MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
December 11, 1998

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INVESTMENT ADVISORY
COUNCIL MEETING
December 1, 1998

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 11, 1998
9:00 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of September 2, 1998	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (June 30, 1998 – September 30, 1998)	**A**
B. Administrative Report 1. Reports on budget and travel 2. Update on litigation 3. IAC Appointments	**B**
3. Report from the Deferred Compensation Review Committee (P. Sausen) 1. Approval of change to the investment options for the MnSCU 401(a) Plans	**C**
4. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee 1. Review of manager performance	**D**
B. International Manager Committee 1. Review of manager performance 2. Discussion of International Equity Program	**E**
C. Alternative Investment Committee 1. Review of current strategy 2. Approval of a new commitment for the Basic Retirement Funds: • Goldner Hawn Johnson and Morrison	**F**

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Minutes
State Board of Investment
September 2, 1998

The State Board of Investment (SBI) met at 8:30 A.M. Wednesday, September 2, 1998 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, and Attorney General Hubert H. Humphrey III were present. The minutes of the June 11, 1998 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, 1998 (Combined Funds 13.9% vs. Inflation 3.3%), exceeded the median fund (28th percentile) and outperformed its composite index (Combined Funds 15.4% vs. Composite 14.9%) for the most recent five year period. He stated that the Basic Funds has exceeded its composite index (Basics 15.9% vs. Composite 15.5%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 14.9% vs. Composite 14.2%).

Mr. Bicker reported that the Basic Funds' assets increased 0.8% for the quarter ending June 30, 1998 due to positive investment returns. He said that the asset mix is essentially on target and that the Funds outperformed its composite index for the quarter (Basics 2.4% vs. Composite 2.3%) and for the year (Basics 22.2% vs. Composite 20.1%).

Mr. Bicker reported that the Post Fund's assets increased 2.5% for the quarter ending June 30, 1998 due to positive investment returns. He said that the Post asset mix is also on target and that the Fund has outperformed its composite index for the quarter (Post 1.6% vs. Composite 1.4%) and for the year (Post 19.4% vs. Composite 17.6%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 2.2% vs. Wilshire 5000 1.9%) and for the year (Domestic Stocks 30.6% vs. Wilshire 5000 28.9%). He said that the international stock manager group outperformed for the quarter (International Stocks –1.7% vs. Int'l. Composite –2.4%) and had outperformed for the year (International Stocks 1.2% vs. Int'l Composite –1.1%). Mr. Carlson noted the negative performance for the international segment and voiced his concern about the economic stability of various markets and the effect it could have on other world markets. In response to Mr. Carlson's questions and concerns, Mr. Bicker stated that most of the negative returns have come from the Asian and emerging markets. He said that now that the SBI has had the international program in place for the last several years, that staff and the IAC are going to spend the next few quarters reassessing the SBI's entire international program.

Mr. Carlson asked Mr. Kiedrowski for his comments regarding the international markets. Mr. Kiedrowski stated that Norwest is nervous about some of the international markets but that they are still recommending that clients continue to hold international stocks. He noted the difficulty of trying to utilize "market timing". He added that he is a member of the International Manager Committee and that he will participate in the re-evaluation of the international program. He noted that one possibility the Committee will consider is the use of global managers. In response to a question from Mr. Carlson, Mr. Bicker stated that the international review process will not be completed by the December 1998 Board meeting.

Mr. Bicker stated that the bond segment matched its target for the quarter (Bonds 2.3% vs. Lehman Aggregate 2.3%) and outperformed for the year (Bonds 11.0% vs. Lehman Aggregate 10.5%). He concluded his report with the comment that as of June 30, 1998 the SBI was responsible for over $45 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for current budget and travel reports. Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation concerning Mercury Finance Corporation.

Ms. Eller stated that the SBI had been named the plaintiff in the Federal Securities Class Action Suit; and that motions to dismiss the suit had been denied. In the meantime, Mercury has filed for bankruptcy, and, Ms. Eller noted that the SBI was seeking to have a committee of securities claimants to participate in the bankruptcy proceedings.

Administrative Committee Report
Mr. McGrath referred members to Tab C of the meeting materials and stated that the Committee is recommending that the proposed Biennial Budget request for FY2000-2001 be approved. He noted that the request is a "same level" request as was approved for the previous biennium. In response to questions from Mr. Carlson, Mr. Bicker confirmed that salaries and rent increases are funded separately and that the necessary paperwork will be submitted to Finance. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report which reads: "The SBI Administrative Committee recommends that the SBI approve and authorize the Executive Director to seek its approval during the 1999 Legislative Session." The motion passed.

Mr. McGrath stated that the Committee is recommending a 2.5% salary increase for the Executive Director, effective July 1, 1998. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The SBI Administrative Committee recommends that the SBI recommend to the Legislative Coordinating Commission (LCC) that the salary for the SBI Executive Director be $102,258 effective July 1, 1998." The motion passed.

Mr. McGrath said that the Committee had updated the International Country Guidelines based on U.S. State Department's reviews of their economies and worker and human rights issues. In response to questions from Ms. Growe, Mr. Bicker confirmed that if the active international managers want to invest in countries in Groups 2 and 3, they must first notify the SBI. He added that there are currently some investments in both those groups.

Mr. Bicker stated that the other item of information is that the SBI's offices will be moving sometime prior to June 30, 1999 when the current lease expires.

Proxy Committee Report
Mr. Sausen referred members to Tab D of the meeting materials and stated that the Committee is requesting approval of the revised Proxy Voting Guidelines. He stated that the revisions pertain to additional language to reflect activity in sponsoring, cosponsoring and voting shareholder resolutions concerning tobacco and amending the language concerning the review of corporate governance issues at Minnesota companies. In response to a question from Ms. Growe, Mr. Sausen confirmed that Northern Ireland issues are covered under Minnesota statutes. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee report, which reads: "The Proxy Committee recommends the Board approve the revised Proxy Voting Guidelines." The motion passed.

Domestic Manager Committee Report
Mr. McDonald referred members to Tab E of the meeting materials and stated that during the quarter, the Committee had re-interviewed Investment Advisers (IAI) and Wilke/Thompson. He said that the Committee had voted to retain Wilke/Thompson, but to continue monitoring the firm closely. He said that IAI had experienced substantial turnover in staff and that the Committee is recommending that IAI be terminated. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI terminate its contractual relationship with Investment Advisers, Inc. for equity investment management services." The motion passed. In response to a question from Ms. Growe, Mr. Bicker stated that the assets may be kept or liquidated through crosses with the index fund, depending on market conditions.

Mr. McDonald stated that the Committee had also conducted a review of domestic and foreign commercial paper issuers and he referred members to the listing which begins on page 7 of the Committee Report.

Mr. McDonald stated that the IAC also has a recommendation regarding tobacco restrictions and Mr. Carlson asked that the recommendation be discussed later when the tobacco divestiture discussion takes place.

International Manager Committee Report
Mr. McDonald referred members to Tab F of the meeting materials and stated that staff and the Committee will be conducting an extensive study and review of the entire international program now that the program has been in place for five years. Mr. Carlson suggested that staff schedule some training programs for the new Board members prior to January 1999 so that existing Board members could also participate in working with the incoming Board. Mr. Bicker said that staff has already been planning some educational

briefings and that he is pleased that the current Board is willing to assist in that process. He agreed with Mr. Carlson's suggestion to try to schedule a date in November or December 1998.

Alternative Investment Committee Report
Mr. McDonald referred members to Tab G of the meeting materials briefly summarized the recommendations to place investments with two existing private equity managers, Crescendo Venture Management (formerly IAI Ventures) and Piper Jaffray Ventures and also with an existing real estate manager, TA Associates for the Basic Retirement Funds. He also stated that the Committee is recommending an investment with an existing private equity manager, TCW Crescent Mezzanine, for the Post Retirement Fund. In response to a question from Mr. Humphrey, Mr. Bicker explained that the healthcare investments deal with medical device products and not with managed care operations or companies. Ms. Growe moved approval of all four of the Committee's recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $25 million or 20%, whichever is less, in Crescendo Fund III, 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 Crescendo Venture Management, L.L.C. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Crescendo Venture Management, L.L.C. or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $20 million or 20%, whichever is less, in Piper Jaffray Healthcare Fund III, 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 Piper Jaffray Ventures, Inc. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Piper Jaffray Ventures, Inc. or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in The Realty Associates Fund V. 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 TA Associates Realty upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on TA Associates Realty or reduction or termination of the commitment.

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 TCW Crescent Mezzanine Partners II, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by TCW Crescent Mezzanine 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 TCW Crescent Mezzanine Partners or reduction or termination of the commitment." Mr. Humphrey seconded the motion. The motion passed.

Plan for Divestiture of Tobacco Stocks
Mr. Bicker referred members to Tab H of the meeting materials and stated that staff had complied with the Board's June 1998 directive to prepare and submit a plan for divestiture of tobacco stocks. He said that if the Board chooses to divest, the plan requests a three-year period in which to liquidate the positions in order to minimize transaction costs and market impact. In response to questions from Mr. Carlson, Ms. Growe said she believes the 15% of revenues threshold is the same as used by the Investor Responsibility Research Center (IRRC). In response to a request from Mr. Carlson, Mr. Bicker stated that the divestment resolution presented at the June meeting would require the SBI to liquidate stocks valued at approximately $200 million as of June 30, 1998. In response to a question from Mr. McGrath, Mr. Bicker stated that Philip Morris has approximately 50% of its revenues coming from tobacco. In response to a question from Mr. Carlson, Mr. Bicker stated that the majority of the SBI's exposure in the tobacco area is in Philip Morris.

Ms. Growe stated that she had a proposed tobacco divestment resolution and she distributed it to members of the Board (see **Attachment A**). She stated that she continues to have concerns about the level of risk associated with tobacco stocks and she briefly summarized the divestment parameters included in the resolution. She added that investment managers continue to be divided in their opinions on tobacco stocks and that she believes that it is her fiduciary responsibility to offer the resolution for the Board's consideration. In response to questions from Mr. Carlson, Mr. Bicker confirmed that the resolution covers a three-year divestiture period, quarterly reporting and that the resolution applies only to companies deriving 15% or more of their revenues from tobacco, using the IRRC as the SBI's data source.

Mr. McDonald stated that the IAC opposes the proposed resolution and he read the statement that the IAC had unanimously supported at their September 1998 meeting (see **Attachment B**). He added that the IAC had revised the Committee's original recommendation statement to more strongly reflect their opposition to the resolution. Mr. Carlson said that he appreciates the professional input from the IAC, but he stated his nervousness about what he believes are significant potential liabilities for the tobacco companies. He said that he is concerned about the cigarette black market overseas and about potential lawsuits being brought by one or more European countries. He said that he believes that divestment is the prudent thing to do and he emphasized that he believes the divestment decision must only focus on economic and not social reasons. He voiced his support of the resolution. In response to questions from Mr. McGrath, Mr. Bicker clarified that the proposed resolution does not apply to the index fund holdings.

Ms. Dutcher stated that she continues to believe that the money managers are in a better position to make decisions about holding tobacco companies. She stated that she agrees with the IAC's views and she said she will not support the proposed resolution.

Mr. McGrath expressed his respect for the IAC and their recommendation, but he stated that he will support the proposed resolution because of the responsibility he believes the Board has to all citizens of Minnesota. The resolution proposed by Ms. Growe passed. Mr. Carlson once again thanked the IAC for their professional advice.

The meeting adjourned at 9:32 a.m.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT

Whereas, funds under the direction of the Minnesota State Board of Investment (SBI) contain investments in companies that derive revenues from the manufacture of consumer tobacco products;

Whereas, by Resolution dated December 12, 1997, the SBI determined it prudent to monitor the exposure of funds under management by the SBI to the risk of higher volatility and lower annualized returns which have been associated with investments in companies that derive revenue from the manufacture of consumer tobacco products;

Whereas, in May, 1998, the State of Minnesota settled its lawsuit with a number of tobacco companies pursuant to which the State of Minnesota will receive scheduled payments in perpetuity with scheduled payments over 25 years of $6.1 billion and the tobacco companies agreed to significant changes in their marketing practices, particularly with respect to marketing to young replacement smokers;

Whereas, by resolution dated June 11, 1998, the Board directed its external and internal managers for its actively managed stock portfolios to purchase no new or additional shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products;

Whereas, in the course of the litigation with the State of Minnesota over 30 million pages of previously secret tobacco industry files have been made public;

Whereas, tobacco companies continue to be the subject of similar actions brought by over 40 other states, a number of cities, counties and foreign governments, each similarly seeking large monetary recoveries and changes in the operations of companies that derive revenue from the manufacture of consumer tobacco products and additional governmental jurisdictions, both within and without the United States, continue to file or are exploring the possibility of filing, similar legal actions against the tobacco companies;

Whereas, companies that derive revenue from the manufacture of consumer tobacco products continue to be the subject of significant private actions and private class actions, including the Blue Cross Blue Shield plans in over 31 states, and Allina and Health Partners, and over 30 actions filed by Taft-Hartley health care plans operated by unions;

Whereas, according to published reports, the activities of tobacco companies currently are under criminal investigation by one or more federal grand juries;

Whereas, federal Food and Drug Administration (FDA) regulations promulgated in 1996 were upheld by the U.S. district court in North Carolina, overturned on appeal to a U.S. Fourth Circuit Court of Appeals panel, and are now on appeal to the entire Fourth Circuit. Those regulations, if ultimately upheld will alter the marketing, manufacturing and other business activities of those tobacco companies in significant respects;

Whereas, to date all bills in Congress that would restrict the FDA's authority to regulate tobacco or that would provide liability protection to the tobacco industry have failed to pass;

Whereas, the Board has determined it is prudent to limit the exposure of its funds to the excessive and unnecessary risk resulting from the current litigation, legislative, regulatory and investment environment with respect to companies that derive revenue from the manufacture of consumer tobacco products; and

Whereas, the Board considers it prudent to reduce the exposure of all its stock funds, both externally and internally managed, to the foregoing risks in light of the Board's fiduciary responsibility.

NOW THEREFORE be it resolved:

1. SBI's external or internal managers for its actively managed stock portfolios shall be directed to divest shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001.

   a. As soon as practicable after the date of approval of this Resolution, the State Board of Investment staff shall notify its internal and external active stock managers of this Resolution.

   b. The process of divesting stocks held in the State Board of Investment's active stock managed portfolios must be conducted to the extent practicable consistent with fiscal prudence and so as to minimize financial market disturbance.

2. To identify the tobacco companies covered by paragraph 1 hereinabove, the State Board of Investment executive director and State Board of Investment stock managers are directed to rely on information compiled by the Investor Responsibility Research Center (IRRC), Washington, D.C., as published in the most recent edition of the IRRC publication entitled "The Tobacco Industry."

3. The State Board of Investment staff shall report on the progress of the divestment process at each quarterly meeting, and report on any significant difficulties or problems encountered.

Adopted the 2nd day of September, 1998.

Governor Arne H. Carlson
Chair, Minnesota State Board of Investment

Revised on 9/1/98 at IAC Meeting
Presented to the SBI Board on 9/2/98

DATE: August 25, 1998

TO: Members, Minnesota State Board of Investment

FROM: Members, Minnesota Investment Advisory Council

SUBJECT: Minnesota State Board of Investment Action Related to Restrictions on Investment in Tobacco Related Companies

On June 11, 1998 the State Board of Investment (SBI) voted to limit additional investments in companies that derive 15 percent or more of their revenue from tobacco products. Further, the staff was ordered to submit to the SBI at its next meeting a plan to divest over the next three years all presently-held investment in such companies.

As members of the Investment Advisory Council (IAC) to the SBI, we feel it is important to present our recommendations on this subject in order to maximize investment returns.

First, with respect to no future investment in tobacco-related companies, we recommend that the SBI leave economic decisions to the professional judgement of the active investment managers retained by the Board. We are aware that the Board members who supported the resolution utilized input from various sources and that the final decision is that of the SBI, but the members of the IAC feel it is important that we go on record relating to this matter.

Second, with respect to divestment of tobacco holdings in the current SBI portfolio, we recommend that the SBI not force any liquidations. The Board has directed the staff to present a plan to divest. Any divestment will incur cost. The members of the IAC strongly believe and would advise the SBI not to adopt policies that incur additional cost that will have the effect of reducing overall returns for the assets under its control.

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, December 1, 1998
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

	TAB
1. Approval of Minutes of September 1, 1998	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (June 30, 1998 – September 30, 1998)	**A**
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Update on litigation	
3. Report from the Deferred Compensation Review Committee (P. Sausen)	**C**
1. Approval of change to the investment options for the MnSCU 401(a) Plans	
4. Reports from the Investment Advisory Council	
A. Domestic Manager Committee (J. Bohan)	**D**
1. Review of manager performance	
B. International Manager Committee (J. Mares)	**E**
1. Review of manager performance	
2. Discussion of International Equity Program	
C. Alternative Investment Committee (K. Gudorf)	**F**
1. Review of current strategy	
2. Approval of a new commitment for the Basic Retirement Funds:	
• Goldner Hawn Johnson and Morrison	

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Minutes
Investment Advisory Council
September 1, 1998

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; Roger Durbahn; Doug Gorence; Ken Gudorf; P. Jay Kiedrowski; Han Chin Liu; Judy Mares; Malcolm McDonald; Bob McFarlin; Gary Norstrem; Daralyn Peifer; Wayne Simoneau; Mike Troutman; Mary Vanek; and Jan Yeomans.
MEMBERS ABSENT:	John Bohan
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Tammy Brusehaver-Derby; Steve Koessl, Debbie Griebenow; Charlene Olson; and Carol Nelson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Jake Manahan; Carey Moe; Susan Mills, Bob Heimerl, Lloyd Belford, REAM; John Mariarity, Duluth Teachers Retirement Board; Patricia Lopez-Baden, Minneapolis Star Tribune; Eric Eskola, WCCO Radio; Betsy O'Berry; Eugene Edie and Carl Simmons.

Ms. Yeomans called the meeting to order and stated that since she could only stay for a portion of the meeting, that she would like to change the order of the agenda and begin the meeting discussing a proposed response from the IAC to the Board regarding tobacco related companies.

Ms. Yeomans referred members to page 25 of Tab E of the meeting materials and reminded members that at the June 1998 Board meeting, the Board had passed a resolution limiting additional investments in companies that derive 15% or more of their revenues from tobacco products. She added that the Board had also asked staff to prepare a plan on how best to divest of tobacco stocks already owned. She noted that for a number of years in the past, the SBI had a tobacco restriction in place and that it had negatively impacted the SBI's performance and that the Committee had extensively discussed the impact of putting those restrictions back in place. She said that the Committee is recommending that the Board rescind the resolution passed at the June 1998 meeting and return the power to select stocks back to the active managers. Mr. Gorence added that the Committee felt it was important to officially go on record as opposing the resolution and proposed divestment. Ms. Yeomans stated that the Committee is asking for the IAC's endorsement of the statement. Mr. Gudorf moved approval of the memo regarding tobacco investments, as stated in the meeting materials. Mr. Durbahn seconded the motion.

In response to a question from Mr. McFarlin, Mr. Gorence stated that the Committee believes strongly that the decisions regarding tobacco stocks should be made by the investment managers themselves. Ms. Yeomans stated that she is concerned that a significant investment decision was made without IAC input and that it is not appropriate to change the investment guidelines under which the active managers were hired. She added the importance of having a decision making process in place and then following that process. Mr. Gorence stated that the estimated cost of divesting tobacco stock would be approximately $2 million. In response to further questions from Mr. McFarlin, Ms. Yeomans stated that the June vote by the Board was 4 to 1 in favor of the resolution to not purchase any additional shares of tobacco stocks that meet the resolution's criteria. In response to a question from Mr. Han Chin Liu, Mr. Bicker stated that each board member has their own reasons for feeling as they do about tobacco.

Mr. Troutman said he agrees with the Committee's opinion that money managers are in a better position to make specific investment decisions and he wondered if the SBI could be setting a dangerous precedent with regard to other controversial industries or stocks as well. He added, however, that he understands that the Board may feel it has moral, ethical or medical reasons for not holding tobacco stocks since they represent the State of Minnesota. He said that he believes it is important to provide information to the Board about how much tracking error or other related costs could arise from placing restrictions on the SBI's investments. Ms. Yeomans added that it is important to realize that if equity capital is going to be restricted, other types of investments such as bonds and commercial paper investments in tobacco could also be affected.

Mr. Kiedrowski stated that his views are similar to Mr. Troutman's. A lengthy discussion followed with several members offering various minor wording changes to the recommendation in order to better reflect the consensus of the entire IAC. Mr. Kiedrowski and Mr. Troutman moved approval of some amended changes and both were seconded by Mr. McDonald.

In response to questions from Ms. McFarlin, Mr. Bicker clarified that the divestment plan is included in the meeting materials under Tab H and Ms. Yeomans stated that the Board's role is to determine broad investment policies and to leave the day to day investment decisions up to the money managers. Further discussion took place and the motion passed which resulted in the language contained in **Attachment A**.

Ms. Yeomans left the meeting at this point and Mr. McDonald chaired the remainder of the meeting. The minutes of the June 2, 1998 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, 1998 (Combined Funds 13.9% vs. Inflation 3.3%), exceeded the median fund (28^{th} percentile) and outperformed its composite index (Combined Funds 15.4% vs. Composite 14.9%) for the most recent five year period. He stated that the Basic Funds had exceeded its composite index (Basics 15.9% vs. Composite 15.5%) over the last five years and reported that the Post Fund had outperformed its composite index fund for the five year period ending June 30, 1998 (Post Fund 14.9% vs. Composite 14.2%).

Mr. Bicker reported that the Basic Funds' assets increased 0.8% for the quarter ending June 30, 1998 due to positive investment returns. He said that the Basic's asset mix is essentially on target and that the Funds outperformed its composite index for the quarter (Basics 2.4% vs. Composite 2.3%) and for the year (Basics 22.2% vs. Composite 20.1%).

Mr. Bicker reported that the Post Fund's assets increased 2.5% for the quarter ending June 30, 1998 due to positive investment returns. He said that the Post asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 1.6% vs. Composite 1.4%) and for the year (Post 19.4% vs. Composite 17.6%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 2.2% vs. Wilshire 5000 1.9%) and for the year (Domestic Stocks 30.6% vs. Wilshire 5000 28.9%). He said that the international stock manager group outperformed for the quarter (International Stocks –1.7% vs. International Composite –2.4%) and for the year (International Stocks 1.2% vs. International Composite –1.1%). He added that the bond segment matched its target for the quarter (Bonds 2.3% vs. Lehman Aggregate 2.3%) and outperformed for the year (Bonds 11.0% vs. Lehman Aggregate 10.5%).

He concluded his report with the comment that as of June 30, 1998 the SBI was responsible for over $45 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for the current budget and travel reports. He stated that Ms. Eller would give the Board an update on the status of the class action lawsuit against Mercury Finance Corporation.

SBI Administrative Committee Report
Mr. Bicker referred members to Tab C of the meeting materials and reviewed the items that the Committee is presenting to the Board. He stated that the International Country Guidelines had been updated and that the proposed Biennial Budget request for FY2000-2001 is a "same level" request. He said that the SBI's offices will need to relocated by July 1, 1999 due to the expiration of the lease, which MEA does not wish to renew. He said that the Committee had also reviewed the Executive Director's job description.

Proxy Committee Report
Mr. Bicker referred members to Tab D of the meeting materials and noted that the Committee will be recommending some changes for the proxy voting guidelines to the Board at its meeting.

Mr. Kiedrowski asked if it was appropriate for the IAC to endorse the Administrative Committee's recommendation for the Executive Director's salary increase. He noted that the current level of compensation is significantly lower than comparable positions in the industry and he made a motion to strongly endorse the Committee's salary recommendation. Mr. Norstrem seconded the motion. The motion passed.

Domestic Manager Committee Report
Mr. Gorence referred members to Tab E of the meeting materials and stated that during the quarter the Committee had re-interviewed Investment Advisers and Wilke/Thompson Capital. He said that the Committee is recommending that the SBI terminate its contractual relationship with Investment Advisers due to personnel turnover and asset loss and he moved approval of the Committee's recommendation as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed. Mr. Gorence said that the Committee voted to continue to retain Wilke/Thompson, but that staff will continue to monitor them in the months ahead.

International Manager Committee Report
Ms. Mares referred members to Tab F of the meeting materials and briefly reviewed the managers' performance. She noted that work is still being done to find an appropriate benchmark for Marathon Asset Management.

Ms. Mares said that the Committee agreed with staff's plans to do a comprehensive study of the entire international program. She noted that potential issues to be addressed are global versus international investing, benchmarks, active versus passive management and the currency overlay program. In response to a question from Mr. Troutman, Mr. Bicker said that the current policy is that the emerging markets program should be approximately 13% of the entire international segment.

Alternative Investment Committee Report
Mr. Gudorf referred members to Tab G of the meeting materials and briefly described the investments that the Committee is recommending for the Basic Retirement Fund with Piper Jaffray Ventures, TA Associates Realty, Crescendo Venture Management and one investment for the Post Fund with TCW Crescent Mezzanine Partners. Mr. Durbahn moved approval of all four of the Committee's recommendations, as stated in the Committee Report. Mr. Han Chin Liu seconded the motion. In response to questions from Mr. Gorence, Mr. Gudorf stated that historically the Piper funds have had very short pay back periods and have been very successful funds. Mr. Bicker added that he believes there are positive benefits to Piper being purchased by U.S. Bank. In response to a question from Mr. Gorence, Mr. Bicker stated that some private equity managers could be impacted by a weak initial public offering (IPO) market.

In response to a question from Ms. Peifer, Mr. Bicker confirmed that TA Associates also has a quick turn around time on its investments. The motion made earlier passed.

The meeting adjourned at 3:05 p.m.

Respectfully submitted,

Howard J. Bicker
Executive Director

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Revised on 9/1/98 at IAC Meeting
Presented to the SBI Board on 9/2/98

DATE: August 25, 1998

TO: Members, Minnesota State Board of Investment

FROM: Members, Minnesota Investment Advisory Council

SUBJECT: Minnesota State Board of Investment Action Related to Restrictions on Investment in Tobacco Related Companies

On June 11, 1998 the State Board of Investment (SBI) voted to limit additional investments in companies that derive 15 percent or more of their revenue from tobacco products. Further, the staff was ordered to submit to the SBI at its next meeting a plan to divest over the next three years all presently-held investment in such companies.

As members of the Investment Advisory Council (IAC) to the SBI, we feel it is important to present our recommendations on this subject in order to maximize investment returns.

First, with respect to no future investment in tobacco-related companies, we recommend that the SBI leave economic decisions to the professional judgement of the active investment managers retained by the Board. We are aware that the Board members who supported the resolution utilized input from various sources and that the final decision is that of the SBI, but the members of the IAC feel it is important that we go on record relating to this matter.

Second, with respect to divestment of tobacco holdings in the current SBI portfolio, we recommend that the SBI not force any liquidations. The Board has directed the staff to present a plan to divest. Any divestment will incur cost. The members of the IAC strongly believe and would advise the SBI not to adopt policies that incur additional cost that will have the effect of reducing overall returns for the assets under its control.

Tab A

LONG TERM OBJECTIVES
Period Ending 9/30/98

COMBINED FUNDS: $33.0 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.	**12.9%** (1)	9.7 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.	**12.8%** (1)	0.3 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.	25th percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $17.2 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.	**13.2%**	0.1 percentage point above target

POST RETIREMENT FUND: $15.8 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.	**12.4%**	0.5 percentage point above target

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

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

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1997

	Active (Basics)	Retired (Post)	Total (Combined)
Liability Measures			
1. Current and Future Benefit Obligation	$18.7 billion	$9.8 billion	$28.5 billion
2. Accrued Liabilities	13.7	9.8	23.5
Asset Measures			
3. Current and Future Actuarial Value	$19.9 billion	$9.8 billion	$29.8 billion
4. Current Actuarial Value	12.6	9.8	22.4
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	107%	100%	104%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	92%	100%	95%*

* 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 **103%** for the Basics, **100%** for the Post and **102%** 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:

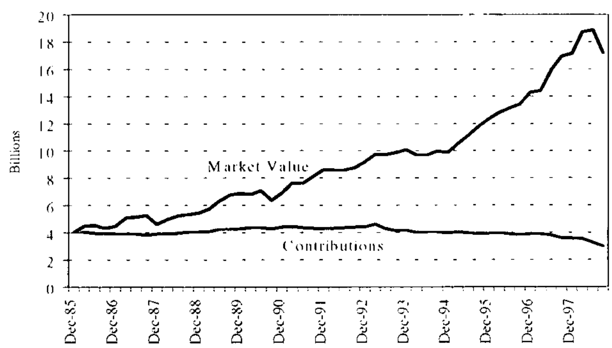
Salary Growth: 6.5%
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds decreased 8.9% during the third quarter of 1998. Negative investment returns accounted for the decline. Net contributions were negative.



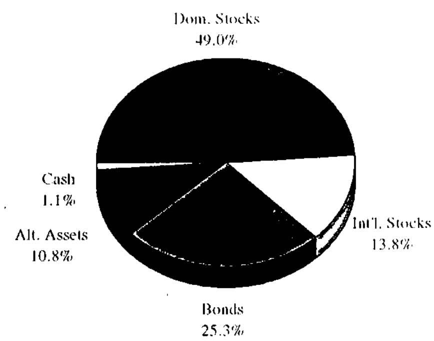
Asset Growth During Third Quarter 1998 (Millions)

Beginning Value	$ 18,859
Net Contributions	-217
Investment Return	-1,469
Ending Value	$ 17,173

Asset Mix

The negative returns in the stock market caused the allocation to domestic and international stocks to fall during the quarter, while the allocation to bonds increased.

	Policy Targets	Actual Mix 9/30/98	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	49.0%	$8,413
Int'l. Stocks	**15.0**	13.8	2,364
Bonds	**24.0**	25.3	4,354
Alternative Assets*	**15.0**	10.8	1,861
Unallocated Cash	**1.0**	1.1	181
	100.0%	100.0%	$17,173

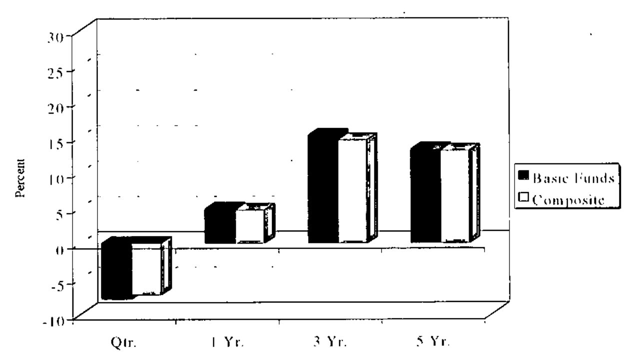


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

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

	Period Ending **9/30/98**		Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**-7.8%**	**4.8%**	**15.3%**	**13.2%**
Composite	-7.2	4.7	14.6	13.1



EXECUTIVE SUMMARY

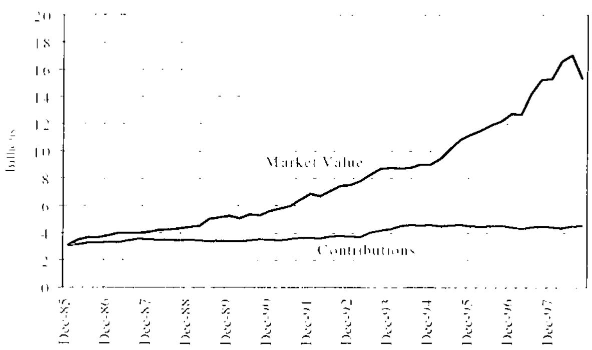
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund decreased 7.3% during the third quarter of 1998. The decrease resulted from negative investment returns. Net contributions were slightly positive.

Asset Growth During Third Quarter 1998 (Millions)

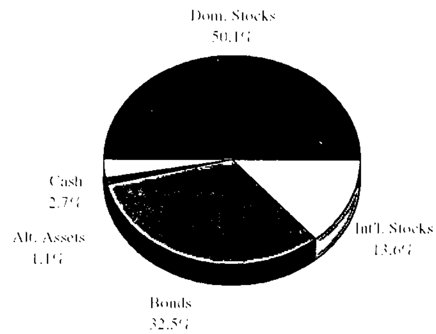
Beginning Value	$17,031
Net Contributions	34
Investment Return	-1,270
Ending Value	$15,795



Asset Mix

The negative returns in the stock market caused the allocation to domestic and international stocks to fall during the quarter, while the allocation to bonds increased.

