MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
December 8, 1999

&

INVESTMENT ADVISORY
COUNCIL MEETING
December 7, 1999

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

	TAB
1. Approval of Minutes of September 8, 1999	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (July 1, 1999 – September 30, 1999)	A
B. Administrative Report	B
1. Reports on budget and travel	
2. Draft of FY99 Annual Report	
3. Post Retirement Benefit Increase for FY99	
4. Tentative Meeting Dates for Calendar 2000	
5. Results of FY99 Audit	
6. Litigation Update	
7. Update on tobacco information	
3. Report from the SBI Administrative Committee (C. Johnson)	C
4. Report from the Deferred Compensation Review Committee (P. Sausen)	D
5. Report from the Fixed Income Search Committee (P. Sausen)	E
6. Report from the International Search Committee (P. Sausen)	F
7. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	G
1. Review of manager performance	
2. Review the performance of the 457 plan mutual funds and fixed income option	
3. Annual review of investment manager guidelines	
4. Discussion of the bond manager search recommendations	
5. Approval to terminate Investment Advisors from the Bond Manager Program	
B. International Manager Committee	H
1. Review of manager performance	
2. Annual review of investment manager guidelines	
3. Discussion of international manager search recommendations	
C. Alternative Investment Committee	I
1. Review of current strategy	
2. Approval of a new commitment with two new private equity managers to the Post Retirement Fund: • Goldman Sachs Merchant Banking • DLJ Merchant Banking	
3. Pre-approval of follow-on investments with three existing alternative investment managers: • GTCR Fund VII for the Basic Retirement Funds • Fox Paine Capital Fund II, L.P. for the Basic Retirement Funds • Merit Energy Fund D for the Post Retirement Fund	
4. Approval of increase in investment for the Basic Retirement Funds to Citicorp Mezzanine III, L.P.	
5. Approval of increase in investment for the Basic Retirement Funds to Thoma Cressey Fund VI, L.P.	

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Minutes
State Board of Investment
September 8, 1999

The State Board of Investment (SBI) met at 9:00 A.M. Wednesday, September 8, 1999 in Room 125 State Capitol, St. Paul, Minnesota. Governor Jesse Ventura; State Auditor Judith H. Dutcher; State Treasurer Carol C. Johnson; Secretary of State Mary Kiffmeyer, and Attorney General Mike Hatch were present. The minutes of the June 15, 1999 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending June 30, 1999 (Combined Funds 13.5% vs. Inflation 3.0 %), exceeded the median fund (34th percentile) and outperformed its composite index (Combined Funds 17.6% vs. Composite 17.2%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 17.9% vs. Composite 17.7%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 17.2% vs. Composite 16.7%).

Mr. Bicker reported that the Basic Funds' assets increased 2.7% for the quarter ending June 30, 1999 due to positive investment returns. He said that the asset mix is slightly overweighted in equities and that rebalancing is currently underway. He said that the Basic Funds slightly outperformed its composite index for the quarter (Basic Funds 5.1% vs. Composite 5.0%) but had underperformed its Composite for the year (Basic Funds 11.3% vs. Composite 12.7%). He noted that the Funds had outperformed over both the three and five year periods.

Mr. Bicker reported that the Post Fund's assets increased 6.5% for the quarter ending June 30, 1999 due to positive investment returns. He said that the Post Fund asset mix is also slightly overweighted and in the process of being rebalanced. He said that the Post Fund outperformed its composite index for the quarter (Post Fund 4.9% vs. Composite 4.5%) but had underperformed its Composite for the year (Basic Funds 12.1% vs. Composite 13.2%). He noted that the Post Fund had also outperformed over both the three and five year periods.

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stocks 7.8% vs. Wilshire 5000 7.8%) but had underperformed for the year (Domestic Stocks 18.1% vs. Wilshire 5000 19.6%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks 6.1% vs. Int'l. Composite 5.1%) but had underperformed for the year (International Stocks 9.3% vs. Int'l. Composite 10.6%).

Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds -1.0% vs. Lehman Aggregate -0.9%) and year (Bonds 2.7% vs. Lehman Aggregate 3.1%) but had outperformed over longer periods. He concluded his report with the comment that as of June 30, 1999, the SBI was responsible for over $50.4 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 securities class action litigation concerning Mercury Finance Corporation. She reminded members that there are approximately $1 billion in outstanding claims. She reported that there has been a partial settlement with the company and that the settlement with the outside directors is almost completely funded now, with the exception of one director who had a net worth higher than was originally stated. She added that the arbitration that was set for November 1999 may be delayed due to a full court calendar. Ms. Eller stated that discovery is proceeding against the accountants and that initial depositions have been quite favorable, from the SBI's perspective. She noted that the SBI is entering into another period when settlement negotiations are possible.

Mr. Bicker noted that updated information on the Board's tobacco holdings could be found within Tab B.

Mr. Bicker distributed a memo to members which requested authorization for the Executive Director to negotiate and execute contracts necessary for the review and potential purchase of secondary interests in private equity investments (see **Attachment A**). Mr. Hatch moved approval of the recommendation, as stated in Attachment A. Ms. Johnson seconded the motion. The motion passed.

Domestic Manager Committee Report
Ms. Yeomans referred members to Tab D of the meeting materials and stated that two semi-passive equity managers made presentations to the Committee during the quarter regarding their process for portfolio construction and risk control. She said the managers addressed questions regarding their recent performance and their expectations going forward and she noted that no action is required at this time.

Ms. Yeomans stated that there have recently been some changes made to the 457 State Deferred Compensation Plan that are beneficial to participants. She noted that the changes include direct access to mutual funds, a single recordkeeper and a single communications provider. She added that the changes result in increased flexibility for participants and lower fees.

Ms. Yeomans stated that the Committee is recommending the termination of Credit Suisse Asset Management (formerly named BEA Associates), a fixed income manager, due to considerable portfolio manager turnover. Ms. Johnson 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 Credit

Suisse Asset Management for fixed income investment management services. The Committee also recommends that a search be initiated for an active fixed income manager." Ms. Dutcher seconded the motion. The motion passed.

Ms. Yeomans reported that the Committee is recommending approval of the investment policy for the Closed Landfill Investment Fund, which was created by the 1999 Legislature. She said that because the fund has a notably long time horizon, the Committee is recommending that the Fund be invested in the internally managed stock pool that is passively managed to track the S&P 500 index. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee report, which reads: "The Committee recommends that the SBI approve the investment of the Closed Landfill Investment Fund in the SBI's internally managed stock pool." Ms. Johnson seconded the motion. The motion passed.

Ms. Yeomans stated that the final recommendation from the Committee is for approval of the Tobacco Fund Investment Policy paper. She referred members to the policy paper included in Tab C of the meeting materials and briefly reviewed the constraints and goals of the fund established by the Legislature. Ms. Dutcher commented that given the very restrictive constraints placed on the Fund by the Legislature, that she believes the recommendation presented by staff is the only option and she moved approval of the recommendation as stated in the Committee Report, which reads: "The Committee recommends that the SBI adopt the Tobacco Fund Investment Policy Paper, which recommends an investment structure comprised of U.S. Treasury and Government Agency bonds with maturities laddered over the life of the endowment funds to be managed by SBI staff." Ms. Johnson agreed with Ms. Dutchers's comment and seconded the motion. Other members also agreed and the motion passed.

International Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that the only information item to report is that the shift of international assets from passive to active management has begun and that an active manager search is underway. She noted that a recommendation to the Board is expected for the December 1999 meeting.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that the Committee is recommending three alternative investments at this time. She said that the first is an investment for the Basic Retirement Funds with a new private equity manager, Vestar Capital Partners and she briefly described the strategy of the fund. Ms. Kiffmeyer moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in Vestar Capital Partners IV, L.P. This commitment will be allocated to the Basic Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Vestar Capital Partners, Inc. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Vestar Capital Partners, Inc. or reduction or termination of the commitment."

Ms. Yeomans said the second recommendation is an investment for the Post Retirement Fund with an existing private equity manager, Citicorp Capital Investors. She gave a brief overview of the fund's strategy and Ms. Johnson moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Citicorp Mezzanine III, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Citicorp Capital Investors, Ltd. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Citicorp Capital Investors, Ltd. or reduction or termination of the commitment." Ms. Kiffmeyer seconded the motion. The motion passed.

Ms. Yeomans reported that the final recommendation is for an investment for the Post Retirement Fund with a new private equity manager, Windjammer Capital Investors and she briefly summarized the Fund. Mr. Hatch moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in Windjammer Mezzanine and Equity Fund II, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Windjammer Capital Investors, L.L.C. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Windjammer Capital Investors, L.L.C. or reduction or termination of the commitment." Ms. Johnson seconded the motion. The motion passed.

The meeting adjourned at 9:28 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

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DATE: September 7, 1999

TO: Members, State Board of Investment

FROM: Howard Bicker

SUBJECT: Private Equity Secondary Investments

The SBI has a potential opportunity to acquire a portfolio of seasoned private equity investments. The investments may be available for purchase by the SBI at a discount of ten (10) to fifteen (15)% to their market value. To evaluate and proceed with this transaction, the Board will have to obtain a fairness opinion regarding the valuation of the investments, perform due diligence, and retain legal counsel. Therefore, it is necessary for the Board to authorize the Executive Director to negotiate the appropriate contracts to execute the acquisition of secondary private equity investments.

Recommendation:

Staff recommends that the SBI authorize the Executive Director, with the assistance of the SBI's legal counsel, to negotiate and execute contracts necessary for the review and purchase of secondary interests in private equity investments.

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING

Tuesday, December 7, 1999
2:00 P.M. - SBI Conference Room
Room 10, Capitol Professional Office Building
590 Park Street, St. Paul, MN

	TAB
1. Approval of Minutes of September 7, 1999	
2. Report from the Executive Director (H. Bicker)	
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B. Administrative Report	B
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2. Draft of FY99 Annual Report	
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5. Results of FY99 Audit	
6. Litigation Update	
7. Update on tobacco information	
3. Report from the SBI Administrative Committee (H. Bicker)	C
4. Report from the Deferred Compensation Review Committee (H. Bicker)	D
5. Report from the Fixed Income Search Committee (H. Bicker)	E
6. Report from the International Search Committee (H. Bicker)	F
7. Reports from the Investment Advisory Council	
A. Domestic Manager Committee (J. Bohan)	G
1. Review of manager performance	
2. Review the performance of the 457 plan mutual funds and fixed income option	
3. Annual review of investment manager guidelines	
4. Discussion of the bond manager search recommendations	
5. Approval to terminate Investment Advisors from the Bond Manager Program	
B. International Manager Committee (J. Mares)	H
1. Review of manager performance	
2. Annual review of investment manager guidelines	
3. Discussion of international manager search recommendations	
C. Alternative Investment Committee (K. Gudorf)	I
1. Review of current strategy	
2. Approval of a new commitment with two new private equity managers to the Post Retirement Fund: • Goldman Sachs Merchant Banking • DLJ Merchant Banking	
3. Pre-approval of follow-on investments with three existing alternative investment managers: • GTCR Fund VII for the Basic Retirement Funds • Fox Paine Capital Fund II, L.P. for the Basic Retirement Funds • Merit Energy Fund D for the Post Retirement Fund	
4. Approval of increase in investment for the Basic Retirement Funds to Citicorp Mezzanine III, L.P.	
5. Approval of increase in investment for the Basic Retirement Funds to Thoma Cressey Fund VI, L.P.	

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Minutes
Investment Advisory Council
September 7, 1999

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Doug Gorence; Ken Gudorf; P. Jay Kiedrowski; Han Chin Liu; Malcolm McDonald; Gary Norstrem; Mary Stanton, Mike Troutman; Mary Vanek; Elaine Voss and Jan Yeomans.
MEMBERS ABSENT:	Judy Mares; Daralyn Peifer and Pam Wheelock.
SBI STAFF:	Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Andy Christensen; Tammy Brusehaver-Derby; Stephanie Gleeson; Debbie Griebenow; John Griebenow; Steve Koessl; Jason Matz; Mike Menssen; Charlene Olson; and Carol Nelson.
OTHERS ATTENDING:	Ann Posey, Richards & Tierney; Christie Eller; Jake Manahan; Jennifer Mohlenhoff; Peter Sausen; Conrad deFiebre, Star Tribune; Matt Haertzen, U of M; Eugene Edie; Robert Heimerl and Dale Hanke, REAM.

The minutes of the June 1, 1999 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, 1999 (Combined Funds 13.5% vs. Inflation 3.0 %), exceeded the median fund (34^{th} percentile) and outperformed its composite index (Combined Funds 17.6% vs. Composite 17.2%) for the most recent five year period. He stated that the Basic Funds have exceeded its composite index (Basic Funds 17.9% vs. Composite 17.7%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 17.2% vs. Composite 16.7%).

Mr. Bicker reported that the Basic Funds' assets increased 2.7% for the quarter ending June 30, 1999 due to positive investment returns. He said that the asset mix is slightly overweighted in equities and that rebalancing is currently underway. He said that the Basic Funds slightly outperformed its composite index for the quarter (Basic Funds 5.1% vs. Composite 5.0%) but had underperformed its Composite for the year (Basic Funds 11.3% vs. Composite 12.7%).

Mr. Bicker reported that the Post Fund's assets increased 6.5% for the quarter ending June 30, 1999 due to positive investment returns. He said that the Post Fund asset mix is also slightly overweighted and in the process of being rebalanced. He said that the Post Fund outperformed its composite index for the quarter (Post Fund 4.9% vs. Composite 4.5%) but had underperformed its Composite for the year (Basic Funds 12.1% vs. Composite 13.2%).

Mr. Bicker reported that the domestic stock manager group matched its target for the quarter (Domestic Stocks 7.8% vs. Wilshire 5000 7.8%) but had underperformed for the year (Domestic Stocks 18.1% vs. Wilshire 5000 19.6%). He said that the International Stock manager group outperformed its composite index for the quarter (International Stocks 6.1% vs. Int'l. Composite 5.1%) but had underperformed for the year (International Stocks 9.3% vs. Int'l. Composite 10.6%).

Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds -1.0% vs. Lehman Aggregate -0.9%) and year (Bonds 2.7% vs. Lehman Aggregate 3.1%) but had outperformed over longer periods. He concluded his report with the comment that as of June 30, 1999, the SBI was responsible for over $50.4 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for current budget and travel reports. He stated that one additional item that is not included in the meeting materials would be brought before the Board for their approval. He explained that the SBI may have an opportunity to acquire a private equity portfolio and that he plans to seek Board approval to negotiate and execute contracts necessary for the review and potential purchase of these investments. In response to questions from Ms. Yeomans and Mr. Gudorf, he confirmed that the SBI is only interested in pursuing this opportunity if the entire portfolio can be purchased without broker involvement.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation concerning Mercury Finance Corporation. She said that the litigation with the company and some of its directors has been settled through the bankruptcy process. She said that accounting depositions have started and that counsel is very pleased with the depositions to date. She noted that there is another window of opportunity for settlement now that discovery has taken place.

Domestic Manager Committee Report

Mr. Bohan referred members to Tab C of the meeting materials and briefly reviewed the domestic stock and bond performance. He stated that several changes have been made to the 457 State Deferred Compensation Plan that are beneficial to participants. He said that participants now have direct access to mutual funds, that the Plan now has a single recordkeeper and a single communications provider. He added that the changes created increased flexibility for participants and lower fees and he commended Mr. Bergstrom and Mr. Bicker for accomplishing these important goals.

In response to a request from Mr. Norstrem, Mr. Bicker explained to members that since the 457 plan now has direct access to mutual funds, that the SBI will be reviewing the performance of these funds and making recommendations much the same way that we monitor and make decisions regarding investment managers.

In response to a question from Mr. Liu, Mr. Bicker confirmed that Ochs Agency and National Benefits had earlier formed a consortium to be the communications provider for the 457 plan. Mr. Bergstrom said that recently an ownership change had occurred and that Mr. Bye had bought out Mr. Ochs. He noted that many of the same staff from both organizations are still employed there and that no significant impact is expected on how they service the 457 plan participants. Mr. Bergstrom added that the 457 plan had just reached $2 billion in assets.

Mr. Bohan stated that during the quarter the Committee had heard presentations by the semi-passive stock managers, Franklin Portfolio and Barclays Global Investors. He briefly reviewed both firms' performance and noted that the purpose of the review was to give the Committee a better understanding of how each firm manages money for the SBI and to have both firms respond to questions regarding recent underperformance and their expectations going forward. He said that staff and the Committee found nothing fundamentally wrong with Franklin's approach and that Barclay's recent performance was attributed to poor stock selection. He stated that the Committee believes no action is necessary at this time.

Mr. Bohan stated that the Committee is recommending the termination of Credit Suisse Asset Management, a fixed income manager, due to considerable portfolio manager turnover. Ms. Yeomans suggested that all three Committee recommendations be considered under one motion. In response to questions from Mr. Gudorf, Mr. Bicker stated that the firm's assets will be liquidated with some of the assets being transferred to existing managers and that a search will be initiated for another fixed income manager.

Mr. Bohan continued by stating that the Committee is recommending approval of the investment policy for the Closed Landfill Investment Fund, which was created by the 1999 Legislature. He said that because of the fund's long time horizon, the Committee is recommending that the Fund be invested in the internally managed stock pool that is passively managed to track the S&P 500 index.

Mr. Bohan stated that the Committee is recommending approval of the Tobacco Fund Investment Policy paper and he referred members to page 15 of Tab C of the meeting materials. He briefly reviewed the constraints and goals of the fund established by the Legislature and noted that given those constraints, the recommendation to adopt an investment structure comprised of U.S. Treasury and Government Agency bonds with maturities laddered over the life of the endowment funds is the only prudent option available for the Fund. In response to questions from Mr. Troutman, Mr. Bicker stated given the level of current interest rates, that staff believes there is not enough additional return available from higher risk fixed income securities to warrant the additional risk. He added that the restriction of having the principal remain inviolate limited the investment options for the Fund. He noted that staff will continue to monitor the Fund with the hope of adding an equity component at some point in the future if restrictions or circumstances change. Mr. Bergstrom moved approval of all three of the Committee's recommendations, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

International Manager Committee Report

Mr. Kiedrowski referred members to Tab E of the meeting materials and stated that the shift of international assets from 50%/passive and 50%/active to one that is 33%/passive and 67% active has begun. Mr. Bicker said that an active manager search has begun and that a recommendation is expected for the December 1999 meeting. He noted that a decision about retaining Record Treasury Management will also be part of the search process. He said that the SBI will not fund any new managers approved at the December 1999 meeting until later in the first quarter of the new year in order to avoid any potential problems relating to Y2K. He added that the completeness fund rebalancing is also expected to be done at a later date for the same reason. In response to a question from Ms. Yeomans, Mr. Bicker briefly summarized the search process and who will make up the Search Committee. Mr. Kiedrowski noted that no additional action is required at this time.

In response to a question from Mr. Bohan, Mr. Kiedrowski explained that the International Committee had revised their view on currency management. He stated that originally, Record Treasury was retained to manage currency exposure to reduce the potential return volatility in the International Equity Program. He said that because international investing has become an accepted asset class in the U.S. investing community, fear that the program would be defunded for performance has diminished and the need for a currency overlay manager no longer exists. Mr. Bicker added that this is consistent with the policy paper approved by the IAC and Board last quarter. He added that Record Treasury has a systematic investment approach to hedging currencies that some people believe can add value. Mr. Kiedrowski referred members to page 13 of Tab E and stated that Record Treasury had added 2.3% since inception in December 1995, and that the Committee would be reviewing the firm to decide whether they could produce those returns through any market conditions.

In response to a question from Mr. Bohan, Mr. Bicker stated that if retained, Record Treasury Management would be funded with zero assets and measured against a zero benchmark. Mr. Bohan suggested that the International Committee discuss whether currency is an asset class and whether that asset class can add positive value over time. He added that the Committee might also want to consider other firms, in addition to Record Treasury, to manage currency.

In response to a question from Mr. Manahan, Mr. Kiedrowski stated that Record Treasury believes they can add value throughout an entire market cycle of strong and weak dollar environments. Ms. Posey clarified that Record Treasury would only add value when the dollar was strengthening. Mr. Bicker added that Record Treasury believes they would not lose money in other environments, since they basically put an option in place where they take the profits in strong dollar periods and truncate the downside in other periods leaving a net gain.

Mr. Gorence stated that the real benchmark for Record Treasury is the option equivalent of the trading that they do, and that there is not necessarily active management involved. Mr. Bicker argued that hiring Record Treasury is similar to hiring a quantitative manager in the domestic stock program. Ms. Posey disagreed, because she feels Record Treasury does not make use of forecasting in their process. Ms. Yeomans concluded that the Committee had a lot of work to do to come to resolution on currency management.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab F of the meeting materials and stated that the Committee is recommending three alternative investments at this time. He said that the first is an investment for the Basic Retirement Funds with a new private equity manager, Vestar Capital Partners, and he briefly described the strategy of the fund. He said the second recommendation is an investment for the Post Retirement Fund with an existing private equity manager, Citicorp Capital Investors, in their new mezzanine fund. He reported that the third recommendation is for an investment for the Post Fund with a new private equity manager, Windjammer Capital Investors, and he briefly summarized the Fund. Mr. McDonald moved approval of the Committee's recommendations, as stated in the Committee Report. Mr. Austin seconded the motion.

In response to questions from Mr. Troutman, Mr. Gudorf stated that the returns in the mezzanine area are still very attractive regardless of some questions involving valuations. He said that on the venture capital investing side, the SBI has done a few investments in recent years and continue to look for additional opportunities.

In response to a question from Mr. Gorence, Mr. Gudorf said that he believes Vestar's fund is larger than previous funds because they are seeing greater opportunities in the marketplace. Mr. Bicker stated that he prefers larger funds with less co-investing and more of the investment kept within the fund. The motion made earlier by Mr. McDonald regarding the approval of investments in three new alternative investment funds passed.

The meeting adjourned at 2:55 P.M.

Respectfully submitted,

Howard J. Bicker
Director Executive

Tab A

LONG TERM OBJECTIVES
Period Ending 9/30/99

COMBINED FUNDS: $38.0 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.	**12.4% (1)**	9.4 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.	**16.3% (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.	23rd percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $19.2 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.	**16.7%**	0.2 percentage point above target

POST RETIREMENT FUND: $18.8 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.	**15.9%**	0.5 percentage point above target

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

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

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1998

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

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

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

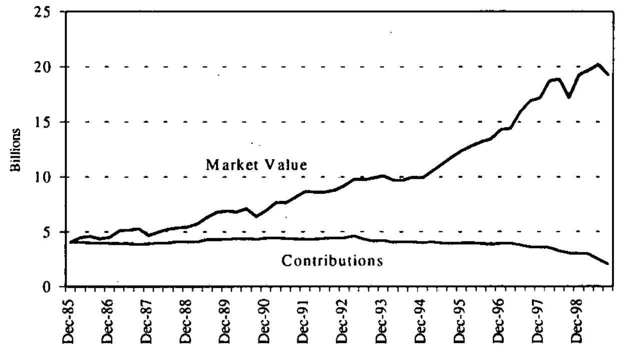
Actuarial Assumptions:

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

EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

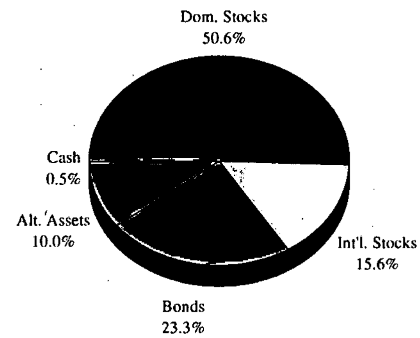
The market value of the Basic Funds decreased 4.7% during the third quarter of 1999. Negative investment returns and negative net contributions accounted for the decrease.



	Asset Growth During Third Quarter 1999 (Millions)
Beginning Value	$ 20,185
Net Contributions	-460
Investment Return	-487
Ending Value	$ 19,238

Asset Mix

The negative domestic stock return and rebalancing to bonds caused the domestic stock allocation to decline and the allocation to bonds to increase over the quarter. The positive returns in the international stock market caused its allocation to rise over the quarter.

