MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 8, 1999

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 7, 1999

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, September 8, 1999
9:00 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of June 15, 1999	
2. Report from the Executive Director (H. Bicker)	
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3. Update on tobacco information	
3. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	C
1. Review of manager performance	
2. Status of 457 Plan	
3. Presentation by Semi Passive Managers: Franklin Portfolio and BGI	
4. Recommendation to terminate Credit Suisse Asset Management	
5. Approval of investment policy for Closed Landfill Investment Fund	
6. Approval of Tobacco Fund Investment Policy Paper	
B. International Manager Committee	D
1. Review of manager performance	
2. Update on International Program Structure	
C. Alternative Investment Committee	E
1. Review of current strategy	
2. Recommendation of a new commitment to the Basic Retirement Funds: • Vestar Capital Partners IV, L.P.	
3. Recommendation of a new commitment with an existing private equity manager to the Post Retirement Fund: • Citicorp Capital Investors	
4. Recommendation of a new commitment to the Post Retirement Fund: • Windjammer Mezzanine and Equity Fund II, L.P.	

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Minutes
State Board of Investment
June 15, 1999

The State Board of Investment (SBI) met at 9:00 A.M. Tuesday, June 15, 1999 in Room 125 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer, and Attorney General Mike Hatch were present. The minutes of the March 3, 1999 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending March 31, 1999 (Combined Funds 13.7% vs. Inflation 3.0 %), exceeded the median fund (20^{th} percentile) and outperformed its composite index (Combined Funds 16.3% vs. Composite 16.1%) for the most recent five year period. He stated that the Basic Funds has exceeded its composite index (Basic Funds 16.6% vs. Composite 16.5%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 16.0% vs. Composite 15.6%).

Mr. Bicker reported that the Basic Funds' assets increased 2.1% for the quarter ending March 31, 1999 due to positive investment returns. He said that the asset mix is essentially on target and that the Basic Funds underperformed its composite index for the quarter (Basic Funds 2.5% vs. Composite 2.9%) but he added that the Basic Funds had outperformed its Composite for both the three and five year periods.

Mr. Bicker reported that the Post Fund's assets increased 1.3% for the quarter ending March 31, 1999 due to positive investment returns. He said that the Post Fund asset mix is also on target and that the Post Fund underperformed its composite index for the quarter (Post Fund 1.9% vs. Composite 2.2%) and he added that the Post Fund had also outperformed its Composite for the three and five year periods.

Mr. Bicker reported that the domestic stock manager group underperformed for the quarter (Domestic Stocks 2.8% vs. Wilshire 5000 3.8%). He said that the International Stock manager group matched its composite index for the quarter (International Stocks 2.7% vs. Int'l. Composite 2.7%) but had outperformed for the most recent five year period (International Stocks 9.0% vs. Int'l. Composite 7.4%).

Mr. Bicker stated that the bond segment outperformed its target for the quarter (Bonds -0.2% vs. Lehman Aggregate -0.5%) and for the latest five year period (Bonds 8.0% vs. Lehman Aggregate 7.8%). He concluded his report with the comment that as of March 31, 1999, the SBI was responsible for over $48 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for current budget and travel reports. Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation concerning Mercury Finance Corporation. She reminded members that at the March 1999 Board meeting, the Board has authorized the Executive Director to negotiate a settlement with Mercury's auditors, Peat Marwick. She said that those negotiations were not successful and that the litigation against the auditing firm is proceeding. She stated that the $20 million partial settlement with Mercury and some of its outside directors has been fully funded and that two other smaller settlements of about $2.5 million each are anticipated shortly. She reminded members that there are approximately $1 billion in outstanding claims.

In response to a question from Ms. Dutcher regarding the asset mix of the Basic Funds, Mr. Bicker stated that invested alternative asset funds remain part of the allocations to domestic stocks until alternative investments are made. He noted that the Basics' have received significant distributions from alternative investments that have performed very well and that the SBI continues to search for additional investments in the alternative area. He added that the domestic stock component will be reduced if the Board concurs with some recommendations later in the meeting.

Mr. Bicker gave a brief summary of the legislative activity related to the SBI. He stated that the State Departments' Omnibus Budget bill passed, which includes the SBI's "same level" budget recommended by the Governor. He said the bill also included a long-term health care insurance trust fund to be invested by the SBI. Mr. Bicker noted that since the State has decided not to self-insure this fund, that the SBI will not have this fund to invest.

Mr. Bicker stated that the Omnibus Pension bill contained three areas of interest to the SBI. He said that one provision gives the SBI more flexibility in providing additional investment choices for participants in the Minnesota State Colleges and Universities (MnSCU) plans. He noted that the Board will consider recommendations for providers at the December 1999 meeting so that a six month transition can occur before the existing contracts expire on June 30, 2000.

Mr. Bicker said that a second provision in the bill directs the Legislative Commission of Pensions and Retirement to study the issue of the most appropriate means to provide 403(b) employer match opportunities for employees during the legislative interim. He added that it also requires the SBI to expand the number of vendors offered.

Mr. Bicker stated that a third provision in the bill will allow the three statewide retirement systems to proceed with building an office building for the offices of the three systems. He noted that SBI staff is considering leasing space in the building, depending on its location.

Mr. Bicker stated that the Higher Education Funding bill makes necessary amendments to the Edvest college savings program that will allow the SBI to negotiate better contracts for the program. He added that the SBI is a party to the contracts and he stated that he will ask the Board to briefly review the materials he distributed in order to make a recommendation at the conclusion of his legislative report **(see Attachment A).**

Mr. Bicker reported that the Environmental and Agricultural Funding bill establishes a Closed Landfill Investment Fund that is to be invested by the SBI. He said that the Fund will receive $5.1 million each fiscal year beginning in FY2000 through FY2003 and that the money may not be spent until 2020. He said he anticipates bringing a recommendation regarding this Fund to the Board at its September 1999 meeting.

Mr. Bicker said that the Health and Human Services Funding bill establishes two endowment funds which the SBI will invest from the tobacco settlement money. He stated that the initial contribution will be $460 million and that two additional contributions of approximately $200 million will occur in January of 2000 and 2001. Mr. Bicker briefly reviewed the funds' investment goals and restrictions, which are that the funds must earn 5% which is also the spending target, that the funds expire in 2015 and then all funds must be transferred back to the General Fund, and that the principal must remain inviolate. He said that he expects these restrictions to result in some type of fixed income fund. He added that staff will bring a more detailed investment plan for Board approval at the September 1999 Board meeting.

Ms. Johnson moved approval of the recommendation to approve TIAA-CREF as a vendor for the Edvest program, as stated in Attachment A. Ms. Dutcher seconded the motion. The motion passed.

Mr. Bicker referred members to page 11 of Tab B and stated that staff is requesting that the Board re-authorize its Proxy Voting Committee. Mr. Hatch moved approval of the resolution as stated in **Attachment B**. Ms. Dutcher seconded the motion. The motion passed.

Mr. Bicker concluded his Administrative Report by noting that updated information on the Board's tobacco holdings could be found on pages 13-14 of Tab B. Mr. Ravnitsky, a private citizen, asked and was granted permission to address the Board. Mr. Ravnitsky stated that he was aware of recent discussions by the IAC regarding some members' views that the policy restricting tobacco holdings should be lifted and he stated that he wished to speak against taking any such action. Ms. Dutcher stated that there is not any type of resolution or motion before the Board at this time regarding tobacco. In response to a question from Ms. Dutcher, Mr. Ravnitsky stated that he believes the SBI's tobacco holdings are a tax-payer issue. He said that he believes the risk associated with all the outstanding and potential litigation against the tobacco companies requires special attention by the Board and that while he agrees with prior statements made by Ms. Dutcher that the individual investment decisions should be made by the managers, that he feels the tobacco issue is an extraordinary situation. Mr. Ventura noted that typically companies raise the price of their product as a way of offsetting any financial losses from litigation. Mr. Ravnitsky agreed but stated that he believes tobacco companies could face bankruptcy issues if faced with losses in multiple court cases. Ms. Dutcher said that the prior Board had voted for divestiture and that the process continues on a timely basis to minimize costs to participants and she clarified that there is not any recommendation regarding tobacco on the agenda for the meeting in progress.

Ms. Kiffmeyer stated her concern that the SBI remain focused on investing and she asked that the Proxy Committee report back to the Board by December 1999 as to whether the Proxy Voting Guidelines follow current Board directives and statutes. Mr. Hatch stated that he believes the phraseology of any potential resolution should focus on the necessity of the Board following current statutes.

SBI Administrative Committee Report
Ms. Johnson referred members to Tab C of the meeting materials and briefly reviewed the structure of the Committee. She said that the Committee has four recommendations for the Board's consideration: the Executive Director's proposed workplan for FY00; the Budget Plan for FY00; the Continuing Fiduciary Education Plan and approval of the Executive Director's evaluation process. Ms. Johnson moved approval of the four recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI approve the FY00 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY00.

The Committee recommends that the SBI approve the FY00 Administrative Budget Plan and that the Executive Director have the flexibility to reallocate funds between budget categories in the event budgeting needs change during the year.

The Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan.

The Committee recommends that the SBI adopt the following process for the Executive Director's FY99 performance evaluation:

- The evaluation will be completed prior to the September 1999 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY99.

- The SBI deputies/designees will develop an appropriate evaluation form for use by each member, which will reflect the categories in the Executive Director's position description and workplan.

- As the chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board members are encouraged to meet individually with the Executive Director to review their own evaluation." Ms. Dutcher seconded the motion. The motion passed. Ms. Johnson also noted that the Committee discussed the Year 2000 contingency banking proposal and a Year 2000 progress report

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab D of the meeting materials and stated that the Committee is recommending the termination of one of the active equity managers, American Express Asset Management, due to continued poor performance and significant staff turnover. In response to a question from Ms. Dutcher, it was agreed to consider all three recommendations under one motion.

Ms. Yeomans stated that the second recommendation is to promote Cohen Klingenstein & Marks, an emerging domestic equity manager, to the regular Domestic Equity Program. She briefly described the Emerging Domestic Equity program and noted that Cohen had emerged with a very successful track record and had also increased their assets under management.

Ms. Yeomans reported that the Committee's third recommendation is to change the asset allocation for the Environmental Trust Fund. She said that as a result of a recent Constitutional amendment, the spending guidelines of the fund have changed and that its advantageous for the SBI to shift the allocation to 70% stocks/30% bonds in order to produce a higher expected return long-term. Ms. Dutcher moved approval of the Committee's recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI terminate its contractual relationship with American Express Asset Management for equity investment management services.

The Committee recommends that Cohen, Klingenstein & Marks be transferred to the regular Domestic Equity Program from the Emerging Manager Stock Program.

The Committee recommends that the SBI approve a 70% stock/30% bond asset allocation for the Environmental Trust Fund." Ms. Johnson seconded the motion. The motion passed.

International Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Committee is recommending the adoption of its International Equity Investing Policy Paper and the resulting recommendations. She briefly reviewed each of the ten recommendations included in the paper and asked for questions. In response to several questions from Mr. Hatch, Mr. Bicker explained that currently both the developed country managers and the emerging country managers have the authority to invest in emerging markets and that the recommendation is to eliminate the doubling up of those investments and only have the emerging managers invest in these markets which are their specialty. He clarified that the exposure in emerging markets is only 1.5% of the entire portfolio, which is lower than other comparable plans. Ms. Yeomans added that her employer, 3M, currently has 3% of their portfolio in emerging markets. Ms. Dutcher moved approval of the Committee's recommendation to adopt the policy paper and its recommendations, as stated in the Committee Report, which reads:

1. "The Committee recommends that the SBI adopt the use of MSCI's "EAFE Free & EMF" index as the asset class target for the International Equity Program, changing from a fixed weight target to a floating, capitalization weighted index to take effect July 1, 1999 (the start of fiscal year 2000).

2. The Committee recommends that the SBI adopt a policy requiring at least 33% of the International Equity Program be actively managed and requiring at least 33% of the International Equity Program be passively managed.

3. The Committee recommends that the SBI restrict all EAFE Free managers to investments in developed markets and prohibit them from investing in emerging markets.

4. The Committee recommends that the SBI allow all active managers to be active country and active stock managers.

5. The Committee recommends that the passive international equity manager's performance be measured against EAFE Free and active equity managers may or may not be measured against a custom benchmark.

6. The Committee recommends that the SBI retain a minimum of four active EAFE Free managers and three EMF managers to prudently manage the assets in the International Equity Program, given the current allocation to international equities.

7. The Committee recommends that Staff/IAC retain discretion to allow the active international equity managers use of currency management in the SBIs' portfolios.

8. The Committee recommends that the SBI discontinue the use of a currency overlay program to hedge international currency exposure.

9. The Committee recommends that the SBI retain Record Treasury Management until a review of all active managers is conducted. The size of the currency manager's underlying portfolio should be in line with the average size of an active EAFE manager (currently $500 million).

10. If the SBI adopts recommendations 2, 5, and 6, the Committee recommends that a search committee be formed to look at potential additions to the SBI's active EAFE program. It is anticipated that if a search were conducted a recommendation would be presented at the December 1999 Board meeting." Ms. Johnson seconded the motion. The motion passed. In response to a question from Ms. Kiffmeyer, Mr. Bicker stated that in the past, Search Committees have been made up of a designee of each Board member or the Board members themselves and 2-3 members of the IAC.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and stated that the Committee is recommending two alternative investments at this time. She said that the first is an investment for the Post Retirement Fund with a new private equity manger, William Blair Mezzanine Capital Partners III, L.L.C. and she briefly described the strategy of the fund. She said the second recommendation is an investment for the Basic Retirement Funds with an existing private equity manager, Hellman & Friedman L.L.C. In response to a question from Ms. Kiffmeyer, Ms. Yeomans stated that the Committee evaluates the management of the fund along with current market conditions. Ms. Kiffmeyer moved approval of both the Committee's recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $60 million or 20%, whichever is less, in William Blair Mezzanine Capital Partners III. This commitment will be allocated to the Post Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by William Blair Mezzanine Capital Partners III, L.L.C. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on William Blair Mezzanine Capital Partners III, L.L.C. 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 $150 million or 20%, whichever is less, in Hellman & Friedman Capital Partners IV, L.P. This commitment will be allocated to the Basic Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Hellman & Friedman, L.L.C. upon this approval. Until a formal agreement is executed by the

Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Hellman & Friedman, L.L.C. or reduction or termination of the commitment." Ms. Dutcher seconded the motion. The motion passed.

The meeting adjourned at 9:50 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

State Board of Investment and Higher Education Services Office Contract with TIAA-CREF for Minnesota Qualified State Tuition Program Service (Edvest Program)

Minnesota Statutes section 136A.24 directs the Higher Education Services Office and the State Board of Investment to develop a Qualified State College Savings Program to encourage individuals to save for post-secondary education.

The Program is to conform with Section 529 of the Internal Revenue Code, which offers tax advantages to participants, and to provide state matching grants to Minnesota participants with adjusted gross incomes below $80,000. Section 529 specifies that a Qualified State Tuition Program must be established by and maintained by a State. Section 529 precludes individual participants from directing their investment. The Office and Board are permitted to contract with third party providers to administer the Program.

In September 1998, staff of the Office and the Board issued a Request For Proposal (RFP) for the Qualified State Tuition Program. The RFP specified that the Office and the Board intended to contract with a firm that would provide all services associated with Minnesota's Program. The most effective and efficient method to structure the program is to contract with one organization to provide needed investment management, record keeping and marketing services.

After reviewing the proposals and interviewing potential contractors, staff of the Board and the Office selected Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF) for recommendation to the Board.

TIAA-CREF is recommended for several reasons. It will offer its entire investment/record keeping/marketing product at a cost to program participants that is at least 70 basis points (0.7 percent) a year less than other proposals. TIAA-CREF will provide a lower cost investment product, target the product to moderate income Minnesotans and has valuable experience in this emerging college savings program area. Specifically:

> TIAA-CREF is a recognized leader in the provision of low-cost effective investment products to the educational community.
>
> TIAA-CREF is an experienced provider in the 529 market, operating the New York State program and gaining contracts in at least two other states besides Minnesota.
>
> For the Minnesota Program, TIAA-CREF offers a well articulated investment approach through a set of low cost mutual funds whose investment processes have shown solid investment returns over time.
>
> For the Minnesota Program, TIAA-CREF offers a marketing effort that more appropriately targets moderate income Minnesotans.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a contract with Teachers Insurance and Annuity Association-College Equity Retirement Fund (TIAA-CREF) to provide services for the Minnesota Qualified State Tuition Program. The contract will have substantially the same terms and conditions as provided in Attachment A.

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

ATTACHMENT A

Terms and Conditions of Contract to Administer Minnesota's Qualified State Tuition Program (Edvest)

Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF), the Higher Education Services Office (HESO) and the State Board of Investment (SBI) agree to the following conditions for the administration of the Minnesota Qualified State Tuition Program (the Program).

1. TIAA-CREF agrees to invest account owner contributions in TIAA-CREF managed mutual funds as agreed upon by TIAA-CREF and the SBI.

   - TIAA-CREF will offer combinations of equity and bond accounts appropriate for a range of age based asset allocations.
   - TIAA-CREF may assess charges to accounts for investment management in amounts not to exceed 65 basis points for the entire Program and administration.
   - TIAA-CREF agrees to present to the SBI the investment logic used in determining these recommended allocations.

2. TIAA-CREF agrees to perform the following customer services for the Program:

   - Maintain a 1-800 number to field customer inquiries.
   - Maintain Internet Web Site
   - Provide descriptive information brochures.
   - Provide program forms.
     - Application/enrollment forms
     - Disbursement forms
     - Matching grant forms
   - Provide account information.
     - Reports to account owner
     - Voice response system
     - Account representatives
     - Internet Web Site
   - Obtain prior approval of all brochures and forms before implementation.

3. TIAA-CREF agrees to perform the following account administration/record keeping services for the Program:

    - Enroll participants.
    - Collect contributions and forward to investment manager.
    - Maintain accounts.
    - Collect state matching grant and track in accounts separately in account from contributions.
    - Provide, at a minimum, an annual account statement to account owner.
    - Process requests for withdrawals, verifying that requests meet the definition of qualified higher education expenses.
    - Impose a more than de minimis penalty when account withdrawals do not meet requirements for a qualified higher education expenses.
    - Assess charges to accounts for account administration.

4. TIAA-CREF agrees to implement a state-wide marketing plan and budget.

    - Target marketing to moderate income Minnesotans.
    - Obtain prior approval of marketing materials before implementation.

5. TIAA-CREF agrees to provide at least the following reports about the Program:

    - To account owners.
    - To the Minnesota Department of Revenue to facilitate state matching grants.
    - To the Internal Revenue Services as required.
    - To the Minnesota Higher Education Services Office and the Minnesota State Board of Investment.
        - Investment returns, investment management processes, relevant personnel and organizational changes.
        - Monthly cash flows with daily contributions, investments, withdrawals, and total funds invested by investment asset class.
        - Monthly investment reports showing time weighted rate of return for month, quarter, year, and multi-year periods, and portfolio holdings by asset class.
        - Monthly reports showing number of accounts, number of new accounts, number of closed accounts, total contributions, new contributions, monthly disbursements, marketing efforts, and other basic programmatic data as determined by the HESO and the SBI.

6. TIAA-CREF must have an audit of the Program performed annually. TIAA-CREF agrees to furnish data about itself, including, but not limited to, financial data permitting an assessment of its credit worthiness when requested by the SBI.

    The books, records, documents and accounting procedures and practices of the Insurance Company relevant to this Agreement shall be subject to examination by the State Board of Investment and the Minnesota legislative auditor

7. TIAA-CREF agrees to assist HESO in fulfilling regulatory requirements for the Program.

- Assist in securing a private letter ruling from the Internal Revenue Service.
- Assist in obtaining regulatory compliance with Security and Exchange Commissions requirements.

8. TIAA-CREF agrees to comply in all areas with:

a) Rules of the Plan, if any;

b) *Minnesota Statutes* 1998, Section 136A.243 through 136A.245, and any amendments thereto, provided such amendments do not impair a material provision of the Contract;

c) Section 529 of the Internal Revenue Code of 1986, as amended, or any rules and regulations thereunder; and

d) Requirements of the SEC, NASD or other regulatory bodies concerning rates of return for the investment program.

9. The contract may be terminated with 30 days written notice by either party. This contract is effective for a period up to eight years.

10. In the event the contract is terminated, either on the contract expiration date or according to its terms, the following conditions apply:

a) The Insurance Company will cease soliciting new contributions and will receive no new contributions into the Program.

b) The Insurance Company will transfer account records and account balances to a vendor according to instructions from the SBI and HESO.

11. Any notice under this Contract must be in writing and may be given by or on behalf of Insurance Company by delivering the same to the SBI or by mailing it to the SBI at the address of record with Insurance Company, and any notice to Insurance Company given by the SBI shall be in writing and mailed to Insurance Company at its Home Office. Any such notice shall be effective on the date of receipt unless the terms of this Agreement dictate otherwise.

12. This Contract shall be construed according to the laws of Minnesota.

13. Insurance Company hereby agrees to indemnify and hold harmless the State of Minnesota, the Minnesota State Board of Investment, each member of the Board individually, the officers, agents and employees of each and every one of the above, their successors, and any combination thereof, from all claims, demands, or causes of action arising out of an act or omission of Insurance Company related to this Agreement and the Group Annuity Contract.

Insurance Company shall reimburse the Board for all reasonable expenses incurred to defend and legal proceedings that may be brought against the State of Minnesota, the Minnesota State Board of Investment, each member of the board individually, the officers, agents and employees of each and every one of the above, their successors, and any combination thereof, on any claim or demand effected by this section, and shall satisfy any judgment that may be rendered against such party or parties in respect to any such claim or demand. Neither the Attorney General nor the State of Minnesota, the Minnesota State Board of Investment, each member of the board individually, the officers, agents and employees of each and every one of the above, their successors, and any combination thereof, shall compromise or settle any claim or dispute to which this section applies without the written consent of the Insurance Company. Such written consent will not be unreasonably withheld. The Board shall notify Insurance Company upon receipt of any such claim or demand which it receives. Pursuant to Minnesota Statutes section 8.06, the Minnesota Attorney General (or its designee) shall be the legal counsel for the State of Minnesota, the Board, the members of the Board individually, and the officers, agents and employees of the Board or the State of Minnesota.

14. Any waiver at any time by either party hereto of any right with respect to any matter arising in connection with this Agreement and the Contract shall not be deemed to be a waiver with respect to any subsequent matter.

15. Insurance Company shall assign to the State of Minnesota any and all claims for overcharges as to goods and/or services provided in connection with this Agreement and the Group Annuity Contract resulting from antitrust violations which arise under the antitrust laws of the United States and the antitrust laws of the State of Minnesota.

RESOLUTION OF THE MINNESOTA BOARD OF INVESTMENT CONCERNING PROXY VOTING

WHEREAS, as a stockholder, the Minnesota State Board of Investment (SBI) is entitled to sponsor and cosponsor shareholder resolutions and participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings; and

WHEREAS, the SBI has previously established a Proxy Committee:

NOW THEREFORE, BE IT RESOLVED THAT:

1. To advise and assist the SBI in the implementation of proxy voting guidelines previously adopted by the Board the SBI hereby authorizes and reaffirms the establishment of the SBI Proxy Committee composed of a representative selected by each member of the SBI to be chaired by the designee of the Governor and convened as necessary in accord with the Guidelines.

2. The SBI further authorizes the SBI Proxy Committee to review the Guidelines periodically and report to the SBI as necessary.

3. The SBI further directs its staff to advise and assist the Proxy Committee in the implementation of this resolution and directs its Executive Director to obtain such consulting and reporting services as may be necessary.

4. This resolution shall take effect immediately.

Adopted this 15 day
of June, 1999

Governor Jesse Ventura
Chair, Minnesota State
Board of Investment

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, September 7, 1999
2:00 P.M. - SBI Conference Room
Room 10, Capitol Professional Office Building
590 Park Street, St. Paul, MN

	TAB
1. Approval of Minutes of June 1, 1999	
2. Report from the Executive Director (H. Bicker)	
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2. Status of 457 Plan	
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5. Approval of investment policy for Closed Landfill Investment Fund	
6. Approval of Tobacco Fund Investment Policy Paper	
B. International Manager Committee (J. Mares)	**D**
1. Review of manager performance	
2. Update on International Program Structure	
C. Alternative Investment Committee (K. Gudorf)	**E**
1. Review of current strategy	
2. Recommendation of a new commitment to the Basic Retirement Funds: • Vestar Capital Partners IV, L.P.	
3. Recommendation of a new commitment with an existing private equity manager to the Post Retirement Fund: • Citicorp Capital Investors	
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NOT OFFICIAL DRAFT

Minutes
Investment Advisory Council
June 1, 1999

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; Doug Gorence; Ken Gudorf; Judy Mares; Malcolm McDonald; Gary Norstrem; Mike Troutman; Mary Vanek; Elaine Voss and Jan Yeomans.
MEMBERS ABSENT:	John Bohan; Jay Kiedrowski; Daralyn Peifer and Pam Wheelock.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Stephanie Gleeson; Debbie Griebenow; John Griebenow; Andy Christensen; Steve Koessl, Charlene Olson; and Carol Nelson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Peter Sausen; Diane Drewry; Conrad deFiebre, Star Tribune; and Lloyd Belford, REAM.

The minutes of the March 2, 1999 meeting were approved. Mr. Bicker announced that Governor Ventura had appointed three employee representatives to the IAC. He introduced Elaine Voss as the retiree representative and stated that the other two appointees are Han Chin Liu, a former IAC member and Mary Stanton who works for the Minnesota State Colleges and Universities (MnSCU).

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending March 31, 1999 (Combined Funds 13.7% vs. Inflation 3.0 %), exceeded the median fund (20th percentile) and outperformed its composite index (Combined Funds 16.3% vs. Composite 16.1%) for the most recent five year period. He stated that the Basic Funds has exceeded its composite index (Basic Funds 16.6% vs. Composite 16.5%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 16.0% vs. Composite 15.6%).

Mr. Bicker reported that the Basic Funds' assets increased 2.1% for the quarter ending March 31, 1999 due to positive investment returns. He said that the asset mix is slightly overweighted in stocks and that the Basic Funds' underperformed its composite index for the quarter (Basic Funds 2.5% vs. Composite 2.9%).

Mr. Bicker reported that the Post Fund's assets increased 1.3% for the quarter ending March 31, 1999 due to positive investment returns. He said that the Post Fund asset mix is essentially on target and that the Post Fund underperformed its composite index for the quarter (Post Fund 1.9% vs. Composite 2.2%).

Mr. Bicker stated that the domestic stock manager group underperformed for the quarter (Domestic Stocks 2.8% vs. Wilshire 5000 3.8%) and for the year (Domestic Stocks 11.9% vs. Wilshire 5000 13.1%). He said that the International Stock manager group matched its composite index for the quarter (International Stocks 2.7% vs. Int'l. Composite 2.7%).

Mr. Bicker reported that the bond segment outperformed its target for the quarter (Bonds -0.2% vs. Lehman Aggregate -0.5%) but underperformed for the year (Bonds 6.2% vs. Lehman Aggregate 6.5%). He concluded his report with the comment that as of March 31, 1999, the SBI was responsible for over $48 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for current budget and travel reports. Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation concerning Mercury Finance Corporation. She said that the negotiations with Peat Marwick were not successful and that the litigation against the auditing firm is proceeding.

Mr. Bicker gave a brief summary of the legislative activity related to the SBI. He stated that the State Departments' Omnibus Budget bill passed, which includes the SBI's "same level" budget that was recommended by the Governor. He said that the bill also included a long-term care insurance trust fund to be invested by the SBI.

Mr. Bicker stated that the Omnibus Pension bill contained three areas of interest to the SBI. He said that one provision gives the SBI more flexibility in providing additional investment choices for participants in the Minnesota State Colleges and Universities (MnSCU) plans. He noted that the new plan must be in place by July 1, 2000.

Mr. Bicker said that a second provision in the bill concerns a study on the issue of the most appropriate means to provide 403(b) employer match opportunities for K-12 employees. He added that the study will occur during the legislative interim and that the bill also requires the SBI to expand the number of vendors offered.

Mr. Bicker stated that a third provision in the bill will allow the three statewide retirement systems to proceed with building an office building for their offices. He noted that SBI staff is considering leasing space in the building, depending on its location.

Mr. Bicker stated that the Higher Education Funding bill makes necessary amendments to the Edvest college savings program which will allow the SBI to have some additional investment flexibility for the program.

Mr. Bicker reported that the Environmental and Agricultural Funding bill establishes a Closed Landfill Investment Fund that is to be invested by the SBI. He said that the Fund will receive $5.1 million each fiscal year beginning in FY2000 through FY2003 and that the money may not be spent until 2020. He said he anticipates bringing a recommendation to the IAC at its September 1999 meeting.

Mr. Bicker said that the Health and Human Services Funding bill establishes two endowment funds which the SBI will invest from the tobacco settlement money. He stated that the initial contribution will be $460 million and that two additional contributions of approximately $200 million will occur in January 2000 and 2001. Mr. Bicker briefly reviewed the funds' investment goals and restrictions, which are that the funds must earn 5%, which is also the spending target; that the funds expire in 2015 and then all funds must be transferred back to the General Fund; and that the principal must remain inviolate. He said that he expects these restrictions to result in some type of fixed income fund. He added that staff will bring a more detailed investment plan for approval at the September 1999 meeting. In response to a question from Mr. Gorence, Mr. Bicker stated that the two tobacco endowment funds would probably have the same investment policies. He added that the landfill fund will need a separate policy and that the work with the MnSCU fund is more focused on assisting them in hiring investment providers rather than establishing investment policy. In response to a question from Mr. Troutman, Mr. Bicker said that he does not expect a trust fund to be set up for the long-term care program and that it would not be a self-insured program. In response to a question from Mr. Bergstrom, Mr. Bicker said that the Edvest program will have a single investment option.

SBI Administrative Committee Report

Mr. Bicker noted that the IAC does not need to take any action on any of the items from the Committee, but he noted that the Committee is considering establishing a contingent Y2K banking relationship. He stated that this is only a precautionary measure and that it does not reflect that the SBI is uncomfortable with the local custodian's Y2K preparedness. In response to a question from Mr. Gorence, Mr. Bicker said that the Basics are in a negative cash flow situation due to more retirements and the granting of larger benefits in recent years. He noted that a Y2K progress report was also presented to the Committee during the quarter.

Domestic Manager Committee Report

Mr. Gorence referred members to Tab D of the meeting materials and briefly reviewed the domestic stock and bond performance. He stated that the Committee is recommending the termination of one of the active equity managers, American Express Asset Management, due to continued poor performance and significant staff turnover. In response to a question from Mr. Norstrem, it was agreed to consider all three recommendations under one motion.

Mr. Gorence stated that the second recommendation is to promote Cohen Klingenstein & Marks, an emerging domestic equity manager, to the regular Domestic Equity Program. In response to questions from Mr. Yeomans, Mr. Gorence noted that Cohen had emerged with a very successful track record and had also increased their assets under management. In response to a question from Mr. Gudorf, Mr. Bicker confirmed that the SBI does have fewer active managers than in the past and that staff and the Committee are comfortable with the current number of managers.

Mr. Gorence reported that the Committee's third recommendation is to change the asset allocation for the Environmental Trust Fund. He said that it is advantageous for the SBI to shift the allocation to 70% stocks/30% bonds in order to produce a higher expected return over the long-term. In response to questions from Mr. Troutman, Mr. Gorence stated that the asset allocation change will take effect July 1, 1999. Mr. Bicker added that staff will take advantage of transferring some bonds from the Environment Trust Fund to the tobacco trust funds in order to save transaction costs. Mr. Norstrem moved approval of the Committee's recommendations, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.

International Manager Committee Report

Ms. Mares referred members to Tab E of the meeting materials and stated that the Committee is recommending the adoption of its International Equity Investing Policy Paper and the resulting recommendations. She discussed the first four recommendations in depth and asked for questions. In response to questions from Mr. Gorence, she clarified that active managers will be allowed to make active stock and active country investment choices. Mr. Bicker added that the active EAFE managers will be given time to phase out of their emerging markets positions gradually and that none of the managers are currently fully invested to the 15% that they were allowed.

Ms. Mares continued her discussion of the Committee's recommendations. In response to a question from Mr. Gorence regarding the fifth recommendation, Ms. Mares said that the Committee did not believe a completion fund was necessary for the international component at this point in time. Mr. McDonald moved approval of the Committee's recommendation to adopt the international policy paper and its recommendations, as stated in the Committee Report. Mr. Gudorf seconded the motion and Ms. Yeomans asked for further questions. Several members asked questions and discussed the changing role of Record Treasury Management and which asset class they should be a part of. After a lengthy discussion, members agreed to amend Mr. McDonald's motion to modify the wording of the Committee's 9th recommendation, to read as follows: "The Committee recommends that the SBI retain Record Treasury Management until a review of all active managers is conducted. The size of the currency manager's underlying portfolio should be in line with the average size of an active EAFE manager (currently $500 million)." Mr. McDonald and Mr. Gudorf accepted the amendment to the motion. In response to a question from Mr. Gudorf, Mr. Bicker clarified that the first recommendation deals with changing to a capitalization weighted index. In response to a question from Mr. Gorence, Mr. Bicker said that the Committee did consider the costs of active versus passive management. He said that the Committee wants to take advantage of the fee breaks by limiting the number of managers retained. The motion passed.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab F of the meeting materials and stated that the Committee is recommending two alternative investments at this time. He said that the first is an investment for the Post Retirement Fund with a new private equity manager, William Blair Mezzanine Capital Partners III, L.L.C. and he briefly described the strategy of the fund. He said the second recommendation is an investment for the Basic Retirement Funds with an existing private equity manager, Hellman & Friedman L.L.C. Mr. McDonald moved approval of both the Committee's recommendations, as stated in the Committee Report. Ms. Mares seconded the motion. The motion passed.

The meeting adjourned at 3:15 P.M.

Respectfully submitted,

Howard J. Bicker
Director Executive

Tab A

LONG TERM OBJECTIVES
Period Ending 6/30/99

COMBINED FUNDS: $39.3 Billion	Result	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.	13.5% (1)	10.5 percentage points above CPI
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.	17.6% (1)	0.4 percentage point above composite index
Exceed Median Fund (5 yr.) Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.	34th percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $20.2 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.	17.9%	0.2 percentage point above target

POST RETIREMENT FUND: $19.1 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.	17.2%	0.5 percentage point above target

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

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

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1998

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	\$19.9 billion	\$11.3 billion	\$31.2 billion
2. Accrued Liabilities	14.5	11.3	25.8
Asset Measures			
3. Current and Future Actuarial Value	\$21.2 billion	\$11.3 billion	\$32.6 billion
4. Current Actuarial Value	14.4	11.3	25.8
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	107%	100%	104%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	100%	100%	100%*

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

Notes:

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

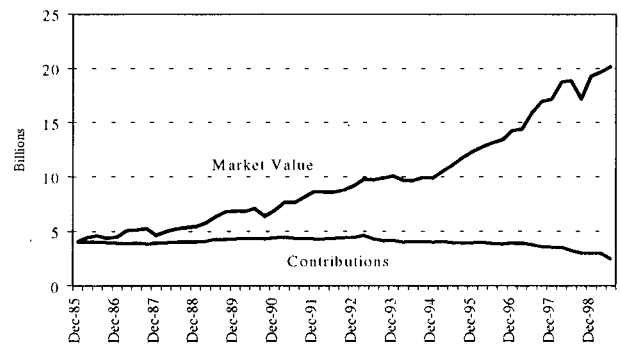
Actuarial Assumptions:

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

EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

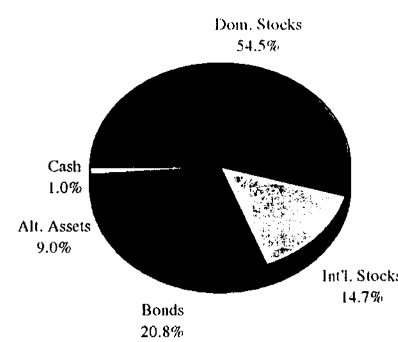
The market value of the Basic Funds increased 2.7% during the second quarter of 1999. Positive investment returns accounted for the increase. Net contributions were negative.