	Policy Targets	Actual Mix 9/30/98	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	50.1 %	$7,914
Int'l. Stocks	**15.0**	13.6	2,151
Bonds	**27.0**	32.5	5,134
Alternative Assets*	**5.0**	1.1	177
Unallocated Cash	**3.0**	2.7	419
	100.0%	100.0 %	$15,795



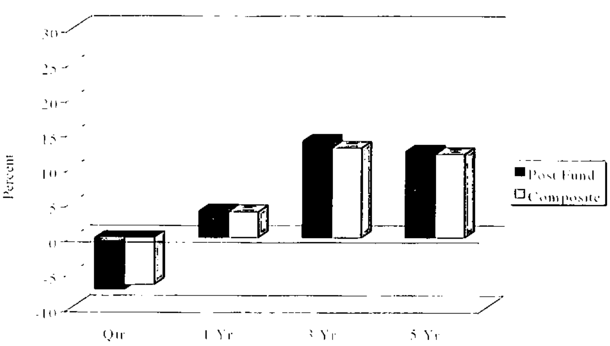
* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

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

Period Ending 9/30/98

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Post	**-7.5%**	**3.8%**	**13.9%**	**12.4%**
Composite	-6.7	3.7	12.9	11.9



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

Domestic Stocks

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

Period Ending 9/30/98	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Dom. Stocks	**-12.2%**	**4.2%**	**19.7%**	**17.4%**
Wilshire 5000	-12.0	3.3	19.2	17.6

International Stocks

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

Period Ending 9/30/98	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Int'l. Stocks	**-15.0%**	**-14.1%**	**4.2%**	**6.1%**
Composite Index*	-15.0	-14.3	1.2	3.8

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

Bonds

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

Period Ending 9/30/98	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Bonds	**3.6%**	**10.9%**	**9.0%**	**7.4%**
Lehman Agg.	4.2	11.5	8.7	7.2

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

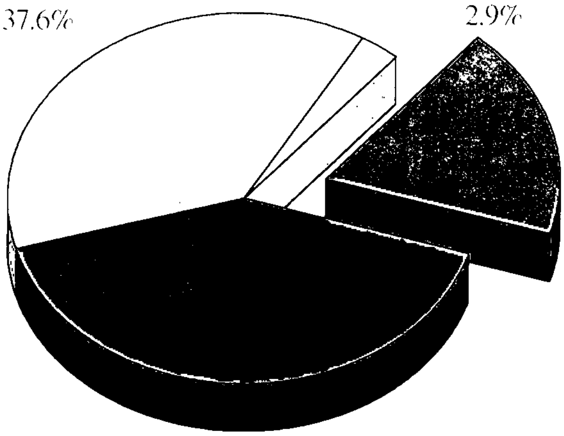
Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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

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

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

EXECUTIVE SUMMARY
Funds Under Management



	9/30/98 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$17.2
Post Retirement Fund	15.8
Supplemental Investment Fund	1.2
Non Retirement Funds*	
Assigned Risk Plan	0.7
Permanent School Fund	0.5
Environmental Trust Fund	0.2
State Cash Accounts	6.4
Total	$42.0

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 1998
(July 1, 1998 - September 30, 1998)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/98				
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Domestic Equity					
Wilshire 5000	-12.0%	3.3%	19.2%	17.5%	16.1%
Dow Jones Industrials	-12.0	0.4	20.2	19.8	17.3
S&P 500	-9.8	9.2	22.7	20.0	17.3
Russell 2000	-20.1	-19.0	6.9	9.1	11.2
Domestic Fixed Income					
Lehman Aggregate*	4.2	11.5	8.7	7.2	9.3
Lehman Gov't./Corp.	5.0	12.8	8.9	7.2	9.4
90 Day U.S. Treasury Bills	1.3	5.2	5.3	5.1	5.6
International					
EAFE**	-14.2	-8.3	3.8	5.3	5.1
Emerging Markets Free***	-22.0	-47.8	-16.4	-7.1	9.3
Salomon Non U.S. Gov't. Bond	9.6	10.4	4.4	7.2	9.1
Inflation Measure					
Consumer Price Index****	0.4	1.5	2.2	2.4	3.2

* 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 generated negative returns for the quarter. Crises in several emerging markets, as well as a slowdown in U.S. corporate profits contributed to the stock market's negative performance. During the quarter, the U.S. economy exhibited signs of softening after seven years of economic growth. As a result, long-term interest rates have fallen to record low levels.

The Wilshire 5000 provided a –12.0% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter is shown below:

Large Value	-11.2%
Small Value	-15.9
Large Growth	-7.8
Small Growth	-22.4

The Wilshire 5000 increased 3.3% for the year ending September 30, 1998.

DOMESTIC BONDS

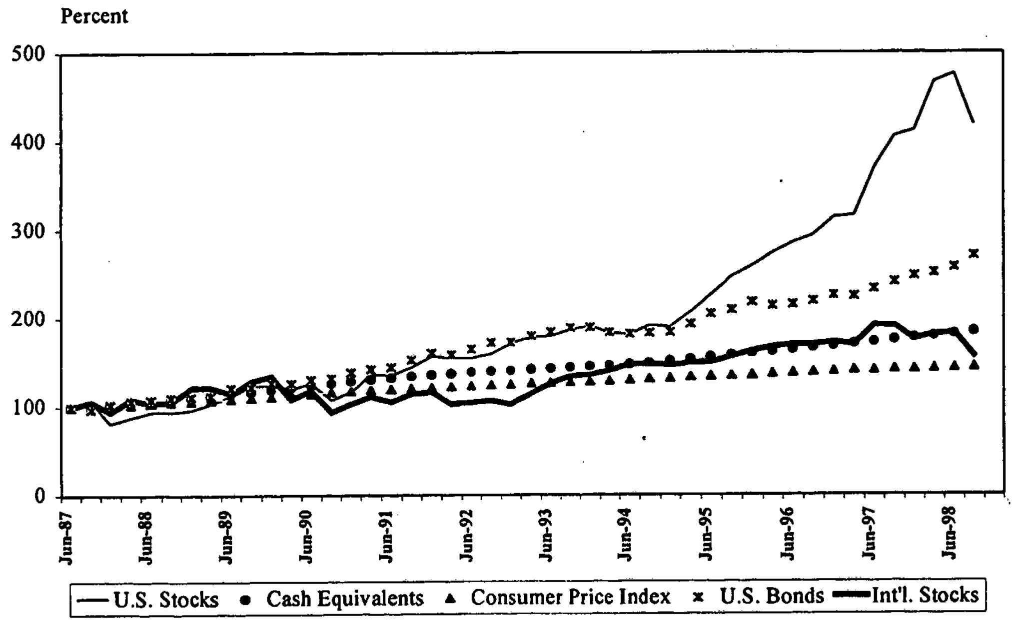
The bond market generated positive returns for the quarter. Treasuries were the best performing sector, benefiting from a classic "flight to quality", as global economic problems led investors to seek a safe haven in U.S. government guaranteed debt. Non-Treasury sector performance was negatively impacted as the global economic and financial turmoil caused their yield spreads relative to Treasuries to widen significantly.

Overall, the Lehman Brothers Aggregate Bond Index increased 4.2% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	5.5%
Corporates	3.6
Mortgages	2.6

The Lehman Aggregate increased 11.5% 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 –14.2% for the quarter. As shown below, performance varied widely among the major markets:

United Kingdom	-10.9%
Japan	-15.0
Germany	-15.5
France	-16.4

The EAFE-Free index decreased by 8.3% during the latest year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 markets located in Europe, Australia and the Far East (EAFE), adjusted for free-float. The major markets listed above comprise about 65% 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 –22.0% for the quarter. The performance of the five largest stock markets in the index is shown below:

Brazil	-28.6%
Mexico	-22.6
South Africa	-19.5
Taiwan	-11.4
India	-4.9

The Emerging Markets Free index had a return of -47.8% 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 fundamentally strong. Property types most favored by buyers at the present time include apartments, industrial parks and suburban office buildings.

PRIVATE EQUITY

Private equity fund raising soared higher in this year's first six months, making it all but inevitable that 1998 will set a fifth consecutive annual record. Investors committed $38.2 billion to U.S. private equity partnerships of all types in the first six months of the year. That marks a 50 percent increase from the $25.5 billion raised in 1997's first half and already exceeds the total raised for all of 1996.

RESOURCE FUNDS

During the third quarter of 1998, West Texas Intermediate crude oil averaged $14.14 per barrel compared to an average price of $15.68 per barrel during the second quarter of 1998. With the low oil prices, oil companies are cautiously drilling for oil and gas.

COMBINED FUNDS

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

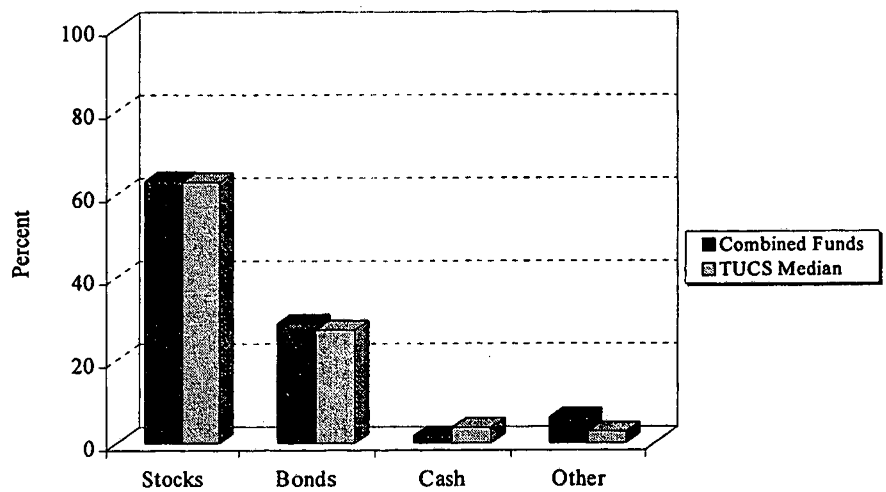
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On September 30, 1998, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$16,327	49.5%
International Stocks	4,514	13.7
Bonds	9,488	28.8
Alternative Assets	2,038	6.2
Unallocated Cash	601	1.8
Total	$32,968	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	**63.2%**	**28.8%**	**1.8%**	**6.2%**
Median Allocation in TUCS**	60.7	30.5	3.4	2.4

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

COMBINED FUNDS
Performance Compared to Other Pension Funds

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

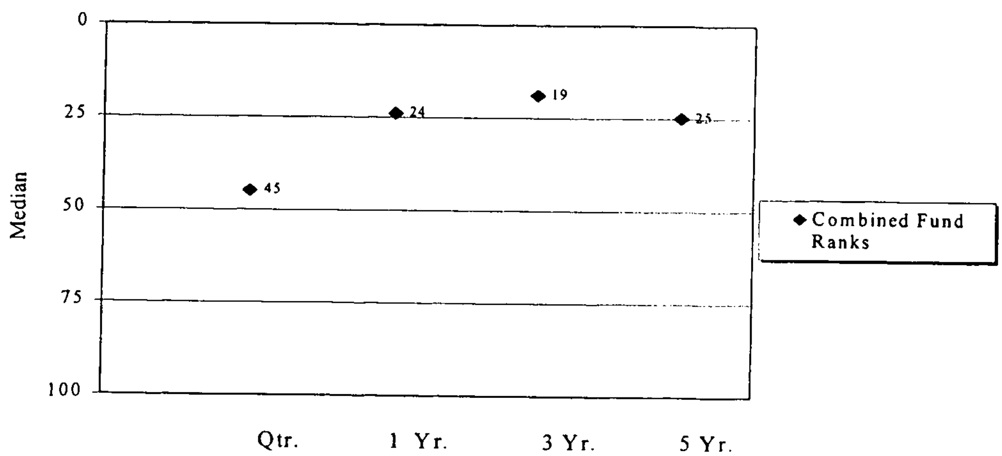
— **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports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

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

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

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

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



	Period Ending 9/30/98			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	45th	24th	19th	25th

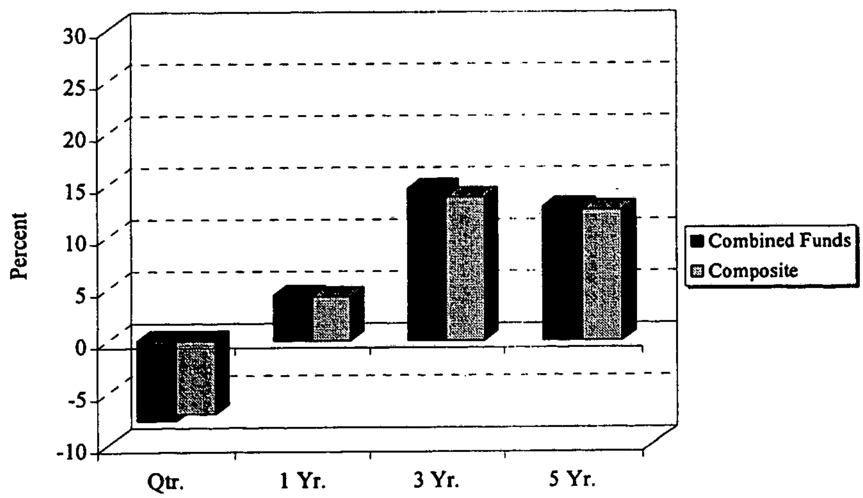
* Compared to public and corporate plans greater than $1 billion, gross of fees.

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 3Q98
Domestic Stocks	Wilshire 5000	50.0%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.3*
Alternative Assets	Wilshire Real Estate	2.2*
	Venture Capital Funds	3.0*
	Resource Funds	0.5*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

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



Period Ending 9/30/98			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds**	-7.7%	4.3%	14.6%	12.8%
Composite Index	-7.0	4.2	13.8	12.5

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

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BASIC RETIREMENT FUNDS

Investment Objectives

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

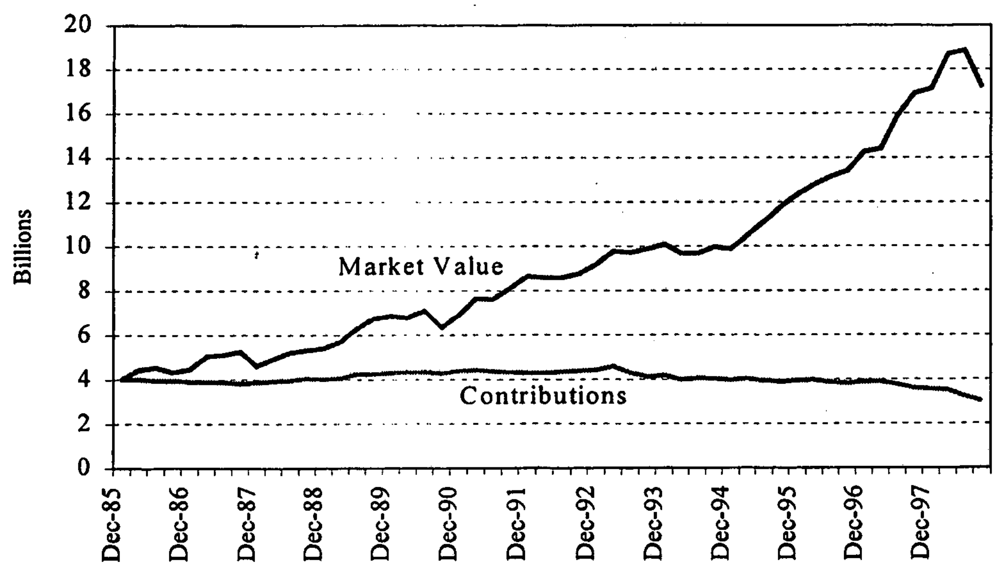
Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs, the Basic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

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

Asset Growth

The market value of the Basic Retirement Funds' assets decreased 8.9% during the third quarter of 1998.

Negative investment returns accounted for the decrease during the quarter. Net contributions were negative.



Last Five Years
In Millions

	12/93	12/94	12/95	12/96	12/97	3/98	6/98	Latest Qtr. 9/98
Beginning Value	$9,191	$10,086	$9,890	$12,338	$14,275	$17,146	$18,715	$18,859
Net Contributions	-239	-206	-29	-59	-337	-21	-297	-217
Investment Return	1,134	10	2,477	1,996	3,208	1,590	441	-1,469
Ending Value	$10,086	$9,890	$12,338	$14,275	$17,146	$18,715	$18,859	$17,173

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.

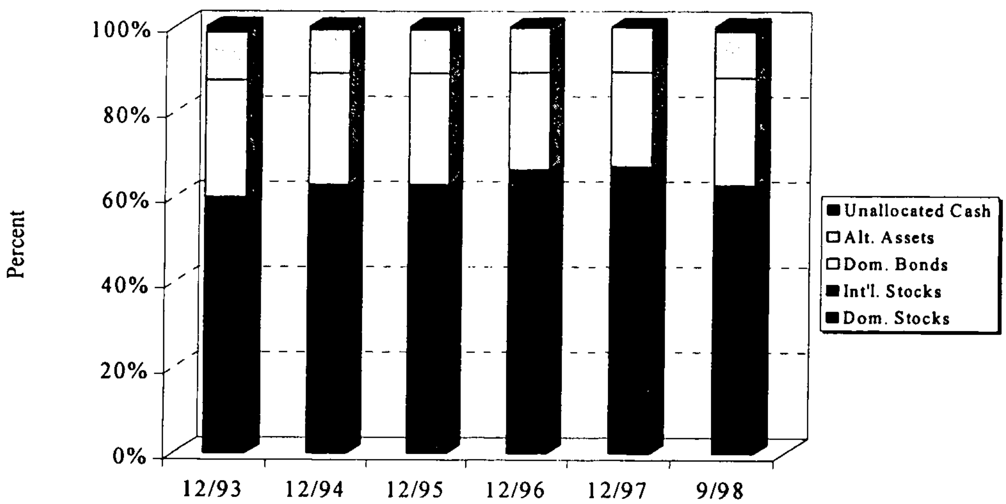
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

* 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 to domestic bonds reflecting the weak performance of the U.S. equity market relative to the domestic bond market.

During the last quarter, the negative returns in the stock market caused the allocation to stocks to fall, while the allocation to bonds increased.



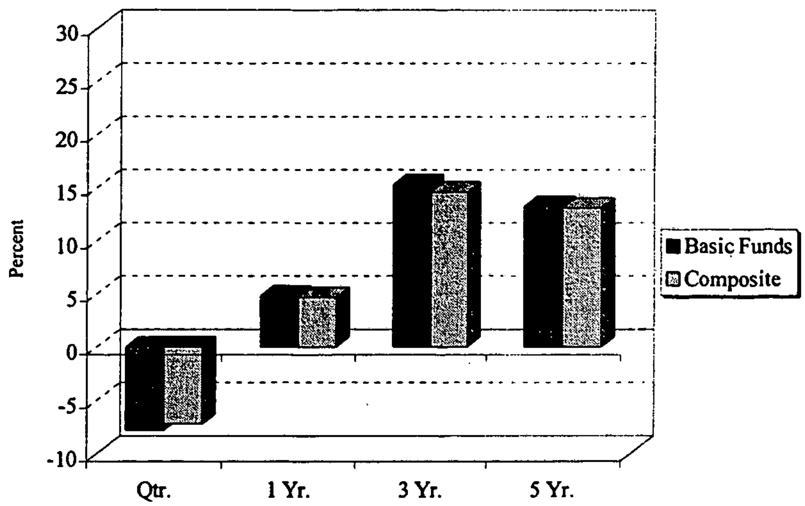
	Last Five Years							Latest Qtr.
	12/93	**12/94**	**12/95**	**12/96**	**12/97**	**3/98**	**6/98**	**9/98**
Domestic Stocks	49.7%	51.7%	51.7%	52.0%	53.6%	53.9%	52.2%	49.0%
Int'l. Stocks	10.3	11.3	11.3	14.5	13.6	14.6	14.6	13.8
Bonds	27.5	26.1	26.1	22.8	22.2	21.3	22.3	25.3
Real Estate	4.6	4.1	4.1	3.9	4.1	3.8	3.8	4.1
Private Equity	5.6	5.4	5.4	5.5	5.0	4.4	5.3	5.9
Resource Funds	0.9	0.7	0.7	1.0	1.4	1.0	0.9	0.8
Unallocated Cash	1.4	0.7	0.7	0.3	0.1	1.0	0.9	1.1
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 3Q98
Domestic Stocks	45.0%	Wilshire 5000	50.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Wilshire Real Estate	3.8*
		Private Equity Funds	5.2*
		Resource Funds	1.0*
Unallocated Cash	1.0	90 Day T-Bills	1.0
	100.0%		100.0%

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



	Period Ending 9/30/98			
			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Basic Funds**	**-7.8%**	**4.8%**	**15.3%**	**13.2%**
Composite Index	-7.2	4.7	14.6	13.1

**Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See 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 95,000 retirees receive monthly annuities from the assets of the Fund.

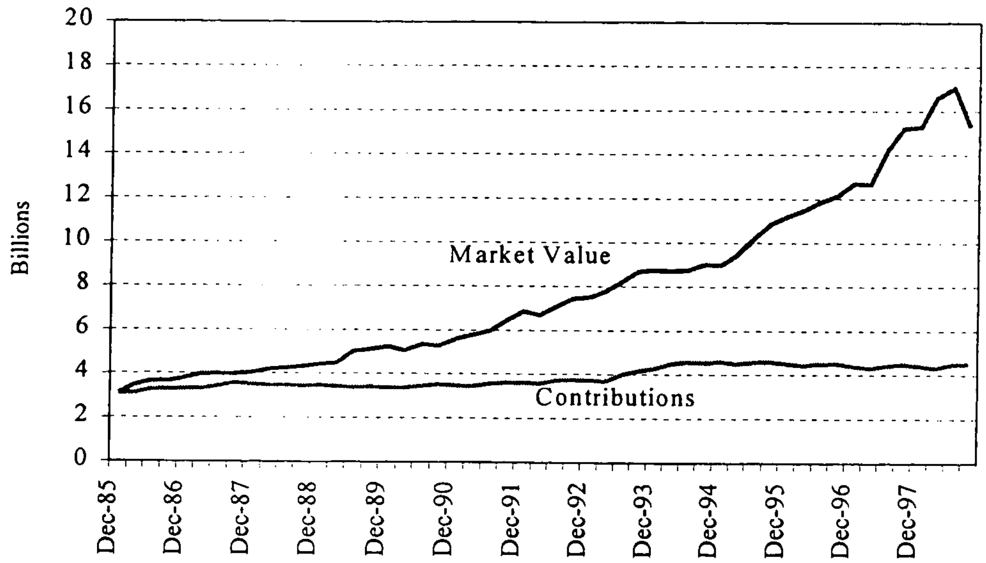
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Retirement Fund decreased by 7.3% during the third quarter of 1998.

The decrease resulted from negative investment returns. Net contributions were slightly positive.



Last Five Years
In Millions

	12/93	12/94	12/95	12/96	12/97	3/98	6/98	Latest Qtr. 9/98
Beginning Value	$7,500	$8,766	$9,001	$11,216	$12,705	$15,273	$16,610	$17,031
Net Contributions	386	314	-102	-94	23	-96	156	34
Investment Return	880	-79	2,317	1,583	2,545	1,433	265	-1,270
Ending Value	$8,766	$9,001	$11,216	$12,705	$15,273	$16,610	$17,031	$15,795

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%

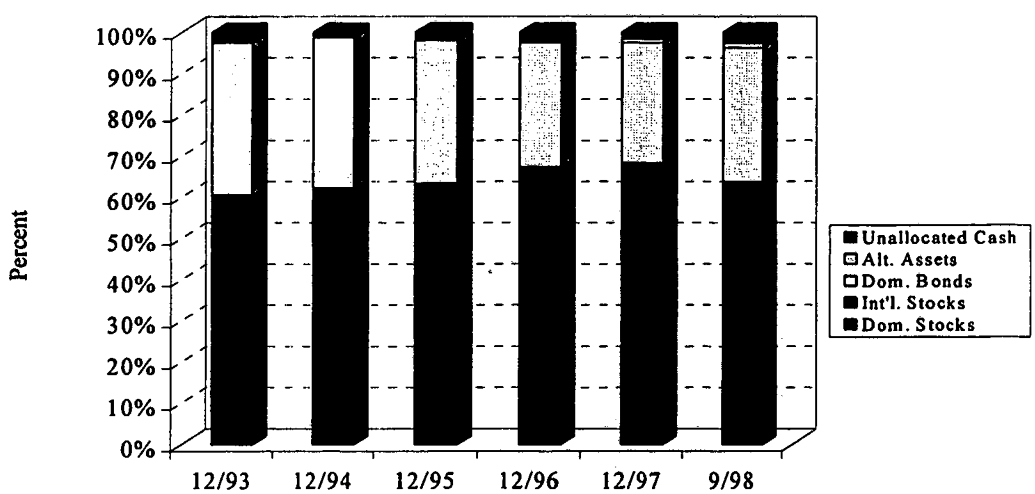
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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 domestic stocks to domestic bonds reflecting the weak performance of the U.S. equity market relative to the domestic bond market.

During the last quarter, the negative returns in the stock market caused the allocation to stocks to fall, while the allocation to bonds increased.



	Last Five years							Latest Qtr.
	12/93	12/94	12/95	12/96	12/97	3/98	6/98	9/98
Dom. Stocks	50.5%	51.2%	51.9	52.7%	54.7%	53.9	52.5%	50.1%
Int'l. Stocks	10.0	11.0	11.4	14.6	13.6	14.7	14.8	13.6
Bonds	36.9	36.5	34.7	30.2	29.1	28.1	29.3	32.5
Alt. Assets	0.0	0.1	0.2	0.6	0.9	0.9	0.9	1.1
Unallocated Cash	2.6	1.2	1.8	1.9	1.7	2.4	2.5	2.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND

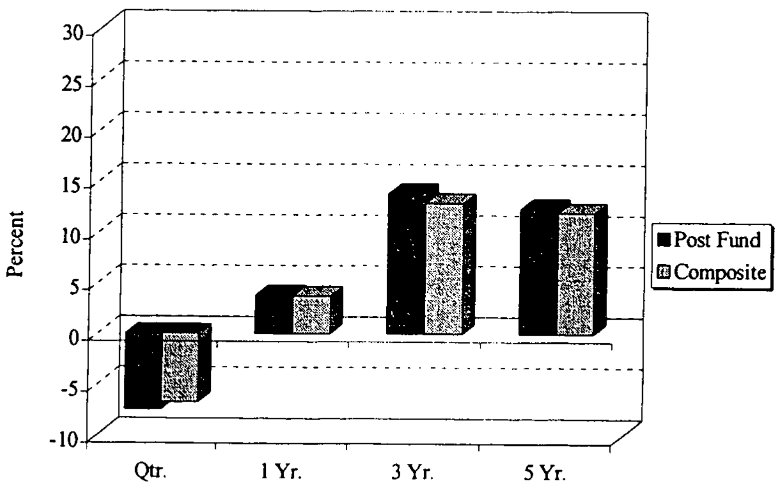
Total Fund Performance (Net of Fees)

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 3Q98*
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	31.0
Alternative Assets	5.0	Real Estate Funds	0.5
		Private Equity Funds	0.5
		Resource Funds	0.0
Unallocated Cash	3.0	90 Day T-Bills	3.0
	100.0%		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.



	Period Ending 9/30/98			
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Post Fund**	**-7.5%**	**3.8%**	**13.9%**	**12.4%**
Composite Index	-6.7	3.7	12.9	11.9

** Returns are reported net of fees.

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

STOCK AND BOND MANAGERS

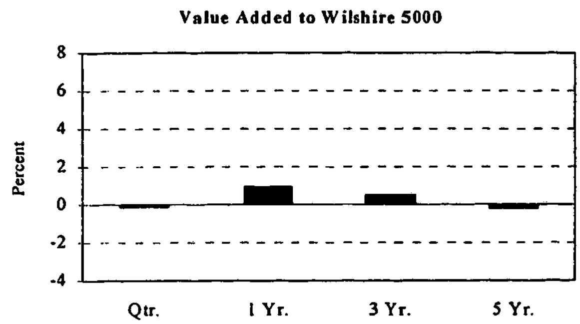
Performance of Asset Pools (Net of Fees)

Domestic Stock Pool

Target: Wilshire 5000
Expectation: If one-third of the pool is actively managed, one-third is semi-passively managed, and one-third is passively managed, the entire pool is expected to exceed the target by +.18 - .40% annualized, over time.

Period Ending 9/30/98

	Qtr.	Yr.	3 Yrs. (Annualized)	5 Yrs. (Annualized)
Stock Pool	**-12.2%**	**4.2%**	**19.7%**	**17.4%**
Wilshire 5000	-12.0	3.3	19.2	17.6



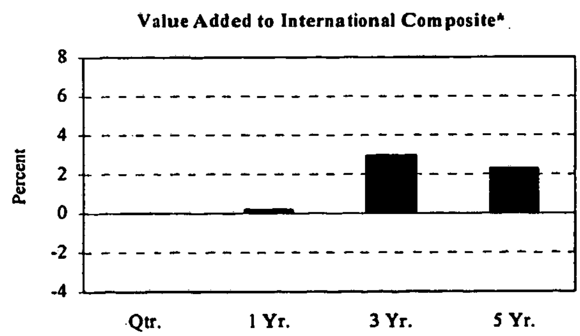
International Stock Pool

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

Period Ending 9/30/98

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yrs. (Annualized)
Int'l. Pool	**-15.0%**	**-14.1%**	**4.2%**	**6.1%**
Composite Index*	-15.0	-14.3	1.2	3.8

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

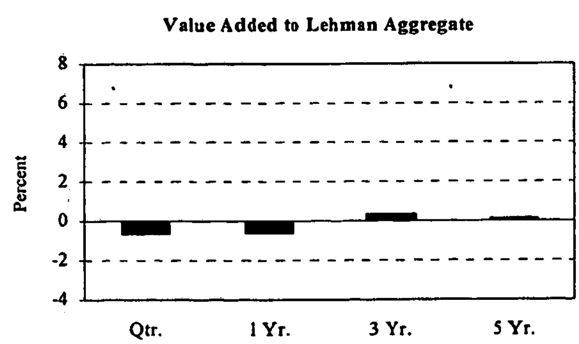


Bond Pool

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

Period Ending 9/30/98

	Qtr.	Yr.	3 Yrs. (Annualized)	5 Yrs. (Annualized)
Bond Pool	**3.6%**	**10.9%**	**9.0%**	**7.4%**
Lehman Agg.	4.2	11.5	8.7	7.2



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.

	Period Ending 9/30/98		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Real Estate	**-1.9%**	**23.7%**	**13.7%**	**10.3%**
Real Estate Index		13.5	9.4	6.6
Inflation	0.4	1.5	2.2	2.4

Private Equity Pool (Basic Funds only)

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

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

	Period Ending 9/30/98		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Private Equity	**1.0%**	**34.4%**	**35.8%**	**27.3%**

Resource Pool (Basic Funds only)

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

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

	Period Ending 9/30/98		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Resource Funds	**-7.9%**	**-14.7%**	**21.8%**	**15.6%**

Yield Oriented Pool (Post Fund only)

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

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

	Period Ending 9/30/98		Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**Since 3/1/94**
Yield Oriented	**10.1%**	**21.4%**	**13.1%**	**11.8%**

SUPPLEMENTAL INVESTMENT FUND

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

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

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

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

On September 30, 1998 the market value of the entire Fund was $1.2 billion.

