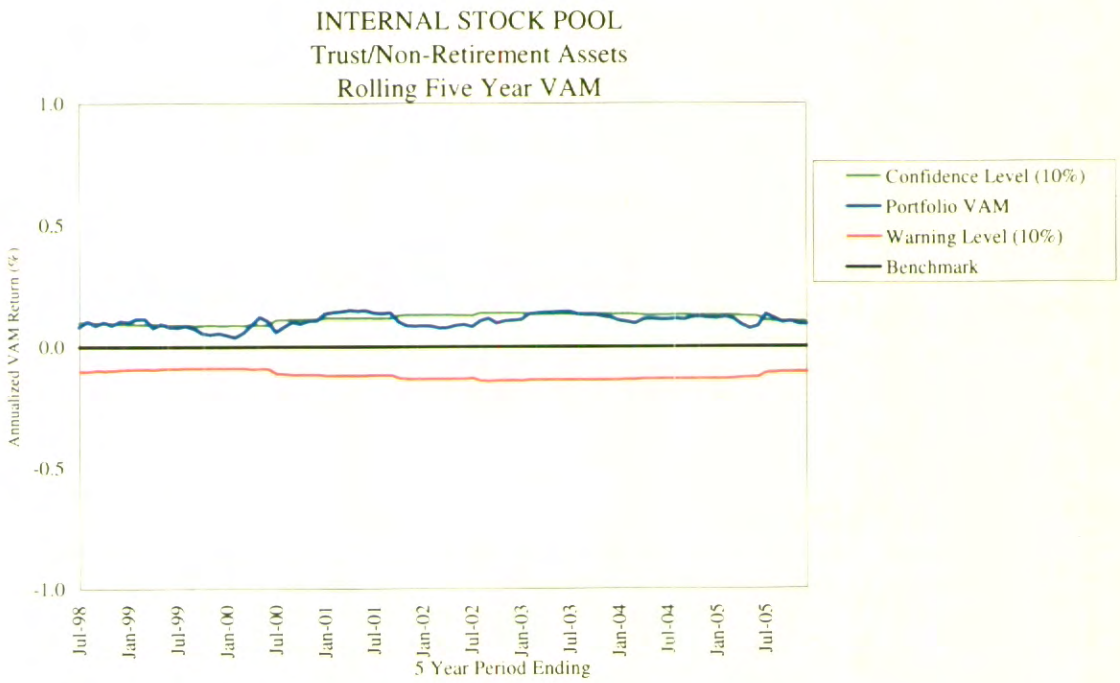
The portfolio matched the benchmark for the quarter and for the year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	2.1%
Last 1 year	4.9	4.9
Last 2 years	7.9	7.9
Last 3 years	14.5	14.4
Last 4 years	4.1	3.9
Last 5 years	0.6	0.5
Since Inception (7/93)	10.6	10.5

Recommendation

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending December, 2005

Portfolio Manager: Mike Menssen **Assets Under Management: $178,042,222**

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

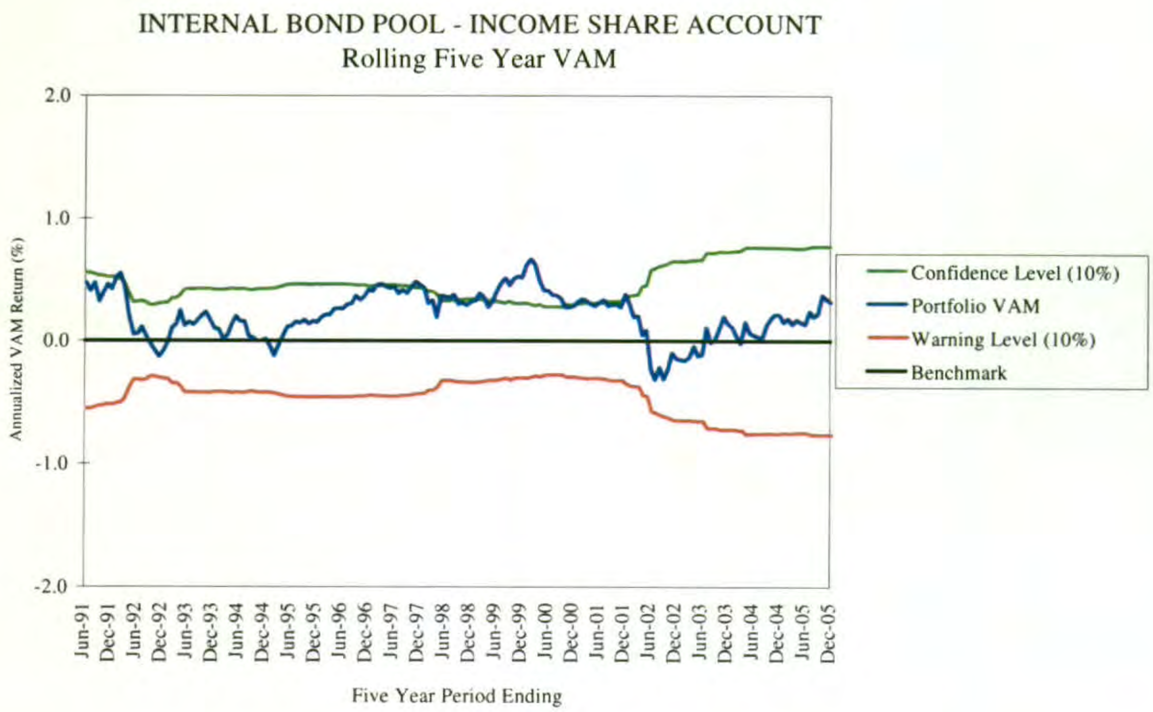
The internal bond pools outperformed the quarterly and one-year benchmark. Both periods were helped by a short duration position.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	0.6%
Last 1 year	2.7	2.4
Last 2 years	3.8	3.4
Last 3 years	4.5	3.6
Last 4 years	5.4	5.2
Last 5 years	6.2	5.9
Since Inception (7/86)	8.0	7.7

Recommendation

No action required.



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending December, 2005

Portfolio Manager: Mike Menssen **Assets Under Management: $448,098,376**

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 benchmark. Both periods were helped by a short duration position.

Quantitative Evaluation

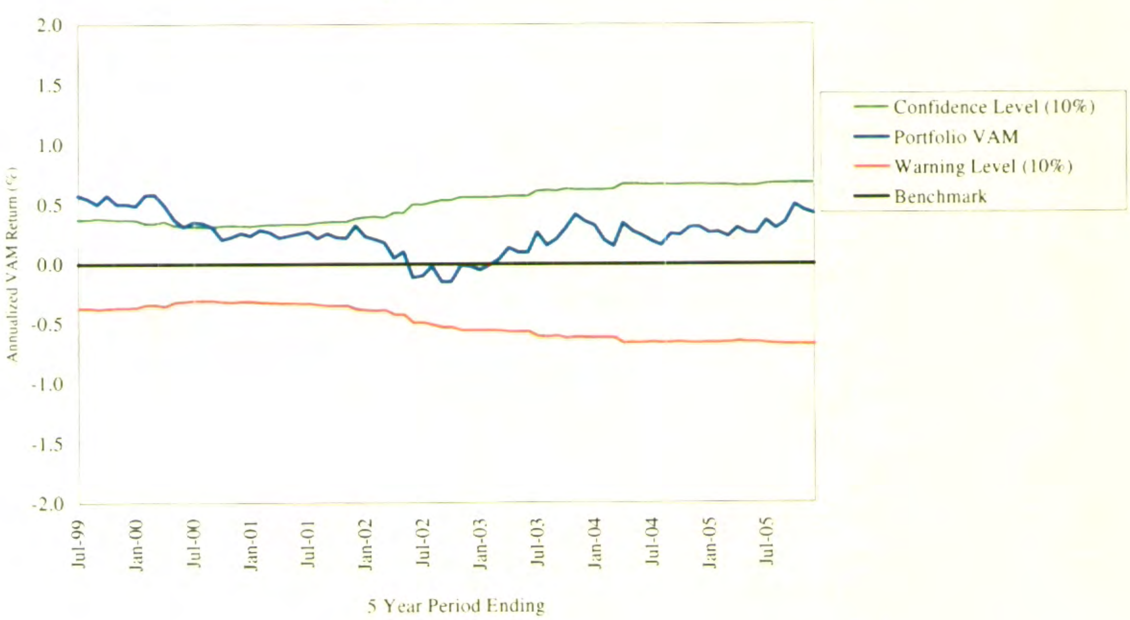
	Actual	Benchmark
Last Quarter	0.8%	0.6%
Last 1 year	2.8	2.4
Last 2 years	3.9	3.4
Last 3 years	4.6	3.6
Last 4 years	5.6	5.2
Last 5 years	6.3	5.9
Since Inception (7/94)*	7.4	7.0

* Date started managing the pool against the Lehman Aggregate.

Recommendation

No action required.

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



STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Fourth Quarter, 2005

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MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending December, 2005

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 * Actual %	Since Retention by SBI * Bmk %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty (S&P 500)	1.4	2.1	9.4	4.9	19.3	14.4	-1.8	0.5	-2.2	0.1	$332.2
Smith Barney Appr Y (S&P 500)	1.7	2.1	4.6	4.9	12.7	14.4	2.9	0.5	9.1	10.2	$114.0
Vanguard Institutional Index Plus (S&P 500)	2.1	2.1	5.0	4.9	14.4	14.4	0.6	0.5	0.2	0.1	$416.7
Mid Cap Equity:											
Vanguard Mid-Cap Index (MSCI US Mid-Cap 450)	3.0	3.0	14.1	13.9	22.7	22.5	9.5	9.3	17.2	17.2	$89.9
Small Cap Equity:											
T. Rowe Price Small-Cap Stock (Russell 2000)	3.3	1.1	8.4	4.6	19.5	22.1	9.3	8.2	11.4	7.5	$375.8
Balanced:											
Dodge & Cox Balanced Fund (60% S&P 500/40% Lehman Agg)	2.1	1.5	6.6	4.0	14.6	10.1	9.9	3.0	13.4	8.8	$219.3
Vanguard Balanced Index Inst. Fund (60% MSCI US Broad Market, 40% Lehman Agg)	1.6	1.6	4.8	4.8	11.3	11.2			8.4	8.3	$166.7
Bond:											
Dodge & Cox Income Fund (Lehman Aggregate)	0.5	0.6	2.0	2.4	3.9	3.6	6.5	5.9	6.7	6.4	$80.0
Vanguard Total Bond Market Index Inst. (Lehman Aggregate)	0.7	0.6	2.5	2.4	3.7	3.6	5.6	5.9	3.7	3.7	$48.0
International:											
Fidelity Diversified International (MSCI EAFE-Free)	5.2	4.1	17.2	13.5	25.9	23.7	9.5	4.6	11.0	4.3	$196.0
Vanguard Inst. Dev. Mkts. Index (MSCI EAFE)	3.9	4.1	13.6	13.5	23.8	23.7	4.6	4.6	20.5	20.4	$37.0

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***:	4.6
Bid Rates for current quarter:	
Great West Life	4.2
Minnesota Life	4.4
Principal Life	4.5

***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.

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MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending December, 2005

		State's Participation in Fund:	**$332,182,270**
Portfolio Manager:	**Scott W. Schoelzel**	**Total Assets in Fund:**	**$9,754,514,660**

Investment Philosophy
Janus Twenty

The investment objective of this fund is long-term growth of capital from increases in the market value of the stocks it owns. The fund will concentrate its investments in a core position of between twenty to thirty common stocks. This non-diversified fund seeks to invest in companies that the portfolio manager believes have strong current financial positions and offer growth potential.