	Asset Growth During Second Quarter 1999 (Millions)
Beginning Value	$ 19,646
Net Contributions	-472
Investment Return	1,010
Ending Value	$ 20,185

Asset Mix

The negative bond market return caused the bond allocation to decline over the quarter while positive domestic and international stock market returns caused their allocations to rise over the quarter. The allocation to cash increased as part of a rebalancing from domestic stocks into cash.

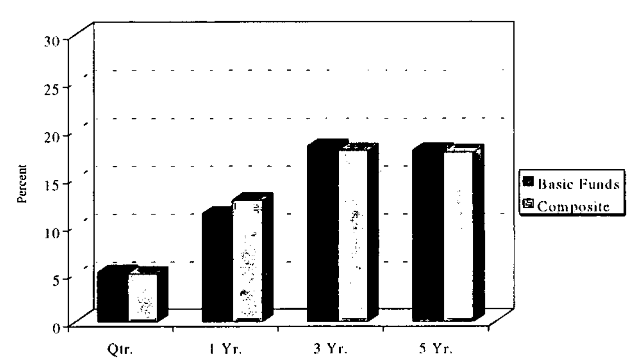


	Policy Targets	Actual Mix 6/30/99	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	54.5%	$11,006
Int'l. Stocks	**15.0**	14.7	2,968
Bonds	**24.0**	20.8	4,202
Alternative Assets*	**15.0**	9.0	1,819
Unallocated Cash	**1.0**	1.0	190
	100.0%	100.0%	$20,185

* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

The Basic Funds outperformed its composite market index for the quarter and underperformed for the year.



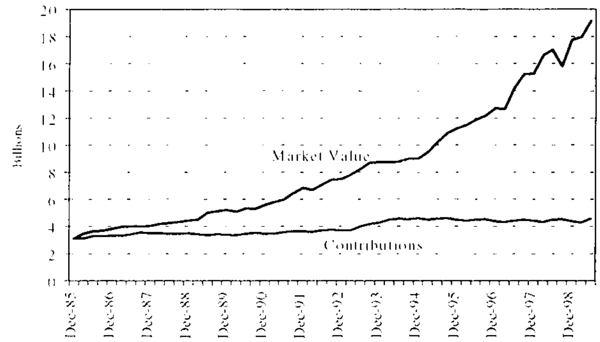
Period Ending **6/30/99**

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Basics	**5.1%**	**11.3%**	**18.3%**	**17.9%**
Composite	5.0	12.7	17.9	17.7

EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

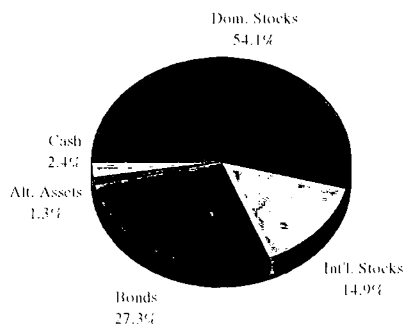
The market value of the Post Fund increased 6.5% during the second quarter of 1999. The increase was the result of positive investment returns and net contributions.



	Asset Growth During Second Quarter 1999 (Millions)
Beginning Value	$17,970
Net Contributions	304
Investment Return	868
Ending Value	$19,141

Asset Mix

The negative bond market return caused the bond allocation to decline over the quarter while positive domestic and international stock market returns caused their allocations to rise over the quarter. The allocation to cash increased as part of a rebalancing from domestic stocks into cash.

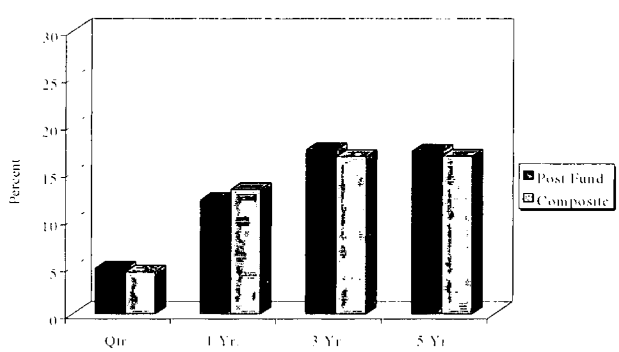


	Policy Targets	Actual Mix 6/30/99	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	54.1%	$10,365
Int'l. Stocks	**15.0**	14.9	2,860
Bonds	**27.0**	27.3	5,219
Alternative Assets*	**5.0**	1.3	242
Unallocated Cash	**3.0**	2.4	455
	100.0%	100.0%	$19,141

* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

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



Period Ending 6/30/99

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Post	**4.9%**	**12.1%**	**17.4%**	**17.2%**
Composite	4.5	13.2	16.6	16.7

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

Domestic Stocks

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

Period Ending 6/30/99	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Dom. Stocks	**7.8%**	**18.1%**	**26.0%**	**25.4%**
Wilshire 5000	7.8	19.6	25.8	25.7

International Stocks

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

Period Ending 6/30/99	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Int'l. Stocks	**6.1%**	**9.3%**	**9.3%**	**9.5%**
Composite Index*	5.1	10.6	7.4	7.4

* EAFE-Free through 4/31/96. 87% EAFE-Free and 13% Emerging Markets Free as of 12/31/96.

Bonds

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

Period Ending 6/30/99	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Bonds	**-1.0%**	**2.7%**	**7.6%**	**8.1%**
Lehman Agg.	-0.9	3.1	7.2	7.8

Note: The above returns reflect the performance of the Basic Funds' managers through 6/30/93 and of the Combined Funds (Basic and Post) since 7/1/93.

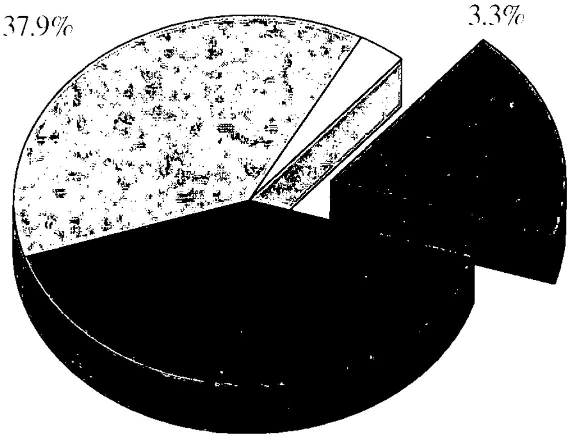
Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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

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

Emerging Markets Free: The Morgan Stanley Capital International index of 26 markets in developing countries throughout the world.

EXECUTIVE SUMMARY
Funds Under Management



	6/30/99 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$20.2
Post Retirement Fund	19.1
Supplemental Investment Fund	1.7
Non Retirement Funds*	
Assigned Risk Plan	0.7
Permanent School Fund	0.6
Environmental Trust Fund	0.3
State Cash Accounts	7.8
Total	$50.4

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 1999
(April 1, 1999 - June 30, 1999)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/99				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	7.8%	19.6%	25.8%	25.7%	17.6%
Dow Jones Industrials	12.5	24.6	27.0	27.5	19.4
S&P 500	6.9	22.8	29.2	28.0	18.8
Russell 2000	15.6	1.5	11.2	15.4	12.4
Domestic Fixed Income					
Lehman Aggregate*	-0.9	3.1	7.2	7.8	8.2
Lehman Gov't./Corp.	-1.1	2.7	7.2	7.8	8.1
90 Day U.S. Treasury Bills	1.1	4.7	5.1	5.2	5.2
International					
EAFE**	2.5	7.6	8.8	8.2	6.6
Emerging Markets Free***	24.4	28.7	-4.0	-0.8	12.3
Salomon Non U.S. Gov't. Bond	-4.5	4.9	2.6	5.5	8.9
Inflation Measure					
Consumer Price Index****	0.7	2.0	2.0	2.4	3.0

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market, as represented by the Wilshire 5000, gained 7.8% in the second quarter. In a reversal of the trend of the last several years, small- and mid-cap stocks outperformed large cap stocks, and value stocks outperformed growth stocks. Once again, the technology and industrial sectors led the market. Healthcare, a strong performer in the first quarter, saw losses in the second quarter. The opposite was true for utilities.

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

Large Value	11.7%
Small Value	17.9
Large Growth	2.8
Small Growth	13.6

The Wilshire 5000 increased 19.6% for the year ending June 30, 1999.

DOMESTIC BONDS

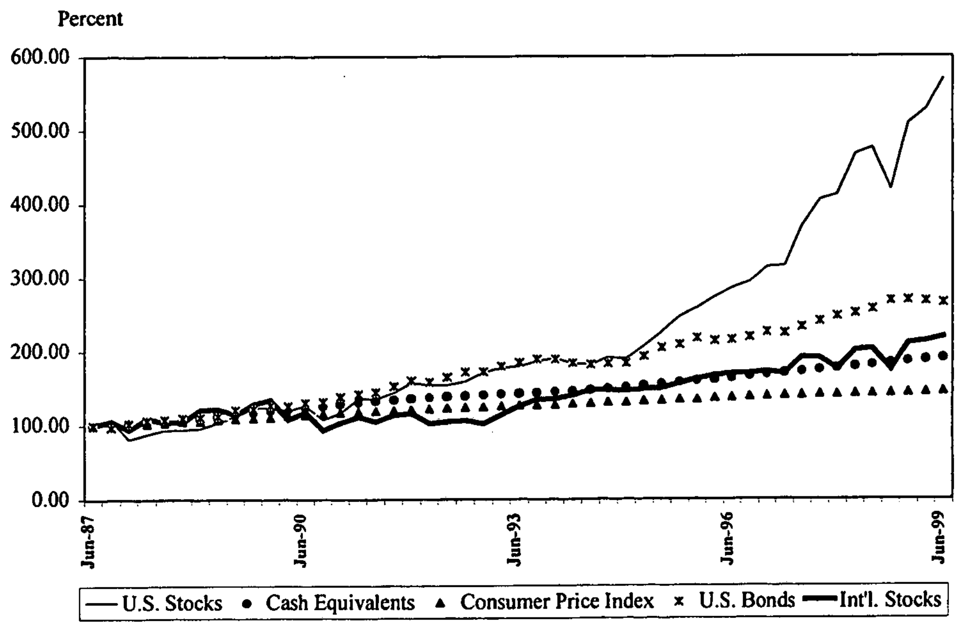
The bond market generated negative returns in the second quarter. Rising interest rates over the quarter negatively affected the returns of all market sectors. In addition, corporate and mortgage yield spreads widened contributing to the negative performance. Mortgage prepayment risk declined as interest rates increased, which partially offset the spread widening in the sector.

Overall, the Lehman Brothers Aggregate Bond Index decreased 0.9% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	-0.9%
Corporates	-1.6
Mortgages	-0.5

The Lehman Aggregate increased 3.2% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



Indices used are: Morgan Stanley's Index of Europe, Australia and the Far East (EAFE); Wilshire 5000 Stock Index; Lehman Brothers Aggregate Bond Index; 91 Day Treasury Bills; and the Consumer Price Index.

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE-Free index) provided a return of 2.5% for the quarter. Performance of the major markets is shown below:

Japan	7.6%
United Kingdom	-1.6
Germany	5.6
France	3.3

The EAFE-Free index increased by 7.6% during the latest year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 markets located in Europe, Australia and the Far East (EAFE), adjusted for free-float. The major markets listed above comprise about 55% 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 24.4% for the quarter. The performance of the five largest stock markets in the index is show below:

Mexico	18.3%
Korea	64.4
South Africa	15.1
Taiwan	27.5
Brazil	12.5

The Emerging Markets Free index had a return of 28.7% for the year.

The Emerging Markets Free index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 58% of the value of the index.

REAL ESTATE

Nationally, many real estate markets are fundamentally strong. Property types most favored by buyers at the present time include apartments, industrial parks and suburban office buildings.

PRIVATE EQUITY

U.S. private equity firms raised an unprecedented $85.3 billion for private equity limited partnerships of all types, from venture capital to buyouts in 1998. That represents a 52.9 percent increase from the upwardly revised 1997 total of $55.8 billion. It was the fifth consecutive record year for fund raising. The first half of 1999 saw $28.5 billion raised, compared with $38.2 billion raised in the first half of 1998.

RESOURCE FUNDS

During the second quarter of 1999, West Texas Intermediate crude oil averaged $17.65 per barrel compared to an average price of $13.15 per barrel during the first quarter of 1999. With the low oil prices over the past year, oil companies are cautiously drilling for oil and gas.

COMBINED FUNDS

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

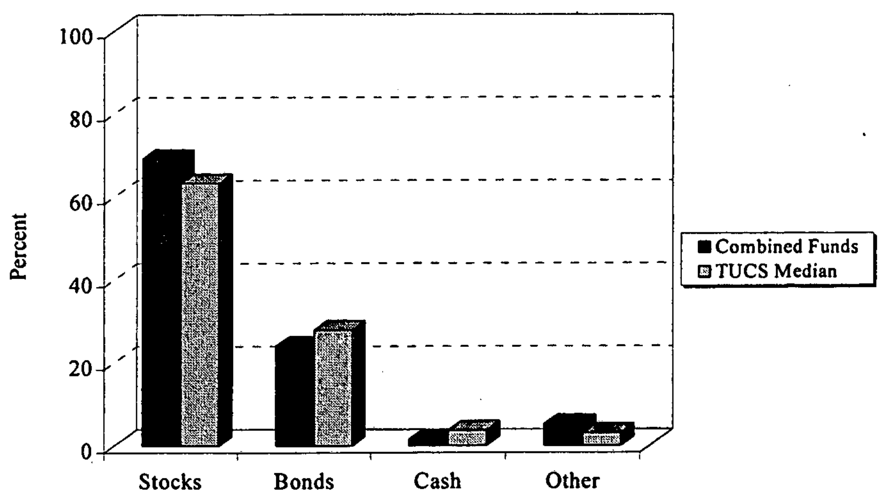
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 1999, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$21,371	54.3%
International Stocks	5,827	14.8
Bonds	9,422	24.0
Alternative Assets	2,061	5.2
Unallocated Cash	645	1.7
Total	$39,326	100.0%

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



	Stocks*	Bonds*	Cash	Other
Combined Funds	**69.2%**	**24.0%**	**1.6%**	**5.2%**
Median Allocation in TUCS**	65.0	27.4	3.1	2.6

* Both domestic and international.
** Public and corporate plans over $1 billion.

COMBINED FUNDS
Performance Compared to Other Pension Funds

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

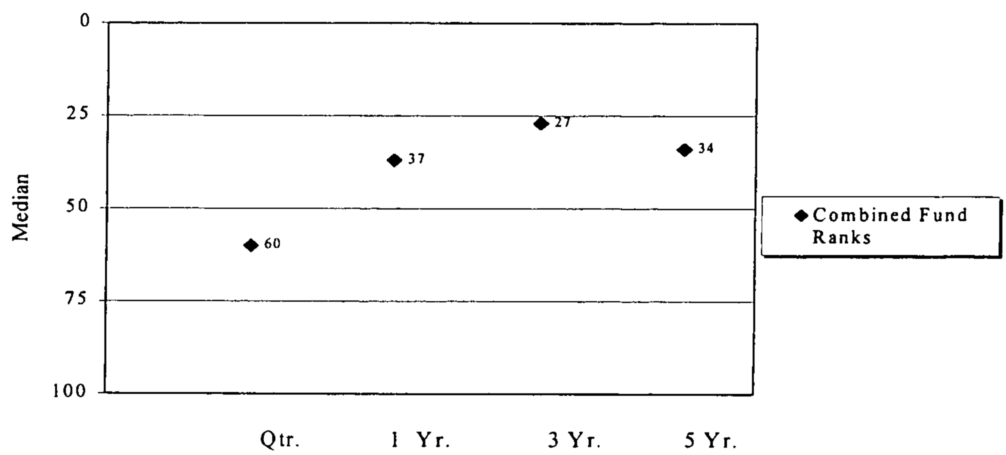
— **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports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

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

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

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

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



Period Ending 6/30/99

	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	60th	37th	27th	34th

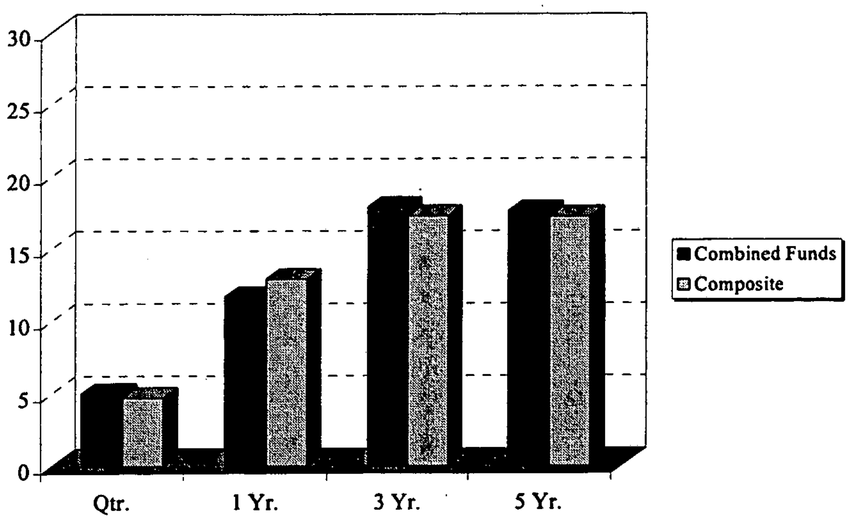
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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* 2Q99
Domestic Stocks	Wilshire 5000	50.5%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.2*
Alternative Assets	Real Estate Funds	2.0*
	Venture Capital Funds	2.9*
	Resource Funds	0.4*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

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



Period Ending 6/30/99

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	5.0%	11.7%	17.9%	17.6%
Composite Index	4.7	12.9	17.3	17.2

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

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BASIC RETIREMENT FUNDS

Investment Objectives

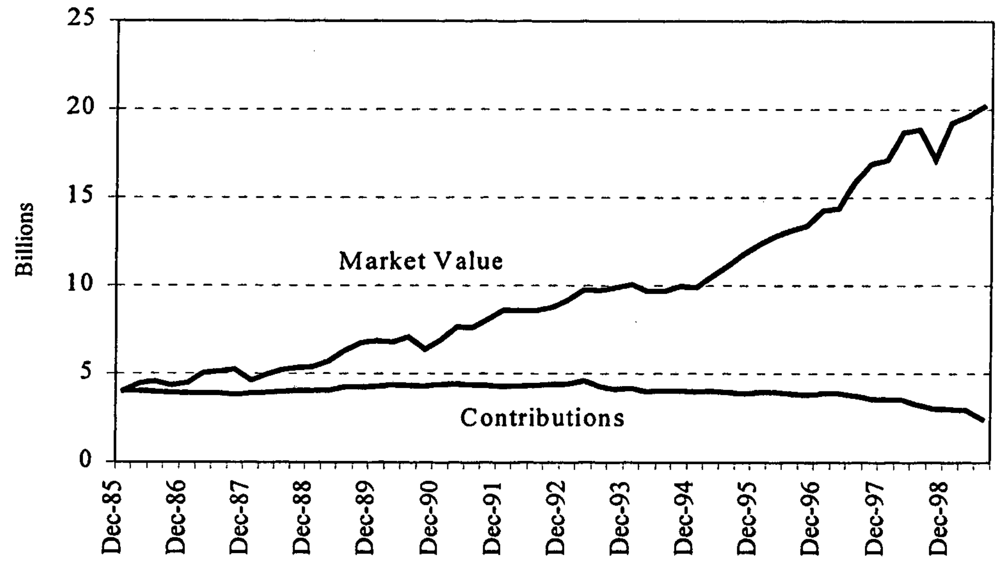
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 2.7% during the second quarter of 1999. Positive investment returns accounted for the increase during the quarter. Net contributions were negative.



Last Five Years
In Millions

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

BASIC RETIREMENT FUNDS
Asset Mix

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

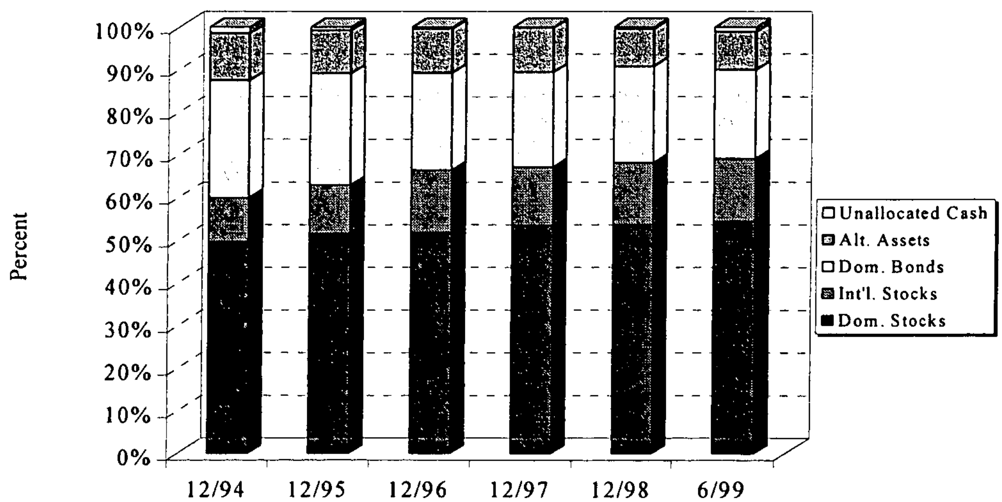
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

Over the last year, the allocation to domestic and international stock has risen while the allocation to bonds has decreased The allocation to alternative investments also decreased slightly.

During the last quarter, the positive returns in the stock market caused the allocation to domestic and international stocks to rise, while the allocation to bonds decreased.



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

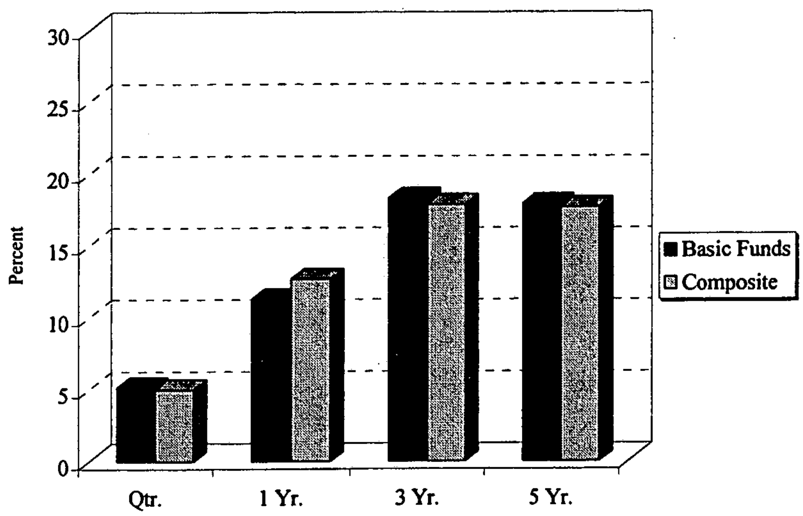
BASIC RETIREMENT FUNDS

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* 2Q99
Domestic Stocks	45.0%	Wilshire 5000	51.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	5.0*
		Private Equity Funds	3.5*
		Resource Funds	0.5*
Unallocated Cash	1.0	90 Day T-Bills	1.0
	100.0%		100.0%

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



Period Ending 6/30/99

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds**	**5.1%**	**11.3%**	**18.3%**	**17.9%**
Composite Index	5.0	12.7	17.9	17.7

**Returns are reported net of fees.

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

POST RETIREMENT FUND

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

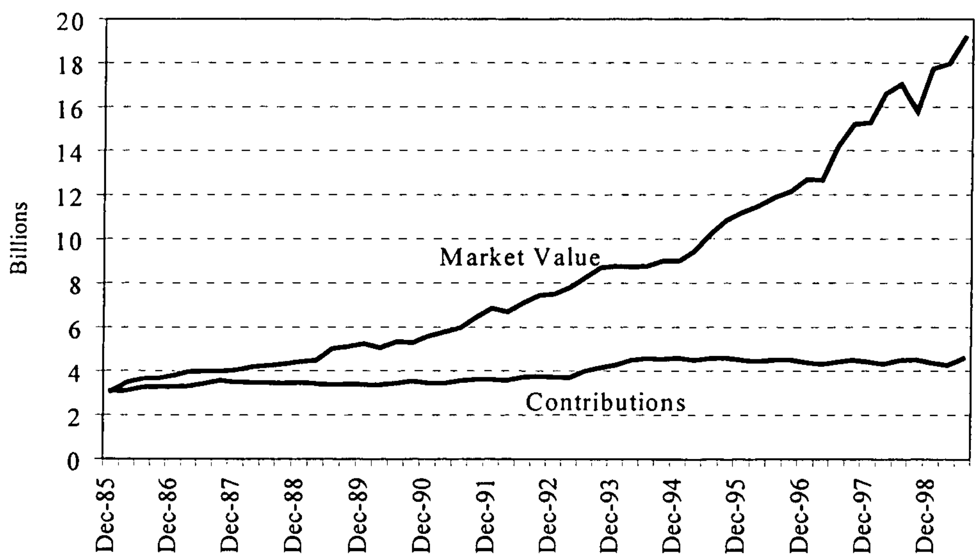
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Retirement Fund increased by 6.5% during the second quarter of 1999.

The increase was the result of positive investment returns and net contributions.



Last Five Years
In Millions

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

POST RETIREMENT FUND
Asset Mix

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

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

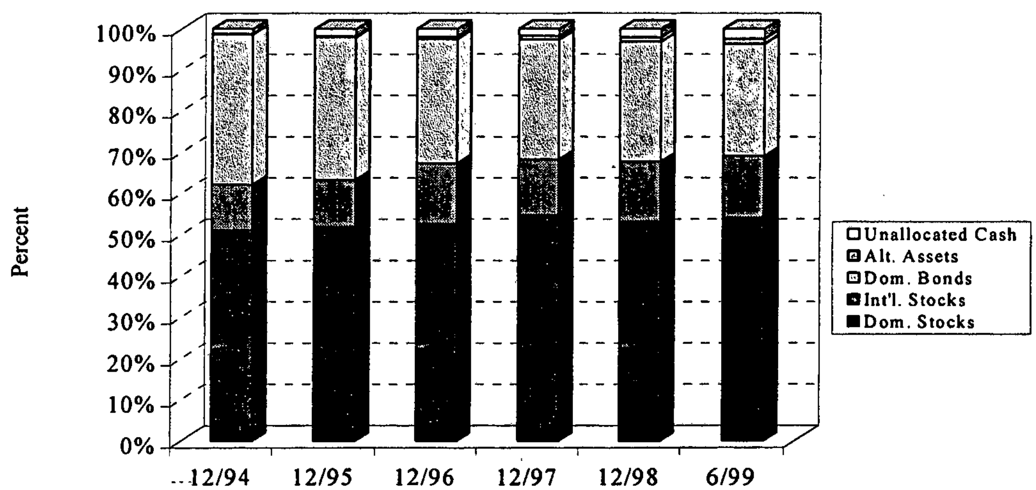
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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

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

Over the last year, the asset allocations to domestic and international stock and alternative investments have increased while the allocation to bonds has decreased.

During the last quarter, the positive returns in the stock market caused the allocation to domestic and international stocks to rise, while the allocation to bonds decreased.



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

POST RETIREMENT FUND

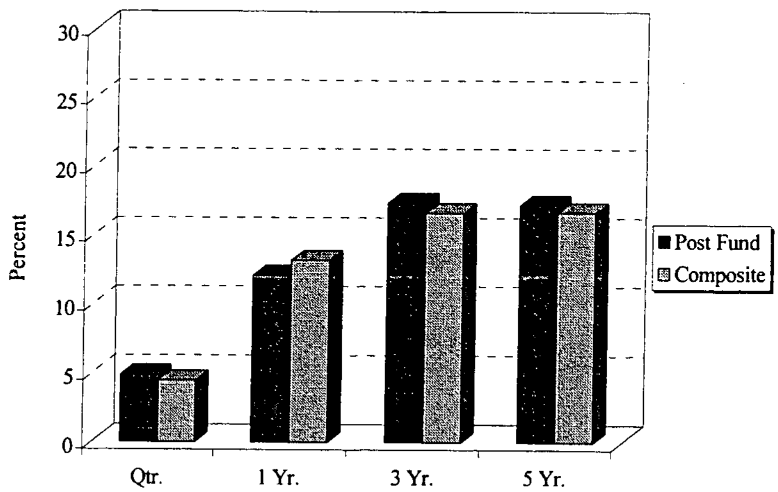
Total Fund Performance (Net of Fees)

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* 2Q99
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	30.8*
Alternative Assets	5.0	Real Estate Funds	0.4*
		Private Equity Funds	0.6*
		Resource Funds	0.2*
Unallocated Cash	3.0	90 Day T-Bills	3.0
	100.0%		100.0%

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

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



Period Ending 6/30/99

	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Post Fund**	**4.9%**	**12.1%**	**17.4%**	**17.2%**
Composite Index	4.5	13.2	16.6	16.7

** Returns are reported net of fees.

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

STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

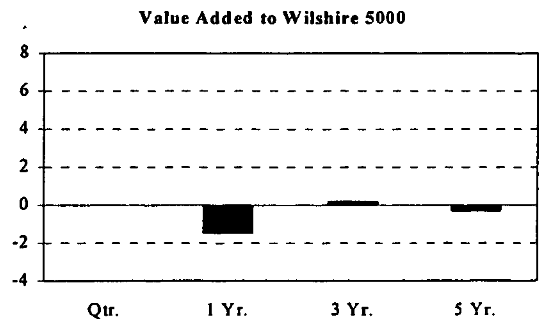
Domestic Stock Pool

Target: Wilshire 5000

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

Period Ending 6/30/99

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Stock Pool	**7.8%**	**18.1%**	**26.0%**	**25.4%**
Wilshire 5000	7.8	19.6	25.8	25.7



International Stock Pool

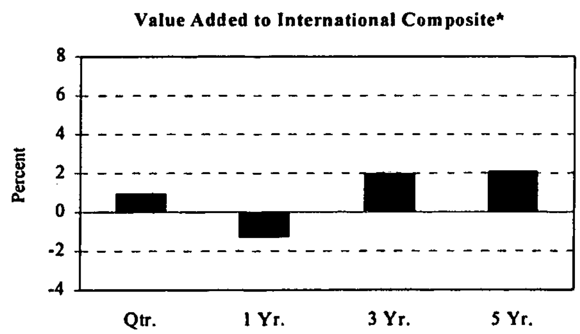
Target: Composite of EAFE-Free and Emerging Markets Free*

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

Period Ending 6/30/99

			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yrs.**
Int'l. Pool	**6.1%**	**9.3%**	**9.3%**	**9.5%**
Composite Index*	5.1	10.6	7.4	7.4

*As of December 1996, the composite index is weighted 87% EAFE-Free and 13% Emerging Markets Free. Prior to May 1996, the target was 100% EAFE-Free.



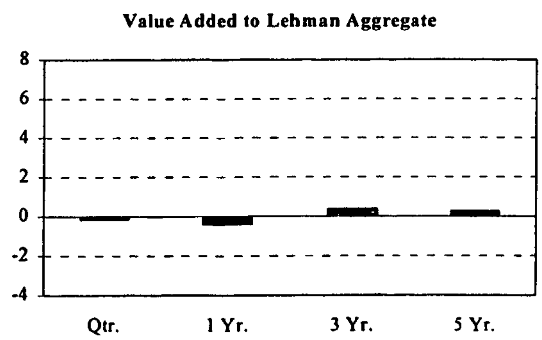
Bond Pool

Target: Lehman Brothers Aggregate Bond Index

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

Period Ending 6/30/99

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Bond Pool	**-1.0%**	**2.7%**	**7.6%**	**8.1%**
Lehman Agg.	-0.9	3.1	7.2	7.8



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools

(Net of Fees)

Real Estate Pool (Basic Funds only)

Expectation: Real estate investments are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment.

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

	Period Ending 6/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	**1.7%**	**6.7%**	**17.5%**	**12.3%**
Inflation	0.7	2.0	2.0	2.4

Private Equity Pool (Basic Funds only)

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

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

	Period Ending 6/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	**5.4%**	**-0.1%**	**24.1%**	**23.3%**

Resource Pool (Basic Funds only)

Expectation: Resource investments (primarily oil and gas) are expected to exceed the rate of inflation by 3-5% annualized, over the life of the investment.

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

	Period Ending 6/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	**12.1%**	**-29.2%**	**7.5%**	**9.8%**

Yield Oriented Pool (Post Fund only)

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

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

	Period Ending 6/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Yield Oriented	**1.7%**	**15.5%**	**11.7%**	**11.8%**

SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.
2. It is one investment vehicle offered to employees as part of the state's Deferred Compensation Plan, the Individual Retirement Account Plan and College Supplemental Retirement Plan.
3. It serves as an external money manager for a portion of some local police and firefighter retirement plans.

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

The investment returns shown in this report are calculated using a time-weighted rate of return formula. They are net of investment management fees and a deduction for asset based charges used to defray costs of the administering retirement organizations.

On June 30, 1999 the market value of the entire Fund was $1.7 billion.

Investment Options

	6/30/99 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$643
Growth Share Account – an actively managed, all common stock portfolio.	$323
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$389
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$26
Bond Market Account – an actively managed, all bond portfolio.	$132
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$56
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	$87

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

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

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

	Target	Actual
Stocks	60.0%	61.3%
Bonds	35.0	34.0
Unallocated Cash	5.0	4.7
	100.0%	100.0%

Period Ending 6/30/99

			Annualized	
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**4.7%**	**13.6%**	**18.8%**	**18.7%**
Composite*	4.4	13.6	18.4	18.4

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

GROWTH SHARE ACCOUNT

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

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

Period Ending 6/30/99

			Annualized	
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**7.7%**	**17.3%**	**25.9%**	**25.1%**
Composite*	7.8	19.6	25.8	25.2

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

COMMON STOCK INDEX ACCOUNT

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

The Account is invested 100% in common stock.

Period Ending 6/30/99

			Annualized	
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**8.0%**	**19.9%**	**26.3%**	**25.7%**
Wilshire 5000	7.8	19.6	25.8	25.7

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix
The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International index of Europe, Australia and the Far East (EAFE-Free). The remainder of the Account is "actively managed" by several international managers and emerging markets specialists who buy and sell stocks in an attempt to maximize market value.

Period Ending 6/30/99

			Annualized	
				Since
	Qtr.	**1 Yr.**	**3 Yr.**	**9/1/94**
Total Account	**6.2%**	**9.4%**	**9.4%**	**8.7%**
Composite*	5.1	10.6	7.4	6.9

* As of December 1996, the benchmark is weighted 87% EAFE-Free and 13% Emerging Markets Free. Prior to May 1996, the target was weighted 100% EAFE-Free.

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective
The investment objective of the Bond Market Account is to earn a high rate of return by investing in fixed income securities.

Period Ending 6/30/99				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**-1.0%**	**2.8%**	**7.6%**	**8.2%**
Lehman Agg.	-0.9	3.1	7.2	7.8

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

MONEY MARKET ACCOUNT

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

Period Ending 6/30/99				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.2%**	**5.3%**	**5.6%**	**5.6%**
90 Day T-Bills	1.1	4.7	5.1	5.2

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

FIXED INTEREST ACCOUNT

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

Period Ending 6/30/99				
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 11/1/94
GIC Pool	1.5%	6.3%	6.5%	6.6%

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

ASSIGNED RISK PLAN

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

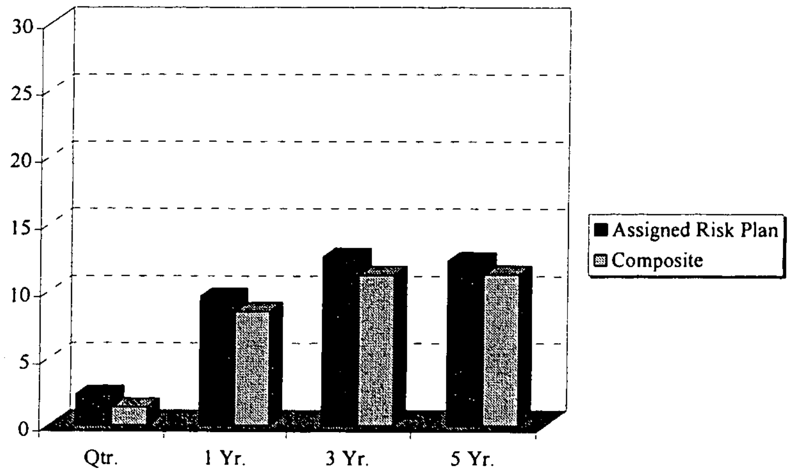
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/99 Target	6/30/99 Actual
Stocks	20.0%	31.1%
Bonds	80.0	68.9
Total	100.0%	100.0%

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

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

Market Value
On June 30, 1999 the market value of the Assigned Risk Plan was $735 million.



