MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
December 12, 1997

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INVESTMENT ADVISORY
COUNCIL MEETING
December 2, 1997

Governor Arne H. Carlson

State Auditor Judi Dutcher

State Treasurer Michael A. McGrath

Secretary of State Joan Anderson Growe

Attorney General Hubert H. Humphrey III

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Friday, December 12, 1997
8:30 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of September 3, 1997	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (July 1, 1997 - September 30, 1997)	**A**
B. Portfolio Statistics (September 30, 1997)	**B**
C. Administrative Report	**C**
1. Reports on budget and travel	
2. Post retirement benefit increase for FY97	
3. Results of FY97 audit	
4. Legislation for 1998 Session	
5. Update on litigation	
6. Update on tobacco information	
7. Tentative meeting dates for calendar 1998	
8. Board appointment to vacancy on the IAC	
3. Report from the Deferred Compensation Committee (P. Sausen)	**D**
4. Reports from the Investment Advisory Council (J. Yeomans)	
A. Asset Allocation Committee	**E**
B. Domestic Manager Committee	**F**
1. Review of manager performance	
2. Review of candidates for the Bond Manager Monitoring Program	
3. Recommendation concerning an active bond manager (Voyageur)	
4. Review of two active stock managers (American Express, Independence)	
5. Updated resolution concerning repurchase agreements	
6. Recommendations concerning securities lending in State Cash Accounts	
C. International Manager Committee	**G**
1. Review manager performance	
2. Recommendation concerning an active manager (Montgomery)	
3. Review of currency overlay program.	
4. Recommendation concerning the contract with currency overlay manager (Record Treasury)	
D. Alternative Investment Committee	**H**
1. Review of current strategy	
2. Approval of commitments to follow-on investments for the Basic Retirement Funds (Summit, OFS, Colony)	

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Minutes
State Board of Investment
September 3, 1997

The State Board of Investment (SBI) met at 8:30 A.M. Wednesday, September 3, 1997 in Room 125 State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson, State Auditor Judith H. Dutcher, State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe were present. Attorney General Hubert H. Humphrey III was absent. The minutes of the June 4, 1997 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 June 30, 1997 (Combined Funds 11.7% vs. Inflation 3.5%), exceeded the median fund (37^{th} percentile) and outperformed their composite index (Combined Funds 14.2% vs. Composite 13.9%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 14.4% vs. Composite 14.2%) over the last five years and reported that the Post Fund had outperformed its composite index for the 4 year period since July 1, 1993 (Post fund 13.8% vs. Composite 13.4%).

Mr. Bicker reported that the Basic Funds' assets increased 10.5% for the quarter ending June 30, 1997 due to positive investment returns. He said that the asset mix is essentially on target and that the Fund matched their composite index for the quarter (Basics and Composite 11.4%) and outperformed it for the year (Basics 21.8% vs. Composite 20.8%).

Mr. Bicker reported that the Post Fund's assets increased 12.3% for the quarter ending June 30, 1997 due to positive investment returns. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 11.6% vs. Composite 11.4%) and for the year (Post 20.9% vs. Composite 19.3%). In response to a question from Mr. McGrath, Mr. Bicker stated that the allocation to alternative assets in the Post Fund is still relatively new, and that on a committed basis, the SBI is closer to the 5% level than the market value would indicate.

Mr. Bicker reported that the domestic stock manager group underperformed for the quarter (Domestic Stocks 16.8% vs. Wilshire 5000 16.9%) but had outperformed for the year (Domestic Stocks 29.7% vs. Wilshire 5000 29.3%). He said that the international stock manager group underperformed for the quarter (International Stocks 12.1% vs. Int'l Composite 12.5%) but had outperformed for the year (International Stocks 18.2% vs. Int'l. Composite 13.2%). He added that the bond segment outperformed for the quarter (Bonds 3.9% vs. Lehman Aggregate 3.7%) and year (Bonds 9.3% vs. Lehman Aggregate 8.2%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite for the quarter (ARP 7.0% vs. Composite 5.7%) and for the year (ARP 14.8% vs. Composite 12.8%). He concluded his report with the comment that as of June 30, 1997 the SBI was responsible for over $37 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the 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. Ms. Eller explained that the SBI is still designated lead plaintiff in the class action suit against the company but that the judge had decided that the lead plaintiff counsel should be determined through a bidding process rather than utilizing outside counsel selected by the Attorney General. She stated that this decision would be appealed. She added that the Attorney General's Office is involved in settlement negotiations with the company, its outside directors and its accounting firm.

Mr. Bicker referred members to the meeting materials in his Administrative Report for an update on tobacco information.

Mr. Bicker stated that staff is recommending that the Board authorize the formation of a Review Committee to issue RFP's for master custodial and accounting services. In response to a question from Mr. Carlson, Mr. Bicker indicated that staff has been satisfied to date with State Street Bank's services. Ms. Growe moved approval of the recommendation, as stated in the Executive Director's Administrative Report which reads: "The Executive Director recommends that the SBI authorize a Review Committee to evaluate the SBI's needs for master custodial and portfolio accounting systems through the RFP process. The Review Committee should be comprised of a designee of each Board member and at least two members of the IAC. The Review Committee should report its recommendations to the SBI by March 1998." The motion passed.

Status Report of the Executive Director's Performance Evaluation
Mr. Sausen reported that the Commissioner of Finance had acted as the Coordinator for the evaluation of the Executive Director. He noted that four evaluations had been received to date.

SBI Administrative Committee Report
Mr. McGrath referred members to the SBI Administrative Committee Report which was distributed to members separately (see Attachment A). He stated that the Committee is recommending that the salary for the Executive Director be $99,764, effective July 1, 1997 and that the Board should delegate authority to the Chair of the SBI Administrative Committee to take all steps necessary to implement the salary recommendation. He added that the Committee is also recommending that the SBI Administrative Committee be authorized to review the Executive Director's salary no less than annually. Mr. McGrath moved approval of the Committee's recommendations, as stated in the

Committee Report, which reads: "The SBI Administrative Committee recommends that the State Board of Investment (SBI) take the following actions concerning implementation of the agency head pay bill enacted by the 1997 Second Special Legislative Session: that the SBI recommend to the Legislative Coordinating Commission (LCC) that the salary for the SBI Executive Director be $99,764 effective July 1, 1997; that the SBI delegate authority to the Chair of the SBI Administrative Committee to take all administrative steps necessary to implement this salary recommendation. This includes, but is not limited to, consulting with the Commissioners of Employee Relations, Finance and Administration as required in the new law and transmitting the recommendation of the SBI to the LCC; that the SBI authorize the SBI Administrative Committee to review the salary of the SBI Executive Director no less than annually and report its recommendations to the SBI." Ms. Dutcher seconded the motion. The motion passed.

Deferred Compensation Review Committee Report
Mr. Sausen referred members to Tab D of the meeting materials for updated information on the 403(b) study mandated by the Legislature and the semi-annual review of product providers for the deferred compensation related plans (457, 403b, 401a).

Mr. Sausen reported that the Committee is recommending approval of a proposal from Great-West to provide 100% portability of variable options in the 457 Plan. Ms. Growe moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute the necessary contract amendment for the Deferred Compensation Plan to provide 100 percent portability of account balances in Great-West variable annuity options to options of other product providers in the State Deferred Compensation Plan." Ms. Dutcher commended Mr. Bicker for negotiating the change and seconded the motion. The motion passed.

Mr. Sausen stated that the Committee recommending that the search for investment providers for the 457 Plan be conducted through a request for proposal (RFP) process. He noted that if vendors change, staff could need to run parallel systems for a significant period of time to ensure a smooth transition. In response to a question from Ms. Growe, Mr. Bicker stated that the current contracts have 5 year terms which expire June 30, 1999. Ms. Growe moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Deferred Compensation Review Committee to conduct necessary searches for investment providers in the State Deferred Compensation Plan through the RFP process. The Committee should report to the SBI on RFP results by June 1998." Ms. Dutcher seconded the motion. The motion passed.

Domestic Manager Committee Report
Ms. Yeomans referred members to Tab E of the meeting materials and stated that three of the active domestic equity managers had been re-interviewed during the quarter due to various concerns with each firm. She explained that IAI has managed a regional fund for the SBI since 1993 and that staff and the Committee are concerned regarding significant

staff turnover, benchmark quality and performance. In response to several questions from Mr. Carlson, Ms. Yeomans said that staff had previously told IAI that they did not believe their benchmark was representative of the way they managed the SBI's portfolio. She added that IAI's performance was poor relative to their original benchmark. She stated that IAI developed a revised benchmark and noted that their performance improved significantly relative to the new measure. Mr. Carlson said that he was concerned that the standards have now been set so low that anyone could meet the requirement and he asked Mr. Bicker for further explanation. Mr. Bicker explained that each of the managers' benchmarks have been statistically tested to see if they are appropriate for the manager's individual investment style and that staff believed that IAI's original benchmark was not appropriate. In response to further questions from Mr. Carlson regarding the rationale for continuing to retain IAI, Mr. Bicker stated that IAI has approximately $200 million under management for the SBI and that staff has gone through the benchmark creation process with each of the equity managers. He stated that the bottom line is that using a properly constructed benchmark, IAI had actually added some value. He noted that staff will continue to closely monitor the firm's performance against the new benchmark. In response to questions from Ms. Growe, Mr. Bicker stated that it is common practice for staff to negotiate the composition of the benchmark with the managers. He noted, however, that the IAI's benchmark creation process was unusually problematic and lengthy in nature. He added that the fact that they are managing a regional fund for the SBI did not really have an effect on the benchmark situation. Ms. Yeomans referred members to the Committee Report for a comparison of the firm's performance under the two different benchmarks.

Ms. Yeomans stated that the remaining two managers that had been re-interviewed are part of the Emerging Manager Program. She explained that both Winslow Capital and Wilke/Thompson are growth managers and that their poor performance has been due to recent market conditions where larger capitalization companies had outperformed small growth stocks. In response to a question from Mr. Carlson, Mr. Bicker said that both Winslow and Wilke/Thompson have sound investment approaches that have been out of favor with current market conditions and he gave both firms credit for not changing their approach in mid-stream in response to the market. He added that both firms utilize investment approaches that are very volatile and that it is expected that these two firms could have periods of significant over or under performance. In response to a question from Mr. McGrath, Ms. Posey stated that she is not aware of any other plan sponsors terminating their relationships with any of the three managers beyond those already noted in the meeting materials.

Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI continue to retain IAI/Regional Fund, Winslow Capital and Wilke Thompson, but that all three firms be subject to close review by the Committee. Due to the significant organizational changes at IAI, the SBI's relationship with the firm should be reassessed by the Committee in six months. The review should focus on the stability and effectiveness of the newly formed investment team as well as performance relative to the new benchmark for the Regional Fund discipline. The Committee believes that the performance concerns about Winslow Capital and Wilke/Thompson may be clarified with some additional time. As a result, these firms should be reviewed by the Committee within twelve months." Ms. Growe seconded the motion. The motion passed.

International Manager Committee Report
Ms. Yeomans referred members to Tab F of the meeting materials and stated that the currency overlay program had detracted from the segment's performance this quarter, but had continued to add value since its inception. She noted that the currency overlay program is currently in the process of being reviewed by the IAC.

Ms. Yeomans stated that the Committee is recommending that Scudder Stevens & Clark be placed on probation due to the firm being sold to Zurich Group, a Swiss-based insurance and financial services firm. She noted that the firm's investment process is expected to remain intact. In response to questions from Mr. Carlson, Ms. Yeomans stated that weak performance in Japan and other Asian markets could have a currency impact the SBI's portfolios. Mr. Bicker noted that, overall, the SBI's managers had underweighted Japan for quite some time. He reminded members that the SBI had recently invested in emerging markets as a way of exploring attractive investment opportunities in such areas as South America and Eastern Europe.

In response to a question from Mr. Carlson, Mr. Bicker stated that by putting a firm on probation, it sends a clear message to the firm that the SBI is monitoring them very closely. Ms. Growe added that placing a firm on probation is part of a routine policy in accordance with guidelines established in the SBI's Manager Continuation Policy. Mr. Carlson commented that he believes the use of the term "probation" is too harsh. In response to questions from Mr. McGrath, Mr. Bicker stated that Scudder is expected to take over leadership of the Scudder Kemper investment organization and that the equity areas will remain essentially unchanged. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "In accordance with the qualitative guidelines in the SBI's Manager Continuation Policy, the Committee recommends that Scudder Stevens & Clark be placed on probation due to organizational changes." Ms. Growe seconded the motion. The motion passed.

Alternative Investment Committee
Ms. Yeomans referred members to Tab G of the meeting materials and noted that during the quarter, Zell/Merrill Lynch had combined four of its real estate funds into a single company as a real estate investment trust (REIT) that is now publicly traded. She added that this action gives the SBI some additional liquidity in the real estate area.

Ms. Yeomans reported that the Committee is recommending an investment for the Post Fund with an existing real estate manager, Westmark Realty, in Westmark Commercial Mortgage Fund IV. She noted that the fund will focus on assembling a diverse portfolio of high quality real estate mortgages. Mr. Bicker added that this will be the SBI's third investment with the manager. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the

SBI's legal counsel, to negotiate and execute a commitment of up to $30 million or 20%, whichever is less, in Westmark Commercial Mortgage Fund IV. 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 Westmark Realty upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Westmark Realty or reduction or termination of the commitment." Ms. Growe seconded the motion. The motion passed.

The meeting adjourned at 9:15 a.m.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, December 2, 1997
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

	TAB
1. Approval of Minutes of September 2, 1997	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (July 1, 1997 - September 30, 1997)	**A**
B. Portfolio Statistics (September 30, 1997)	**B**
C. Administrative Report	**C**
1. Reports on budget and travel	
2. Post retirement benefit increase for FY97	
3. Results of FY97 audit	
4. Legislation for 1998 Session	
5. Update on litigation	
6. Update on tobacco information	
7. Tentative meeting dates for calendar 1998	
8. Board appointment to vacancy on the IAC	
3. Report from the Deferred Compensation Review Committee (P. Sausen)	**D**
4. Reports from the Investment Advisory Council	
A. Asset Allocation Committee (J. Yeomans)	**E**
B. Domestic Manager Committee (J. Bohan)	**F**
1. Review of manager performance	
2. Review of candidates for the Bond Manager Monitoring Program	
3. Recommendation concerning an active bond manager (Voyageur)	
4. Review of two active stock managers (American Express, Independence)	
5. Updated resolution concerning repurchase agreements	
6. Recommendations concerning securities lending in State Cash Accounts	
C. International Manager Committee (J. Mares)	**G**
1. Review manager performance	
2. Recommendation concerning an active manager (Montgomery)	
3. Review of currency overlay program.	
4. Recommendation concerning the contract with currency overlay manager (Record Treasury)	
D. Alternative Investment Committee (K. Gudorf)	**H**
1. Review of current strategy	
2. Approval of commitments to follow-on investments for the Basic Retirement Funds (Summit, OFS, Colony)	

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Minutes
Investment Advisory Council
September 2, 1997

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Roger Durbahn; Ken Gudorf; Jay Kiedrowski; Han Chin Liu; Judy Mares; Malcolm McDonald; Bob McFarlin; Gary Norstrem; Mary Vanek and Jan Yeomans.
MEMBERS ABSENT:	Doug Gorence, Daralyn Peifer and Wayne Simoneau.
SBI STAFF:	Howard Bicker; Beth Lehman; Jim Heidelberg; Sheila Berube; Lois Buermann; Debbie Griebenow; Kristine Hanson; Mike Menssen; Mark Regal; Karen Vnuk; Carol Nelson and Charlene Olson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Peter Sausen; Elaine Voss; Lloyd Belford, Irene Evanson, Bob Heimerl, Susan Mills, Ed Stuart, REAM; Dave Kenney, State Auditor's Office; Shane Allers, Diane Doluge, Local 284; and Carl Simmons.

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 June 30, 1997 (Combined Funds 11.7% vs. Inflation 3.5%), exceeded the median fund (37th percentile) and outperformed their composite index (Combined Funds 14.2% vs. Composite 13.9%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 14.4% vs. Composite 14.2%) over the last five years and reported that the Post Fund had outperformed its composite index for the 4 year period since July 1, 1993 (Post fund 13.8% vs. Composite 13.4%).

Mr. Bicker reported that the Basic Funds' assets increased 10.5% for the quarter ending June 30, 1997 due to positive investment returns. He said that the asset mix is essentially on target and that the Fund had matched their composite index for the quarter (Basics and Composite 11.4%) and outperformed it for the year (Basics 21.8% vs. Composite 20.8%).

Mr. Bicker reported that the Post Fund's assets increased 12.3% for the quarter ending June 30, 1997 due to positive investment returns. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 11.6% vs. Composite 11.4%) and for the year (Post 20.9% vs. Composite 19.3%).

Mr. Bicker reported that the domestic stock manager group underperformed for the quarter (Domestic Stocks 16.8% vs. Wilshire 5000 16.9%) but had outperformed for the year (Domestic Stocks 29.7% vs. Wilshire 5000 29.3%). He said that the international stock manager group underperformed for the quarter (International Stocks 12.1% vs. Int'l Composite 12.5%) but had outperformed for the year (International Stocks 18.2% vs. Int'l. Composite 13.2%). He added that the bond segment outperformed for the quarter (Bonds 3.9% vs. Lehman Aggregate 3.7%) and year (Bonds 9.3% vs. Lehman Aggregate 8.2%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite for the quarter (ARP 7.0% vs. Composite 5.7%) and for the year (ARP 14.8% vs. Composite 12.8%). He concluded his report with the comment that as of June 30, 1997 the SBI was responsible for over $37 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the 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. Ms. Eller explained that the SBI is still designated lead plaintiff in the class action suit against the company but that the judge had decided that lead plaintiff counsel should be determined through a bidding process rather than utilizing the outside counsel selected by the Attorney General. She stated that this decision would be appealed since one of the issues in securities class action litigation is control of counsel fees.

Mr. Bicker referred members to the meeting materials for an update on tobacco information. He said the data was included for the Board's information.

Mr. Bicker stated that staff is recommending that the Board authorize the formation of a Review Committee to issue RFP's for master custodial and accounting services. Mr. Kiedrowski would not be involved in the review process since his employer could be a respondent to the RFP.

Deferred Compensation Review Committee Report
Mr. Sausen referred members to Tab D of the meeting materials for updated information on the 403(b) study mandated by the Legislature and the semi-annual review of product providers for the deferred compensation plans.

Mr. Sausen reported that the Committee is recommending approval of a proposal from Great-West to provide 100% portability of variable options in the 457 Plan. He stated that the Committee is also recommending that the search for investment providers for the 457 Plan be conducted through an RFP process. Mr. Bicker stated that staff continues to spend substantial amounts of time and resources to 457 related activity. He reminded members that significant improvements to the plan were achieved when the service provider contracts were renegotiated approximately three years ago. He said that the

100% portability proposal from Great-West is also a significant improvement to the plan for participants. He stated that three different types of contracts would be bid when the current contracts expire in June 1999: one for investment products, one for record keeping and one for service providers. He added that MSRS would handle the contracts for the record keeping and service providers while the SBI would be responsible for the contracts for investment products.

In response to an observation made by Mr. Bohan, Mr. Bicker said that additional efforts will be put forth in this RFP process to increase flexibility for participants and lower costs. He noted that recently passed legislation allowing MSRS and the SBI to go directly to mutual funds, banks and insurance companies which should significantly reduce costs, along with savings realized by utilizing a centralized record keeping system. Mr. Bergstrom commented on the complexity of the current record keeping and enrollment process in the 457 plan.

Ms. Yeomans stated that the order of the agenda would be modified to accommodate a request from Ms. Voss to be present for the Domestic Manager Committee Report. She asked Ms. Mares to present the International Manager Committee Report.

International Manager Committee Report

Ms. Mares referred members to Tab F of the meeting materials and briefly reviewed the managers' performance and noted that the currency overlay program had detracted from value for the quarter but had still added value over the last year. She stated that the Committee is in the process of reviewing the currency overlay program and that they had endorsed a "Statement of Existing Philosophy on Currency Management" which reaffirmed the decision to use a systematic currency overlay approach for the assets in the EAFE index fund. She said that the Committee is not dissatisfied with the current overlay manager, Record Treasury Management, but that the Committee is considering a number of alternatives, including obtaining information from other structured currency managers regarding their approach during various market cycles.

Ms. Mares reported that the Committee is recommending that Scudder Stevens & Clark be placed on probation due to a change in ownership and in portfolio management. Mr. McDonald moved approval of the Committees' recommendation, as stated in the Committee Report. Mr. Durbahn seconded the motion. The motion passed.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab G of the meeting materials and reported that during the quarter, Zell/Merrill Lynch had combined their four funds into a single company as a Real Estate Investment Trust (REIT) that went public in July 1997. He noted that the price had increased significantly since the initial public offering. He added that the new REIT gives the real estate segment some additional liquidity and that the Committee is pleased with the success of the Zell organization. In response to a question from Ms. Mares, Mr. Bicker stated that Zell is considering doing a secondary offering for some of the existing investors and if so, that staff would consider locking in some profits at that point in time.

Mr. Gudorf stated that the Committee is recommending an investment for the Post Retirement Fund with an existing real estate manager, in Westmark Commercial Mortgage Fund IV. Mr. Norstrem moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Domestic Manager Committee Report
Mr. Bohan referred members to Tab E of the meeting materials and briefly summarized the performance of the stock and bond managers.

Mr. Bohan reported that during the quarter, the Committee had reinterviewed three of the domestic equity managers: Investment Advisers Inc.(IAI), Wilke/Thompson and Winslow Capital. He stated that the concerns regarding IAI are staff turnover, a poor benchmark and poor performance. He said that the firm now has a more appropriate benchmark and that the Committee is recommending that the firm be reassessed by the Committee in six months. He noted that the Committee was not unanimous in that recommendation and that some members suggested that IAI should be terminated now. Mr. Bohan stated that the Committee is satisfied with Winslow's investment process and philosophy and believes that their under performance is due to recent market conditions. He said that staff and the Committee expect Wilke/Thompson's performance to be volatile and that they still have confidence in the firm's ability to add value over the long term. He added that the Committee is recommending that Winslow and Wilke/Thompson be reviewed again by the Committee within twelve months. Mr. Durbahn moved approval of the Committee's recommendation regarding the three firms, as stated in the Committee Report. Mr. McDonald seconded the motion. In response to a question from Mr. Kiedrowski, Mr. Bohan confirmed that the managers' benchmarks are customized to reflect each manager's particular style of management and that staff and the Committee are satisfied with the benchmarks for Wilke/Thompson and Winslow. In response to a question from Ms. Mares, Mr. Bicker stated that Wilke had two quarters of significant underperformance with the last year and confirmed that the underperformance does not appear to be due to any organizational issue such as staff turnover. In response to a comment from Mr. Kiedrowski, Mr. Bicker stated that staff is continuing to closely monitor GeoCapital's performance. He added that GeoCapitals performance has been affected by the Mercury Finance situation. The motion passed.

The meeting adjourned at 2:40 P.M.

Respectfully submitted,

Howard J Bicker

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 9/30/97

COMBINED FUNDS: $32.1 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.	**12.1%** (1)	8.7 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.	**15.2%** (1)	0.5 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.	**33rd** percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $16.9 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.	**15.5%**	0.3 percentage point above target

POST RETIREMENT FUND: $15.2 Billion	Result	Compared to Objective
Exceed Composite Index 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.	**14.6%** (3)	0.6 percentage point above target (3)

(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.

(3) Since asset allocation transition to 50% domestic stocks was completed, 7/1/93, annualized.

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1996

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$17.9 billion	$8.8 billion	$26.7 billion
2. Accrued Liabilities	12.9	8.8	21.7
Asset Measures			
3. Current and Future Actuarial Value	$18.4 billion	$8.8 billion	$27.2 billion
4. Current Actuarial Value	10.5	8.8	19.3
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	103%	100%	102%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	81%	100%	89%*

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

The funding ratio required by **Governmental Standard Accounting Board Statement No. 5** compares Cost Value of assets to the Current Benefit Obligation. This calculation provides funded ratios of **92%** for the Basics, **100%** for the Post and **95%** for the Total, respectively.

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, 5.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY

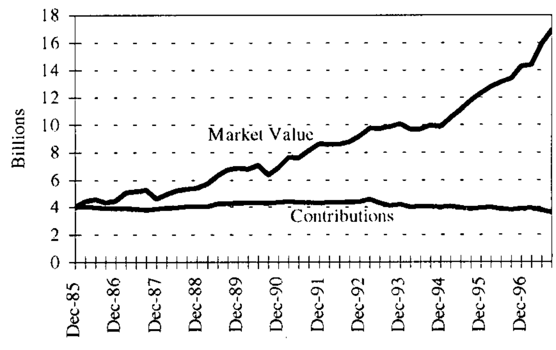
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 6.3% during the third quarter of 1997. Positive investment returns accounted for the rise.

Asset Growth During Third Quarter 1997 (Millions)

Beginning Value	$ 15,914
Net Contributions	-177
Investment Return	1,180
Ending Value	$ 16,916

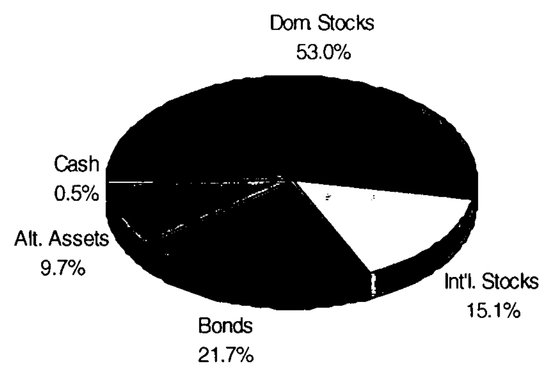


Asset Mix

During the quarter, the allocation to domestic stocks moved up reflecting strong performance within the domestic equity markets.

	Policy Targets	Actual Mix 9/30/97	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	53.0%	$8,962
Int'l. Stocks	**15.0**	15.1	2,556
Bonds	**24.0**	21.7	3,670
Alternative Assets*	**15.0**	9.7	1,639
Unallocated Cash	**1.0**	0.5	90
	100.0%	100.0%	$16,916

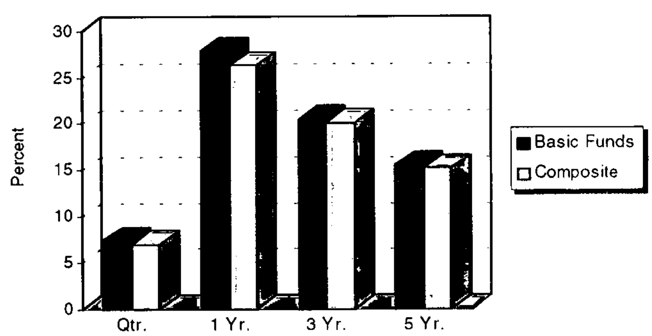
* Any uninvested allocation is held in domestic stocks



Fund Performance (Net of Fees)

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**7.4%**	**27.8%**	**20.5%**	**15.5%**
Composite	6.9	26.3	20.1	15.2



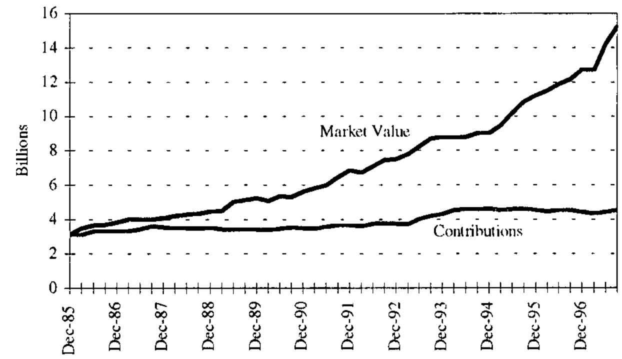
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 7.0% during the third quarter of 1997. Most of the rise was due to positive investment returns.

	Asset Growth During Third Quarter 1997 (Millions)
Beginning Value	$14,230
Net Contributions	84
Investment Return	906
Ending Value	15,220

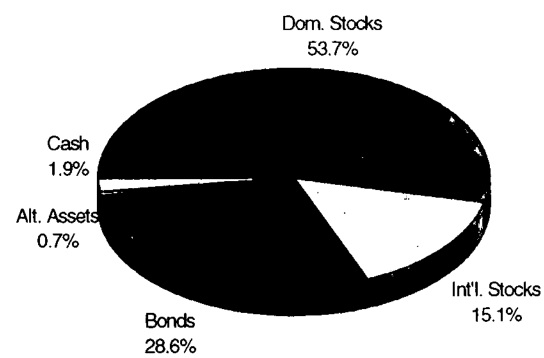


Asset Mix

During the quarter, the allocation to domestic stocks moved up reflecting strong performance within the domestic equity markets.

	Policy Targets	Actual Mix 9/30/97	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	53.7 %	$8,169
Int'l. Stocks	**15.0**	15.1	2,305
Bonds	**27.0**	28.6	4,350
Alternative Assets*	**5.0**	0.7	109
Unallocated Cash	**3.0**	1.9	287
	100.0%	100.0%	$15,220

* Any uninvested allocation is held in bonds

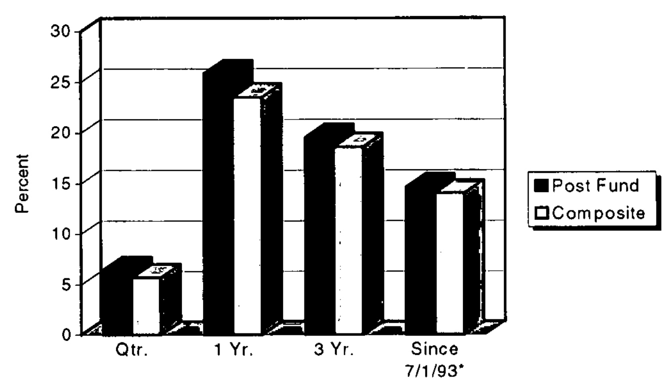


Fund Performance (Net of Fees)

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

	Qtr.	1 Yr.	3 Yr.	Since 7/1/93*
Post	**6.4%**	**25.8%**	**19.5%**	**14.6%**
Composite	5.7	23.5	18.6	14.0

* Date asset allocation transition to 50% domestic common stocks was completed.



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

Domestic Stocks

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	**10.1%**	**38.8%**	**28.1%**	**20.4%**
Wilshire 5000*	9.8	38.0	28.4	20.5

* Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

International Stocks

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

	Qtr.	1 Yr.	3 Yr.	Since 10/1/92*
Int'l. Stocks	**0.1%**	**18.1%**	**11.8%**	**14.2%**
Composite Index*	-1.9	11.5	8.6	12.2

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	**3.7%**	**10.9%**	**10.0%**	**7.6%**
Lehman Agg.*	3.3	9.7	9.5	7.0

* Prior to 7/1/94, the Salomon Broad Investment Grade Bond Index was used.

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
Assigned Risk Plan (Net of Fees)

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.

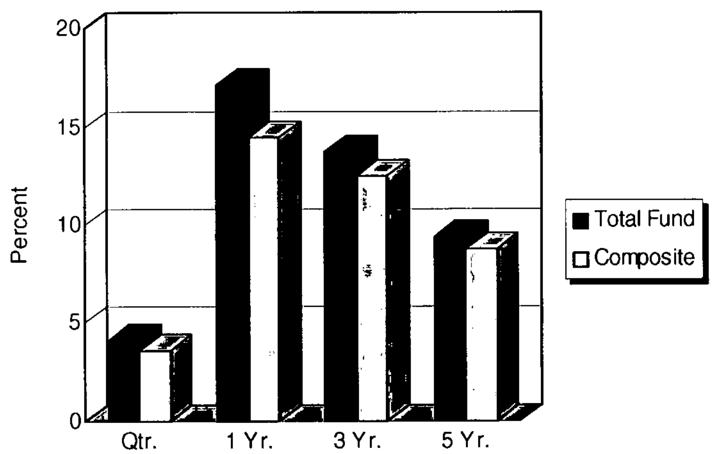
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	9/30/97 Target	9/30/97 Actual
Stocks	20.0%	25.8%
Bonds	80.0	74.2
Total	100.0%	100.0%

Investment Management
The entire portfolio was transferred from the Department of Commerce to the SBI in May 1991. Voyageur Asset Management has managed the bond segment of the Fund since inception. Since January 1995, GE Investment Management has managed the equity segment.

Performance Benchmarks
A custom benchmark has been established for the bond segment which reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. The equity benchmark is the S&P 500 as of July 1, 1994. Prior to that date, the equity segment used a custom benchmark. 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 September 30, 1997 the market value of the Assigned Risk Plan was $605 million.

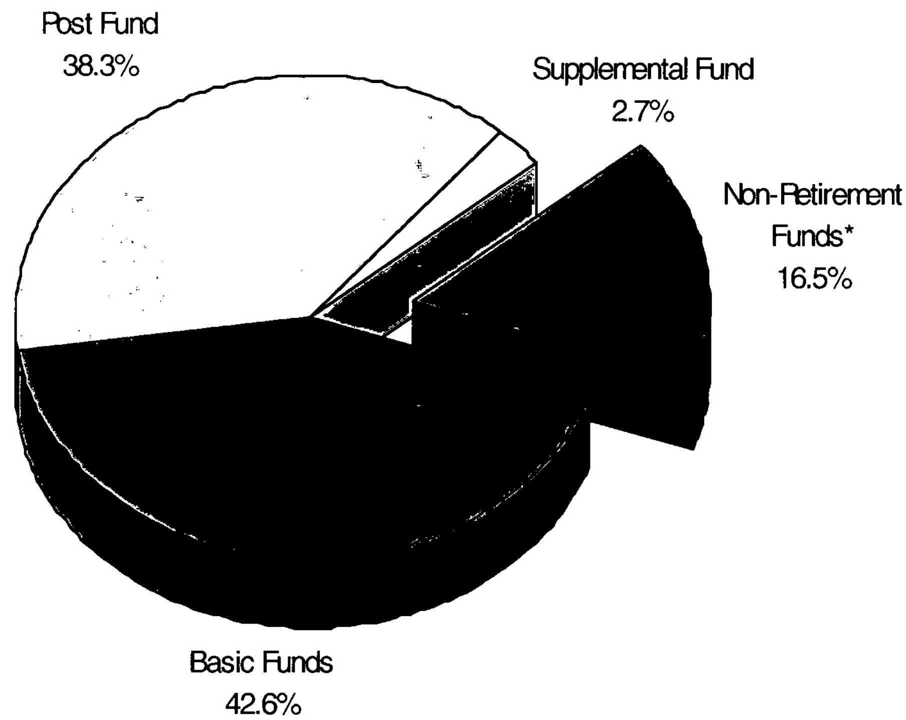


Period Ending 9/30/97

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Fund*	**4.1%**	**17.1%**	**13.7%**	**9.4%**
Composite Index	3.6	14.4	12.5	8.8
Equity Segment*	**8.6**	**42.4**	**29.9**	**18.1**
Benchmark	7.5	40.4	30.0	18.5
Bond Segment*	**2.7**	**8.6**	**8.7**	**6.5**
Benchmark	2.6	8.5	8.4	6.4

*Actual returns are reported net of fees.

EXECUTIVE SUMMARY
Funds Under Management



	9/30/97 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$16.9
Post Retirement Fund	15.2
Supplemental Investment Fund	1.1
Non Retirement Funds*	
Assigned Risk Plan	0.6
Permanent School Fund	0.4
Environmental Trust Fund	0.2
State Cash Accounts	5.3
Total	$39.7

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 1997
(July 1, 1997 - September 30, 1997)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/97				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	9.8%	38.0%	28.5%	20.6%	14.3%
Dow Jones Industrials	4.0	37.7	30.4	22.5	15.3
S&P 500	7.5	40.5	30.0	20.8	14.7
Russell 2000	14.9	33.2	23.0	20.5	12.2
Domestic Fixed Income					
Lehman Aggregate*	3.3	9.7	9.5	6.9	9.5
Lehman Gov't./Corp.	3.5	9.6	9.4	7.0	9.4
90 Day U.S. Treasury Bills	1.3	5.3	5.5	4.6	5.7
International					
EAFE**	-0.7	12.2	8.8	12.3	5.9
Emerging Markets Free***	-9.0	6.6	-2.7	13.4	N/A
Salomon Non U.S. Gov't. Bond	0.2	-0.9	6.7	6.7	9.8
Inflation Measure					
Consumer Price Index****	0.6	2.2	2.6	2.7	3.4

* 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 moved higher during the quarter due to moderate economic growth, low inflation, declining interest rates, and good corporate profits. During the quarter, there was a shift in the market leadership from the large blue chip multinational firms, which have dominated market returns recently, to small-and mid-cap stocks.

The Wilshire 5000 provided a 9.8% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter is shown below:

Large Value	11.5%
Small Value	12.4
Large Growth	7.0
Small Growth	15.4

The Wilshire 5000 increased 38.0% for the year ending September 30, 1997.

DOMESTIC BONDS

The bond market generated positive returns for the quarter. Bond prices increased due to reports of low, stable inflation rates along with moderate economic growth. As a result, the bond market appears to believe that the Federal Reserve will not move to raise short term rates and that long term interest rates may start to decrease.

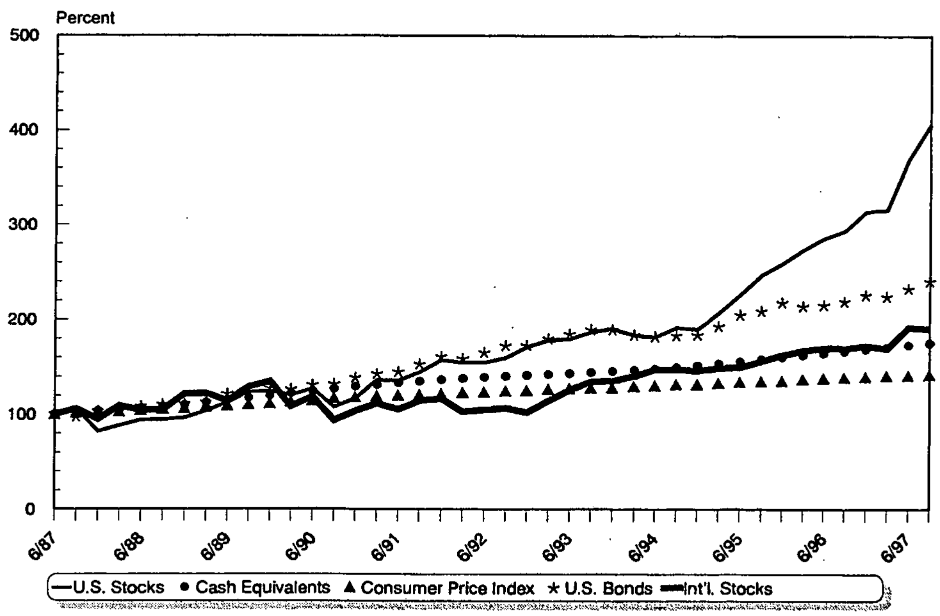
Overall, the Lehman Brothers Aggregate Bond Index increased 3.3% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	3.4%
Corporates	3.9
Mortgages	2.9

The Lehman Aggregate increased 9.7% 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 -0.9% for the quarter. As shown below, performance varied widely among the major markets:

Japan	-12.8%
United Kingdom	11.9
Germany	6.5
France	4.0

The EAFE-Free index increased by 12.0% during the latest year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 20 markets located in Europe, Australia and the Far East (EAFE), adjusted for free-float. The major markets listed above comprise about 70% 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 -9.0% for the quarter. The performance of the five largest stock markets in the index is shown below:

Brazil	-3.4%
Mexico	21.9
South Africa	-5.1
Taiwan	-8.3
Malaysia	-41.6

The Emerging Markets Free index increased by 6.6% 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 60% of the value of the index.

REAL ESTATE

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

PRIVATE EQUITY

Domestic private equity limited partnerships of all kinds raised $33.6 billion in 1996, a 13.2% increase from the $28.4 billion reported for 1995. It was the fifth consecutive annual rise, and the third consecutive annual record. So far, 1997 looks to be another record year. After only 6 months this year, $25.5 billion has been raised for domestic private equity limited partnerships.

RESOURCE FUNDS

During the third quarter of 1997, West Texas Intermediate crude oil averaged $19.80 per barrel compared to an average price of $19.94 per barrel during the second quarter of 1997. Despite the weak oil prices, oil companies are continuing to aggressively drill 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.

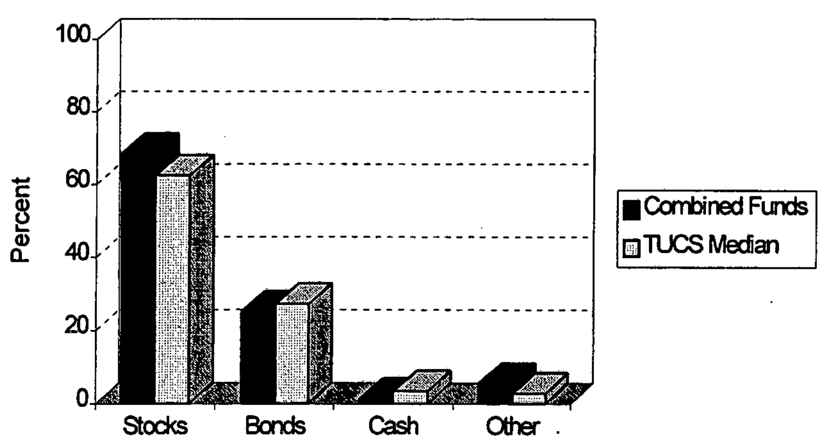
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On September 30, 1997, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$17,132	53.3%
International Stocks	4,861	15.1
Bonds	8,020	25.0
Alternative Assets	1,748	5.4
Unallocated Cash	377	1.2
Total	$32,137	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	**68.4%**	**25.0%**	**1.2%**	**5.4%**
Median Allocation in TUCS**	62.5	27.1	3.4	2.8

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

While the SBI is naturally 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:

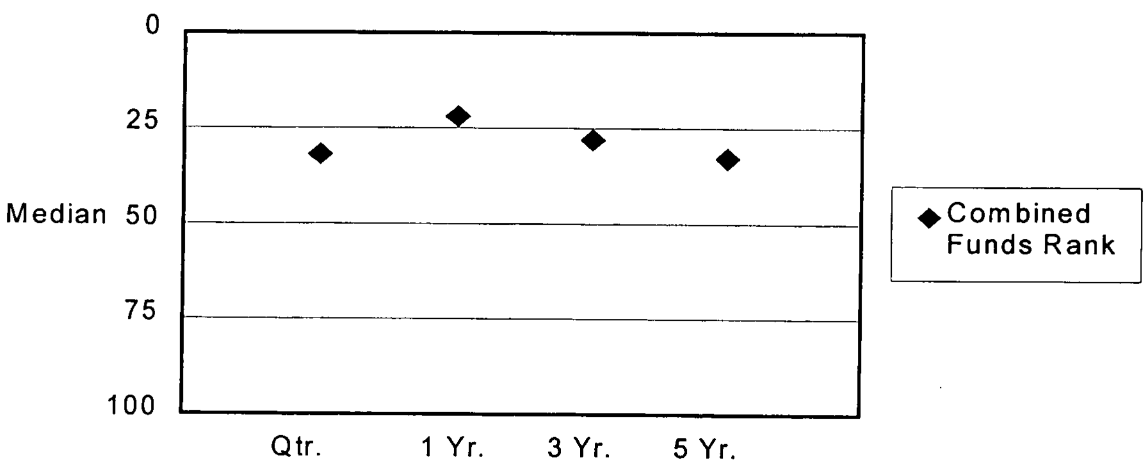
- **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports 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 9/30/97			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	32nd	22nd	28th	33rd

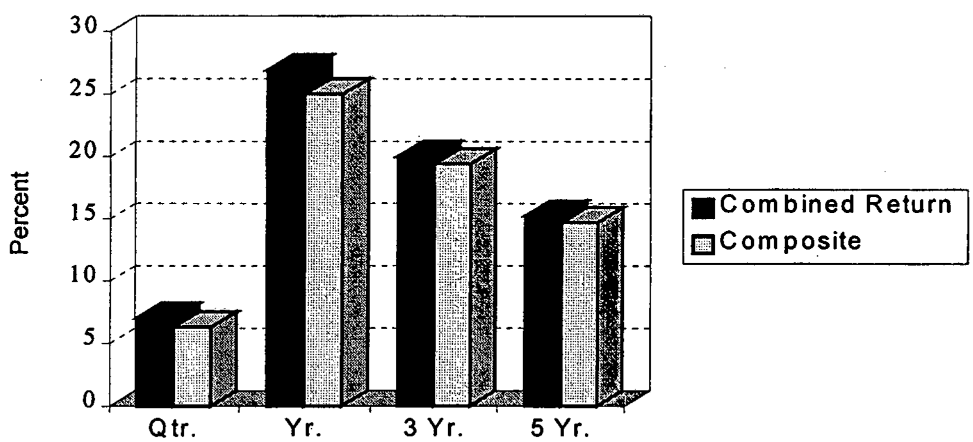
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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 Index Weights 3Q97
Domestic Stocks	Wilshire 5000	50.3%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.5*
Alternative Assets	Wilshire Real Estate	2.0*
	Venture Capital Funds	2.8*
	Resource Funds	0.5*
Unallocated Cash	91 Day T-Bills	1.9
		100.0%

* Alternative asset, bond and domestic equity weights are reset in the composite at the start of each quarter to reflect the amount of unfunded commitments in alternative asset classes.



Period Ending 9/30/97

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	**7.0%**	**26.9%**	**20.0%**	**15.2%**
Composite Index***	6.3	25.0	19.4	14.7

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

***Adjusted to reflect the SBI's restrictions on liquor and tobacco stocks through 3/31/93 and AHP restriction through 10/31/93.

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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 256,000 public employees participate in the Basic Funds.

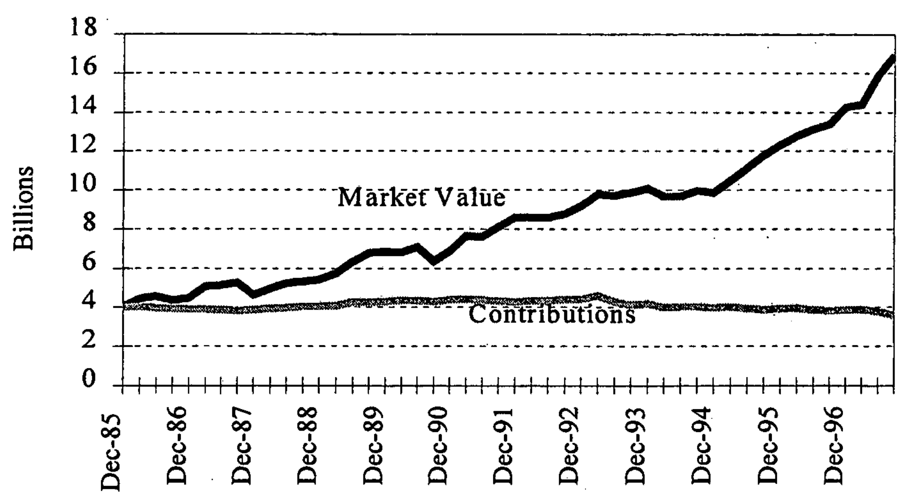
Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Basic 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 6.3% during the third quarter of 1997.

Positive investment returns accounted for the increase during the quarter. Net contributions were negative.



Last Five Years
In Millions

	12/92	12/93	12/94	12/95	12/96	3/97	6/97	Latest Qtr. 9/97
Beginning Value	$8,639	$9,191	$10,086	$9,890	$12,338	$14,275	$14,405	$15,914
Net Contributions	-34	-239	-206	-29	-59	24	-137	-177
Investment Return	586	1,134	-10	2,477	1,996	106	1,646	1,180
Ending Value	$9,191	$10,086	$9,890	$12,338	$14,275	$14,405	$15,914	16,916

BASIC RETIREMENT FUNDS
Asset Mix

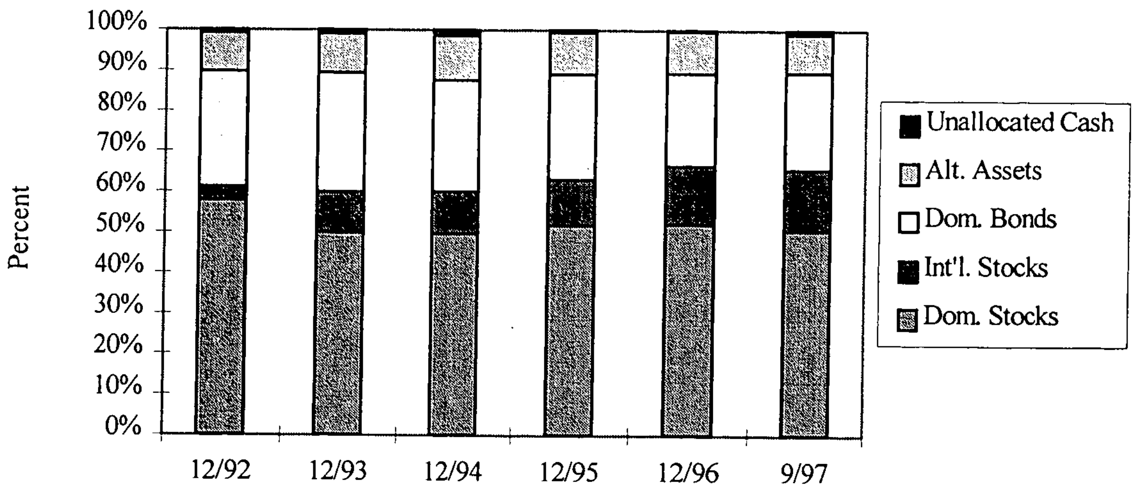
The long-term asset allocation of the Basic Funds is based on the superior performance of common stocks over the history of the capital markets. The asset allocation policy is designed to add value to the Basic Funds over their long-term investment time horizon.

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, assets have moved from domestic stocks and bonds to international stocks to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing.

During the last quarter, the allocation to domestic stocks moved up reflecting strong performance in the US equity market.



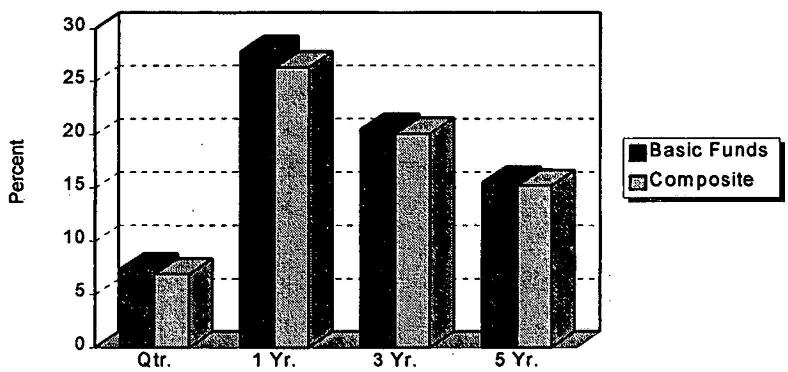
	Last Five Years							Latest Qtr.
	12/92	**12/93**	**12/94**	**12/95**	**12/96**	**3/97**	**6/97**	**9/97**
Domestic Stocks	49.9%	49.7%	51.7%	52.0%	52.0%	50.4%	51.7%	53.0%
Int'l. Stocks	10.0	10.3	11.3	14.5	14.5	14.7	16.2	15.1
Bonds	29.4	27.5	26.1	22.8	22.8	24.0	22.3	21.7
Real Estate	4.1	4.6	4.1	3.4	3.9	3.8	3.4	3.5
Private Equity	4.6	5.6	5.4	4.9	5.5	5.5	4.9	5.0
Resource Funds	1.1	0.9	0.7	1.0	1.0	1.0	1.0	1.2
Unallocated Cash	0.9	1.4	0.7	0.3	0.3	0.6	0.5	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite 3Q97
Domestic Stocks	45.0%	Wilshire 5000	50.5%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Wilshire Real Estate	3.5*
		Private Equity Funds	5.0*
		Resource Funds	1.0*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

* Alternative asset and domestic stock weights are reset in the composite each quarter to reflect the uninvested portion of the allocation to alternative assets.



Period Ending 9/30/97

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Basic Funds**	**7.4%**	**27.8%**	**20.5%**	**15.5%**
Composite Index***	6.9	26.3	20.1	15.2

**Returns are reported net of fees.

***Adjusted to reflect the SBI's restrictions on liquor and tobacco stocks through 3/31/93 and AHP restriction through 10/31/93.

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 15.

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 82,000 retirees receive monthly annuities from the assets of the Fund.

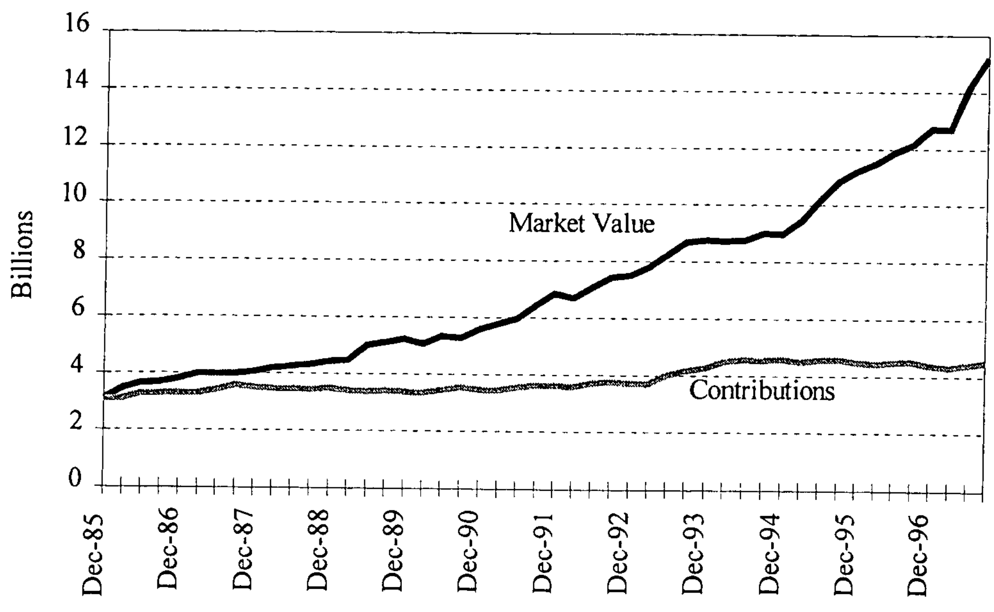
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

Through fiscal year 1992, unrealized capital gains (or losses) were excluded from the statutory definition of earnings. For this reason the Post Fund previously was not designed to maximize long-term total rates of return. Rather, the SBI attempted to generate a high, consistent stream of realized earnings for the Post Fund that maintained current benefits, as well as produced benefit increases over time.

Since fiscal year 1993, the post retirement benefit increase formula has been based on total return rather than realized earnings. As a result, the Board has adopted a long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks. The transition to a 50% allocation to domestic stocks was completed by the end of fiscal year 1993.

Asset Growth

The market value of the Post Retirement Fund increased by 7.0% during the third quarter of 1997. The increase resulted from positive investment returns.



	In Millions							Latest Qtr.
	12/92	12/93	12/94	12/95	12/96	3/97	6/97	9/97
Beginning Value	$6,855	$7,500	$8,766	$9,001	$11,216	$12,705	$12,677	$14,230
Net Contributions	95	386	314	-102	-94	-88	98	84
Investment Return	550	880	-79	2,317	1,583	60	1,455	906
Ending Value	$7,500	$8,766	$9,001	$11,216	$12,705	$12,677	$14,230	15,220

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.

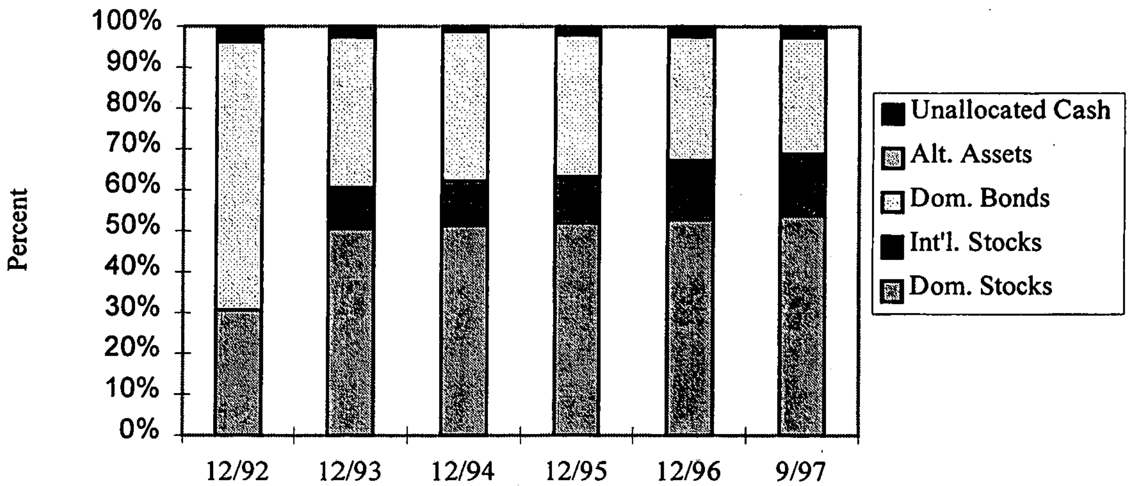
Domestic Stocks	50.0%
Int'l. Stocks	15.0
Bonds	27.0
Alternative Assets*	5.0
Unallocated Cash	3.0
Total	100.0%

* 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, assets have moved from bonds and domestic stocks to international stocks to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing. During the last quarter, the allocation to domestic stocks moved up reflecting strong performance in the US equity market.



	Last Five years							Latest Qtr.
	12/92	12/93	12/94	12/95	12/96	3/97	6/97	9/97
Dom. Stocks	30.6%	50.5%	51.2%	51.9%	52.7%	51.0%	51.6%	53.7%
Int'l. Stocks	0.0	10.0	11.0	11.4	14.6	14.8	16.2	15.1
Bonds	65.6	36.9	36.5	34.7	30.2	31.5	29.4	28.6
Alt. Assets	0.0	0.0	0.1	0.2	0.6	0.7	0.7	0.7
Unallocated Cash	3.8	2.6	1.2	1.8	1.9	2.0	2.1	1.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND

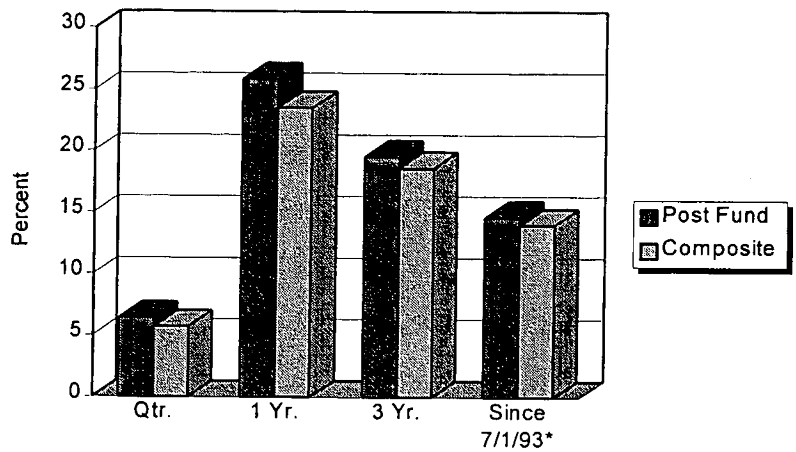
Total Fund Performance (Net of Fees)

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

Asset Class	Post Target	Market Index	Post Composite 3Q97*
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	31.5*
Alternative Assets	5.0	Wilshire Real Estate	0.2*
Unallocated Cash	3.0	Private Equity Funds	0.3*
		91 Day T-Bills	3.0
	100%		100.0%

*Alternative assets and bonds are reset in the composite each quarter to reflect the uninvested portion of the allocation to alternative assets.

The asset mix of the Post Fund moved to a 50% stock allocation during fiscal year 1993. The performance of the fund since 7/1/93 is shown below.



	Qtr.	1 Yr.	Annualized 3 Yr.	Since 7/1/93
Post Fund**	**6.4%**	**25.8%**	**19.5%**	**14.6%**
Composite Index	5.7	23.5	18.6	14.0

** Returns are reported net of fees.

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

STOCK AND BOND MANAGERS

Performance of Asset Pools (Net of Fees)

Domestic Stock Pool

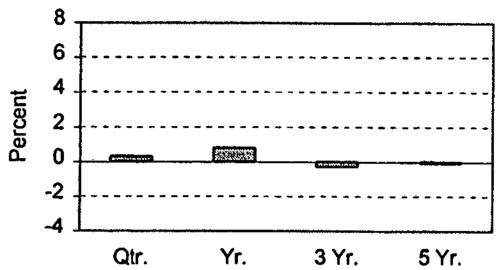
Target: Wilshire 5000 Adjusted*

Expectation: If half of the pool is actively managed and half is passively and semi-passively managed, the entire pool is expected to exceed the target by +.25-.55% annualized, over time.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Stock Pool	**10.1%**	**38.8%**	**28.1%**	**20.4%**
Wilshire 5000*	9.8	38.0	28.4	20.5

*Adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

Value Added to Wilshire 5000 Adjusted*



Bond Pool

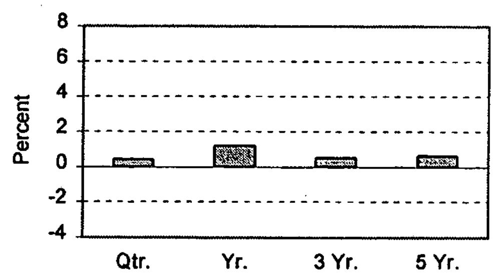
Target: Lehman Brothers Aggregate Bond Index

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.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Bond Pool	**3.7%**	**10.9%**	**10.0%**	**7.6%**
Lehman Agg.*	3.3	9.7	9.5	7.0

* Prior to July 1, 1994, the Salomon Broad Investment Grade Bond Index was used.

Value Added to Lehman Aggregate*



International Stock Pool

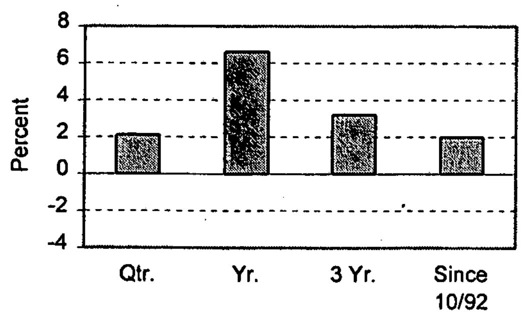
Target: Composite of EAFE-Free and Emerging Markets Free*

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.

			Annualized	
	Qtr.	Yr.	3 Yr.	Since 10/1/92
Int'l. Pool	**0.1%**	**18.1%**	**11.8%**	**14.2%**
Composite Index*	-1.9	11.5	8.6	12.2

*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.

Value Added to International Composite*



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 Wilshire Real Estate Index contains returns of 30 commingled funds. The index does not include returns from funds that are less than 3 years old or are not fully invested. A return for the current quarter is not available at this time. The return for the one, three and five year periods are computed using the SBI's actual return for the latest quarter.

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Real Estate	**11.9%**	**18.6%**	**9.5%**	**4.7%**
Real Estate Index		20.6	9.4	4.5
Inflation	0.6	2.2	2.6	2.7

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.

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Private Equity	**12.0%**	**35.4%**	**29.2%**	**20.6%**

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.

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Resource Funds	**43.7%**	**80.1%**	**35.2%**	**21.9%**

Yield Oriented Pool (Post Fund only)

Expectation: Yield oriented investments are expected to provide annualized returns at least 2% greater than historical public debt returns over the life of the investment. This equates to an absolute return of 10-11% annualized. The SBI 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.

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**Since 3/1/94**
Yield Oriented	**4.3%**	**8.9%**	**10.6%**	**9.2%**

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.

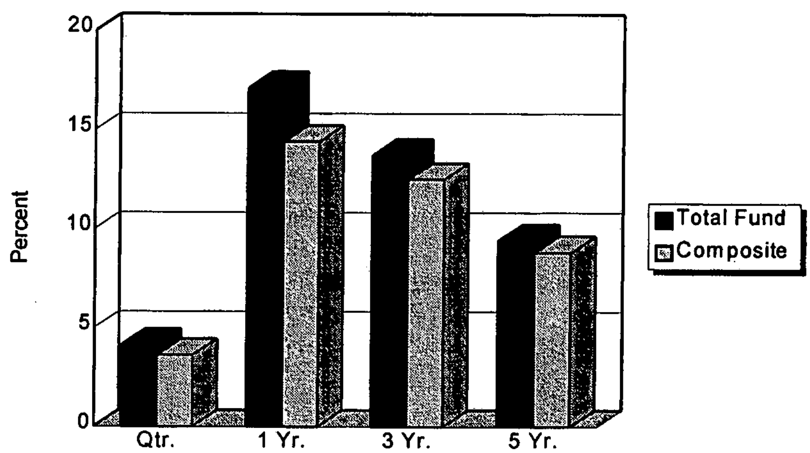
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	9/30/97 Target	9/30/97 Actual
Stocks	20.0%	25.8%
Bonds	80.0	74.2
Unallocated Cash	100.0%	100.0%

Investment Management
The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991. Voyageur Asset Management has managed the bond segment of the Fund since inception. Since January 1995, GE Investment Management has managed 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. The equity benchmark is the S&P 500 as of July 1, 1994. Prior to that date, the segment used a custom benchmark. 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 September 30, 1997 the market value of the Assigned Risk Plan was $605 million.



Period Ending 9/30/97

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Fund*	**4.1%**	**17.1%**	**13.7%**	**9.4%**
Composite	3.6	14.4	12.5	8.8
Equity Segment*	**8.6**	**42.4**	**29.9**	**18.1**
Benchmark	7.5	40.4	30.0	18.5
Bond Segment*	**2.7**	**8.6**	**8.7**	**6.5**
Benchmark	2.6	8.5	8.4	6.4

* Actual returns are calculated net of fees.

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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** but they do ***not*** include a deduction for asset based charges used to defray costs of the administering retirement organizations.

On September 30, 1997 the market value of the entire fund was $1,069 million.

Investment Options

Income Share Account - a balanced portfolio utilizing both common stocks and bonds.

Growth Share Account - an actively managed, all common stock portfolio.

Common Stock Index Account - a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.

International Share Account - a portfolio of non U.S. stocks that incorporates both active and passive management.

Bond Market Account - an actively managed, all bond portfolio.

Money Market Account - a portfolio utilizing short-term, liquid debt securities.

Fixed Interest Account - an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.

SUPPLEMENTAL INVESTMENT FUND
Income Share Account

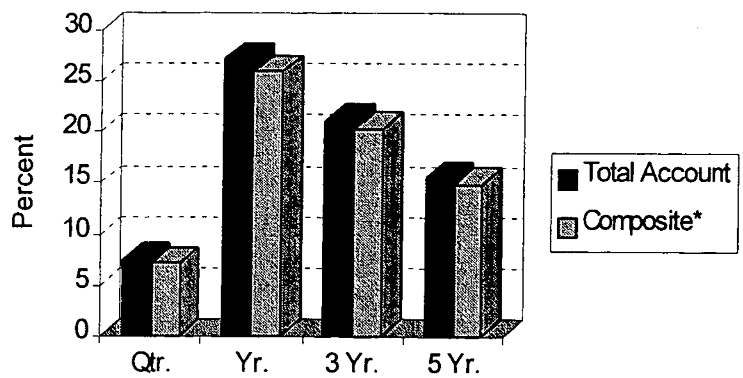
Investment Objective
The primary investment objective of the Income Share Account is similar to that of the Combined Funds. The Account seeks to maximize long-term real rates of return, while limiting short-run portfolio return volatility.

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%	65.5%
Bonds	35.0	30.5
Unallocated Cash	5.0	4.1
	100.0%	100.0%

Investment Management
The Account combines internal and external management. SBI staff manage the entire fixed income segment. Throughout the period shown below, the entire stock segment has been managed as part of a passively managed index fund designed to track the Wilshire 5000. The current manager for these assets is Barclays Global Investors.

Market Value
On September 30, 1997 the market value of the Income Share Account was $505 million.



Period Ending 9/30/97

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Total Account	**7.4%**	**27.1%**	**21.0%**	**15.5%**
Composite*	7.1	25.9	20.4	14.9
Equity Segment	**9.7**	**38.4**	**28.3**	**20.8**
Wilshire 5000**	9.8	38.0	28.4	20.5
Bond Segment	**3.5**	**10.5**	**10.2**	**7.5**
Lehman Agg.***	3.3	9.7	9.5	7.0

* 60% Wilshire 5000/35% Lehman Aggregate Bond Index/5% T-Bills Composite. Wilshire 5000 is adjusted as noted below.

** Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

*** Prior to 7/1/94 the Salomon BIG was the benchmark and a component of the Composite.

SUPPLEMENTAL INVESTMENT FUND

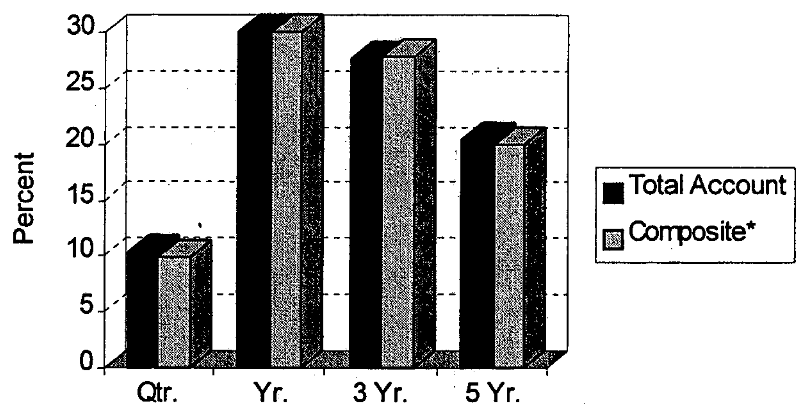
Growth Share Account

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.

Investment Management
Throughout the period shown below, the entire Account has been managed by the same external domestic stock managers utilized by the Basic and Post Retirement Funds. Through June 1996, the Account was actively managed. Since July 1996, the Account has utilized both active and semi-passive managers.

Market Value
On September 30, 1997 the market value of the Growth Share Account was $227 million.



Period Ending 9/30/97

		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**10.2%**	**38.8%**	**27.7%**	**20.3%**
Composite*	9.8	38.0	27.8	20.0

* 95% Wilshire 5000/5% T-Bills Composite through October 1996. 100% Wilshire 5000 since November 1996. Wilshire 5000 buy/hold index is adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

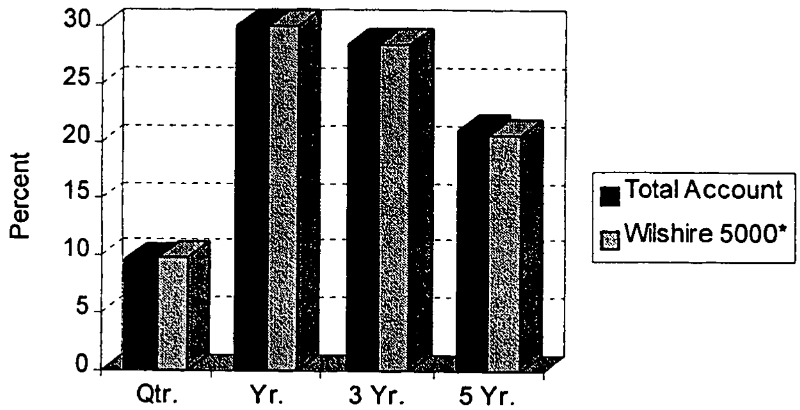
SUPPLEMENTAL INVESTMENT FUND
Common Stock Index Account

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.

Investment Management
Until July 1995, the entire Account was managed by Wilshire Associates as part of a passively managed index fund. Since July 1995, the Account has been managed by Barclays Global Investors.

Market Value
On September 30, 1997 the market value of the Common Stock Index Account was $162 million.



	Period Ending 9/30/97		Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	9.7%	38.4%	28.3%	20.9%
Wilshire 5000*	9.8	38.0	28.4	20.5

*Buy/hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

SUPPLEMENTAL INVESTMENT FUND

International Share Account

Investment Objective and Asset Mix

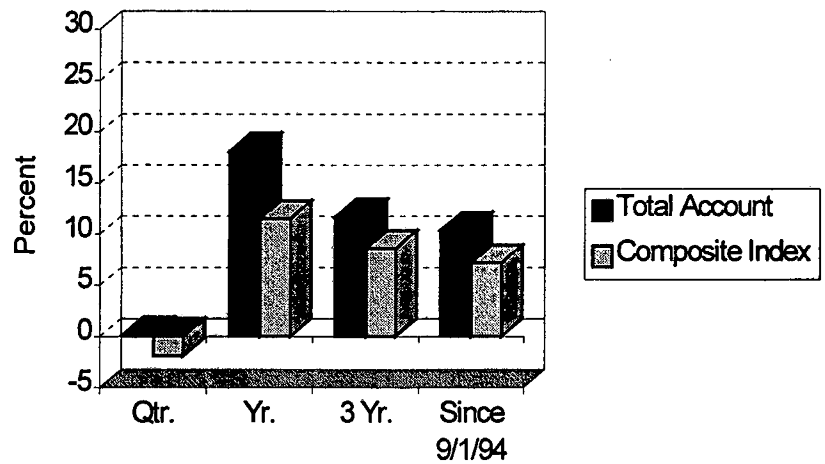
The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International 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.

Investment Management

The Account was opened for contributions in September 1994. Beginning October 1994, the Account uses the same group of international stock and currency overlay managers as the Basic and Post Retirement Funds.

Market Value

On September 30, 1997 the market value of the International Share Account was $23 million.



Period Ending 9/30/97

	Qtr.	Yr.	3 Yr.	Annualized Since 9/1/94
Total Account	**0.1%**	**18.1%**	**11.7%**	**10.4%**
Composite Index*	-1.9	11.5	8.6	7.2

*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

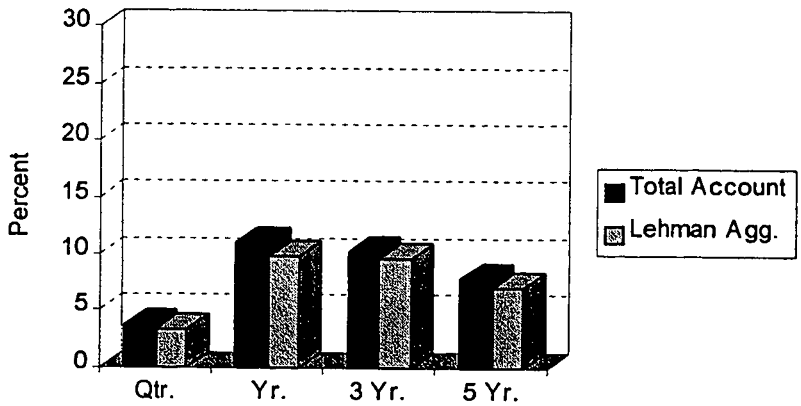
Bond Market Account

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

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.

Investment Management
The entire Account is managed by the same external bond managers utilized by the Basic and Post Retirement Funds. Through June 1996, the Account was actively managed. Since July 1996, the Account has utilized both active and semi-passive managers.

Market Value
On September 30, 1997 the market value of the Bond Market Account was $28 million.



	Period Ending 9/30/97			
			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**3.7%**	**10.9%**	**10.2%**	**7.8%**
Lehman Aggregate*	3.3	9.7	9.5	7.0

* Prior to July 1, 1994, the Salomon Broad Investment Grade Index was used.

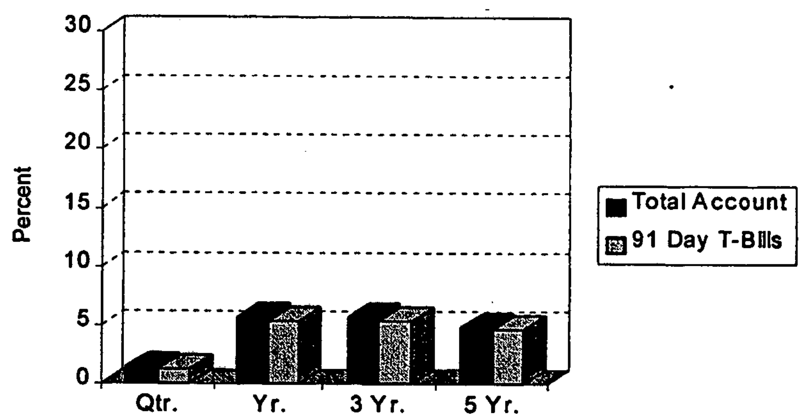
SUPPLEMENTAL INVESTMENT FUND
Money Market Account

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 markets.

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.

Investment Management
The Money Market Account is managed by State Street Bank and Trust Company. State Street manages a major portion of the Board's cash reserves.

Market Value
On September 30, 1997 the market value of the Money Market Account was $51 million.



Period Ending 9/30/97

		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**1.4%**	**5.6%**	**5.7%**	**4.8%**
91 Day T-Bills	1.3	5.3	5.4	4.6

SUPPLEMENTAL INVESTMENT FUND

Fixed Interest Account

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

Asset Mix
The Fixed Interest Account is invested in guaranteed investment contracts (GIC's) offered by major U.S. insurance companies and banks and GIC type investments. Effective November 1, 1994 new contributions into the Account are deposited into a new pool of GIC's and GIC-type investments. The pool has a blend of maturities and a credited interest rate that changes monthly. The remaining GIC from the prior structure will mature in October 1996.

Investment Management
Since November 1, 1994, the new portfolio of GIC's and GIC-type investments has been managed by Galliard Capital Management (formerly Norwest Investment Management).

Market Value
On September 30, 1997 the market value of the Fixed Interest Account was $72 million.

Period Ending 9/30/97

	Qtr.	Yr.	Annualized Since 11/1/94
GIC Pool	1.6%	6.6%	6.7%

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.

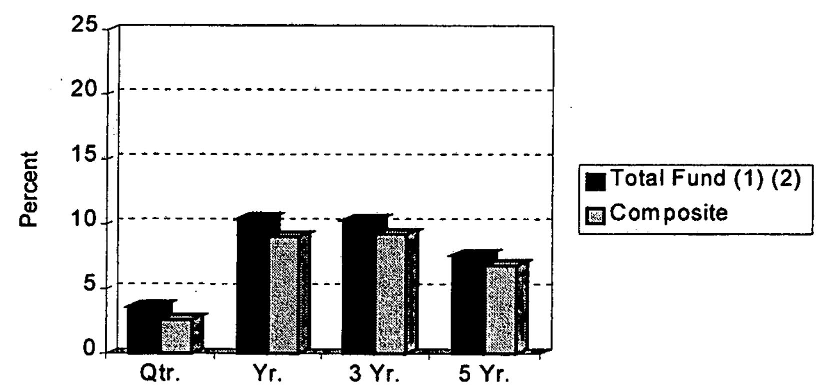
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	Target	Actual
Stocks	50.0%	49.7%
Bond	48.0	48.5
Unallocated Cash	2.0	1.8
	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 September 30, 1997 the market value of the Permanent School Fund was $443 million.



Period Ending 9/30/97*

	Qtr.	1 Yr.	3 Yr.	5 Yr.
			Annualized	
Total Fund (1) (2)	**3.6%**	**10.4%**	**10.3%**	**7.6%**
Composite	2.6	9.0	9.2	6.8
Equity Segment (1) (2)	**1.0**	**N/A**	**N/A**	**N/A**
S&P 500	1.3	N/A	N/A	N/A
Bond Segment (1)	**1.4**	**8.0**	**10.1**	**7.5**
Lehman Aggregate	3.3	9.7	9.5	7.0

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

* **Estimated returns.** Accounting not complete for July-September 1997. Final data will be distributed as soon as it is available.

ENVIRONMENTAL TRUST FUND

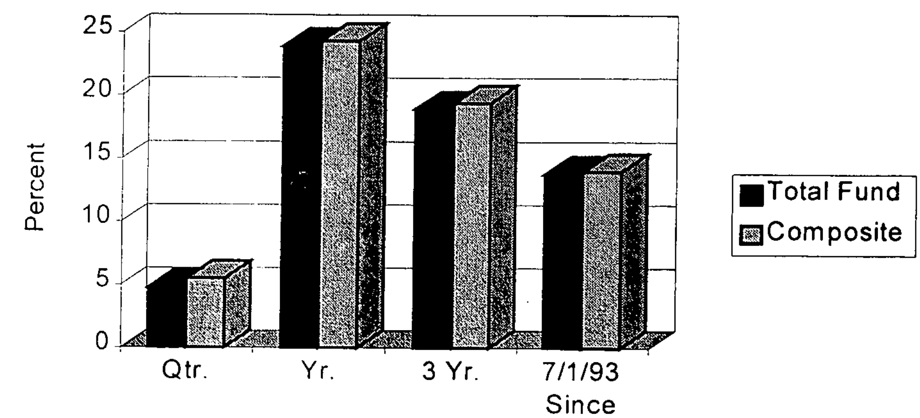
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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.

	Target	Actual
Stocks	50.0%	52.5%
Bonds	48.0	46.5
Unallocated Cash	2.0	1.0
	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 September 30, 1997 the market value of the Environmental Trust Fund was $196 million.



Period Ending 9/30/97**

	Qtr.	1 Yr.	3 Yr. (Annualized)	Since 7/1/93 (Annualized)
Total Fund*	4.8%	23.9%	18.9%	13.8%
Composite	5.5	24.3	19.4	14.0
Equity Segment*	7.3	**40.4**	**30.0**	**22.0**
S&P 500	7.5	40.4	30.0	22.1
Bond Segment*	**1.1**	**7.7**	**8.8**	**6.4**
Lehman Agg.	3.3	9.7	9.5	6.5

* Actual returns are calculated net of fees.

** **Estimated returns**. Accounting not complete forJuly-September 1997. Final data will be distributed as soon as it is available.

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 cash balances of retirement-related accounts managed internally and cash balances in the Permanent School Fund.