Staff Comments

Janus underperformed for the quarter and outperformed the one-year benchmark. The quarterly performance was hurt by an overweight and weak stock selection in the energy sector.

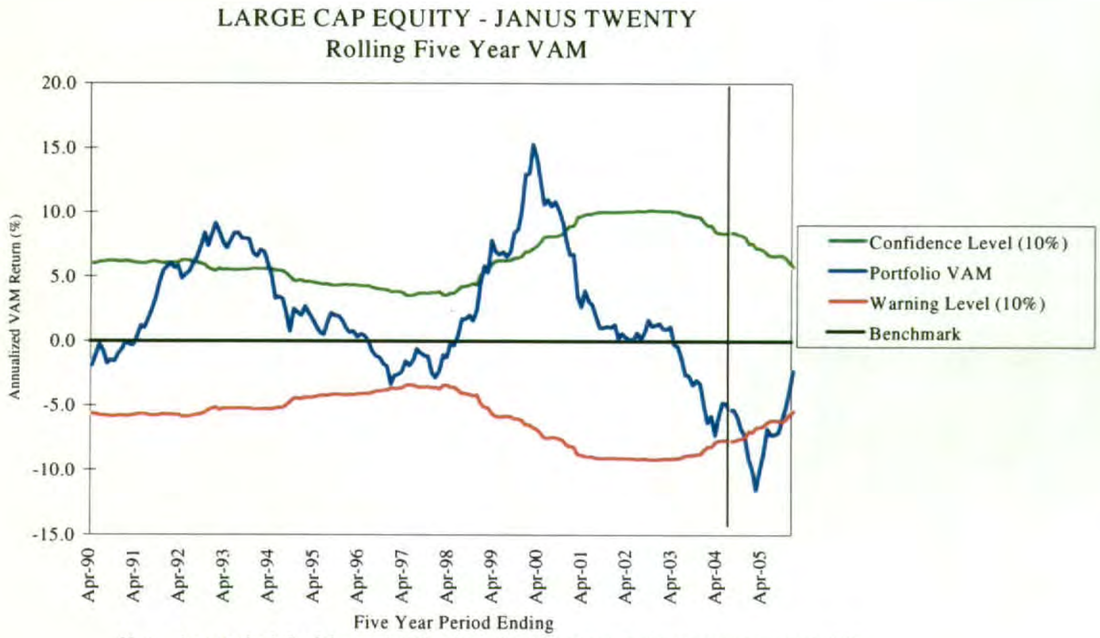
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.4%	2.1%
Last 1 year	9.4	4.9
Last 2 years	16.4	7.9
Last 3 years	19.3	14.4
Last 4 years	6.6	3.9
Last 5 years	-1.8	0.5
Since Retention by SBI (7/99)	-2.2	0.1

*Benchmark is the S&P 500.

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – SMITH BARNEY APPRECIATION Y
Periods Ending December, 2005

	State's Participation in Fund:	**$114,016,236**
Portfolio Manager: Scott Glasser	**Total Assets in Fund:**	**$5,933,945,000**

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 benchmark primarily due to stock selection in materials and consumer discretionary, financials, and an underweight in financials. The one-year return was hurt by an underweight to utilities, and stock selection in the industrials sector.

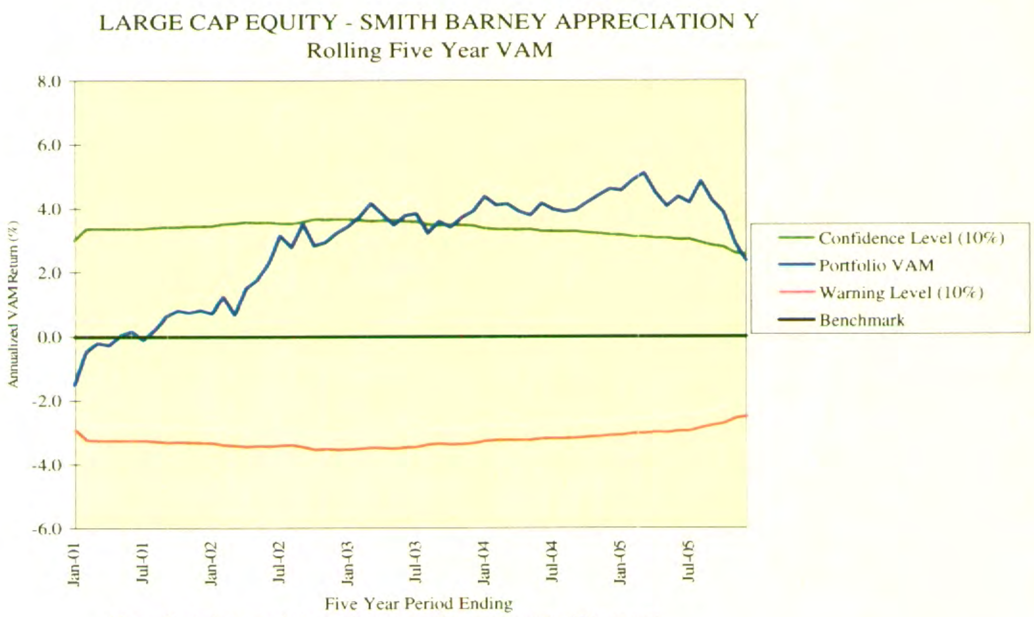
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.7%	2.1%
Last 1 year	4.6	4.9
Last 2 years	6.9	7.9
Last 3 years	12.7	14.4
Last 4 years	4.5	3.9
Last 5 years	2.9	0.5
Since Retention by SBI (12/03)	9.1	10.2

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

Recommendation

No action required.



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, 2005

		State's Participation in Fund:	**$416,720,577**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$17,095,310,987**

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

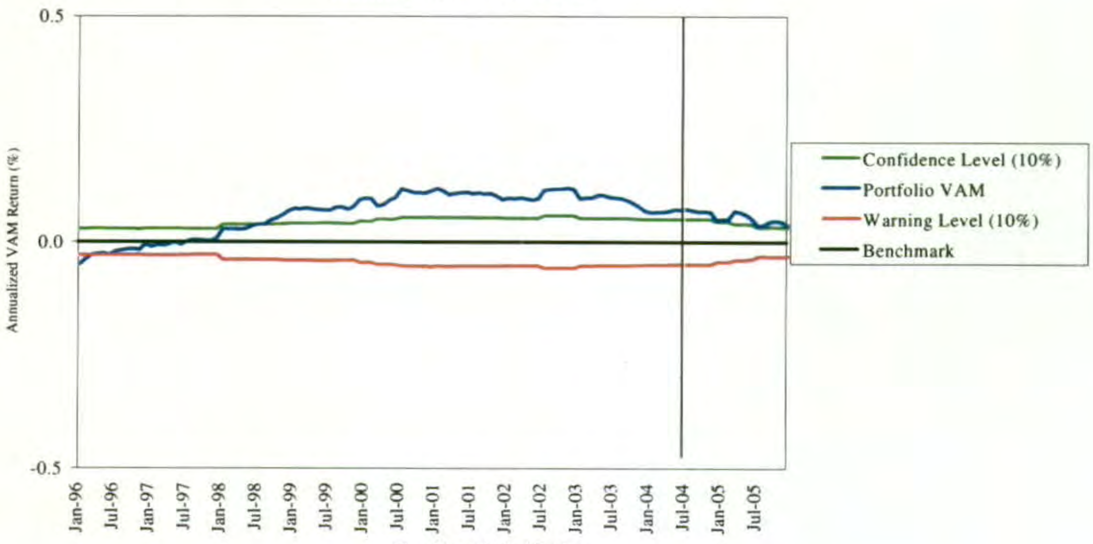
	Actual	Benchmark*
Last Quarter	2.1%	2.1%
Last 1 year	5.0	4.9
Last 2 years	7.9	7.9
Last 3 years	14.4	14.4
Last 4 years	4.0	3.9
Last 5 years	0.6	0.5
Since Retention by SBI (7/99)	0.2	0.1

*Benchmark is the S&P 500.

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX PLUS
Rolling Five Year VAM



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

MN STATE 457 DEFERRED COMPENSATION PLAN
MID CAP EQUITY – VANGUARD MID-CAP INDEX
Periods Ending December, 2005

		State's Participation in Fund:	**$89,901,272**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$2,904,731,117**

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

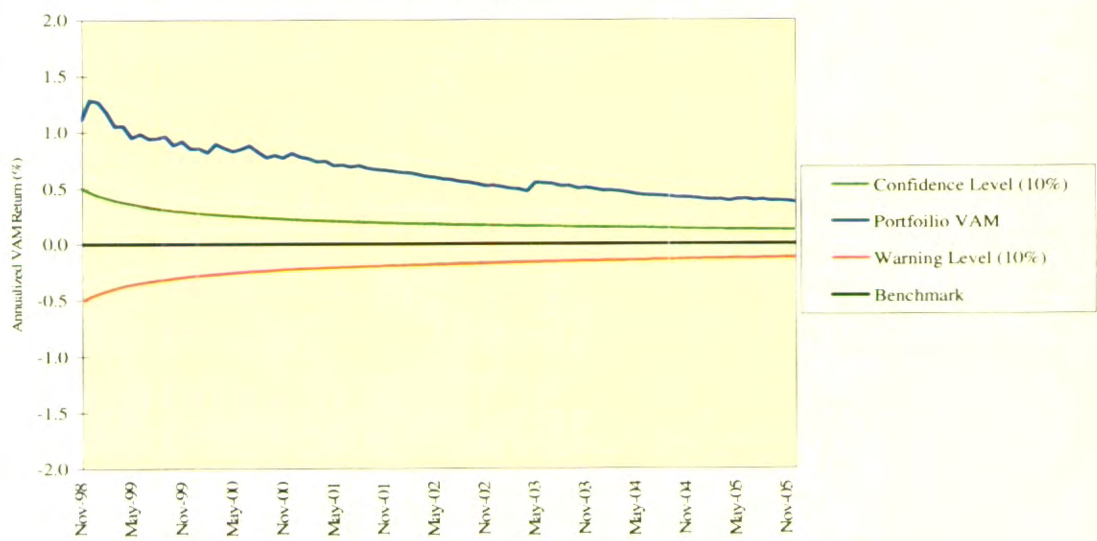
	Actual	Benchmark*
Last Quarter	3.0%	3.0%
Last 1 year	14.1	13.9
Last 2 years	17.2	17.2
Last 3 years	22.7	22.5
Last 4 years	12.1	12.0
Last 5 years	9.5	9.3
Since Retention by SBI (1/04)	17.2	17.2

*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, 2005

		State's Participation in Fund:	**375,811,454**
Portfolio Manager:	**Gregory A. McCrickard**	**Total Assets in Fund:**	**7,414,893,871**

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 outperformed the quarterly and one-year benchmark. Favorable stock selection in the consumer discretionary sector contributed to the quarter's performance. The one-year return was helped by the strategy's stock selection and overweight in healthcare, and stock selection in consumer discretionary.