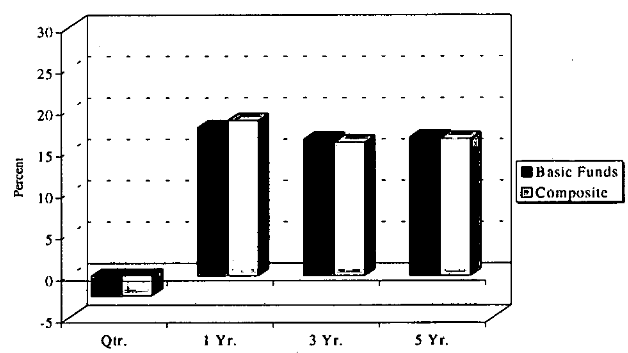


	Policy Targets	Actual Mix 9/30/99	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.6%	$9,731
Int'l. Stocks	**15.0**	15.6	3,010
Bonds	**24.0**	23.3	4,474
Alternative Assets*	**15.0**	10.0	1,926
Unallocated Cash	**1.0**	0.5	98
	100.0%	100.0%	$19,238

* 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 for the year.



Period Ending **9/30/99**

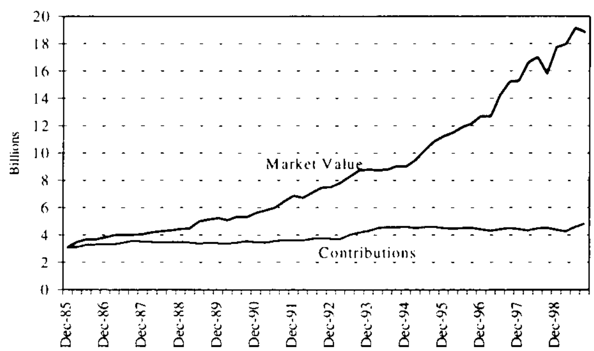
	Qtr.	1 Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basics	**-2.4%**	**17.8%**	**16.4%**	**16.7%**
Composite	-2.3	18.7	16.1	16.5

EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

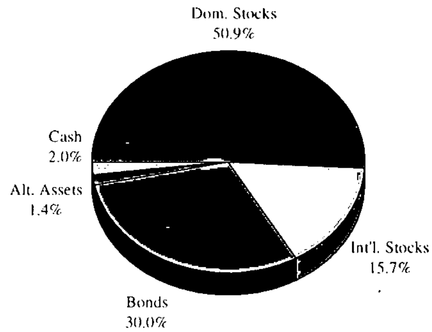
The market value of the Post Fund decreased 1.5% during the third quarter of 1999. The decrease was the result of negative investment returns. Net contributions were positive.



	Asset Growth During Third Quarter 1999 (Millions)
Beginning Value	$19,141
Net Contributions	229
Investment Return	-523
Ending Value	$18,848

Asset Mix

The negative domestic stock return and rebalancing to bonds caused the domestic stock allocation to decline and the allocation to bonds to increase over the quarter. The positive returns in the international stock market caused its allocation to rise over the quarter.

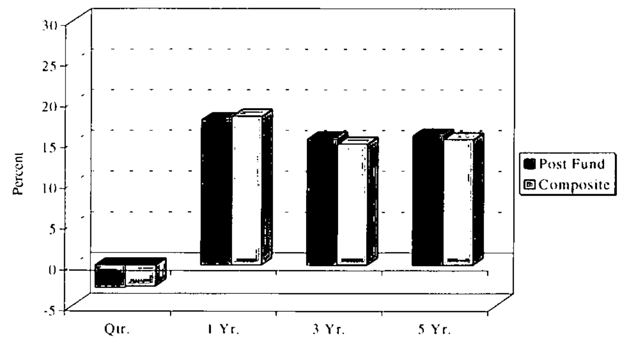


	Policy Targets	Actual Mix 9/30/99	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	50.9%	$9,591
Int'l. Stocks	**15.0**	15.7	2,960
Bonds	**27.0**	30.0	5,655
Alternative Assets*	**5.0**	1.4	262
Unallocated Cash	**3.0**	2.0	380
	100.0%	100.0%	$18,848

* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

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



Period Ending 9/30/99

	Qtr.	1 Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Post	**-2.7%**	**17.8%**	**15.5%**	**15.9%**
Composite	-2.6	18.3	14.9	15.4

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

Domestic Stocks

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

	Period Ending 9/30/99		Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	**-6.4%**	**25.9%**	**22.1%**	**22.5%**
Wilshire 5000	-6.6	26.9	21.9	22.7

International Stocks

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

	Period Ending 9/30/99		Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Int'l. Stocks	**2.5%**	**31.8%**	**10.2%**	**9.6%**
Composite Index*	3.4	34.5	8.7	8.1

* The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio began transitioning from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

Bonds

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

	Period Ending 9/30/99		Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	**0.7%**	**-0.1%**	**7.1%**	**8.1%**
Lehman Agg.	0.7	-0.4	6.8	7.8

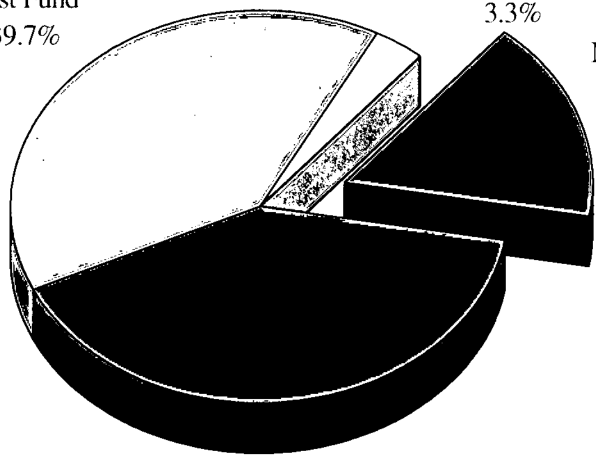
Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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

EAFE-Free: The Morgan Stanley Capital International index of 21 stock markets in Europe, Australasia 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 25 markets in developing countries throughout the world.

EXECUTIVE SUMMARY
Funds Under Management



	9/30/99 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$19.2
Post Retirement Fund	18.8
Supplemental Investment Fund	1.6
Non Retirement Funds*	
Assigned Risk Plan	0.7
Permanent School Fund	0.5
Environmental Trust Fund	0.3
Tobacco Prevention Fund	0.3
Medical Education Fund	0.2
State Cash Accounts	5.9
Total	$47.5

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Third Quarter 1999
(July 1, 1999 - September 30, 1999)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 9/30/99				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	-6.6%	26.9%	21.9%	22.7%	15.7%
Dow Jones Industrials	-5.4	34.0	22.8	24.4	17.4
S&P 500	-6.2	27.8	25.2	25.1	16.9
Russell 2000	-6.3	19.1	8.7	12.4	10.9
Domestic Fixed Income					
Lehman Aggregate*	0.7	-0.4	6.8	7.8	8.1
Lehman Gov't./Corp.	0.5	-1.6	6.8	7.8	8.1
90 Day U.S. Treasury Bills	1.2	4.7	5.1	5.2	5.2
International					
EAFE**	4.4	31.0	10.4	9.1	5.8
Emerging Markets Free***	-5.2	56.5	-4.5	-5.5	9.4
Salomon Non U.S. Gov't. Bond	6.1	1.5	3.6	6.4	9.0
Inflation Measure					
Consumer Price Index****	1.0	2.6	2.1	2.4	3.0

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market, as represented by the Wilshire 5000, lost 6.6% in the third quarter. After underperforming during the second quarter, growth outperformed value. However, in a continuation of the second quarter, small cap stocks, both growth and value, outperformed large cap. In addition, the third quarter saw substantial losses in the healthcare and financial sectors, whereas technology was again an outperformer.

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

Large Value	-10.0%
Small Value	-9.2
Large Growth	-3.3
Small Growth	-3.0

The Wilshire 5000 increased 26.9% for the year ending September 30, 1999.

DOMESTIC BONDS

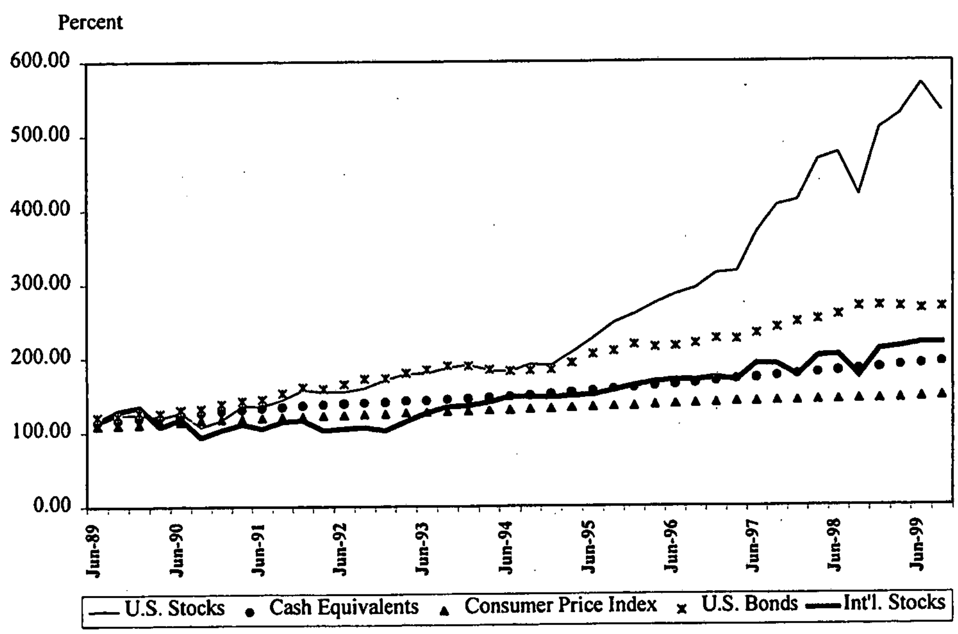
The bond market generated positive returns for the quarter. Mortgages were the best performing sector, benefiting from a decline in volatility during the month of September. Corporate debt was the worst performing sector, as heavy corporate issuance placed supply pressure on the market and caused yield spreads to widen during the quarter.

Overall, the Lehman Brothers Aggregate Bond Index increased 0.7% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	0.7%
Corporates	0.3
Mortgages	0.9

The Lehman Aggregate decreased –0.4% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



Indices used are: Morgan Stanley's Index of Europe, Australasia and the Far East (EAFE); Wilshire 5000 Stock Index; Lehman Brothers Aggregate Bond Index; 3 month 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 4.4% for the quarter. Performance of the major markets is shown below:

Japan	15.8%
United Kingdom	-0.5
Germany	-1.2
France	5.3

The EAFE-Free index increased by 30.8% 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, Australasia and the Far East (EAFE), adjusted for free-float. The major markets listed above comprise about 67% 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 –5.2% for the quarter. The performance of the five largest stock markets in the index is show below:

Korea	-9.6%
Taiwan	-7.7
South Africa	-3.0
Mexico	-13.7
India	21.2

The Emerging Markets Free index had a return of 56.5% for the year.

The Emerging Markets Free index is compiled by MSCI and measures performance of 25 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 58% of the value of the index.

REAL ESTATE

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

PRIVATE EQUITY

U.S. private equity firms raised an unprecedented $85.3 billion for private equity limited partnerships of all types, from venture capital to buyouts in 1998. The first three quarters of 1999 saw $50.3 billion raised, compared with $55.6 billion raised in the first three quarters of 1998.

RESOURCE FUNDS

During the third quarter of 1999, West Texas Intermediate crude oil averaged $21.71 per barrel compared to an average price of $17.65 per barrel during the second quarter of 1999. With the low oil prices over the past year, oil companies are cautiously drilling for oil and gas.

COMBINED FUNDS

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

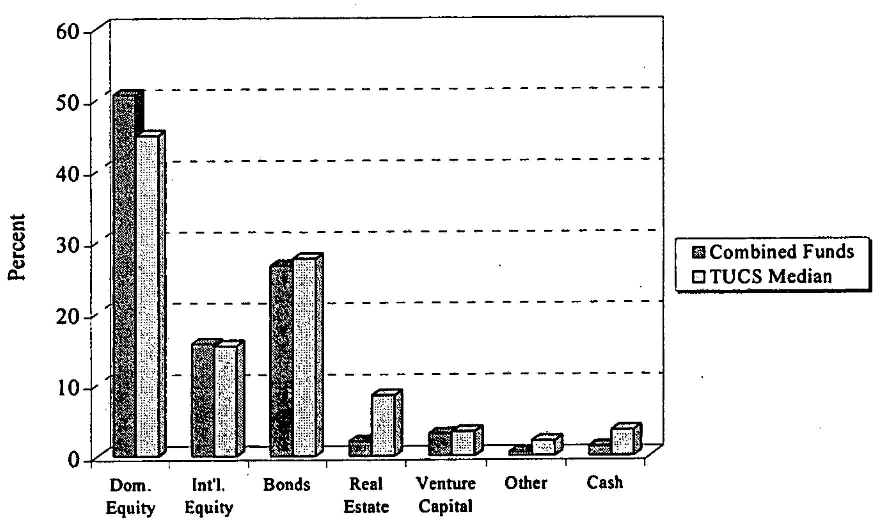
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

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

	$ Millions	%
Domestic Stocks	$19,322	50.7%
International Stocks	5,970	15.7
Bonds	10,129	26.6
Alternative Assets	2,187	5.7
Unallocated Cash	478	1.3
Total	$38,086	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:



	Dom. Equity	Int'l Equity	Bonds	Real Estate	Venture Capital	Other	Cash
Combined Funds	50.7%	15.7%	26.6%	2.1%	3.1%	0.5%	1.3%
Median Allocation in TUCS*	51.6	13.7	27.6	1.9	3.6	2.1	3.6

* 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:

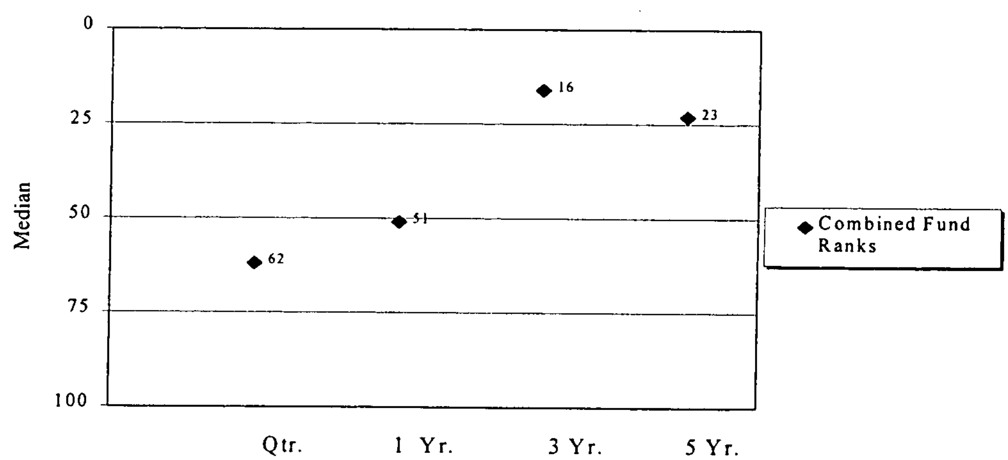
— **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports 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 9/30/99			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	62nd	51st	16th	23rd

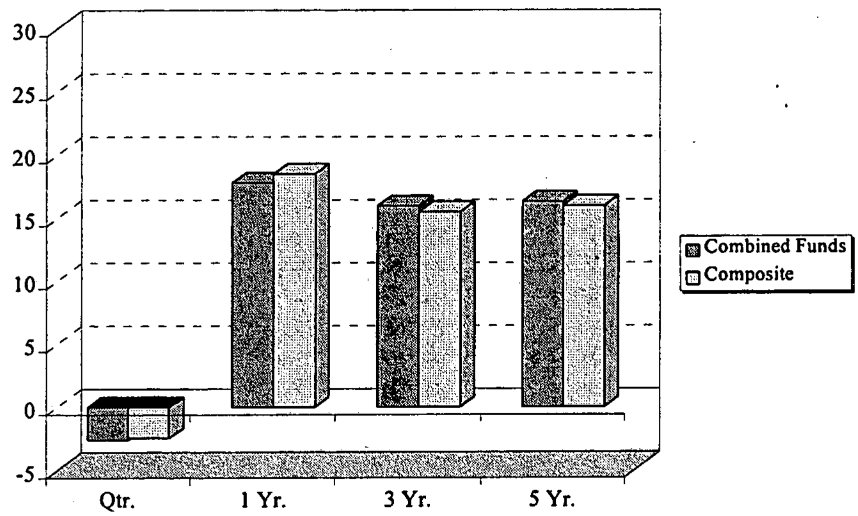
* Compared to public and corporate plans greater than $1 billion, gross of fees.

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Funds Composite* 3Q99
Domestic Stocks	Wilshire 5000	50.5%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.3*
Alternative Assets	Real Estate Funds	2.0*
	Venture Capital Funds	2.8*
	Resource Funds	0.4*
Unallocated Cash	3 Month T-Bills	2.0
		100.0%

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



Period Ending 9/30/99

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	-2.6%	17.8%	16.0%	16.3%
Composite Index	-2.4	18.5	15.5	16.0

**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

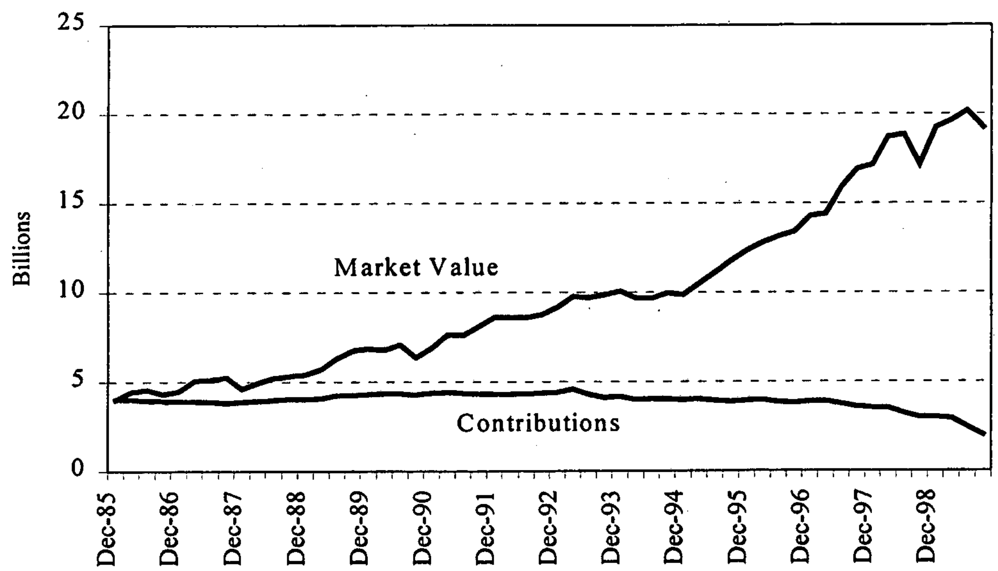
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 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 4.7% during the third quarter of 1999. Negative investment returns and negative net contributions accounted for the decrease during the quarter.



Last Five Years
In Millions

	12/94	12/95	12/96	12/97	12/98	3/99	6/99	Latest Qtr. 9/99
Beginning Value	$10,086	$9,890	$12,338	$14,275	$17,146	$19,244	$19,646	$20,185
Net Contributions	-206	-29	-59	-337	-539	-72	-472	-460
Investment Return	10	2,477	1,996	3,208	2,637	474	1,010	-487
Ending Value	$9,890	$12,338	$14,275	$17,146	$19,244	$19,646	$20,185	$19,238

BASIC RETIREMENT FUNDS
Asset Mix

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

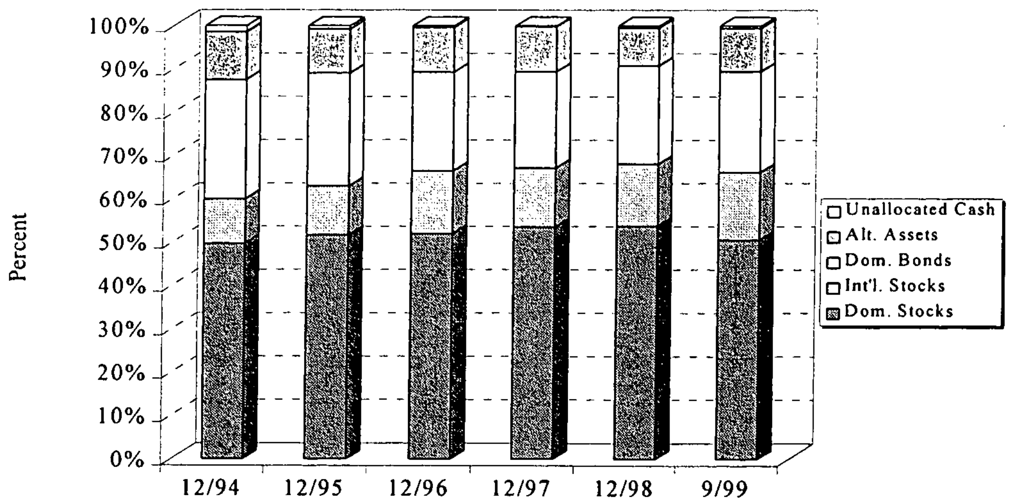
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

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

During the last quarter, the negative domestic stock return and rebalancing to bonds caused the domestic stock allocation to decline and the allocation to bonds to increase. The positive return in the international stock market caused its allocation to rise.



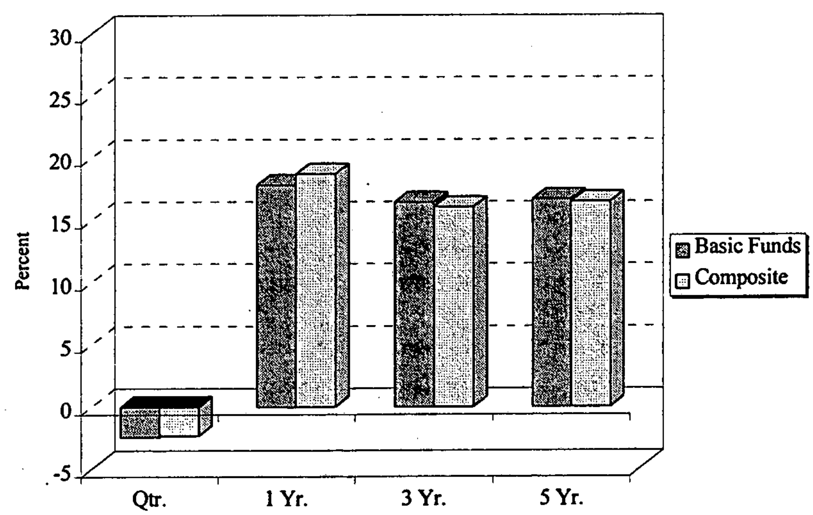
	Last Five Years							Latest Qtr.
	12/94	12/95	12/96	12/97	12/98	3/99	6/99	9/99
Domestic Stocks	49.7%	51.7%	52.0%	53.6%	53.8%	54.2%	54.5%	50.6%
Int'l. Stocks	10.3	11.3	14.5	13.6	14.4	14.5	14.7	15.6
Bonds	27.5	26.1	22.8	22.2	22.6	22.1	20.8	23.3
Real Estate	4.6	4.1	3.9	4.1	3.7	3.6	3.6	3.8
Private Equity	5.6	5.4	5.5	5.0	4.4	4.9	4.7	5.3
Resource Funds	0.9	0.7	1.0	1.4	0.7	0.5	0.7	0.9
Unallocated Cash	1.4	0.7	0.3	0.1	0.4	0.2	1.0	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 3Q99
Domestic Stocks	45.0%	Wilshire 5000	51.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	3.6*
		Private Equity Funds	4.7*
		Resource Funds	.7*
Unallocated Cash	1.0	3 Month T-Bills	1.0
	100.0%		100.0%

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



Period Ending 9/30/99

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Basic Funds**	**-2.4%**	**17.8%**	**16.4%**	**16.7%**
Composite Index	-2.3	18.7	16.1	16.5

**Returns are reported net of fees.

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

POST RETIREMENT FUND

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

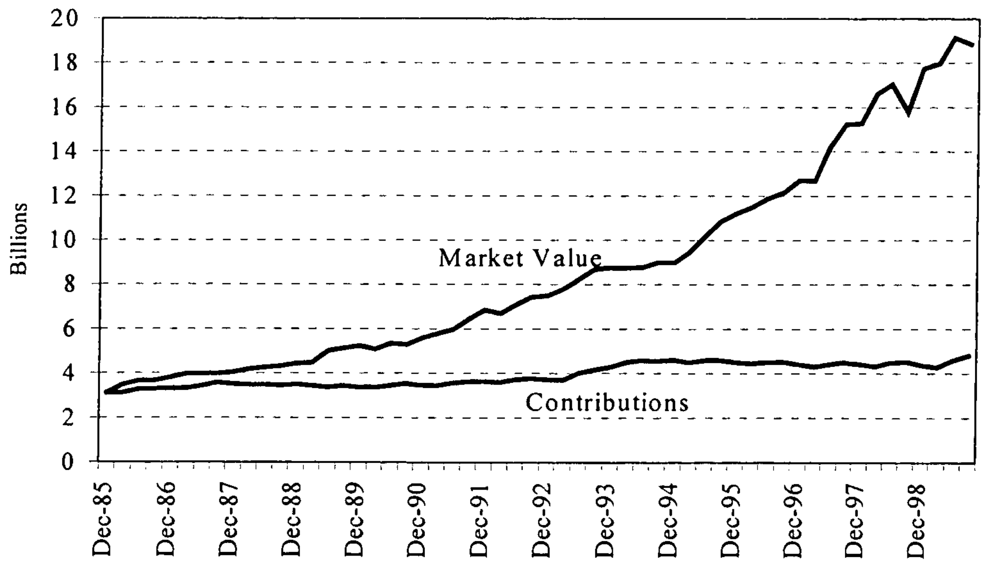
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Retirement Fund decreased by 1.5% during the third quarter of 1999.