Investment Options

	9/30/98 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$536
Growth Share Account – an actively managed, all common stock portfolio.	$245
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$210
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$21
Bond Market Account – an actively managed, all bond portfolio.	$76
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$50
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	$77

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	58.5%
Bonds	35.0	36.7
Unallocated Cash	5.0	4.8
	100.0%	100.0%

Period Ending 9/30/98

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Total Account	**-5.9%**	**6.7%**	**15.5%**	**13.8%**
Composite*	-5.6	6.8	15.1	13.5

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 9/30/98

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Total Account	**-12.2%**	**4.5%**	**19.4%**	**17.1%**
Composite*	-12.0	3.3	19.0	17.2

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 9/30/98

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Total Account	**-11.9%**	**3.9%**	**19.6%**	**17.9%**
Wilshire 5000	-12.0	3.3	19.2	17.6

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

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

Period Ending 9/30/98

	Qtr.	1 Yr.	Annualized 3 Yr.	Since 9/1/94
Total Account	**-14.9%**	**-14.1%**	**4.1%**	**3.8%**
Composite*	-15.0	-14.3	1.2	1.5

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

	Period Ending 9/30/98			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**3.6%**	**10.9%**	**9.0%**	**7.2%**
Lehman Agg.	4.2	11.5	8.7	7.2

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

MONEY MARKET ACCOUNT

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

	Period Ending 9/30/98			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.4%**	**5.8%**	**5.7%**	**5.3%**
90 Day T-Bills	1.3	5.2	5.3	5.0

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

FIXED INTEREST ACCOUNT

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

	Period Ending 9/30/98			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 11/1/94
GIC Pool	1.7%	6.5%	6.6%	6.7%

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

ASSIGNED RISK PLAN

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

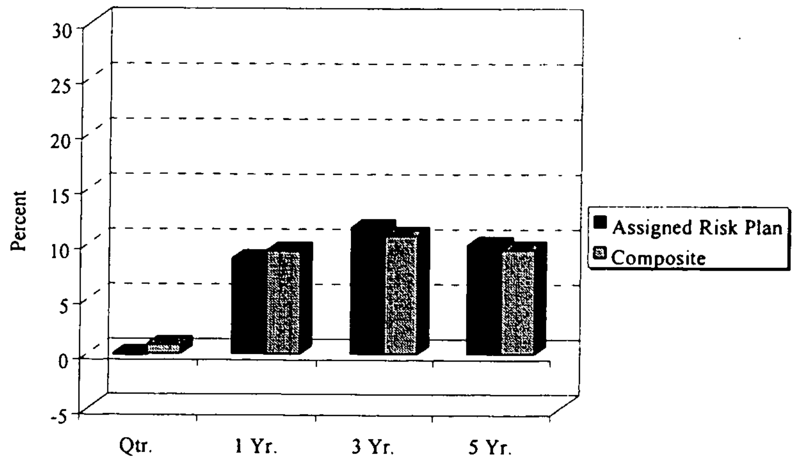
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	9/30/98 Target	9/30/98 Actual
Stocks	20.0%	24.4%
Bonds	80.0	75.6
Total	100.0%	100.0%

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

Performance Benchmarks
A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. 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, 1998 the market value of the Assigned Risk Plan was $683 million.



	Qtr.	Yr.	3 Yr.	5 Yr.
	Period Ending 9/30/98		**Annualized**	
Total Fund*	-0.1%	8.7%	11.5%	9.9%
Composite	0.8	9.4	10.8	9.5
Equity Segment*	-9.9	7.0	22.0	19.3
Benchmark	-9.8	9.2	22.7	20.3
Bond Segment*	3.4	9.2	7.8	6.9
Benchmark	3.4	9.0	7.7	6.8

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

Investment Objectives

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

Asset Mix

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

	9/30/98 Target	9/30/98 Actual
Stocks	50.0%	49.1%
Bond	48.0	46.4
Unallocated Cash	2.0	4.5
	100.0%	100.0%

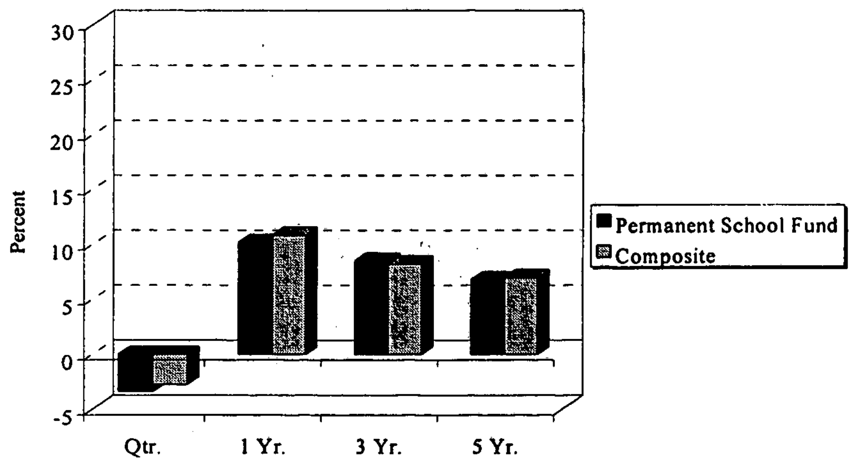
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

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, 1998 the market value of the Permanent School Fund was $481 million.



	Period Ending 9/30/98			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	**-3.4%**	**10.2%**	**8.5%**	**6.7%**
Composite	-2.7	10.8	8.2	7.0
Equity Segment (1) (2)	**-9.9**	9.0	N/A	N/A
S&P 500	-9.8	9.2	N/A	N/A
Bond Segment (1)	**4.0**	**11.6**	**9.1**	**7.3**
Lehman Aggregate	4.2	11.5	8.7	7.2

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

ENVIRONMENTAL TRUST FUND

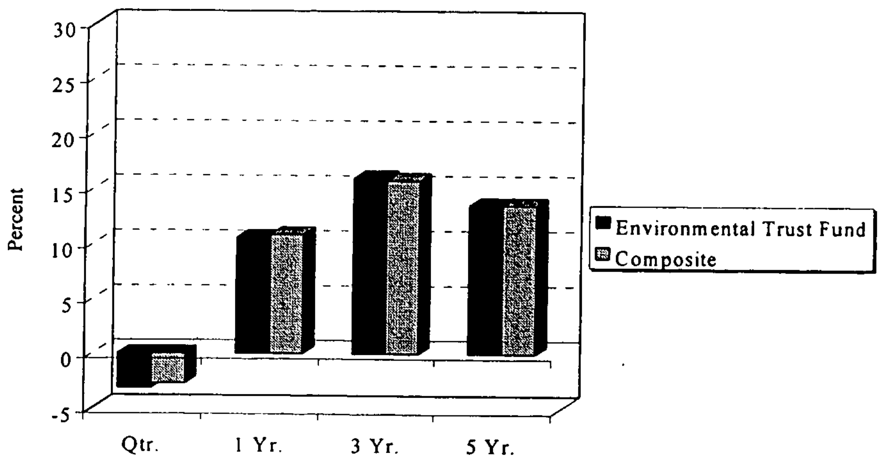
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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.

	9/30/98 Target	9/30/98 Actual
Stocks	50.0%	47.5%
Bonds	48.0	51.7
Unallocated Cash	2.0	0.8
	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, 1998 the market value of the Environmental Trust Fund was $237 million.



	Period Ending 9/30/98			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund*	-3.2%	10.6%	16.0%	13.5%
Composite	-2.7	10.9	15.8	13.5
Equity Segment*	-9.9	9.1	22.7	20.0
S&P 500	-9.8	9.2	22.7	20.0
Bond Segment*	4.0	11.6	9.3	7.8
Lehman Agg.	4.2	11.5	8.7	7.2

* Actual returns are calculated net of fees.

STATE CASH ACCOUNTS

Description
State Cash Accounts represent the cash balances in more than 400 separate accounts that flow through the Minnesota State Treasury. These accounts range in size from $5,000 to over $400 million.

Most accounts are invested by SBI staff through two short-term pooled funds:

1. Trust Fund Pool contains the 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 9/30/98			
	Market Value (Millions)			Annualized	
		Qtr.	Yr.	3 Yr.	5 Yr.
Treasurer's Cash Pool*	**$5,619**	1.7%	6.1%	5.7%	5.3%
Custom Benchmark**		1.5	5.5	5.6	5.3
Trust Fund Cash Pool*	61	1.5	5.8	5.7	5.4
Custom Benchmark***		1.3	5.2	5.4	5.2
91-Day T-Bills		1.3	5.2	5.3	5.0

* 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.

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value September 30, 1998 (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	76,753 1.07%	-0-	1,813,948 25.28%	-0-	3,508,174 48.90%	997,399 13.90%	778,456 10.85%	7,174,730 100%
Public Employees Retirement Fund	39,830 1.06%	-0-	952,883 25.38%	-0-	1,841,722 49.05%	513,118 13.67%	407,101 10.84%	3,754,654 100%
State Employees Retirement Fund	38,090 1.06%	-0-	908,620 25.37%	-0-	1,756,391 49.04%	489,129 13.66%	389,444 10.87%	3,581,674 100%
Public Employees Police & Fire Fund	18,855 1.06%	-0-	451,527 25.38%	-0-	872,670 49.06%	243,168 13.67%	192,696 10.83%	1,778,916 100%
Highway Patrol Retirement Fund	2,449 1.06%	-0-	58,541 25.38%	-0-	113,131 49.06%	31,531 13.67%	24,980 10.83%	230,632 100%
Judges Retirement Fund	206 1.06%	-0-	4,946 25.38%	-0-	9,559 49.06%	2,664 13.67%	2,110 10.83%	19,485 100%
Public Employees P.F. Consolidated	2,699 0.63%	63 0.01%	109,510 25.49%	16 -0-%	211,641 49.26%	58,981 13.73%	46,722 10.88%	429,632 100%
Correctional Employees Retirement	2,162 1.06%	-0-	51,791 25.38%	-0-	100,096 49.06%	27,893 13.67%	22,095 10.83%	204,037 100%
TOTAL BASIC FUNDS	181,044 1.05%	63 -0-	4,351,766 25.34%	16 -0-	8,413,384 48.99%	2,363,883 13.77%	1,863,604 10.85%	17,173,760 100%
POST RETIREMENT FUND	419,371 2.65%	-0-	5,132,067 32.50%	-0-	7,913,677 50.11%	2,150,422 13.62%	176,894 1.12%	15,792,431 100%
TOTAL BASIC & POST	600,415 1.82%	63 -0-	9,483,833 28.77%	16 -0-%	16,327,061 49.53%	4,514,305 13.69%	2,040,498 6.19%	32,966,191 100%

	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	25,708 4.80%	196,779 36.75%	-0-	-0-	313,004 58.45%	-0-	-0-	535,491 100%
Growth Share Account	-0-	-0-	-0-	-0-	245,275 100%	-0-	-0-	245,275 100%
Money Market Account	49,965 100%	-0-	-0-	-0-	-0-	-0-	-0-	49,965 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	209,863 100%	-0-	-0-	209,863 100%
Bond Market Account	-0-	-0-	76,146 100%	-0-	-0-	-0-	-0-	76,146 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	20,567 100%	-0-	20,567 100%
Fixed Interest Account	2,101 2.73%	-0-	74,729 97.27%	-0-	-0-	-0-	-0-	76,830 100%
TOTAL SUPPLEMENTAL FUNDS	77,774 6.40%	196,779 16.21%	150,875 12.43%	-0-	768,142 63.27%	20,567 1.69%	-0-	1,214,137 100%
TOTAL RETIREMENT FUNDS	678,189 1.98%	196,842 0.58%	9,634,708 28.19%	16 0.00	17,095,203 50.01%	4,534,872 13.27%	2,040,498 5.97%	34,180,328 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	11,272 1.65%	-0-	510,476 74.78%	-0-	160,914 23.57%	-0-	-0-	682,662 100%
ENVIRONMENTAL FUND	1,937 0.82%	122,243 51.67%	-0-	112,385 47.51%	-0-	-0-	-0-	236,565 100%
PERMANENT SCHOOL FUND	21,493 4.47%	223,205 46.41%	-0-	236,206 49.12%	-0-	-0-	-0-	480,904 100%
TREASURERS CASH	5,604,166 100%	-0-	-0-	-0-	-0-	-0-	-0-	5,604,166 100%
HOUSING FINANCE AGENCY	69,217 28.05%	177,517 71.95%	-0-	-0-	-0-	-0-	-0-	246,734 100%
MINNESOTA DEBT SERVICE FUND	60,069 39.42%	92,309 60.58%	-0-	-0-	-0-	-0-	-0-	152,378 100%
MISCELLANEOUS ACCOUNTS	214,321 51.79%	174,248 42.10%	-0-	25,286 6.11%	-0-	-0-	-0-	413,855 100%
GRAND TOTAL	6,660,664 15.86%	986,364 2.35%	10,145,184 24.15%	373,893 0.89%	17,256,117 41.09%	4,534,872 10.80%	2,040,498 4.86%	41,997,592 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 24, 1998

TO: Members, Minnesota State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the period ending October 31, 1998 is included as **Attachment A.**

A Report on travel for the period from August 16, 1998 – November 15, 1998 is included as **Attachment B.**

2. Litigation Update

The SBI has been designated lead plaintiff in a class action suit against Mercury Finance Corporation. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on December 11th.

3. Update on Tobacco Information

The resolution adopted by the Board at its September 2, 1998 meeting required active managers to divest holdings in stock of companies that derive at least fifteen percent of revenues from tobacco products by September 2001. Staff notified in writing each of the SBI's active and passive equity managers. **See Attachment C.**

From August 31, 1998 to September 30, 1998, shares in SBI active stock portfolios were reduced by approximately 1.3 million shares, dropping from approximately 5.5 million shares to less than 4.2 million shares. The market value of these holdings was also reduced from approximately $192 million to less than $162 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment D.**

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EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 24, 1998

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Post Retirement Benefit Increase for FY98

The post retirement benefit increase for FY97 will be 9.8254%. The increase will be payable to eligible retirees effective January 1, 1999.

This if the sixth increase granted under the revised formula that was enacted by the 1992 Legislature. For FY 1993-1997 the "inflation cap" in the benefit increase formula was 3.5%. Beginning in FY 1998, the "inflation cap" is 2.5%. Following are benefit increases since 1998:

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%
1998*	9.8%

* Benefit increase granted under new formula.

2. Tentative Meeting Dates for Calendar 1999

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 the calendar 1999 are:

IAC	SBI
Tuesday, March 2, 1999	Wednesday, March 3, 1999
Tuesday, June 1, 1999	Wednesday, June 2, 1999
Tuesday, September 7, 1999	Wednesday, September 8, 1999
Tuesday, December 7, 1999	Wednesday, December 8, 1999

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

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1999 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH OCTOBER 31, 1998

ITEM	FISCAL YEAR 1999 BUDGET	FISCAL YEAR 1999 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,715,475	$ 443,598
SEVERENCE PAYOFF	20,000	654
WORKERS COMPENSATION INSURANCE	1,000	149
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,737,475**	**$ 444,401**
STATE OPERATIONS		
RENTS & LEASES	94,525	31,507
REPAIRS/ALTERATIONS/MAINTENANCE	23,000	4,898
MOVING EXPENSES	100,000	0
PRINTING & BINDING	20,000	10,001
PROFESSIONAL/TECHNICAL SERVICES	55,000	0
COMPUTER SYSTEMS SERVICES	5,000	349
COMMUNICATIONS	27,000	5,318
TRAVEL, IN-STATE	3,000	99
TRAVEL, OUT-STATE	60,000	10,285
SUPPLIES	42,000	8,361
EQUIPMENT	40,000	39,098
EMPLOYEE DEVELOPMENT	12,000	5,474
OTHER OPERATING COSTS	28,000	6,296
SUBTOTAL	**$ 509,525**	**$ 121,686**
TOTAL GENERAL FUND	**$ 2,247,000**	**$ 566,087**

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STATE BOARD OF INVESTMENT

Travel Summary by Date
September 16, 1998 – November 15, 1998

Purpose	Name(s)	Destination and Date	Total Cost
Consultant Meeting Richards & Tierney	H. Bicker	Chicago, IL 8/24-8/26	$1,188.80
Staff Conference "Guns & Hoses" sponsored by the Institute for International Research	H. Bicker	Miami, FL 9/12-9/16	$1,325.00
Manager Monitoring International Managers: Brinson Partners, Scudder Kemper Investments, State Street Global Advisors **Custodian Meeting** State Street Analytics **Consultant Meeting** Richards & Tierney **Staff Education** "Franklin Portfolio Client Conference" sponsored by Franklin Portfolio Associates	L. Buermann T. Brusehaver-Derby	Boston, MA New York, NY 9/15-9/18	$2,849.53
Manager Monitoring Alternative Investments: First Annual Equity Office Properties Trust Investor Forum	J. Griebenow	Chicago, IL 9/22-9/24	$637.00

Purpose	Name(s)	Destination and Date	Total Cost
Staff Education "1998 GIC/Stable Value Major Players Symposium" Sponsored by Information Management, Inc. **Manager Monitoring** Deferred Compensation Manager: Dodge & Cox	J. Heidelberg	San Francisco, CA 9/23-9/25	$863.45
Staff Conference National Association State Investment Officers Annual Meeting	H. Bicker M. Perry	New Orleans, LA 10/4-10/7	$3,258.18
Staff Education "State Street Institute" Sponsored by State Street Bank & Trust Company	W. Egan	Boston, MA 10/5-10/8	$306.64
Staff Conference "Equity Investment Strategies Summit" Sponsored by Institute For International Research	L. Buermann	Dallas, TX 10/27-10/30	$110.00

ATTACHMENT C

MINNESOTA STATE BOARD OF INVESTMENT

Suite 105, MEA Bldg.
55 Sherburne Avenue
St. Paul, MN 55155
(612)296-3328
FAX (612)296-9572

September 9, 1998

As you recall, effective July 1, 1998, the companies listed in Attachment A to this memo became ineligible investments for future purchase in SBI's actively managed portfolios. This was a result of a resolution (Attachment B) passed on June 11, 1998, by the State Board of Investment (SBI) that stated:

> **No new or additional shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products shall be <u>purchased</u> by the SBI's external or internal managers for its "actively managed" stock portfolios.**

On September 2, 1998, the SBI took additional action and passed a resolution (Attachment C) that states:

> **SBI's external or internal managers for its "actively managed" stock portfolios shall be directed to <u>divest</u> shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001.**

Therefore, you are directed to liquidate by September 2001, shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products.

Thank you for your cooperation in this matter.

Sincerely,

Howard Bicker

Howard Bicker
Executive Director

Attachments

Attachment A

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

Company

800-JR Cigar Inc.
BAT Industries PLC
Brooke Group Ltd.
Caribbean Cigar Co.
Consolidated Cigar Hldgs
DIMON, Inc.
Dominican Cigar Corp.
Empresas La Moderna
Gallaher Group PLC
General Cigar Holdings
Holt's Cigar Hldgs, Inc.
Imperial Tobacco Group
Philip Morris Cos., Inc.
Premium Cigars Intl
RJR Nabisco Holdings
Schweitzer-Mauduit Int'l.
Standard Commercial Corp
Swedish Match AB
Swisher Int'l. Group, Inc.
Tamboril Cigar Co.
Universal Corp.
UST Inc.

Attachment A

International Stocks

Company

Austria Tabak AG
Bangladesh Tobacco Co.Ltd.
BAT Kenya Ltd.
BAT Zimbabwe Ltd.
Brit.-American Tob. (Singapore)
Ceylon Tobacco Co. Ltd
Compagnie Financiere Richemont
Compania Chilena de Tabacos
Compania Colombiana de Tab.
Empresa Madeirense de Tabacos
Godfrey Phillips India Ltd.
Grupo Carso SA de CV
Imasco Ltd.
ITC Ltd.
Japan Tobacco Inc.
Jerusalem Cigarette Co.
Karelia Tobacco Co., Inc.
Khyber Tobacco Co., Ltd.
Lakson Tobacco Co., Ltd.
Malaysian Tobacco Co. Bhd
Nigerian Tobacco Co. Plc
Nobleza-Piccardo Saicyf
Pakistan Tobacco Co. Ltd.
Papastratos Cigarette Mfg. Co.
Philippine Tobacco Corp.
PT BAT Indonesia
PT Gudang Garam
PT Hanjaya Madala Samp. Tbk.
Rembrandt Group Ltd.
RJ Reynolds Tobacco Co. Bhd
Rothmans Holdings Ltd.
Rothmans Inc. (Canada)
Rothmans Industries (Singapore)
Rothmans of Pall Mall (Malaysia)
Rothmans of Pall Mall (Zambia)
Rothmans of Pall Mall (Zimbab.)
Sarhad Cigarette Industries Ltd.
Seita
Shanghai Industrial Holdings Ltd
Souvenir Tobacco Co., Ltd.
Souza Cruz SA
Tabacalera Nacional SA
Tabacalera SA
Tabak AS
TSL Ltd.
Utico Holdings Ltd.
VST Industries Ltd.
WD & HO Wills Holdings Ltd.
West Indian Tobacco Co. Ltd.

Attachment B

RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT

Whereas, funds under the direction of the Minnesota State Board of Investment (SBI) contain investments in companies that derive revenues from the manufacture of consumer tobacco products;

Whereas, by Resolution dated December 12, 1997, the SBI determined it prudent to monitor the exposure of funds under management by the SBI to the risk of higher volatility and lower annualized returns which have been associated with investments in companies that derive revenue from the manufacture of consumer tobacco products;

Whereas, the State of Minnesota recently settled its lawsuit with a number of tobacco companies pursuant to which the State of Minnesota will receive scheduled payments in perpetuity with scheduled payments over 25 years of $6.1 billion and the tobacco companies agreed to significant changes in their marketing practices, particularly with respect to the marketing to young persons;

Whereas, in the course of the litigation with the State of Minnesota over 30 million pages of previously secret tobacco industry files have been made public;

Whereas, tobacco companies continue to be the subject of similar actions brought by over 40 other states, a number of cities, counties and foreign governments, each similarly seeking large monetary recoveries and changes in the operations of companies that derive revenue from the manufacture of consumer tobacco products and additional governmental jurisdictions, both within and without the United States, continue to file similar legal actions against the tobacco companies;

Whereas, companies that derive revenue from the manufacture of consumer tobacco products continue to be the subject of significant private actions and private class actions, including the Blue Cross Blue Shield plans in over 31 states, and Allina and Health Partners, and over 30 actions filed by Taft-Hartley health care plans operated by unions;

Whereas, on June 10, 1998, a Florida jury ordered Brown and Williamson to pay $500,000 in compensatory damages and $450,000 in punitive damages to pay the family of a smoker who died of lung cancer, marking the first time a jury has awarded punitive damages against a tobacco company in a case aided by the documents released as a result of the Minnesota tobacco case.

Whereas, according to published reports, the activities of tobacco companies currently are under criminal investigation by one or more federal grand juries;

Whereas, federal regulations promulgated in 1996 were upheld in the U.S. district court in North Carolina and are now on appeal to U.S. Fourth Circuit Court of Appeals, and, if fully implemented, would alter the business activities of those tobacco companies in significant respects;

Whereas, on June 20, 1997, some companies and some state attorneys general agreed on federal legislation to be proposed to settle various legal claims. The proposed terms included other provisions calling for payment by the tobacco companies of at least $368.5 billion over 25 years to settle various legal actions; certain protections for the tobacco companies from product liability suits; and changing certain tobacco company business practices;

Whereas, to date there has been no congressional action to implement the proposed settlement,

Whereas, in April 1998 the Senate Commerce Committee passed a bill authored by Senator John McCain that would substantially toughen the proposed national settlement; on April 8, 1998, certain tobacco companies led by RJR Nabisco Holdings Co. announced they would no longer negotiate with the White House, the Congress and state attorneys general concerning a settlement and subsequent Senate amendments have virtually eliminated the proposed product liability protection for tobacco companies contained in the original settlement, and there is no legislation pending in the House that would provide tobacco companies any product liability protection;

Whereas, during the five year period ending March 30, 1998, tobacco stocks have exhibited higher volatility and lower annualized returns than many other industry groups, and, as a result, may pose excessive and unnecessary investment risks;

Whereas, the Board has determined it is prudent to limit the exposure of its funds to the excessive and unnecessary risk resulting from the current litigation, legislative, regulatory and investment environment with respect to companies that derive revenue from the manufacture of consumer tobacco products; and

Whereas, the Board considers it prudent to continue to monitor the exposure of all its stock funds, both externally and internally managed, to the foregoing risks until those risks have been further clarified and in light of the Board's fiduciary responsibility.

NOW THEREFORE be it resolved:

1. No new or additional shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products shall be purchased by the SBI's external or internal managers for its actively managed stock portfolios except as provided herein;

   a. As soon as practicable after the date of approval of this Resolution and no later than June 30, 1998, the State Board of Investment staff shall notify its internal and external active stock managers of this Resolution and direct those active stock managers to discontinue purchases of stock covered by this Resolution.

b. The process of limiting new investments in stocks held in the State Board of Investment's active stock managed portfolios must be conducted consistent with fiscal prudence and so as to minimize financial market disturbance.

2. To identify the tobacco companies covered by paragraph 1 hereinabove, the State Board of Investment executive director and State Board of Investment stock managers are directed to rely on information compiled by the Investor Responsibility Research Center (IRRC), Washington, D.C., as published in the most recent edition of the IRRC publication entitled "The Tobacco Industry."

3. This Resolution shall remain in effect until further order of the State Board of Investment.

Adopted this 11th day of June, 1998.

Governor Arne H. Carlson
Chair, Minnesota State Board of Investment

AG:51799 v1

Attachment C

RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT

Whereas, funds under the direction of the Minnesota State Board of Investment (SBI) contain investments in companies that derive revenues from the manufacture of consumer tobacco products;

Whereas, by Resolution dated December 12, 1997, the SBI determined it prudent to monitor the exposure of funds under management by the SBI to the risk of higher volatility and lower annualized returns which have been associated with investments in companies that derive revenue from the manufacture of consumer tobacco products;

Whereas, in May, 1998, the State of Minnesota settled its lawsuit with a number of tobacco companies pursuant to which the State of Minnesota will receive scheduled payments in perpetuity with scheduled payments over 25 years of $6.1 billion and the tobacco companies agreed to significant changes in their marketing practices, particularly with respect to marketing to young replacement smokers;

Whereas, by resolution dated June 11, 1998, the Board directed its external and internal managers for its actively managed stock portfolios to purchase no new or additional shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products;

Whereas, in the course of the litigation with the State of Minnesota over 30 million pages of previously secret tobacco industry files have been made public;

Whereas, tobacco companies continue to be the subject of similar actions brought by over 40 other states, a number of cities, counties and foreign governments, each similarly seeking large monetary recoveries and changes in the operations of companies that derive revenue from the manufacture of consumer tobacco products and additional governmental jurisdictions, both within and without the United States, continue to file or are exploring the possibility of filing, similar legal actions against the tobacco companies;

Whereas, companies that derive revenue from the manufacture of consumer tobacco products continue to be the subject of significant private actions and private class actions, including the Blue Cross Blue Shield plans in over 31 states, and Allina and Health Partners, and over 30 actions filed by Taft-Hartley health care plans operated by unions;

Whereas, according to published reports, the activities of tobacco companies currently are under criminal investigation by one or more federal grand juries;

Whereas, federal Food and Drug Administration (FDA) regulations promulgated in 1996 were upheld by the U.S. district court in North Carolina, overturned on appeal to a U.S. Fourth Circuit Court of Appeals panel, and are now on appeal to the entire Fourth Circuit. Those regulations, if ultimately upheld will alter the marketing, manufacturing and other business activities of those tobacco companies in significant respects;

Whereas, to date all bills in Congress that would restrict the FDA's authority to regulate tobacco or that would provide liability protection to the tobacco industry have failed to pass;

Whereas, the Board has determined it is prudent to limit the exposure of its funds to the excessive and unnecessary risk resulting from the current litigation, legislative, regulatory and investment environment with respect to companies that derive revenue from the manufacture of consumer tobacco products; and

Whereas, the Board considers it prudent to reduce the exposure of all its stock funds, both externally and internally managed, to the foregoing risks in light of the Board's fiduciary responsibility.

NOW THEREFORE be it resolved:

1. SBI's external or internal managers for its actively managed stock portfolios shall be directed to divest shares of any company which obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001.

   a. As soon as practicable after the date of approval of this Resolution, the State Board of Investment staff shall notify its internal and external active stock managers of this Resolution.

   b. The process of divesting stocks held in the State Board of Investment's active stock managed portfolios must be conducted to the extent practicable consistent with fiscal prudence and so as to minimize financial market disturbance.

2. To identify the tobacco companies covered by paragraph 1 hereinabove, the State Board of Investment executive director and State Board of Investment stock managers are directed to rely on information compiled by the Investor Responsibility Research Center (IRRC), Washington, D.C., as published in the most recent edition of the IRRC publication entitled "The Tobacco Industry."

3. The State Board of Investment staff shall report on the progress of the divestment process at each quarterly meeting, and report on any significant difficulties or problems encountered.

Adopted the 2nd day of September, 1998.

Governor Arne H. Carlson
Chair, Minnesota State Board of Investment

SBI Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
August 31, 1998

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

Company	Percent Revenue from Tobacco in 1996	SBI Shares 8/31/98	SBI Cost Value 8/31/98	SBI Market Value 8/31/98
BAT Industries PLC	56	223,000	1,767,803	2,191,938
Imperial Tobacco Group	100	26,500	248,370	235,627
Philip Morris Cos., Inc.	53	4,351,247	119,881,875	180,848,875
RJR Nabisco Holdings	48	156,600	4,731,495	3,396,263
Schweitzer-Mauduit Int'l.	94	1,000	33,920	24,813
Universal Corp.	74*	99,800	3,248,381	3,143,700
Subtotal		**4,858,147**	**$129,911,843**	**$189,841,044**

International Stocks

Company	Percent Revenue from Tobacco In 1996	SBI Shares 8/31/98	SBI Cost Value 8/31/98	SBI Market Value 8/31/98
Compagnie Financiere Richemont	69*	80,000	2,751,015	600,000
PT Gudang Garam	96	150,000	598,736	113,839
Rembrandt Group Ltd.	>50	385,000	3,376,822	1,725,689
Subtotal		**615,000**	**$6,726,573**	**$2,439,527**
Total SBI Holdings		**5,473,147**	**$136,638,416**	**$192,280,571**

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

* 1997 data

SBI Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
September 30, 1998

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

Company	**Percent Revenue from Tobacco in 1996**	**SBI Shares 9/30/98**	**SBI Cost Value 9/30/98**	**SBI Market Value 9/30/98**
Imperial Tobacco Group	100	26,500	248,370	280,337
Philip Morris Cos., Inc.	53	3,279,847	91,043,998	151,077,952
RJR Nabisco Holdings	48	156,600	4,731,495	3,944,363
Schweitzer-Mauduit Int'l.	94	1,000	33,920	21,750
Universal Corp.	74*	99,800	3,248,381	3,567,850
Subtotal		**3,563,747**	**$99,306,163**	**$158,892,252**

International Stocks

Company	**Percent Revenue from Tobacco In 1996**	**SBI Shares 9/30/98**	**SBI Cost Value 9/30/98**	**SBI Market Value 9/30/98**
Compagnie Financiere Richemont	69*	80,000	2,751,015	396,000
PT Gudang Garam	96	150,000	598,736	80,257
Rembrandt Group Ltd.	>50	385,000	3,376,822	2,324,398
Subtotal		**615,000**	**$6,726,573**	**$2,800,655**
Total SBI Holdings		**4,178,747**	**$106,032,736**	**$161,692,907**

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

* 1997 data

Tab C

COMMITTEE REPORT

DATE: November 24, 1998

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

The Deferred Compensation Review Committee met November 17, 1998 to consider the following agenda item:

- Minnesota State Colleges and Universities (MnSCU) 401(a) Retirement Plans investment option changes.

Minnesota State Colleges and Universities (MnSCU) administers the Individual Retirement Account Plan, the primary retirement plan for faculty and administrators, and the Supplemental Retirement Plan, a supplemental plan for faculty and administrators who must participate upon completion of necessary service time with MnSCU.

Under the provisions of *M.S.*, section 354B.25, the SBI is responsible for selecting "financial institutions to provide annuity products" for the Plans and must review the investment providers "at least every three years". The SBI is required to approve MnSCU contracts with the selected providers.

In fiscal year 1995, the SBI reviewed investment providers. The SBI recommended that four firms be retained by MnSCU based upon the financial strength and quality of the investment options offered by the providers. The SBI approved contract provisions for the four investment providers and MnSCU entered into contracts which expire June 30, 2000. These existing contracts stipulate that the investment providers may add or substitute investment options only with the approval of the SBI. These firms are:

- Great-West Life
- Minnesota Life (formerly Minnesota Mutual Life)
- TIAA-CREF (Teachers Insurance & Annuity Association-College Retirement Equity Fund)
- VALIC (Variable Annuity Life Insurance Company)

The Supplemental Investment Fund, accounts managed by the SBI, are also available to participants of the Plans.

Minnesota Life has requested that MnSCU change two of Minnesota Life's investment options:

Type of Investment Option	Existing Option	Requested New Option
Bond	Scudder Short Term Bond Fund	PIMCO Low Duration Fund, Institutional Share Class
Equity	The Parnassus Fund	Domini Social Equity Fund

The Committee reviewed the requested changes. With respect to the bond option, Minnesota Life is requesting a change to a manager, PIMCO, who has experienced better performance than the current manager, Scudder, while utilizing a similar strategy.

The Parnassus Fund, is one of several equity options offered by Minnesota Life. The Parnassus Fund is a "socially screened fund," as is the requested new equity fund option, the Domini Social Equity Fund. The Domini Fund has demonstrated superior performance vs. the Parnassus Fund.

As of June 30, 1998, assets invested in Minnesota Life accounts amounted to only 1.1% of total assets in the Plan.