Quantitative Evaluation

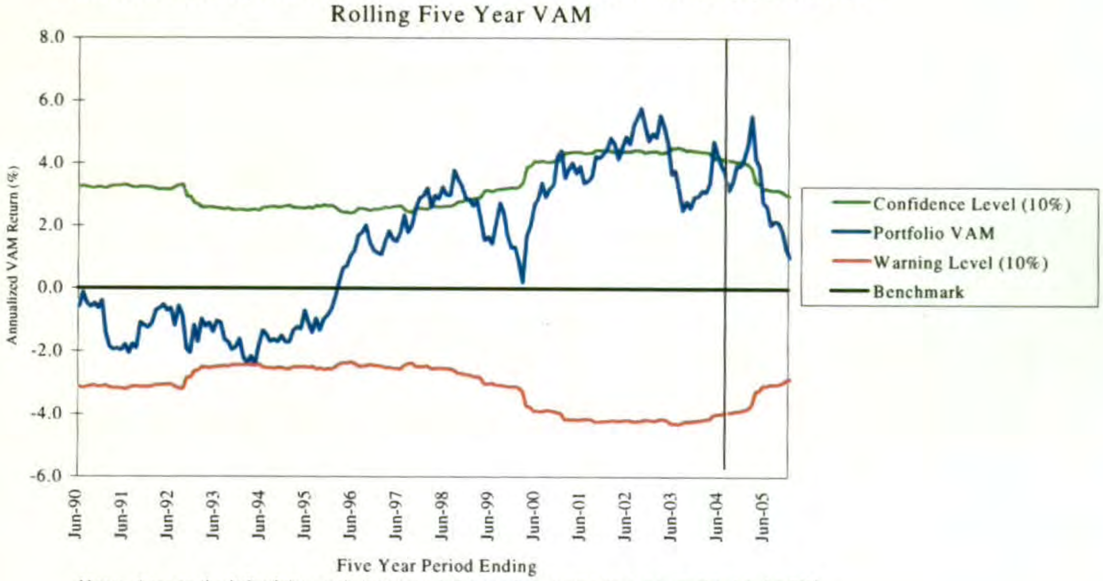
	Actual	Benchmark*
Last Quarter	3.3%	1.1%
Last 1 year	8.4	4.6
Last 2 years	13.5	11.2
Last 3 years	19.5	22.1
Last 4 years	10.0	9.7
Last 5 years	9.3	8.2
Since Retention by SBI (7/99)	11.4	7.5

*Benchmark is the Russell 2000.

Recommendation

No action required.

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



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

STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – DODGE & COX BALANCED FUND
Periods Ending December, 2005

		State's Participation in Fund:	**$219,263,607**
Portfolio Manager:	**John Gunn**	**Total Assets in Fund:**	**$23,611,117,894**

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 exceeding its benchmark. The equity portfolio was helped by security selection in the information technology and financials sector. The fixed income portfolio was negatively impacted by its shorter than benchmark duration.

Quantitative Evaluation

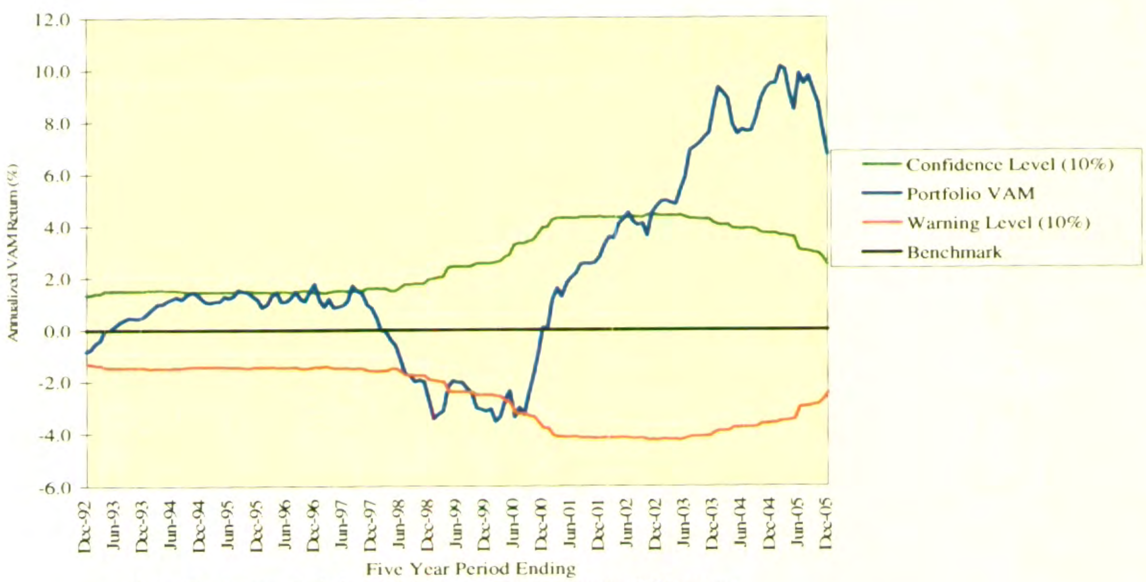
	Actual	Benchmark*
Last Quarter	2.1%	1.5%
Last 1 year	6.6	4.0
Last 2 years	9.9	6.1
Last 3 years	14.6	10.1
Last 4 years	9.9	4.7
Last 5 years	9.9	3.0
Since Retention By SBI (10/03)	13.4	8.8

*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, 2005

		State's Participation in Fund:	**$166,689,118**
Portfolio Manager:	**George U. Sauter**	**Total Assets in Fund:**	**$2,014,394,140**

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 MSCI US Broad Market Index, an unmanaged index representing the overall U.S. equity market. The fund's bond segment attempts to track the performance of the 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

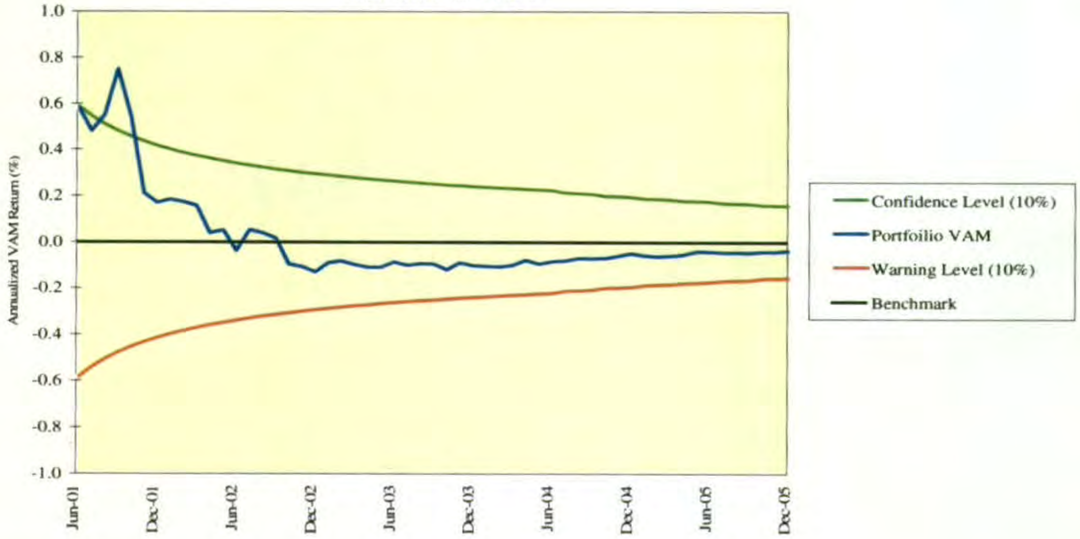
	Actual	Benchmark*
Last Quarter	1.6%	1.6%
Last 1 year	4.8	4.8
Last 2 years	7.1	7.0
Last 3 years	11.3	11.2
Last 4 years	5.7	5.8
Last 5 years	N/A	N/A
Since Retention by SBI (12/03)	8.4	8.3

Recommendation

No action required.

*Benchmark is 60% MSCI US Broad Market, 40% Lehman Aggregate.
Equity benchmark was Wilshire 5000 prior to April 1, 2005.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

BALANCED - VANGUARD BALANCED INDEX
Cumulative VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending December, 2005

		State's Participation in Fund:	**$80,038,096**
Portfolio Manager:	**Dana Emery**	**Total Assets in Fund:**	**$9,609,765,971**

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 trailed the quarterly benchmark due to the fund's shorter than benchmark duration.

Quantitative Evaluation

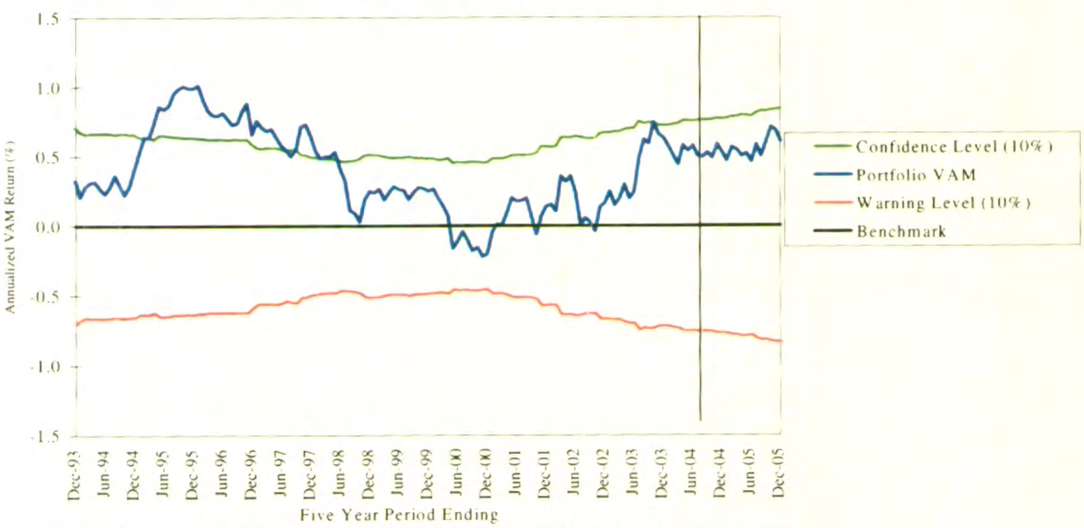
	Actual	Benchmark*
Last Quarter	0.5%	0.6%
Last 1 year	2.0	2.4
Last 2 years	2.9	3.4
Last 3 years	3.9	3.6
Last 4 years	5.6	5.2
Last 5 years	6.5	5.9
Since Retention By SBI (7/99)	6.7	6.4

*Benchmark is the Lehman Aggregate.

Recommendation

No action required.