Period Ending 6/30/99

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Fund*	2.3%	9.6%	12.6%	12.3%
Composite	1.4	8.5	11.2	11.3
Equity Segment*	8.0	23.7	28.9	27.6
Benchmark	6.9	22.8	29.2	28.0
Bond Segment*	-0.1	4.2	6.8	7.3
Benchmark	0.0	4.7	6.8	7.2

* 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.

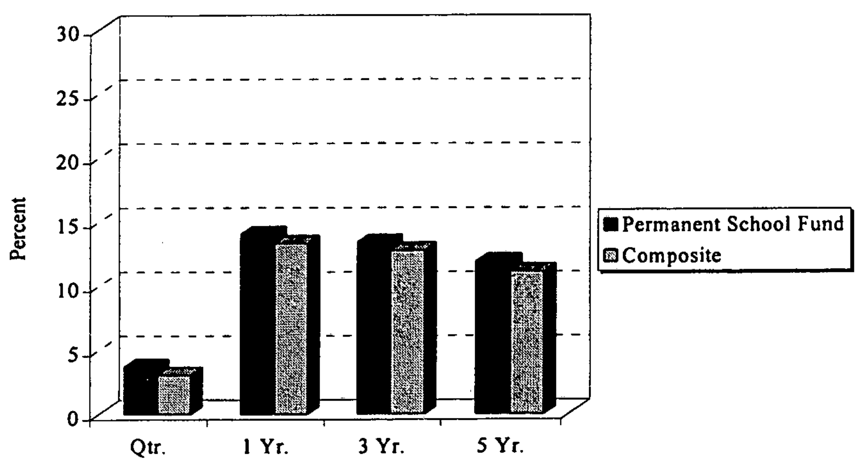
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	6/30/99 Target	6/30/99 Actual
Stocks	50.0%	57.2%
Bond	48.0	41.2
Unallocated Cash	2.0	1.6
	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 manage 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 June 30, 1999 the market value of the Permanent School Fund was $558 million.



	Period Ending 6/30/99 Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	**3.7%**	**14.0%**	**13.4%**	**11.9%**
Composite	3.1	13.3	12.7	11.1
Equity Segment (1) (2)	**7.0**	**23.1**	**N/A**	**N/A**
S&P 500	6.9	22.8	N/A	N/A
Bond Segment (1)	**-0.5**	**3.7**	**7.6**	**8.7**
Lehman Aggregate	-2.3	1.7	6.7	7.5

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

ENVIRONMENTAL TRUST FUND

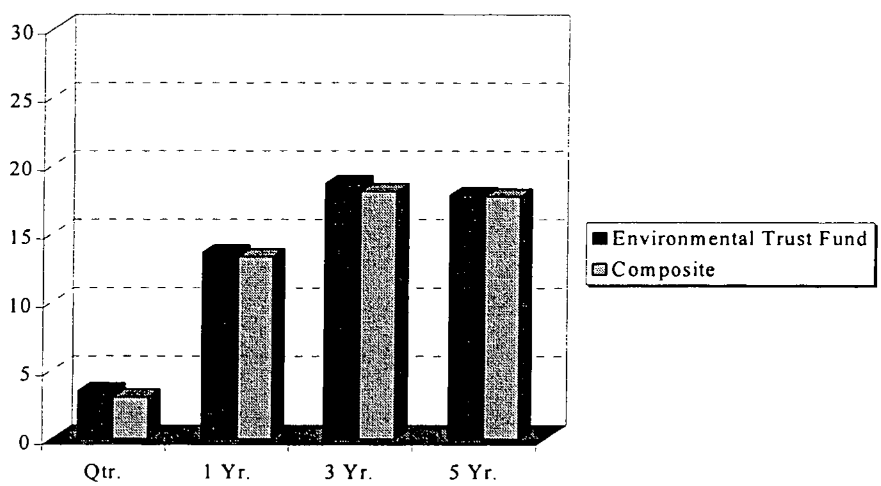
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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.

	6/30/99 Target	6/30/99 Actual
Stocks	50.0%	55.3%
Bonds	48.0	44.0
Unallocated Cash	2.0	0.7
	100.0%	100.0%

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 June 30, 1999 the market value of the Environmental Trust Fund was $285 million.



Period Ending 6/30/99	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	3.5%	13.6%	18.7%	17.8%
Composite	3.1	13.3	18.1	17.7
Equity Segment*	7.0	23.1	29.3	28.0
S&P 500	6.9	22.8	29.2	28.0
Bond Segment*	-0.5	3.7	8.1	8.3
Lehman Agg.	-0.9	3.1	7.2	7.8

* Actual returns are calculated net of fees.

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 6/30/99			Annualized	
	Market Value (Millions)	Qtr.	Yr.	3 Yr.	5 Yr.
Treasurer's Cash Pool*	$6,824	0.9%	5.0%	5.4%	5.6%
Custom Benchmark**		1.0	4.7	5.2	5.5
Trust Fund Cash Pool*	45	1.2	5.3	5.5	5.6
Custom Benchmark***		1.1	4.7	5.1	5.5
90-Day T-Bills		1.1	4.7	5.1	5.2

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value June 30, 1999 (in Thousands)

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	79,853 0.98%	-0-	1,683,901 20.56%	-0-	4,469,966 54.59%	1,192,531 14.56%	762,290 9.31%	8,188,541 100%
Public Employees Retirement Fund	41,723 0.92%	-0-	949,122 20.99%	-0-	2,463,348 54.48%	668,988 14.80%	398,385 8.81%	4,521,566 100%
State Employees Retirement Fund	39,782 0.92%	-0-	906,888 21.00%	-0-	2,352,236 54.48%	639,137 14.80%	379,979 8.80%	4,318,022 100%
Public Employees Police & Fire Fund	19,519 0.92%	-0-	443,973 20.99%	-0-	1,152,150 54.47%	312,927 14.80%	186,549 8.82%	2,115,118 100%
Highway Patrol Retirement Fund	2,511 0.92%	-0-	57,209 21.00%	-0-	148,386 54.48%	40,319 14.80%	23,969 8.80%	272,394 100%
Judges Retirement Fund	217 0.92%	-0-	4,946 21.00%	-0-	12,828 54.48%	3,486 14.80%	2,072 8.80%	23,549 100%
Public Employees P.F. Consolidated	4,060 0.83%	545 0.11%	102,838 20.92%	16 0%	267,880 54.49%	72,540 14.76%	43,719 8.89%	491,598 100%
Correctional Employees Retirement	2,338 0.92%	-0-	53,534 21.00%	-0-	138,854 54.48%	37,729 14.80%	22,438 8.80%	254,893 100%
TOTAL BASIC FUNDS	190,003 0.94%	545 0%	4,202,411 20.82%	16 0%	11,005,648 54.52%	2,967,657 14.70%	1,819,401 9.02%	20,185,681 100%
POST RETIREMENT FUND	455,358 2.38%	-0-	5,220,063 27.27%	-0-	10,365,123 54.15%	2,859,783 14.94%	241,673 1.26%	19,142,000 100%
TOTAL BASIC & POST	645,361 1.64%	545 0%	9,422,474 23.96%	16 0%	21,370,771 54.34%	5,827,440 14.82%	2,061,074 5.24%	39,327,681 100%

	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	30,410 4.73%	218,418 33.99%	-0-	-0-	393,868 61.28%	-0-	-0-	642,696 100%
Growth Share Account	-0-	-0-	-0-	-0-	322,543 100%	-0-	-0-	322,543 100%
Money Market Account	55,582 100%	-0-	-0-	-0-	-0-	-0-	-0-	55,582 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	388,601 100%	-0-	-0-	388,601 100%
Bond Market Account	-0-	-0-	131,755 100%	-0-	-0-	-0-	-0-	131,755 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	25,767 100%	-0-	25,767 100%
Fixed Interest Account	1,355 1.56%	-0-	85,484 98.44%	-0-	-0-	-0-	-0-	86,839 100%
TOTAL SUPPLEMENTAL FUNDS	87,347 5.28%	218,418 13.21%	217,239 13.13%	-0-	1,105,012 66.82%	25,767 1.56%	-0-	1,653,783 100%
TOTAL RETIREMENT FUNDS	732,708 1.79%	218,963 0.54%	9,639,713 23.52%	16 0%	22,475,783 54.84%	5,853,207 14.28%	2,061,074 5.03%	40,981,464 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	17,958 2.44%	-0-	492,929 67.05%	-0-	224,264 30.51%	-0-	-0-	735,151 100%
ENVIRONMENTAL FUND	1,958 0.69%	125,432 43.98%	-0-	157,814 55.33%	-0-	-0-	-0-	285,204 100%
PERMANENT SCHOOL FUND	8,772 1.57%	230,303 41.25%	-0-	319,190 57.18%	-0-	-0-	-0-	558,265 100%
TOBACCO SETTLEMENT POOL	734 0.41%	179.940 99.59%	-0-	-0-	-0-	-0-	-0-	180,674 100%
TREASURERS CASH	6,854,004 100%	-0-	-0-	-0-	-0-	-0-	-0-	6,854,004 100%
HOUSING FINANCE AGENCY	12,010 5.82%	194,398 94.18%	-0-	-0-	-0-	-0-	-0-	206,408 100%
MINNESOTA DEBT SERVICE FUND	38,982 22.12%	137,286 77.88%	-0-	-0-	-0-	-0-	-0-	176,268 100%
MISCELLANEOUS ACCOUNTS	261,530 60.98%	134,536 31.37%	-0-	32,846 7.65%	-0-	-0-	-0-	428,912 100%
GRAND TOTAL	7,928,656 15.73%	1,220,858 2.42%	10,132,642 20.10%	509,866 1.01%	22,700,047 45.04%	5,853,207 11.61%	2,061,074 4.09%	50,406,350 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 31, 1999

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A final report on the SBI's administrative budget for FY99 is included as **Attachment A**. A report for the FY00 administrative budget through July 31, 1999 is included as **Attachment B**.

A report on travel for the period from May 16 - August 15, 1999 is included as **Attachment C**.

2. Litigation Update

The SBI has been designated lead plaintiff in a class action suit against Mercury Finance Corporation. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on September 8, 1999.

3. Update on Tobacco Information

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

From March 31, 1999 to June 30, 1999 shares in SBI active stock portfolios were reduced by approximately 668,000 shares, dropping from 3.8 million shares to approximately 3.1 million shares. The market value of these holdings decreased from approximately $115 million to less than $105 million. Tables showing the holdings for the SBI active and semi-passive managers for March 31, 1999 and June 30, 1999 are in **Attachment D**.

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ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1999 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR FINAL

ITEM	FISCAL YEAR 1999 BUDGET	FISCAL YEAR 1999 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,715,475	$ 1,582,515
SEVERENCE PAYOFF	20,000	26,890
WORKERS COMPENSATION INSURANCE	1,000	1,106
MISCELLANEOUS PAYROLL	1,000	298
SUBTOTAL	**$ 1,737,475**	**$ 1,610,809**
STATE OPERATIONS		
RENTS & LEASES	94,525	120,100
REPAIRS/ALTERATIONS/MAINTENANCE	23,000	20,465
MOVING EXPENSES	100,000	155,964
PRINTING & BINDING	20,000	18,024
PROFESSIONAL/TECHNICAL SERVICES	55,000	1,606
COMPUTER SYSTEMS SERVICES	5,000	6,143
COMMUNICATIONS	27,000	26,461
TRAVEL, IN-STATE	3,000	1,278
TRAVEL, OUT-STATE	60,000	43,733
SUPPLIES	42,000	45,487
EQUIPMENT	40,000	51,125
EMPLOYEE DEVELOPMENT	12,000	16,770
OTHER OPERATING COSTS	28,000	26,473
SUBTOTAL	**$ 509,525**	**$ 533,629**
TOTAL GENERAL FUND	**$ 2,247,000**	**$ 2,144,438**

ATTACHMENT B

STATE BOARD OF INVESTMENT
FISCAL YEAR 2000 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JULY 31, 1999

ITEM	FISCAL YEAR 2000 BUDGET	FISCAL YEAR 2000 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,812,000	$ 81,996
SEVERENCE PAYOFF	30,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,844,000**	**$ 81,996**
STATE OPERATIONS		
RENTS & LEASES	126,000	10,301
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	0
PRINTING & BINDING	20,000	0
PROFESSIONAL/TECHNICAL SERVICES	35,000	0
COMPUTER SYSTEMS SERVICES	0	0
COMMUNICATIONS	30,000	0
TRAVEL, IN-STATE	3,000	26
TRAVEL, OUT-STATE	65,000	464
SUPPLIES	50,000	0
EQUIPMENT	50,000	0
EMPLOYEE DEVELOPMENT	15,000	0
OTHER OPERATING COSTS	42,000	0
SUBTOTAL	**$ 466,000**	**$ 10,791**
TOTAL GENERAL FUND	**$ 2,310,000**	**$ 92,787**

STATE BOARD OF INVESTMENT

Travel Summary by Date
SBI Travel May 16 – August 15, 1999

Purpose	Name (s)	Destination and Date	Total Cost
Manager Monitoring **Emerging Equity Manager:** Zevenbergen Capital **Manager Monitoring:** **Emerging Markets Manager:** Montgomery Asset Mgmt. **Manager Monitoring** **Domestic Stock Manager:** Barclays Global Investors **Manager Search** **Domestic Fixed Income Manager:** Dodge & Cox **Manager Search** **Emerging Equity Manager:** Bay Isle Financial Mgmt.,	M. Perry	Seattle, WA San Francisco, CA 6/8-6/11	$1,931.27
Manager Monitoring **Emerging Markets Manager:** Montgomery Asset Mgmt. **Manager Monitoring** **Domestic Stock Manager:** Barclays Global Investors **Manager Search** **Domestic Fixed Income Manager:** Dodge & Cox **Manager Search** **Emerging Equity Manager:** Bay Isle Financial Mgmt., **Staff Conference:** "BARRA Equity Research Seminar" sponsored by BARRA	J. Matz	San Francisco, CA 6/10-6/16	$1,436.17

Purpose	Destination Name (s)	and Date	Total Cost
Manager Monitoring International Managers: Marathon Asset Mgmt., Rowe Price-Fleming Int'l, Scudder, Kemper Investments **Manager Monitoring Emerging Markets Managers:** City of London, Genesis Asset Managers **Manager Search International Managers:** Bailie Gifford Overseas Ltd., Bank of Ireland, Blairlogie Capital Mgmt., INVESCO Global Asset Mgmt., Morgan Stanley Asset Mgmt., PICTET	L. Buermann	London, Edinburgh, Dublin 6/17-6/25	$4,183.17
Board Member Travel: 1999 Legal Education Conference National Association of Public Pension Attorneys	C. Eller	Jackson Hole, WY 6/23-6/25	$1,607.18
Manager Monitoring Domestic Stock Manager: Lincoln Capital Mgmt. **Consultant:** Richards & Tierney	H. Bicker	Chicago, IL 6/24-6/25	$982.09
Staff Conference: "Market Makers 1999" sponsored by: Institute For Fiduciary Education	J. Heidelberg	Santa Barbara, CA 6/27-30	$597.80
Board Member Travel: "Fundamentals of Investing Conference" sponsored by: Institute for International Research	C. Johnson J. Manahan	Las Vegas, NV 6/27-6/29	$2,516.22

Purpose	Name (s)	Destination and Date	Total Cost
Miscellaneous: South Dakota Board of Investment	H. Bicker	Sioux Falls, SD 6/28-6/29	$760.89
SBI Conference: "Investment Trends for the Millennium" sponsored by Opal Financial Group	H. Bicker	Anchorage, AK 7/11-7-16	$464.40
Consultant: Richards & Tierney	H. Bicker	Chicago, IL 7/20/99	$795.00
Manager Search Alternative Investments: Windjammer Capital Investors, TA Associates	J. Griebenow A. Christensen	Newport Beach, CA 7/22-7/23	$3,010.00
SBI Conference: "1999 Financial Analysts Seminar" sponsored by: AIMR	J. Matz S. Gleeson	Chicago, IL 7/25-7/30	$6,477.00
Manager Search International Managers: Alliance Capital, Fiduciary Trust Co. International, Lazard Asset Mgmt., Oechsle International Advisors, Putnam Investments, Wellington Asset Mgmt.	L. Buermann	Boston, MA New York, NY 7/27-7/29	$1,496.45
Manager Monitoring Alternative Investments: The Blackstone Group, Citicorp, KKR, Warburg Pincus, Welsh Carson, Anderson and Stowe **Manager Search Alternative Investments:** The Blackstone Group, Citicorp, Vestar Capital Partners	J. Griebenow A. Christensen	New York, NY 7/28-7/30	$3,630.00

Purpose	Name (s)	Destination and Date	Total Cost
Manager Monitoring **Domestic Stock Manager:** Brinson Partners **Manager Monitoring** **International Manager:** Brinson Partners **Manager Monitoring** **Domestic Fixed Income Manager:** Lincoln Capital Mgmt. **Manager Monitoring** **Alternative Investment Manager:** The Banc Fund Company **Consultant:** Richards & Tierney	M. Perry	Chicago, IL 8/11-8/13	$1,281.64

ATTACHMENT D

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

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

Company	**Percent Revenue from Tobacco in 1997**	**SBI Shares 03/31/99**	**SBI Cost Value 03/31/99**	**SBI Market Value 03/31/99**
Philip Morris Cos., Inc.	46	3,132,534	86,680,734	110,226,040
Universal Corp.	74*	45,000	1,464,701	1,150,313
Subtotal		**3,177,534**	**$88,145,435**	**$111,376,353**

International Stocks

Company	**Percent Revenue from Tobacco in 1997**	**SBI Shares 03/31/99**	**SBI Cost Value 03/31/99**	**SBI Market Value 03/31/99**
Compagnie Financiere Richemont	68*	80,000	2,751,015	548,000
PT Gudang Garam	96	150,000	598,736	199,279
Rembrandt Group Ltd.	>50	385,000	3,376,822	2,757,543
Subtotal		**615,000**	**$6,726,573**	**$3,504,822**
Total SBI Holdings		**3,792,534**	**$94,872,008**	**$114,881,175**

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

*1998 data

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

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 06/30/99	SBI Cost Value 06/30/99	SBI Market Value 06/30/99
Philip Morris Cos., Inc.	46	2,464,327	62,221,309	99,035,141
Universal Corp.	74*	45,000	1,464,701	1,279,688
Subtotal		**2,509,327**	**$63,686,010**	**$100,314,829**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 06/30/99	SBI Cost Value 06/30/99	SBI Market Value 06/30/99
Compagnie Financiere Richemont	68*	80,000	2,751,015	700,000
PT Gudang Garam	96	150,000	598,736	407,420
Rembrandt Group Ltd.	>50	385,000	3,376,822	3,295,985
Subtotal		**615,000**	**$6,726,573**	**$4,403,405**
Total SBI Holdings		**3,124,327**	**$70,412,583**	**$104,718,234**

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

*1998 data

Tab C

COMMITTEE REPORT

DATE: August 31, 1999

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on August 16, 1999 to consider the following agenda items:

- Review of manager performance for the period ending June 30, 1999.
- Status of 457 Plan.
- Presentation by Semi Passive Managers: Franklin Portfolio and BGI.
- Recommendation to terminate Credit Suisse Asset Management.
- Approval of investment policy for Closed Landfill Investment Fund.
- Approval of Tobacco Fund Investment Policy Paper.

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

INFORMATION ITEMS:

1. Review of manager performance for the period ending June 30, 1999.

- ***Stock Managers***

For the period ending June 30, 1999, the **domestic stock manager program** matched the Wilshire 5000 for the quarter and outperformed for the three year period. The program under-performed the Wilshire 5000 for the remaining time periods. The **current managers** under-performed the aggregate benchmark for the quarter and the year, outperformed the benchmark for the three year period and matched the aggregate benchmark for the five-year time period.

Time period	Total Program	Wilshire 5000*
Quarter	7.8%	7.8%
1 Year	18.1	19.6
3 Years	26.0	25.8
5 Years	25.4	25.7

Current Mgrs. Only	Aggregate Benchmark
7.8%	8.0%
18.3	19.8
26.3	26.0
26.1	26.1

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

- *Bond Managers*

For the period ending June 30, 1999, the **bond manager program** and **current managers** outperformed the Lehman Aggregate and the aggregate benchmark for the three and five year time periods and under-performed the Lehman Aggregate and the benchmark for the latest quarter and one year periods.

Time period	Total Program	Lehman Aggregate*
Quarter	-1.0%	-0.9%
1 Year	2.7	3.1
3 Years	7.6	7.2
5 Years	8.1	7.8

* Reflects Salomon BIG index prior to 7/94.

Current Mgrs. Only	Aggregate Benchmark
-1.0%	-0.9%
2.7	3.1
7.6	7.2
8.1	7.8

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

2. Status of 457 Plan.

The Committee discussed the changes made to the 457 State Deferred Compensation Plan. Broadly these changes include the following: direct access to mutual funds, a single recordkeeper and a single communications provider. The effect of these changes has been to provide participants with more investment flexibility, a central source for account information and overall lower fees. The revised plan went into effect July 1, 1999. Additional information can be found in the memo to the Domestic Manager Committee in **Attachment A** on page 5 of this tab.

3. Presentation by Semi Passive Managers: Franklin Portfolio and BGI.

Barclays Global Investors and Franklin Portfolio Associates attended the Domestic Manager Committee meeting on August 16, 1999. Each firm provided an overview of their respective semi-passive equity investment process, specifically, portfolio construction and risk control. The intent was to give the Committee a better understanding of how each organization manages money for the SBI. In addition, Barclays Global Investors and Franklin Portfolio responded to the Committee's questions regarding recent investment performance and their expectations going forward.

ACTION ITEMS:

4. Recommendation to terminate Credit Suisse Asset Management.

A considerable amount of portfolio manager turnover has recently occurred at Credit Suisse Asset Management (CSAM), an active manager in the Fixed Income Program. In May, the SBI staff was informed by CSAM that our portfolio manager and overall head of fixed income for the organization, Robert Moore, had resigned effective immediately. The sudden and unexpected resignation seriously concerned staff. Mr. Moore has been the portfolio manager of the SBI's account since the firm was retained in 1993.

Since Mr. Moore's resignation, three other portfolio managers have resigned from CSAM to join him in a new venture, including the individual CSAM had initially named as Mr. Moore's replacement. In addition, our primary client service contact and two senior equity portfolio managers resigned in July.

Upon these resignations, CSAM named Greg Diliberto head of fixed income. Mr. Diliberto had been responsible for quantitative risk management and model building within the fixed income group. CSAM also hired a senior individual and transferred two portfolio managers from the firm's European operations to replace the departed portfolio managers. In May, CSAM also hired the former co-head of fixed income at J.P. Morgan to be the firm's Chief Investment Officer.

Staff has communicated with senior members of the firm to discuss the turnover and feels that they have been less than forthcoming in their explanations. Furthermore, staff is concerned about the timeliness with which CSAM communicated these material changes to the SBI. Although the firm has met the SBI's performance objectives, a large part of the staff that generated this performance has left the firm.

Due to turnover and organizational instability, staff recommends that the SBI terminate its fixed income investment management relationship with Credit Suisse Asset Management and initiate a search to add an active bond manager to the Fixed Income Program. The Committee concurred with staff's views and recommendations.

RECOMMENDATION:

- **The Committee recommends that the SBI terminate its contractual relationship with Credit Suisse Asset Management for fixed income investment management services.**
- **The Committee also recommends that a search be initiated for an active fixed income manager.**

5. Approval of investment policy for Closed Landfill Investment Fund.

During the 1999 session, the Legislature created the Closed Landfill Investment Fund (the Fund). The Fund was established to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. The commissioner of finance will transfer $5.1 million to the Fund in fiscal years 2000 through 2003 for a total contribution of $20.4 million. The assets of the Fund are unavailable for expenditure until 2020. The Fund consists of non-retirement assets that may be commingled with other non-retirement assets managed by the Board. Given these considerations, most notably the long investment time horizon, the Committee recommends that the Fund be invested in the internally managed stock pool that is passively managed to track the S&P 500 index. See **Attachment B** on page 11 of this tab.

RECOMMENDATION:

The Committee recommends that the SBI approve the investment of the Closed Landfill Investment Fund in the SBI's internally managed stock pool.

6. Approval of Tobacco Fund Investment Policy paper.

During the 1999 Legislative Session, two tobacco endowment funds were established which will be funded from a portion of the State's tobacco settlement proceeds. Six one-time payments will be made to fund the endowments. The total contribution will be $944,800,000 of which 39 percent will go to the Medical Education Endowment Fund and 61 percent to the Tobacco Use Prevention and Local Public Health Endowment Fund. By statute, annual earnings up to 5 percent of the market value can be distributed. Also the principal must remain inviolate and the funds will expire on June 30, 2015 when all principal and any remaining interest must be returned to the general fund.

Given the constraints and goals established by the Legislature, the best investment strategy is to invest in a laddered fixed income portfolio of U.S. Treasury and Government Agency bonds, to be managed by the SBI staff, with maturities no greater than the expiration date of the endowment funds. The maturities should be spread out over the entire life of the endowment funds. With current interest rates over 5 percent, this strategy offers the highest probability that the endowment funds will earn 5 percent annually while keeping the principal inviolate. A copy of the Tobacco Settlement Funds Position Paper appears in **Attachment C** beginning on page 15 of this tab.

RECOMMENDATION:

The Committee recommends that the SBI adopt the Tobacco Fund Investment Policy Paper, which recommends an investment structure comprised of U.S. Treasury and Government Agency bonds with maturities laddered over the life of the endowment funds to be managed by SBI staff.

MINNESOTA
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INVESTMENT

Capitol Professional Office Building
Suite 200
590 Park Street
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us.
www.sbi.state.mn.us

DATE: August 9, 1999

TO: Members, Domestic Managers Committee

FROM: Jim Heidelberg
Stephanie Gleeson

SUBJECT: 457 State Deferred Compensation Plan

This memo highlights the changes made to the 457 State Deferred Compensation Plan. The revised Plan went into effect July 1, 1999.

Key Features of Revised Plan
Key features of the revised Plan are the following:

The SBI selects each external investment option and will monitor each investment provider. The Committee will receive regular quarterly reports about the mutual fund managers in a format similar to the information provided for other SBI managers. The SBI can replace an individual mutual fund manager rather than having to rely on the insurance companies' decision-making processes. Under the old structure the two insurance company providers selected, monitored and replaced variable annuity product providers.

The revised Plan is significantly less expensive for participants. The revised Plan offers mutual fund options that are approximately 60 to 100 basis points a year less expensive than the variable annuity options of the old structure. The Plan administrative charge for recordkeeping and communication was reduced from 40 basis points a year to 35 basis points.

The revised Plan has one recordkeeper and will provide one statement to participants. Under the old structure participants could have received statements from two insurance companies and MSRS if they had investments in several options.

The central recordkeeper will provide 24 hour telephone and internet access to account information. Under the old structure a participant could have been required to contact three organizations to gather complete account information.

The central communication provider will provide a single source of common information about the Plan. Under the old structure two communication providers serviced specific state agencies and governmental offices in specific counties.

Revised Plan Structure

The revised Plan has a central recordkeeper, a central communication provider and three sets of investment options. The investment options are:

- Seven options in the Supplemental Investment Fund (SIF)
- Six mutual funds and a fixed annuity product as external options
- Self-directed mutual fund window

Asset Class	**Supplemental Inv. Fund**	**External Options**
International	International Share	Fidelity Diversified International
Equity	Growth Share Common Stock Index	Janus Twenty Vanguard Institutional Index T. Rowe Price Small Cap Stock
Balanced	Income Share	INVESCO Total Return
Bond	Bond Market	Dodge & Cox Income
Fixed	Fixed Interest	Minnesota Fixed Fund
Money Market	Money Market	

The mutual funds are retained for specific asset class positions. The emphasis is on asset class not the particular mutual fund. The SIF Money Market Account serves as the money market option for the SIF and the external options.

The Minnesota Fixed Fund offers participants a stable value product that credits interest at a rate that is reset quarterly and whose assets are invested in the general accounts of three insurance companies. The SBI can replace any of the insurance companies as it would replace any other manager when necessary.

The mutual fund window offers over 1200 no-load mutual funds from over 200 fund companies. The window and list of funds and fund companies is the product of the Plan's recordkeeper.

Goals of the Plan Restructuring

Staff of the SBI and Minnesota State Retirement System (MSRS) fulfilled the following objectives in restructuring the Plan:

- Greater investment flexibility
- Central source for account information
- Elimination of Plan inefficiencies
- Lower fees

By providing direct access to mutual funds, the SBI increased participant investment flexibility and lowered fees. The old structure used higher cost variable annuity products offered through two insurance companies. The variable annuity products represented mutual fund investments but with a mortality and expense wrap fee charged in addition to the mutual fund expense charge. Participants may now transfer account balances among the mutual funds on a daily basis.

By contracting directly with mutual funds, the SBI increases its flexibility in managing the Plan investment options. The SBI will monitor the mutual funds as investment managers and will now have the ability to replace a manager/mutual fund if necessary. The SBI will no longer have to rely on the monitoring and selecting efforts of the two insurance companies.

MSRS retained a central recordkeeper that will provide one statement to participants that covers investments in the SIF and in the external options. Under the old plan a participant could have received statements from three recordkeeping organizations. MSRS also retained a single communication provider that replaced the two communication providers under the old structure.

By using central service organizations, MSRS reduced the Plan administrative expense from 40 basis points a year to 35 basis points a year, further reducing the expenses paid by plan participants.

<u>Old Plan Structure</u>
Prior to July 1, 1999 the Plan had two communication providers, three recordkeepers and two insurance companies and the SIF as investment product providers. There were twenty-two (22) investment options in total:

- Seven (7) options in the SIF
- Sixteen (16) options from the insurance companies: seven variable annuity options and a fixed annuity option from each.

Each insurance company provided recordkeeping for participant balances invested in their respective options. MSRS provided recordkeeping for participant balances invested in SIF accounts. A participant could have received statements from three organizations for the various pieces of his or her Plan investments.

Two communication providers serviced different parts of the state. Each serviced specific state agencies and government offices in specific counties.

<u>External Options Selection Process</u>
In 1997, staff of the SBI worked with the Deferred Compensation Review Committee (DCP Committee); its Deferred Compensation Programs consultant, Watson Wyatt; MSRS; the Plan's communication providers and others to determine an appropriate investment option structure for a revised plan. The

focus of staff efforts was in identifying an array of asset classes and a structure that would be understood by the majority of plan participants, yet would provide participants with a range of options sufficient to create a meaningful investment program. Working with the DCP Committee, staff designed an RFP which was announced in the State Register January 20, 1998 and distributed to 84 potential vendors. By the February 27, 1998 deadline for submittals, the SBI had received responses from thirty-three (33) companies offering 135 options.

The DCP Committee met twice in April 1998 to review responses and supporting materials. The Committee selected the following investment option providers to recommend to the Board.

Asset Class/Option	**Recommendation**
Large Cap Equity	Janus Twenty Fund
S&P 500 Index	Vanguard Institutional Index Fund
Small Cap Equity	T. Rowe Price Small Cap Stock Fund
International	Fidelity Diversified International Fund
Bond	Dodge & Cox Income Fund
Balanced	INVESCO Total Return Fund

Fixed Option	Great-West Life & Annuity Insurance Company The Minnesota Mutual Life Insurance Company Principal Mutual Life Insurance Company

Payout Annuities	Great-West Life & Annuity Insurance Company The Minnesota Mutual Life Insurance Company Principal Mutual Life Insurance Company

At the same time as the SBI was constructing and promulgating its RFP, MSRS designed separate RFP's for recordkeeping and enrollment/communication providers. These RFP's were announced in the State Register on January 20, 1998. MSRS distributed both of its RFP's to each of thirty-five (35) potential vendors. By the February 27, 1998 deadline for submittals, MSRS had received seven recordkeeping proposals and five enrollment/communication proposals. In April and May 1998, the MSRS selection committee interviewed finalists for the two positions and conducted on-site visits to three recordkeeping sites. SBI Board designees to the DCP Committee participated in the interviews. Based on these interviews and visits the MSRS board selected the following companies.

Recordkeeping	Minnesota Mutual/Great-West

Enrollment/Communication	NBI/Ochs Services, Inc.

The SBI's DCP Committee met in May 1998 to review all recommendations to be made to the SBI for each component of the proposed new 457 Deferred Compensation Plan (investment options, recordkeeping, and enrollment/communication). At its June 1998 meeting, the Board approved the DCP Committee recommendations.

With assistance from legal counsel, staff negotiated and signed contracts with the investment providers. MSRS negotiated and signed contracts with the recordkeeper and the enrollment/communication provider. MSRS and the recordkeeper worked during most of fiscal 1999 to convert records and prepare for the new Plan's introduction July 1, 1999.

Current Participation in the Plan

As of July 1, 1999 participant balances in the Plan exceeded $2.056 billion. Participant balances in the various Plan options were the following:

$ As of July 1, 1999	Mutual Fund
$117,793,377	INVESCO Total Return Fund
$225,564,362	Janus Twenty Fund
$152,799,562	Vanguard Institutional Index Fund
$203,101,906	T. Rowe Price Small Cap Stock Fund
$25,003,722	Dodge and Cox Income Fund
$48,929,340	Fidelity Diversified International Fund
$773,192,269	**Total in Mutual Funds**

$ As of July 1, 1999	SIF Option
$193,692,342	Income Share Account
$139,523,277	Growth Share Account
$180,215,874	Common Stock Index Account
$24,405,561	Bond Market Account
$14,925,346	International Share Account
$68,236,752	Fixed Interest Account
$62,912,085	Money Market Account
$683,911,237	**Total in SIF Options**

$ As of July 1, 1999	Fixed Annuity Options
$599,055,763	**Total in Fixed Annuities**

$ As of July 1, 1999	Deferred Compensation Plan
$2,056,159,269	**Total in Plan***

*Totals vary due to rounding.

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MINNESOTA
STATE
BOARD OF
INVESTMENT

Capitol Professional Office Building
Suite 200
590 Park Street
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us.
www.sbi.state.mn.us

DATE: August 9, 1999

TO: Members, Domestic Manager Committee

FROM: Jim Heidelberg

SUBJECT: Closed Landfill Investment Fund

During the 1999 session, the Legislature created the Closed Landfill Investment Fund (the Fund). The Fund was established to invest moneys to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed.

In accordance with Laws of Minnesota 1999, Chapter 231, the Fund is established in the state treasury and is invested by the SBI. The Pollution Control Agency (PCA) administers the Fund. The commissioner of finance must transfer $5.1 million to the Fund in fiscal years 2000 through 2003 for a total contribution to the Fund of $20.4 million.

Fund Objectives

The enabling legislation states that "The fund shall be managed to maximize long-term gain...". The commissioner of the PCA may spend money in the Fund "after fiscal year 2020". Given these provisions, the primary objective of the Fund should be to generate high returns from capital appreciation.

Asset Allocation

As the assets of the Fund are unavailable for expenditure until 2020, the Fund has a very long time horizon. There is no need for short term or mid term withdrawals from the Fund. Therefore, staff recommends that the Fund be invested entirely in equities.

Investment Management

The Fund consists of non-retirement assets that may be commingled with other non-retirement assets managed by the Board. Therefore, it is appropriate to invest the Fund in the internally managed stock pool that is passively managed to track the S&P 500 index.