The decrease was the result of negative investment returns. Net contributions were positive.



Last Five Years
In Millions

	12/94	12/95	12/96	12/97	12/98	3/99	6/99	Latest Qtr. 9/99
Beginning Value	$8,766	$9,001	$11,216	$12,705	$15,273	$17,743	$17,970	$19,141
Net Contributions	314	-102	-94	23	-45	-107	304	229
Investment Return	-79	2,317	1,583	2,545	2,515	334	868	-523
Ending Value	$9,001	$11,216	$12,705	$15,273	$17,743	$17,970	$19,141	$18,848

POST RETIREMENT FUND
Asset Mix

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

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

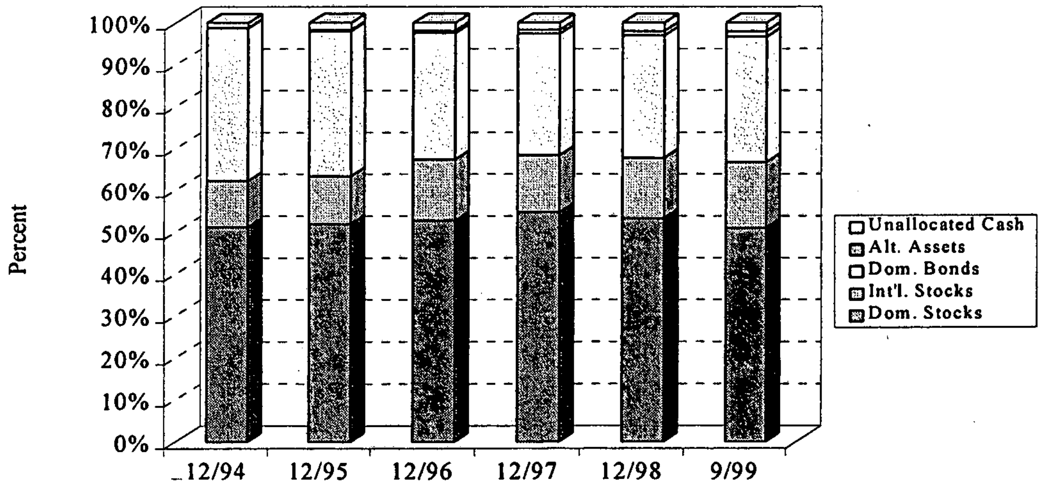
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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

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

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

During the last quarter, the negative domestic stock return and rebalancing to bonds caused the domestic stock allocation to decline and the allocation to bonds to increase. The positive return in the international stock market caused its allocation to rise.



	Last Five years							Latest Qtr.
	12/94	**12/95**	**12/96**	**12/97**	**12/98**	**3/99**	**6/99**	**9/99**
Dom. Stocks	51.2%	51.9%	52.7	54.7%	53.2%	53.9%	54.1%	50.9%
Int'l. Stocks	11.0	11.4	14.6	13.6	14.5	14.6	14.9	15.7
Bonds	36.5	34.7	30.2	29.1	29.2	28.8	27.3	30.0
Alt. Assets	0.1	0.2	0.6	0.9	1.1	1.2	1.3	1.4
Unallocated Cash	1.2	1.8	1.9	1.7	2.0	1.5	2.4	2.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

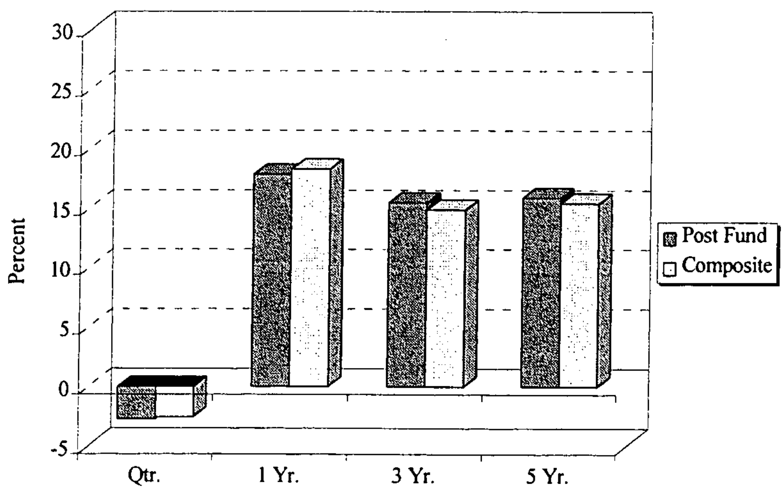
POST RETIREMENT FUND
Total Fund Performance (Net of Fees)

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* 3Q99
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	30.7*
Alternative Assets	5.0	Real Estate Funds	0.4*
		Private Equity Funds	0.7*
		Resource Funds	0.2*
Unallocated Cash	3.0	3 Month T-Bills	3.0
	100.0%		100%

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

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



Period Ending 9/30/99

	Qtr.	1 Yr.	Annualized 3 Yr.	5 Yr.
Post Fund**	**-2.7%**	**17.8%**	**15.5%**	**15.9%**
Composite Index	-2.6	18.3	14.9	15.4

** 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.

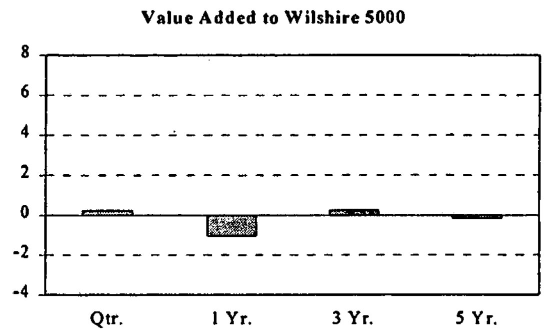
STOCK AND BOND MANAGERS
Performance of Asset Pools (Net of Fees)

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 9/30/99

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Stock Pool	**-6.4%**	**25.9%**	**22.1%**	**22.5%**
Wilshire 5000	-6.6	26.9	21.9	22.7

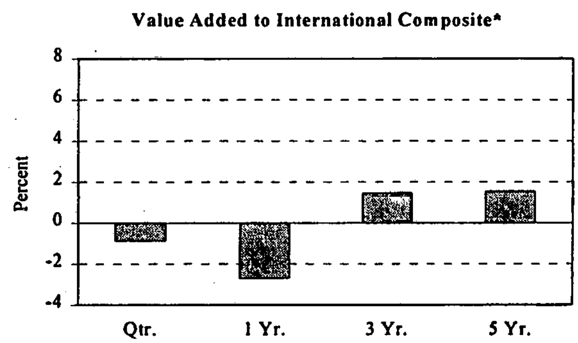


International Stock Pool

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

Period Ending 9/30/99

			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yrs.
Int'l. Pool	**2.5%**	**31.8%**	**10.2%**	**9.6%**
Composite Index*	3.4	34.5	8.7	8.1



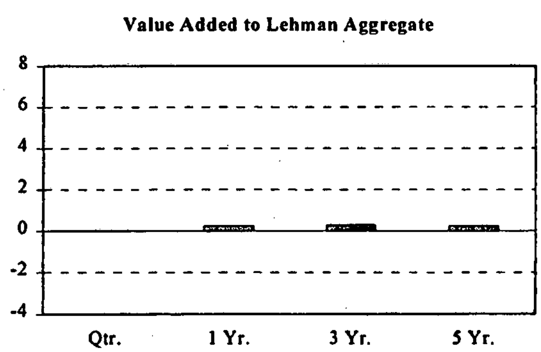
* The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

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 9/30/99

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Bond Pool	**0.7%**	**-0.1%**	**7.1%**	**8.1%**
Lehman Agg.	0.7	-0.4	6.8	7.8



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools (Net of Fees)

Real Estate Pool (Basic Funds only)

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

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

	Period Ending 9/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	-0.8%	7.8%	16.4%	11.8%
Inflation	1.0	2.6	2.1	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 9/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	7.1%	5.9%	24.4%	25.2%

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 9/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	8.8%	-16.4%	8.7%	12.0%

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 9/30/99			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Yield Oriented	3.1%	8.2%	12.6%	12.2%

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.

On September 30, 1999 the market value of the entire Fund was $1.6 billion.

Investment Options

	9/30/99 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$610
Growth Share Account – an actively managed, all common stock portfolio.	$302
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$367
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$27
Bond Market Account – an actively managed, all bond portfolio.	$94
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$91
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	$89

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.

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Period Ending 9/30/99		Annualized		
Total Account	**-3.8%**	**16.1%**	**16.4%**	**17.0%**
Composite*	-3.7	15.8	15.9	16.7

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

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%	60.4%
Bonds	35.0	36.0
Unallocated Cash	5.0	3.6
	100.0%	100.0%

GROWTH SHARE ACCOUNT

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Period Ending 9/30/99		Annualized		
Total Account	**-6.3%**	**25.2%**	**22.0%**	**22.2%**
Composite*	-6.6	26.9	21.8	22.3

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.

* 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.

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Period Ending 9/30/99		Annualized		
Total Account	**-6.5%**	**27.3%**	**22.3%**	**22.8%**
Wilshire 5000	-6.6	26.9	21.9	22.7

The Account is invested 100% in common stock.

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 21 markets included in the Morgan Capital International index of Europe, Australasia 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.

	Qtr.	1 Yr.	3 Yr.	5 Yrs.
Period Ending 9/30/99		Annualized		
Total Account	**2.5%**	**31.9%**	**10.2%**	**9.6%**
Composite*	3.4	34.5	8.7	8.1

* The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% EMF. On 5/1/96 the portfolio began transitioning from 100% EAFE Free to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

	Period Ending 9/30/99			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**0.7%**	**-0.1%**	**7.1%**	**8.2%**
Lehman Agg.	0.7	-0.4	6.8	7.8

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

MONEY MARKET ACCOUNT

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

	Period Ending 9/30/99			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.3%**	**5.2%**	**5.5%**	**5.6%**
3 month T-Bills	1.2	4.7	5.1	5.2

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

FIXED INTEREST ACCOUNT

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

	Period Ending 9/30/99			
		Annualized		
				Since
	Qtr.	1 Yr.	3 Yr.	11/1/94
GIC Pool	1.5%	6.2%	6.4%	6.6%

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

ASSIGNED RISK PLAN

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

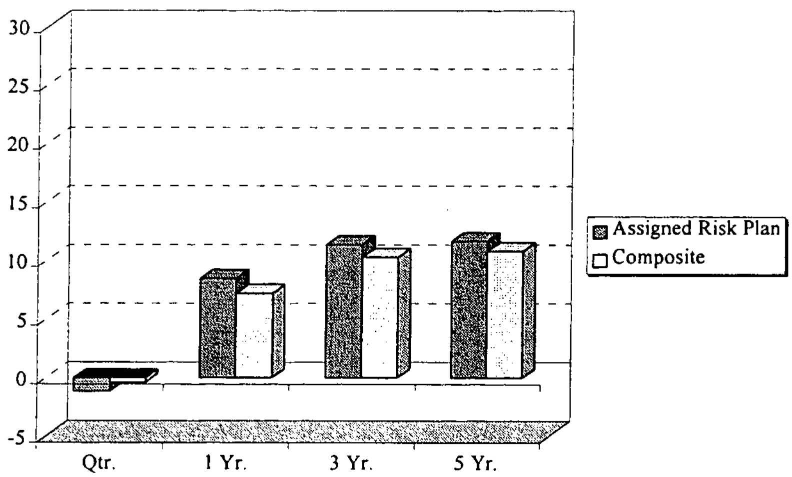
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	9/30/99 Target	9/30/99 Actual
Stocks	20.0%	29.8%
Bonds	80.0	70.2
Total	100.0%	100.0%

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

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

Market Value
On September 30, 1999 the market value of the Assigned Risk Plan was $721 million.



Period Ending 9/30/99

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Fund*	-1.2%	8.5%	11.4%	11.7%
Composite	-0.4	7.2	10.3	10.8
Equity Segment*	-6.0	29.1	25.3	24.8
Benchmark	-6.2	27.8	25.2	25.1
Bond Segment*	1.0	1.8	6.5	7.4
Benchmark	1.1	2.4	6.6	7.3

* 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.

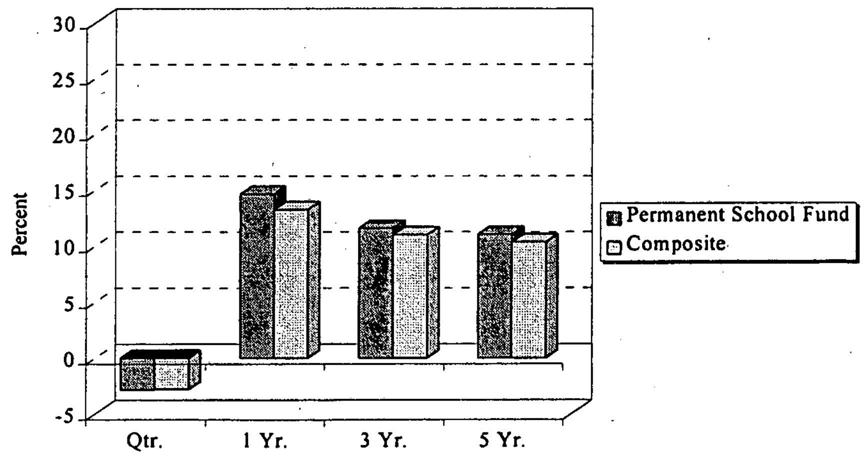
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	9/30/99 Target	9/30/99 Actual
Stocks	50.0%	49.2%
Bond	48.0	49.2
Unallocated Cash	2.0	1.6
	100.0%	100.0%

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

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

Market Value
On September 30, 1999 the market value of the Permanent School Fund was $541 million.



Period Ending 9/30/99

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	**-2.9%**	**14.6%**	**11.6%**	**11.0%**
Composite	-2.8	13.3	11.0	10.4
Equity Segment (1) (2)	**-6.2**	**28.0**	**N/A**	**N/A**
S&P 500	-6.2	27.8	N/A	N/A
Bond Segment (1)	**0.6**	**0.3**	**7.2**	**8.7**
Lehman Aggregate	0.7	-0.4	6.8	7.8

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

ENVIRONMENTAL TRUST FUND

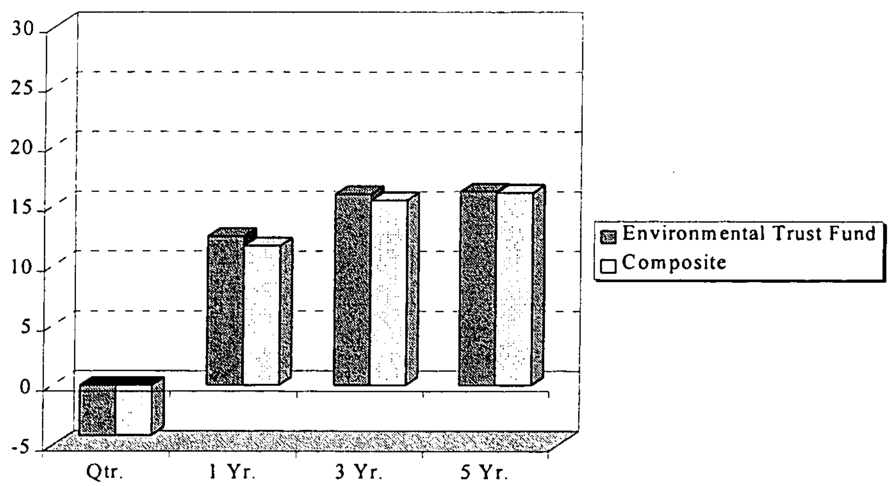
Investment Objective
The objective of the Environmental Trust Fund is to increase the market value of the Fund over time in order to increase the annual amount made available for spending.

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

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

Market Value
On September 30, 1999 the market value of the Environmental Trust Fund was $281 million.

	9/30/99 Target	9/30/99 Actual
Stocks	70.0%	68.5%
Bonds	28.0	30.8
Unallocated Cash	2.0	0.7
	100.0%	100.0%



	Period Ending 9/30/99			
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Fund*	-4.2%	12.4%	16.0%	16.2%
Composite	-4.1	11.7	15.5	16.1
Equity Segment*	-6.2	28.1	25.3	25.1
S&P 500	-6.2	27.8	25.2	25.1
Bond Segment*	0.6	0.3	7.6	8.3
Lehman Agg.	0.7	-0.4	6.8	7.8

* Actual returns are calculated net of fees.

TOBACCO ENDOWMENT FUNDS

Investment Objectives
The investment objectives of the two Tobacco Endowment Funds, the Tobacco Prevention Fund (TPF) and the Medical Education Fund (MEF), are governed primarily by the constraints and goals for the Funds as established by statute. Annual earnings up to five percent of the market value of the Funds, measured each year at the beginning of the fiscal year for the Tobacco Prevention Fund and measured at the beginning of each quarter for the Medical Education Fund, may be distributed for expenditure. In addition, the principal of the Funds must remain inviolate and be returned to the State's general fund along with any remaining interest upon expiration of the Funds on June 30, 2015. The distributions from the TPF are used by the Commissioner of Health to fund public health initiatives. The distributions from the MEF are used for medical education at the University of Minnesota medical school.

Asset Mix
Effective July 1, 1999, the two endowment funds are invested in a laddered fixed income portfolio. This strategy offers the highest probability that the endowment funds will earn five percent annually while keeping the principal inviolate.

Investment Management
SBI staff manages all assets of the two endowment funds. The fixed income portfolio is invested entirely in U.S. Treasury and Government Agency bonds with maturities no greater than the expiration date of the funds. The maturities of the bonds are spread out over the entire life of the endowment funds. This strategy will minimize reinvestment risk and fluctuations in the market values of the funds while adhering to the investment objectives.

Market Value
On September 30, 1999 the market value of the Tobacco Prevention Fund was $282.3 million and the market value of the Medical Education Fund was $181.5 million.

Period Ending 9/30/99

Current Annualized Yield:	Tobacco Prevention Fund	6.16 %
	Medical Education Fund	6.20
Market Value of Funds as of the **beginning** of the current quarter (millions):	Tobacco Prevention Fund	$281.1
	Medical Education Fund	181.4

ANNUAL DATA: TOBACCO ENDOWMENT FUNDS

	Annualized Yield:	Market Value at beginning of FY (millions):	Spendable Earnings Credited from the Fund (millions):
FY99:			
(TPF)	**6.16 %**	**$281.1**	**N/A**
(MEF)	**6.20**	**181.4**	**$2.3**

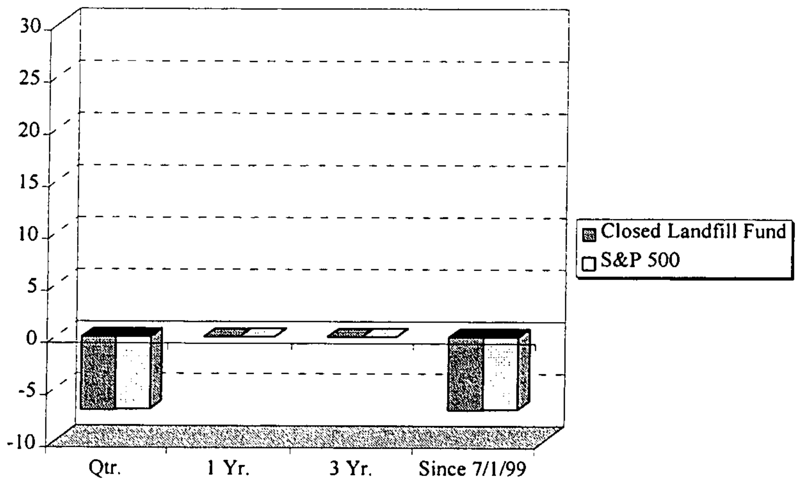
CLOSED LANDFILL INVESTMENT FUND

Investment Objectives
The investment objective of the Closed Landfill Investment Fund is to generate high returns from capital appreciation. The Fund will be used by the Commissioner of the PCA (Pollution Control Agency) to pay for the long-term costs of maintaining the integrity of landfills in Minnesota once they are closed. However, by statute, the assets of the Fund are unavailable for expenditure until after fiscal year 2020.

Asset Mix
Effective July, 1999, the Closed Landfill Investment Fund is invested entirely in common stock. Given the long time horizon of this Fund and the lack of need for any short or mid-term withdrawals, this strategy will maximize the long-term gain of the Fund.

Investment Management
SBI staff manage all assets of the Closed Landfill Investment Fund. The assets are managed to passively track the performance of the S&P 500 index.

Market Value
On September 30, 1999 the market value of the Closed Landfill Investment Fund was $4.8 million.



	Period Ending 9/30/99			
	Qtr.	**1 Yr.**	**3 Yr.**	**Since 7/1/99**
Total Fund (1)	-7.0%	N/A	N/A	-7.0
S&P 500 (2)	-6.9	N/A	N/A	-6.9

(1) Actual returns are calculated net of fees.
(2) The benchmark of the fund is the S&P 500. The portfolio was initially invested in mid July 1999. The benchmark was adjusted to reflect this mid month starting period.

STATE CASH ACCOUNTS

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

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

1. Trust Fund Pool contains the temporary cash balances of certain trusts and retirement-related accounts.

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

In addition, each State of Minnesota bond sale requires two additional pools; one for bond proceeds and one for the debt reserve transfer.

Because of special legal restrictions, a small number of cash accounts cannot be commingled. These accounts are invested separately.

Investment Objectives
Safety of Principal. To preserve capital.

Competitive Rate of Return. To provide a high level of current income.

Liquidity. To meet cash needs without the forced sale of securities at a loss.

Asset Mix
The SBI maximizes current income while preserving capital by investing all cash accounts in high quality, liquid short term investments. These include U.S. Treasury and Agency issues, repurchase agreements, bankers acceptances, commercial paper, and certificates of deposit.

Investment Management
All state cash accounts are managed by the SBI investment staff. As noted above, most of the assets of the cash accounts are invested through two large commingled investment pools.