2. Treasurer's Cash Pool contains the cash balances of special or dedicated accounts necessary for the operation of certain State agencies and the balance of the Invested Treasurer's Cash.

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 9/30/97

	Market Value (Millions)	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool*	**$4,685**	**1.5%**	**5.4%**	**5.8%**	**5.0%**
Custom Benchmark**		1.4	5.5	5.9	5.2
Trust Fund Cash Pool*	**37**	**1.4**	**5.6**	**5.8**	**5.2**
Custom Benchmark***		1.3	5.3	5.9	NA
91-Day T-Bills		1.3	5.3	5.4	4.6

* 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 $600 million 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.

Tab B

PORTFOLIO STATISTICS

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MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value September 30, 1997 (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	38,691	-0-	1,543,987	-0-	3,772,477	1,076,194	689,239	7,120,588
	0.54%		21.68%		52.98%	15.12%	9.68%	100%
Public Employees Retirement Fund	18,753	-0-	784,040	-0-	1,916,781	546,525	350,803	3,616,902
	0.52%		21.68%		52.99%	15.11%	9.70%	100%
State Employees Retirement Fund	18,062	-0-	758,944	-0-	1,854,982	529,010	339,053	3,500,051
	0.52%		21.68%		53.00%	15.11%	9.69%	100%
Public Employees Police & Fire Fund	8,968	-0-	376,536	-0-	920,219	262,454	168,080	1,736,257
	0.52%		21.69%		53.00%	15.11%	9.68%	100%
Highway Patrol Retirement Fund	1,282	-0-	53,257	-0-	130,334	37,130	24,002	246,005
	0.52%		21.65%		52.98%	15.09%	9.76%	100%
Judges Retirement Fund	106	-0-	4,499	-0-	10,995	3,136	2,007	20,743
	0.51%		21.69%		53.01%	15.12%	9.67%	100%
Public Employees P.F. Consolidated	3,168	3,110	103,752	1,091	254,069	72,338	46,885	484,413
	0.65%	0.64%	21.42%	0.23%	52.45%	14.93%	9.68%	100%
Correctional Employees Retirement	985	-0-	41,485	-0-	101,376	28,916	18,507	191,269
	0.51%		21.69%		53.00%	15.12%	9.68%	100%
POST RETIREMENT FUND	286,529	-0-	4,350,392	-0-	8,169,405	2,304,811	109,309	15,220,446
	1.88%		28.58%		53.68%	15.14%	0.72%	100%
TOTAL BASIC & POST	376,544	3,110	8,016,892	1,091	17,130,638	4,860,514	1,747,885	32,136,674
	1.17%	0.01%	24.95%	0.00%	53.31%	15.12%	5.44%	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	20,504 4.06%	153,886 30.47%	-0-	-0-	330,691 65.47	-0-	-0-	505,081 100%
Growth Share Account	-0-	-0-	-0-	-0-	227,302 100%	-0-	-0-	227,302 100%
Money Market Account	51,106 100%	-0-	-0-	-0-	-0-	-0-	-0-	51,106 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	162,244 100%	-0-	-0-	162,244 100%
Bond Market Account	-0-	-0-	28,437 100%	-0-	-0-	-0-	-0-	28,437 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	23,070 100%	-0-	23,070 100%
Fixed Interest Account	546 0.76%	-0-	70,974 99.24	-0-	-0-	-0-	-0-	71,520 100%
TOTAL SUPPLEMENTAL FUNDS	72,156 6.75%	153,886 14.40%	99,411 9.30	-0-	720,237 67.39%	23,070 2.16%	-0-	1,068,760 100%
TOTAL RETIREMENT FUNDS	448,700 1.35%	156,996 0.47%	8,116,303 24.44%	1,091 0.00%	17,850,875 53.76%	4,883,584 14.71%	1,747,885 5.27%	33,205,434 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	18,355 3.04%	-0-	436,437 72.16%	-0-	149,983 24.80%	-0-	-0-	604,775 100%
ENVIRONMENTAL FUND	1,886 0.98%	91.919 47.66%	-0-	99,042 51.36%	-0-	-0-	-0-	192,847 100%
PERMANENT SCHOOL FUND	7,883 1.77%	213,752 47.94%	-0-	224,251 50.29%	-0-	-0-	-0-	445,886 100%
TREASURERS CASH	4,682,916 100%	-0-	-0-	-0-	-0-	-0-	-0-	4,682,916 100%
HOUSING FINANCE AGENCY	32,662 14.14%	198,403 85.86%	-0-	-0-	-0-	-0-	-0-	231,065 100%
MINNESOTA DEBT SERVICE FUND	32,135 24.07%	101,364 75.93%	-0-	-0-	-0-	-0-	-0-	133,499 100%
MISCELLANEOUS ACCOUNTS	88,018 35.42%	156,989 63.18%	-0-	3,482 1.40%	-0-	-0-	-0-	248,489 100%
GRAND TOTAL	5,312,555 13.37%	919,423 2.31%	8,552,740 21.52%	327,866 0.82%	18,000,858 45.29%	4,883,584 12.29%	1,747,885 4.40%	39,744,911 100%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

Net Cash Flow Available For Investment
July 1, 1997 - September 30, 1997

Teachers Retirement Fund	-78,200,000.00
Public Employees Retirement Fund	-54,000,000.00
State Employees Retirement Fund	-16,000,000.00
Public Employees Police & Fire	-8,000,000.00
Highway Patrol Retirement Fund	-4,000,000.00
Judges Retirement Fund	0.00
Public Employees P&F Consolidated	-16,883,162.65
Correctional Employees Retirement Fund	0.00
Post Retirement Fund	84,289,436.68
Supplemental Retirement Fund - Income	5,090,970.26
Supplemental Retirement Fund - Growth	763,530.02
Supplemental Retirement Fund - Money Market	291,624.67
Supplemental Retirement Fund - Index	330,134.34
Supplemental Retirement Fund - Bond Market	-1,657,923.59
Supplemental Retirement Fund - Fixed Interest,	1,583,715.96
Supplemental Retirement Fund - International	-513,526.86
Total Retirement Funds Net Cash Flow	**-86,905,201.17**
Assigned Risk Plan	-10,446,451.20
Permanent School Fund	-9,211,563.58
Total Net Cash Flow	**-106,563,215.95**

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
Transaction and Asset Summary

Retirement Funds

	Net Transactions				Asset Summary (at Market Value)			
	Bonds (Millions)	Stocks (Millions)	Total (Millions)	Cash Flow (Millions)	Short-Term % of Fund	Bonds % of Fund	Equity % of Fund	Total Mkt. Value (Millions)
January 1995	1	10	11	-11	1.5	32.0	66.5	19,681
February	1	0	1	-1	1.5	31.8	66.7	20,249
March	2	18	20	-18	1.3	31.5	67.2	20,607
April	1	-305	-304	-6	2.7	31.2	66.1	21,049
May	0	13	13	14	2.6	31.5	65.9	21,681
June	8	-12	-4	-3	2.6	31.3	66.1	22,028
July	1	13	14	19	2.5	30.4	67.1	22,646
August	-1	14	13	-25	2.3	30.5	67.2	22,814
September	0	13	13	-21	2.1	30.1	67.8	23,369
October	1	-3	-2	-20	2.1	30.6	67.3	23,294
November	-5	87	82	-20	1.6	30.1	68.3	23,975
December	11	-6	5	-6	1.5	30.2	68.3	24,304
January 1996	0	12	12	-4	1.4	29.9	68.7	24,721
February	-301	303	2	4	1.4	28.0	70.6	24,859
March	0	-14	-14	-15	1.4	27.6	71.0	25,070
April	-42	-31	-73	-18	1.6	26.9	71.5	25,493
May	-1	-20	-21	-3	1.6	26.5	71.9	25,823
June	0	-52	-52	-20	1.8	26.8	71.4	25,829
July	-25	0	-25	16	2.0	27.7	70.3	25,076
August	0	-156	-156	39	2.4	27.3	70.3	25,453
September	3	51	54	-9	2.1	26.8	71.1	26,388
October	-19	30	11	-9	2.0	26.8	71.2	26,871
November	14	67	81	10	1.5	26.2	72.3	28,054
December	9	46	55	5	1.3	26.3	72.4	27,851
January 1997	401	-487	-86	-19	1.5	27.1	71.4	28,616
February	-1	-19	-20	-15	1.5	27.1	71.4	28,699
March	-6	3	-3	-12	1.5	27.5	71.0	27,965
April	0	(8)	(8)	(27)	1.4	27.1	71.5	28,752
May	12	(46)	(34)	10	1.5	26.2	72.3	30,126
June	(13)	(15)	(28)	(15)	1.5	25.6	72.9	31,133
July	5	(18)	(13)	6	1.5	24.9	73.6	32,947
August	0	(19)	(19)	(57)	1.4	25.6	73.0	31,851
September	3	(43)	40	52	1.4	24.9	73.7	33,205

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 25, 1997

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Budget and Travel Reports

A report on the SBI's administrative budget for the period ending October 31, 1997 is included in **Attachment A**.

A travel report for the period from August 16-November 15, 1997 is included as **Attachment B**.

2. Post Retirement Benefit Increase for FY97

The post retirement benefit increase for FY97 will be 10.0876%. The increase will be payable to eligible retirees effective January 1, 1998.

This is the fifth increase granted under the revised formula that was enacted by the 1992 Legislature. For FY 1993-1996 the "inflation cap" in the benefit increase formula was 3.5%. Beginning in FY 1997, the "inflation cap" is 2.5%.

Benefit increases for the last nine years are shown below:

1988	6.9%
1989	4.0%
1990	5.1%
1991	4.3%
1992	4.6%
1993**	6.0%
1994**	4.0%
1995**	6.4%
1996**	8.0%
1997**	10.1%

* Payable beginning January 1 of the following calendar year.
** Benefit increase granted under new formula.

3. Results of FY97 Audit

The Office of the State Auditor is nearly finished with its financial audit of SBI operations for FY97. I should be able provide verbal report of the audit findings at the Board meeting on December 12th.

4. 1998 Legislative Proposals

I am not recommending that the SBI propose an administrative bill for the 1998 Legislative Session. However, there is one proposal that will be introduced by the retirement systems that will be of interest to the SBI. This issue, a change in the asset based charge in the Supplemental Investment Fund, will likely require comment by SBI staff during upcoming legislative hearings.

As you are aware, the Supplemental Investment Fund (SIF) is an investment vehicle for various defined contribution and deferred compensation programs offered through MSRS, TRA, PERA, MnSCU, and Hennepin County.

Since 1992, the Fund has imposed an asset based charge which financed the administrative expenses for each sponsoring retirement organization. Currently, the asset based charge is 0.4% annually. The same charge is applied to all participating plans. The amount needed to fully cover the administrative costs associated with each plan varies, however. For example, some plans have marketing expenses and others do not. In addition, the costs for record keeping activities vary among the plans.

The participating plans have requested that they be allowed to raise or lower the asset base charge depending on their actual costs. This will mean eliminating the uniform 0.4% deduction from the SIF shares. The individual funds would then be responsible for calculating their own costs and recovering them from an asset based charge, front-end load, or combination of the two, depending on their individual needs.

SBI staff support the proposal since it will simplify the accounting process for SIF. It will also clearly separate investment management costs from other administrative costs for participants. In order to implement the change, reference to an asset based charge will be eliminated from the SBI's statutes concerning the SIF. Each of the participating retirement plans will add references to their individual administrative charges within their own statutes.

5. Update on Litigation

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 December 12th.

6. Update on Tobacco Information

Over the last several quarters, I have been asked to provide the Board with information on tobacco issues and the SBI's tobacco-related holdings. This report will briefly update you on recent events.

a. *Tobacco-Related Holdings*

As of September 30, 1997 the SBI held approximately 9.7 million shares in tobacco related companies identified by the Investor Responsibility Research Center (IRRC). This is a decrease of about 1 million shares from the June 30, 1997 total. The market value of the SBI's holdings in these companies was approximately $337 million on September 30, 1997. This is a decrease of approximately $40 million from the market value of the shares held on June 30, 1997. Listings of SBI holdings in tobacco-related companies as of June 30, 1997 and September 30, 1997 begin on **page 5.**

As I previously reported, I have directed the SBI's stock managers to inform the SBI staff of the reasons for their decisions to purchase additional shares of companies identified by the IRRC as deriving 50 percent or more of their revenue from the sale of tobacco. During the quarter ending September 30, 1997, no managers reported buying additional shares in these companies.

b. *Activity in Other States*

In October, the Massachusetts governor signed into law a bill that requires the Massachusetts Pension Reserves Investment Trust (PRIM) to divest about $200 million of tobacco stocks over the next three years. Municipal pension funds in Massachusetts are not required to divest but are banned from making further investments in tobacco stocks. Stocks of companies generating at least 15 per cent of their revenues from the sale of tobacco products are subject to the law.

The Massachusetts State Treasurer, chair of PRIM, had supported legislation to require divestment rather than divesting through board action. In its report to the PRIM, PRIM's investment consultant, Wilshire Associates, stated that "at present, there is no economic justification for tobacco divestment."

New York City Employees' Retirement System issued a request for proposal for "an analysis of the legal environment surrounding tobacco companies." NYCERS also retained separately Callan Associates to report on "financial considerations" of divestment. Further, it is reported that NYCERS' internal counsel is studying fiduciary questions. No information from these analyses is available at the present time.

c. *Legal Developments Reported by the News Media*

There continue to be numerous media reports about the proposed settlements covering the tobacco industry's potential liability, including several analyses critical of certain elements. The Congress is not expected to consider legislation until at least sometime in the first half of 1998.

7. **Tentative Meeting Dates for Calendar 1998**

The quarterly meetings of the IAC/SBI are normally held on the first consecutive Tuesday and Wednesday of March, June, September and December. The dates for calendar 1998 are:

IAC	SBI
Tuesday, March 3, 1998	Wednesday, March 4, 1998
Tuesday, June 2, 1998	Wednesday, June 3, 1998
Tuesday, September 1, 1998	Wednesday, September 2, 1998
Tuesday, December 1, 1998	Wednesday, December 2, 1998

SBI staff will confirm the availability of Board members for the above dates over the next few months.

8. **Board Appointment to the IAC**

In July 1997, Michael Stutzer, Professor of Finance at the University of Minnesota, resigned from the Investment Advisory Council. The vacancy created by his resignation was announced through the Open Appointments Process Administered by the Secretary of State's Office.

The SBI Deputies have reviewed applications for positions on the IAC and are recommending that the Board appoint Michael L. Troutman. Mr. Troutman is currently employed at the Evangelical Lutheran Church of America (ELCA) and oversees the ELCA Board of Pensions.

RECOMMENDATION

The SBI Deputies recommend that the SBI appoint Michael L. Troutman to the current vacancy among Board appointees to the Investment Advisory Council.

SBI Stock Holdings
in Tobacco Companies Identified by the IRRC
June 30, 1997

Company	Percent Revenue from Tobacco in 1995	SBI Shares 6/30/97	SBI Cost Value 6/30/97	SBI Market Value 6/30/97
Amer Group	7.7%	8,300	$ 172,369	$ 149,405
American Maize	n/a	0	0	0
BAT	69.1	1,873,127	14,669,711	16,756274
Brooke Group	98.8	10,200	67,138	35,700
Compagnie Fin.	66.2	80,000	2,751,015	2,180,000
Culbro	56.4	10,600	356,901	1,475,388
Dimon	80.1	206,499	4,090,521	5,472,224
Empresas	55.6	94,500	438,914	501,932
Fortune Brands*	56.6	308,400	8,867,259	11,507,175
Glatfelter	<25	151,000	2,855,431	3,020,000
Hanson PLC	31.9	0	0	0
Imasco Ltd.	16.3	0	0	0
Japan Tobacco	n/a	0	0	0
Loews	11.0	123,400	7,536,270	12,355,425
Philip Morris	48.9	5,857,380	145,379,557	259,921,238
Rembrandt	n/a	250,000	2,192,801	2,667,819
RJR Nabisco	48.2	683,998	20,890,153	22,571,934
Sara Lee	<2	358,205	10,449,054	14,910,283
Schweitzer-Maud.	94.0	21,410	603,771	802,875
SEITA	80.3	23,850	748,757	755,603
Standard Comm'l	62.3	6,356	70,397	110,436
Tabacalera SA	81.9	49,350	1,749,586	2,654,235
Universal Corp.	70.5	319,300	8,564,253	10,137,775
UST	86.9	106,600	3,171,350	2,958,150
Volvo AB	4.3	197,600	3,819,653	5,297,438
Total		**10,740,075**	**$239,444,861**	**$376,241,309**

*American Brands changed its name to Fortune Brands in May 1997.

Sources: List of companies is from "The Tobacco Industry, 1995 Edition," and percent of revenue is from "The Tobacco Industry, 1996 Edition," by the Investor Responsibility Research Center (IRRC), Washington D.C. SBI holdings data are from SBI bank records.

SBI Stock Holdings
in Tobacco Companies Identified by the IRRC
September 30, 1997

Company	Percent Revenue from Tobacco in 1995	SBI Shares 9/30/97	SBI Cost Value 9/30/97	SBI Market Value 9/30/97
Amer Group	7.7%	9,900	$ 202,242	$ 215,363
American Maize	n/a	0	0	0
BAT	69.1	1,555,927	12,236,304	13,647,997
Brooke Group	98.8	10,200	67,138	59,925
Compagnie Fin..	66.2	80,000	2,751,015	1,880,000
Culbro	n/a	0	0	0
Dimon	80.1	41,399	831,526	1,034,975
Empresas	55.6	94,500	438,914	519,562
Fortune Brands	n/a	0	0	0
Glatfelter	<25	151,000	2,855,431	3,350,313
Hanson PLC	31.9	0	0	0
Imasco Ltd.	16.3	0	0	0
Japan Tobacco	n/a	0	0	0
Loews	11.0	101,300	6,688,056	11,440,569
Philip Morris	48.9	5,894,880	147,262,671	245,005,950
Rembrandt	n/a	250,000	2,192,801	2,262,736
RJR Nabisco	48.2	594,298	18,049,504	20,428,994
Sara Lee	<2	336,605	9,583,099	17,335,158
Schweitzer-Maud.	94.0	21,410	603,771	909,925
SEITA	80.3	23,850	755,541	743,778
Standard Comm'l	62.3	6,356	70,397	107,258
Tabacalera SA	81.9	49,350	1,791,222	3,463,795
Universal Corp.	70.5	149,400	4,257,181	5,415,750
UST	86.9	106,600	3,171,350	3,257,963
Volvo AB	4.3	197,600	3,850,693	5,641,035
Total		**9,674,575**	**$217,658,856**	**$336,721,046**

Sources: List of companies is from "The Tobacco Industry, 1995 Edition," and percent of revenue is from "The Tobacco Industry, 1996 Edition," by the Investor Responsibility Research Center (IRRC), Washington D.C. SBI holdings data are from SBI bank records.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1998 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH OCTOBER 31, 1997

ITEM	FISCAL YEAR 1998 BUDGET	FISCAL YEAR 1998 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,600,000	$ 469,705
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	214
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,622,000**	**$ 469,919**
STATE OPERATIONS		
RENTS & LEASES	92,500	30,829
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	4,122
BONDS AND INSURANCE	0	0
PRINTING & BINDING	16,000	9,980
PROFESSIONAL/TECHNICAL SERVICES	45,000	0
COMPUTER SYSTEMS SERVICES	204,000	67,746
COMMUNICATIONS	26,000	5,808
TRAVEL, IN-STATE	3,000	345
TRAVEL, OUT-STATE	55,000	25,268
SUPPLIES	38,000	9,978
EQUIPMENT	12,500	0
EMPLOYEE DEVELOPMENT	12,000	2,815
OTHER OPERATING COSTS	24,000	7,302
SUBTOTAL	**$ 541,000**	**$ 164,193**
TOTAL GENERAL FUND	**$ 2,163,000**	**$ 634,112**

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ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
August 16, 1997 – November 15, 1997

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring **International Manager:** Brinson Partners **Consultant Meeting:** Richards & Tierney	H. Bicker	Chicago, IL 8/21-8/22	$883.00
Manager Monitoring **Emerging Markets Manager:** Montgomery Asset Mgmt. **Staff Education:** "How to Identify and Manage Risk in Global Markets" sponsored by Investors Press and Rogers Casey	K. Vnuk	San Francisco, CA Napa Valley, CA 9/8-9/10	$1,849.54
Manager Monitoring **Domestic Stock Managers:** Independence, Franklin Portfolio **Manager Search** **Domestic Stock Managers:** Boston Partners, MFS Institutional Advisors **Staff Education:** "Franklin Portfolio Client Conference" Sponsored by Franklin Portfolio Associates	L. Buermann K. Hanson	Boston, MA Scarborough, ME 9/8-9/12	$4,194.55

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring Domestic Fixed Income Managers: Miller Anderson & Sherrerd, Standish Ayer & Wood **Manager Search Domestic Fixed Income Managers:** Eaton Vance Mgmt., Durkee Capital Advisors, Loomis Sales & Co., MFS Institutional Advisors, Putnam Investments, State Street Research Co., Wellington Mgmt. Co.	M. Menssen S. Berube	Philadelphia, PA Boston, MA 9/15-9/19	$4,264.89
Staff Education "Effectively Using Alternative Investments to Enhance Your Portfolio" sponsored by Institute for International Research	M. Regal	New York, NY 9/15-9/16	$119.00
Staff Education "Equity Investment Strategies Summit" sponsored by Institute for International Research	K. Hanson	West Palm Beach, FL 9/29-10/1	$2,219.00
Staff Conference "National Council on Teacher Retirement 75th Annual Convention"	H. Bicker	Philadelphia, PA 9/27-9/30	$1,443.43

Purpose	Name(s)	Destination and Date	Total Cost
Staff Education Institutional Limited Partners Association Meeting **Staff Education** "Private Equity Analyst Conference" Sponsored by Morgan Stanley Warburg Pincus	M. Regal	New York, NY 9/25-10/1	$1,661.62
Staff Conference National Association State Investment Officers Annual Meeting	H. Bicker B. Lehman	Phoenix, AZ 10/18-10/22	$2,775.54
Manager Monitoring **Domestic Fixed Income Managers:** BEA, BlackRock, Goldman Sachs **Manager Search** **Domestic Fixed Income Managers:** Alliance Capital, Bankers Trust, J.P. Morgan, T. Rowe Price	M. Menssen S. Berube	Baltimore, MD New York, NY	$4,358.73
Manager Monitoring **Domestic Fixed Income Managers:** Western Asset Mgmt. **Manager Search** **Domestic Fixed Income Managers:** Barclay's Global Investors, GMC Seneca Capital Mgmt., Loomis Sayles, Payden & Rygel, PIMCO	M. Menssen S. Berube	San Francisco, CA Los Angeles, CA 10/27-10/31	$2,524.24

Purpose	Name(s)	Destination and Date	Total Cost
Staff Conference "Guns & Hoses" sponsored by the Institute for International Research	H. Bicker	Key West, FL 9/13-9/17	$562.00
Manager Monitoring Alternative Investments: Summit Partners Annual Meeting, Colony Advisors **Manager Search Alternative Investments:** Richard Blum & Associates, Colony Advisors	M. Regal	San Francisco, CA Los Angeles, CA 10/6-10/8	$1,577.08
Manager Monitoring Domestic Stock Managers: Oppenheimer Capital, Weiss Peck & Greer **Manager Monitoring: Domestic Emerging Equity Manager:** Cohen Klingenstein & Marks, Valenzuela Capital Partners **Manager Search Domestic Stock Managers:** Arnold and S. Bleichroeder, MacKay Shields, Rothschild Asset Mgmt.	L. Buermann K. Hanson	New York, NY 10/14-10/17	$2,294.82
Staff Education "Investor Responsibility in the Global Era"sponsored by the Investor Responsibility Research Center	J. Heidelberg	Washington, D.C. 10/26-10/28	$493.54
Board Member Travel "Investor Responsibility in the Global Era" sponsored by the Investor Responsibility Research Center	M. McGrath	Washington, D.C. 10/26-10/28	$831.04

	Destination		
Purpose	Name(s)	and Date	Total Cost
Board Member Travel Council of Institutional Investors Annual Meeting	M. McGrath	San Francisco, CA 9/21-9/23	$509.00
Custodian Meeting State Street	H. Bicker M. Schmitt	Boston, MA 11/12-11/13	$1,473.00

Tab D

COMMITTEE REPORT

DATE: November 25, 1997

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

The Deferred Compensation Review Committee met November 14, 1997 to review the draft of the 403(b) Report to the Legislature

Board action is requested on this item.

ACTION ITEM:

Laws of Minnesota 1997, Chapter 241, Article 8, Section 8, mandated that the State Board of Investment (SBI), in conjunction with the Commissioner of Commerce, study and make recommendations concerning:

- the evaluation of insurance companies used in the 403(b) employer matching opportunity for school districts and teachers, and
- the most effective delivery mechanism for bringing 403(b) retirement savings products to employees.

The mandate requires the SBI to report to the Legislature by February 1, 1998.

The Committee reviewed the report prepared by staff and concurred with the recommendation that the most effective delivery mechanism for bringing 403(b) retirement savings products to employees is through the creation of a statewide, state sponsored 403(b) plan. A copy of the 403(b) report appears as an attachment to this Committee Report.

RECOMMENDATION:

The Committee recommends that the Board adopt the attached 403(b) report and authorize the Executive Director to work with the Legislature to implement the report's recommendations.

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A REPORT ON THE 403(B) MARKET

"The SBI, in consultation with the commissioner of commerce, shall study and make recommendations to the legislature on the most desirable method for evaluating insurance companies for purposes of Minnesota Statutes, section 356.24, subdivision 1, and on the most desirable method for the use of Internal Revenue Code, section 403(b) annuities and the most effective delivery mechanism to employees. The board shall report to the legislative commission on pensions and retirement by February 1, 1998."

Mandated Study under the Provisions of *Laws of Minnesota for 1997*, Chapter 241, Section 8

Submitted to the Legislative Commission on Pensions and Retirement
By the State Board of Investment

December 1997

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Executive Summary

Purpose of the Study

Laws of Minnesota 1997, Chapter 241, Article 8, Section 8, mandated that the State Board of Investment (SBI), in conjunction with the Commissioner of Commerce, study and make recommendations:

- on the most desirable method for evaluating insurance companies for purposes of *Minnesota Statutes*, section 356.24, subdivision 1, and

- on the most desirable method for the use of Internal Revenue Code, section 403(b) annuities and the most effective delivery mechanism to employees.

The mandate requires the SBI to report to the Legislature by February 1, 1998.

The Study

The Commissioner of Commerce studied the process for evaluating acceptable insurance company product providers. The SBI studied the most effective delivery mechanism by gathering information from many parties in the 403(b) market. The report covers the following topics:

- Description of the 403(b) retirement savings opportunity
- Structure of the current 403(b) employer match opportunity as provided in *Minnesota Statutes*, Section 356.24
- History of legislative involvement in the 403(b) issue
- SBI implementation of 1992 legislation establishing a list of qualified insurance company providers for the 403(b) match
- IRS audits of five school districts in 1997
- Major findings
- Conclusions and recommendations

Conclusions and Recommendations

In the course of this study, the SBI identified a set of **goals by which a potential recommendation may be evaluated**. Each potential recommendation is evaluated in terms of its capacity to achieve these goals:

- provide a lower cost, more understandable, and therefore more effective investment product mix to employees
- provide common information to employees that is easily accessible and available

- minimize school district administrative burdens

The SBI believes that establishing a statewide, state sponsored 403(b) plan is the best way to achieve these goals. A statewide 403(b) program should have the following features:

- All teachers and school district employees throughout the state should be eligible for the plan.

- All 403(b) contributions should be included in the plan: employer matching contributions, employee contributions to receive the employer match and employee contributions in excess of the matched amount.

- A specified array of cost effective investment alternatives should be offered, which would be expected to significantly reduce fees paid by employees compared to current levels.

- In order to minimize the administrative burden for school districts, there should be a central point to maintain individual accounts and perform maximum exclusion allowance calculations.

- Marketing should be centralized to provide one uniform set of educational materials explaining the 403(b) savings opportunity and the specific investment alternatives available.

- Portability of assets among investment options should be provided to ensure investment flexibility for employees.

Options that focus on the current match opportunity fall short of the stated goals and, therefore, are not recommended by the SBI.

The SBI also recommends that Minnesota seek federal law changes to the maximum exclusion allowance calculation. This would address a central cause of 403(b) administrative complexity.

A Report on the 403(b) Market

Introduction

In Laws of Minnesota 1997, Chapter 241, Article 8, Section 8, the Legislature mandated that the State Board of Investment (SBI), in conjunction with the Commissioner of Commerce, study 403(b) annuities. Laws of Minnesota 1997, Chapter 241, Article 8, Section 8 states that:

> "The SBI, in consultation with the commissioner of commerce, shall study and make recommendations to the legislature on the most desirable method for evaluating insurance companies for purposes of Minnesota Statutes, section 356.24, subdivision 1, and on the most desirable method for the use of Internal Revenue Code, section 403(b) annuities and the most effective delivery mechanism to employees. The board shall report to the legislative commission on pensions and retirement by February 1, 1998."

The Commissioner of Commerce studied the process for evaluating acceptable insurance company product providers. The Commissioner's report and recommendation appear as Attachment A.

The SBI studied the most effective delivery mechanism by gathering information from many parties in the 403(b) market. The SBI interviewed representatives of these groups:

- school district officials
- insurance companies
- firms that provide recordkeeping, communication, education and other services to the 403(b) market
- mutual fund companies that provide investment products for the 403(b) market
- Minnesota Education Association
- Minnesota Association of School Administrators
- Minnesota Association of School Business Officers.

The intent of the study is best understood in the context of the history of legislative involvement in the 403(b) issue. Accordingly, this report discusses previous legislative action on the issue and the actions taken by the SBI in carrying out responsibilities assigned to it by law. While *M.S.,* Section 356.24 focuses on school districts and K-12 teachers and appears also to apply to other public educational employers and employees, this report focuses on the 403(b) market in general and discusses the matching opportunity of Section 356.24 as a part of the broader issue. The report follows with a discussion of the SBI's major findings. It concludes with a recommendation and other options for the Legislature to consider.

What is a 403(b)?

A 403(b) is an investment vehicle by which certain individuals can save for retirement on a tax-deferred basis. Contributions up to legal limits are tax deductible and investment gains are accumulated on a tax-deferred basis. Under the provisions of Internal Revenue Code, section 403(b), individuals who may utilize this retirement savings opportunity are employees of educational organizations, hospitals, and certain other nonprofit organizations.

The 403(b) has been available since 1962. Section 403(b) codified the insurance company annuity as the only investment option allowed and called the investment vehicle a tax-sheltered annuity, or TSA. Insurance companies were the sole providers in the market until the passage of the federal Employee Retirement Income Security Act (ERISA) in 1974. ERISA specifically allows mutual funds as appropriate 403(b) investment vehicles under the provisions of section 403(b)(7). Section 403(b) and IRS publications still use the phrase "TSA" to cover both insurance company annuities and mutual funds. Since the passage of ERISA, mutual fund companies have provided mutual funds as competing products in the 403(b) market. A 403(b), therefore, is a tax-sheltered annuity broadly defined under the provisions of section 403(b) of the Internal Revenue Code.

In its basic form, a 403(b) is a legal agreement between the eligible individual and product provider. The employer is not a party to the contract. The individual invests in insurance annuity products or mutual funds on a tax deferred basis, contributions are made pre-tax, and interest accumulates on a tax-deferred basis.

A school district typically has little involvement in the agreement itself, but has a range of responsibilities for the 403(b). A district will provide the payroll deduction service for employees who wish to defer a portion of their salaries; keep a list of companies to which payroll deductions are transmitted on behalf of the individual employees; and set minimum solicitation rules governing the times, places and methods by which teachers are contacted about the investment opportunity. Maintaining a list of companies is not a selection process, but a way to limit the administrative burden on the district's payroll department. Generally, a district will add a product provider if a certain number of employees request the company be added. The number of companies serviced in an individual school district ranges from fewer than ten to the many dozens.

Current 403(b) Match Structure

As permitted by *Minnesota Statutes,* section 356.24, the 403(b) match "program" is an opportunity for a Minnesota school district (or other public education employers) to provide matching contributions to tax-sheltered annuity contracts under section 403(b) of the Internal Revenue Code. The amount offered by a school district is determined by collective bargaining and is limited to $2000 per employee each year. Dollars involved in the match must be invested in investment products of one or more qualified companies selected by the SBI. Qualified companies must be insurance companies licensed to do business in Minnesota and rated in the top two quality ratings categories by a national ratings company as determined by the Commissioner of Commerce.

In 1992, the SBI selected eight insurance companies through a request for proposal (RFP) process. They are:

- Aetna Life Insurance & Annuity Company (Aetna)
- Great-West Life & Annuity Insurance Company (Great-West)
- IDS Life Insurance Company (IDS)
- Metropolitan Life Insurance Company (Metropolitan)
- The Minnesota Mutual Life Insurance Company (Minnesota Mutual)
- Nationwide Life Insurance Company (Nationwide)
- United Investors Life Insurance Company (United Investors)
- The Variable Annuity Life Insurance Company (VALIC)

There are no state agencies or private firms responsible for marketing or administration. The eight insurance companies market their own products through company employed agents, independent agents, or independent companies hired to perform specific marketing tasks. The insurance companies maintain participant accounts and service participant requests. In addition, the companies are responsible for complying with applicable state and federal laws.

Any dollars contributed to a match are the sole responsibility of the employing unit. There are no state dollars specifically appropriated for a local school district match. (A copy of *M.S.*, section 356.24 is in Attachment B.)

Legislative History

The current 403(b) match structure and the 1997 study directive are recent actions of the legislature concerning the 403(b) issue. It is instructive to examine the legislative history concerning the issue.

In 1971, legislation, later codified in *Minnesota Statutes*, Section 356.24, was enacted to prevent public sector employers from contributing to supplemental retirement plans. The law eliminated efforts by individual governmental units to augment the retirement benefits available from the statewide defined benefit plans administered by Public Employees Retirement Association (PERA), the Teachers Retirement Association (TRA) and the Minnesota State Retirement System (MSRS). The prohibition was adopted at a time when the funding status of PERA, TRA and MSRS was less than adequate.

The 1971 prohibition, however, grandfathered in those supplemental plans that had been in existence before May 6, 1971. Among these "plans" were a small number of school districts that provided employer match dollars to individual 403(b) annuities. Most of these districts were in the western suburbs of the Twin Cities metropolitan area. A definitive list of these school districts and the exact form of their contributions does not exist.

In 1988, the Legislature relaxed, somewhat, the prohibition by allowing an employer matching contribution if the dollars involved were invested in the 457 State Deferred Compensation Plan. The Minneapolis School District used this authorization to begin such a match. As a result of criticism from teachers and insurance industry representatives that limiting the investment to a 457 plan disadvantaged teachers, the Legislature acted in 1992 to allow employer matching contributions to be directed into individual 403(b) annuities. The criticism was based on the differing contribution limits and rollover provisions of a 457 plan compared to a 403(b) tax-sheltered annuity. A comparison of these two savings opportunities is in Attachment C.

Laws of Minnesota 1992, Chapter 487, Section 4 amended *Minnesota Statutes*, section 356.24 and authorizes school districts to provide employer match dollars for individual 403(b) annuities. In addition to authorizing this employer match, the law provided that the SBI select up to ten "qualified" insurance companies that would be the only investment option providers for districts and bargaining units that provide employer matching funds. The SBI's selection was required to be from a universe of highly rated insurance companies as determined by the Commissioner of Commerce. (It is this list that is the subject of Commerce's recommendation concerning the most desirable method for evaluating insurance companies.)

Actions Taken by the SBI to Implement the 1992 Law

As a first step in implementing the 1992 law, the SBI selected a consultant to assist in the selection process, as authorized in the law. The SBI selected The Wyatt Company through a request for proposal (RFP) process.

The SBI's Vendor Review Committee and the consultant developed an insurance company RFP during September 1992. Committee members were designees of the five State Board of Investment members and two representatives from the SBI's Investment Advisory Council. The RFP was formally announced in the State Register on September 21, 1992 and sent to approximately 300 companies nationwide. As required in the law, the Commissioner of Commerce developed the list of approximately 300 companies and provided it to the SBI. See Attachment D for the list.

Eighteen (18) companies responded. Sixteen (16) companies qualified for consideration by satisfying the minimum credit rating and product offering standards outlined in the RFP. To qualify for consideration, an insurance company had to have a current rating from two or more of the following rating agencies within rating categories shown:

Moody's	Aaa or Aa
Standard & Poor's	AAA or AA
Duff & Phelps	AAA or AA
A.M. Best	A++ or A+

An insurance company also had to offer at least one investment product in each of three categories:

- equity fund
- bond fund or balanced fund
- guaranteed (fixed) fund or money market fund

After reviewing all responses, the Committee decided to recommend nine (9) companies to the SBI. At its December 1992 meeting, the SBI approved the Committee recommendation.

With assistance from legal counsel in the Attorney General's office, SBI staff worked with the consultant's attorneys to negotiate a common contract with the nine insurance companies. The final contract is identical for each firm with the exception of a description of the individual company's investment products.

During the contract negotiation process, one of the recommended vendors (Mutual of America) determined that it was not able to pay the proportionate costs of the selection process as required by law and included in the contract, and withdrew its name from the qualified list. Therefore, contracts were signed in May 1993 with eight companies:

- Aetna Life Insurance & Annuity Company (Aetna)
- Great-West Life & Annuity Insurance Company (Great-West)
- IDS Life Insurance Company (IDS)
- Metropolitan Life Insurance Company (Metropolitan)
- The Minnesota Mutual Life Insurance Company (Minnesota Mutual)
- Nationwide Life Insurance Company (Nationwide)
- United Investors Life Insurance Company (United Investors)
- The Variable Annuity Life Insurance Company (VALIC)

In June 1993, the SBI mailed a packet of information to all school districts in the state, notifying them of the legislation, the SBI's selection of the qualified insurance companies, and the list of eight companies. In February 1994, the SBI sent a similar packet of information to all school districts that included copies of the companies' product offerings for the match and a list of company contacts to which the districts could refer for the names of the companies' local representatives. In December 1995, the SBI repeated the exercise, mailing a packet of information to all school districts.

SBI's monitoring responsibilities are not clearly specified in *M.S.*, section 356.24. The SBI developed a monitoring process based on quarterly reports from the eight insurance companies. The eight companies report regularly concerning:

- investment product rates of return
- investment management personnel changes
- investment quality of general account assets which back their fixed annuity products
- process for monitoring their mutual fund/variable account annuity products
- compliance with school district rules concerning solicitation of teachers.

Questions Raised by the 1992 Legislation

One of the effects of the 1992 legislation was to reduce the size of the market for certain insurance agents in the state. Agents cannot sell investment products of companies not on the qualified list if the employee wishes to make use of matching dollars. Moreover, agents may lose business that they already have as a result of the qualified list. This occurs when employees choose to direct contributions in excess of the matching contribution into one of the eight companies instead of continuing to do business with their insurance company that is not on the list.

A similar loss of business for mutual funds also may occur. The employee who contributes to a mutual fund will not be able to use the mutual fund for match dollars. Alternatively, an employee may choose to direct contributions in excess of the match into one of the eight insurance companies in which the employee's match dollars were contributed rather than to direct contributions to the mutual fund.

The act of contributing employer dollars into individual 403(b) annuities raised a variety of legal and regulatory questions for a school district. It is reasonable to conclude that some that initiated the match did so without knowledge of these issues. Among these questions are:

- Did the school district create a "403(b) plan"?
- Did the school district assume responsibility to monitor maximum deferral amounts?
- Did the school district assume responsibility for discrimination testing to see if lower paid employees deferred enough compared to higher salaried employees?
- Was the school district now required to provide common communication pieces about "the plan" and its features to eligible employees?

In 1994, in response to the uncertainty surrounding the law and its legal ramifications, the Legislature mandated the Legislative Commission on Pensions and Retirement (LCPR) to study the issue. In Laws of Minnesota 1994, Chapter 572, Section 12 the LCPR was directed to study whether federal income tax regulation applies to school districts which make employer matching contributions to 403(b) annuities under the provisions of *M.S.*, section 356.24. The LCPR proposed legislation to amend section 356.24 to require school districts and other educational employers to comply with federal tax regulation before they could exercise the authority to make a matching contribution. Laws of Minnesota 1995, Chapter 141, Article 3, Section 16, placed the recommendation in law.

Since that change, federal legislation has been enacted that clarifies some points. In the Taxpayers Relief Act of 1997, governmental plans were granted a permanent exemption from discrimination testing. This exemption applies to both 457 deferred compensation plans and 403(b) plans. Therefore, a school district that provides a match does not have to perform discrimination testing.

IRS Audits of School Districts

In retrospect, it appears that a school district's provision of payroll deduction services to teachers, with or without a match, obligates the district to monitor maximum deferral amounts. This issue is made clear by the recent Internal Revenue Service (IRS) audits of a number of school districts in Minnesota. These districts are:

- Brooklyn Center
- Hutchinson
- Minnetonka
- Roseville
- St. Paul

The IRS audits in Minnesota are part of a nationwide effort to audit school districts concerning 403(b) deferrals.

In general, information available to SBI staff indicates that the IRS has concluded that the districts have not properly monitored the maximum amounts of deferrals to which individual employees are entitled. The school districts have the responsibility to monitor the maximum exclusion allowance (MEA) for each employee deferring salary. A more detailed discussion of IRS findings appears later in the section describing the SBI's findings.

Parties Contacted by the SBI for this Study

The Commissioner of Commerce studied the process for evaluating acceptable insurance company product providers. As stated earlier, Commerce's report and recommendation appear as Attachment A.

The SBI talked with many parties about the use and effective delivery of 403(b) annuities. The SBI interviewed representatives of these groups:

- school district officials
- insurance companies
- firms that provide recordkeeping, communication, education and other services to the 403(b) market
- mutual fund companies that provide investment products for the 403(b) market

- Minnesota Education Association
- Minnesota Association of School Administrators
- Minnesota Association of School Business Officers.

Findings

Market structure

The 403(b) market at the K-12 level is fragmented. There are many insurance companies and some mutual fund companies in the market. Generally, insurance company products are marketed by a "hands on", personnel-intensive marketing method with individual counseling and advice that varies by company. Mutual fund companies rely upon much less expensive selling methods such as print ads in financial magazines and newspapers that are not specifically targeted to the 403(b) market. The fragmentation is most evident at the insurance agent level, where many agents are active in soliciting business for the many insurance companies in the market.

Insurance companies market their products through agents who may work exclusively for the company or as independent entities selling products of more than one company. Because school districts restrict access of agents to times and places that do not disrupt teachers' school activities, the agent spends considerable time networking with individuals to seek clients. The agent typically spends time conferring with the prospect providing individual attention to educational and financial needs. Some companies pride themselves in doing periodic follow-up meetings with clients to reassess their financial situations. In the SBI's opinion, this is an expensive and cumbersome form of product distribution.

In contrast, mutual fund companies do not engage in face-to-face marketing efforts. There are no mutual fund agents contacting teachers about investment products. There are many print ads and some radio and television ads keeping the mutual fund company's name and the names of particular mutual funds in the general public's awareness. Some fund companies provide information packets designed for the 403(b) market upon request by the employee. Mutual funds are sold to teachers when the individual teacher contacts the mutual fund company in response to these more generic efforts.

In addition, the 403(b) annuity is a low commission product compared to other insurance company products such as health or life insurance. Selling a 403(b) annuity generates a commission for the agent in the range of four to six percent of the first year investment compared with a commission of about 55 percent for the sale of a whole life policy. Insurance companies disclosed that there are relatively few full-time agents that specialize in selling 403(b) annuities. The 403(b) is a way to cross-sell other, more lucrative products. In addition, many part-time agents who service the 403(b) market sell the annuities as a supplement to their other lines of work. (An example would be the former coach who now sells annuities part-time.) There is the perception that these part-timers typically engage in selling to the teachers they know, then drop the activity when their easy contacts dry up. It was reported that follow-up meetings to review clients' financial situations often do not occur.

The different methods of distribution result in quite different product costs. The insurance company 403(b) annuity is more expensive to the individual employee than a no-load mutual fund investment option. The mutual fund does not have the mortality and expense risk charge, which is stated as an annual percentage of assets in the account. Total annual account charges for an insurance company product are in the range of about 1.5 percent to 2.75 percent of assets each year. An annual administrative charge may also be applied. Total annual account charges for no-load mutual funds range from about 0.5 percent to 1.5 percent of assets each year. An annual administrative charge, usually referred to as a custodial fee, may be applied.

In addition to these annual deductions, insurance company products carry a back-end or withdrawal charge. A withdrawal charge is assessed when the employee withdraws assets from the insurance annuity product before a certain time period has elapsed. The charges are stated as a percentage of assets withdrawn, and the rate charged is typically scaled down to zero after some number of years. The withdrawal charge encourages employees to keep their assets with the company and discourages employees from moving their assets from one insurance company to an investment option of another product provider. Mutual funds do not have withdrawal charges.

The following table summarizes and compares product charges:

	Insurance Company	No-Load Mutual Fund
Mortality and Expense Charge (M&E)	1% to 1.25%	None
Investment Management Fee	0.5% to 1.50%	0.5%-1.50%
Total Annual Fees on Asset Balances	1.5% to 2.75%	0.5% to 1.50%
Annual Administrative Fee	$0-$30 a year	$0-$30 a year
Withdrawal Charge*	5-9% in Year 1 to 0% by Year 5-11	None

*Ranges shown are from the eight qualified 403(b) providers.

Higher fees result in lower investment returns for employees. Higher fees over time will reduce the amount of money saved.

The 403(b) market is not static and is undergoing change in some interesting ways. These changes are:

- While the K-12 education market is fragmented, the higher education market is undergoing a degree of rationalization. A number of universities across the country have taken control of their 403(b) offerings and have created plans with specified investment offerings and centralized administrative functions such as common recordkeeping, information and education services. Hospitals exhibit the same efforts to provide employer direction in that segment of the market.

- As segments of the market are rationalized, a greater interest in employee education tends to emerge. Employers who establish plans become more interested in having their employees understand the investment decisions they make. Employers also look to the product providers to provide the educational resources. This demand for services comes as provider fees are dropping, which in turn places additional competitive pressures on the product providers.

- Product providers are adding more investment choices. Non-proprietary options are being added, and fees are dropping. As they compete for spaces in the more rationalized higher education and hospital markets, companies lower their fees. Some of this product change spills over into the K-12 market.

- There is a shift from insurance company annuity products to mutual products. Participants are placing more dollars in mutual funds than previously. This shift corresponds with the decrease in fees seen in the market.

The Maximum Exclusion Allowance Calculation

School districts can monitor maximum deferral amounts by having each employee's maximum exclusion allowance (MEA) calculated. These calculations may be made by the district, by product providers or by third party administrative firms. If a third party administrative firm is retained to perform the service, the additional costs would be absorbed by the district or passed on to the employees. (As will be discussed later, the Minnesota School Boards Association has formally recommended to districts that they have the product providers perform the calculations.)

The difficulty in making these calculations, whoever has the task, is the complexity of the calculation. Each calculation requires an enormous amount of data. An example of the calculation, provided by the Copeland Companies, is in Attachment E. The required information includes:

- Current salary
- Normal retirement age
- Total years of service to normal retirement age
- Current year contributions to Section 125 pre-tax health and welfare benefits
- Total prior 403(b) contributions by employee and employer
- Total prior contributions to any defined contribution plan other than 403(b)
- Defined benefit plan annual retirement benefit

The "answer" for the individual in a given year is the result of several calculations and reference to several formulas. (It should be noted that the Taxpayers Relief Act of 1997 slightly modified the calculation for future years. Currently, there is a circularity in the calculation. A taxpayer's current year taxable pay, which is used to determine how much can be deferred into a 403(b) in the current year, requires a subtraction from gross pay of current year contributions into 403(b), 457 and 125 plans. Therefore, the taxpayer must know how much he or she is contributing to a 403(b) this year in order to determine how much may be contributed to the 403(b) this year. The change eliminates the subtraction of 403(b), 457 and 125 plan contributions in the determination of taxable pay. This change, in effect, raises the maximum deferral amount.)

The complexity and the data requirements explain product provider reluctance to "guarantee" calculations. Some companies accept responsibility for the accuracy of their calculations. Others stand by their calculations to the extent that the information provided by the individual employee is accurate. For example, some mutual fund companies will perform the calculation for a fee if the employee provides the necessary data. This arrangement places the burden on the employee to retain the required historical data and to understand a very complex calculation. A rational response by the individual employee to this uncertainty would be to defer less than the total amount that may be available so as not to trigger tax problems. This action reduces the amount saved and cannot be considered the most effective use of the savings opportunity.

School District Activities

Historically, school districts have viewed the payroll deduction service they perform as their only responsibility in the area. Up until two to three years ago, school districts maintained that it was the responsibility of the individual teacher and the insurance company to keep track of the annual deferrals made by teachers. Districts do not sponsor plans in which they provide a central source of information about companies and their product offerings. Districts do not screen companies for quality nor select investment products for their return, risk and cost characteristics.

As stated earlier, the school district has a responsibility to ensure that insurance company representatives do not interfere with teacher in-school responsibilities when they solicit business. Accordingly, access to teachers is generally restricted to before or after school hours. The rules by which insurance companies may solicit business varies by district.

Some districts allow insurance agents to set up an information table in the teacher lounge or some area in which teachers can stop by during their day to ask questions. A school district that agrees to send salary deferrals to many insurance companies faces the task of allowing or not allowing each of those companies to spend a day at a table answering questions. (A salary deferral is the amount of money a teacher has directed payroll to deduct from each paycheck to invest with the investment provider of the teacher's choosing.)

Some districts only allow companies to place information pieces in teacher mailboxes. Others do not allow solicitation of any kind inside of schools. Those that do not allow solicitations may inform new teachers during orientation of the 403(b) opportunity. This amounts to a passing acknowledgement of the 403(b), but it does not include information about different companies or their investment products. Those teachers that ask about the 403(b) and the companies available may be sent to the district's business office for a list of companies. Contacting them becomes the job of the individual teacher.

In short, the teacher often relies upon word-of-mouth to hear about the savings opportunity, in general, and about individual companies and products, in particular. It is this environment in which the insurance agent seeks contacts. It is the more aggressive agent who is willing to fight through these solicitation barriers who is able to garner business. It is unlikely that this environment promotes use of the most effective product delivery mechanism for employees or use of the most effective investment options by employees.

As a result of school districts' need to control access, the market looks very fragmented from the point of view of the typical teacher. The teacher receives little information about the availability of 403(b) products. A teacher has no central source to answer simple questions such as: What is a 403(b) annuity? How does it help me? How much can I save? What companies offer investment products? What are these investment products?

Actions of School Administrators and School District Business Officers

In an April 17, 1996 letter to school districts, the Minnesota School Boards Association (MSBA) and the Minnesota Education Association (MnEA) jointly recommended that districts initiate specific procedures concerning the handling of 403(b) annuities. The two organizations recommended that districts have insurance companies and mutual fund companies sign a document certifying that the company is licensed to sell 403(b) products in the state and that the company will perform maximum exclusion allowance calculations for each employee. MSBA and MnEA enclosed a suggested letter that could be sent to all 403(b) providers. (See Attachment F.)

School districts have responded to this letter and have asked companies for this certification. Some districts have used this process as a way to reduce the number of companies to whom they will transmit salary deferral dollars.

MSBA and MnEA, as well as the LCPR, recommended that school districts who offer an employer match into 403(b) annuities or the 457 State Deferred Compensation Plan prepare written plan documents and Summary Plan Descriptions, which are nonlegal versions of legal documents required of ERISA plans. In the April 17, 1996 letter, MSBA and MnEA note that neither federal nor state law required a district to create the documents. MSBA has also arranged with a consulting firm, DCA, Inc., of Wayzata, to work with school districts to prepare these documents "for review by the District's legal counsel". Districts may retain DCA on a first-come, first-served basis.

The Minnesota Association of School Business Officers (MASBO) has been active in informing school districts about 403(b) regulatory issues and IRS activities in the area. MASBO stresses the need for districts to monitor maximum deferral amounts and keep appropriate records. Its efforts have reinforced the message of responsibility being heard by school districts. Business officers talk about the issue in terms of providing a district with "audit comfort", which is the capability to demonstrate to the IRS that it is taking reasonable and necessary steps to monitor maximum salary deferrals.

IRS Findings

As stated earlier, the IRS audited school districts in Brooklyn Center, Hutchinson, Minnetonka, Roseville, and St. Paul. As of early November 1997, the IRS had not officially closed these audits. Four of the five districts were still communicating with the agency on specific issues. The agency's general findings are:

- Monitoring maximum salary deferrals is the responsibility of the school districts.

- School districts must monitor each teacher's maximum exclusion allowance (MEA).

- Each of the audited districts paid or are in the process of paying back taxes to the IRS for deferring more dollars for some individuals than allowed under the maximum exclusion allowance.

  Other districts are now aware of these payments, and this awareness has added to the already existing anxiety about monitoring 403(b) deferrals.

- The MEA calculation requires the district to store data on salary, prior 403(b) deferrals, deferrals into a 457 plan, employee contributions into the Teachers Retirement Association, and deferrals into IRC section 125 "cafeteria" or "flex" plans. (A cafeteria plan is a benefit package in which employees choose different amounts of benefits such as health, dental, childcare, life insurance, or disability.)

  The audited districts reported that they spent as much as 300 hours reconstructing necessary data from old files with much of the work involving manual searches.

- Districts should consider making the investment product providers responsible for performing the actual calculations of the MEA's.

- Sheltering severance pay is not allowed for 403(b) or 457 deferrals. Only the portion of sick leave accrued in the year of retirement can be tax-sheltered

  Districts have typically provided payment for unused sick leave to individuals when they retire.

The IRS also made two specific suggestions that merit attention:

- The IRS suggested to at least two districts that they retain a third party administrative firm to perform the MEA calculations and to handle dispersal of salary deferral moneys to product providers.

A rough estimate of the annual cost of retaining a firm to perform these duties is $10,000 to $15,000 and will depend on the specific services requested.

- The IRS suggested to one district that it not allow employees to participate in the 457 State Deferred Compensation Plan. Not having 457 plan deferrals would simplify recordkeeping for and monitoring of the maximum deferral amounts.

  This recommendation conflicts with *M.S.*, section 352.96 which specifically provides that every public employee in Minnesota is eligible to participate in the state's 457 plan.

School District Response to MSBA/MnEA and the IRS

In general, before the MSBA/MnEA initiative in 1996 and the IRS audits in 1997, school districts did not believe it was their responsibility to monitor maximum deferral amounts. That perception has changed. As stated above, some districts have taken the advice of MSBA/MnEA to request certification from product providers concerning maximum exclusion allowance calculations, and in so doing have reduced the number of providers to which they will transmit salary deferrals.

The IRS audit activities have increased districts' sense of anxiety about monitoring deferral amounts. School business officers are searching for ways to provide themselves "audit comfort", which is the capability to demonstrate to the IRS that they are taking reasonable and necessary steps to monitor maximum salary deferrals. The alternatives include:

- having the product providers certify MEA calculations;
- upgrading internal computer systems to track employee and employer 403(b) and 457 contributions;
- adopting new payroll systems, including a new system from the electronic service processing districts, which are cooperative ventures funded through cooperation aid within the school state aid formula; or
- hiring consultants to study and make recommendations on the appropriate handling of 403(b) deferrals.

Actions by the Minnesota Education Association

The Minnesota Education Association (MnEA) sponsors a 403(b) program by which it markets 403(b) annuity products of five insurance companies through a for-profit company, ESI. Part of the MnEA program is a billing trust through ESI which handles the transmittal of moneys deferred by teachers who choose to use the program. A school district defers moneys to one MnEA account in its payroll system rather than to five accounts. The billing trust, not the school district, transmits the moneys to the five insurance companies. The arrangement removes some of the burden of school district involvement in the deferral flow.

MnEA is actively pursuing the expansion of the billing trust arrangement. Representatives of MnEA, Minnesota Association of School Administrators, Minnesota School Boards Association, and Minnesota Association of School Business Officers have met to discuss creating a centralized system for handling 403(b) salary deferrals. The general idea is to set up a voluntary program that would be available to a district that chooses to use the service. The group hopes to establish a pilot program in two districts by early 1998 and expand the program to a larger number of districts by mid-1998. In addition to dispersing salary deferral moneys, the billing trust could be a recordkeeper for salary deferral amounts and could also perform maximum exclusion allowance calculations. These functions would provide the audit comfort sought by the school districts and relieve them of performing these administrative functions.

This arrangement does not have a specific investment component. Investment product providers would be determined by each school district. Each district would have the billing trust transmit salary deferrals to the list of product providers maintained by the district. Presumably, a district's list of product providers would be similar to the list it services now.

Recommendation and Options for Consideration

The legislative charge to the SBI is to make recommendations concerning the most effective use of the 403(b) retirement savings option and the most effective delivery mechanism to employees. In the course of this study the SBI has identified a set of goals by which a potential alternative may be evaluated. Each option discussed in this section is evaluated in terms of its capacity to achieve these goals. They are:

- provide a lower cost, more understandable, and therefore more effective investment product mix to employees

- provide common information to employees that is easily accessible and available

- minimize school district administrative burdens

The SBI recommends the establishment of a statewide plan because that action meets each of these identified goals. Options focusing on the current match opportunity in Section 356.24 fall short of achieving these goals and, therefore, are not recommended by the SBI. The SBI also recommends that the state seek federal law changes to the maximum exclusion allowance calculation, which addresses a central cause of 403(b) administrative difficulties.

Recommendation

The SBI believes that the most effective delivery mechanism for bringing 403(b) retirement savings products to employees is through the creation of a state sponsored 403(b) plan. This plan would handle all 403(b) contributions in the state

and would eliminate the need to maintain a list of approved insurance companies for matching contributions under the provisions of *M.S.*, section 356.24.

A statewide 403(b) program should have the following features:

- All teachers and school district employees throughout the state should be eligible for the plan;

- All 403(b) contributions should be included in the plan: employer matching contributions, employee contributions to receive the employer match and employee contributions in excess of the matched amount;

- A specified array of cost effective investment alternatives should be offered, which would be expected to significantly reduce fees paid by employees compared to current levels;

- Administration should be centralized to maintain individual accounts and perform Maximum Exclusion Allowance calculations; this would minimize the administrative burden for school districts;

- Marketing should be centralized to provide one uniform set of educational materials explaining the 403(b) savings opportunity and the specific investment alternatives available;

- Portability of assets among investment options should be provided to ensure investment flexibility for employees.

A centralized plan for all 403(b) contributions with the features listed above would meet each of the identified goals. The SBI believes that a plan with these features would maximize employee use of the 403(b) retirement savings opportunity and would be the most effective delivery mechanism to employees.

Other options suggested for legislative consideration are:

The SBI has identified other options that the Legislature may wish to consider rather than a state sponsored plan.

- Make no changes.

- Amend *M.S.*, section 356.24 to provide broader insurance company participation.

- Encourage the use of the billing trust proposed by Minnesota Education Association and School Administrators.

  Encourage the use of the billing trust proposed by Minnesota Education Association and School Administrators and amend *M.S.*, section 356.24 to provide for a qualified list of insurance companies and mutual fund companies to provide investment options for all 403(b) contributions not just for matching contributions.

- Seek federal legislation to simplify the calculation of the Maximum Exclusion Allowance.

A summary of each of these options is shown below.

Make no changes.

The Legislature could choose to make no change to current statute and leave the existing delivery system in place. Since this option would perpetuate the problems cited in this report (fragmented structure, high cost to participants, administrative complexity for school districts) the SBI believes that this option is not attractive.

The current market is providing 403(b) options to eligible employees throughout the state. However, it appears that the market is not providing cost effective alternatives. Currently, employees have the responsibility to seek information about the 403(b) opportunity and explanatory materials about specific investment options. There is little effort to seek lower overall costs and more cost effective investment options for the benefit of employees. School districts bear the burden of responsibility for maximum exclusion allowance calculations. Taken together, these elements of the 403(b) market appear not to be the most cost effective mechanism for individual participants to maximize the retirement benefits available from a 403(b) program.

Note, however, that if the Legislature makes no changes, the SBI endorses the method for evaluating insurance companies recommended by the Commissioner of Commerce.

Amend M.S., section 356.24 to provide broader insurance company participation.

During the 1997 legislative session, representatives from the insurance industry recommended that the number of companies eligible for 403(b) matching contributions be increased. This change could be accomplished by eliminating the limit on the number of insurance companies authorized to receive matching contributions. Allowing mutual fund companies in addition to insurance companies would also increase the number of qualified companies, which is the implicit goal of this option. Eliminating the limit on the number of product providers would remove the need for the SBI (or any other State entity) to be involved in selecting and monitoring 403(b) product vendors. If the limit on the number of qualified insurance companies is eliminated, the revised method for evaluating insurance companies provided by the Commissioner of Commerce also would no longer be necessary.

While this option may be appealing to some participants and potential insurance company vendors, the SBI believes that this option has serious drawbacks.
First, with respect to the bulk of contributions placed in 403(b) products this option does not address the issues raised throughout this report. It speaks only to the limited amount of dollars involved in matching contributions. Second, it would not achieve the goal of providing easily accessible and understandable information to employees. Simply adding more product providers adds to the fragmentation observed in the market. Third, an increase in the number of product providers would add to the administrative burden and increase the degree of anxiety of school districts in their handling of 403(b) deferrals and, therefore, would fall far short of the goal to minimize school district administrative burdens. Fourth, it is unlikely to reduce costs to participants. (If an increase in the number of product providers were accomplished by adding mutual fund company options, those employees that invest in lower cost mutual fund options would enjoy a reduction in fees.) Finally, eliminating the list of qualified companies would eliminate State involvement in reviewing the range of products used to invest employer matching dollars.

Encourage the use of the billing trust proposed by Minnesota Education Association and School Administrators.

The SBI supports the effort undertaken by the MnEA and School Administrators to provide centralized administrative support to school districts for 403(b) matters. Mechanisms of this type have the potential to significantly reduce the administrative burden on school districts and, therefore, should be encouraged.

However, this option addresses only administrative issues. It does not have a specific investment component. It has the potential to minimize the administrative burden borne by school districts, but it does not alleviate the problems faced by individual employees in seeking information about the 403(b) opportunity and cost effective investment options. Therefore, the billing should not be seen as a comprehensive response to the 403(b) issue.

Encourage the use of the billing trust proposed by Minnesota Education Association and School Administrators and amend M.S., section 356.24 to provide for a qualified list of insurance companies and mutual fund companies to provide investment options for all 403(b) contributions not just for matching contributions.

Combining the use of the billing trust with a limited number of insurance company and mutual fund providers for all 403(b) contributions would provide some benefits to both the school districts and to employees. However, it does not address several important issues:

- It does not provide a centralized source for comprehensive information about the 403(b) opportunity and available investment options.

- It does not provide a centralized marketing to eliminate the fragmented marketing and distribution that characterizes the current environment.
- It does not provide a more limited array of investment options that would be more understandable to employees.

Seek federal legislation to simplify the Maximum Exclusion Allowance (MEA) calculation.

This option can be pursued independently of any consideration of the above options.

The Legislature could work with federal elected officials to simplify the MEA calculation. Simplifying the calculation would:

- reduce the administrative cost and burden of the requirement,
- reduce the level of anxiety borne by school districts and individual employees concerning the maximum amounts that may be deferred, and
- reduce product provider time devoted to the issue.

All parties involved in the market- employers, employees and product providers- would be able to concentrate limited resources on the provision of more effective products and information to enhance investment decisions by individual employees. This outcome would serve to make the 403(b) savings opportunity a more effective mechanism for retirement savings for individual employees. Therefore, the SBI recommends that this option be pursued independently of other options.

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ATTACHMENT A

Commissioner of Commerce Report on Evaluating Insurance Companies

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MINNESOTA DEPARTMENT OF COMMERCE

November 20, 1997

Mr. Howard J. Bicker
Executive Director
Minnesota State Board of Investment
Suite 105, MEA Building
55 Sherburne Avenue
St. Paul, MN 55155

RE: Legislative Study Regarding 403(b) Plans - Company Selection Criteria

Dear Mr. Bicker:

The Department of Commerce staff has reviewed SF 1486, article 8, section 8, from the 1997 legislative session. This section prescribes a study by the State Board of Investment, in consultation with the Commissioner of Commerce, and a request for "recommendations to the legislature on the most desirable method for evaluating insurance companies for purposes of Minnesota Statutes, section 356.24, subdivision 1, and on the most desirable method for the use of Internal Revenue Code, section 403(b), annuities and the most effective delivery mechanism to employees."

The Department of Commerce has considered the matter of evaluating of insurance companies for this purpose and recommends the following proposal for your consideration:

<u>Department of Commerce Proposal</u>
Companies would be screened for possible participation in the 403(b) program according to the following approach. A list of companies meeting either of the first two ratings criteria shown below, and also satisfying the third, would be prepared by the Department of Commerce and sent the State Board of Investment for its use in soliciting requests for proposal (RFP):

1. If a company maintains an A.M. Best Co. ("Best") rating in either of the highest two ratings, A++ or A+ (Superior), it would qualify, unless it had been assigned a Ratings Modifier by Best. Companies that are otherwise acceptable but have been assigned a Ratings Modifier would be acceptable/unacceptable based on the following:

   - g - group rating — accept
   - p - pooled rating — accept
   - r - reinsured rating — decline
   - u - under review — decline

2. If a company maintains a Best's rating in either of the next two categories, A or A- (Excellent), we would require that it have an Standard and Poor's (S&P) rating in the top two letter categories (i.e., AAA or AA, with AA- being the lowest acceptable) in order to qualify. The above caveats with regard to the Best's Ratings Modifiers would apply here as well. Further, the S&P rating must be based on a subjective determination, and not merely on the quantitative data (i.e., any S&P rating modified with a "q" or the new "p.i." would not qualify).

3. Companies should also be required to have experience in offering this type of product. Companies which meet either of the two above ratings criteria would be eliminated from further consideration if their annuity premiums/deposits are below a pre-established threshold (e.g., 25% of total premiums/deposits), based on the most recent filed statutory annual statement.

4. A further recommendation of the Department of Commerce is that the list of considered companies (i.e., those meeting the first three criteria) be reviewed and refreshed as frequently as the State Board of Investment deems prudent. In no case should this review be performed less frequently than once every five years.

5. Finally, we believe that the ultimate number of companies chosen from those considered, and participating in the state's program at any point in time, should be large enough to allow for effective competition, without resulting in a cumbersome situation for the institutions and the participants being served.

Summary of Results

In researching this issue, the Department of Commerce staff reviewed 1996 Best's information (without the modifiers, which were not available to us electronically) and the most recent S&P ratings information available on our database. For the first category above (not considering the Best's modifiers which would tend to eliminate companies), there were 144 companies which maintained either an A++ or an A+ (Superior) Best's rating. Of those 144, 66 had premiums/deposits for annuities (group and individual) of less than 25% of their total 1996 premiums/deposits. That leaves 78 companies which might be the most logical candidates to offer annuities to this market.

In the second category where Best's ratings are in the "Excellent" range, there were 48 companies which both maintained at least a AA- S&P rating, based on subjective criteria as well as quantitative. Of this total there were 33 companies which had 25% or more in annuity premiums/deposits for 1996.

Conclusion

The above results indicate that about 100+ companies meet the criteria we have set out, and could presumably be subject to receiving an RFP from your office. Some of those will ultimately fail to qualify, due to Best's Ratings Modifiers. In that regard, we will shortly be updating our database with the most recent 1997 Best's information, including the modifiers.

Please note that the foregoing is our suggested approach for identifying companies which could potentially be selected for the program by the State Board of Investment. This is offered without the benefit of seeing the portions of the study being performed by the State Board of Investment.

This is our proposal for your consideration. Please contact me after you have had a chance to review it or if you have any questions about what we have done.

Sincerely,

David B. Gruenes
Commissioner of Commerce

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ATTACHMENT B

Minnesota Statutes, Section 356.24

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356.24 SUPPLEMENTAL PENSION OR DEFERRED COMPENSATION PLANS, RESTRICTIONS UPON GOVERNMENT UNITS.

Subdivision 1. **Restriction; exceptions.** (a) It is unlawful for a school district or other governmental subdivision or state agency to levy taxes for, or contribute public funds to a supplemental pension or deferred compensation plan that is established, maintained, and operated in addition to a primary pension program for the benefit of the governmental subdivision employees other than:

(1) to a supplemental pension plan that was established, maintained, and operated before May 6, 1971;

(2) to a plan that provides solely for group health, hospital, disability, or death benefits;

(3) to the individual retirement account plan established by chapter 354B;

(4) to a plan that provides solely for severance pay under section 465.72 to a retiring or terminating employee;

(5) for employees other than personnel employed by the state university board or the community college board and covered by the board of trustees of the Minnesota state colleges and universities supplemental retirement plan under chapter 354C, if provided for in a personnel policy of the public employer or in the collective bargaining agreement between the public employer and the exclusive representative of public employees in an appropriate unit, in an amount matching employee contributions on a dollar for dollar basis, but not to exceed an employer contribution of $2,000 a year per employee;

(i) to the state of Minnesota deferred compensation plan under section 352.96; or

(ii) in payment of the applicable portion of the premium on a tax-sheltered annuity contract qualified under section 403(b) of the Internal Revenue Code, if purchased from a qualified insurance company, and if the employing unit has complied with any applicable pension plan provisions of the Internal Revenue Code with respect to the tax-sheltered annuity program during the preceding calendar year; or

(6) for personnel employed by the state university board or the community college board and not covered by clause (5), to the supplemental retirement plan under chapter 354C, if provided for in a personnel policy or in the collective bargaining agreement of the public employer with the exclusive representative of the covered employees in an appropriate unit, in an amount matching employee contributions on a dollar for dollar basis, but not to exceed an employer contribution of $2,000 a year for each employee.

(b) A qualified insurance company is a company that:

(1) meets the definition in section 60A.02, subdivision 4;

(2) is licensed to engage in life insurance or annuity business in the state;

(3) is determined by the commissioner of commerce to have a rating within the top two rating categories by a recognized national rating agency or organization that regularly rates insurance companies; and

(4) is determined by the state board of investment to be among the ten applicant insurance companies with competitive options and investment returns on annuity products. The state board of investment determination must be made on or before January 1, 1993, and must be reviewed periodically. The state board of investment may retain actuarial services to assist it in this determination and in its periodic review. The state board of investment may annually establish a budget for its costs in any determination and periodic review processes. The state board of investment may charge a proportional share of all costs related to the periodic review to those companies currently under contract and may charge a proportional share of all costs related to soliciting and evaluating bids in a determination process to each company selected by the state board of investment. All contracts must be approved before execution by the state board of investment. The state board of investment shall establish policies and procedures under section 11A.04, clause (2), to carry out this paragraph.

(c) A personnel policy for unrepresented employees or a collective bargaining agreement may establish limits on the number of vendors under paragraph (b), clause (5), that it will utilize and conditions under which the vendors may contact employees both during working hours and after working hours.

Subd. 2. **Limit on certain contributions or benefit changes.** No change in benefits or employer contributions in a supplemental pension plan to which this section applies after May 6, 1971, is effective without prior legislative authorization.

History: *1971 c 222 s 1; 1980 c 600 s 7; 1981 c 224 s 172; 1988 c 605 s 9; 1988 c 709 art 11 s 6; 1989 c 319 art 12 s 3; 1992 c 464 art 1 s 42; 1992 c 487 s 4; 1993 c 192 s 90; 1993 c 239 art 3 s 1; 1993 c 300 s 12; 1995 c 141 art 3 s 16; art 4 s 7; 1995 c 212 art 4 s 64*

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ATTACHMENT C

Comparison of Defined Contribution Plan Types
457, 401(k), 403(b)

Excerpt from a Report Prepared by the former SBI Deferred Compensation Programs
Consultant, PRIMCO Capital Management
"Positioning the Minnesota Deferred Compensation Plan for the Future," August 1996

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Section III

COMPARISON OF DEFINED CONTRIBUTION PLAN TYPES

Deferred compensation plans are only one of the types of defined contribution plans available to public sector employees. Depending on whether an individual works for a state or local government, a school district, or a college or university, he or she may be eligible to participate in one or more of the following defined contribution plans:

- a 457 deferred compensation plan (for employees of state and local governments and non-profit organizations),
- a 401(k) plan (for governmental entities that established a plan prior to July 1986, and for employees of private sector firms),
- a 403(b) plan (for employees of school districts, institutions of higher learning, and non-profit organizations), or
- a 401(a) defined contribution plan.

There are many similarities between the various types of defined contribution plans, but there are also important differences. In addition to variations in the types of entities that may sponsor each plan, there are also differences in the way that these plans are funded and managed. For example:

<u>457 Plans</u>

- Ownership: Until recently, the assets of 457 plans remained the property of the employer until they were paid out to the employee. New legislation requires that by 1999, all municipalities will hold plan assets in a trust, a custodial account, or an annuity contract that provides a vested ownership interest for all participating employees.

- Vendors: These plans have historically used one or more vendors that each provide a full array of investment, administration, and enrollment services. However, some plans now use a third party administrator to provide all of the plan's recordkeeping and enrollment services, and use a combination of mutual funds and separately managed funds to provide the investment options.

- Plan Provisions: Assets cannot be rolled to an IRA, and the payout election may be changed once after election is made.

403(b) Plans

- Ownership: The assets vest to the employee immediately. Assets are held in trust if mutual funds are used.

- Vendors: 403(b) plans are prohibited from investing in any investments other than insurance company annuities and mutual funds. Bank commingled funds and separately managed portfolios are, therefore, not available for these plans. Almost all 403(b) plans use one or more full-service vendors.

- Plan Provisions: Loans are allowed, and payout provisions under Section 403(b) are flexible. However, most of the insurance contracts used to fund these plans have exit restrictions and/or deferred sales charges.

401(k) and 401(a) Plans

- Ownership: The assets of 401(k) plans and 401(a) plans are typically held in trust for participants.

- Vendors: These plans are used heavily by the private sector. The vast majority of these plans use one outside firm for participant recordkeeping. Typically plan enrollment activities are conducted in-house. Multiple mutual funds and/or money managers provide the investment options. There has been a trend in recent years to bundle 401(k) plan services with a single mutual fund provider (as opposed to the 457 plan tradition of using insurance companies for full plan services). However, many 401(k) plans that have opted to use a mutual fund company's recordkeeping and investment education services have also insisted that the vendor allow the use of outside funds. Unlike insurance companies, mutual funds do not levy a deferred sales charge if the employee transfers to one of the outside funds or if the plan sponsor decides to change vendors.

- Plan Provisions: Loans are allowed, assets may be rolled to an IRA, and exit provisions are very flexible.

The table below highlights the key similarities and differences between the types of defined contribution plans that are available to government employees.

COMPARISON OF DEFINED CONTRIBUTION PLANS

Issue	457 Plans	401(k) Plans	403(b) Plans
Eligible employees	Employees of state and local governments and non-profit organizations	Employees of private sector companies and governmental entities that established a 401(k) plan prior to July 1986	Employees of non-profit organizations, school districts, and institutions of higher education

Issue	457 Plans	401(k) Plans	403(b) Plans
Role	Supplemental retirement savings plan	May be either primary or supplemental retirement savings plan	Supplemental retirement savings plan
Contributions and earnings	Tax deferred	Tax deferred	Tax deferred
Contributions	Made by employee. Typically does not have an employer match	Typically has employee contributions with an employer match	Employee. Typically does not have an employer match
Ownership of assets	Assets will be held in trust for the employee	Assets are held in trust for the employee	Assets are owned by the employee
Acceptable investments	Insurance company annuities, mutual funds, separately managed portfolios, and commingled funds	Insurance company annuities, mutual funds, separately managed portfolios, and commingled funds	Insurance company annuities and mutual funds only
Most frequent investment vehicle	Insurance company annuities	Mutual funds	Insurance company annuities
Maximum deferral amount	Currently the lesser of $7,500 or 25% of pay; will be indexed in the future	The lesser of $9,500 or 20% of pay, indexed for inflation	The lesser of $9,500, 20% of pay, or maximum exclusion allowance
Catch-up provision	Allowed for last three years before normal retirement, with a maximum of $15,000 per year	No catch-up allowed	Allowed after 15 years of service. May not exceed $3,000 per year or $15,000 in total
In-service withdrawals	Allowed for unforeseeable financial emergencies only	Withdrawals may be made for any reason, if permitted by the plan	Allowed for financial emergency
Loans	Will be allowed if permitted by the plan	Permitted	Allowed if permitted by the plan
Payout elections	One-time change permitted	Changes in timing and amount of payout permitted	Changes in timing and amount of payout permitted
Rollover to IRA or other plan.	Not permitted	Permitted	Permitted

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ATTACHMENT D

List of Companies Meeting Requirements of 356.24
As Determined by Commissioner of Commerce, July 1992

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OFFICE OF THE COMMISSIONER

STATE OF MINNESOTA

DEPARTMENT OF COMMERCE

133 EAST 7th STREET
ST. PAUL, MN 55101
612/296-4026
FAX: 612/296-4328

July 10, 1992

Mr. James E. Heidelberg
Assistant to the Executive Director
Minnesota State Board of Investment
Suite 105, MEA Building
55 Sherburne Avenue
St. Paul, MN 55155

Dear Mr. Heidelberg:

The following list of companies:

1) meets the definition in Minnesota Statutes 60A.02, subd. 4;
2) are licensed to engage in life insurance or annuity business in the state of Minnesota and
3) have been determined to have a rating within the top two rating categories according to the 1991 LIFE-HEALTH edition of BEST'S INSURANCE REPORTS as prepared by the national rating agency, A.M. BEST COMPANY.

Performance Modifiers:
"c" Contingent Rating accepted for A+ rated companies and declined for A rated companies.