RECOMMENDATION

The Committee recommends that the Board approve the investment of the Closed Landfill Investment Fund in the SBI's internally managed stock pool.

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MINNESOTA STATE BOARD OF INVESTMENT

Capitol Professional Office Building
Suite 200
590 Park Street
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us.
www.sbi.state.mn.us

DATE: August 9, 1999

TO: Domestic Manager Committee

FROM: Mike Menssen

SUBJECT: Tobacco Settlement Funds Position Paper

In 1998, the State of Minnesota settled a lawsuit with a number of tobacco companies. The total settlement was $6.1 billion with payments spread over a 20-year period. During the 1999 Legislative Session, two tobacco endowments funds were established using a portion of the proceeds already received and the future payments out to January 2001.

The attached position paper addresses the following:

1) The purpose and funding of the endowment funds.
2) Rationale for the asset allocation and investment structure of the endowments.
3) Description of the accounting procedures.

Staff is recommending that the assets of the endowment funds be invested in a laddered fixed income portfolio to be managed by the SBI staff.

RECOMMENDATION:

The committee recommends that the SBI adopt the attached position paper regarding investment of the Tobacco Settlement Endowment Funds and proceed with the implementation plan recommended in the paper.

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TOBACCO SETTLEMENT FUNDS

ASSET ALLOCATION AND INVESTMENT STRUCTURE

Staff Position Paper

August, 1999

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TOBACCO SETTLEMENT FUNDS
ASSET ALLOCATION AND INVESTMENT STRUCTURE

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TOBACCO SETTLEMENT FUNDS

ASSET ALLOCATION AND INVESTMENT STRUCTURE

INTRODUCTION

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

PURPOSE AND FUNDING

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

One endowment fund is the Medical Education Endowment Fund, which will receive 39 percent of the proceeds. The annual earnings, up to five (5) percent of the market value of the endowment fund, will be distributed to the University of Minnesota Board of Regents and to the Commissioner of Health. The allocations to the University will be used to help pay the costs of operating its medical school. The allocations to the Commissioner of Health will be used to fund other medical education expenses. By law, all earnings of the Medical Education Endowment Fund must be credited to the Fund, and its principal must remain inviolate. (Inviolate means that no contributed principal may be used to meet the endowment fund's five (5) percent pay out goal.)

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

Both the Medical Education Endowment Fund and the Tobacco Use Prevention and Local Public Health Endowment Fund will expire on June 30, 2015. Upon expiration, the principal, which has been defined as contributions to the endowment funds, and any remaining interest must be returned to the general fund.

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

ASSET ALLOCATION

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

1) Each endowment fund is to earn a minimum of five (5) percent each fiscal year.
2) The principal of each endowment fund is to remain inviolate.
3) The entire principal contributed to each endowment fund is to be returned to the state general fund on June 30, 2015.

To accomplish the preceding goals, the endowment funds should be invested entirely in fixed income securities. Bonds are the only asset class that can offer a high probability of attaining each goal. The use of fixed income securities enables the endowment funds to achieve the desired earnings rate with some certainty, at the present time. In addition, the use of bonds increases the probability that the principal remaining inviolate and be available to be returned to the state's general fund at the pre-specified date, June 30, 2015.

Other asset classes, such as equities, offer the potential for higher overall rates of return, but also increase the risk of not achieving the desired earnings rate each year. They also subject the principal of the endowment funds to the potential of a loss that may not be recovered by the expiration date, June 30, 2015.

Currently, it is possible to invest in United States Treasury securities maturing in 2015 which yield more than six (6) percent annually. Investing in these securities assures annual earnings greater than the five (5) percent goal of the endowment funds. In contrast, domestic equities currently yield slightly more than two (2) percent annually and this yield is not assured. The stock market would have to appreciate at least three (3) percent in every year and also make up for any decline in yield below the current two (2) percent level to achieve the five (5) percent annual earnings goal. While the stock market has achieved returns significantly in excess of five (5) percent annually in the recent past, there is no guarantee that such levels can be sustained or that a five (5) percent return can be achieved each and every year. Historically, the stock market has experienced return volatility. The following chart illustrates the volatility of domestic equity returns. The data assumes an annual expected return of 11% with a standard deviation of 17%.

Percentile	**Annualized Return**
95th	46.8%
75th	24.5
50th	11.0
25th	-1.0
5th	-16.1

The above chart indicates that there is a greater than 25 percent probability that the domestic equity market will generate a negative return in any given year. This demonstrates that an investment in equities could result in a significant shortfall to the five (5) percent annual earnings rate goal.

While fixed income securities provide the best opportunity to achieve the goal of a 5% income return in each year, bonds offer the best assurance that the principal of the funds will remain inviolate. Investing in fixed income securities gives the SBI the opportunity to structure a portfolio for which the risk of principal loss can be minimized or eliminated. While in any given year the market value of bonds can fluctuate due to changes in interest rates or other credit market conditions, over a predetermined time period, a bond portfolio can be structured to return all contributed principal at the stated date.

To achieve the three (3) goals of the endowment funds, the most appropriate strategy is to invest in fixed income securities.

INVESTMENT STRUCTURE

Assuming fixed income securities provide the most appropriate investment vehicle for achieving the three (3) stated goals of the endowment funds, there are three (3) alternatives which could be used to develop an investment structure. The three (3) alternatives include:

1) Purchase all bonds with a maturity date that coincides with the expiration date of the endowment funds, June 30, 2015.
2) Purchase only short term fixed income securities for the endowment funds.
3) Develop a laddered bond investment structure with maturities that are spread out over the entire investment horizon of the endowment funds.

In developing an investment structure for the endowment funds, the primary concern is the interest rate sensitivity over the life of the endowment funds. The investment structure resulting from each of the three (3) alternatives will react differently to interest rate changes.

The first alternative uses a strategy of purchasing securities with a maturity date that coincides with the expiration date of the endowment funds. This strategy would eliminate any reinvestment risk that might occur in the other two alternatives. The yield on the endowment funds would be locked in at the time of investment. Currently, interest rates exceed five (5) percent. By employing this investment strategy, the endowment funds would be assured of achieving their earnings target. A disadvantage associated with this approach is the potential for the market value of the endowment funds to fluctuate with changing interest rates. The five (5) percent spending limit is established annually based upon the market value of the endowment funds. Significant changes in the market value of the endowment funds would alter the annual amount of spending income available. Moreover, at the current time, there appears to be limited availability and liquidity of fixed income securities possessing the desired maturity date.

The second alternative which would use only short-term bonds would be very easy to establish. The short end of the bond market is very liquid with many securities available. The advantage of this approach is its ability to eliminate the Funds' market value fluctuations, thus ensuring that the principal of the endowment funds remains inviolate and would be available to be returned to the general fund on June 30, 2015. However, the investments would be very sensitive to changes in interest rates. As securities matured, the proceeds would have to be reinvested at the then prevailing rate. If interest rates were to fall below five (5) percent, the endowment funds would be unable to consistently achieve the earnings rate goal.

The third alternative would be to structure a laddered fixed income portfolio. The endowment funds would be structured by allocating a significant portion of the contributed principal to the maximum maturity. At current rates, this would lock in a significant portion of future earnings at a level above the targeted five (5) percent. The remaining amount would be invested in equal amounts to mature in each of the years leading to the maximum maturity.

RECOMMENDED INVESTMENT STRUCTURE

As previously mentioned, investing the endowment funds solely in short term securities exposes them to an imprudent amount of reinvestment risk. Investing the endowment funds in fifteen year securities gives them relatively high market value volatility which could cause significant changes in the annual spending targets. In addition, there is limited liquidity and availability of securities to invest the entire contributed capital to the endowment funds' expiration date. Staff believes that a laddered approach provides the greatest flexibility and enables the endowment funds to achieve the three (3) stated goals. The proposed ladder structure has the advantage of locking in a portion of the endowment funds at an earnings rate greater than the targeted five (5) percent through the endowment funds' expiration date. The remainder of the endowment funds would be available to be reinvested in a rising interest rate environment and, therefore, would reduce annual market volatility.

Specifically, staff recommends that 50 percent of the principal contributions be invested in Treasury securities that have a maturity date which matches the endowment funds' expiration date, fiscal year end 2015. The remaining principal contributions would be evenly distributed among securities with maturity dates up to 10 years coinciding with the end of fiscal years 2002 through 2009. There are scheduled principal contributions during fiscal year 2000 and 2001. When the additional principal is deposited in 2000 and 2001, the maturities will be evenly spread out coinciding with the end of the fiscal 2002 through the current 10 year government or agency issue. As these investments start to mature, the new 10 year government or agency issue would be purchased until 2005. After 2005, all maturities would be rolled into securities with maturities of 2015. Given current rates, the proposed structure minimizes the potential that the endowment funds will generate less than a five (5) percent earnings rate in any given year. Additionally, interest rates over the remaining life of the endowment funds would have to average less than 3.2 percent before the portfolio would be unable to provide the five (5) percent earnings goal.

ACCOUNTING

The two (2) endowment funds' assets will be managed in one (1) commingled pool (The Tobacco Endowment Pool). The Tobacco Endowment Pool will be a unit-valued account that will be valued on a monthly basis. All unit value transactions will occur on the first business day of the month based on the unit value determined as of the end of the last business day of the preceding month.

Income earned by the assets in the pool will be distributed on a quarterly basis. Income is defined as dividends, interest on fixed income securities and interest earned on short term investments. Premiums and discounts on fixed income securities will be amortized on a monthly basis and will be included in income for the period.

If securities are sold generating a gain or a loss on the sale, the gain or loss will be amortized over the remaining life of the security sold or until June 30, 2015, which ever is first. The procedure followed will be to accumulate all gains and losses for a year and the net amount will be amortized over the average life of the securities sold. The amount of this annual amortization will reduce or increase income available to meet the five (5) percent goal.

If the income earned by the fund exceeds the five (5) percent spending limit in any one year, the excess will be placed in reserve to supplement insufficient income earned in a future year. If excess income remains at the expiration of the fund in 2015, then the balance will revert to the general fund with the principal.

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

RECOMMENDATION

Staff recommends that the Medical Education and Tobacco Use Prevention and Local Public Health Endowment Funds be invested in fixed income securities with a final maturity no greater than the expiration date of the endowment funds. Staff further recommends that the endowment funds use a ladder investment structure. This approach will minimize the risk that the endowment funds will be unable to meet the five (5) percent earnings goal and allows them to participate in a rising interest rate environment. By limiting the bond investments to a final maturity no greater than the endowment funds' expiration date, finally, the principal of the Fund will remain inviolate.

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Second Quarter, 1999

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COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending June, 1999

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
Alliance Capital	4.0	6.0	34.3	30.1	42.0	33.7	35.6	30.5	22.1	16.6	$1,788.77	8.0%
American Express AMG	6.2	7.9	15.8	26.9	21.0	30.6	21.7	28.8	16.3	18.0	$634.16	2.8%
Brinson Partners	11.7	12.1	13.6	19.8	22.5	25.3	24.0	24.7	20.5	20.5	$759.18	3.4%
Forstmann-Leff	15.6	12.0	47.4	16.1	36.3	19.4	31.8	21.8	17.7	14.1	$831.60	3.7%
Franklin Portfolio	13.0	10.2	9.5	18.5	24.6	23.9	24.2	23.9	17.7	17.0	$609.96	2.7%
GeoCapital	7.1	11.8	-1.5	-2.9	11.3	4.8	16.3	15.8	15.0	14.5	$513.38	2.3%
Lincoln	1.1	4.3	24.9	30.3	30.0	33.9	30.6	31.8	25.2	26.0	$931.56	4.1%
Oppenheimer	6.1	7.9	10.7	20.7	26.1	27.0	26.8	25.7	22.5	21.4	$835.63	3.7%
Emerging Managers (2)	6.8	10.7	17.7	20.1	24.7	24.1	24.4	24.1	22.6	22.5	$784.43	3.5%
Semi-Passive Managers (3)												
Franklin Portfolio	8.4	7.7	13.2	19.0	26.3	27.2			27.3	28.2	$2,302.35	10.2%
JP Morgan	8.9	7.7	19.5	19.0	27.5	27.2			28.6	28.2	$2,461.25	11.0%
Barclays Global Investors	7.7	7.7	14.8	19.0	25.7	27.2			28.0	28.2	$2,360.18	10.5%
Passive Manager (4)												
Barclays Global Investors	7.9	7.8	19.8	19.6	26.3	25.8			26.1	25.8	$7,663.32	34.1%
									Since 1/1/84			
Current Aggregate	7.8	8.0	18.3	19.8	26.3	26.0	26.1	26.1	18.1	16.1	$22,475.78	100.0%
Historical Aggregate (5)	**7.8**	**8.0**	**18.1**	**19.6**	**26.0**	**25.9**	**25.4**	**25.6**	**16.5**	**16.7**		
Wilshire Adjusted		7.8		19.6		25.8		25.7		16.7		
Wilshire 5000		7.8		19.6		25.8		25.7		16.9		

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

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Jack Koltes **Assets Under Management: $1,788,773,371**

Investment Philosophy

Alliance searches for companies likely to experience high rates of earnings growth, on either a cyclical or secular basis. Alliance invests in a range of medium to large growth and cyclically sensitive companies. There is no clear distinction on the part of the firm as to an emphasis on one particular type of growth company over another. However, the firm's decision-making process appears to be much more oriented toward macroeconomic considerations than is the case with most other growth managers. Accordingly, cyclical earnings prospects, rather than secular, appear to play a larger role in terms of stock selection. Alliance is not an active market timer, rarely raising cash above minimal levels.

Staff Comments

No comments at this time.

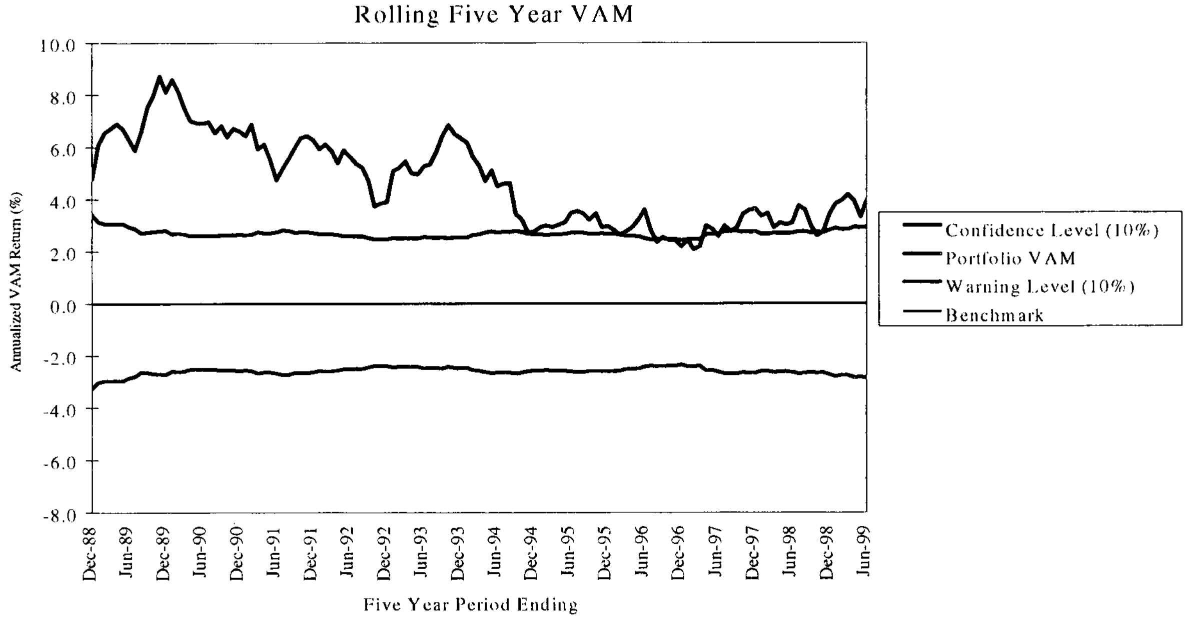
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	6.0%
Last 1 year	34.3	30.1
Last 2 years	42.2	33.0
Last 3 years	42.0	33.7
Last 4 years	37.0	31.3
Last 5 years	35.6	30.5
Since Inception (1/84)	22.1	16.6

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



BRINSON PARTNERS
Periods Ending June, 1999

Portfolio Manager: Jeff Diermeier — **Assets Under Management: $759,183,529**

Investment Philosophy

Brinson Partners uses a relative value approach to equity investing. They believe that the market price will ultimately reflect the present value of the cash flows the security will generate for the investor. They also believe both a macroeconomic theme approach and a bottom-up stock selection process can provide insight into finding opportunistic investments. Brinson uses their own discounted free cash flow model as their primary analytical tool for estimating the intrinsic value of a company.

Quantitative Evaluation

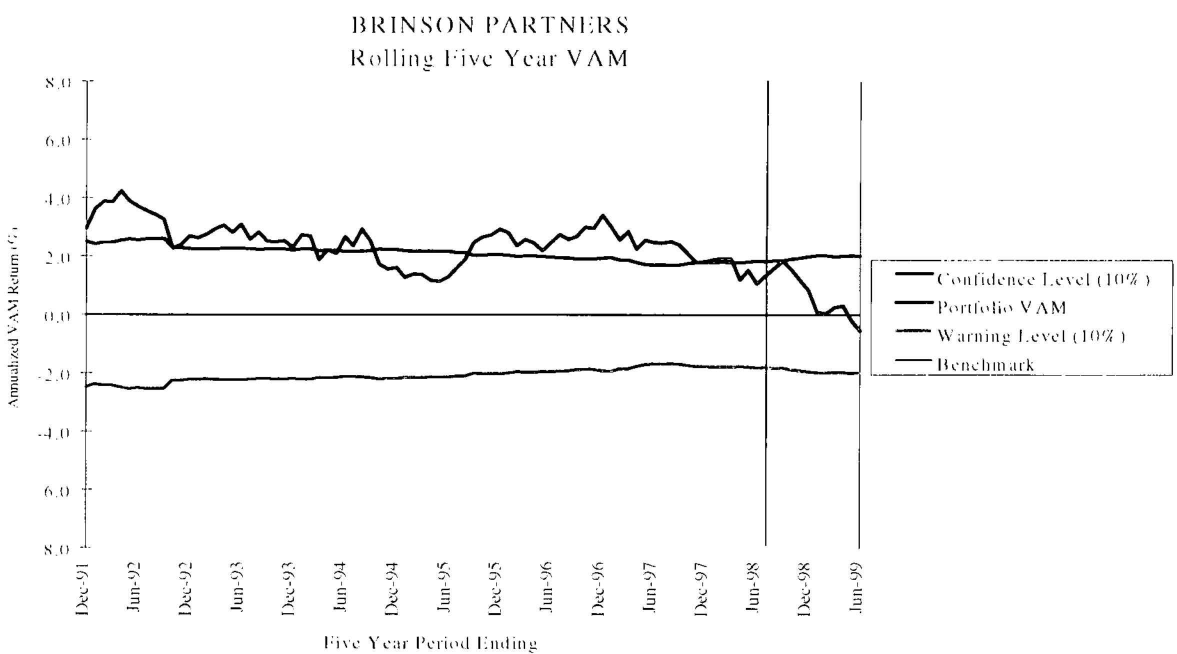
	Actual	Benchmark
Last Quarter	11.7%	12.1%
Last 1 year	13.6	19.8
Last 2 years	17.8	23.7
Last 3 years	22.5	25.3
Last 4 years	24.5	24.7
Last 5 years	24.0	24.7
Since Inception (7/93)	20.5	20.5

Staff Comments

Brinson has underperformed their benchmark due to an underweighting in telephone utilities and overweights in railroads and construction stocks. Brinson continues to focus on identifying securities that are most attractive in price/value terms through intensive company analysis. The organization remains solid, and the firm continues to implement their investment process. However, the market's continued preference for growth stocks has negatively affected Brinson's performance.

Recommendation

No action required.



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

FORSTMANN-LEFF ASSOCIATES
Periods Ending June, 1999

Portfolio Manager: Joel Leff | **Assets Under Management: $831,601,137**

Investment Philosophy

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

Staff Comments

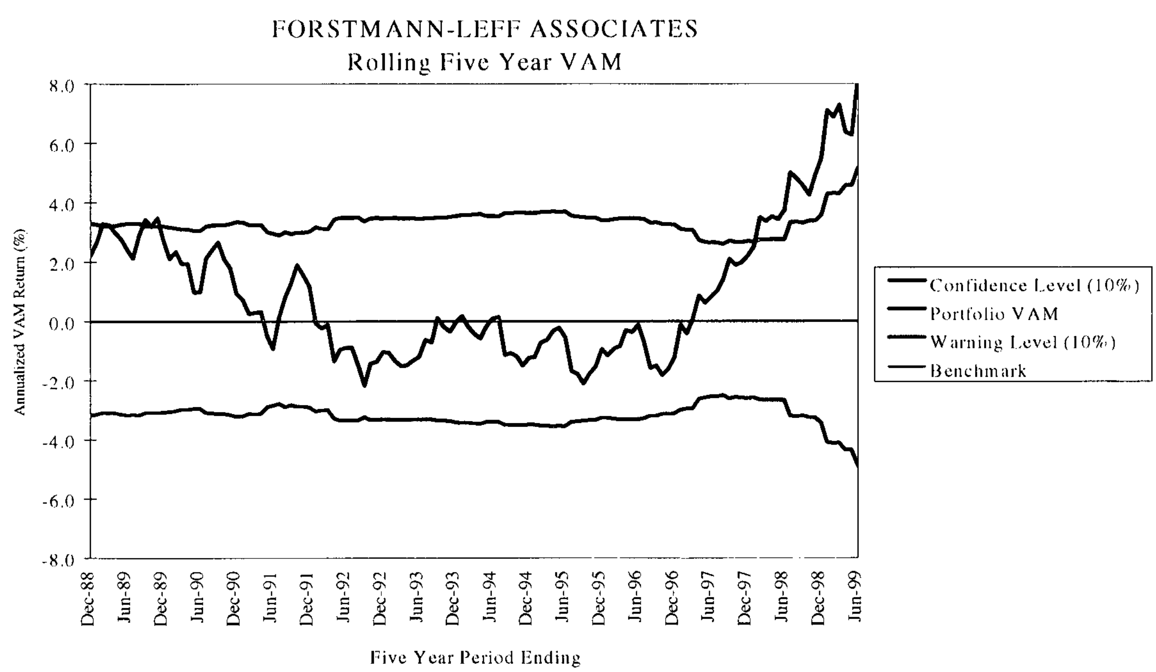
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.6%	12.0%
Last 1 year	47.4	16.1
Last 2 years	39.5	15.9
Last 3 years	36.3	19.4
Last 4 years	35.2	20.6
Last 5 years	31.8	21.8
Since Inception (1/84)	17.7	14.1

Recommendation

No action required.



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 1999

Portfolio Manager: John Nagorniak **Assets Under Management: $609,962,276**

Investment Philosophy
Active

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

Staff Comments

Franklin outperformed their benchmark for the quarter due to strong stock selection in the technology and consumer cyclical sectors. For the year, Franklin has underperformed, primarily due to the economic uncertainty, stock volatility, and narrow market leadership that occurred during the 3rd quarter 1998, 4th quarter 1998, and 1st quarter 1999. The organization remains solid, and Franklin continues to implement their quantitative process.

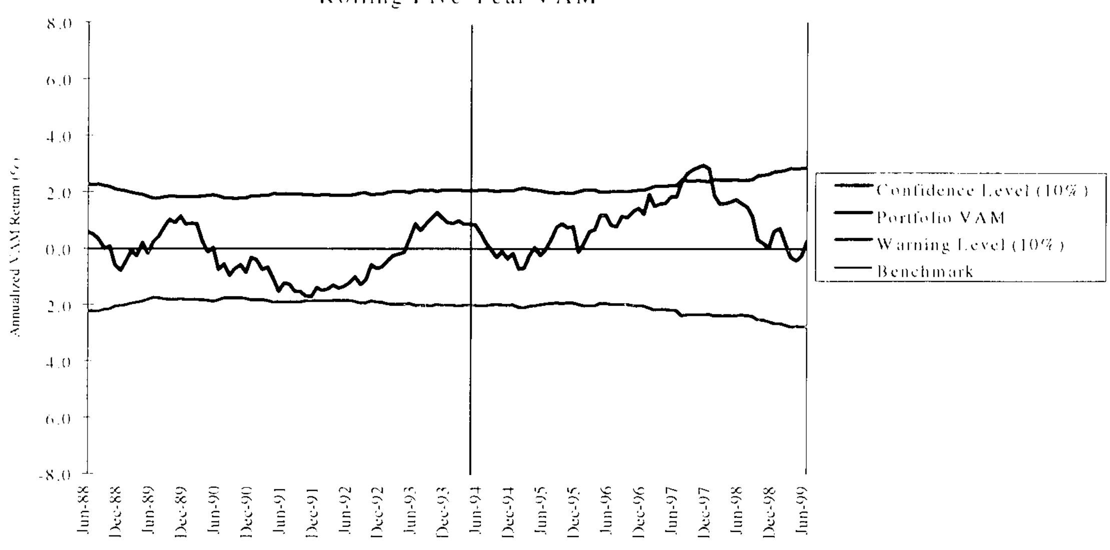
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.0%	10.2%
Last 1 year	9.5	18.5
Last 2 years	21.3	22.8
Last 3 years	24.6	23.9
Last 4 years	24.4	23.7
Last 5 years	24.2	23.9
Since Inception (4/89)	17.7	17.0

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



Five Year Period Ending

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

GEOCAPITAL CORP.
Periods Ending June, 1999

Portfolio Manager: Barry Fingerhut **Assets Under Management: $513,384,672**

Investment Philosophy

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

Staff Comments

No comments at this time.

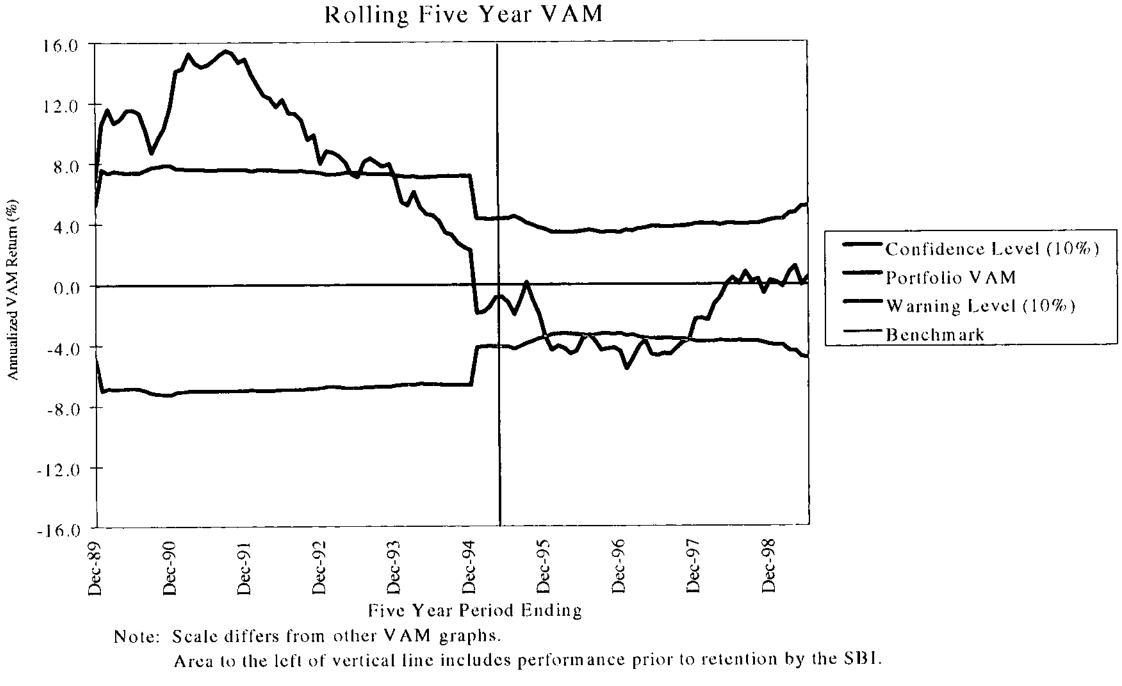
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.1%	11.8%
Last 1 year	-1.5	-2.9
Last 2 years	12.3	4.4
Last 3 years	11.3	4.8
Last 4 years	14.9	12.0
Last 5 years	16.3	15.8
Since Inception (4/90)	15.0	14.5

Recommendation

No action required.

GEOCAPITAL CORP.
Rolling Five Year VAM



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

LINCOLN CAPITAL MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Parker Hall | **Assets Under Management: $931,556,465**

Investment Philosophy

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

Staff Comments

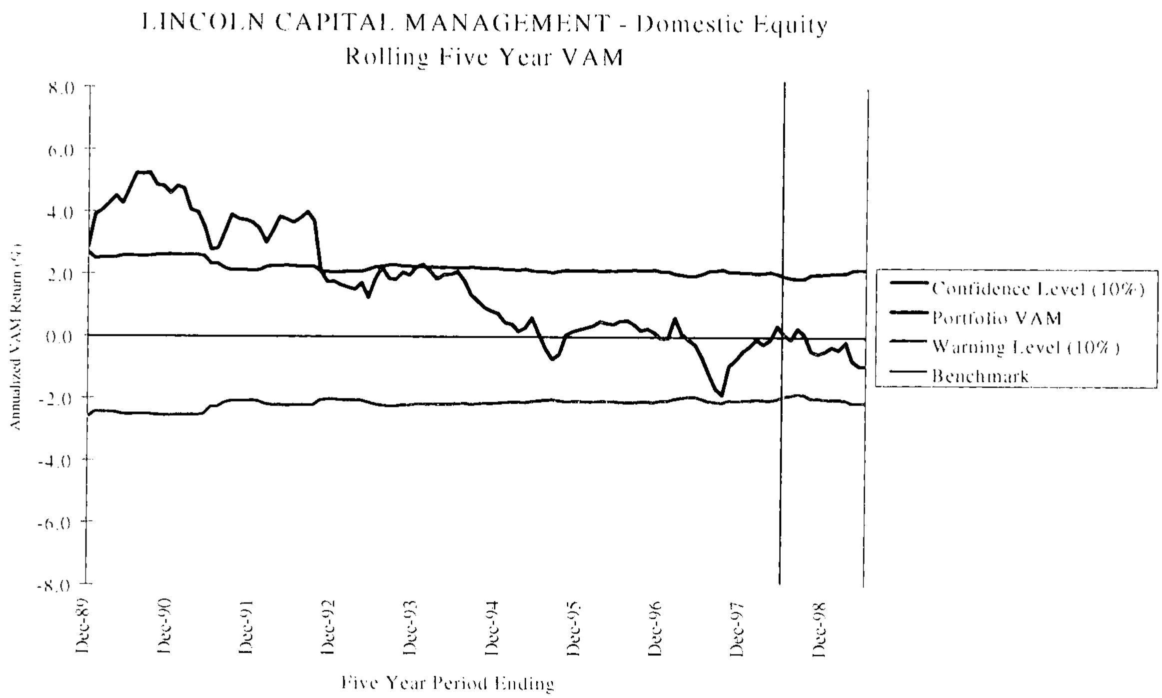
Lincoln Capital visited the SBI in July 1999. Lincoln has underperformed their benchmark due to poor stock selection within the technology and health care sectors. Lincoln is currently looking to hire a senior technology analyst, as well as a research coordinator. The organization and investment process has continued to remain stable.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.1%	4.3%
Last 1 year	24.9	30.3
Last 2 years	29.0	33.6
Last 3 years	30.0	33.9
Last 4 years	30.6	32.4
Last 5 years	30.6	31.8
Since Inception (7/93)	25.2	26.0

Recommendation

No action required.



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

OPPENHEIMER CAPITAL
Periods Ending June, 1999

Portfolio Manager: John Lindenthal | **Assets Under Management: $835,631,774**

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. Based on its outlook on the market and the economy, Oppenheimer will make moderate shifts between cash and equities. Oppenheimer focuses on five key variables when evaluating companies: management, financial strength, profitability, industry position, and valuation.

Staff Comments

Oppenheimer visited the SBI in July 1999. Oppenheimer has underperformed their benchmark for the quarter and year due to poor stock selection in the insurance sector, as well as negative performance from Monsanto, Becton Dickinson and Lockheed Martin. Colin Glinsman, Oppenheimer's new CIO expressed concern over the recent underperformance. He is encouraging the investment team to bring ideas forward more quickly and to identify problem stocks in the portfolio sooner given the faster pace in the market environment. Oppenheimer remains a solid organization, and they continue to adhere to their investment philosophy.

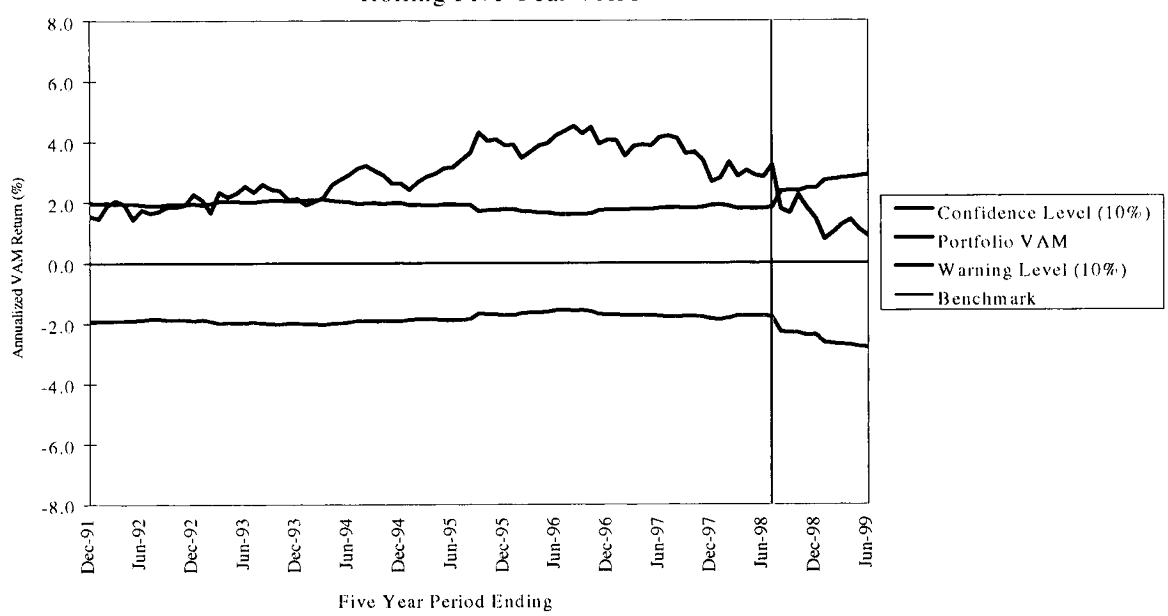
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.1%	7.9%
Last 1 year	10.7	20.7
Last 2 years	20.9	24.9
Last 3 years	26.1	27.0
Last 4 years	26.6	26.6
Last 5 years	26.8	25.7
Since Inception (7/93)	22.5	21.4

Recommendation

No action required.

OPPENHEIMER CAPITAL
Rolling Five Year VAM



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending June, 1999

Portfolio Manager: John Nagorniak **Assets Under Management: $2,302,351,030**

Investment Philosophy
Semi-Passive

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

Staff Comments

Franklin outperformed the completeness benchmark for the quarter primarily due to strong stock selection in the consumer cyclical sector. For the year, Franklin has underperformed, mostly as a result of the economic uncertainty, stock volatility, and narrow market leadership that occurred during the 3rd quarter 1998, 4th quarter 1998, and 1st quarter 1999. The organization remains solid, and Franklin continues to implement their quantitative process.