		Period Ending 9/30/99		Annualized	
	Market Value (Millions)	Qtr.	Yr.	3 Yr.	5 Yr.
Treasurer's Cash Pool*	**$4,919**	1.5%	4.9%	5.5%	5.7%
Custom Benchmark**		1.2	4.3	5.1	5.5
Trust Fund Cash Pool*	47	1.3	5.1	5.5	5.7
Custom Benchmark***		1.1	4.6	5.0	5.5
3 month T-Bills		1.2	4.7	5.1	5.2

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT

Composition of State Investment Portfolios By Type of Investment

Market Value September 30, 1999 (in Thousands)

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	37,225 0.49%	-0-	1,784,493 23.26%	-0-	3,881,123 50.59%	1,200,525 15.65%	768,115 10.01	7,671,481 100%
Public Employees Retirement Fund	23,489 0.54%	-0-	1,020,847 23.28%	-0-	2,217,239 50.56%	686,255 15.65%	437,333 9.97%	4,385,163 100%
State Employees Retirement Fund	22,449 0.54%	-0-	966,481 23.22%	-0-	2,104,240 50.57%	650,675 15.64%	417,577 10.03	4,161,422 100%
Public Employees Police & Fire Fund	13,045 0.52%	-0-	578,977 23.26%	-0-	1,258,820 50.56%	389,337 15.64%	249,439 10.02	2,489,618 100%
Highway Patrol Retirement Fund	7 0.00%	-0-	60,348 23.32%	-0-	131,714 50.90%	40,690 15.73%	25,994 10.05	258,753 100%
Judges Retirement Fund	123 0.54%	-0-	5,347 23.28%	-0-	11,614 50.56%	3,595 15.65%	2,291 9.97%	22,970 100%
Correctional Employees Retirement	1,331 0.54%	-0-	57,879 23.28%	-0-	125,711 50.56%	38,909 15.65%	24,796 9.97%	248,626 100%
TOTAL BASIC FUNDS	97,669 0.51%	-0-	4,474,372 23.26%	-0-	9,730,461 50.58%	3,009,986 15.64%	1,925,545 10.01	19,238,033 100%
POST RETIREMENT FUND	380,177 2.02%	-0-	5,654,655 30.00%	-0-	9,590,884 50.88%	2,960,248 15.71%	261,833 1.39%	18,847,797 100%
TOTAL BASIC & POST	477,846 1.25%	-0-	10,129,027 26.60%	-0-	19,321,345 50.73%	5,970,234 15.68%	2,187,378 5.74%	38,085,830 100%

	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	22,375 3.67%	219,377 35.95%	-0-	-0-	368,453 60.38%	-0-	-0-	610,205 100%
Growth Share Account	-0-	-0-	-0-	-0-	301,577 100%	-0-	-0-	301,577 100%
Money Market Account	24,463 100%	-0-	-0-	-0-	-0-	-0-	-0-	24,463 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	367,500 100%	-0-	-0-	367,500 100%
Bond Market Account	-0-	-0-	93,938 100%	-0-	-0-	-0-	-0-	93,938 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	26,636 100%	-0-	26,636 100%
Fixed Interest Account	780 0.88%	-0-	88,081 99.12%	-0-	-0-	-0-	-0-	88,861 100%
Money Market Deferred Comp	66,243 100%	-0-	-0-	-0-	-0-	-0-	-0-	66,243 100%
TOTAL SUPPLEMENTAL FUNDS	113,861 7.21%	219,377 13.89%	182,019 11.52%	-0-	1,037,530 65.69%	26,636 1.69%	-0-	1,579,423 100%
TOTAL RETIREMENT FUNDS	591,707 1.49%	219,377 0.55%	10,311,046 26.00%	-0-	20,358,875 51.33%	5,996,870 15.12%	2,187,378 5.51%	39,665,253 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	12,329 1.71%	-0-	496,793 68.90%	-0-	211,861 29.39%	-0-	-0-	720,983 100%
ENVIRONMENTAL FUND	1,136 0.40%	86,926 30.97%	-0-	192,645 68.63%	-0-	-0-	-0-	280,707 100%
PERMANENT SCHOOL FUND	7,211 1.33%	267,217 49.44%	-0-	266,100 49.23%	-0-	-0-	-0-	540,528 100%
TOBACCO SETTLEMENT POOL	-0-	463,812 100%	-0-	-0-	-0-	-0-	-0-	463,812 100%
CLOSED LANDFILL INVESTMENT	-0-	-0-	-0-	4,782 100%	-0-	-0-	-0-	4,782 100%
TREASURERS CASH	4,936,962 100%	-0-	-0-	-0-	-0-	-0-	-0-	4,936,962 100%
HOUSING FINANCE AGENCY	43,948 16.68	219,588 83.32%	-0-	-0-	-0-	-0-	-0-	263,536 100%
MINNESOTA DEBT SERVICE FUND	96,532 41.28%	137,322 58.72%	-0-	-0-	-0-	-0-	-0-	233,854 100%
MISCELLANEOUS ACCOUNTS	251,834 59.83%	138,229 32.84%	-0-	30,833 7.33%	-0-	-0-	-0-	420,896 100%
GRAND TOTAL	5,941,659 12.50%	1,532,471 3.22%	10,807,839 22.74%	494,360 1.04%	20,570,736 43.28%	5,996,870 12.62%	2,187,378 4.60%	47,531,313 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 30, 1999

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A report on the SBI's administrative budget for the period ending October 31, 1999 is included as **Attachment A.**

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

2. Draft of FY99 Annual Report

A draft of the SBI's annual report for FY99 was sent to Board members/designees and IAC members in late November. The final report will be distributed in January 2000.

3. Post Retirement Benefit Increase for FY99

The Post Retirement benefit increase for FY99 will be 11.1436%. The increase will be payable to eligible retirees effective January 1, 2000.

This is the seventh 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 1999, the "inflation cap" is 2.5%. Following are benefit increases since 1988:

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%
1999*	11.1%

* Benefit increase granted under new formula.

4. Tentative Meeting Dates for Calendar 2000

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 2000 are:

IAC	SBI
Tuesday, March 7, 2000	Wednesday, March 8, 2000
Tuesday, June 6, 2000	Wednesday, June 7, 2000
Tuesday, September 5, 2000	Wednesday, September 6, 2000
Tuesday, December 5, 2000	Wednesday, December 6, 2000

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

5. Results of FY99 Audit

The Legislative Auditor is nearly finished with its financial audit of SBI operations for FY99. I should be able to provide a verbal report of the audit findings at the Board meeting on December 8th.

6. 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 8, 1999.

7. Update on Tobacco Information

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

From June 30, 1999 to September 30, 1999 shares in SBI active stock portfolios were reduced by 819,700 shares, dropping from approximately 3.1 million shares to approximately 2.3 million shares. The market value of these holdings decreased from approximately $105 million to slightly more than $66 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment C**.

ATTACHMENT A

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

ITEM	FISCAL YEAR 2000 BUDGET	FISCAL YEAR 2000 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,812,000	$ 457,726
SEVERENCE PAYOFF	30,000	0
WORKERS COMPENSATION INSURANCE	1,000	142
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,844,000**	**$ 457,868**
STATE OPERATIONS		
RENTS & LEASES	126,000	54,529
REPAIRS/ALTERATIONS/MAINTENANCE	30,000	5,243
PRINTING & BINDING	20,000	6,470
PROFESSIONAL/TECHNICAL SERVICES	35,000	1,564
COMPUTER SYSTEMS SERVICES	0	0
COMMUNICATIONS	30,000	5,704
TRAVEL, IN-STATE	3,000	155
TRAVEL, OUT-STATE	65,000	16,795
SUPPLIES	50,000	11,557
EQUIPMENT	50,000	30,115
EMPLOYEE DEVELOPMENT	15,000	7,320
OTHER OPERATING COSTS	42,000	509
SUBTOTAL	**$ 466,000**	**$ 139,961**
TOTAL GENERAL FUND	**$ 2,310,000**	**$ 597,829**

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STATE BOARD OF INVESTMENT

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

Purpose	Name (s)	Destination and Date	Total Cost
Manager Monitoring Domestic Stock Manager: Brinson Partners **Manager Monitoring International Manager:** Brinson Partners **Manager Monitoring Domestic Fixed Income Manager:** Lincoln Capital Mgmt. **Consultant:** Richards & Tierney	M. Perry	Chicago, IL 8/11-8/13	$1,281.64
Manager Monitoring Alternative Investment Managers: State Street, Summit Partners	A. Christensen	Boston, MA 8/19-8/20	$1,223.00
Staff Conference: State Street Conference	H. Bicker M. Schmitt	Boston, MA 9/23-9/24	$621.00
Manager Search Alternative Investment Managers: DLJ, Goldman Sachs **Staff Conference:** "The 1999 Private Equity Analyst Conference" sponsored by Asset Alternatives/Private Equity Analyst	A. Christensen	New York, NY 9/27-9/30	$2, 853.00
Manager Monitoring Domestic Stock Managers: Cohen, Klingstein & Marks, Forstmann Leff, GeoCapital, J. P. Morgan, Oppenheimer	S. Koessl	New York, NY 9/28-9/30	$1, 668.56
Staff Conference: "Goldman Sachs Client Conference" sponsored by Goldman Sachs Asset Management	M. Perry	Phoenix, AZ 10/4-10/6	$455.81

Purpose	Name (s)	Destination and Date	Total Cost
Staff Conference: National Association of State Investment Officers	H. Bicker M. Perry	Boston, MA 10/17-10/20	$4,093.86
Manager Monitoring Fixed Income Manager: Western Asset Management **Manager Search Fixed Income Managers:** Metropolitan West Asset Mgmt., Pacific Investment Management Company **Staff Conference** "Fixed Income Conference" sponsored by Morgan Stanley Dean Witter Investment Management	J. Matz	Phoenix, AZ Los Angeles, CA 10/24-10/28	$1,535.57
Manager Monitoring International Managers: Scudder, Kemper Investments, State Street Global Advisors, **Manager Search International Managers**: Acadian Asset Mgmt., JP Morgan Investment	T. Brusehaver-Derby	New York, NY Boston, MA 11/1-11/2	$1,831.80
Staff Conference "Endowment & Foundation" sponsored by Frank J. Fabozzi, Inc./Information Management Network	S. Gleeson	New York, NY 11/8-11/9	$1,916.31

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

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

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

International Stocks

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

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

*1998 data

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

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 09/30/99	SBI Cost Value 09/30/99	SBI Market Value 09/30/99
Philip Morris Cos., Inc.	46	1,794,627	$47,985,514	$61,353,811
Universal Corp.	74*	45,000	$1,464,701	$1,175,625
Subtotal		**1,839,627**	**$49,450,215**	**$62,529,436**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 09/30/99	SBI Cost Value 09/30/99	SBI Market Value 09/30/99
Compagnie Financiere Richemont	68*	80,000	$2,751,015	$840,000
Rembrandt Group Ltd.	>50	385,000	$3,376,822	$2,919,672
Subtotal		**465,000**	**$6,127,837**	**$3,759,672**
Total SBI Holdings		**2,304,627**	**$55,578,052**	**$66,289,108**

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

*1998 data

Tab C

CAROL C. JOHNSON
Minnesota State Treasurer

DATE: November 30, 1999

TO: Members, State Board of Investment

FROM: Carol C. Johnson, Chair
SBI Administrative Committee

The Administrative Committee met on October 28, 1999 to consider the following agenda items:

- Review of Potential SBI Legislative Issues
- Discussion of Year 2000 Computer Issue Update

1. Review of Potential SBI Legislative Issues.

Staff has presented several proposals for possible inclusion in an SBI sponsored bill for the 2000 legislative session.

The proposals include technical provisions to clarify the SBI's investment authority.

The proposals are as follows:

- Clarify language to allow investments by the SBI to be transacted on a broader range of U.S. and Canadian stock exchanges.

- Clarify language regarding the legal structures in which venture capital investments can be made by the SBI.

- Include authority to invest in closed-end mutual funds.

- Repeal separate SBI ethics reporting.

- Repeal Northern Ireland activities requirements.

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The statewide retirement systems may introduce a provision to extend the amortization of the investment component of the Post Fund benefit formula from 5 to 10 years. The provision would be part of an SBI bill if the statewide retirement systems did not submit a bill.

An overview of the proposals are presented in **Attachment A**.

RECOMMENDATION:

The Committee recommends that the SBI approve the proposals and authorize the Executive Director to submit a bill for their approval during the 2000 Legislative Session. Further, Committee recommends that the SBI support the proposal of the Post Fund Amortization Extension and authorize the Executive Director to submit it as part of an SBI legislative bill if the statewide retirement does not do so.

2. Discussion of Year 2000 Computer Issue Update.

Staff presented an update of progress on the Year 2000 Computer Issue. As reported earlier in the year, staff has been monitoring the progress of the SBI's business partners and service providers preparations for responding to potential difficulties caused by Year 2000 computer problems. Staff reported on the development and implementation of contingency plans to minimize exposure to the risks associated with compliance failure. The staff update to the Committee is in **Attachment B**.

ATTACHMENT A

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BOARD OF
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DATE: October 28, 1999

TO: Members, SBI Administrative Committee

FROM: Jim Heidelberg

SUBJECT: Potential SBI Legislative Issues

This memo describes a number of issues staff believes merit consideration as part of an SBI sponsored bill for the 2000 legislative session.

<u>Stock Exchanges</u>
Currently, the SBI may invest in stock of any corporation organized under the laws of the US or Canada or any corporation listed on the New York Stock Exchange or the American Stock Exchange. The statutory language does not mention other regional exchanges nor the National Association of Securities Dealers Automated Quotations system (NASDAQ), an electronically automated exchange for trading over the counter stocks. These other stock trading opportunities are each regulated by the Securities and Exchange Commission (SEC).

The proposal would clarify that the SBI may invest funds in domestic or Canadian stock traded on any exchange "regulated by a governmental agency." The expanded language would provide the SBI with the flexibility to invest where it can obtain the lowest cost transactions to benefit retirees and beneficiaries.

<u>Private Equity Investment Vehicles</u>
The structure of venture capital investment opportunities has changed over time. The proposed statutory language clarifies that the SBI may participate in this wider variety of legal structure while at the same time leaving in place the statutory restrictions that pertain to the vehicles currently used. These restrictions include the requirement that there be at least four other investors, that the SBI participation be no more than 20 percent and that the SBI may not engage in any activity as a limited partner that exposes the SBI to general liability.

<u>Closed end Mutual Funds</u>
The SBI has authority to invest in open-end mutual funds. Staff recommends that the SBI seek the authority to invest in closed-end mutual funds. The SBI would use the expanded authority on a selective basis to take advantage of specific opportunities as they may become available.

Repeal Separate SBI Ethics Reporting

The expense reimbursement disclosure of 11A.075 was enacted in 1993 before the current statewide ethics standards were enacted. The new standards make 11A.075 redundant. The reporting forms for 11A.075 are now duplicative.

Repeal Northern Ireland Activities Requirement

The provisions of 11A.241 require the SBI "Whenever feasible...[to] sponsor, cosponsor, or support shareholder resolutions designed to encourage corporations in which the board has invested to pursue a policy of affirmative action in Northern Ireland."

The Proxy Voting Committee has worked with other institutional investors, primarily the New York City Employees Retirement System (NYCERS), to sponsor and cosponsor such shareholder resolutions each proxy season since the provision was enacted in 1988. According to the Investor Responsibility Research Center (IRRC), most of the companies doing business in Northern Ireland have signed the MacBride Principles, an affirmative action code of conduct for corporations doing business in Northern Ireland. Many of the remaining corporations have faced Northern Ireland shareholder resolutions that cannot be placed on the proxy statement again because they have not received sufficient shareholder approval at the annual meeting to satisfy the rule for refiling. Moreover, there have been significant strides taken, including a formal peace process, in Northern Ireland that suggest the goals of the requirement have been met and are no longer necessary.

Post Fund Amortization Extension

The provision may be introduced by the statewide retirement systems or added to the SBI's proposals if they are introduced as a bill.

The current formula for determining the post retirement benefit increase has an inflation component and an investment component. The inflation component provides 100 percent of inflation up to 2 ½ percent. The investment component provides increases from investment performance in excess of the actuarial assumed interest rate of 8 ½. If there is favorable performance, it is spread over a period of five years so that this year's investment component is the sum of the one-fifth slices from the four previous years and this year.

The very impressive market returns of the 1990's have provided very substantial benefit increases. The large bank of one-fifth slices currently set aside for future increases is significant, but because of the short amortization period can be quickly eliminated by future negative investment performance.

Staff has discussed the issue with the retirement system directors and retiree groups. There appears to be agreement that the impact of the performance of the entire Fund on the investment return component can be reduced by increasing to ten years the period over which investment performance is spread.

Sec. 1. Minnesota Statutes, 1998, section 11A.24, subdivision 5, is amended to read:

Subd. 5. **Corporate stocks.** The state board may invest funds in stocks or convertible issues of any corporation organized under the laws of the United States or the states thereof, the Dominion of Canada or its provinces, or any corporation listed on ~~the New York Stock Exchange or the, American Stock~~ an Exchange regulated by a governmental agency, if they conform to the following provisions:

(a) The aggregate value of corporate stock investments, as adjusted for realized profits and losses, shall not exceed 85 percent of the market or book value, whichever is less, of a fund, less the aggregate value of investments according to subdivision 6;

(b) Investments shall not exceed five percent of the total outstanding sharers of any one corporation, except that the state board may hold up to 20 percent of the shares of a real estate investment trust and up to 20 percent of the shares of a closed-end mutual fund.

Sec. 2. Minnesota Statutes, 1998, section 11A.24, subd. 6, is amended to read:

Subd. 6. **Other Investments.** (a) In addition to the investments authorized in subdivisions 1 to 5, and subject to the provisions in paragraph (b), the state board may invest funds in:

(1) venture capital investment businesses through participation in limited partnerships, trusts, private placements, limited liability corporations and corporations;

(2) real estate ownership interests or loans secured by mortgages or deeds of trust shares of real estate investment trusts through investment in limited partnerships, bank sponsored collective funds, trusts, mortgage participation agreements, and insurance company commingled accounts, including separate accounts;

(3) regional and mutual funds through bank sponsored collective funds and open-end investment companies registered under the Federal Investment Company Act of 1940, and closed-end mutual funds listed on an exchange regulated by a governmental agency;

(4) resource investments through limited partnerships, trusts, private placements, limited liability corporations and corporations; and

(5) international securities

(b) The investments authorized in paragraph (a) must conform to the following provisions:

(1) the aggregate value of all investments made according to paragraph (a), clauses (1) to (4), may not exceed 35 percent of the market value of the fund for which the state board is investing;

(2) there must be at least four unrelated owners of the investment other than the state board for investments made under paragraph (a), clause (1), (2), (3), or (4);

(3) state board participation in an investment vehicle is limited to 20 percent thereof for investments made under paragraph (a), clause (1), (2), (3), or (4); and

(4) state board participation in a limited partnership does not include a general partnership interest or other interest involving general liability. The state board may not engage in any activity as a limited partner which creates general liability.

Sec. 3. Minnesota Statutes, sections 11A.075 and 11A.241 are repealed.

Generally, this process occurs prior to the end of the quarter. The benchmarks are then set in place at the beginning of the next quarter for the entire period. However, the benchmarks put in place to measure the fourth quarter of 1999 will remain in effect until March 2000.

- During May 1999, the SBI's custodian banks, State Street and Norwest/Wells Fargo, and our accounting services provider, Financial Control Systems, addressed the Administrative Committee and staff regarding each organizations' respective progress with regard to achieving Y2K compliance. The banks have taken appropriate steps to address associated issues, and have made progress with their plans to remediate such issues. Financial Controls has completed testing of its financial accounting systems and its trade ticketing systems. They reported that their systems are compliant.

- Staff has surveyed all of its investment managers during the second quarter of 1999 and recently received updates from its equity and fixed income managers. Staff believes that our managers have taken appropriate steps to address the Y2K issue. In December, staff will contact each manager with instructions to inform the staff of the manager's status on the first business day of Year 2000.

- Staff is having discussions with State Street Bank regarding the securities lending program throughout the fourth quarter to monitor the status of the State Street program. State Street has taken the appropriate steps to insure the safety of the securities on loan in the program and also believes that appropriate levels of lending income will be maintained.

- State Street Bank, Norwest/Wells Fargo, and Financial Control Systems will backup a listing of all SBI security holdings, including pending trades, prior to year-end.

- Staff will develop and implement guidelines for securities trading in December 1999. At this time, staff is evaluating whether it will be necessary to restrict the trading activity of SBI investment managers.

- All staff members have been issued a copy of the disaster recovery plan. Staff will review the plan during December to reinforce each member's responsibility if it becomes necessary to activate the plan as a result of potential Y2K related failures.

- During December, staff members will be given specific responsibilities to determine the status of SBI offices and operations over the New Years' weekend, prior to the first business day of Year

2000. We may provide key staff members' home phone numbers to external vendors, service providers and investment managers in the event it becomes necessary to contact the staff.

- Lastly, several staff members will be required to monitor worldwide events as January 1 unfolds around the globe. It will be 6 A.M. in the Twin Cities when the first time zone registers midnight January 1, 2000. By noon, there should be indications whether there have been Y2K related failures experienced in Australia and eastern Asia. This may enable staff to make "last minute" adjustments to operations.

Tab D

COMMITTEE REPORT

DATE: November 30, 1999

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

SUBJECT: Minnesota State Colleges and Universities Retirement Plans Investment Product Provider Search

The SBI is responsible for selecting product providers for investment of employee and employer contributions into the Individual Retirement Account Plan and College Supplemental Retirement Plan (the Plans) of the Minnesota State Colleges and Universities (MnSCU). The Plans are Section 401(a) plans available to faculty and administrative employees of MnSCU. State law requires the SBI to select and monitor product providers for the Plans. MnSCU administers the plans. Since the recordkeeping provider will bring a set of mutual fund investment options to the Plan, the Board also must approve a contract between MnSCU and the recordkeeping provider.

Contracts with the four existing insurance company product providers and the administrative services agent, retained by MnSCU to provide various recordkeeping and education services for participants in the Plans, expire June 30, 2000. The SBI and MnSCU are seeking new providers at this time to allow a smooth transition to the Plans' new structure.

SBI staff worked with MnSCU staff, participant representatives, the SBI's deferred compensation programs consultant and the Committee to construct a new structure for the Plans that meets with the approval of all parties involved.

The goals of the SBI and MnSCU for these selections are:

- to offer a range of competitive investment options
- to provide a high level of investment flexibility for participants
- to provide a high level of service to participants
- to maintain the lowest possible administrative costs

Investment Options

The SBI's RFP was announced in the State Register October 18, 1999 and distributed to 21 potential providers. By the November 3, 1999 deadline for submittals, the SBI had received responses from six (6) companies:

- Aetna Retirement Services
- INVESCO
- Principal Capital Management
- Prudential
- Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF)
- VALIC

The SBI's Deferred Compensation Review Committee met November 10, 1999 to review responses and supporting materials. The Committee selected Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF) to recommend to the Board.

Recordkeeping/Communication

MnSCU's RFP for a recordkeeping/communication provider was announced in the State Register on October 18, 1999 and distributed to 13 potential providers. By the November 3, 1999 deadline for submittals, MnSCU had received responses from four (4) companies:

Great-West
Marshall & Isley
Nationwide
Wells Fargo/Norwest Bank

The MnSCU RFP also contained an investment component. Responders to the RFP were required to offer a mutual fund window and a set of seven mutual fund investment options in asset classes specified by criteria prepared by SBI staff. MnSCU with the assistance of the consultant, Watson Wyatt, and SBI staff selected three finalists for interviews.

The MnSCU committee plans to make site visits to the offices of the finalists on November 29 and 30 and interview finalists at its offices December 1, 1999. Based on these sessions, MnSCU will make a recommendation to the SBI for Board approval. On November 29, the SBI's Deferred Compensation Review Committee will review the investment options offered by the MnSCU finalists and provide its recommendations to the MnSCU Committee for its December 1 meeting.

Additional materials will be presented to the Board at its December 8, 1999 meeting concerning a recommendation for the MnSCU recordkeeping/communication provider.

RECOMMENDATION:

The Deferred Compensation Review Committee recommends that the executive director be authorized, in consultation with legal counsel, to negotiate and execute a contract of substantially the same terms as set forth in the request for proposal with Teachers Insurance and Annuity Association-College Retirement Equity Fund (TIAA-CREF).

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 the product provider 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 the product provider or reduction or termination of the commitment.

Tab E

COMMITTEE REPORT

DATE: November 30, 1999

TO: Members, State Board Investment

FROM: **Fixed Income Search Committee**

On November 10, 1999, the Fixed Income Search Committee met to interview potential fixed income managers for an active core fixed income mandate.