Affiliation Modifiers:
"e" Parent Rating - declined
"p" Pooled Rating - accepted
"r" Reinsured Rating - accepted

Sincerely,

Rochelle Bergin
Deputy Commissioner
SAS:mp

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Alpha Sort

CoCode Company Name	Dom	Best Rating	Assets w/o Sep Accts (P2L22)	Assets w/ Sep Accts (P2L24)	C&S (P3L37)	MN Annuity Considerations (P46L2)	MN Premium & Ann. Total (P46L4)	MN A&H Premium Total (P46L25)	MN Total Premiums (P46L4+P46L2
71854 AAA LIFE INS CO	DC	A	22,294,890	22,294,890	7,285,134	0	313	38,905	39,21
60038 ACACIA MUTUAL LIFE INS CO	DC	A+c	829,398,448	829,398,448	81,824,798	0	128,822	1,794	130,61
85685 ACACIA NATIONAL LIFE INS CO	VA	A	355,682,828	383,434,181	20,520,582	0	3,868	0	3,86
~~60040 ACADEMY LIFE INS CO~~	~~CO~~	~~B+~~	~~304,289,142~~	~~304,289,142~~	~~39,819,400~~	~~0~~	~~39,720~~	~~30,959~~	~~69,77~~
~~71000 ACCELERATION LIFE INS CO~~	~~OH~~	~~A~~	~~104,700,572~~	~~104,700,572~~	~~20,003,177~~	~~0~~	~~1,049~~	~~36,211~~	~~37,26~~
~~93742 ADJUSTABLE LIFE INS CO~~	~~MN~~	~~NA-2~~	~~7,174,982~~	~~7,174,982~~	~~6,549,958~~	~~0~~	~~29,104~~	~~10,140~~	~~39,27~~
71390 ADMIRAL LIFE INS CO OF AMERICA	AZ	A	26,239,502	26,239,502	5,737,375	0	5,242	37,567	42,80
~~76053 AETNA INS CO OF AMERICA~~	~~CT~~	~~NA~~	~~10,955,982~~	~~10,955,832~~	~~10,909,732~~	~~0~~	~~0~~	~~0~~	
60054 AETNA LIFE INS CO	CT	A+	37,728,351,849	52,355,001,335	1,855,158,737	(328,461)	3,678,748	15,629,559	19,308,30
~~87401 AETNA LIFE INS CO OF AMERICA~~	~~CT~~	~~NA-3~~	~~190,340,780~~	~~190,340,780~~	~~21,544,201~~	~~0~~	~~0~~		
~~78700 AETNA LIFE INS CO OF ILLINOIS~~	~~IL~~	~~A~~	~~796,142,867~~	~~796,142,867~~	~~80,269,292~~	~~0~~	~~16,555~~	~~295,384~~	~~311,91~~
86509 AETNA LIFE INS & ANNUITY CO	CT	A+	8,337,768,598	13,442,122,897	459,234,548	8,329,711	10,431,657	4,083	10,435,74
68842 AIG LIFE INS CO	DE	A	1,527,879,505	1,574,998,957	68,113,298	108,506	1,011,529	623,264	1,634,79
88358 ALEXANDER HAMILTON LIFE INS CO OF AM	MI	A+	4,751,326,843	4,751,326,843	193,970,543	739,350	9,697,890	147,088	9,844,97
60097 ALL AMERICAN LIFE INS CO	IL	A+	1,148,842,052	1,148,842,052	130,531,179	568,353	3,605,919	143,740	3,749,65
60178 ALLIED LIFE INS CO	IA	A+c	304,694,537	304,694,537	23,999,210	6,894,800	6,692,428	35,968	6,728,39
60186 ALLSTATE LIFE INS CO	IL	A+	17,847,201,698	17,933,915,840	900,318,232	8,903,551	12,396,186	1,376,908	13,773,09
~~60348 ALPINE LIFE INS CO~~	~~NJ~~	~~NA-4~~	~~15,479,542~~	~~15,479,542~~	~~10,302,003~~	~~0~~	~~0~~	~~0~~	
~~60269 AMALGAMATED LIFE & HEALTH INS CO~~	~~IL~~	~~C+~~	~~7,390,700~~	~~7,390,700~~	~~2,404,080~~	~~0~~	~~0~~	~~0~~	
60275 AMERICAN BANKERS LIFE ASR CO OF FL	FL	A	520,012,854	520,012,854	91,955,136	46,653	3,366,891	2,271,548	5,638,43
~~85863 AMERICAN CENTURION LIFE & ACC ASR CO~~	~~CA~~	~~A+c~~	~~830,806,393~~	~~830,806,393~~	~~60,222,400~~		~~94,677~~	~~6,692,594~~	~~6,787,47~~
~~61506 AMERICAN COMBINED LIFE INS CO~~	~~NE~~	~~A+c~~	~~40,085,784~~	~~40,085,784~~	~~24,347,966~~	~~0~~		~~81,292~~	~~81,29~~
~~94234 AMERICAN ENTERPRISE LIFE INS CO~~	~~IN~~	~~A+c~~	~~756,560,651~~	~~756,380,851~~	~~36,383,898~~	~~97,130,287~~	~~97,100,287~~	~~0~~	~~97,100,28~~
60380 AMERICAN FAMILY LIFE ASR CO OF COLUM	GA	A	8,475,906,433	8,475,906,433	759,600,460	0	20,187	17,110,840	17,131,02
60399 AMERICAN FAMILY LIFE INS CO	WI	A+	1,152,877,177	1,152,877,177	137,605,814	3,403,432	24,160,087	70,279	24,230,36
60410 AMERICAN FIDELITY ASR CO	OK	A+	688,977,468	725,021,564	103,210,747	21,575	208,775	797,165	1,005,94
~~60429 AMERICAN FIDELITY LIFE INS CO~~	~~FL~~	~~A~~	~~209,945,728~~	~~210,945,728~~	~~37,474,100~~	~~2,520~~	~~76,099~~	~~0~~	~~76,09~~
~~69337 AMERICAN FINANCIAL SECURITY LIFE I C~~	~~MO~~	~~NA-2~~	~~5,024,820~~	~~5,024,820~~	~~4,090,908~~	~~0~~	~~1,067~~	~~0~~	~~1,06~~
~~60445 AMERICAN FOUNDERS LIFE INS CO~~	~~TX~~	~~A-~~	~~328,288,130~~	~~328,288,130~~	~~30,200,297~~	~~0~~	~~11,115~~	~~0~~	~~11,11~~
~~94226 AMERICAN FRANKLIN LIFE INS CO~~	~~IL~~	~~A+c~~	~~24,201,756~~	~~29,828,320~~	~~14,519,221~~	~~0~~	~~68,226~~	~~39,386~~	~~107,61~~
60453 AMERICAN GENERAL LIFE INS CO	DE	A+	0	0	0	0	0	0	
67571 AMERICAN GENERAL LIFE INS CO OF NY	NY	A+	562,339,520	563,169,835	62,308,760	50	66,945	98	67,04
68672 AMERICAN GENERAL LIFE & ACC INS CO	TN	A+	3,677,901,559	3,677,901,559	344,812,789	889	68,304	3,613	71,91
60518 AMERICAN HEALTH & LIFE INS CO	MD	A+	569,999,751	569,999,751	69,966,055	(930)	175,120	220,886	396,00
60534 AMERICAN HERITAGE LIFE INS CO	FL	A	770,915,185	770,915,185	73,766,701	30,889	112,693	431,082	543,77
60577 AMERICAN INCOME LIFE INS CO	IN	A	429,440,857	429,440,857	50,567,220	1,857	1,898,339	791,775	2,690,11
60607 AMERICAN INTERNATL LIFE ASR CO OF NY	NY	A	2,724,519,799	2,749,281,233	109,248,939	795,445	878,473	134,353	1,012,82
~~60691 AMERICAN INVESTORS LIFE INS CO~~	~~KS~~	~~A~~	~~1,704,909,229~~	~~1,704,909,229~~	~~89,571,988~~	~~174,984~~	~~170,192~~	~~0~~	~~170,1~~
60704 AMERICAN LIFE INS CO OF NEW YORK	NY	A+c	916,845,575	916,845,575	52,044,650	14,792	449,984	224,526	674,49
60682 AMERICAN LIFE & CASUALTY INS CO	IA	A	2,614,554,035	2,634,880,375	116,279,522	14,203,138	16,098,276	(36)	16,098,23
~~90948 AMERICAN MERCHANTS LIFE INS CO~~	~~MN~~	~~B~~	~~30,831,987~~	~~30,831,987~~	~~6,670,930~~	~~285,265~~	~~1,304,842~~	~~15,057~~	~~1,319,89~~
60720 AMERICAN MUTUAL LIFE INS CO	IA	A+c	1,019,717,456	1,019,717,456	99,596,166	3,641,702	6,769,482	4,832	6,774,31
60739 AMERICAN NATIONAL INS CO	TX	A+	3,950,291,913	4,079,900,241	998,098,097	502,121	4,853,464	1,482,823	6,336,08
~~74773 AMERICAN NATIONAL LIFE INS CO OF TX~~	~~TX~~	~~A+c~~	~~62,998,818~~	~~62,998,813~~	~~24,764,212~~	~~19~~	~~106,167~~	~~0~~	~~106,16~~
~~60863 AMERICAN PATRIOT HEALTH INS CO OF NY~~	~~NY~~	~~A~~	~~25,660,068~~	~~25,660,068~~	~~14,497,694~~	~~0~~	~~0~~	~~1,845~~	~~1,84~~
~~60824 AMERICAN PROGRESSIVE L&H I C OF NY~~	~~NY~~	~~NA-5~~	~~77,931,069~~	~~77,931,069~~	~~6,856,550~~	~~0~~	~~0~~	~~2,150~~	~~2,15~~
60836 AMERICAN REPUBLIC INS CO	IA	A+c	319,287,193	601,758,751	56,268,927	0	352,353	2,967,411	3,319,76
~~86630 AMERICAN SKANDIA LIFE ASSURANCE CORP~~	~~CT~~	~~NA-3~~	~~11,382,258~~	~~221,300,308~~	~~7,923,927~~	~~842,001~~	~~842,001~~	~~0~~	~~842,00~~
60879 AMERICAN STATES LIFE INS CO	IN	A+	305,628,323	305,628,323	57,079,701	348,753	1,466,246	0	1,466,24
~~81140 AMERICAN TRAVELERS ASSURANCE CO~~	~~IA~~	~~NA-2~~	~~5,303,028~~	~~5,308,028~~	~~8,450,907~~	~~0~~	~~(9,456)~~	~~0~~	~~(9,45~~
60895 AMERICAN UNITED LIFE INS CO	IN	A+	4,407,404,188	4,523,082,754	195,986,360	3,611,971	5,163,219	244,950	5,408,16
~~97314 AMERICAN VANGUARD LIFE INS CO~~	~~IA~~	~~NA-4~~	~~47,195,787~~	~~47,195,787~~	~~9,075,797~~	~~0~~	~~0~~		
~~68594 AMERICAN - AMICABLE LIFE INS CO OF TX~~	~~TX~~	~~NA-3~~	~~193,145,115~~	~~193,145,115~~	~~44,891,227~~	~~4,400~~	~~177,241~~	~~0~~	~~177,24~~
61301 AMERITAS LIFE INS CORP	NE	A+	1,415,718,309	1,429,766,633	131,118,400	102,254	691,077	901,809	1,592,88
~~97977 AMERITAS VARIABLE LIFE INS CO~~	~~NE~~	~~A+c~~	~~14,083,810~~	~~85,401,874~~	~~10,700,927~~	~~388,179~~	~~399,738~~	~~0~~	~~399,73~~
67962 AMEX LIFE ASSURANCE CO	CA	A+	1,222,118,051	1,222,118,051	235,872,812	59	1,968,022	1,479,374	3,447,39
72222 AMICA LIFE INS CO	RI	A	187,543,161	187,543,161	18,013,740	15,354	59,904	0	59,90
~~60941 ANCHOR NATIONAL LIFE INS CO~~	~~CA~~	~~A~~	~~1,962,920,065~~	~~4,920,991,152~~	~~141,724,511~~	~~20,021,004~~	~~20,021,004~~	~~0~~	~~20,021,00~~
85286 ANTHEM LIFE INS CO	TX	A	430,429,391	430,429,391	97,340,978	0	262,873	444,603	707,47
61089 ANTHEM LIFE INS CO OF IN	IN	A	38,758,444	38,758,444	16,857,593	0	1,369	299	1,66
71838 ASSOCIATES FINANCIAL LIFE INS CO	TN	A+	540,976,952	540,976,952	233,766,431	0	134,024	212,684	346,70
61085 ASSOCIATION LIFE INS CO INC	WI	A	178,397,551	178,397,551	63,842,087	0	36,268	972,170	1,008,43
84522 AUTO CLUB LIFE INS CO	MI	A	38,762,872	38,762,872	11,607,713	0	2,870	104	2,97
91190 AUTO-OWNERS LIFE INS CO	MI	A+	369,404,505	369,404,505	42,663,754	1,596,702	2,906,023	105,453	3,011,47
68160 BALBOA LIFE INS CO	CA	A+	232,586,027	232,586,027	52,270,855	0	232,103	386,529	618,63
61263 BANKERS LIFE & CAS CO	IL	A	1,585,849,249	1,585,849,249	187,500,449	1,599,778	3,759,135	22,274,441	26,033,57
61336 BANKERS MUTUAL LIFE INS CO	IL	A+	152,384,818	152,384,818	12,187,868	212,227	342,512	0	342,5
~~71900 BANKERS NATIONAL LIFE INS CO~~	~~TX~~	~~NA-4~~	~~1,482,768,251~~	~~1,487,372,357~~	~~107,300,000~~	~~1,170~~	~~695,012~~	~~0~~	~~695,0~~
~~61380 BANKERS SECURITY LIFE INS SOCIETY~~	~~NY~~	~~A~~	~~592,384,726~~	~~857,009,900~~	~~62,500,552~~	~~246,214~~	~~785,075~~	~~6,260~~	~~791,3~~
61387 BANKERS UNITED LIFE ASSURANCE CO	IA	A	1,456,546,018	1,456,546,018	85,872,204	0	177,405	343,872	521,27
94250 BANNER LIFE INS CO	MD	A+	603,764,279	608,843,436	110,240,495	2,404,894	5,078,265	243	5,078,50
~~80985 BCS LIFE INS CO~~	~~IL~~	~~A~~	~~58,679,547~~	~~58,679,547~~	~~37,140,507~~	~~0~~	~~6,043~~	~~82,274~~	~~88,3~~
61395 BENEFICIAL LIFE INS CO	UT	A+	1,208,447,517	1,219,803,093	84,860,722	1,336	39,235	0	39,2
61417 BENEFICIAL STANDARD LIFE INS CO	CA	A+c	1,991,423,032	1,991,423,032	101,612,516	573,986	576,322	57,908	634,23
61425 BENEFIT TRUST LIFE INS CO	IL	A	400,805,459	400,805,459	88,574,334	1,904	478,833	8,031,498	8,510,33
61433 BERKSHIRE LIFE INS CO	MA	A+	842,955,950	883,776,595	51,116,956	0	71,565	8,597	78,16
61476 BOSTON MUTUAL LIFE INS CO	MA	A	328,870,857	328,970,857	37,714,352	0	152,734	3,674,354	3,827,08
~~86371 BRADFORD NATIONAL LIFE INS CO~~	~~KY~~	~~A~~	~~182,521,504~~	~~182,521,504~~	~~8,888,207~~	~~16,396~~	~~371,031~~	~~18,221~~	~~384,2~~
61492 BUSINESS MENS ASSURANCE CO OF AM	MO	A+	1,000,879,623	1,000,879,623	156,057,872	287,748	2,509,132	7,318,635	9,827,76
~~80659 CANADA LIFE ASSURANCE CO~~	~~MI~~	~~NA~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
~~60495 CAPITAL INVESTORS LIFE INS CO~~	~~FL~~	~~NA-3~~	~~26,502,915~~	~~26,502,915~~	~~5,356,847~~	~~0~~	~~709~~	~~4,765~~	~~5,4~~
78174 CAPITOL AMERICAN LIFE INS CO	AZ	A	253,958,826	253,958,826	47,848,062	0	0	2,778,880	2,778,88
~~62421 CAPITOL BANKERS LIFE INS CO~~	~~MN~~	~~B~~	~~404,529,497~~	~~404,529,497~~	~~25,933,333~~	~~6,687~~	~~610,638~~	~~0~~	~~610,6~~
~~61581 CAPITOL LIFE INS CO~~	~~CO~~	~~NA-4~~	~~1,207,503,101~~	~~1,249,116,786~~	~~57,011,100~~	~~194~~	~~194~~	~~0~~	~~1~~
~~93661 CARILLON LIFE INS CO~~	~~OH~~	~~NA-4~~	~~8,430,511~~	~~8,430,511~~	~~7,235,841~~	~~0~~	~~0~~	~~0~~	
80799 CELTIC LIFE INS CO	IL	A	132,973,482	132,973,482	58,079,919	0	16,336	751,657	768,99
~~61654 CENTENNIAL LIFE INS CO~~	~~KS~~	~~NA-3~~	~~55,926,656~~	~~55,926,656~~	~~9,439,917~~	~~0~~	~~13,742~~	~~26,922~~	~~40,6~~
61689 CENTRAL LIFE ASSURANCE CO	IA	A+c	2,238,376,339	2,238,376,339	152,700,844	482,775	19,437,397	558,023	19,995,42
61700 CENTRAL NATL LIFE INS CO OF OMAHA	NE	A+	642,941,855	694,842,438	175,965,612	2,187,955	2,420,865	195,423	2,616,28
~~61751 CENTRAL STATES H & L CO OF OMAHA~~	~~NE~~	~~A~~	~~136,903,033~~	~~136,903,033~~	~~38,428,995~~	~~847~~	~~587,765~~	~~8,281,144~~	~~8,878,9~~
~~61883 CENTRAL UNITED LIFE INS CO~~	~~IA~~	~~A~~	~~51,149,987~~	~~51,149,987~~	~~7,079,987~~	~~800~~	~~71,633~~	~~0~~	~~71,6~~
62383 CENTURION LIFE INS CO	MO	A+	368,182,327	368,182,327	229,415,947	0	1,464,916	1,920,447	3,385,36
~~92738 CENTURY LIFE INS CO~~	~~IA~~	~~NA-4~~	~~91,330,808~~	~~91,330,808~~	~~16,903,211~~	~~53,088~~	~~86,796~~	~~0~~	~~86,7~~
65749 CENTURY LIFE OF AMERICA	IA	A+	1,762,164,857	1,639,805,194	91,598,072	10,505,913	17,890,512	179,971	18,070,48

CoCode	Company Name	Dom	Best Rating	Assets w/o Sep Accts (P2L22)	Assets w/ Sep Accts (P2L24)	C&S (P3L37)	MN Annuity Considerations (P48L2)	MN Premium & Ann. Total (P48L4)	MN A&H Premium Total (P48L25)	MN Total Premiums (P48L4+P48L25
61778	CERTIFIED LIFE INS CO	CA	A+	122,886,281	122,886,281	47,002,817	0	2,727	33,534	36,261
61808	CHARTER NATIONAL LIFE INS CO	MO	A	1,215,444,598	1,329,421,258	207,406,332	644,519	675,452	0	675,452
61832	~~CHESAPEAKE LIFE INS CO~~	MD	NA-10	43,053,264	43,953,264	8,049,343	500	7,040	27,852	34,892
79677	~~CHRYSLER LIFE INS CO~~	MI	NA-4	65,286,456	65,286,456	20,682,097	0	5,492	7,111	12,603
60065	~~CHUBB LIFE INS CO OF AMERICA~~	NH	NA	0	0	0	0	0	0	0
70254	CHUBB LIFE INS CO OF AMERICA	NH	A+	1,488,714,177	1,510,896,960	318,355,121	19,915	1,141,911	362,774	1,504,685
60476	~~CHUBB SOVEREIGN LIFE INS CO~~	CA	A-	329,365,049	329,365,049	48,097,903	85,000	1,889,038	0	1,889,33
65820	~~CIGNA LIFE INS CO~~	CT	NA-4	16,667,767	16,667,767	7,643,468	0	0	0	0
76236	CINCINNATI LIFE INS CO	OH	A+	502,801,960	502,801,960	178,089,463	3,333	271,638	37,828	309,465
93432	~~CM LIFE INS CO~~	CT	A+c	664,755,137	664,755,137	59,412,748	0	1,539,020	0	1,539,020
61999	~~COLLEGE LIFE INS CO OF AMERICA~~	IN	Ae	217,237,614	217,237,614	39,106,721	3,626	169,325	0	169,325
86258	COLOGNE LIFE REINSURANCE CO	CT	A+c	270,592,640	270,592,640	66,535,845	0	0	0	0
62057	COLONIAL LIFE INS CO OF AMERICA	NJ	A	594,386,639	594,386,639	72,617,534	0	419,869	5,859,163	6,279,032
62049	COLONIAL LIFE & ACCIDENT INS CO	SC	A+	430,481,554	430,481,554	83,229,899	0	191,303	2,363,859	2,555,162
93610	~~COLONIAL PENN ANNUITY & LIFE INS CO~~	DE	A+e	219,833,241	219,833,241	12,799,906	1,199,516	1,199,516	0	1,199,516
62065	COLONIAL PENN LIFE INS CO	PA	A+	588,347,475	634,332,317	91,072,544	0	433,006	755,461	1,188,46
84786	COLORADO BANKERS LIFE INS CO	CO	A	49,271,417	49,271,417	9,794,073	0	49,977	16	49,99
62103	COLUMBIAN MUTUAL LIFE INS CO	NY	A	327,940,378	327,940,378	22,832,691	0	37,556	0	37,55
62146	COMBINED INS CO OF AMERICA	IL	A+	2,345,927,433	2,345,927,433	693,351,997	0	1,897,914	15,951,872	17,849,78
60500	~~COMMERCIAL LIFE INS CO~~	WI	A	276,051,717	276,051,717	52,049,950	0	4,207,070	693,913	4,901,10
61425	~~COMMERCIAL TRAVELERS MUTUAL INS CO~~	NY	A	26,249,926	26,249,926	9,102,300	0	0	1,134,101	1,134,1
62898	COMMERCIAL UNION LIFE INS CO OF AM	DE	A+c	752,328,907	752,328,907	58,863,754	148,218	288,204	2,048,139	2,314,34
62227	COMMONWEALTH LIFE INS CO	KY	A+	4,020,739,154	4,369,441,970	241,353,315	0	165,198	987	166,18
94080	~~COMMUNITY NATIONAL ASR CO~~	KS	NA-8	0	0	0	0	0	0	0
80987	~~CONFEDERATION LIFE INS CO~~	MI	NA	0	0	0	0	0	0	0
99384	~~CONFEDERATION LIFE INS & ANNUITY CO~~	GA	A+e	132,614,559	147,077,153	10,893,300	0	138,278	0	138,278
73504	~~CONGRESS LIFE INS CO~~	AZ	B+	22,506,241	22,506,245	10,235,665	0	18,020	104,172	122,19
62308	CONNECTICUT GENERAL LIFE INS CO	CT	A+	28,804,530,192	41,692,344,294	1,497,866,103	1,410,312	16,102,483	8,785,764	24,888,247
62316	CONNECTICUT MUTUAL LIFE INS CO	CT	A+	9,826,081,968	11,111,600,522	525,322,870	7,751	4,682,468	1,846,709	6,529,177
63789	~~CONNECTICUT NATIONAL LIFE INS CO~~	NJ	NA-9	297,602,674	297,602,674	16,405,220	43,081	1,145,148	18,876	1,164,024
62359	CONSTITUTION LIFE INS CO	KY	A+c	807,027,556	924,457,326	95,188,296	1,187	60,290	0	60,290
62278	~~CONSUMERS UNITED INS CO~~	DE	NA-9	27,298,002	27,298,002	6,799,129	0	6,606	351,516	358,122
62405	CONTINENTAL AMERICAN LIFE INS CO	DE	A+	564,650,518	594,432,201	87,483,876	1,900	506,774	153,458	660,232
62413	CONTINENTAL ASSURANCE CO	IL	A+p	4,111,258,974	10,943,711,171	966,460,393	2,381,284	3,618,318	852,475	4,470,793
71404	~~CONTINENTAL GENERAL INS CO~~	NE	A-c	126,605,299	126,605,299	26,082,517	152,465	629,758	6,392,469	7,022,222
62464	~~CONTINENTAL LIFE & ACCIDENT CO~~	ID	NA-8	59,065,109	59,065,109	6,604,050	0	28,765	565,292	594,057
62510	CONTINENTAL WESTERN LIFE INS CO	IA	A	304,321,739	304,321,739	22,844,190	5,824	1,397,857	134,099	1,531,956
68012	COVENANT LIFE INS CO	PA	A+c	513,359,627	541,173,382	48,255,024	240,823	829,910	0	829,910
62596	~~CREDIT LIFE INS CO~~	OH	B	107,460,111	107,460,111	28,909,040	0	667,255	1,227,827	2,095,082
64602	~~CROWN AMERICA LIFE INS CO~~	MI	NA-3	319,433,248	454,702,457	19,320,780	0	0	0	0
80675	~~CROWN LIFE INS CO~~	MI	NA	0	0	0	0	0	0	0
66125	~~CUMIS LIFE INS INC~~	WI	NA-5	238,139,314	238,130,314	55,929,714	0	0	(21,000)	(21,000)
62626	CUNA MUTUAL INS SOCIETY	WI	A	1,371,851,521	1,371,851,520	213,452,578	430,072	5,454,923	4,830,169	10,285,112
65145	DELTA LIFE & ANNUITY CO	TN	A	700,569,014	700,569,014	42,938,722	696	696	0	696
74080	~~DIAMOND BENEFITS LIFE INS CO~~	AZ	NA	0	0	0	0	0	0	0
93548	~~DREYFUS CONSUMER LIFE INS CO~~	CT	NA-2	9,031,950	9,031,950	6,990,002	0	0	0	0
70688	~~DREYFUS LIFE INS CO~~	NY	NA-2	16,472,656	16,472,656	11,011,204	0	197	0	197
62707	DURHAM LIFE INS CO	NC	A+	648,086,922	694,126,022	61,842,869	0	12,172	32,224	44,396
62731	~~EARLY AMERICAN LIFE INS CO~~	MN	B+	91,649,791	91,649,791	2,757,921	2,675,030	6,086,720	79,822	6,165,54
78611	~~EBRLIFE INS CO~~	OK	NA-3	129,209,140	129,209,140	100,092,804	0	0	1,510,053	1,510,05
64174	EMPLOYEES LIFE CO MUTUAL	IL	A	60,938,387	60,938,387	6,514,293	0	270,644	1,804	272,44
73288	EMPLOYERS HEALTH INS CO	WI	A	484,841,835	501,197,312	193,553,185	5,483	731,452	27,386,562	28,118,014
62901	EMPLOYERS LIFE INS CO OF WAUSAU	WI	A	769,528,638	694,065,935	94,137,871	140,381	724,901	3,775	728,67
62928	~~EMPLOYERS MODERN LIFE CO~~	IA	Ac	86,596,018	86,596,018	7,938,113	128,824	696,292	11,000	707,92
68276	EMPLOYERS REASSURANCE CORP	KS	A	1,200,805,260	1,200,805,260	297,374,018	0	0	0	0
64149	~~EPIC LIFE INSURANCE CO~~	WI	NA-3	10,480,776	10,480,776	12,074,920	0	998	223,469	224,32
62944	~~EQUITABLE LIFE ASR SOC OF THE US~~	NY	A	34,317,944,833	50,952,792,686	1,107,981,451	85,874,156	92,932,391	4,118,800	86,851,19
81140	~~EQUITABLE LIFE INS CO~~	VA	A+	0	0	0	0	0	0	0
62979	EQUITABLE LIFE INS CO OF IOWA	IA	A+	1,770,128,450	1,842,832,727	233,321,106	5,268,496	9,393,954	26,067	9,420,02
62880	~~EQUITABLE OF COLORADO INC~~	CO	A+	649,838,145	649,836,145	31,926,912	0	1,165,000	0	1,165,000
81391	~~EQUITABLE VARIABLE LIFE INS CO~~	NY	A	7,919,647,775	10,193,406,004	486,095,401	0	15,721,991	0	15,721,99
86877	~~EXECUTIVE FUND LIFE INS CO~~	NE	B	86,827,292	86,827,292	29,081,411	0	48,864	1,346,402	1,395,456
83010	~~EXECUTIVE LIFE INS CO~~	GA	NA-10	0	0	0	0	0	0	0
80322	FAMILY GUARDIAN LIFE INS CO	AZ	A	291,511,125	291,511,125	210,918,383	0	73,930	2,766	76,696
63053	~~FAMILY LIFE INS CO~~	WA	NA-5	141,776,400	187,530,791	26,031,400	0	496,020	92,665	529,288
74004	~~FAMILY SERVICE LIFE INS CO~~	TX	A	837,876,806	837,876,805	54,171,476	166,767	351,966	0	351,966
63088	FARM BUREAU LIFE INS CO	IA	A+c	1,033,083,692	1,033,877,144	154,075,229	125,742	7,185,087	1,267,985	8,453,072
63177	FARMERS NEW WORLD LIFE INS CO	WA	A+	2,071,883,282	2,587,303,594	564,244,241	105,440	7,462,385	5,852	7,468,237
63193	FARMERS & TRADERS LIFE INS CO	NY	A+	202,823,150	202,823,150	13,672,557	0	4,342	103	4,445
63150	FARMLAND LIFE INS CO	IA	A	125,690,465	125,690,465	53,211,215	73,820	419,369	1,268,134	1,687,503
90646	FBL INSURANCE CO	IA	A	403,563,167	403,563,167	25,212,867	6,069,064	6,069,064	0	6,069,064
87695	FEDERAL HOME LIFE INS CO	IN	A+c	1,431,853,978	1,431,853,978	137,828,746	3,838,095	3,979,445	45,783	4,025,228
63207	FEDERAL KEMPER LIFE ASSURANCE CO	IL	A	2,558,214,971	2,909,109,200	222,339,310	1,362,470	4,966,806	0	4,966,806
63223	FEDERAL LIFE INS CO (MUTUAL)	IL	A	154,424,218	177,745,459	39,580,573	0	31,432	9,957	41,389
63258	FEDERATED LIFE INS CO	MN	A+	332,258,055	332,258,055	72,357,950	4,055,958	8,851,128	872,636	9,723,764
63266	~~FIDELITY BANKERS LIFE INS CO~~	VA	NA-10	3,991,184,959	3,991,184,959	(61,709,453)	2,231,069	2,971,711	704	2,972,415
93696	~~FIDELITY INVESTMENTS LIFE INS CO~~	PA	NA-3	40,035,540	400,410,650	31,130,932	0	5,000	0	5,000
63290	FIDELITY LIFE ASN	IL	A	683,151,743	683,151,743	117,839,756	0	43,277	0	43,277
63304	~~FIDELITY MUTUAL LIFE INS CO~~	PA	A	1,233,965,853	1,285,474,908	59,959,922	7,971	141,732	2,046	143,778
71870	FIDELITY SECURITY LIFE INS CO	MO	A	228,873,070	228,873,070	25,771,727	0	88,465	1,917,322	2,005,787
93246	FIDELITY STANDARD LIFE INS CO	DE	A	226,466,507	235,865,518	14,406,274	0	0	0	0
92509	FIDELITY UNION LIFE INS CO	TX	A+	885,334,188	885,334,188	150,566,029	390,868	2,894,708	0	2,894,708
63274	FIDELITY & GUARANTY LIFE INS CO	MD	A	4,451,776,584	4,451,776,584	282,566,041	1,835,133	2,758,390	4,530	2,762,920
78093	~~FINANCIAL ASSURANCE INCORPORATED~~	MN	NA-2	7,229,891	7,223,891	4,530,887	13,832	393,006	0	393,006
92657	~~FINANCIAL HORIZONS LIFE INS CO~~	OH	A+e	318,691,881	335,429,483	36,261,246	0	0	0	0
85447	~~FIRST CAPITAL LIFE INS CO~~	CA	NA-10	3,854,015,929	4,107,739,909	10,199,567	(20,000)	1,897,112	0	1,897,11
63401	FIRST COLONY LIFE INS CO	VA	A+	5,201,523,390	5,201,523,390	271,307,905	3,830,539	6,812,072	148	6,812,220
61213	~~FIRST EQUICOR LIFE INS CO~~	CA	NA-3	133,100,221	130,100,221	38,081,540	0	462,840	85,701	548,544
60003	~~FIRST INTERNATIONAL LIFE INS CO~~	MA	NA-5	74,598,010	74,598,010	17,460,513	115,408	499,522	0	499,522
63495	~~FIRST INVESTORS LIFE INS CO~~	NY	B+	122,441,375	241,257,730	13,287,677	18,200	484,832	1,354	486,18
67652	FIRST PENN-PACIFIC LIFE INS CO	PA	A	704,582,436	704,582,436	47,961,762	125,842	218,869	0	218,869
77984	~~FIRST VARIABLE LIFE INS CO~~	AR	NA-5	186,846,469	946,706,950	26,007,293	2,738,502	2,738,502	0	2,738,53
71455	FLORISTS LIFE INS CO	IL	A	33,108,750	33,108,750	15,918,242	16,095	16,523	0	16,523
63576	FORD LIFE INS CO	MI	A	295,881,757	295,881,757	101,911,936	53,000	305,192	479,393	784,585

CoCode	Company Name	Dom	Best Rating	Assets w/o Sep Accts (P2L22)	Assets w/ Sep Accts (P2L24)	C&S (P3L37)	MN Annuity Considerations (P46L2)	MN Premium & Ann. Total (P46L4)	MN A&H Premium Total (P46L25)	MN Total Premiums (P46L4+P46L2
71430	FOREMOST LIFE INS CO	MI	NA-5	72,427,225	72,427,225	26,507,497	0	(120)	0	(1(
91642	FORETHOUGHT LIFE INS CO	IN	NA-3	543,259,368	543,259,368	27,167,284	0	80,710	0	80,7
71129	FORT DEARBORN LIFE INS CO	IL	A	130,725,885	132,582,968	28,800,276	0	4,466	768	5,2
70408	FORTIS BENEFITS INSURANCE COMPANY	MN	A+	2,027,379,781	2,240,847,709	209,868,149	1,007,770	8,490,209	19,881,938	28,372,1
63622	FRANKLIN LIFE INS CO	IL	A+	5,021,861,594	5,081,726,889	608,000,000	6,300,435	23,958,344	546,327	24,504,6
62324	FREEDOM LIFE INS CO OF AMERICA	MS	NA-3	8,581,481	8,581,481	4,086,835	0	0	0	
63657	GARDEN STATE LIFE INS CO	NJ	A	65,460,080	65,460,080	25,001,047	0	13,605	0	10,9
63665	GENERAL AMERICAN LIFE INS CO	MO	A+	5,877,954,943	6,871,995,227	275,930,064	6,656,329	11,474,583	1,431,398	12,905,9
93521	GENERAL FIDELITY LIFE INS CO	CA	A	122,203,429	122,203,429	23,757,299	0	166,810	125,731	292.5
63703	GENERAL LIFE INS CORP OF WI	WI	NA	4,344,873	4,344,873	4,338,597	0	0	0	
63762	GENERAL SERVICES LIFE INS CO	IA	NA-3	711,501,003	714,280,357	37,840,700	0	1,012,768	0	1,012,
70939	GERBER LIFE INS CO	NY	A	94,001,305	94,001,305	11,900,093	0	135,040	1,043,280	1,178,2
92873	GERLING GLOBAL LIFE INS CO	CA	NA	0	0	0	0	0	0	
63819	GERMANTOWN LIFE INS CO	PA	A+	20,828,014	20,828,014	7,171,123	0	2,898	0	2,8
63894	GLOBE LIFE INS CO	IL	A	697,181,687	697,181,687	107,583,871	0	730,310	1,341,869	2,072,1
91472	GLOBE LIFE & ACCIDENT INS CO	DE	A+	701,948,210	701,948,210	237,759,175	0	1,419,360	155,234	1,574,5
60042	GOLDEN AMERICAN LIFE INS CO	MN	NA-10	9,858,125	119,052,080	13,452,869	0	23,204	0	23,2
62286	GOLDEN RULE INS CO	IL	A	681,840,153	681,840,153	117,744,576	1,027,974	1,437,431	3,964,965	5,402,3
63924	GOLDEN STATE MUTUAL LIFE INS CO	CA	B	105,049,161	105,049,161	9,104,523	0	0	0	
63312	GREAT AMERICAN LIFE INS CO	OH	A+c	4,540,948,345	4,540,948,345	218,919,619	8,889,243	8,906,303	1,091	8,907,3
64017	GREAT AMERICAN RESERVE INS CO	TX	A+c	878,759,816	1,030,903,501	47,888,881	54,558	61,566	1,940	63,5
94366	GREAT NORTHERN INSURED ANNUITY CORP	WA	A	4,542,490,281	4,542,490,281	216,268,540	0	0	0	
90212	GREAT SOUTHERN LIFE INS CO	TX	A	758,240,447	758,240,447	152,272,814	2,893	231,590	204,808	436,3
80705	GREAT WEST LIFE ASSURANCE CO	MI	NA	0	0	0	0	0	0	
68322	GREAT-WEST LIFE & ANNUITY INS CO	CO	A+	8,815,320,597	9,165,030,077	344,700,126	14,783,783	14,783,783	0	14,783,7
69440	GROUPAMERICA INS CO	CT	A+c	172,602,500	172,602,503	32,290,207	0	730,778	1,438,279	2,169,0
97241	GUARANTEE AMERICAN LIFE CO	NE	NA-2	3,497,628	3,497,628	3,092,056	0	0	0	
64181	GUARANTEE MUTUAL LIFE CO	NE	A+	792,686,367	792,686,367	74,079,776	1,173,447	5,087,122	2,657,600	7,744,7
64203	GUARANTEE RESERVE LIFE INS CO	IN	A	117,984,410	117,984,410	32,236,520	350	591,368	35,972	627,3
64211	GUARANTEE TRUST LIFE INS CO	IL	A	167,101,058	167,101,058	24,306,450	3,831	652,729	6,942,122	7,594,8
78778	GUARDIAN INS & ANNUITY CO INC	DE	A	175,624,297	1,966,724,485	75,874,449	3,545,963	3,545,963	0	3,545,9
64246	GUARDIAN LIFE INS CO OF AMERICA	NY	A+	6,793,564,281	6,793,564,281	757,359,989	656	14,995,896	15,491,700	30,487,5
64262	GULF ATLANTIC LIFE INS CO	TX	NA-4	3,282,400	3,282,400	3,009,000	0	0	0	
64270	GULF LIFE INS CO	TN	A+	3,109,833,761	3,109,833,761	394,978,775	382	24,950	1,729	26,6
88072	HARTFORD LIFE INS CO	CT	A+	9,507,886,722	16,263,227,884	591,444,573	2,032,007	3,472,127	2,206,206	5,678,3
70815	HARTFORD LIFE & ACCIDENT INS CO	CT	A	2,270,809,055	2,270,809,055	901,270,549	0	3,000,716	8,475,950	11,356,6
70421	HARVEST LIFE INS CO	OH	A	517,952,000	517,952,000	98,508,591	2,072,815	2,757,062	3,319,890	6,077,0
64351	HAWKEYE NATIONAL LIFE INS CO	IA	B	59,180,446	59,180,446	4,887,008	20,845	329,184	3,068	333,4
84078	HEALTH INS OF VERMONT INC	VT	A	10,374,887	10,374,887	4,081,506	0	0	30,028	30,0
64394	HERITAGE LIFE INS CO	AZ	A	96,716,371	96,716,371	22,193,686	0	3,824	118,911	122,6
67369	HOME LIFE FINANCIAL ASSURANCE CORP	FL	A+c	280,988,967	280,988,967	28,663,325	0	113,717	0	113,7
64440	HOME LIFE INS CO	NY	A+c	3,779,233,117	3,862,939,167	191,355,475	0	486,345	244,803	731,1
64467	HOME OWNERS LIFE INS CO	IL	NA-4	24,169,051	24,169,051	8,137,103	0	745	0	7
64505	HOMESTEADERS LIFE CO	IA	A	100,920,294	100,920,294	5,903,530	0	152,121	0	152,1
64513	HORACE MANN LIFE INS CO	IL	A+	1,738,109,106	1,907,081,885	96,259,492	7,154,411	11,050,631	616,179	11,666,8
64521	HOWARD LIFE INS CO	CO	C+	37,980,116	37,980,116	4,081,696	0	51,240	0	51,2
69140	HUMANA INS CO	MO	NA-3	74,800,511	74,800,511	17,219,260	0	0	0	
97764	IDEALIFE INS CO	CT	NA-3	15,855,550	15,855,550	5,949,508	0	0	0	
65005	IDS LIFE INS CO	MN	A+	14,980,407,403	19,508,674,980	551,939,491	170,694,910	193,755,367	2,693,853	196,449,2
64580	ILLINOIS MUTUAL LIFE & CASUALTY CO	IL	A	368,848,073	379,941,663	45,192,899	50,057	1,203,856	2,396,162	3,600,0
64645	INDIANAPOLIS LIFE INS CO	IN	A+	1,087,541,589	1,087,541,589	90,191,952	202,224	6,221,855	492,061	6,713,9
61778	INDIVIDUAL ASR CO LIFE HEALTH & ACC	MO	B	24,458,993	24,458,993	8,497,051	10,992	304,107	77,884	381,8
68756	INTEGON LIFE INS CORP	NC	Ac	924,152,212	924,152,212	97,050,993	780	49,414	0	49,4
64254	INTEGRATED RESOURCES LIFE INS CO	IA	NA-4	77,670,544	77,670,544	19,400,985	0	0	2,941	2,9
74780	INTEGRITY LIFE INS CO	AZ	NA-3	1,387,220,271	1,408,991,066	69,952,800	8,400	41,444	0	41,4
93718	INTERFAITH LIFE INS CO	PA	NA-4	5,000,000	5,000,000	5,000,000	0	0	0	
64084	INTERNATIONAL FINANCIAL SVC LIFE I C	IL	NA-2	8,874,885	8,874,885	8,870,790	0	0	0	
64807	INTER-STATE ASSURANCE CO	IA	NA-3	298,743,651	298,743,651	35,303,179	11,700	711,855	0	711,8
64890	INVESTORS GUARANTY LIFE INS CO	CA	A	93,965,019	93,965,019	27,228,821	0	85,525	0	85,5
63487	INVESTORS LIFE INS CO NORTH AMERICA	PA	B	400,993,995	898,846,121	47,515,785	614,478	547,985	0	547,9
87415	INVESTORS LIFE INS CO OF CA	CA	NA-4	281,768,526	281,768,526	74,779,930	5,982	503,588	3,539	507,1
86975	INVESTORS LIFE INS CO OF NEBRASKA	SD	A+	220,235,341	220,235,341	29,363,174	6,730	664,124	0	664,1
71153	ITT LIFE INS CORP	WI	A+r	90,731,718	90,731,718	41,227,210	253,006	2,983,804	586,765	3,570,5
86080	ITT LYNDON LIFE INS CO	MO	A+	764,868,460	784,868,460	159,918,595	0	1,277,064	3,467,704	4,744,7
65056	JACKSON NATIONAL LIFE INS CO	MI	A+	13,601,635,860	13,601,635,860	686,291,640	59,340,765	69,206,031	0	69,206,0
65021	JC PENNEY LIFE INS CO	VT	A	555,555,015	555,555,015	78,262,747	0	1,577,050	101,389	1,678,4
65064	JEFFERSON NATL LIFE INS CO	IN	A+c	899,763,200	899,763,200	80,921,937	941,803	901,476	1,189,257	2,090,7
97128	JOHN DEERE LIFE INS CO	IL	A+	325,575,460	325,575,460	45,543,551	776,052	1,111,723	0	1,111,7
65099	JOHN HANCOCK MUTUAL LIFE INS CO	MA	A+	30,920,880,261	36,220,199,822	1,580,092,889	773,632	8,240,182	3,280,551	11,520,7
90204	JOHN HANCOCK VARIABLE LIFE INS CO	MA	A	772,139,845	2,117,777,778	224,871,130	0	4,186,582	0	4,186,5
65129	KANSAS CITY LIFE INS CO	MO	A+	1,894,813,720	1,894,813,720	137,155,005	334,767	2,514,008	48,531	2,562,5
63607	KANSAS CITY VARIABLE LIFE CO	MO	NA-2	3,476,385	3,476,385	3,446,385	0	0	0	
90557	KEMPER INVESTORS LIFE INS CO	IL	A	5,864,812,032	6,895,964,799	273,235,801	7,530,793	7,563,576	0	7,563,5
65188	KENTUCKY CENTRAL LIFE INS CO	KY	A-c	1,303,927,138	1,303,927,138	95,982,694	93,991	1,488,841	925	1,489,9
65234	KEYPORT LIFE INS CO	RI	A+	8,193,521,711	8,512,724,025	323,817,038	4,389,046	4,449,475	0	4,449,4
65242	LAFAYETTE LIFE INS CO	IN	A+c	510,142,417	510,142,417	37,785,855	100,839	516,731	53,833	570,5
65277	LEAGUE LIFE INS CO	MI	B	50,877,532	50,877,590	11,787,201	0	127,800	0	127,8
65315	LIBERTY LIFE ASSURANCE CO OF BOSTON	MA	A	1,056,019,118	1,539,544,445	66,642,662	589	721,878	583,319	1,305,1
65323	LIBERTY LIFE INS CO	SC	A+	1,025,471,114	1,025,471,114	129,927,354	0	2,537,590	141,432	2,679,0
65331	LIBERTY NATIONAL LIFE INS CO	AL	A+	2,337,250,013	2,337,250,013	313,878,828	3,802	85,066	5,620	90,6
79324	LIFE GENERAL SECURITY INS CO	FL	NA-3	19,408,508	19,408,508	5,190,702	0	0	0	0
75078	LIFE INS CO OF ILLINOIS	IL	A+	61,233,867	61,233,867	25,959,969	0	1,314	0	1,3
65498	LIFE INS CO OF NORTH AMERICA	PA	A+	2,230,518,503	2,292,778,513	257,477,748	7,120	3,981,459	6,944,215	10,925,6
65528	LIFE INS CO OF THE SOUTHWEST	TX	A+c	1,173,534,278	1,173,534,278	57,973,610	6,411,551	6,412,804	0	6,412,8
65536	LIFE INS CO OF VIRGINIA	VA	A+	5,238,001,790	5,457,871,319	352,833,980	1,632,808	2,636,107	82	2,636,1
64130	LIFE INVESTORS INS CO OF AMERICA	IA	A+	2,274,859,863	2,274,859,863	257,508,369	1,102	2,726,843	3,311,783	6,038,6
62627	LIFE REASSURANCE CORP OF AMERICA	CT	A+	836,189,349	836,189,349	156,133,385	0	0	0	
63339	LIFEUSA INS CO	CO	NA-4	265,547,832	265,547,832	16,000,601	16,128,942	17,401,970	0	17,401,9
65595	LINCOLN BENEFIT LIFE CO	NE	A+r	91,489,415	91,489,415	39,764,192	41,550,040	47,473,640	80,121	47,553,7
65625	LINCOLN LIBERTY LIFE INS CO	NE	NA-10	139,427,281	139,427,281	8,354,156	0	198,314	0	198,3
65668	LINCOLN MUTUAL LIFE INS CO	NE	A+	84,372,353	84,372,353	13,937,984	4,874	93,206	193	93,3
65641	LINCOLN MUTUAL LIFE & CAS INS CO	ND	B	23,168,033	23,168,080	2,950,043	4,994	183,820	3,801	187,1
65676	LINCOLN NATIONAL LIFE INS CO	IN	A+	18,008,254,488	23,530,709,612	1,054,888,254	1,018,892	4,868,974	10,621,345	15,490,3
77021	LINCOLN NATIONAL LIFE REINSURANCE CO	IN	NA-4	449,868,494	449,868,494	97,289,015	0	0	0	

CoCode	Company Name	Dom	Best Rating	Assets w/o Sep Accts (P2L22)	Assets w/ Sep Accts (P2L24)	C&S (P3L37)	MN Annuity Considerations (P48L2)	MN Premium & Ann. Total (P48L4)	MN A&H Premium Total (P48L25)	MN Total Premiums (P48L4+P48L2
97039	LINCOLN NATIONAL REASSURANCE CO	CT	NA-5	207,329,427	207,329,427	7,268,874	0	0	0	
63550	LONDON LIFE INS CO	MI	NA	0	0	0	0	0	0	
68934	LONDON PACIFIC LIFE & ANNUITY CO	NC	NA-3	428,367,668	428,367,668	27,812,910	9,730,701	10,001,884	0	10,001,88
65692	LONE STAR LIFE INS CO	TX	B	265,033,361	265,033,361	20,711,467	1,800	70,812	795,263	865,97
65722	LOYAL AMERICAN LIFE INS CO	AL	A	188,356,298	188,356,298	27,417,747	0	207,567	202,708	410,27
90328	LOYALTY LIFE INS CO	TX	B+	302,204,733	302,204,733	38,228,383	0	1,287,476	0	1,287,47
97721	LUTHERAN BROTHERHOOD VAR INS PROD CO	MN	A+e	16,618,638	393,981,870	11,380,802	24,085,758	24,586,783	5,243	24,592,00
65781	MADISON NATIONAL LIFE INS CO INC	WI	B+	74,457,812	74,457,812	10,873,228	207	247,570	253,688	501,25
65811	MAIN LIFE INS CO	AZ	NA-2	5,341,841	5,341,841	4,019,924	0	0	0	
65870	MANHATTAN LIFE INS CO	NY	A	471,793,144	471,793,144	37,339,065	0	395,488	0	395,48
67083	MANHATTAN NATIONAL LIFE INS CO	ND	A	190,609,377	190,609,377	21,819,679	9,201	724,580	0	724,53
60816	MANUFACTURERS LIFE INS CO	MI	NA	0	0	0	0	0	0	
67793	MANUFACTURERS LIFE INS CO OF AMERICA	PA	A+e	18,022,220	92,500,842	53,652,116	0	479,111	0	479,11
65838	MANUFACTURERS LIFE INS CO USA	ME	A+e	421,486,705	421,486,705	35,847,648	0	87,817		87,81
60690	MASSACHUSETTS CASUALTY INS CO	MA	A+c	134,908,898	134,908,898	17,000,528		0	224,800	224,80
65900	MASSACHUSETTS GENERAL LIFE INS CO	MA	A	884,912,983	884,912,983	64,451,258	7,796,382	10,277,767	50,072	10,327,83
65919	MASSACHUSETTS IND & LIFE INS CO	MA	B+	1,584,020,244	1,584,020,244	482,650,454	0	10,556,676	2,062	10,560,74
65935	MASSACHUSETTS MUTUAL LIFE INS CO	MA	A+	25,988,454,356	29,290,591,225	1,359,257,487	8,434,892	26,832,864	8,845,922	35,476,78
60470	MAXICARE LIFE & HEALTH INS CO	MO	NA-3	8,508,505	8,508,505	6,149,865	0	0	0	
69728	MBL LIFE ASSURANCE CORP	NJ	NA-10	154,978,483	154,978,483	38,029,847	0	4,990	0	4,99
71471	MEDICO LIFE INS CO	NE	B+	63,997,901	63,997,901	10,232,536	714,040	944,388	6,447,511	7,391,89
97055	MEGA LIFE & HEALTH INS CO THE	OK	A	123,293,186	123,293,186	19,048,589	0	1,732	97,604	99,33
84565	MERCANTILE & GENERAL REINSURANCE CO	MI	A	0	0	0	0	0	0	
65951	MERIT LIFE INS CO	IN	A+	519,737,277	519,737,277	148,012,131	0	80,854	0	80,85
71528	MERRILL LYNCH LIFE INS CO	AR	B+	0	0	0	0	0	0	
79022	MERRILL LYNCH LIFE INS CO	AR	NA-3	8,109,834,403	11,954,567,850	424,408,093	3,967,283	3,954,870	0	3,954,87
66428	METROPOLITAN INS & ANNUITY CO	DE	A	3,639,533,064	3,639,533,064	233,813,199	103,322	1,927,844	0	1,927,84
65978	METROPOLITAN LIFE INS CO	NY	A+	96,208,873,981	110,799,477,071	4,765,740,302	2,638,418	26,419,408	4,145,237	30,564,64
97136	METROPOLITAN TOWER LIFE INS CO	DE	A+c	33,363,871	120,863,872	22,915,111	0	94,153	0	94,15
65561	MIC LIFE INS CORP	DE	B+	211,587,922	211,587,922	55,600,300	0	401,779	196,261	626,05
69028	MIDAMERICA MUTUAL LIFE INS CO	MN	A	92,567,747	92,567,747	17,109,002	2,242,994	6,101,510	82,997,171	85,409,08
66001	MID-CONTINENT LIFE INS CO	OK	A+	151,823,013	151,823,013	39,360,107	0	19,172	0	19,17
66036	MIDLAND MUTUAL LIFE INS CO	OH	A+c	1,075,905,890	1,079,883,661	51,840,424	1,475	1,110,113	0	1,110,11
66044	MIDLAND NATIONAL LIFE INS CO	SD	A+	1,253,460,257	1,255,704,724	239,434,478	364,009	5,390,064	316	5,390,38
66060	MIDWEST LIFE INS CO	LA	A+	0	0	0	0	0	0	
66067	MID-WEST NATIONAL LIFE INS CO OF TN	TN	B+	57,723,303	57,723,303	16,871,230	53,373	113,666	4,848	118,51
79480	MIDWEST SECURITY LIFE INS CO	IN	B+	43,452,007	43,452,007	7,922,240	27,554	49,514	956,572	1,006,08
66095	MIDWESTERN NATIONAL L INS CO OF OHIO	OH	B+	60,477,463	60,477,463	8,454,568	0	2,703	0	2,70
66109	MIDWESTERN UNITED LIFE INS CO	IN	A+	264,388,457	264,388,457	45,857,040	344,127	426,131	0	426,13
61522	MIL LIFE INC	MN	A-3	13,307,783	13,307,783	7,330,280	0	8,527,671	3,331,101	11,858,77
66125	MILWAUKEE LIFE INS CO	WI	A+	39,417,260	39,417,260	16,122,013	0	942,349	28,873	971,22
66133	MINISTERS LIFE A MUTUAL LIFE INS CO	MN	A	246,609,366	246,609,366	13,519,275	831,326	1,508,139	2,504,259	4,012,39
66168	MINNESOTA MUTUAL LIFE INS CO	MN	A+	5,661,767,562	6,177,286,122	219,488,171	69,470,870	122,265,129	7,470,048	129,735 17
66184	MINNESOTA PROTECTIVE LIFE INS CO	MN	C+	33,671,270	33,671,270	4,421,204	99,060	1,960,200	1,051,715	3,017,04
70416	MML BAY STATE LIFE INS CO	MO	A+c	32,606,841	77,873,501	29,224,030	0	20,719,817	0	20,719,5
60314	MML PENSION INS CO	DE	A	277,214,067	277,214,067	39,257,360	48,059	48,059	0	48,05
66265	MONARCH LIFE INS CO	MA	NA-5	834,836,870	1,420,831,848	52,864,580	79,427	979,333	3,979,054	3,750,38
66273	MONTGOMERY WARD LIFE INS CO	IL	A	246,906,883	246,906,883	84,069,521	858	830,115	781,820	1,611,93
63444	MONUMENTAL GENERAL INS CO	MD	A	222,007,623	222,007,623	47,856,937	0	1,420,682	2,602,383	4,322,07
66281	MONUMENTAL LIFE INS CO	MD	A+	2,066,984,241	2,066,984,241	152,548,695	0	64,848	19	64,86
78077	MONY LIFE INS CO OF AMERICA	AZ	A	1,299,069,588	1,450,291,943	70,973,108	0	411,504	0	411,50
66346	MUNICH AMERICAN REASSURANCE CO	GA	A+	173,244,592	173,244,592	39,839,160	0	0	0	
66362	MUTUAL BENEFIT LIFE INS CO	NJ	NA-10	0	0	0	0	0	0	
66370	MUTUAL LIFE INS CO OF NEW YORK	NY	A	13,124,544,438	17,493,473,074	849,492,350	388,280	7,609,587	1,650,566	9,260,15
88668	MUTUAL OF AMERICA LIFE INS CO	NY	A+	4,342,925,384	5,401,501,854	321,438,813	2,030,875	2,038,735	0	2,038,73
71412	MUTUAL OF OMAHA INS CO	NE	A+	2,488,202,463	2,488,202,463	745,206,077	0	0	9,842,848	9,842,84
66400	MUTUAL SECURITY LIFE INS CO	IN	A	0	0	0	0	0	0	
66419	MUTUAL SERVICE LIFE INS CO	MN	B	438,888,880	488,287,428	18,834,762	23,512,841	29,811,238	10,908,838	40,515,07
66427	MUTUAL TRUST LIFE INS CO	IL	A+	571,023,090	571,023,090	46,974,048	182,246	817,981	87,414	905,39
65458	NACOLAH LIFE INS COMPANY OF TEXAS	TX	NA-4	938,144,843	938,144,843	84,851,292	199,740	2,084,022	81,556	2,115,57
60221	NATIONAL AMERICAN LIFE INS CO OF PA	PA	NA-7	66,615,464	66,615,464	6,795,050	0	14	82,077	82,00
61409	NATIONAL BENEFIT LIFE INS CO	NY	NA-5	441,266,510	454,279,624	63,661,046	0	586,580	81,566	668,14
66540	NATIONAL FARMERS UNION LIFE INS CO	FL	B+	166,659,737	166,659,737	19,957,990	236,025	1,127,460	11,076	1,138,83
66559	NATIONAL FIDELITY LIFE INS CO	MO	A+c	449,408,439	449,408,439	80,139,671	1,308	781,595	2,208	783,80
66583	NATIONAL GUARDIAN LIFE INS CO	WI	A+	481,164,591	481,164,591	37,081,008	1,001,069	2,760,878	232,411	2,993,28
82538	NATIONAL HEALTH INS CO	TX	A	155,982,837	155,982,837	25,079,332	0	198	52,875	53,07
66605	NATIONAL HOME LIFE ASSURANCE CO	MO	A+	5,812,187,741	6,138,184,641	419,945,509	4,399,462	5,356,751	766,825	6,123,57
66664	NATIONAL LIBERTY LIFE INS CO	PA	B+	234,410,145	234,410,145	56,045,943	0	8,225	12,098	20,32
66680	NATIONAL LIFE INS CO	VT	A+c	4,057,988,131	4,221,471,344	207,347,316	1,078,430	14,787,065	1,846,918	16,633,98
93653	NATIONAL PENSION LIFE INS CO	AZ	NA-2	8,400,214	8,400,214	8,310,482	0	0	0	
60593	NATIONAL STATES INS CO	MO	A	62,554,247	62,554,247	16,764,460	0	7,825	346,778	354,60
66826	NATIONAL TRAVELERS LIFE CO	IA	A+	351,954,400	351,954,400	35,732,075	1,810,785	3,923,548	3,099,183	7,022,73
66748	NATIONAL UNITED LIFE INS CO	SD	NA-2	1,486,725	1,486,725	1,210,471	0	1,994	0	1,99
66850	NATIONAL WESTERN LIFE INS CO	CO	A	2,100,662,882	2,100,662,882	83,193,780	779,890	979,006	168,380	1,147,88
66869	NATIONWIDE LIFE INS CO	OH	A+	11,371,968,859	15,977,255,172	608,939,793	996,927	1,237,385	2,580,454	3,817,83
73830	NESOTA LIFE INS CO	MN	NA	3,810,003	3,810,003	3,893,030	0	0	0	
63282	NETWORK AMERICA LIFE INS COMPANY	PA	NA-3	16,957,894	16,957,894	8,252,350	0	0	8,246	8,24
66893	NEW ENGLAND MUTUAL LIFE INS CO	MA	A+c	12,828,365,486	16,947,780,308	550,926,148	10,915,784	30,623,318	3,452,565	34,075,88
91626	NEW ENGLAND VARIABLE LIFE INS CO	DE	A+c	51,720,084	245,596,441	56,425,382	0	4,221,258	0	4,221,25
66907	NEW JERSEY LIFE INS CO	NJ	NA-4	143,226,165	143,226,165	(53,874,349)	0	405,104	0	405,10
66915	NEW YORK LIFE INS CO	NY	A+	41,830,970,087	42,749,500,888	2,620,040,275	1,707,572	33,755,299	4,298,188	38,053,48
91596	NEW YORK LIFE INS & ANNUITY CORP	DE	A+	11,164,181,733	11,613,392,908	590,643,516	11,041,087	15,729,946	0	15,729,94
97705	NEW YORK LIFE & HEALTH INS CO	DE	NA	10,791,097	10,791,097	14,411,718	0	0	5,000	5,00
81264	NIPPON LIFE INSURANCE CO OF AMERICA	IA	NA-2	7,401,844	7,401,844	7,309,610	0	0	0	
66974	NORTH AMERICAN CO FOR LIFE & H INS	IL	A	2,081,205,443	2,081,205,443	118,721,993	769,772	3,868,824	39,495	3,908,31
66982	NORTH AMERICAN EQUITABLE LIFE ASR CO	OH	NA-5	2,701,501	2,701,501	2,633,834	0	0	0	
66349	NORTH AMERICAN INS CO	WI	NA-3	20,425,828	20,425,828	7,814,190	0	47,187	269,120	316,31
90758	NORTH AMERICAN LIFE ASR CO	MI	A	0	0	0	0	0	0	
90611	NORTH AMERICAN LIFE & CAS	MN	A+	1,191,228,510	2,174,356,386	122,749,867	22,902,110	26,294,356	3,414,921	29,709,27
66425	NORTH AMERICAN SECURITY LIFE INS CO	DE	A+e	359,588,249	1,476,841,115	34,654,342	5,000	82,514	0	82,51
67024	NORTH ATLANTIC LIFE INS CO OF AM	NY	A	819,340,418	819,340,418	31,395,202	0	18,370	0	18,37
67040	NORTH CENTRAL LIFE INS CO	MN	B+	169,860,056	169,860,056	10,304,179	(45)	5,150,663	5,000,215	10,150,87
66528	NORTHBROOK LIFE INS CO	IL	A+r	57,963,565	600,744,944	38,516,304	9,860,131	9,748,961	0	9,748,96
67734	NORTHERN LIFE INS CO	WA	A+	2,520,882,304	2,526,170,378	106,861,918	1,913,947	3,055,365	131	3,055,49

GoCode	Company Name	Dom	Best Rating	Assets w/o Sep Accts (P2L22)	Assets w/ Sep Accts (P2L24)	C&S (P3L37)	MN Annuity Considerations (P46L2)	MN Premium & Ann. Total (P46L4)	MN A&H Premium Total (P46L25)	MN Total Premiums (P46L4+P46L
67091	NORTHWESTERN MUTUAL LIFE INS CO	WI	A+	33,304,826,035	35,743,821,920	1,761,209,410	16,437,838	91,884,241	7,447,828	99,332,0
67105	NORTHWESTERN NATL LIFE INS CO	MN	A+c	4,332,369,112	4,574,979,385	338,883,327	34,239,547	69,095,653	9,204,880	78,300,5
~~87572~~	~~NRG AMERICA LIFE REASSURANCE CORP~~	DE	NA-4	667,820,076	667,820,076	29,870,870	0	0	0	
~~67997~~	~~NWNL LIFE ASSURANCE CO~~	MN	NA-2	1,765,846	1,765,846	1,767,820	0	0	0	
~~67148~~	~~OCCIDENTAL LIFE INS CO OF NC~~	NC	NA-3	269,211,199	269,211,199	11,489,000	2,597	58,047	1,700	55,
67164	OHIO LIFE INS CO	OH	A+	319,114,981	319,114,981	36,824,539	279,595	510,205	0	510,2
89206	OHIO NATIONAL LIFE ASR CORP	OH	A+	307,461,752	312,998,024	48,523,201	0	1,463,684	152,851	1,616,
67172	OHIO NATIONAL LIFE INS CO	OH	A+	2,870,582,073	2,999,803,805	138,860,258	6,201	449,752	68,485	518,
67180	OHIO STATE LIFE INS CO	OH	A+C	600,497,821	600,497,821	97,074,080	11,735	334,715	587	335,
~~67199~~	~~OLD AMERICAN INS CO~~	MO	A-e	127,747,052	127,747,052	36,910,045	0	595,007	71,021	666,
67245	OLD LINE LIFE INS CO OF AMERICA	WI	A+	873,529,543	873,529,543	123,699,855	157,795	2,561,594	0	2,561,
67261	OLD REPUBLIC LIFE INS CO	IL	A	113,745,848	113,745,848	27,904,939	0	523,756	20,592	544,
~~72052~~	~~OMAHA FINANCIAL LIFE INS CO~~	MN	NA	11,830,498	11,830,498	11,403,071		0	0	
76112	OXFORD LIFE INS CO	AZ	A+	536,147,566	536,147,566	165,604,277	158,168	173,145	9,174	182,
~~92597~~	~~OZARK NATIONAL LIFE INS CO — MO~~	MO	B	30,327,441	30,327,441	10,083,418	39,042	2,020,978	0	2,020,
~~67423~~	~~PACIFIC FIDELITY LIFE INS CO~~	CA	NA-4	54,882,590	54,882,590	5,000,000	45	290,959	5,679	295,
67466	PACIFIC MUTUAL LIFE INS CO	CA	A+	9,742,321,639	10,850,018,269	346,380,923	331,729	24,063,165	469,329	24,532,
~~72842~~	~~PACIFIC STANDARD LIFE INS CO~~	CA	NA	493,804,848	493,804,848	(66,271,177)	2,462,627	3,047,047	1,730	3,048,
93459	PAN-AMERICAN ASSURANCE CO	LA	A+r	10,539,687	10,539,687	5,799,816	0	725,277	0	725,2
67539	PAN-AMERICAN LIFE INS CO	LA	A+	2,037,373,871	2,056,034,334	123,956,255	2,036	192,800	30,621	223,4
~~93584~~	~~PARAGON LIFE INS CO~~	MO	A+e	20,382,507	24,873,014	4,590,845	0	100,448	0	100,4
~~94528~~	~~PATHMARK ASSURANCE CO~~	NE	NA-2	3,093,821	3,093,821	3,419,575	0	0	0	
67598	PAUL REVERE LIFE INS CO	MA	A+	2,105,219,306	2,105,219,306	222,883,797	23	179,297	6,968,057	7,147,3
~~81051~~	~~PAUL REVERE PROTECTIVE LIFE INS CO~~	DE	B	580,619,640	593,619,640	47,297,262	0	176,107	0	173,1
67601	PAUL REVERE VARIABLE ANNUITY INS CO	MA	A	1,035,972,290	1,068,512,560	55,808,882	80	2,146	0	2,1
~~67636~~	~~PENINSULAR LIFE INS CO~~	NC	NA-8	64,165,902	64,165,902	7,769,256	0	104	0	1
~~93262~~	~~PENN INS & ANNUITY CO~~	DE	NA-4	626,909,569	626,909,569	26,009,046	0	166,175	0	166,1
67644	PENN MUTUAL LIFE INS CO	PA	A+	5,791,905,548	6,035,981,828	202,708,844	408,555	3,523,387	82,172	3,605,5
~~67660~~	~~PENNSYLVANIA LIFE INS CO~~	PA	B	384,997,172	384,997,172	56,973,071	0	554,443	554,784	1,109,2
68231	PFL LIFE INS CO	IA	A	3,473,984,284	3,728,102,472	314,827,753	135	186,657	1,763,880	1,950,5
~~94808~~	~~PHF LIFE INS CO~~	FL	B+	339,757,211	339,757,211	40,146,250	0	210	0	2
67784	PHILADELPHIA AMERICAN LIFE INS CO	PA	A	125,530,824	125,530,824	21,059,222	0	52,884	14,022	66,8
97047	PHILADELPHIA LIFE INS CO	PA	A	1,241,952,174	1,242,563,960	126,391,225	677,049	1,673,430	0	1,673,4
80926	PHOENIX AMERICAN LIFE INS CO	CT	A	193,794,436	193,794,436	14,121,103	712	712	0	7
67814	PHOENIX MUTUAL LIFE INS CO	CT	A+	5,309,538,607	6,629,510,085	326,063,287	2,475,180	14,791,543	2,835,520	17,627,0
72125	PHYSICIANS LIFE INS CO	NE	A+	139,851,244	139,851,245	28,203,959	0	173,284	0	173,2
~~80578~~	~~PHYSICIANS MUTUAL INS CO~~	NE	A+	569,917,366	569,917,366	298,152,415	0	0	3,509,888	3,509,8
~~67822~~	~~PIERCE NATIONAL LIFE INS CO~~	CA	NA-10	197,170,857	197,170,857	5,861,878	0	29,850	0	29,8
~~88330~~	~~PIONEER LIFE INS CO OF ILLINOIS~~	IL	B	385,215,173	385,215,174	56,666,008	67,987	94,507	7,896,499	7,991,0
67911	PIONEER MUTUAL LIFE INS CO	ND	A	254,397,204	254,397,204	13,019,301	4,180,055	6,201,039	97,752	6,298,7
~~67946~~	~~PIONEER SECURITY LIFE INS CO~~	TX	B+	16,362,675	16,362,675	4,162,370	0	6,860	0	6,8
~~87368~~	~~PM GROUP LIFE INS CO~~	AZ	NA-9	365,953,292	365,953,292	60,514,694	0	20,838	965	21,8
~~87989~~	~~PRAIRIE STATES LIFE INS CO~~	SD	B	264,660,300	264,669,300	20,606,720	6,106,481	7,876,431	501	7,877,0
~~64190~~	~~PREFERRED LIFE INS CO OF NY~~	NY	A+e	26,467,092	39,371,687	11,142,373	0	486,324	476,546	961,8
68004	PREFERRED RISK LIFE INS CO	CO	A+	195,382,138	195,382,138	42,637,791	244,689	569,774	8,522	578,2
~~93738~~	~~PREMIER LIFE INS CO~~	PA	NA-2	5,000,000	5,000,000	5,000,000	0	11,806	0	11,8
~~69039~~	~~PRESIDENTIAL LIFE INS CO~~	NY	B+	2,081,905,050	2,089,001,050	167,920,409	167,810	201,179	698	201,4
61271	PRINCIPAL MUTUAL LIFE INS CO	IA	A+	26,424,067,938	31,499,392,142	1,323,585,909	7,811,953	36,198,669	94,283,677	130,482,3
92908	PRINCIPAL NATIONAL LIFE INS CO	IA	A	553,314,609	553,314,609	46,282,452	457,080	840,224	0	840,2
68047	PROFESSIONAL INS CORP	FL	A	49,189,925	49,189,925	15,964,562	0	470	1,480	1,9
~~71161~~	~~PROGRESSIVE AMERICAN LIFE INS CO~~	OH	NA-2	6,004,099	6,004,003	7,216,481	0	0	0	
68136	PROTECTIVE LIFE INS CO	AL	A+	2,371,245,118	2,495,755,331	177,285,000	204,579	1,499,002	67,054	1,566,0
~~68217~~	~~PROVIDENT LIFE INS CO~~	ND	Ac	5,278,727	5,278,727	3,000,000	537,381	2,836,613	0	2,836,6
68195	PROVIDENT LIFE & ACCIDENT INS CO	TN	A+	5,826,335,978	5,826,335,978	712,824,559	3,208,572	5,143,813	7,538,433	12,682,2
70750	PROVIDENT MUT LIFE & ANN CO OF AMER	PA	A	339,592,596	339,592,596	21,002,589	0	0	2,266	2,2
68225	PROVIDENT MUTUAL LIFE I C OF PHILADE	PA	A+c	2,312,514,511	3,124,392,532	183,994,543	130,142	3,190,454	153,299	3,343,7
70866	PROVIDENT NATIONAL ASR CO	TN	A	8,065,080,868	8,219,823,449	222,954,000	29,246	29,246	0	29,2
~~78694~~	~~PROVIDERS FIDELITY LIFE INS CO~~	PA	NA-5	50,074,899	50,074,899	18,039,395	0	0	0	
~~79227~~	~~PRUCO LIFE INS CO~~	AZ	A+e	3,105,978,043	5,348,711,280	841,048,016	0	9,389,899	0	9,389,8
68241	PRUDENTIAL INS CO OF AMERICA	NJ	A+	114,745,552,778	148,417,568,926	8,526,896,125	4,340,481	120,408,070	61,542,853	181,950,9
~~68284~~	~~PYRAMID LIFE INS CO~~	KS	Ac	92,377,091	92,377,091	22,920,266	0	125,438	533,208	658,6
68357	RELIABLE LIFE INS CO	MO	A	426,422,999	426,422,999	41,821,984	0	475,482	1,057,730	1,533,2
~~93475~~	~~RELIANCE LIFE INS CO~~	DE	A+e	23,991,151	23,991,151	23,154,838	0	27,316	0	27,3
68381	RELIANCE STANDARD LIFE INS CO	IL	A	1,715,266,366	1,765,118,979	119,970,048	46,470	1,003,546	869,755	1,873,3
68448	REPUBLIC-VANGUARD LIFE INS CO	TX	A+	100,258,177	100,258,177	35,795,472	0	198,936	93	199,0
80586	ROYAL LIFE INS CO OF AMERICA	CT	A	222,160,647	222,160,647	42,278,157	360,059	409,418	0	409,41
~~65765~~	~~ROYAL MACCABEES LIFE INS CO~~	MI	Ac	1,487,930,069	1,837,980,924	104,410,243	506,411	3,626,977	2,220,538	5,847,51
~~68586~~	~~RUSHMORE NATIONAL LIFE INS CO~~	SD	NA-4	55,876,041	55,876,041	9,216,085	4,792	181,131	3,043	184,17
68608	SAFECO LIFE INS CO	WA	A+	6,395,802,969	6,431,308,364	326,524,730	13,717,356	16,360,547	1,676,950	18,037,49
~~90581~~	~~SAFECO NATIONAL LIFE INS CO~~	WA	NA-2	18,152,449	18,152,449	15,295,044	0	6,261	0	6,26
~~93572~~	~~SAINT LOUIS REINSURANCE CO~~	MO	NA-4	33,011,513	33,011,514	9,276,727	0	0	0	
~~94587~~	~~SANTAFE INSURANCE COMPANY~~	IN	NA-2	9,892,425	9,892,425	2,666,215	0	0	0	
84491	SECURA LIFE INS CO	WI	A	58,507,387	58,507,387	5,281,324	354,554	757,809	0	757,80
71714	SECURITY ASR CO	AZ	A	24,217,684	24,217,684	13,904,028	0	540	1,948	2,48
68675	SECURITY BENEFIT LIFE INS CO	KS	A+c	1,969,255,677	2,836,431,064	63,288,859	20,361	1,033,979	0	1,033,97
~~99414~~	~~SECURITY EQUITY LIFE INS CO~~	NY	Ac	62,430,165	62,430,165	11,277,552	0	53,863	0	53,86
61050	SECURITY FIRST LIFE INS CO	DE	A	1,194,291,205	1,228,367,172	62,736,426	0	0	0	
68705	SECURITY INTERNATIONAL INS CO	ND	A+c	0	0	0	0	0	0	
~~88721~~	~~SECURITY LIFE INS CO OF AMERICA~~	MN	B+	99,459,967	99,459,970	16,518,799	0	4,493,840	7,370,451	11,863,98
68713	SECURITY LIFE OF DENVER INS CO	CO	A+	1,716,507,324	1,716,507,324	233,418,070	0	4,858,443	16,037	4,874,48
68764	SECURITY MUTUAL L I C OF LINCOLN NE	NE	A	317,714,767	318,873,797	30,452,886	163,472	1,225,076	7,391	1,232,46
68772	SECURITY MUTUAL LIFE INS CO OF NY	NY	A	930,097,598	956,466,169	41,893,179	17,470	88,131	2,680	90,81
68667	SECURITY OF AMERICA LIFE INS CO	PA	A	154,043,909	154,043,909	37,149,035	0	807	2,883	3,69
91588	SECURITY-CONNECTICUT LIFE INS CO	CT	A+	1,032,533,731	1,032,533,731	126,511,420	366,986	3,311,604	815,910	4,127,51
~~71692~~	~~SENTRY INVESTORS LIFE INS CO~~	MA	NA-4	19,555,569	20,248,917	10,667,899	0	235	0	23
68810	SENTRY LIFE INS CO	WI	A+	877,544,602	1,182,210,917	94,405,831	60,246	1,493,208	1,251,797	2,745,00
68829	SENTRY LIFE INS CO OF NEW YORK	NY	A	39,709,529	41,980,437	14,208,515	0	1,211	0	1,21
~~77186~~	~~SHELBY LIFE INS CO OF SHELBY OHIO~~	OH	B+	84,761,516	84,761,516	8,115,057	42,312	63,116	0	63,1
84824	SMA LIFE ASSURANCE CO	DE	A	2,083,548,543	2,375,781,456	177,808,881	72,496	1,475,207	112,094	1,587,30
~~68861~~	~~SOONER LIFE INS CO~~	OK	NA-4	0	0	0	0	0	0	
68950	SOUTHLAND LIFE INS CO	TX	A+	957,945,237	957,945,237	139,671,485	0	448,534	1,813	450,34
~~69093~~	~~SPRINGFIELD LIFE INS CO INC~~	VT	NA-5	86,380,932	86,380,932	14,864,297	0	120,880	297,614	418,49
~~82821~~	~~STANDARD AMERICAN LIFE & ANNUITY CO~~	MN	NA	3,337,894	3,337,894	1,757,240	0	476,601	671,526	1,148,1
69019	STANDARD INS CO	OR	A+	2,396,892,457	2,415,343,022	183,528,333	12,193	263,235	400,804	664,03

CoCode	Company Name	Dom	Best Rating	Assets w/o Sep Accts (P2L22)	Assets w/ Sep Accts (P2L24)	C&S (P3L37)	MN Annuity Considerations (P48L2)	MN Premium & Ann. Total (P48L4)	MN A&H Premium Total (P48L25)	MN Total Premiums (P48L4+P48L2
~~69051~~	~~STANDARD LIFE INS CO OF INDIANA~~	~~IN~~	~~0~~	~~89,190,733~~	~~89,190,783~~	~~8,748,908~~	~~380~~	~~8,139~~	~~30~~	~~8,17~~
69000	STANDARD OF AMERICA LIFE INS CO	IL	A	58,172,778	58,172,779	42,497,257	0	0	0	
69078	STANDARD SECURITY LIFE INS CO OF NY	NY	A	119,634,015	121,027,259	33,605,192	0	0	581,319	581,31
~~69868~~	~~STATE BOND & MORTGAGE LIFE INS CO~~	~~MN~~	~~A-~~	~~582,939,672~~	~~582,939,872~~	~~27,123,168~~	~~15,721,880~~	~~15,807,818~~	~~0~~	~~15,007,61~~
69108	STATE FARM LIFE INS CO	IL	A+	13,851,712,869	13,851,712,869	1,554,050,563	8,817,348	42,743,012	0	42,743,01
69116	STATE LIFE INS CO	IN	A	229,268,508	229,268,508	19,900,845	15,216	336,285	1,168	337,45
69140	STATE MUTUAL LIFE ASR CO OF AMERICA	MA	A+	6,100,352,320	6,584,157,799	338,683,065	291,948	1,347,542	1,271,852	2,619,39
~~68363~~	~~STATESMAN LIFE INS CO~~	~~IA~~	~~NA-3~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
~~77399~~	~~STERLING LIFE INS CO~~	~~AZ~~	~~B+~~	~~27,204,083~~	~~27,204,083~~	~~13,981,756~~	~~0~~	~~(4,327)~~	~~(3,845)~~	~~(8,17~~
~~71080~~	~~SUMMIT NATIONAL LIFE INS CO~~	~~PA~~	~~NA-5~~	~~147,995,884~~	~~147,995,884~~	~~35,015,933~~	~~379,832~~	~~2,338,085~~	~~0~~	~~2,338,08~~
79065	SUN LIFE ASR CO OF CANADA	DE	A+e	3,320,836,831	6,385,501,798	338,205,738	664,529	747,002	0	747,00
~~80802~~	~~SUN LIFE ASR CO OF CANADA~~	~~MI~~	~~NA~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
69256	SUN LIFE INS CO OF AMERICA	MD	A+	5,585,878,492	5,585,878,492	381,958,893	5,390,709	5,438,803	58	5,438,86
69272	SUNSET LIFE INS CO OF AMERICA	WA	A+	341,268,419	341,268,419	44,863,186	750	25,411	0	25,41
69310	SURETY LIFE INS CO	UT	A+r	72,042,087	72,042,087	38,981,942	10,519	250,678	0	250,67
69345	TEACHERS INS & ANNUITY ASN OF AM	NY	A+	55,575,842,916	55,575,842,916	3,054,739,088	22,183,948	23,807,277	502,132	24,309,40
69477	TIME INS CO	WI	A+	1,014,121,949	1,014,121,949	356,672,408	415,870	2,253,175	7,790,905	10,044,08
70491	TMG LIFE INSURANCE COMPANY	ND	A+	680,922,035	680,922,036	96,750,978	2,355,754	13,549,400	24,339	13,573,73
~~81182~~	~~TRANS PACIFIC LIFE INS CO~~	~~CA~~	~~NA-4~~	~~20,475,115~~	~~20,475,115~~	~~13,278,381~~	~~0~~	~~40~~	~~87~~	~~13~~
69566	TRANS WORLD ASSURANCE CO	CA	A	147,713,316	147,713,316	24,451,529	270	37,762	0	37,76
~~60829~~	~~TRANSAMERICA ASSURANCE CO~~	~~CO~~	~~NA-3~~	~~49,887,828~~	~~49,887,828~~	~~6,185,186~~	~~0~~	~~50,440~~	~~0~~	~~50,44~~
69507	TRANSAMERICA LIFE INS & ANNUITY CO	CA	A	8,500,625,505	9,077,416,853	284,852,028	1,101,725	1,124,361	0	1,124,36
67121	TRANSAMERICA OCCIDENTAL LIC	CA	A+	8,340,733,811	8,621,293,116	589,127,783	415,027	8,589,135	31,962	8,621,09
~~68144~~	~~TRANSAMERICA OCCIDENTAL LIC OF IL~~	~~IL~~	~~NA-2~~	~~13,483,524~~	~~13,483,524~~	~~11,351,751~~	~~0~~	~~0~~	~~0~~	
~~69515~~	~~TRANS - GENERAL LIFE INS CO~~	~~MD~~	~~NA-5~~	~~22,125,173~~	~~22,125,173~~	~~21,055,427~~	~~0~~	~~290~~	~~0~~	~~29~~
~~69531~~	~~TRANSPORT LIFE INS CO~~	~~TX~~	~~A-~~	~~442,801,077~~	~~442,801,077~~	~~96,516,575~~	~~0~~	~~814,886~~	~~172,282~~	~~487,13~~
87726	TRAVELERS INS CO (LIFE DEPT)	CT	A+c	30,916,322,772	35,862,711,835	2,047,565,558	2,104,484	15,847,864	20,535,628	36,183,49
79413	TRAVELERS INS CO OF ILLINOIS	IL	A	163,140,441	163,140,441	55,894,887	0	14,056	136,381	150,43
~~80590~~	~~TRAVELERS LIFE INS CO~~	~~CT~~	~~NA~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
80950	TRAVELERS LIFE & ANNUITY CO	CT	A+c	992,400,841	1,730,192,814	289,845,536	0	1,822	0	1,82
~~62863~~	~~TRUSTMARK LIFE INS CO~~	~~IL~~	~~NA-4~~	~~99,989,290~~	~~99,989,290~~	~~19,429,165~~	~~0~~	~~0~~	~~0~~	
~~68160~~	~~UNDERWRITERS LIFE INS CO~~	~~SD~~	~~NA~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
~~69701~~	~~UNION BANKERS INS CO~~	~~TX~~	~~A-~~	~~191,878,502~~	~~191,878,502~~	~~87,834,450~~	~~781~~	~~18,940~~	~~329,878~~	~~348,8~~
80837	UNION CENTRAL LIFE INS CO	OH	A	3,035,713,127	3,207,832,745	161,290,761	401,691	4,091,911	420,371	4,512,2
93289	UNION FIDELITY LIFE INS CO OF TREVOS	PA	A	290,242,889	290,242,889	144,996,844	0	372,734	619,987	992,72
~~69744~~	~~UNION LABOR LIFE INS CO~~	~~MD~~	~~B+c~~	~~1,195,122,922~~	~~1,944,950,070~~	~~78,089,800~~	~~204,822~~	~~897,504~~	~~2,584,880~~	~~3,482,3~~
98884	UNION SECURITY LIFE INS CO	DE	A	149,783,858	149,783,858	27,999,532	0	622,162	1,182,779	1,804,9
92916	UNITED AMERICAN INS CO	DE	A+	658,379,166	658,379,167	172,731,364	0	436,395	8,106,139	8,542,5
91693	UNITED FAMILY LIFE INS CO	GA	A	377,862,555	377,862,555	33,809,110	130,754	578,132	0	578,1
~~85552~~	~~UNITED HEALTH AND LIFE INS CO~~	~~IA~~	~~NA-8~~	~~42,842,857~~	~~42,842,857~~	~~18,889,829~~	~~0~~	~~885,888~~	~~1,548,848~~	~~1,934,6~~
69922	UNITED HOME LIFE INS CO	IN	A	44,759,246	44,759,246	6,168,959	400	12,209	0	12,2
69930	UNITED INS CO OF AMERICA	IL	A+	2,289,144,238	2,289,144,238	951,814,140	137,260	510,731	2,554	513,2
94099	UNITED INVESTORS LIFE INS CO	MO	A+	581,636,893	726,612,245	161,475,677	2,089,182	4,638,672	0	4,638,67
69973	UNITED LIFE INS CO	IA	A+	185,050,568	185,050,568	25,749,808	2,982,075	9,556,116	259,831	9,815,94
~~92703~~	~~UNITED NATIONAL LIFE INS CO OF AM~~	~~IL~~	~~NA-2~~	~~7,438,390~~	~~7,438,390~~	~~6,858,477~~	~~0~~	~~80~~	~~79,925~~	~~79,06~~
69868	UNITED OF OMAHA LIFE INS CO	NE	A+	4,860,816,449	4,863,260,849	319,068,700	2,812,143	9,674,245	13,685,611	23,359,85
67350	UNITED OLYMPIC LIFE INSURANCE CO	WA	A+c	958,977,455	958,977,455	33,163,091	10,475,299	10,841,838	189,944	11,031,78
70025	UNITED PACIFIC LIFE INS CO	WA	A	5,432,115,172	5,432,115,172	387,014,144	48,200,412	48,201,703	0	48,201,70
70033	UNITED PRESIDENTIAL LIFE INS CO	IN	A	724,933,158	724,933,158	89,175,505	1,804,303	6,092,881	0	6,092,88
70084	UNITED SERVICES LIFE INS CO	VA	A+	876,853,125	974,172,985	143,239,584	0	218,441	3,249	221,69
70106	UNITED STATES LIFE INS CO IN NYC	NY	A+	1,706,489,828	1,706,489,828	145,143,591	54,039	990,496	324,910	1,315,40
72850	UNITED WORLD LIFE INS CO	NE	A	54,402,168	70,065,887	27,416,451	0	86,051	164	86,21
~~70114~~	~~UNITY MUTUAL LIFE INS CO~~	~~NY~~	~~B+~~	~~600,569,360~~	~~600,569,360~~	~~10,525,897~~	~~1,880~~	~~14,317~~	~~437~~	~~14,75~~
~~70130~~	~~UNIVERSAL GUARANTY LIFE INS CO~~	~~OH~~	~~A-~~	~~87,884,399~~	~~87,884,399~~	~~11,034,445~~	~~0~~	~~10,288~~	~~0~~	~~10,28~~
70173	UNIVERSAL UNDERWRITERS LIFE INS CO	MO	A	147,238,863	147,238,863	52,404,307	0	282,869	404,161	687,03
~~66788~~	~~UNUM LIFE INS CO~~	~~ME~~	~~A+~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
62235	UNUM LIFE INS CO OF AMERICA	ME	A+	8,373,240,407	8,572,502,286	550,884,167	31,194	3,314,701	19,974,939	23,289,84
~~74144~~	~~UNUM PENSION AND INS CO~~	~~ME~~	~~A~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
90603	USAA ANNUITY & LIFE INS CO	TX	A	1,588,820,200	1,588,820,200	95,695,149	1,831,505	1,831,505	0	1,831,50
69663	USAA LIFE INS CO	TX	A+	2,066,723,131	2,066,723,131	218,858,714	2,250	2,164,783	150,008	2,314,78
68373	USLIFE CREDIT LIFE INS CO	IL	A	211,148,822	211,148,822	53,679,479	0	1,620,907	2,646,332	4,267,23
70211	VALLEY FORGE LIFE INS CO	PA	A+p	383,836,235	383,836,235	111,382,022	0	4,040,101	2,984	4,043,06
70238	VARIABLE ANNUITY LIFE INS CO	TX	A+	13,723,756,297	14,768,530,229	535,287,236	0	0	0	
~~63645~~	~~VERMONT LIFE INS CO~~	~~VT~~	~~A+c e~~	~~433,857,368~~	~~435,311,382~~	~~19,248,464~~	~~1,868,597~~	~~2,207,220~~	~~0~~	~~2,207,22~~
81027	VETERANS LIFE INS CO	IL	A	192,798,004	192,798,004	49,414,747	0	813,898	112,531	926,42
84549	VISTA LIFE INS CO	MI	A	41,318,382	41,318,382	15,922,581	0	(2,735)	(5,175)	(7,91
70319	WASHINGTON NATIONAL INS CO	IL	A+c	1,535,837,189	1,577,842,037	188,178,619	(369,618)	(167,304)	859,893	692,58
70335	WEST COAST LIFE INS CO	CA	A+	451,325,120	451,325,120	76,948,060	0	925,141	1,337	926,47
84697	WESTERN DIVERSIFIED LIFE INS CO	IL	A	49,201,040	49,201,040	15,534,852	0	2,131,120	3,598,058	5,729,17
70432	WESTERN NATIONAL LIFE INS CO	TX	A+c	4,881,550,531	4,881,550,531	318,821,522	10,457,776	10,484,436	0	10,484,4
91413	WESTERN RESERVE LIFE ASR CO OF OHIO	OH	A+c	584,224,813	1,035,948,280	48,440,883	4,486,106	5,322,709	0	5,322,7
~~70474~~	~~WESTERN SECURITY LIFE INS CO~~	~~AZ~~	~~NA-3~~	~~18,585,775~~	~~18,585,775~~	~~11,000,346~~	~~0~~	~~75~~	~~0~~	
70483	WESTERN & SOUTHERN LIFE INS CO	OH	A+	3,292,835,002	3,755,261,896	537,181,657	0	56,511	746	57,2
~~92622~~	~~WESTERN - SOUTHERN LIFE ASR CO~~	~~OH~~	~~NA-4~~	~~866,089,165~~	~~866,089,164~~	~~60,576,860~~	~~148~~	~~25,172~~	~~0~~	~~25,1~~
62030	WESTFIELD LIFE INS CO	OH	A+	208,811,312	208,811,312	31,186,425	239,651	988,563	0	988,5
~~70521~~	~~WESTLAND LIFE INS CO~~	~~CA~~	~~NA-7~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	~~0~~	
~~70092~~	~~WILLIAM PENN LIFE ASSUR CO OF AMER~~	~~IN~~	~~NA-4~~	~~8,599,341~~	~~8,599,341~~	~~4,487,246~~	~~0~~	~~302,204~~	~~0~~	~~302,2~~
~~84688~~	~~WINTERTHUR LIFE RE INSURANCE CO~~	~~TX~~	~~NA-5~~	~~53,837,734~~	~~53,837,734~~	~~24,901,372~~	~~0~~	~~(109)~~	~~(3)~~	~~(1~~
70580	WISCONSIN NATIONAL LIFE INS CO	WI	A+	310,571,812	310,571,812	29,723,273	94,868	497,060	6,204	503,26
70602	WOODMEN ACCIDENT & LIFE CO	NE	A+	517,530,941	517,530,941	54,386,700	419,938	1,831,036	6,005,137	7,836,17
~~70629~~	~~WORLD INS CO~~	~~NE~~	~~B~~	~~117,795,452~~	~~117,795,452~~	~~18,924,923~~	~~0~~	~~24,351~~	~~448,458~~	~~472,80~~
~~69809~~	~~WORLD SERVICE LIFE INS CO OF CO~~	~~CO~~	~~NA-4~~	~~45,355,341~~	~~45,355,341~~	~~26,999,991~~	~~0~~	~~0~~	~~0~~	
~~93513~~	~~XEROX FINANCIAL SERVICES LIFE INS CO~~	~~MO~~	~~NA-3~~	~~3,310,892,079~~	~~3,395,889,890~~	~~112,918,232~~	~~17,937,124~~	~~17,957,124~~	~~0~~	~~17,957,12~~
~~70661~~	~~ZURICH AMERICAN LIFE INS CO~~	~~IL~~	~~A-~~	~~157,464,229~~	~~157,464,229~~	~~27,932,531~~	~~291,409~~	~~1,828,827~~	~~874~~	~~1,829,80~~
554 Cos	TOTALS			1,218,765,707,356	1,420,058,588,189	86,146,975,719	1,124,851,824	2,274,814,816	756,427,561	3,031,242,37

rating assignments are reported in our monthly publication, **Best's Review.**

The assigned rating is subsequently reviewed based on a company's six and nine months' quarterly financial reports or more frequently if necessary. The company is notified of any proposed change in its rating which again is communicated to our subscribers in **Best's Rating Monitor** issued in September and December and updated on **BestLink** and **BestLine.**

Of the 1,341 companies reported on in **Best's Insurance Reports, 1991 Edition,** approximately 57% were assigned a Best's Rating ranging from A+ (Superior) to C- (Fair). The remaining 43% were classified as Rating "Not Assigned" (abbreviated NA). The "Not Assigned" category has ten classifications which identify why a company was not assigned a Best's Rating. Beginning in 1991, companies assigned to the NA-2 and NA-3 classifications are eligible for assignment of Best's Financial Performance Index (FPI) which provides our evaluation of the company's financial strength and performance. For further information see Section VI.