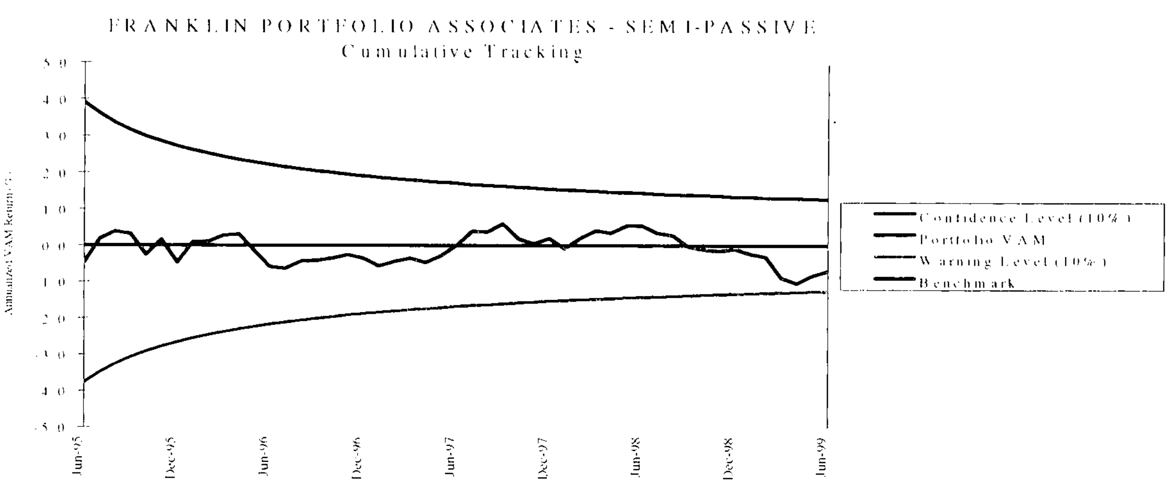
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.4%	7.7%
Last 1 year	13.2	19.0
Last 2 years	22.7	24.7
Last 3 years	26.3	27.2
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	27.3	28.2

* Completeness Fund

Recommendation

No action required.



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

Portfolio Manager: Jim Wiess | **Assets Under Management: $2,461,245,789**

Investment Philosophy
Semi-Passive

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

Staff Comments

No comments at this time.

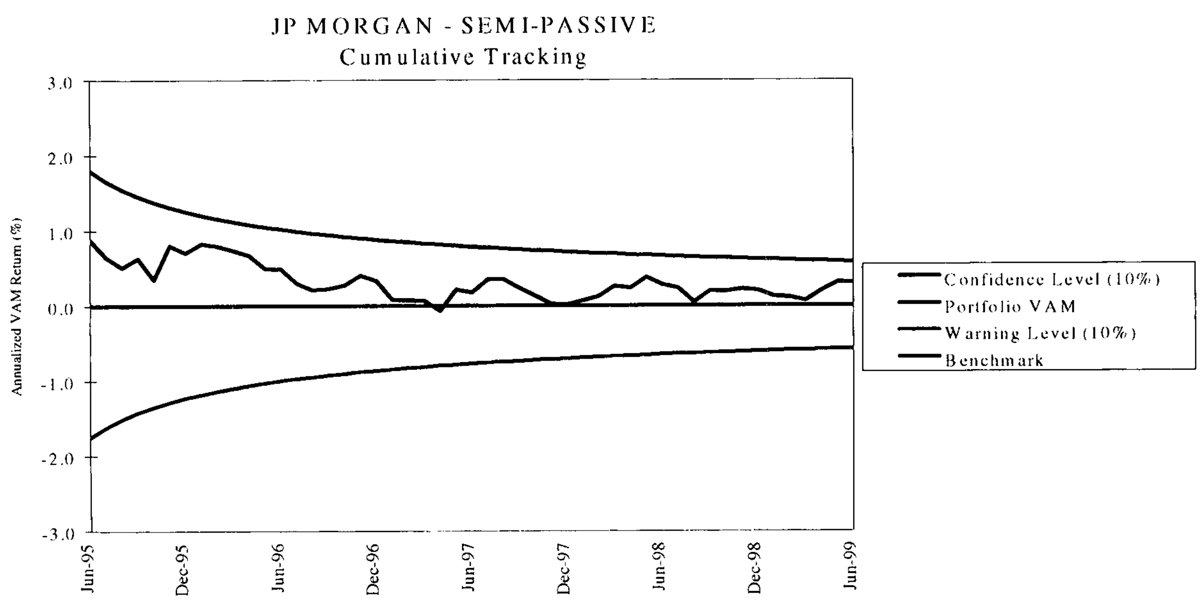
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.9%	7.7%
Last 1 year	19.5	19.0
Last 2 years	25.2	24.7
Last 3 years	27.5	27.2
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	28.6	28.2

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending June, 1999

Portfolio Manager: Nancy Feldkircher **Assets Under Management: $2,360,179,243**

Investment Philosophy
Semi-Passive

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

Staff Comments

BGI matched the completeness benchmark for the quarter, but has underperformed for the year, primarily due to poor security selection. BGI continues to implement their investment strategy and the organization remains stable.

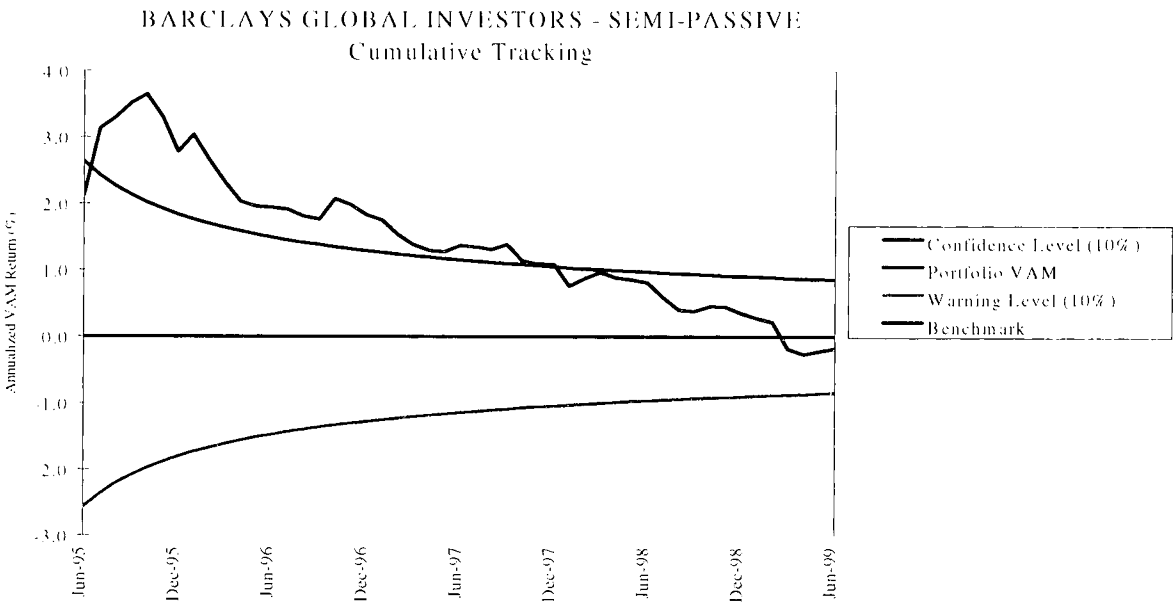
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	7.7%	7.7%
Last 1 year	14.8	19.0
Last 2 years	22.1	24.7
Last 3 years	25.7	27.2
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	28.0	28.2

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending June, 1999

Portfolio Manager: Rich Johnson | **Assets Under Management: $7,663,322,657**

Investment Philosophy
Passive

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

Staff Comments

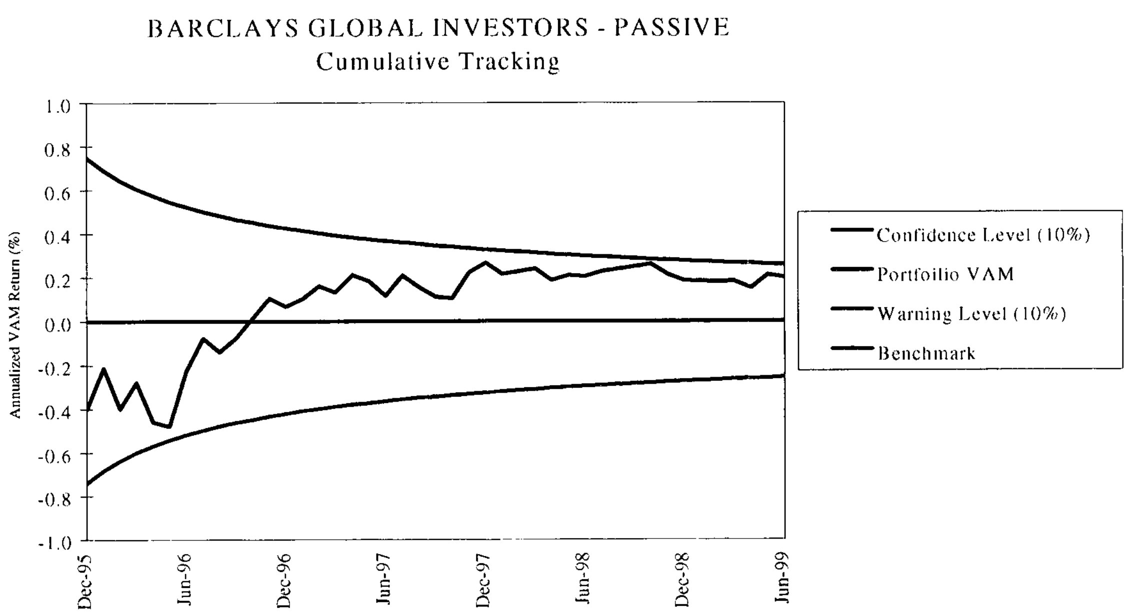
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.9%	7.8%
Last 1 year	19.8	19.6
Last 2 years	24.5	24.1
Last 3 years	26.3	25.8
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/95)	26.1	25.8

Recommendation

No action required.



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STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Second Quarter, 1999

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COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending June, 1999

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (1) Actual %	Since Inception (1) Bmk %	Market Value (in millions)	Pool %
Active Managers												
CIC Assets	11.7	12.2	5.3	12.0	20.0	24.1	21.3	24.3	20.1	23.1	$78.57	10.0%
Cohen, Klingenstein, & Marks	3.3	7.3	26.4	25.7	32.7	28.8	29.8	26.7	28.7	24.9	201.17	25.6%
Compass Capital	12.8	9.3	15.3	23.8	22.5	28.2	24.1	26.9	22.4	25.0	86.70	11.1%
New Amsterdam	6.0	13.4	10.3	21.4	27.0	24.9	24.5	23.6	22.1	22.2	85.68	10.9%
Valenzuela Capital	3.5	11.9	-7.1	2.6	17.9	16.3	18.6	18.7	17.9	17.5	71.21	9.1%
Wilke/Thompson	4.4	17.0	0.8	3.3	3.5	10.4	12.8	16.5	10.7	14.2	51.22	6.5%
Winslow Capital	5.4	9.8	8.0	32.3	21.3	30.0	22.2	27.7	20.4	25.8	79.40	10.1%
Zevenbergen Capital	10.4	11.3	65.3	30.3	43.1	29.2	35.6	27.8	32.3	25.6	130.49	16.6%
											$784.43	**100.0%**
									Since 4/1/94			
Current Aggregate	6.8	10.7	17.7	20.1	25.1	24.7	24.9	24.6	23.1	22.8		
Historical Aggregate (2)	**6.8**	**10.7**	**17.7**	**20.1**	**24.7**	**24.1**	**24.4**	**24.1**	**22.6**	**22.5**		

(1) Since retention by the SBI.

(2) Includes the performance of terminated managers.

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CIC ASSET MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Jorge Castro **Assets Under Management: $78,567,283**

Investment Philosophy

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

Staff Comments

CIC slightly underperformed their benchmark during the quarter. Over the past year CIC's portfolio significantly underperformed primarily as a result of their decision to sell very large cap stocks to purchase stocks they felt held better value at the lower end of the large cap universe.

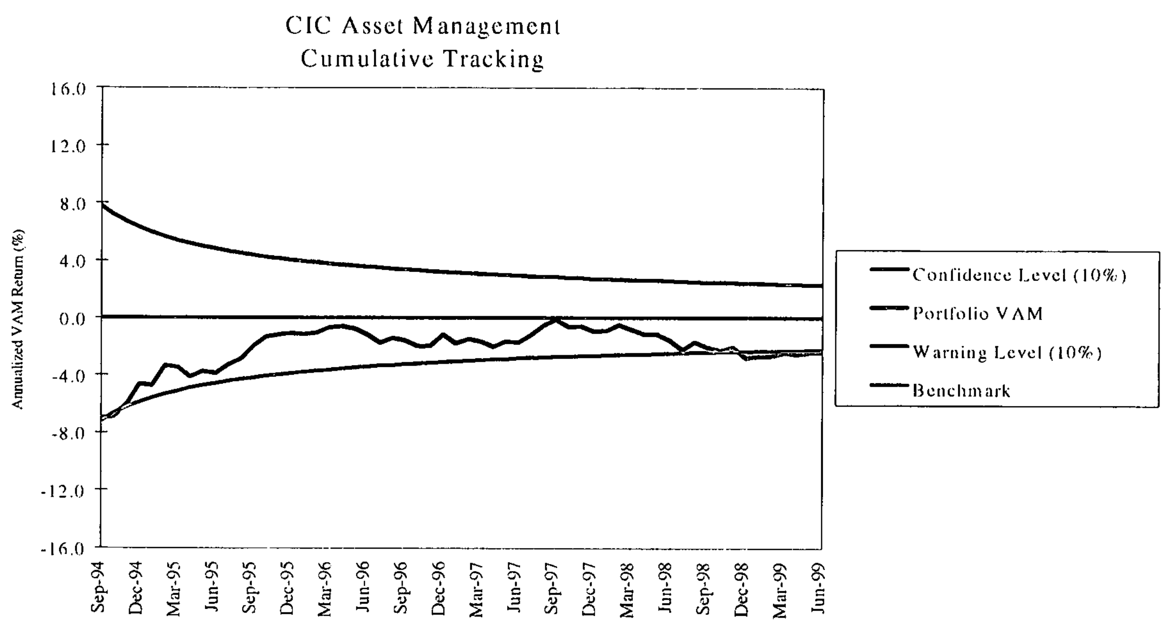
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	11.7%	12.2%
Last 1 Year	5.3	12.0
Last 2 Years	15.7	20.0
Last 3 Years	20.0	24.1
Last 4 Years	21.8	24.3
Last 5 Years	21.3	24.3
Since Inception (4/94)	20.1	23.1

* Custom benchmark since inception date.

Recommendation

No action required.



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending June, 1999

Portfolio Manager: George Cohen | **Assets Under Management: $201,166,326**

Investment Philosophy

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

Staff Comments

Cohen underperformed for the quarter and outperformed for the year. The underperformance for the quarter resulted from poor stock selection within the healthcare sector as well as an overweighting in this sector relative to the benchmark. Over the past year, overweights and good stock selection in the healthcare, technology and financial services sectors caused the portfolio to outperform the benchmark slightly.

Quantitative Evaluation

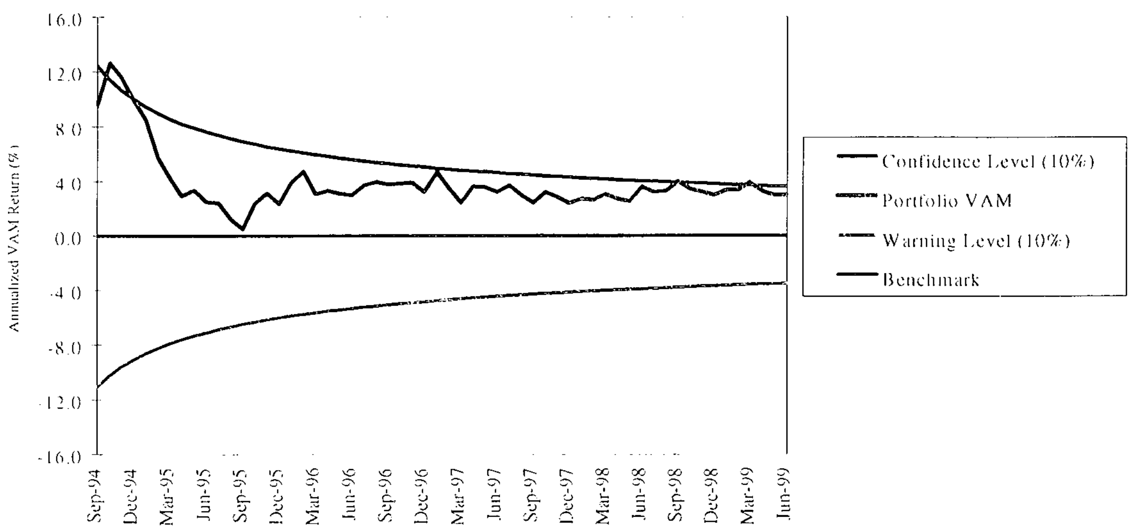
	Actual	Benchmark*
Last Quarter	3.3%	7.3%
Last 1 Year	26.4	25.7
Last 2 Years	30.2	26.8
Last 3 Years	32.7	28.8
Last 4 Years	30.7	26.7
Last 5 Years	29.8	26.7
Since Inception (4/94)	28.7	24.9

* Custom benchmark since inception date.

Recommendation

No action required.

Cohen Klingenstein & Marks
Cumulative Tracking



COMPASS CAPITAL MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Charles Kelley **Assets Under Management: $86,699,974**

Investment Philosophy

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

Staff Comments

Portfolio performance during the quarter benefited from stock selection and overweights in the capital goods and basic industries sectors. During the past year, the portfolio has been hurt by a consistent underweight in the technology sector as well as poor stock selection within this sector.

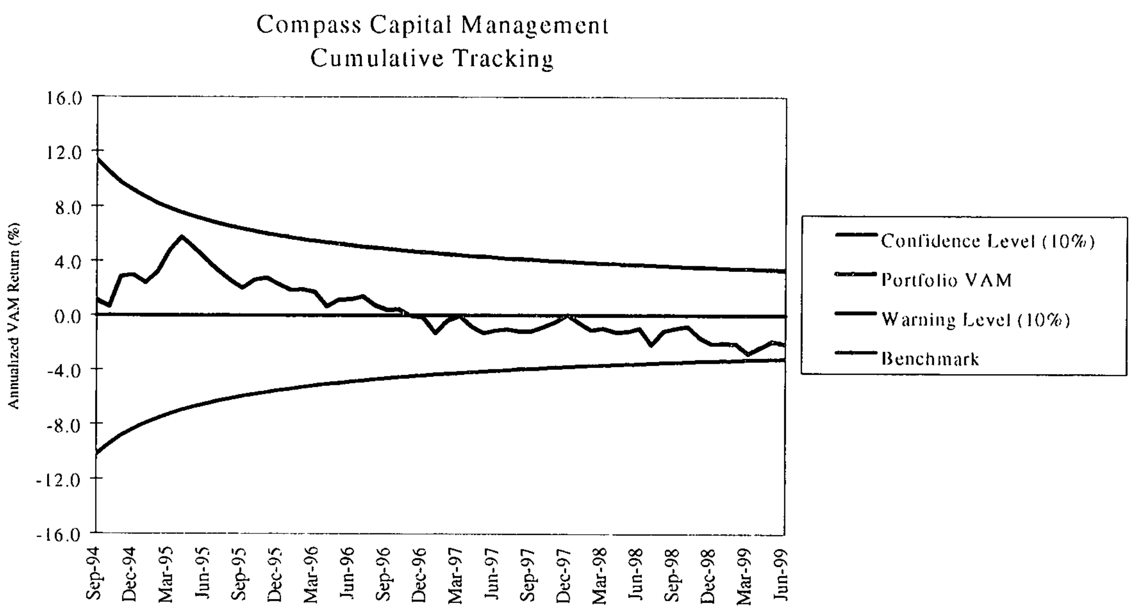
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	12.8%	9.3%
Last 1 Year	15.3	23.8
Last 2 Years	21.5	26.2
Last 3 Years	22.5	28.2
Last 4 Years	22.9	28.0
Last 5 Years	24.1	26.9
Since Inception (4/94)	22.4	25.0

* Custom benchmark since inception date.

Recommendation

No action required.



NEW AMSTERDAM PARTNERS
Periods Ending June, 1999

Portfolio Manager: Michelle Clayman — **Assets Under Management: $85,682,269**

Investment Philosophy

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

Staff Comments

New Amsterdam underperformed for the quarter largely due to their sector selection, with overweights in the poorly performing health related and consumer non-durable sectors. An underweight in technology also hurt performance. The underweight in the technology sector, as well as poor stock selection within the technology and finance sectors, is the reason for the underperformance over the past year.

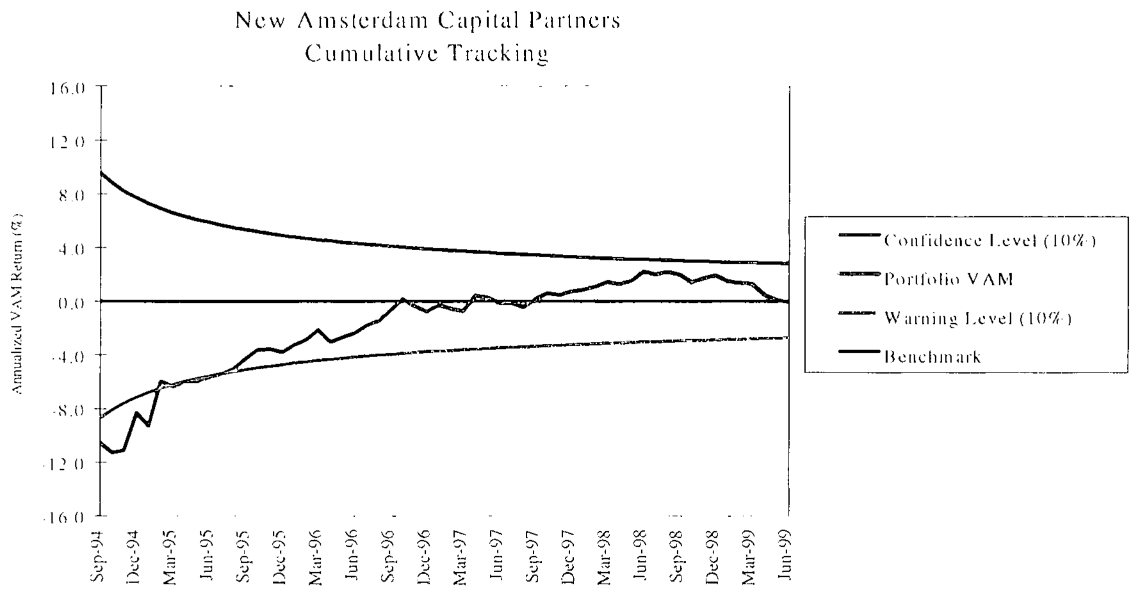
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.0%	13.4%
Last 1 Year	10.3	21.4
Last 2 Years	23.4	23.3
Last 3 Years	27.0	24.9
Last 4 Years	25.6	23.5
Last 5 Years	24.5	23.6
Since Inception (4/94)	22.1	22.2

* Custom benchmark since inception date.

Recommendation

No action required.



VALENZUELA CAPITAL MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Tom Valenzuela | **Assets Under Management: $71,208,651**

Investment Philosophy

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

Staff Comments

Valenzuela significantly lagged their benchmark for the quarter and the year, primarily as a result of poor stock selection.

Quantitative Evaluation

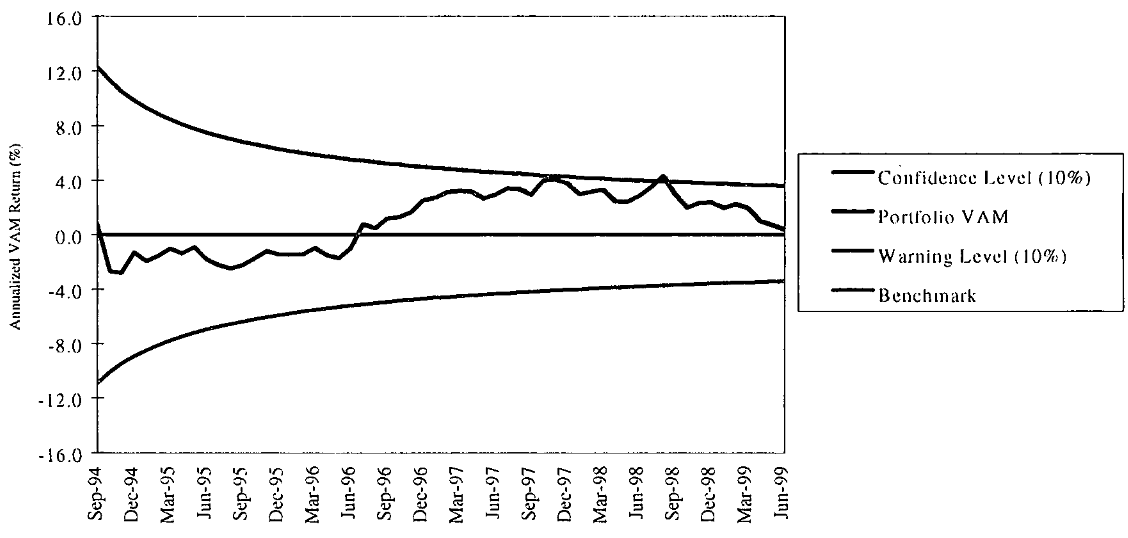
	Actual	Benchmark*
Last Quarter	3.5%	11.9%
Last 1 Year	-7.1	2.6
Last 2 Years	7.3	11.4
Last 3 Years	17.9	16.3
Last 4 Years	19.4	18.1
Last 5 Years	18.6	18.7
Since Inception (4/94)	17.9	17.5

* Custom benchmark since inception date.

Recommendation

No action required.

Valenzuela Capital Partners
Cumulative Tracking



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

Portfolio Manager: Mark Thompson **Assets Under Management: $51,218,905**

Investment Philosophy

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

Staff Comments

Wilke/Thompson underperformed their benchmark over the past quarter and year. During the quarter, performance was hurt as cyclical companies outperformed the growth companies that make up Wilke's portfolio. The portfolio was also hurt by its exposure to two poorly performing sectors of the market, healthcare and consumer staples.

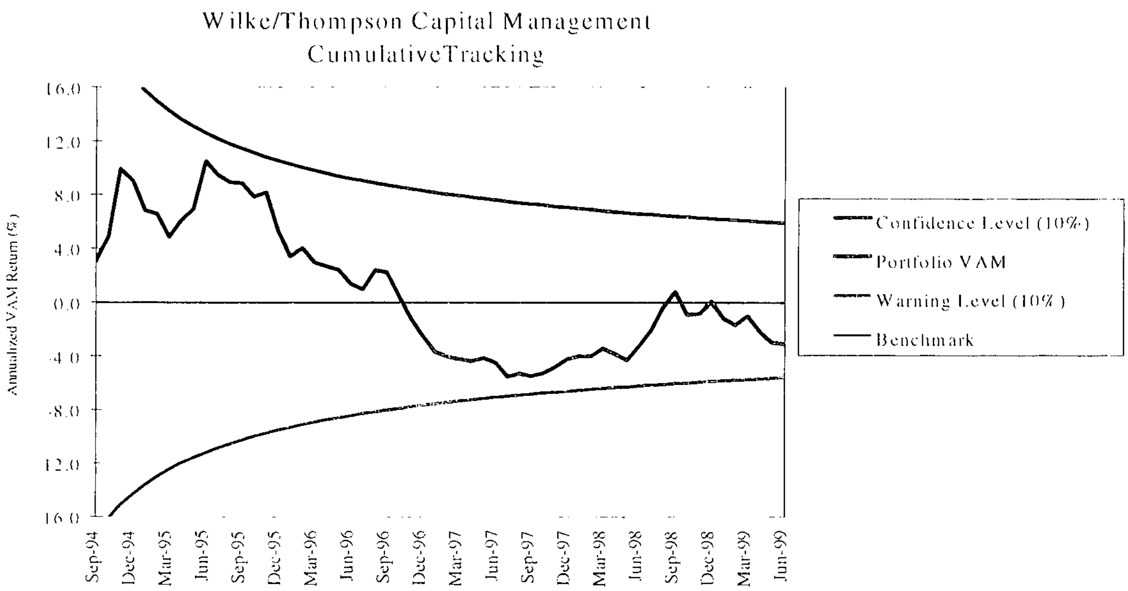
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.4%	17.0%
Last 1 Year	0.8	3.3
Last 2 Years	9.3	10.2
Last 3 Years	3.5	10.4
Last 4 Years	6.5	14.5
Last 5 Years	12.8	16.5
Since Inception (4/94)	10.7	14.2

* Custom benchmark since inception date.

Recommendation

No action required.



WINSLOW CAPITAL MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Clark Winslow | **Assets Under Management: $79,396,962**

Investment Philosophy

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

Staff Comments

Winslow underperformed their benchmark over the last quarter and year. Over the past quarter, overweight positions in the specialty retail and healthcare sectors and an underweight in technology were the primary cause. The technology sector was also the primary reason for the underperformance over the past year. The portfolio was concentrated in software stocks, which performed poorly. Winslow also did not own some large cap technology stocks that performed well due to concerns about their valuation.

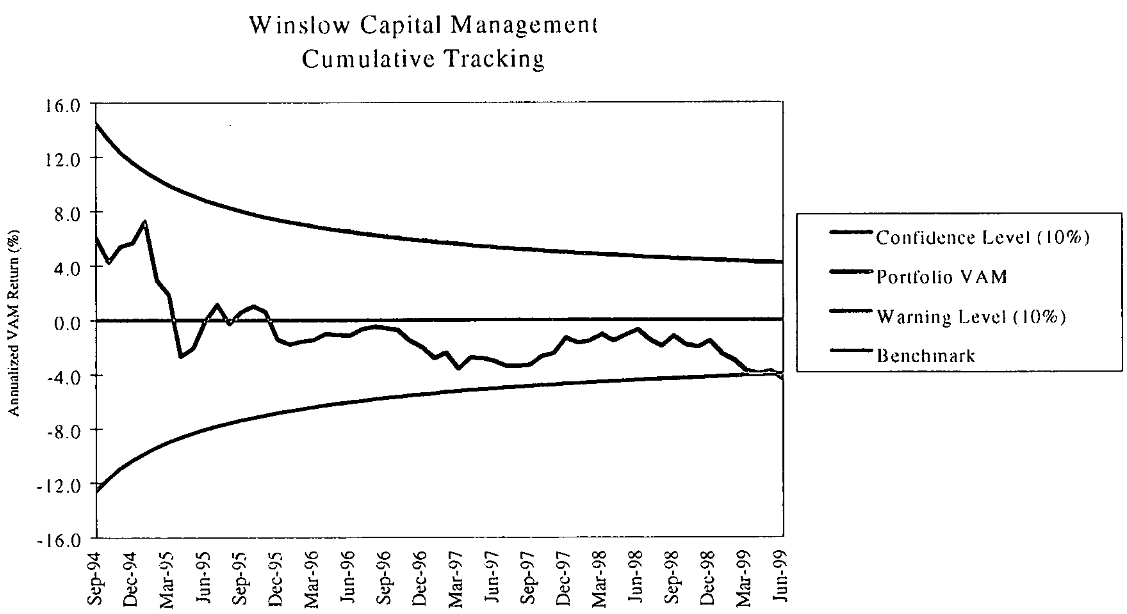
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.4%	9.8%
Last 1 Year	8.0	32.3
Last 2 Years	22.5	31.0
Last 3 Years	21.3	30.0
Last 4 Years	20.8	28.0
Last 5 Years	22.2	27.7
Since Inception (4/94)	20.4	25.8

* Custom benchmark since inception date.

Recommendation

No action required.



ZEVENBERGEN CAPITAL INC
Periods Ending June, 1999

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $130,486,141**

Investment Philosophy

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

Staff Comments

Zevenbergen slightly lagged the benchmark for the quarter due to poor performance of the healthcare and financial services stocks in their portfolio. The portfolio significantly outperformed the benchmark over the past year. Excellent stock selection in the technology, telecommunications, internet and consumer staples sectors is the primary reason for the strong performance.

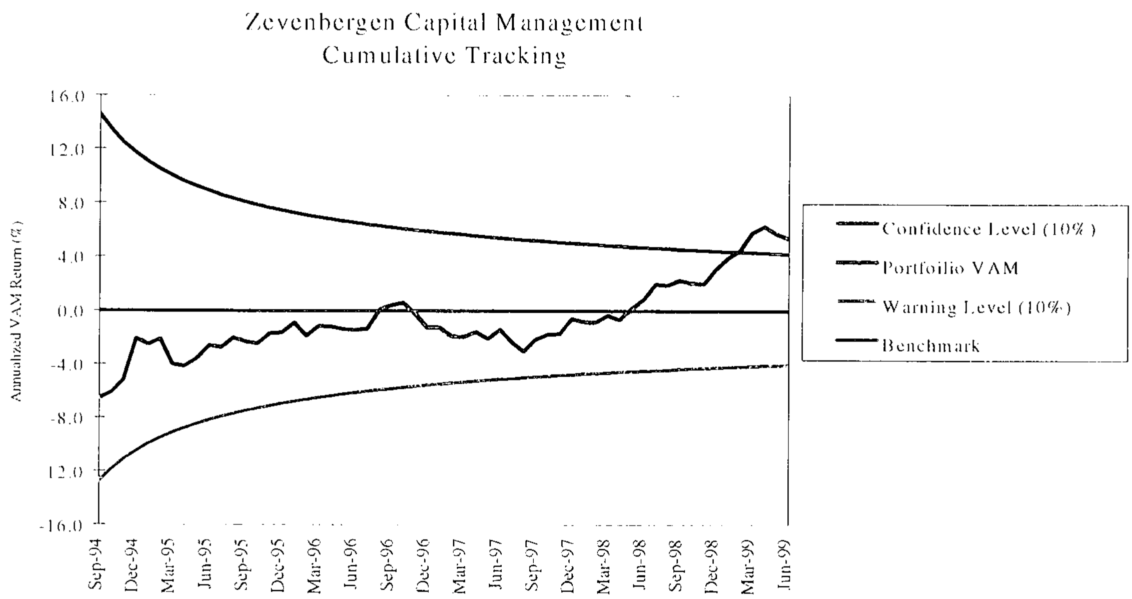
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	10.4%	11.3%
Last 1 Year	65.3	30.3
Last 2 Years	52.5	30.1
Last 3 Years	43.1	29.2
Last 4 Years	37.9	27.8
Last 5 Years	35.6	27.8
Since Inception (4/94)	32.3	25.6

* Custom benchmark since inception date.

Recommendation

No action required.