Information provided to the Committee is in **Attachment A.**

RECOMMENDATION:

The Committee recommends that the SBI approve the following investment option changes requested by Minnesota Life for the MnSCU 401(a) Plans and forward the recommendation to the MnSCU Board:

- **The PIMCO Low Duration Fund, Institutional Share Class should replace the Scudder Short Term Bond Fund as a bond option offered by Minnesota Life.**
- **The Domini Social Equity Fund should replace The Parnassus as an equity option offered by Minnesota Life.**

THE MINNESOTA MUTUAL LIFE INSURANCE COMPANY
400 ROBERT STREET NORTH
ST. PAUL, MN 55101-2098
PH 612/665-3500

ATTACHMENT A

MINNESOTA MUTUAL

September 1998

Special Notice To Plan Administrators:

A change is being made to a Separate Account offered under the Minnesota Mutual variable group annuity contract that funds your retirement plan.

Effective November 2, 1998, the mutual fund underlying the **Bond II Separate Account**, which is currently the Scudder Short Term Bond Fund, will be replaced with the PIMCO Low Duration Fund, Institutional Share Class. Details of the change are provided in the attached announcement which can be distributed to plan participants along with a copy of the enclosed fact sheet.

If you have questions regarding this change, please contact your home office servicer.

U

1998-0903-49011R

Important Notice to Participants Regarding
Bond II Account (Separate Account U)

A change is being made to one of the Separate Accounts offered under the Minnesota Mutual variable group annuity contract that funds your retirement plan.

Effective November 2, 1998, the mutual fund underlying the Bond II Separate Account will be changed. The mutual fund currently underlying this Separate Account, Scudder Short Term Bond Fund, will be replaced with the PIMCO Low Duration Fund, Institutional Share Class. Attached is a fact sheet describing the PIMCO Low Duration Fund, Institutional Share Class.

As of November 2, 1998, all assets in the Bond II Separate Account will be transferred from the Scudder Short Term Bond Fund to the PIMCO Low Duration Fund, Institutional Share Class. If you would like to transfer your assets out of this Separate Account, follow the standard procedures under your plan for requesting a transfer.

Please note that the name of this Separate Account is also changing. Effective November 2, 1998, the new Separate Account name will be the Short Term Bond Account. Contact your Plan Administrator if you have questions regarding these changes.

1998-0903-49011R

Separate Account U

Invested in the PIMCO Low Duration Fund, Institutional Shares

The Short Term Bond Account, offered under your variable group annuity contract, is a limited maturity bond account that seeks total return. It is conservative in its approach and offers a fairly high degree of safety with low risk.

Investment Objective and Strategy

The Short Term Bond Account seeks maximum total return, consistent with preservation of capital and prudent investment management. It maintains an average duration which is lower than typical intermediate bond funds and higher than money market funds. Investments can include U.S. Government and corporate debt securities, mortgage and other asset-backed securities, U.S. dollar and foreign currency-denominated securities of foreign issuers and money market instruments.

Who Should Consider This Account

- ▲ People who are uncomfortable with a great deal of fluctuation in their account value.
- ▲ Individuals who want to diversify their portfolio, using this account and other, higher-risk accounts.

Inception Date of Mutual Fund: May, 1987

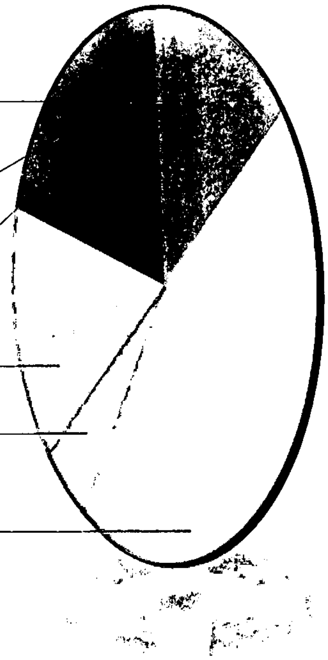
Portfolio Managers: William H. Gross (5/87)

Standard Deviation: 1.92%

(Annualized figure, based on monthly returns for past five years. Standard deviation measures the range of performance experienced by an account. The greater the standard deviation, the greater the account's volatility.)

Portfolio Breakdown

(as of 6/30/98)



Top Holdings *(as of 6/30/98)*

Holding	% of Account
FIN FUT US 5YR CBT GSC 9/21/98	10.54%
FHLMC TBA Gold 6.50% JUL	6.14%
FHLMC TBA Gold 6.00% AUG	4.49%
GNMA I TBA 8.00% JUL	3.79%
FIN FUT US 10YR CBT GSC 9/21/98	3.72%
GNMA I TBA 7.50% AUG	2.21%
FHLMC MTG #G-0317	2.16%
GN II ARM 080095M 10/98 11.50	2.03%
ARGENTINA BEARER FRB BRADY	1.86%
GN II ARM 008340M 01/99 10.00	1.67%
Total % represented by top holdings	38.61%

Risk and Potential Reward *(Based on Standard Deviation)*

Source for Indexes: Ibbotson

THE MINNESOTA MUTUAL LIFE INSURANCE COMPANY
400 ROBERT STREET NORTH
ST. PAUL, MN 55101-2098
PH 612/665-3500

MINNESOTA MUTUAL

September 1998

Special Notice To Plan Administrators:

A change is being made to a Separate Account offered under the Minnesota Mutual variable group annuity contract that funds your retirement plan.

Effective November 2, 1998, the mutual fund underlying the **Small Company II Separate Account**, which is currently The Parnassus Fund, will be replaced with the Domini Social Equity Fund. Details of the change are provided in the attached announcement which can be distributed to plan participants along with a copy of the enclosed fact sheet.

If you have questions regarding this change, please contact your home office servicer.

J

1998-0903-49013R

Important Notice to Participants Regarding Small Company II Account (Separate Account J)

A change is being made to one of the Separate Accounts offered under the Minnesota Mutual variable group annuity contract that funds your retirement plan.

Effective November 2, 1998, the mutual fund underlying the Small Company II Separate Account will be changed. The mutual fund currently underlying this Separate Account, The Parnassus Fund, will be replaced with the Domini Social Equity Fund.

An important fact to note is that although the Domini Social Equity Fund offers a socially responsible fund selection policy, its investment strategy is different from The Parnassus Fund. The Domini Social Equity Fund is a large company growth fund while The Parnassus Fund is a small company growth fund. Attached is a fact sheet describing the Domini Social Equity Fund.

As of November 2, 1998, all assets in the Small Company II Separate Account will be transferred from The Parnassus Fund to the Domini Social Equity Fund. If you would like to transfer your assets out of this Separate Account, follow the standard procedures under your plan for requesting a transfer.

Please note that the name of this Separate Account is also changing. Effective November 2, 1998, the new Separate Account name will be the Large Equity IV Account. Contact your Plan Administrator if you have questions regarding these changes.

1998-0903-49013R

Separate Account J

Invested in the Domini Social Equity Fund

The Large Equity IV Account, offered under your variable group annuity contract, is an equity index account that seeks to provide long-term capital appreciation and dividend income from a diversified equity portfolio of socially screened companies.

Investment Objective and Strategy

The Large Equity IV Account holds all of the 400 stocks of the Domini 400 Social Index. The fund attempts to match the performance of this Index, a widely recognized benchmark of U.S. companies that meet specific socially responsible investment criteria. Large Equity IV remains fully invested in stocks and does not speculate on the direction of the market.

Who Should Consider This Account

▲ Investors who are committed to the fund's socially responsible investment criteria.

▲ Investors seeking long-term growth of capital.

Inception Date of Mutual Fund: June, 1991

Index Fund, Not Actively Managed

Standard Deviation: 16.18

(Annualized figure, based on monthly returns for five years. Standard deviation measures the range of performance experienced by an account. The greater the standard deviation, the greater the account's volatility.)

Portfolio Breakdown

(as of 6/30/98)

23.95% Capital Spending

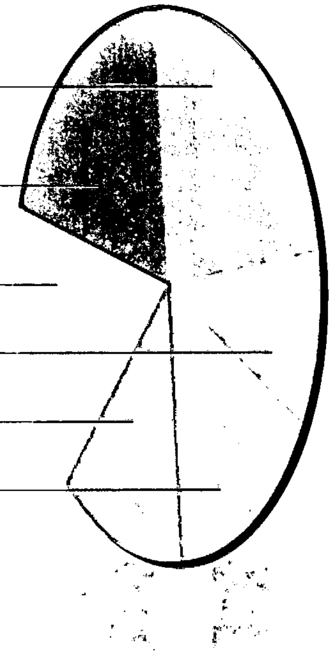
19.90% Int. Sensitive/ Regulated

17.06% Consumer Cyc./ Discretionary

10.05% Utilities

13.02% Consumer Staples

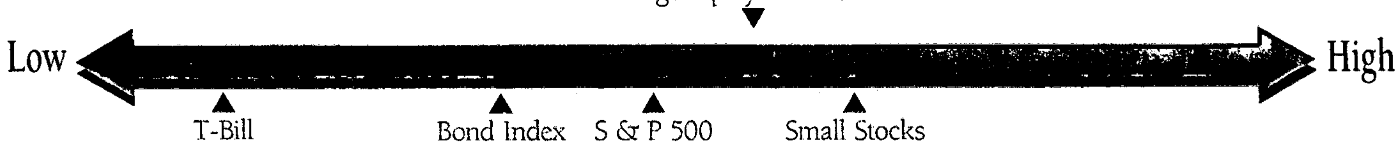
16.02% Other



Top Holdings *(as of 6/30/98)*

Holding	% of Account
Microsoft	5.51%
Coca Cola	4.43%
Merk & Co.	3.36%
Wal Mart Stores	2.87%
Intel Corp.	2.60%
Procter & Gamble Co.	2.57%
IBM	2.34%
American Int'l Group, Inc.	2.14%
Johnson & Johnson	2.09%
AT&T	1.95%
Total % represented by top holdings:	29.86%

Risk and Potential Reward *(Based on Standard Deviation)*



Source for Indexes: Ibbotson

Tab D

COMMITTEE REPORT

DATE: November 24, 1998

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on November 12, 1998 to consider the following agenda items:

- Review of manager performance for the period ending September 30, 1998.

INFORMATION ITEMS:

1. Review of manager performance for the period ending September 30, 1998.

- *Stock Managers*

For the period ending September 30, 1998, the **domestic stock manager program** underperformed its aggregate benchmark and the Wilshire 5000 index for the quarter and for the latest five year period while outperforming the benchmark and the index for the one and three year periods. The **current managers** underperformed the benchmark and the Wilshire 5000 index for the quarter, but outperformed the benchmark and the index for the latest one and three year periods. For the five year period, the current managers outperformed the Wilshire 5000, but underperformed the benchmark.

Time period	Total Program	Wilshire 5000*	Current Mgrs. Only	Aggregate Benchmark
Quarter	-12.2%	-12.0%	-12.2%	-12.0%
1 Year	4.2	3.3	4.2	2.9
3 Years	19.7	19.2	20.1	19.2
5 Years	17.4	17.6	17.8	17.9

* Adjusted for SBI's restrictions, as appropriate.

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

- ***Bond Managers***

For the period ending September 30, 1998, the **bond manager program** and **current managers** underperformed the Lehman Aggregate index and the aggregate benchmark for the quarter and for the latest one year period, and outperformed the index and benchmark for the three and five year periods.

Time period	Total Program	Lehman Aggregate*
Quarter	3.6%	4.2%
1 Year	10.9	11.5
3 Years	9.0	8.7
5 Years	7.4	7.2

* Reflects Salomon BIG index prior to 7/94.

Current Mgrs. Only	Aggregate Benchmark
3.6%	4.2%
10.9	11.5
9.0	8.7
7.4	7.2

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

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Third Quarter, 1998

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COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending September, 1998

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	
	Actua %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	Pool %
Active Managers												
Alliance Capital	-8.9	-11.0	22.6	11.0	29.6	23.3	24.3	20.7	20.1	14.6	$1,213.32	7.1%
American Express AMG	-13.6	-11.6	-3.4	4.0	15.0	21.7	14.8	19.6	14.9	16.1	$473.01	2.8%
Brinson Partners	-10.7	-13.0	0.2	-0.6	19.9	17.6	18.5	16.4	18.2	16.4	$596.37	3.5%
Forstmann-Leff	-11.9	-18.4	-1.0	-16.5	22.7	10.9	17.8	12.7	14.6	12.1	$497.02	2.9%
Franklin Portfolio	-17.8	-13.1	-5.1	-0.2	17.3	16.5	16.2	15.8	15.6	14.7	$457.78	2.7%
GeoCapital	-23.9	-24.0	-14.8	-26.0	6.3	1.8	9.2	9.1	12.9	12.6	$396.60	2.3%
IAI	-17.7	-17.8	-18.6	-11.2	7.3	13.0	9.1	14.0	10.6	14.5	$0.16	0.0%
Lincoln	-8.7	-8.8	18.6	14.0	25.3	25.9	22.8	22.7	21.8	21.7	$680.92	4.0%
Oppenheimer	-15.3	-11.0	3.5	6.4	21.5	20.6	19.9	17.9	19.8	17.8	$639.39	3.7%
Weiss Peck & Greer	-26.4	-24.2	-30.3	-27.4	0.9	0.8	4.2	7.4	5.7	8.6	$269.73	1.6%
Emerging Managers (2)	-13.8	-15.7	2.8	-4.2	17.5	15.6			18.4	18.0	$574.96	3.4%
Semi-Passive Managers (3)												
Franklin Portfolio	-11.2	-9.4	7.5	9.4	21.9	22.0			25.2	25.3	$1,805.73	10.6%
JP Morgan	-9.6	-9.4	9.5	9.4	22.1	22.0			25.5	25.3	$1,861.01	10.9%
Barclays Global Investors	-10.7	-9.4	6.8	9.4	21.6	22.0			25.8	25.3	$1,836.04	10.7%
Passive Manager (4)												
Barclays Global Investors	-11.9	-12.0	3.9	3.3	19.7	19.3			21.0	20.7	$5,793.51	33.9%
									Since 1/1/84			
Current Aggregate	-12.2	-12.0	4.2	2.9	20.1	19.2	17.8	17.9	16.7	14.6	$17,095.55	100.0%
Historical Aggregate (5)	**-12.2**	**-12.0**	**4.2**	**3.1**	**19.7**	**19.1**	**17.4**	**17.7**	**15.1**	**15.2**		
Wilshire Adjusted		-12.0		3.3		19.2		17.6		15.2		
Wilshire 5000		-12.0		3.3		19.2		17.5		15.4		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Aggregate of emerging manager group. The benchmark reflects a composite of published indexes prior to implementation of custom benchmarks on 4/1/96.
(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, 1998

Portfolio Manager: Jack Koltes **Assets Under Management: $1,213,322,071**

Investment Philosophy

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

Staff Comments

Staff performed an annual review of Alliance at their Minneapolis office in August 1998. Alliance continues to outperform their benchmark due to stock selection in the technology and pharmaceutical sectors. The organization and investment process have remained stable and the visit uncovered no areas of concern.

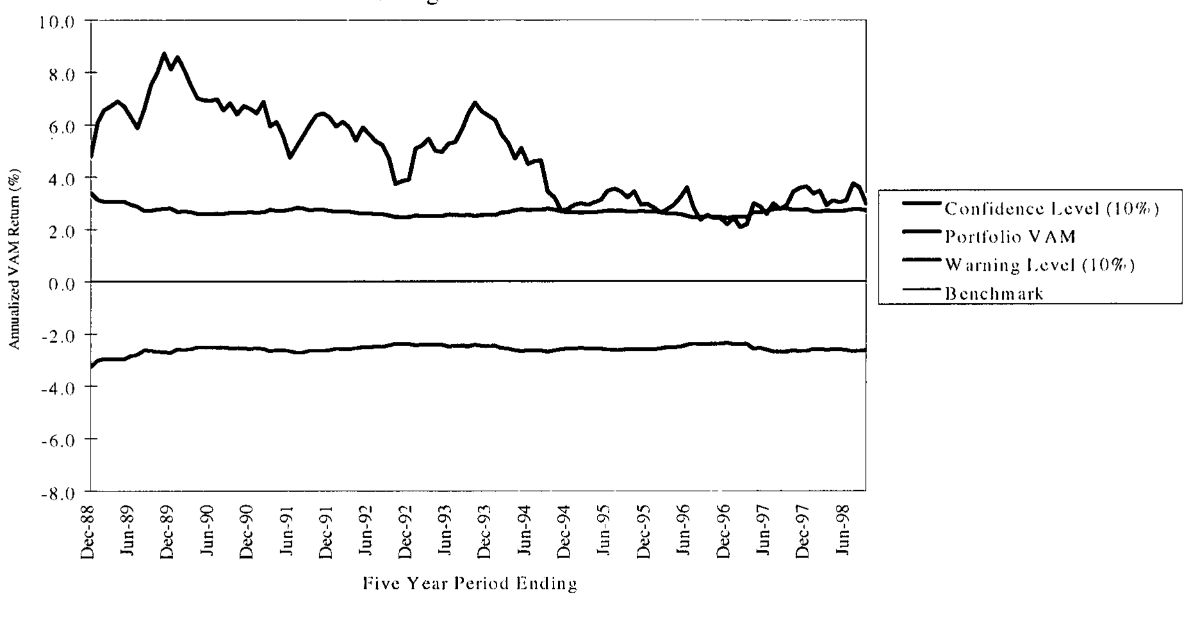
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.9%	-11.0%
Last 1 year	22.6	11.0
Last 2 years	37.3	25.1
Last 3 years	29.6	23.3
Last 4 years	31.5	25.2
Last 5 years	24.3	20.7
Since Inception (1/84)	20.1	14.6

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Jim Johnson | **Assets Under Management: $473,009,182**

Investment Philosophy

American Express Asset Management Group (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.

Staff Comments

Staff performed an annual review of AMG at their Minneapolis office in August 1998. AMG has added six analysts to their team in the most recent quarter. However, AMG underperformed their benchmark due to losses in their smaller cap technology names.

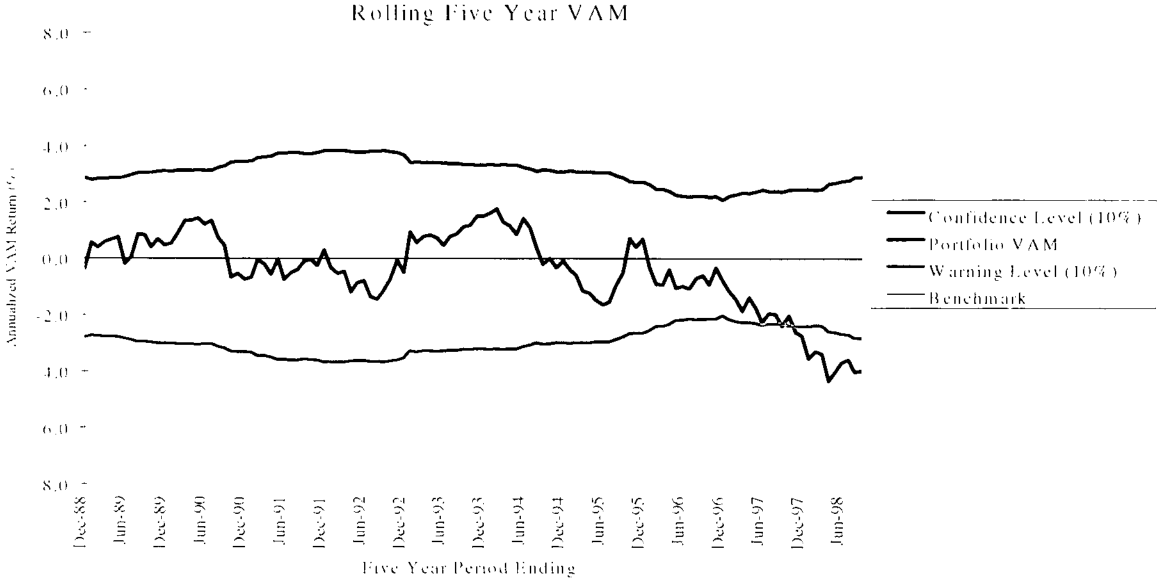
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.6%	-11.6%
Last 1 year	-3.4	4.0
Last 2 years	11.0	21.7
Last 3 years	15.0	21.7
Last 4 years	18.0	23.9
Last 5 years	14.8	19.6
Since Inception (1/84)	14.9	16.1

Recommendation

No action at this time.

AMERICAN EXPRESS ASSET MANAGEMENT
Rolling Five Year VAM



BRINSON PARTNERS
Periods Ending September, 1998

Portfolio Manager: Jeff Diermeier **Assets Under Management: $596,366,795**

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.

Staff Comments

No comments at this time.

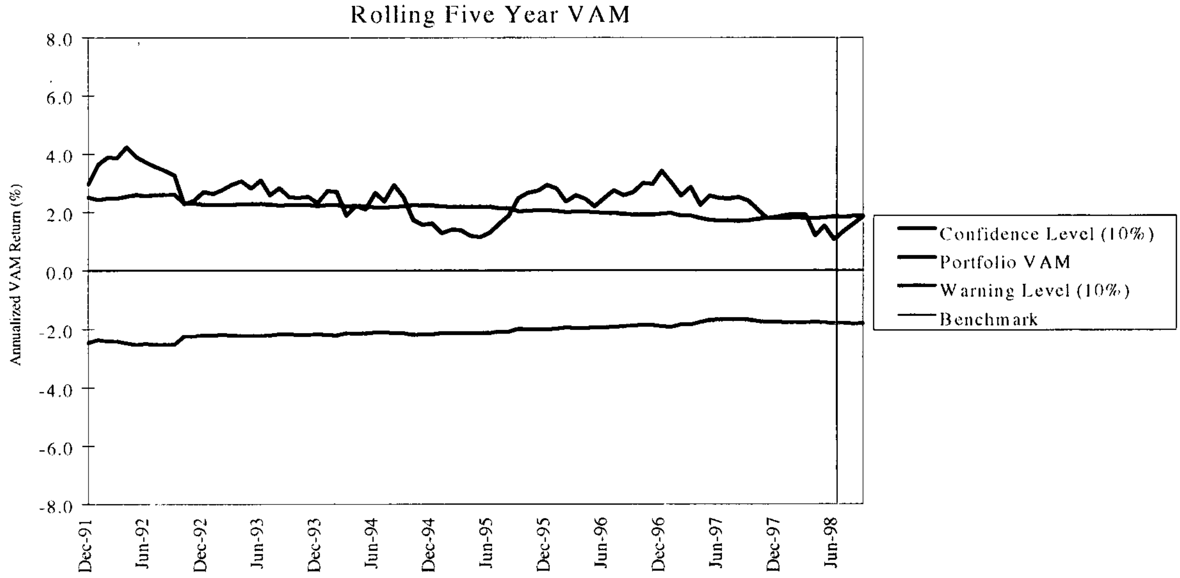
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-10.7%	-13.0%
Last 1 year	0.2	-0.6
Last 2 years	18.1	17.7
Last 3 years	19.9	17.6
Last 4 years	21.6	20.1
Last 5 years	18.5	16.4
Since Inception (7/93)	18.2	16.4

Recommendation

No action required.

BRINSON PARTNERS
Rolling Five Year VAM



Five Year Period Ending

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

FORSTMANN-LEFF ASSOCIATES
Periods Ending September, 1998

Portfolio Manager: Joel Leff **Assets Under Management: $497,017,379**

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.

Staff Comments

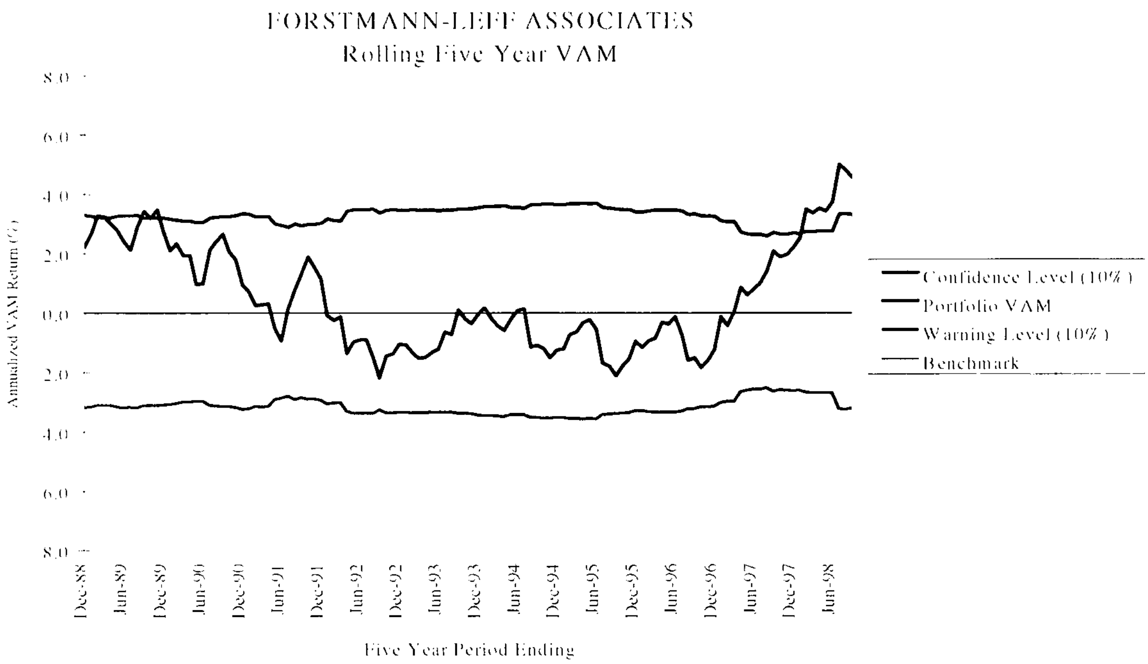
Staff performed an annual review of Forstmann-Leff at their New York office in October 1998. Forstmann-Leff continues to outperform their benchmark as a result of good stock selection in retail and technology. The organization and investment process have remained stable and the visit uncovered no concerns.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-11.9%	-18.4%
Last 1 year	-1.0	-16.5
Last 2 years	21.5	7.3
Last 3 years	22.7	10.9
Last 4 years	22.8	14.7
Last 5 years	17.8	12.7
Since Inception (1/84)	14.6	12.1

Recommendation

No action required.



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 1998

Portfolio Manager: John Nagorniak **Assets Under Management: $457,782,532**

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.

Staff Comments

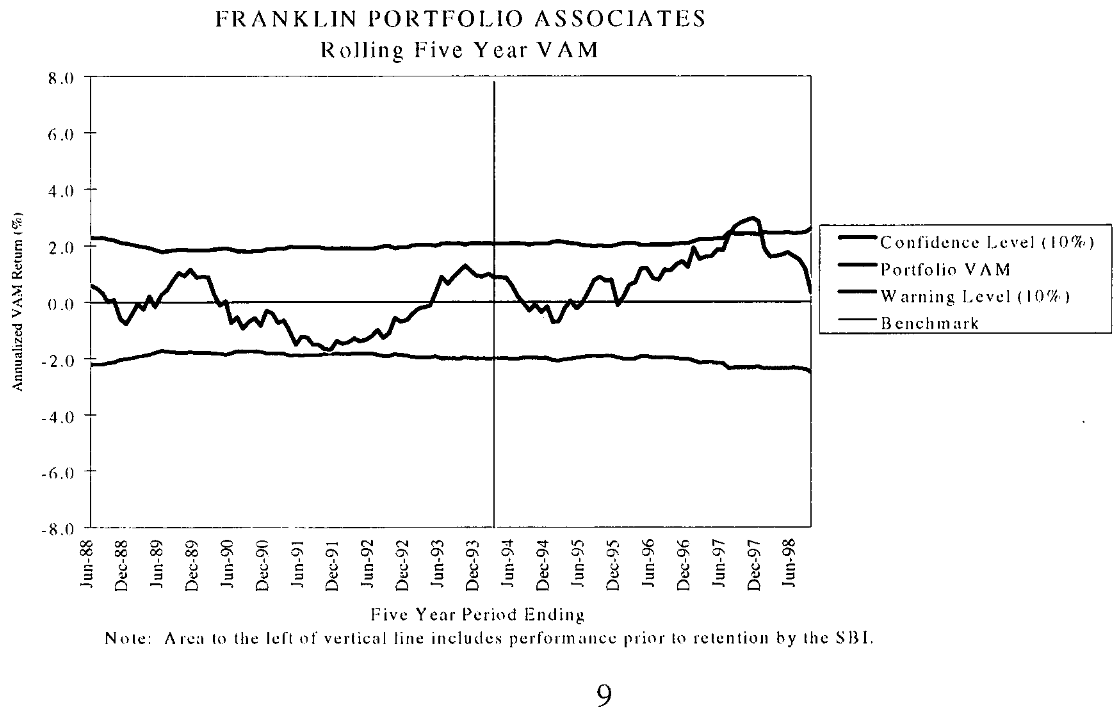
Staff met with Franklin Portfolio in September 1998. The organization remains solid, and the firm continues to implement their quantitative process. However, the market's flight to quality during the last several months has hurt their performance.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-17.8%	-13.1%
Last 1 year	-5.1	-0.2
Last 2 years	18.3	16.5
Last 3 years	17.3	16.5
Last 4 years	20.8	19.4
Last 5 years	16.2	15.8
Since Inception (4/89)	15.6	14.7

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, 1998

Portfolio Manager: Barry Fingerhut **Assets Under Management: $396,604,121**

Investment Philosophy

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

Staff Comments

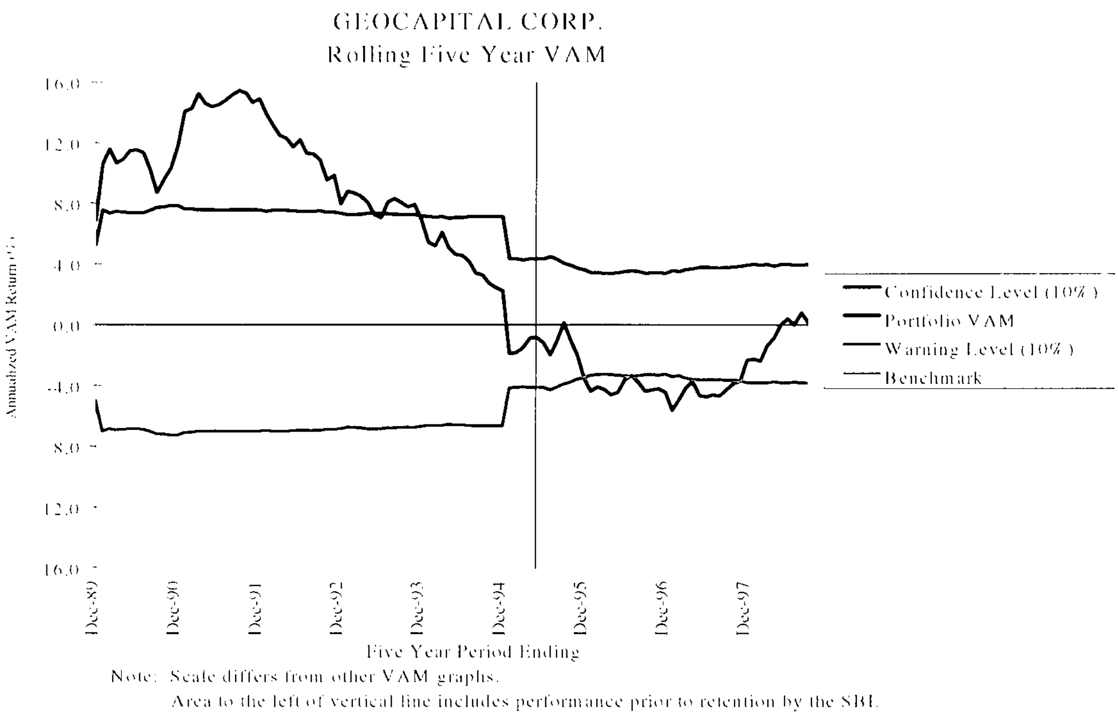
Staff performed an annual review of GeoCapital at their New York office in October 1998. Even though GeoCapital continues to outperform their benchmark, they believe that the entire area of small capitalization equities remains undervalued relative to large capitalization companies. The organization and investment process have remained stable and the visit uncovered no negative issues.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-23.9%	-24.0%
Last 1 year	-14.8	-26.0
Last 2 years	2.5	-4.4
Last 3 years	6.3	1.8
Last 4 years	11.1	9.4
Last 5 years	9.2	9.1
Since Inception (4/90)	12.9	12.6

Recommendation

No action required.