The distribution of Best's Ratings for life/health companies as of July 22, 1991 is as follows:

Rating		**Number**	**Percent**
A+	Superior	291	21.7%
A	Excellent	210	15.7
A−	Excellent	57	4.3
B+	Very Good	103	7.7
B	Good	65	4.8
B−	Good	15	1.1
C+	Fairly Good	15	1.1
C	Fair	8	0.6
C−	Fair	1	0.1
	Subtotal	765	57.1
NA-1	Special Data Filing	0	0.0
NA-2	Less Than Minimum Size	154	11.5
NA-3	Insufficient Operating Experience	137	10.2
NA-4	Rating Procedure Inapplicable	156	11.6
NA-5	Significant Change	25	1.9
NA-6	Reinsured by Unrated Reinsurer	0	0.0
NA-7	Below Minimum Standards	46	3.4
NA-8	Incomplete Financial Information	0	0.0
NA-9	Company Request	37	2.8
NA-10	Under State Supervision	21	1.6
	Subtotal	576	42.9
	Total Rated Companies	1,341	100.0%
	* L/H Directory Companies	184	
	Grand Total	1,525	

* Reflects those companies which did not file complete financial information and only limited data is reported.

BEST'S RATING (A+ TO C−)

The following provides a brief explanation of Best's Rating classifications of A+ through C- and the modifiers used to qualify the status of an assigned rating.

A+ (Superior)

Assigned to those companies which in our opinion have achieved superior overall performance when compared to the norms of the life/health insurance industry. A+ (Superior) rated insurers have shown the strongest ability to meet their policyholder and other contractual obligations.

A and A- (Excellent)

Assigned to those companies which in our opinion have achieved excellent overall performance when compared to the norms of the life/health insurance industry. A and A- (Excellent) rated insurers have shown a strong ability to meet their policyholder and other contractual obligations.

B+ (Very Good)

Assigned to those companies which in our opinion have achieved very good overall performance when compared to the norms of the life/health insurance industry. B+ (Very Good) rated insurers have shown a very good ability to meet their policyholder and other contractual obligations, but their financial performance is more susceptible to unfavorable changes in underwriting or economic conditions than more highly rated companies.

B and B- (Good)

Assigned to those companies which in our opinion have achieved good overall performance when compared to the norms of the life/health insurance industry. B and B- (Good) rated insurers have shown a good ability to meet their policyholder and other contractual obligations, but their financial performance is very susceptible to unfavorable changes in underwriting or economic conditions than more highly rated companies.

C+ (Fairly Good)

Assigned to those companies which in our opinion have achieved fairly good overall performance when compared to the norms of the life/health insurance industry. C+ (Fairly Good) rated insurers generally have shown a fairly good ability to meet their policyholder and other contractual obligations, but their financial strength is vulnerable to unfavorable changes in underwriting or economic conditions and may not be adequate for satisfying long term obligations.

C and C- (Fair)

Assigned to those companies which in our opinion have achieved fair overall performance when compared to the norms of the life/health insurance industry. C and C- (Fair) rated insurers generally have shown a fair ability to meet their policyholder and other contractual obligations, but their financial strength is very vulnerable to unfavorable changes in underwriting or economic conditions and may not be adequate for satisfying long term obligations.

SECTION IV

BEST'S RATING MODIFIERS

A Rating Modifier is assigned to a Best's rating of A+ through C- to identify a company whose assigned rating has been modified because of performance, affiliation or contractual obligation with one or more other life/health insurers. The modifier appears as a lowercase suffix to the rating (i.e. Ac or Br). The Rating Modifier provides our subscribers with a quick reference to the technical basis of the assigned rating, which is further explained in the full report on the company. We do not require the company to reference the modifier when referring to their Best's Rating during the normal conduct of their business.

PERFORMANCE MODIFIERS

"c" Contingent Rating: Indicates there has been a modest decline in the company's current financial performance, but the decline has not been significant enough to warrant an actual reduction in the company's assigned rating. Our evaluation may be based on the availability of more current information and/or contingent on the successful execution of a program of corrective action by management. Our evaluation may also reflect situations involving matters of a more subjective nature.

"q" Qualified Rating: Not applicable to Life/Health companies.

"w" Watch List: Indicates the company was placed on our Rating "Watch List" during the year to advise our subscribers that the company is under close surveillance because it has experienced a downward trend in its current financial performance or may be exposed to a possible legal, financial or market situation which could adversely affect its performance.

"x" Revised Rating: Indicates the rating shown was revised during the year.

AFFILIATION MODIFIERS

The following Rating Modifiers are used to identify a company whose assigned Rating is based on an affiliation or contractual relationship with one or more other property/casualty insurers.

"e" Parent Rating: Indicates the rating assigned is that of the parent of a domestic life/health subsidiary in which ownership exceeds 50%. The rating is based on the consolidated performance of the parent and its subsidiaries. To qualify for a Parent Rating, the subsidiary must be eligible for a rating based on its own performance after attaining five consecutive years of representative experience; have common management with its parent; underwrite similar lines of business; and have interim leverage and liquidity performance comparable to that of its parent.

"g" Group Rating: Not applicable to Life/Health companies.

"p" Pooled Rating: Indicates the rating assigned to companies under common management or ownership which pool 100% of their net business. All premiums, expenses and losses are prorated in accordance with specified percentages that reasonably relate to the distribution of the policyholders' surplus of each member of the group. All members participating in the pooling arrangement are assigned the same rating and Financial Size Category, bases on the consolidated performance of the group. For information regarding the members of a pool see **Best's Insurance Reports.**

"r" Reinsured Rating: Indicates the rating and Financial Size Category assigned to the company are those of an affiliated carrier which reinsures 100% of the company's net premiums written. For information regarding the company's reinsurer see **Best's Insurance Reports.**

"s" Consolidated Rating: Not applicable to Life/Health companies.

DISTRIBUTION OF RATING MODIFIERS

Of the 765 Best's Ratings (A + to C-) currently assigned, 123 or 16% are also assigned a Rating Modifier. The distribution of these modifiers can be summarized as follows:

RATING MODIFIER	NUMBER OF COMPANIES
Performance	
c Contingent	74
q Qualified	0
	74
Affiliation	
e Parent	45
g Group	0
p Pooled	2
r Reinsured	6
s Consolidated	0
	127
Dual Assignment	(4)
	123

SECTION V

RATINGS "NOT ASSIGNED" CLASSIFICATIONS

Approximately 43% of the companies reported on in **Best's Insurance Reports, Life/Health Edition** are not assigned a Best's Rating (A + to C-). These companies are assigned to a Rating **"Not Assigned"** classification (abbreviated NA) which is divided into ten classifications to identify the reason why the company was not assigned for a Best's Rating. The primary reason is identified by the appropriate numeric suffix. If additional reasons apply, they are referred to in the report on the company in **Best's Insurance Reports.**

• **NA-1 Special Data Filing:** Not applicable to Life/Health companies.

• **NA-2 Less than Minimum Size:** Assigned to companies that file the standard NAIC annual statement, but do not meet our minimum size requirement of annual net premium writings of $1.5 million. This classification is also assigned to a company that is effectively dormant, has no significant premium volume or has no net insurance business in force. Exceptions are: the company is 100% reinsured by a Rated company; or is a member of a group participating in a business pooling arrangement; or was formerly assigned a rating. Companies assigned to the NA-2 category are eligible for assignment of Best's Financial Performance Index (FPI). For an explanation of the FPI see Section VI.

• **NA-3 Insufficient Operating Experience:** Assigned to a company which meets, or we anticipate will meet, our minimum size requirement, but has not accumulated at least five consecutive years of representative operating experience. This requirement pertains only to the age of the company's financial performance and does not relate to the actual experience of its management. Our operating experience requirement requires consistency in both the types of coverages written and the relative volume of gross and net premium writings. Additional years of operating experience may be required if a company exhibits substantial growth in new business or change(s) in product mix whereby the development of its business may not be sufficiently mature at the end of five years to permit a satisfactory evaluation. Companies assigned to the NA-3 category are eligible for assignment of Best's Financial Performance Index (FPI). For an explanation of the FPI see Section VI.

• **NA-4 Rating Procedure Inapplicable:** Assigned to a company when the nature of its business and/or operations is such that our normal rating procedure for life/health insurers does not properly apply. Examples are: companies writing lines of business uncommon to the life/health field; companies not soliciting business in the United States; companies retaining only a small portion of their gross premium writings; companies which have discontinued writing new and renewal business and have a defined plan to run-off existing contractual obligations; companies whose sole operation is the acceptance of business written directly by a parent, subsidiary or affiliated insurance company; or those writing predominantly property/casualty insurance under a dual charter.

• **NA-5 Significant Change:** Assigned to a previously rated company which experiences a significant change in ownership, management or book of business whereby its operating experience may be interrupted or subject to change; or any other relevant event which has or may affect the general trend of a company's operations. This may include pending mergers, sale to a new owner, substantial growth

ATTACHMENT E

An Example of the Maximum Exclusion Allowance Calculation
Provided by the Copeland Companies

(Blank)

This worksheet is used only for training purposes, or when the Account Executive s computer is out for repair.

THE COPELAND COMPANIES®

Tax Sheltered Annuity
EXCLUSION ALLOWANCE WORKSHEET

PREPARED FOR

____
(Participant's name)

EMPLOYED AT

____
(name of Employer)

PREPARED BY

____
COPELAND ACCOUNT EXECUTIVE

ON

____
(date)

I recognize that Copeland is responsible only for the accurate calculation of my Section 403(b) exclusion allowance and related limits based upon the information I provide. Copeland is not responsible for, and is NOT obligated to confirm, the correctness, accuracy or completeness of my information.

____
(Participant's signature)

JW/mea:3

I. CLIENT INFORMATION

1.	Date of birth:	01/01/1950
2.	Last day of tax year and calculation year:	12/31/1995
3.	Date of employment with this Employer:	01/01/1975
4.	Years of Service with this Employer to end of tax year (I.2 - I.3) (at least 1) [Y]:	21
5.	Normal Retirement Age (usually age 65) attained at (date):	01/01/2015
6.	Total Years of Service to Normal Retirement Age with this Employer (I.5 - I.3) [T]:	40
7.	Name of Employer's Basic Retirement Plan: ______________________	
8.	Annual Salary [S]:	$ 65,000
9.	Current year Section 125 pre-tax health and welfare benefits contribution [F]:	$ 1,300
10.	Total prior 403(b) Contributions (both by employee and Employer) with this Employer to end of last year [P]:	$ 7,800
11.	The greater of Employer 403(b) contributions to be made for service in this tax year or actual Employer contributions made this year for previous service.	$ 0

II. DEFINED BENEFIT PLAN ANNUAL RETIREMENT BENEFIT

Each defined benefit pension plan contains a formula for determining the annual retirement benefit. Generally, this is based on a percentage of Salary [S] multiplied by Total Years of Service at Retirement [T]
Calculate here.

2% x $65,000 x 40 = $ 52,000 A
S = Line I.8; T = Line I.6 (annual benefit)

III. PRIOR PENSION PLAN CONTRIBUTIONS

			After-Tax Pension Contributions	*Pre-Tax Pension Contributions
1.	Percentage of Salary at Retirement (express as a decimal: divide benefit "A" found in Part II by (S, Line I.8)		0.	0.80
2.	Multiply by Table I factor [see following page for Table I]	x		8.08
3.	Multiply by Table II factor (use T, Line I.6) [see following page for Table II]	x		.0039
4.	Subtract % of employee after-tax contribution to pension plan (express as a decimal)	-	0.	0.00
5.	Multiply by Salary (Line I.8)	x		$65,000
6.	Multiply by Y (Line I.4) less 1 (separate for after-tax pension contributions and pre-tax pension contributions.)	x		20
7.	Total lines 1-6.	=	______	= $32,772.48
8.	Add after-tax pension contributions plus pre-tax pension contributions [B]. (If a negative number, enter "0".)	=	$32,772.48	

*This includes no employee pension contribution

JW/mea:samples

VI. SPECIAL ELECTIONS

Available only for employees of hospitals and certain other healthcare organizations, schools, and church organizations.

These elections are irrevocable. Once a special election has been chosen, no other special election may be used in the future years. For Federal Income Tax purposes, a special election is made when the taxpayer files a tax return that assumes a 403(b) contribution that could not have been achieved without using the particular special election.

Election A - Available only during the year of separation from service.

- Recalculate the 403(b) Formula using only the latest 10 years.
- Ignore contributions made prior to 10 years ago.
- Cannot exceed the salary reduction limit of $9,500 ($12,500 or the lesser of the catch-up limit p.5).
- Cannot exceed $30,000 - E

$$MEA = \frac{[10(S-F-H)] - [5(B+P+C+E)]}{5+10}$$

$$MEA = \frac{10(65{,}000 - 1{,}300 - 2{,}600) - 5(32{,}772.48 + 7{,}800 + 0 + 0)}{15}$$

$$MEA = \frac{611{,}000 - 202{,}862.40}{15}$$

LEAST OF:

Election A 403(b) formula above	$ 27,209.17
Salary Reduction Limit [$9,500 ($12,500 or the lesser of the catch-up limit p.5) - other deferrals]	$ 12,500.00
$30,000 - (E)	$ 30,000.00

Election B - Available during any year of service.

LEAST OF:

20% of [S-F-H-other deferrals]- 80%(E) + $3,200	$ 15,420.00
403(b) Formula (Part IV)	$ 41,547.60
Salary Reduction Limit [$9,500 ($12,500 or the lesser of the catch-up limit p.5) - other deferrals]	$ 12,500.00
$15,000 - E	$ 15,000.00

Election C - Available during any year of service.

If not covered by any other qualified plan, it is the LEAST OF:

20% of [S-F-H-other deferrals]- 80% (E) - after tax contributions	$ 12,220.00
Salary reduction limit [$9,500 ($12,500 or the lesser of the catch-up limit p. 5) - other deferrals]	$ 12,500.00
$30,000 - E - after-tax pension contributions - before-tax pension contributions - other deferrals - Employer contributions to other defined contribution plans and attributed contributions under defined benefit plans	$ 27,400.00

If covered by other defined contribution plans, the 20% of Salary limit is reduced by the amount of any Employer contributions to each defined contribution plan.

If covered by a defined benefit plan, it is the least of the 20% of Salary limit, the Salary reduction limit, or the result of the Combined Plans Test Calculation. You must use ACCESS Software for his calculation.

JW/mea:samples

Table I.

Retirement Age	Factor	Retirement Age:	Factor
50	10.43	65	8.06
51	10.30	66	7.88
52	10.18	67	7.70
53	10.04	68	7.50
54	9.89	69	7.29
55	9.75	70	7.10
56	9.60	71	6.88
57	9.44		
58	9.28		
59	9.13		
60	8.96		
61	8.79		
62	8.62		
63	8.44		
64	8.25		

Table II

Years	Factor	Years	Factor
1	1.0000	21	.0198
2	.4000	22	.0180
3	.3000	23	.0164
4	.2219	24	.0150
5	.1705	25	.0137
6	.1363	26	.0125
7	.1121	27	.0114
8	.0940	28	.0105
9	0801	29	.0096
10	0690	30	.0088
11	0601	31	.0081
12	.0527	32	.0075
13	.0465	33	.0069
14	.0413	34	.0063
15	.0368	35	.0058
16	.0330	36	.0053
17	.0296	37	.0049
18	.0267	38	.0045
19	.0241	39	.0042
20	.0219	40	.0039

IV. 403(b) FORMULA

S = Salary - Line I.8
Y = Years of Service - Line I.4
B = prior defined benefit plan attribution - Line III.8
P = prior 403(b) contribution - Line I.10
C = Prior employer contributions to any defined contribution plan other than 403(b)
F = 125 before - tax health and welfare benefit contributions - Line I.9
H = Employee pre-tax pension contributions (other than 403(b) contributions)
E = Employer contributions to 403(b) in this year - Line I.11
MEA = the amount the employee may exclude by salary reduction

$$MEA = \frac{[Y(S-F-H)] - [5(B+P+C+E)]}{5+Y}$$

$$MEA = \frac{21\,(65{,}000 - 1{,}300 - 2{,}600) - 5\,(32{,}772.48 + 7{,}800 + 0 + 0)}{5 + (21)}$$

$$MEA = \frac{1{,}283{,}100 - (202{,}862.40)}{26}$$

$$MEA = 41{,}547.60$$

V. GENERAL LIMITATIONS

LEAST OF:

1. 403(b) Formula (Part IV) $\underline{\quad 41,547.60}
2. The lesser of 20% of Salary or 20% [S-F-H-other deferrals]- 80% (E) $\underline{\quad 12,220.00}
3. Salary reduction limit [$9,500 ($12,500 or the lesser result of the catch-up limit p.5)] $\underline{\quad 12,500.00}

The $9,500 limit on salary reduction contributions is a personal limit on a taxpayer's combined salary reduction deferrals among all retirement arrangements. Thus, salary reduction contributions to a Section 457(b) plan, a Section 401(k) plan, a SAR-SEP plan or any other TSA will reduce the $9,500 limit.

JW/mea:samples

CATCH-UP LIMIT pursuant to IRC § 402(g)(8)

This catch-up Limit, which permits, when available according to the Exclusion Allowance, an additional amount (up to $3,000) of salary reduction contributions beyond the $9,500 limit (but never more than $12,500), is available only to employees who have at least 15 years of service (use Y or line I.4) with the current Employer, and the Employer is a hospital, school, or church that qualifies for the special election exclusion allowances provided for under IRC § 415 (c)(4).

I have completed at least 15 years of service with my current Employer.

____
(Participant's signature)

This catch-up amount is

THE LEAST OF:

$ 15,000 minus prior contributions *under* this catch-up	$ 15,000.00
$ 5,000 x Years [Y, Line I.4] - prior salary reduction contributions [P, Line I.10]	$ 97,200.00
-or- the maximum additional amount of	$ 3,000.00

The elective deferral limit is

THE LESSER OF:

This catch-up amount + $ 9,500	$ 12,500.00
MEA determined under Parts IV - V - VI Including Special Elections when available (p.4)	$ 12,500.00

Subtract all other deferrals (to other TSAs and under other plans) from this elective deferral limit.

JW/mea:samples

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ATTACHMENT F

April 17, 1996 Letter From Minnesota School Boards Association and Minnesota Education Association to School Districts Concerning 403(b) Administration

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MINNESOTA SCHOOL BOARDS ASSOCIATION

INSURANCE TRUST

1900 West Jefferson Avenue
St. Peter, Minnesota 56082-3015

507-931-2450
612-333-8577
Minnesota 800 324 4450
FAX 507-931-1515

Post-it® Fax Note 7671	Date 7/3/97 # of pages ▶ 8
To Jim Hidelberg	From John Sylvester
Co./Dept. St. Bd. of Inv.	Co. MSBA
Phone #	Phone #
Fax # 612-296-9572	Fax #

April 17, 1996

TO: School Board Chairpersons
Superintendents of Schools

FROM: John Sylvester, MSBA-MSBAIT Staff Liaison

RE: **Recommended Actions for School Districts with Any Type of 403(b) Plan**

Due to substantially increased IRS scrutiny of 403(b) plans (see attached excerpts from the IRS 403(b) audit manual), the Minnesota School Boards Association Insurance Trust and its advisors, in cooperation with the Minnesota Education Association and their advisors, jointly recommend that Districts initiate the following actions and/or procedures beginning immediately.

1. Obtain certification that each 403(b) vendor to whom your District remits 403(b) contributions has obtained, from the appropriate State of Minnesota regulatory agency, approval of its 403(b) contract(s) being sold in your District (see attached sample memorandum). NOTE: This is not necessary for the eight insurance companies that already have been approved by the State for the 403(b) matching program (i.e. Aetna Life Insurance and Annuity Company; Great West Life and Annuity Insurance Company; IDS Life Insurance Company; Metropolitan Life Insurance Company; Minnesota Mutual Life Insurance Company; Nationwide Life Insurance Company; United Investors Life Insurance Company; and VALIC [Variable Annuity Life Insurance Company]). Therefore, "item I" on the sample memorandum should be eliminated from the memoranda Districts actually send to those eight companies.

2. Obtain certification that each 403(b) vendor to whom your District remits 403(b) contributions will provide for review by the employees' tax advisors "maximum exclusion allowance" and "alternative maximum contribution" calculations as needed. This review is necessary because the District itself could be penalized for failure to withhold and remit the appropriate state and federal income taxes on any "excess contributions" inadvertently made by any 403(b) participant. Moreover, federal law specifically provides that the IRS can declare that <u>all</u> District employees' 403(b) contributions <u>including District</u>

matching contributions could be fully taxable in any year when even one District employee exceeds his/her maximum contribution limit (see attached sample memorandum). For assistance with maximum contribution calculations, please contact: Mr. Alve Jemtrud at MEA's Economic Services, Inc. (ESI) office (telephone: 612-227-9541).

3. The effective date for one of the three discrimination tests for Districts making matching contributions to one or more non-collectively bargained employee(s) has been accelerated to January 1, 1997. The effective date for the other two discrimination tests continues to be January 1, 1999. If the District is making or intends to make matching 403(b) contributions to any non-collectively bargained employee, it must perform and comply with this mathematical test as of January 1, 1997. The District does not need to perform the test for any employee contributions or District matching contributions directed to the State of Minnesota Section 457 Plan. The MSBAIT has arranged for DCA, Inc. to assist Districts with the discrimination testing requirements, and a sample estimated fee schedule is included in this mailing. The DCA, Inc. contact people are Mr. Douglas Smith and Ms. Lucia Stubbs (telephone: 612-541-7500).

4. Federal and State of Minnesota laws currently do not require Public School Districts to maintain written 403(b) plan documents, whether or not a District provides matching contributions to its employees. However, the MSBAIT, MEA, and the Minnesota Legislative Commission on Pensions and Retirement all recommend that written plan documents and Summary Plan Descriptions (lay language versions of the formal legal documents) be prepared for School Districts which provide 403(b) or 457 matching contributions. If desired, DCA, Inc. will work with the District to prepare these documents for review by the District's legal counsel.

If your District wishes to retain DCA, Inc. to assist it with its document preparation and/or its discrimination testing, please complete the enclosed registration form and send it to the MSBAIT office along with the required deposit. DCA, Inc. will handle requests on a first come, first served basis.

Sincerely,

John Sylvester

John Sylvester
MSBA-MSBAIT Staff Liaison

enc.

IRS AUDIT QUESTIONS
(EXCERPTED FROM AN IRS EXAMINER'S QUESTIONNAIRE)

1. Copies of the information given to employees which describes the pension plan. This should include all pertinent aspects such as eligibility, amount of exclusion, etc.

2. If there is any separate written document which the employer utilizes as the basis for making decisions as to whether someone is eligible to participate in the plan or that describes the plan in more detail, then I will need a copy of such documents.

3. If there is a committee in charge of determining participation or settling disputes with regard to this plan, then I will need to see any minutes taken at these meetings.

4. I need to see the list of eligible insurance or mutual funds that can be purchased under this plan and a list of employees participating under each arrangement.

5. I need a specimen contract for each insurance company or mutual fund participating under the plan.

6. I need any documents you receive from the different contract providers which would reflect the total funds held and total employees having contracts with that provider.

7. If you maintain a correspondence file for correspondence with the different providers or with employees participating, I will need access to such file.

8. If there are any procedure manuals utilized to determine eligibility or other aspects of the plan, then I will need access to such manuals.

9. I would like to see any audit reports issued by outside CPA or internal auditors concerning this plan.

10. Are amounts the employee contributes as a salary reduction considered wages for purposes of FICA and FUTA? If so, please explain how this is done internally (ex. part of payroll program). I will need to test check to determine that this has been done properly.

11. Are there any individuals participating in the plan who are not employees of the institution? If so, please list the individuals participating and the basis for their participation.

12. I need to see how you determine that an individual is not exceeding the exclusion allowance. If this is done only when you have someone electing an alternative method, then I will need the records of any individuals who utilized one of the special rules.

13. Copies of the trust's or employer's Forms 1099R file for the years under examination. If such reports are filed by the contract provider, please provide a listing from the provider of distributions made during these periods. I will need a contact person with the provider should questions arise.

14. If life insurance benefits or waiver of premium are part of the contracts, has this amount been included in the employees' income?

IRS Audit Questions -- page 2

15. Do the contracts allow for loans? If so, I need to be able to sample the amounts loaned to be sure that the requirements of section 72(p) of the Internal Revenue Code have been followed. I will need a listing of all loans.

16. I need to see what controls are utilized to make sure that the required distribution provisions of 403(b)(10) and (11) of the Internal Revenue Code have been followed.

17. Please provide copies of any calculations showing compliance with 401(m) of the Internal Revenue Code.

18. Please provide a copy of the adoption agreement to the Retirement Savings Plan (403B).

(Memorandum to 403(b) and 403(b)(7) vendors – to be transferred to District stationery)

TO: 403(b) and 403(b)(7) Vendors to Employees of District (#)

FROM:

RE: Contract Approval and Maximum Exclusion Allowance Considerations

I. Due to increased federal and state government regulations regarding 403(b) and 403(b)(7) arrangements and increased federal government audit initiatives (see attached IRS audit excerpts), we are requesting written evidence and/or certifications by June 30th each year that each Vendor's individual annuity contract or group annuity contract or 403(b)(7) custodial arrangement being offered to District employees has been approved for sale in Minnesota by the applicable State of Minnesota regulatory agency. Please deliver these materials to my attention no later than June 30, 1996, and by June 30th annually thereafter.

____ Yes, ____________________ acknowledges receipt and
(vendor)
complies with this request. See enclosed certification.

____ No, ____________________ chooses not to comply with
(vendor)
this request for the following reason:____________________
____

Vendor Signature: ____________________

Title: ____________________

Date: ____________________

II. Secondly, because the District is accountable for timely remittances of the appropriate state and federal income taxes for each District employee, and because any excess contributions to 403(b) arrangements could result in penalties to the District and could potentially jeopardize the favorable tax treatment for all District employees' 403(b) arrangements, we are requesting each Vendor to monitor maximum contribution limits for their District employee clients and to perform the appropriate Maximum Exclusion Allowance and alternate Maximum Contribution Limit calculations when applicable for review by employees' qualified tax advisors. In this regard, the District is not asking Vendors to provide tax advice to District employees, but we are asking Vendors to provide these calculations and work papers for review by District employees' qualified tax advisors as a condition of doing business with District employees. Please send to my attention by June 30, 1996, a letter from an appropriate officer of your company certifying that the above maximum contribution calculations will be performed for your District clients as needed for the tax year beginning January 1, 1996, and each year thereafter.

_____ Yes, ______________________________ acknowledges receipt and
(vendor)
complies with this request. See enclosed certification.

_____ No, ______________________________ chooses not to comply with
(vendor)
this request for the following reason: ______________________________
____

Vendor Signature: ______________________________

Title: ______________________________

Date: ______________________________

If, by June 30, 1996, and each year thereafter, the District does not receive the two certifications requested above from a Vendor to which the District is making contributions on behalf of District employees, it is our intent beginning September 1, 1996, and each year thereafter, that salary reduction contributions will be discontinued to that Vendor and redirected to an alternate approved Vendor selected by the applicable District employees.

Thank you for your cooperation on this matter of utmost importance to the District and its employees. Please contact me at ______________________________ regarding any questions you may have.
(phone number)

DCA, INC. FEE ESTIMATES
for
THE MSBAIT 403(b) COMPLIANCE SERVICES PROGRAM

I.	Plan Document and Summary Plan Description (optional)	$750 - $1,200 (depending on standardized prototype applicability)
II.	Annual Actual Contribution Discrimination Testing (January 1, 1997, effective date)	$250 - $2,000 (sliding scale based on District size)
III.	Annual IRS "Coverage" and "Participation" Testing under Internal Revenue Code Sections 410(b) and 401(a)(26) (January 1, 1999, effective date)	Time and materials (estimating 4 - 12 hours per District at $95 per hour)
IV.	Maximum Contribution Limitation Testing for Salary Reduction Amounts	(Assume insurance carriers will provide)
V.	Miscellaneous Consulting	$75 - $200 per hour
VI.	<u>Sample Fees</u>	
	Small School District	$1,500
	Large School District	$4,400

It is intended that this Program will be provided in cooperation with each District's legal counsel.

REGISTRATION FORM

MSBAIT 403(b) COMPLIANCE SERVICES PROGRAM

District Name and Number: ____________________

Designated Contact Person: ____________________

Telephone Number: ____________________

FAX Number: ____________________

Address: ____________________

____

Services Requested: ______ Preparation of Plan Documents for Legal Counsel Review

______ Discrimination Testing

$100 Deposit Enclosed: (payable to DCA, Inc.) ______ Yes

______ No

Mail to:

MSBAIT 403(b) COMPLIANCE SERVICES
1900 WEST JEFFERSON AVENUE
ST. PETER, MN 56082-3015

Tab E

COMMITTEE REPORT

DATE: November 25, 1997

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

FROM: Asset Allocation Committee

The Asset Allocation Committee met on November 21, 1997 to review an updated position paper on the needs and objectives of the Permanent School Trust Fund.

Board action is requested on this item.

ACTION ITEM:

The Permanent School Fund (PSF) is fund established in the Minnesota Constitution and is to be managed for the benefit of Minnesota public schools. Principal of the trust fund comes from income generated by lands managed by the Department of Natural Resources. The principal is managed by the SBI and is used to buy financial assets (stocks and bonds). This portfolio produces interest and dividend which is used as an offset to state school aid payments from the state general fund.

The SBI conducted its last formal review of the position paper on the PSF in 1985. There were significant changes during the 1997 Legislative Session that impact the asset allocation of the fund. The staff paper updates the policy statement and presents the rational for changing the asset mix from 100% fixed income to 50% equities/50% fixed income.

In addition, staff has recommended that the Legislature consider amendments to the Constitution that would provide the fund with greater investment flexibility and provide the legislative and executive branches with greater budget certainty regarding the spendable income generated by the fund.

RECOMMENDATION:

The Committee recommends that the SBI adopt the attached position paper as its written policy statement on the Permanent School Fund. In addition, the Committee recommends that the SBI support further constitutional changes that will enhance the SBI's ability to manage the portfolio and increase the expected total return of the Fund.

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THE PERMANENT SCHOOL FUND NEEDS AND OBJECTIVES

Minnesota State Board of Investment
Staff Position Paper
November 1997

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EXECUTIVE SUMMARY

The Minnesota State Board of Investment (SBI) has responsibility for managing the Permanent School Fund (PSF) principal. Principal for the Permanent School Fund comes from income generated by lands managed by the Department of Natural Resources (DNR), net of DNR costs. The principal is used to buy securities, which in turn produce income. This income is used to offset school aid payments.

The SBI conducted its last formal review of the PSF position paper in September 1985. There were significant changes during the 1997 Legislative Session that impact the asset allocation policy for the PSF. This paper updates the policy statement and presents the rationale for the new asset mix. In addition, staff recommends further Constitutional changes.

BACKGROUND

The Permanent School Fund was created in 1858 under Article XI, Section 8 of the Minnesota State Constitution. The PSF was designed to serve as a long-term source of revenue for public schools. Technically, the PSF is composed of two parts:

Lands

The first consists of lands granted to the State by the federal government that have been consolidated into the Fund. These lands are managed by the Department of Natural Resources (DNR). The DNR currently manages about 2.5 million acres of land and retains the mineral rights on another 1 million acres for the Fund. Most of the land is part of state forests, wildlife management areas, scientific and natural areas, state parks, riverways, and water access sites. The Legislative Auditor is in the process of evaluating the management of the school trust lands and expects to report their findings to the Legislature early in 1998.

Principal

The lands generate income in the form of land sales, mining royalties, timber sales and lakeshore and other leases. The income from these sources, net of DNR costs, is used to purchase financial securities, which make up the second part of the Permanent School Fund. It is this second part of the PSF, the principal as represented by the PSF's financial investments, that is the focus of this paper.

In conjunction with the PSF is the School Endowment Fund. Income generated by the financial investments in the PSF principal is transferred to the School Endowment Fund and is then available for educational spending. Funds are taken from this account twice a year to offset school aid payments. Because of the short-term nature of this account, the SBI invests the School Endowment Fund in short-term cash equivalents.

The principal of the PSF had a market value of $437 million as of June 30, 1997, and was invested in fixed income securities. For fiscal year 1997, the PSF transferred $30 million to the School Endowment Fund, which was used to offset state aid payments to Minnesota's public schools. During that same period, the PSF received $4.5 million in revenues from the lands managed by the DNR.

CONSTITUTIONAL AMENDMENT IN 1984

Prior to the passage of a Constitutional amendment in 1984, the investment authority for the PSF was extremely restrictive. Investments in stocks were limited to 20% (at cost) of the PSF. Further, all stocks purchased were required to have made dividend payments for five consecutive years. A maximum of 40% of the PSF could be invested in corporate bonds, but only the bonds of corporations whose earnings exceeded interest requirements on outstanding bonds by three times for five consecutive years. The remainder of the PSF was required to be invested in the securities of the U.S. Treasury, U.S. agencies, states, or Minnesota municipalities.

The 1984 amendment eliminated these restrictions. The PSF was then permitted to be invested under the same statutes that govern the investment of all other funds under SBI management. However, restrictive accounting requirements mandated by the Constitution and severe budget constraints, as described below, still limited the Fund to investing solely in bonds.

CURRENT ACCOUNTING RESTRICTIONS

As prescribed by the State Constitution, the principal of the PSF must remain undiminished in perpetuity. The offset to school aids can be financed only out of the PSF's dividend and interest income. None of the PSF's principal may be reduced to finance the offset.

Any combined realized losses on fixed income and equity securities are first subtracted from any realized gains. Net realized gains or losses are then amortized over a ten year period in equal installments. Net gains are used to offset net losses over the ten year amortization period. If any portion of the gain is not needed to offset losses, it is added to the principal of the PSF. If the amortized realized losses are greater than realized gains, the difference must be recovered from the PSF's interest and dividend income in equal installments over the ten year amortization period.

As a result of these restrictive accounting requirements, the PSF could prevent excessively large fluctuations in current spendable income by avoiding investment strategies (such as investing in equities) that might generate significant realized losses in any given year. Also, equities typically give off a lower income stream than fixed income. By avoiding equities, the PSF could prevent a significant reduction in the amount of income generated during the initial years of equity investment.

Large fluctuations or reductions in current spendable income were a problem because the school aid budget is set in advance, with <u>estimates</u> for the PSF's spendable income offsetting the amount needed from the General Fund to cover the school aid budget. Any shortfall in the PSF's <u>actual</u> spendable income has to come from budget surplus. For several years, General Fund budgetary constraints did not allow room for large fluctuations or reductions in the PSF's current spendable income.

Implicitly, the PSF was forced to focus on short-run income maximization as its investment objective, resulting in continued investment solely in fixed income securities. This approach sacrificed long-run growth in the PSF's principal and real spendable income in exchange for a higher and more stable level of current spendable income. Unless the PSF received significant income from the DNR, it was expected that the real value of the PSF's principal would be gradually eroded by inflation in exchange for a higher level of annual income. As shown in Table 1, spendable income has experienced modest declines from 1992-1997.

Table 1

PERMANENT SCHOOL FUND

MARKET VALUES AND INCOME GENERATED OVER 10 YEARS

Fiscal Year	Ending Market Value	Contribution to Principal from DNR	Spendable Income Generated*
1988	$357,840,691	$ 0	$32,148,023
1989	384,602,034	0	33,565,095
1990	377,185,633	0	33,409,540
1991	391,943,285	0	34,228,441
1992	418,870,142	3,807,733	34,213,038
1993	456,089,572	3,928,234	33,517,004
1994	415,562,997	6,429,494	32,515,041
1995	438,616,238	4,694,833	30,881,179
1996	419,331,014	4,954,981	31,159,832
1997	437,026,320	4,453,115	30,035,245

*As calculated by the SBI. May differ from the spendable income reported by the Department of Finance.

INVESTMENT OBJECTIVES OF THE PERMANENT SCHOOL FUND

As noted earlier, the PSF principal, with its pool of investable assets, is expected to generate a stream of income to provide an offset to state school aid payments. Given the similarity of purpose between the PSF and endowment funds, in general, it is useful to briefly analyze the range of investment objectives facing typical endowment funds.

Any endowment fund encounters certain short-run versus long-run investment trade-offs. In the short-run, there is a demand for maximum current spendable income. This short-run objective can usually best be met by holding investments in lower risk, fixed income securities. Conversely, in the long-run, there is a demand for a growing stream of real (i.e., inflation adjusted) spendable income. This long-run objective can usually best be met by holding investments in higher risk equity securities. Unfortunately, the two investment objectives tend to be mutually incompatible. Maximum current spendable income achieved through fixed income investments will sharply limit long-run growth in a fund's principal and, hence, the real spendable income that the fund can generate in the future. On the other hand, a growing stream of real spendable income achieved through equity investment usually results in a lower and more volatile stream of current spendable income.

An endowment fund's tolerance for risk largely is determined by how it trades off short-run versus long-run objectives. In turn, the emphasis on short-run versus long-run objectives is primarily a function of the importance of the endowment fund's spendable income stream to the sponsor's total revenue. Where the spendable income stream is a relatively small percentage of total revenues, the risk tolerance of the sponsor will tend to be higher than in a situation where the fund's spendable income stream is a large percentage of the sponsor's total revenue picture. In the latter case, the sponsor is likely to be more cautious since a protracted period of poor investment results could have a serious impact on the various projects that the endowment fund is expected to finance.

In the case of the PSF, SBI staff believes that the spendable income stream should grow at a rate at least equal to inflation in order to maintain the purchasing power of the revenue stream. To accomplish this, SBI staff has repeatedly recommended throughout the years that the Fund invest in equities as well as fixed income. However, since equities typically give off a lower income stream than fixed income, adding equities to the PSF would initially reduce the annual income available to offset the state school aid payments. This initial reduction in spendable income was unacceptable because of severe budget constraints, therefore the PSF remained invested solely in fixed income securities.

In 1991, the Legislative Auditor also recommended a change in the PSF's investment strategy to include equities. However, they also acknowledged that the budgeting constraints made it difficult to implement any immediate changes.

An opportunity to remedy the lack of sufficient growth in the PSF came when the State found itself with a general fund surplus in 1996-97. The initial drop in the income stream caused by adding equities could be absorbed by the budget surplus. When this opportunity presented itself, the SBI staff again recommended that equities be added to the PSF.

1997 BUDGET INITIATIVE

Based on the PSF's investment needs described above and extensive scenario analysis, staff recommended that the asset mix should be changed to include 50% equities, 48% bonds and 2% cash. Examples of the scenario analysis can be seen in Appendix A. Staff recommended that the PSF hold a minimal cash equivalents position because the PSF has no need for liquidity, beyond that necessary to facilitate investment management. The lower yields paid by cash equivalents make it an inferior investment to longer maturity fixed income assets. Income that is received each month will be held only until it is transferred out at the end of each month.

This initiative was incorporated as part of the Governor's budget request for FY98-99. The initiative was deemed approved by the Legislature with the passage of the K-12 funding bill during the 1997 First Special Legislative Session. Staff recommendations were implemented in the PSF during July 1997.

CURRENT MANAGEMENT STRUCTURE

The SBI is required, by statute, to separate the investment of retirement and non-retirement funds. The PSF is a non-retirement fund, therefore its assets cannot be commingled with pension assets invested by the SBI. SBI staff manage an internal equity and an internal bond fund to meet the needs of non-retirement assets under the SBI's control. Both the equity and bond funds utilize a passive/semi-passive approach yielding market-like returns. This approach is efficient from a management perspective since it can be implemented with the SBI's limited staff at a very low cost.

Because of cost effectiveness and market-like returns, staff recommended that the PSF invest its equity portion in the SBI's Internal Equity Fund, which replicates the S&P 500, and its fixed income portion in the SBI's Internal Bond Fund, which is managed semi-passively against the Lehman Aggregate.

ADDITIONAL RECOMMENDED CONSTITUTIONAL CHANGES

Staff believes that the long-run investment management of the PSF could be enhanced if the Fund's Constitutional requirements were further modified. Elimination of the required offset of net capital losses against spendable income and inclusion of net capital gains in spendable income would give the PSF the same flexibility as a normal endowment fund.

Staff recommends that the PSF adopt a policy of spending a set percentage of the PSF, instead of spending only the net dividend and interest income generated. For example, an endowment fund will often set an annual spending target at 5% of the fund's total market value, including income and capital gains. With respect to the PSF, staff recommends that the spending target be based on a set percentage of the market value at the end of each biennium. The resulting spendable amount would be the same for each of the two years in the subsequent biennium. This method of calculating and setting spendable income eliminates the need to forecast or "predict" what the markets are going to do in any given year. It also eliminates the possibility that actual spendable income will fall short of forecasted income, and therefore, eliminates budgeting uncertainty.

By eliminating the restrictive accounting requirements and changing the spendable income formula, the PSF will be able to achieve long-term growth. It will also allow an accurate calculation to be made of the biannual amount available for the school aid offset.

Tab F

COMMITTEE REPORT

DATE: November 25, 1997

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on November 21, 1997 to review the following agenda:

- Review of manager performance for the period ending September 30, 1997
- Review of candidates for the Bond Manager Monitoring Program
- Recommendation to place a bond manager (Voyageur) on probation.
- Review of two active stock managers (American Express, Independence)
- Approval of updated resolution on repurchase agreements for State Cash Accounts
- Approval of a new method for securities lending in the State Cash Accounts

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

INFORMATION ITEM:

1. Review of manager performance

- ***Stock Managers***

For the period ending September 30, 1997, the domestic stock manager program outperformed its aggregate benchmark and the Wilshire 5000 for the latest quarter, and one-year. The **current** managers outperformed the benchmark and the Wilshire 5000 for the quarter and for the latest one year, three year, and five year periods.

Time period	Total Program	Wilshire 5000*
Quarter	10.1%	9.8%
1 Year	38.8	38.0
3 Years	28.1	28.4
5 Years	20.4	20.5

Current Mgrs. Only	Aggregate Benchmark
10.1%	9.9%
39.0	38.6
29.1	28.7
21.4	20.8

* Adjusted for SBI's restrictions, as appropriate.

The performance evaluation reports for the stock managers start on the **first "blue page"** of this Tab. Manager Commentaries are in **Tab I.**

- ***Bond Managers***

For the period ending September 30, 1997, the bond manager program and current managers outperformed the Lehman Aggregate and the aggregate benchmark for the quarter, and for the latest one year, three year, and five year periods.

Time period	Actual	Lehman Aggregate*	Current Mgrs. Only	Aggregate Benchmark
Quarter	3.7%	3.3%	3.7%	3.3%
1 Year	10.9	9.7	10.9	9.7
3 Years	10.0	9.5	10.1	9.5
5 Years	7.6	7.0	7.6	7.0

* Reflects Salomon BIG index prior to 7/94.

The performance evaluation reports for the bond managers start on the **third "blue page"** of this Tab. Manager Commentaries are in **Tab I.**

2. Review of Candidates for the Bond Manager Monitoring Program

The SBI has established a Manager Monitoring Program to identify potential candidates as the starting point for any manager searches deemed necessary in the future. Up to 10 firms are to be identified for the active and semi-passive manager segments.

The firms currently recommended by staff for the bond manager program are shown below. Please refer to the attached "Manager Fact Sheets" for more information on each firm.

Potential Active Bond Managers (begins on **page 7**)
Alliance Capital Management L.P.
Brinson Partners, Inc.
JP Morgan Investment Management, Inc.
Pacific Investment Management Company (PIMCO)
Putnam Investment
Wellington Management Company

Potential Semi-Passive Bond Managers (begins on **page 19**)
Bankers Trust Company
Barclays Global Investors
T. Rowe Price Associates, Inc.

ACTION ITEMS:

3. Recommendation concerning Voyageur Asset Management

In October 1997, Voyageur announced that they were restructuring the investment staff and that Jane Wyatt was no longer with the firm. Jane Wyatt was the Chief Investment Officer and was listed as the SBI's portfolio manager. Voyageur recently sold their retail business to Delaware Management Holdings and had assured SBI staff that no changes would occur within the remaining personnel covering the institutional accounts. They have also refined their investment process. Staff believes these changes may be beneficial in the long-term, but will monitor this firm closely for adverse affects or additional changes over the next six months.

RECOMMENDATION:

In accordance with the qualitative guidelines in the SBI's Manager Continuation Policy, the Committee recommends that Voyageur be placed on probation due to organizational changes.

4. Review of American Express and Independence

During the quarter, the Committee reviewed information compiled by staff on two managers whose rolling five-year performance has been below their benchmark for one year. The SBI's Manager Continuation Policy requires this review.

Staff summarized their recent on-site visits with each of the firms and reviewed attribution analysis prepared by the SBI's consultant, Richards & Tierney. Staff's recommendations and Committee discussion on the firms can be summarized as follows:

- Staff recommended that no action be taken at this time with respect to *American Express Asset Management Group (AEAMG).* In January 1997, staff asked AEAMG to begin using a quantitative investment process to manage a concentrated portfolio. This change is expected to add more value over the long term, but caused some significant turnover during the first quarter, which hurt performance. In addition, their philosophy of holding lower P/E, higher growth stocks hurt recent performance during a period when large momentum stocks rallied. The concentrated portfolio will result in more volatile performance, however staff expects to see a higher level of out-performance as the market rewards a broader range of stocks. The Committee concurred with staff's recommendation to take no action at this time.

- Staff recommended that *Independence Investment Associates* be placed on probation due to recent organizational changes. While the review of Independence was prompted by performance plotting below the benchmark line on the five-year rolling VAM for one year, staff has serious concerns about the recently announced departure of a key member of the domestic equity team. This recommendation was made in accordance with the Manager Continuation Policy, and the Committee concurred.

Additional detail on the reviews is available from staff upon request.

RECOMMENDATION:

The Committee recommends that no action be taken with respect to American Express Asset Management Group at this time. In accordance with the SBI Manager Continuation Policy, the Committee recommends that the SBI place Independence Investment Associates on probation due to organizational changes at the firm.

5. Update of resolution concerning repurchase agreements

The SBI uses repurchase agreements to manage the state's cash accounts.

In order to provide additional security for these transactions, the SBI uses the facilities of tri-party banks to hold the collateral that backs these instruments. The ability to use tri-party agreements must be authorized by the SBI and this authorization must be updated periodically.

A resolution to accomplish this begins on **page 25.** Currently, only The Chase Manhattan Bank and The Bank of New York have the facilities to act as tri-party banks.

RECOMMENDATION:

The Committee recommends that the SBI adopt the updated resolution concerning repurchase agreements which begins on page 25 of this Tab section.

6. Recommendations concerning securities lending in the State Cash Accounts

For many years, the SBI has loaned securities in various short term cash accounts within the State Treasury. Staff are proposing to change the procedure under which the lending occurs in order to increase the income from the program.

Current Method Using Bonds Borrowed
Currently, lending for state cash accounts is done on a "bonds borrowed" basis. "Bonds borrowed" occurs when the lender (SBI) sends a security to a broker dealer and simultaneously receives a security of similar quality and greater value (typically 102%) from the borrower. The borrower will pay a fixed fee negotiated at the beginning of the loan for use of the borrowed securities.

Over time, the desirability of this type of transaction has declined from the borrower's perspective. As more and more lenders entered the market it became cheaper and operationally more efficient for a borrower to use cash as collateral and let the lender reinvest that cash. The lender reinvests the collateral at its own risk and rebates a negotiated interest rate to the borrower, for the use of the cash, based on the market need for the security borrowed.

Proposed Method Using Tri-Party Agreement
Another method that has become popular in recent years is "lending versus tri-party agreement". This method uses a repurchase agreement (repo) between the lender and the borrower with collateral held by a custodian bank. Since three parties are involved in the transaction (borrower, lender, custodian bank), it is known as a tri-party agreement. Under this method, the borrower exchanges cash for the security borrowed and the lender delivers the cash to a tri-party custodian bank who will exchange that cash for the borrower's collateral specified in a pre-negotiated tri-party agreement between the bank, the borrower and the lender. Lender and borrower will negotiate a "spread" or fee for the borrower's use of the lender's security based on the market need for the security borrowed. This method eliminates the re-investment risk for the lender while offering the borrower low transaction cost and greater operational freedom.

Security for the program is enhanced through the use of a tri-party bank to hold the collateral for the transaction. The bank is responsible for marking the collateral to market each day and informing both the lender and borrower of any deficiencies. The borrower is then required to pledge additional collateral to cure such deficiencies. The borrower has the unlimited right to substitute collateral securities as his positions change, provided the overall value of the collateral exceeds the value of the securities borrowed. Changes in the value of the borrowed securities would normally be adjusted by increasing or decreasing the dollar value of the tri-party arrangement.

Rationale for Change
The SBI's short term cash accounts consist almost entirely of U.S. treasury or agency securities that are three years or less to maturity. These issues mostly trade as general collateral and are readily available to borrowers in the market place. In order to lend this type of security the SBI must offer securities quite cheaply and in a manner that insures little transaction cost. The tri-party agreement process described above addresses this need better than the bonds borrowed process.

Using bonds borrowed, the SBI has been able to loan approximately 20% of the portfolio. If the SBI moved to the tri-party program, staff would expect to be able to loan 40-60% of the available assets, over time. While the rate of income to the SBI would decrease from 10-12 basis points under bonds borrowed to 6-10 basis points under the tri-party agreement, the dollar value of the income to the SBI would increase because a greater percentage of the portfolio would be loaned. In FY97, the

SBI's loan income was $111,800. Staff expects that it would be $250,000 to $620,000 annually under the tri-party program.

Initially, the SBI would accept U.S. treasuries and agencies (including agency mortgage backed securities) as collateral for the tri-party agreement. Eventually, staff expects to expand the program to include investment grade corporate bonds.

To minimize any risk in the program, the staff recommends the following:

- SBI should only lend to organizations with a strong financial position that are designated as "primary dealers" by the Federal Reserve Bank of New York. These borrowers are experienced in the use of these tri-party arrangements.

- The banks holding the collateral must be an entity separate from the borrower and experienced in tri-party lending arrangements. Currently, only The Bank of New York and The Chase Bank provide these facilities.

RECOMMENDATION

The Domestic Manager Committee recommends:

- **That the SBI authorize SBI staff to use tri-party agreements to lend securities in State Cash Accounts under the SBI's control in order to generate additional income for these portfolios.**

- **That the SBI authorize SBI staff to lend securities in State Cash Accounts to organizations designated as primary dealers by the Federal Reserve Bank of New York provided that collateral is held at a tri-party bank that is unrelated to the borrower.**

- **That the SBI authorize the Executive Director, with the assistance of SBI legal counsel, to negotiate and execute necessary agreements with tri-party banks for the securities lending activity in State Cash Accounts.**

MANAGER FACT SHEET

Manager: **Alliance Capital Management L.P.**
Investment Strategy / Style: **Sector Rotation**

Investment Philosophy and Process

Alliance Capital avoids interest rate anticipation in Sector Rotation portfolios, however they do actively manage duration structure. In constructing the portfolio duration, they anticipate the future term structure of interest rates and then focus on constructing client portfolios with duration that is neutral to the benchmark. They emphasize the maturity mix that will prove most valuable in terms of price/yield behavior based on their expectations for changes in the shape of the yield curve. Duration strategies include bullet, ladder and barbell structures.

To determine the optimum overall portfolio balance between yield and price performance, they assess the probability of changes in volatility levels. While they do not forecast the specific volatility levels, they do focus on anticipating changes in volatility. Actual volatility levels are evaluated in the different sectors of the market and, within each sector, volatility is examined across the maturity spectrum. To provide perspective on future volatility, they compare historic with implied volatilities and current levels with average levels of volatility. In allocating between sectors and securities, they continually use scenario analysis to evaluate the cost paid for yield in terms of inferior price performance should interest rates change and the cost paid for convexity in terms of lower yield.

In evaluating the value of particular sectors and securities, they consider yield, convexity and duration properties, prepayment risk, credit quality, and liquidity to determine which sectors potentially offer the greatest option-adjusted returns. At the primary level, the rotation between different fixed income sectors is driven by the economic cycle. To understand and interpret this cycle, Alliance Capital considers global macro-economic data, capital flows and the term structure of interest rates, credit developments, and other market data. Alliance Capital examines nominal and option-adjusted spreads both retrospectively and prospectively. They identify when current spreads are more generous than the credit and prepayment risks justify, i.e. when a security is "undervalued." They then combine the fundamental and spread analyses to rank the sectors in terms of under and over-valuation and then proceed to investigate specific securities in the undervalued sectors with a view to increasing the concentration of undervalued securities in the portfolios.

In selecting securities for the portfolio they look for securities that are both attractive on an individual basis and contribute to the desired characteristic/structure of the overall portfolio. The sector specialists make specific buy and sell recommendations within their sectors and they assist in executing strategy. Within the corporate and mortgage markets, industry subsectors likely to outperform or underperform relative to consensus economic expectations are analyzed and prioritized. Their current, historical and prospective yields are analyzed in determining total return expectations.

Through the Enhanced Sector Rotation product, clients can take advantage of Alliance's high yield, international and emerging market capabilities. These sector choices have been available to institutional clients since 1987, 1990 and 1994, respectively.

Research
Alliance emphasizes fundamental research at every stage of the investment process. They have developed substantial in-house fixed income research capabilities including a macro-economic research group, a credit research group and a mortgage research group. Their fixed income research staff includes a global economist, domestic and international sector analysts, credit analysts, quantitative analysts and derivative specialists. Alliance Capital's equity analysts further enhance the fixed income research efforts. In addition, Alliance Capital retains technical consultants and has extensive access to Wall Street research. They make substantial use of many publicly available databases and they use their proprietary models to analyze and interpret this information.

Trading
At Alliance Capital the portfolio managers do their own trading. The trades are inputted into a real-time trading system that allows the portfolio managers to continuously review the impact of the changes to the portfolio and compliance to the client's guidelines before executing the trade. In allocating trades, the portfolios are grouped by mandate, benchmark and investment guidelines. The trades will than be implemented simultaneously across all relevant groups provided that the client's guidelines allow it. Therefore, portfolio performance deviations are due to differences in client's guidelines.

Ownership
Alliance Capital Management LP ("ACMLP") is a Delaware limited partnership registered as an investment adviser under the Investment Advisors Act of 1940. Alliance Capital Management Corporation, an indirect wholly owned subsidiary of The Equitable Life Assurance Society of the United States ("ELAS"), is the general partner of ACMLP. Approximately 57% of the issued and outstanding securities of ACMLP are owned by ELAS and two of its wholly owned subsidiaries. Approximately 34% of the issued and outstanding securities are owned by the public and approximately 9% are owned by employees.

Alliance Capital is affiliated with a number of financial service organizations, the most prominent being AXA-UAP, a French insurance company; ELAS, a US insurance company; and Donaldson, Lufkin & Jenrette Securities Corporation ("DLJSC"), a registered broker-dealer.

Staff / Assets Under Management
Number of Portfolio Managers in the Sector Rotation team: 6
Number of Full-time Fixed Income Analysts: 29
Number of Fixed Income Traders: Not Applicable. The Sector Rotation portfolio managers trade for their clients' accounts.
Total Tax-Exempt Fixed Income Assets Managed: $11.7 billion
Total Tax-Exempt Assets Managed in the Sector Rotation style: $8.2 billion
Total Number of Tax-Exempt Accounts in the Sector Rotation style: 111

Three Largest Tax-Exempt Sector Rotation Accounts

Public Fund	$1,089 million
Public Fund	$ 886 million
Public Fund	$ 776 million

MANAGER FACT SHEET

Manager: **Brinson Partners, Inc.**
Investment Strategy/Style: **U.S. Bond Portfolio**

Investment Philosophy and Process

Brinson Partners, Inc. is an active fixed income manager. They believe that markets do not always efficiently price fixed income securities and that a fundamental value-based investment process can add excess return relative to a benchmark. Their fixed income strategies combine judgments about the absolute value of the fixed income universe and the relative value of sectors, maturity intervals, quality and coupon segments, and specific fixed income securities.

Brinson Partners, Inc. manages assets collectively. Rather than having individual Portfolio Managers, they have Investment Specialists who are grouped into teams with strategies set by senior professionals. In addition to Investment Specialist groups, each portfolio is assigned to a member of an Account Management Group who is responsible for the overall client relationship. Account Managers review the performance and risk characteristics of the accounts to ensure compliance with the clients' investment guidelines and objectives.

The firm's fixed income investment philosophy has several attributes. The first is a disciplined investment process, using proprietary valuation models to recognize price/value discrepancies, and managing risk through the use of strategic ranges set around important risk characteristics. Secondly, their approach is further defined by its quantitative nature. Comprehensive duration models are used in the valuation process, joined with a risk premium model for yield curve analysis. State-of-the-art portfolio analytic systems are used continuously to monitor portfolios and judge strategies.

Portfolios are constructed around the following four decisions:
Interest Rate Sensitivity This step incorporates their expectations about the general level of interest rates. Duration is actively managed relative to client specified benchmarks. They do not explicitly forecast interest rates or bond prices. Rather, portfolio strategies are driven by disparities between their estimates of value and current market prices or yields.

Yield Curve At this stage, they incorporate expectations of changes in the shape of the yield curve and manage the dispersion of duration of holdings around the target. Their yield curve valuation model, which estimates excess returns for each point along the curve, drives the yield curve strategies.

Sector Exposure Sector strategies are implemented based on a comparison between current market yield spreads and estimates of equilibrium yield spreads for particular segments of the U.S. bond market. Equilibrium yield spreads take into account credit risks, the value of imbedded options, mortgage prepayment estimates, etc.

Individual Issues Having established each of the above characteristics, individual securities are selected which will give the portfolio those characteristics at the lowest cost. Key to this process is judgment about the relative valuation of bonds that share similar macro characteristics, as defined above.

In addition to the US investment grade discipline, Brinson Partners, Inc. has done high yield, international and emerging market debt investments since 1986, 1981, and 1995 respectively. The investment process for these disciplines is very similar to the investment grade discipline. They take a long-term value oriented approach based on the belief that discrepancies arise between current market prices and fundamental value. Both top-down and bottom-up approaches are used to identify relative value among markets, sectors, industries, and individual securities.

Research

Brinson Partners, Inc. feel that primary research is the single most important resource that allows them to add value. They derive investment value and organize collective investment insights from a team of fixed income professionals whose emphasis is on primary research. These professionals integrate fundamental research with the extensive use of sophisticated quantitative techniques. In addition, they consult with outside analysts, economists, consultants and academics for research insight. Long-term expected returns are estimated using proprietary valuation models that consider cash flows discounted at risk-adjusted rates. These returns are then evaluated in a portfolio context, using forecasts of risks and correlation. They integrate fundamental research with quantitative techniques to compute price/value discrepancies across and within markets and sectors.

Trading

The U.S. fixed income group executes trades for the firm. The team consists of 15 U.S. fixed income investment and operations professionals who average 10 years of experience. The traders receive the purchase and sales orders from the Account Managers and have the responsibility for implementing those trades as quickly as possible and in a manner that minimizes market impact and trading costs.

Approval of dealers is made by the Fixed Income Strategy committee and is based on the dealer's capital, reputation for integrity, execution capabilities and research capabilities. Traders match purchase and sale orders received within the same time frame in order to reduce brokerage expenses and minimize trading time.

Ownership

Brinson Partners, Inc. is the global institutional asset management division of Swiss Bank Corporation (SBC) and manages over $81 billion of discretionary institutional assets on an active basis and also is the investment manager for SBC Private Banking mutual fund assets, which total over $50 billion. Brinson Partners, Inc. is a wholly owned subsidiary of Swiss Bank Corporation.

Staff/Assets Under Management

Number of Portfolio Managers: 3 Senior Professionals (Strategists)
Number of Full-time Fixed Income Analysts: 31
Number of Fixed Income Traders: 15
Total Tax-Exempt Fixed Income Assets Managed: $22.8 billion
Total Tax-Exempt Assets Managed in US Bond Discipline: $8.2 billion
Total Number of Tax-Exempt Accounts in US Bond Discipline: 46

Three Largest Tax-Exempt Core Accounts

Public Fund	$3.2 billion
Commingled Fund	$2.4 billion
Corporate Fund	$400 million

MANAGER FACT SHEET

Manager: **J.P. Morgan Investment Management**
Investment Strategy/Style: **Active Fixed Income**

<u>Investment Philosophy and Process</u>

J.P. Morgan believes that the key part of their Fixed Income strategy is to try to outperform the assigned benchmark by broadly diversifying the portfolio across the fixed income sectors allowed by the client's guidelines but without taking higher risk than the benchmark.

Their approach to achieving the above objective is based on the following broad concepts:

- To conduct fundamental research and risk analysis across as many fixed income sectors as possible.
- To reduce total portfolio risk and increase consistency of excess returns by diversifying as broadly as possible the composition of investments in the portfolio and the sources of value added.
- To conduct their research and portfolio construction processes on a global basis as much as possible.

A team of fixed income managers through a combination of team interaction and individual expertise develop the portfolio strategy. Within their Fixed Income Group, they have teams who specialize in each decision area and on each sector of the market. These teams include portfolio managers, credit and quantitative analysts, economists and traders.

Their Duration Management Team develops the duration/yield curve strategy. Using the firm's views on the direction of interest rates, the team will make a strategic duration decision. The size of the strategic duration decision typically ranges within one year of the benchmark and is a function of the magnitude of the expected interest rate move and the level of confidence in the interest rate forecast. Lastly, the Duration Management Team ensures that portfolio managers implement the duration decision consistently across portfolios subject to client guidelines.

Senior portfolio managers and sector specialists will examine relative value and fundamental factors affecting each sector to develop their sector strategy. Value among sectors is determined by looking at option adjusted yield spreads relative to each other and to their historical averages. They control sector risk in the portfolios by using their proprietary analytical system to categorize holdings into subsectors and to calculate the percent of market value, the duration and the duration weighted exposure in each subsector, for each client portfolio, versus the clients' benchmarks.

For security selection, fundamental analysis is done by their 39 fixed income research analysts. This group conducts quantitative analysis on individual securities in order to optimize security selection while ensuring consistency with overall investment policy. In addition, their credit research analysts, assisted by their equity analysts, assess the credit worthiness of various issuers and deal structures. Securities are then purchased/sold by portfolio managers on a daily basis with substantial input from their 14 fixed income traders.

J.P. Morgan also manages high yield and international assets. For the high yield process, their credit and equity analysts try to identify credits that have been misrated by the rating agencies and/or are mispriced by the marketplace. They do this by focusing on stable to improving cashflows combined with a prudent capital structure, competitive positioning and management expertise. Their international process is based on establishing relative value based on current market fundamentals. In addition, subjective forecasts of near and intermediate term yield curve movements are added to their proprietary optimization tools to arrive at an asset allocation strategy. Securities are then selected that best implement the above asset allocation strategy.

Research

J.P. Morgan generates internal research through several different groups. Along with their 11 credit analysts they have 6 in-house economists stationed around the world. In addition, they have two internal basic research groups. First, they have a Capital Markets Research (CMR) area staffed by 21 analysts who use new financial concepts to develop models to better measure value and control risk. Second, the Fixed Income Group has a team of seven applied research analysts who serve as a bridge between the CMR and portfolio managers by applying CMR's theoretical models to the fixed income environment. Last, they supplement their proprietary information with sell side research and selected database services to compare their research to the street consensus.

Trading

J.P. Morgan's trading desk employs 14 in-house fixed income traders, each specializing by country and market. Their traders monitor all executions and ensure effective timely executions at the best possible prices. Brokers are selected based on the following criteria: 1) ability to effectively execute sizable transactions; 2) international research capabilities; 3) communication and interaction with portfolio managers; 4) ability and willingness to commit capital; and 5) efficient settlement departments. While all brokers are evaluated based on the above criteria, a broker may be chosen if it demonstrates superior ability in one of these areas.

Ownership

J.P. Investment Management is a wholly-owned subsidiary of J.P. Morgan & Co. Incorporated, a public holding company that also owns Morgan Guaranty Trust Company, J.P. Morgan Securities Inc. and J.P. Morgan Futures Inc. J.P.Morgan Investment Management Inc. operates as a separate subsidiary which is governed by its own board of directors.

Recently J.P. Morgan agreed to join forces with American Century Companies, the fourth largest U.S. mutual fund company selling directly to individuals, to pursue growth opportunities in investment management and personal financial services. In forming the partnership, J.P. Morgan has purchased a 45% interest in American Century.

Staff/Assets Under Management

Number of Portfolio Managers: 40
Number of Fixed Income Analysts: 39
Number of Fixed Income Traders: 14
Total Tax-exempt Fixed Income Assets managed: $75.5 billion
Total Tax-exempt Assets managed in the Active Fixed Income Discipline: $24.5 billion
Total Number of Tax-Exempt Accounts in the Active Fixed Income Discipline: 304

Three Largest Tax-Exempt Active Fixed Income Accounts

Corporate Fund	$2,499 million
Corporate Fund	$1,022 million
Corporate Fund	$ 781 million

MANAGER FACT SHEET

Manager: **Pacific Investment Management Company (PIMCO)**
Investment Strategy/Style: **$ Weighted Aggregate**

Investment Philosophy and Process

PIMCO's fixed income philosophy embodies three key principles. First, major shifts in the portfolio strategy are driven by secular trends as opposed to short term movements in interest rates. Second, consistent investment performance is achieved by avoiding extreme swings in maturity/duration of a portfolio. Third, an emphasis is placed on adding value through development of models for futures, options, and volatility analysis as well as through allocation shifts to sector, coupon, and quality.

Their secular forecast looks at 3 to 5 year trends. This secular outlook is updated annually and determines a general maturity/duration range for the portfolio in relation to the market. Short term, cyclical economic considerations determine shifts within this range.

While secondary to their forecast of interest rate direction, their interest rate volatility forecast is also important to their investment process. Increases in volatility benefit non-callable bonds such as treasuries while declining volatility will favor callable bonds such as mortgages. In addition, volatility influences choice of coupon, quality, and the use of futures and options, and the pricing analysis of the more complex securities emerging daily in the fixed income markets.

Their universe includes all sectors of the bond market. They will make significant sector shifts depending upon changes in relative valuations and spreads. Their internal software assists them in their evaluation of sector opportunities.

Lastly, all portfolios are then structured with securities that, in aggregate, optimally achieve the target characteristics consistent with the client's objectives and guidelines. In selecting these securities, PIMCO considers the entire universe of investment grade debt, and relies primarily on internal analysis.

PIMCO has also managed high yield and international debt since the early 1970's and early 1980's respectively. Their high yield process also incorporates their secular views to determine average quality and overall duration and yield curve exposures. However, more emphasis is placed on traditional bottom-up credit analysis to select the securities. On the other hand, their international process is much more top down. Annually they also determine the secular direction of foreign interest rates and the U.S. dollar and every three months they discuss shorter term trends. With this as a foundation, they examine opportunities in four areas: international bonds, currencies, cask management, and relative value.

Research

For internal macro economic analysis, PIMCO maintains a large database using data provided by the Bureau of Economic Analysis, the Commerce Department, the Congressional Budget Office, the Federal Reserve Board and others. All professionals participate in the macroeconomic forecasting process rather than relying on a full time economist.

Their internal fixed income research efforts are focused on finding value by identifying and quantifying the risks inherent in different portfolio structures/strategies, specific bond market sectors, and securities within those sectors. They have spent a considerable amount of time developing computer modeling software to do this analysis. They currently have 30 models that evaluate various parts of the bond market including treasury coupon, strip curves, embedded options, and financial futures.

Their credit analysis focuses on finding issuers that show improving credit profiles and the potential for upgrades by the rating agencies. A prerequisite to evaluating an issuer is to have access to their management. They concentrate their efforts on issuers that have a strong underlying business, as well as a strong competitive position within their industry.

Trading

The portfolio management group does all trading. All portfolio managers have constant access to live trading information and direct telephone lines to all the major dealers. All trades are aggregated in order to trade in the largest blocks possible. They believe that this allows them to demand the best bid and ask prices. Once executed all accounts with similar objectives and constraints will receive an allocation based on a model portfolio. On a daily basis the portfolios are reviewed for consistency to the model portfolio and the client's guidelines. PIMCO has integrated their accounting and investment systems to compare trades to the client's guidelines before the trade is made and at the end of each day.

Ownership

PIMCO is a subsidiary of publicly traded PIMCO Advisors LP, who in turn is owned 20% by the public; 40% by sub-partnerships; and 40% by Pacific Mutual. The other investment management firms owned by PIMCO Advisors L.P. are Columbus Circle Investors, Cadence Capital Management, NFJ Investment Group, Parametric Portfolio Associates, and Blairlogie Capital Management Ltd. In addition, on November 4, 1997 PIMCO Advisors L.P. will acquire one-third interest in Oppenheimer Capital.

Staff/AssetsUnder Management

Number of Portfolio Managers: 12
Number of Fixed Income Analysts: 7
Number of Fixed Income Traders: Not Applicable. The portfolio managers do their own trading
Total Tax Exempt Fixed Income Assets Managed: $81.6 billion
Total Tax-Exempt Assets Managed in the $ Weighted Aggregate style: $66.0 billion
Total Number of Tax-Exempt Accounts in the $ Weighted Aggregate style: 242

Three Largest Tax-exempt Total Reurn Accounts

Public Fund	$8,095 million
Public Fund	$2,006 million
Public Fund	$1,598 million

MANAGER FACT SHEET

Manager: **Putnam Institutional Management**
Investment Strategy/Style: **Total Return**

Investment Philosophy and Process

Putnam believes that active portfolio management utilizing a systematic, discipline investment process is essential to outperform passive alternatives consistently over time. They also believe that a team approach to investing fosters a positive working environment, consistent performance across all portfolios, and a stable, committed investment team. Lastly, they believe that risk needs to be managed to ensure that the client is adequately compensated for the risk taken.

Putnam believes that the bond market is a very large complex universe of investments and believes that the traditional response to this complexity was to implement top-down approaches driven by interest rate anticipation and/or yield curve management. Putnam believes that they have the resources necessary to uncover the hidden values in the market. By forming specialized teams, fully focused on individual sectors, and held accountable for bottom-up selection and contributing to cross sector evaluation, they believe they will generate consistent positive excess return.

Their portfolio construction investment process has been divided into tree tasks: duration management, sector allocation, and security selection. The Duration Team establishes a duration target for the portfolio relative to its benchmark. In setting the target the Team receives input from the Macroeconomic/Interest Rate Committee, a group of 13 senior investment professionals who focus on long term trends. Normally, the average duration of an active core portfolio will vary within a range of 75% to 125% of the average duration of the benchmark.

The Portfolio Management Team is responsible for determining sector allocation strategy. Sector allocation occurs along two dimensions: 1) allocation by security type (e.g. governments, corporates, mortgages); 2) and by duration range (e.g. 0 to 2 years, 2 to 4 years). In determining the allocation the Team will review macroeconomic data, capital flows and political environment. In addition, quantitative methodologies are used including proprietary models, spread analysis, and technical analysis. The team then ranks the sectors by risk and return and than optimizes the portfolio to achieve the best return relative to the client's risk parameters.

Once the overall policies have been set, the lead portfolio manager and the sector teams construct client portfolios using securities that are consistent with the client's investment guidelines.

Portfolio risk management is accomplished through collaboration among several areas including the Portfolio Management Team, the compliance department, and the Risk Management Committee. The client's specific guidelines are monitored on a daily basis by the trading and compliance department. The Risk Management Committee reviews new financial instruments, monitors risk positions across all portfolios, and quantifies the risk return trade off and appropriateness of the commitments in the portfolios.

Putnam has managed high yield assets since 1978 and international assets since 1985. Their high yield process emphasizes the internal credit research staff to identify attractive companies with secure, higher coupon income streams. Capital appreciation is an important, but secondary objective. Their international process invests in high quality government, semi-government, and supranational securities. They use a topdown /bottom-up, fundamentally based approach to find relative value between the various countries and currencies.

Research

Putnam relies upon internally generated research for most of its investment ideas. Putnam employs 24 portfolio managers, 12 quantitative research analysts, 20 credit research analysts, 1 economist, 4 global research analysts 5 derivative analysts, and 14 fixed income traders. In addition, Putnam has 60 equity analysts that can provide additional insight to the individual company credit analysis.

Trading

The fixed income group has 14 traders with an average of 9 years of experience. They are responsible for executing purchase and sales orders, ensuring proper settlement, resolving any pricing issues, properly allocating trades, and monitoring positions. They are also responsible for evaluating the brokers based on consistency of performance and obtaining best execution.

Ownership

Putnam operates as a wholly owned, independent subsidiary of the Marsh & McLennan Companies, Inc. In addition, Putnam has recently formed a strategic alliance with Nippon Life Group of Japan and a joint venture with Gruppo BIPOP to distribute mutual funds in Italy. Putnam also owns a 50% stake in PanAgora Asset management with the other 50% ownership being held by Nippon Life.

Staff/Assets Under Management

Number of Portfolio Managers: 24
Number of Full Time Fixed Income Analysts: 45
Number of Fixed Income Traders: 14
Total Tax Exempt Fixed Income Assets Managed: $12.4 billion
Total Tax Exempt Assets managed in the Total Return accounts: $3.1 billion
Total number of Tax Exempt Accounts in the Total Return style: 22

Three Largest Tax Exempt Core Active Accounts

Public Fund	$890 million
Corporate Fund	$602 million
Public Fund	$580 million

MANAGER FACT SHEET

Manager: **Wellington Management Company, LLP**
Investment Strategy/Style: **Core Bond High Quality**

Investment Philosophy and Process:

Wellington Management's fixed income investment philosophy is based on the following beliefs: 1) Take no more risk than return expectations justify; 2) Emphasize fundamental, internal research; 3) Manage risk in all dimensions.

The Core Bond Strategy Group is central to the top down decisions. This group consists of the portfolio managers from each sector group. After reviewing all elements of the current bond market environment, including investor expectations, supply and demand patterns, and current versus historical yield spread relationships, the group formulates duration, sector, quality and yield curve guidelines. At a minimum, formal strategy reviews occur monthly, and informal reviews can occur daily.

In addition, the Core Bond Strategy Group formulates sector strategy, which is based on relative value and yield spreads among security types and among quality and industry sectors. The foundation of sector recommendations is fundamental analysis of economic and financial market conditions and yield spread analysis, both historical and prospective, combined with the industry insights of the research analysts.

The portfolio manager combines these inputs with client's investment guidelines to create the portfolio. The portfolio manager ultimately is responsible for all buy and sell decisions within the US investment grade portion of the portfolio. Within the mortgage sector, managers select securities using the recommendations from the Mortgage Back Security (MBS) Strategy Group. Likewise, within the investment grade corporate sector, managers are restricted to an Approved List of securities that have passed an internal credit screening process

Implementation of the recommendations made by the Core Bond Strategy Group in terms of individual purchase and sale is based on the relative value and the contribution of a security to the desired characteristics of the overall portfolio. Security selection decisions are based on the guidelines set forth by the Core Bond Strategy Group giving the portfolio manager flexibility with the prescribed ranges. Attractive investment opportunities should incorporate positive fundamentals at the right price. Relative valuation analysis incorporates scenario testing where risk-adjusted return must look compelling given a variety of probable interest rates and yield spread scenarios.