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 1999

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COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending June, 1999

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
American Express (AMG)	-1.2	-0.9	3.2	3.1	7.7	7.2	8.0	7.9	6.4	6.3	$591.59	6.2%
Credit Suisse	-1.0	-0.9	3.3	3.1	8.2	7.2	8.5	7.8	6.8	6.3	617.35	6.5%
IAI	-1.3	-0.9	2.6	3.1	6.9	7.2	7.2	7.8	10.4	10.4	655.58	6.9%
Morgan Stanley	-1.7	-0.9	2.1	3.1	7.6	7.2	8.2	7.8	10.6	10.4	858.07	9.0%
Standish	-0.6	-0.9	1.7	3.1	7.2	7.2	7.7	7.8	6.1	6.3	714.81	7.5%
Western	-1.2	-0.9	2.2	3.1	8.5	7.2	9.2	7.8	11.5	10.3	1,298.35	13.6%
Semi-Passive Managers												
BlackRock	-0.7	-0.9	3.5	3.1	7.7	7.2			7.2	6.8	1,665.50	17.4%
Goldman	-0.9	-0.9	2.6	3.1	7.3	7.2	8.0	7.8	6.5	6.3	1,587.29	16.6%
Lincoln	-1.0	-0.9	3.1	3.1	7.3	7.2	7.9	7.8	8.6	8.6	1,564.39	16.4%
											$9,552.94	**100.0%**
									Since 7/1/84			
Current Aggregate	-1.0	-0.9	2.7	3.1	7.6	7.2	8.1	7.8	10.8	10.3		
Historical Aggregate (2)	**-1.0**	**-0.9**	**2.7**	**3.1**	**7.6**	**7.2**	**8.1**	**7.8**	**10.2**	**10.2**		
Lehman Aggregate (3)		-0.9		3.1		7.2		7.8		9.9		

(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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AMERCIAN EXPRESS ASSET MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Jim Snyder | **Assets Under Management: $591,588,837**

Investment Philosophy

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

Staff Comments

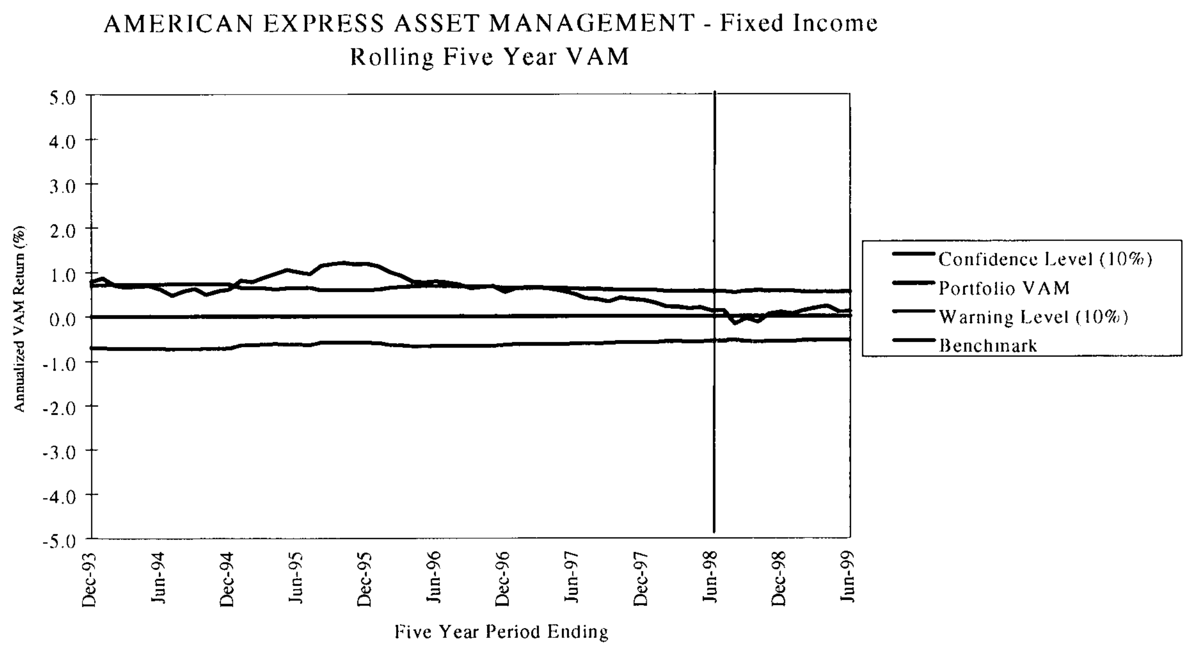
American Express slightly underperformed for the quarter and outperformed over the past year. During the quarter, an overweight in the corporate sector hurt performance as spreads widened. Over the past year, American Express outperformed the benchmark primarily as a result of duration management and exposure to the high yield sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.2%	-0.9%
Last 1 year	3.2	3.1
Last 2 years	7.1	6.8
Last 3 years	7.7	7.2
Last 4 years	6.7	6.8
Last 5 years	8.0	7.9
Since Inception (7/93)	6.4	6.3

Recommendations

No action required.



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

CREDIT SUISSE ASSET MANAGEMENT
(Formerly BEA Associates)
Periods Ending June, 1999

Portfolio Manager: Greg Diliberto **Assets Under Management: $617,352,162**

Investment Philosophy

Credit Suisse Asset Management (CSAM) investment approach focuses on individual bond selection and on sector selection rather than short term interest rate forecasting. CSAM keeps the duration close to the benchmark but may be slightly longer or shorter depending on their long-term economic outlook. CSAM's approach is distinguished by 1) a quantitative approach which avoids market timing; 2) contrarian weightings of bond sectors; and 3) rigorous call and credit analysis rather than yield driven management.

Staff Comments

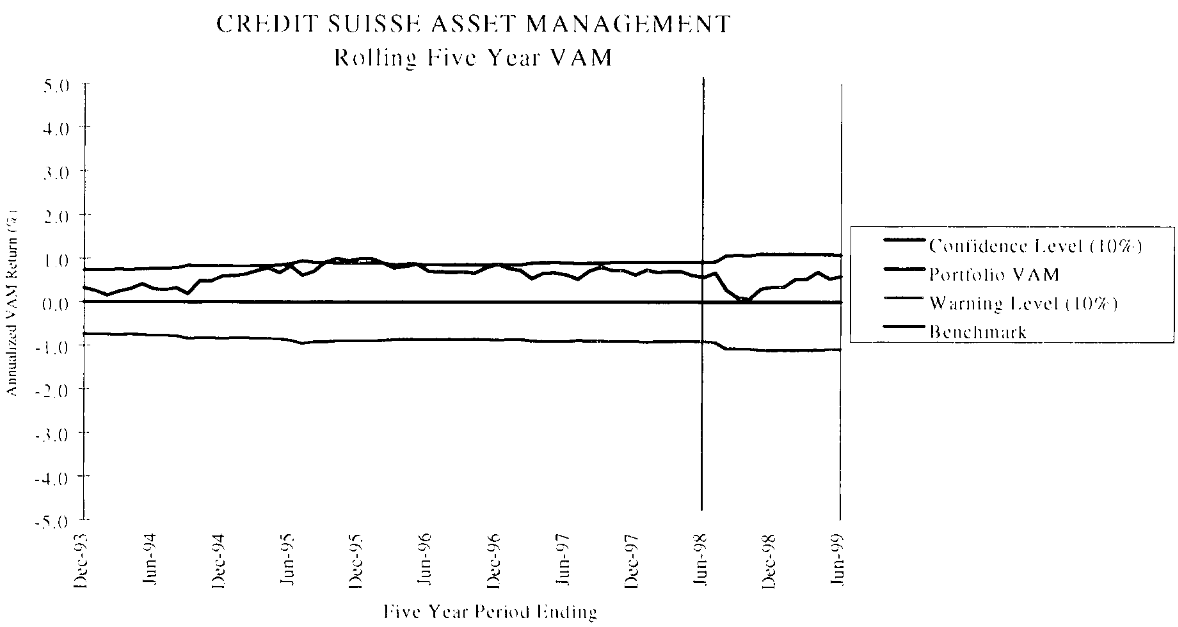
Early last May, Bob Moore, CSAM's head of global fixed income and the SBI's portfolio manager resigned. In June, Bob Justich, one of the two people who replaced Bob Moore as co-heads of fixed income resigned along with two other portfolio managers covering corporate debt and emerging markets. CSAM has now named Greg Diliberto, who has been with the firm for fifteen years, head of fixed income and the SBI's portfolio manager. Staff has had several conference calls with CSAM to keep apprised of the changes. CSAM slightly underperformed the benchmark for the quarter and outperformed for the year. Over the past quarter, the firm's corporate and mortgage sector allocations detracted slightly from performance while their high yield and emerging market debt offset this somewhat.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.0%	-0.9%
Last 1 year	3.3	3.1
Last 2 years	7.1	6.8
Last 3 years	8.2	7.2
Last 4 years	7.2	6.7
Last 5 years	8.5	7.8
Since Inception (7/93)	6.8	6.3

Recommendations

Staff recommends that Credit Suisse Asset Management be terminated due to significant staff turnover and organizational instability.



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

INVESTMENT ADVISERS
Periods Ending June, 1999

Portfolio Manager: Larry Hill **Assets Under Management: $655,578,468**

Investment Philosophy

Investment Advisers is a traditional top down bond manager. The firm's approach is oriented toward correct identification of the economy's position in the credit cycle. This analysis leads the firm to its interest rate forecast and maturity decisions, from which the firm derives most of its value-added. Investment Advisers is an active asset allocator, willing to make rapid, significant moves between cash and long maturity investments over the course of an interest rate cycle. Quality and sector choices are made through yield spread analyses consistent with the interest rate forecasts. Individual security selection receives very limited emphasis and focuses largely on specific bond characteristics such as call provisions.

Staff Comments

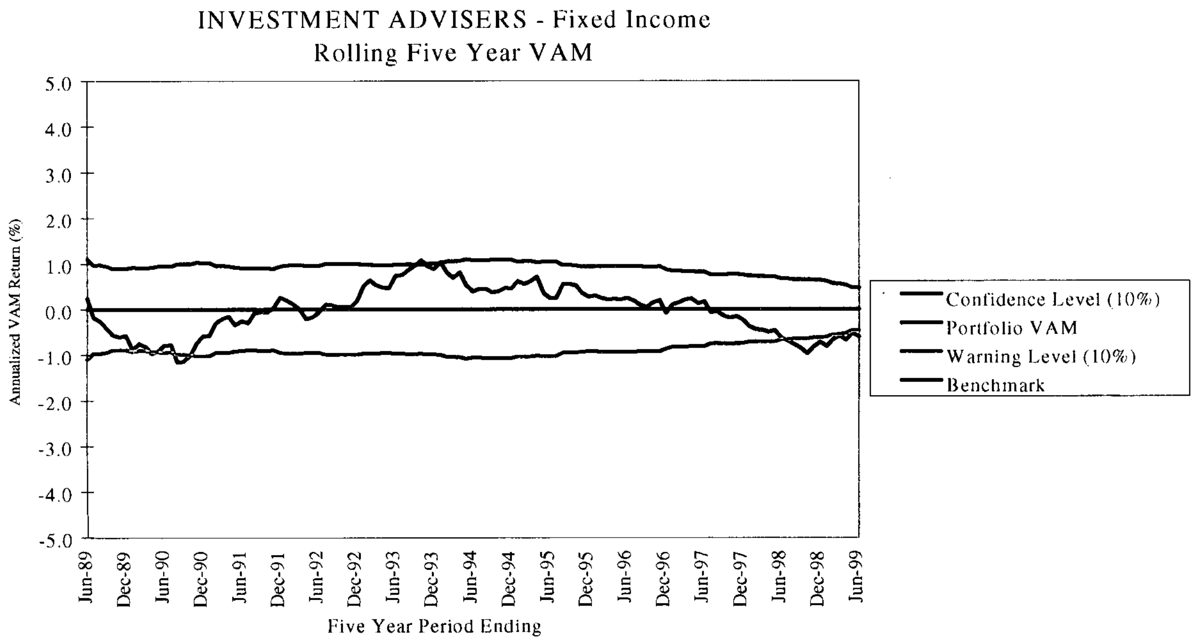
During the quarter, IAI eliminated several administrative and non-investment related positions and discontinued several institutional investment products. Staff met with IAI at the SBI office during the quarter to discuss these changes and the significant decrease in assets under management the firm has experienced. IAI underperformed the benchmark for the quarter and past year. During the quarter, IAI was overweight long duration corporate bonds, one of the worst performing sectors of the market. The duration of the portfolio was also slightly longer than that of the benchmark, contributing to the underperformance. The past year's underperformance is primarily due to the underperformance this quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.3%	-0.9%
Last 1 year	2.6	3.1
Last 2 years	6.3	6.8
Last 3 years	6.9	7.2
Last 4 years	6.4	6.7
Last 5 years	7.2	7.8
Since Inception (7/84)	10.4	10.4

Recommendations

No action required.



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

Portfolio Manager: Tom Bennett | **Assets Under Management: $858,072,928**

Investment Philosophy

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

Staff Comments

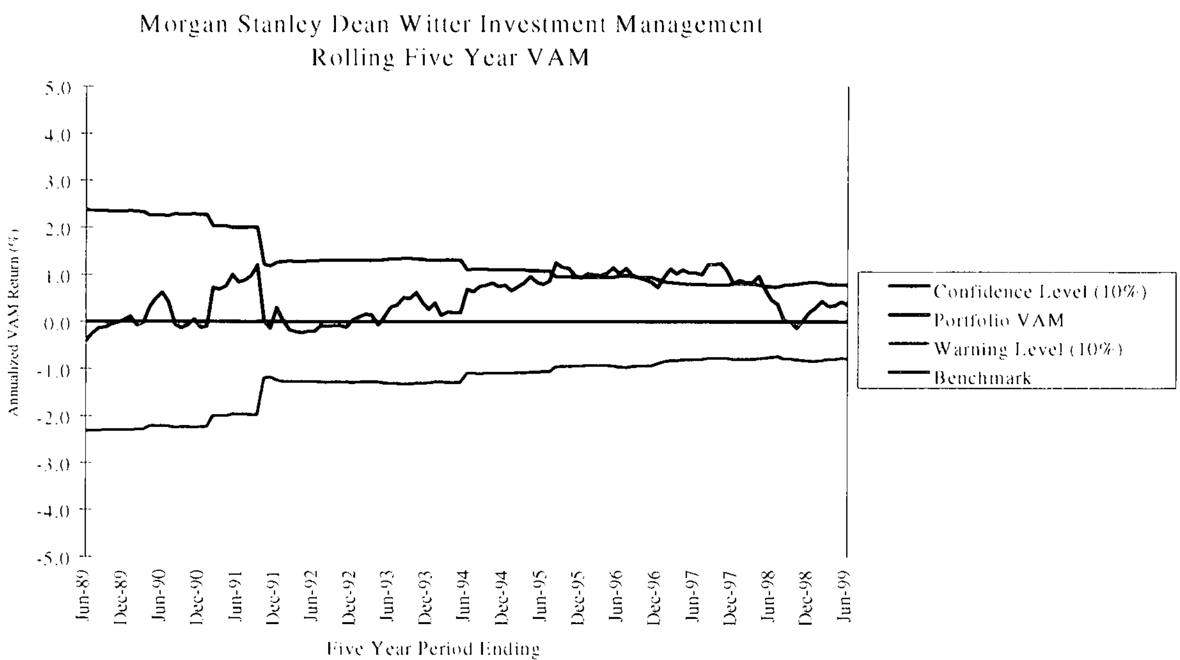
Morgan Stanley underperformed the benchmark for the past quarter and year. Morgan Stanley continues to view real interest rates as historically high and believes interest rates will fall. Therefore they have positioned the duration of the portfolio longer than that of the market. This was the primary reason for the underperformance over the last quarter and year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.7%	-0.9%
Last 1 year	2.1	3.1
Last 2 years	5.9	6.8
Last 3 years	7.6	7.2
Last 4 years	7.2	6.7
Last 5 years	8.2	7.8
Since Inception (7/84)	10.6	10.4

Recommendations

No action required.



STANDISH, AYER & WOOD
Periods Ending June, 1999

Portfolio Manager: Austin Smith | **Assets Under Management: $714,812,193**

Investment Philosophy

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

Staff Comments

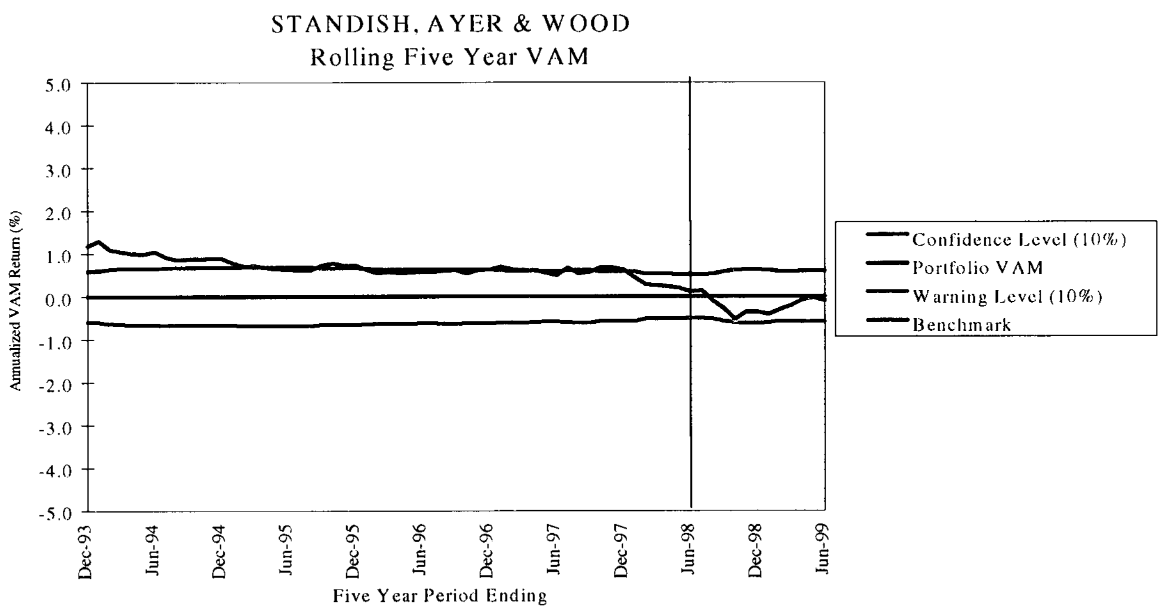
Standish outperformed for the quarter benefiting from security selection within the corporate and mortgage sectors. For the past year, Standish underperformed primarily as a result of poor security selection within the corporate sector.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.6%	-0.9%
Last 1 year	1.7	3.1
Last 2 years	5.8	6.8
Last 3 years	7.2	7.2
Last 4 years	6.8	6.7
Last 5 years	7.7	7.8
Since Inception (7/93)	6.1	6.3

Recommendations

No action required.



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

WESTERN ASSET MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Ken Leech **Assets Under Management: $1,298,352,100**

Investment Philosophy

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

Staff Comments

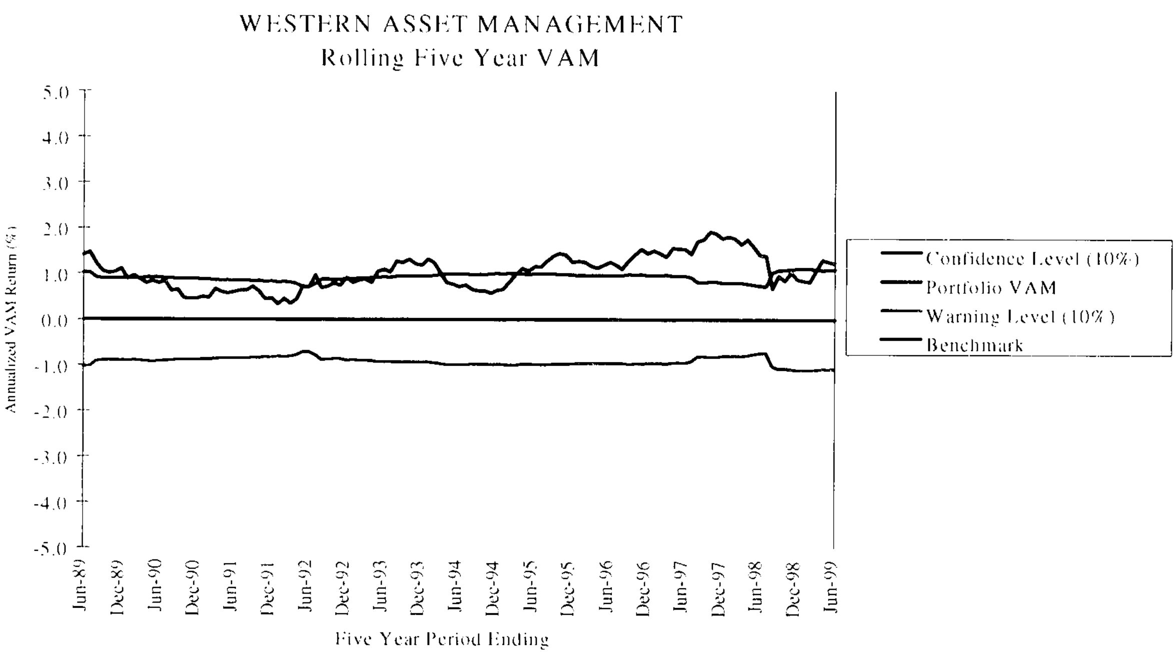
Western underperformed over the past quarter and year. During the past quarter, the longer duration of the portfolio relative to the benchmark negatively impacted performance as interest rates increased. Also hurting performance was an overweight position in long duration corporate bonds. Over the past year, Western has consistently been long on duration and overweighted to spread product. Higher interest rates and wider spreads over the past year caused the portfolio to underperform the benchmark.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.2%	-0.9%
Last 1 year	2.2	3.1
Last 2 years	7.3	6.8
Last 3 years	8.5	7.2
Last 4 years	7.8	6.7
Last 5 years	9.2	7.8
Since Inception (7/84)	11.5	10.3

Recommendations

No action required.



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,665,504,984**

Investment Philosophy

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

Staff Comments

BlackRock's portfolio outperformed the benchmark as several strategies contributed positively to performance. BlackRock had a yield curve flattening bias, which performed well as the curve flattened during the quarter. BlackRock also underweighted, relative to the benchmark, the poorly performing corporate sector during the quarter, which helped performance.

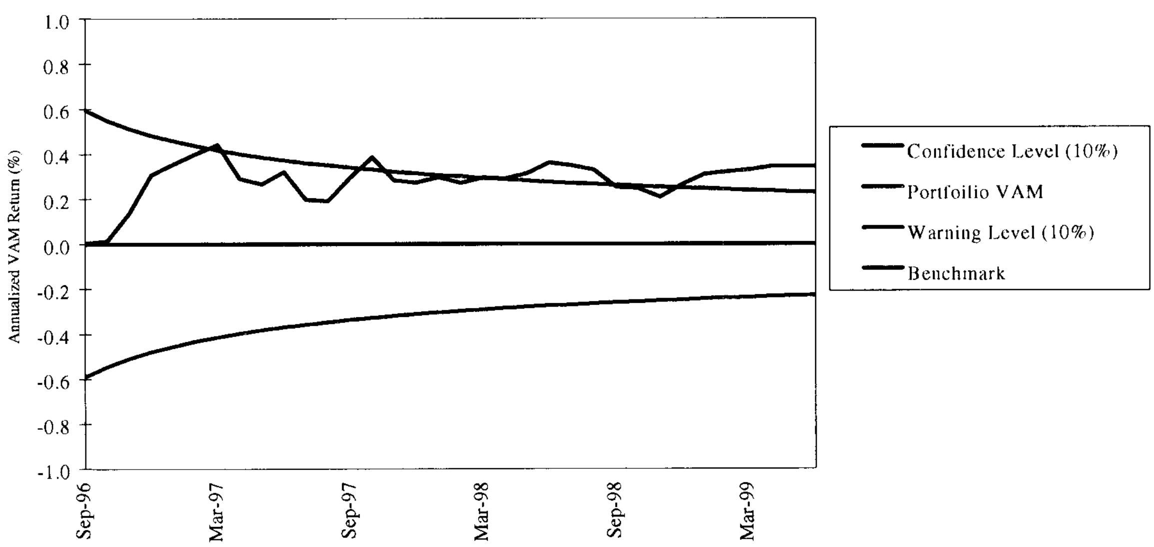
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.7%	-0.9%
Last 1 year	3.5	3.1
Last 2 years	7.2	6.8
Last 3 years	7.7	7.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/96)	7.2	6.8

Recommendation

No action required.

BLACKROCK FINANCIAL MANAGEMENT
Cumulative Tracking



GOLDMAN SACHS
Periods Ending June, 1999

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,587,289,543**

Investment Philosophy

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

Staff Comments

Goldman Sachs shed its private partnership structure during the quarter and became a publicly held company. Goldman completed its initial public offering in May. No changes are expected as a result of the change in ownership structure.

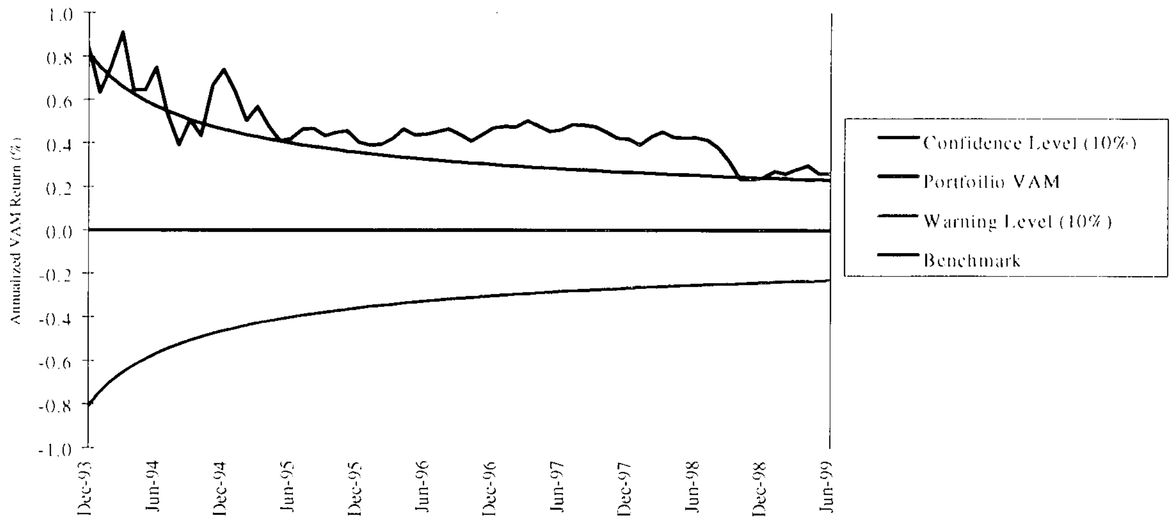
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.9%	-0.9%
Last 1 year	2.6	3.1
Last 2 years	6.6	6.8
Last 3 years	7.3	7.2
Last 4 years	6.9	6.7
Last 5 years	8.0	7.8
Since Inception (7/93)	6.5	6.3

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,564,390,256**

Investment Philosophy

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

Staff Comments

No comments at this time.

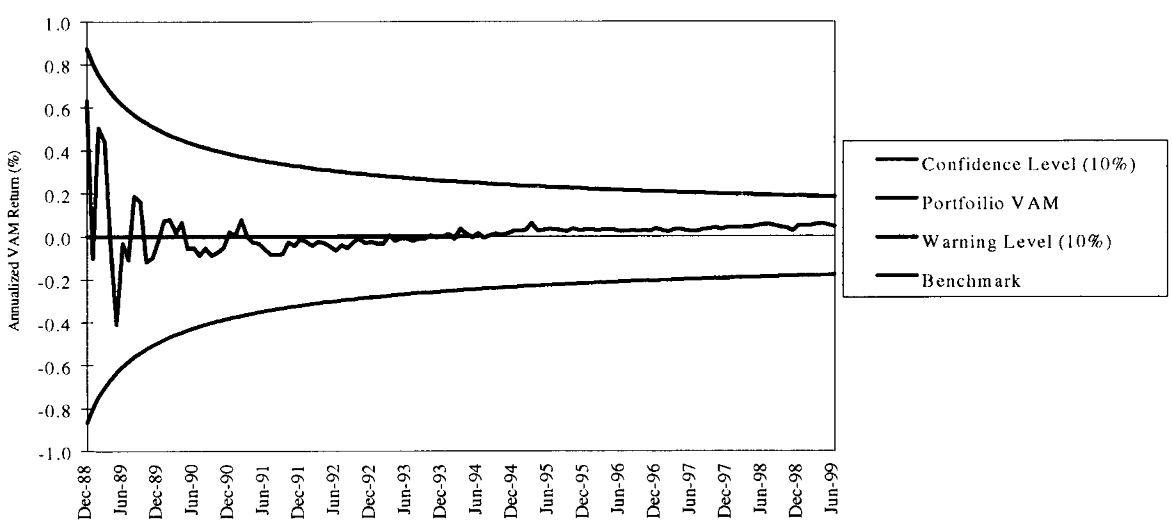
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.0%	-0.9%
Last 1 year	3.1	3.1
Last 2 years	6.9	6.8
Last 3 years	7.3	7.2
Last 4 years	6.7	6.7
Last 5 years	7.9	7.8
Since Inception (7/88)	8.6	8.6

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking



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STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Second Quarter, 1999

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

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)
GE Investment Management (1)	8.0	6.9	23.7	22.8	28.9	29.2			29.7	30.1	$228.88
Voyageur Asset Management (2)	-0.1	0.0	4.2	4.7	6.8	6.8	7.3	7.2	7.6	7.3	506.26
Internal Stock Pool (3)	7.0	6.9	23.1	22.8	29.3	29.2	28.0	27.9	23.1	23.1	509.85
Internal Bond Pool - Income Share (4)	-0.6	-0.9	3.6	3.1	7.8	7.2	8.3	7.8	8.8	8.3	218.42
Internal Bond Pool - Trust (5)	-0.5	-0.9	3.7	3.1	7.7	7.2			8.4	7.8	377.38

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

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Portfolio Manager: Gene Bolton | **Assets Under Management: $228,877,252**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

The GE Multi-Style Portfolio posted positive gains relative to its benchmark for the second quarter of 1999. This performance was attributed to holdings in the technology, consumer stable and consumer cyclical sectors. Staff is encouraged by the continuing positive performance of the portfolio, following its restructuring at the end of 1998.

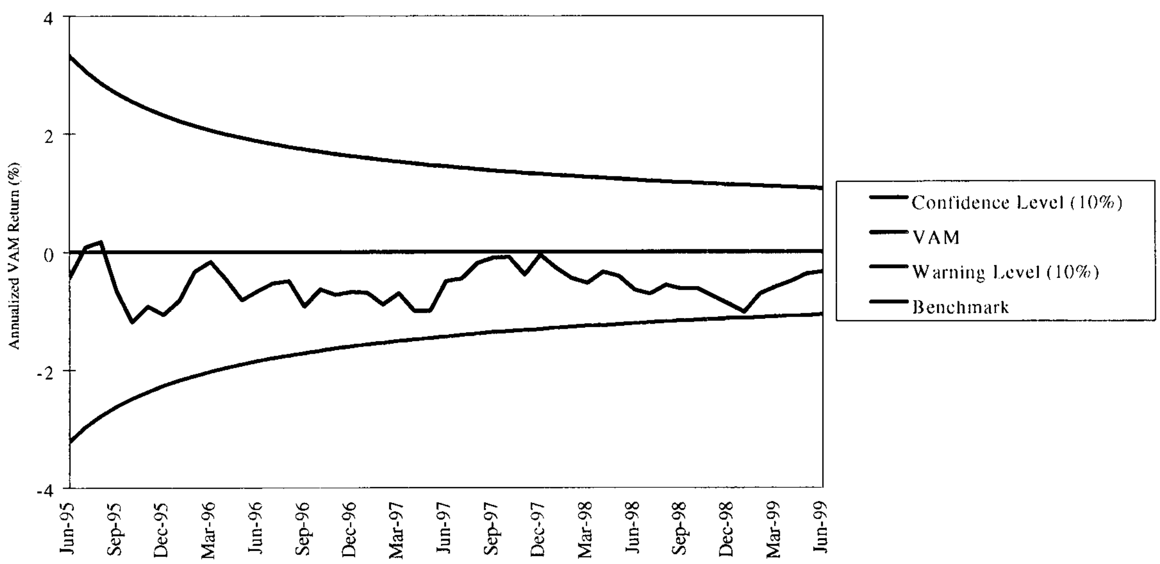
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.0%	6.9%
Last 1 year	23.7	22.8
Last 2 years	26.3	26.5
Last 3 years	28.9	29.2
Last 4 years	28.0	28.4
Last 5 years	N.A.	N.A.
Since Inception (1/95)	29.7	30.1

Recommendation

No action required.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



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

Portfolio Manager: Melissa A. Uppgren **Assets Under Management: $506,264,548**

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

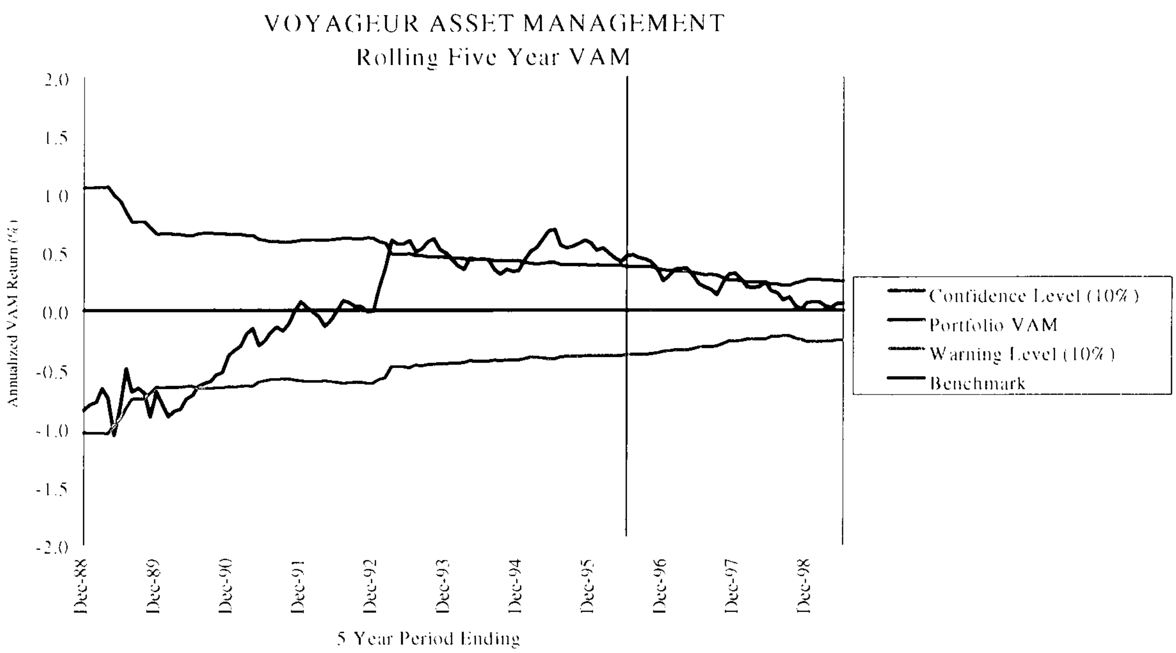
Performance for the quarter and the year trailed the custom benchmark. The portfolio was hurt, most recently, by an overweight in spread product particularly in the corporate sector, which was the worst performing sector during the second quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	0.0%
Last 1 year	4.2	4.7
Last 2 years	6.3	6.4
Last 3 years	6.8	6.8
Last 4 years	6.4	6.5
Last 5 years	7.3	7.2
Since Inception (7/91)	7.6	7.3

Recommendation

No action required.



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

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

Portfolio Manager: Mike Menssen **Assets Under Management: $509,850,687**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

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

Staff Comments

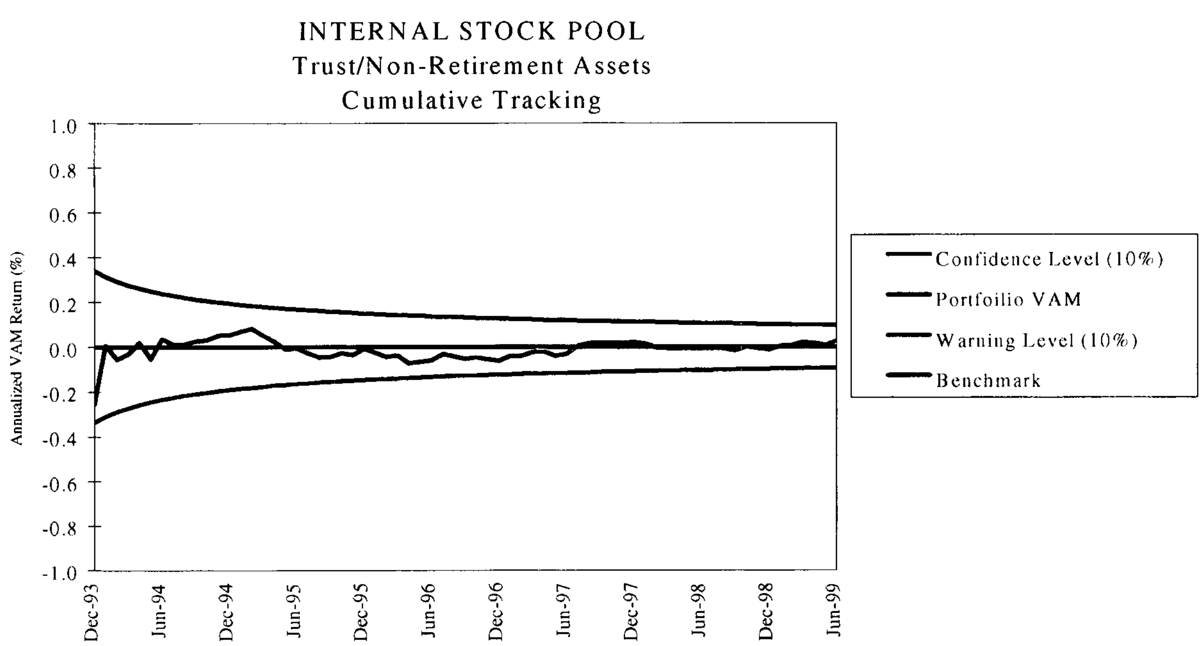
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.0%	6.9%
Last 1 year	23.1	22.8
Last 2 years	26.7	26.5
Last 3 years	29.3	29.2
Last 4 years	28.5	28.4
Last 5 years	28.0	27.9
Since Inception (7/93)	23.1	23.1

Recommendation

No action required.