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

LINCOLN CAPITAL MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Parker Hall **Assets Under Management: $680,919,936**

Investment Philosophy

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

Staff Comments

Lincoln Capital visited the SBI in October 1998. Lincoln has outperformed their benchmark in recent months due to positive stock selection in technology, chemicals, and healthcare. Lincoln is in the process of hiring a new financial services analyst. The organization and investment process has remained stable and Lincoln had no negative issues to address.

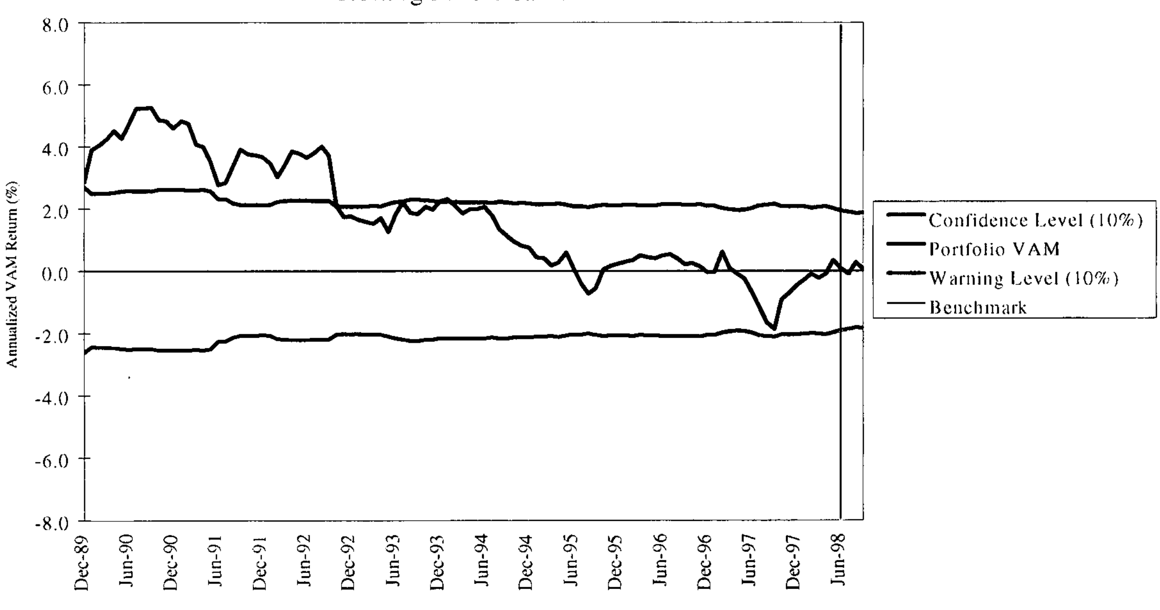
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.7%	-8.8%
Last 1 year	18.6	14.0
Last 2 years	24.0	26.6
Last 3 years	25.3	25.9
Last 4 years	27.6	27.2
Last 5 years	22.8	22.7
Since Inception (7/93)	21.8	21.7

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT
Rolling Five Year VAM



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

OPPENHEIMER CAPITAL
Periods Ending September, 1998

Portfolio Manager: John Lindenthal | **Assets Under Management: $639,386,831**

Investment Philosophy

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

Staff Comments

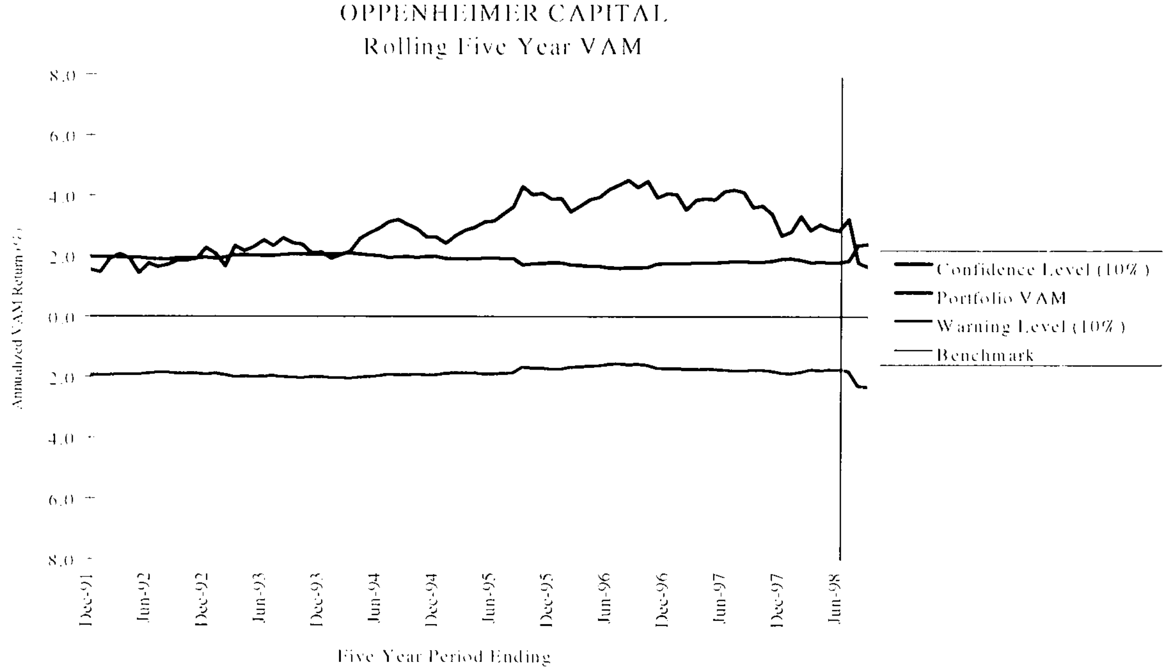
Staff performed an annual review of Oppenheimer Capital at their New York office in October 1998. Oppenheimer has recently underperformed their benchmark due to an overweight in the financial services sector. However, the organization and investment process has remained stable.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-15.3%	-11.0%
Last 1 year	3.5	6.4
Last 2 years	20.5	20.6
Last 3 years	21.5	20.6
Last 4 years	24.6	22.1
Last 5 years	19.9	17.9
Since Inception (7/93)	19.8	17.8

Recommendation

No action required.



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

WEISS, PECK & GREER
Periods Ending September, 1998

Portfolio Manager: Adam Starr | **Assets Under Management: $269,729,323**

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.

Staff Comments

Staff performed an annual review of Weiss, Peck & Greer at their New York office in October 1998. In September, the transaction (announced in May 1998) which effected the purchase of WP&G by Robeco Group, a Netherlands based investment firm was completed.

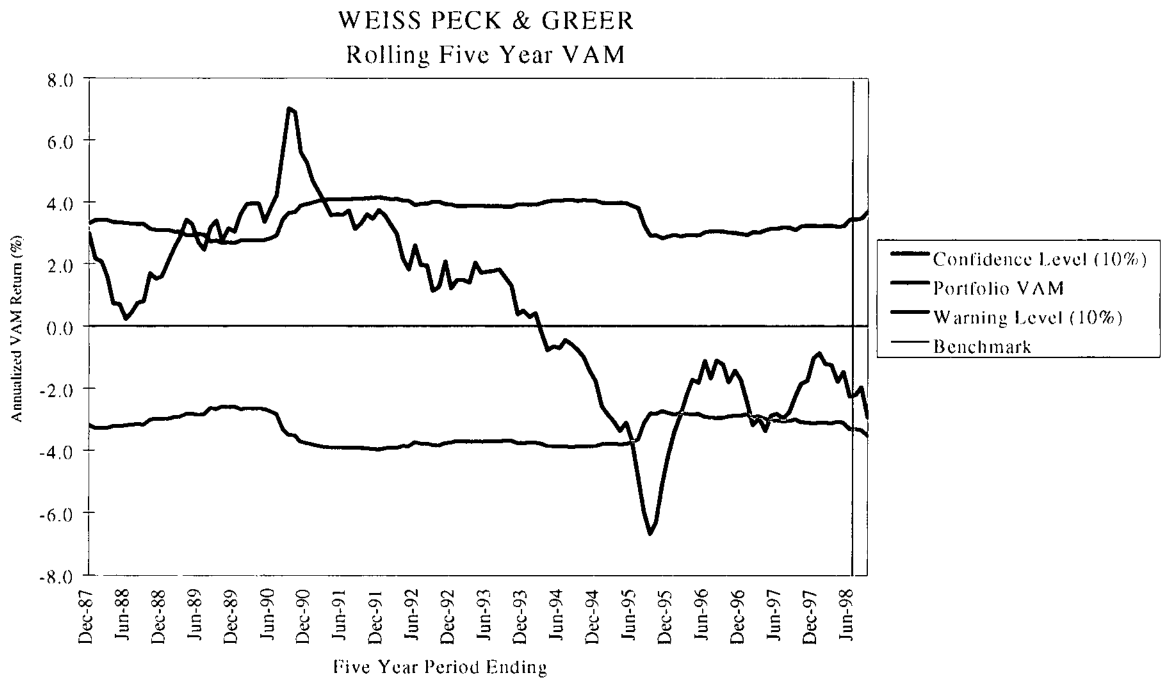
WP&G has continued to underperform their benchmark due to the portfolios underweight on the healthcare area and stock selection in the financial sector. WP&G has terminated their healthcare analyst and hired a generalist with 12 years of experience. Staff is continuing to evaluate the new portfolio manager's strategy and portfolios.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-26.4%	-24.2%
Last 1 year	-30.3	-27.4
Last 2 years	-9.8	-3.2
Last 3 years	0.9	0.8
Last 4 years	7.0	9.0
Last 5 years	4.2	7.4
Since Inception (7/93)	5.7	8.6

Recommendation

No action required.



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 1998

Portfolio Manager: John Nagorniak **Assets Under Management: $1,805,728,892**

Investment Philosophy
Semi-Passive

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

Staff Comments

Staff met with Franklin Portfolio in September 1998. The firm continues to implement their quantitative strategy to construct a portfolio benchmarked against the completeness benchmark. Performance has lagged due to the market's flight to quality and away from relative value stocks selected by Franklin models.

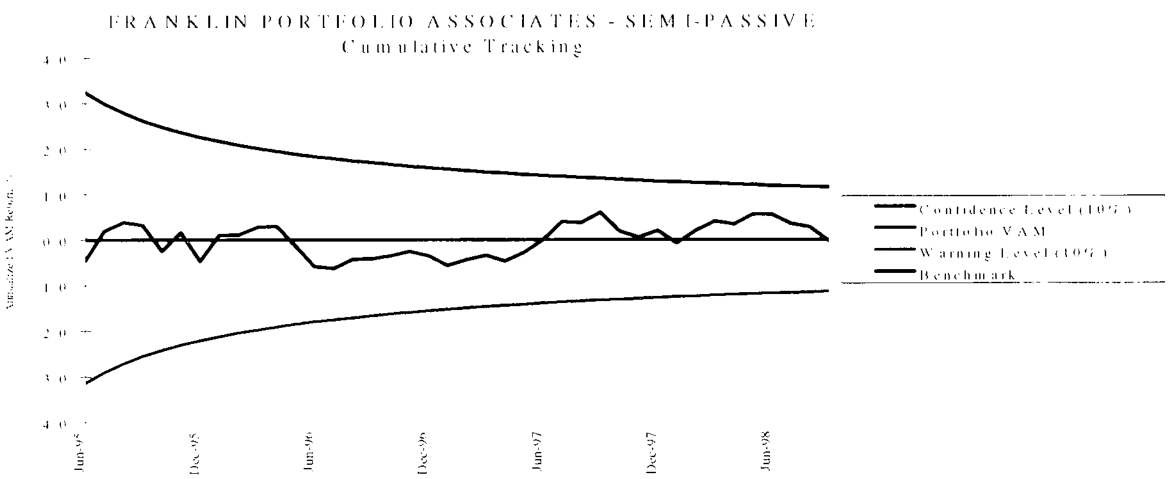
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-11.2%	-9.4%
Last 1 year	7.5	9.4
Last 2 years	24.2	23.8
Last 3 years	21.9	22.0
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	25.2	25.3

* Completeness Fund

Recommendation

No action required.



J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Periods Ending September, 1998

Portfolio Manager: Rick Nelson **Assets Under Management: $1,861,008,538**

Investment Philosophy
Semi-Passive

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

Staff Comments

Staff performed an annual review of JPM at their New York office in October 1998. Strong stock selection within the services, consumer stable, and drug sectors proved to be positive contributors to relative performance, while weak performance from the retail and multi-industry sectors detracted. The organization and investment process have remained stable and the visit uncovered no negative issues.

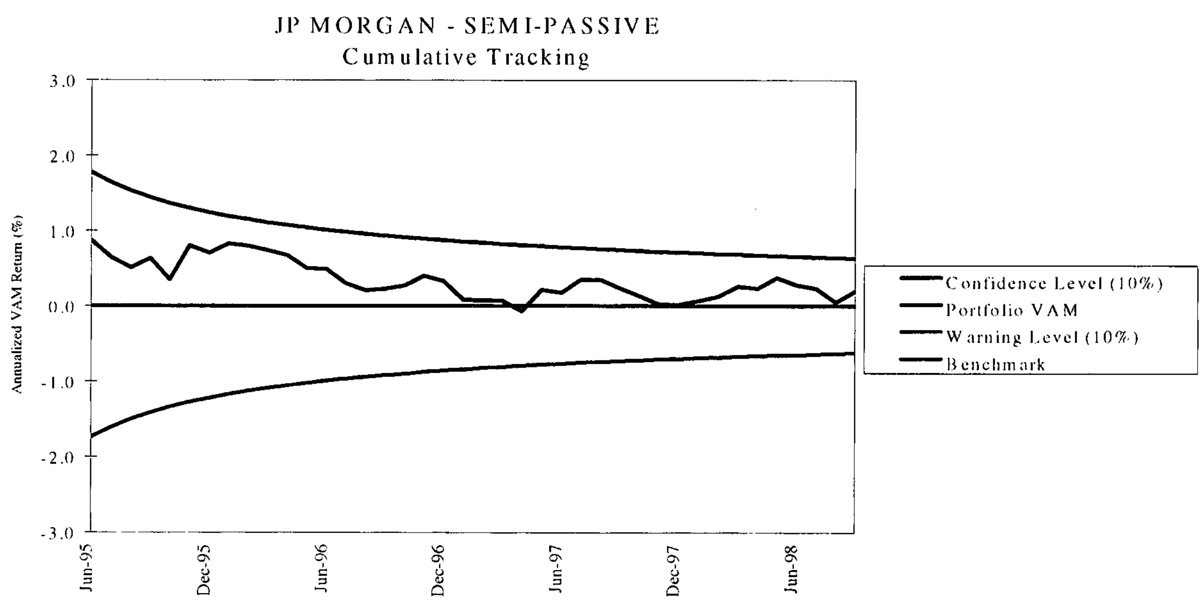
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-9.6%	-9.4%
Last 1 year	9.5	9.4
Last 2 years	24.0	23.8
Last 3 years	22.1	22.0
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	25.5	25.3

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 1998

Portfolio Manager: Nancy Feldkircher **Assets Under Management: $1,836,039,397**

Investment Philosophy
Semi-Passive

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

Staff Comments

Barclays Global Investors visited the SBI in September 1998. BGI has underperformed their benchmark due to stock selection and valuation inputs. In the most recent quarter, BGI hired Ronald Kahn, Ph.D., for their Advanced Strategies Research group. The organization and investment process have remained stable and BGI had no negative issues to address.

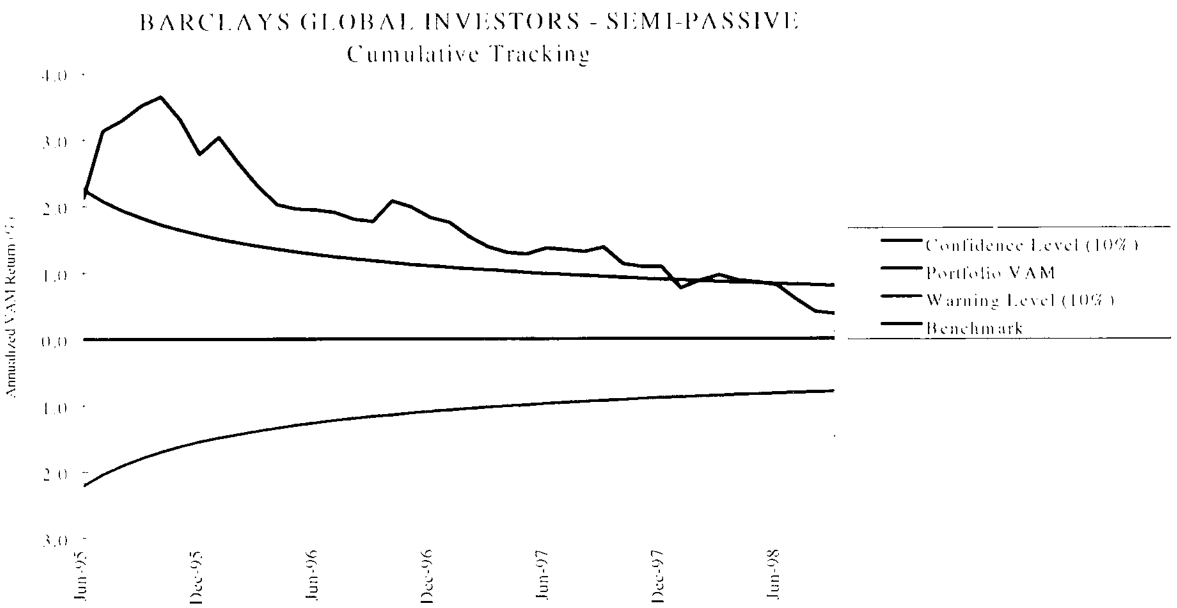
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-10.7%	-9.4%
Last 1 year	6.8	9.4
Last 2 years	22.8	23.8
Last 3 years	21.6	22.0
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	25.8	25.3

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 1998

Portfolio Manager: Rich Johnson **Assets Under Management: $5,793,510,338**

Investment Philosophy
Passive

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

Staff Comments

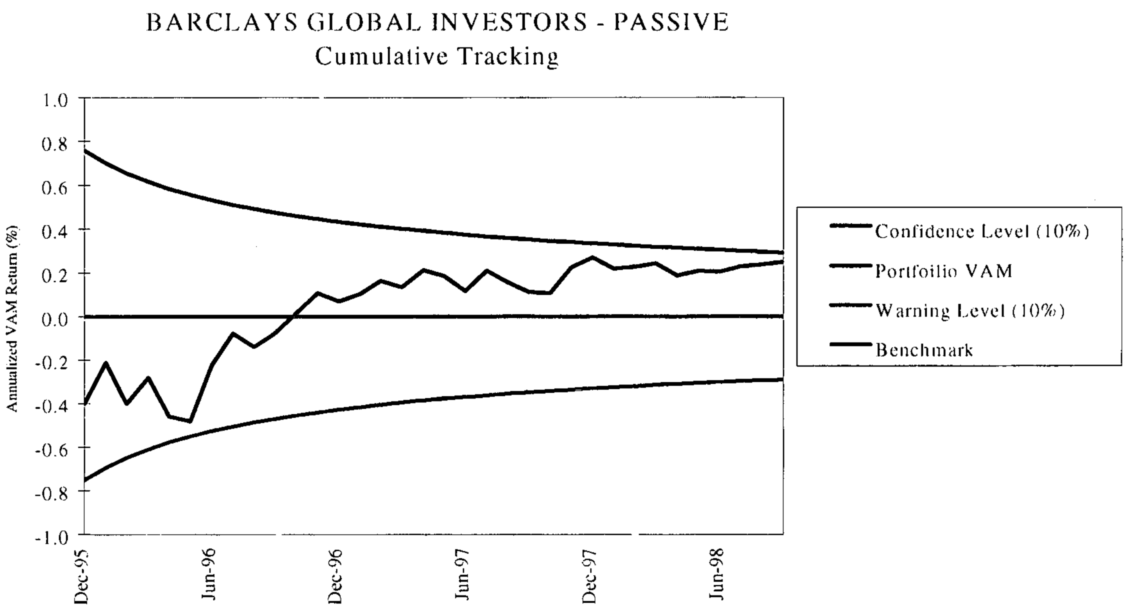
Staff met with BGI in September 1998. Tom Seto, the portfolio manager for the past year and a half is leaving the firm. He will be replaced by Rich Johnson who has been part of the passive management team.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-11.9%	-12.0%
Last 1 year	3.9	3.3
Last 2 years	19.9	19.4
Last 3 years	19.7	19.3
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/95)	21.0	20.7

Recommendation

No action required.



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STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Third Quarter, 1998

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COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending September, 1998

	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	-16.7	-14.5	-7.2	1.3	16.7	19.2			17.6	20.0	$62.18	10.8%
Cohen, Klingenstein, & Marks	-10.6	-13.0	10.3	0.6	24.8	18.0			24.2	19.5	142.23	24.7%
Compass Capital	-13.7	-13.4	2.3	2.5	17.9	20.8			18.7	19.9	64.90	11.3%
New Amsterdam	-15.1	-14.8	3.3	-5.0	21.1	15.0			19.1	16.8	65.98	11.5%
Valenzuela Capital	-20.4	-21.3	-13.3	-15.7	17.4	11.2			17.1	13.8	61.01	10.6%
Wilke/Thompson	-10.4	-24.8	-3.4	-23.4	0.8	3.9			9.7	8.9	45.55	7.9%
Winslow Capital	-16.0	-14.1	6.6	-0.1	15.0	17.4			17.4	18.8	61.75	10.7%
Zevenbergen Capital	-9.6	-15.3	17.6	-1.4	22.1	16.7			21.2	18.6	71.36	12.4%
											$574.96	**100.0%**
									Since 4/1/94			
Current Aggregate	-13.8	-15.7 *	2.8	-4.2 *	17.7	15.9 *			18.9	17.5 *		
Historical Aggregate	**-13.8**	**-15.7** *	**2.8**	**-4.2** *	**17.5**	**15.3** *			**18.4**	**17.1** *		

Note:
Inception date for all managers is 4/1/94.

* The current and historical aggregates reflect the weighted average of the individual manager customized benchmarks since inception of the program on 4/1/94.

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CIC ASSET MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Jorge Castro **Assets Under Management: $62,179,534**

Investment Philosophy

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

Staff Comments

CIC's performance during the quarter suffered from poor stock selection in the apparel/retail, healthcare, and financial services sectors. CIC continues to suffer from the less than favorable value style. The organization and investment process have remained stable and staff has no concerns.

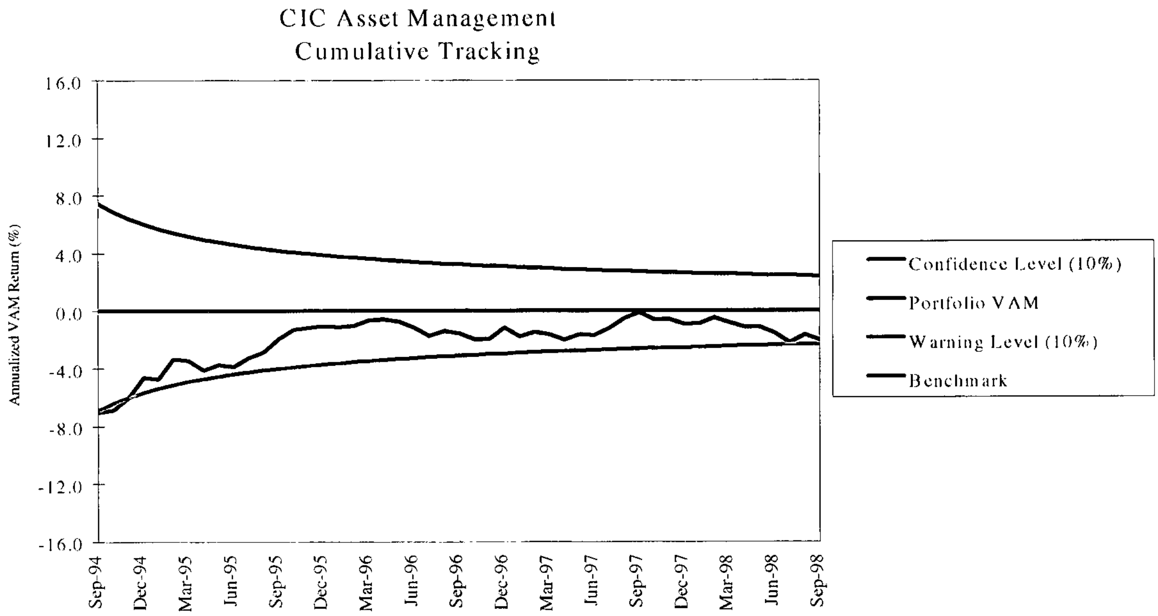
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-16.7%	-14.5%
Last 1 Year	-7.2	1.3
Last 2 Years	15.5	18.7
Last 3 Years	16.7	19.2
Since Inception (4/94)	17.6	20.0

* Custom benchmark since inception date.

Recommendation

No action required.



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 1998

Portfolio Manager: George Cohen — **Assets Under Management: $142,232,000**

Investment Philosophy

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

Staff Comments

No comments at this time.

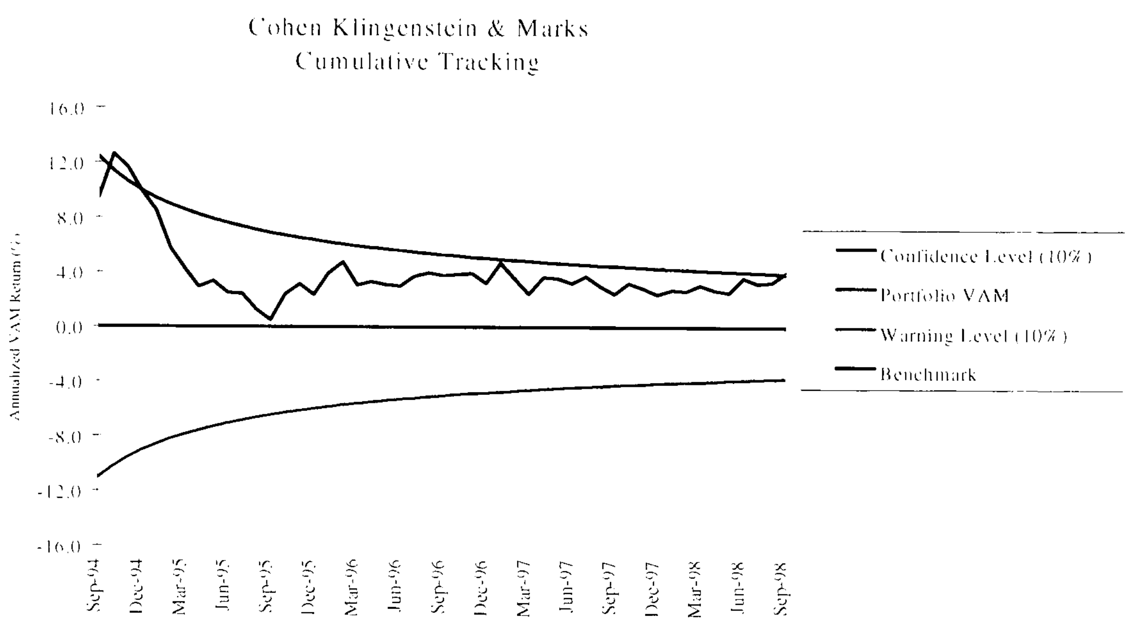
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-10.6%	-13.0%
Last 1 Year	10.3	0.6
Last 2 Years	24.1	19.0
Last 3 Years	24.8	18.0
Since Inception. (4/94)	24.2	19.5

* Custom benchmark since inception date.

Recommendation

No action required.



COMPASS CAPITAL MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Charles Kelley **Assets Under Management: $64,901,937**

Investment Philosophy

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

Staff Comments

No comments at this time.

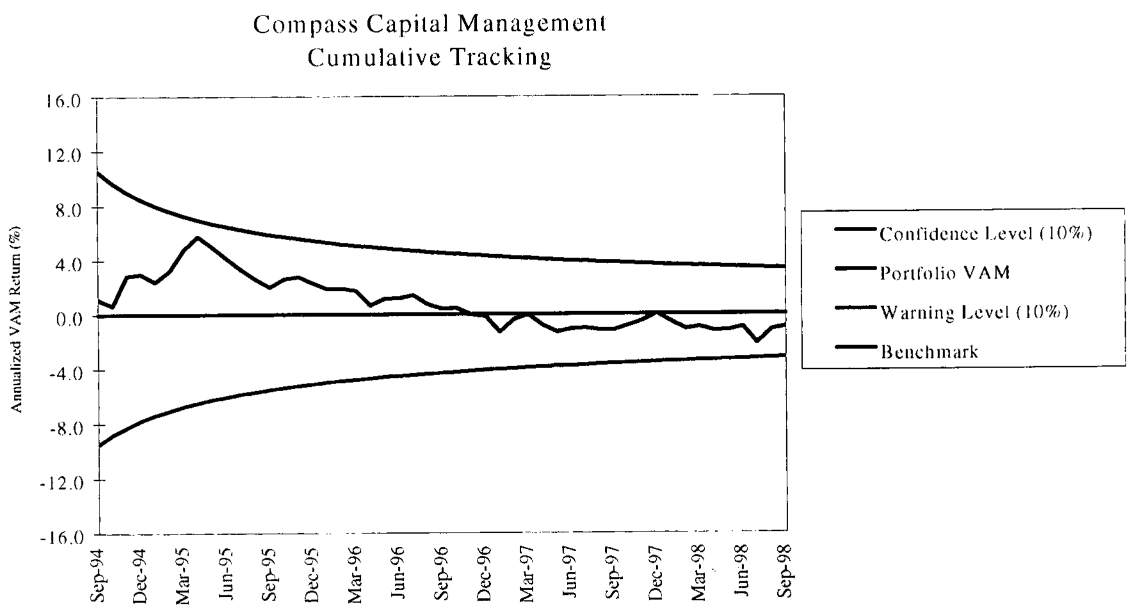
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-13.7%	-13.4%
Last 1 Year	2.3	2.5
Last 2 Years	15.0	18.1
Last 3 Years	17.9	20.8
Since Inception (4/94)	18.7	19.9

* Custom benchmark since inception date.

Recommendation

No action required.



NEW AMSTERDAM PARTNERS
Periods Ending September, 1998

Portfolio Manager: Michelle Clayman **Assets Under Management: $65,983,406**

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

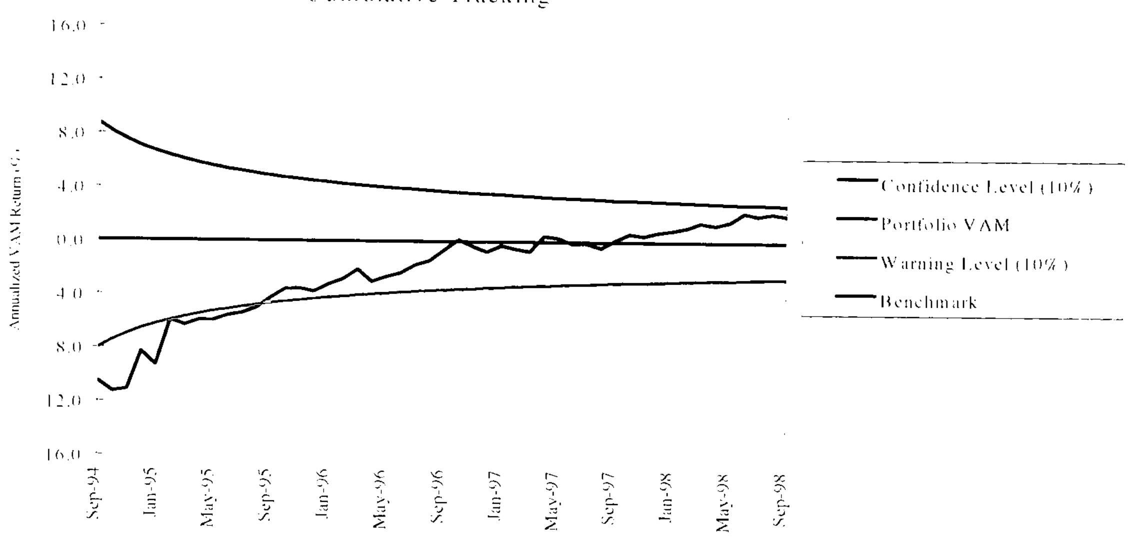
	Actual	Benchmark*
Last Quarter	-15.1%	-14.8%
Last 1 Year	3.3	-5.0
Last 2 Years	21.5	15.3
Last 3 Years	21.1	15.0
Since Inception (4/94)	19.1	16.8

* Custom benchmark since inception date.

Recommendation

No action required.

New Amsterdam Capital Partners
Cumulative Tracking



VALENZUELA CAPITAL MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Tom Valenzuela | **Assets Under Management: $61,005,681**

Investment Philosophy

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

Staff Comments

No comments at this time.