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



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

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – VANGUARD TOTAL BOND MARKET INDEX INSTITUTIONAL
Periods Ending December, 2005

	State's Participation in Fund:	**$47,984,708**
Portfolio Manager: Robert Auwaerter	**Total Assets in Fund:**	**$7,325,058,198**

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

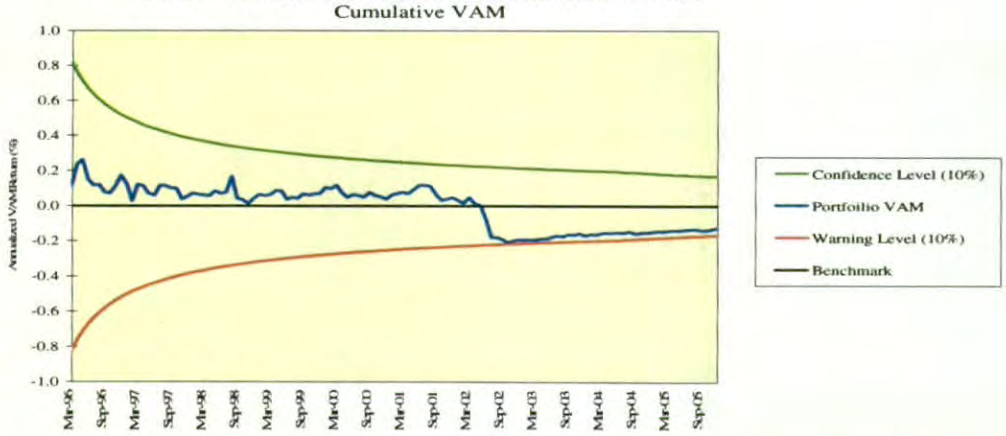
	Actual	Benchmark*
Last Quarter	0.7%	0.6%
Last 1 year	2.5	2.4
Last 2 years	3.4	3.4
Last 3 years	3.7	3.6
Last 4 years	4.8	5.2
Last 5 years	5.6	5.9
Since Retention by SBI (12/03)	3.7	3.7

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

Recommendation

No action required.

BOND - VANGUARD TOTAL BOND MARKET INDEX
Cumulative VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending December, 2005

Portfolio Manager: William Bower

State's Participation in Fund: $196,006,712
Total Assets in Fund: $33,094,250,000

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 outperformed the quarterly benchmark due to stock selection in the energy sector. The one-year return was helped by stock selection in the energy and financials sector.

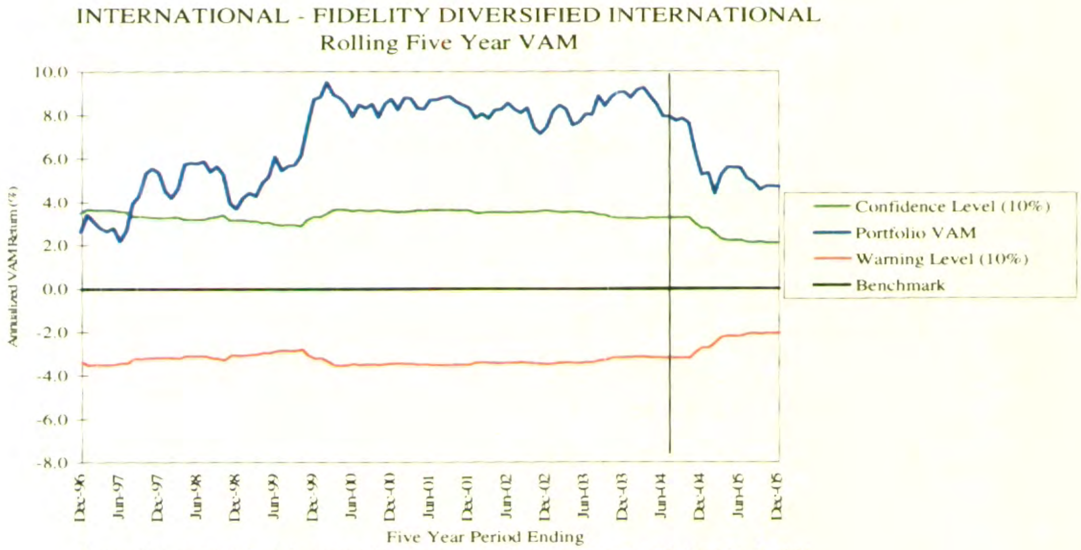
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.2%	4.1%
Last 1 year	17.2	13.5
Last 2 years	18.4	16.8
Last 3 years	25.9	23.7
Last 4 years	16.0	12.4
Last 5 years	9.5	4.6
Since Retention By SBI (7/99)	11.0	4.3

*Benchmark is the MSCI EAFE-Free.

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – VANGUARD INSTITUTIONAL DEVELOPED MARKETS INDEX
Periods Ending December, 2005

State's Participation in Fund: $36,957,287

Portfolio Manager: George U. Sauter **Total Assets in Fund: $1,874,495,235**

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

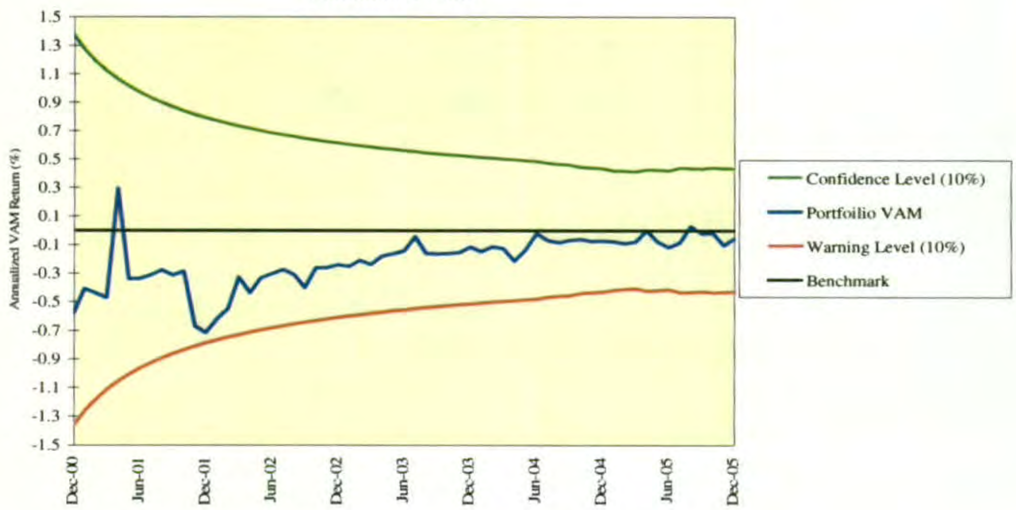
	Actual	Benchmark*
Last Quarter	3.9%	4.1%
Last 1 year	13.6	13.5
Last 2 years	16.9	16.8
Last 3 years	23.8	23.7
Last 4 years	12.5	12.3
Last 5 years	4.6	4.6
Since Retention by SBI (12/03)	20.5	20.4

*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.

INTERNATIONAL - VANGUARD DEVELOPED MARKET INDEX
Cumulative VAM



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending December, 2005

Total Assets in MN Fixed Fund: $719,121,056 *
*Includes $14-18M in Liquidity Buffer Account

Total Assets in 457 Plan: $738,135,827 **
**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: $316,911,737

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: $167,938,334

Assets in Prior MN 457 Plan: $0

Total Assets: $167,938,334

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: $217,997,691

Assets in Prior MN 457 Plan: $ 19,014,771

Total Assets: $237,012,463

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.

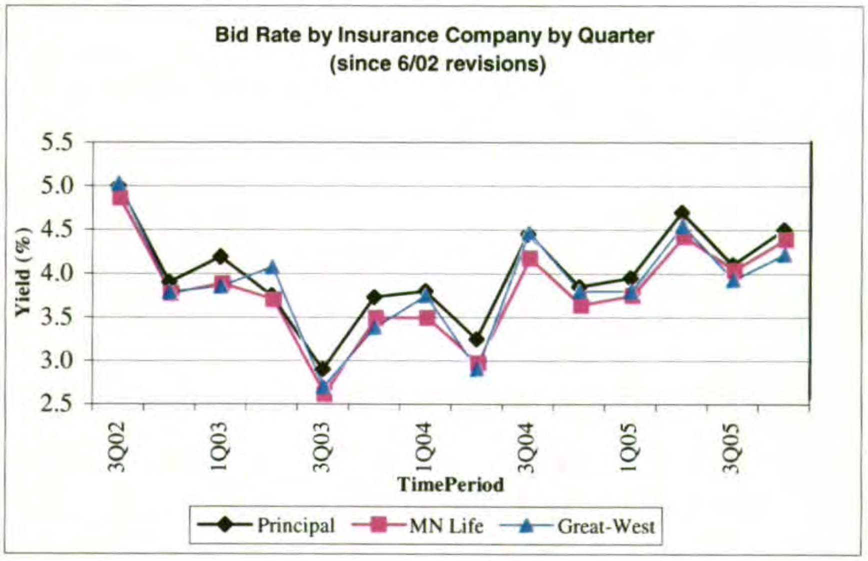
MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending December, 2005

Current Quarter

Dollar Amount of Bid: $37,800,000 **Blended Rate: 4.55%**

Bid Rates:

Principal Life	4.50%	Contracts were renewed in June 2002. Under these contracts, bid rates are effective for five years on the quarterly cash flows, the bid rate bands were narrowed to 8 b.p. from 10 b.p., and additional bid scenarios were added. All changes were effective for 3Q 2002 bids. The separate portfolio managed by Minnesota Life (previously referred to as the "existing portfolio") no longer exits. All assets of that portfolio matured in June 2004 and have been rolled into the Fixed Fund.
Minnesota Life	4.39%	
Great-West Life	4.22%	



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.

	1Q05	2Q05	3Q05	4Q05	Staff Comments
Principal Life	50.0%	60.0%	40.0%	60.0%	Principal and Minnesota Life were the top bidders. Principal was awarded 60%, and Minnesota Life received 40%.
Minnesota Life	20.0%	0.0%	40.0%	40.0%	
Great-West Life	30.0%	40.0%	20.0%	0.0%	

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Tab E

COMMITTEE REPORT

DATE: February 28, 2006

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met on February 15, 2006 to review the following information and action agenda items:

- Review of current strategy.
- New investments with one new real estate manager, Blackstone Real Estate Partners; two existing private equity managers, Court Square Capital and Thomas, McNerney & Partners; and two existing yield-oriented private equity managers, DLJ Investment Partners, and GS Mezzanine.

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 a new real estate manager, Blackstone Real Estate Partners, in Blackstone Real Estate Partners V, L.P.

Blackstone Real Estate Partners is seeking investors for a new $4.5 billion real estate fund. This fund is a successor to four prior U.S./global real estate funds managed by Blackstone Real Estate Partners. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of opportunistic real estate investments.
Although this would be a new investment for the SBI with Blackstone Real Estate Partners, the SBI has invested an aggregate of $220 million in three prior private equity funds with the Blackstone Group, the parent organization.

More information on Blackstone Real Estate Partners V, 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 Blackstone Real Estate 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 Blackstone Real Estate 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 Blackstone Real Estate Partners or reduction or termination of the commitment.

2) Investment with an existing private equity manager, Court Square Capital, in Court Square Capital Partners II, L.P.

Court Square (formerly Citigroup Venture Capital Equity Partners) is seeking investors for a new $2.5 billion private equity fund. This fund is a successor to one other prior private equity fund managed by Court Square in which the SBI has a $100 million investment. Like the prior fund, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments.

More information on Court Square Capital Partners II, L.P. is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Court Square Capital Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Court Square 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 Court Square or reduction or termination of the commitment.

3) Investment with an existing private equity manager, Thomas, McNerney & Partners in Thomas, McNerney & Partners II, L.P.

Thomas, McNerney & Partners is seeking investors for a new $300 million private equity fund. This fund is a successor to a prior private equity fund managed by Thomas, McNerney & Partners. The SBI has an investment of $30 million in the prior fund. Like the prior fund, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments, primarily in the healthcare industry.