The members of the Committee included:

Name	*Representing*
Peter Sausen, Chair	Governor Ventura
Ken Peterson	State Attorney General Hatch
Jake Manahan	State Treasurer Johnson
Jennifer Mohlenhoff	State Auditor Dutcher
Eric Lipman	Secretary of State Kiffmeyer
John Bohan	Investment Advisory Council
Gary Norstrem	Investment Advisory Council

The Committee interviewed four (4) firms on November 10, 1999. Each of the firms has extensive expertise in the management of fixed income portfolios against broad market indices such as the Lehman Brothers Aggregate Bond Index. The four firms interviewed were:

Deutsche Asset Management	Philadelphia, PA
Dodge & Cox Investment Managers	San Francisco, CA
Metropolitan West Asset Management	Los Angeles, CA
Pacific Investment Management Company	Newport Beach, CA

Based on the interviews, questionnaire responses, and information gathered and analyzed by staff and the SBI's consultants, the Search Committee is recommending that three (3) firms be retained by the SBI at this time:

Deutsche Asset Management
Dodge & Cox Investment Managers
Metropolitan West Asset Management

Attached to this memo is a brief summary and performance information for each of the managers.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute a contract with the three (3) firms listed below for active fixed income investment management services:

> **Deutsche Asset Management**
> **150 South Independence Square West**
> **Philadelphia, PA 19106**
>
> **Dodge & Cox Investment Managers**
> **One Sansome Street**
> **35th Floor**
> **San Francisco, CA 94104**
>
> **Metropolitan West Asset Management**
> **11766 Wilshire Boulevard**
> **Suite 1580**
> **Los Angeles, CA 90025**

MANAGER FACT SHEET

Manager: Deutsche Asset Management (formerly Morgan Grenfell)

General Style: Team based, bottom-up security selection, duration neutral

Portfolio Management

Philosophy

Deustche Asset Management's fixed income philosophy is based on two central premises. First, the firm believes there are significant pricing inefficiencies inherent in non-Treasury bond markets and that diligent credit analysis, security structure evaluation, and relative value assessment can be used to exploit these inefficiencies. Second, the firm avoids interest rate forecasting and sector rotation because they believe these strategies will not deliver consistent out performance versus the benchmark over time. The majority of the firm's valued added is derived from individual security selection.

Process

Portfolios are managed on a team basis. All portfolio managers have research responsibility for particular market sectors. Dedicated research analysts, also organized by sector, assist portfolio managers in their research effort. The portfolio managers and analysts research bonds within their sector of expertise, and portfolios are constructed from the bottom-up, bond by bond. Sector weightings are a byproduct of the bottom-up security selection. The main input into the firm's investment process is the expertise its portfolio managers and analysts have in fundamental credit analysis. Typically, they expect security selection to contribute 70% of overall portfolio performance.

Duration/Yield Curve

Deustche Asset Management makes no attempt to forecast interest rate movements or add value through duration management. Overall, portfolio duration is managed neutral to that of the benchmark. However, the firm does not seek to replicate the benchmark's maturity structure, but maintains a keen awareness of exposure to changes in the shape of the yield curve. The firm then looks for opportunities to exploit yield curve inefficiencies, but bets are modest and result from the identification of attractive securities.

Sector Selection/Allocation

Sector weights in Deustche Asset Management's portfolios are largely the result of their security selection process. Sector allocation is controlled for risk management purposes and is not expected to contribute significantly to overall portfolio performance.

Security Selection

Deustche's process is designed so that the majority of their value added results from individual security selection. The firm focuses intensely at the issue level and thoroughly researches bonds, determining their intrinsic value by deconstructing each bond's credit, structure, option value (if relevant), and liquidity risk. Each of these components is assigned a value and in combination defines the bond's intrinsic value or target yield. The bond's intrinsic value is then compared with its current market price. Bonds selling at a significant discount to their intrinsic value are purchase candidates. Purchase candidates are then compared with bonds in other sectors, and team discussion yields the most compelling relative value trades. Each portfolio manager monitors the bonds in their sector to anticipate changes in credit fundamentals and market technicals, at which time intrinsic value may be adjusted.

Trading

The fixed income group does not have a separate trading desk; portfolio managers conduct all trading within their sectors of expertise.

Ownership

Deutsche Bank AG is the ultimate parent company of Deutsche Asset Management. In 1998, Deutsche Bank reorganized the asset management division bringing together all of the bank's asset management activities under its Morgan Grenfell subsidiary. In June 1999, Deutsche Bank completed its acquisition of Bankers Trust Company. All of Bankers Trust's asset management operations were merged with Morgan Grenfell. The combined organization was renamed Deutsche Asset Management in June 1999 and is headquartered in London.

Portfolio Characteristics

Duration Range Around Benchmark:	+/- 0.5 years, normally duration neutral
Sector Allocation Range:	
Treasury/Agency:	0 – 100%, normal +/- 25 – 50%
Mortgages:	0 – 50%, normal +/-50%
Corporate:	0 – 40%, normal +/-50%
AIMR Compliant:	Yes
Value Added Sources:	Security Selection 70 – 80%
	Yield Curve 20 – 30%

Statistics as of 6/30/99

Number of Portfolio Managers:	14
Number of Analysts:	7
Number of Traders:	5 portfolio managers conduct all trades in their area of expertise
Total Firm Assets:	$27 billion
Active Core Assets:	$8 billion
Active Core Accounts:	122
Largest Active Core Account:	$602 million

Strengths:
Despite the organizational changes over the past few years, the firm has managed to maintain a stable fixed income investment staff with little turnover. The firm attributes this to careful hiring and the cohesiveness of the team they have built. Deutsche Asset Management, as a subsidiary of Deustche Bank AG, has access to a significant amount of resources. The firm also focuses solely on bottom-up security selection, which is a different approach than most fixed income managers take. Using this process, the firm has compiled a very good performance history as measured against the Lehman Aggregate.

Weaknesses:
The firm is currently trying to integrate the asset management businesses of Bankers Trust and Morgan Grenfell. The successful integration of these two firms will be challenging and could potentially create instability.

	Investment Manager:	MORGAN GRENFELL
	Benchmark:	LEHMAN BROTHERS AGGREGATE

		----PORTFOLIO----		----BENCHMARK----		--------VAM--------	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
90	Q1	0.79		-0.80		1.60	
	Q2	3.06		3.65		-0.57	
	Q3	1.58		0.86		0.72	
	Q4	4.79	10.57	5.06	8.96	-0.26	1.48
91	Q1	2.56		2.80		-0.24	
	Q2	2.45		1.62		0.81	
	Q3	5.98		5.68		0.29	
	Q4	5.89	17.92	5.07	16.00	0.78	1.65
92	Q1	-1.20		-1.28		0.08	
	Q2	4.73		4.04		0.66	
	Q3	5.60		4.30		1.25	
	Q4	-0.17	9.07	0.27	7.40	-0.43	1.55
93	Q1	4.88		4.13		0.72	
	Q2	3.24		2.65		0.57	
	Q3	3.81		2.61		1.17	
	Q4	0.54	13.01	0.06	9.75	0.48	2.97
94	Q1	-2.29		-2.87		0.59	
	Q2	-1.08		-1.03		-0.05	
	Q3	0.58		0.61		-0.03	
	Q4	0.03	-2.76	0.38	-2.92	-0.35	0.16
95	Q1	4.87		5.04		-0.17	
	Q2	6.51		6.09		0.40	
	Q3	2.15		1.96		0.18	
	Q4	4.57	19.31	4.26	18.47	0.29	0.71
96	Q1	-1.29		-1.77		0.49	
	Q2	0.62		0.57		0.05	
	Q3	1.98		1.85		0.12	
	Q4	3.39	4.72	3.00	3.63	0.38	1.05
97	Q1	-0.35		-0.56		0.20	
	Q2	3.67		3.67		0.00	
	Q3	3.48		3.32		0.15	
	Q4	2.91	10.01	2.94	9.65	-0.03	0.33
98	Q1	1.61		1.56		0.06	
	Q2	2.72		2.34		0.38	
	Q3	4.15		4.23		-0.08	
	Q4	0.27	9.00	0.34	8.69	-0.07	0.28
99	Q1	-0.22		-0.50		0.28	
	Q2	-0.70		-0.88		0.18	
Latest:							
1 yr			3.47		3.15		0.31
3 yr			7.80		7.23		0.53
5 yr			8.35		7.83		0.49
Cum 9001-9906			9.26		8.05		1.12
Std Dev			3.84		3.94		1.72

MANAGER FACT SHEET

Manager: Dodge & Cox Investment Managers

General Style: Team based management, sector and security selection

Portfolio Management

Philosophy

Dodge & Cox's fixed income philosophy is to construct and manage a high quality, diversified portfolio of securities that are selected through fundamental analysis. The firm believes that by combining fundamental research with a long-term investment horizon it is possible to uncover inefficiencies in the valuation of market sectors and individual securities. When this fundamental research effort is combined with a disciplined program of risk analysis, attractive returns are possible over the long-term. To seek superior returns, Dodge & Cox emphasizes sector and security selection, strives to build portfolios that have a higher yield than the broad bond market, and analyzes portfolio and individual security risk.

Process

The investment process begins with the generation of ideas by Dodge & Cox's analysts and portfolio managers. The fixed income team works together on a continual basis to formulate investment strategy and to make specific buy and sell recommendations based on fundamental relative value analysis. Investment ideas are discussed at bi-weekly meetings of the Bond Strategy Committee. The committee is comprised of the fixed income portfolio managers and analysts, the firm's Chief Investment Officer, the Director of Credit Research, and one other member of the Investment Policy Committee, which consists of the 10 senior members of the firm.

Duration/Yield Curve

To determine duration strategy, Dodge & Cox looks at various economic trends from which a range of inflation forecasts are made. They then simulate portfolio returns under a wide range of interest rate and inflation scenarios over time periods of three to five years. These simulations illustrate the probability of portfolios of various durations producing positive real returns and are the primary input in their determination of the portfolio duration. The Investment Policy Committee, including the Head of Fixed Income and another senior fixed income portfolio manager, approves changes to the duration of portfolios relative to the benchmark.

In general, Dodge & Cox does not devote significant resources to yield curve positioning and tries to remain neutral versus the benchmark. They will, however, make adjustments as market conditions dictate.

Sector Selection/Allocation

The sector allocation decision is based upon the relative value merits of the particular securities that comprise the various sectors. Typically, the U.S. Treasury weighting of the firm's portfolios will be significantly less than that of the broader market while the sector allocations to the mortgage-backed and corporate sectors will be higher than that of the overall market. In selecting mortgage-backed and corporate bonds, Dodge & Cox's research effort seeks to determine whether the yield differential between risk-free U.S. Treasury securities and these credit or prepayment sensitive alternative investments is sufficient compensation for assuming their risks. The relative weightings of these two sectors will depend upon their analysis of the total return prospects, over long time periods, of the individual securities within the sectors. Adjustments to the sector weightings will typically be gradual and incremental in nature.

Security Selection

Fundamental research is central to Dodge & Cox's investment process. Their credit research focuses on analysis of the fundamental factors that impact an individual issuer's or market sector's credit risk. They also consider economic trends and special circumstances that may affect an industry or a specific company. On the security level, their research effort emphasizes the structural characteristics of individual securities. The purpose of the research is to find high quality securities that can benefit from the difference between their expectations and the market's as implied by their market prices. Dodge & Cox has a team of five fixed income analysts and fourteen industry analysts who perform both equity and credit research.

Trading

Dodge & Cox believes that the dual portfolio management/trading responsibilities that fixed income professionals perform ensures that portfolio managers are seeing the available products first hand, enabling them to better assess the relative value and potential supply considerations that are central to generating investment ideas. Through this process, portfolio managers monitor all major sectors of the bond market to search for appropriate investments.

Ownership

Dodge & Cox is an independent organization with ownership limited to active employees of the firm. There are currently 30 shareholders.

Portfolio Characteristics

Duration Range Around Benchmark:	80% to 130%	
Sector Allocation Range:		
Treasury/Agency:	Maximum 250% of benchmark weighting	
Mortgages:	Maximum 250% of benchmark weighting	
Corporate:	Maximum 250% of benchmark weighting	
AIMR Compliant:	Yes	
Value Added Sources:	Security Selection	40%
	Sector Selection	25%
	Duration	25%
	Yield Curve	10%

Statistics as of 6/30/99

Number of Portfolio Managers:	6
Number of Analysts:	19
Number of Traders:	Portfolio managers perform all trading
Total Firm Assets:	$41 billion
Active Core Assets:	$13 billion
Active Core Accounts:	105
Largest Active Core Account:	$1,285 million

Strengths:

The firm's ownership structure allows employees to participate in the success of the firm and is an advantage in the retention of experienced staff members. Dodge & Cox does not actively market themselves, but chooses to grow in a very controlled manner, primarily through word of mouth and through additional assets and mandates from existing clients. The firm has had very good performance relative to the benchmark without significant use of non-benchmark sectors such as high yield and non-dollar debt. Dodge & Cox is also a very stable organization.

Weaknesses:

Limited non-dollar and high yield research capabilities.

Investment Manager: DODGE & COX INVESTMENT MNGRS. (REPR.#2)
Benchmark: LEHMAN BROTHERS AGGREGATE

		PORTFOLIO Qrtly Return	PORTFOLIO Annual Return	BENCHMARK Qrtly Return	BENCHMARK Annual Return	VAM Qrtly Return	VAM Annual Return
89	Q1	1.33		1.14		0.19	
	Q2	9.20		7.97		1.14	
	Q3	0.95		1.13		-0.18	
	Q4	3.45	15.56	3.72	14.53	-0.25	0.90
90	Q1	-1.44		-0.80		-0.65	
	Q2	3.93		3.65		0.27	
	Q3	0.06		0.86		-0.79	
	Q4	5.87	8.51	5.06	8.96	0.77	-0.41
91	Q1	3.51		2.80		0.69	
	Q2	1.82		1.62		0.20	
	Q3	7.01		5.68		1.25	
	Q4	5.94	19.48	5.07	16.00	0.83	2.99
92	Q1	-0.88		-1.28		0.40	
	Q2	4.98		4.04		0.91	
	Q3	5.06		4.30		0.73	
	Q4	0.50	9.87	0.27	7.40	0.23	2.30
93	Q1	4.80		4.13		0.64	
	Q2	3.49		2.65		0.81	
	Q3	3.26		2.61		0.64	
	Q4	0.07	12.07	0.06	9.75	0.01	2.11
94	Q1	-2.41		-2.87		0.47	
	Q2	-1.29		-1.03		-0.26	
	Q3	0.72		0.61		0.10	
	Q4	0.58	-2.41	0.38	-2.92	0.20	0.52
95	Q1	5.74		5.04		0.67	
	Q2	7.28		6.09		1.12	
	Q3	2.30		1.96		0.33	
	Q4	4.51	21.27	4.26	18.47	0.23	2.36
96	Q1	-1.81		-1.77		-0.03	
	Q2	0.89		0.57		0.32	
	Q3	2.15		1.85		0.29	
	Q4	3.36	4.59	3.00	3.63	0.35	0.93
97	Q1	-0.77		-0.56		-0.21	
	Q2	3.82		3.67		0.14	
	Q3	3.83		3.32		0.49	
	Q4	3.17	10.35	2.94	9.65	0.22	0.64
98	Q1	1.65		1.56		0.09	
	Q2	2.47		2.34		0.13	
	Q3	3.29		4.23		-0.90	
	Q4	0.92	8.57	0.34	8.69	0.58	-0.11
99	Q1	-0.07		-0.50		0.43	
	Q2	-0.98		-0.88		-0.10	
Latest:							
1 yr			3.14		3.15		0.00
3 yr			7.77		7.23		0.50
5 yr			8.78		7.83		0.89
Cum 8901-9906			9.95		8.66		1.19
Std Dev			4.73		4.04		1.08

MANAGER FACT SHEET

Manager: Metropolitan West Asset Management (MWAM)

General Style: Team based

Portfolio Management

Philosophy
MWAM's fixed income philosophy has been designed with the goal of consistently out performing a client's benchmark while maintaining below average volatility. The firm believes consistent out performance is gained through the measured application of five value-added strategies. The five value-enhancing strategies employed by MWAM are: limited average maturity/duration shifts, yield curve management, security selection, buy/sell execution strategies, and sector rotation.

Process
MWAM employs a team approach to portfolio management. All portfolios are managed from a trade room in which the portfolio managers sit at adjoining desks and continually share market information and investment opportunities. MWAM's team formulates fixed income strategies based on their long-term fundamental economic outlook. This outlook is debated quarterly and revised based on cyclical and secular developments in the economy and financial markets. From this review, major themes are identified that they believe will be key in driving the economy and Federal Reserve policy.

Duration/Yield Curve
Portfolio duration is kept within a one-year band around the benchmark. Shifts within this band are determined by the firm's fundamental economic outlook. This is accomplished by analyzing long-term economic trends, commodity price cycles, and the political environment which may impact interest rates. Cyclical factors such as Federal Reserve policy, inflation, fiscal policy and international trade are heavily weighted. Then duration is set based on the team's assessment of the current stage of the business cycle. Yield curve exposure is also actively managed. The firm employs proprietary models to determine the maturities along the yield curve that represent the best risk/return profile based upon the firm's fundamental outlook. The combination of their economic outlook and quantitative analysis determines yield curve strategies.

Sector Selection/Allocation

The sector decision process starts by comparing relative value across all sectors of the bond market. To determine sectors with the best outlook, MWAM considers a number of factors. The firm's economic outlook is used to assess the risk level in each sector versus the yield spreads being paid to invest in those sectors. The firm also forecasts volatility to analyze how changes in volatility will impact sector spreads and the option component of mortgages and callable corporates. Investor sponsorship is also considered. When the firm observes sectors of the bond market becoming oversold and underpriced, they direct their research effort to understanding why this is occurring. This selling activity can be analyzed to determine if it is creating a temporary purchase opportunity via a technically driven change in market pricing structure, which is not fundamentally warranted. The firm over or under weights sectors based on this analysis.

Security Selection

MWAM adheres to three disciplines in selecting securities. The firm seeks value in all sectors of the market and is open to new issues and sectors. MWAM also believes a team approach utilizing a trade room environment allows for open discussion and analysis of securities and enables a real-time comparison to other securities trading in the market. MWAM also employs quantitative and scenario analyses to determine the maximum downside of issues and to ensure that issues added to the portfolio will out perform over a wide range of possible scenarios. The firm also practices careful credit analysis. This process is augmented by the research of various outside entities. The result of the credit research is factored into a credit model which captures relative value within the corporate sector and guides the portfolio management team to direct their research efforts to those securities whose yield spread relative to comparably rated credits may indicate a buying opportunity. A security will be purchased only if its expected performance exceeds that of similar securities in the index.

Trading

Portfolio managers execute all trades. MWAM's trading philosophy is to execute at the most competitive level possible to minimize transaction costs in an attempt to add value to the portfolio. Trading recommendations and analysis always include the impact of transaction costs and liquidity.

Ownership

Metropolitan West Asset Management is majority owned (60%) by three members of the firm. Laird Landmann and Tad Rivelle, both portfolio managers, and Scott Dubchansky, MWAM's CEO, each own 20% of the firm. The three were founding members of the firm in August 1996. Metropolitan West Financial, Inc. owns a minority interest (40%) in the firm and is a passive financial partner.

Portfolio Characteristics		
Duration Range Around Benchmark:	+/- 1 Year	
Sector Allocation Range:		
Treasury/Agency:	None	
Mortgages:	Maximum 60%	
Corporate:	Maximum 60%	
AIMR Compliant:	Yes	
Value Added Sources:	Duration	10%
	Yield Curve	20%
	Sector Selection	30%
	Security Selection	35%
	Execution and Trading	5%

Statistics as of 6/30/99	
Number of Portfolio Managers:	4
Number of Analysts:	1, all portfolio managers conduct their own research
Number of Traders:	Portfolio managers conduct all trading
Total Firm Assets:	$4 billion
Active Core Assets:	$1,579 million
Active Core Accounts:	31
Largest Active Core Account:	$209 million

Strengths:
MWAM is an entrepreneurial firm with significant ownership by key members of the firm. The firm has been growing and is supported by the resources of its financial partner, Metropolitan West Financial. The firm's only business is the management of fixed income securities, ensuring their focus.

Weaknesses:
Though the portfolio managers have significant experience in fixed income asset management, the firm has only been in existence for slightly over three years. Although performance at their firm over the last three years has been good, this is a short measurement period from which to judge. With a limited number of staff, the loss of one portfolio manager could be very detrimental to the firm.

	Investment Manager:	METROPOLITAN WEST ASSET MANAGEMENT				
	Benchmark:	LEHMAN BROTHERS AGGREGATE				

	---PORTFOLIO---		---BENCHMARK---		-------VAM-------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q1	6.30		4.13		2.08	
Q2	3.50		2.65		0.83	
Q3	3.30		2.61		0.67	
Q4	0.10	13.76	0.06	9.75	0.04	3.66
94 Q1	-2.40		-2.87		0.48	
Q2	-1.10		-1.03		-0.07	
Q3	-0.40		0.61		-1.00	
Q4	0.80	-3.09	0.38	-2.92	0.42	-0.18
95 Q1	4.90		5.04		-0.14	
Q2	7.00		6.09		0.86	
Q3	3.60		1.96		1.61	
Q4	5.50	22.68	4.26	18.47	1.19	3.55
96 Q1	-1.90		-1.77		-0.13	
Q2	1.20		0.57		0.63	
Q3	2.40		1.85		0.54	
Q4	3.38	5.10	3.00	3.63	0.37	1.41
97 Q1	-0.24		-0.56		0.32	
Q2	3.90		3.67		0.22	
Q3	3.70		3.32		0.37	
Q4	3.32	11.05	2.94	9.65	0.37	1.28
98 Q1	1.68		1.56		0.12	
Q2	2.68		2.34		0.34	
Q3	4.06		4.23		-0.16	
Q4	1.88	10.69	0.34	8.69	1.54	1.84
99 Q1	0.21		-0.50		0.71	
Q2	-0.31		-0.88		0.57	
Latest:						
1 yr		5.91		3.15		2.68
3 yr		9.14		7.23		1.77
5 yr		9.71		7.83		1.75
Cum 9301-9906		8.95		6.84		1.97
Std Dev		4.86		4.44		1.26

Tab F

COMMITTEE REPORT

DATE: November 30, 1999

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

FROM: **International Search Committee**

During the quarter, the International Search Committee met to conduct a search for active international stock managers and to re-interview the currency manager, Record Treasury Management.

The members of the Committee included:

Name	*Representing*
Peter Sausen, Chair	Governor Ventura
Ken Peterson	State Attorney General Hatch
Jake Manahan	State Treasurer Johnson
Jennifer Mohlenhoff	State Auditor Dutcher
Eric Lipman	Secretary of State Kiffmeyer
Christie Eller	Legal Counsel
Judy Mares	Investment Advisory Council
Doug Gorence	Investment Advisory Council

BACKGROUND:

At the September 1999 meeting, the SBI concurred with a recommendation to conduct a search for active international managers in an effort to restructure the International Program. The goals of the search and restructuring were as follows:

- To shift more assets into active management within the International Equity Program. Currently, the target is 50% active management and 50% passive management. The new guidelines that were approved by the SBI in June 1999 require at least 33% to be actively managed and at least 33% to be passively managed.

- To increase the total program's expected return relative to the benchmark by modestly increasing the annual standard deviation (risk) of the International Equity Program.

- To raise the active management capacity by adding to the pool of active international managers.

MANAGER SELECTION:

The Committee interviewed eight (8) firms on September 21-22, 1999. Based on the interviews, questionnaire responses and supporting information gathered by staff and the SBI's consultants, the Committee is recommending that four (4) firms be retained by the SBI at this time:

American Express Asset Management	London, UK
Blairlogie Capital Management	Edinburgh, Scotland
INVESCO Global Asset Management	Atlanta, Georgia
Montgomery Asset Management, LLC	San Francisco, California

Attached to this memo is a brief summary and performance information for each of the managers.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute contracts with the following firms for active international stock management:

American Express Asset Management
11th Floor, Dashwood House
69 Old Broad Street
London, ED2M 1QS

Blairlogie Capital Management
125 Princess Street, 4th Floor
Edinburgh, Scotland EH2 4AD

INVESCO Global Asset Management
One Midtown Plaza
1360 Peachtree Street, Suite 100
Atlanta, GA 30309

Montgomery Asset Management, LLC
101 California Street
San Francisco, CA 94111

RE-INTERVIEW OF RECORD TREASURY MANAGEMENT:

On September 22, 1999, the Search Committee re-interviewed Record Treasury Management for an active manager slot. While some discussion took place, the Committee voted to table the issue until a later date.