Wellington Management has experience in high yield and international debt dating from 1978 and 1982 respectively. In high yield they use their internal research staff to look for bonds that are undervalued due to undervalued assets or misperceived credit potential. Their objective is to invest in these issues before the change in credit quality is widely perceived in the market place. In their international process they combine top down macroeconomic and sovereign research with bottom up credit research and quantitative valuation analysis to determine regional or country allocation. The currency management decision is handled separately from the fixed income decision process.

Research:

Research is the cornerstone of Core Bond management. Wellington does intensive research before investing, whether through their global approach to credit research, structural analysis of mortgage-backed securities, option-adjusted examination of embedded options, or fundamental analysis of international bond markets and currencies. They rely on their in-house credit and MBS research teams and have state-of-the art technology to assist with the analysis. Generally speaking, the leader of each group is responsible for gathering and / or originating investment ideas from Wellington Management's bond portfolio managers, economists, and research specialists. The Mortgage-Backed Strategy Group is responsible for developing ideas, for scenario testing and for identifying value within the mortgage universe. The Credit Screening Group meets each week to analyze issues for possible inclusion or exclusion from the Approved List. Wellington Management's 27 industry analysts, combined with the 11 credit analysts, are responsible for researching each company's debt that is rated investment-grade or higher. This expertise is developed through in-house analysis and direct company contact rather than relying on the research efforts from the sell-side analysts. Given the number and complexity of debt issuers on the Approved List, in house analysis may be supplemented by outside analysis, but the total analytical process remains with Wellington Management's credit analysts and global analysts, supported by the experience of the fixed income portfolio managers.

While a majority of the research is conducted internally, they do receive research reports from outside sources that augment the process. They receive analytical research from Electronic Joint Venture (EJV), Bloomberg, Global Advanced Technologies, IBS, PruBache IMPACT system, Telerate, Reuters, and Lehman PC Product. These services are used for pricing, optimization, scenario analysis, and security analytics.

Trading

A staff of 10 fixed income traders, with 12 years average experience, handles the execution of all orders. All purchases and sales are coordinated on the trading desk by the portfolio managers. Trades are combined so that they are executed in the largest lot size possible which Wellington believes will give them the most competitive price. Client guidelines are maintained on their Investment Restrictions Matrix system, which all portfolio managers and traders have access to and review before executing trades.

Ownership:

Wellington Management Company, LLP, one of America's largest independent investment management companies, is an employee-owned partnership whose sole business is investment management. The firm is owned by 54 partners, all active employees of the firm.

Staff / Assets Under Management

Number of Portfolio Managers: 16
Number of Full-time Fixed Income Analysts: 17
Number of Fixed Income Traders: 10
Total Tax-Exempt Fixed Income Assets Managed: $9.1 billion
Total Tax-Exempt Assets Managed in the Core Bond High Quality Style: $5.0 billion
Total Number of Tax-Exempt Accounts in the Core Bond High Quality style: 56

Three Largest Tax-Exempt Core Bond Accounts

Missouri Teachers	$841 million
Alabama Trust	$789 million
Texas Permanent School Fund	$602 million

MANAGER FACT SHEET

Manager: **Bankers Trust Company**
Investment Strategy / Style: **BT Pyramid Enhanced Fixed Income**

Investment Philosophy and Process

The BT Pyramid Enhanced Fixed Income style combines a core index component that tightly tracks the returns of the Lehman Aggregate Bond Index with a highly disciplined, controlled active fixed income overlay process to add value. The goal of the enhanced bond index process is to replicate the low volatility of an index fund without sacrificing the potential returns of an active process.

To construct a portfolio which matches the risk and return characteristics of the index, Bankers Trust employs sampling techniques which encompass three portfolio construction methodology: cellular, characteristics matching, and risk modeling. Incorporating each method's strength in portfolio construction provides a portfolio that consistently tracks the index.

- Through *characteristics matching*, Bankers Trust tracks the index and reduces the transaction costs of running an index portfolio. The characteristics replicated during this process include interest rate sensitivity (duration, convexity, maturity), sector and quality breakdown, option and prepayment, yield curve distribution, credit and coupon makeup.

- For mortgage securities, a *cellular methodology* is used to match issuer, coupon, maturity and paydown, as well as other elements. This process entails purchasing securities to fill 89 separate cells.

- *Risk modeling* is conducted by Bankers Trust's Risk Management Group. Through weekly portfolio reviews, the group's two-stage quality control process reveals exposure versus the benchmark and probabilistic assessments. The first stage of the process involves comparing duration, yield curve, sector allocation, and mortgage risk against the index. During the second stage, the Risk Management Group uses correlation and volatility based on most recent three year data to quantify tracking error and perform scenario analyses to minimize tracking due to yield curve shifts and changing spreads between sectors. Convexity and optionality are taken into account, customized analyses are performed, and analytical systems are selected.

The enhanced index methodology takes modest positions away from the index in an attempt to add value. Enhancement strategies attempt to exploit opportunities from key fixed income risk components: yield curve, sector and issue selection. Their yield curve positioning uses a combination of a proprietary yield curve model and a discretionary component that emphasizes historic spreads, relative curve steepness, supply and demand, Federal Reserve policy and inflation trends. In sector allocation they have a bias towards corporates. They believe that the market overcompensates for the risks of corporates and typically overpays for the liquidity of governments. In addition, they will make sector bets based on historical spreads, fundamental analysis and market trends. In purchasing specific issues they look for bonds with the best relative value that also provide the characteristics needed to control the overall risk of the portfolio.

Research

Research plays an important role in the active element of the enhanced bond index strategy. Bankers Trust maintains an in-house research staff and proprietary systems that are dedicated to the major fixed income sectors. For analysis of corporate bonds, Bankers Trust's team of credit analysts research and monitor the financial soundness of issuers of fixed income securities that may be purchased. The analysts play an important role in enforcing strict credit standards to promote safety of principal and liquidity. They also serve as a source of relative value information on issuers likely to have a downgrade or upgrade in credit rating.

In addition to credit research, the bond index team benefits from the research of three professionals dedicated to the analysis and trading of the corporate and mortgage sectors. They serve on special teams to determine appropriate weightings for major sectors and industry groupings and establish appropriate weightings for the maturity mix that offers the best value within volatility constraints.

External credit research is obtained through Bloomberg, Newport Associates and publications issued by the ratings agencies

Trading
Sector specialists execute trades and regularly scan dealer inventories to make bid/offers for particular issues. They believe this method is cheaper than asking a dealer to go out and find bid/offer quotes. In regard to compliance issues, a desk supervisor is responsible for ensuring that transactions are in compliance with client guidelines, regulatory requirements and Bankers Trust policy.

Ownership
Bankers Trust Company is the principal banking subsidiary of Bankers Trust New York Corporation (BTNY), a registered bank holding company whose stock is publicly traded on the New York Stock Exchange. All of Bankers Trust Company's stock is owned by BTNY. Brokerage affiliates include BT Brokerage and BT Alex. Brown Inc. Bankers Trust Global Investment Management (GIM) has no business arrangement or obligation to work with these entities. GIM only trades through these broker/dealers with specific client permission and only when they can offer best price or execution.

Staff / Assets Under Management
Number of Portfolio Managers: 36
Number of Full-time Fixed Income Analysts: 26
Number of Fixed Income Traders: 7
Total Tax-Exempt Fixed Income Assets Managed: $3.6 billion
Total Tax-Exempt Assets Managed in the Enhanced Fixed Income style: $330 million
Total Number of Tax-Exempt Accounts in the Enhanced Fixed Income style: 3

Three Largest Tax-Exempt BT Pyramid Enhanced Fixed Income Accounts:

Commingled Fund	$170 million
Corporate Fund	$120 million
Mutual Fund	$ 40 million

Barclays Global Investors, N.A.

Manager:	**Barclays Global Investors, N.A.**
Investment Strategy / Style:	**Enhanced US Debt Strategy**

Investment Philosophy and Process

Barclays Global Investors (BGI) approach to managing enhanced fixed income portfolios encompasses three key objectives: the delivery of consistent, superior performance; the maximum control of all investment and operational risks; and the minimization of trading costs. The enhanced index strategies seek to deliver outperformance relative to a designated benchmark and are designed to provide returns that are fully competitive with those of traditional active managers at a lower cost.

The Enhanced US Debt Fund seeks to add 15-25 basis points of value over the Lehman Brothers Aggregate Index through spread enhancements in the intermediate government sector of the aggregate fixed income market using a disciplined risk-controlled process. The enhancements over the Lehman Brothers Aggregate Index are entirely due to sector allocation. There are no interest-rate bets or security-specific bets in this strategy. The Enhanced US Debt fund is duration-neutral with respect to the Lehman Aggregate Index.

The strategy's investment philosophy is to tilt towards yield while controlling for interest rate risk. The implementation process has been refined over the strategy's ten-year life. In order to refine the risk control process and capture yields at the shorter end of the yield curve, they replace a portion of the intermediate government allocation with a combination of intermediate corporates, mortgage-backed, and asset-backed securities. In order to minimize interest rate risk, they ensure that the substitution preserves the portfolio's cash flow exposure along the yield curve. They combine these allocations with market capitalization weighted positions in long government and long corporate bonds. The resulting portfolio's internal rate of return (IRR) is higher than the benchmark's IRR, but its interest rate risk is equivalent.

Because the enhancement comes from various sectors (intermediate corporate, mortgage-backed and asset-backed securities), the impact of spread fluctuations in any given sector is diminished. Since spread changes are not highly correlated across sectors, a wider spread in one sector may be offset by a narrower spread in another sector.

Research

While BGI does not offer traditional specific security analysis, its Advanced Strategies and Research Group ("ASRG") has the primary role of reviewing the quantitative models (and inputs to these models) which drive the enhanced index strategies. ASRG, a 24-member group of professionals, is solely devoted to research and review of the enhanced index strategies. The group serves as the primary research and information source. A major component of BGI's successful track record in the advanced-active strategies is derived by ASRG's continued work on the models, not an individual portfolio manager's stock or bond selections. The group focuses exclusively on structured investment solutions.

BGI also receives information from external sources such as Bloomberg, Lehman Brothers' Sunbond system, BARRA's Cosmos system and Salomon Yield Book. Additionally, they use a variety of proprietary in-house analytics to monitor the portfolio's composition and performance relative to the benchmark.

Ownership
Barclays Global Investors ("BGI") is a wholly-owned indirect subsidiary of Barclays Bank PLC. Barclays Bank PLC is wholly owned by Barclays PLC, a publicly listed holding company based in London.

Staff / Assets Under Management
Number of Portfolio Managers: 4
Number of Full-time Fixed Income Analysts: 3
Number of Fixed Income Traders: 3
Total Tax-Exempt Enhanced Fixed Income Assets Managed: $2,049.5 million
Total Tax-Exempt Fixed Income Assets Managed
in the Enhanced US Debt Strategy: $83 million
Number of Tax-Exempt Fixed Income Accounts
in the Enhanced US Debt Strategy:1

Largest Tax-Exempt Fixed Income Accounts in the Enhanced US Debt Strategy:

Foundation Client	$83.0 million

Barclays Global Investors has 17 accounts with over $2 billion invested in Enhanced Fixed Income strategies. The accounts are distinguished by risk levels. The Enhanced Fixed Income Strategy is the style which most closely matches the SBI Semi-Passive guidelines.

MANAGER FACT SHEET

Manager: **T. Rowe Price Associates, Inc.**
Investment Strategy/Style: **Enhanced Index Aggregate Bond Strategy**

Investment Philosophy and Process

T. Rowe Price believes that fixed income portfolios should be managed with an equal emphasis on return enhancement and risk control. They enhance returns by allocating resources to economic, market cycle, and credit analysis research to make the best relative value decisions concerning sector, security, and maturity composition.

In constructing a portfolio, T. Rowe Price starts with their weekly strategy meeting where portfolio managers, credit analysts, traders and economists collaborate to develop an overall economic outlook and to identify their major investment themes.

Their second step is to use their proprietary quantitative model. The portfolio benchmark is evaluated for duration, yield, credit quality, option-adjusted spread, and convexity. They also break the benchmark into sectors and subsectors for a more detailed view. These details are crucial to their process because the portfolios will be constructed with one or two bonds per subsector, which they believe, will have the most value and still accurately reflect the benchmark that contains dozens of bonds per subsector.

To enhance returns, T. Rowe Price uses four different techniques. The most important one is bond selection. They look for bonds that not only provide the desired financial characteristics of the benchmark and its assigned subsector, but also provide a better risk reward profile than the other securities in its subsector. Secondly, they will allocate among the sectors based on spread analysis, both versus other sectors and versus the treasury market to determine relative value. They use a combination of mean reversion and market cycle analysis to provide a consistent framework for evaluating sector weights. Lastly, they will make small duration bets based on their economic outlook developed in weekly strategy meetings and yield curve bets to take advantage of market anomalies that are affecting the shape of the yield curve.

As a rule, multiple techniques will be used in a client's portfolio at any given time. Each enhancement is anticipated to provide modest outperformance, and the range of possible performance is assessed using scenario analysis before any strategy is implemented or modified. They believe that a number of small bets provide better risk control than a few large bets.

Research

Over 90% of T. Rowe Price's research is generated internally. They maintain a staff of 21 credit research analysts who are assigned specific industries so they can develop a high level of expertise in their assigned areas. T. Rowe Price employs a proprietary credit rating system that incorporates analysis of financial statements, on site visits, industry and sector reports, and relative valuation analysis. Supporting the research staff is an internal reference library staffed by professional librarians trained in electronic data retrieval.

Trading

All domestic fixed income trading is conducted through their eight fixed income traders. They maintain direct contact with all the major brokerage houses and execute trades via competitive bid wherever possible. Subject to client guidelines, trades are allocated on a pro rata basis across similar portfolios.

Ownership

T. Rowe Price is an independent investment advisory firm founded in 1937. They are a publically traded company with about 25% of the firm's equity owned by current employees. T. Rowe Price also participates as a 50% partner in a joint venture with Robert Fleming Holdings doing business as Rowe Price-Fleming International, Inc.

Staff/Assets Under Management

Number of Portfolio Managers: 23
Number of Fixed Income Analysts: 18
Number of Fixed Income Traders: 8
Total Tax-Exempt Fixed Income Assets Managed: $13.5 billion
Total Tax-Exempt Assets managed in the Enhanced Index Strategy: $1.1 billion
Total Number of Tax-Exempt Accounts in the Enhanced Index Strategy: 4

Three largest Tax-Exempt Enhanced Index Accounts

State of Alaska	$499 million
Commingle Trust	$439 million
Entergy Services	$169 million

RESOLUTION OF THE
STATE BOARD OF INVESTMENT

WHEREAS, the State Board of Investment (SBI) is authorized by Minnesota Statutes section 11A.24, subdivision 4 to enter into repurchase agreements and reverse repurchase agreements; and

WHEREAS, the SBI staff recommended that the SBI from time to time enter into repurchase and reverse agreements in order to best maximize the return on short term investments by the SBI; and

WHEREAS, tri-party repurchase and reverse repurchase agreements provide greater security for the assets of the SBI by providing a higher degree of perfection for the SBI's security interest in the collateral; and

WHEREAS, pursuant to Minnesota Statutes section 11A.07 the SBI Executive Director is authorized to execute administrative and investment functions in conformity with the policies and directives of the SBI; and

NOW THEREFORE, the SBI:

1. Authorizes the establishment of demand deposit accounts, and such other custody or clearing accounts as may be necessary, at The Chase Manhattan Bank or The Bank of New York, or their successors or assigns, or such other financial institutions as identified by the Executive Director and the SBI's repurchase agreement counterparties, to have net applicable Federal Reserve standards and to provide the level of custodial and servicing capabilities that are necessary to serve as a custody agent under a master repurchase agreement.

2. Authorizes the SBI Executive Director or his/her designees to give instructions on behalf of the SBI to such banks or trust companies with which a demand deposit account or custody account is established in order to facilitate tri-party repurchase and reverse repurchase agreements.

3. Authorizes the banks and trust companies with which the SBI establishes a demand deposit account or custody account to rely on instruction to make deposits to, and withdrawals from the demand deposit account or custody account provided it reasonably believes such instructions are instructions from the SBI Executive Director or his/her designee whether the instructions are given orally or by telex, telecopier, facsmile, electronically or other means of giving instructions not manually signed or bearing a facsimile signature.

4. Directs the SBI Executive Director or his/her designee, to execute such authorizations or account agreements with banks or trust companies or such other financial institutions as may be reasonably required to facilitate tri-party repurchase and repurchase agreements.

BE IT FURTHER RESOLVED that:

1. The Resolution shall remain in full force and effect until such time as the SBI takes action to amend or rescind this resolution.

____

Governor, Arne H. Carlson

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Third Quarter, 1997

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COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Period Ending 9/30/97

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Value	Pool
	%	%	%	%	%	%	%	%	%	%	(in millions)	%
Active Managers												
Alliance Capital	11.8	9.0	53.7	40.9	34.6	30.3	23.5	20.0	20.0	14.8	$989.30	5.5%
American Express AMG	9.1	11.0	27.6	42.3	26.1	31.3	19.9	22.8	16.3	17.0	$742.17	4.2%
Brinson Partners	8.7	11.9	39.2	39.3	29.7	27.9			22.8	20.8	$594.90	3.3%
Forstmann-Leff	17.5	13.1	49.0	37.9	31.9	27.5	22.4	19.9	15.9	14.6	$676.75	3.8%
Franklin Portfolio	16.3	10.8	47.4	36.0	30.9	26.7	23.7	20.3	18.3	16.6	$835.83	4.7%
GeoCapital	14.5	15.3	23.4	23.7	21.4	24.6	18.6	23.9	17.3	19.0	$465.67	2.6%
IAI	12.0	12.7	31.4	39.7	23.8	27.9			18.9	21.6	$217.72	1.2%
Independence	9.5	7.8	39.2	41.0	28.4	30.3	20.5	21.2	18.8	19.6	$526.20	2.9%
Lincoln	2.5	8.4	29.7	40.4	30.7	31.9			22.6	23.5	$574.33	3.2%
Oppenheimer	8.1	8.2	40.2	36.7	32.6	27.8			24.0	20.6	$619.17	3.5%
Weiss Peck & Greer	16.1	19.8	16.7	28.9	23.4	24.9			16.6	19.4	$387.00	2.2%
Emerging Managers (2)	10.6	11.3	32.1	36.3	26.1	28.3			23.3	25.3	$559.43	3.1%
Semi-Passive Managers (3)												
Franklin Portfolio	9.9	8.1	43.4	40.1					32.4	31.6	$1,679.95	9.4%
JP Morgan	8.3	8.1	40.4	40.1					31.9	31.6	$1,699.81	9.5%
Barclays Global Investors	8.5	8.1	41.0	40.1					33.4	31.6	$1,718.47	9.6%
Passive Manager (4)												
Barclays Global Investors	9.8	9.8	38.5	38.0					29.5	29.2	$5,564.16	31.2%
									Since 1/1/84			
Current Aggregate	10.1	9.9	39.0	38.6	29.1	28.7	21.4	20.8	17.7	15.5	$17,850.86	100.0%
Historical Aggregate (5)	**10.1**	**9.9**	**38.8**	**38.5**	**28.1**	**28.4**	**20.4**	**20.7**	**15.9**	**16.1**		
Wilshire Adjusted		9.8		38.0		28.4		20.5		16.1		
Wilshire 5000		9.8		38.0		28.4		20.6		16.4		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Aggregate of emerging manager group.
(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 September, 1997

Portfolio Manager: Jack Koltes **Assets Under Management: $989,298,097**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

—Well-acquainted with needs of large clients.

—Investment style consistently and successfully applied over a variety of market environments.

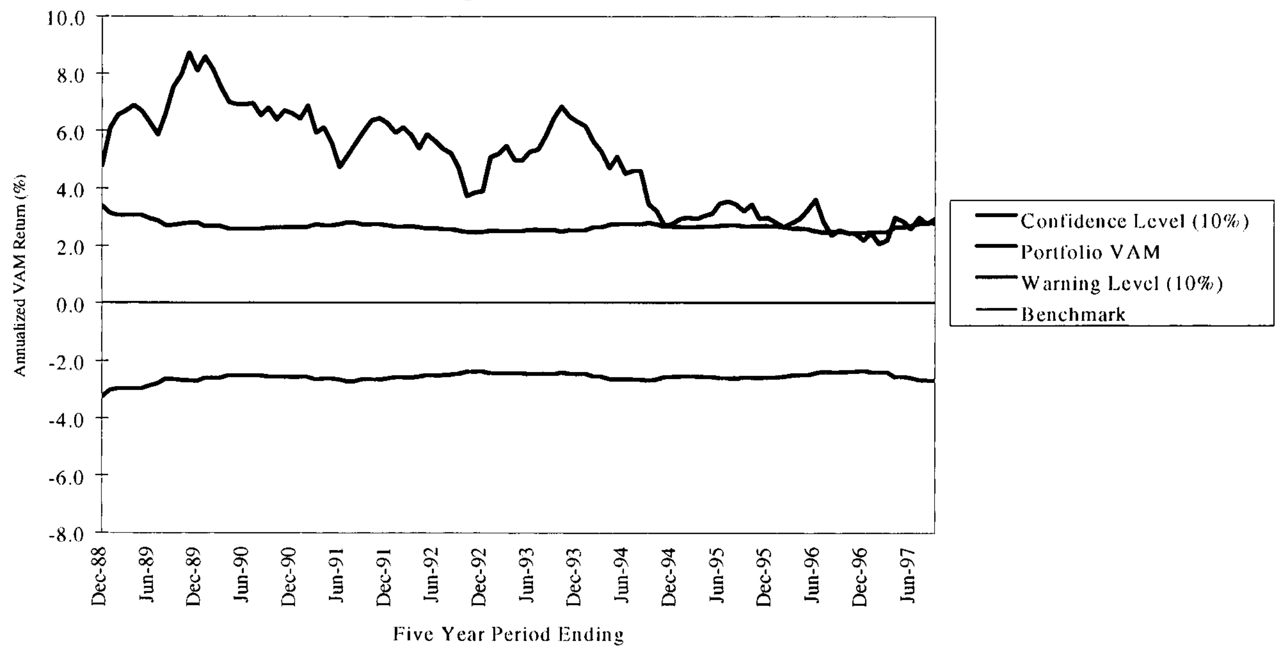
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.8%	9.0%
Last 1 year	53.7	40.9
Last 2 years	33.3	30.0
Last 3 years	34.6	30.3
Last 4 years	24.7	23.3
Last 5 years	23.5	20.0
Since Inception (1/84)	20.0	14.8

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Jim Johnson — **Assets Under Management: $742,174,621**

Investment Philosophy

American Express Asset Management (AMG) employs a concentrated style of management. The methodology by which the portfolio is managed is based on a fundamentally driven and quantitatively managed process. Using 20 to 30 of the top-rated stocks by American Express Financial research analysts, the portfolio seeks to maximize the greatest level of risk-adjusted return for a predetermined level of risk tolerance. Due to the level of concentration, the active risk versus the normal portfolio will be higher than that of the typical active manager. Trading within the portfolio is also analyst driven, which will lead to turnover between 80 and 120 percent per year. Because the focus of the methodology is concentrated stock selection, the portfolio will remain fully invested at all times.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

Concerns:

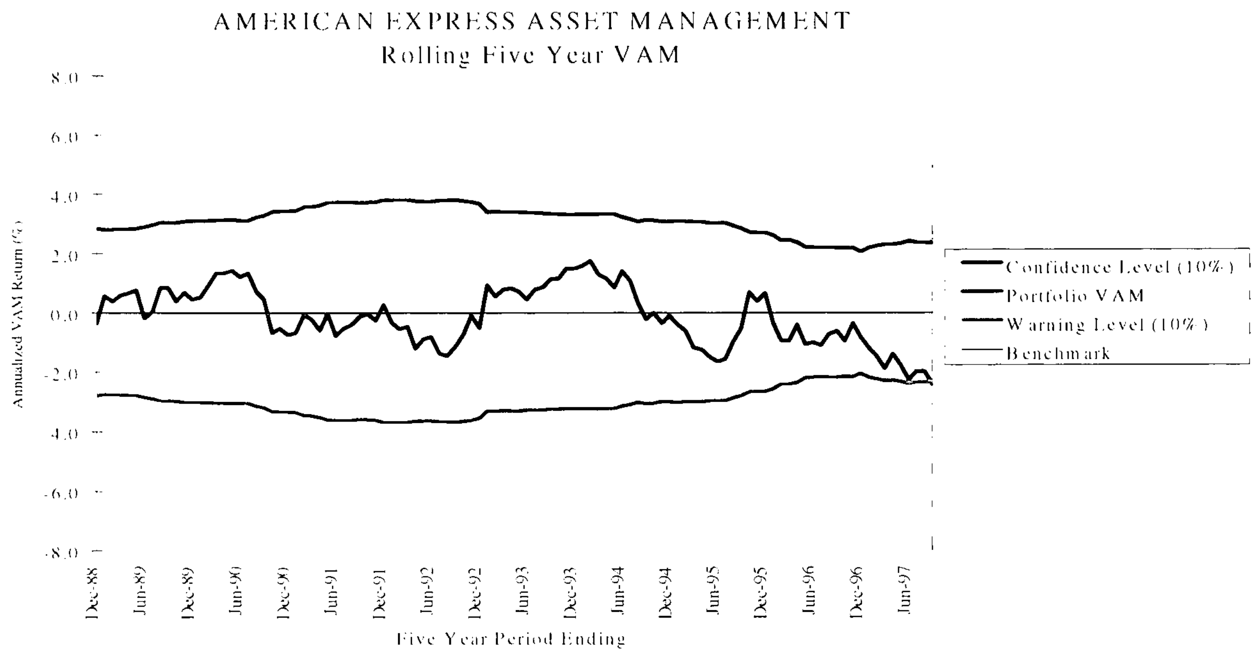
—Performance continues to lag expectations.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.1%	11.0%
Last 1 year	27.6	42.3
Last 2 years	25.4	31.7
Last 3 years	26.1	31.3
Last 4 years	19.9	23.8
Last 5 years	19.9	22.8
Since Inception (1/84)	16.3	17.0

Recommendation

Staff and the Domestic Manager Committee will review AMG for the December 1997 meetings due to performance concerns. Staff recommends no action at this time.



BRINSON PARTNERS
Periods Ending September, 1997

Portfolio Manager: Jeff Diermeier **Assets Under Management: $594,903,895**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Investment style consistently and successfully applied over a variety of market environments.

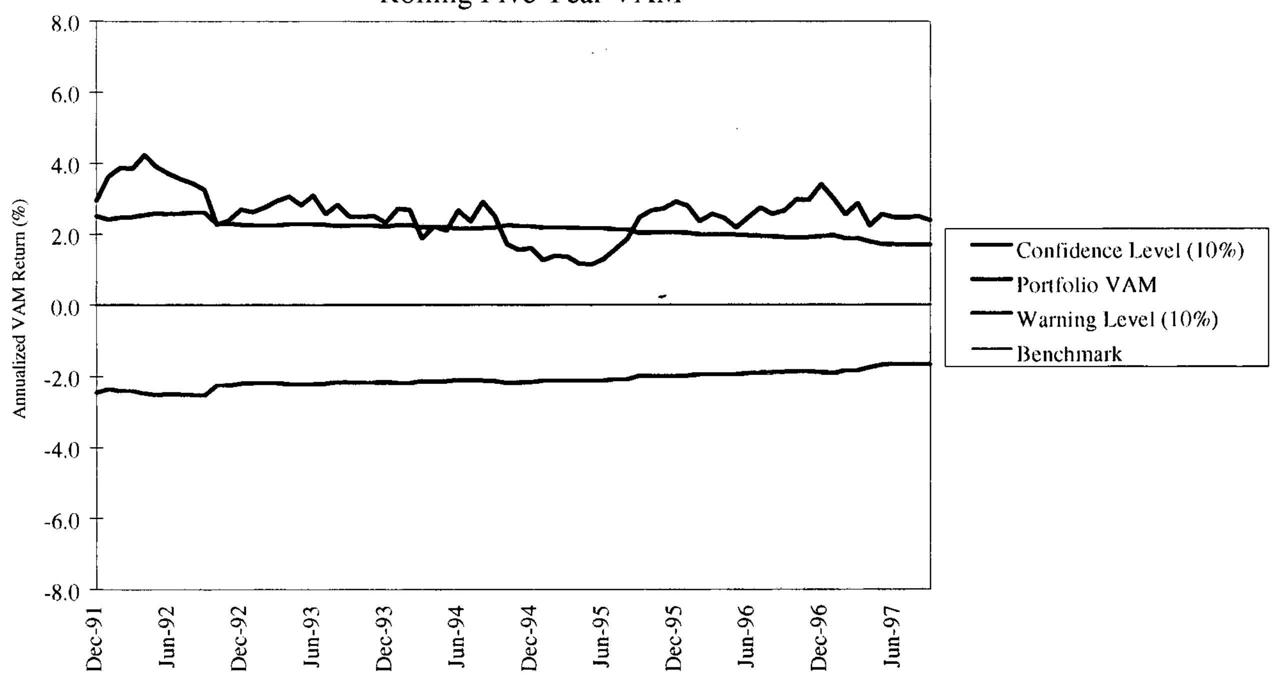
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.7%	11.9%
Last 1 year	39.2	39.3
Last 2 years	31.2	28.0
Last 3 years	29.7	27.9
Last 4 years	23.6	21.1
Last 5 years	N.A.	N.A.
Since Inception (7/93)	22.8	20.8

Recommendation

No action required.

BRINSON PARTNERS
Rolling Five Year VAM



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

FORSTMANN LEFF ASSOCIATES
Periods Ending September, 1997

Portfolio Manager: Joel Leff **Assets Under Management: $676,752,467**

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 any point during a market cycle.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced leadership.

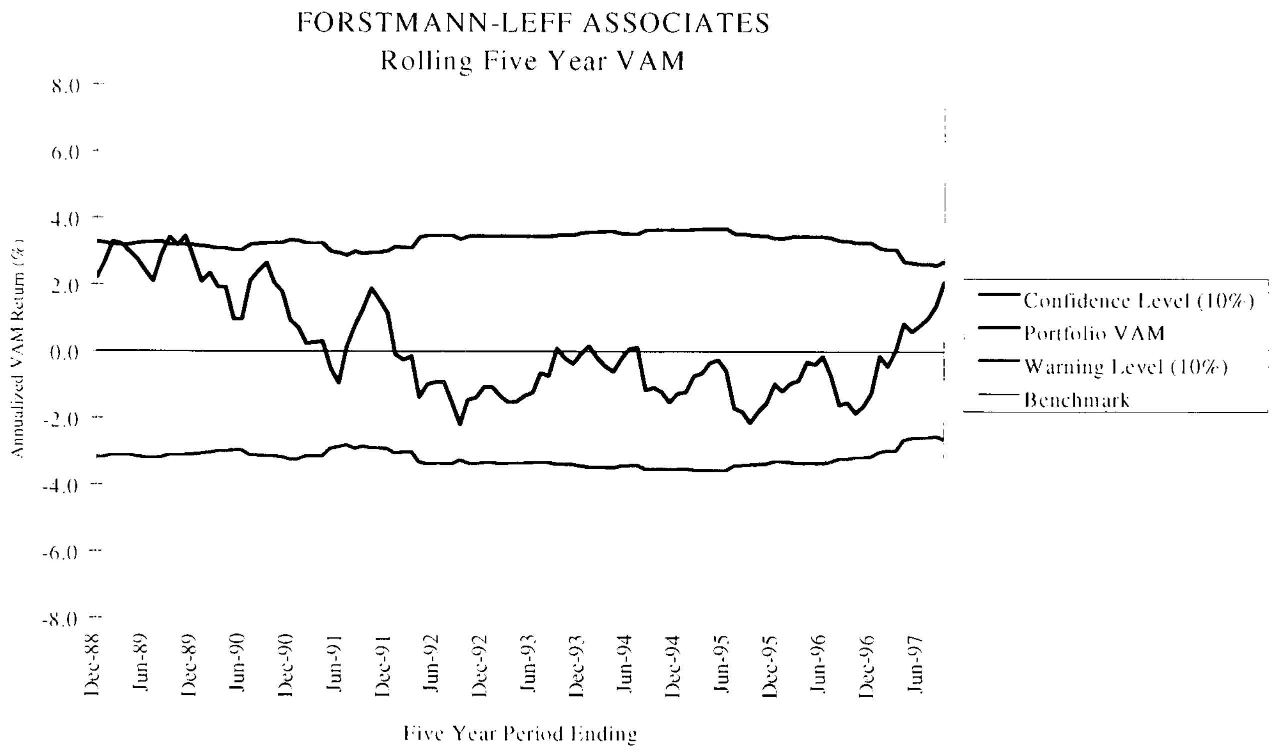
—Well acquainted with needs of large clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.5%	13.1%
Last 1 year	49.0	37.9
Last 2 years	36.5	27.9
Last 3 years	31.9	27.5
Last 4 years	23.0	21.4
Last 5 years	22.4	19.9
Since Inception (1/84)	15.9	14.6

Recommendation

No action required.



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 1997

Portfolio Manager: John Nagorniak **Assets Under Management: $835,830,318**

Investment Philosophy

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Firm's investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

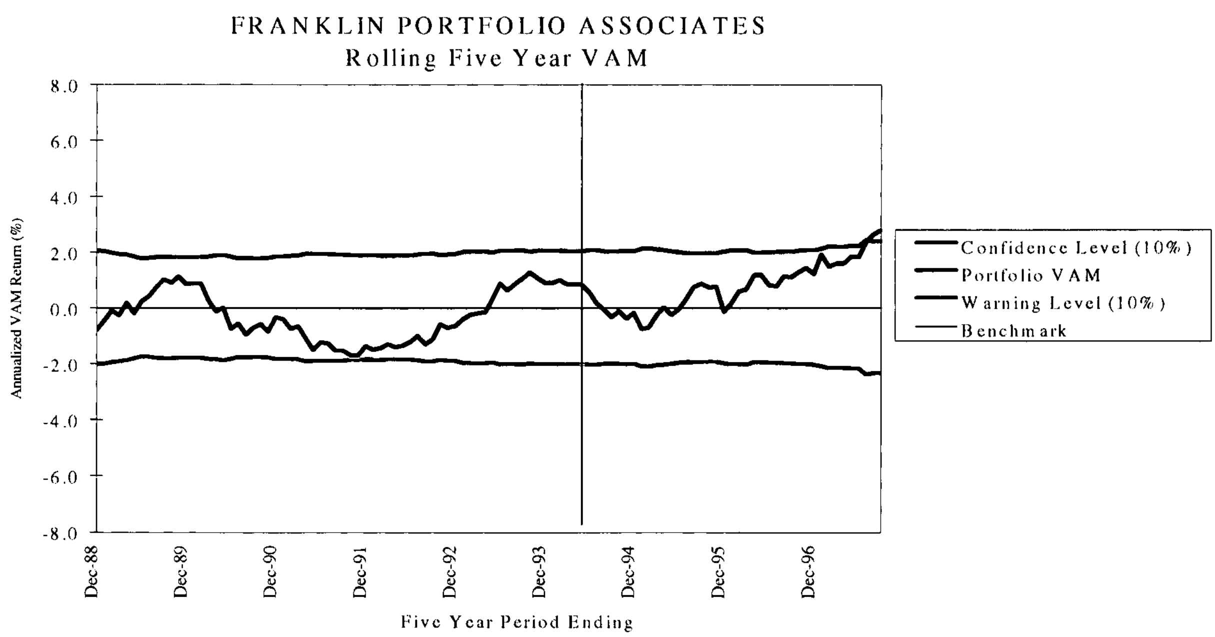
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.3%	10.8%
Last 1 year	47.4	36.0
Last 2 years	30.5	25.8
Last 3 years	30.9	26.7
Last 4 years	22.2	20.2
Last 5 years	23.7	20.3
Since Inception (4/89)	18.3	16.6

Recommendation

No action required.



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

GEOCAPITAL CORP.
Periods Ending September, 1997

Portfolio Manager: Barry Fingerhut | **Assets Under Management: $465,666,329**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Investment style consistently applied over a variety of market environments.

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

Concerns:

—The 5 year rolling VAM continues to lag expectations.

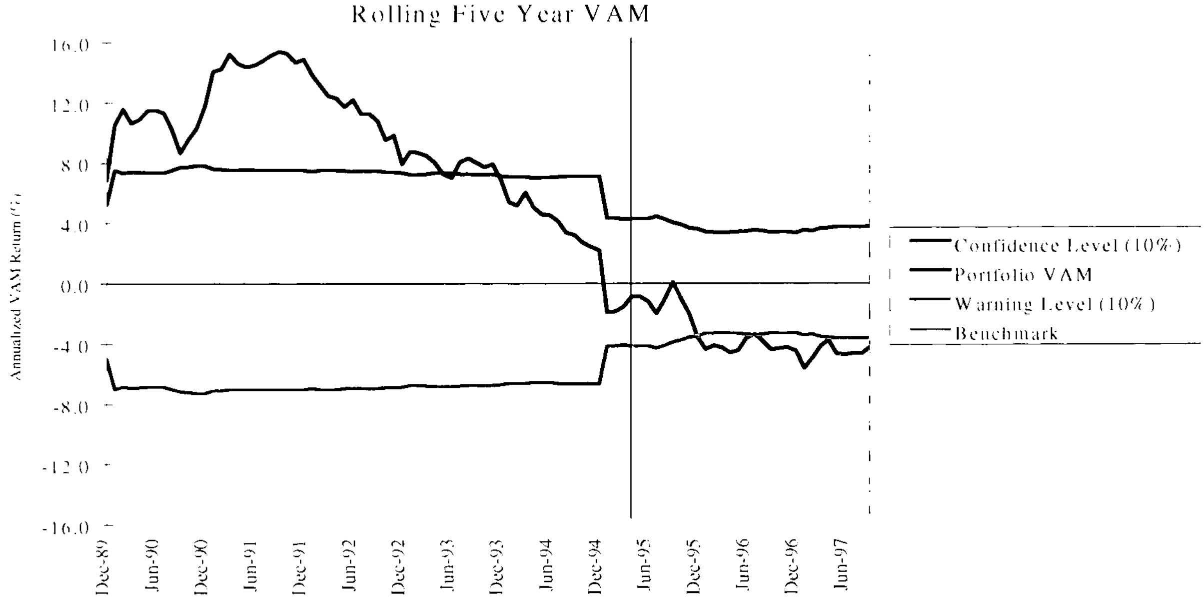
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.5%	15.3%
Last 1 year	23.4	23.7
Last 2 years	18.8	19.4
Last 3 years	21.4	24.6
Last 4 years	16.3	20.2
Last 5 years	18.6	23.9
Since Inception (4/90)	17.3	19.0

Recommendation

No action at this time. GeoCapital was reinterviewed by the Domestic Manager Committee during the first quarter 1997 meeting. In March 1997, the Board concurred with the Committee's recommendation to retain GeoCapital. Staff continues to monitor the firm.

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.

INVESTMENT ADVISERS INC.
Periods Ending September, 1997

Portfolio Manager: Mark Hoonsbeen | **Assets Under Management: $217,722,308**

Investment Philosophy

IAI's investment philosophy is to own the highest quality companies which demonstrate sustainable growth. IAI tries to achieve this objective by investing at least 80% of the portfolio in companies which have their headquarters in Minnesota, Wisconsin, Illinois, Iowa, Nebraska, Montana, North Dakota, or South Dakota. If IAI cannot find enough investment opportunities in the region, up to 20% of the portfolio can be used to purchase stocks that display the same quality and growth characteristics but have headquarters outside this region.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Attractive, unique investment approach.

Concerns:

—The equity team has experienced signficant staff turnover and internal re-organization.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.0%	12.7%
Last 1 year	31.4	39.7
Last 2 years	23.2	27.5
Last 3 years	23.8	27.9
Last 4 years	17.4	21.4
Last 5 years	N.A.	N.A.
Since Inception (7/93)	18.9	21.6

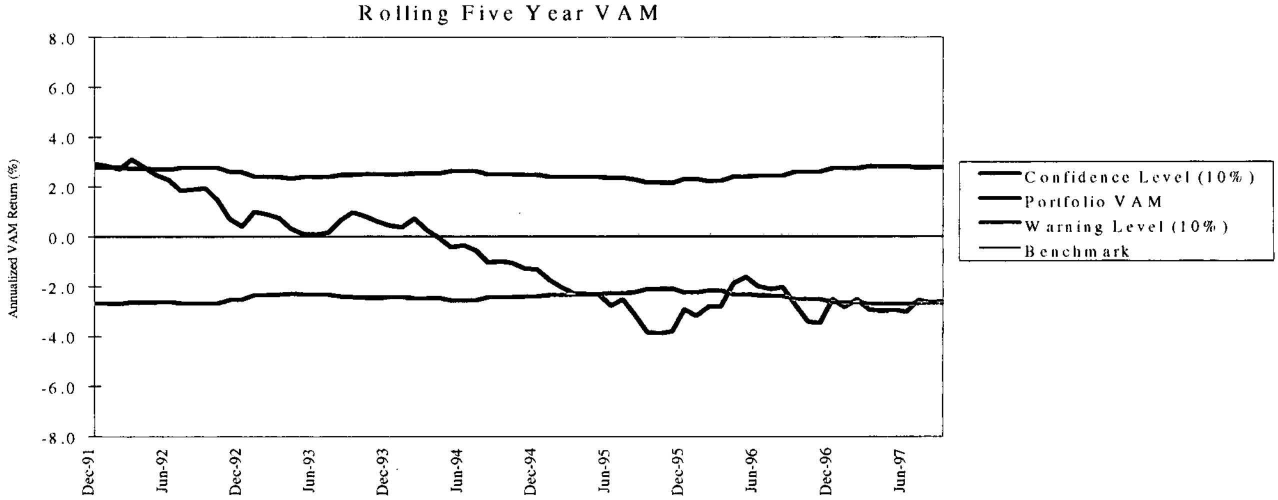
Recommendation

IAI was reinterviewed by the Domestic Manager Committee in August 1997 due to concerns about organizational changes and a poor benchmark. The Board concurred with the Committee's recommendation to retain IAI and to review the management team and the performance relative to the new benchmark again in February 1998.

Performance relative to the new benchmark for the quarter and to a backtested version of the new benchmark for prior periods is as follows:

	Actual	Benchmark
Last quarter	12.0%	12.7%
Last 1 year	31.3	32.0
Last 2 years	23.2	21.3
Last 3 years	23.8	22.3

INVESTMENT ADVISERS, INC.
Rolling Five Year VAM



Five Year Period Ending

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

INDEPENDENCE INVESTMENT ASSOCIATES
Periods Ending September, 1997

Portfolio Manager: Bill Fletcher **Assets Under Management: $526,202,311**

Investment Philosophy

Independence believes that individual stocks which outperform the market always have two characteristics: they are intrinsically cheap and their business is in the process of improving. Independence ranks their universe using a multifactor model. Based on input primarily generated by their internal analysts, the model ranks each stock based on 10 discrete criteria. Independence restricts their portfolio to the top 60% of their ranked universe. The portfolio is optimized relative to the client's benchmark to minimize market and industry risks. Independence maintains a fully invested portfolio and rarely holds more than a 1% cash position.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

Concerns:

—Portfolio VAM appears to have diminished over time.

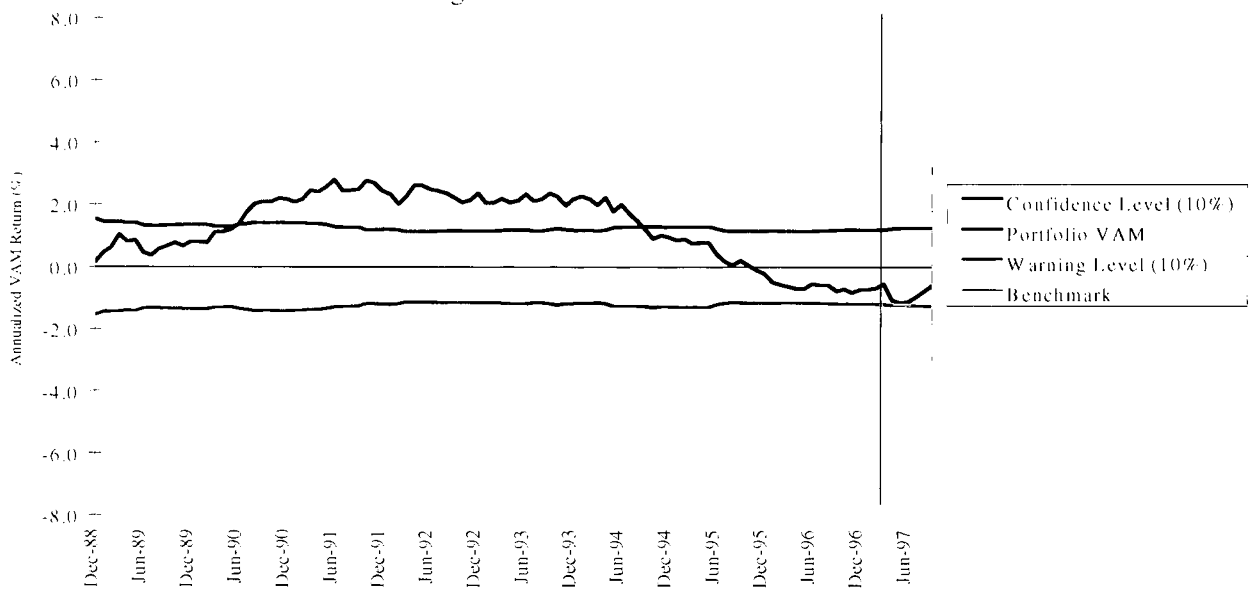
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.5%	7.8%
Last 1 year	39.2	41.0
Last 2 years	27.3	30.5
Last 3 years	28.4	30.3
Last 4 years	21.0	23.0
Last 5 years	20.5	21.2
Since Inception (2/92)	18.8	19.6

Recommendation

Staff and the Domestic Manager Committee will review Independence for the December 1997 meetings due to performance concerns. Staff recommends no action at this time.

INDEPENDENCE INVESTMENT ASSOCIATES
Rolling Five Year VAM



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

LINCOLN CAPITAL MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Parker Hall | **Assets Under Management: $574,333,404**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Organizational continuity and strong leadership.

—Familiar with the needs of large clients.

—Investment style has been consistently and successfully applied over a number of market cycles.

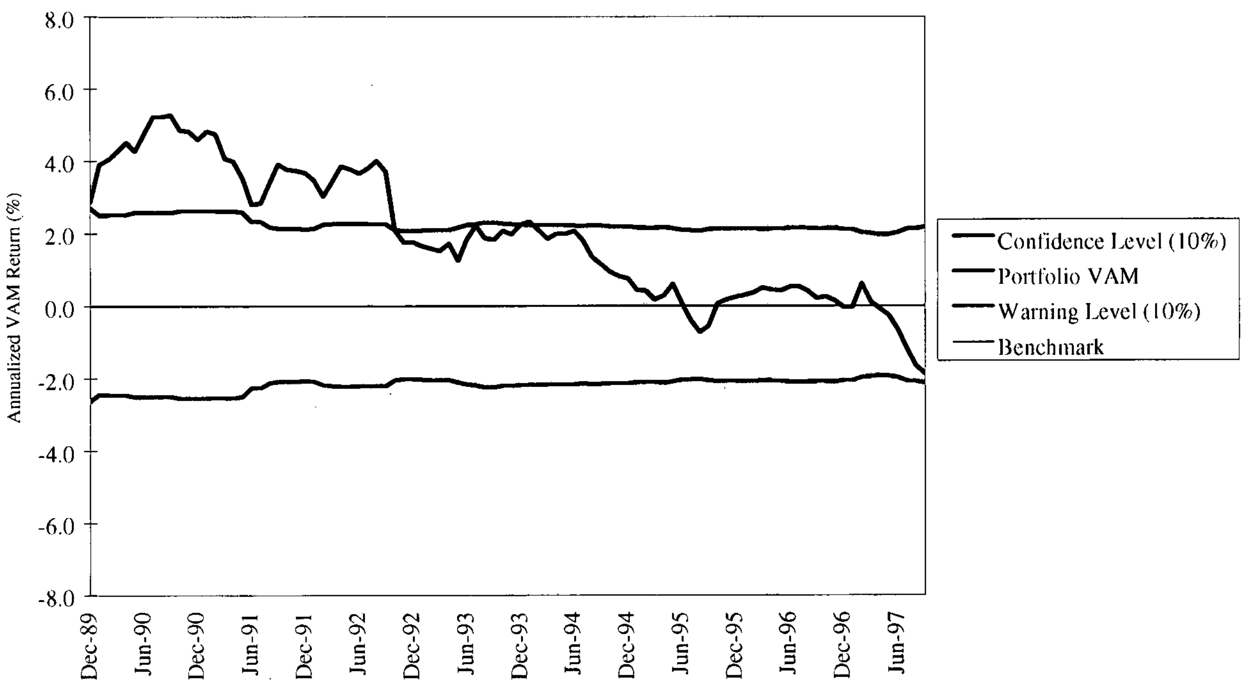
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.5%	8.4%
Last 1 year	29.7	40.4
Last 2 years	28.9	32.2
Last 3 years	30.7	31.9
Last 4 years	23.9	25.0
Last 5 years	N.A.	N.A.
Since Inception (7/93)	22.6	23.5

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT
Rolling Five Year VAM



Five Year Period Ending

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

OPPENHEIMER CAPITAL
Periods Ending September, 1997

Portfolio Manager: John Lindenthal **Assets Under Management: $619,168,165**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

—Investment style has been consistently and successfully applied over a number of market cycles.

—Performance has exceeded expectations over time.

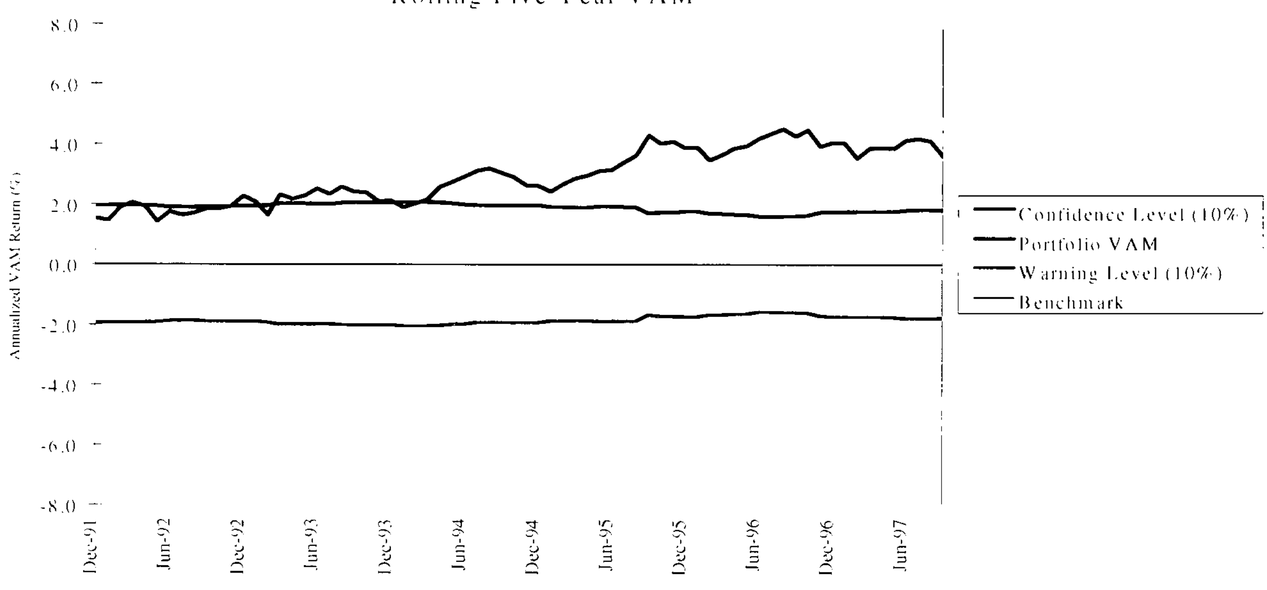
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.1%	8.2%
Last 1 year	40.2	36.7
Last 2 years	31.6	28.4
Last 3 years	32.6	27.8
Last 4 years	24.3	21.0
Last 5 years	N.A.	N.A.
Since Inception (7/93)	24.0	20.6

Recommendation

No action required.

OPPENHEIMER CAPITAL
Rolling Five Year VAM



Five Year Period Ending

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

WEISS, PECK & GREER
Periods Ending September, 1997

Portfolio Manager: Melville Straus | **Assets Under Management: $386,997,116**

Investment Philosophy

Weiss, Peck & Greer's dynamic growth process concentrates on small to medium size growth companies that have demonstrated consistently superior earnings growth rates. The process emphasizes companies in new or dynamic, rapidly growing industries where there is a potential for a major acceleration in earnings growth. The firm also believes that superior stock selection can be achieved through in-depth fundamental company research.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

Concerns:

—Performance pattern has been very volatile.

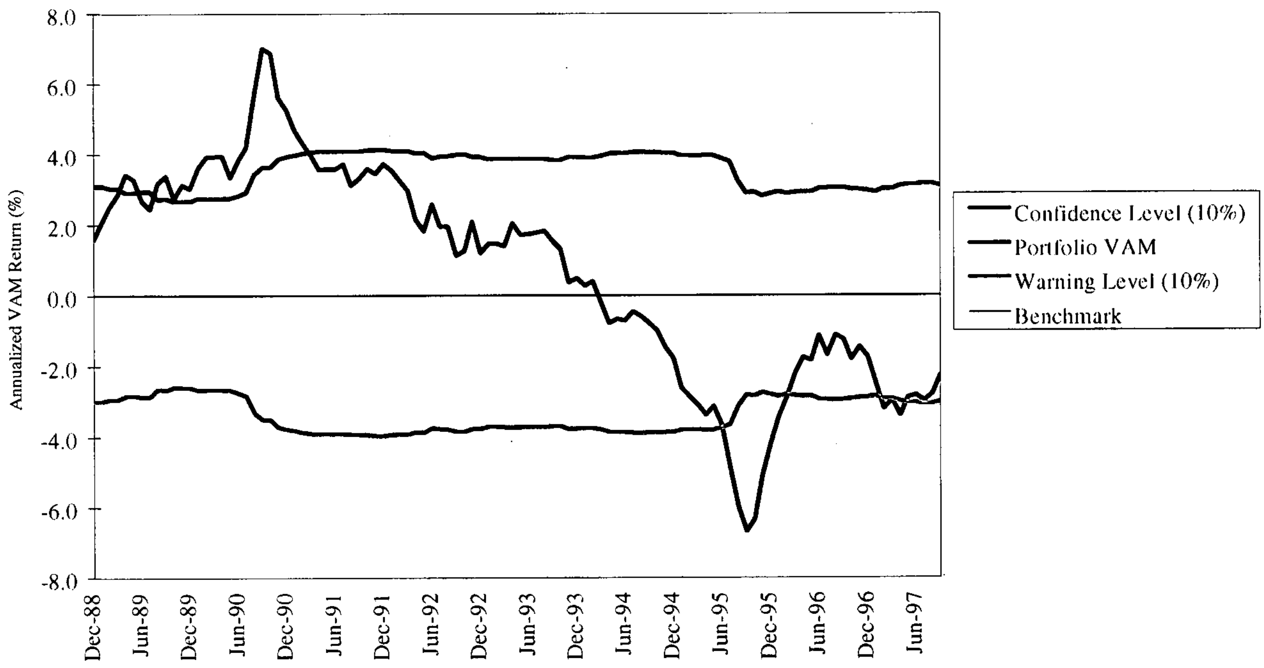
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.1%	19.8%
Last 1 year	16.7	28.9
Last 2 years	21.3	18.8
Last 3 years	23.4	24.9
Last 4 years	15.2	18.4
Last 5 years	N.A.	N.A.
Since Inception (7/93)	16.6	19.4

Recommendation

SBI's portfolio manager is leaving Weiss, Peck & Greer at year-end 1997. Staff will make a recommendation on this matter for the March 1998 meeting.

WEISS PECK & GREER
Rolling Five Year VAM



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 1997

Portfolio Manager: John Nagorniak | **Assets Under Management: $1,679,949,941**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firm's investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

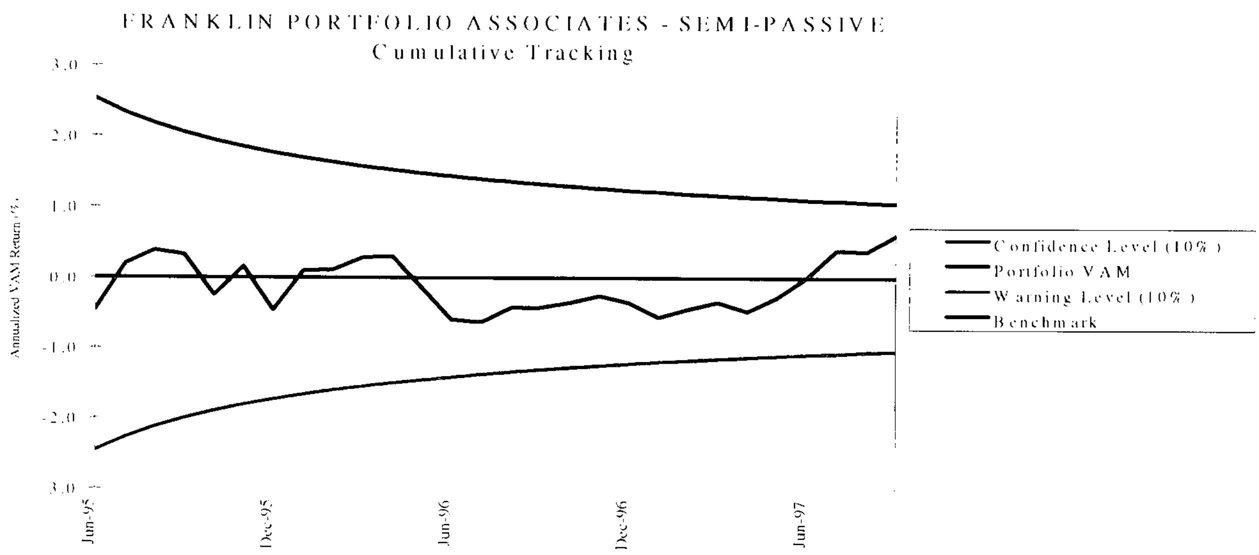
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.9%	8.1%
Last 1 year	43.4	40.1
Last 2 years	29.8	28.9
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	32.4	31.6

* Completeness Fund

Recommendation

No action required.



J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending September, 1997

Portfolio Manager: Rick Nelson **Assets Under Management: $1,699,810,180**

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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.3%	8.1%
Last 1 year	40.4	40.1
Last 2 years	29.0	28.9
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	31.9	31.6

* Completeness Fund

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

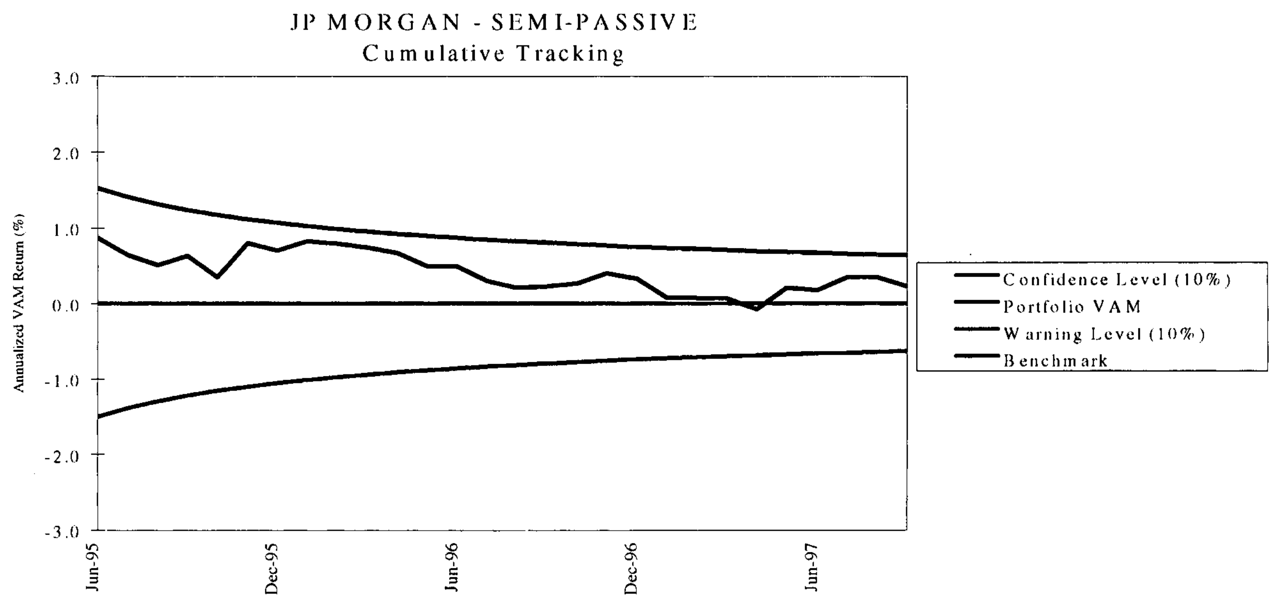
—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 1997

Portfolio Manager: Nancy Feldkircher **Assets Under Management: $1,718,473,015**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Attractive, unique investment approach.

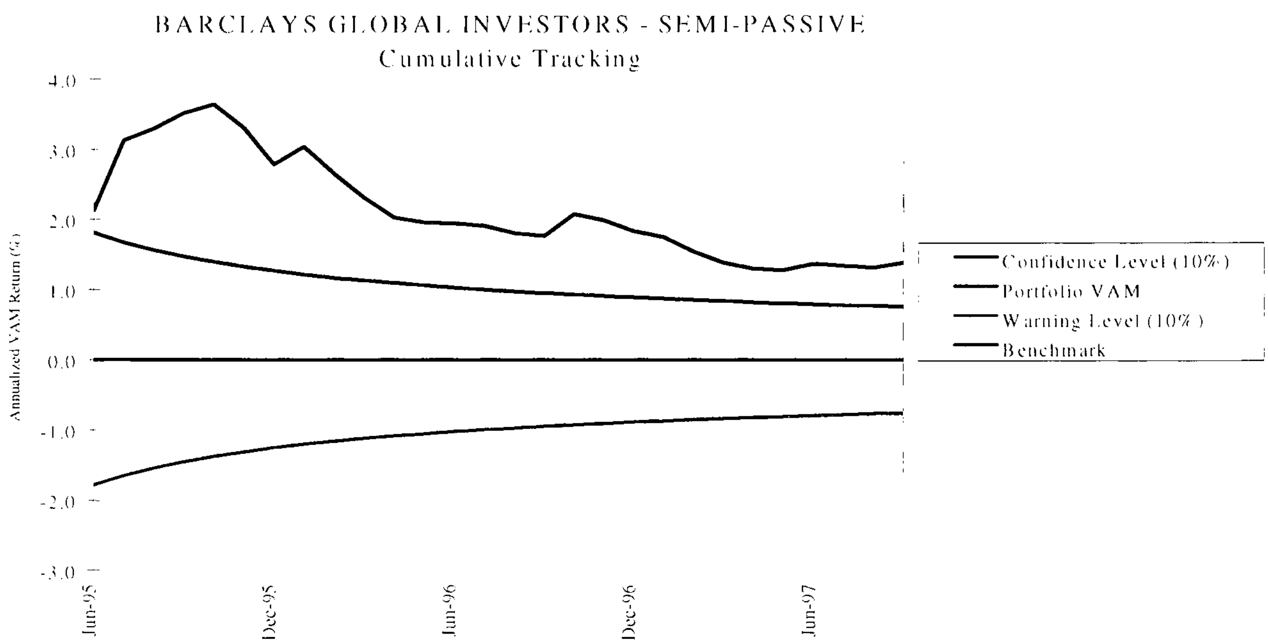
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.5%	8.1%
Last 1 year	41.0	40.1
Last 2 years	29.7	28.9
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	33.4	31.6

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Period Ending 9/30/97

Portfolio Manager: Tom Seto — **Assets Under Management: $5,564,156,184**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

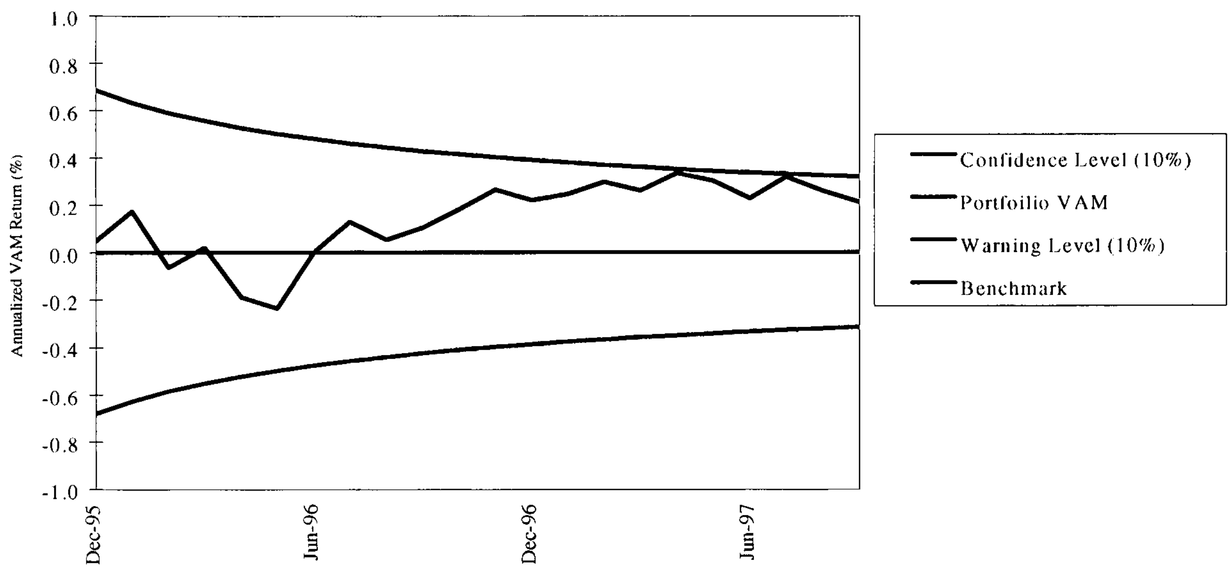
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.8%	9.8%
Last 1 year	38.5	38.0
Last 2 years	28.4	28.1
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/95)	29.5	29.2

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Periods Ending September, 1997

Portfolio Manager: Gene Bolton | **Assets Under Management: $156,453,389**

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. Four portfolio managers with different styles ranging from growth to value are supported by industry analysts and research assistants. The four 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 prospective.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

—Strong leadership.

Current concerns are:

—Recent organizational structure changes within the domestic equity program.

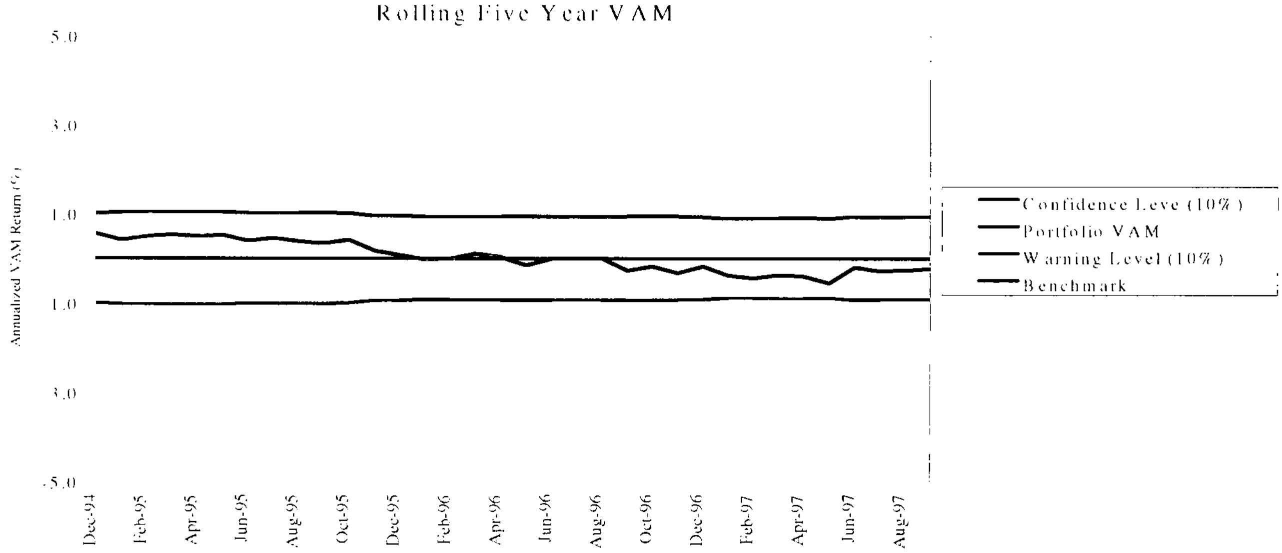
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.6%	7.5%
Last 1 year	42.4	40.4
Last 2 years	30.3	30.1
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception	33.0	33.1

Recommendation

No action required.

GE INVESTMENTS
Rolling Five Year VAM



5 Year Period Ending

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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Period Ending 9/30/97

Portfolio Manager: Lois Buermann **Assets Under Management: $326,764,127**

Investment Philosophy
Environmental Trust 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.

Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

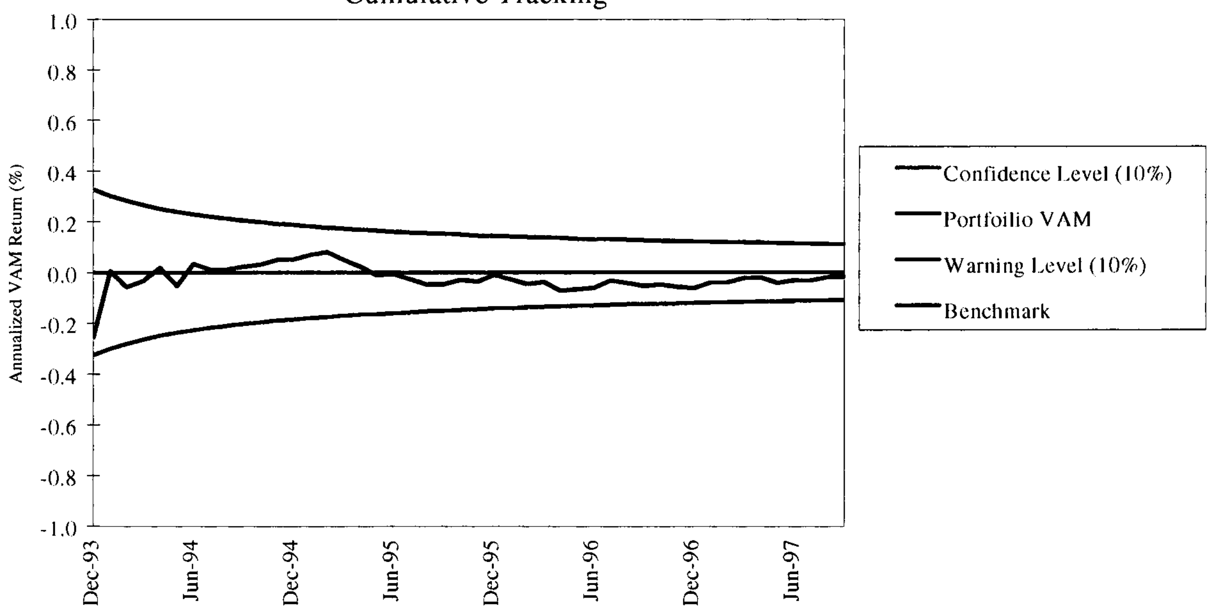
	Actual*	Benchmark
Last Quarter	7.6%	7.5%
Last 1 year	40.6	40.4
Last 2 years	30.1	30.1
Last 3 years	29.9	30.0
Last 4 years	22.9	22.9
Last 5 years	N.A.	N.A.
Since Inception (7/93)	22.1	22.1

* Estimate. Accounting not complete for July, August and September. Final numbers will be distributed when available.

Recommendation

No action required.

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



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STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Third Quarter, 1997

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COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending September, 1997

	Quarter		1 Year		3 years		5 Years		Since Inception		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
CIC Assets	14.1	8.5	43.9	39.0	30.1	28.8			25.8	26.0	$67.01	12.0%
Cohen, Klingenstein, & Marks	8.7	10.7	39.6	40.8	30.2	28.5			28.5	25.5	128.96	23.1%
Compass Capital	8.0	8.7	29.3	36.1	26.8	28.8			23.9	25.4	63.43	11.3%
New Amsterdam	13.5	12.3	43.0	39.9	29.1	26.4			24.1	23.9	63.89	11.4%
Valenzuela Capital	13.8	13.0	50.2	39.8	30.9	26.7			27.6	24.0	70.38	12.6%
Wilke/Thompson	9.9	15.4	-0.7	27.9	14.5	22.9			13.8	20.4	47.13	8.4%
Winslow Capital	9.7	11.5	23.8	37.0	21.6	27.6			20.7	24.8	57.94	10.4%
Zevenbergen Capital	8.2	11.4	25.4	36.6	26.0	27.8			22.3	25.0	60.69	10.8%
											$559.43	**100.0%**
									Since 4/1/94			
Current Aggregate	10.6	11.3 *	32.2	37.3 *	26.8	27.4			24.0	24.5 *		
Historical Aggregate	**10.6**	**11.3 ***	**32.1**	**36.3 ***	**26.1**	**26.8**			**23.3**	**24.0 ***		

Note:
Inception date for all managers is 4/1/94.

* Weighted average of above benchmarks.

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CIC ASSET MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Jorge Castro **Assets Under Management: $67,005,668**

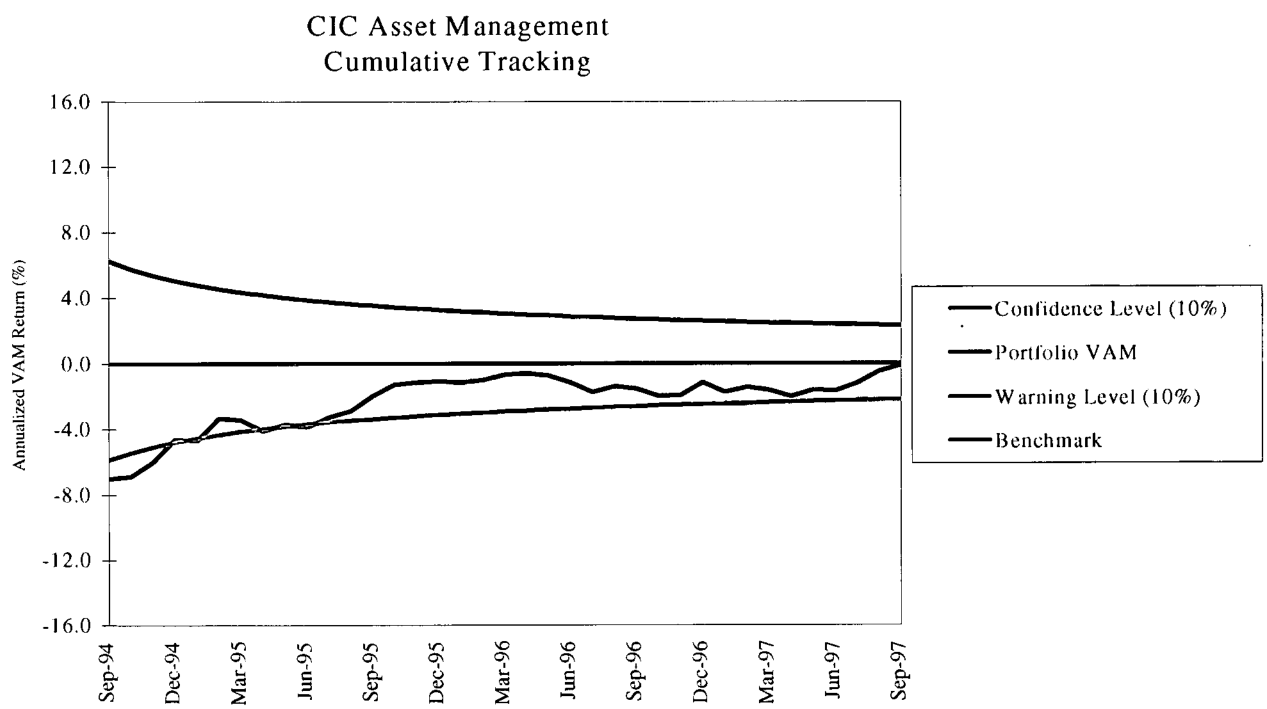
Investment Philosophy

CIC Asset Management (CIC) uses a disciplined relative value approach to managing 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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	14.1%	8.5%
Last 1 Year	43.9	39.0
Last 2 Years	30.9	29.3
Last 3 Years	30.1	28.8
Since Inception (4/94)	25.8	26.0

* Custom benchmark since inception date.



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 1997

Portfolio Manager: George Cohen | **Assets Under Management: $128,955,107**

Investment Philosophy

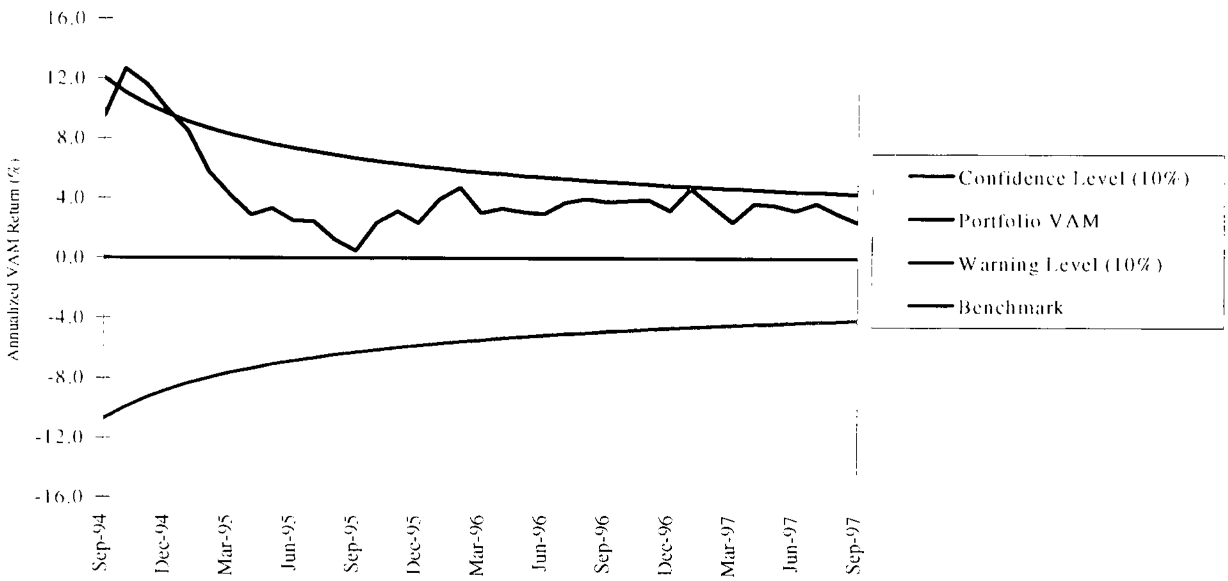
Cohen Klingenstein & Marks Inc. (CKM) seeks to outperform the market by focusing on two variables: 1) economic cycles; and 2) security valuation. Within economic cycles, they believe that stocks exhibit predictable patterns that reflect changing expectations on corporate profits and interest rates. Similarly, 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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.7%	10.7%
Last 1 Year	39.6	40.8
Last 2 Years	32.8	27.8
Last 3 Years	30.2	28.5
Since Inception. (4/94)	28.5	25.5

* Custom benchmark since inception date.

Cohen Klingenstein & Marks
Cumulative Tracking



COMPASS CAPITAL MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Charles Kelley **Assets Under Management: $63,432,911**

Investment Philosophy

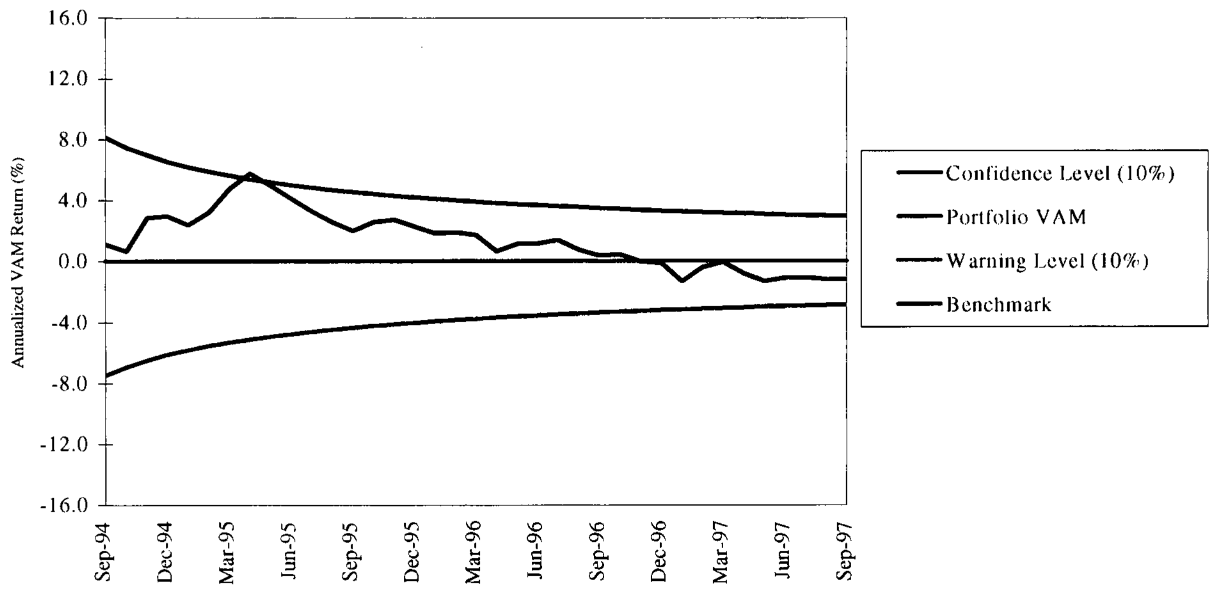
Compass Capital Management (CCM) combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value). They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy and over long time periods, 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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.0%	8.7%
Last 1 Year	29.3	36.1
Last 2 Years	26.5	31.1
Last 3 Years	26.8	28.8
Since Inception (4/94)	23.9	25.4

* Custom benchmark since inception date.