More information on Thomas, McNerney & Partners II, 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 $50 million or 20%, whichever is less, in Thomas, McNerney & Partners II, L.P. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Thomas, McNerney & 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 Thomas, McNerney & Partners or reduction or termination of the commitment.

4) **Investment with an existing yield-oriented private equity manager, DLJ Investment Partners in DLJ Investment Partners III, L.P.**

DLJ Investment Partners is seeking investors for a new $1.6 billion yield-oriented private equity fund. This fund is a successor to two prior private equity funds managed by DLJ Investment Partners. The SBI has an investment of $50 million in the most recent prior fund. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments, primarily subordinated debt or preferred stock securities.

More information on DLJ Investment Partners III, 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 $100 million or 20%, whichever is less, in DLJ Investment 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 DLJ Investment 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 DLJ Investment Partners or reduction or termination of the commitment.

5) **Investment with an existing yield-oriented private equity manager, GS Mezzanine Partners in GS Mezzanine Partners 2006, L.P.**

GS Mezzanine Partners is seeking investors for a new $5.0 billion yield-oriented private equity fund. This fund is a successor to three other prior yield-oriented private equity funds managed by GS Mezzanine Partners. The SBI has an aggregate investment of $175 million in the two most recent prior funds. Like the prior funds, this fund will seek to earn attractive returns through a diversified portfolio of private equity investments, such as debt or preferred stock securities.

More information on GS Mezzanine Partners 2006, 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 $100 million or 20%, whichever is less, in GS Mezzanine Partners 2006, 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 Mezzanine 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 GS Mezzanine Partners or reduction or termination of the commitment.

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Minnesota State Board of Investment

Pooled Alternative Investments
Combined Retirement Funds
December 31, 2005

Basic Retirement Funds Market Value	$21,815,809,579
Post Retirement Fund Market Value	$20,295,266,084
Amount Available for Investment	**$1,759,059,032**

	Current Level	Target Level	Difference
Market Value (MV)	$3,948,744,335	$5,707,803,367	$1,759,059,032
MV +Unfunded	$6,323,209,055	$8,561,705,050	$2,238,495,995

Asset Class	Market Value	Unfunded Commitment	Total
Private Equity	$1,970,054,413	$1,483,178,560	$3,453,232,972
Real Estate	$754,928,275	$133,036,184	$887,964,459
Resource	$314,121,210	$64,232,289	$378,353,499
Yield-Oriented	$909,640,438	$694,017,688	$1,603,658,125
Total	$3,948,744,335	$2,374,464,720	$6,323,209,055

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ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 2005

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate							
American Republic	1	1	90,000	5,000	0	111.0	15.9
Colony Capital							
Colony Investors II	80,000,000	78,482,328	829,994	88,273,673	1,517,672	4.4	10.8
Colony Investors III	100,000,000	100,000,000	25,986,463	131,516,317	0	13.4	8.0
CSFB Strategic Partners RE III	25,000,000	1,981,488	1,931,337	0	23,018,512	N/A	0.5
Equity Office Properties Trust	258,062,214	258,062,214	117,402,578	374,848,902	0	15.0	14.1
Heitman Advisory Fund V	20,000,000	20,000,000	335,375	35,792,461	0	8.7	14.1
Lehman Brothers Real Esate Partners II	75,000,000	13,500,000	15,441,516	0	61,500,000	N/A	0.5
Morgan Stanley (Lend Lease)	51,032,615	51,032,616	203,909,409	17,796,574	0	7.3	24.2
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	9,940,594	73,910,631	0	11.1	11.6
Realty Associates Fund IV	50,000,000	50,000,000	22,893,716	77,286,070	0	12.7	8.9
Realty Associates Fund V	50,000,000	50,000,000	47,486,892	32,618,193	0	10.2	6.6
Realty Associates Fund VI	50,000,000	48,000,000	48,018,107	12,846,525	2,000,000	13.2	3.5
Realty Associates Fund VII	75,000,000	30,000,000	29,506,740	410,209	45,000,000	-1.2	1.1
UBS Realty	42,376,529	42,376,529	231,155,554	0	0	8.0	23.7
Real Estate Total	**916,471,359**	**783,435,176**	**754,928,275**	**845,304,555**	**133,036,184**		
Resource							
Apache Corp III	30,000,000	30,000,000	7,446,690	51,336,294	0	12.4	19.0
First Reserve							
First Reserve I	15,000,000	15,000,000	24,865	14,552,526	0	-0.3	24.3
First Reserve II	7,000,000	7,000,000	60,247	14,879,948	0	5.9	22.9
First Reserve V	16,800,000	16,800,000	187,014	50,261,377	0	16.2	15.7
First Reserve VII	40,000,000	40,000,000	3,103,003	55,976,613	0	9.8	9.5
First Reserve VIII	100,000,000	100,000,000	55,021,303	116,877,537	0	13.6	7.7
First Reserve IX	100,000,000	100,000,000	147,579,758	148,692,661	0	53.1	4.7
First Reserve X	100,000,000	42,122,271	59,871,451	14,371,394	57,877,729	125.9	1.2
Simmons							
Simmons - SCF Fund II	17,000,000	14,706,629	999,999	30,582,945	2,293,371	9.2	14.4
Simmons - SCF Fund III	25,000,000	23,408,729	8,745,308	56,274,424	1,591,271	18.5	10.5
Simmons - SCF Fund IV	50,000,000	47,530,081	31,081,571	62,560,030	2,469,919	16.2	7.8
T. Rowe Price	33,042,070	33,042,070	0	56,291,003	N/A	30.2	N/A
Resource Total	**533,842,070**	**469,609,781**	**314,121,210**	**672,656,752**	**64,232,289**		

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 2005

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Yield-Oriented							
Carbon Capital	50,000,000	46,184,308	15,368,521	44,355,682	3,815,692	15.4	3.6
CT Mezzanine Partners	100,000,000	36,804,097	2,510,452	48,835,539	63,195,903	19.2	4.3
Citicorp Mezzanine							
Citicorp Mezzanine Partners	40,000,000	40,000,000	8,178,558	46,488,644	0	9.6	11.0
Citicorp Mezzanine Partners III	100,000,000	88,098,283	51,023,948	74,105,935	11,901,717	17.0	6.2
DLJ Investment Partners II	50,000,000	20,654,583	5,549,810	24,654,861	29,345,417	10.3	6.0
Gold Hill Venture Lending	40,000,000	22,800,000	21,443,856	742,032	17,200,000	-4.3	1.3
GS Mezzanine Partners							
GS Mezzanine Partners II	100,000,000	83,092,437	48,311,048	55,731,839	16,907,563	7.7	5.8
GS Mezzanine Partners III	75,000,000	46,371,397	46,319,207	5,910,630	28,628,603	13.9	2.5
GTCR Capital Partners	80,000,000	69,589,422	29,449,301	65,261,786	10,410,578	8.6	6.1
GMAC Institutional Advisors							
Institutional Commercial Mortgage Fd II	13,500,000	13,397,500	1,617,333	20,175,129	102,500	9.6	10.4
Institutional Commercial Mortgage Fd III	21,500,000	21,275,052	10,610,781	23,792,066	224,948	8.3	9.1
Institutional Commercial Mortgage Fd IV	14,300,000	14,300,000	8,234,052	13,663,971	0	8.3	8.0
Institutional Commercial Mortgage Fd V	37,200,000	37,200,000	29,524,719	22,767,513	0	8.3	6.4
KB Mezzanine Fund IV	25,000,000	25,000,000	2,151,671	11,448,032	0	-12.0	10.3
Merit Capital Partners (fka William Blair)							
William Blair Mezzanine Fund III	60,000,000	55,521,600	22,862,763	52,826,400	4,478,400	10.0	6.0
Merit Mezzanine Fund IV	75,000,000	9,655,220	9,019,182	0	65,344,780	-12.3	1.0
Merit Energy Partners							
Merit Energy Partners B	24,000,000	24,000,000	60,838,114	37,420,079	0	25.1	9.5
Merit Energy Partners C	50,000,000	50,000,000	165,620,626	44,181,941	0	35.6	7.2
Merit Energy Partners D	88,000,000	70,938,303	162,930,375	13,102,691	17,061,697	33.4	4.6
Merit Energy Partners E	100,000,000	31,737,695	39,235,901	226,382	68,262,305	18.9	1.2
Merit Energy Partners F	100,000,000	0	0	0	100,000,000	N/A	0.0
Prudential Capital Partners							
Prudential Capital Partners I	100,000,000	91,782,726	47,881,908	61,792,477	8,217,274	8.5	4.7
Prudential Capital Partners II	100,000,000	10,095,452	9,832,395	143,014	89,904,548	N/A	0.5
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	82,571	31,406,578	2,000,000	30.6	11.8
Summit Sub. Debt Fund II	45,000,000	40,275,000	10,430,555	76,258,113	4,725,000	56.8	8.4
Summit Sub. Debt Fund III	45,000,000	15,750,000	15,362,168	1,243,612	29,250,000	7.2	1.9
T. Rowe Price	53,340,603	53,340,603	398,902	51,844,812	N/A	-12.2	N/A
TCW/Crescent Mezzanine							
TCW/Crescent Mezzanine Partners	40,000,000	37,130,039	4,078,391	50,659,420	2,869,961	13.2	9.7
TCW/Crescent Mezzanine Partners II	100,000,000	87,479,046	5,198,145	122,496,128	12,520,954	12.0	7.1
TCW/Crescent Mezzanine Partners III	75,000,000	59,698,101	32,258,271	72,876,339	15,301,899	33.5	4.8
Windjammer Capital							
Windjammer Mezz. and Equity Partners II	66,708,861	49,360,912	43,316,913	20,004,646	17,347,949	10.2	5.7
Windjammer Senior Equity Fund III	75,000,000	0	0	0	75,000,000	N/A	0.0
Yield-Oriented Total	**1,963,549,464**	**1,269,531,776**	**909,640,438**	**1,094,416,290**	**694,017,688**		