On November 10, 1999, the Search Committee reconvened to vote on the retention of Record Treasury Management. After some discussion, the Search Committee concluded that further evaluation is needed to better define the role of a currency manager for the international program. If that role is determined, a currency manager search should be conducted to identify the appropriate firm(s) for that role.

The Search Committee voted not to retain Record Treasury at this time. If the Board approves the termination, any hedged currencies will be immediately be unhedged. The Committee recommends that Record Treasury remain under contract until all forward contracts expire over the next twelve months. This recommendation would preclude Record Treasury from conducting any additional hedging for the SBI's account.

RECOMMENDATION:

The Committee recommends that the SBI terminate its current contract with Record Treasury Management for currency management.

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute a twelve month contract with Record Treasury to oversee the settlement of all forward contracts currently in the SBI portfolio.

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Manager Fact Sheet

Manager: American Express Asset Management International Inc. (AEAM)

General Style: Top-Down and Bottom-up, large cap growth

Philosophy
To achieve maximum long-term total return in a client's base currency, while minimizing risk (volatility) within the client's parameters. AEAM's objective is to identify inefficiencies in market value at the regional, country and stock level. Their investment process concentrates on identifying non-consensus views that they can exploit.

Approach
AEAM's core international equity approach is a blend of top-down and bottom-up styles. They start the decision making process with the development of their geopolitical and macroeconomic outlook. The bottom-up stage of their process begins with real-time relative valuation comparisons of the stocks in their investable universe. The most attractively priced stocks then go through in depth fundamental analysis.

Country Selection/Allocation
AEAM uses top-down analysis of the politics, economics, and markets of each country. Their fundamental analysis also provides valuable information in establishing a global overview. Once a global overview is established, each of the regional specialists quantifies his/her view by scoring his/her region on several dozen factors on a scale of 0-10 (best). Some examples of the factors considered include: Politics – proximity of elections, Economics – capital flows, Markets- restructuring. These scores are the principal input in deciding regional/country allocation. AEAM imposes minimum and maximum country allocation guidelines to help control risk.

Sector Selection/Allocation
Sectors are grouped into three categories: 1) those which have long-term investment growth 2) those which are very dependent on the economic cycle and 3) those sectors which are undergoing restructuring. Sector weightings are controlled to result in an acceptable level of diversification.

Stock Selection
AEAM monitors approximately 700 securities that include all the major companies in each country. Their real-time quantitative analysis compares live prices relative to book value, cash earnings, sales, dividends and forecast earnings. Therefore, on a real-time basis they can examine valuation ratios grouped by industry for their entire universe. This allows them to identify attractively price stocks on which they focus their in-depth fundamental research.

AEAM's fundamental research attempts to identify companies that are "superior" in business prospects and dynamics, earnings growth, cash flow, ROE, financial strength and management. They are especially on the lookout for companies where their positive earnings estimates differ from the consensus or where a positive change in earnings momentum is likely. Their analysis tries to identify information not yet priced into securities. Analysts visit company factories, stores and with management. They compile a spreadsheet model of the company in addition to reviewing other research material.
They feel it is imperative for them to hold stocks that they can easily sell at minimum friction at any time.

Currency
AEAM actively manages the major currencies in which they keep excess cash. They will hedge currency exposure only against securities owned. They do not expect to add significant value through hedging. Their objective is to preserve value, so they only hedge when a currency is at a valuation extreme.

Statistics as of: 5/31/99

	International (EAFE) Equity
Number or Portfolio Managers:	17
Number of Analysts:	3
Number of Traders:	4
EAFE Assets:	$6,580 M
EAFE Accounts:	17
Largest EAFE Account:	$2,104 M
Smallest EAFE Account:	$ 12 M
Portfolio Characteristics:	
Cash:	3 year average: 3.7% (min. 2.9%, max 8.9%)
Countries:	14
Stocks:	60-90
3 Yr. avg. turnover:	82%
AIMR Compliant?:	Y
Value Added:	Top down factors 55% Stock selecting 45%

Investment Manager: AMERICAN EXPRESS ASSET MANAGEMENT
Benchmark: EAFE

		---PORTFOLIO--- Qrtly Return	Annual Return	---BENCHMARK--- Qrtly Return	Annual Return	---VAM--- Qrtly Return	Annual Return
81	Q1						
	Q2	7.15 *		-3.72 *		11.28 *	
	Q3	-13.68		-11.81		-2.13	
	Q4	4.30	-3.54	11.57	-5.26	-6.52	1.82
82	Q1	-13.14		-11.72		-1.61	
	Q2	3.05		-3.01		6.24	
	Q3	-0.89		-1.95		1.08	
	Q4	24.32	10.28	16.90	-1.86	6.34	12.37
83	Q1	9.31		5.69		3.43	
	Q2	12.83		7.45		5.01	
	Q3	-0.36		2.34		-2.64	
	Q4	13.54	39.54	6.43	23.69	6.69	12.82
84	Q1	13.80		15.24		-1.25	
	Q2	-16.58		-11.76		-5.46	
	Q3	6.75		0.62		6.10	
	Q4	-0.62	0.72	4.96	7.38	-5.31	-6.21
85	Q1	4.43		9.53		-4.65	
	Q2	5.06		6.56		-1.41	
	Q3	16.23		14.89		1.16	
	Q4	20.43	53.57	16.45	56.16	3.41	-1.66
86	Q1	22.41		29.87		-5.75	
	Q2	11.53		8.75		2.55	
	Q3	8.69		15.43		-5.84	
	Q4	7.46	59.45	3.93	69.44	3.40	-5.89
87	Q1	17.07		23.27		-5.03	
	Q2	6.52		7.05		-0.50	
	Q3	9.13		5.62		3.32	
	Q4	-23.93	3.52	-10.59	24.63	-14.92	-16.94
88	Q1	9.03		15.25		-5.39	
	Q2	-2.76		-4.39		1.71	
	Q3	-0.49		0.64		-1.13	
	Q4	9.62	15.65	15.66	28.27	-5.23	-9.84
89	Q1	1.07		0.28		0.80	
	Q2	-4.51		-6.17		1.77	
	Q3	11.16		12.39		-1.10	
	Q4	11.78	19.93	4.53	10.54	6.94	8.50

		----PORTFOLIO---- Qrtly Return	Annual Return	----BENCHMARK---- Qrtly Return	Annual Return	--------VAM-------- Qrtly Return	Annual Return
90	Q1	0.12		-19.77		24.80	
	Q2	7.05		9.55		-2.29	
	Q3	-17.67		-21.20		4.48	
	Q4	6.79	-5.76	10.53	-23.45	-3.38	23.10
91	Q1	4.33		7.43		-2.89	
	Q2	-4.78		-5.46		0.72	
	Q3	5.59		8.57		-2.74	
	Q4	5.52	10.69	1.68	12.13	3.78	-1.28
92	Q1	-6.62		-11.87		5.96	
	Q2	3.51		2.11		1.36	
	Q3	-1.51		1.51		-2.97	
	Q4	-0.96	-5.71	-3.86	-12.17	3.02	7.36
93	Q1	6.43		11.99		-4.96	
	Q2	4.72		10.06		-4.85	
	Q3	8.58		6.63		1.83	
	Q4	11.04	34.38	0.86	32.56	10.09	1.37
94	Q1	-3.41		3.50		-6.67	
	Q2	4.68		5.11		-0.40	
	Q3	3.92		0.10		3.82	
	Q4	-2.65	2.30	-1.02	7.78	-1.65	-5.09
95	Q1	1.21		1.86		-0.64	
	Q2	2.64		0.73		1.90	
	Q3	7.70		4.17		3.39	
	Q4	4.97	17.44	4.05	11.21	0.88	5.60
96	Q1	4.17		2.89		1.24	
	Q2	4.04		1.58		2.42	
	Q3	-0.18		-0.13		-0.05	
	Q4	2.85	11.28	1.59	6.05	1.24	4.93
97	Q1	-0.58		-1.57		1.00	
	Q2	12.82		12.98		-0.14	
	Q3	1.59		-0.70		2.32	
	Q4	-9.55	3.06	-7.83	1.78	-1.87	1.26
98	Q1	15.76		14.71		0.91	
	Q2	5.60		1.06		4.49	
	Q3	-18.61		-14.21		-5.12	
	Q4	21.12	20.51	20.66	20.00	0.38	0.42
99	Q1	3.27		1.39		1.85	
Latest:							
1 yr			7.51		6.06		1.36
3 yr			11.07		8.47		2.39
5 yr			12.16		8.75		3.14
Cum 8105-9903			14.83		13.11		1.53
Std Dev			17.60		17.63		8.87

*Second quarter 1981 includes two months of performance, May and June.

Manager Fact Sheet

Manager: Blairlogie Capital Management

General Style: Top-down, Bottom-up value-added

Philosophy

Blairlogie's philosophy has always been that the international markets can be analyzed from a broad base of measurable, numerical data. They have developed a country model, which covers a broad-based collection of current and historical data. Their quantitative analysis is enhanced with significant qualitative assessments to evaluate things a model cannot review. They continuously strive for the optimum combination of quantitative and judgmental inputs but believe that objective, measurable facts must always be the start point for making sound investment decisions.

Approach

Blairlogie's investment style is based upon an underlying objective of producing premium returns above their benchmark consistently in any market environment while consciously controlling risk and limiting volatility. The major components of Blairlogie's investment style are:

- Top-down country allocation followed by bottom-up stock selection.
- Active management with a focus on consistent value added.
- Broad diversification in international markets portfolios by country and stock
- Performance objective designed to consistently outperform their benchmark which through time should facilitate investment success over competitors.
- Advanced technology used to enhance portfolio management and maintain efficient administration.

Country Selection/Allocation

Blairlogie's country allocation tends to be the major single influence in their risk/reward decision-making process. To assist in their decision making process, they use a top-down, multi-variable model (presently covers 45 variables) which assesses five general areas: Macroeconomic, Monetary, Earnings Momentum, market Valuation and Technical Characteristics. Each element of data in the country allocation model is numerical and measurable so as to minimize subjectivity.

Blairlogie's CIO, James Smith, is responsible for making the country allocation decisions. His decision is derived from the results of their country allocation model and individual consultation with each regional specialist. Most countries have a +/-5% weightings to EAFE except Japan and the United Kingdom. Their weightings are +5% to –15%.

Sector Selection/Allocation

Blairlogie's Sector/Industry exposure varies depending on the size of the sector and its importance within a market. Typically, their maximum sector position is 1.5 times the market weight and a minimum sector position is .5 times the sector weight for the large sectors and a zero weighting for the small sectors. General maximum is no more than 25% in any one sector.

Stock Selection
Blairlogie devotes most of their time to the larger stocks within each country component of the EAFE index. Within that universe, they analyze each stock on 10-12 factors such as Price/Earnings, Price/Book, change in consensus earnings estimates and recent price history. Each stock is scored relative to every other stock. For each factor these scores are summed to produce an overall favourability ranking.

Once the stock screens have been completed the output is analyzed. They then conduct due diligence. They study balance sheet data, investigate recent news items on the company, speak to analysts and verify earnings expectations. They visit their countries, companies, other analysts, economists and local governments. The responsibility for stock selection lies with portfolio managers. Each portfolio manager has complete authorship and importantly, specific accountability for the stocks bought or sold in their respective countries.

Currency
Blairlogie generally has a passive approach to currency management. They would consider hedging their position for risk reduction reasons if they feel they are carrying an extreme risk due to their market weightings.

Statistics as of: 5/31/99

	International EAFE Equity
Number or Portfolio Managers:	5
Number of Analysts:	2
Number of Traders:	5* (*In-house traders are the same people as portfolio managers.)
EAFE Assets:	$480.8M
EAFE Accounts:	2
Largest EAFE Account:	$374.3
Smallest EAFE Account:	$106.5
Portfolio Characteristics:	
Cash:	Try to stay between 0-3%, Have a maximum of 10%
Countries:	13
Stocks:	160-200 stocks
3 Yr. avg. turnover:	40%
AIMR Compliant?:	Y
Value Added:	Market allocation Stock selection

Investment Manager: BLAIRLOGIE

Benchmark: EAFE

		---PORTFOLIO---		---BENCHMARK---		--------VAM--------	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93	Q1	12.95		11.99		0.86	
	Q2	9.21		10.06		-0.77	
	Q3	8.69		6.63		1.93	
	Q4	1.38	35.92	0.86	32.56	0.51	2.54
94	Q1	4.85		3.50		1.31	
	Q2	5.69		5.11		0.56	
	Q3	0.34		0.10		0.24	
	Q4	-2.64	8.26	-1.02	7.78	-1.64	0.44
95	Q1	3.94		1.86		2.04	
	Q2	0.93		0.73		0.21	
	Q3	9.12		4.17		4.75	
	Q4	3.78	18.81	4.05	11.21	-0.26	6.83
96	Q1	3.40		2.89		0.50	
	Q2	2.45		1.58		0.85	
	Q3	-1.00		-0.13		-0.88	
	Q4	1.79	6.75	1.59	6.05	0.20	0.67
97	Q1	-1.07		-1.57		0.50	
	Q2	11.41		12.98		-1.39	
	Q3	-1.47		-0.70		-0.78	
	Q4	-5.25	2.90	-7.83	1.78	2.80	1.10
98	Q1	19.62		14.71		4.28	
	Q2	5.39		1.06		4.29	
	Q3	-14.72		-14.21		-0.59	
	Q4	18.72	27.63	20.66	20.00	-1.61	6.36
99	Q1	-0.07		1.39		-1.45	
Latest:							
1 yr			6.62		6.06		0.52
3 yr			10.65		8.47		2.01
5 yr			11.44		8.75		2.47
Cum 9301-9903			15.41		12.49		2.60
Std Dev			14.41		14.54		3.33

Step two subjects the most undervalued companies to fundamental corporate analysis by investment professionals in and outside the U.S. INVESCO tests the probability that the past financial record, which enabled the company to achieve a favorable valuation ranking can, be extended. This produces a purchase list which consists of 125-150 securities.

Step three is the portfolio design stage, and it is INVESCO's objective to maximize the use of the most attractive stocks on their purchase list while ensuring an appropriate level of overall diversification. An optimization process attempts to maximize the portfolio's overall relative valuation ranking and control risk with R-squared and tracking error.

Currency
They have not found it necessary to hedge the portfolio. INVESCO would only hedge in extreme conditions.

Statistics as of: 5/31/99

	International EAFE Equity
Number or Portfolio Managers:	6
Number of Analysts:	3
Number of Traders:	3
EAFE Assets:	$5,885M
EAFE Accounts:	137
Largest EAFE Account:	$784M (6 over $400M)
Smallest EAFE Account:	$ 10M
Portfolio Characteristics:	
Cash:	3.6% avg. (min 2.9%, max 4.9%)
Countries:	15-20 countries (have 15 as minimum for Diversification)
Stocks:	50-60 stocks
3 Yr. avg. turnover:	25%
AIMR Compliant?:	Y
Value Added:	Bottom-up stock selection process

	Investment Manager:	INVESCO GLOBAL ASSET MANAGEMENT				
	Benchmark:	EAFE				
	---PORTFOLIO---		---BENCHMARK---		-------VAM-------	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
93 Q2	6.01		10.06		-3.68	
Q3	7.09		6.63		0.43	
Q4	9.83	24.68	0.86	18.37	8.89	5.33
94 Q1	-2.09		3.50		-5.40	
Q2	2.16		5.11		-2.80	
Q3	2.98		0.10		2.88	
Q4	-0.83	2.15	-1.02	7.78	0.19	-5.22
95 Q1	1.08		1.86		-0.77	
Q2	5.06		0.73		4.31	
Q3	4.57		4.17		0.38	
Q4	6.38	18.13	4.05	11.21	2.24	6.22
96 Q1	5.84		2.89		2.86	
Q2	3.50		1.58		1.89	
Q3	2.36		-0.13		2.49	
Q4	9.36	22.64	1.59	6.05	7.65	15.64
97 Q1	1.46		-1.57		3.08	
Q2	15.35		12.98		2.10	
Q3	2.45		-0.70		3.18	
Q4	-3.61	15.57	-7.83	1.78	4.57	13.55
98 Q1	14.82		14.71		0.09	
Q2	0.29		1.06		-0.76	
Q3	-15.23		-14.21		-1.18	
Q4	15.96	13.19	20.66	20.00	-3.90	-5.67
99 Q1	-0.37		1.39		-1.74	
Latest:						
1 yr		-1.78		6.06		-7.40
3 yr		14.73		8.47		5.77
5 yr		14.52		8.75		5.31
Cum 9304-9903		15.75		10.93		4.34
Std Dev		14.23		14.50		5.81

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Manager Fact Sheet

Manager: Montgomery Asset Management, LLC

General Style: Top-down, Bottom-up long-term growth with attractive valuation.

Philosophy

Montgomery believes that primary, original research combined with sector specialization provides a long term, sustainable investment edge in the developed international markets. Value is added through analysts' sector expertise and insight to companies' ratings within their peer groups, leading to earnings estimates different from the "street" consensus.

Approach

Montgomery's international equity investing combines thorough sector and country research with a disciplined bottom-up stock selection process to identify securities with long-term projected earnings growth, attractive valuation versus applicable peers, positive business momentum and the potential to achieve minimum required returns.

Country Selection/Allocation

Country weights are a result of Montgomery's stock selection process, their country research, client constraints and their internal risk control guidelines. When a conflict exists between the results of country analysis and stock analysis the stock decision prevails.

Montgomery imposes maximum constraints on its portfolio holdings.

Sector Selection/Allocation

Industry and sector weights are a result of Montgomery's stock selection process, client constraints and their internal risk (diversification) guidelines. Industry and sector constraints are in place to assure prudent diversification.

Stock Selection

Montgomery's team of 16 investment professionals are located in their San Francisco headquarters. The analysts follow companies by updating financial models, maintaining a consistent dialogue with company management, and keeping track of the activities of competitors. Analysts visit over 1000 EAFE firms each year. The criteria for stock selection are long-term projected earnings growth, attractive valuation versus applicable peers, positive business momentum and the potential to achieve minimum required returns.

Montgomery's portfolios tend to hold a slightly lower weighted-average market capitalization than EAFE. Their ability to generate a differentiated opinion and achieve consistent management access tends to occur more frequently in companies below the largest tier. Montgomery looks for companies that offer the most robust earnings growth and yield for the best price. They also look for companies whose business fundamentals are improving, because business momentum is the precursor to earnings momentum and highly correlated with stock price performance.

Currency
Montgomery does not actively hedge currencies. They believe that their strengths lie in fundamental equity analysis and portfolio management.

Statistics as of: 5/31/99

	International EAFE Equity
Number or Portfolio Managers:	3
Number of Analysts:	13
Number of Traders:	9
EAFE Assets:	$1,192 M
EAFE Accounts:	16
Largest EAFE Account:	$215M
Smallest EAFE Account:	$ 5M
Portfolio Characteristics:	
Cash:	5-10%
Countries:	15-39, average 25
Stocks:	50-60
3 Yr. avg. turnover:	75% over the course of a full market cycle. The range over the last 3 yr. was 75-125%
AIMR Compliant?:	Y
Value Added:	75% stock selection 15% industry selection 10% country selection

		Investment Manager:	MONTGOMERY INTERNATIONAL			
		Benchmark:	EAFE			

		---PORTFOLIO---		---BENCHMARK---		--------VAM--------	
		Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
95	Q3	4.21		4.17		0.04	
	Q4	2.78	7.11	4.05	8.39	-1.22	-1.17
96	Q1	4.97		2.89		2.02	
	Q2	6.29		1.58		4.63	
	Q3	1.22		-0.13		1.35	
	Q4	6.26	20.00	1.59	6.05	4.59	13.15
97	Q1	1.48		-1.57		3.09	
	Q2	11.11		12.98		-1.66	
	Q3	3.62		-0.70		4.36	
	Q4	-4.60	11.46	-7.83	1.78	3.51	9.52
98	Q1	19.14		14.71		3.86	
	Q2	6.52		1.06		5.40	
	Q3	-17.22		-14.21		-3.50	
	Q4	23.15	29.39	20.66	20.00	2.07	7.82
99	Q1	-3.02		1.39		-4.35	
Latest:							
1 yr			5.33		6.06		-0.69
3 yr			16.93		8.47		7.80
Cum 9507-9903			17.09		13.52		7.28
Std Dev			15.09		17.49		7.20

Tab G

COMMITTEE REPORT

DATE: November 30, 1999

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on November 15, 1999 to consider the following agenda items:

- Review of manager performance for the period ending September 30, 1999
- Review the performance of the 457 plan mutual funds and fixed fund option
- Annual review of investment manager guidelines
- Discussion of the bond manager search recommendations
- Recommendation to terminate Investment Advisers, Inc. from the bond manager program

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

INFORMATION ITEMS:

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

- *Stock Managers*

For the period ending September 30, 1999, the **domestic stock manager program** out-performed the Wilshire 5000 for the quarter and the three-year period, while under-performing for the latest one and five-year periods. The **current managers** out-performed the benchmark and the Wilshire 5000 in all time periods.

Time period	Total Program	Wilshire 5000	Current Mgrs. Only	Aggregate Benchmark
Quarter	-6.4%	-6.6%	-6.4%	-6.6%
1 Year	25.9	26.9	27.5	27.0
3 Years	22.1	21.9	23.8	22.3
5 Years	22.5	22.7	24.0	22.9

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, 1999, the **bond manager program** and **current managers** outperformed the Lehman Aggregate and the aggregate benchmark for the one, three and five year time periods and matched the Lehman Aggregate and the benchmark for the quarter.

Time period	Total Program	Lehman Aggregate
Quarter	0.7%	0.7%
1 Year	-0.1	-0.4
3 Years	7.1	6.8
5 Years	8.1	7.8

Current Mgrs. Only	Aggregate Benchmark
0.7%	0.7%
-0.1	-0.4
7.1	6.8
8.1	7.8

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

2. **Review the performance of the 457 plan mutual funds and fixed fund option.**

The Committee reviewed the performance of the six mutual funds in the 457 State Deferred Compensation Plan.

As reported last quarter, the structure of the 457 State Deferred Compensation Plan changed as of July 1, 1999 to allow direct access to mutual funds. The SBI has contracted directly with the mutual funds and will evaluate each of these relationships based on criteria outlined in the SBI's Manager Continuation Policy Paper. Staff believes it is appropriate to review the performance of these managers through the Domestic Manager Committee. Performance in future periods will be reported in the same format as that of the external investment managers. Performance of the 457 plan mutual fund managers and the MN Fixed Fund insurance company managers begins on the **fourth "blue page"** of this Tab.

3. **Annual review of investment manager guidelines**

The SBI has established guidelines for the external and internal managers that govern their investment actions. While these guidelines may be changed at any time, they are part of the formal contractual agreement between the SBI and the manager. The guidelines address return objectives, risk constraints, benchmarks, authorized investments, performance evaluation, communication, and reporting requirements.

Staff and the Committee review the guidelines annually for accuracy and completeness. This year, the primary changes were to increase the consistency of language across all asset classes and to incorporate greater detail in the requirements and constraints. In addition, the following modifications were incorporated into the guidelines:

- *Semi-passive bond managers.* Staff tightened the sector weighting guidelines to improve this risk control measure. The managers have not needed or used the full range of sector weightings in the past, and staff believes it should be incumbent upon the manager to start a dialogue if a larger sector weighting becomes necessary.

- *All active stock managers.* Staff added language to the guidelines to incorporate the SBI's current policy on tobacco related stocks.

- *All external managers.* Staff added language to the guidelines requiring managers to certify, in writing, annually that the manager has been in compliance with all of the SBI's investment guidelines and to notify the SBI immediately if the portfolio moves outside of these guidelines.