Compass Capital Management
Cumulative Tracking



NEW AMSTERDAM PARTNERS
Periods Ending September, 1997

Portfolio Manager: Michelle Clayman **Assets Under Management: $63,886,120**

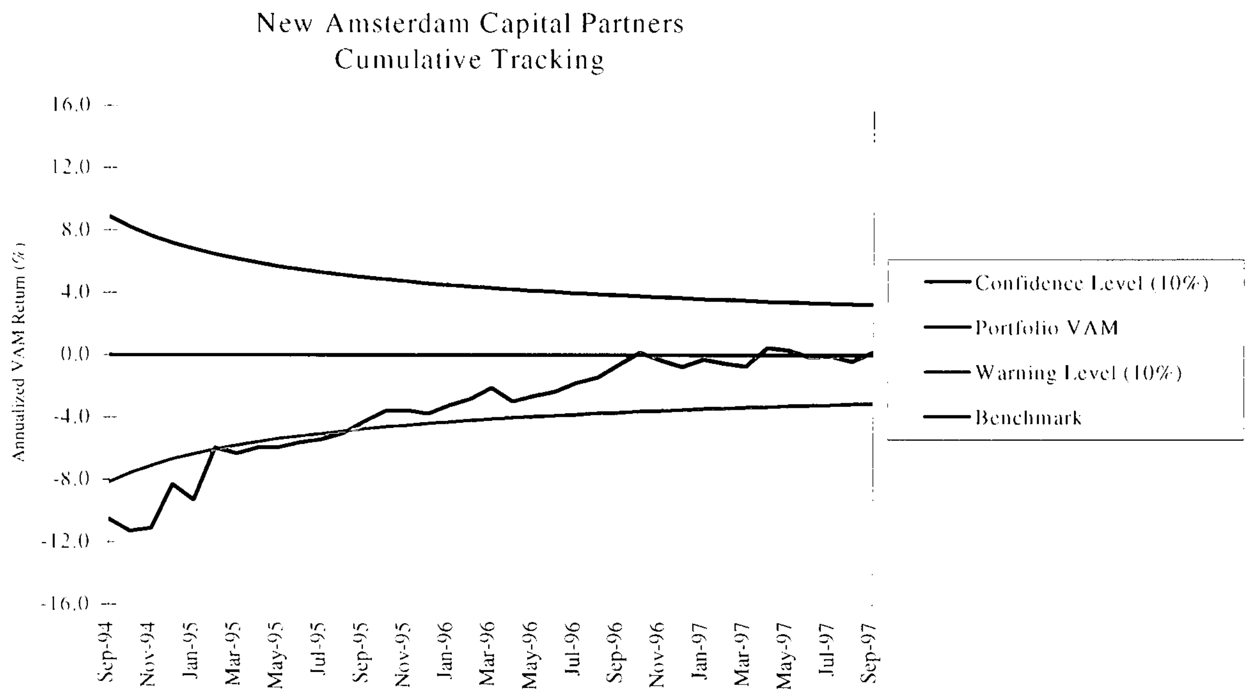
Investment Philosophy

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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	13.5%	12.3%
Last 1 Year	43.0	39.9
Last 2 Years	31.1	26.5
Last 3 Years	29.1	26.4
Since Inception (4/94)	24.1	23.9

* Custom benchmark since inception date.



VALENZUELA CAPITAL MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Tom Valenzuela **Assets Under Management: $70,378,288**

Investment Philosophy

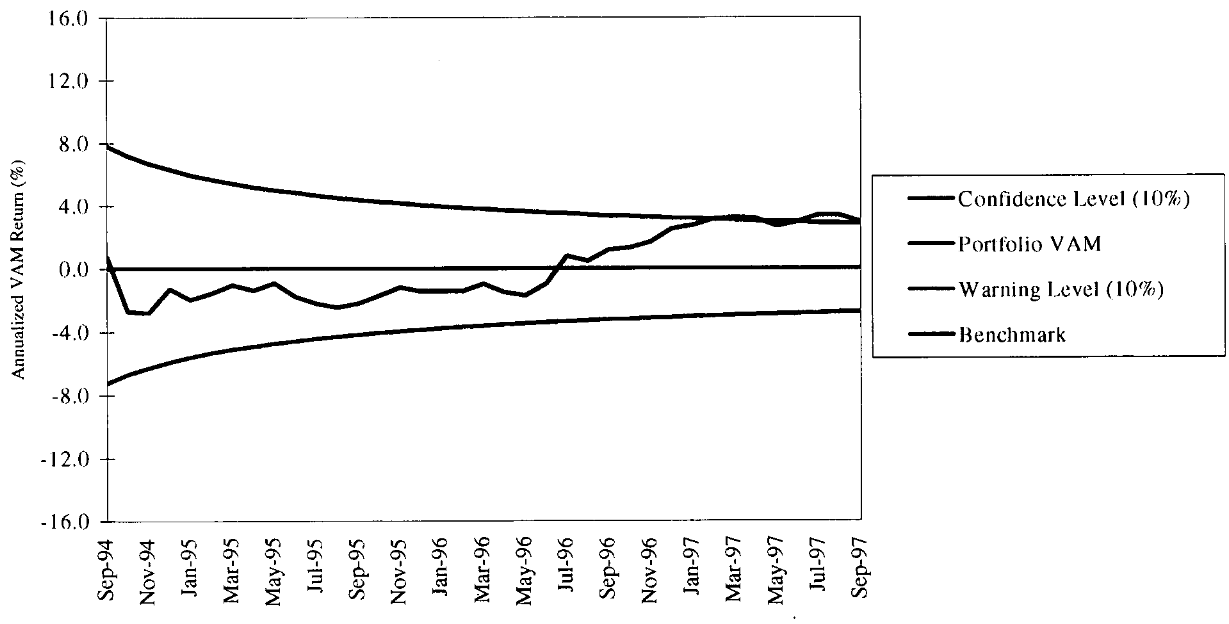
Valenzuela Capital Management (VCM) believes that stock selection and adherence to valuation analysis are the backbone of superior performance. Their investment philosophy is one of risk averse growth. VCM seeks companies undergoing strong rates of change in earnings, cash flow and returns. These companies 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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	13.8%	13.0%
Last 1 Year	50.2	39.8
Last 2 Years	36.6	27.7
Last 3 Years	30.9	26.7
Since Inception (4/94)	27.6	24.0

* Custom benchmark since inception date.

Valenzuela Capital Partners
Cumulative Tracking



WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Periods Ending September, 1997

Portfolio Manager: Mark Thompson — **Assets Under Management: $47,133,497**

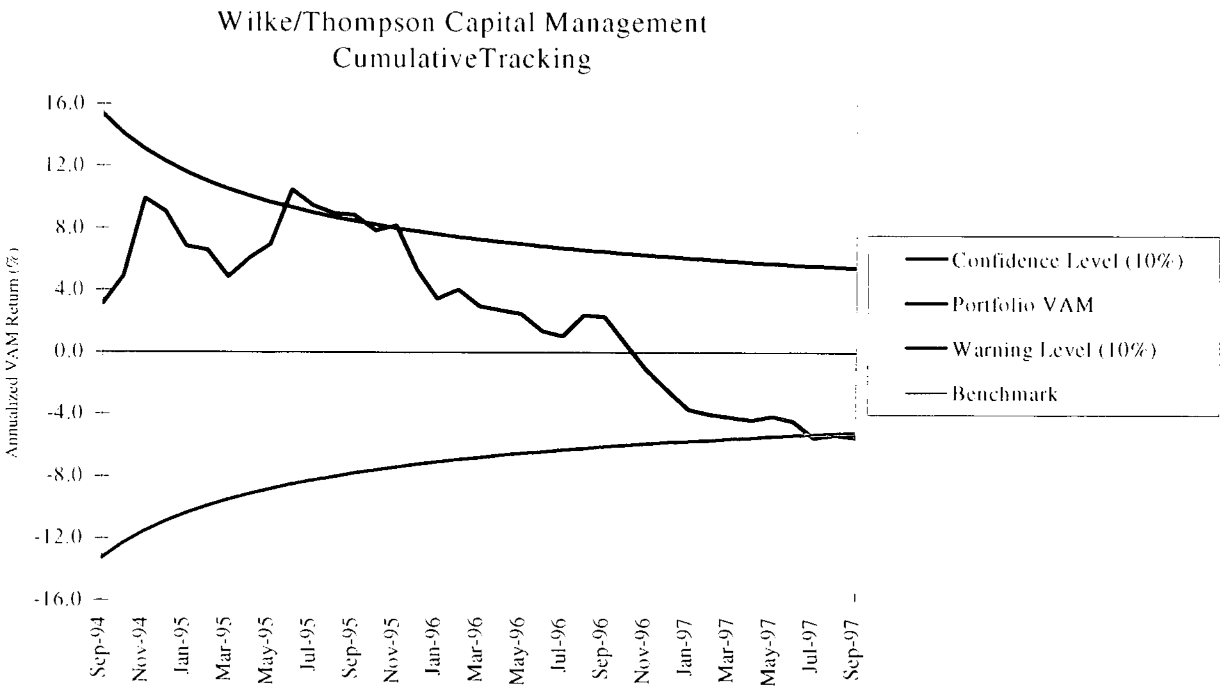
Investment Philosophy

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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.9%	15.4%
Last 1 Year	-0.7	27.9
Last 2 Years	3.0	21.1
Last 3 Years	14.5	22.9
Since Inception (4/94)	13.8	20.4

* Custom benchmark since inception date.



WINSLOW CAPITAL MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Clark Winslow **Assets Under Management: $57,939,527**

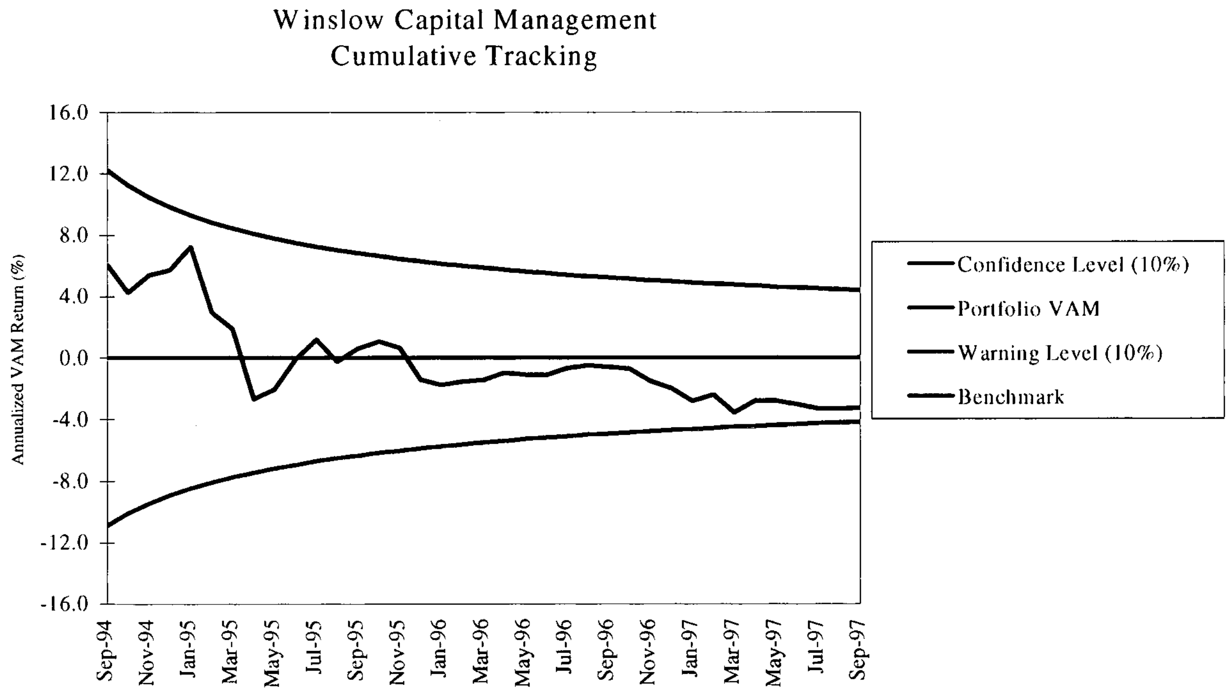
Investment Philosophy

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.

Quantitative Evaluation

	Actual	**Benchmark***
Last Quarter	9.7%	11.5%
Last 1 Year	23.8	37.0
Last 2 Years	19.5	27.3
Last 3 Years	21.6	27.6
Since Inception (4/94)	20.7	24.8

* Custom benchmark since inception date.



ZEVENBERGEN CAPITAL INC
Periods Ending September, 1997

Portfolio Manager: Nancy Zevenbergen | **Assets Under Management: $60,694,905**

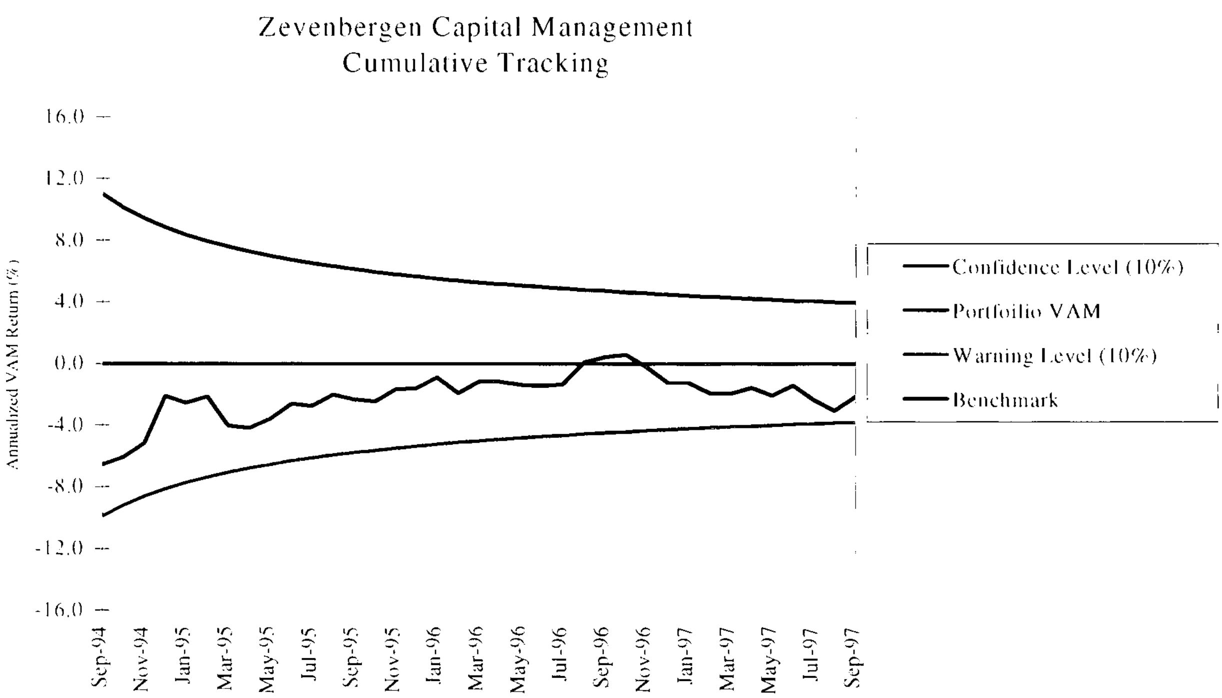
Investment Philosophy

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.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	8.2%	11.4%
Last 1 Year	25.4	36.6
Last 2 Years	24.4	26.9
Last 3 Years	26.0	27.8
Since Inception (4/94)	22.3	25.0

* Custom benchmark since inception date.



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Third Quarter, 1997

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COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 1997

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market	
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
American Express (AMG)	3.4	3.3	10.2	9.7	9.8	9.7			6.6	6.5	$366.06	4.5%
BEA	4.8	3.3	13.0	9.7	11.2	9.5			7.4	6.5	486.68	6.0%
IAI	3.2	3.3	9.9	9.7	8.9	9.5	6.8	7.0	11.1	11.0	586.98	7.3%
Miller	4.0	3.3	12.1	9.7	11.1	9.5	8.3	7.0	11.4	11.0	795.50	9.9%
Standish	3.5	3.3	11.0	9.7	10.2	9.5			6.7	6.5	660.42	8.2%
Western	4.1	3.3	12.7	9.7	11.5	9.5	8.9	7.0	12.3	10.9	1,173.43	14.6%
Semi-Passive Managers												
BlackRock	3.4	3.3	10.2	9.7					8.4	8.1	1,335.89	16.6%
Goldman	3.5	3.3	10.4	9.7	10.0	9.5			7.0	6.5	1,344.77	16.7%
Lincoln	3.4	3.3	9.9	9.7	9.6	9.5	7.1	7.0	9.1	9.1	1,305.48	16.2%
											$8,055.22	**100.0%**
									Since 7/1/84			
Current Aggregate	3.7	3.3	10.9	9.7	10.1	9.5	7.6	7.0	11.5	10.9		
Historical Aggregate (2)	**3.7**	**3.3**	**10.9**	**9.7**	**10.0**	**9.5**	**7.6**	**7.0**	**10.7**	**10.8**		
Lehman Aggregate (3)		3.3		9.7		9.5		7.0		10.4		

(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
Period Ending 9/30/97

Portfolio Manager: Ed Labenski | **Assets Under Management: $366,063,064**

Investment Philosophy

IDS 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 IDS determine the direction of both short and long-term interest rates which leads to the portfolio duration decisions. After IDS determines duration, they use their extensive corporate research capabilities to determine corporate sector allocation and to select individual issues.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive corporate research capabilities.

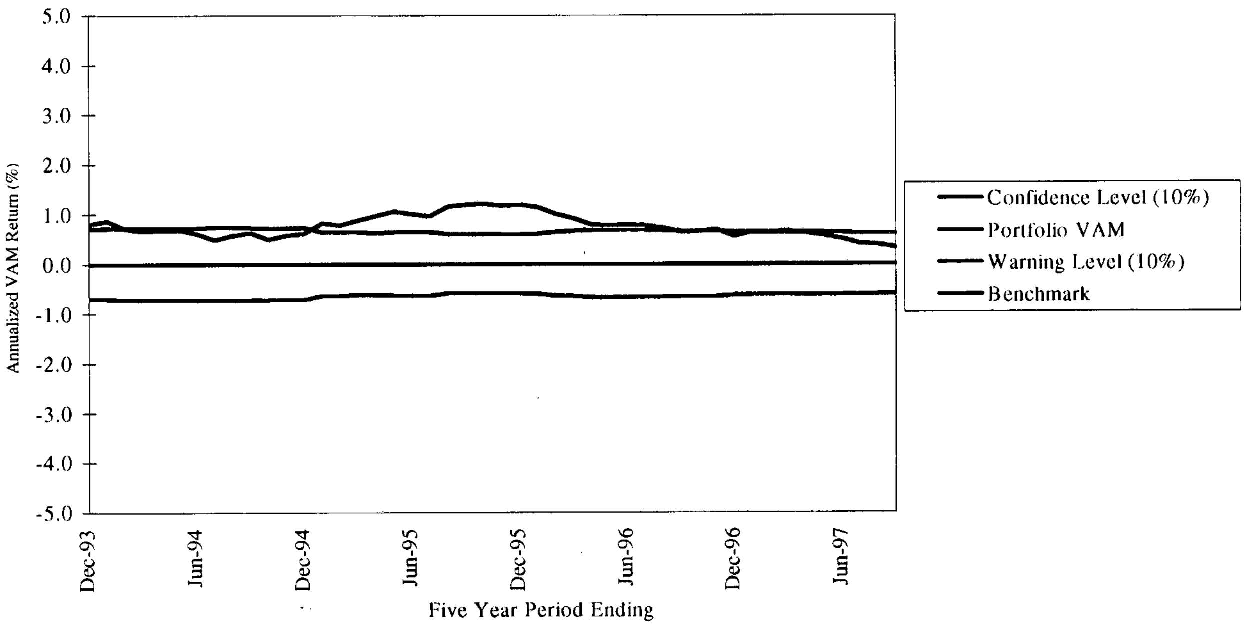
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.3%
Last 1 year	10.2	9.7
Last 2 years	7.1	7.5
Last 3 years	9.8	9.7
Last 4 years	5.9	6.1
Last 5 years	N/A	N/A
Since Inception (7/93)	6.6	6.5

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT
Rolling Five Year VAM



Note: Shaded area includes performance prior to managing the SBI Account.

BEA ASSOCIATES
Period Ending 9/30/97

Portfolio Manager: Bob Moore | **Assets Under Management: $486,680,142**

Investment Philosophy

BEA's investment approach focuses on individual bond selection and on sector selection rather than short term interest rate forecasting. BEA keeps the duration close to the benchmark but may be slightly longer or shorter depending on their long-term economic outlook. BEA'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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

— Highly successful and experienced professionals.

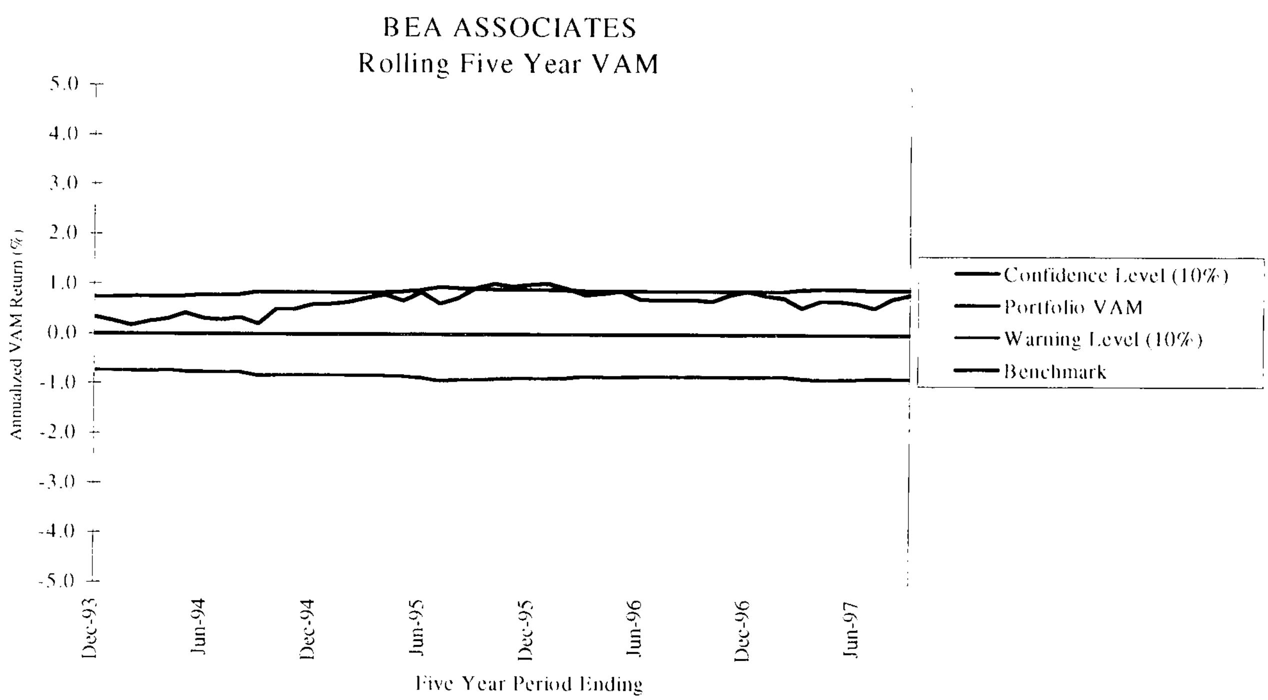
— Extensive option analysis capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.8%	3.3%
Last 1 year	13.0	9.7
Last 2 years	9.5	7.3
Last 3 years	11.2	9.5
Last 4 years	7.1	6.2
Last 5 years	N/A	N/A
Since Inception (7/93)	7.4	6.5

Recommendations

No action required.



Note: Shaded area includes performance prior to managing the SBI Account.

INVESTMENT ADVISERS
Period Ending 9/30/97

Portfolio Manager: Larry Hill | **Assets Under Management: $586,975,870**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Firms investment approach has been consistently applied over a number of market cycles.

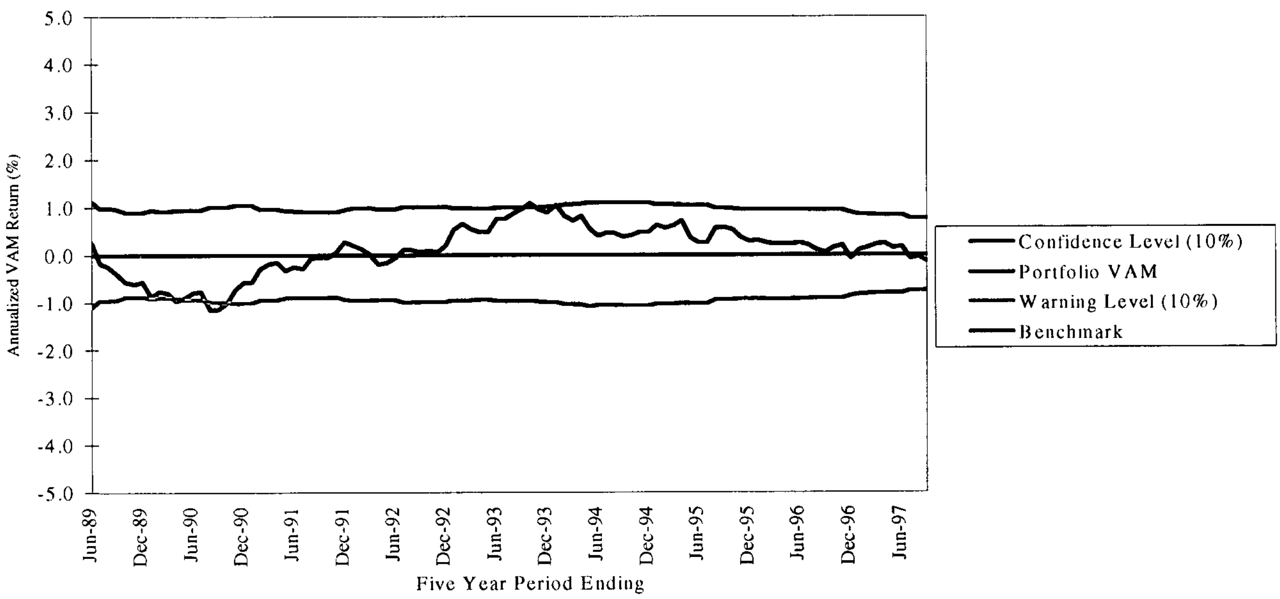
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	3.3%
Last 1 year	9.9	9.7
Last 2 years	7.1	7.3
Last 3 years	8.9	9.5
Last 4 years	5.2	6.2
Last 5 years	6.8	7.0
Since Inception (7/84)	11.1	11.0

Recommendations

No action required.

INVESTMENT ADVISERS
Rolling Five Year VAM



MILLER ANDERSON & SHERRERD
Period Ending 9/30/97

Portfolio Manager: Tom Bennett | **Assets Under Management: $795,501,213**

Investment Philosophy

Miller Anderson 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, Miller Anderson intensively researches and, in some cases, manages the mortgage pools in which it invests.

Qualitative Evaluation (reported by exception)

The firms strengths continue to be:

—Highly successful and experienced professionals.

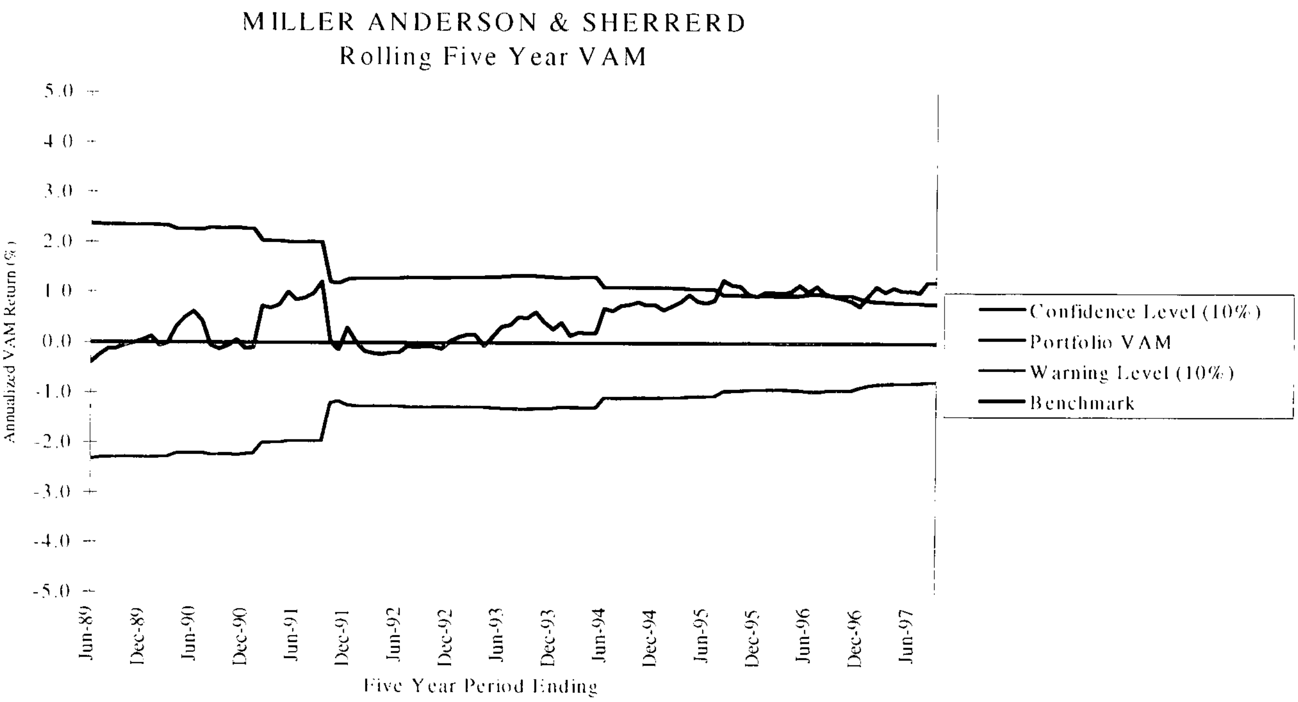
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	3.3%
Last 1 year	12.1	9.7
Last 2 years	9.4	7.3
Last 3 years	11.1	9.5
Last 4 years	6.9	6.2
Last 5 years	8.3	7.0
Since Inception (7/84)	11.4	11.0

Recommendations

No action required.



STANDISH, AYER & WOOD
Period Ending 9/30/97

Portfolio Manager: Austin Smith **Assets Under Management: $660,424,972**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals

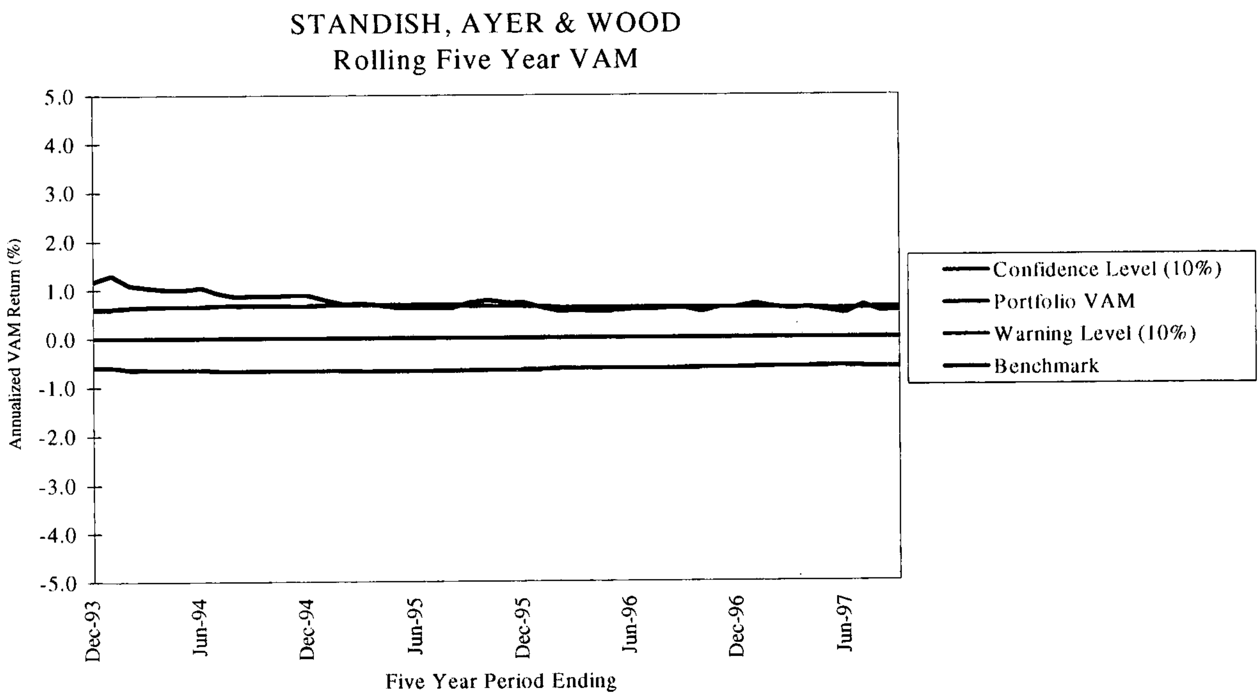
—Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	3.3%
Last 1 year	11.0	9.7
Last 2 years	8.5	7.3
Last 3 years	10.2	9.5
Last 4 years	6.4	6.2
Last 5 years	N/A	N/A
Since Inception (7/93)	6.7	6.5

Recommendations

No action required.



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

WESTERN ASSET MANAGEMENT
Period Ending 9/30/97

Portfolio Manager: Kent Engel | **Assets Under Management: $1,173,427,785**

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.

Qualitative Evaluation (reported by exception)

The firm's exceptional strengths continue to be:

—Highly successful and experienced professionals.

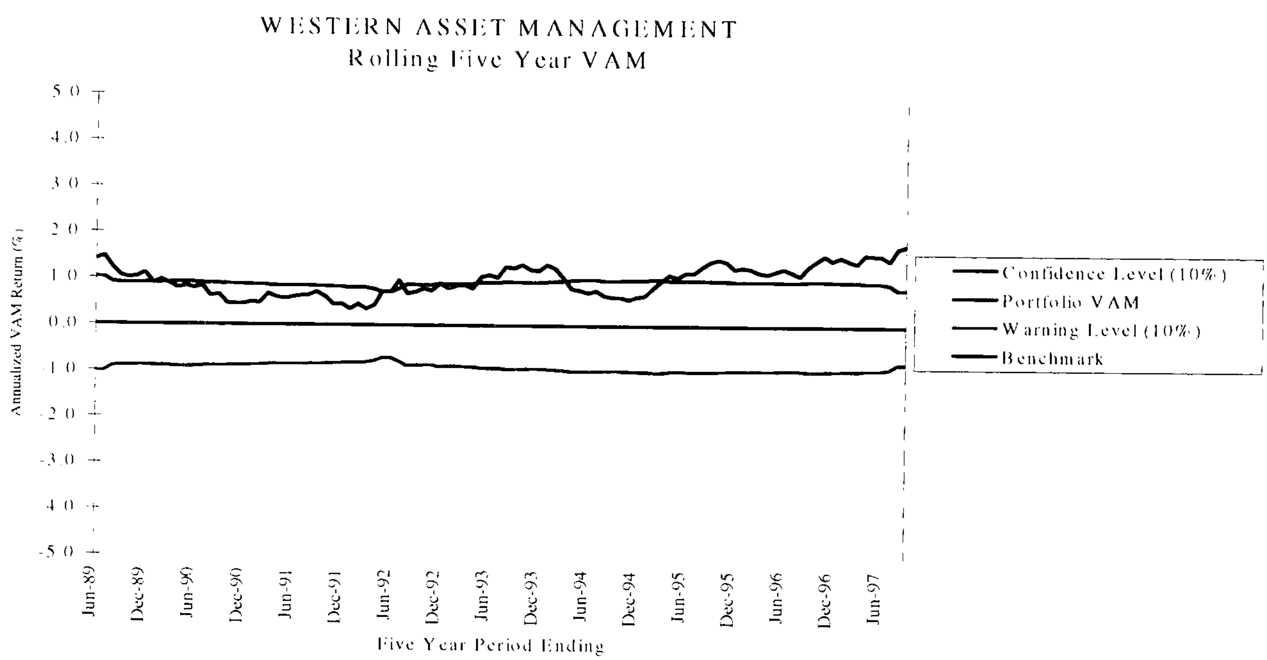
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	3.3%
Last 1 year	12.7	9.7
Last 2 years	9.2	7.3
Last 3 years	11.5	9.5
Last 4 years	7.4	6.2
Last 5 years	8.9	7.0
Since Inception (7/84)	12.3	10.9

Recommendations

No action required.



BLACKROCK FINANCIAL MANAGEMENT
Period Ending 9/30/97

Portfolio Manager: Keith Anderson **Assets Under Management: $1,335,893,167**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Strong quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.3%
Last 1 year	10.2	9.7
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/96)	8.4	8.1

Recommendation

No action required.

Tracking graph will be created for period ending 6/30/99.

GOLDMAN SACHS
Period Ending 9/30/97

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,344,772,014**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Quantitative capabilities.

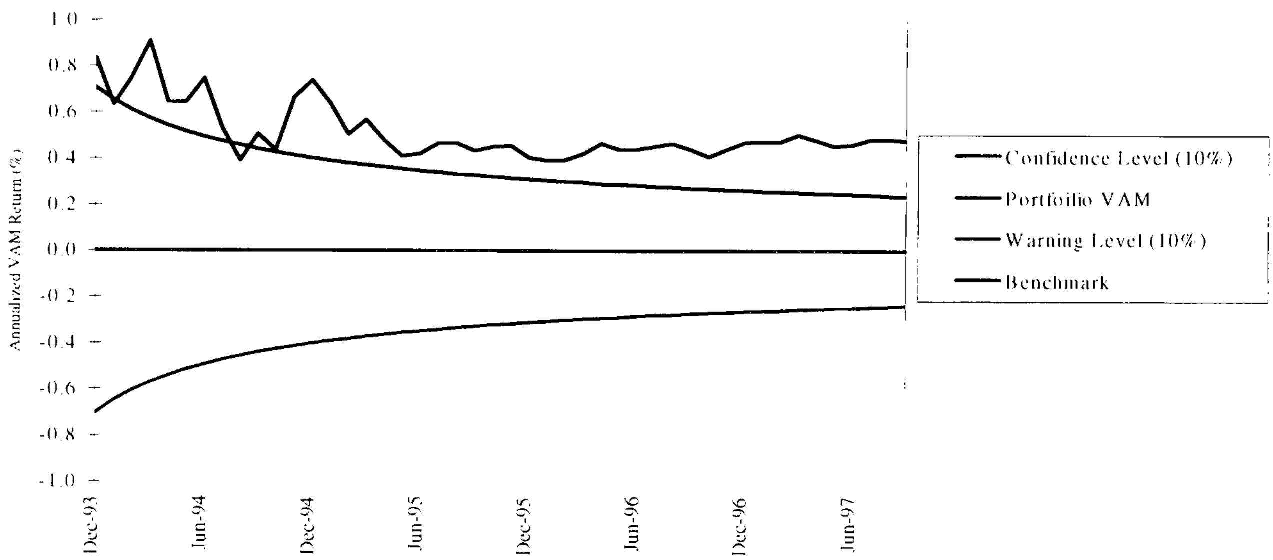
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	3.3%
Last 1 year	10.4	9.7
Last 2 years	7.8	7.3
Last 3 years	10.0	9.5
Last 4 years	6.7	6.2
Last 5 years	N\A	N\A
Since Inception (7/93)	7.0	6.5

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Period Ending 9/30/97

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,305,482,332**

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 250 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.

Qualitative Evaluation (reported by exception)

The firm's strengths are:

—Highly successful and experienced professionals.

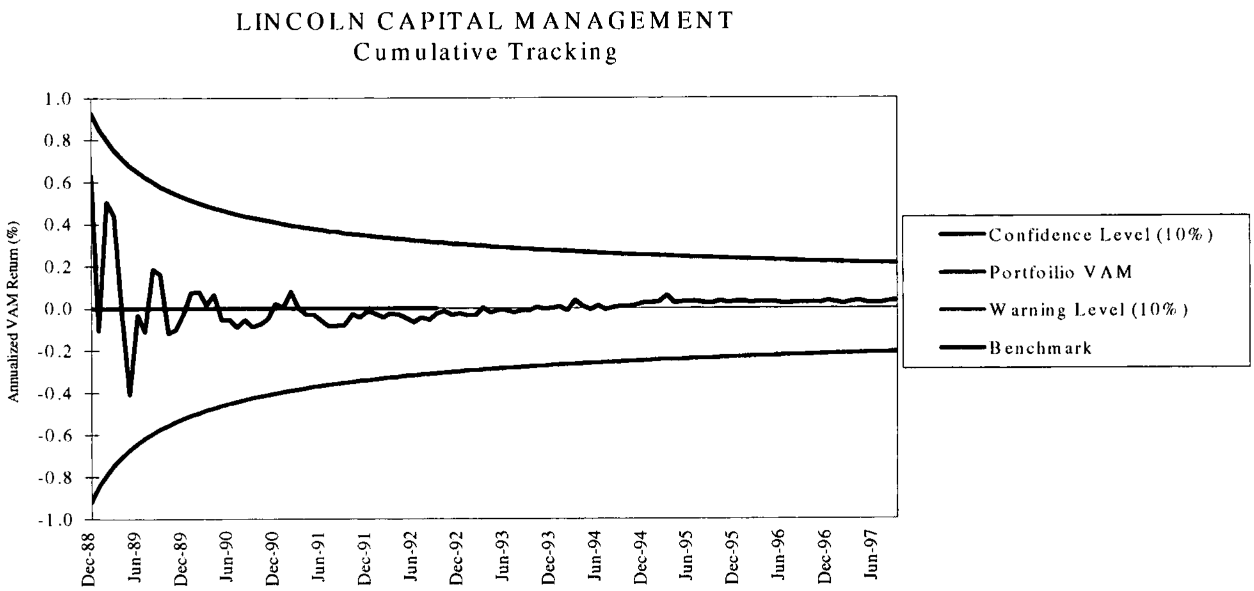
—Extensive quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.3%
Last 1 year	9.9	9.7
Last 2 years	7.4	7.3
Last 3 years	9.6	9.5
Last 4 years	6.3	6.2
Last 5 years	7.1	7.0
Since Inception (7/88)	9.1	9.1

Recommendations

No action required.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending September, 1997

Portfolio Manager: Jane Wyatt **Assets Under Management: $454,036,407**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firms investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

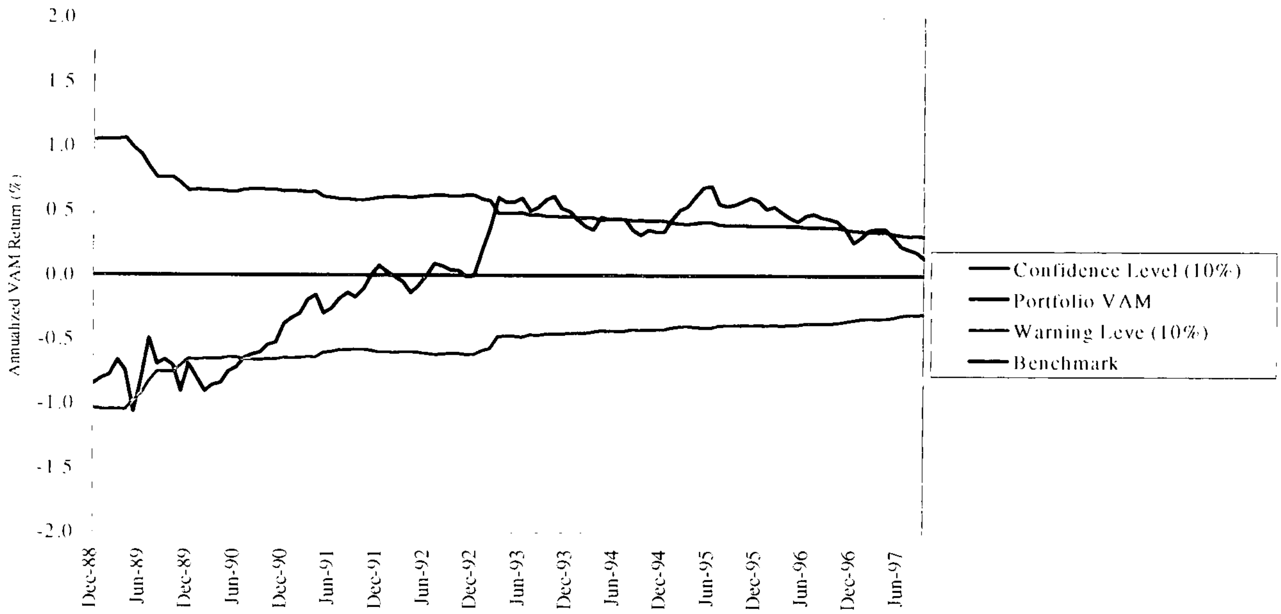
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	2.6%
Last 1 year	8.6	8.5
Last 2 years	7.1	7.1
Last 3 years	8.7	8.4
Last 4 years	6.3	6.2
Last 5 years	6.5	6.4
Since Inception (7/91)	8.2	7.7

Recommendation

No action required.

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year VAM



5 Year Period Ending

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

INTERNAL BOND POOL - Income Share Account
Period Ending 9/30/97

Portfolio Manager: Mike Menssen **Assets Under Management: $153,884,981**

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.

Qualitative Evaluation
(reported by exception)

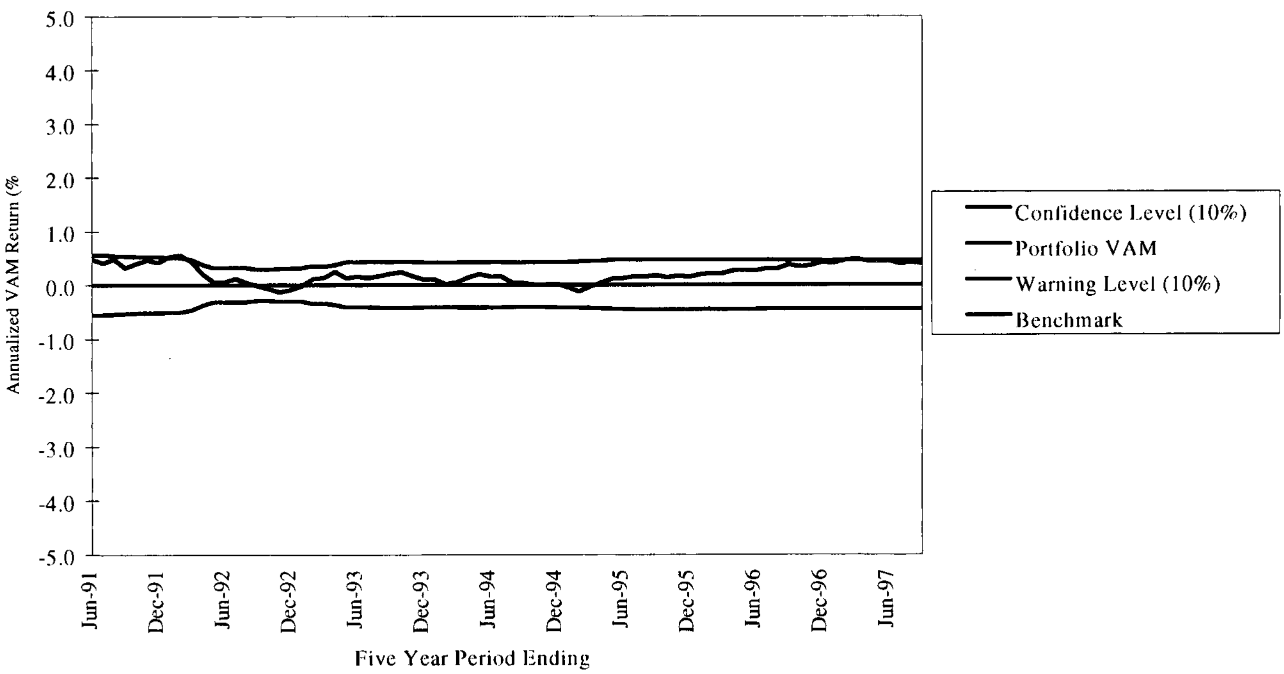
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	3.3%
Last 1 year	10.5	9.7
Last 2 years	7.9	7.3
Last 3 years	10.2	9.5
Last 4 years	6.5	6.2
Last 5 years	7.5	7.1

Recommendation

No action required.

INTERNAL BOND POOL - INCOME SHARE ACCOUNT
Rolling Five Year VAM



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Period Ending 9/30/97

Portfolio Manager: Mike Menssen | **Assets Under Management: $308,100,315**

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.

Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

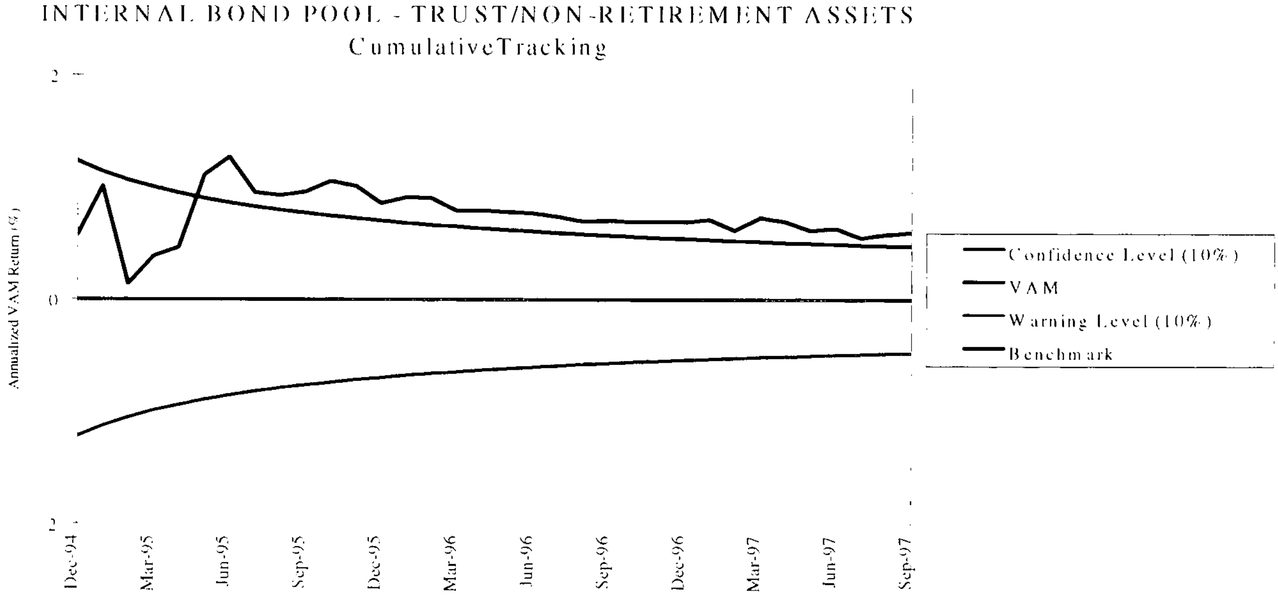
	Actual**	Benchmark
Last Quarter	3.4%	3.3%
Last 1 year	10.1	9.7
Last 2 years	7.7	7.3
Last 3 years	10.1	9.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/94)*	9.6	8.9

Recommendation

No action required.

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

** Estimate. Accounting not complete for July, August and September.
Final numbers will be distributed when available.



Tab G

COMMITTEE REPORT

DATE: November 25, 1997

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

FROM: International Manager Committee

The International Manager Committee met on November 21, 1997 to review the following agenda:

- Review of manager performance for the period ending September 30, 1997
- Recommendation to remove an active manager (Montgomery Asset Management) from probation
- Update on discussions concerning the currency overlay program
- Recommendation concerning the contract with the SBI's currency overlay manager Record Treasury Management

Action by the IAC/SBI is requested on the second and fourth items.

INFORMATION ITEM:

1. Review of manager performance

The total international stock program outperformed its composite index by 2.0 percentage points for the quarter ending September 30, 1997. The program outperformed by 6.6 percentage points over the last year, by 3.2 percentage points over the last three years and by 2.0 percentage points since inception (5 years). Performance of the equity managers (without the currency overlay) was higher than the target in all periods:

Time Period	Total Program	Composite Index
Quarter	0.1%	-1.9%
1 year	18.1	11.5
3 years	11.8	8.6
5 year	14.2	12.2
Since Inception 10/92	14.2	12.2

Equity Managers Only
-0.7%
14.9
10.7
13.5
13.5

Three of the **active EAFE managers** outperformed the EAFE-Free index during the quarter and one underperformed the target. For the latest year, three managers exceeded the index and one lagged. As in past quarters, the dominant factor in the returns was a manager's decision regarding the Japanese market, which significantly underperformed in the latest quarter and has trailed other EAFE markets by a considerable margin during the last year. Since inception, each of the managers has surpassed the index.

All three of the **emerging markets specialists** outperformed the Emerging Markets Free index for the quarter and since inception. Two managers have been with the SBI over a year, and both outperformed for the one year period.

The **currency overlay program** added value from returns over the last quarter and year. The currency overlay program *with* the index fund is measured against the index fund's returns excluding the overlay program. Since inception, the currency overlay program has added 3.8 percentage points to the return of the index fund.

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

ACTION ITEM:

2. Recommendation concerning Montgomery Asset Management

Montgomery Asset Management, one of the SBI's emerging markets specialists, was placed on probation in March 1997 due to a pending ownership change. Montgomery's sale to Commerzbank was completed in July 1997. Montgomery's investment process and personnel have not been changed by this sale. Commerzbank has not interfered with Montgomery's management of their business. Staff does not anticipate any future problems due to this sale.

RECOMMENDATION:

In accordance with the Manager Continuation Policy, the Committee recommends that the SBI remove Montgomery Asset Management from probation status.

INFORMATION ITEM:

3. Update on discussion concerning the currency overlay program

The IAC/SBI adopted a "Statement of Existing Philosophy on Currency Management" at their June 1997 meetings (see copy beginning on **page 5**). The statement endorses a using a systematic currency overlay to manage the for the foreign currency exposure in the EAFE index fund.

Since that time, the Committee has been reviewing the results of the systematic currency overlay program implemented Record Treasury Management, the SBI's overlay manager, and has been discussing whether any changes to the approach are warranted at this time.

At this time, the Committee is not prepared to recommend changes to the program. Staff have presented several alternatives, some of which the Committee believes would be inconsistent with the statement adopted by the IAC/SBI. There also continues to be some disagreement among the IAC members regarding the underlying philosophy regarding currency management. As a result, the Committee has asked that staff do further work on this issue. The Committee will forward its conclusions and recommendations as they are available.

ACTION ITEM:

4. Recommendation concerning the contract with Record Treasury.

As noted above, the SBI's currency overlay manager is Record Treasury Management. Record's contract began on December 1, 1995 and will expire on December 31, 1997.

The Committee and staff agree that Record's performance to date has been entirely consistent with the SBI's expectations. From December 1, 1995 – September 30, 1997 (a period when the dollar strengthened significantly against most major foreign currencies), Record added approximately $108 million to the value of the EAFE index fund. Their systematic approach to currency overlay is also consistent with the Statement of Existing Philosophy on Currency Management which has been adopted by the IAC/SBI.

The Committee believes that the contract with Record Treasury should be continued. The Committee makes this recommendation with the understanding that the contract can be terminated at any point in the future if the SBI/IAC decide to change the approach to currency management within the international program.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute a contract with Record Treasury Management, Ltd., Windsor, England, for currency overlay on the EAFE index fund. The contract should cover the five year period from January 1, 1998-December 31, 2003 and be subject to the standard contract clause that allows immediate termination.

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Statement of Existing Philosophy on Currency Management

The SBI's approach to currency management addresses several inter-related policy issues or questions:

Issue #1 Use of a Constant Hedge.
Should the SBI attempt to reduce the volatility associated with currency exposure by using a passive/constant hedge?

Decision and Rationale: No, not at this time. Research suggests that if a plan sponsor's allocation to international assets is less than 20%, constant hedging does not generate significant risk reduction benefits for the total fund. Consequently, the SBI has rejected constant hedging as long as the SBI's allocation to international stocks remains below 20%. (Currently, the SBI's long term target for international stocks is 15% of the Combined Funds. Two percentage points of this allocation is directed toward the emerging markets.)

From this decision, it follows that the SBI's policy benchmark for international assets should be unhedged and the performance of the program should be measured against an unhedged standard. Currently, the asset class target/policy benchmark for the international stock program is a blended index of 87% EAFE-Free and 13% Emerging Markets-Free. Both components are measured on an unhedged basis to reflect the SBI's decision to reject constant/passive hedging.

Issue #2 Role of Currency Management within the International Program.
Should the SBI attempt to add value through active currency management within the international stock program?

Decision and Rationale: Yes. Given the large impact that currency can have on returns, the SBI believes that currency exposure should be explicitly managed within the international stock program in order to maximize returns. The goal of currency management at this level is to add value (or avoid loss) relative to the unhedged policy benchmark for the international program.

Risk reduction is not a goal *per se*, except to the extent that explicitly managing currency exposure mitigates the possibility of currency losses and would therefore reduce the larger risk that the SBI may abandon its entire international investing program due to disappointing currency returns over the short run.

Issue #3 Actively Managed Segment.
How should currency management be addressed within the actively managed portion of the international stock program?

Policy Decision and Rationale: Currency management is one component of active international stock management. A manager's currency views may be imbedded in country or stock selection decisions or may result in an explicit decision to increase/decrease exposure to a particular currency through hedging activity. Since currency management is already being addressed by active managers, no further action by the SBI is required to assure that the currency exposure of this segment of the portfolio is being managed.

Issue #4 Passively Managed/Indexed Segment.
How should currency management be addressed within the passively managed (indexed) portion of the international stock program?

Decision and Rationale. The SBI has allocated up to 50% of the international program to an unhedged EAFE-Free index fund. The SBI has chosen to manage the currency exposure of the EAFE-Free index fund by employing a currency overlay program.

There are two basic approaches to currency overlay: *forecasting/market timing* approaches which attempt to anticipate the direction or level of exchange rates, and *systematic/structured* approaches which move in and out of currencies in reaction to observable currency trends or fluctuations. Systematic approaches to currency overlay have return patterns that are more predictable and can be constrained with respect to their level of expected volatility. Therefore, a *systematic approach* to currency overlay is deemed to be more consistent with the SBI's tolerance for active management risk.

While systematic approaches to currency overlay are expected to add value, the SBI recognizes that there is an element of "insurance" (i.e., protection again the negative effects of a rising dollar) associated with this form of management. There will be times when the SBI will pay an "insurance premium" in terms of management fees and transactions costs without observable return to the portfolio because the negative event of a currency loss does not occur within the measurement period. The specific methodology selected should seek to minimize implementation costs in order to minimize this "insurance premium" factor.

Issue #5 Operating Constraints.
What operating constraints should be imposed on the SBI's currency overlay program for the EAFE index fund?

Decision and Rationale: In order to simplify the program, the SBI has established the following operating constraints for its currency overlay program.

- **Currencies Included**. The program is limited to currencies that comprise 5% or more of the EAFE-Free index. At the close of calendar 1996 this included: Japanese Yen (32.3%), British Pound Sterling (19.2%), German Mark (8.2%), French Franc (6.9%) and Swiss Franc (5.6%). Together, these five currencies comprise over 70% of the EAFE-Free index. They are also the most liquid currencies in world markets and can be hedged directly.

- **Benchmarks**. The benchmark for the program is the actual unhedged return of the SBI's EAFE index fund. Value added/lost against this benchmark will measure the impact of the SBI's decision to employ an overlay program, over time. Additional standards will be developed by staff and the SBI's consultants to assist in evaluating the cost effectiveness of the specific investment approach/methodology that is selected.

- **Hedging Limits**. Hedging the above exposures back to the US dollar is the only type of hedge that is authorized. Cross hedging and proxy hedging are not allowed. Net long or short currency positions are prohibited.

- **Authorized Instruments**. Currency positions may be implemented using currency forwards, options or futures. The manager has the flexibility to use over-the-counter as well as listed/exchange-traded currency instruments.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 1997

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COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 1997

	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)	-0.5	-0.9	16.9	12.0	13.5	8.8			12.4	12.0	$415.79	8.6%
Marathon (2)	-2.0	-0.9	9.0	12.0	7.4	8.8			10.0	8.4	376.24	7.8%
Rowe Price (2)	-0.3	-0.9	17.2	12.0	11.8	8.8			11.9	8.4	403.08	8.3%
Scudder (2)	1.6	-0.9	22.2	12.0	15.8	8.8			13.4	8.4	296.51	6.1%
Active Emerging Markets												
City of London (3)	1.2	-9.0							24.5	9.5	123.64	2.6%
Genesis (4)	-1.1	-9.0	21.0	6.6					15.2	2.0	244.42	5.0%
Montgomery (4)	-3.4	-9.0	19.4	6.6					13.4	2.0	238.54	4.9%
Passive EAFE												
State Street (5)	-0.7	-0.9	12.5	12.0	9.1	8.8	12.6	12.3	12.6	12.3	2,744.15	56.7%
									Since 10/1/92			
Equity Only*	-0.7	-1.9	14.9	11.5	10.7	8.6	13.5	12.2	13.5	12.2	4,842.37	100.0%
Total Program**	**0.1**	**-1.9**	**18.1**	**11.5**	**11.8**	**8.6**	**14.2**	**12.2**	**14.2**	**12.2**	**$4,883.58**	

* 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.
(3) Retained November 1, 1996.
(4) Retained May 1, 1996.
(5) Retained October 1, 1992.

Impact of Currency Overlay Program

	Qtr.	Yr.	Since Dec. 95
Index Fund*	-0.7	12.5	11.7
Index + Overlay**	0.8	18.6	15.5

* EAFE index fund managed by State Street Global Advisers.

** Index fund with currency overlay program implemented by Record Treasury Management. Program was phased-in from Dec. 95 - Nov. 96.

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BRINSON PARTNERS
Periods Ending September, 1997

Portfolio Manager: Richard Carr | **Assets Under Management: $415,793,186**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

— Highly successful and experienced professionals.

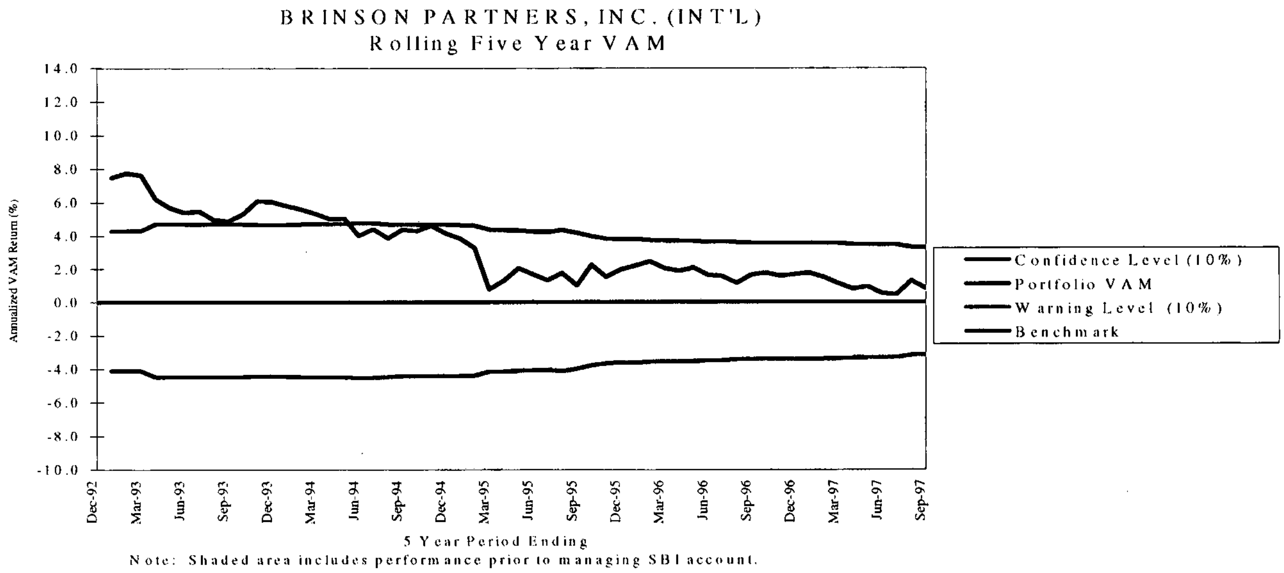
— Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.5%	-0.9%
Last 1 year	16.9	12.0
Last 2 years	15.7	10.3
Last 3 years	13.5	8.8
Last 4 years	12.0	9.1
Last 5 years	N/A	N/A
Since Inception (4/93)	12.4%	12.0%

Recommendations

No action required.



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

MARATHON ASSET MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: William Arah **Assets Under Management: $376,235,276**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

Current concerns are:

—The firm has experienced significant client growth over the last three years.

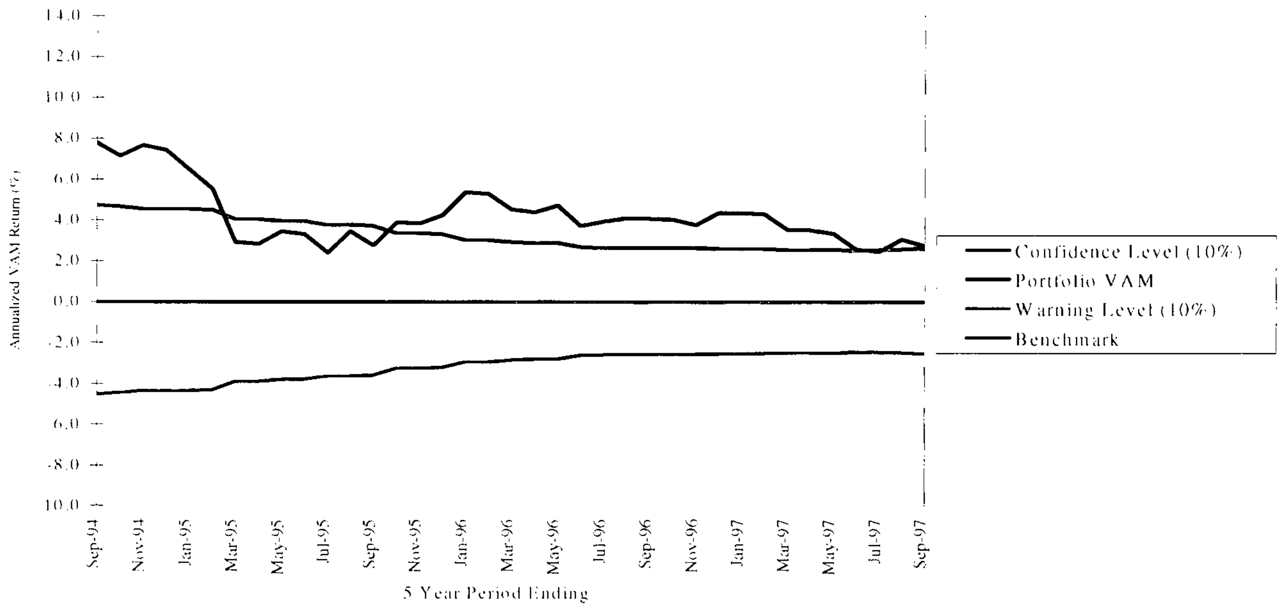
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.0%	-0.9%
Last 1 year	9.0	12.0
Last 2 years	9.9	10.3
Last 3 years	7.4	8.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	10.0%	8.4%

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



5 Year Period Ending

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

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Periods Ending September, 1997

Portfolio Manager: Martin Wade | **Assets Under Management: $403,082,054**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

— Extensive securities research process.

— Successful investment approach which has been consistently applied over a number of market cycles.

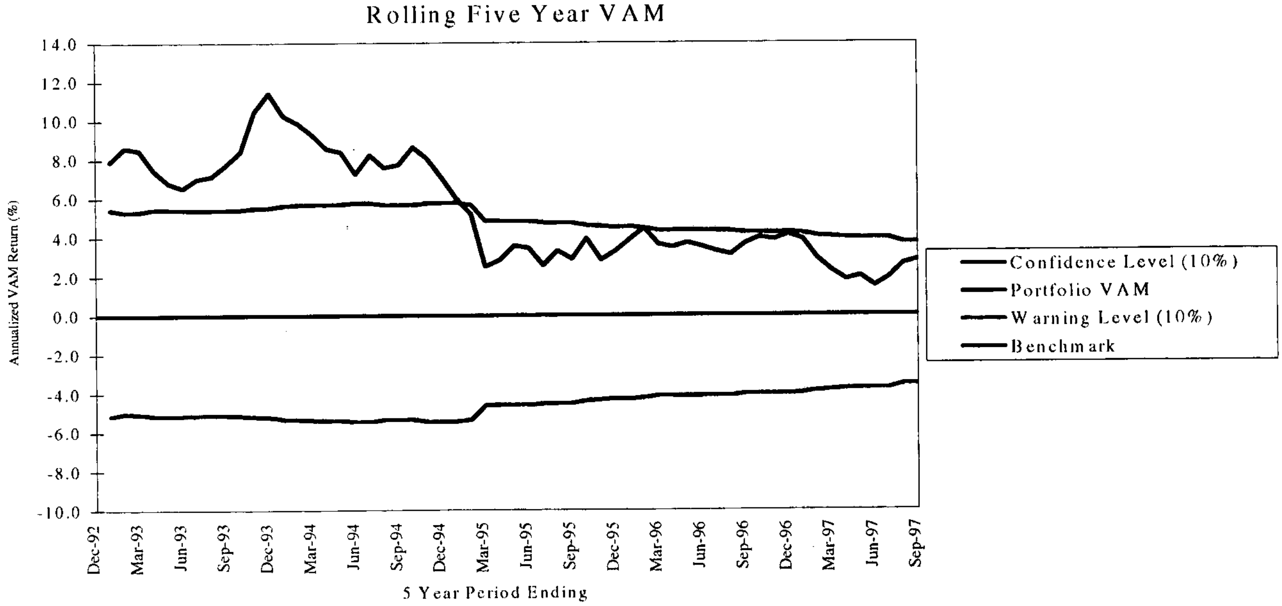
— Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.9%
Last 1 year	17.2	12.0
Last 2 years	15.3	10.3
Last 3 years	11.8	8.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	11.9%	8.4%

Recommendations

No action required.



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

SCUDDER, STEVENS & CLARK
Periods Ending September, 1997

Portfolio Manager: Irene Cheng | **Assets Under Management: $296,509,992**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Strong leadership.

—Extensive securities research capabilities.

—Successful investment approach which has been consistently applied over a number of market cycles.

Current concerns are:

—Growth plan appears aggressive.

—Staffing and organizational changes are being made in response to growth.

—New ownership by Zurich effective fall 1997.

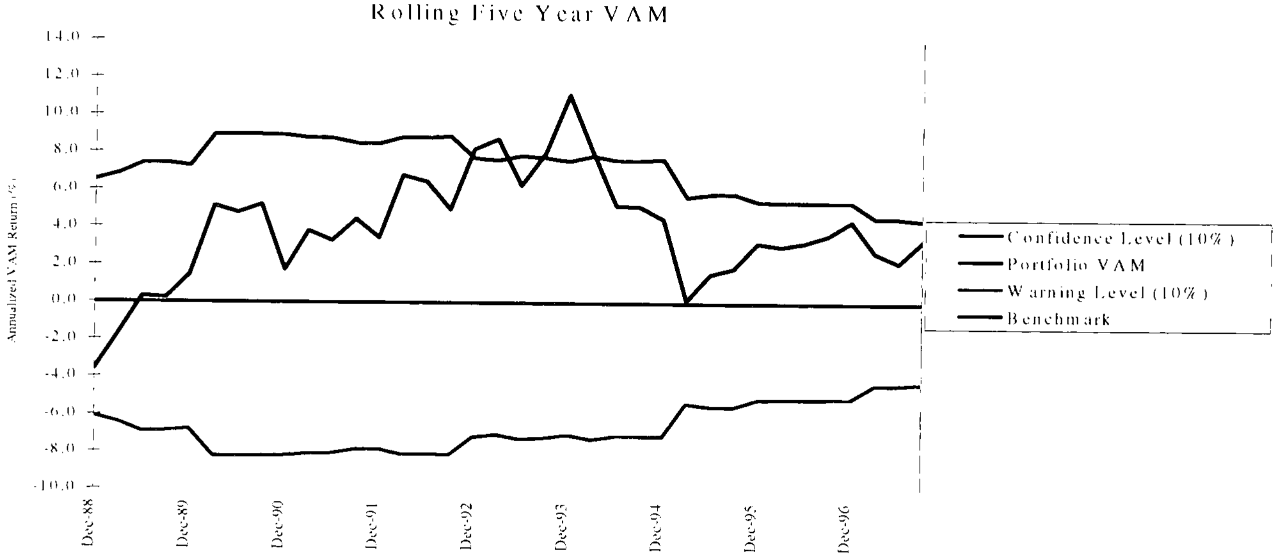
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	-0.9%
Last 1 year	22.2	12.0
Last 2 years	18.6	10.3
Last 3 years	15.8	8.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	13.4%	8.4%

Recommendations

Firm was placed on probation in September 1997 due to ownership change noted above. Staff will make a recommendation on this matter for the March meeting.

SCUDDER, STEVENS & CLARK
Rolling Five Year VAM



5 Year Period Ending
Note: Shaded area includes performance prior to managing SBI account. Uses quarterly returns.

CITY OF LONDON
Periods Ending September, 1997

Portfolio Manager: Barry Olliff — **Assets Under Management: $123,642,940**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

— Attractive, unique investment approach.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	-9.0%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	24.5%	9.5%

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

GENESIS ASSET MANAGERS, LTD.
Periods Ending September, 1997

Portfolio Manager: Paul Greatbatch | **Assets Under Management: $244,422,258**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Investment approach has been successfully applied to emerging markets for nearly a decade.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.1%	-9.0%
Last 1 year	21.0	6.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	15.2%	2.0%

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

MONTGOMERY ASSET MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Josephine Jimenez | **Assets Under Management: $238,539,806**

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.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Current concerns are:

—New ownership by Commerzbank effective spring 1997.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.4%	-9.0%
Last 1 year	19.4	6.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	13.4%	2.0%

Recommendations

Remove firm from probation. Ownership change has had no adverse impact to date.

VAM Graph will be drawn for period ending 6/30/98.

STATE STREET GLOBAL ADVISORS
Periods Ending September, 1997

Portfolio Manager: Lynn Blake **Assets Under Management: $2,744,145,811**

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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

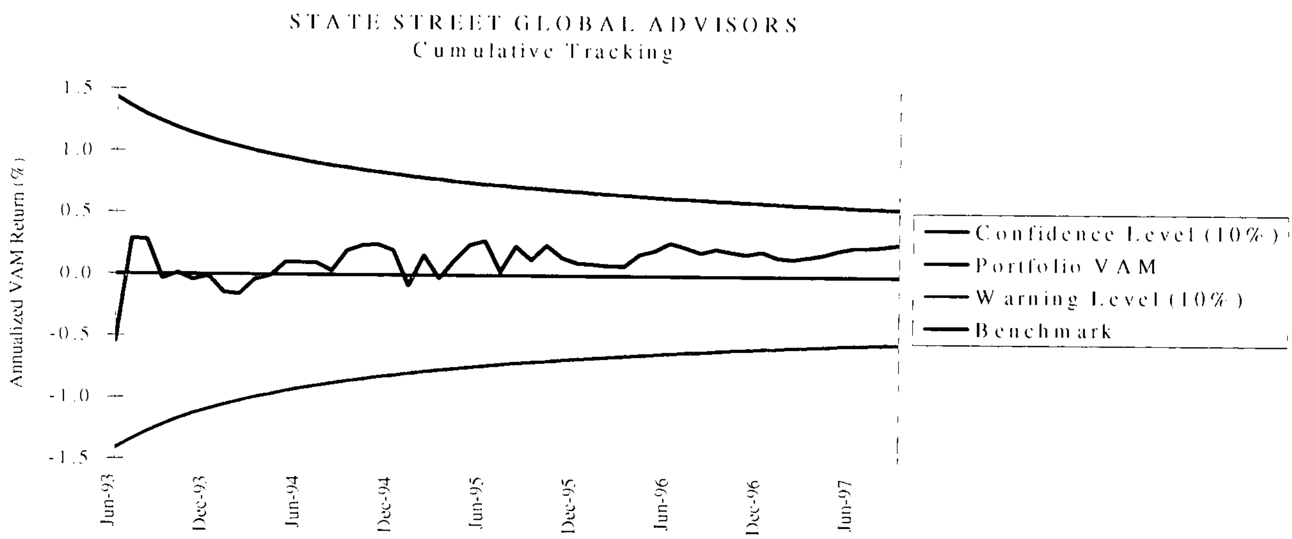
—Highly successful and experienced professionals.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.7%	-0.9%
Last 1 year	12.5	12.0
Last 2 years	10.8	10.3
Last 3 years	9.1	8.8
Last 4 years	9.4	9.1
Last 5 years	12.6	12.3
Since Inception (10/92)	12.6	12.3

Recommendation

No action required.



RECORD TREASURY MANAGEMENT
Periods Ending September, 1997

Portfolio Manager: Les Halpin | **Exposure Included in Overlay: $1,965,000,000**

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. 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.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Methodology has been consistently applied for more than a decade.

Quantitative Evaluation

	Qtr.	1 Yr.	Cumulative Since 12/95
EAFE Index Fund (1)	-0.7%	12.5%	11.7%
Index Fund + Record	0.8	18.6	15.5

Recommendations

Record's contract expires at the close of the calendar year. The Committee will make a recommendation concerning extension of the program for the December 1997 meetings.

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

(2) Unhedged return of the five markets included in the overlay program using EAFE weights. Includes return of underlying stocks in the five markets. (As reported by Record Treasury)

(3) Currency only return of the five markets included in the overlay program. (As reported by Record Treasury)

Tab H

COMMITTEE REPORT

DATE: November 25, 1997

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met during the quarter to review the following information and action items:

- Review of current strategy.
- Investments for the Basic Retirement Fund with an existing real estate manager (Colony Capital), an existing private equity manager (Summit Partners) and an existing resource manager (SCF Partners).

The Board/IAC action is required on the three investments.

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 are pooled vehicles. Charts summarizing the Board's current commitments is 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 open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds. Currently,.the SBI has committed $654 million to twenty-two (22) commingled real estate funds.

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. To date, the SBI has committed $1.2 billion to thirty-four (34) commingled private equity funds.

- The strategy for resource investment requires that investment be made in 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 committed $178 million to nine (9) 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 employee's 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. Since 1994, the SBI has committed $264 million to nine (9) yield oriented funds for the Post Fund: Three (3) are in real estate, five (5) are in private equity and one (1) is in oil and gas.

ACTION ITEMS:

1) **Investment for the Basic Retirement Fund with an existing real estate manager, Colony Capital, in Colony Investors III, L.P.**

Colony Capital is seeking investors for a new $850 million real estate fund, Colony Investors III. This Fund is the third real estate fund managed by Colony Capital. Colony Investors III will focus, like prior funds, on assembling a diverse portfolio of opportunistic real estate investments.

More information on Colony Investors III 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 Colony Investors III. 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 Colony Capital 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 Colony Capital or reduction or termination of the commitment.

2) **Investment for the Basic Retirement Fund with an existing private equity manager, Summit Partners, in Summit Ventures Fund V, L.P.**

Summit Partners is seeking investors for a new $1.0 billion private equity fund, Summit Ventures Fund V, L.P. This Fund is the fifth private equity fund managed by Summit Partners. Summit Ventures Fund V, L.P. will focus, like prior funds, on assembling a diverse portfolio of typically later stage private equity investments.

More information on Summit Ventures Fund V, L.P. is included as **Attachment D.**

RECOMMENDATION:

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

3) **Investment for the Basic Retirement Fund with an existing resource manager, SCF Partners, in SCF Partners Investment Fund IV, L.P.**

SCF Partners is seeking investors for a new $500 million resource fund, SCF Partners Investment Fund IV. This Fund is the fourth resource fund managed by SCF Partners. SCF Partners Investment Fund IV will focus, like prior funds, on assembling a diverse portfolio of oil and gas related resource investments.

More information on SCF Partners Investment Fund IV 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 $100 million or 20%, whichever is less, in SCF Partners Investment Fund IV. 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 SCF Partners upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on SCF Partners or reduction or termination of the commitment.