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 2005

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	193,571	9,280,721	1,200,000	13.2	17.6
Brinson Partners II	20,000,000	20,000,000	243,787	37,754,513	0	24.1	15.1
Affinity Ventures	4,000,000	391,847	228,208	405,436	3,608,153	27.6	1.5
Bank Fund							
Banc Fund V	48,000,000	48,000,000	63,005,136	31,144,369	0	14.6	7.5
Banc Fund VII	45,000,000	10,800,000	10,222,038	0	34,200,000	N/A	0.8
Blackstone Capital Partners							
Blackstone Capital Partners II	50,000,000	47,271,190	3,645,640	94,592,612	2,728,810	34.2	12.1
Blackstone Capital Partners IV	70,000,000	48,493,163	69,696,035	25,580,102	21,506,837	70.5	3.5
Blackstone Capital Partners V	100,000,000	0	0	0	100,000,000	N/A	0.0
BLUM Capital Partners							
Blum Strategic Partners I	50,000,000	48,771,954	20,407,761	86,426,434	1,228,046	15.6	7.0
Blum Strategic Partners II	50,000,000	40,384,728	39,838,520	37,651,279	9,615,272	26.7	4.5
Blum Strategic Partners III	75,000,000	30,632,759	28,814,862	1,916,223	44,367,241	N/A	0.6
Chicago Growth Partners (William Blair)							
William Blair Capital Partners VII	50,000,000	43,150,000	45,471,352	3,857,339	6,850,000	5.5	4.8
Chicago Growth Partners VIII	50,000,000	4,549,148	4,398,589	0	45,450,852	N/A	0.4
Citigroup Venture Capital Equity	100,000,000	74,085,995	44,147,209	77,653,819	25,914,005	29.5	4.1
Contrarian Capital Fund II	37,000,000	33,244,395	17,296,676	29,563,019	3,755,605	5.1	8.6
Coral Partners							
Coral Partners Fund II	10,000,000	10,000,000	413,814	36,632,559	0	24.9	15.4
Coral Partners Fund IV	15,000,000	15,000,000	1,584,311	13,156,023	0	-0.5	11.4
Coral Partners Fund V	15,000,000	14,625,000	3,452,052	2,016,216	375,000	-17.9	7.5
Crescendo							
Crescendo II	15,000,000	15,000,000	904,091	20,347,039	0	21.0	9.0
Crescendo III	25,000,000	25,000,000	2,998,170	8,084,795	0	-22.9	7.2
Crescendo IV	101,500,000	93,887,500	32,717,925	4,018,614	7,612,500	-23.5	5.8
CSFB/ DLJ							
CSFB Strategic Partners	100,000,000	83,081,567	51,317,067	82,908,616	16,918,433	24.1	4.9
CSFB Strategic Partners II	100,000,000	63,454,805	55,156,658	51,767,717	36,545,195	55.2	2.5
CSFB Strategic Partners III	100,000,000	6,310,895	5,428,487	0	93,689,105	N/A	0.6
CSFB Strategic Partners III VC	25,000,000	0	0	0	25,000,000	N/A	0.6
DLJ Merchant Banking Partners III	125,000,000	114,375,037	64,730,517	108,224,616	10,624,963	15.5	5.3
DSV Partners	10,000,000	10,000,000	1,247,913	27,596,934	0	9.5	20.7
Elevation Partners	75,000,000	11,798,228	11,451,313	0	63,201,772	N/A	0.6
First Century Partners III	10,000,000	10,000,000	70,462	15,098,689	0	7.5	21.0
Fox Paine Capital Fund							
Fox Paine Capital Fund	40,000,000	40,000,000	11,131,481	38,406,404	0	3.8	7.7
Fox Paine Capital Fund II	50,000,000	37,246,462	19,089,861	36,622,402	12,753,538	22.0	5.5
Golder,Thoma, Cressey, Rauner							
Golder, Thoma, Cressey & Rauner Fund IV	20,000,000	20,000,000	157,975	41,020,323	0	24.8	11.9
Golder, Thoma, Cressey & Rauner Fund V	30,000,000	30,000,000	9,693,346	42,483,476	0	10.8	9.5
GTCR Golder Rauner							
GTCR VI	90,000,000	89,137,778	27,985,459	68,918,378	862,222	3.0	7.5
GTCR VII	175,000,000	149,843,749	108,687,217	154,788,225	25,156,251	20.4	5.9

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 2005

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
GS Capital Partners							
GS Capital Partners 2000	50,000,000	47,259,709	35,810,016	38,075,368	2,740,291	20.3	5.3
GS Capital Partners V	100,000,000	24,005,427	23,784,217	0	75,994,573	N/A	0.8
GHJM Marathon Fund							
GHJM Marathon Fund IV	40,000,000	38,481,000	14,219,567	42,845,952	1,519,000	10.6	6.7
GHJM Marathon Fund V	28,985,714	10,136,239	8,887,941	0	18,849,475	-23.7	1.2
Hellman & Friedman							
Hellman & Friedman Capital Partners III	40,000,000	32,113,684	2,047,253	69,053,167	7,886,316	34.3	11.3
Hellman & Friedman Capital Partners IV	150,000,000	133,967,494	195,575,683	65,244,031	16,032,506	31.1	6.0
Hellman & Friedman Capital Partners V	160,000,000	51,150,859	49,033,981	0	108,849,141	-10.5	1.1
Kohlberg Kravis Roberts							
KKR 1987 Fund	145,950,000	145,373,652	9,055,696	394,874,959	576,348	8.9	18.1
KKR 1993 Fund	150,000,000	150,000,000	3,942,744	306,694,216	0	16.8	12.0
KKR 1996 Fund	200,000,000	200,000,000	62,898,406	290,793,167	0	13.4	9.3
KKR Millennium Fund	200,000,000	148,265,903	183,115,316	37,819,755	51,734,097	37.1	3.1
Matrix Partners III	10,000,000	10,000,000	310,843	77,327,244	0	75.1	15.7
Lexington Capital Partners VI	100,000,000	1,000,000	1,000,000	0	99,000,000	N/A	0.0
Sightline Healthcare							
Sightline Healthcare Fund II	10,000,000	10,000,000	4,405,116	4,190,002	0	-2.5	8.8
Sightline Healthcare Fund III	20,000,000	19,400,002	7,834,599	2,494,843	599,998	-13.9	6.9
Sightline Healthcare Fund IV	7,700,000	5,660,182	4,625,625	4,891	2,039,818	-15.6	2.3
Silver Lake Partners II	100,000,000	44,335,102	43,241,798	106,989	55,664,898	-4.7	1.5
Split Rock Partners	50,000,000	3,872,724	3,314,905	0	46,127,276	N/A	0.7
Summit Partners							
Summit Ventures II	30,000,000	28,500,000	104,249	74,524,292	1,500,000	28.8	17.6
Summit Ventures V	25,000,000	23,625,000	5,792,720	22,652,036	1,375,000	5.3	7.8
T. Rowe Price	655,090,991	655,090,991	84,792,891	612,281,373	N/A	9.6	N/A
Thoma Cressey							
Thoma Cressey Fund VI	35,000,000	33,915,000	18,013,960	7,881,225	1,085,000	-5.4	7.4
Thoma Cressey Fund VII	50,000,000	35,355,000	20,925,575	38,275,600	14,645,000	32.4	5.3
Thomas, McNerney & Partners	30,000,000	13,350,000	15,289,435	0	16,650,000	8.8	3.2
Vestar Capital Partners							
Vestar Capital Partners IV	55,000,000	46,702,696	35,525,357	21,818,502	8,297,304	9.2	6.0
Vestar Capital Partners V	100,000,000	117,607	117,607	0	99,882,393	N/A	0.0
Warburg Pincus							
Warburg, Pincus Ventures	50,000,000	50,000,000	17,422,475	235,427,414	0	49.2	11.0
Warburg Pincus Equity Partners	100,000,000	100,000,000	36,683,342	114,031,450	0	10.4	7.5
Warburg Pincus Private Equity VIII	100,000,000	92,000,000	85,076,451	21,513,650	8,000,000	8.4	3.7
Warburg Pincus Private Equity IX	100,000,000	18,505,208	18,402,634	0	81,494,792	N/A	0.4
Wayzata Opportunities Fund	100,000,000	23,450,000	23,450,000	0	76,550,000	N/A	0.0
Welsh, Carson, Anderson & Stowe							
Welsh, Carson, Anderson & Stowe VIII	100,000,000	100,000,000	77,587,183	14,810,930	0	-1.4	7.4
Welsh, Carson, Anderson & Stowe IX	125,000,000	112,500,000	102,129,616	49,301,836	12,500,000	12.4	5.5
Welsh, Carson, Anderson & Stowe X	100,000,000	19,578,466	19,578,466	0	80,421,534	N/A	0.0
Zell/ Chilmark	30,000,000	30,000,000	231,244	76,414,975	0	17.7	15.5
Private Equity Total	**5,233,226,705**	**3,750,048,145**	**1,970,054,413**	**3,806,374,761**	**1,483,178,560**		

REAL ESTATE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Blackstone Real Estate Partners V, L.P. ("The Fund" or "BREP V")
Type of Fund:	Real Estate
Total Fund Size:	$4.5 billion
Fund Manager:	Blackstone Real Estate Associates V, L.P.
Manager Contact:	Ken Whitney 345 Park Avenue New York, NY 10154 212-583-5000 whitney@blackstone.com

II. Organization and Staff

The Blackstone Group (together with its affiliates, "Blackstone"), a privately held merchant banking firm, is sponsoring its seventh real estate fund and its fifth U.S./global real estate investment fund, Blackstone Real Estate Partners V L.P., together with its parallel funds ("BREP V" or the "Partnership"). BREP V is the successor fund to Blackstone Real Estate Partners IV L.P. and its parallel funds ("BREP IV"), a $2 billion fund that began its investment period in 2003.

Blackstone is one of the world's largest and most successful alternative asset managers, having raised more than $41 billion for private alternative asset investing and approximately $10 billion for liquid alternative asset investing. To date, Blackstone has raised approximately $9 billion of capital for real estate private equity investing through its U.S./global real estate investment funds.

Since 1991, through its U.S./global real estate funds and "Pre-BREP" real estate investments, Blackstone has invested/committed approximately $6.4 billion of equity capital into 168 separate real estate transactions with a total transaction value of approximately $37 billion.

III. Investment Strategy

Blackstone expects to focus on the same core strategies that it has successfully pursued in the past, including public-to-private transactions, acquiring institutional-quality assets that have certain flaws, implementing a strategy to correct those flaws and subsequently seeking to dispose of the assets into the deep capital markets. BREP V, like its predecessor funds, is expected to continue to be flexible and nimble and adjust its acquisition strategy as the markets adjust over time.

As with its earlier funds, Blackstone expects BREP V to benefit from the advice of its London and Paris offices for European investments. By generally co-investing between 20%–40% in each of BREP International's transactions, it is anticipated that roughly 10%–20% of BREP V's equity will be allocated to European investments.

IV. Investment Performance

Previous fund performance as of September 30, 2005 for Blackstone Real Estate Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
BREP I	1994	$338 million	--	39.7%
BREP II	1996	$1,111 million	--	18.5%
BREP III	1998	$1,432 million	--	17.9%
BREP IV	2002	$2,050 million	--	76.5%

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

V. General Partner's Investment

Blackstone will invest $50 million in the Fund, plus up to an additional 10% in each Investment on a side-by-side basis (based on an annual election).

VI. Takedown Schedule

The General Partner will give at least ten business days' written notice prior to any drawdown of unused Capital Commitments. Funds will be taken down as needed pro rata based generally on unused Capital Commitments, to make Investments (including to pay fees and expenses payable by the Partnership associated therewith), to pay Partnership Expenses, to make additional contributions to existing Investments to repay borrowings, or to satisfy guarantees or other obligations of the Partnership.

VII. Fees

The Applicable Management Fee Percentage of such Limited Partner's (i) Capital Commitment during the Investment Period and (ii) invested capital with respect to Investments that have not been disposed of after the earlier of the end of the Investment Period and the time management fees in connection with a successor fund have begun to accrue. The "Applicable Management Fee Percentage" equals (i) 1.5% per annum if such Limited Partner has aggregate Capital Commitments of less than $200 million and (ii) 1.25% per annum if such Limited Partner has aggregate Capital Commitments equal to or greater than $200 million.

Management Fees will be reduced by an amount equal to the sum of (i) 80% of any Additional Fees and (ii) 50% of any acquisition fees; provided, that such fees will be allocated among the Partnership, BREP International, and, to the extent applicable, Other Blackstone Funds on a pro rata basis in applying the foregoing.

Management Fees are in addition to the capital commitment and are payable quarterly in arrears.