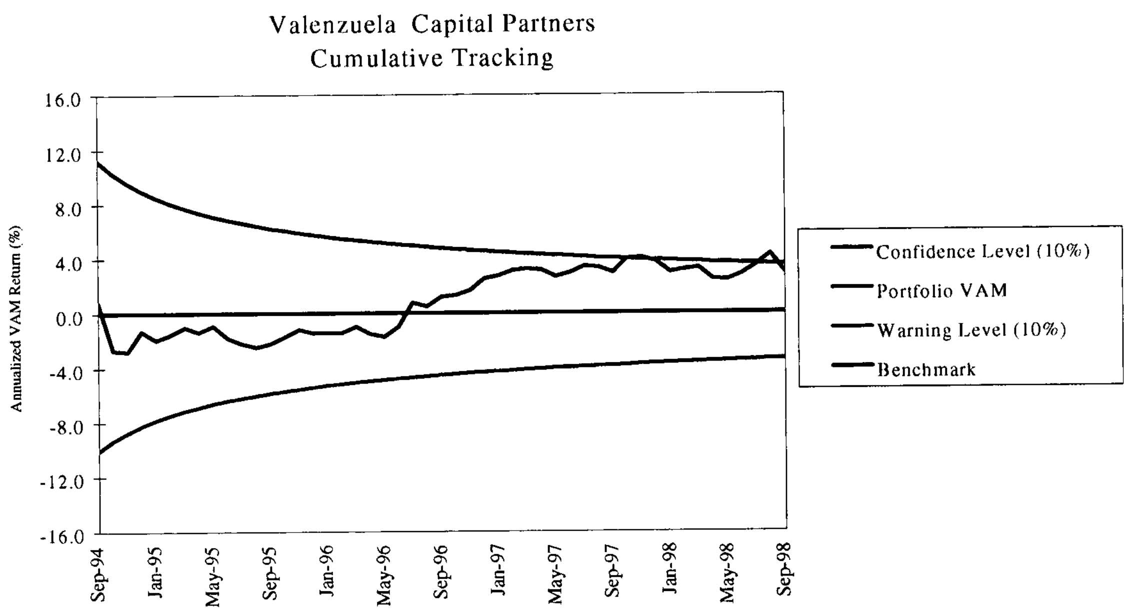
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-20.4%	-21.3%
Last 1 Year	-13.3	-15.7
Last 2 Years	14.1	8.5
Last 3 Years	17.4	11.2
Since Inception (4/94)	17.1	13.8

* Custom benchmark since inception date.

Recommendation

No action required.



WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Periods Ending September, 1998

Portfolio Manager: Mark Thompson | **Assets Under Management: $45,550,361**

Investment Philosophy

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

Staff Comments

Although the Wilke/Thompson portfolio experienced a decline during the quarter, strong stock selection and good sector selection enabled the portfolio to outperform the benchmark by more than 14 percentage points for the quarter and 20 percentage points for the year. While staff will continue to monitor Wilke/Thompson's performance closely, we note that the portfolio return now exceeds the benchmark on an inception to date basis.

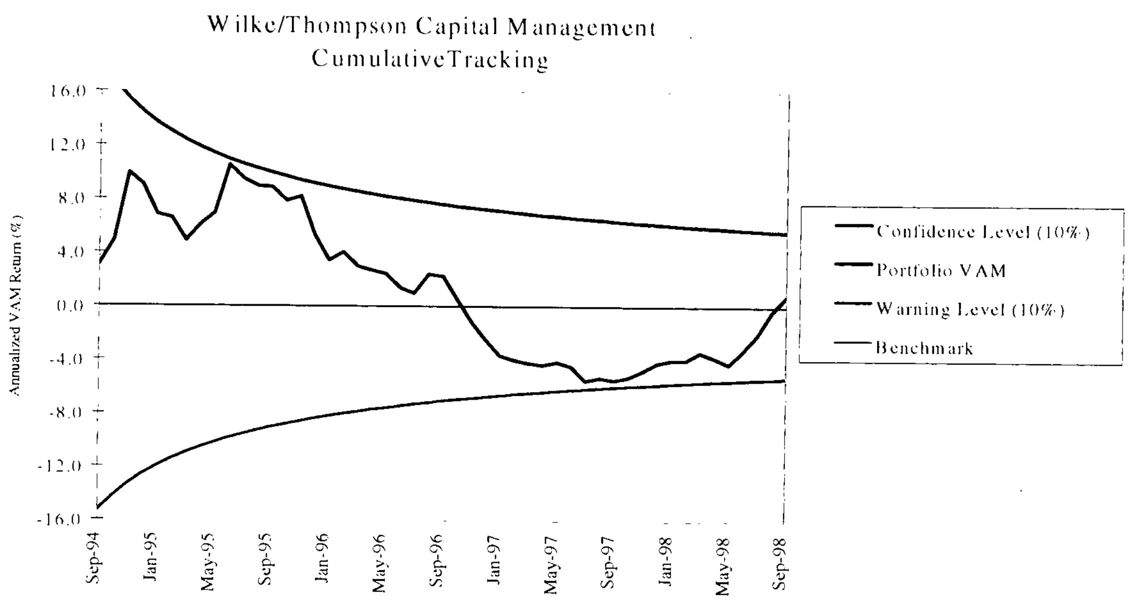
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-10.4%	-24.8%
Last 1 Year	-3.4	-23.4
Last 2 Years	-2.1	-1.1
Last 3 Years	0.8	3.9
Since Inception (4/94)	9.7	8.9

* Custom benchmark since inception date.

Recommendation

No action required.



WINSLOW CAPITAL MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Clark Winslow | **Assets Under Management: $61,754,317**

Investment Philosophy

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

Staff Comments

Winslow outperformed their benchmark for the year as a result of strong stock selection and good sector selection with overweightings in specialty retail and financial services and slight underweights in healthcare and technology.

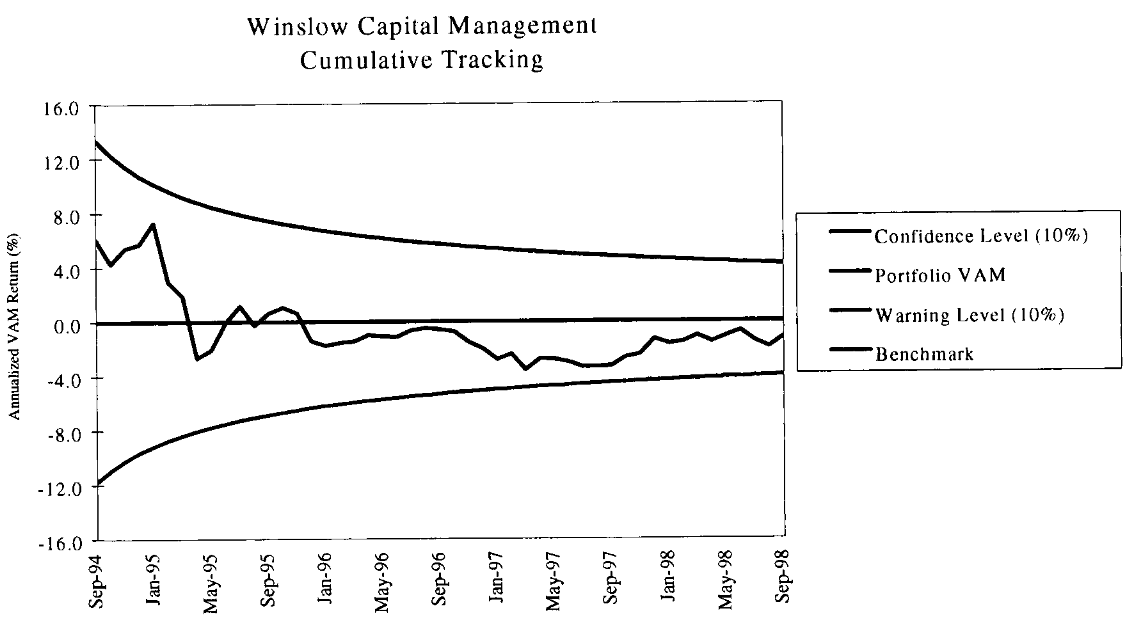
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-16.0%	-14.1%
Last 1 Year	6.6	-0.1
Last 2 Years	14.8	17.0
Last 3 Years	15.0	17.4
Since Inception (4/94)	17.4	18.8

* Custom benchmark since inception date.

Recommendation

No action required.



ZEVENBERGEN CAPITAL INC
Periods Ending September, 1998

Portfolio Manager: **Nancy Zevenbergen** **Assets Under Management:** **$71,357,314**

Investment Philosophy

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

Staff Comments

Zevenbergen achieved significant outperformance for the quarter and the year as a result of strong positive returns from the healthcare sector, an overweighting in technology, decreased exposure to financials and an underweighting in retail.

Quantitative Evaluation

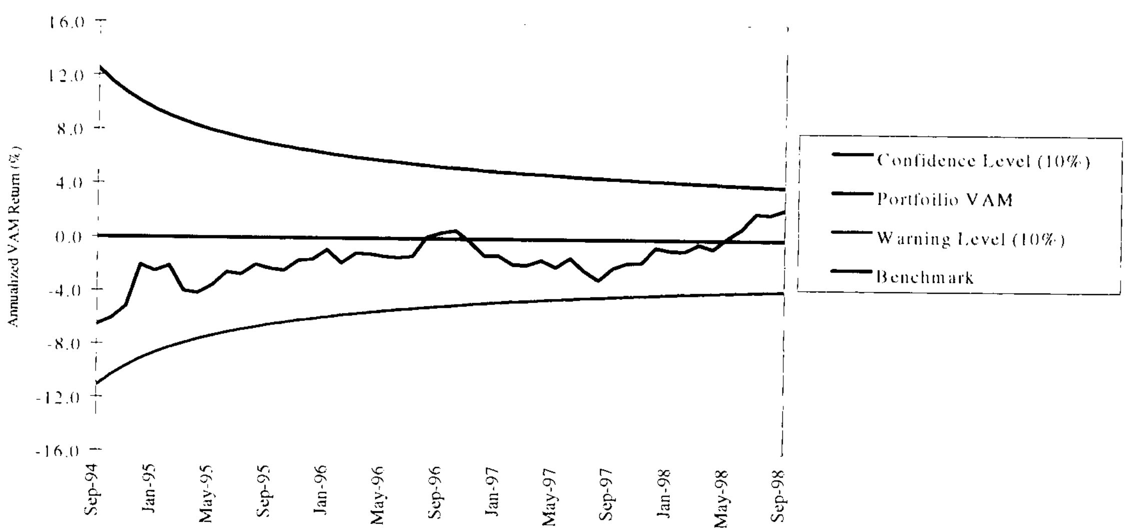
	Actual	Benchmark*
Last Quarter	-9.6%	-15.3%
Last 1 Year	17.6	-1.4
Last 2 Years	21.4	16.1
Last 3 Years	22.1	16.7
Since Inception (4/94)	21.2	18.6

* Custom benchmark since inception date.

Recommendation

No action required.

Zevenbergen Capital Management
Cumulative Tracking



STATE BOARD
OF INVESTMENT

Bond Manager Evaluation Reports

Third Quarter, 1998

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COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 1998

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
American Express (AMG)	4.4	4.2	12.2	11.5	8.7	8.8	7.1	7.1	7.6	7.5	$598.43	6.3%
BEA	2.2	4.2	8.4	11.5	9.1	8.7	7.3	7.2	7.6	7.4	611.08	6.4%
IAI	4.2	4.2	11.0	11.5	8.4	8.7	6.3	7.2	11.1	11.0	658.58	6.9%
Miller	2.8	4.2	8.6	11.5	9.1	8.7	7.3	7.2	11.2	11.0	863.73	9.0%
Standish	2.6	4.2	9.2	11.5	8.7	8.7	6.9	7.2	7.2	7.4	720.85	7.5%
Western	3.1	4.2	11.7	11.5	10.0	8.7	8.3	7.2	12.3	11.0	1,310.59	13.7%
Semi-Passive Managers												
BlackRock	4.0	4.2	11.7	11.5					9.7	9.4	1,615.18	16.9%
Goldman	3.7	4.2	11.1	11.5	8.9	8.7	7.6	7.2	7.7	7.4	1,605.41	16.8%
Lincoln	4.1	4.2	11.6	11.5	8.8	8.7	7.3	7.2	9.4	9.3	1,580.08	16.5%
											$9,563.93	**100.0%**
									Since 7/1/84			
Current Aggregate	3.6	4.2	10.9	11.5	9.0	8.7	7.4	7.2	11.4	11.0		
Historical Aggregate (2)	**3.6**	**4.2**	**10.9**	**11.5**	**9.0**	**8.7**	**7.4**	**7.2**	**10.7**	**10.9**		
Lehman Aggregate (3)		4.2		11.5		8.7		7.2		10.5		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Includes performance of terminated managers.
(3) Prior to July 1994, this index reflects the Salomon BIG.

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AMERCIAN EXPRESS ASSET MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Jim Snyder **Assets Under Management: $598,425,846**

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.

Staff Comments

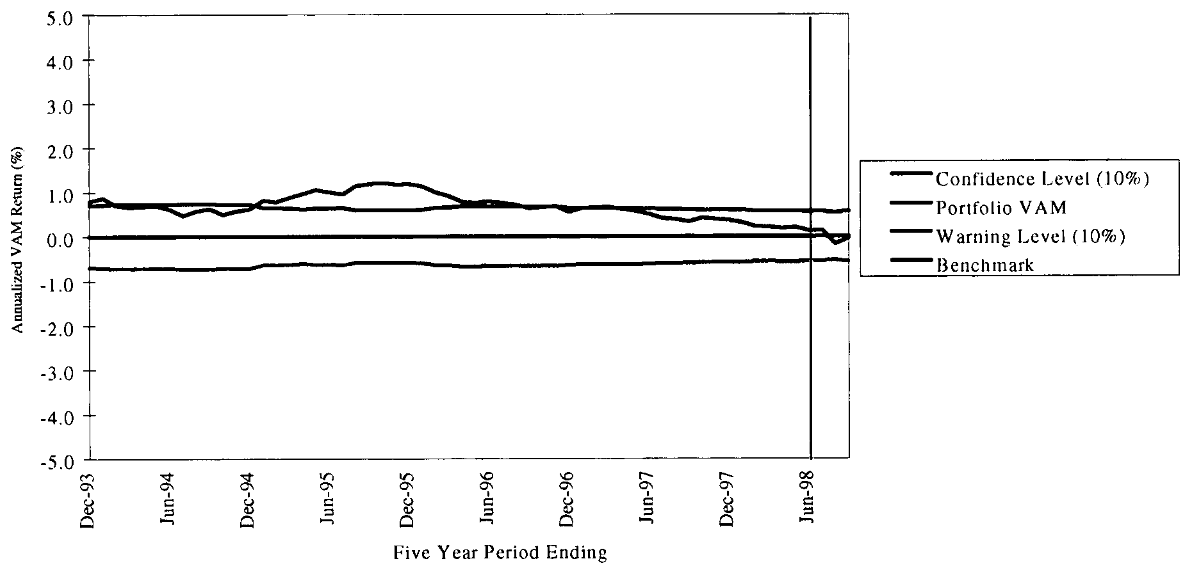
Staff met recently with American Express Asset Management in their Minneapolis office to review their organization, investment process and portfolio performance. Staff believes there are no issues at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4%	4.2%
Last 1 year	12.2	11.5
Last 2 years	11.2	10.6
Last 3 years	8.7	8.8
Last 4 years	10.4	10.1
Last 5 years	7.1	7.1
Since Inception (7/93)	7.6	7.5

Recommendations

No action required.



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

BEA ASSOCIATES
Periods Ending September, 1998

Portfolio Manager: Bob Moore | **Assets Under Management: $611,083,950**

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.

Staff Comments

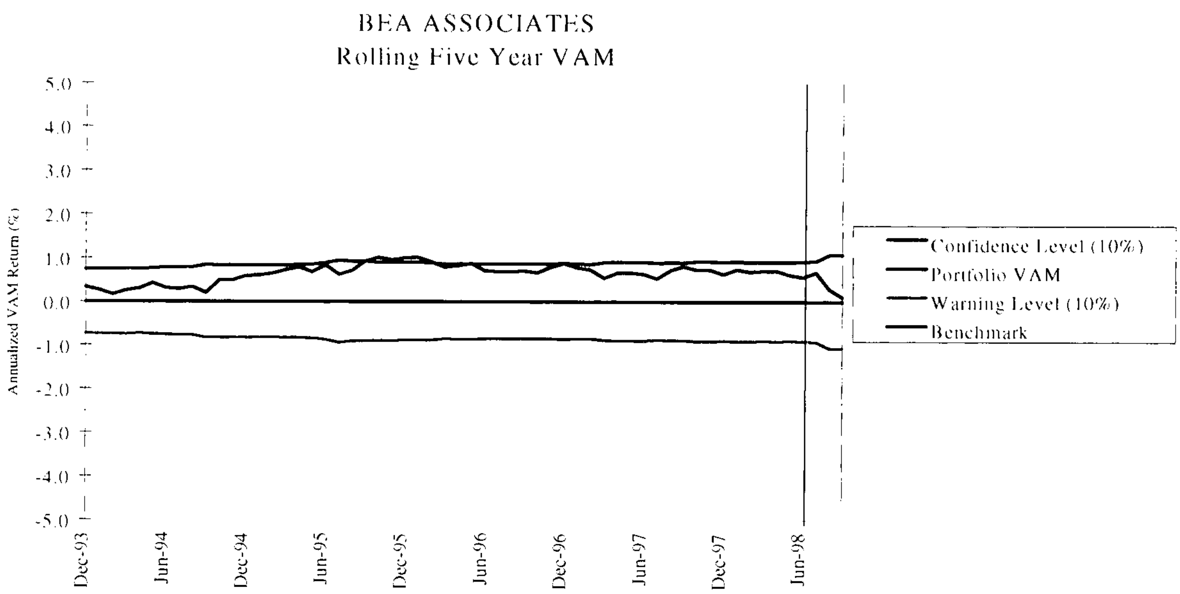
Staff met recently with BEA Associates in their New York office to review their organization, investment process and portfolio performance. Performance of the portfolio during the quarter was hurt by an overweighting in the corporate sector and by exposure to below investment grade and emerging market debt. Staff believes the firm's investment process and organizational structure are solid, and remains confident in BEA's ability to add value over time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.2%	4.2%
Last 1 year	8.4	11.5
Last 2 years	10.7	10.6
Last 3 years	9.1	8.7
Last 4 years	10.5	10.0
Last 5 years	7.3	7.2
Since Inception (7/93)	7.6	7.4

Recommendations

No action required.



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

INVESTMENT ADVISERS
Periods Ending September, 1998

Portfolio Manager: Larry Hill **Assets Under Management: $658,581,861**

Investment Philosophy

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

Staff Comments

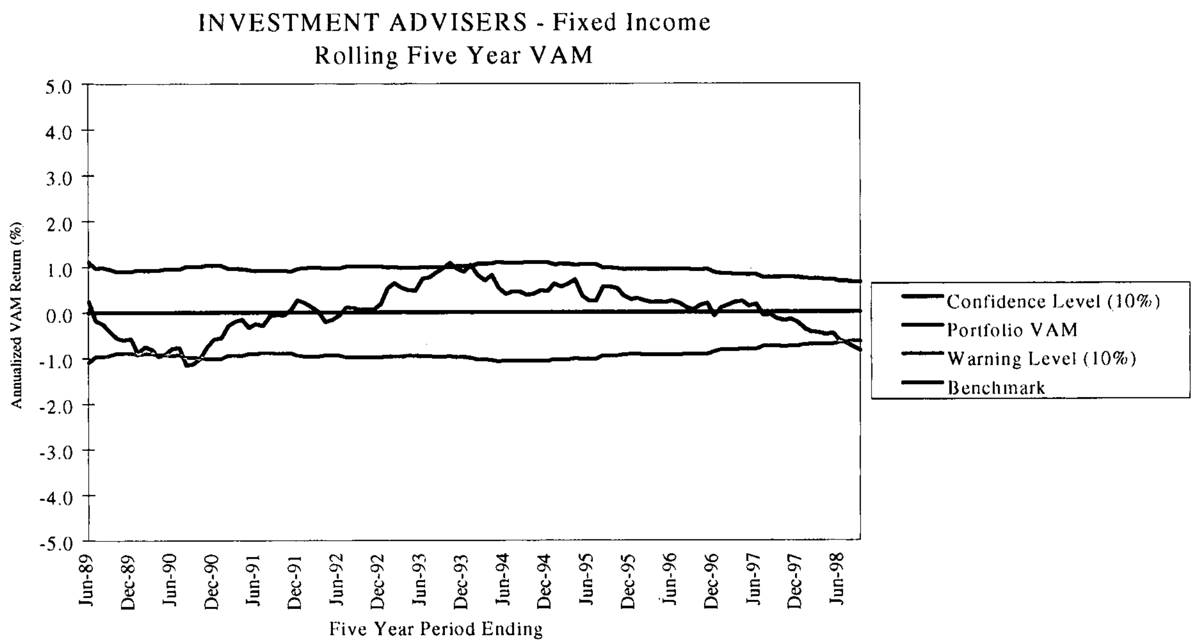
Staff met recently with Investment Advisers in their Minneapolis office to review their organization, investment process and portfolio performance. Kip Knelman, CEO, resigned during the quarter and was replaced by Roy Gillson, who is also the firm's Chief Investment Officer. In addition, John Alexander has been named Chief Operating Officer. John comes from IAI's parent, Lloyds TSB Group plc, and will be handling all administrative and operational issues. This will allow Roy Gillson to focus solely on the firm's investment functions.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	4.2%
Last 1 year	11.0	11.5
Last 2 years	10.5	10.6
Last 3 years	8.4	8.7
Last 4 years	9.4	10.0
Last 5 years	6.3	7.2
Since Inception (7/84)	11.1	11.0

Recommendations

No action required.



MILLER ANDERSON & SHERRERD
Periods Ending September, 1998

Portfolio Manager: Tom Bennett | **Assets Under Management: $863,726,808**

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.

Staff Comments

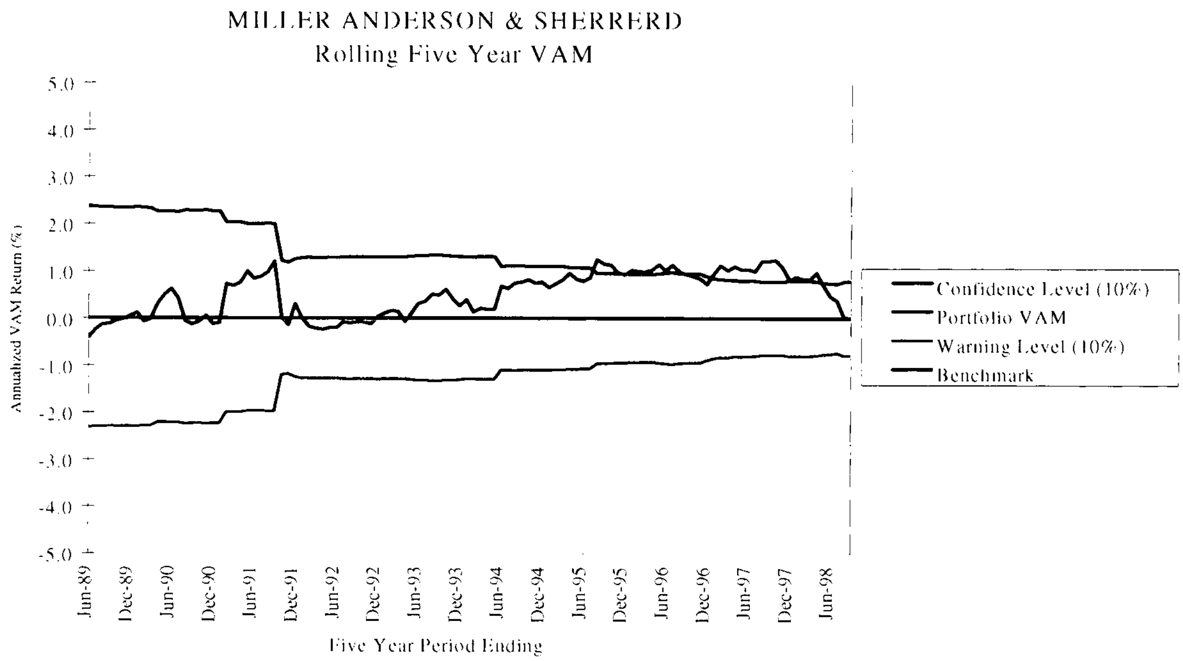
Portfolio performance in the third quarter was hurt by overweightings in mortgages and corporates, and Yankee issues within the corporate sector. These spread products underperformed Treasuries as their yield spreads relative to Treasuries widened significantly during the quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.8%	4.2%
Last 1 year	8.6	11.5
Last 2 years	10.3	10.6
Last 3 years	9.1	8.7
Last 4 years	10.4	10.0
Last 5 years	7.3	7.2
Since Inception (7/84)	11.2	11.0

Recommendations

No action required.



STANDISH, AYER & WOOD
Periods Ending September, 1998

Portfolio Manager: Austin Smith **Assets Under Management: $720,851,085**

Investment Philosophy

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

Staff Comments

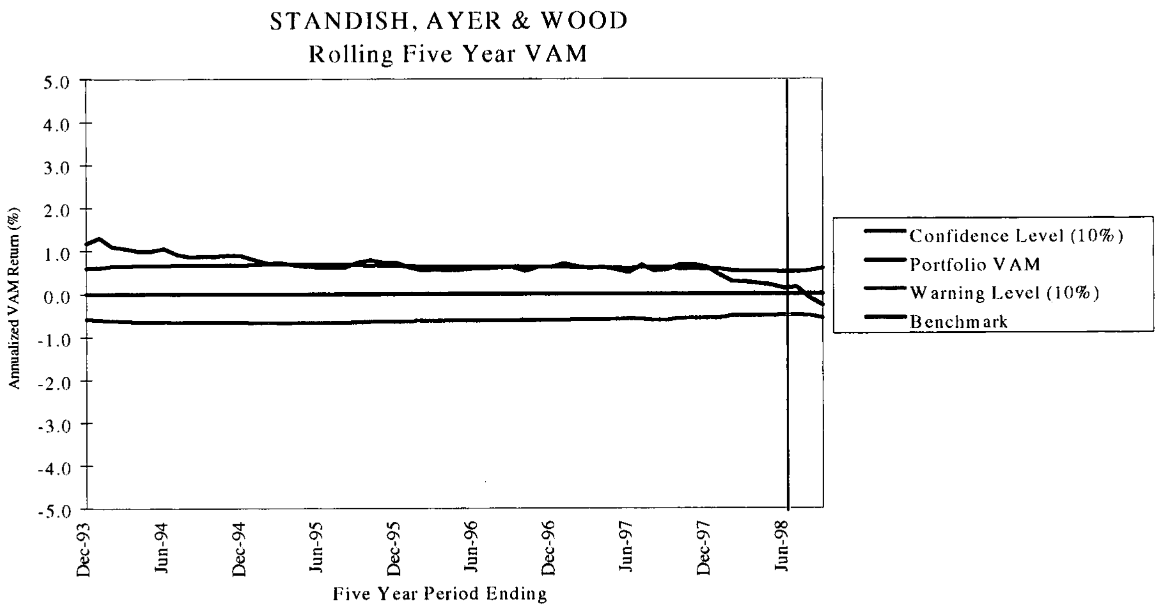
Portfolio performance in the third quarter was hurt by overweightings in mortgages and corporates. These spread products underperformed Treasuries as their yield spreads relative to Treasuries widened significantly during the quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	4.2%
Last 1 year	9.2	11.5
Last 2 years	10.1	10.6
Last 3 years	8.7	8.7
Last 4 years	9.9	10.0
Last 5 years	6.9	7.2
Since Inception (7/93)	7.2	7.4

Recommendations

No action required.



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

WESTERN ASSET MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Kent Engel **Assets Under Management: $1,310,591,974**

Investment Philosophy

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

Staff Comments

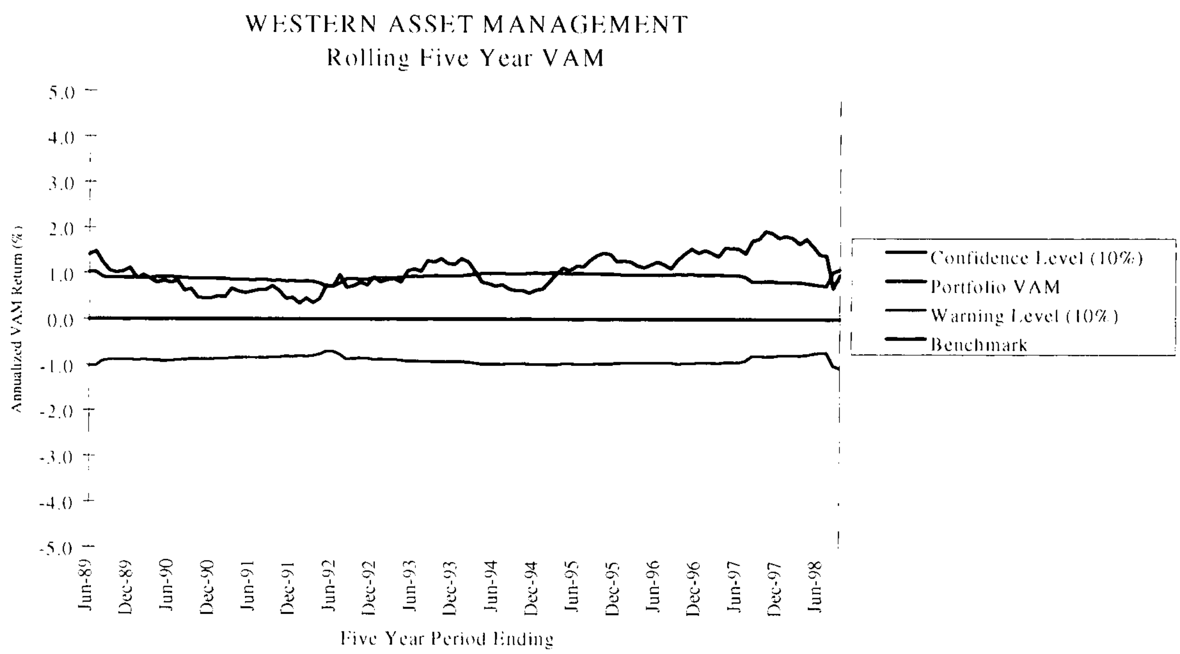
Staff met briefly with Western in the SBI office to discuss recent portfolio performance. Western's underperformance during the quarter is attributable to an overweighting in non-Treasury sectors, offset somewhat by yield curve positioning and duration management.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	4.2%
Last 1 year	11.7	11.5
Last 2 years	12.2	10.6
Last 3 years	10.0	8.7
Last 4 years	11.6	10.0
Last 5 years	8.3	7.2
Since Inception (7/84)	12.3	11.0

Recommendations

No action required.



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,615,181,370**

Investment Philosophy

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

Staff Comments

Staff met recently with BlackRock in their New York office to review the organization, investment process and portfolio performance. Staff believes there are no issues at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	4.2%
Last 1 year	11.7	11.5
Last 2 years	11.0	10.6
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)	9.7	9.4

Recommendation

No action required.

Tracking graph will be created for period ending 6/30/99.

GOLDMAN SACHS
Periods Ending September, 1998

Portfolio Manager: Sharmin Mossavar Rahmani | **Assets Under Management: $1,605,406,451**

Investment Philosophy

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

Staff Comments

Staff met recently with Goldman in their New York office to review the organization, investment process and portfolio performance. Portfolio underperformance during the third quarter is attributable to the emerging market debt sector.