ATTACHMENT A

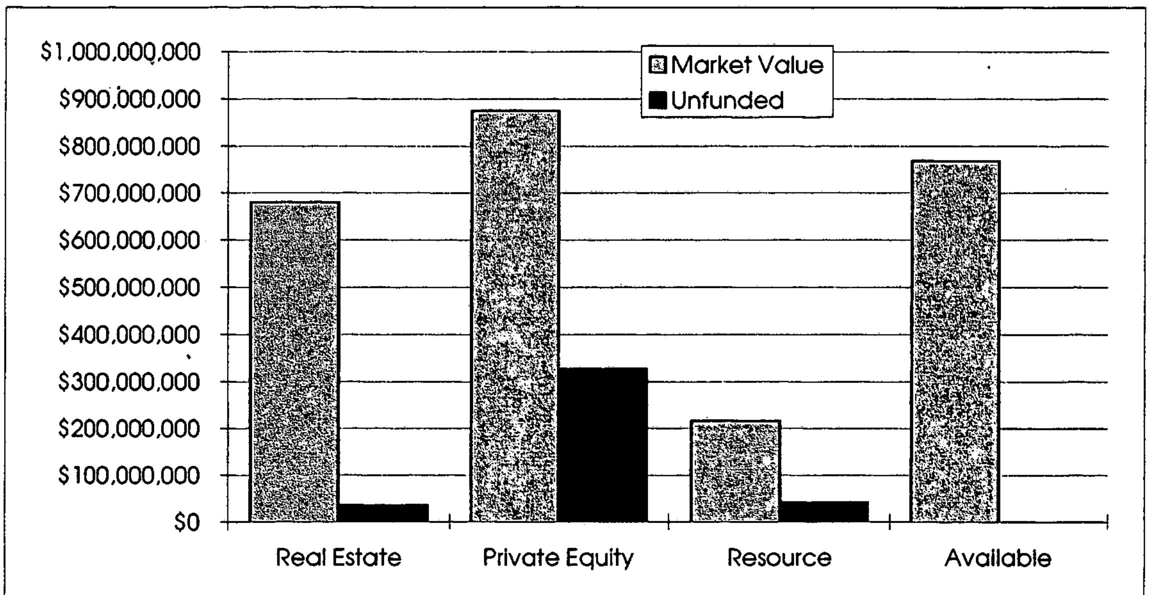
Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
September 30, 1997

Market Value of Basic Retirement Funds	$16,916,226,465
Amount Available For Investment	$767,509,112

	Current Level	*Target Level*	*Difference*
Market Value	$1,769,924,857	$2,537,433,970	$767,509,112
MV + Unfunded	$2,173,544,936	$3,383,245,293	$1,209,700,357

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$679,920,311 *4.0%*	$35,129,399 *0.2%*	$715,049,710 *4.2%*
Private Equity	$874,322,977 *5.2%*	$326,928,261 *1.9%*	$1,201,251,238 *7.1%*
Resource	$215,681,569 *1.3%*	$41,562,418 *0.2%*	$257,243,987 *1.5%*
Total	**$1,769,924,857** ***10.5%***	**$403,620,078** ***2.4%***	**$2,173,544,936** ***12.8%***



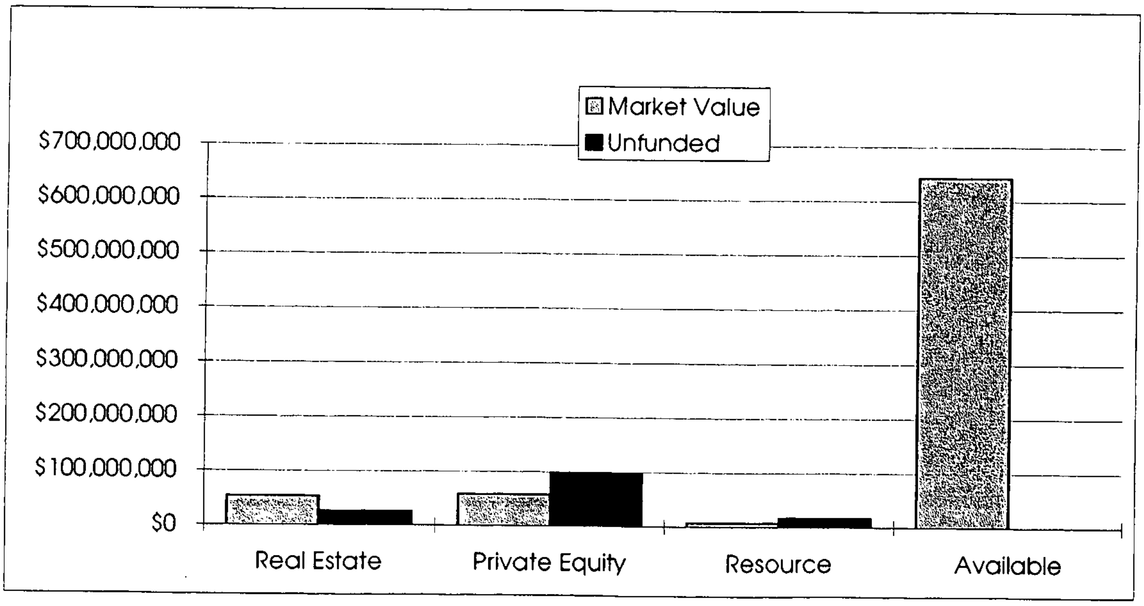
Minnesota State Board of Investment

Alternative Investments
Post Retirement Fund
September 30, 1997

Market Value of Post Retirement Fund	$15,220,446,056
Amount Available For Investment	$642,890,274

	Current Level	*Target Level*	*Difference*
Market Value	$118,132,028	$761,022,303	$642,890,274
MV + Unfunded	$259,008,402	$1,522,044,606	$1,263,036,204

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$53,335,184 *0.4%*	$26,274,670 *0.2%*	$79,609,854 *0.5%*
Private Equity	$58,025,069 *0.4%*	$97,447,715 *0.6%*	$155,472,785 *1.0%*
Resource	$6,771,775 *0.0%*	$17,153,988 *0.1%*	$23,925,763 *0.2%*
Total	**$118,132,028** ***0.8%***	**$140,876,373** ***0.9%***	**$259,008,402** ***1.7%***



STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - PRIVATE EQUITY
September 30, 1997

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
ALLIED	5,000,000	5,000,000	980,771	5,098,973	0	3.20	12.0
BANK FUND							
Fund III	20,000,000	20,000,000	33,311,317	3,668,264	0	21.10	4.9
Fund IV	25,000,000	13,750,000	15,024,303	10,691	11,250,000	10.46	1.6
BLACKSTONE CAPITAL PARTNERS II	50,000,000	31,567,613	21,818,667	39,982,163	18,432,387	61.00	3.9
BRINSON PARTNERS							
VPAF I	5,000,000	5,000,000	1,238,759	7,117,415	0	9.61	9.4
VPAF II	20,000,000	18,579,998	6,813,087	25,197,994	1,420,002	24.17	6.8
CHURCHILL CAPITAL PARTNERS II	20,000,000	20,000,000	13,777,682	10,640,781	0	10.27	4.9
CONTRARIAN CAPITAL FUND II	37,000,000	11,143,248	11,220,363	0	25,856,752	3.78	0.3
CORAL PARTNERS							
IAI Ventures I	1,146,890	1,146,890	74,528	1,508,533	0	17.29	6.6
Fund I (Superior)	7,011,923	7,011,923	1,897,308	4,685,814	0	-1.17	11.3
Fund II	10,000,000	9,500,000	18,287,308	17,261,480	500,000	29.81	7.2
Fund IV	15,000,000	9,000,000	10,475,469	867,187	6,000,000	14.36	3.2
DSV	10,000,000	10,000,000	6,523,673	16,829,452	0	8.27	12.5
FIRST CENTURY	10,000,000	10,000,000	2,735,033	13,386,954	0	8.76	12.8
GOLDER THOMA CRESSEY RAUNER							
Fund III	14,000,000	14,000,000	8,114,893	50,783,418	0	31.35	9.9
Fund IV	20,000,000	19,000,000	19,988,315	12,421,325	1,000,000	27.18	3.7
Fund V	30,000,000	12,300,000	12,141,145	0	17,700,000	-3.19	1.2
HELLMAN & FRIEDMAN III	40,000,000	21,153,483	15,596,873	12,347,236	18,846,517	23.53	3.0
IAI U.S. VENTURE FUND II	15,000,000	5,244,773	5,133,926	100,666	9,755,227	-0.44	0.7
IMR PARTNERSHIP	15,000,000	1,524,900	0	1,148,997	13,475,100	-11.13	5.2
INMAN & BOWMAN	7,500,000	7,500,000	2,590,068	7,184,530	0	3.56	12.3
KOHLBERG KRAVIS ROBERTS							
1984 Fund	25,000,000	25,000,000	16,474,783	109,847,498	0	28.61	13.3
1986 Fund	18,365,339	18,365,339	103,479,611	96,037,032	0	28.76	11.5
1987 Fund	145,950,000	145,950,000	215,792,054	219,903,729	0	12.79	9.9
1993 Fund	150,000,000	150,000,000	186,081,937	44,207,499	0	14.27	3.8
1996 Fund	200,000,000	21,907,723	18,223,000	1,555,151	178,092,277	-26.80	1.1
MATRIX							
Fund II	10,000,000	10,000,000	2,177,784	18,980,606	0	13.58	12.1
Fund III	10,000,000	10,000,000	3,130,711	68,561,749	0	74.88	7.4
NORWEST VENTURE CAPITAL	10,000,000	10,000,000	128,682	15,368,680	0	5.70	13.7
PIPER JAFFRAY HEALTHCARE FUND	10,000,000	1,900,000	1,671,711	415,800	8,100,000	42.05	0.6
SUMMIT PARTNERS							
Fund I	10,000,000	10,000,000	187,598	20,106,935	0	13.15	12.8
Fund II	30,000,000	28,500,000	4,800,442	64,279,899	1,500,000	28.72	9.4
T. ROWE PRICE	144,169,301	144,169,301	28,105,176	166,588,892	0	20.13	9.9
WARBURG PINCUS	50,000,000	35,000,000	59,866,000	2,147,050	15,000,000	45.72	2.8
ZELL/CHILMARK	30,000,000	30,000,000	26,460,000	32,429,538	0	13.37	7.2
TOTAL PRIVATE EQUITY (BASICS)	*1,220,143,453*	*893,215,191*	*874,322,977*	*1,090,671,932*	*326,928,261*		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
CITICORP MEZZANINE	40,000,000	15,441,525	13,371,343	5,013,245	24,558,475	11.43	2.8
KLEINWORT BENSON	25,000,000	8,240,526	8,009,835	71,515	16,759,474	-2.18	2.2
SUMMIT PARTNERS							
Summit Sub-Debt Fund I	20,000,000	18,000,000	8,412,254	15,772,689	2,000,000	24.27	3.5
Summit Sub-Debt Fund II	45,000,000	9,000,000	9,000,000	0	36,000,000	0.00	0.2
TCW/CRESCENT MEZZANINE	40,000,000	21,870,234	18,375,964	4,395,689	18,129,766	6.38	1.5
T. ROWE PRICE - POST	924,427	924,427	855,673	55,193	0	-5.56	0.6
TOTAL PRIVATE EQUITY (POST)	*170,924,427*	*73,476,712*	*58,025,069*	*25,308,331*	*97,447,715*		

TOTAL PRIVATE EQUITY	*1,391,067,880*	*966,691,903*	*932,348,046*	*1,115,980,263*	*424,375,977*

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - REAL ESTATE
September 30, 1997

BASIC FUNDS	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
AETNA	42,376,529	42,376,529	95,312,277	0	0	6.02	15.4
AEW							
Fund III	20,000,000	20,000,000	2,125,195	18,920,563	0	0.48	12.1
Fund IV	15,000,000	15,000,000	3,354,187	1,075,974	0	-10.93	11.0
Fund V	15,000,000	15,000,000	6,343,669	5,442,518	0	-2.68	9.8
AMERICAN REPUBLIC	1	1	1	0	0	0.00	7.7
COLONY INVESTORS II	40,000,000	25,726,200	30,271,500	3,982,887	14,273,800	26.50	2.5
EQUITABLE	40,000,000	40,000,000	85,342,779	0	0	5.22	16.0
EQUITY OFFICE PROPERTIES TRUS'	140,388,854	140,388,854	251,149,008	21,681,843	0	28.79	5.8
FIRST ASSET REALTY	916,185	916,185	437,872	663,411	0	7.00	3.4
HEITMAN							
Fund I	20,000,000	20,000,000	6,638,716	14,308,383	0	0.65	13.2
Fund II	30,000,000	30,000,000	19,390,765	18,175,245	0	2.70	11.9
Fund III	20,000,000	20,000,000	10,775,377	9,870,368	0	0.42	10.7
Fund V	20,000,000	20,000,000	19,328,199	7,618,739	0	6.58	5.8
LASALLE INCOME PARKING FUND	15,000,000	14,644,401	14,942,194	2,996,477	355,599	6.24	6.0
T.A. ASSOCIATES REALTY							
Realty Associates III	40,000,000	38,000,000	42,428,451	13,888,959	2,000,000	11.74	3.3
Realty Associates IV	50,000,000	31,500,000	26,590,120	504,939	18,500,000	5.67	0.7
RREEF USA FUND III	75,000,000	75,000,000	42,084,043	66,613,762	0	3.94	13.4
TCW							
Fund III	40,000,000	40,000,000	16,830,481	29,781,249	0	1.64	12.2
Fund IV	30,000,000	30,000,000	6,575,477	20,771,933	0	-1.02	10.9
TOTAL REAL ESTATE (BASICS)	*653,681,569*	*618,552,170*	*679,920,311*	*236,297,251*	*35,129,399*		

POST FUND	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
COLONY INVESTORS II	40,000,000	25,726,200	30,271,500	3,982,887	14,273,800	26.50	2.5
WESTMARK REALTY ADVISORS							
Westmark Comm. Mtg. Fund II	13,500,000	13,193,130	13,163,889	2,008,690	306,870	9.53	2.1
Westmark Comm. Mtg. Fund III	21,500,000	9,806,000	9,899,795	231,652	11,694,000	10.20	0.8
TOTAL REAL ESTATE (POST)	*75,000,000*	*48,725,330*	*53,335,184*	*6,223,228*	*26,274,670*		

TOTAL REAL ESTATE	***728,681,569***	***667,277,500***	***733,255,495***	***242,520,479***	***61,404,069***

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - RESOURCE
September 30, 1997

BASIC FUNDS	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
FIRST RESERVE CORP.							
AMGO I	15,000,000	15,000,000	13,226,000	4,888,687	0	1.44	16.0
AMGO II	7,000,000	7,000,000	15,523,000	3,666,309	0	8.88	14.7
First Reserve SEA	12,300,000	12,300,000	19,578,000	18,404,505	0	16.26	9.4
First Reserve Fund V	16,800,000	16,800,000	44,053,000	15,796,338	0	23.14	7.4
First Reserve Fund VII	40,000,000	13,936,358	23,434,000	2,981,814	26,063,642	143.36	1.2
APACHE III	30,000,000	30,000,000	4,000,000	41,128,691	0	10.79	10.8
MORGAN OIL & GAS	15,000,000	15,000,000	10,765,437	7,177,637	0	2.73	9.1
SIMMONS							
SCF Fund II	17,000,000	14,847,529	50,038,366	1,221,564	2,152,471	33.47	6.2
SCF Fund III	25,000,000	11,653,695	35,063,766	7,616,804	13,346,305	112.57	2.3
TOTAL RESOURCE (BASICS)	***178,100,000***	***136,537,582***	***215,681,569***	***102,882,347***	***41,562,418***		

POST FUND	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
MERIT ENERGY PARTNERS B	24,000,000	6,846,012	6,771,775	307,302	17,153,988	4.22	1.2
TOTAL RESOURCE (POST)	***24,000,000***	***6,846,012***	***6,771,775***	***307,302***	***17,153,988***		

TOTAL RESOURCE	***202,100,000***	***143,383,594***	***222,453,344***	***103,189,649***	***58,716,406***

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REAL ESTATE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Colony Investors III, L.P.
Type of Fund:	Real Estate Limited Partnership
Total Fund Size:	$850 million
Fund Manager:	Colony Advisors, Inc. 1999 Avenue of the Stars, #1200 Los Angeles, CA 90067 Phone: (310) 282-8820 Fax: (310) 282-8813
Manager Contact:	Thomas J. Barrack Kelvin L. Davis

II. Organization and Staff

Colony Investors III L.P. is being established by Colony Capital Inc. (together with affiliates, "Colony") to continue its opportunistic real estate investment activities. Colony is a 65-person firm, which consists of Colony Capital, Inc., a dedicated principal investment organization and Colony Advisors, a captive asset management team. The firm is led by Thomas Barrack and Kelvin Davis and employs 29 investment professionals.

The firm was founded in 1991 and has its headquarters in Los Angeles with additional offices in New York, Texas, Florida, Hawaii and Paris. Since inception, Colony has invested over $2.5 billion in 31 distinct property, corporate and portfolio transactions across various product, geographic and industry boundaries.

III. Investment Strategy

Colony will focus its efforts on (i) investments in real-estate dependent companies, including entity-level recapitalizations, acquisitions, private company build-ups and securities investments; (ii) acquisitions of large single properties requiring financial or product repositioning; (iii) investments in select residential and commercial development ventures; and (iv) purchases of distressed mortgage and property portfolios, primarily internationally.

Colony's strategy emphasizes three themes: (i) cautious contrarianism, (ii) exploiting inefficiencies and (iii) value-added management to optimal exits.

- Colony is generally guided by a contrarian, opportunistic strategy which has allowed it to identify and capitalize on situations not yet fully understood or exploited by others. Colony views the market as a set of interdependent and independent cycles constantly redefining opportunities within distinct product types, geographic areas, industries and capital markets. Low points within these respective cycles often present highly attractive opportunities, as sellers outnumber buyers in relatively illiquid markets.

- By exploiting circumstances that impede other investors, Colony is able to realize above-average, risk-adjusted returns that can result from situations which are less than fully competitive. These competitive impediments include (i) structural and situational complexity; (ii) informational advantages, which optimize assessment of risks and rewards; (iii) local market expertise; and (iv) proprietary transaction sourcing.

- Colony is also committed to value enhancement through its captive asset management team. Colony has always performed asset management functions internally, including active management and oversight of development projects, property redevelopment and repositioning, financial and legal restructuring, and property disposition functions. In addition, Colony Advisors' insights on prevailing market conditions have contributed significantly to the underwriting of prospective investments.

The Fund will not invest more than:

- 40% of aggregate commitments in investments outside the United States and Canada,

- 15% of aggregate commitments in raw land investments,

- 25% of aggregate commitments in any single investment

On a transaction-by-transaction basis, the general partner intends to employ leverage, if appropriate, and may, if desirable, refinance one or more of the partnership's investments. Additionally, the Fund may enter into a credit facility in order to enable the Fund to pay operating expenses or to provide for interim acquisition financing.

Other than interim financings with advisory committee approval, the Fund may not incur indebtedness in excess of 80% of the fair value of all the partnership's investments as of such date.

IV. Investment Performance

Previous fund performance as of September 30, 1997 is shown below. An asterisk (*) indicates a fund in which the SBI has invested.

Fund Name	Inception Date	Total Equity Commitments	Net IRR from Inception
Colony Investors I, L.P. #	12/91	$394.7 million	49.2%
*Colony Investors II, L.P.	4/95	$625.0 million	26.5%

Colony I is a set of eleven asset acquisitions which occurred from September 1992 through March 1995. These transactions were structured as separate limited partnerships with total partner equity of $394.7 million.

VI. General Partners Investment

The General Partner, together with the principals and their affiliates, will commit at least 2.5% of the total commitments, up to $21.25 million, which will be invested pro rata with the limited partners in all transactions.

VII. Takedown Schedule

Commitments will be drawn down pro rata on an as-needed basis, with a minimum of ten business days' prior notice to the limited partners.

VIII. Fees

During the commitment period (three years from the final closing), the investment management fee will be paid semi-annually in advance at a rate equal to:

- 1.5% of each limited partner's commitment up to $50 million,
- 1.25% of each limited partner's commitment over $50 million and up to $100 million, and
- 1.0% of each limited partner's commitment over 100 million.

After the commitment period, investment management fee will be calculated using the above percentages based on funded commitments. (i.e., capital contributed less the cost basis of realized investments.)

Any fees or other revenues of the fund, including all acquisition, financing, break-up or other fees, may be used by the general partner to pay fund expenses, with the balance distributed in accordance with the distribution procedures outlined below, treating such amounts as distributions from an investment to which all capital contributions and the preferred return relating thereto have been returned.

In connection with an investment, the partnership may retain Colony Advisors, Inc., an affiliate of the general partner, as asset/property manager. Advisors will be paid asset management fees not exceeding third party "arm's length" market rates for such services.

The Fund will pay organizational expenses, not to exceed $1.25 million. Placement agent fees will be borne by the general partner.

IX. Term

The partnership will terminate eight years from the initial closing, but may be extended by the general partner, with advisory committee approval, for up to two additional one-year periods.

X. Distributions

Net proceeds from operations, sales or refinancings attributable to a particular investment will first be divided among the partners participating in such investment pro rata according to their relative capital contributions to such investment and then distributed between a partner and the general partner in the following order of priority:

(a) First, 100% to such partner until distributions to such partner from such investment on a cumulative basis equal the aggregate of the following:

   (i) a 10% per annum cumulative preferred return on the amounts referred to in items (ii) through (iv) below from the date such amounts were contributed until the date such amounts are repaid;

   (ii) such partner's capital contributions used to fund such investment (including an allocable portion of the investment management fee and other partnership expenses);

   (iii) such partner's capital contributions used to fund all other fully realized investments (including an allocable portion of the investment management fee and other partnership expenses); and,

   (iv) such partner's share of any net write down of the partnership's investments other than those investments referred to in items (ii) and (iii) above,

(b) Second, 40% to such partner and 60% to the general partner until such time as the general partner has received 20% of the sum of the distributions made under paragraph (a)(i) and under this paragraph (b);

(c) Thereafter, 80% to such partner and 20% to the general partner.

ATTACHMENT D

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Summit Ventures Fund V, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$1.0 billion
Fund Manager:	Summit Partners 600 Atlantic Avenue Suite 2800 Boston, MA 02210-2227 Phone: (617) 824-1000 Fax: (617) 824-1100
Manager Contact:	E. Roe Stamps, IV Stephen G. Woodsum

II. Organization and Staff

The General Partner of the Partnership is Summit Partners V, LLC, a Delaware limited liability company. The Managing General Partners are E. Roe Stamps, Stephen Woodsum and Gregory Avis. Messrs. Stamps, Woodsum and Avis founded Summit Partners ("Summit") in 1984. Both Messrs. Stamps and Woodsum previously were employed by T.A. Associates and First Chicago Investment Corporation. Mr. Avis formerly worked in the corporate finance departments of Goldman Sachs and McDonald & Company. Summit has offices in Boston and Palo Alto to provide a national investment scope and it employs 40 investment professionals in two offices.

Summit Ventures Fund V (the "Fund") is the seventh fund raised by Summit.

III. Investment Strategy

The Fund will seek to achieve significant long-term capital appreciation by acquiring equity securities in private emerging growth companies.

Generally, the Fund will invest in well-managed middle-market companies, that are profitable and poised for continued growth. Fund investments generally will be made in connection with an acquisition or recapitalization of a private company or the acquisition of a division/subsidiary of a larger company.

To generate above average returns and to minimize risk, it is Summit's strategy for the Fund to be the lead investor; to invest in companies that are profitable at the time of investment; to be the first professional investor; to obtain board seats; and to acquire control positions.

IV. Investment Performance

Previous fund performance as of September 30, 1997 is shown below. An asterisk (*) indicates a fund in which the SBI has invested. Summit Ventures Funds I, II, III and IV are equity partnerships.

Fund Name	Inception Date	Total Equity Commitments	Net IRR from Inception
*Summit Ventures I	1984	$160 million #	13.1%
*Summit Ventures II	1988	$231 million	28.7%
Summit Ventures III	1992	$279 million	66.2%
*Summit Subordinated Debt Fund I	1994	$141 million	24.3%
Summit Ventures IV	1995	$610 million	75.0%
*Summit Subordinated Debt Fund II	1996	$330 million	NM

Includes $63 million raised in Summit Eurofund C.V. (offshore vehicle).

V. General Partners Investment

The General Partner will contribute, on the same schedule as the limited partners, $25 million. (i.e., 2.5% of commitments.)

VI. Takedown Schedule

Capital will be called as needed, with not less than ten days' notice.

VII. Fees

The Fund will pay the General Partner an annual management fee equal to 1.125% of committed capital in year one, 2% of committed capital in year two, 2.25% of committed capital in years three through six, declining by 10% in each year after year six.

Management fees will be reduced by directors' fees, consulting fees or any transaction fees paid by portfolio companies to the General Partner. Management fees will also be reduced by 35% of the management fees paid by future subordinated debt funds formed to participate in investments with the Fund.

The Fund will pay all organizational expenses, not to exceed $350,000.

VIII. Term

The Fund will have a term of ten years, with an option to extend for two additional periods of two years each in the General Partner's discretion with two-thirds approval of the Limited Partners.

IX. Distributions

Distributions of cash or securities will be made at the discretion of the General Partner. It is anticipated, however, that net ordinary income will be distributed at least annually, net investment gains realized in cash will be distributed regularly, and liquid and appreciated securities will be distributed as soon as practicable. Distributions to cover tax liabilities of the Partners may be made annually if all other distributions made are not sufficient to cover such liability.

In general, prior to Payout (the time that the limited partners have received distributions equal to their capital commitments), securities and net proceeds realized on the sale of securities will be distributed 20% to the General Partner and 80% to the Partners in proportion to capital contributions. However, no such distributions (except to pay anticipated tax liabilities) will be made to the General Partner if the fair value capital accounts of the limited partners plus amounts previously distributed to the limited partners do not equal at least 115% of the limited partners' capital contributions. If the fair value test is satisfied, distributions will be made first to the General Partner, which the General Partner receives 20% of all distributions made to the Partners. After Payout, all such distributions will be made to the Partners in proportion to their capital accounts.

X. *General Partner Clawback*

If, after the Fund has made its final liquidating position, carried interest distributions previously received by the General Partner exceed 20% of the cumulative net income and gains of the Fund previously allocated to the Partners, the General Partner will return promptly to the Fund an amount equal to any excess of its aggregate carried interest distributions over 20% of the Fund's cumulative net income and gains; provided, however, that the General Partner will not be obligated to return more than the aggregate amount of carried interest distributions (net of tax distributions) it has previously received.

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	SCF Partners Investment Fund IV
Type of Fund:	Resource Limited Partnership
Total Fund Size:	$500 million
Fund Manager:	SCF Partners 6600 Texas Commerce Tower Houston, TX 77002-3007 Phone (713) 227-7888 Fax (713) 227-7850
Manager Contact:	L. E. Simmons Anthony DeLuca

II. Organization & Staff

SCF Partners has an office in Houston, Texas and is staffed with seven investment professionals. In addition to its own professionals, the Managing General Partner works closely with outside advisors when needed.

SCF has raised three previous funds. Fund I was raised in 1989 with total committed capital of $50.3 million. Fund II was raised in 1992 with total committed capital of $86 million. Fund III was raised in 1995 with total committed capital of $205 million. The Minnesota Investment Board invested $17 million in Fund II and $25 million in Fund III.

III. Investment Strategy

The fund will make investments in the energy service and equipment industry. Primary emphasis will be placed on identifying transactions which display strong fundamentals, value-added opportunities, reasonable pricing, and appropriate financial structuring.

In evaluating businesses SCF will look for excellent management, a history of cash flow from operations and a defensible market and product position. In addition, emphasis will be given to companies having a significant degree of operating leverage from increased sales volume and expected price increases. In most cases, companies should be in a position to produce 25 to 35 percent cash flow on incremental revenues. This will allow for significant increases in earnings as the market cycles upward.

When possible, and as appropriate, transactions will be base upon a multiple of approximately six times Earning Before Interest, Depreciation, and Taxes (EBIDT). Valuations should be attractive enough to allow for a reasonable investment return if the oil field service (OFS) industry continues to be soft while providing upside through strategic growth and industry recovery.

Significant value can be created by combining companies to affect strategic growth. The nature of the OFS industry lends itself to such consolidation and synergistic growth. Consolidation transactions include combining companies in similar markets to achieve a strong market presence, geographical expansion or product line extension. These transactions also often create significant cost savings. In many cases, the cost saving made possible by an acquisition result in a purchase price multiple of less than the targeted six times EBIDT.

Additional value can be added by an appropriate but often creative financial structure that is intended to minimize downside risk while retaining maximum upside potential. The financial structures often involve the use of seller and third-party financing. The financial structure of each transaction is tailored to best fit a company's cash flow, risk profile and future growth opportunities.

IV. Investment Performance

Previous fund performance as of September 30, 1997 is shown below. An asterisk (*) indicates a fund in which the SBI has invested.

Fund Name	Inception Date	Total Equity Commitments	Net IRR from Inception
SCF Fund I	1989	$ 50.3 million	34.0%
*SCF Fund II	1991	$ 86.0 million	33.0%
*SCF Fund III	1995	$205.0 million	112.6%

V. General Partner's Investment

$12 million (i.e., 2.4% of committed capital).

VI. Takedown Schedule

Capital contributions by the limited partners will be on a transaction-by-transaction basis with not less than 15 days' notice.

VII. Fees

An annual fee of 2% of each subscriber's subscription, payable quarterly in advance by each subscriber. The fee on unfunded subscriptions will be reduced as subscriptions are drawn down for investment, and will expire when subscriptions are drawn down completely or five years after commencement of the fund, whichever is earlier. The management fee will be reduced by a portion of distributions up to the cost of an investment giving rise to the distribution.

Subscribers will share, in proportion to their subscription amounts, a maximum of $500,000 in legal expenses and other costs associated with establishing the fund.

VIII. Term

Until December 31, 2007 with possible extension by vote thereafter.

IX. Distributions

An incentive fee will be paid to the general partner, equal to 20% of all profits on an overall investment basis, provided that no payment will be made to the general partner until after the limited partners have received back an a amount equal to all amounts invested, management fees, and expenses with respect to all investments and an 8% compound annual return.

Tab I

STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending September 30, 1997

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	9/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$212 Billion	Actual	11.8%	53.7%
Total Firm Assets Managed in this Discipline	$ 23 Billion	Benchmark	9.0%	40.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

We outperformed the benchmark this quarter, +11.8% for the portfolio versus +9.0% for the benchmark. The technology and financial sector overweights once again contributed to the portfolio's outperformance. The PC makers Compaq +88% and Dell +65% led as they continued to grow their revenues at three times the already healthy PC market growth rate of nearly 20%. Not surprisingly, Intel +30% and Hewlett Packard +24% also benefited from healthy PC demand. Merrill Lynch +24% and Morgan Stanley +26% were the top performers among the portfolio's financial holdings as continued strength in the domestic equity market generated record levels of investment banking fees. United Airlines +19% and Northwest Airlines +14% are experiencing high levels of passenger bookings and are attempting to lower travel agents' commissions. Gillette -9% and Coca Cola -10% declined due to lowered international profitability. Amgen -18% fell due to worse than anticipated government tightening of Epogen reimbursements. Finally, First Data -15% continues to struggle with some of its businesses outside of its core credit card processing and money transfer businesses.

Overweighting the technology and financial sectors for the year helped contribute to the portfolio performance of +53.7% versus the benchmark performance of +40.9%. The strong returns of Dell +398%, Applied Materials +245%, Compaq +191% and Microsoft +101% demonstrate the strength of the underlying market demand for their products as well as share gains from weaker competitors. Financial stocks have continued to enjoy an environment of low interest rates yet moderate economic growth. Given the strength of the equity market, Merrill Lynch +125% and Morgan Stanley +97% led the sector in performance, but even banks such as Norwest +50% easily outperformed the benchmark. As with the quarter, Amgen -24% and First Data -8% underperformed for the year and Cisco +18% and Northwest Airlines +17% lagged the benchmark despite significant gains in the quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Up to this point, no major excesses have built up in the system that would ultimately need to be corrected. Accordingly, we are staying the equity course with an optimistic bias. However, given the market's high P/E valuation, we are continuing to take the barbell approach of having equal weighting in more aggressive technology stocks on the one hand balanced by lower P/E multiple financial stocks on the other.

Alliance (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Won	Lost
Baptist Foundation of Texas	IBM Canada
Cornell University	
Sysco Corporation	
Unite Staff Retirement	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
American Express Asset Management Group

Period Ending:	9/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$38.9 Billion	Actual	9.1%	27.6%
Total Firm Assets Managed in this Discipline	$ 8.7 Billion	Benchmark	11.0%	42.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The concentrated portfolio was up 9.1 percent over the third quarter of 1997 versus 11.0 percent for the MNSBI Normal portfolio. Over the past twelve months, the portfolio was up 27.6 percent versus 42.3 percent for the Normal. The underperformance during the third quarter was principally due to poor stock selection in a few sectors and an underweighting in the energy sector, which was the best performing sector in the Normal portfolio. Nearly 140 basis points of positive value was added through stock selection in the consumer non-durables sector, which is nearly one-third of the benchmark weight. However, poor overall selection in the remaining sectors led to 180 basis points lost in total stock selection. We were underweighted in the energy sector principally due to our research analysts' views. It was our view at the time that due to oil pricing related macro-economic factors, there were very few opportunities within the sector which would have led to outperformance. It is encouraging to note that since the inception of the concentrated portfolio strategy on January 1, 1997, quarterly relative performance has been improving sequentially.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Utilizing our risk-adjusted methodology, we are currently fully invested in a 30 stock diversified portfolio of our Research Analysts' best ideas. Active risk is expected to be around 5 percent on an annualized basis. Residual to the risk-adjusted optimal methodology, the current sector bets are shown below. We are currently underweighted in the energy, industrial, and telecommunications sectors, and overweighted in the consumer cyclical, health care, and technology sectors. The portfolio is also tilted slightly toward more volatile and growth oriented stocks versus the Normal portfolio, again reflecting our Research Analysts' views.

Sector	Concentrated Portfolio	MNSBI Normal	Active Bet
Basic Materials	5.3	6.3	-1.0
Commercial Services	2.9	2.7	0.2
Consumer Non-Cyclical	13.0	12.2	0.9
Consumer Cyclical	10.1	6.6	3.4
Consumer Services	3.6	4.6	-1.0
Energy	2.5	5.4	-2.9
Financial	15.4	16.1	-0.7
Health Care	18.7	12.9	5.9
Industrials	0.4	4.0	-3.6
Technology	24.9	21.6	3.3
Telecommunications	1.8	5.3	-3.6
Transport	0.0	2.2	-2.2
Utility	0.0	0.1	-0.1

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

The following individuals joined Asset Management Group:

Michael Spalding	Fixed Income Analyst
Kay Doremus	Senior Equity Analyst

The following individuals left Asset Management Group:

Marion Schultheis	Senior Equity Portfolio Manager	Pursue career outside of firm
David Gilson	Senior Fixed Portfolio Manager	Pursue career outside of firm

AMERICAN EXPRESS ASSET MANAGEMENT GROUP
Third Quarter 1997

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	2	68.9	2	33.0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

To better reflect our investable universe, the fourth quarter 1997 Normal portfolio was modified slightly. All stocks which were un-rated by our analysts and all stocks which we felt were uninvestable due to liquidity reasons were eliminated from the benchmark. The resulting Normal is made up of approximately 450 stocks with style characteristics essentially unchanged from past Normal portfolios.

Staff Comments

Staff met with Asset Management Group (AMG) in September 1997. AMG has redesigned the analysts' incentive program and is implementing a team structure to achieve synergies in the research team. In addition, AMG has made slight modifications to the rebalancing process in order to decrease turnover. The new process adds a fundamental overlay to the quantitative optimization. They will no longer sell full positions of a one-rated stock, and they are rebalancing within a specified tolerance range rather than adjusting the portfolio back to the optimized level each day. These actions should reduce costs and turnover in the portfolio, resulting in improved performance. Staff is encouraged that AMG is continually improving their process and benchmark and believes that portfolio performance will improve.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$81.3 Billion	Actual	8.7%	39.2%
Total Firm Assets Managed in this Discipline	$20.3 Billion	Benchmark	11.9%	39.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio return for the third quarter was in line with the S&P 500 (7.5%) and Wilshire 5000 (9.8%) but meaningfully below the customized benchmark (11.9%). However, for the full year, the portfolio (39.2% net of fees) and the customized benchmark (39.3%) were in line with the S&P 500 (40.4%) and Wilshire 5000 (38.0%). The point of these references to these other US market indices is to suggest that most of the relative underperformance during the third quarter can be explained more by the unusual performance of the customized benchmark than by the portfolio itself. The biggest driver of underperformance within the portfolio was **stock selection**. The five largest underperforming companies (First Data, Xerox, Corning, Nextlevel Systems and Seagate Technology) accounted for just over one third of the relative underperformance for the quarter. The remaining companies performed on par with the market. **Active factor exposures** added to portfolio performance during the third quarter and for the twelve months ending September 30, 1997. During the third quarter, the portfolio was helped by an underweight with respect to the size measure (large capitalization stocks) and overweights with respect to earnings/price, book/price and earnings variability. Positive returns to these exposures more than offset the negative contribution from an underweight to momentum stocks during the quarter. During the twelve months ending in September, the portfolio was helped by overweights in stocks with high exposure to the earnings-to-price and book-to-price measures along with underweights with respect to price volatility and size. An underweight in stocks that have a high degree of foreign earnings exposure detracted from portfolio performance during the same period. **Industry weightings** had a largely neutral effect on portfolio performance during both the third quarter and year ending in September. During the third quarter, portfolio performance benefited from overweights in business machines and banks and underweights in cosmetics and chemicals. Positive returns to these exposures were largely offset by negative returns from underweights in energy and miscellaneous finance and overweights in tobacco, railroads and electric utilities. For the twelve months ending in September, positive returns from relative overweights in banks, insurance, drugs and air transport and from underweights in cosmetics, chemicals, retail and telephone utilities largely offset negative contributions to performance from our relative underweights in energy and miscellaneous finance and overweights in pollution control, paper, construction materials and railroads.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our process remains focused on identifying those stocks that are most attractive in price/value terms through intensive individual company analysis, which incorporates strategic themes and industry research. The portfolio remains relatively market-like in regard to factor characteristics at this time. We find stocks with high book-to-price and earnings-to-price modestly attractive. We are also underweighted regarding momentum, foreign earnings exposure and size. From an industry perspective, we have recently reduced our long-standing and successful overweight in banks. At this point, price appreciation has diminished the relative attractiveness of bank issues and industry fundamentals appear to be deteriorating somewhat.

Brinson Partners, Inc. (con't)

The portfolio remains underweighted in utilities, comprised of an underweight in the traditional telephones and an overweight in electric utilities. We continue to believe that both electric and telephone utilities will suffer from diminished regulatory protection and increasing competition, and our research has heretofore captured the poor fundamental outlook for these industries. However, electric utility prices are now at the point where we believe investor disenchantment has been overdone. As a result, we have recently moved to an overweighted position in this industry.

We are modestly overweighted in the non-health consumer sector including non-durables, durables and discretionary spending stocks. The demographic profile of U.S. consumers and the pressures from sustained reduction in labor content in many corporations suggest trend growth in this area will continue to be slightly below that of the general economy. Nevertheless, we find a number of individual stocks that appear attractive on a stock specific basis with overweights in selected consumer durable and non-durable stocks. The portfolio also remains overweighted in health care and drug stocks. Key drivers include the aging of the population, major technological advances and the popular attitude that health care is a right and not a privilege. Consumers have consolidated their power through buying groups and managed care entities. Since we see this trend progressing, all of our health care selections are companies with a strong capability for cost effective new products.

We remain overweighted in transportation resulting primarily from overweights in railroads and time-sensitive package delivery. In general, we believe that secular improvement in railroad industry profitability will continue as regulatory barriers continue to fall, enabling rails to shed excess labor costs and abandon unprofitable routes. We are underweighted in the energy sector. Our petroleum outlook calls for steady increases in world demand for oil which will increase the call on OPEC oil, but at a rate well within the production capabilities of these countries. The portfolio is modestly overweighted in the basic industries comprised of neutral weights in metals, an overweight in paper stocks, an underweight in chemicals and an overweight in construction. Finally, the portfolio is overweight with respect to aerospace and has a modest underweight in technology.

Key holdings include Burlington Northern Santa Fe, Chase Manhattan, Citicorp, CMS Energy, Corning, Lockheed Martin, Philip Morris, Tyson Foods and Xerox.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

During the third quarter, three new accounts totaling $346 million were funded. No accounts departed.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	9/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$4.2 Billion	Actual	17.5%	49.0%
Total Firm Assets Managed in this Discipline	$1.9 Billion	Benchmark	13.1%	37.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Performance for the third quarter was well ahead of the benchmark. Strong stock selection was the driving force this quarter, led by better than benchmark returns in consumer non-durables, medical and related issues, consumer services and energy names. Areas of strength in the consumer groups included retailers such as Barnes & Noble Inc., Best Buy, Co., Inc. and Costco Companies, Inc., as well as Host Marriott Corp. in the services area. Within the medical groups, Vivus, Inc., Horizon Healthcare Corp. and Healthsouth Corp. were particularly productive, while several of the exploration and production names within the energy area were quite strong. The market's preference for middle capitalization names in the third quarter also provided a boost to performance.

   Performance for the year was also well ahead of the benchmark, reflecting better than market returns in several sectors. The best performing segment was within the consumer non-durables, where consumer retail names provided a significant premium, including Barnes & Noble Inc., OfficeMax, Inc., Costco Companies, Inc., Best Buy Co., Inc. and General Nutrition Cos., Inc. Host Marriott Corp. was a strong performer for the year in the consumer services area. The technology groups were also quite productive, including positions in Newbridge Networks, EMC Corp. and Symbol Technologies, Inc. Financial names added to the period's success primarily through gains in AH Ahmanson & Co. and Great Western Financial, which was the target of an acquisition competition. Finally, the health care names added value through gains in Healthsouth Corp., Horizon Healthcare Corp. and Vivus, Inc.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to see attractive opportunities within the *consumer* sector, where economic strength and income conditions have fueled growth. However, we may be approaching saturation levels in the sale of some big ticket items, signaling caution with respect to the durables. Our long standing position in Costco Companies has continued to make new highs, with earnings growth settling into the area of 15%. We have redeployed assets from the sale of OfficeMax, Inc. to Best Buy Co., Inc. and General Nutrition Cos., Inc., both of which enjoy strong prospects for future gains. Though we've seen attractive performance in the Best Buy position, the favorable resolution of several business issues could produce blockbuster returns over the next several years. Barnes & Noble Inc., which has roughly doubled since the beginning of the year, remains quite attractive, with the prospect of an additional boost to shareholder value with a spin-off of its lucrative internet sales division.

   The basket of positions purchased after the first quarter downturn in the *technology* sector did quite well, helping to produce the large premium to the market in the third quarter.

Long term prospects for growth in this area are promising, including the mass storage and ATM deployment areas, represented in the portfolio by EMC Corp. and Newbridge Networks, both leading performers in the last quarter. At this point, we do not see reason to be in the semiconductors area. Though the market in general did not benefit from the *health care* sector, our names performed quite well. We anticipate further pressure on the HMOs, which we have avoided, as the physicians and hospitals successfully organize themselves to wrest bargaining position from these former market leaders. MedPartners Inc. and Healthsouth Corp., which represent our largest bets in these two areas respectively, are well positioned for further advances despite this year's gains.

We are still underweighted in the *financial* sector, preferring to play interest sensitivity through the P/E ratios of growth stocks. We did have a nice gain in the Great Western Financial acquisition, and count several other attractive savings and loan holdings among our representation in this area. Within the *cyclicals,* we were able to capitalize on a basket of positions within the paper and forest products group, which have benefited from cyclical pricing improvements. We see opportunities for Canadian and frontier plays in the natural gas group within the *energy* sector, where prospects for gas prices are attractive. The oil and gas service area has been quite productive, though we may be approaching the point where the big gains are behind us, just as finding costs appear to be moving up.

Going forward, as we raise cash on the sale of extended names, we may see opportunities to redeploy assets into those conservative larger cap names which have underperformed recently. As the middle cap names continue to improve, these companies may provide a defensive position in the case of a market correction.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no accounts gained or lost in this strategy during the third quarter. The firm did move its offices to 590 Madison Avenue at the beginning of September. Forstmann-Leff International Inc. now offers fixed income, private placements and alternative investments products through affiliated operating groups.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No issues to report at this time.

Staff Comments

No comments at this time.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$13.3 Billion	Actual	16.3%	47.4%
Total Firm Assets Managed in this Discipline	$835 Million	Benchmark	10.8%	36.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Last Quarter's Performance:
Despite a brief sinking spell in August, the market and the account's benchmark produced a healthy gain for the quarter. For the period, the account substantially outperformed its benchmark with a total return of 16.3%, net of fees, compared to 10.8%. For the same period, the S&P 500 produced a return of 7.55%. According to our performance attribution analysis, stock selection bets, industry exposures, and risk-index exposures were positive contributors to active return in the quarter.

Twelve Month Performance:
The twelve month portfolio return was strong both in absolute and relative terms. As with the third quarter data, our performance attribution analyses indicate that stock selection bets, risk-index bets and industry bets contributed to active return.

Below is a table of the top and bottom five industry or risk factor contributors to active return.

Top 5 and Bottom 5 Industry or
Risk Factor Contributors to Active Return

Factor	Qtr Active Bets	Qtr Return Contrib.	Factor	12 Mths Active Bets	12 Mths Return Contrib.
Top 5:					
Misc. Finance	7.25	1.06	Misc. Finance	5.63	3.21
E/P	0.38	0.73	Business Machines	2.34	1.55
Business Machines	3.83	0.66	E/P	0.36	1.54
Trading	0.17	0.49	Retail	3.68	1.08
Other Insurance	4.21	0.32	Producer Goods	2.36	0.88
Bottom 5:			Bottom 5:		
Electronics	-1.90	-0.23	Soaps	-1.87	-0.58
Media	-2.04	-0.23	Chemicals	-2.90	-0.79
Banks	-3.34	-0.24	Media	-2.27	-0.86
Size	0.12	-0.24	Drugs	-2.45	-0.86
Food	-2.79	-0.27	Banks	-3.81	-1.31

Note:
1. Bets are averages of beginning of month data.
2. Risk Index differences are in standard deviations.
3. Industry differences are in percents.
4. Contributions are percents aggregated from monthly data.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As of September 30,1997, the following active bets existed in the account relative to the benchmark:

   A. Risk factor bets (standard deviations from benchmark = or > .1):

Success = 0.21	Earnings/Price = 0.27	Earnings Variability = 0.13
Book/Price = 0.15	Labor Intensity = -0.18	Variability-in-Markets = 0.11
Foreign Exposure = -0.17	Size = 0.10	

   B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Misc. Finance	7.76%	Banks	-4.79%
Steel	3.68	Food	-2.77
Food Stores	4.06	Media	-2.10
Oil Refiners	2.50	Electronics	-1.93
Telephones	2.16	Hotel/Restaurants	-1.68

   Active portfolio bets are based on: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above. The total estimated tracking error of the account relative to the benchmark at quarter-end was 4.4%.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership changes during the period. In July, Paul F. Healey joined Franklin as Senior Vice President, Marketing. Spencer Timm, Franklin's former marketing head, retired and is working part-time for Franklin. Maura K. Murphy, Franklin's V.P. Operations and Administration, left the firm to pursue personal interests. We will be replacing her. There were no account gains or losses in this discipline during the period. We did gain a market-neutral account in the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff attended Franklin's Client Conference in September. In January 1997, Franklin implemented a more disciplined process for determining the weightings in their models, and this change may have contributed to their current outperformance.

Manager Commentary
GeoCapital Corporation

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$2.3 Billion	Actual	14.5%	23.4%
Total Firm Assets Managed in this Discipline	$2.3 Billion	Benchmark	15.3%	23.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The following chart highlights our functional bets in the actual portfolio relative to the benchmark and the relative performance of both entities. A new benchmark portfolio was established in early 1996 which we continue to fine tune and have recently reduced to 301 stocks from 321 previously. Early in 1997, we suffered relative to the benchmark primarily due to the significant market loss of Mercury Finance as a result of fraudulent accounting revelations in January. While both the portfolio and benchmark performed well in Q297 and Q397, we were underweighted in technology. In addition, consumer non-durables did not perform as well as the benchmark in Q397. The financial sector proved to be our best performer in Q397 and added positive value for the year. The consumer non-durables sector was positive for the year while technology was negative for the year due to relative weakness early in the year. Consumer durables, although low in weighting in both the GEO and Benchmark portfolios, has been a positive contributor in both the quarter and the year due to its technology component. Energy has been an important negative in both the quarter and the year. We will more closely investigate the benchmark's exposure in the energy sector as we continue to adjust the portfolio to more accurately portray our current universe.

	Quarter Ending 9/30/97	**Year Ending 9/30/97**
Consumer Non-Durables	Negative (-1.51) Higher weightings / lower returns 46.12% Geo / 40.58% benchmark	Positive (1.33) Higher weightings / higher returns 45.69% Geo / 40.69% benchmark
Technology	Positive (.82) Lower weightings / higher returns 27.86% Geo / 32.25% benchmark	Negative (-1.22) Lower weightings / lower returns 30.30% Geo / 32.95% benchmark
Financial	Positive (1.42) Lower weightings / higher returns 8.85% Geo / 11.06% benchmark	Positive (1.80) Lower weightings / higher returns 9.66% Geo / 10.27% benchmark

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

In technology, continuing greater emphasis has been placed on Information Consulting companies because we believe that as computer systems and networks become more mission critical and complicated, more users will depend on outside consultants. Healthcare declines (within consumer non-durable) have been more than offset by distribution, retail, and lodging companies. Financial stocks have declined due to the sales of fully valued commercial banks and Mercury Finance. In addition, we will more closely analyze the Energy area in the Benchmark to see if it accurately reflects our current universe of securities.

GeoCapital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   On 9/30/97, Affiliated Managers group (AMG) completed their investment in GeoCapital. They have already improved our back office operations and are aiding us in client servicing and product presentation. AMG has implemented long term employment contracts and incentives to all the key investment people at GeoCapital.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Performance momentum since April 1997 has been positive for our portfolios of small domestic growth and special situation securities, with the third quarter finally beginning to show relative strength compared to most major equity indices. While this trend has been a long time in coming, we believe it is the classical beginning of relative outperformance within extended equity cycles. Our rationale is as follows:

- Economic cycles, which have been tempered by the current extended domestic recovery, do respond over time to final demand, which appears to be slowing slightly. While we would not forecast a dramatic economic downturn, we do believe there will be less, not more, cyclical strains in the economy going forward into 1998-1999.

- The vast majority of our portfolios, especially within the growth sector, are comprised of companies serving and/or creating businesses and sub industries which are not cyclically sensitive but rather represent the majority of economic productivity produced by this country (software, networking, information technology training and education etc.). In that regard, the relative shift of earnings momentum should begin to favor smaller companies as their business growth is created by new products and productivity rather than continued cyclical growth of the overall economy.

The market environment continues relatively unchanged from midyear; i.e. corporate earnings have exceeded expectations, inflation has remained extremely moderate, valuations have improved across the board. As always, however, the main determinant of long term valuations centers squarely on overall corporate and household liquidity. While the Federal Reserve can attempt to alter the near term outlook on rates (and therefore on liquidity) we believe demographics and productivity are on our side. Therefore our long term outlook on small capitalization stocks continues to be bullish, although markets could and likely will have short-term corrections along the way.

The month of Sept. 97 has illustrated the above trends as the GeoCapital portfolio added value of 1.50 above the benchmark. Technology, still underweighted, added value of 1.88, the consumer non-durables and financial sectors added little value, and the energy sector was the most negative (-.59). As discussed above , we will analyze the energy benchmark weight and stocks to see if this sector accurately reflects our universe.

Staff Comments

No comments at this time.

Manager Commentary
Independence Investment Associates

Period Ending:	9/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$28.0 Billion	Actual	9.5%	39.2%
Total Firm Assets Managed in this Discipline	$13.0 Billion	Benchmark	7.8%	41.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

We are pleased to report strong absolute and relative performance in your portfolio in the third quarter of 1997. The stock market's strong gains and volatility continued, but unlike recent quarters, the gains this period were more broadly based. In fact, the "nifty fifty" stocks that drove the market's rise during the first half of 1997 have quickly corrected. As you know, we found many of those stocks to be particularly overvalued and didn't own them earlier this year. This quarter's outperformance reconfirms our unwavering belief that owning undervalued stocks with strong fundamentals ultimately pays off. Your account outperformed its benchmark and beat the market in every month of the quarter. We maintained your portfolio risk characteristics in line with your investment policy guidelines throughout the quarter. Our valuation models worked well this quarter with strong predictive accuracy on both the buy and sell side, across the full capitalization spectrum and over longer holding periods. Many of the extraordinary market conditions we'd been faced with over the prior twelve months returned to normal. Your portfolio outperformed due to positive stock selection which was spread across many sectors, most noticeably in the technology, financial, and consumer non-cyclical areas. Many of the 50 largest stocks in the S&P 500 which dominated performance in the first half of the year and were identified as "unattractive" (i.e. not cheap) by our Cybercode valuation model finally began to underperform. These "nifty fifty" stocks returned only 4.6% in the quarter while the remaining 450 returned 10.2%. Our discipline led us to avoid stocks that lacked cheapness and improving fundamentals, and we avoided many of those stocks that underperformed and owned many of the remaining stocks that outperformed this quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The United States remains in a state of economic euphoria driven by continued strong corporate earnings reports, full employment and low inflation. Our current projections are for 3.7% GDP growth in 1997, slowing to 2.3% growth in 1998. Meanwhile, Europe remains sluggish and several Far East economies continue to weaken. In spite of this outlook, the U.S. financial markets have been reacting violently and quickly to any news that can be interpreted as a sign that the economy's pristine state is changing. The stream of data is unending, and the financial markets will remain turbulent while we enjoy our economic nirvana and transition into the "soft landing". In volatile markets, strict attention to relative values is of paramount importance. While valuation "fads" sometimes persist longer than one would expect, the subsequent correction is certain and usually swift. This quarter, our discipline caused your portfolio to outperform in an overall up market while preserving capital in down markets days. We believe that this is significant in a market that will remain volatile and is at the high-end of historical valuation levels. Independence's investment philosophy of owning "cheap" stocks with "improving fundamentals" will continue and is evident in your portfolio since its P/E ratio of 17.9X is lower than your benchmark's P/E (reflecting "cheapness") and its long-term growth rate of 11.4% is higher than your benchmark's (reflecting "improving fundamentals"). Your account's risk characteristics mirror those of your benchmark with a beta of 1.00, an R^2 of .98, and a tracking error of 2%. We continuously monitor your investment policy guidelines to ensure full compliance at all times and will continue to invest with the same strategy.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There has been no change in our ownership, investment staff, our philosophy or our daily implementation. Four accounts were gained in this discipline while eight were lost. Four were lost due to plan restructuring, three for performance and one because of the client's regulatory requirements.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff visited Independence Investment Associates at their office in Boston in September 1997. Their organization has experienced very low turnover and has continued to grow moderately in terms of staff, products offered, and assets under management. Future growth plans include hiring an additional fundamental research analyst each year. Their investment process combines value and growth momentum, and is based on the philosophy that outperformance can be achieved over time by finding stocks which combine cheapness and improving fundamentals. We believe this investment process has been consistently applied over time, but until recently, the market has not rewarded under-valued stocks. Although their performance has been negative relative to their benchmark for a number of years, we expect that the consistent application of their investment process can result in a similar period of out-performance in the future.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$15 Billion	Actual	12.0%	31.4%
Total Firm Assets Managed in this Discipline	$933 Million	Benchmark	12.7%	39.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio was up 12.0% for the quarter ended September 30, 1997, which compares to a benchmark return of 12.7%. Unlike the last few quarters, the portfolio was driven by the small capitalization names in the portfolio, with the stocks below $500 million in capitalization having a return of 20.28% and contributing 6.21% to the overall performance in the quarter. Since these small capitalization stocks were overweighed relative to the benchmark, they also had a positive impact on relative performance.

During the quarter, a number of small capitalization stocks continued to perform well for the portfolio. The consumer staples sector, including Metris (32.0%), LodgeNet (32.5%) and Merrill Corporation (26.5%), added 1.80% to the portfolio performance and drove 64 basis points of relative value, even though it was underweighted relative to the benchmark. The primary reason for the portfolio's underperformance relative to the benchmark this quarter can be attributed to consumer cyclicals and poor performance in Sitel (-49.1%) and Video Update (-16.9%). In general, the portfolio continued to get strong performance from its small capitalization stocks including Recovery Engineering (65.2%), Cima Labs (63.6%) and Marquette Electronics (40.9%).

The portfolio return for the trailing twelve months was 31.4%, compared to a benchmark return of 39.7%. The primary reason for the underperformance relative to the benchmark was the strong performance of large capitalization stocks during the first and second quarters of fiscal year 1997. Since the portfolio has consistently been weighted toward mid and small capitalization companies, such narrow market performance had a significant negative impact on the performance of the portfolio relative to the benchmark. It should be noted that the benchmark was changed for the fiscal year 1998. When performance is compared to the new benchmark on a trailing twelve month basis, the portfolio return of 31.4% compares to a new benchmark return of 32.0%.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

During the quarter, the number of stocks in the portfolio was increased to balance our small capitalization and middle capitalization risk. The portfolio continues to have a bias toward stocks under $1 billion; however, because many of our significant active bets, including such stocks as Recovery Engineering and Diametrics Medical, have appreciated so significantly in the last six months, that we have offset some of the near term risk in any one stock by diversifying our small capitalization names across more holdings. The stock selection for the portfolio continues to be dictated by our analytical process which focuses on a company's underlying business fundamentals.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

3a. There were no ownership changes during the quarter.

3b. Staff Additions are as follows:

Year Hired	Name	Title/Responsibility
1997 4Q	Justin Kelly	Associate Vice President/Equity Analyst Growth Equity Team

Staff Departures are as follows:

Year Departed	Name	Title/Responsibility
1997 3Q	Livingston Douglas	Vice President, Fixed Income Portfolio Manager

3c. Total firm-wide accounts gained/lost during the third quarter 1997:

	# of Accounts	Asset Value
Micro Cap	2	$10,809,000
Small Cap Core	1	$18,700,000
International Equity	3	$66,000,000
Total Gains	**6**	**$76,996,000**
Growth Equity	16	$285,300,000
Small Cap	6	$50,400,000
Value Equity	1	$20,000,000
Fixed Income	4	$131,200,000
Miscellaneous	4	$113,200,000
Total Losses	**31**	**$600,100,000**

IAI did not gain or lose any Regional Equity accounts in the third quarter of 1997.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

The Domestic Manager committee re-interviewed IAI in August 1997 and recommended that they be retained but re-evaluated in six months. We will review IAI more closely during the February 1998 committee meeting, paying close attention to organizational stability and investment performance relative to their new benchmark.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$46.1 Billion	Actual	2.5%	29.7%
Total Firm Assets Managed in this Discipline	$21.0 Billion	Benchmark	8.4%	40.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Quarter - The active portfolio underperformed the benchmark by 590 basis points net of fees. Sector (industry) allocations reduced returns by 150 basis points while issue selections decreased returns by 440 basis points. The underweighting in technology and overweighting in consumer non-durables were the sources of most of the negative sector variance. Continued high downstream demand evidenced by the great gains in Compaq and Dell fueled the tech stock zoom. The global consumer non-durable issues corrected sharply in August because of: 1) the continued strength in the U.S. dollar; 2) concern about the emerging economies of Southeast Asia; and 3) pre-announcements of short term EPS shortfalls at Coca-Cola and Gillette.

   Stock selections were poor in technology. While Hewlett (+25%) and Intel (+30%) rose sharply, the three other major holdings (Cisco, Microsoft, and Oracle) rose in single digits, well behind the 20%+ gain for the sector. In the consumer non-durables area, declines in Coca-Cola (-10%) and Gillette (-9%) hurt relative returns.

   Year - The active portfolio underperformed the benchmark by roughly 1070 basis points net of fees. Sector weightings reduced returns by roughly 110 basis points while issue selections decreased returns by 960 basis points. The vast majority of this variance has occurred in the past six months. Nearly all of the sector weighting variance relates to the underweighting in technology.

   Issue selection has been good in health care and consumer non-durables, but poor in other industries with technology selections having the most negative impact upon the portfolio.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The top ten holdings currently represent 45% of the concentrated portfolio's weighting. As always, much of the variance will be related to the performance of these issues.

   Sector exposures have been reduced somewhat by the increase in the technology weighting and reduction in consumer non-durables. But both sectors continue to show weighting variances. The portfolio's exposure to foreign sourced income (global growers) remains meaningfully greater than that of the benchmark.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   After about three years at Lincoln, Gretchen Lash (who covered primarily retail and tobacco stocks) left at the end of September to join William Blair Co.. Like Lincoln, Blair is a growth company devotee, although more typically operating in the small and mid-cap realm. Gretchen will have both research and, to a greater extent than here, portfolio management responsibilities.

   A national search for Gretchen's successor has been initiated. In the interim, Bill Goldsborough, who first joined Lincoln in 1977 as our retail/consumer analyst, a post he held for seventeen years before taking early retirement, will pick up Gretchen's analytical responsibilities. We are fortunate that Bill, who has been working here part-time, is able and willing to help out in this transition period.

   Lincoln's search for a new chief operating officer appears to be near fruition. An announcement should be forthcoming in the next 30 days.

   Two new equity relationships commenced during the last quarter. One client for whom Lincoln ran a 10 stock portfolio was lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The new 30 stock portfolio will have somewhat greater variability than the prior more diversified set of selections. Some of this variability has just been witnessed. Nevertheless, the portfolio's performance thus far in calendar 1997 is nearly identical to that of a typical Lincoln account.

Staff Comments

No comments at this time.

Manager Commentary
Oppenheimer Capital

Period Ending:	9/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$61.6 Billion	Actual	8.1%	40.2%
Total Firm Assets Managed in this Discipline	$36.4 Billion	Benchmark	8.2%	36.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the quarter, the portfolio performed in line with the benchmark. Strong stock selection was pronounced in the consumer cyclical sector, which generated a return of 17.1% versus the benchmark return of 9.3%. The group was led by carpet manufacturer Shaw Industries (+19.1%), which was a weak performer earlier in the year but has gained considerable strength in recent months as distribution outlets have been expanded and the rate of home sales have boosted earnings. The portfolio's technology stocks also aided performance; this group was led by Intel (+30.2%), which was also the greatest contributor to return. Other noteworthy stocks in this group include Adaptec (+34.5%) and Arrow Electronics (+9.2%). An overweight in insurance stocks continued to make these holdings among the greatest contributors to return.

The returns of the five largest contributors to and detractors from performance were as follows:

Five Largest Contributors		Five Largest Detractors	
Intel	30.2%	Avon Products	(11.7)%
Ace Ltd.	27.5	Freeport McMoran C& G	(6.7)
Nokia	27.2	Becton Dickinson	(5.2)
Morgan Stanley Dean Witter	25.9	Sprint	(3.8)
Exel Ltd.	14.3	DuPont	(1.6)

For the year ended September 30, 1997, the portfolio outpaced the benchmark by 350 basis points. Strong performance was broadly based across sectors. Warner Lambert, returning 107.9%, made the greatest contribution to return. The portfolio continues to be aided significantly by an overweight in financial stocks, which returned 56.8% for the year. The group was led by Travelers which rose 87.6%. The following insurance stocks were also among the portfolio's greatest contributors: Exel (+77.4%), Ace Ltd. (+79.8%), Progressive Corp. (+87.7%), American International Group (+54.1%) and Aflac (+54.2%).

The returns of the five largest contributors to and detractors from performance for the year were as follows:

Five Largest Contributors		Five Largest Detractors	
Nokia	114.1%	Hercules	(7.3)%
Warner Lambert	107.9	Freeport McMoran C&G	(4.9)
Intel	93.7	Shaw Industries	(3.7)
Travelers	87.4	RR Donnelley	(3.1)
Exel Ltd.	77.4	Freeport McMoran Inc.	(0.5)

Oppenheimer (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets*

   Following its rapid three-year ascent, the market appears by many measures to be highly to fully valued. Our best approximation, given the likelihood of continued economic growth and corporate profit improvement with low inflation, is that the bull market is still intact, but that the rate of gain in the overall market will slow from that of recent years. However, we buy individual stocks, not the market. Rather than attempting to forecast where the indexes will be a month or a year from now, we seek to control risk and generate excellent returns by investing for the long term in quality businesses that are available at reasonable prices. We are disciplined value investors in all market environments. We look first at a company's fundamentals to make sure it is the kind of business we want to own. We look then at the company's stock to make sure it is reasonably valued. Despite the market's sharp rise, we continue to find quality businesses that meet our value criteria.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no changes which affected the management of the Minnesota State Board of Investment portfolio.

   CORE EQUITY ACCOUNTS GAINED/LOST:

Accounts Gained:	7 accounts with $345.6 million in assets
Accounts Lost:	6 accounts with $75.0 million in assets

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We expect the purchase by PIMCO Advisors of the General Partnership interest in Oppenheimer Capital LP to close during the 4th quarter of 1997.

Staff Comments

Staff visited Oppenheimer's New York office in October 1997. Oppenheimer seeks to buy quality companies at reasonable prices. They are long-term, relationship investors and believe that it's critical to know and understand how management allocates capital. Oppenheimer is a stable organization that has consistently applied its investment process and provided significant outperformance relative to the benchmark over the long term.

Manager Commentary
Weiss, Peck & Greer

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$14.9 Billion	Actual	16.1%	16.7%
Total Firm Assets Managed in this Discipline	$735 Million	Benchmark	19.8%	28.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The third quarter of 1997 was characterized by the continued strong relative performance of small capitalization growth stocks. The Minnesota SBI portfolio returned 16.1% for the quarter while the MSBI benchmark returned 19.8%. The portfolio's performance versus the benchmark was hampered by a handful of underperforming retail stocks during July. Friedman's, a Georgia based fine jewelry retailer, was down 26% during the quarter on news of disappointing comparable store sales (a measure of individual store sales) and consequently disappointing quarterly earnings. Another company that lost ground was Helig-Meyers, a furniture retailer that lost 22% in July due to disappointing earnings. The companies that did very well this quarter include Access Health Marketing, a healthcare services provider that gained 41% on increased earnings estimates, and Platinum Technology, a software developer, up 62% on increased earnings visibility and increased confidence in its turnaround plans.

   For the one-year period, the Minnesota portfolio has underperformed the benchmark with a gain of 16.7% versus 28.9% for the normal portfolio. This divergence can be attributed primarily to February and April when networking and software companies experienced particularly poor performance. July's underperformance also detracted from the account's performance. The primary underperforming stock during this time period was Informix Corp., which plunged 60% on reports of questionable business practices and management resignations. One of our best performing groups was communications, as competition between the incumbent telecommunication companies and aggressive new entrants became more heated. Several companies, including Intermedia Communications, Globalstar Telecom. and Qualcomm Inc. rose more than 70% during this time period.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We have structured the portfolio for continued strength in the small cap growth sector. Our belief that small cap stocks are undervalued versus their Blue Chip brethren is being borne out by the market's renewed interest in this sector. Our key overweights continue to be in the areas of technology, business services, biotechnology and telecommunications. It remains our belief that strong secular forces, driven by demographics and other long term phenomena, will continue to boost demand for the products and services delivered by these groups. We continue to have confidence that the current upcycle has many more months of longevity as the group makes up lost ground on the S&P 500.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Anthony Giammalva, the small cap energy, retail and communications analyst, left the firm to join Dawson-Samberg, a hedge fund operator and institutional investor. Tony will be developing an energy hedge fund at his new firm.

   Mickey Straus, the portfolio manager and head of the small cap area, will be leaving WPG at year end to launch a hedge fund operation which he will own, Straus Asset Management. WPG is seeking an established, experienced portfolio manager to replace Mickey. The Small Cap Growth research team will continue to remain in place for the forseeable future.

   <u>Accounts lost</u>
   Los Angeles County Employees Retirement
   Watson/Wyatt World Wide

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff visited Weiss, Peck & Greer (WPG) in New York in October 1997. Due to concerns that the firm has become too diversified to do well at everything, each of the investment products is undergoing a rigorous review process. The review committee has already agreed that a small cap growth product will continue to be offered in the future, but the product may change to fit the management style of the team hired to replace Mickey Straus. Staff will review the situation as changes are made during the fourth quarter and will make a recommendation at the Committee meeting in February.

Manager Commentary
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$13.3 Billion	Actual	9.9%	43.4%
Total Firm Assets Managed in this Discipline	$ 1.7 Billion	Benchmark	8.1%	40.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Last Quarter's Performance:
For the third quarter, the account outperformed the benchmark, gaining 9.9% compared to 8.1%. According to our performance attribution analysis, stock specific bets and risk index exposures were positive contributors to active return. Industry bets were negative contributors. It should be cautioned that, given the low tracking-error of the semi-passive account, the quarterly active increment is above the range that should be expected over time.

Twelve Month Performance:
The account was ahead of its benchmark for the past twelve months. Our performance attribution analysis indicates that stock specific bets and risk index exposures were positive contributors to active return. Industry bets were negative.

Below is a table of the top and bottom five industry or risk factor contributors to active return.

Top 5 and Bottom 5 Industry or
Risk Factor Contributors to Active Return

Factor	Qtr Active Bets	Qtr Return Contrib.	Factor	12 Mths Active Bets	12 Mths Return Contrib.
Top 5:					
E/P Factor	0.13	0.25	E/P Factor	0.15	0.60
Oil Services	0.95	0.25	Oil Services	0.62	0.53
Trading	0.10	0.16	Misc. Finance	1.10	0.52
Labor Intensity	-0.08	0.11	Food	0.89	0.28
Retail	0.89	0.09	Trading	0.09	0.22
Bottom 5:			Bottom 5:		
Telephones	-1.34	-0.10	Business Machines	-0.71	-0.31
Services	-0.88	-0.11	Services	-1.40	-0.38
Business Machines	-0.68	-0.13	Telephones	-1.35	-0.39
Beverages	-0.81	-0.20	Beverages	-1.02	-0.55
Banks	-1.39	-0.25	Banks	-1.21	-0.60

Note:
1. Bets are averages of beginning of month data.
2. Risk Index differences are in standard deviations.
3. Industry differences are in percents.
4. Contributions are percents aggregated from monthly data.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As of September 30, 1997, the following active bets existed in the account relative to the benchmark:

   A. Risk factor bets (standard deviations from benchmark = or > .1):

   There were no significant risk index bets at quarter-end.

   B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Life Insurance	1.18%	Banks	-1.95%
Consumer Durables	1.34	Telephones	-1.07
Health (non-drugs)	1.09	Business Machines	-0.74
Publishing	0.73	Electronics	-0.70
Electric Utilities	0.62	Paper	-0.52

   Active portfolio bets are a function of: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above. The total estimated tracking error of the account relative to the benchmark at quarter-end was 1.53%.

2. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership changes during the period. In July, Paul F. Healey joined Franklin as Senior Vice President, Marketing. Spencer Timm, Franklin's former marketing head, retired and is working part-time for Franklin. Maura K. Murphy, Franklin's V.P. Operations and Administration, left the firm to pursue personal interests. We will be replacing her.

   There were no account gains or losses in this discipline during the period. We did gain a market-neutral account in the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff attended Franklin's Client Conference in September. In January 1997, Franklin implemented a more disciplined process for determining the weightings in their models, and this change may have contributed to their current outperformance.

Manager Commentary
J.P. Morgan Investment Management, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$264 Billion	Actual	8.3%	40.4%
Total Firm Assets Managed in this Discipline	$10.8 Billion	Benchmark	8.1%	40.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The Research Enhanced Index (REI) strategy surpassed its benchmark in the third quarter with strong relative performance in the multi-industry and services sectors overcoming weakness in the insurance sector. Because portfolio sector weights are equal to the benchmark sector weights, the relative performance is due to stock selection within each sector rather than from sector over/under weighting. Further, the large number of stocks in the portfolio reduces the potential relative return impact of a small number of stocks. In other words, many small, active, individual stock positions drive performance.

Among the stocks which had the largest positive impact in the quarter were Quantum, TeleCommunications and Johnson Controls. Quantum continued its rally on a strong desktop drive market and recognition that its successful tape business will help insulate it from pricing volatility in the drive market. TeleCommunications rose sharply on the spinoff of TCI Ventures, a collection of domestic telephony, domestic internet and international cable assets whose value was not being recognized under the old corporate structure. Johnson Controls gained on stronger-than-anticipated auto sales in August.

Stocks that negatively impacted performance included First Data Corp, Nationsbank and Eli Lilly (underweight). First Data suffered from investor fears of earnings problems after a competitor, Paymentech, announced negative earnings. Nationsbank's acquisition of Barnett Bank was viewed as dilutive to future earnings given the high price of the deal. Lilly rallied on strong earnings related to the success of their drug for the treatment of schizophrenia.

For the year ending September 30, 1997, the portfolio outperformed its benchmark. Relative performance by sector was generally positive with the only significant weakness coming from the technology and drug sectors. The most positive sectors were chemicals and consumer stables.

On a specific stock basis, overweight positions in Warner Lambert, Tyco International and TeleCommunications contributed the most to performance. The largest detractors from performance included Microsoft (underweight), First Data and Eli Lilly (underweight).

J.P. Morgan (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our stock selection process overweights those stocks within each sector that have the highest expected return or dividend discount rate (DDR - the discount rate that equates projected earnings/dividends to the current price) and underweights those with low DDR's. Since the portfolio is fully invested, sector neutral, and factor neutral, the only active bets are individual stock over- and under- weightings. As prices and earnings estimates change, so do DDR's. Monthly portfolio rebalancing redistributes the portfolio weights such that within each sector, stocks with the lowest DDR's are sold and stocks with the highest DDR's are purchased, within specified limits. Regular rebalancing and constant oversight ensures that our analysts' latest estimates are reflected in the portfolio. As of September 30, the largest positive bets in the SBI portfolio are Time Warner, SBC Communications and Worldcom, while the largest negative bets are General Electric, Eli Lilly and Minnesota Mining and Manufacturing.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the third quarter, JP Morgan and American Century Companies agreed to form a business partnership to pursue growth opportunities in asset management and personal financial services. As part of that agreement, Morgan will purchase a 45% economic interest in American Century for approximately $900 million, with an option to increase that interest to 50% at the end of three years.

   Also during the quarter, two new REI accounts were added and one was lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Barclays Global Investors
Semi-Passive Account

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$485 Billion	Actual	8.5%	41.0%
Total Firm Assets Managed in this Discipline	$17.1 Billion	Benchmark	8.1%	40.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

BGI's Alpha Tilts Strategy, customized for the Minnesota SBI, outperformed the Minnesota DCF Benchmark by 0.4% in the third quarter of 1997, and outperformed by 0.9% over the last 12 months. This strategy systematically evaluates companies according to a broad set of investment characteristics in order to construct a risk-controlled, index-like portfolio with expected returns in excess of the benchmark. The active risk level of the portfolio is generally maintained at 1.0-1.5%; from inception and over the past year the realized active risk was well within this range.

The attribution of added returns in the third quarter is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.65% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value added 0.35% in the third quarter. The use of signaling measures, which include corporate financing activity and informed insider trading, contributed 0.04% to active return in the third quarter. As expected, industry weighting differences made only a small contribution to the portfolio's active return (-0.22%), due to the tight risk controls we use in this area. Finally, the portfolio experienced negative security-specific returns in the third quarter, representing the idiosyncratic or residual returns of individual companies that cannot be explained by their industry group, style, size or other common characteristics. Over shorter measurement intervals, the returns attributable to security-specific sources can be relatively large in magnitude, but this source of tracking error risk tends to diversify toward zero over longer holding periods. The Alpha Tilts portfolio minimizes this risk through broad diversification (approximately 800 stocks) and by limiting the active positions taken in individual companies.

Active Return Attribution:

	Quarter	**Past Year**
Analyst inputs:	0.65%	2.46%
Valuation inputs:	0.35	0.89
Signaling inputs:	0.04	0.08
Other common factors:	0.36	-0.30
Industry weights:	-0.22	-0.51
Management fees:	-0.04	-0.15
Stock-specific	-0.71	-1.32
Total active return:	**0.43%**	**0.83%**

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The current Minnesota Alpha Tilts portfolio is similar in structure to the second quarter 1997 portfolio. Our investment process seeks to identify companies for which consensus expectations will be improving, by carefully modeling the linkage between changes in analysts' forecasts and future expectations and returns. Thirdly, we emphasize companies that are trading at multiples (based on earnings and book value) that are below their industry peer group. Finally, we identify companies whose management has "signaled" their view of stock valuation to the market in the form of insider trading activity and corporate financing activity. These areas of emphasis in the portfolio are designed to be relatively consistent over time; we do not make subjective or ad hoc changes to our investment process. The rationale for these bets is based on a combination of economic/investment theory about how markets and investors operate and rigorous empirical testing to validate these ideas and determine the optimal way to incorporate them in highly risk-controlled portfolios. In general, we are seeking to capture systematic return effects that are generally overlooked by traditional investors.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No significant ownership or personnel changes occurred in the Advanced Active Strategies Group in the third quarter. We added 6 new clients in our US Alpha Tilts strategies during the quarter, with a total funding of approximately $322 million. There were no lost clients in our US Alpha Tilts strategies during third quarter 1997.

   New Alpha Tilts Clients, Third Quarter 1997:

Koch Industries	Dreyfus Foundation
Honeywell Foundation	Fox Chase Cancer Center
DC Retirement Board	Imperial Oil

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   At this time, there are no special issues pertinent to the management of the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Barclays Global Investors
Passive Account

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$485 Billion	Actual	9.8%	38.5%
Total Firm Assets Managed in this Discipline	$ 16 Billion	Benchmark	9.8%	38.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   Barclays Global Investors' (BGI) Wilshire 5000 Strategy matched the Wilshire 5000 during the third quarter of 1997. At the end of the third quarter, the expected annual tracking error of the portfolio was 15 bps.

   Tracking error for the last twelve months has been positive (50 basis points). The tracking error was due to security specific misweights in the optimized portion of the portfolio.

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations?*

   We continue to look for opportunities to rebalance the portfolio and use cash flows to minimize the portfolio's expected tracking error. We seek to rebalance, preferably by using crossing opportunities, over time to minimize tracking error.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the quarter, Nic Stuchfield, Managing Director and Chief Investment Officer for Index and Investment processes, returned to the UK. Nic had been with Barclays Global Investors in San Francisco for two years to participate in the global integration of our businesses and has returned to the Barclays Group in the UK. Jim Creighton has assumed Nic's responsibilities as Chief Investment Officer for Index and Investment processes. Jim was previously Division President of our Canada office and has more than 10 years experience in structured investing.

   New Activity, 3rd Quarter 1997
   4 Accounts, $116.4 M

   Lost Activity, 3rd Quarter 1997
   6 Accounts, -$247.5 M
   Note: All these lost clients still have relationships with BGI.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

During the third quarter, BGI traded approximately $56.7 million in the Wilshire 5000 portfolio. Trades were done to facilitate rebalancing, index changes, and dividend reinvestment. Of the $56.7 million traded, $10.4 million was crossed either with other BGI clients/funds, through Instinet/Posit, or with brokers. Assuming that the savings from these cross transactions is just one half of the bid/offer spread, the dollar savings is $38 thousand (37 bps multiplied by the amount crossed). What was not crossed was actively traded through Instinet or traded open market. Much of the trading done in the open market involved new stocks added to the index.

Staff Comments

No comments at this time.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$253 Million	Actual	14.1%	43.9%
Total Firm Assets Managed in this Discipline	$253 Million	Benchmark	8.5%	39.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Third Quarter Performance
CIC's performance in the third quarter was 14.1% versus 8.5% for the benchmark index. We had very strong performance from: Kansas City Southern (+60.42%), Starwood Lodging (+35.79%), Salomon Brothers, Inc. (+35.52%), Lehman Brothers (+32.27%), and AMP Inc. (+28.93%). On the downside were: Wendys (-17.86%), Rubbermaid (-13.57%), Electronic Data Systems (-13.46%), American Home Products (-4.07%), and AK Steel (-2.93%). We were able to outperform despite our continued underweighting in financial stocks which makes up 23.46% of the benchmark index and which continued to outperform. We believe that the financials are overvalued and have further reduced our weight to 78% of the index from 85%.

Last One Year's Performance
CIC's last one year performance was 43.9% versus 39.0% for the benchmark index.

Portfolio Construction Table: Industry exposure and cash holdings changed as follows:

Sector	Norm. Port. Benchmark 9/30/97	Portfolio 6/30/97	Portfolio 9/30/97
Consumer Cyclicals	11.38%	10.88%	16.29%
Consumer Non-Durables	10.59	10.08	16.60
Technology	6.80	6.76	3.56
Energy	12.24	10.32	9.70
Basic Materials	10.21	14.33	12.01
Capital Goods	10.45	16.51	12.04
Utilities	14.87	10.85	10.30
Financials	23.46	19.85	19.50
Cash	0.00	0.42	0.02
Total	100.00%	100.00	100.00%

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As we discussed last quarter, we continue to have a difficult time finding new ideas which meet our value discipline. Many of our newer ideas, such as Limited and Tandy, are restructuring stories. We will continue to stay fully invested and will only sell positions as we find new ideas.

CIC Asset Management (con't)

The market continues to be driven by liquidity and it is our view that until the Federal Reserve actually raises short term rates, rather than just hinting at it, the market will continue to move higher. Recent economic turmoil in Southeast Asia has serious deflationary implications and may have an impact on Fed policy should the situation worsen.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   In 1997 CIC was hired by two private clients and the Alivio Medical Center Endowment in Chicago. In September, CIC lost the Los Angeles County Metropolitan Transit Authority account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None to report.

Staff Comments

No comments at this time.

Manager Commentary
Cohen, Klingenstein & Marks, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1,211 Million	Actual	8.7%	39.6%
Total Firm Assets Managed in this Discipline	$1,211 Million	Benchmark	10.7%	40.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The account increased by 8.7% (net) during the third quarter of 1997 which compares to a 10.7% gain for the benchmark. For the past twelve months, the account rose 39.6% (versus 40.8%). Broadly speaking, the account remained aggressive, both in relation to our investment universe and to the benchmark. In particular, the account is more Growth and Interest-Rate oriented than the benchmark while it is under weighted in the Stable and Energy sectors. It is also under weighted relative to the benchmark in Economic Cyclicals. This relative positioning, which has applied for the past year plus, reflects our optimism about long-term economic growth, and our expectation for steady near-term growth and lower interest rates. This positioning worked to the portfolio's disadvantage (relative to the benchmark) last quarter since Cyclical stocks were among the best performing while Growth stocks performed below average. The portfolio's emphasis on Interest Rate Sensitive stocks (which performed well, particularly the Financial stocks) partially offset these factors. The dynamics over the past year were somewhat different: large cap. Growth out performed while the economic Cyclicals lagged some.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We believe that the market is about fairly valued based on consensus profit and interest rate expectations. On the other hand, we believe that the consensus remains a bit too cautious on both rates (which we expect to fall) and profits. This, along with expected increases in profits, can propel the market higher. This reflects no significant change in outlook.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

We hired a young man to provide administrative and investment back-up. We hope to grow him into an investment professional.