VIII. Allocations and Distributions

Upon disposition of an Investment (calculated separately for each Limited Partner with respect to its pro rata share):

• First, 100% to the Limited Partner until it receives a return of contributions for the Investment that has been disposed of, Allocated Fees and Expenses that have not been recouped on all Investments that have been disposed of, unrecouped losses on Investments previously disposed of, unrealized losses on Investments not disposed of, and an 8% compound annual return on contributions with respect to Investments disposed of, plus Allocated Fees and Expenses;

• Second, 80% to the General Partner and 20% to the Limited Partner until the General Partner receives its 20% carried interest; and

• Thereafter, 80% to the Limited Partner and 20% to the General Partner.

Current Income is generally distributed as described above, except that distributions are made on an Investment-by-Investment basis and will not take into account a return of capital contributions or any writedowns, but will take into account actual unrecouped losses from prior dispositions.

IX. Investment Period and Term

The investment period for drawdown notices to fund new Investments will expire not more than five years and six months from the Effective Date.

The term of the Partnership will end on the fifth anniversary of the last day of the Investment Period, with an option on the part of the General Partner to extend the term of the Partnership for up to two additional one-year periods, if the L.P. Advisory Committee does not object to such extension within 30 days of notice thereof.

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PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Court Square Capital Partners II, LP
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$2.5 billion
Fund Manager:	Court Square Capital GP, LLC 399 Park Avenue, 14th Floor New York, NY 10022
Manager Contact:	David Thomas Tel: 212 559 1119

II. Organization and Staff

Court Square Capital GP, LLC, is being formed as an independent spinout from, and successor to, Citigroup Venture Capital. The partners of Court Square had operated autonomously as Citigroup Venture Capital since 1979. Going forward, Court Square will continue to manage certain investments of Citigroup including Citigroup Venture Capital Equity Partners, L.P. (Fund I).

Court Square's five managing partners include: William T. Comfort; David F. Thomas; Thomas F. McWilliams; Michael A. Delaney and Joseph Silvestri. In addition to the managing partners, the firm's senior investment team also includes an additional eight partners. Overall, the 13 partner investment team has worked together, on average, for 14 years. Additional staff includes 9 other investment professionals and 16 support staff.

III. Investment Strategy

Court Square intends to continue to apply the same investment strategy that the investment team has successfully employed in Fund I and refined over the last three decades. Under this strategy, the investment team seeks to identify and invest primarily in U.S.-based middle-market companies capable of generating earnings growth in excess of either their underlying industry or their historical performance. Typically, these businesses possess some, if not all, of the following characteristics: Unrecognized or untapped revenue potential; Unrealized and sustainable cost reduction opportunities; Availability of highly accretive acquisitions.

The investment team believes that companies with such characteristics frequently represent attractive investment opportunities as their valuations are often driven by historical performance and, thus, reflect a discount to their true growth potential. By demonstrating improved earnings growth, Court Square believes it can improve exit valuations, broaden the universe of potential buyers and/or create the scale necessary to successfully exit

through an initial public offering.
Court Square believes that it enjoys a strong competitive advantage with respect to sourcing and execution primarily as a result of the following factors: (1) the investment team's vast network developed over three decades of sponsoring middle market buyouts; (2) the investment team's recognized expertise in certain focus industries; and (3) the investment team's reputation for capitalizing on investments which involve business or transaction-related complexities.
Upon consummation of an investment, Court Square seeks to aggressively capitalize on the business's growth opportunities identified in the due diligence process. The investment team works in strong partnership with portfolio company management to focus on, among other things, developing and promoting revenue growth, improving operating efficiencies, establishing key financial and operating metrics, recruiting and retaining top-level employees and pursuing accretive acquisitions. Court Square has a proactive management approach, which typically includes exerting significant control over companies.
Finally, Court Square typically creates an equity incentive program for each of its portfolio company management teams. Such a program allows portfolio company managers to share in their company's value creation, thereby aligning their interests with those of the fund's investment professionals and the fund's limited partners.

IV. Investment Performance

Previous fund performance as of December 31, 2005 for principals of Court Square Capital Partners is shown below:

Fund Name	Inception Date	Total Capital Commitments (millions)	SBI Investment (millions)	Net IRR from Inception
Principals' investments prior to the formation of Citigroup Venture Capital Equity Partners, L.P.	1990	1,458	-	24%
Citigroup Venture Capital Equity Partners, L.P.	2001	$2,600	$100	29.5%

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 intends to contribute one hundred fifty million dollars.

VI. Takedown Schedule

Takedown of investor commitments will be payable when called on 10 business days advance notice by the general partner (or such shorter notice as may be determined by the general partner, but in no event less than five business days).

VII. Fees

Management fees will be 1.5% of the aggregate commitments until the expiration of the commitment period, and thereafter 1.0% of unreturned capital and commitments reserved for follow-on investments. 80% of net portfolio company fees will be applied as an offset to the management fee. The fund will bear offering and organizational expenses up to $2,000,000.

VIII. Allocation and Distributions

In general, 100% to all partners until: (i) return of all previously contributed capital for realized or written down investments (including management fees and other partnership expenses) and; (ii) payment of the 8% preferred return - thereafter, 80% to all partners and 20% to the general partner, after 100% "catch-up" for the general partner.

IX. Investment Period and Term

The investment period for the fund is 5 years from the final closing. The term of the fund is 10 years from final closing, subject to extension for up to three additional one-year terms.

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PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Thomas, McNerney& Partners II, LP
Type of Fund:	Private Equity Limited Partnership (Venture Capital)
Total Fund Size:	$300 million
Fund Manager:	Thomas, McNerney& Partners II, LLC 60 South 6th St. Suite 3620 Minneapolis, MN 55402
Manager Contact:	Pete McNerney 612-465-8670

II. Organization and Staff

Thomas, McNerney & Partners II, L.P. will be managed by the General Partner, Thomas, McNerney & Partners II, LLC, a Delaware limited liability company, which will be operated by James E. Thomas, Peter H. McNerney, Karen M. Boezi, Alex Zisson and Pratik Shah, Ph.D. (collectively, the "Principals"). Each of the Principals plays an active role in the Partnership's investment activities and in monitoring and advising the Partnership's portfolio companies. The Principals are supported in these activities by two associates, Kathleen A. Tune and Christine E. Siu. Susan J. Haedt overseas the firm's administrative operations as Chief Financial Officer.

In addition, Thomas, McNerney has retained a 6 person group of nationally prominent, clinical and scientific advisors. These advisors provide investment ideas, due diligence and portfolio company assistance as well as referrals to world-class contacts on any particular scientific issue. The firm believes that the expertise of these advisors provides the Partnership with a competitive advantage in sourcing, evaluating and managing investments.

III. Investment Strategy

The Partnership will pursue investments in companies at all stages of development in the pharmaceutical, medical device and biotechnology sectors as well as in other areas utilizing medical technology innovation. Thomas, McNerney believes that these markets are attractive for investment given their favorable characteristics, including the generation of high growth, high margin products and significant barriers to entry created through intellectual property rights and the regulatory process. Also, the General Partner believes that the health care industry provides excellent investment opportunities in times of economic prosperity as well as in downturns.

The General Partner will continue to adhere to its multi-stage, multi-sector investment approach. Portfolio diversification by stage and sector serves to maximize deal flow as well as reduce the Partnership's exposure to technological changes and fluctuations in the public equity market. Moreover, this approach provides the Team with the flexibility to invest in companies with the highest potential returns, irrespective of stage or sector, in any given year. This strategy helps the Partnership avoid making investments in areas that are becoming overcapitalized or overvalued. Thomas, McNerney believes the consistently above-average returns its Team has generated over multiple economic cycles have been driven by their ability to assemble portfolios diversified in this manner.

Thomas, McNerney anticipates that the Partnership will make investments in approximately 20 companies, ranging from start-ups to corporate divestitures, with an average commitment per company of about $15 million. The firm will target investments in which the Thomas, McNerney Team believes they can have a significant impact on performance through substantial equity positions and active involvement in portfolio company development. The General Partner's members have an established history of leading financings and being active investors, having led or co-led all of the investments in the Thomas, McNerney, L.P. portfolio and serving as board members for all of the companies in the fund.

IV. Investment Performance

Previous fund performance as of December 31, 2005 for Thomas, McNerney is shown below:

Fund Name	Inception Date	Total Capital Commitments (millions)	SBI Investment (millions)	Net IRR from Inception
Principals' investments prior to the formation of Thomas, McNerney & Partners, L.P.	1988	$519.4		25.8%
Thomas, McNerney & Partners, L.P.	2002	$209.5	$30	5.2%

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

V. General Partner's Investment

The Principals intend to contribute seven million dollars.

VI. Takedown Schedule

Takedown of investor commitments will be as needed on ten business days' notice

VII. Fees

A quarterly management fee will be payable by the Partnership to the General Partner. The annual management fee will equal two and one-half percent (2.50%) of the Partnership's committed capital. Beginning with the first full fiscal quarter more than six years after the initial closing, the annual management fee shall be reduced to 2% of committed capital less the cost of disposed of and distributed assets (excluding the cost of disposed of assets whose proceeds are reinvested). In the event the General Partner forms a successor fund with total capital commitments of at least $300 million prior to year 7, the annual management fee prior to year 7 will be reduced to 2% of committed capital, declining by 10% a year through year 6, but in no event less than 2% of committed capital less the cost of disposed of and distributed assets (excluding the cost of disposed of assets whose proceeds are reinvested).

100% of all directors', transaction, investment banking, advisory, break-up or other similar fees will be credited against the management fee.
The Partnership will bear offering and organizational expenses up to $700,000.

VIII. Allocation and Distributions

In general, allocations in respect of net profits will be made 80% to all Partners in proportion to capital contributions, and 20% to the General Partner.

IX. Investment Period and Term

After the date six years from the Partnership's initial closing the General Partner may not call additional capital except to the extent necessary to: (i) cover the expenses of the Partnership, including management fees; (ii) complete investments by the Partnership in transactions which are in process as of the end of the Commitment Period; and (iii) fund follow-on investments in existing portfolio companies. The Partnership will terminate on the date ten years from its commencement. The General Partner shall have the sole discretion to extend the Partnership's term for one one-year period and, with the approval of the Advisory Committee, may extend the Partnership's term for an additional year.

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YIELD-ORIENTED MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	DLJ Investment Partners III, L.P. ("DLJIP III" or "The Fund")
Type of Fund:	Mezzanine Debt
Total Fund Size:	$1.6 billion
Fund Manager:	DLJ Investment Associates III, L.P.
Manager Contact:	John Moriarty 11 Madison Avenue New York, NY 10010 Ph: (212) 538-3514 e-mail: john.moriarty@credit-suisse.com

II. Organization and Staff

DLJ Investment Partners III, L.P. is being formed by DLJ Investment Partners, an affiliate of the Credit Suisse First Boston division of Credit Suisse ("CSFB"), to invest in mezzanine securities with attractive risk-adjusted rates of return.

DLJIP will be headed by Managing Director John Moriarty, who joined DLJ in 1989 and has led the DLJIP investment team since its formation in 1995. Doug Ladden, the other Managing Director of DLJIP, joined DLJ in 1988, and was also a founding member of DLJIP. John and Doug will be joined by an experienced team of dedicated professionals.