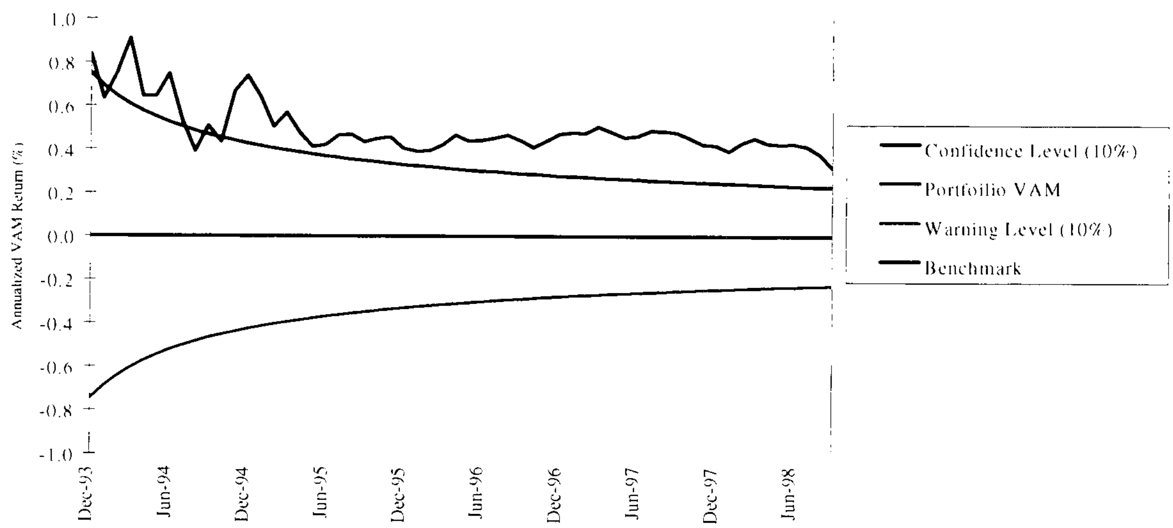
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	4.2%
Last 1 year	11.1	11.5
Last 2 years	10.7	10.6
Last 3 years	8.9	8.7
Last 4 years	10.3	10.0
Last 5 years	7.6	7.2
Since Inception (7/93)	7.7	7.4

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,580,079,546**

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.

Staff Comments

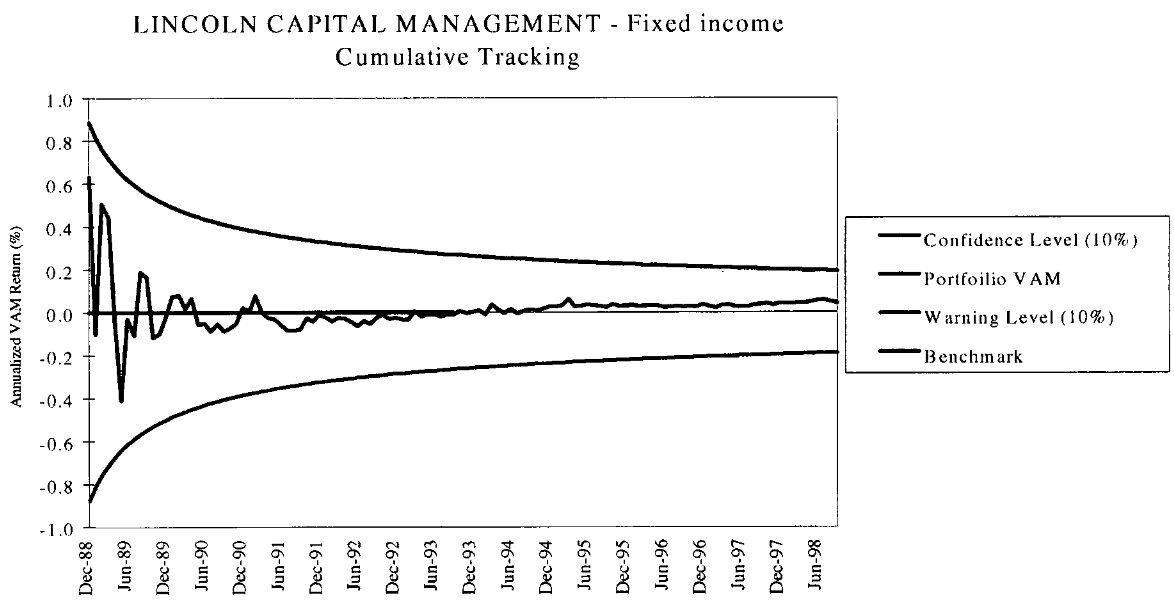
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	4.2%
Last 1 year	11.6	11.5
Last 2 years	10.7	10.6
Last 3 years	8.8	8.7
Last 4 years	10.1	10.0
Last 5 years	7.3	7.2
Since Inception (7/88)	9.4	9.3

Recommendations

No action required.



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STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Third Quarter, 1998

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COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending September, 1998

	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)
GE Investment Management (1)	-9.9	-9.8	7.0	9.2	22.0	22.7			25.5	26.3	$166.65
Voyageur Asset Management (2)	3.4	3.4	9.2	9.0	7.8	7.7	6.9	6.8	8.3	7.9	516.01
Internal Stock Pool (3)	-9.9	-9.8	9.0	9.2	22.7	22.7	20.0	20.0	19.5	19.6	373.88
Internal Bond Pool - Income Share (4)	4.3	4.2	11.9	11.5	9.2	8.7	7.6	7.2	9.4	9.0	196.77
Internal Bond Pool - Trust (5)	4.0	4.2	11.6	11.5	9.0	8.7			10.1	9.5	371.02

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

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GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Periods Ending September, 1998

Portfolio Manager: Gene Bolton — **Assets Under Management: $166,646,252**

Investment Philosophy
Assigned Risk Plan

GE Investment's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. 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 perspective.

Staff Comments

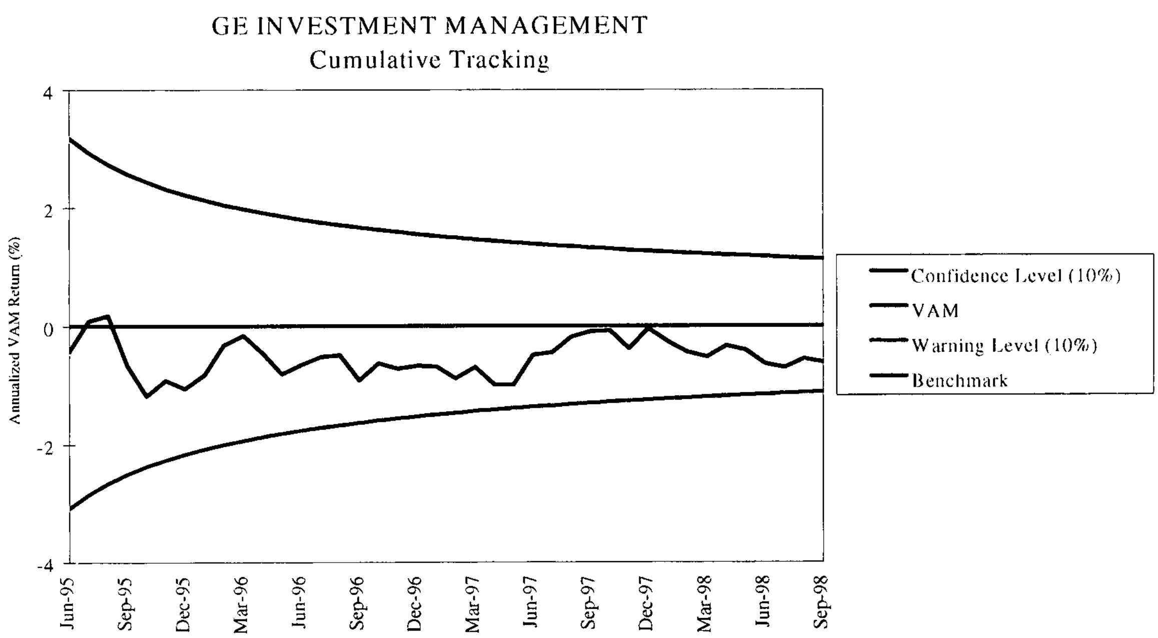
While the performance of GE has trailed its benchmark, the organization remains stable. Underperformance can be attributed to an underweighting in the technology sector (particularly Microsoft) and poor performance in the financial services and energy sectors. Staff plans to meet with GE in the coming quarter.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.9%	-9.8%
Last 1 year	7.0	9.2
Last 2 years	23.4	23.9
Last 3 years	22.0	22.7
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	25.5	26.3

Recommendation

No action required.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Periods Ending September, 1998

Portfolio Manager: Melissa A. Uppgren | **Assets Under Management: $516,010,057**

Investment Philosophy
Assigned Risk Plan

Voyageur uses a top-down approach to fixed income investing. Their objective is to obtain superior long-term investment returns over a pre-determined benchmark that reflects the quality constraints and risk tolerance of the Assigned Risk Plan. Due to the specific liability requirement of the plan, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

Staff Comments

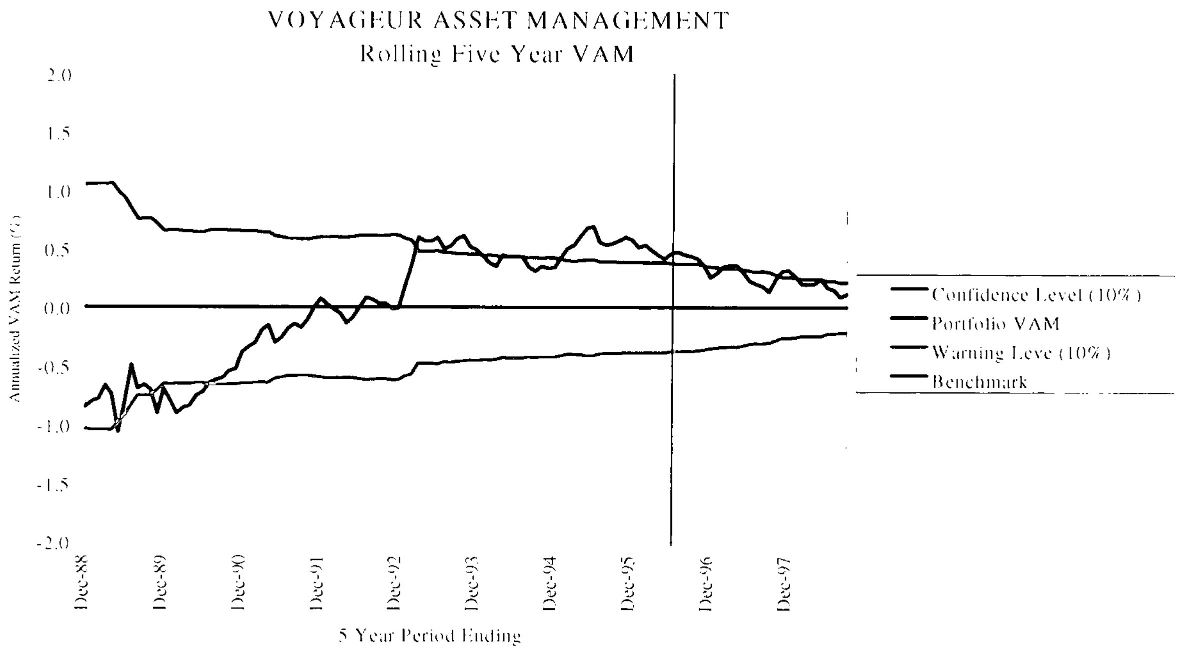
Employee ownership of Voyageur Asset Management and its direct affiliates has increased slightly and is now over 70%. Staff believes that there are no issues regarding investment strategy and portfolio performance at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.4%
Last 1 year	9.2	9.0
Last 2 years	8.9	8.7
Last 3 years	7.8	7.7
Last 4 years	8.8	8.5
Last 5 years	6.9	6.8
Since Inception (7/91)	8.3	7.9

Recommendation

No action required.



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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Periods Ending September, 1998

Portfolio Manager: Mike Menssen **Assets Under Management: $373,877,758**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

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

Staff Comments

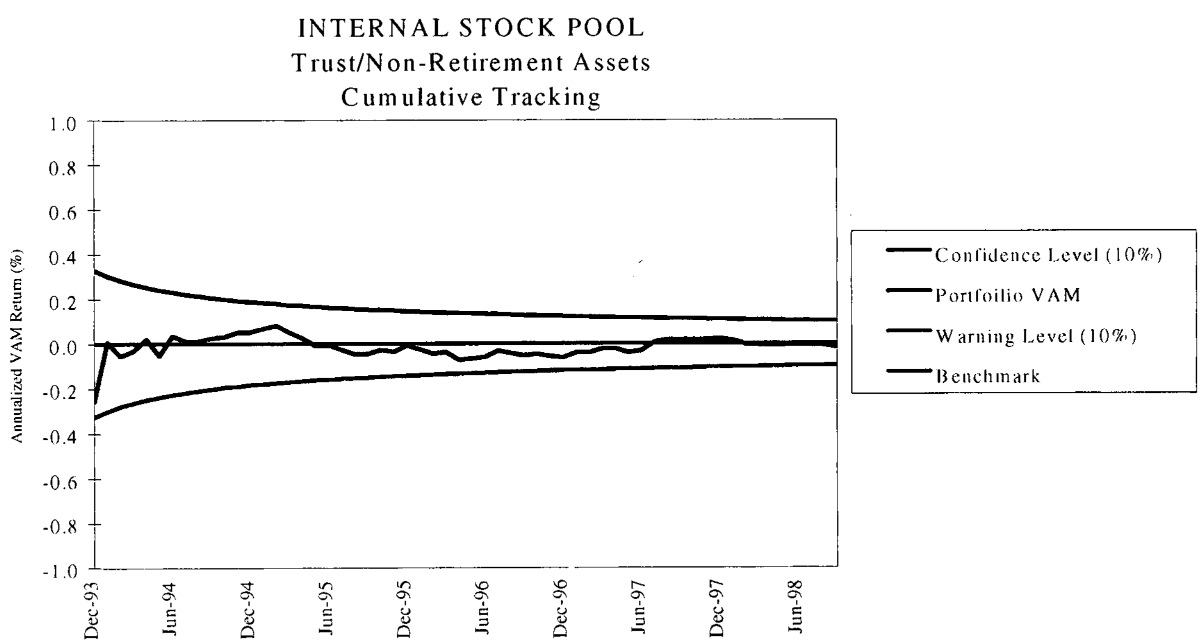
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.9%	-9.8%
Last 1 year	9.0	9.2
Last 2 years	23.9	23.9
Last 3 years	22.7	22.7
Last 4 years	24.4	24.5
Last 5 years	20.0	20.0
Since Inception (7/93)	19.5	19.6

Recommendation

No action required.



INTERNAL BOND POOL - Income Share Account
Periods Ending September, 1998

Portfolio Manager: Mike Menssen — **Assets Under Management: $196,773,652**

Investment Philosophy
Income Share Account

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

Staff Comments

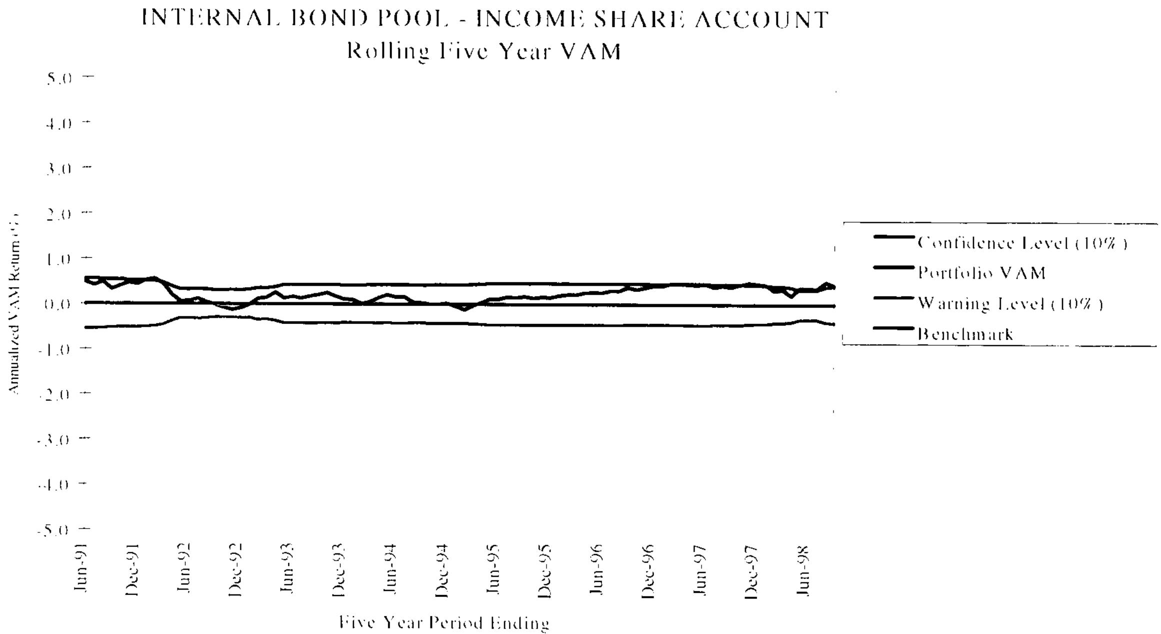
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	4.2%
Last 1 year	11.9	11.5
Last 2 years	11.2	10.6
Last 3 years	9.2	8.7
Last 4 years	10.6	10.0
Last 5 years	7.6	7.2
Since Inception (7/86)	9.4	9.0

Recommendation

No action required.



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Periods Ending September, 1998

Portfolio Manager: Mike Menssen | **Assets Under Management: $371,017,624**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

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

Staff Comments

No comments at this time.

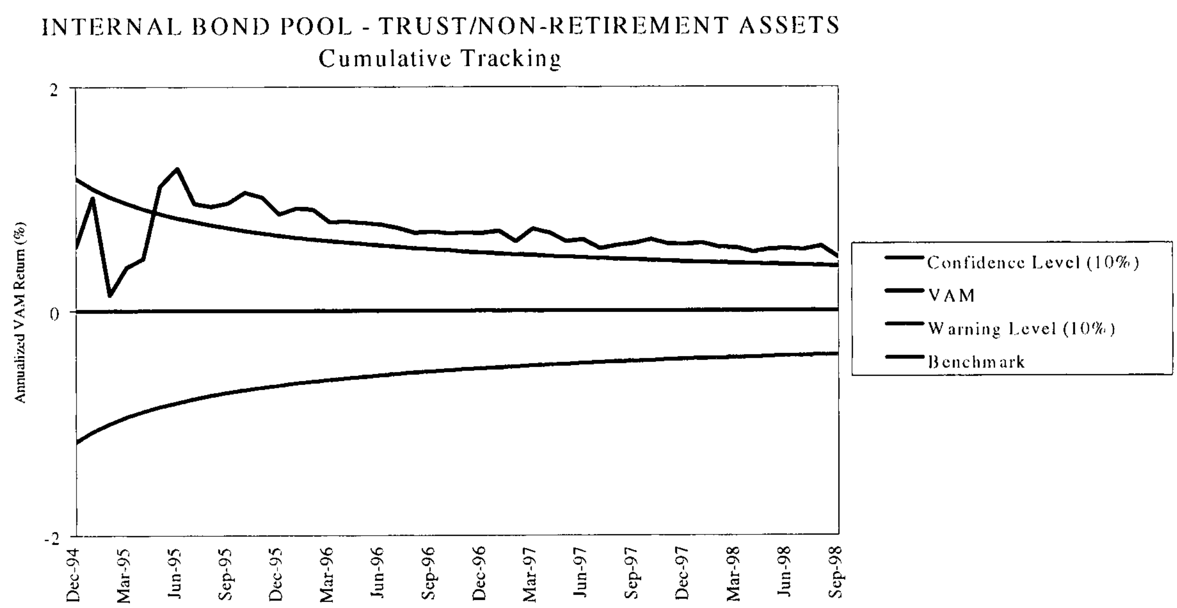
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	4.2%
Last 1 year	11.6	11.5
Last 2 years	10.9	10.6
Last 3 years	9.0	8.7
Last 4 years	10.5	10.0
Last 5 years	N.A.	N.A.
Since Inception (7/94)*	10.1	9.5

Recommendation

No action required.

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



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Tab E

COMMITTEE REPORT

DATE: November 24, 1998

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

FROM: **International Manager Committee**

The International Manager Committee met on November 12, 1998 to review the following agenda items:

- Review of manager performance for the period ending September 30, 1998.
- Discussion of the International Equity Program.

INFORMATION ITEMS:

1. Review of manager performance

The international stock program matched the return of its composite index for the quarter ending September 30, 1998. The program outperformed by 0.2 percentage points over the last year, by 3.0 percentage points annualized for the last three years, and by 2.3 percentage points annualized for the last five years. Performance of the equity managers (without the currency overlay) outperformed the target for the quarter, three-year and five-year periods, but underperformed the latest one year period:

Time Period	Total Program	Composite Index*	Equity Managers Only
Quarter	-15.0%	-15.0%	-14.7%
1 Year	-14.1	-14.3	-14.5
3 Year	4.2	1.2	2.9
5 Year	6.1	3.8	5.3

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

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

2. Discussion of the International Equity Program.

The SBI has begun a review of the SBI's International Program. Issues to be examined include:

- Evaluating **indices** for the asset class target and individual manager benchmarks
- Explore the potential use of **global** and/or **regional managers**
- Examining the mix of **active versus passive management**
- Evaluating the impact of the **Euro** on international investing
- Re-examination **currency management**

During the quarter, staff began reviewing the above issues and plans to complete its evaluation by the June 1999 Board meeting. By that time, staff will update our International Equity Investing Policy Paper. It will include a discussion of these issues and recommendations that might arise as a result of our study.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 1998

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COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 1998

	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)	-13.3	-14.2	-8.0	-8.3	7.1	3.7	7.6	5.3	8.3	8.0	$461.47	10.2%
Marathon (2)	-15.6	-14.2	-15.5	-8.3	0.7	3.7			4.2	4.8	318.03	7.0%
Rowe Price (2)	-13.3	-14.2	-9.5	-8.3	6.3	3.7			7.2	4.8	497.42	11.0%
Scudder (2)	-15.6	-14.2	-10.5	-8.3	8.0	3.7			8.1	4.8	300.18	6.6%
Active Emerging Markets												
City of London (3)	-22.6	-22.0	-46.0	-47.8					-18.7	-25.3	118.08	2.6%
Genesis (4)	-21.5	-22.0	-48.2	-47.8					-17.2	-22.7	167.97	3.7%
Montgomery (4)	-23.0	-22.0	-51.9	-47.8					-20.5	-22.7	155.23	3.4%
Passive EAFE												
State Street (5)	-13.8	-14.2	-8.2	-8.3	4.1	3.7	5.7	5.3	8.9	8.6	2,520.22	55.5%
									Since 10/1/92			
Equity Only*	-14.7	-15.0	-14.5	-14.3	2.9	1.2	5.3	3.8	8.3	7.2	4,538.61	100.0%
Total Program**	**-15.0**	**-15.0**	**-14.1**	**-14.3**	**4.2**	**1.2**	**6.1**	**3.8**	**8.9**	**7.2**	**$4,534.87**	

* 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

Cumulative Dollar Value Added $154,330,023
(Since inception, December 1, 1995)

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BRINSON PARTNERS
Periods Ending September, 1998

Portfolio Manager: Richard Carr **Assets Under Management: $461,470,272**

Investment Philosophy

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

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

Staff Comments

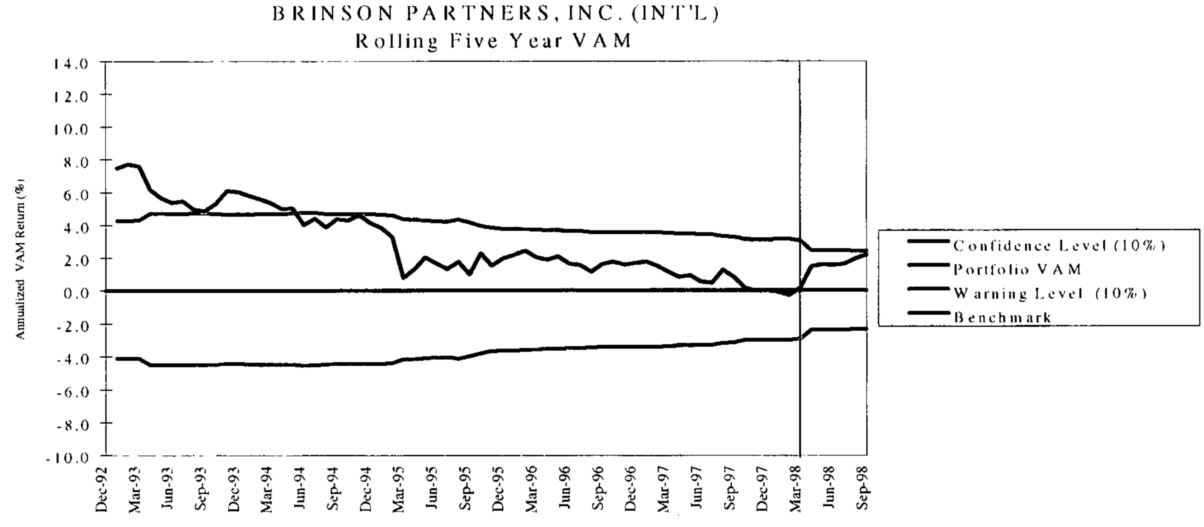
Staff met with Brinson in September to review investment strategy and portfolio performance. The portfolio benefited from the full year's underweight in Japan. The quarterly return was helped by overweighting Australia, Belgium and Finland.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.3%	-14.2%
Last 1 year	-8.0	-8.3
Last 2 years	3.7	1.3
Last 3 years	7.1	3.7
Last 4 years	7.6	4.2
Last 5 years	7.6	5.3
Since Inception (4/93)	8.3	8.0

Recommendations

No action required.



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

MARATHON ASSET MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: William Arah **Assets Under Management: $318,031,979**

Investment Philosophy

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

Staff Comments

Marathon's underperformance was due to difficult market conditions in Europe, where gains from the underweighting of financials were more than offset by a ratcheting-down in growth expectations which saw continued pressure on value and mid-cap. Staff will continue to monitor Marathon's performance.

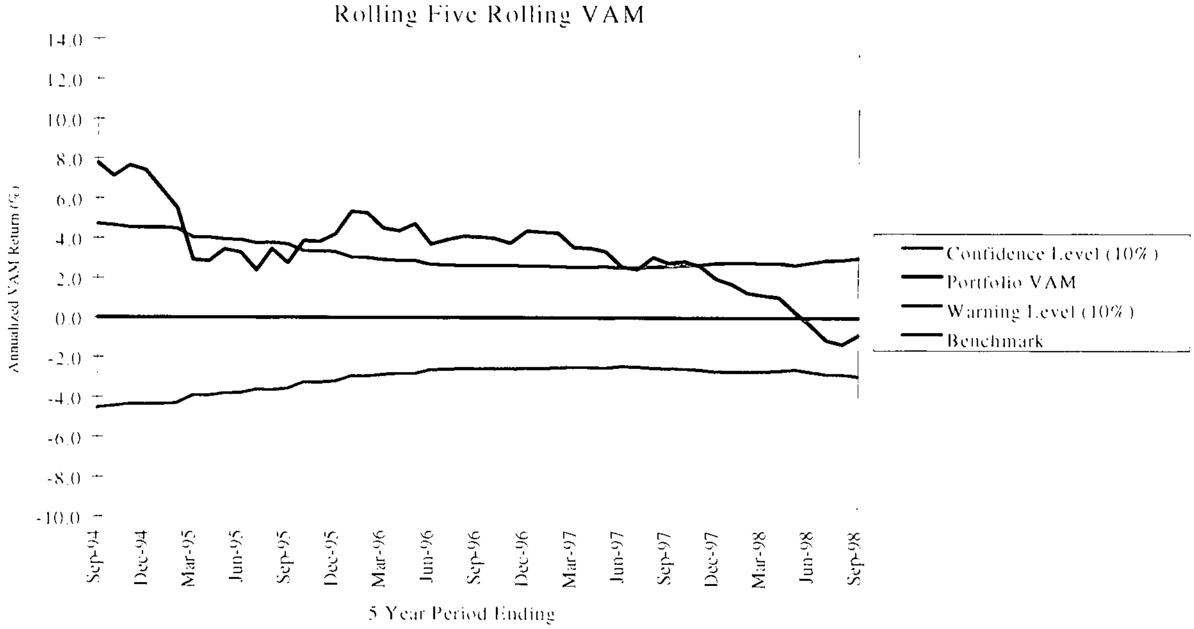
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-15.6%	-14.2%
Last 1 year	-15.5	-8.3
Last 2 years	-4.0	1.3
Last 3 years	0.7	3.7
Last 4 years	1.2	4.2
Last 5 years	N/A	N/A
Since Inception (11/93)	4.2	4.8

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Periods Ending September, 1998

Portfolio Manager: David Warren | **Assets Under Management: $497,416,060**

Investment Philosophy

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

Staff Comments

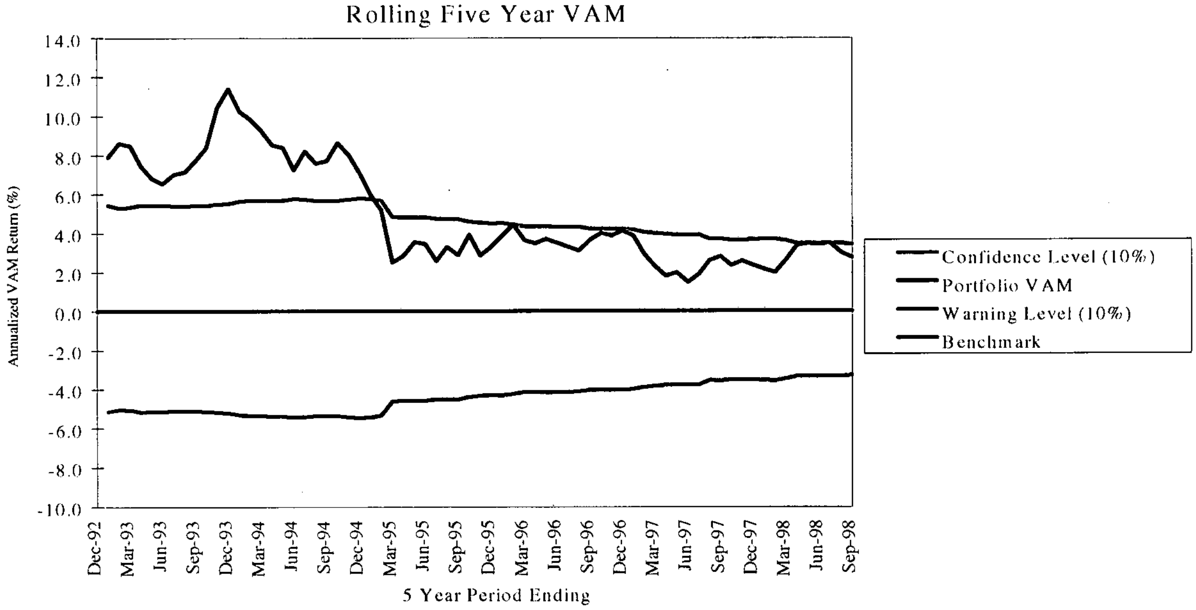
No comment at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.3%	-14.2%
Last 1 year	-9.5	-8.3
Last 2 years	3.0	1.3
Last 3 years	6.3	3.7
Last 4 years	6.1	4.2
Last 5 years	N/A	N/A
Since Inception (11/93)	7.2	4.8

Recommendations

No action required.



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

SCUDDER, STEVENS & CLARK
Periods Ending September, 1998

Portfolio Manager: Sheridan Reilly | **Assets Under Management: $300,182,511**

Investment Philosophy

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

Staff Comments

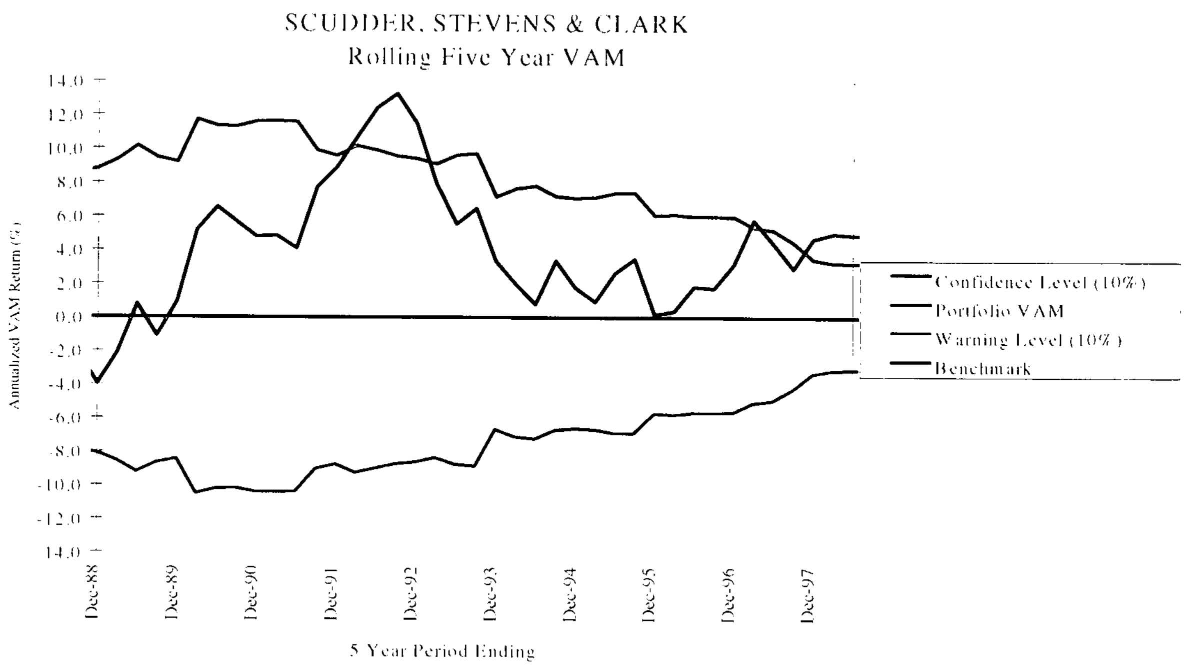
Staff met with Scudder in September to review investment strategy and portfolio performance. Zurich Insurance Company, the majority owner of Scudder Kemper Investments, Inc., has agreed to merge its business with the financial services of B.A.T. Industries plc. Scudder assured the SBI that the transaction will have no effect on the operation of Scudder Kemper Investments and will not in any way affect the management of the SBI account.