Accounts Gained	**Accounts Lost**
12 ($165 mil)	0

Excludes additions/withdrawals to/from existing accounts.

Cohen, Klingenstein & Marks (con't)

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   On or about November 1, we are moving our offices upstairs in our current building. The new space will provide additional room for new and future employees (and may even be a bit spiffier). Neither our address nor phone number will change.

Staff Comments

No comments at this time.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$310 Million	Actual	8.0%	29.3%
Total Firm Assets Managed in this Discipline	$190 Million	Benchmark	8.7%	36.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

WEIGHTING			**QUARTER**		**YEAR**	
Portfolio	**Bnchmk**	**Sectors**	**Active Bets**	**Value Added**	**Active Bets**	**Value Added**
40.0%	46.4%	Consumer Non-Durables	Underweighted	Worked	Equal	Worked
14.8	8.5	Capital Goods	Overweighted	Did Not Work	Overweighted	Worked
12.6	17.8	Technology	Underweighted	Did Not Work	Underweighted	Did Not Work
12.3	6.6	Consumer Durables	Overweighted	Did Not Work	Overweighted	Did Not Work
10.7	5.4	Basic Industries	Overweighted	Did Not W ork	Overweighted	Did Not Work
8.7	12.4	Financial	Underweighted	Did Not Work	Underweighted	Did Not Work
0	1.3	Transportation	Equal	Worked	Equal	Worked
0	1.6	Miscellaneous	Equal	Worked	Equal	Worked
0	0	Energy	No Bnchmk Position	No Bnchmk Position	No Bnchmk Position	No Bnchmk Position
0	0	Utilities	No Bnchmk Position	No Bnchmk Position	No Bnchmk Position	No Bnchmk Position

<u>**Quarter**</u>

During the Quarter, individual stock selection added value, while our sector weighting did not add value. We are largely a bottom-up stock investor. So, sector weightings result primarily from our individual stock selection.

Our disciplines suggest that the market as a whole continues to be overvalued. The most overvalued stocks in our portfolios have been trimmed back to core positions, and those which are most underweighted and exhibit the best value have been added to.

We have found relative value in the capital goods, consumer durable and basic industry sectors. Among the strongest performers in the market have been the technology and financial sectors. Due to overvaluation in these sectors, however, we have underweighted them. Nevertheless, our individual stock selection has been good, enabling us to keep pace with the benchmark.

<u>**Year**</u>

The underweighting in financial and technology sectors during the past twelve months has played a significant rôle in the underperformance of the portfolio to the benchmark. However, Compass will not deviate from its underlying discipline of buying high quality growth stocks at a reasonable price. The market has seen a dramatic increase in P/E multiples in these two sectors during the past several years. We will not chase the price momentum and expanding multiples of these stocks. We did, however, increase our weightings in the technology sector in the second quarter with the purchase of Electronic Data Systems. Even after this purchase, there is still an active underweighting bet in technology to the benchmark.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Compass' active bets relative to the benchmark, based upon sector weightings, are as follows:

Overweighted to Benchmark		Underweighted to Benchmark	
Consumer Durables	6%	Technology	5%
Capital Goods	6%	Consumer Non-Durables	6%
Basic Industries	5%	Financial	4%

   Compass continues to emphasize individual stock selection through valuation and growth aspects.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Accounts lost: 1 Account at $1 million

   Accounts gained: 1 Account at $9 million

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
New Amsterdam Partners LLC

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$462 Million	Actual	13.5%	43.0%
Total Firm Assets Managed in this Discipline	$443 Million	Benchmark	12.3%	39.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the quarter ended September 30, 1997 the return on your portfolio was 13.5%. This compares with 12.3% for our customized benchmark, 7.5% for the S&P 500 Index, 16.1% for the S&P MidCap, 8.2% for the Russell 1000 and 16.9% for the NASDAQ index. Year-to-date your portfolio has returned 34.9%. This compares with 31.2% for our customized benchmark, 29.6% for the S&P 500 Index, 31.2% for the S&P MidCap, 27.2% for the Russell 1000 and 30.6% for the NASDAQ index.

At quarter's end, the portfolio contained forty-seven stocks. During the quarter we sold five positions and bought seven new stocks. We also added to three existing positions and trimmed six others, taking advantage of price movements to rebalance. The securities sold were Arrow Electronics, Central Hudson Gas & Elec., Lands' End, Medtronic and Merck, all of which had reached their price targets and, in our opinion, had little further upside. The new additions were Alberto-Culver Co., Cambridge Tech Partners Inc, DTE Energy Corp., Praxair Inc, Safeskin Corp., Scherer (R.P.) and Union Carbide.

This quarter our returns were positively affected by size and stock selection skill and negatively affected by our sector selection. In the third quarter, the market sharply reversed the trend of the last few years with smaller companies outperforming large capitalization stocks. Since our weighted average market cap is below that of the S&P 500 we clearly benefited from that effect. The better performing sectors, however, included Technology and Energy and we were underexposed to both of them. Consumer Non-Durables and Health related stocks were among the worst performing sectors and we were overexposed in those areas. As a result, our sector selection skill was poor this quarter.

Our stock selection skill was very strong and made up for our sector selection. Our picks outperformed their peers in 12 out of 17 sectors, matched in one and underperformed in four. Within Producer Manufacturing, American Power Conversion was up (+48.0%) and Zebra Technologies rose (+27.0%). Even though we were underexposed to technology stocks, our picks outperformed their group with the star being Solectron (+27.0%). Other strongly performing stocks were AES Corp (+23.7%), Access Health (+40.8%), Express Scripts (+29.0%), Century Telephone (+30.9%), and among Finance stocks, Conseco (+32.5%) and Green Tree Financial (+32.2%). Our disappointments included our two new Process Industries picks (Union Carbide and Praxair) – that sector was down (-17.6%) in the quarter. We believe that they will rebound in the near term. Other disappointments were Amgen (-17.5%) and Gillette (-8.7%).

New Amsterdam Partners (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our portfolio continues to be somewhat overweighted in Consumer stocks but underweighted in Technology and Energy stocks. We expect to increase our technology exposure during the next quarter.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the third quarter of 1997 we gained one account, lost one account, and received an additional allocation form an existing account, resulting in a drop in net new assets of $1.3 million.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   As we look forward, we continue to be cautiously optimistic on both stock and bond markets. We believe that the stock market could appreciate a further 10% over the next twelve months and that interest rates will continue to trend down from here.

Staff Comments

No comments at this time.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1.46 Billion	Actual	13.8%	50.2%
Total Firm Assets Managed in this Discipline	$1.48 Billion	Benchmark	13.0%	39.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why*

   Under our "bottom up" style, each stock pick is an active bet. For the quarter, gains were made throughout the portfolio, with the largest contribution to performance stemming from Cooper Cameron, adding 1.80%, experiencing improving earnings from increased oilfield rig activity; Quantum Corp, +1.16%, benefiting from the revaluation of technology stocks; and HF Ahmanson, +1.09%, aided by lower interest rates in the thrift business. Performance was slightly affected by Perkin Elmer, costing 0.18%, where there is fear that foreign exchange may affect overseas sales, and MA Hanna (0.12%) and Walgreen (0.11%), where there are no fundamental changes but the stock prices remained relatively flat.

   For twelve months, the most significant gains came from Cooper Cameron, contributing 3.81%, as earnings are benefiting from consolidation in the oil service industry; Valassis Communications +2.72%, from growing revenues and a secondary offering which has created increased investor awareness; and HF Ahmanson, +2.50%, benefiting from an improved California economy. The poorest performers for the period were Pall Corp., costing 0.33% for the period, although the position was actually sold at a significant realized gain; Pep Boys, costing 0.29%, also sold at a gain; and Rohr, (0.16%), due to unfavorable implications stemming from consolidation in the aerospace industry.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to our benchmark? Summarize the rationale for making these active bets.*

   Valenzuela Capital applies fundamental value-oriented research to selecting equities. We believe that growth in earnings and cash flow fuel price appreciation and that high price-to-earnings ratios cause volatility and risk. Hence, we try to sell higher P/E stocks and buy stocks in companies whose earnings will grow but whose P/E's are at or below the market. The portfolio was slightly realigned during the quarter. We added to positions we felt still represented good value and trimmed others, largely for reasons of valuation. New investments were initiated in BJ Services, an attractively valued oilfield services company, and Dallas Semiconductor, a specialty chip manufacturer with a highly diversified client base, which is experiencing steady revenue and earnings growth. We realized gains in BF Goodrich and Standard Register; Great Western Financial was acquired by Washington Mutual. The position in Rohm & Haas was sold due to uncertainty in foreign exchange which is affecting the earnings outlook for the company.

Valenzuela Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no changes at the firm over the last quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Looking forward through the second half, we are focusing on the likely deceleration of economic growth and its likely impact on corporate earnings – more specifically, on the earnings of the companies which are in our portfolio. In addition, we are carefully following developments on the inflation and interest rate front. We expect to see price pressure become more evident during the next several quarters, and expect that the Federal Reserve will react quickly to signs of inflation. As we have said during the last several quarters, stock selection will be important, and we remain committed to investing in companies that can deliver superior earnings in a softer economic environment.

Staff Comments

No comments at this time.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1.5 Billion	Actual	9.9%	-0.7%
Total Firm Assets Managed in this Discipline	$551 Million	Benchmark	15.4%	27.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The relative underperformance of the Small Cap Growth product was the result of several factors. Certain of the Wilke/Thompson core portfolio positions did not advance as rapidly as the broader small cap indices. On balance, our portfolio companies continue to report impressive fundamental results. Occasionally the stock price appreciation of high quality companies will trail the short-term pace of the index. In fact, the portfolio experienced only two fundamental disappointments during the quarter: Sitel and Precision Response. We eliminated Precision Response from the portfolio during the quarter and are presently reviewing our position in Sitel.

   Over the last six months, the MNSBI portfolio has posted a net of fee return of slightly over 30%. This six month period, which follows a six month period of severe underperformance, marks the beginning of a period of transition in which our Small Cap Growth portfolio should post favorable returns relative to its index. Though these returns will not necessarily be generated in a linear fashion, we are confident the portfolio is currently well-positioned to prosper relative to its benchmark.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Looking forward, we expect the market's broadening trend to continue. As a matter of fact, this quarter marked the first time since early 1996 where small cap companies outpaced their larger cap counterparts. This transition in market leadership has only just begun and should favor the Wilke/Thompson investment approach. We are very excited about the changes that occurred in the portfolio last quarter. In particular, we have added several new names to the portfolio that should serve to enhance the investment returns going forward. We are equally excited about additional new names that are presently being researched and which we expect to add to the portfolio in the current quarter. We continue to further our commitment in finding and owning the highest quality small cap growth companies in the United States.

Wilke/Thompson Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Wilke/Thompson Capital Management is presently closed to new account relationships in our Small Cap Growth product and is only accepting additional contributions from existing clients or replacing lost clients. We lost one account worth $10.7 million in this product during the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Wilke/Thompson looks forward to continuing to serve the Minnesota State Board of Investment as its money manager.

Staff Comments

No comments at this time.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1,299 Million	Actual	9.7%	23.8%
Total Firm Assets Managed in this Discipline	$625 Million	Benchmark	11.5%	37.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the quarter ending September 30, 1997 the Minnesota State Board of Investment account appreciated 9.7% net of fees. The Russell 1000 Growth and the S&P 500 both experienced a return of 7.5% during the third quarter. The benchmark "normal" portfolio constructed by BARRA for Winslow Capital returned 11.5% for the third quarter and 37.0% over the most recent twelve months. This compares with the performance of the SBI account over the last twelve months of 23.8% net of fees versus 36.3% for the Russell 1000 Growth and 40.5% for the S&P 500.

Winslow Capital underperformed the benchmark "normal" portfolio by 1.8% net of fees during the third quarter of 1997. The slight under performance can be explained by our continued over weighting to the healthcare and business service sectors. Our under weighted exposure to the technology sector also detracted from relative performance versus our benchmark "normal" portfolio. In addition to our sector weightings having a negative impact on performance, our stock selection within each of these sectors was neutral to slightly negative for the three-month period compared to the "normal." While the sector allocation lowered the relative return in the aforementioned sectors, our increased exposure to the specialty retail sector and the stock selection was incremental to the portfolio's return.

The investment process at Winslow Capital focuses on identifying strong future earnings growth companies and being sensitive to what we pay for that future earnings growth stream. Our fundamental research led us to add three new stocks to the SBI's portfolio during the third quarter. The most recent purchases in your account include: CUC International, Falcon Drilling and HBO and Company. On "bottom up" fundamental analysis we have concluded that these companies meet our strict criteria of sustaining a future earnings growth rate in excess of 13% and are attractively priced relative to other investment opportunities.

For the twelve months ending September 30, 1997, Winslow Capital has experienced negative sector selection relative to the "normal" portfolio. The disparity in our sector selection can be attributed to our focus on investing in companies with above-average future earnings growth. To be considered a candidate for purchase in our portfolio process a company must be able to grow earnings in excess of 13% over a 2-3 year time horizon. Many of the sectors that have experienced the best relative performance over the most recent twelve months are comprised of more moderate earnings growth and/or lower margin businesses. These include the electronics, business machines, energy, financial service and consumer staple sectors. Our underweighting to these industries has been a negative contributor to performance. We are confident that our focus on higher margin, faster growing companies will lead to outperformance over the long-term. The portfolio is currently forecasted to achieve earnings growth of 25% through 1998, while selling at only 22 times our 1998 estimates. This compares to the S&P 500 with earnings growth of 7% and a P/E of 20 times 1998 estimates. Your portfolio is growing 300% faster than the market and trading at a very slight 15% P/E premium.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Winslow Capital follows a fundamental "bottom up" investment process that leads us to companies with above-average future earnings growth. Above-average growth is a necessity, but valuation of the stock is also important. These investment philosophy guidelines have driven us to over weighted positions in the specialty retail, business service and healthcare sectors relative to our "normal" benchmark portfolio. We continue to look for individual stocks in these sectors to report strong earnings. In the most recent quarter, the average reported earnings gain for the companies in your portfolio was 32%.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   During the re-interview process, Winslow Capital discussed the inherent flaws in our current benchmark "normal" portfolio. In an effort to improve the benchmark, we are currently reviewing it to reflect our style more accurately. If our current provider cannot develop a "normal" portfolio that is more representative of our portfolio management style, we will begin reviewing other alternatives prior to the November rebalancing.

Staff Comments

No comments at this time.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$534 Million	Actual	8.2%	25.4%
Total Firm Assets Managed in this Discipline	$534 Million	Benchmark	11.4%	36.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The Consumer Staples sector outperformed the custom benchmark, albeit by a slender margin. As investor confidence grew in more speculative issues in the technology and energy sectors, the more conservative consumer staples sector declined. Each of our finance holdings nearly doubled the market return as a result of continued strong fundamentals, consolidation and attractive valuations relative to other sectors. We continue to overweight positions in lending institutions (banks, specialty finance, S&L's), with no holdings in the underperforming insurance industries.

   The technology sector underperformed the custom benchmark, as our significant position in Microsoft Corp. took a breather after a 53% rise in the first half of 1997. Hardware companies such as PC, semiconductor and telecommunications infrastructure manufacturers had a stellar quarter. ZCI's portfolio held fewer of these issues due to their cyclical, demand-driven returns.

   Our portfolio underperformed the consumer discretionary sector, as these often volatile issues had a surprisingly solid quarter. Due to the short-term nature of retail company returns (within this sector), ZCI has chosen to focus our portfolio holdings on less consumer confidence-driven stocks. Issues relating to internet growth, demographic trends or international expansion tend to be investments of choice.

   As with many "active" managers' approach to investing, our portfolio maintains a significant concentration in our top-ten holdings. The strength in these holdings has helped buoy the portfolio, with all but three having returned over 39%. The disparity in performance is mostly attributed to fourth quarter 1996 and first quarter 1997, based on the large-cap bias in the equity market.

   Our early investment in the telecommunications area provided excellent returns for the last year. With an "active" investment philosophy, we have overweighted this sector compared to the custom benchmark, based on the long-term prospects brought forth from the telecommunications deregulation and consolidation within the industry.

   For the year, the consumer discretionary sector reflects the significant weighting held in APAC Teleservices during the fourth quarter of 1996 and the first quarter of 1997. While returns during the holding period for this issue were negative, the decision to sell was a correct one, based on zero appreciation since the exit date.

Zevenbergen Capital (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Economic data continues to support positive economic growth, low inflation and persistent demand for equities (flow of funds into stocks). As mentioned in previous reviews, attractive valuations based on P/E to growth rates continue to favor mid- and small-cap companies. The market has now shown a propensity for rotation into these issues. We believe this will continue and the "active" portfolio we have created will benefit. Large, global growth may take a rest, letting the smaller domestic companies have their day in the sun!

   Valuations and a stable economy continue to lead us to financial companies which can deliver good earnings, with the added benefit of a consolidating industry. Technology should get a boost from telecommunications orders in the fall and the re-emergence of the Year 2000 concerns. We expect to overweight the portfolio in both these sectors, technology and finance, for the near term.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no changes to report for the period.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
American Express Asset Management Group

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$38.9 Billion	Actual	3.4%	10.2%
Total Firm Assets Managed in this Discipline	$5.5 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the quarter ended September 30, 1997, the total return on your portfolio was +3.5% compared to a +3.3% return on the Lehman Aggregate Bond Index. For the twelve months ended September 30, 1997, your account returned +10.1% compared to the benchmark return of +9.7%.

   High Yield securities continued to add value in the third quarter of 1997. The total return on high yield securities was +4.51% for the quarter, which contributed an incremental positive return of +0.38% to the portfolio. At quarter end, 6.3% of the portfolio was invested in securities rated below investment grade by either S&P or Moody's. With no sign that the econony is faltering, we believe that high yield investments continue to offer value. However, because we are closer to the end of an expanding economic cycle, a bottom up investment aproach analysis on high yield investments is being emphasized.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The fixed income market continued to remain focused on economic activity and inflation news and expectations. Alan Greenspan continues to provide what was formally known as "moral suasion" when he talks up interest rates and talks down equity prices in an attempt to lower investment expectations.

   We believe that the labor market remains an important indicator of the direction of inflation. Thus far, tight labor markets have not added to pricing pressure. We believe it is prudent to continue to monitor the labor market closely for any sign which would indicate an inflationary impact.

   Portfolio durations will be maintained at current levels (slightly longer than the benchmark at 4.91 years versus 4.53 years for the Lehman Aggregate Index) with any change dependent upon a shift in economic events or expectations.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   The following individuals joined Asset Management Group:

Michael Spalding	Fixed Income Analyst
Kay Doremus	Senior Equity Analyst

American Express Asset Management Group (con't)

The following individuals left Asset Management Group:

David Gilson	Fixed Income Portfolio Manager	Pursue career outside firm
Marion Schultheis	Senior Equity Portfolio Manager	Pursue career outside firm

ASSET MANAGEMENT GROUP
Third Quarter 1997

Product	Gains # of Accounts	Gains Assets ($MM)	Losses # of Accounts	Losses Assets ($MM)
Fixed Income	0	0.0	1	73.3

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

No comments at this time.

Manager Commentary
BEA Associates

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$34.6 Billion	Actual	4.8%	13.0%
Total Firm Assets Managed in this Discipline	$6.1 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The performance of the Lehman Aggregate Index for the third quarter of 1997 was 3.33%. The State of Minnesota portfolio returned 4.50% for the quarter, generating net outperformance of 117 basis points. The outperformance can be attributed to successful strategies and security selection in volatility arbitrage positions, mortgage-backed securities and dollar denominated emerging market debt.

At quarter end, the government and agency bond portion of the State of Minnesota portfolio was approximately 22%, representing an underweight of approximately 28%. The investment grade corporate bond weighting of 24% represents a 5% overweight. Mortgages and other collateralized obligations accounted for 41% representing a 10% overweight. Within the mortgage related portion of the portfolio, general collateral was approximately neutral to the index with asset backed securities and commercial backed securities representing the 10% overweight.

For the quarter, volatility arbitrage positions had a significant impact on performance providing approximately 80 basis points of excess returns. Currency volatility trades made up 60% of this outperformance, with U.S. Index volatility trades contributing 25% and Non-U.S. volatility trades adding 15%. In general we positioned ourselves to benefit if volatility levels increased. In the third quarter this occurred in the U.K. equity market and in the German and far east currency markets.

During the past 12 months, the State of Minnesota portfolio provided a 12.46% return versus a 9.74% return for the index. The outperformance is the result of our general overweight in "spread products" and volatility arbitrage positions. The decision to actively vary the weighting in the mortgage backed securities sector also added value. As has been the case over the last twelve months, we continue to look to our security selection process to add a greater share of the incremental returns than our sector rotation strategies. This is due to the fact that non-treasury securities continue to trade at historically narrow spreads. The arbitrage strategies should continue to be plentiful as issues related to the Euro, Southeast Asia and diverging central bank policies provide opportunities for profit.

BEA Associates (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Although credit spreads are at the high end of their long-term valuations, we still see many pockets of opportunities and value. Double AA corporates have good relative value because the corporate quality curve has flattened, due to the exceptional performance of high yield securities over the past year. Reinsurance bonds, municipal securities, and mortgage-backed securities are several examples of non-cyclical investments that will perform well, regardless of economic fluctuations. Though we expect economic fundamentals to remain solid, we suspect that the overall "quality" of lower rated securities is diminishing with the flood of new issuance.

   Due to narrow spreads in virtually every sector we have opted to look for performance enhancement via security selection. While sectors appear fully valued we continue to find pockets of value at the security level. As a result, we have tried to buy larger positions when we find attractive securities. As more and more investors appear to be reaching for yield we are comfortable running portfolios at the lower end of our anticipated tracking risk in anticipation of increasing our risk profile as opportunities arise.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with BEA in their offices in October. Staff discussed their investment process and current strategy with their investment research people who are responsible for each of the fund sectors that are invested in the SBI portfolio. Staff also met with their compliance and backoffice staff to better understand their responsibilities and involvement with the investment process. From an organizational standpoint, they have recently ramped up efforts to work more closely with their sister office in London, Credit Suisse Asset Management, to gain further insight to the global bond market.

Manager Commentary
Investment Advisers, Inc.
(Fixed Income)

Period Ending:	9/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$14.8 Billion	Actual	3.2%	9.9%
Total Firm Assets Managed in this Discipline	$ 4.4 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio lagged its benchmark in the third quarter as a result of our duration and yield curve strategy. As interest rates fell in the last half of September, the shorter duration strategy caused the portfolio to underperform. Issue selection strategy was a positive contributor in all sectors. The sector allocation performance was mixed, with positive results in August and September offset by negative results in July. For the quarter, Treasury and mortgage positions produced the best overall results.

   Over the last year, the portfolio benefited from issue selection and an overweighting in the asset-backed and mortgage securities sectors. On average, the corporate bond sector weighting was a neutral factor while the duration strategy was a modest negative.

   Performance lagged the benchmark in the last 12 months, primarily as a result of the most recent quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Portfolio duration was shortened in response to the continuing deterioration of economic fundamentals for interest rates. Capacity utilization is high, labor markets are tight and consumer confidence is high. Money supply growth has accelerated to uncomfortably high levels and many foreign economies are showing signs of rising economic strength. A strong dollar and rising imports have helped to constrain inflation. The dollar is a growing risk for bonds. A modest barbelled yield curve strategy remains in place as the trend is toward a tighter monetary policy in the next six months.

   The corporate bond allocation was reduced and maturity emphasis was shifted to shorter and intermediate positions. Break-even spreads are too narrow and we anticipate a modest "fourth quarter effect" with corporates underperforming..

   The mortgage allocation was raised during the rally in the second half of September. Falling interest rates produced wider yield spreads, which we viewed as a buying opportunity.

   The portfolio is now more defensively structured. We view this as appropriate for the credit cycle background and the current level of interest rates and credit spreads.

IAI (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no ownership changes in the third quarter of 1997.

Full Duration accounts Gained/Lost during third quarter 1997:

	# of Accounts	Asset Value
Gains	0	$0 MM
Losses	0	$0 MM

Total firm additions and departures for the third quarter are as follows:

Staff *Additions* are as follows:

Year Hired	Name	Title/Responsibility
1997 3Q	Felicity Smith	Senior Fund Manager/European Equity

Staff *Departures* are as follows:

Year Departed	Name	Title/Responsibility
1997 3Q	Livingston Douglas, CFA	Vice President/Fixed Income Portfolio Mgr.

There have been no major changes in IAI's organizational structure during 1997.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

No additional comments.

Staff Comments

Staff does not feel that the departure of Doug Livingston will materially impact IAI's Fixed Income investment team. He was primarily responsible for providing analysis on the yield curve strategy. However, the final yield curve decisions are made on a team basis. IAI does not plan to hire a direct replacement for Doug. Instead they plan to hire three junior analysts: one credit analyst, an international analyst, and a generalist.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$53.3 Billion	Actual	4.0%	12.1%
Total Firm Assets Managed in this Discipline	$35.3 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the third quarter, your portfolio provided a net return of 3.4% versus 3.3% for the benchmark. Over the last twelve months, your net return was 11.6% versus 9.7% for the benchmark During the quarter, interest rates fell about 40 basis points. We began the quarter with a duration of 4.8 years, slightly longer than the benchmark, and the duration remained relatively constant over the quarter. Our investment strategy included an overweighting in the mortgage and corporate securities, a 3% but declining allocation to foreign securities, and a neutral stance with regard to the yield curve. During the quarter, both corporate and mortgage securities added to relative returns. High quality bank and insurance company surplus notes, as well as our below investment grade holdings, added value. Mortgage securities have appreciated to historically rich levels. Below investment grade and emerging markets securities ended the quarter at 3.7% of the portfolio.

   Over the last year, our active decisions with regard to duration, yield curve, corporate, mortgage and foreign securities added value. Yield spreads for high to medium quality corporate securities and mortgage securities narrowed throughout the year and have added to portfolio returns. Your exposure to these securities were a net positive for your portfolio, with corporate and mortgage securities accounting for a very large portion of our excess return for the last year.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We find the fixed income market place attractive. The slope of the yield curve and the level of real interest rates suggest that the broader fixed income market represents reasonable value. We remain fairly neutral with regard to duration and yield curve decisions. We continue to overweight mortgages (41.0% versus 29.6% for your benchmark) and corporate and asset-backed securities (29.1% versus 19.6%) within the portfolio. We have a 1% exposure to the non-dollar market. Our overweightings to the corporate and mortgage sectors reflect the attractive option-adjusted credit-adjusted expected returns we are able to identify.

   Mortgage securities have continued to perform well and appear rich on an option-adjusted basis. Therefore, we have attempted to reduce prepayment sensitivity within the portfolio. This strategy will benefit the portfolio if there is an increase in market volatility or an increase in prepayment concerns associated with a general move to lower interest rates. U.S. Treasury Inflation Index-linked notes have underperformed. We have increased these holdings to 3.3% and expect they will perform reasonably well should there be a resurgence of inflation concerns.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the quarter, we hired two fixed income investment professionals and four equity investment professionals, as well as one client service professional.

   We gained seven fixed income accounts during this period and lost none.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Miller Anderson in September. Staff discussed their investment process and current strategy with the SBI's portfolio manager and the other investment people who set overall strategy and provide research in the various bond sectors. In addition, staff met with their systems and backoffice personnel to understand their investment analytics, risk control procedures, and clearing and settlement with the SBI's custodial bank. Lastly, staff discussed the recent merger of Miller's parent, Morgan Stanley, with Dean Witter. Staff was informed that Miller Anderson would not be affected and they would continue to be the institutional fixed income manager for the company.

Manager Commentary
Standish, Ayer & Wood

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$36.7 Billion	Actual	3.5%	11.0%
Total Firm Assets Managed in this Discipline	$11.4 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

First Quarter and Year Attribution (Rel. to Lehman Aggregate)

	3rd QUARTER	**LAST 12 MONTHS**
Duration	0.02	0.09
Yield Curve	(0.02)	0.04
Domestic Sectors	0.11	0.92
Non-Dollar	0.04	0.28
Fees	(0.04)	(0.17)

- Corporate spreads continue to narrow; below investment grade still doing well (Year and Quarter).
- Continue to reduce mortgages, which underperformed slightly in quarter.
- Non-dollar continues to outperform slightly, but rate of outperformance declining.
- Neutral duration posture neither adds nor subtracts.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Sector	Weighting Strategy	Rationale
Mortgages	Underweight	Spreads have tightened and Bond volatilities are very low.
Corporates	Overweight	High grade industrial spreads very narrow. Limiting duration in corporates. Emphasis on financial sectors (REIT, insurance, brokers, finance)
International	Average weighting	Foreign markets remain reasonably attractive in spite of superior performance. Foreign performing more in line with U.S.
Treasuries	Less underweight	Spread sectors have tightened so much that Treasuries appear to be better values. Money flowing from mortgages to Treasuries.

Standish (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel additions:	Jeffrey Wakelin	Corp. Bond Analyst
	John Peta	International Fixed Income Analyst
	John Keller	Junior Mortgage Trader
Personnel Lost:	John Power	International Bond Analyst/Economist
Accounts Gained:	5 Pension Plans, $1,246M	
	1 Limited Partnership $67M	
	1 Endowment $22M	
Accounts Lost:	None	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff met with Standish in their office in September. Staff discussed their investment process and current strategy with their investment staff, including portfolio managers, credit analysts, and quantitative analysts. Staff also met with their systems, compliance and backoffice staff to better understand their responsibilities and involvement with the investment process. Lastly, from a business standpoint, Standish is trying to expand their equity investment operation so their business mix will become more balanced between fixed income and equity. Currently, about 90% of Standish's assets is invested in fixed income.

Manager Commentary
Western Asset Management

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$32.1 Billion	Actual	4.1%	12.7%
Total Firm Assets Managed in this Discipline	$19.2 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio recorded healthy performance gains in the third quarter of 1997 as most strategies produced positive results. The portfolio's long duration exposure was the major contributor to performance, since interest rates fell across the board. The portfolio's barbelled exposure to maturities benefited only modestly from a flatter yield curve, as intermediate and long rates fell more than short-term rates. Overweight exposure to the mortgage sector detracted from performance as spreads widened marginally, but this was offset by the emphasis on discount coupons, which outperformed. Selected corporate issues, particularly those at the lower end of the quality scale, turned in above-average performance. The portfolio's exposure to dollar denominated emerging market debt securities also made an important contribution to performance, as spreads continued to narrow.

Performance over the past year remains well ahead of its benchmark. The portfolio's long duration posture throughout the past year has made a moderate contribution to performance, since interest rates have fallen on balance for the period. Yield curve positioning has contributed consistently to overall results, as yield curve exposure has successfully anticipated virtually every major shift in the shape of the yield curve. Mortgage overweighting throughout the past year was a definite positive, as mortgages outperformed all other sectors. Throughout the past year, significant return has been due to corporate overexposure, mainly due to our emphasis on the lower end of the investment quality scale, as these issues turned in strong performance. Dollar denominated emerging market debt exposure has also contributed handsomely to returns as spreads have narrowed dramatically.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Since the Fed last raised rates in March, yields have fallen 50-70 basis points across the curve, despite economic growth which has exceeded the economy's supposed "speed limit" of 2.5-3%. The outstanding economic development so far this year has been an impressive decline in inflation—it's now running at 1.5 - 2%, and even that may overstate true inflation by the Fed's own admission. Also of note are the massive currency devaluations which have rocked the S.E. Asian economies; on the margin this is likely to mean reduced demand for U.S. exports and more competitively-priced imports, thus keeping a lid on domestic inflation pressures.

With little reason to expect either a significant slowdown in economic activity or rising inflation pressures, we expect that the undercurrents of low inflation will pull interest rates down over time, though there are likely to be unpleasant eddies along the way as concerns over growth resurface. Strong growth in liquidity, for example, suggests that a noticeable pickup in economic activity may be brewing even now. This could pose a significant threat to the front end of the yield curve, where prices now assume that a near-term Fed tightening is only a remote possibility. However, volatility on the long end of the curve should be held in check, if for no other reason than relative valuations. Real long-term interest rates in the U.S. are among the most attractive of the industrialized countries.

For these reasons we remain long our duration benchmarks, but with a degree of caution. A barbell exposure to maturities is particularly attractive at this time, as long-term yields are high relative to inflation fundamentals, while the front end of the curve would undoubtedly suffer most if the economy were to experience stronger-than-expected growth. Our mortgage exposure remains somewhat defensive, with an emphasis on discount coupons and commercial mortgages to minimize prepayment risk. We still hold a modest overweighting to corporate securities, and plan to gradually upgrade the quality of our holdings in recognition of historically tight credit spreads and lingering deflationary risks.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel Addition: Frank J. Barker - Chief Operations Officer

Accounts Gained: 5 Accounts Gained

Accounts Lost: None

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff met with Western Asset in their offices in late October. Staff met with their investment staff to discuss their investment process and current strategy. Staff also met with their compliance and backoffice people to better understand their responsibilities.

Recently Western hired a person to head up their systems operations. They plan to hire seven or eight additional systems people and to convert their trading, compliance and backoffice to a real time system. In addition, they plan to build up their international operations in London. Lastly, they plan to double the number of partners in the firm from 16 to approximately 32 to increase the stability of the professional staff.

Manager Commentary
BlackRock Financial Management

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$51.70 Billion	Actual	3.4%	10.2%
Total Firm Assets Managed in this Discipline	$2.74 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

During the third quarter, the MSBI Enhanced Index Portfolio posted a return of 3.38%, net of fees, versus 3.33% for the Lehman Aggregate Index. Since its March 31, 1996 inception, the Portfolio has returned 8.42%, net of fees, versus 8.11% for the Lehman Aggregate Index (annualized). Following is a month-by-month breakdown of performance:

	MSBI	**LEHM**	**DIFFERENCE**
September 1997	1.56%	1.48%	0.08%
August 1997	-0.87%	-0.85%	-0.02%
July 1997	2.68%	2.70%	-0.02%
June 1997	1.21%	1.19%	0.02%
May 1997	0.94%	0.95%	0.01%
April 1997	1.36%	1.50%	-0.14%
March 1997	-1.14%	-1.11%	-0.03%
February 1997	0.40%	0.25%	0.15%
January 1997	0.42%	0.31%	0.11%
December 1996	-0.80%	-0.93%	0.13%
November 1996	1.75%	1.71%	0.04%
October 1996	2.27%	2.22%	0.05%

The Portfolio underperformed the Lehman Aggregate Index during July and August and outperformed the index during September. The portfolio outperformed the index for the quarter by 5 basis points, net of fees.

Positive contributions to performance (in decreasing order of magnitude) included:

- Underweight corporates as spreads widened late in the quarter
- Overweight fixed-rated ABS
  --Manufactured-housing issues continued to tightened
- Moderately long duration, especially the 30-year area of the curve, as the market rallied

Negative contributions to performance (in decreasing order of magnitude) included:

- Rule 144A and Yankee securities performed poorly relative to other corporate securities
- Slightly overweight mortgage sector as spreads widened early in the quarter
- Underweight generic MBS pass-throughs which performed well due to technical factors

Since inception, the Portfolio has outperformed the index by 31 basis points net-of-fees. During the past year of managing MSBI's portfolio, much of the value we have added is attributable to the outperformance of spread product, especially the increasingly attractive asset-backed sector, and our duration and yield-curve positioning. Consistent with our management style, both our overall sector biases and our specific security selection within sectors have contributed substantially to the Portfolio's performance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Currently, our primary strategies are as follows:
   - Long duration versus the benchmark approximately 20 basis points. We do not expect further Fed tightening in the immediate future, given that long-term economic fundamentals continue to provide a bullish backdrop for the market.
   - Little yield-curve bias, slightly long the 30-year area of the curve versus the 10-year area.
   - Underweight corporate exposure, looking oportunistically to close the gap over the next several weeks.
   - Maintain overweight position in the asset-backed sector, which continues to offer good value relative to other spread product.
   - Maintain underweight position in the mortgage sector due to poor prepayment and volatility fundamentals.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with BlackRock at their office in early October. In addition to discussing their past performance and future strategy, staff also concentrated on their organization and systems development. Organizationally, they are in negotiations with their parent bank to eventually spin off their business into a publicly owned firm. As to their systems, they are converting from an overnight batch system to a real time system to better control risk and compliance with client guidelines.

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$127.7 Billion	Actual	3.5%	10.4%
Total Firm Assets Managed in this Discipline	$7.1 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the third quarter, we continued to overweight the mortgage, asset-backed, corporate and emerging market debt sectors. The portfolio outperformed the Lehman Aggregate by 8 bps (gross of fees). Incremental return was primarily attributable to the corporate and mortgage sectors (particularly in the CMO subcategory).

For the last twelve months, treasuries added 10 bps to incremental return as the portfolio's securities (having a broad distribution of cash flows) benefited as the yield curve flattened. The Agency sector subtracted over 2 bps from return as a result of our strategic underweighting of the sector relative to the index.

Over the past twelve months, the mortgage sector added about 15 bps to incremental return, largely attributable to CMO holdings concentrated in support and PAC structures with good convexity characteristics.

The portfolio's corporate holdings added 17 bps to incremental return during the past year. Spreads across subsectors (industrial, finance, utility and foreign) narrowed during the period as good news on the economy boosted both earnings and perceptions of credit. In 1997, the only episode of meaningful sector weakness (following the Fed tightening in March) proved relatively short-lived as spreads snapped back to their previous levels within weeks.

The investment grade dollar denominated emerging market sector added 7 basis points to return over the past year. Portfolio holdings continue to be concentrated in Latin America, where substantial economic and political reforms have been implemented.

3Q97 Performance Attribution

Duration/Term Structure/Convexity	1.4	Emerging Markets	-2.7
Treasury	0.9	Mortgage	4.5
Agency	0.5	Municipal	0.0
Asset-Backed	-0.4	Index Price Mismatch	0.0
Corporate	1.2	Residual	2.3
		Total	**7.7**

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Goldman (con't)

21% allocation to the Treasury sector (22% underweighting); _0% allocation to the Agency sector_ (7% underweighting): The portfolio is underweighted both Treasuries and Agencies relative to the benchmark in favor of higher-yielding spread sectors. _33% allocation to the mortgage sector_ (3% overweighting): Given the market's recent volatility, we are maintaining a defensive posture in pass-throughs and continue to emphasize 30-year discount or cusp coupon securities. Our outlook for the CMO sector remains cautious, relative to both pass-throughs and Treasuries. _28% allocation to the corporate sector_ (9% overweighting): We are somewhat cautious on the corporate market as heavy new issuance and year-end window dressing could undermine corporate spreads in the near term. We continue to emphasize short-duration, higher spread bonds in order to add incremental yield (without incremental volatility) to the portfolio. _12% allocation to asset-backed sector_ (11% overweighting): Although we expect spreads to stabilize as investors chip away at dealer inventories, widening swap spreads may put pressure on fixed rate ABSs, especially those backed by credit card receivables. We will continue to concentrate portfolio holdings in those issuers demonstrating solid credit awareness and servicing capabilities. _5% allocation to investment grade dollar denominated emerging market sector_ (5% overweighting): While instability continues to plague Southeast Asian currency markets, the outlook for Latin America (in which the majority of EMD holdings are concentrated) is more sanguine. Moody's recently upgraded the foreign currency debt of Argentina to Ba3 from B1 while growth continues to exceed expectations in Mexico.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

U.S. Fixed Income Accounts Gained:		**U.S. Fixed Income Accounts Lost:**	
U.S. Clients	3	U.S. Clients	0
Non-U.S. Clients	0	Non-U.S. Clients	4

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff met with Goldman in their office in October. Staff discussed current strategy with the SBI portfolio manager and their investment process with the research people who are responsible for the various bond sectors in the SBI portfolio. Staff also met with their compliance and backoffice people to understand their responsibilities. Lastly, from an asset growth standpoint, Goldman has grown to $130 billion in assets through internal growth and recent acquisitions, the most recent being Commodities Corp. in July of 1997. Their business plan is to have $200 billion under management by the year 2000 and will most likely involve more acquisitions. Staff plans to monitor this asset growth plan to make sure it does not impact the management of the SBI's fixed income account.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$46.1 Billion	Actual	3.4%	9.9%
Total Firm Assets Managed in this Discipline	$13.6 Billion	Benchmark	3.3%	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	3rd Quarter 1997		12 Months Ended 9/30/97	
	Active Strategy	Value Added	Active Strategy	Value Added
Mortgages	Neutral	0.00%	Overweighted	0.01%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Neutral	0.00
Asset-Backeds	Overweighted	0.01	Overweighted	0.01
Agencies	Neutral	0.00	Neutral	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.07	N/A	+0.14
Less Fees		-0.01		-0.04
Total		**+0.06%**		**+0.10%**

On a net-of-fee basis, your portfolio outperformed the Lehman Brothers Aggregate Index by 6 basis points for the third quarter 1997, and by 10 basis points for the year ending September 30, 1997.

During the course of the past quarter, we continued to opportunistically increase the overweighting in asset-backed securities relative to the benchmark, which currently stands at 11%. The average duration of the asset-backed component is approximately 2.0 years. We hope to capture the yield advantage of these securities (with minimal event or issuer risk), with only a moderate exposure to a widening in asset-backed spreads. The balance of the corporate sector is market-weighted relative to the benchmark.

Over the past twelve months, mortgage-backed securities contributed positively to the portfolio's return relative to the benchmark. The .125 duration year overweighting in mortgages was reduced to zero in mid-January as mortgage spreads narrowed inside of historical spreads. Since these spreads remain narrow, your portfolio remains market weighted relative to the benchmark. Security selection continues to be the primary component of value-added, both for the quarter and the one-year period ending 9/30/97.

Lincoln (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	Strategy	Rationale
Asset-Backed Securities	Overweighted vs Treasuries	1. High Quality 2. Attractive Yield 3. Low Event Risk 4 Low Prepayment Risk

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

During the third quarter of 1997, Tom O'Reilly and Senthil Sundaram joined the fixed income area; Tom as a high yield credit analyst, and Senthil as an analyst specializing in portfolio management technology.

Thomas P. O'Reilly, Vice President, joined LCM in 1997 as a high yield analyst. Tom had previously been a high yield analyst at Stein Roe and BankAmerica for eight years. He has a BS in Finance from Indiana University and an MBA from Loyola University.

Senthil K. Sundaram, Vice President, joined LCM in 1997 as a quantitative research analyst. Prior to joining Lincoln, Senthil spent three years as a trader and developer of risk management systems at Perry Corp., an event-driven hedge fund in New York. He has a PhD in Theoretical Physics from the University of Wisconsin.

There were no accounts gained or lost in this discipline over the past quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

There are no issues or developments that would impact the SBI account.

Staff Comments

Staff met with Lincoln in their offices in July. Staff discussed current strategy with the SBI portfolio manager and their investment process with the research people responsible for each of the fixed income sectors. Staff also met with their backoffice people to better understand their responsibilities. From an organizational standpoint, they are looking for a systems person to keep their technology current and also be responsible for their administrative and backoffice operations.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$81.3 Billion	Actual	-0.5%	16.9%
Total Firm Assets Managed in this Discipline	$21.4 Billion	Benchmark	-0.9%	12.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio modestly outperformed the benchmark in the quarter, declining 0.5% on a net-of-fees basis against the benchmark return of -0.9%. Over the one year period, the portfolio significantly outperformed, with a gain of 16.9% against the benchmark return of 12.0%. Market allocation was a positive in the third quarter and for the full year. The portfolio was helped in the quarter by underweighting Japan, and by maintaining overweights of the U.K., Netherlands, Germany and Italy. Detracting from quarterly performance were the overweight of Singapore and underweights of Sweden and Switzerland. Strategic cash also detracted. For the full year, the key positives were the underweights of Japan and Malaysia, as well as overweights of most European markets. Again, strategic cash cost performance, as did underweighting several Scandinavian markets and Switzerland.

Currency strategies had a major positive impact on relative performance over the full year, but had a modestly negative impact in the third quarter. For both time periods, value was added from the strategy of being overweight the U.S. dollar. Over the full year, non-U.S. currencies lost 9.81% in aggregate and the underweight of the yen and of the core DM-bloc currencies had a significant positive impact. During the third quarter (having scaled back our currency exposures to near-neutral relative to the benchmark) our currency positions produced returns in line with the benchmark, which was down 3.48%. The underweight of the HK dollar and overweight of the New Zealand dollar detracted a bit from relative performance during this period.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Relative to more recent history, the portfolio has few active bets in place at this time. Most significant is the Japan underweight, followed by the strategic cash allocation of 5%. The latter is based on our view that most non-U.S. equity markets continue to be quite overvalued. (Over the one year period, the non-U.S. markets returned 25.19% in hedged terms.) Japan remains the largest underweight, as it continues to appear overvalued. The domestic economy now appears to be faltering, while the low level of corporate profitability, the slow pace of much-needed regulatory reforms and the significant level of bad loan problems (likely to be worsened by the SE Asian economic crisis) that hang over the banking sector continue to hold down this market's intrinsic value.

The portfolio is moving in the direction of lessening the scale of the underweight for the Pacific region due to the strong divergence in performance between the European and Pacific markets. Europe, in aggregate, enjoyed particularly strong performance over the past year, growing almost 50% in hedged terms. We have begun to lock in some of the profits generated by this strong performance, in the second quarter scaling back France and, in the third quarter, the Netherlands. Conversely, the poor performance of Malaysia and Singapore has caused these markets to become more attractive; each was raised to a small overweight. At this time there are also small overweights of Australia, New Zealand, the U.K and various Continental European markets. Underweights are held in Japan, Switzerland, France and Hong Kong.

One currency strategy change was made in the third quarter, bringing the Australian dollar up to neutral, offset by a decrease in the pound sterling. The current currency allocation is largely neutral, with only small U.S. dollar and NZ dollar overweights and modest underweights of the HK dollar and the pound sterling.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Anthony Robinson, Partner and Non-U.S. Equity Investment Strategist, left Brinson Partners during the third quarter of 1997 to join Fleming Investment Management as its Managing Director, Equities. Mr. Robinson's role will be filled by other senior investment professionals within Brinson Partners.

   There were no accounts gained or lost this past quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Staff Comments

Anthony Robinson left Brinson in the first quarter of 1992 and then returned in the first quarter of 1995. His current departure is not expected to impact Brinson, since his role was not as significant after he returned.

Performance attribution (gross of fees) relative to EAFE-Free for the quarter is shown below:

July – Sept. 1997

Local Returns		**Currency Returns**	
Country selection	1.2	Currency effect	0.0
Stock selection	-0.8	Hedging activity	0.2
Timing	0.0	Timing	-0.2

Total value added to EAFE-Free **0.3**

Source: State Street Analytics

Manager Commentary
Marathon Asset Management

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$9.4 Billion	Actual	-2.0%	9.0%
Total Firm Assets Managed in this Discipline	$6.7 Billion	Benchmark	-0.9%	12.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The Fund declined 2.0% (est) in the third quarter of 1997 against a 0.9% decline in the MSCI EAFE-Free benchmark. Market selection was broadly neutral with positive returns arising from the underweighting of Japan and Malaysia, and the Mexican exposure offsetting the underweighting of Europe and the impact of the turmoil in S.E. Asia on Indonesia. Stock returns, however, continued to suffer in Europe from the relentless rise in larger capitalisation issues, reinforced this quarter by the almost panic selling in Japan of mid caps, domestic value and economic sensitives. No major portfolio shifts were made in the quarter, with country weightings moving in line with market action.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The strong sectoral bias in markets towards interest rate sensitives (many of which also dominate the lists of wealth creators/free cash generators) can be gauged by the movements in the sectoral composition of the EAFE index over the quarter, with finance rising from 24.5% to 25.3% and energy from 10.4% to 11.0%. Whilst we remain underweight these sectors in Europe, we have begun to raise exposure here in Japan, reflecting the very different perceptions and valuations between the two areas. In Europe, the combination of falling interest rates, rising liquidity and the embracing by management of the main tenets of the U.S. bull market (shareholder interests, balance sheet re-engineering, free cash flow/economic value-type models) have driven related equity to ever higher valuation levels. In Japan, however, this responsiveness to shareholder interests has been considered to be an exclusive preserve of the internationally minded, with the share prices of domestic issues (and particularly those in regulated industries) sinking ever lower.

   Both these trends - the relative valuation of European interest rate sensitive cash generators versus economic sensitives, Japanese globally economic sensitive exporters versus domestics - are now, we believe, nearing a climax with prospective policy shifts (in Europe towards growth and jobs, in the U.S. towards inflationary (or asset price ?) concerns and in Japan towards deregulation and change) over the next twelve months the driving catalyst for a shift in market focus.

   The portfolio is then structured not only so that it ought to perform well in any correction but, more importantly, is biased towards areas where change (be it in the operating environment, industry psyche or management attitudes) can create meaningful positive shifts in investor perceptions.

Marathon (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel:	No staff movements in the quarter.
Accounts Gained:	Four segregated accounts were gained in the quarter. Three of these were Australian wholesale funds totalling A$750mn against an MSCIWorld benchmark, and one was a US$40mn ERISA plan managed against an MSCI Europe benchmark.
Accounts Lost:	No segregated accounts lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

The three Australian accounts are for one relationship. Marathon is acting in a subadvisor-type of relationship with an Australian money management firm. These accounts could grow over time, but Marathon doesn't expect significant growth. In U.S. dollars, the accounts total about $570 million.

Performance attribution (gross of fees) relative to EAFE-Free for the quarter is shown below:

July – Sept. 1997

Local Returns		**Currency Returns**	
Country selection	1.3	Currency effect	0.0
Stock selection	-2.6	Hedging activity	0.0
Timing	0.0	Timing	0.2
Total value added to EAFE-Free		**-1.1**	

Source: State Street Analytics

Manager Commentary
Rowe Price-Fleming International

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$32.9 Billion	Actual	-0.3%	17.2%
Total Firm Assets Managed in this Discipline	$28.0 Billion	Benchmark	-0.9%	12.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Country allocation relative to the benchmark was positive over the quarter. Your portfolio's underweighting in Japan added value as did the overweighting in the Netherlands and exposure to Mexico which is not in the index. Underweightings in the UK and Germany subtracted value as did exposure to the Brazilian market. Reductions to holdings in the Pacific ex-Japan in the last nine months meant that exposure to these markets was similar to the benchmark and so had little impact on the relative performance of your portfolio.

   Stock selection was negative over the quarter. Value was added in Japan where internationally competitive manufacturing companies outperformed. In Europe, favoured growth stocks, particularly in the UK and the Netherlands, lost ground relative to large cyclical companies where management is thought to be refocusing on shareholder interests.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   International markets have made little progress over the last three months after the strong upward move seen during the second quarter. Looking forward, the outlook continues to be reasonable for Continental European markets with corporate earnings likely to come through strongly on the back of corporate restructuring and better than expected economic growth. The risk remains that long rates will rise in Europe in response to the latter but we are hopeful that limited inflationary pressure will help to underpin regional bond markets.

   The outlook for Asia is less encouraging with both the Japanese and South East Asia economies slowing. This is likely to have a major impact on corporate profitability. That said, markets have weakened sharply and valuations across much of the region are looking more interesting. We believe that Latin American markets can continue their recent progress given the commitment in the region to political and economic reform together with valuations at the corporate level which remain attractive despite strong share price performance this year. In general, we are hopeful that a reasonable earnings outlook in Europe and Latin America combined with selectively attractive valuations in Asia will enable international markets to finish 1997 on a positive note.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no changes in the ownership or personnel of RPFI in the last quarter.

   There were no accounts gained or lost in the third quarter of 1997.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Performance attribution (gross of fees) relative to EAFE-Free for the quarter is shown below:

July – Sept. 1997

Local Returns		**Currency Returns**	
Country selection	0.7	Currency effect	-0.2
Stock selection	-0.6	Hedging activity	0.0
Timing	0.1	Timing	0.7

Total Value Added to EAFE-Free 0.6

Source: State Street Analytics

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$128.4 Billion	Actual	1.6%	22.2%
Total Firm Assets Managed in this Discipline	$13.4 Billion	Benchmark	-0.9%	12.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Strong performance from individual holdings in Europe and Japan outweighed the negative returns from your portfolio's holdings in southeast Asia. Despite the significant declines in the Asian markets, the negative impact was mitigated by the low exposure the portfolio has to this region.

   The third quarter was marked by volatility in both Asian and European markets, with European markets recovering any lost ground to finish ahead for the period while most Asian markets ended with significant declines. The turmoil in the Asian markets captured the attention of global investors as many of the region's currencies were forced to abandon targeted exchange rate levels versus the US dollar. The subsequent declines in currency values coincided with declines in share prices across the region as investors reduced their exposure due to the increased uncertainty created by the currency devaluations.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Europe continues to be the region where we feel there is the most opportunity. There have been significant improvements in corporate profitability as restructuring and cost-cutting have led to improved operating margins for many companies. Some industries are ahead of others in the restructuring process. Chemical and pharmaceutical companies have seen some of the most dramatic improvements in profitability due to restructuring, and the portfolio has benefited from its exposure in this area. Other industries are now proceeding down this same path. Banking and insurance are two areas where the portfolio has exposure, and there is plenty of scope for consolidation. The increasing news of mergers in this area is likely to be only the beginning of a period of industry consolidation and rationalization.

   We continue to have a significant underweight position in Japan in the portfolio. Those companies we do own are those that have either a strong position globally in their industry or those that have a niche position in the Japanese economy. Positive reforms to the financial system are taking shape, and these will likely help the economy and markets in the future. However, valuations are still high for many companies, and this keeps us at bay.

   The Asian turmoil is of concern to us, but it should be put into context. The portfolio weighting in German banks alone is greater than the portfolio weighting in Malaysia, Indonesia, the Philippines and Thailand combined. After the steep declines in share prices in Asia, however, and because of our belief in the region's eventual return to high growth, we are spending more time with our southeast Asian specialists investigating possible investment opportunities in the area.

In Asia, the entrepreneurial spirit has not dissipated with the declines in share prices and currencies. The markets have, however, sent a signal to the authorities that capital cannot be taken for granted, and unsound policies will be punished. In the long term, we think this could result in reform and a healthier structure for financial markets in the region.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel Gained:	**Name**	**Responsibility**
	Terrence Gray	Analyst – Pacific Basin Region
	Timothy Griffen	Country Analyst – Japan

Personnel Lost: **None**

Organizational Structure Changes: Scudder will be entering into an alliance with the Zurich group at year end 1997, which has been discussed with SBI staff. We anticipate no changes in the international equity process or personnel as a result. Scudder may add research resources from the Zurich organization.

Also, Marc Joseph will be assuming responsibility for the SBI account as Irene Cheng moves to take over management of the Scudder International fund (a no-load mutual fund).

Accounts Gained: 1 account , $102 million.
Accounts Lost: None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.* None.

Staff Comments.

Staff commented on the organizational changes listed in #3 last quarter. In accordance with the Manager Continuation Policy, Scudder was placed on probation. Staff will closely monitor these changes to ensure that they do not negatively impact our portfolio.

Performance attribution (gross of fees) relative to EAFE-Free for the quarter is shown below:

July – Sept. 1997

Local Returns		**Currency Returns**	
Country selection	0.4	Currency effect	0.0
Stock selection	1.3	Hedging activity	0.0
Timing	0.2	Timing	0.8

Total Value Added to EAFE-Free 2.6

Source: State Street Analytics

Manager Commentary
City of London

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Since Inception**
Total Firm Assets Under Management	$ 971 Million	Actual	1.2%	24.5%
Total Firm Assets Managed in this Discipline	$ 971 Million	Benchmark	-9.0%	9.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The MP Fund outperformed its benchmark, the M.S.C.I. Emerging Markets Free Index; by 10.2 percentage points during the third quarter of 1997. The major factor behind this outperformance was country allocation against the benchmark index. Further outperformance was added from the narrowing of discounts within the portfolio, and from the positive effects of currency movements. However, some underperformance occurred as, in general, portfolio holdings failed to keep pace with their respective benchmark indices.

The Fund's large underweighting in Malaysia once again paid dividends as the MSCI Malaysia Free Index fell 27.3%, in local terms, over the quarter. Further outperformance resulted from overweight positions in Thailand and Mexico, with respective benchmark constituent indices increasing 15.4% and 24.7%, in local terms. Investments in countries which are not components in the MSCI EMF Index added further positive relative performance, particularly in Russia as the index rose 18.7%, in local terms, over the period.

The Fund's underweighting of Malaysia and Indonesia led to outperformance in currency movements, as the ringgit and the rupiah weakened by 28.8% and 35.1%, against the US dollar, over the quarter. NAV's of holdings in Brazil and China failed to keep pace with their benchmark indices.

Outperformance in discount variation was a result of the Fund's investment approach in Taiwanese listed closed end funds. The discounts of three of the Fund's holdings narrowed dramatically, having broken imposed discount levels which effectively triggered automatic open ending. These holdings were: Kwang Hua Fortune Fund, Masterlink Fund and Grand Pacific Fund.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Looking forward, City of London will reposition the fund from a regional and country basis.

- On a relative value basis the Asia region, principally the ASEAN countries, offer greater opportunities for excess returns than the Latin American region. Therefore we will steadily reduce our Latin American exposure as discounts on closed end funds narrow and recycle into Asia funds bringing our Asian exposure up to index weighting. The first reason for this decision is that whilst earnings growth is similar in the two regions valuations are significantly different. The low price-to-earnings ratio on ASEAN markets provided resistance to recent emerging markets volatility. The second reason is the currency affect. Over the next quarter the Latin American stock markets are likely to come under pressure as countries like Brazil continue to run twin deficits. Over the same period the devaluation by the Asian countries should allow room for interest rate cuts.

- On a country basis this recycling into the Asian countries will mean an increase in exposure to Malaysia and Indonesia towards their index weighting. On a contrarian basis investing in Malaysia and Indonesia whilst sentiment is poor towards the country is a logical move. This is because fundamentals are likely to show rapid improvement from the flotation of their currencies.

- The reduction in Latin America will be achieved through reducing our exposure to Mexico which currently is overweight against the benchmark. Brazilian exposure will remain underweight as the real increasingly looks susceptible to weakness.

- Finally our exposure to Eastern Europe will remain relatively constant as Russian exposure through closed end funds continues to provide good value.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Chrisopher Dunn, Macro Economist left the firm in September 1997. He is succeeded by Michael Russell, who will take on all of his responsibilities.

Peter O'Sullivan joined the London Office as the Head of Compliance and Douglas Allison joined the London Office as the Head of Finance.

Cleon T. Knapp redeemed its units in August 1997. This redemption was due to a wish to exit emerging markets.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

No related issues/events occurred.

Staff Comments

When staff met with City of London (COL) in July, COL informed staff of the pending personnel changes noted above. Christopher Dunn was a sell-side economist, who was less familiar with the buy-side needs for analysis and prediction of future economic conditions. Peter O'Sullivan comes into a newly created position. He was previously with IMRO in London. Derek Fowle, who was Head of Finance, will now head compliance and finance as a Director. Douglas Allison will take over as Head of Finance. With these changes, COL is broadening and deepening their organization, which should be positive in the long-run.

Manager Commentary
Genesis Asset Management Limited

Period Ending:	9/30/97	Returns	Qtr.	1 Year
Total Firm Assets Under Management	$7.6 Billion	Actual	-1.1%	21.0%
Total Firm Assets Managed in this Discipline	$6.9 Billion	Benchmark	-9.0%	6.6%

1. ***Past Performance*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In total, 21 out of 26 constituent markets out-performed the MSCI EMF Composite. Genesis does not invest in three of these outperforming markets, namely Israel, Portugal and Taiwan, as it considers they have decidedly achieved high-income status. Therefore, of the effective field of 18 countries, the MSBI portfolio was overweighted in 9 and underweighted in 9.

Continuing the pattern of recent quarters, the MSBI portfolio was overweighted in Latin American markets which were among the best performing constituents of the MSCI EM Free. The one exception to this was the under-representation in Mexico (the best performing market in the quarter) at around half index weight. Stock selection added value in Argentina (where Quilmes and YPF, two of the portfolio's largest holdings, rose by 33.3% and 19.9% respectively), and in Brazil - finally the focus of the Brazilian market shifted to private sector companies (in which the MSCI portfolio is well represented), rather than the parastatals.

In addition to Latin American markets, MSBI was over-represented in China, Greece, Hungary and Pakistan. Apart from Mexico, MSBI was underweighted in the following markets which outperformed the MSCI EM Free: Colombia, Czech Republic, India, Jordan, Mexico, Poland, South Africa, Sri Lanka and Turkey.

More importantly for the portfolio's performance was the strong underweighting in four out of the five Asian markets (Indonesia, Malaysia, Philippines and Thailand), which produced dismal returns in the third quarter. Favourable stock selection also added to the performance in these markets, due mainly to a low weighting in financials. The portfolio was overweighted in the Korean market, and also suffered from poor stock selection there. Noticeably, we failed to react in a timely fashion to the Korean government's increased tax take from Kepco, the electricity utility which it partially owns.

The net result of the portfolio's bets for the quarter was outperformance of 7.9% (net of fees) against the MSCI EM Free benchmark.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Following numerous research visits to the Asian region over recent months, it is our perception that the recent selling wave was largely indiscriminate in that companies which we regard as well managed and with a relatively secure future (even in the tougher operating environment we expect) were marked down equally with lower quality ones. Already two new names have appeared in the MSBI portfolio (Gulf Indonesia and Malaysia Pacific Industries) and it is likely that additional investments will take place in Asian markets on a stock by stock basis.

The source of funding for these is likely to be from: Brazil, where we believe the privatization plays (Cemig, CPFL, Petrobras and Telebras) offer less attractive value; Hungary and the Czech Republic.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No significant changes of personnel or ownership occurred during the period. One new account was accepted, namely ESSOR Emergent, a commingled vehicle for French investors. No accounts were lost.

4. ***Other Comments.***

No other pertinent matters arose.

Staff Comments

Performance attribution (gross of fees) relative to EMF for the quarter is shown below:

July – Sept. 1997

Local Returns		**Currency Returns**	
Country selection	5.4	Currency effect	-0.2
Stock selection	0.1	Hedging activity	0.0
Timing	-0.3	Timing	3.2

Total Value Added to EMF **8.0**

Source: State Street Analytics

Manager Commentary
Montgomery Asset Management

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Year**
Total Firm Assets Under Management	$ 9.9 Billion	Actual	-3.4%	19.4%
Total Firm Assets Managed in this Discipline	$ 3.0 Billion	Benchmark	-9.0%	6.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Although it was a difficult quarter for the emerging markets, the Portfolio outperformed its benchmark, the Morgan Stanley EM Free Index, by 5.6%. The Portfolio declined 3.4% during the quarter versus the Morgan Stanley EM Free Index return of –9.0%. The added value versus the benchmark was mainly due to our underweight positions versus the benchmark in Southeast Asia and North Asia, as Southeast Asia dropped 39.0% and North Asia declined 10.2%. Also, our overweight positions in Latin America, which advanced 4.6% and Emerging Europe, which rose 11.8%, helped performance.

   Through country allocation, the primary contributors to our performance were our investment outside of the benchmark in Russia, and our underweight positions versus the benchmark in Malaysia and Indonesia. In Russia, we have a weighting of approximately 11%, which has paid off nicely thus far. Russia continued its strong performance, advancing 18.6% during the quarter. In Malaysia, our underweight versus the benchmark helped performance, as that market declined 41.6%. Our underweight in Indonesia versus the benchmark also proved very beneficial as that market dropped 42.1% for the quarter. At the stock selection level, we also added value versus the benchmark in the third quarter. The majority of our added value versus the benchmark came in Taiwan. Companies in the Portfolio like ASE and Yageo advanced 25.1% and 14.0% respectively, versus the MSEF Taiwan Index return of –8.3% for the quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   In Latin America, political stability and economic growth are the major themes. In Mexico, we will remain slightly overweight versus the benchmark due to increased democracy and a domestic recovery that is underway. We continue to be positive on Brazil, as privatization, deregulation and other reforms in major public sectors are still strong, along with political continuity given Cardoso's re-election. In Venezuela, reform momentum has continued and upcoming privatizations in steel and aluminum sectors look positive, as does the continued opening of the oil sector. In Emerging Europe and Africa, we will continue to underweight South Africa. The market in South Africa remains depressed due to a lack of interest rate cuts and slow economic growth. Low gold prices also have not helped the situation in South Africa. We will also continue to overweight Emerging Europe. Russia will continue to be our largest in Emerging Europe. Due to an overall improvement in the situation in Russia and the benchmark effect, we remain positive on Russia.

   In Asia, we believe that the recent decline of the markets in Hong Kong/China, Taiwan, and South Korea are short-lived, as their economies appear to be in fundamentally good shape. We will continue to emphasize these countries in the Asia portion of the portfolio. We will also increase our exposure to South Asian countries, such as India and Pakistan. The performance of these markets has historically not paralleled those in Southeast Asia. We will continue to underweight the Southeast Asian markets until we see signs that they are stabilizing and that the Central Banks are emphasizing tight monetary and fiscal policy. This is not to say that we are writing off Southeast Asia. We believe this region should recover eventually, most likely within the next 6 to 24 months. Not only do these markets offer promising macroeconomic and demographic trends, but the deeply negative sentiment toward them has driven their valuations down to very low levels and their currencies are very competitive versus other countries in the region.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no personnel changes on the team during the quarter.

   The Commerzbank acquisition of Montgomery Asset Management closed successfully on July 31, 1997, as planned, and it has been a smooth transition, with business as usual for the Emerging Markets Team. We are looking forward to the strategic, global opportunities that our new relationship will bring to Montgomery Asset Management. On July 25, 1997, we successfully launched the Montgomery Wholesale Emerging Markets Fund for institutional investors in Australia, with funding from one investor. We also gained a client in our Institutional Emerging Markets Fund and a client in our Offshore Emerging Markets Fund. We did not lose any clients.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

In September staff visited Montgomery to meet several of the analysts working with the portfolio managers. The analysts, overall, were enthusiastic and knowledgeable. Staff has no concerns at this time.

Performance attribution (gross of fees) relative to EMF for the quarter is shown below:

July – Sept. 1997

Local Returns		**Currency Returns**	
Country selection	1.4	Currency effect	-0.1
Stock selection	2.1	Hedging activity	0.0
Timing	0.3	Timing	2.3

Total Value Added to EMF **5.7**

Source: State Street Analytics

Manager Commentary
State Street Global Advisors

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$390.0 Billion	Actual	-0.7%	12.5%
Total Firm Assets Managed in this Discipline	$ 73.5 Billion	Benchmark	-0.9%	12.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   The portfolio outperformed the benchmark for the 3rd quarter by 0.2%. Most of the quarter's outperformance was the result of the portfolio receiving greater dividend income than the benchmark. The benchmark assumes monthly income is an average of the trailing twelve-month period. The portfolio also added 3 basis points over the index because of cash held in the portfolio during August. Additionally, 0.02% in positive tracking error is attributed to stock misweights. Over the last twelve months, the portfolio outperformed by 0.5%. The majority of this positive tracking error continues to result because of the lower dividend withholding tax paid by the portfolio versus the withholding tax rate included in the net benchmark calculation. Positive tracking error is also due to the trading of December and June index changes, futures mistracking, cash, and dividend smoothing in the benchmark calculation.

2. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes during the third quarter. We gained eleven new accounts with total assets of $250 million last quarter, and lost none.

3. ***Other comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   MSCI will be adding Portugal to the MSCI EAFE-Free Index on November 30, 1997 bringing the total number of countries in the index to twenty-one. Given the size of the trade and the reduced liquidity in Portugal relative to other EAFE markets, we plan to begin trading in Portugal for the SBI portfolio approximately one week prior to its entry date.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Performance attribution (gross of fees) relative to the EAFE-Free for the quarter is shown below:

July – Sept. 1997

Local Returns		**Currency Returns**	
Country selection	0.1	Currency effect	-1.2
Stock selection	1.4	Hedging activity	0.0
Timing	0.0	Timing	0.0

Total Value Added to EAFE **0.2**

Source: State Street Analytics

Manager Commentary
Record Treasury Management

Period Ending:	9/30/97	Returns	Qtr.	Year
Total Assets Under Mgmt.	$5.6 billion	Index + Record	0.8%	18.6%
Total Currency Overlay	$4.6 billion	Index Fund Only	-0.7%	12.5%

1. ***Performance/Strategy****. Summarize your currency positions and profit/loss. Highlight performance over the most recent quarter and year.*

	Currency Exposure* 9/30/97	**Actual Hedge** As of 9/30/97**	
Yen (**JPY**)	$815.9 million	$496.6 million	60.9%
Sterling (**GBP**)	534.1 million	87.2 million	16.3
Mark (**DEM**)	245.8 million	150.0 million	61.0
Fr. Franc (**FRF**)	187.1 million	104.7 million	56.0
Sw. Franc (**CHF**)	182.1 million	45.2 million	24.8
Total	**$1,965.0 million**	**$883.6 million**	**45.0%**

Profit (Loss) During Latest Quarter (Just overlay)	**$18,354,195**
Profit (Loss) Since Inception (Dec. 95)	**$108,715,561**

* *Based on currency exposure of the SSGA EAFE Free index fund for these five currencies.*

** *In-house options are placed 2% out-of-the-money for each monthly/semi-monthly tranche. This requires a 2% strengthening of the USD to trigger a hedge for that tranche.*

1 % returns are calculated from the total assets of SSGA's EAFE Free Index Fund.

2 Profit/(loss) since inception includes $91,234,935 of realized profit plus $17,480,626 of Mark to Market.

Market/Performance Comments:

Currency	**JPY/USD**	**USD/GBP**	**DEM/USD**	**FRF/USD**	**CHF/USD**
Rate 6/30/97	114.43	1.6643	1.7426	5.8710	1.4579
Rate 9/30/97	120.73	1.6154	1.7662	5.9322	1.4523
Strengthening of USD	5.22%	2.94%	1.34%	1.03%	(0.39%)

The DEM, FRF and CHF all weakened steadily versus the USD during July and the first week of August, at which point they were respectively 6.98%, 7.12%, and 4.72% weaker than their June 30th rates. During the rest of the quarter, these currencies strengthened back to within 1.5% of their starting rates (CHF actually finished stronger). In July, the GBP weakened versus the USD then range traded finishing the quarter weaker by 2.94%. The JPY has weakened by 5.22% versus USD.

This quarter Record has out-performed the benchmark by 0.65%. The major contributor to performance was the weakening JPY. It has meant that the JPY hedges have regained some of the open value lost during the previous quarter, but in doing so it has incurred trading costs. The movement of the DEM, CHF and FRF did not trigger trading costs because it was outside the range of current protection levels - although new levels have now been initiated in that area. The strong USD has meant a loss in value on the USD/GBP hedges.

Record (continued)

2. ***Current Market Values.*** *Show the value of each tranche in US dollars as of the end of the quarter.*

Tranche Date	JPY*	GBP*	DEM*	FRF*	CHF*
Oct. 09, 1997	$2,139,219	0	1,228,145	$1,096,930	1,283,522
Oct. 24	2,428,138	--	--	--	--
Nov. 12	2,139,494	-$1,975,451	1,720,812	1,367,563	1,283,875
Nov. 26	2,399,015	--	--	--	--
Dec. 10	2,281,050	-2,021,245	1,587,165	1,271,496	921,694
Dec. 24	890,716	--	--	--	--
Jan. 09	917,876	-550,992	1,453,852	1,156,023	635,010
Jan. 26	-887,040	--	--	--	--
Feb. 09	-639,018	-1,095,530	367,437	374,095	-308,949
Feb. 24	-659,906	--	--	--	--
Mar. 09	-1,936,530	0	463,701	208,854	-374,386
Mar. 24	-711,618	--	--	--	--
Apr. 09	-155,328	-1,425,600	280,046	248,659	-367,581
Apr. 24	0	--	--	--	--
May. 11	0	-1,075,950	219,154	110,640	-335,973
May. 27	519,558	--	--	--	--
Jun. 10	369,112	-968,220	-21,503	-364,921	-283,069
Jun. 24	1,275,222	--	--	--	--
Jul. 09, 1998	2,110,711	401,031	-160,558	-545,166	-271,205
Jul. 24	-62,275	--	--	--	--
Aug. 11	-562,692	0	0	0	0
Aug 25	91,516	--	--	--	--
Sep 10	0	0	0	0	0
Sep. 24	0	--	--	--	--
Total (Not discounted)	**$11,947,220**	**-$8,711,957**	**$7,138,251**	**$4,924,173**	**$2,182,938**

* *Mark to market at actual cost of close out; i.e., using the forward rate to the position's value date. Profit/(loss) since inception includes $34,566,577.36 of realized profit.*

3. **Organizational Issues**. Describe any significant ownership or personnel changes at the firm over the last quarter. List currency overlay accounts gained or lost over the same time period.

   Mike Jubb, Associate Director, resigned in September 1997 and joined the British Land Company, one of our clients, where he had been on a consulting assignment for the last six months. There have been no personnel gains. There have been no client gains or losses.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff and the Committee are reviewing the currency overlay program prior to the expiration of Record Treasury's contract on December 31, 1997.

Manager Commentary
GE Investment Management, Inc.
Assigned Risk Plan - Stocks

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$67.8 Billion	Actual	8.6%	42.4%
Total Firm Assets Managed in this Discipline	$13.3 Billion	Benchmark	7.5%	40.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The GE Multi-Style strategy returned 8.6% in the third quarter, compared to 7.5% for the S&P 500. For the last twelve months the return was 42.4% compared with 40.4% for the S&P 500. We were helped during the quarter by our overweighting in Energy stocks, particularly Schlumberger and Nabors in the oil service industry, which are in the early stages of a significant secular earnings recovery. Arco and British Petroleum were also strong performers. We were also helped by our overweighting and good stock selection in the Financial sector, where Morgan Stanley Dean Witter, Provident Cos., State Street Corp. and Loews all made positive contributions. We finally benefited from our long term underweighting in several big Consumer Stable stocks that we considered overvalued, when both Coke and Gillette underperformed after warning of quarterly earnings disappointments. We were also helped in this sector by strong performances from niche stocks Watson Pharmaceuticals and Cardinal Health. Finally, we continued to benefit from our long-standing underweighting in the Utility sector, as well as outperformance in that sector by Airtouch Communications. We continued to be hurt by our underweighting in the Technology sector as Compaq Computer was a strong performer, and First Data and Equifax, two relatively large holdings, both suffered from perception problems even though earnings power remained strong. For the first time in some time we were helped by our underweighting in Microsoft, as the stock underperformed during the quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   During the quarter we made a number of swaps to reduce valuation risk and improve growth prospects. These included reducing AIG and JP Morgan while adding to General Reinsurance and Morgan Stanley Dean Witter in Financials; reducing American Home Products and SmithKline Beecham while increasing Johnson & Johnson and Cardinal Health in Health Care; reducing Hewlett Packard, Lucent, Applied Materials and Intel while increasing First Data, Cisco Systems, Equifax, 3 Com and Perkin Elmer in Technology, and swapping Eastman Kodak into Xerox. We are pleased that our focus on careful, fundamental analysis and attention to valuations has produced strong performance during the quarter and year-to-date. We continue to believe that this disciplined approach is the best way to invest for the long term. We also believe that the portfolio, which remains balanced between value and growth styles, is well positioned for what could be an increasingly volatile market in the months ahead.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

None at this time.

Manager Commentary
Voyageur Asset Management
Assigned Risk Plan - Bonds

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$6.6 Billion	Actual	2.7%	8.6%
Total Firm Assets Managed in this Discipline	$0.8 Billion	Benchmark	2.6%	8.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio outperformed the benchmark this quarter with a return of 2.7% versus the benchmark's return of 2.6%. The year-over-year numbers are also positive with the portfolio returning 8.6% versus the benchmark's return of 8.5%. There were several modifications to the portfolio over the past few months. The cash infusion of $46.5 million which we received in June was initially invested in Treasuries. As opportunities have emerged, we have reallocated the money primarily to the corporate sector, investing mainly in short to intermediate duration bonds at generous spread levels. This took our allocation to corporates up to 44.50% in the current period versus 41.45% last quarter. With regards to the mortgage holdings, we added some convexity as the Treasury market rallied by trading down in coupon from GNMA 7.5%s to GNMA 7%s and by selling a portion of the GNMA 7.5% pools outright. In addition, we added some 15-year 6.5% FHLMC's and a short whole loan security to replace some of the yield we lost by selling the GNMA 7.5%s. We were fairly inactive in the asset-backed arena as we are close to our targeted weighting in the sector, adding only a small position of some 2-year home equity loan paper.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Relative to the custom benchmark, the portfolio's current sector allocation continues to overweight spread product, especially in the corporate/asset-backed areas. Going forward, we will continue to look for opportunities within the sector to pick up yield and/or enhance credit quality. In mortgages, we will maintain more of a neutral weighting versus the benchmark. We would expect mortgages to underperform other sectors, particularly if Treasuries continue to creep lower in yield and mortgage volatility rises.

   For the remainder of the year, Voyageur remains neutral to mildly constructive on interest rates. While third quarter GDP probably rose to above 3%, we expect fourth quarter GDP to be slightly above 2% due to a slowdown in consumer spending and excess inventory accumulation. Inflation, which has been at historically low levels, is expected to pick up slightly in coming months. At quarter end, the portfolio had an effective duration of 2.99 years versus the benchmark's effective duration of 2.76 (108%). We will take the opportunity to reduce the duration of the portfolio more towards neutral on any further rally in the Treasury market.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant ownership or personnel changes during third quarter, 1997. However, as you are aware, in early October, Jane Wyatt, Chief Investment Officer, left the firm.

Tax-Exempt Clients Gained:		($ millions)
Public Utility	Fixed Income (Advisory only)	$195.6
Public Self-Insurance Pool	Short Fixed Income	$4.2
Public Self-Insurance Pool	Short Fixed Income	$11.2
Public Self-Insurance Pool	Short Fixed Income	$2.6
Public Self-Insurance Pool	Short Fixed Income	$5.8
Public Self-Insurance Pool	Short Fixed Income	$9.1
Public Insurance Pool	Short Fixed Income	$79.8
Lost:		
Taft-Hartley Pension	Intermediate Fixed Income	$7.5
Taft-Hartley Operating	Short Fixed Income	$2.9

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

As you may be aware, Voyageur's sister company, Dougherty Dawkins, merged with Summit Investment Corp. The new firm will operate under the name Dougherty Summit Securities LLC as a full service regional investment banking and brokerage firm. John Taft, current Chairman of Voyageur Asset Management LLC, will serve as President and Chief Executive Officer of the combined broker dealer.

Staff Comments

Staff has met with Voyageur regarding Jane Wyatt's departure. Mark Simenstad has assumed Jane's responsibilities. Mark has made some changes to the investment process. He has broken the analysts into teams by fixed income sector and instituted risk control measures. Staff believes these changes may be beneficial to their investment process. However, due to Jane's departure, staff recommends that Voyageur be placed on probation in accordance with the Manager Continuation policy. Staff will continue to monitor Voyageur for any changes that may adversely affect the firm or its investment process.

Manager Commentary
Internal Stock Pool
Trust/Non-Retirement Assets

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$326.8 Million	Actual *	7.6%	40.6%
Total Firm Assets Managed in this Discipline	$326.8 Million	Benchmark	7.5%	40.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   * Actuals for the quarter and year are estimates, because accounting for this pool was not complete as of the date of this writing.

   For the quarter, the portfolio had positive tracking of 0.1% relative to the S&P500 benchmark. For the year, the portfolio had positive tracking of 0.2%. In both cases, the tracking error was due to slight weighting differences for each name in the portfolio compared to its weighting in the S&P 500.

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectation.*

   Staff will continue to examine the trade-offs between the tracking error caused by not holding a fully replicated portfolio and the trading costs to implement all index changes with limited cash flows.

Internal Stock Pool (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Internal Bond Portfolios

Period Ending:	**9/30/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$0.5 Billion	Actual	3.4%	10.2%
Assets Managed in this Discipline	$0.5 Billion	Benchmark	3.3 %	9.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

<u>**Performance, Third Quarter '97**</u>

The above returns reflect the combined portfolios of the Internal Trust Pool, and the Income Share Account. Collectively, the funds outperformed the index returns.

- An overweighting of discounted CMO mortgages added some value to the portfolio.
- An underweighted corporate position generated negative excess return because corporates outperformed the aggregate (3.9% vs. 3.3%).
- Long treasuries were overweighted in the portfolio and they outperformed the aggregate (5.5% vs. 3.3%).
- A slightly longer duration than the market in the Income Share account added value. However, in the larger trust fund pool $218.5 million in cash was raised in July to accommodate the conversion of the Permanent School Fund asset mix from 100% fixed income to 50/50 fixed income and equities. The shorter duration due to the cash build up caused an underperformance of about 0.3% for the trust pool and about 0.2% collectively for all internally managed funds.

<u>**Performance for the Year**</u>

Collectively, the funds outperformed the index.

- An underweighted Treasury position, an overweighted mortgage position, and a slightly positive duration bet generated almost all the excess return for the year.

Internal Bond Pool (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Yield Curve Strategy

   Given the uncertainty of short term interest rates, the portfolio has a yield curve neutral to the benchmark. The long term projection is a decrease in interest rates, therefore the portfolio has a slightly long duration bet (0.1-0.2 years longer than the market).

   Treasuries

   The portfolios will continue to be overweighted in long term treasuries. This position continues to provide a valuable diversification effect relative to the mortgage overweight and keep the overall portfolio volatility close to the benchmark.

   Corporate Strategy

   Currently the portfolio is underweighted in corporates. Staff plans to selectively buy corporates to achieve a neutral or slightly positive weighting relative to the benchmark over the next six months.

   Mortgage Strategy

   We will remain overweighted in mortgages. The overall mortgage sector underperformed the index, however, the shorter duration discount CMO's continue to add incremental value. Also, when additions to the corporate sector are made in the future, the funding will come from the mortgage holdings in the portfolio.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

None at this time.