CSFB is a leading global investment banking and asset management firm, providing comprehensive securities underwriting, sales and trading, investment banking, alternative asset, financial advisory, investment research and asset management services to institutional, corporate, government and high-net-worth clients. As of December 31, 2004, CSFB had total assets of more than $430 billion and more than 19,400 employees in 69 locations across 33 countries.

III. Investment Strategy

With the launch of DLJIP III, DLJIP will continue to pursue the conservative, credit-oriented investment strategy that it has successfully employed since 1995. DLJIP's flexible mandate enables it to structure investments to fit the needs of specific transactions and adapt to take advantage of changing market conditions. DLJIP typically invests in subordinated debt or preferred stock, which are senior in a company's capitalization to common stock, providing a significant current return and downside protection. In addition, DLJIP's investments will often include an equity component that creates the opportunity for meaningful capital gains. Consistent with its predecessor funds, DLJIP III will target investments primarily in the United States across a wide range of transactions, including leveraged acquisitions, investments with corporate partners, recapitalizations and financings for growth companies. The Fund will consider investments of varying size, but generally expects to invest $25 million to $75 million per transaction.

IV. Investment Performance

Previous fund performance as of September 30, 2005 for DLJ Investment Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
DLJ Mezz. Investment Program*	1996	$421 million	--	5.6%
DLJ Investment Partners II	1999	$1,600 million	$50 million	10.7%

* The DLJ Mezz. Investment Program did not employ leverage through the use of a credit facility. Fund III anticipates using a credit facility in a manner similar to that of Fund II.

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

V. General Partner's Investment

CSFB and its affiliates will commit $100 million to the Fund, and DLJIP professionals and other CSFB employees expect to commit an additional $50 million through CSFB-sponsored co-investment programs.

VI. Takedown Schedule

It is anticipated that the Commitments will be drawn down on an "as needed" basis, generally with a minimum of ten business days' prior written notice to the Limited Partners, provided that a General Partner may at any time in its discretion draw down and hold in cash up to 5% of a Partner's Commitment.

VII. Fees

Each Limited Partner will pay an annual management fee, payable semiannually (three months in arrears and three months in advance) to the Manager. During the Commitment Period, each Limited Partner will pay a management fee equal to 1.75% per annum of such Limited Partner's Commitment, effective upon the Initial Closing. After the Commitment Period, each Limited Partner will pay a management fee equal to 1.25% per annum of such Limited Partner's invested capital.

Certain income constituting Special Income could be realized by the Fund, the General Partner, any employee of the General Partner or the Manager in connection with the Fund's investment activities. "Special Income" includes, among other things, commitment, break-up, "topping" and similar income realized with respect to any Mezzanine Investment or proposed Mezzanine Investment and director and monitoring fees paid by any portfolio company. Special Income realized by the Fund will be allocated and distributed solely to the General Partner. Special Income will be first applied to unreimbursed out-of-pocket expenses related to that transaction. Then, 50% of any excess Special Income (or 75% of any excess Special Income in the form of director and monitoring fees) will be used to reduce the management fees payable to the Manager by the Limited Partners. CSFB or affiliated entities may earn customary investment banking fees and other advisory fees in which the Fund will not participate and which will not be applied to reduce the management fees payable to the Manager by the Limited Partners.

The Partnership will pay offering and organizational expenses, not including placement fees, up to $1,500,000.

VIII. Allocations and Distributions

In general, the partners first will receive:

(i) a return of invested capital on realized investments, and unrealized investments to the extent that the Manager has determined such unrealized investments are clearly and permanently impaired due to bankruptcy or payment default on indebtedness;

(ii) a return of partnership expenses and management fees paid by partners and allocable to realized investments and Notional Loss Investments

(iii) a priority return of 8% on the amounts referred to in (i) and (ii) above;

After which distributions will be made:

(iv) 100% to the General Partner as a "catch up" until the General Partner has received 20% of the total amount distributed pursuant to clause (iii) and this clause (iv); and

(v) thereafter, 80% to the partners and 20% to the General Partner.

IX. Investment Period and Term

The Investment Period is six years from the final closing and the Term is ten years from the final closing, subject to up to four one-year extensions.

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YIELD-ORIENTED MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	GS Mezzanine Partners 2006, L.P. (the "Fund" or "GSMP 2006")
Type of Fund:	Mezzanine Debt
Total Fund Size:	$3 Billion
Fund Manager:	GS Mezzanine Advisors 2006, L.L.C.
Manager Contact:	Muneer Satter One New York Plaza, 40th Floor New York, New York 10004 (212) 902-8816 e-mail: Amy Brown, amy.brown@gs.com

II. Organization and Staff

Goldman Sachs, a leading international investment banking firm, is establishing GS Mezzanine Partners 2006, L.P. (the "Fund," the "Partnership," or "GSMP III") as a vehicle for investors seeking both long-term capital appreciation as well as current returns through investments in mezzanine securities. The partnership will represent the fourth in a series of funds raised by Goldman Sachs since 1996 to make investments in mezzanine securities.

The Principal Investment Area of Goldman Sachs' Merchant Banking Division (the "PIA"), which has achieved twenty years of successful results in its private investments, will evaluate, structure, monitor, manage, and harvest the Fund's investments. The PIA currently consists of over 100 professionals in New York, San Francisco, Hong Kong, London, and Tokyo.

All investment decisions are made by the 21-member Investment Committee of Goldman Sachs, which includes Muneer Satter, global head of Mezzanine for the PIA.

III. Investment Strategy

The Partnership plans to invest in securities which will principally include fixed income securities, such as debt and preferred stock, and may also include an equity component, such as warrants, options or common stock.

The Partnership will consider a broad array of investment opportunities, primarily in North America and Europe, including leveraged buyout and other private equity sponsored transactions, recapitalizations, refinancings, restructurings, acquisitions and structured transactions. The General Partner will seek to create a global portfolio of mezzanine investments and to use leverage on an appropriate basis to seek to enhance the return to investors in the Partnership.

IV. Investment Performance

Previous fund performance as of December 31, 2005 for Goldman Sachs Mezzanine Partners and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
GSMP I	1996	$800 million	--	9.0%
GSMP II	2000	$1,000 million	$100 million	7.7%
GSMP III	2003	$2,000 million	$75 million	13.9%

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

V. General Partner's Investment

The Goldman Sachs Group, Inc. ("GS Group"), together with Goldman, Sachs & Co. and its other subsidiaries and affiliates, including the General Partner (collectively, "Goldman Sachs"), will invest an aggregate of at least $1.25 billion in GSMP 2006.

VI. Takedown Schedule

It is anticipated that the Commitments will generally be drawn down pro rata during the Commitment Period on an "as needed" basis. The General Partner will give 15 calendar days notice prior to each takedown of funds.

VII. Fees

Each Limited Partner (other than the GSLP) will be charged an annual management fee (the "Management Fee") on invested capital (including any leverage and any reinvested capital but reduced by the cost basis of full or partially harvested investments) at a fixed rate of 1.5% per annum.

Goldman Sachs will seek to perform investment banking, brokerage, asset management, and other services for, and will expect to receive customary investment banking compensation from, the Partnership as well as the Portfolio Companies in which the Partnership makes mezzanine investments. This compensation may include brokerage fees, asset management fees and financing or commitment fees paid by the Partnership, as well as financial advisory fees or fees in connection with restructurings and mergers and acquisitions, underwriting or placement fees, and financing or commitment fees paid by Portfolio Companies. This compensation will not reduce the Management Fee and will not be shared with the Partnership or its Limited Partners.

Amounts paid by Portfolio Companies upon the consummation of the Partnership's investments in Fixed Income Securities will generally be paid to the Partnership. Goldman Sachs employees may receive fees and options paid and granted to directors on the boards of directors of Portfolio Companies, and those fees and options are not required to be shared with the Partnership. Goldman Sachs' policy is that the fees and options received by its officers and employees (but not its former officers or employees, or the former limited partners of The Goldman Sachs Group, L.P.) must be paid to or held for the benefit of Goldman Sachs.

The Partnership will bear its allocable portion of expenses incurred in connection with the organization and the offering of LP interests in the Funds. In addition, the Partnership will bear the ongoing expenses of the Partnership, including, without limitation, (i) all expenses relating to identifying, evaluating, structuring, monitoring, managing and harvesting investments and potential investments (whether or not completed) for the Partnership, (ii) all costs of leverage incurred by GSMP 2006 as well as costs incurred in implementing the Partnership's hedging strategies, and (iii) other out-of-pocket expenses incurred in connection with the administration of the Partnership, as well as expenses relating to fund accounting, tax and legal advice (including with respect to litigation, if any) and information technology, in each case, whether performed by internal staff of Goldman Sachs or third parties. The Partnership will seek to be reimbursed by third parties for its expenses when possible.

The organizational and operating expenses to be borne by the Partnership as described above are incremental to the Management Fee.

VIII. Allocations and Distributions

Net Proceeds from Investment Dispositions and Current Cash Flow from Investments will be distributed as follows:

First, to all Partners (other than the Goldman Special Limited Partners) pro rata in proportion to their Percentages until such Partners have received a return of such Partners' aggregate Funded Contributions used to pay the cost of all Partnership

Investments which have been sold, repaid, refinanced, redeemed or otherwise disposed of on or prior to the date of such distribution and (A) with respect to distributions of Current Cash Flow from Investments, an amount equal to 6% per annum, on the excess of (I) the amount of such Partners' aggregate Funded Contributions used to pay the cost of the Partnership Investment to which the portion of the Current Cash Flow from Investments is attributable over (II) the amount of the aggregate distributions and (B) with respect to distributions of Net Proceeds from Investment Dispositions, an amount equal to 6% per annum, on the excess of (I) the amount of such Partners' aggregate Funded Contributions used to pay the Partnership Investment Costs of the Sold Partnership Investments over (II) the aggregate distributions that are attributable to such Sold Partnership Investments (the "Investor Preferred Return);

Second, (A) with respect to distributions of Current Cash Flow from Investments, and calculated separately with respect to each Partnership Investment, 100% to the Goldman Special Limited Partners until the Goldman Special Limited Partners have received, in the aggregate, as a consequence of distributions of Current Cash Flow from Investments, an amount equal to 20% of all distributions of Current Cash Flow from Investments made to the Partners by the Partnership, and (B) with respect to distributions of Net Proceeds from Investment Dispositions, 100% to the Goldman Special Limited Partners until the Goldman Special Limited Partners have received, in the aggregate an amount equal to 20% of the excess of (x) the aggregate of all distributions with respect to Sold Partnership Investments theretofore made to the Partners by the Partnership; and

Thereafter, (A) 80% to the Partners (other than the Goldman Special Limited Partners) pro rata in proportion to their Percentages and (B) 20% to the Goldman Special Limited Partners.

IX. Investment Period and Term

The Partnership will have a commitment period from the date of the closing of the offering of LP Interests until December 31, 2009, with an ability to extend this period for three one-year periods at the sole discretion of the General Partner.

The term of the Partnership will be the earlier of (i) ten years following the expiration of the Commitment Period, with an ability to extend this period for one year at the sole discretion of the General Partner, or (ii) the fifteenth anniversary of the formation of the Partnership, subject to the General Partner's right to liquidate the Partnership at any time (this period, including extensions, the "Term"). Upon request of the General Partner and approval of a majority in interest of the Limited Partners other than the GSLP, the Term of the Partnership may be further extended.