Quantitative Evaluation

	Actual	**Benchmark**
Last Quarter	-15.6%	-14.2%
Last 1 year	-10.5	-8.3
Last 2 years	4.6	1.3
Last 3 years	8.0	3.7
Last 4 years	8.6	4.2
Last 5 years	N/A	N/A
Since Inception (11/93)	8.1	4.8

Recommendations

No action required.



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

CITY OF LONDON
Periods Ending September, 1998

Portfolio Manager: Barry Olliff **Assets Under Management: $118,082,949**

Investment Philosophy

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

Staff Comments

No comment at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-22.6%	-22.0%
Last 1 year	-46.0	-47.8
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)	-18.7	-25.3

Recommendations

No action required.

VAM Graph will be drawn for period ending 12/31/98.

GENESIS ASSET MANAGERS, LTD.
Periods Ending September, 1998

Portfolio Manager: Paul Greatbatch | **Assets Under Management: $167,973,262**

Investment Philosophy

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

Staff Comments

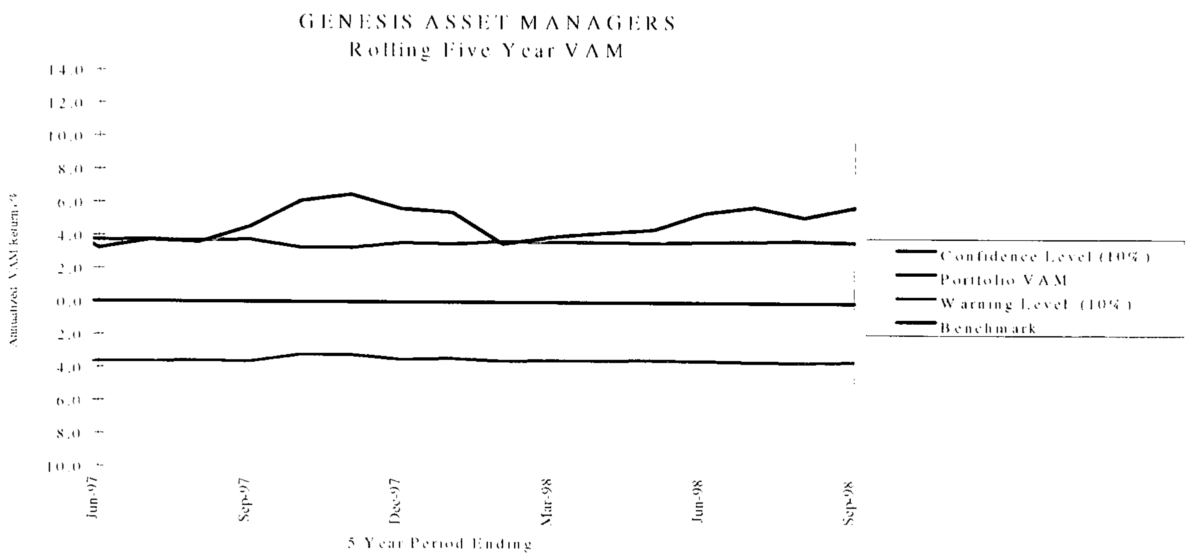
No comment at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-21.5%	-22.0%
Last 1 year	-48.2	-47.8
Last 2 years	-20.8	-25.4
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)	-17.2	-22.7

Recommendations

No action required.



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

MONTGOMERY ASSET MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Josephine Jimenez **Assets Under Management: $155,228,039**

Investment Philosophy

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

Staff Comments

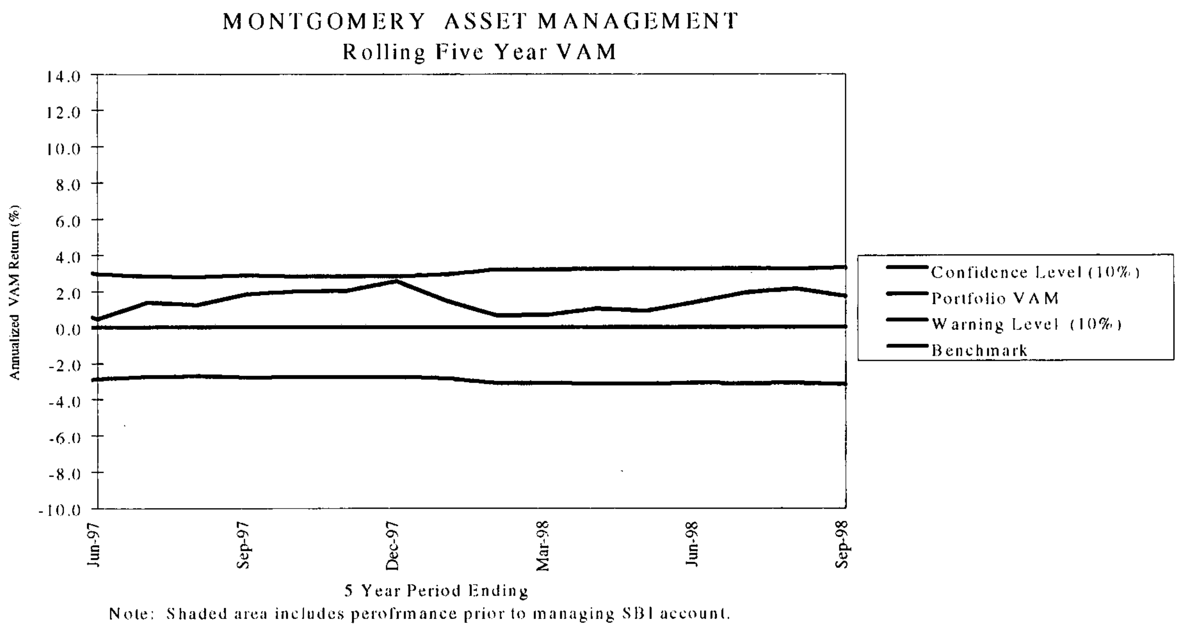
Staff met with Montgomery in August to discuss investment strategy, portfolio performance and staff changes. The only change was to add Ken Bauer to the Emerging Markets team as Director of Portfolio Management. Previously, a separate department performed the anlaysis. This will not impact the management of the portfolio.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-23.0%	-22.0%
Last 1 year	-51.9	-47.8
Last 2 years	-24.2	-25.4
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)	-20.5	-22.7

Recommendations

No action required.



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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 1998

Portfolio Manager: Lynn Blake | **Assets Under Management: $2,520,223,578**

Investment Philosophy

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

Staff Comments

Staff met with State Street in September to review investment strategy and portfolio performance. State Street's positive tracking error this quarter is the result of two factors. The first was a difference in Malaysian foreign exchange rates which resulted in a positive tracking during September of 0.12%. Tracking error also resulted because the portfolio raised cash during September by crossing securities at zero cost. In addition to the above mentioned sources, this positive tracking error continues to result primarily because of the lower dividend withholding tax paid by the portfolio versus the withholding tax rate included in the net benchmark calculation.

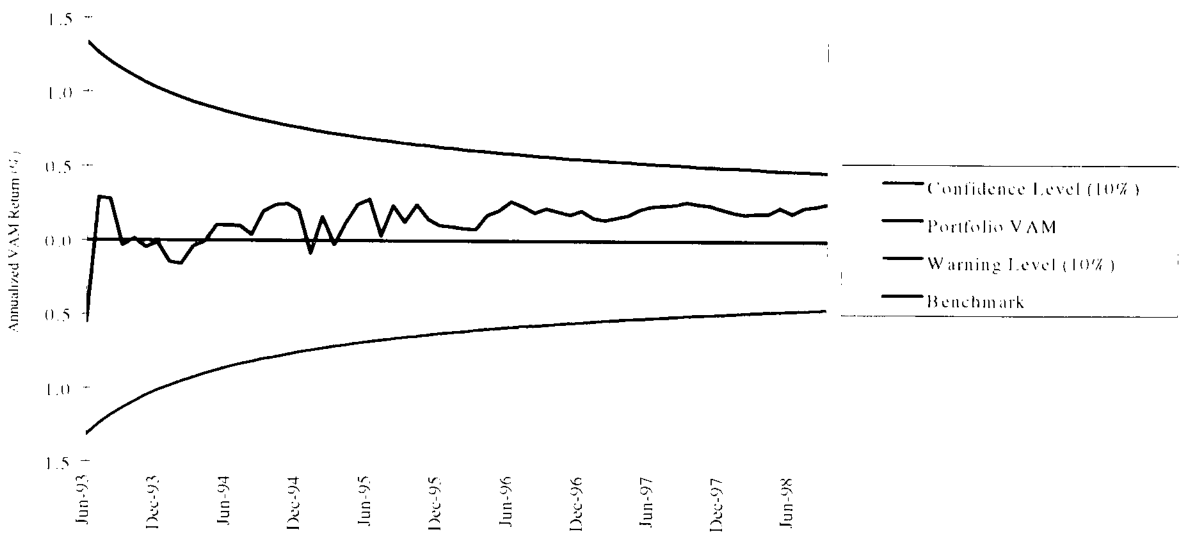
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.8%	-14.2%
Last 1 year	-8.2	-8.3
Last 2 years	1.6	1.3
Last 3 years	4.1	3.7
Last 4 years	4.5	4.2
Last 5 years	5.7	5.3
Since Inception (10/92)	8.9	8.6

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



RECORD TREASURY MANAGEMENT
Periods Ending September, 1998

Portfolio Manager: Neil Record | **Exposure Included in Overlay: 1,004,125,839**

Investment Philosophy

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

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

Staff Comments

No comment at this time.

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	-14.3%	-13.8%
Last 1 Year	-7.4	-8.2
Last 2 Years	4.8	1.6
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (12/95)	6.8	4.2

Recommendations

No action required.

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

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Tab F

COMMITTEE REPORT

DATE: November 24, 1998

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on November 13, 1998 to review the following information and action items:

- Review of current strategy.

- Investment for the Basic Retirement Fund with a new private equity manager, Goldner Hawn Johnson and Morrison.

The Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

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

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified 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 an investment at market value of $661 million in twenty (20) 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. Currently, the SBI has an investment at market value of $1.0 billion in forty-four (44) commingled private equity funds.

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

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. The SBI has an investment at market value of $175 million in twelve (12) yield oriented funds for the Post Fund: Four (4) are in real estate, six (6) are in private equity and two (2) are in resource funds.

ACTION ITEMS:

1) Investment for the Basic Retirement Fund with a new private equity manager, Goldner Hawn Johnson and Morrison, in Marathon Fund Limited Partnership IV.

Goldner Hawn Johnson and Morrison is seeking investors for a new $200 million private equity fund, Marathon Fund Limited Partnership IV. This Fund is the fourth private equity fund managed by Goldner Hawn Johnson and Morrison. Marathon Fund Limited Partnership IV will focus, like prior funds, on assembling a diverse portfolio of private equity investments in a diverse number and type of middle market businesses.

More information on Marathon Fund Limited Partnership IV 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 $40 million or 20%, whichever is less, in Marathon Fund Limited Partnership 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 Goldner Hawn Johnson and Morrison 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 Goldner Hawn Johnson and Morrison or reduction or termination of the commitment.

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ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
September 30, 1998

Market Value of Basic Retirement Funds	$17,173,000,000
Amount Available for Investment	**$762,330,050**

	Current Level	Target Level	Difference
Market Value	$1,813,619,950	$2,575,950,000	$762,330,050
MV +Unfunded	$2,666,200,434	$3,434,600,000	$768,399,566

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$660,199,970	$83,507,303	$743,707,273
Private Equity	$1,008,962,380	$614,770,016	$1,623,732,396
Resource	$144,457,600	$154,303,165	$298,760,765
Total	$1,813,619,950	$852,580,484	$2,666,200,434

Minnesota State Board of Investment

Alternative Investments

Post Retirement Funds

September 30, 1998

Market Value of Post Retirement Funds	$15,795,000,000
Amount Available for Investment	**$614,975,904**

	Current Level	Target Level	Difference
Market Value	$174,774,096	$789,750,000	$614,975,904
MV +Unfunded	$311,398,855	$1,579,500,000	$1,268,101,145

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$73,200,777	$13,305,579	$86,506,356
Private Equity	$88,904,224	$61,961,650	$150,865,874
Resource	$12,669,095	$61,357,530	$74,026,625
Total	$174,774,096	$136,624,759	$311,398,855

MINNESOTA STATE BOARD OF INVESTMENT
ALTERNATIVE INVESTMENT PRIVATE EQUITY
9/30/98

BASIC FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
ALLIED	5,000,000	5,000,000	414,781	5,913,368	0	3.74	13.0
BANK FUND							
Fund III	20,000,000	20,000,000	31,888,360	10,502,475	0	20.49	5.9
Fund IV	25,000,000	25,000,000	28,054,675	2,044,280	0	15.02	2.6
Fund V	48,000,000	2,400,000	2,400,000	0	45,600,000	0.00	0.0
BLACKSTONE PARTNERS II	50,000,000	45,928,033	35,176,014	41,191,091	4,071,967	48.97	4.9
BRINSON PARTNERS							
VPAF I	5,000,000	5,000,000	884,219	7,618,467	0	9.70	10.4
VPAF II	20,000,000	18,579,998	5,260,349	29,254,441	1,420,002	25.09	7.8
CHURCHILL CAPITAL PARTNERS II	20,000,000	20,000,000	10,928,285	16,661,746	0	13.39	5.9
CONTRARIAN CAPITAL II	37,000,000	25,918,535	27,119,893	12,446	11,081,465	5.68	1.3
CORAL PARTNERS							
Fund I Superior	7,011,923	7,011,923	2,067,575	4,845,028	0	-0.25	12.3
Fund II	10,000,000	8,069,315	10,147,581	23,545,087	1,930,685	25.82	8.2
Fund IV	15,000,000	10,500,000	11,050,652	1,608,655	4,500,000	8.45	4.2
Fund V	15,000,000	1,535,815	1,419,959	0	13,464,185	-23.86	0.3
IAI Ventures I	1,146,890	1,146,890	0	1,536,770	0	14.70	7.6
CRESCENDO III	25,000,000	0	0	0	25,000,000	0.00	0.0
DSV	10,000,000	10,000,000	4,076,622	20,244,324	0	8.49	13.5
FIRST CENTURY	10,000,000	10,000,000	2,441,113	14,024,709	0	8.86	13.8
FOX PAINE & CO	40,000,000	497,971	497,971	0	39,502,029	-83.79	0.4
GOLDER THOMA CRESSEY RAUNDER							
Fund III	14,000,000	14,000,000	8,968,241	51,021,716	0	31.08	10.9
Fund IV	20,000,000	19,450,000	25,329,867	21,364,241	550,000	37.87	4.7
Fund V	30,000,000	21,600,000	20,764,636	518,995	8,400,000	-1.41	2.2
GTCR GOLDER RAUNER FUND VI	90,000,000	6,300,000	6,300,000	0	83,700,000	0.00	0.0
HELLMAN & FRIEDMAN III	40,000,000	25,242,969	23,217,893	19,009,528	14,757,031	34.60	4.0
IAI U.S. VENTURE FUND II	15,000,000	9,444,773	7,663,365	2,286,019	5,555,227	5.67	1.7
IMR PARTNERSHIP	15,000,000	1,524,900	0	1,148,997	13,475,100	-11.13	6.2
INMAN BOWMAN	7,500,000	7,500,000	0	10,207,139	0	4.04	13.3
KOHLBERG KRAVIS ROBERTS							
1984 Fund	25,000,000	25,000,000	21,647	128,306,024	0	28.59	14.3
1986 Fund	18,365,339	18,365,339	67,597,957	161,764,442	0	29.13	12.5
1987 Fund	145,950,000	145,950,000	221,015,734	249,642,405	0	13.10	10.9
1993 Fund	150,000,000	150,000,000	234,115,168	111,130,688	0	29.44	4.8
1996 Fund	200,000,000	111,087,675	91,376,796	11,023,712	88,912,325	-14.70	2.1
MATRIX							
Fund II	10,000,000	10,000,000	1,117,429	21,055,966	0	13.95	13.1
Fund III	10,000,000	10,000,000	2,116,533	70,242,885	0	74.80	8.4
NORTHWEST VENTURE CAPITAL	10,000,000	10,000,000	173,711	15,368,680	0	5.72	14.7
PIPER JAFFREY HEALTHCARE FUND	10,000,000	5,900,000	5,163,923	415,800	4,100,000	-7.18	1.6
SUMMIT PARTNERS							
Fund I	10,000,000	10,000,000	223,605	20,106,935	0	13.15	13.8
Fund II	30,000,000	28,500,000	5,046,493	65,419,166	1,500,000	28.77	10.4
Fund V	25,000,000	4,375,000	4,328,695	421	20,625,000	-3.07	0.5
T.ROWE PRICE	191,201,788	191,201,788	12,550,197	191,348,482	0	10.10	10.9
THOMA CRESSEY FUND VI	35,000,000	875,000	875,000	0	34,125,000	0.00	0.3
WARBURG PINCUS							
Equity Partners	100,000,000	5,000,000	5,000,000	0	95,000,000	0.00	0.3
Venture Partners	50,000,000	47,500,000	69,340,626	8,980,338	2,500,000	28.93	3.8
WELSH, CARSON, ANDERSON & STOWE VIII	100,000,000	5,000,000	5,000,000	0	95,000,000	0.00	0.0
ZELL/CHILMARK	30,000,000	30,000,000	17,826,815	51,006,760	0	16.07	8.2
TOTAL PRIVATE EQUITY BASIC FUNDS	1,745,175,940	1,130,405,924	1,008,962,380	1,390,372,226	614,770,016		

ATTACHMENT B

MINNESOTA STATE BOARD OF INVESTMENT
ALTERNATIVE INVESTMENT REAL ESTATE
9/30/98

BASIC FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
AETNA	42,376,529	42,376,529	110,697,101	0	0	6.67	16.4
AEW							
AEW III	20,000,000	20,000,000	69,274	24,073,070	0	1.75	13.1
AEW IV	15,000,000	15,000,000	19,601	4,410,656	0	-10.85	12.0
AEW V	15,000,000	15,000,000	1,607,186	10,375,441	0	-2.41	10.8
AMERICAN REPUBLIC	1	1	1	0	0	0.00	8.7
COLONY CAPITAL							
Colony Investors II	40,000,000	36,986,764	36,053,697	7,731,133	3,013,236	11.07	3.5
Colony Investors III	100,000,000	29,161,532	28,844,721	0	70,838,468	-4.68	0.7
EQUITABLE	40,000,000	40,000,000	98,552,606	206,246	0	5.83	17.0
EQUITY OFFICE PROPERTIES TRUST	140,388,854	140,388,854	181,308,308	35,276,584	0	14.06	6.8
FIRST ASSET REALTY	916,185	916,185	335,586	687,127	0	3.74	4.4
HEITMAN							
Heitman I	20,000,000	20,000,000	2,977,778	19,416,708	0	1.49	14.2
Heitman II	30,000,000	30,000,000	16,582,689	26,552,727	0	4.02	12.9
Heitman III	20,000,000	20,000,000	3,813,838	18,495,918	0	1.35	11.7
Heitman V	20,000,000	20,000,000	21,625,941	8,936,202	0	8.12	6.8
LASALLE INCOME PARKING FUND	15,000,000	14,644,401	13,153,074	5,689,230	355,599	6.33	7.0
RREEF USA FUND III	75,000,000	75,000,000	43,820,389	70,329,112	0	4.27	14.4
T.A. ASSOCIATES REALTY							
Realty Assocaties Fund III	40,000,000	39,200,000	49,012,270	10,008,425	800,000	13.19	4.3
Realty Associates Fund IV	50,000,000	41,500,000	42,308,932	2,801,607	8,500,000	8.03	1.7
TCW							
TCW III	40,000,000	40,000,000	6,174,514	42,332,449	0	2.01	13.2
TCW IV	30,000,000	30,000,000	3,242,464	25,026,533	0	-0.64	11.9
TOTAL REAL ESTATE BASIC FUNDS	753,681,569	670,174,266	660,199,970	312,349,168	83,507,303		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
COLONY INVESTORS II	40,000,000	36,986,764	36,053,697	7,731,133	3,013,236	11.07	3.5
WESTMARK REALTY ADVISORS							
Westmark Comm. Mtg. Fund II	13,500,000	13,397,500	12,731,355	3,956,660	102,500	10.49	3.2
Westmark Comm. Mtg. Fund III	21,500,000	21,429,000	20,239,248	3,543,171	71,000	11.89	1.8
Westmark Comm. Mtg. Fund IV	14,300,000	4,181,157	4,176,477	154,936	10,118,843	9.59	0.8
TOTAL REAL ESTATE POST FUNDS	89,300,000	75,994,421	73,200,777	15,385,900	13,305,579		
TOTAL REAL ESTATE	842,981,569	746,168,687	733,400,747	327,735,067	96,812,882		

MINNESOTA STATE BOARD OF INVESTMENT
ALTERNATIVE INVESTMENT PRIVATE EQUITY
9/30/98

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
CITICORP MEZZANINE	40,000,000	23,094,396	18,837,604	14,058,248	16,905,604	22.88	3.8
KLEINWORT BENSON	25,000,000	17,006,864	17,783,497	2,963,966	7,993,136	17.54	3.0
SUMMIT PARTNERS (POST)							
Summit Sub-Debt Fund I	20,000,000	18,000,000	4,277,330	22,493,452	2,000,000	27.15	4.5
Summit Sub-Debt Fund II	45,000,000	15,750,000	15,355,936	1,126,650	29,250,000	5.48	1.2
T.ROWE PRICE	3,723,781	3,723,781	2,200,761	1,447,163	0	-6.34	1.6
TCW/CRESCENT MEZZANINE	40,000,000	34,187,090	30,449,096	7,473,724	5,812,910	9.73	2.5
TOTAL PRIVATE EQUITY POST FUNDS	173,723,781	111,762,131	88,904,224	49,563,203	61,961,650		
TOTAL PRIVATE EQUITY	1,918,899,721	1,242,168,055	1,097,866,604	1,439,935,429	676,731,666		

MINNESOTA STATE BOARD OF INVESTMENT
ALTERNATIVE INVESTMENT RESOURCE
9/30/98

BASIC FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
APACHE III	30,000,000	30,000,000	4,188,690	42,370,764	0	11.12	11.8
FIRST RESERVE CORP.							
AMGO I	15,000,000	15,000,000	6,965,000	6,664,976	0	-0.72	17.0
AMGO II	7,000,000	7,000,000	8,487,000	5,482,744	0	5.88	15.7
First Reserve Fund IV (SEA)	12,300,000	12,300,000	0	31,030,962	0	13.15	10.4
First Reserve Fund V	16,800,000	16,800,000	25,799,000	24,519,754	0	17.83	8.4
First Reserve Fund VII	40,000,000	32,281,073	22,640,557	10,049,880	7,718,927	1.44	2.2
First Reserve Fund VIII	100,000,000	5,939,493	6,033,053	0	94,060,507	-27.76	0.4
MORGAN OIL&GAS	15,000,000	15,000,000	3,443,424	20,906,987	0	6.90	10.1
SIMMONS							
SCF Fund II	17,000,000	14,847,529	29,626,915	6,148,819	2,152,471	18.16	7.2
SCF Fund III	25,000,000	18,653,740	31,277,539	8,245,755	6,346,260	41.90	3.3
SCF Fund IV	50,000,000	5,975,000	5,996,422	0	44,025,000	-26.92	0.5
TOTAL RESOURCE BASIC FUNDS	328,100,000	173,796,835	144,457,600	155,420,641	154,303,165		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
MERIT ENERGY PARTNERS							
Merit Energy Partners B	24,000,000	12,642,470	12,669,095	1,197,382	11,357,530	8.21	2.2
Merit Energy Partners C	50,000,000	0	0	0	50,000,000	0.00	0.0
TOTAL RESOURCE POST FUNDS	74,000,000	12,642,470	12,669,095	1,197,382	61,357,530		
TOTAL RESOURCE	402,100,000	186,439,305	157,126,695	156,618,022	215,660,695		

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Marathon Fund Limited Partnership IV
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$250 million
Fund Manager:	Marathon Fund Limited Partnership IV Goldner Hawn Johnson and Morrison Inc. 5250 Norwest Center Minneapolis, Minnesota 55402 Telephone: (612) 338-5912 Facsimile: (612) 338-2860
Manager Contact:	Mike Israel

II. Organization & Staff

The Sponsor of the partnership is Goldner Hawn Johnson & Morrison Incorporated (GHJ&M), a Minneapolis-based private equity investment firm specializing in structuring and investing in management-led acquisitions. The Sponsor will be engaged by the Partnership (i) to identify for investment appropriate existing business enterprises, (ii) to provide management and administrative services and (iii) to manage and operate the companies in which the Partnership makes investments. Michael D. Goldner, Van Zandt Hawn, Timothy D. Johnson, John L. Morrison, Michael S. Israel, Edward J. Rieckelman and Timothy W. Zosel are the Managing Directors of the Sponsor. Additional personnel include two associates and three support/administrative staff members.

III. Investment Strategy

Goldner Hawn Johnson and Morrison Inc. was established in 1989 to make leveraged acquisitions of Midwestern-based, middle market businesses. The firm's objective was and is to sponsor management led acquisitions of companies that have a distinct and defensible competitive advantage and significant growth potential.

Goldner Hawn Johnson and Morrison Inc.'s goals are to acquire 3-5 companies per year with an average transaction size of $50 million requiring equity of $10-20 million, to grow these companies over 4-7 years and to realize returns to investors in excess of 25% per annum net to limited partners.

IV. Investment Performance

Since its founding in 1989, GHJ&M has completed fourteen management-led acquisitions, with an aggregate equity investment including management and coinvestors of approximately $174 million.

GHJ&M's first transaction was a small investment in Deltak Company which was completed in May 1990 and liquidated in January 1994 for a net annualized internal rate of return (IRR) of 56.1%.

Six transactions were completed through the Marathon Fund Limited Partnership and the Marathon Fund Limited Partnership II. Marathon Fund and Marathon Fund II were funded with approximately $37 million in aggregate commitments and the first portfolio company investment was made in September 1990. To date, five of the six Marathon I/II investments have been sold and the portfolio has achieved a net annualized IRR of 21% since inception.

Seven transactions have been completed through Marathon Fund Limited Partnership III established in 1995 with $86 million in aggregate commitments and the first portfolio company investment was made in January 1996. Although none of the investments have been sold, current valuations and cash flows to date indicate a net annualized IRR of approximately 8%.

V. General Partners Investment

The General Partner will commit not less than $5 million to the Partnership, assuming aggregate Commitments of all Partners of $200 million.

VI. Takedown Schedule

Commitments will be drawn down during the Commitment Period on an "as needed" basis with a minimum of ten-business days' prior written notice to the Limited Partners. Not more than 25% of a Partner's Committed Capital may be called for contribution before December 31, 1999 and not more than 50% of a Partner's Committed Capital may be called for contribution before December 31, 2000.

VII. Management Fee

The Sponsor will receive an annual Sponsor's Fee, payable semi-annually in advance, from each Limited Partner at the rate of 2% of the Committed Capital during the Commitment Period and thereafter at the rate of 2% of the aggregate amount of the Partner's capital invested in portfolio investments at the end of the Commitment Period, reduced semi-annually by the cost of investments realized or written off prior to the end of the most recent semi-annual period.

Certain income constituting Special Income (commitment, management, break-up, "topping" or similar fees, etc.) could be realized by the Partnership or its affiliates, including the Sponsor, in connection with the Partnership's investment activities. By contract, Special Income realized by the Partnership or any affiliate shall be paid to the Sponsor and shall be first applied to unreimbursed out-of-pocket expenses related to the transaction-giving rise to such Special Income. Eighty percent of any excess after payment of such expenses shall be used to prepay future Sponsor's Fees due from the Limited Partners and, after all reasonably foreseeable Sponsor's Fees have been prepaid, shall be remitted to the Limited Partners.

VIII. Term

The term of the Partnership will end on December 31, 2008, subject to one, two-year extension at the discretion of the General Partner. Any additional extensions will require the consent of Limited Partners holding two-thirds of the Partnership Interests.

IX. Distributions

The proceeds attributable to each investment in the Partnership's Portfolio Companies (which shall include all proceeds attributable to the disposition of such investment, net of expenses relating to such disposition, as well as any dividend or interest income earned on such investment) will be distributed to all Partners as follows:

(a) first, 100% to all Partners in proportion to their capital contributions until proceeds equal the aggregate of the following (to the extent not previously distributed in connection with other realized investments):

- (i) the cost attributable to all realized investments;
- (ii) the cost attributable to any writedowns of unrealized investments as of that time;
- (iii) all Organizational and Partnership Expenses; and
- (iv) a preferred return equal to 8% compounded annually on the amounts included in the three items above from the date of the related investment or expense to the date fixed for the distribution (the "Preferred Return");

(b) second, 20% to all Partners in proportion to their capital contributions and 80% to the General Partner until such time as the General Partner has received, as its carried interest, 20% of the sum of all distributions made under clauses (iii) and (iv) under paragraph (a) above and the distributions made under this paragraph (b); and

(c) thereafter, 80% to the Partners in proportion to their capital contributions and 20% to the General Partner.

Distributions relating to the partial disposition of an investment in a Portfolio Company shall be subject to the above formula, with the Preferred Return based on the original cost of the entire investment.

Distributions prior to termination of the Partnership may, in the General Partner's discretion, take the form of cash or marketable securities. Upon termination of the Partnership, distributions may also include restricted securities or other assets of the Partnership for which the General Partner will seek a valuation from an independent investment banking firm or other appropriate independent expert.

All distributions and items of income, gain, loss or deduction not directly attributable to a particular investment (e.g., Organizational Expenses, Partnership Expenses and proceeds derived from temporary investments) will be distributed or allocated, as the case may be, among the Partners in proportion to their Commitments.

If, upon dissolution of the Partnership, the aggregate amount paid to the General Partner as Carried Interest exceeds 20% of net cumulative gains from all investments or the aggregate amount distributed to the Partners is less than their total Capital Contributions plus the Preferred Return, then the General Partner will pay to the Partnership for distribution to the Partners either the excess amount of such Carried Interest or the amount of such distribution shortfall, whichever is greater, up to the amount of the General Partner's total Carried Interest.

X. Limitations

The Partnership may not invest more than 20% of the Committed Capital of the Partnership in any one-portfolio investment.

XI. Borrowing

The Partnership may borrow funds up to the lesser of (i) twenty percent (20%) of the Committed Capital of the Partnership or (ii) the undrawn Committed Capital of the Partnership.

XII. Investments In Marathon Fund III Portfolio Companies

The Sponsor is also sponsor of Marathon Fund Limited Partnership III ("MF III"), an entity formed in 1995 with comparable investment goals to those of the Partnership. All of MF III's capital will have been invested before the Partnership commences operations. The Partnership will be permitted to make investments in companies that are already included in the MF III portfolio and that continue to have acquisition prospects in their own businesses, exclusively to provide the equity capital necessary to make new acquisitions. In the event of any such investment being proposed for the Partnership, an advisory committee made up of representatives of three Limited Partners not invested in MF III will consider the proposed investment and set the terms of the Partnership's participation. Notwithstanding an investment by the Partnership in a MF III portfolio company, any Special Income received by the Sponsor or any other affiliate of the Partnership pursuant to an agreement entered into with the portfolio company in connection with MF III's investment (a "pre-existing agreement") will be retained, distributed or otherwise handled by the Sponsor or such other affiliate in accordance with the terms of the pre-existing agreement.