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

Portfolio Manager: Mike Menssen **Assets Under Management: $218,417,894**

Investment Philosophy
Income Share Account

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

Staff Comments

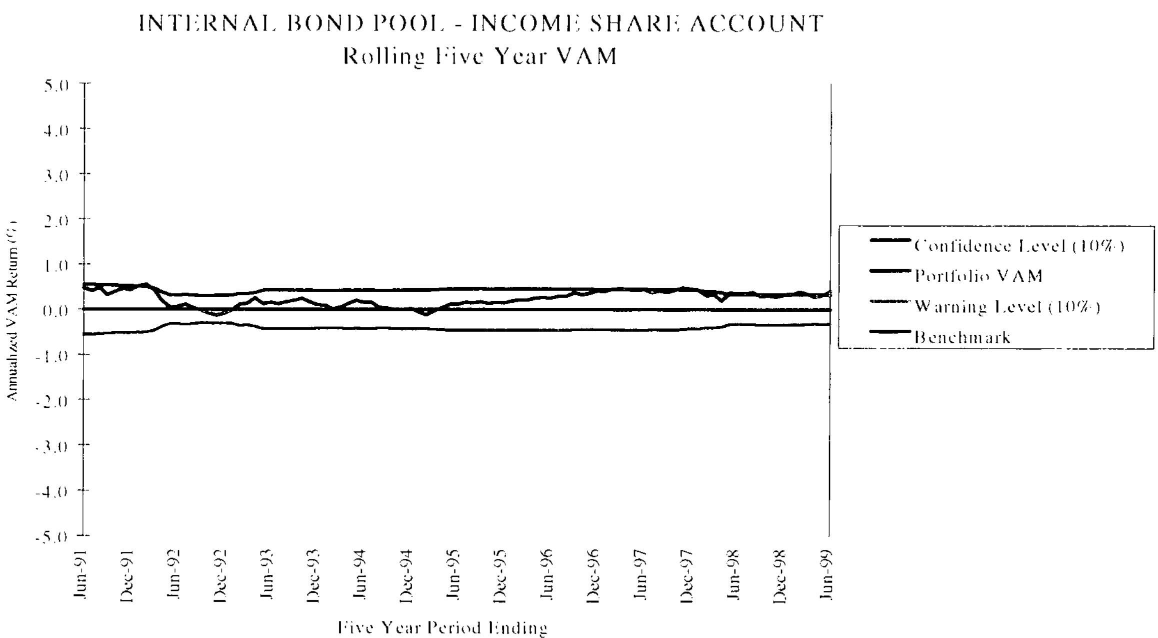
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.6%	-0.9%
Last 1 year	3.6	3.1
Last 2 years	7.2	6.8
Last 3 years	7.8	7.2
Last 4 years	7.2	6.7
Last 5 years	8.3	7.8
Since Inception (7/86)	8.8	8.3

Recommendation

No action required.



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

Portfolio Manager: Mike Menssen **Assets Under Management: $377,384,809**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

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

Staff Comments

No comments at this time.

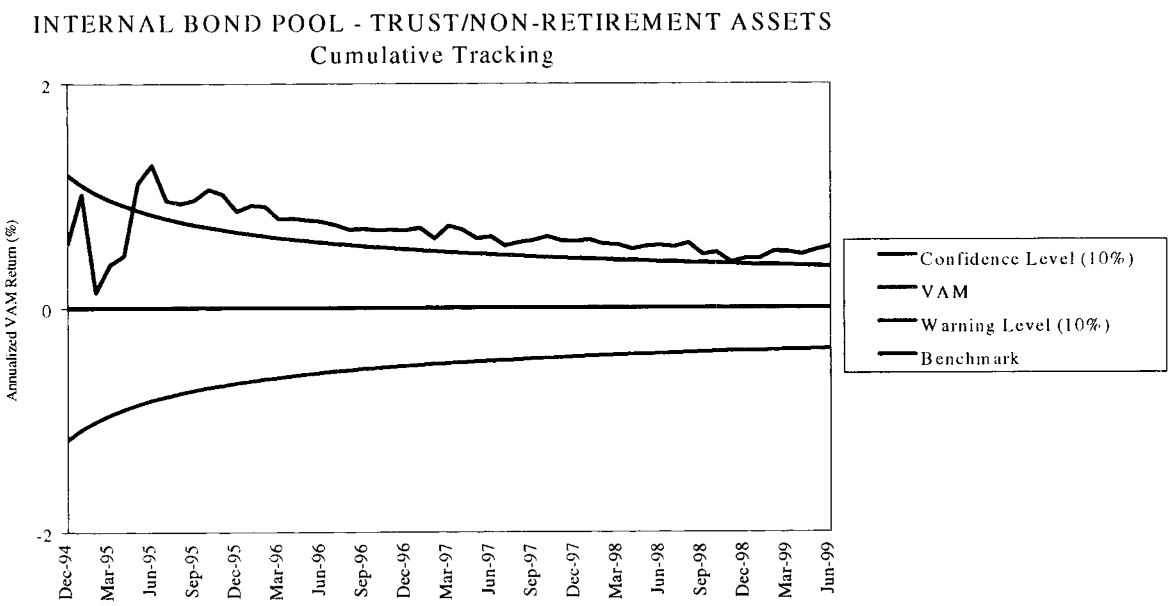
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.5%	-0.9%
Last 1 year	3.7	3.1
Last 2 years	7.2	6.8
Last 3 years	7.7	7.2
Last 4 years	7.1	6.7
Last 5 years	N.A.	N.A.
Since Inception (7/94)*	8.4	7.8

Recommendation

No action required.

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



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Tab D

COMMITTEE REPORT

DATE: August 31, 1999

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

FROM: **International Manager Committee**

The International Manager Committee met on August 16, 1999 to consider the following agenda items:

- **Review of manager performance for the period ending June 30, 1999.**
- **Update on International Program Structure.**

No Board/IAC action is required.

INFORMATION ITEMS:

1. Review of manager performance

For the quarter ending June 30, 1999, the **international stock program** outperformed its composite index. The program underperformed the composite index for the one-year period, while outperforming the index for the three-year and five-year periods. Performance of the **equity managers** (without the currency overlay) outperformed the target for the quarter, three year, and five-year periods. The equity managers underperformed for the latest one-year period.

Time Period	Total Program	Composite Index*
Quarter	6.1%	5.1%
1 Year	9.3	10.6
3 Year	9.3	7.4
5 Year	9.5	7.4

Equity Mgrs. Only
5.7%
9.5
8.0
8.7

* The composite index has been weighted 87% EAFE Free/13% Emerging Markets Free since 12/1/96. 100% EAFE Free prior to 5/1/96.

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

2. Update on International Program Structure.

At the June 1999 meeting, the State Board of Investment (SBI) approved new guidelines for the International Equity program, one of which included that at least one third of the program must be passively managed, and at least one third of the program must be actively managed. In addition, the loss of two of the six original developed market managers has left the program with a minimal number of portfolio managers for the level of assets in the program.

This quarter, the committee concurred with the following recommendations related to structural changes in the International Equity Program:

- Begin to shift the International Equity Program from a structure that is 50% passive and 50% active to 33% passive and 67% active management. This would allow the movement of up to $1.1 billion from the passive portfolio to the active developed market managers.
- Increase the total program's expected return over the benchmark by raising the annual standard deviation for the total International Equity Program from a historical range of 2.0-2.5 to a range of 3.0-3.5.
- Conduct a search in the developed market component with a goal to increase by up to three the number of firms under contract.
- Maintain portfolio sizes for each developed markets manager in a $300 to $600 million range.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 1999

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COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending June, 1999

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Equity Pool %
Active EAFE												
Brinson (1)	2.4	2.5	9.1	7.6	10.8	8.7	11.5	8.2	11.3	10.9	$580.71	10.0%
Marathon (2)	9.6	2.5	12.9	7.6	6.7	8.7	7.3	8.2	9.1	8.4	425.32	7.3%
Rowe Price (2)	3.0	2.5	6.5	7.6	9.5	8.7	10.3	8.2	10.1	8.4	610.90	10.5%
Scudder (2)	6.1	2.5	7.1	7.6	11.8	8.7	12.5	8.2	11.5	8.4	470.15	8.1%
Active Emerging Markets												
City of London (3)	21.3	24.4	21.4	28.7					2.0	-2.2	263.61	4.5%
Genesis (4)	18.0	24.4	5.2	28.7	-5.7	-4.0			-5.0	-3.7	225.14	3.9%
Montgomery (4)	25.2	24.4	12.0	28.7	-6.3	-4.0			-5.5	-3.7	225.89	3.9%
Passive EAFE												
State Street (5)	3.1	2.5	8.6	7.6	9.1	8.7	8.6	8.2	11.6	11.2	3,026.19	51.9%
									Since 10/1/92			
Equity Only*	5.7	5.1	9.5	10.6	8.0	7.4	8.7	7.4	11.4	10.6	5,827.92	100.0%
Total Program**	**6.1**	**5.1**	**9.3**	**10.6**	**9.3**	**7.4**	**9.5**	**7.4**	**12.0**	**10.6**	**$5,853.21**	

* Equity managers only. Includes impact of terminated managers. Aggregate benchmark weighted 87% EAFE-Free/13% Emerging Markets Free as of 12/30/96. 100% EAFE-Free prior to 5/1/96.

** Includes impact of currency overlay unrealized gain/loss. Aggregate benchmark weighted 87% EAFE-Free/13% Emerging Markets Free as of 12/30/96. 100% EAFE-Free prior to 5/1/96.

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

Impact of Currency Overlay Program

Cumulative Dollar Value Added (Since inception, December 1, 1995)	$164,834,189

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BRINSON PARTNERS
Periods Ending June, 1999

Portfolio Manager: Richard Carr | **Assets Under Management: $580,711,491**

Investment Philosophy

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

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

Staff Comments

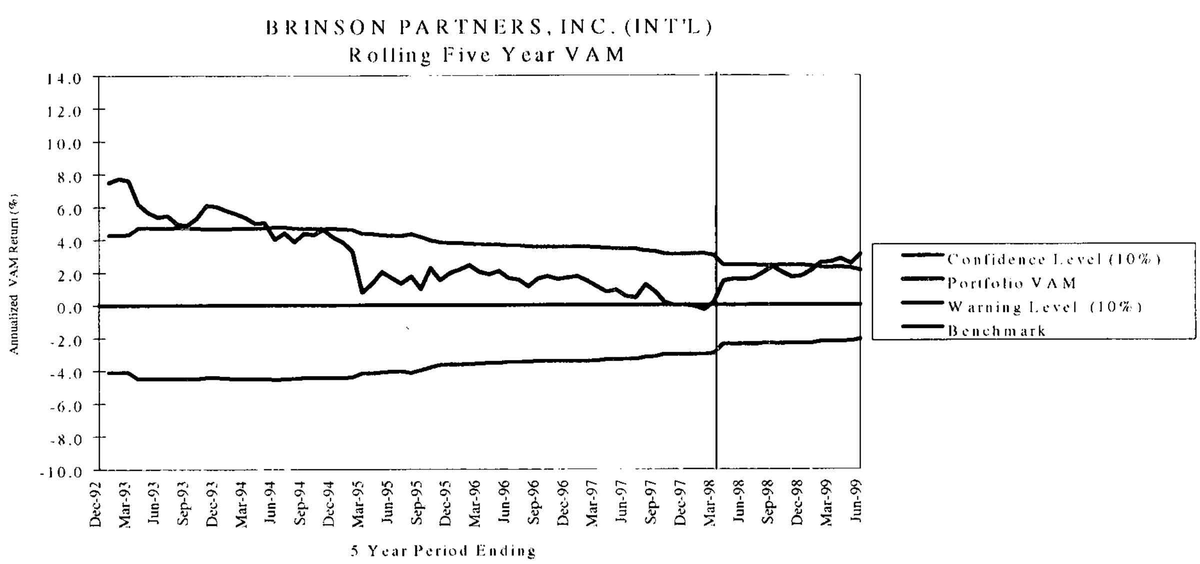
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	2.5%
Last 1 year	9.1	7.6
Last 2 years	7.3	6.7
Last 3 years	10.8	8.7
Last 4 years	14.3	9.9
Last 5 years	11.5	8.2
Since Inception (4/93)	11.3	10.9

Recommendations

No action required.



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

MARATHON ASSET MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: William Arah | **Assets Under Management: $425,324,508**

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

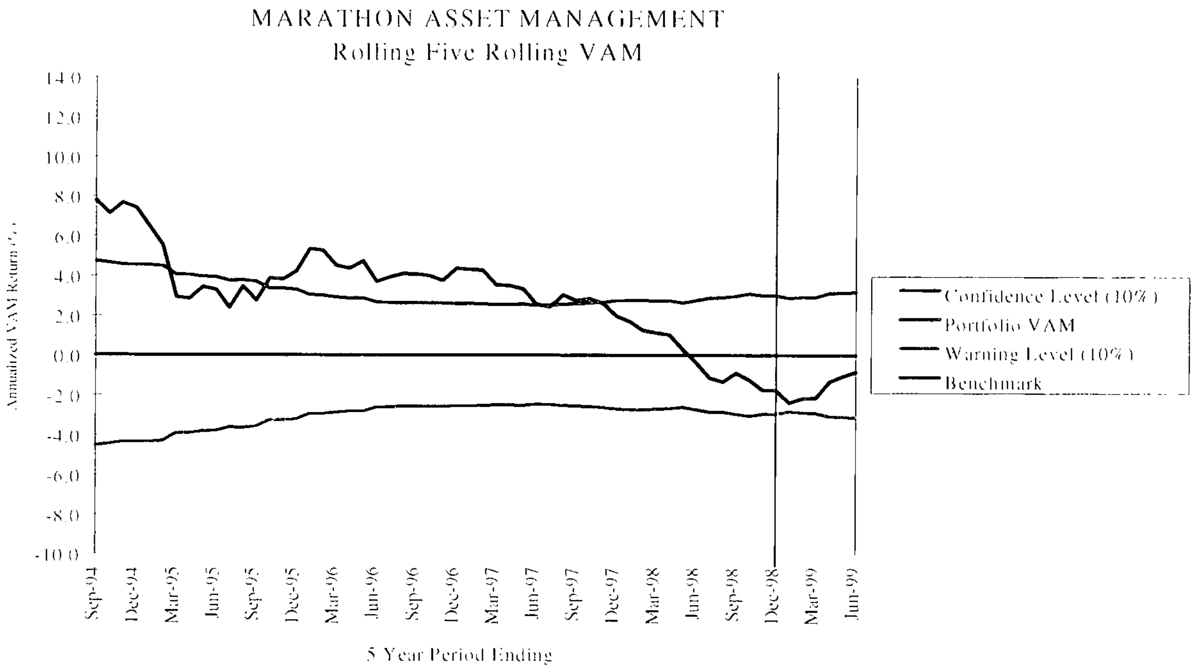
Marathon outperformed the benchmark for the quarter and the past year. During the quarter, Marathon benefited from both country allocation and stock selection decisions. Marathon was significantly overweight the strongly performing Pacific ex-Japan region and underweight the weaker performing European markets. Stock selection within Europe also contributed to performance. The past year's outperformance is primarily due to the outperformance this quarter.

Quantitative Evaluation

	Actual	EAFE Benchmark	Custom Benchmark
Last Quarter	9.6%	2.5%	5.3%
Last 1 year	12.9	7.6	7.1
Last 2 years	5.2	6.7	4.6
Last 3 years	6.7	8.7	5.8
Last 4 years	9.9	9.9	8.1
Last 5 years	7.3	8.2	6.2
Since Inception (11/93)	9.1	8.4	7.1

Recommendations

No action required.



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

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

Portfolio Manager: David Warren **Assets Under Management: $610,904,153**

Investment Philosophy

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

Staff Comments

No comments at this time.

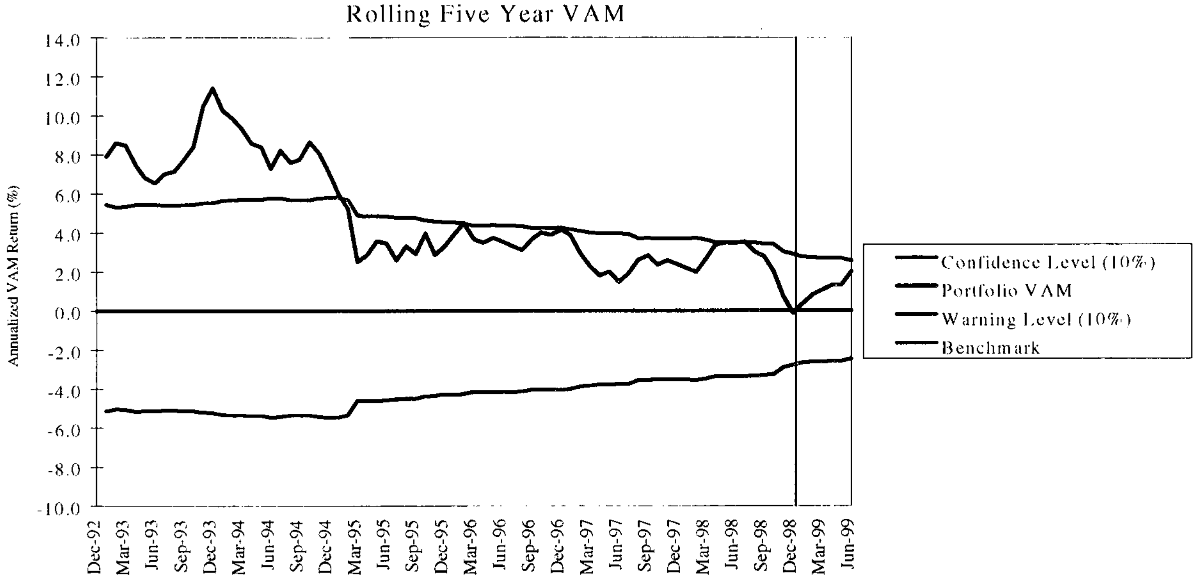
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	2.5%
Last 1 year	6.5	7.6
Last 2 years	5.3	6.7
Last 3 years	9.5	8.7
Last 4 years	11.5	9.9
Last 5 years	10.3	8.2
Since Inception (11/93)	10.1	8.4

Recommendations

No action required.

ROWE PRICE-FLEMING
Rolling Five Year VAM



5 Year Period Ending

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

SCUDDER, STEVENS & CLARK
Periods Ending June, 1999

Portfolio Manager: Sheridan Reilly **Assets Under Management: $470,151,307**

Investment Philosophy

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

Staff Comments

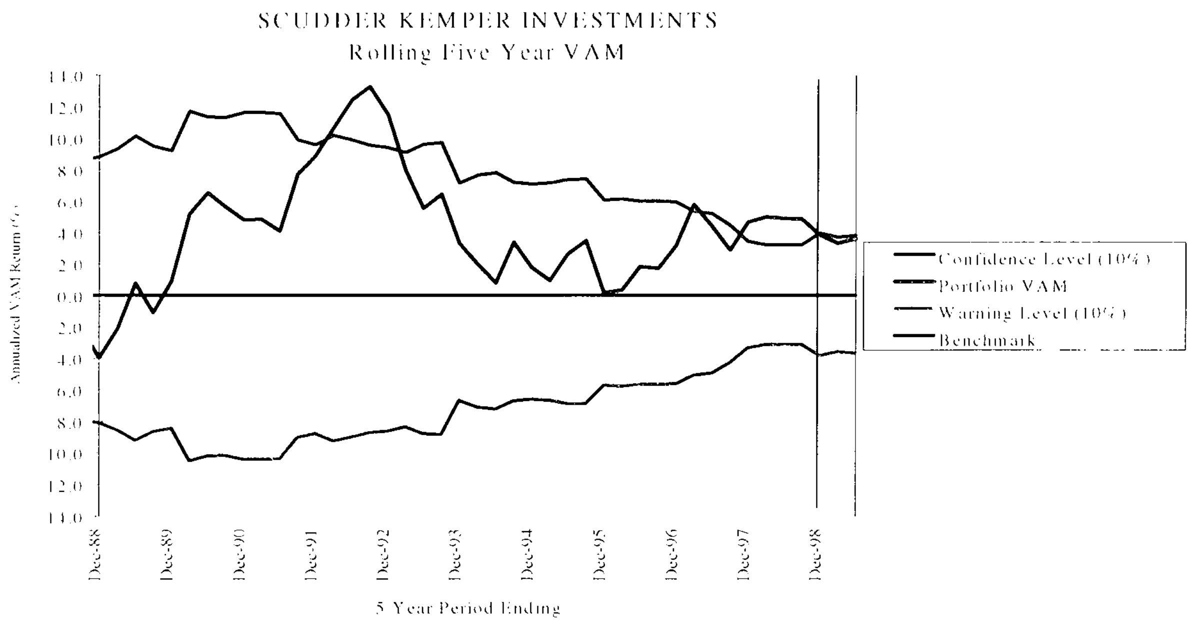
Scudder outperformed the benchmark for the quarter, benefiting from exposure to Japanese and European technology stocks, selective exposure to emerging markets, and an overweight position in Hong Kong.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.1%	2.5%
Last 1 year	7.1	7.6
Last 2 years	7.4	6.7
Last 3 years	11.8	8.7
Last 4 years	14.2	9.9
Last 5 years	12.5	8.2
Since Inception (11/93)	11.5	8.4

Recommendations

No action required.



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

CITY OF LONDON
Periods Ending June, 1999

Portfolio Manager: Barry Olliff **Assets Under Management: $263,614,391**

Investment Philosophy

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

Staff Comments

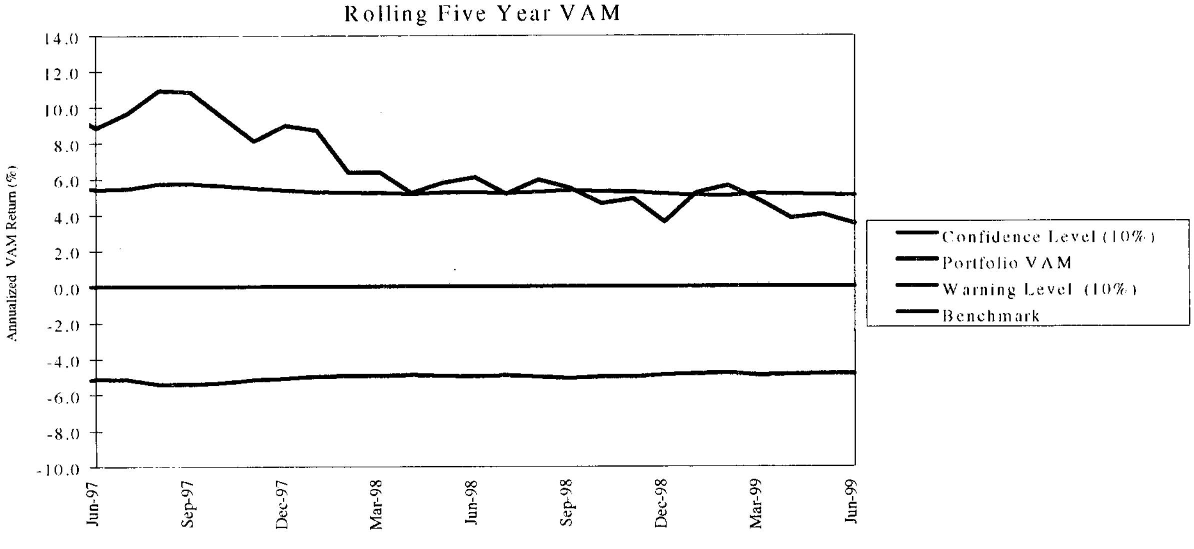
City of London underperformed for the year and the quarter. The underperformance over the past quarter was due to country allocation decisions, primarily underweights in Indonesia, Korea and Taiwan, all of which performed very well. Currency decisions also negatively impacted performance over the quarter, as City of London underweighted the currencies of Indonesia, Taiwan and South Africa whose currencies all strengthened versus the U.S. dollar. The past year's underperformance is primarily due to country allocation decisions.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	21.3%	24.4%
Last 1 year	21.4	28.7
Last 2 years	-7.4	-11.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	2.0	-2.2

Recommendations

No action required.



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

GENESIS ASSET MANAGERS, LTD.
Periods Ending June, 1999

Portfolio Manager: Paul Greatbatch **Assets Under Management: $225,136,361**

Investment Philosophy

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

Staff Comments

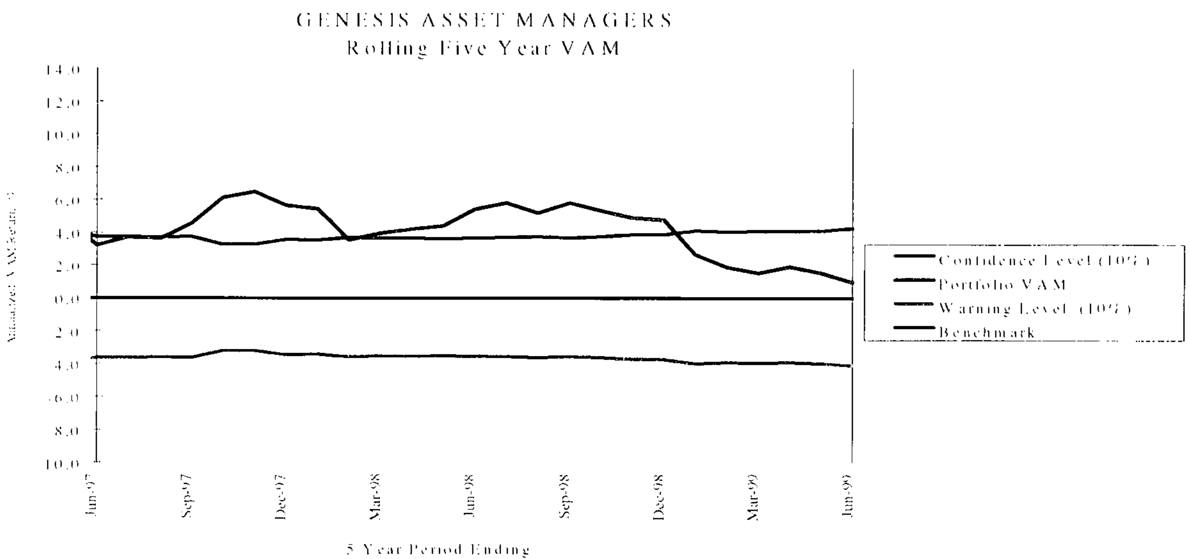
Genesis underperformed the benchmark for the quarter and the year. The portfolio's underweight in Asia, specifically Indonesia, Korea, Thailand and Taiwan was the primary reason performance lagged during the quarter. Over the past year, three main factors caused the portfolio to significantly underperform the benchmark. The portfolio was consistently underweight the strong performing Asian region during the year. In Brazil, Genesis began the first quarter overweight the country, then moved to an underweight position during the January devaluation and crisis. The Brazilian market subsequently rallied. Genesis' portfolio has also become increasingly dissimilar to the benchmark as three high income countries it does not consider to be in its investment universe make up almost 25% of the benchmark.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18.0%	24.4%
Last 1 year	5.2	28.7
Last 2 years	-17.1	-11.5
Last 3 years	-5.7	-4.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	-5.0	-3.7

Recommendations

No action required.



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

MONTGOMERY ASSET MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Josephine Jimenez **Assets Under Management: $225,886,572**

Investment Philosophy

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

Staff Comments

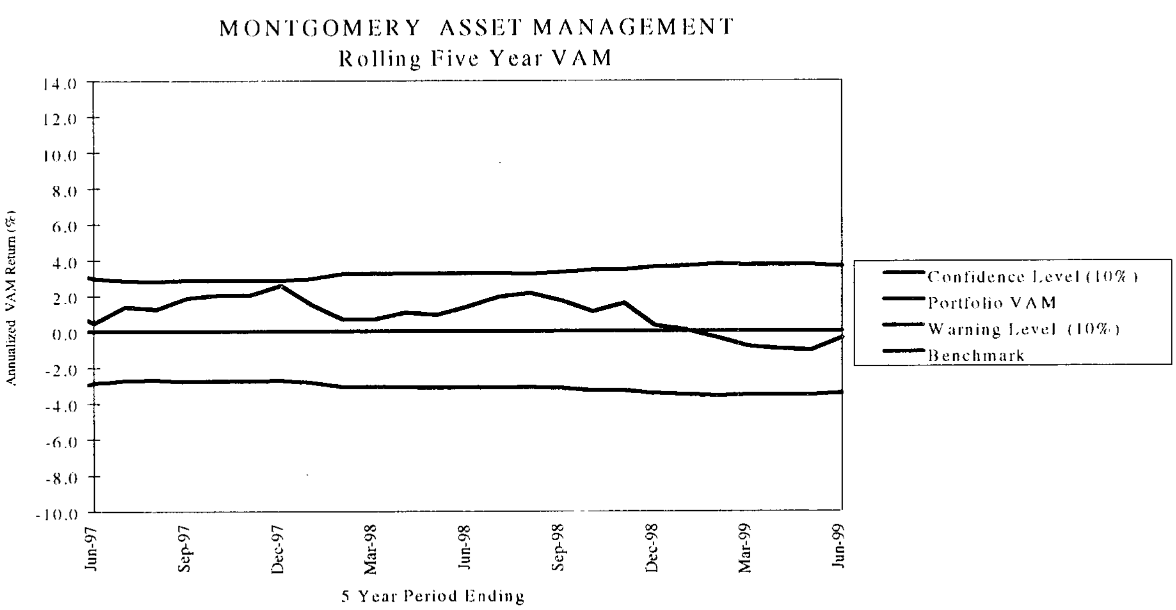
Staff met with Montgomery in their San Francisco office during the quarter to discuss their recent performance and review their investment process. Montgomery has recently improved their investment process by moving toward centralized portfolio construction and trade implementation. The change allows faster implementation of their investment decisions. Montgomery slightly outperformed for the most recent quarter but significantly underperformed for the past year. Over the past year, the main reason for underperformance was security selection, including Montgomery's broad exposure to small-cap stocks. However, the overweight position in these stocks relative to the benchmark has been greatly reduced over the past six months.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	25.2%	24.4%
Last 1 year	12.0	28.7
Last 2 years	-17.8	-11.5
Last 3 years	-6.3	-4.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	-5.5	-3.7

Recommendations

No action required.



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

STATE STREET GLOBAL ADVISORS
Periods Ending June, 1999

Portfolio Manager: Lynn Blake | **Assets Under Management: $3,026,189,159**

Investment Philosophy

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

Staff Comments

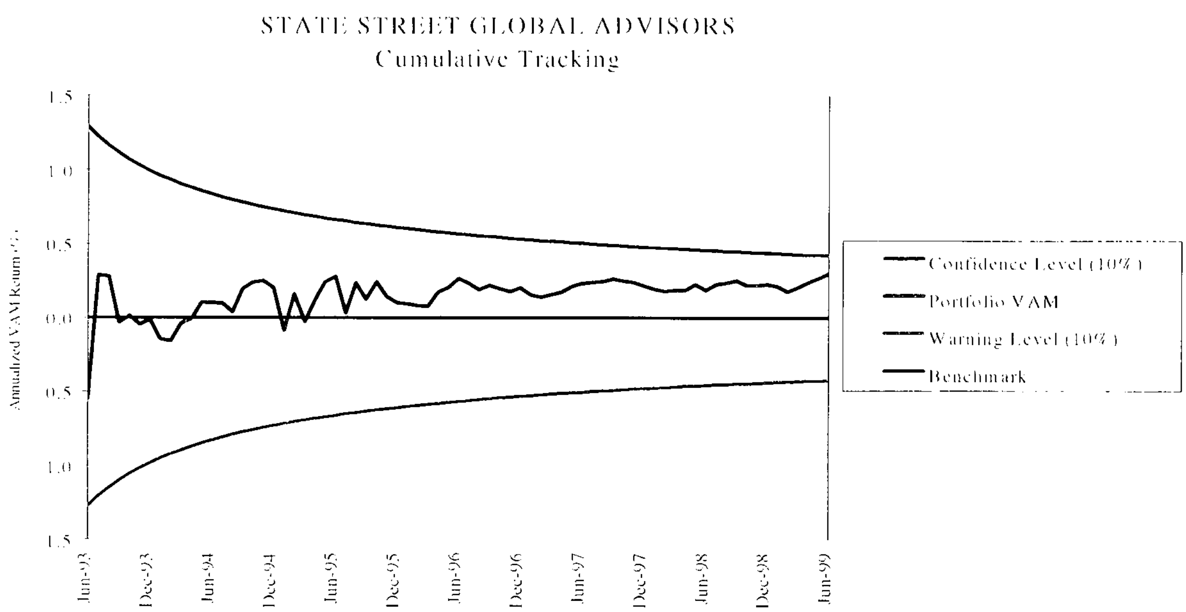
State Street outperformed over the past quarter and year, primarily because Malaysia, which was taken out of the EAFE index in September 1998, is still included in the portfolio. Malaysia performed very strongly during this period.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	2.5%
Last 1 year	8.6	7.6
Last 2 years	7.2	6.7
Last 3 years	9.1	8.7
Last 4 years	10.2	9.9
Last 5 years	8.6	8.2
Since Inception (10/92)	11.6	11.2

Recommendation

No action required.



RECORD TREASURY MANAGEMENT
Periods Ending June, 1999

Portfolio Manager: Neil Record | **Exposure Included in Overlay: $1,131,094,754**

Investment Philosophy

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

The SBI has chosen to limit the overlay program to currencies that comprise 5% or more of the EAFE index: Japanese Yen, British Pound Sterling, German Mark, French Franc, Swiss Franc, Dutch Guilder. One twelfth of the exposures in the SBI's EAFE index fund were added to the overlay program each month from December 1995 to November 1996. Each currency is split into equal tranches that are monitored and managed independently. The strike rate for each tranche is set at 2% out-of-the money at the start date of each tranche. This requires a 2% strengthening of the US dollar to trigger a hedge for that tranche.

Staff Comments

At the last quarterly meeting, the Board voted to eliminate the currency overlay program and to reduce Record Treasury's portfolio to $500 million. Record Treasury is now considered an active manager and will be re-interviewed in the upcoming international manager search.

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	3.9%	3.1%
Last 1 Year	8.2	8.6
Last 2 Years	8.6	7.2
Last 3 Years	11.7	9.1
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (12/95)	12.5	10.2

Recommendations

No action required.

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

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Tab E

COMMITTEE REPORT

DATE: August 31, 1999

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on August 16, 1999 to review the following information and action items:

- Review of current strategy.
- Investment for the Basic Retirement Fund with a new private equity manager, Vestar Capital Partners.
- Investment for the Post Retirement Fund with an existing private equity manager, Citicorp Capital Investors.
- Investment for the Post Retirement Fund with an new private equity manager, Windjammer Capital Investors.

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

INFORMATION ITEMS:

1) Review of Current Strategy.

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

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs. Currently, the SBI has an investment at market value of $673 million in twenty (20) commingled real estate funds and REITs.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. Currently, the SBI has an investment at market value of $952 million in forty-two (42) commingled private equity funds.

- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of $144 million in eleven (11) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. The SBI has an investment at market value of $223 million in thirteen (13) yield oriented funds for the Post Fund: Four (4) are in real estate, seven (7) are in private equity and two (2) are in resource funds.

ACTION ITEMS:

1) **Investment for the Basic Retirement Fund with a new private equity manager, Vestar Capital Partners, Inc., in Vestar Capital Partners IV, L.P.**

Vestar Capital Partners, Inc. is seeking investors for a new $2.5 billion private equity fund, Vestar Capital Partners IV, L.P. This Fund is the fourth private equity fund managed by Vestar Capital Partners, Inc. Vestar Capital Partners IV, L.P. will focus, like prior funds, on assembling a diverse portfolio of private equity investments.

More information on Vestar Capital Partners IV, L.P. is included as **Attachment C.**

RECOMMENDATION:

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

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

2) **Investment for the Post Retirement Fund with an existing private equity manager, Citicorp Capital Investors, Ltd., in Citicorp Mezzanine III, L.P.**

Citicorp Capital Investors, Ltd. is seeking investors for a new $500 to $550 million private equity fund, Citicorp Mezzanine III, L.P. This Fund is the third in a series of private equity funds managed by Citicorp Capital Investors, Ltd. Citicorp Mezzanine III, L.P. will focus, like prior funds, on assembling a diverse portfolio of primarily mezzanine and subordinated debt investments with equity participations.

More information on Citicorp Mezzanine III, 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 $75 million or 20%, whichever is less, in Citicorp Mezzanine III, L.P. This commitment will be allocated to the Post Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for

reliance by Citicorp Capital Investors, Ltd. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Citicorp Capital Investors, Ltd. or reduction or termination of the commitment.

3) **Investment for the Post Retirement Fund with a new private equity manager, Windjammer Capital Investors, L.L.C., in Windjammer Mezzanine and Equity Fund II, L.P.**

Windjammer Capital Investors, L.L.C. is seeking investors for a new $350 to 450 million private equity fund, Windjammer Mezzanine and Equity Fund II, L.P. This Fund is the second in a series of private equity funds managed by Windjammer Capital Investors, L.L.C. Windjammer Mezzanine and Equity Fund II, L.P. will focus, like prior funds, on assembling a diverse portfolio of primarily mezzanine and subordinated debt investments with equity participations.

More information on Windjammer Mezzanine and Equity Fund 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 $75 million or 20%, whichever is less, in Windjammer Mezzanine and Equity Fund II, L.P. This commitment will be allocated to the Post Retirement Fund.

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

Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
June 30, 1999

Market Value of Basic Retirement Funds	$20,185,113,719
Amount Available for Investment	**$1,257,879,706**

	Current Level	Target Level	Difference
Market Value	$1,769,887,352	$3,027,767,058	$1,257,879,706
MV +Unfunded	$2,531,275,091	$4,037,022,744	$1,505,747,653

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$673,211,466	$92,837,830	$766,049,296
Private Equity	$952,822,179	$544,903,693	$1,497,725,872
Resource	$143,853,707	$123,646,216	$267,499,923
Total	$1,769,887,352	$761,387,739	$2,531,275,091

Minnesota State Board of Investment

Alternative Investments
Post Retirement Funds
June 30, 1999

Market Value of Post Retirement Funds	$19,141,296,241
Amount Available for Investment	**$733,165,615**

	Current Level	Target Level	Difference
Market Value	$223,899,197	$957,064,812	$733,165,615
MV +Unfunded	$388,938,242	$1,914,129,624	$1,525,191,382

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$66,104,842	$7,029,755	$73,134,597
Private Equity	$127,702,543	$114,470,495	$242,173,038
Resource	$30,091,812	$43,538,795	$73,630,607
Total	$223,899,197	$165,039,045	$388,938,242

ATTACHMENT B

Minnesota State Board of Investment
- Alternative Investments -
As of June 30, 1999

	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
Aetna	42,376,529	42,376,529	118,489,391	0	0	6.80	17.17
AEW V	15,000,000	15,000,000	625,059	10,984,672	0	-2.73	11.54
Colony Capital							
Colony Investors II	40,000,000	36,986,764	22,462,405	21,495,144	3,013,236	8.97	4.25
Colony Investors III	100,000,000	55,531,005	50,674,351	1,720,000	44,468,995	-8.21	1.49
Equitable	40,000,000	40,000,000	108,467,735	277,669	0	6.18	17.72
Equity Office Properties Trust	140,388,854	140,388,854	197,916,953	35,276,584	0	13.81	7.59
First Asset Realty	916,185	916,185	231,658	829,650	0	4.69	5.17
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,958,578	19,681,167	0	1.60	14.89
Heitman Advisory Fund II	30,000,000	30,000,000	4,271,883	38,874,460	0	3.97	13.61
Heitman Advisory Fund III	20,000,000	20,000,000	463,351	21,834,314	0	1.33	12.44
Heitman Advisory Fund V	20,000,000	20,000,000	20,927,238	10,864,651	0	8.12	7.57
Lasalle Income Parking Fund	15,000,000	14,644,401	13,545,722	6,593,933	355,599	7.10	7.78
RREEF USA Fund III	75,000,000	75,000,000	18,774,940	101,509,537	0	4.68	15.14
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	52,198,200	12,898,999	0	13.44	5.08
Realty Associates Fund IV	50,000,000	50,000,000	54,103,956	5,321,798	0	11.63	2.41
Realty Associates Fund V	50,000,000	5,000,000	5,000,000	0	45,000,000	0.00	0.10
TCW							
TCW Realty Fund III	40,000,000	40,000,000	367,678	48,390,849	0	2.05	13.91
TCW Realty Fund IV	30,000,000	30,000,000	1,690,669	27,223,733	0	-0.40	12.65
Funds in Liquidation (AEW III, AEW IV)	35,000,000	35,000,000	41,700	28,532,825	0	N/A	N/A
Real Estate-Basic Totals	803,681,568	710,843,738	673,211,466	392,309,985	92,837,830		
Real Estate-Post							
Colony Investors II	40,000,000	36,986,764	22,462,405	21,495,144	3,013,236	8.97	4.25
Westmark Realty Advisors							
Westmark Coml MTG Fund II	13,500,000	13,397,500	11,820,440	5,768,116	102,500	10.43	3.93
Westmark Coml MTG Fund III	21,500,000	21,275,052	21,465,730	3,631,092	224,948	9.93	2.58
Westmark Coml MTG Fund IV	14,300,000	10,610,928	10,356,266	647,691	3,689,072	6.22	1.50
Real Estate-Post Totals	89,300,000	82,270,245	66,104,842	31,542,043	7,029,755		
Real Estate Totals	892,981,568	793,113,983	739,316,307	423,852,028	99,867,585		

Minnesota State Board of Investment
- Alternative Investments -
As of June 30, 1999

	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Basic							
Allied	5,000,000	5,000,000	211,774	6,059,302	0	3.59	13.79
Bank Fund							
Banc Fund III	20,000,000	20,000,000	27,367,260	13,858,718	0	17.40	6.67
Banc Fund IV	25,000,000	25,000,000	24,917,550	4,174,317	0	7.94	3.37
Banc Fund V	48,000,000	12,000,000	11,351,724	15,419	36,000,000	-10.20	0.96
Blackstone Partners II	50,000,000	46,469,934	39,953,991	42,995,889	3,530,066	45.53	5.60
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	813,784	7,806,446	0	9.81	11.14
Brinson Partners II	20,000,000	18,779,998	5,329,072	31,223,266	1,220,002	25.68	8.59
Churchill Capital Partners II	20,000,000	20,000,000	6,510,332	21,878,647	0	13.43	6.67
Contrarian Capital II	37,000,000	29,612,357	27,143,000	12,446	7,387,643	-5.82	2.08
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	1,851,500	5,130,811	0	-0.07	13.03
Coral Partners Fund II	10,000,000	8,069,315	8,211,759	26,523,669	1,930,685	25.43	8.93
Coral Partners Fund IV	15,000,000	12,000,000	8,961,434	3,119,933	3,000,000	0.21	4.94
Coral Partners Fund V	15,000,000	3,035,815	2,750,081	0	11,964,185	-12.83	1.03
Crescendo							
Crescendo II	15,000,000	13,344,773	11,526,935	2,637,994	1,655,227	9.26	2.49
Crescendo III	25,000,000	9,500,000	9,327,727	0	15,500,000	-2.85	0.65
DSV	10,000,000	10,000,000	3,425,125	20,404,988	0	8.23	14.22
First Century	10,000,000	10,000,000	3,156,207	14,103,791	0	9.32	14.54
Fox Paine and Company	40,000,000	17,028,434	16,132,074	0	22,971,566	-24.71	1.19
Golder Thoma Cressey Rauner							
Golder Thoma Cressey Rauner Fund III	14,000,000	14,000,000	6,028,520	51,021,716	0	30.28	11.67
Golder Thoma Cressey Rauner Fund IV	20,000,000	19,750,000	19,051,655	26,994,373	250,000	33.20	5.41
Golder Thoma Cressey Rauner Fund V	30,000,000	26,550,000	35,221,824	673,223	3,450,000	21.10	3.00
GTCR Fund VI	90,000,000	31,275,000	30,120,358	0	58,725,000	-8.74	1.00
GHJM Marathon Fund IV	40,000,000	2,390,000	2,390,000	0	37,610,000	-15.26	0.21
Hellman & Friedman III	40,000,000	28,026,638	14,032,547	32,418,364	11,973,362	30.45	4.78
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	21,822,018	202,717,756	0	28.68	13.21
KKR 1987 Fund	145,950,000	145,950,000	224,397,558	251,816,325	0	12.65	11.60
KKR 1993 Fund	150,000,000	150,000,000	94,457,618	200,160,224	0	18.66	5.52
KKR 1996 Fund	200,000,000	102,653,675	97,575,588	16,886,786	97,346,325	7.53	2.83
Matrix							
Matrix Partners II	10,000,000	10,000,000	1,150,500	21,368,456	0	14.04	13.87
Matrix Partners III LP	10,000,000	10,000,000	2,127,240	74,227,244	0	75.13	9.15
Piper Jaffrey Healthcare							
Piper Jaffery Healthcare Fund II	10,000,000	7,000,000	5,625,817	415,800	3,000,000	-10.83	2.33
Piper Jaffray Healthcare Fund III	9,631,250	2,407,814	2,344,209	0	7,223,436	-5.81	0.44
RCBA Strategic Partners, L.P	50,000,000	28,833,804	28,037,039	72,120	21,166,196	-4.24	0.52
Summit Partners							
Summit Venture II L.P	30,000,000	28,500,000	6,709,980	65,635,812	1,500,000	28.88	11.13
Summit Venture V L.P	25,000,000	10,000,000	9,880,280	421	15,000,000	-1.80	1.25
T. Rowe Price	216,765,350	216,765,350	15,066,718	212,682,610	0	8.56	N/A
Thoma Cressey	35,000,000	3,500,000	3,234,609	0	31,500,000	-11.39	0.86
Warburg Pincus							
Warburg Pincus Equity Partners	100,000,000	21,000,000	19,927,761	53,700	79,000,000	-8.82	1.01
Warburg Pincus Ventures	50,000,000	50,000,000	76,534,460	9,019,938	0	23.83	4.50
Welsh, Carson, Anderson & Stowe	100,000,000	28,000,000	28,088,564	0	72,000,000	0.61	0.93
Funds in Liquidation (KKR 1984, Summit Venture I)	35,000,000	35,000,000	55,985	148,678,911	0	N/A	N/A
Venture Capital-Basic Totals	1,806,723,862	1,261,820,169	952,822,179	1,514,789,413	544,903,693		

Minnesota State Board of Investment
- Alternative Investments -
As of June 30, 1999

	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Post							
Citicorp Mezzanine	40,000,000	37,725,565	35,187,328	14,872,491	2,274,435	20.66	4.50
Kleinwort Benson	25,000,000	21,120,692	18,451,129	3,729,021	3,879,308	3.26	3.75
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	3,145,817	23,427,265	2,000,000	25.45	5.25
Summit Sub. Debt Fund II	45,000,000	22,500,000	20,597,650	9,510,029	22,500,000	28.69	1.91
T. Rowe Price	8,777,302	8,777,302	4,977,868	2,901,019	0	-24.56	N/A
TCW/Crescent Mezzanine							
TCW Crescent Mezzanine Partner	40,000,000	39,783,392	30,715,469	13,662,624	216,608	7.69	3.24
TCW Crescent Mezzanine Partner II	100,000,000	16,399,856	14,627,283	1,863,707	83,600,144	1.00	0.60
Venture Capital-Post Totals	278,777,302	164,306,808	127,702,543	69,966,157	114,470,495		
Venture Capital Totals	2,085,501,164	1,426,126,976	1,080,524,722	1,584,755,571	659,374,188		

Minnesota State Board of Investment
- Alternative Investments -
As of June 30, 1999

	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource-Basic							
Apache	30,000,000	30,000,000	3,190,560	42,525,861	0	10.79	12.50
First Reserve							
First Reserve I	15,000,000	15,000,000	5,334,842	6,664,976	0	-1.68	17.75
First Reserve II	7,000,000	7,000,000	6,193,217	5,482,744	0	4.29	16.40
First Reserve IV	12,300,000	12,300,000	0	31,030,962	0	13.15	11.12
First Reserve V	16,800,000	16,800,000	17,728,814	32,589,861	0	16.86	9.16
First Reserve VII	40,000,000	36,600,240	33,183,974	7,411,411	3,399,760	8.85	3.00
First Reserve VIII	100,000,000	23,624,224	21,668,430	0	76,375,776	-23.49	1.17
Morgan Oil & Gas	15,000,000	15,000,000	3,555,308	20,906,987	0	6.87	10.84
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	15,644,520	6,433,253	2,152,471	6.01	7.90
Simmons - SCF Fund III	25,000,000	19,156,791	23,680,640	8,245,755	5,843,209	18.00	4.00
Simmons - SCF Fund IV	50,000,000	14,125,000	13,673,402	0	35,875,000	-16.88	1.25
Resource-Basic Totals	328,100,000	204,453,784	143,853,707	161,291,810	123,646,216		
Resource-Post							
Merit Energy Partners							
Merit Energy Partners B L P	24,000,000	19,632,849	19,255,039	1,902,425	4,367,151	5.64	3.00
Merit Energy Partners C	50,000,000	10,828,356	10,836,772	32,173	39,171,644	0.54	0.67
Resource-Post Totals	74,000,000	30,461,205	30,091,812	1,934,598	43,538,795		
Resource Totals	402,100,000	234,914,989	173,945,519	163,226,408	167,185,011		

ATTACHMENT C

PRIVATE EQUITY MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND:	Vestar Capital Partners IV, L.P. (the "Partnership")
FUND MANAGER:	Vestar Capital Partners, Inc. ("Vestar")
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	\$2.0 – \$2.5 billion
MANAGER CONTACT:	Dan O'Connell 245 Park Avenue, 41st Floor New York, NY 10167-4098 Phone: (212) 351-1600 Fax: (212) 808-4922 E-mail: doconnell@vestarcap.com

II. ORGANIZATION & STAFF

Vestar Capital Partners ("Vestar"), a private equity investment firm that specializes in organizing and investing in management buyouts, is establishing Vestar Capital Partners IV, L.P. (the "Partnership") to continue the investment strategy developed and successfully implemented by its principals since 1980

Vestar was formed in April 1988 by seven former principals of First Boston's Management Buyout Group, including the Group's co-heads and founders. These principals were directly responsible for developing First Boston into a leading management buyout organizer and investor during the 1980s. The Vestar principals have worked together for between 13 and 18 years and, as a team, have built Vestar into a leading investment firm with 25 professionals and offices in New York and Denver, Colorado.

III. INVESTMENT STRATEGY

Vestar will pursue the same investment strategy that has been successfully employed by its principals in the past. The Vestar principals target middle-market companies in the \$50 million to \$1 billion valuation range, with an expected transaction size (including follow-on acquisitions) of \$200 to \$500 million. They primarily focus on corporate divisions or subsidiaries and public or privately held companies being sold or recapitalized. Vestar pursues transactions in which it believes it can develop a meaningful competitive edge, such as by working exclusively with the company's management or the control stockholder, and only invests at what it believes is a discount to intrinsic value. Vestar does not generally participate in the auction market for corporate sales, focusing instead on privately negotiated transactions sourced through its broad and long-established network of business relationships.

In evaluating new investment opportunities, Vestar places a strong emphasis on the quality and commitment of the company's management team. The Vestar principals believe strongly in being a partner to management, and in motivating managers by having them invest in and own a significant equity stake in their company. Vestar's experience has been that the most successful opportunities are created by management teams who respond positively to having increased operating autonomy and meaningful equity ownership in their companies.

IV. INVESTMENT PERFORMANCE

Previous fund performance as of March 31, 1999 for Vestar Capital Partners investment funds 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
Fund I	1988	$35 million		47%
Fund II	1993	$260 million		62%
Fund III	1996	$803 million		36%

V. GENERAL PARTNER'S INVESTMENT

The Principals will commit an aggregate of at least $80 million to the Partnership and its investments.

VI. TAKEDOWN SCHEDULE

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

VII. FEES

From the earlier of (i) the date when all of the Partnership's Commitments have been invested or used to pay expenses, and (ii) the sixth anniversary of the later of the final closing date and the date the General Partner notifies the Limited Partners that the Principals have commenced reviewing investment opportunities for the Partnership (the "Effective Date") until the end of the Commitment Period, the Partnership will pay the General Partner an annual management fee (the "Management Fee"), payable semi-annually in advance, equal to 1.5% of aggregate

Commitments. After the Commitment Period, the Management Fee will equal 1.5% of (i) the aggregate Commitments taken down, less (ii) distributions constituting returns of capital and the aggregate amount of any permanent write-downs. The Management Fee for all Partners will commence as of the Effective Date.

Management Fees will be reduced by (i) 100% of any break-up fees received by the General Partner and/or the Management Agent and (ii) 50% of any monitoring or transaction fees paid by Partnership portfolio companies to the General Partner and/or the Management Agent. The General Partner reserves the right to waive all or a portion of any future installment of the Management Fee. Any waived portion of a Management Fee installment shall reduce the amount of capital contributions the General Partner, the Principals, and their respective affiliates would otherwise be required to contribute after the date such waived amount would otherwise be due.

VIII. ALLOCATIONS AND DISTRIBUTIONS

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

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

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

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

  (iii) a preferred return on amounts included in (i) and (ii) above at the rate of 8% per annum (not compounded) from the first day of the calendar month immediately succeeding the month in which such capital contribution was required to be paid to the Partnership (the "Preferred Return");

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

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

A distribution relating to a partial disposition of an investment will be subject to the above formula, with the Preferred Return and the carried interest based pro rata on the original cost of, and the cumulative distributions made with respect to, the disposed portion of such investment.

All short-term interest income, including interest income earned on Bridge Financings (as defined below) during the first year, but excluding short-term interest income received from portfolio companies, will be distributed 100% to the Partners in proportion to funded Commitments; provided that any short-term investment income on the undistributed net profits from the disposition of, or otherwise with respect to, a portfolio company will be distributed to the Partners pro rata according to their respective shares of such undistributed net profits. Such amounts will not be considered in determining the General Partner's carried interest.

The Partnership will distribute (i) all net interest and dividend income (other than original issue discount and payment in kind income) and short-term investment income from Partnership portfolio securities at least annually and (ii) the full net proceeds received in cash from investment dispositions within six months of such receipt, in each case subject to the availability of cash after paying Partnership expenses and setting aside appropriate reserves for reasonably anticipated liabilities and obligations of the Partnership.

Prior to the termination of the Partnership, distributions will be in cash or marketable securities. Upon termination of the Partnership, distributions may also include restricted securities or other assets of the Partnership.

IX. TERM

The Partnership will terminate on the tenth anniversary of the Effective Date, but may be extended for up to three consecutive one-year periods at the discretion of the General Partner with the consent of the Advisory Board to allow for an orderly dissolution and liquidation of the Partnership's investments.

X. DIVERSIFICATION

The Partnership will not, without the prior consent of Limited Partners holding a majority of the Limited Partner interests and the Advisory Board, invest more that 20% of its total Commitments in any single company.

ATTACHMENT D

PRIVATE EQUITY MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND:	Citicorp Mezzanine III, L.P. (the "Partnership" or "CM III")
FUND MANAGER:	Citicorp Capital Investors, Ltd. ("CCIL")
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	\$500 - \$550 million
MANAGER CONTACT:	Byron Knief Citicorp Capital Investors, Ltd. 399 Park Avenue, 14th Floor New York, New York 10043 Phone: (212) 559-2565 Fax: (212) 888-2940 E-mail: Byron_Knief/cvcltd@cvcltd.com

II. ORGANIZATION & STAFF

Citicorp Capital Investors, Ltd. ("CCIL") will be the general partner ("General Partner") for the Partnership. The 16 investment professionals of CCIL (the "Officers") and Citicorp Venture Capital, Ltd. and its affiliates (collectively, "CVC") are under the direction of Mr. William Comfort, who has been the Chairman of CVC since 1979. Since that time, Mr. Comfort has directed CVC's focus toward equity and related investments in Management Acquisitions involving established companies.

The day-to-day operations of the Partnership will be directed by certain investment professionals of the General Partner who will devote substantially all of their time to managing the Partnership's activities. Initially, these Officers will be Byron L. Knief and Richard E. Mayberry, Jr. The initiation, negotiation and approval of Partnership investments will conform to the procedures and disciplines established by Citigroup. As part of this process, all Partnership investments will be approved by a Partnership investment committee (the "Investment Committee") which will include the Chairman of CCIL, the Officers managing the Partnership and a Member of the Credit Policy Committee of Citigroup.

The initial composition of the Investment Committee will be:

Name	**Position with Citigroup**
William T. Comfort	Chairman of CCIL and CVC
Byron L. Knief	President of CCIL
Richard E. Mayberry, Jr.	Managing Director of CCIL
John J. Kennedy	Member Credit Policy, Citigroup

III. INVESTMENT STRATEGY

The Partnership will seek to realize high current income plus substantial capital appreciation through direct investments in management acquisitions, recapitalizations and related transactions (collectively, "Management Acquisitions") predominantly sponsored by CVC. CVC is one of the most experienced and successful sponsors of Management Acquisitions in the United States.

The Partnership will invest in debt (predominantly subordinated debt) with equity participations. The Partnership will invest in companies whose operating characteristics permit fundamental investment analysis and for which reliable information is available to evaluate historical performance and economic prospects.

The Partnership will invest pursuant to criteria developed over many years by the investment professionals (the "Officers") presently responsible for two predecessor Citicorp mezzanine funds: Citicorp Mezzanine Investment Fund ("CM I") and Citicorp Mezzanine Partners, L.P. ("CM II" and, together with CM I, the "Predecessor Funds"). The Partnership is the successor to CM II.

IV. INVESTMENT PERFORMANCE

Previous fund performance as of March 31, 1999 for Citicorp Mezzanine Fund I and June 30, 1999 for Citicorp Mezzanine Fund II 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
Fund I	1989	$637 million		13.7%
Fund II	1994	$500 million	$40 million	20.6%

V. GENERAL PARTNER'S INVESTMENT

CCIL will commit 25% of the limited partnership interests, up to $125 million.

VI. TAKEDOWN SCHEDULE

Each Partner will contribute a *pro rata* portion of each Partnership investment at the time of such investment based on each such Partner's capital commitment. Partners will receive at least ten (10) days written notice prior to any takedown of funds.

VII. FEES

There will be no management, monitoring, organizational or other fees to be paid by, or on behalf of, the Limited Partners or the General Partner (collectively, the "Partners") to the Partnership or the General Partner.

The General Partner will fund out-of-pocket expenses ("Transaction Expenses") incurred in connection with locating and seeking to consummate suitable investments, including expenses relating to legal, consulting and accounting services, travel, appraisal, due diligence and other expenses. With respect to completed investments, portfolio companies typically will reimburse the General Partner for all Transaction Expenses related to such investments.

In the case of unconsummated transactions, CCIL will be entitled to reimbursement of Transaction Expenses from financing fees as described below.

CCIL, as General Partner, may receive customary commitment, financing or breakup fees from portfolio companies ("Financing Fees"). All Financing Fees shall be applied first to reimburse CCIL for any unreimbursed Transaction Expenses. Any remaining amount of Financing Fees shall be retained by CCIL, in which case any subsequent capital gain allocation to CCIL as part of its carried interest will be reduced by an amount equal to such amount of remaining Financing Fees. The General Partner will manage the Partnership so that the excess of Financing Fees (excluding breakup fees) over the sum of Transaction Expenses and organizational and ordinary operating expenses of the Partnership will not exceed 3% of the Partnership's original aggregate commitments.

VIII. ALLOCATIONS AND DISTRIBUTIONS

All Partnership income (including interest income and capital gains) will be allocated to Partners *pro rata* according to capital contributions until all Partners have received a preferential return on invested capital (the "Preferential Return") equal to 500 basis points over the Blended Portfolio Treasury Rate.

The "Blended Portfolio Treasury Rate" means the average of the "Ten Year Treasury Rates" associated with all portfolio investments determined by weighing the "Ten Year Treasury Rate" associated with each investment by (i) the amount of each such investment and (ii) the period of time which such investment is outstanding. The "Ten Year Treasury Rate" for an investment is the "Ten Year Treasury Rate" prevailing on such investment's funding date.

All cumulative income net of prior losses in excess of the Preferential Return will be allocated 80% to the Partners *pro rata* according to capital contributions and 20% to CCIL, subject to certain contingent adjustments set forth in "Financing Fees" above (the "Carried Interest"). There is no catch-up allocation to CCIL, and net financing fees are credited against carried interest. As a result, the stated allocation of 80%/20% is expected to yield an effective allocation of approximately 90% to the Limited Partners *pro rata* according to capital contributions and 10% to the General Partner.

Cumulative losses net of prior gains of the Partnership will be allocated first to CCIL (in an aggregate amount not to exceed 10% of the Partnership's original capital commitments) and thereafter to all Partners *pro rata* according to capital accounts

Current income (*e.g.*, interest) will be distributed at least quarterly. Cash proceeds from the disposition of investments (*e.g.*, repayment of debt or sale of warrants), subject to appropriate reserves, generally will be distributed within thirty (30) days of receipt. Generally, all distributions will be made to Partners according to capital accounts (as determined in accordance with the allocations set forth above)

IX. TERM

The duration of Ten years from closing or upon liquidation of the Partnership, whichever is earlier. In order to provide for orderly liquidation, the General Partner may extend the term of the Partnership for up to three additional one-year periods.

X. DIVERSIFICATION

No more than the lesser of $100 million and 25% of the Partnership's original capital commitments at any time will be invested in a single portfolio company. The Partnership will not provide financing for a hostile tender offer. The Partnership will not provide financing to portfolio companies in which either CM I or CM II has a pre-existing investment or equity interest.

No more than 20% of the Partnership's original capital commitments at any time may be invested in Nonconforming Investments. A Nonconforming Investment is defined as any investment which does not meet the Partnership's Guidelines. All Nonconforming Investments will in any event comply with the limitations on investments set forth above.

ATTACHMENT E

PRIVATE EQUITY MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND:	Windjammer Mezzanine and Equity Fund II, L.P. ("Fund II")
FUND MANAGER:	Windjammer Capital Investors, L.L.C. ("Windjammer" or the "Firm")
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	$350 - $450 million
MANAGER CONTACT:	Sky Lance Windjammer Capital Investors 610 Newport Center Dr., Suite 1100 Newport Beach, CA 92660 Phone: (949) 721-9944 Fax: (949) 721-5446 E-mail: sky.lance@pmimezz.com

II. ORGANIZATION & STAFF

In 1990, Managing Principals Robert Bartholomew and Schuyler (Sky) Lance, formed Pacific Mezzanine Investors ("PMI") as a separate operating unit of Pacific Life to make direct junior capital investments for Pacific Life's own account. From its inception in 1990, PMI was led by Robert Bartholomew and Schuyler Lance, who devoted substantially all of their time to junior capital investing activities. Messrs. Bartholomew and Lance, as the two Managing Principals, will have management responsibility for Fund II and, along with the Principals (together, the "Principal Staff") will provide funding for the General Partner's investment in Fund II.

PMI Mezzanine Fund, L.P. ("Fund I") was managed by Pacific Mezzanine Investors, L.L.C. ("PMI LLC"), its general partner. The Managing Principals, as well as a subsidiary of Pacific Life, are original members of PMI LLC. The Managing Principals were responsible for the overall management of and selection of investments made by Fund I. Since Fund II is the second organized fund effort by the Managing Principals of Fund I, and it is anticipated that the existing investors will be recommitting to the new fund, the new fund includes "Fund II" in its name, appropriately reflecting the continuation of the strategies and management of the PMI Mezzanine Fund, L.P. Because Pacific Life will not be part of the General Partner of Fund II contemplated by this offering memorandum, the Managing Principals have chosen to use Windjammer Capital Investors for the trade name of the management company (the General Partner) and Windjammer Mezzanine & Equity Fund II, L.P. for Fund II.

In addition to the four members of the Principal Staff, PMI currently employs one Associate and one Analyst. All employees currently utilized for Fund I activities are expected to be employed by the General Partner for Fund II activities. In the first year of Fund II, the General Partner expects to hire an additional Associate and an additional Vice President/Principal. Going forward, the General Partner expects to hire additional staff as required to manage Fund II.

III. INVESTMENT STRATEGY

Fund II intends to continue the investment strategy successfully employed by the Managing Principals since 1990. Fund II will provide subordinated debt and/or preferred stock accompanied by warrants or other forms of equity participation and, in certain instances, common stock to middle market companies having operating cash flow ranging from $5 million to $75 million. Fund II will seek to generate both current income and substantial capital gains while limiting its risk through the application of prudent credit standards. This approach to investing is defined by the Managing Principals as "junior capital investing" and is often called "mezzanine" investing in the marketplace. Fund II expects an average investment size of approximately $20 million. Also, Fund II may invest (but without carried interest to the General Partner) up to 10% of aggregate Commitments in other pooled investment vehicles ("Fund Investing").

IV. INVESTMENT PERFORMANCE

Previous fund performance as of December 31, 1998 for Pacific Mezzanine investment funds 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
Pacific Mezzanine Investors	1990	$112.5 million		33.6%
PMI Mezzanine Fund ("Fund I")	1995	$179.7 million		15.1%

V. GENERAL PARTNER'S INVESTMENT

The General Partner will make a capital commitment to Fund II equal to 1% of all Partners' capital commitments, payable at the same time and in the same proportion as Limited Partners' capital contributions. Additionally, the General Partner and its affiliates may invest a fixed percentage (established by the General Partner annually up to 5%) in each portfolio investment made during a given year.

VI. TAKEDOWN SCHEDULE

Commitments generally will be taken down as needed to complete investments or to provide for expenses of Fund II, with a minimum of ten business days' prior written notice.

VII. FEES

An annual management fee (the "Management Fee") will be payable, semiannually in advance, by Fund II to the General Partner.

Junior Capital Investing - During the period from the initial closing until the fifth anniversary of the initial closing (the "Investment Period"), the Management Fee will equal 1.625% of commitments excluding those commitments that are allocated to Fund Investing. After the Investment Period, the Management Fee will equal 1.0% of capital invested in Junior Capital Investments reduced by the initial cost of realized Junior Capital Investments, net of any write-downs of Junior Capital Investments below cost.

Fund Investing – For the term of Fund II, the Management Fee shall be 0.5% of the portion of Commitments allocated to Fund Investing.

In any event, the Management Fee will not be adjusted below $200,000 per year

Transaction fees (not including fees and stock options to directors) paid by portfolio companies in connection with investments made by Fund II, net of expenses, will accrue 100% to the benefit of Fund II by reduction in the Management Fees that would otherwise be payable to the General Partner

The General Partner will be responsible for all normal overhead expenses of managing Fund II, including compensation for its employees, plus the cost of adequate office space, utilities, and other management expenses. Fund II will be responsible for all other expenses including the cost of annual meetings of the Partners, liability insurance, the fees and expenses of other professional advisors such as legal counsel, consultants and accountants, custodial and similar investment expenses and any taxes, fees or other government charges levied against Fund II, as well as certain other services relating to investment opportunities for the Partnership.

Fund II will bear up to $1 million of organizational expenses. Such expenses shall not include fees of a placement agent, if any, which expenses will be borne by the General Partner.

VIII. ALLOCATIONS AND DISTRIBUTIONS

Distribution of proceeds from investments (other than Fund Investing) will be made in the following order of priorities:

First, 100% to the Partners in proportion to their funded commitments for Junior Capital Investing until they have received distributions equal in value to a return of 8% per annum (compounded annually) from the relevant drawdown dates to the dates of distribution on all unreturned "Investment Contributions" (excludes funded commitments attributable to fund expenses, Management Fees and Fund Investments) (the "Preferential Return");

Second, 100% to the Partners in proportion to their funded commitments for Junior Capital Investing until they have received distributions equal in value to the sum of (i) Fund II's cost basis in any investments or portion thereof (other than Fund Investments) disposed of at or before the date of distribution, and (ii) any write-downs below cost of investments held by Fund II as of the date of distribution (net of any write-ups to an amount not greater than cost);

Third, 100% to the General Partner until it has received additional distributions (its "Carried Interest") equal to 20% of the aggregate amounts distributed to Partners pursuant to paragraph First and this paragraph Third; and

Fourth, thereafter, 80% to the Partners in accordance with their funded commitments for Junior Capital Investing and 20% to the General Partner as additional Carried Interest.

No carried interest shall be paid to the General Partner out of proceeds of Fund Investments. Proceeds generated from Fund Investments will be distributed to Partners in proportion to their funded commitments allocated to Fund Investments.

Cash proceeds will be distributed at least semi-annually. However, Fund II may retain amounts which it deems prudent to reserve to meet future expenses or liabilities of Fund II and for reinvestment (if eligible).

Fund II may make distributions to all Partners in amounts intended to defray their tax liabilities attributable to Fund II, to the extent that the distributions described above are insufficient.

Distributions prior to the termination of Fund II may be in the form of cash or freely-tradeable securities. Upon termination of Fund II, distributions also may consist of restricted securities or other assets. Prior to the termination of Fund II, the General Partner will endeavor to make all distributions in cash, but may from time-to-time make distributions in freely-tradeable securities.

Income, gains and losses resulting from Fund II's investments will be allocated among the Partners in a manner consistent with the distribution provisions described above. Management Fees and Fund II expenses will be allocated in proportion to funded commitments drawn down for such purposes. Capital accounts will be maintained by the Partnership for all Partners in accordance with applicable tax rules, and liquidating distributions will be made in accordance with capital account balances

If on termination of Fund II the General Partner has received any Carried Interest distributions and either (i) any Partner has not previously received aggregate distributions with respect to Junior Capital Investing at least equal to those required by paragraphs First and Second under "Distributions", or (ii) the General Partner has received aggregate Carried Interest distributions in excess of 20% of the cumulative net income and gains of Fund II previously allocated to the Partners with respect to Junior Capital Investing, then the General Partner will be deemed to have received "Excess Carried Distributions" in an amount equal to the greater of the amount specified in clause (i) or (ii) above, and will be required to return the after tax amount of such Excess Carried Distributions; provided, however, that the General Partner will not be obligated to return more than the after tax amount of its total Carried Interest distributions. All Carried Interest amounts returned to Fund II by the General Partner will be distributed among Partners as provided under "Distributions".

IX. TERM

Fund II will have a stated term of ten years from its initial closing, but may be extended at the discretion of the General Partner for up to three additional one-year periods in order to facilitate the orderly disposition of Fund II investments.

X. DIVERSIFICATION

Fund II will not invest more than 20% of aggregate commitments in any single portfolio company or transaction, and will not invest more than 15% of aggregate commitments in companies organized outside of the U.S., Canada and Mexico. Also, investing in securities originally acquired on an open exchange (public securities) must be either related to an existing portfolio company, or be part of a transaction that is alongside or results in a mezzanine transaction (such as buying private notes with warrants and buying additional public stock), and will be limited to 20% of aggregate commitments. Fund Investing will be limited to a maximum investment of $10 million per investment and shall in the aggregate not exceed 10% of commitments.