The investment guidelines for the domestic stock managers (active, emerging, semi-passive, and passive), bond managers (active and semi-passive), Assigned Risk Plan manager (bond), and internal managers (stock, bond, and cash management) are attached beginning on **page 5**.

4. Discussion of the bond manager search recommendations

The Fixed Income Search Committee conducted a search for bond managers and presented their recommendations to the Domestic Manager Committee for informational purposes. The Search Committee interviewed four finalist candidates on November 10, 1999. Based on the interviews, questionnaire responses, and information gathered and analyzed by staff and the SBI's consultants, the Committee is recommending that three (3) firms be retained by the SBI at this time:

Deutsche Asset Management	Philadelphia, PA
Dodge & Cox Investment Managers	San Francisco, CA
Metropolitan West Asset Management	Los Angeles, CA

ACTION ITEMS:

5. Recommendation to terminate Investment Advisors, Inc. from the Bond Manager Program

The Domestic Manager Committee voted to recommend termination of the Investment Advisers, Inc. (IAI) from the bond manager program. IAI has struggled with management and investment staff turnover, poor performance, client losses, and declining assets under management.

IAI has under-performed their benchmark for the one, three, and five-year periods ending September 30, 1999. Since the portfolio's July 1984 inception, IAI has matched the benchmark. Over the last two years, five fixed income portfolio managers have left the firm and have not been replaced by an external hire; rather, IAI has promoted existing staff and expanded their responsibilities. Fixed income assets under management have fallen from over $6 billion in 1996 to approximately $1 billion today. The SBI account now represents over 60% of IAI's total fixed income assets under management. Given the organizational instability, turnover, declining assets, and poor performance, the Committee recommends that Investment Advisers, Inc. be terminated.

RECCOMENDATION:
The Committee recommends that the SBI terminate its contractual relationship with Investment Advisers, Inc. for fixed income investment management services.

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL ACTIVE DOMESTIC COMMON STOCK MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The external common stock managers are expected to deliver cumulative returns in excess of a predetermined benchmark portfolio. Over time, each manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of three (3.0) percentage points.

(b) The actual portfolio will generate positive cumulative excess returns over the benchmark over rolling five-year periods. The goal is to obtain an information ratio of 0.20 or greater. The information ratio is the ratio of annualized excess return to active risk.

2. BENCHMARKS

Each manager must provide and maintain a customized benchmark (normal) portfolio, approved by the SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio provided by the manager must satisfy the following characteristics:

(a) **Unambiguous**. The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable**. The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable**. It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate**. The benchmark is consistent with the manager's investment style or biases.

(e) **Reflective of current investment opinions.** The manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE INVESTMENTS

The investment managers will be restricted to purchasing common stocks, stock index futures, and the SBI STIF fund. The manager may hold equity options, preferred stocks and warrants if received from underlying assets. The manager must have the SBI's written approval to purchase equity options, preferred stocks and warrants. The investments of each manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on the New York Stock Exchange (NYSE) or American Stock Exchange (ASE). These include American Depository Receipts (ADR's) traded on the NYSE or ASE, but exclude ADR's traded over-the-counter.

(c) Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The manager shall not hold more than five (5) percent of the total outstanding shares of any corporation in the SBI's portfolio.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) Managers are expected to hold concentrated portfolios, generally, 30-40 securities for large cap portfolios and 60-120 securities for mid to small cap portfolios. The manager may request SBI approval to deviate from these guidelines.

(i) Stock options and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be done on a fully collateralized basis.

(j) With regards to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis:

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. PROXY VOTING

The SBI is responsible for proxy voting.

8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Revised: December 1999

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL EMERGING DOMESTIC COMMON STOCK MANAGERS

The investment actions of State Board of Investment (SBI) external active domestic common stock managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The external common stock managers are expected to deliver cumulative returns in excess of a predetermined benchmark portfolio. Over time, each manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of three (3.0) percentage points.

(b) The actual portfolio will generate positive cumulative excess returns over the benchmark over rolling five-year periods. The goal is to obtain an information ratio of 0.20 or greater. The information ratio is the ratio of annualized excess return to active risk.

2. BENCHMARKS

Each manager must provide and maintain a customized benchmark (normal) portfolio, approved by the SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio provided by the manager must satisfy the following characteristics:

(a) **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable.** The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable.** It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate.** The benchmark is consistent with the manager's investment style or biases.

(e) **Reflective of current investment opinions.** The manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE INVESTMENTS

The investment managers will be restricted to purchasing common stocks, stock index futures, and the SBI STIF fund. The manager may hold equity options, preferred stocks and warrants if received from underlying assets. The manager must have the SBI's written approval to purchase equity options, preferred stocks and warrants. The investments of each manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces and/or be listed on the New York Stock Exchange (NYSE) or American Stock Exchange (ASE). These include American Depository Receipts (ADR's) traded on the NYSE and the ASE, but exclude ADR's traded over-the-counter.

(c) Manager may not purchase restricted stock, letter stock, and private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The manager shall not hold more than five (5) percent of the total outstanding shares of any corporation in the SBI's portfolio.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) Managers are expected to hold concentrated portfolios, generally, 30-40 securities for large cap portfolios and 60-120 securities for mid to small cap portfolios. The manager may request SBI approval to deviate from these guidelines.

(i) Stock options and stock index futures, purchased through a regulated exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All option and future transactions must be done on a fully collateralized basis.

(j) With regards to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy within twelve (12) business days after quarter end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. PROXY VOTING

The SBI is responsible for proxy voting.

8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to the total funds of the SBI manager and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

12. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Date: December 1999

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) external semi-passive domestic common stock managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The Manager is expected to deliver cumulative returns in excess of the predetermined benchmark provided to the Manager. The Manager is expected to achieve the following:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of one (1.0) percentage points, but no more than one and one half (1.5) percentage points.

(b) The actual portfolio will generate positive cumulative excess returns over the benchmark over rolling five-year periods. The goal is to obtain an information ratio of 0.10 or greater. The information ratio is the ratio of annualized excess return to active risk.

2. BENCHMARK INDEX

The benchmark will be a tilted index/customized benchmark furnished by the SBI. SBI reserves the right to change the benchmark index upon prior notification to Manager.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE INVESTMENTS

The investment managers will be restricted to purchasing common stocks, stock index futures, and the SBI STIF fund. The manager may hold equity options, preferred stocks and warrants if received from underlying assets. The manager must have the SBI's written approval to purchase equity options, preferred stocks and warrants. The investments of each manager must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) The stocks held must be issued by corporations organized under the laws of the U.S. or its states, the Dominion of Canada or its provinces, and/or be listed on the New York Stock Exchange (NYSE) or American Stock Exchange (ASE). These include American Depository Receipts (ADR's) traded on the NYSE or ASE, but exclude ADR's traded over-the-counter.

(c) Manager may not purchase restricted stock, letter stock, or private placements.

(d) Debt securities, except cash equivalents, may not be purchased in the Account.

(e) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

(f) The manager shall not hold more than five (5) percent of the total outstanding shares of any corporation in the SBI's portfolio.

(g) Cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(h) Stock index futures, purchased through a regulated future exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be done on a fully collateralized basis.

(i) With regards to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of its revenue from the manufacture of consumer tobacco products.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis:

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. PROXY VOTING

The SBI is responsible for proxy voting.

8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Revised: December 1999

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) external passive domestic common stock manager will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The external passive common stock manager is expected to deliver cumulative returns that closely track the predetermined index provided to the Manager. The Manager is expected to achieve the following:

(a) The actual portfolio will realize tracking error, relative to the benchmark, no greater than $\pm$ 60 basis points over any twelve month period.

(b) Over time, the return should be no more than negative 10 basis points relative to the predetermined benchmark due to fees, transaction costs, etc.

2. BENCHMARK INDEX

The benchmarks will be the Wilshire 5000. SBI reserves the right to change the benchmarks upon notification to manager.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE INVESTMENTS

The investment manager will be restricted to holding common stocks that are in the benchmark index, stock index futures, and the SBI STIF fund. The investments must satisfy the following criteria and constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual investment manager holdings will be monitored by the SBI staff to assure compliance.

(c) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

(d) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be done on a fully collateralized basis.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's account, and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. PROXY VOTING

The SBI is responsible for proxy voting.

8. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Revised: December 1999

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL ACTIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active fixed income managers will be governed and evaluated by the following guidelines:

1. RETURN OBJECTIVE AND RISK CONSTRAINT

Return Objective
The portfolio is expected to achieve annualized returns of 25 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return above the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint
The portfolio's annualized standard deviation of excess returns should not exceed 2.50 percentage points over rolling five-year periods.

2. BENCHMARK

The designated benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). Performance will be monitored and evaluated against the Lehman Aggregate.

The SBI reserves the right to change the benchmark upon notification to the manager.

3. ACCOUNT RECONCILIATION

The portfolio will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI's portfolio. The Manager agrees to accept the prices established by the custodian. The manager will review the custodian's pricing on a monthly basis and report any differences or discrepancies to the custodian. The Manager may appeal to the SBI if the Manager and the custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment mangers.

5. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments and interest rate futures on U.S. Treasury securities. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities. The investments must satisfy the following criteria:

a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by a full faith and credit of the Government. The obligations in which the board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

   (1) the principal and interest of obligations incorporated or organized under the laws of the Dominion of Canada or any province thereof shall be payable in United States dollars; and

   (2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

   (3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

With prior written SBI authorization, the Manager may purchase and invest up to 10% of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in BB and B rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations.

c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

f) The Manager may invest up to 5 percent of the market value of the portfolio in non-rated securities, which if rated by a nationally recognized rating agency would have a rating of BBB of better.

g) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, the Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

h) With prior written SBI authorization, the Manager may purchase and invest up to 10% of the portfolio, measured on a market value or contribution to duration basis, whichever is less, in non-dollar bonds. The Manager has discretion to hedge the currency exposure up to the 10% limit using currency forwards, futures or options.

i) Interest rate options and interest rate futures on U.S. Treasury securities must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be done on a fully collateralized basis. The portfolio may not be leveraged in any way.

6. DURATION

The option-adjusted duration of the portfolio must be within +/- 2 years of the duration of the Lehman Brothers Aggregate Index.

7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within twelve (12) business days after quarter end. The commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight organizational changes that may impact management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

8. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

The portfolio will be managed on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the portfolio without the written approval of the SBI.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE FIXED INCOME MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) external active fixed income managers will be governed and evaluated by the following guidelines:

1. RETURN OBJECTIVE AND RISK CONSTRAINT

Return Objective
The portfolio is expected to achieve annualized returns of at least 10 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.20 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return above the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint
The portfolio's annualized standard deviation of excess returns should not exceed 0.50 percentage points over rolling five-year periods.

2. BENCHMARK

The designated benchmark is the Lehman Brother's Aggregate Bond Index (Lehman Aggregate). Performance will be monitored and evaluated against the Lehman Aggregate.

The SBI reserves the right to change the benchmark upon notification to the manager.

3. ACCOUNT RECONCILIATION

The portfolio will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI's portfolio. The Manager agrees to accept the prices established by the custodian. The manager will review the custodian's pricing on a monthly basis and report any differences or discrepancies to the custodian. The Manager may appeal to the SBI if the Manager and the custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment mangers.

5. ELIGIBLE INVESTMENTS

The Manager may purchase fixed income instruments, interest rate futures on U.S. Treasury securities. With prior written SBI authorization, the Manager may purchase interest rate options on U.S. Treasury securities. The investments must satisfy the following criteria:

a) Governmental Bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by a full faith and credit of the Government. The obligations in which the board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

   (1) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof shall be payable in United States dollars; and

   (2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

   (3) the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

f) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank. With prior written SBI authorization, The Manager may purchase and manage cash equivalent reserves outside of the SBI's STIF fund.

g) Interest rate options and interest rate futures on U.S. Treasury securities must be purchased through a governmentally regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be done on a fully collateralized basis. The portfolio may not be leveraged in any way.

6. INVESTMENT CONSTRAINTS

The investment parameters are based on contribution to duration. Contribution to duration is the sector's percentage of the Lehman Brothers Aggregate Bond Index multiplied by the sector's duration.

Sector Weighting Guidelines

Treasury/Agency Sector	± 50% of the Lehman Brothers Government sector contribution to duration.
Mortgage Sector	± 50% of the Lehman Brothers Mortgage-Backed sector contribution to duration.
Corporate Sector	± 50% of the Combined Lehman Brothers Corporate and Asset-Backed sectors contribution to duration.

Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate Index, measured on a contribution to duration basis. These must be eligible securities as defined in #5 above.

* Issues collateralized by securities that are part of the index are not considered to be outside the index. For instance, CMO's collateralized by mortgages that are part of the index are not considered to be outside the index.

Corporate Credit Guidelines

AAA/AA $\pm$ 75% of the combined Lehman Brothers Corporate AAA and AA contribution to duration

A/BBB $\pm$ 50% of the combined Lehman Brothers Corporate A and BBB contribution to duration

Duration Guidelines

The option-adjusted duration of the portfolio must be within +/- 0.2 years of the duration of the Lehman Brothers Aggregate Index.

7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy within twelve (12) business days of the end of each quarter. The commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight organizational changes that may impact management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

8. OPTIONS AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

The portfolio will be managed on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the portfolio without the written approval of the SBI.

10. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Managers will be notified in advance of changes to the investment guidelines.

11. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
ASSIGNED RISK PLAN
BOND MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) Assigned Risk Plan Bond Manager will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVE

Manager is expected to deliver cumulative returns in excess of a predetermined benchmark portfolio (see Benchmark below). Excess returns are expected to be 10 basis points net of fees over time on an annualized basis.

2. BENCHMARK

Manager must provide and maintain a customized benchmark (normal) portfolio, agreed upon by both the manager and SBI, for the purpose of performance evaluation and risk measurement. The benchmark portfolio must satisfy the following characteristics:

(a) **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.

(b) **Investable.** The option is available to forego active management and simply hold the benchmark portfolio.

(c) **Measurable.** It is possible to readily calculate the benchmark's return on a monthly basis.

(d) **Appropriate.** The benchmark is consistent with Manager's investment style or biases.

(e) **Reflective of current investment opinions.** Manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.

(f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.

The benchmark portfolio for this Account will be constructed to compliment the liability stream out to ten years of the Assigned Risk Plan. In meeting this objective, the Manager and SBI staff have agreed upon a benchmark portfolio consisting of the following indexes:

20% Merrill Lynch (ML) 1-3 Yr. Treasury, 33% ML 1-3 Yr Corporate,
3% ML 3-5 Yr. Treasury, 3% ML 3-5 Yr. Corporate,
10% ML 5-7 Yr. Treasury, 6% ML 5-7 Yr. Corporate
and 25% ML Mortgage Master

Performance will be monitored and evaluated against this custom benchmark.

3. ACCOUNT RECONCILIATION

The portfolio will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI portfolio. The Manager agrees to accept the prices established by the Custodian. The manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian and the SBI. The Manager may appeal to the SBI if the Manager and the Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE INVESTMENTS

Fixed income investments must satisfy the following criteria and constraints:

(a) Government obligations of the U.S., its agencies, Canada, its provinces, or U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of *Minnesota Statutes* (MS) 11A.24 subdivision 2.

(b) U.S. and Canadian corporate obligations must be payable in U.S. dollars; be among the top four quality categories by a nationally recognized rating agency if the security is rated; or deemed to be in the top four quality categories equivalent if the security is not rated; and otherwise comply with all provisions of MS 11A.24 subdivision 3.

(c) Other obligations not specified in (a) or (b) must meet the provisions of MS 11A.24 subdivision 4.

(d) Manager is not constrained regarding:

(1) transactions turnover
(2) use of covered call options as hedging devices
(3) number of fixed income issues which must be held at any given point in time
(4) the use of fixed income index futures or options to adjust the effective total portfolio duration. All futures and options positions must be fully collateralized and must be purchased through a regulated exchange. Over-the-counter instruments are not permitted.

(e) The Manager may purchase cash equivalent reserves, as necessary, or they may be invested in the SBI's STIF fund, managed by its custodian bank.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) Managers are expected to meet with staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after the quarter-end. The commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight organizational changes that may impact management of the SBI's portfolio, and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and SBI's custodian of any litigation relating to any holding in the portfolio. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

The portfolio will be managed on a separate account basis. All assets will be held in custody by the SBI's custodian bank. All securities held in the portfolio must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

9. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. Manager will be notified in advance of changes to the investment guidelines.

10. COMPLIANCE WITH GUIDELINES

The Manager will certify, annually in writing, that they are in compliance with these Investment Guidelines. The Manager will notify the SBI if, at any time throughout the year, they are not in compliance with these guidelines.

Revised: December 1999

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
INTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) internal passive domestic common stock manager will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVES

The internal passive common stock manager is expected to deliver cumulative returns that closely track the predetermined index provided to the Manager. The Manager is expected to achieve the following:

(a) The actual portfolio will realize tracking error, relative to the benchmark, no greater than ± 20 basis points over any twelve month period.

(b) Over a 3 to 5 year period, the return should be no more than negative 10 basis points relative to the predetermined benchmark due to transaction costs, etc.

2. BENCHMARK INDEX

The benchmark is the S&P 500. SBI reserves the right to change the benchmark upon notification to the Manager.

3. ACCOUNT RECONCILATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.

4. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding common stocks that are in the benchmark index, stock index futures, and the SBI STIF fund. The investments must satisfy the following criteria and constraints:

(a) Total SBI holdings in any one corporation shall not exceed five (5) percent of the total outstanding shares of that corporation. Individual investment manager holdings will be monitored by SBI staff to assure compliance.

(b) Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be done on a fully collateralized basis.

5. COMMUNICATION

Manager will meet with the Executive Director/Assistant Executive Director quarterly to review the results of the manager's investment decision-making process. Manager is expected to report on the tracking of the portfolio relative to the benchmark.

The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, and discuss future strategy.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. OPTION AND FUTURES TRADING AGREEMENT

Any option and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

8. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis.

9. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
INCOME SHARE ACCOUNT

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

1. RETURN OBJECTIVE AND RISK CONSTRAINT

Return Objective
The portfolio is expected to achieve annualized returns of at least 20 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return over the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint
The portfolio's annualized standard deviation of excess returns will not exceed 2.0% over rolling five-year periods.

2. BENCHMARKS

The Manager's benchmark is used to evaluate performance and measure risk.

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

3. ACCOUNT RECONCILITATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may purchase fixed income instruments, interest rate options and futures on treasuries, and cash equivalents. The investments must satisfy the following criteria:

a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by a full faith and credit of the issuer. The obligations in which the board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

   (1) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof shall be payable in United States dollars; and

   (2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

   (3) the Manager may not hold more than 5% of the portfolio in one issuer.

   The Manager may invest up to 10% of the portfolio in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations.

c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

g) Interest rate options and interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be done on a fully collateralized basis.

h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with Director/Assistant Director quarterly to review the results of the manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year, future strategy, and highlight any organizational changes which may impact management of the SBI's account.

6. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

7. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis.

8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
INTERNAL ACTIVE FIXED INCOME MANAGER
TRUST FUND POOL

The investment actions of Minnesota State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by the following guidelines:

1. RETURN OBJECTIVE AND RISK CONSTRAINT

Return Objective
The portfolio is expected to achieve annualized returns of at least 15 basis points above the benchmark, over rolling five-year periods, net of fees. The goal is to obtain an information ratio of 0.10 or greater over rolling five-year periods. The information ratio is the ratio of the portfolio's annualized excess return over the benchmark to the annualized standard deviation of the excess returns.

Risk Constraint
The portfolio's annualized standard deviation of excess returns will not exceed 1.50% over rolling five-year periods.

2. BENCHMARKS

The Manager's benchmark is used to evaluate performance and measure risk.

The benchmark is the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). SBI reserves the right to change the benchmark upon notification to the Manager.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian.

4. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may purchase fixed income instruments, interest rate options and futures on treasuries, and cash equivalents. The investments must satisfy the following criteria:

(a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issue is backed by a full faith and credit of the issuer. The obligations in which the board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank for Reconstruction and Development, the Inter- American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

(b) The Manager may invest funds in fixed income securities issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any province thereof provided that:

(1) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any province thereof shall be payable in United States dollars; and

(2) obligations shall be rated among the top four quality categories by a nationally recognized rating agency; and

(3) the Manager may not hold more than 5% of the portfolio in one issuer.

The Manager may invest up to 10% of the portfolio measured on a market value or contribution to duration basis, whichever is less, in BB rated corporate bonds provided that 1) participation is limited to 20 percent of a single offering and 2) participation is limited to 10 percent of an issuer's total outstanding obligations.

c) Mortgage-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer, excluding the following issuers: Government National Mortgage Association, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation.

d) Asset-backed securities purchased must be rated in the top four quality categories by a nationally recognized rating agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

e) Yankee bonds and Eurodollar bonds purchased must be rated in the top four quality categories by a nationally recognized agency, and the Manager shall not hold more than 5 percent of the market value of the portfolio in one issuer.

f) The Manager may manage cash equivalent reserves or they may be invested in the SBI's STIF fund, managed by its custodian bank.

g) Interest rate options and interest rate futures on U.S. treasury securities must be purchased through a regulated exchange. Over-the-counter instruments are not permitted. All options and future transactions must be done on a fully collateralized basis.

h) The duration of the portfolio must stay within +/-1 year of the benchmark duration.

5. COMMUNICATION

The Manager is expected to report monthly on returns and portfolio statistics to the Executive Director and Assistant Executive Director. In addition, Manager will meet with Director/Assistant Director quarterly to review the results of the manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy, within twelve (12) business days of quarter-end. The Commentary will summarize performance results over the most recent quarter and year and future strategy.

6. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

7. SEPARATE ACCOUNT AND DAILY PRICING

All assets will be held in custody by the SBI's custodian bank. All securities held in the Account must be capable of being priced by the custodian on a daily basis.

8. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

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MINNESOTA STATE BOARD OF INVESTMENT

INTERNAL SHORT-TERM CORPORATE FIXED-INCOME MANAGER INVESTMENT GUIDELINES

The investment actions of the State Board of Investment (SBI) internal short-term corporate fixed-income manager will be governed and evaluated using the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the funds are to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolio is expected to deliver annualized returns that beat the benchmark over time.

2. BENCHMARKS

The benchmark is the Lehman 1-3 year government treasury indexes. SBI reserves the right to change the benchmark upon notification to the Manager.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The investments must satisfy the following criteria:

a) The Manager may invest funds in fixed income securities with one to three years remaining to maturity and issued or guaranteed by a corporation organized under the laws of the United States or any state thereof, or the Dominion of Canada or any providence thereof provided that:

   1) the principal and interest of obligations of corporations incorporated or organized under the laws of the Dominion of Canada or any providence thereof shall be payable in United States dollars; and

   2) obligations shall be A+/A1 rated or better by two nationally recognized rating organizations.

b) Yankee corporate bonds with one to three years remaining to maturity, encompassing those foreign-domiciled issuers who borrow U.S. dollars and pay in U.S. dollars, and A-rated or better, by a nationally recognized rating organization.

c) Euro-dollar corporate obligations with one to three years remaining to maturity denominated in U.S. dollars and are A-rated or better by a nationally recognized rating organization.

d) Up to 20% of the portfolio may be invested in U.S. dollar-denominated yankee or euro-dollar securities;

e) Cash will be swept to the ITC fund.

f) No one issuer may exceed 10% of the portfolio's total value.

4. IMPLEMENTATION

A. The Manager is required to limit capital realized net daily gains and losses to not more than 10% of the daily cash income distribution of the Invested Treasurer's Cash Pool unless prior permission of the Head of Short-Term Trading and either the SBI Executive Director or Assistant Executive Director has been received.

B. Manager must have a clear description of a security before purchase. Manager must be able to certify daily the exact principal outstanding, the interest rate and the calculation method for each security.

C. Portfolio duration will deviate no more than +/-.2 years from the benchmark.

5. COMMUNICATION

On a monthly basis the Manager will meet with the Short-Term Traders to discuss cash flows and other relevant issues. The Manager is expected to report monthly on returns and portfolio statistics to the Director/Assistant Director. In addition, Manager will meet with Director/Assistant Director quarterly to review the results of the manager's investment decision-making process. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

6. CUSTODY OF ASSETS

All assets will be held in custody by the State's custodial bank. All securities held in the portfolio must be capable of being priced by the custodian on a daily basis.

7. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: December 1999

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
INTERNAL POOLED CASH MANAGEMENT

The investment actions of the Minnesota State Board of Investment (SBI) internal pooled cash manager will be governed and evaluated by the following guidelines:

1. RISK/RETURN OBJECTIVES

The primary objectives of the funds are to preserve capital, maintain a high degree of liquidity and within these constraints provide a high level of current income.

The portfolios are expected to deliver annualized returns in excess of the benchmark return over time.

2. INVESTED TREASURER'S CASH FUND BENCHMARK

The major cash pool, the Invested Treasurer's Cash Fund, is evaluated against a blended benchmark. Currently that benchmark is composed of the Lehman 1-3 Year Government Bond Index ($1,200 million) and IBC All Taxable Money Fund Average Index. SBI reserves the right to change the benchmark upon notification to the Manager. Other cash portfolios are difficult to evaluate due to their unique purposes and funding requirements.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

The Manager may hold only fixed income investments that meet the criteria in *Minnesota Statutes*, section 11A.24. References to quality categories of rating organizations do not include modifiers that may be used within categories. The investments must satisfy the following criteria and constraints listed below:

a) Governmental bonds, notes, bills, mortgages, and other evidences of indebtedness provided the issues is backed by the full faith and credit of the issuer or the issue is rated among the top four quality rating categories by a nationally recognized rating agency. The obligations in which the board may invest under this subdivision include guaranteed or insured issues of (a) the United States, its agencies, its instrumentalities, or organizations created and regulated by an act of Congress; (b) Canada and its provinces, provided the principal and interest is payable in United States dollars; (c) the states and their municipalities, political subdivisions, agencies or instrumentalities; (d) the International Bank of Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, or any other United States Government sponsored organization of which the United States is a member, provided the principal and interest is payable in United States dollars.

b) U.S. and Canadian corporate obligations, including private placements, must be payable in U.S. dollars and be rated in the top three long term debt quality categories by a nationally recognized rating organization (NRRO).

c) Bankers acceptances and deposit notes of U.S. banks rated in the top three deposit quality categories by a NRRO.

d) Commercial paper, including asset backed commercial paper and rated private placement commercial paper, of U.S. corporations or their Canadian subsidiaries rated in the top commercial paper quality category by a NRRO. The Manager shall not hold more than the lesser of 10 percent of the issuers total outstanding commercial paper or 5% of the market value of the portfolio in one issuer.

e) Asset backed securities, including private placements, that are U.S. dollar denominated and rated in the top two long term debt quality categories by a NRRO.

f) Repurchase agreements must be backed by collateral meeting the requirements of *Minnesota Statutes*, section 11A.24 and:

   1) The dealer must be a primary dealer recognized by the New York Federal Reserve Bank, and:

      a. if done on a tri-party basis, the dealer must have short-term obligation ratings no lower than A2/P2.

      b. if done on a hold in custody basis, the dealer must have short-term obligation ratings no lower than A1/P1 and have net excess regulatory capital of at least $200 million.

   2) With a bank, the bank must have deposit ratings of A1/P1 and be among the largest one hundred banks as rated by deposits.

   3) If collateral is delivered to the state's federal reserve account, the counterparty may be any federally regulated bank or dealer.

g) Mortgage securities that are U.S. dollar denominated and rated in the top three categories by a NRRO.

h) International securities must be payable in U.S. dollars and must meet the same quality criteria as domestic securities.

i) The Cash Pools may not hold a security that exceeds five years to its final legal maturity.

j) The Cash Pools may not hold structured securities that are leveraged or tied to more than one index.

In aggregate, the investments must satisfy the following portfolio constraints:

a) A portfolio must not be leveraged.

b) Up to 20 percent of a portfolio may be invested in international securities.

c) Up to 5 percent of a portfolio may exceed three years to maturity.

4. COMMUNICATION

The Executive Director requires internal managers to communicate on a regular basis. The Manager is expected to meet with the Executive Director to review the results of the Manager's investment decision-making process on at least and monthly basis.

5. SEPARATE ACCOUNT

Manager will manage the Account on a separate account basis. All assets will be held in custody by the State's custodian bank.

6. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

Revised: December 1999

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Third Quarter, 1999

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COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending September, 1999

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
Alliance Capital	-3.4	-6.0	42.5	37.8	39.0	29.2	33.6	27.6	21.4	15.9	$1,728.50	8.5%
Brinson Partners	-13.3	-7.5	10.3	27.3	15.5	20.8	19.3	21.5	16.9	18.1	$657.87	3.2%
Cohen, Klingenstein & Marks	-6.7	-6.4	32.0	35.2	26.7	24.2	26.3	23.6	25.6	22.2	$380.79	1.9%
Forstmann-Leff	-5.5	-8.0	58.1	30.9	32.6	14.7	29.2	17.8	17.0	13.2	$785.98	3.9%
Franklin Portfolio	-5.6	-8.4	25.8	24.9	20.7	19.2	21.7	20.4	16.6	15.6	$575.70	2.8%
GeoCapital	1.2	-4.5	31.0	22.0	11.3	3.7	14.9	11.8	14.7	13.5	$519.67	2.6%
Lincoln	-3.3	-4.7	32.3	36.2	26.7	29.7	28.5	28.9	23.4	23.9	$900.59	4.4%
Oppenheimer	-9.9	-8.2	17.7	24.5	19.5	21.9	23.2	22.6	19.5	18.8	$752.85	3.7%
Emerging Managers (2)	-7.7	-7.1	25.9	32.3	19.6	20.0	21.0	20.9	19.7	19.7	$538.33	2.6%
Semi-Passive Managers (3)												
Franklin Portfolio	-6.9	-7.0	18.8	22.2	22.3	23.2			23.9	24.6	$2,144.44	10.5%
JP Morgan	-7.5	-7.0	22.3	22.2	23.4	23.2			24.8	24.6	$2,276.15	11.2%
Barclays Global Investors	-6.2	-7.0	20.6	22.2	22.0	23.2			24.6	24.6	$2,213.56	10.9%
Passive Manager (4)												
Barclays Global Investors	-6.5	-6.6	27.2	26.9	22.3	21.9			22.4	22.2	$6,884.44	33.8%
									Since 1/1/84			
Current Aggregate	-6.4	-6.8	27.5	26.8	23.8	22.3	24.0	22.8	17.7	15.0	$20,358.85	100.0%
Historical Aggregate (5)	**-6.4**	**-6.8**	**25.9**	**26.7**	**22.1**	**21.8**	**22.5**	**22.5**	**15.7**	**15.9**		
Wilshire Adjusted		-6.6		26.9		21.9		22.7		15.9		
Wilshire 5000		-6.6		26.9		21.9		22.7		16.1		

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

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Jack Koltes — **Assets Under Management: $1,728,495,335**

Investment Philosophy

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

Staff Comments

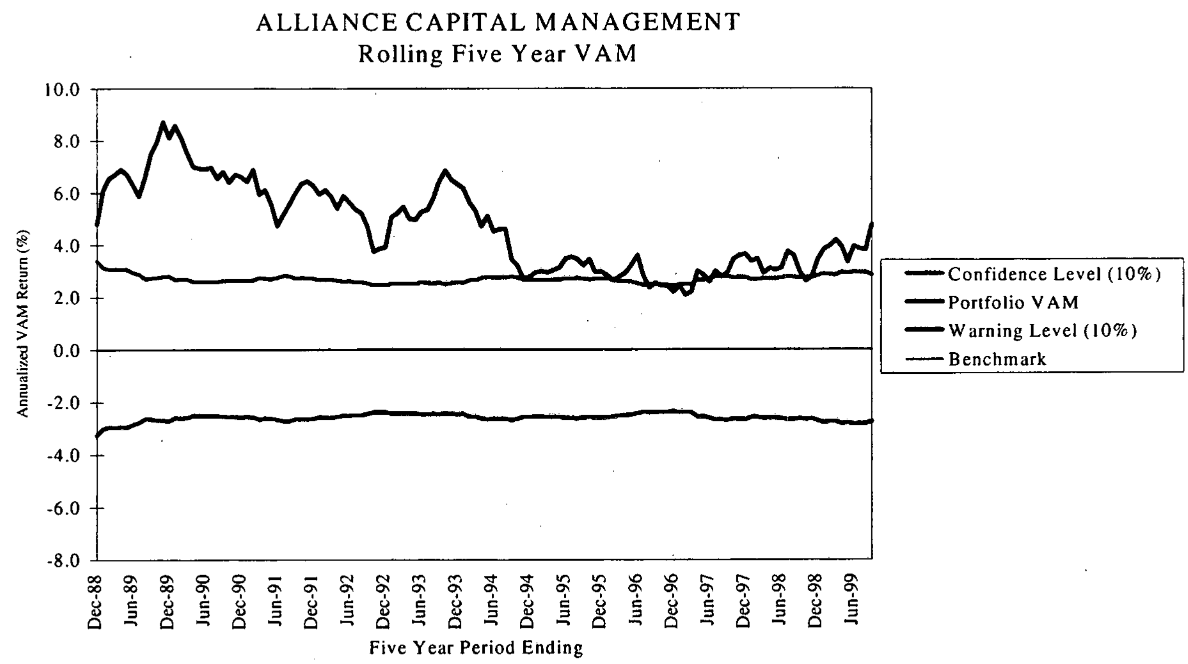
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.4%	-6.0%
Last 1 year	42.5	37.8
Last 2 years	32.2	23.7
Last 3 years	39.0	29.2
Last 4 years	32.7	26.8
Last 5 years	33.6	27.6
Since Inception (1/84)	21.4	15.9

Recommendation

No action required.



BRINSON PARTNERS
Periods Ending September, 1999

Portfolio Manager: Jeff Diermeier | **Assets Under Management: $657,869,058**

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

Brinson Partners has underperformed its custom benchmark for the most recent quarter and year. The performance shortfall for Brinson can be attributed to a number of factors in two broad categories: 1) Brinson's investment style has been out of favor with the market, and 2) fundamental disappointments and consequently lower stock prices for a number of Brinson's portfolio holdings. Staff will meet with Brinson about their performance during the fourth quarter. Brinson continues to believe in their investment process and the organization remains stable.

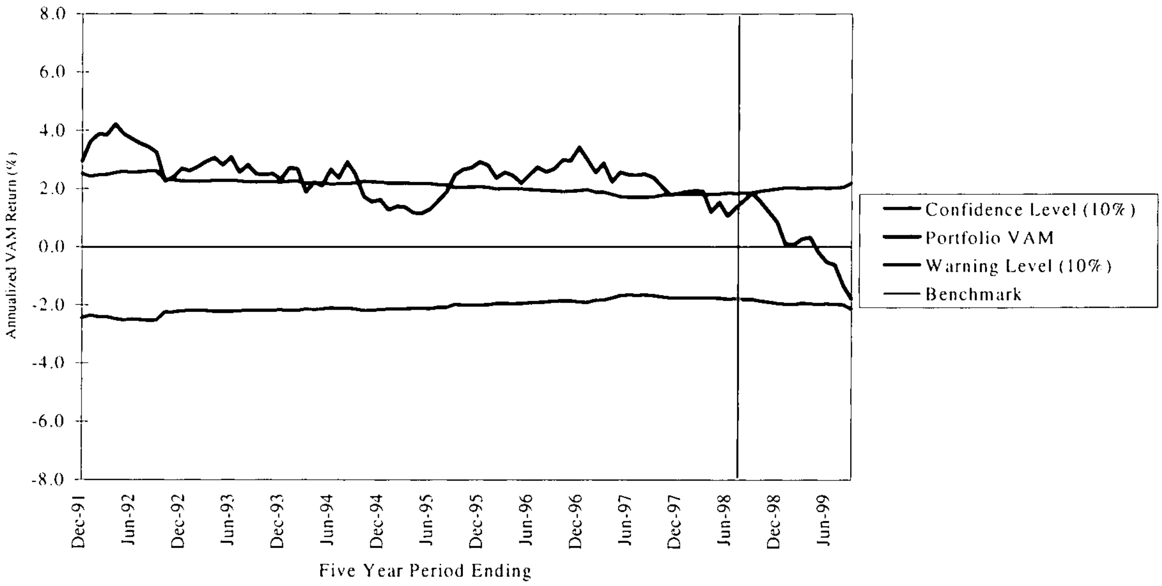
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-13.3%	-7.5%
Last 1 year	10.3	27.3
Last 2 years	5.2	12.5
Last 3 years	15.5	20.8
Last 4 years	17.5	20.0
Last 5 years	19.3	21.5
* Since Inception (7/93)	16.9	18.1

Recommendation

No action required.

BRINSON PARTNERS
Rolling Five Year VAM



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

COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending September, 1999

Portfolio Manager: George Cohen **Assets Under Management: $380,789,177**

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

Staff performed an annual review of Cohen, Klingenstein & Marks at their New York office in October. They continue to implement their investment process and are a stable organization. Cohen, Klingenstein & Marks has slightly underperformed their custom benchmark during the most recent quarter and year, but has added value for all other time periods. During the quarter, Cohen, Klingenstein & Marks was transferred from the Emerging Managers program to the Domestic Equity program. In addition, staff allocated an additional $200 million in cash and securities to Cohen, Klingenstein & Marks.

Recommendation

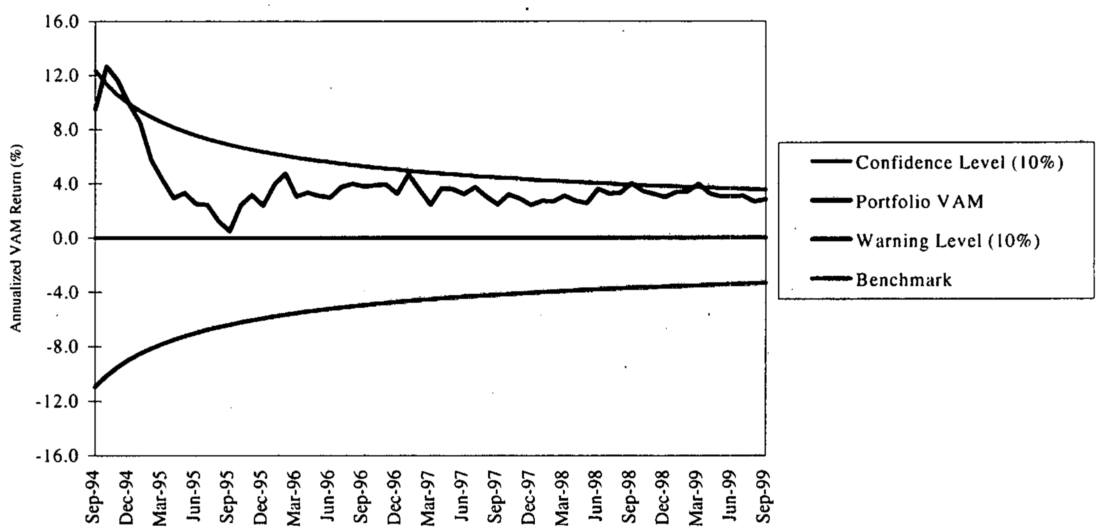
No action required.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-6.7%	-6.4%
Last 1 Year	32.0	35.2
Last 2 Years	20.6	16.6
Last 3 Years	26.7	24.2
Last 4 Years	26.6	22.1
Last 5 Years	26.3	23.6
Since Inception. (4/94)	25.6	22.2

* Custom benchmark since inception date.

COHEN KLINGENSTEIN & MARKS
Cumulative Tracking



FORSTMANN-LEFF ASSOCIATES
Periods Ending September, 1999

Portfolio Manager: Joel Leff **Assets Under Management: $785,983,526**

Investment Philosophy

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

Staff Comments

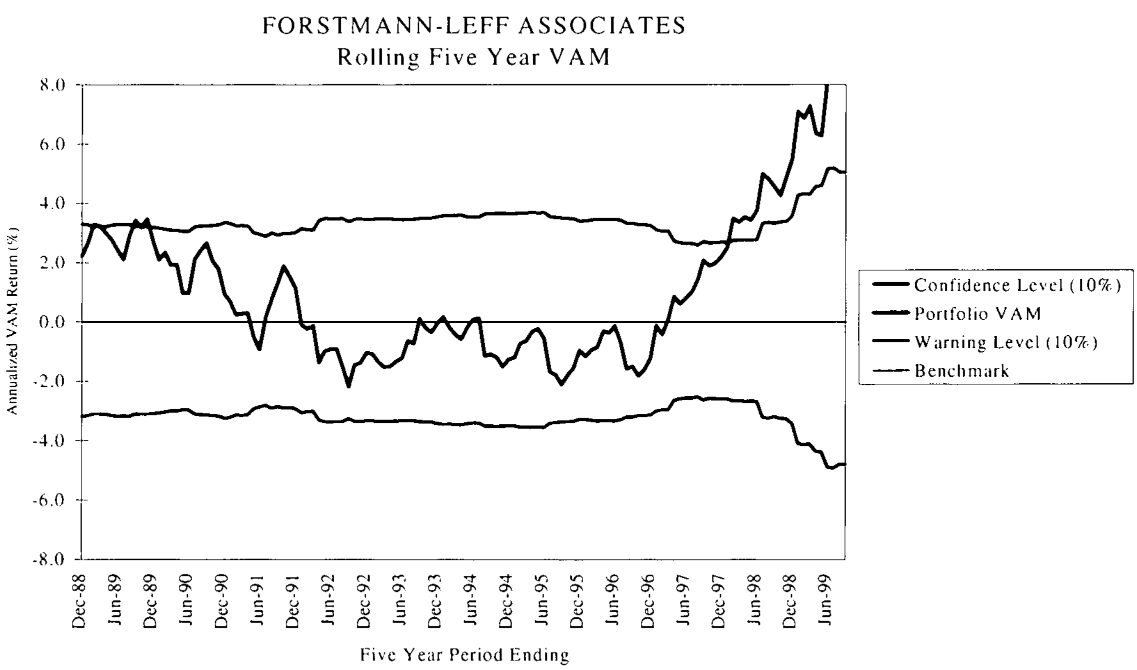
Staff performed an annual review of Forstmann-Leff at their New York offices in October. Forstmann-Leff is a "theme" investor, currently investing primarily in consumer and telecommunications companies. Staff learned that Forstmann-Leff is researching the "lifestyle" pharmaceutical sector as their next investment theme. During the review, staff uncovered no negative issues. Forstmann-Leff continues to remain a stable organization. Forstmann-Leff has outperformed their custom benchmark for the most recent quarter and year, as well as all time periods.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.5%	-8.0%
Last 1 year	58.1	30.9
Last 2 years	25.1	4.6
Last 3 years	32.6	14.7
Last 4 years	30.7	15.6
Last 5 years	29.2	17.8
Since Inception (1/84)	17.0	13.2

Recommendation

No action required.



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 1999

Portfolio Manager: John Nagorniak | **Assets Under Management: $575,701,272**

Investment Philosophy
Active

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

Staff Comments

No comments at this time.

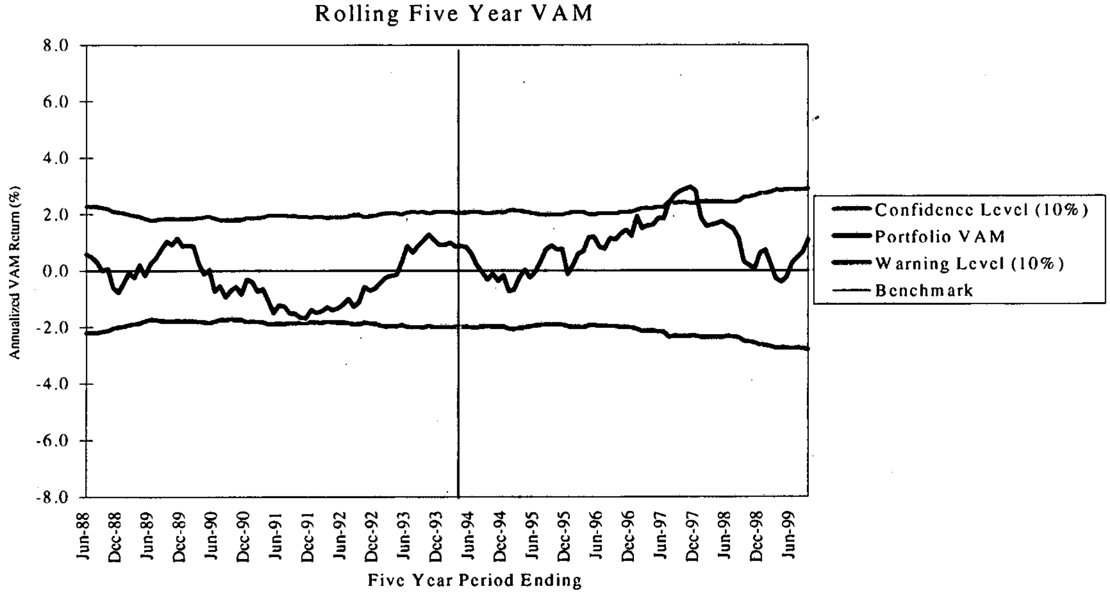
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.6%	-8.4%
Last 1 year	25.8	24.9
Last 2 years	9.3	11.6
Last 3 years	20.7	19.2
Last 4 years	19.4	18.5
Last 5 years	21.7	20.4
Since Inception (4/89)	16.6	15.6

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



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

GEOCAPITAL CORP.
Periods Ending September, 1999

Portfolio Manager: Barry Fingerhut **Assets Under Management: $519,672,499**

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

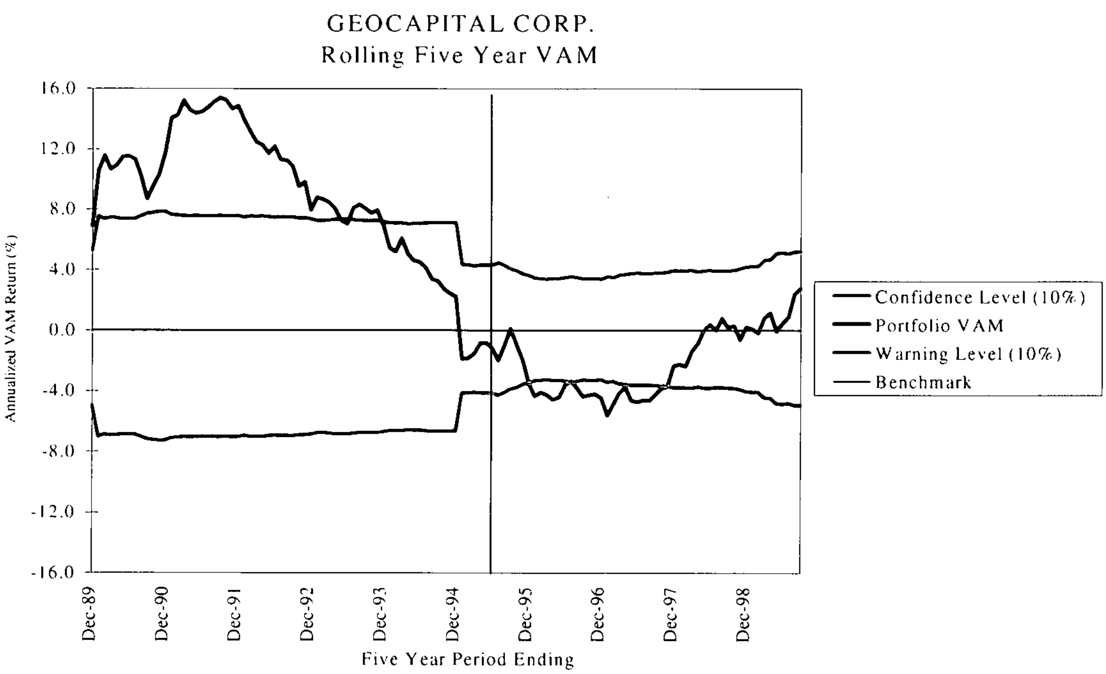
Staff performed an annual review of GeoCapital at their New York office in October. Topics discussed included plans to offer a concentrated internet-related product, organizational growth, and their investment strategy going forward. GeoCapital remains a solid organization. They added value over their custom benchmark, both for the current quarter and year. GeoCapital attributes their value added to positive stock selection in technology, primarily internet related names, as well as financials.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	-4.5%
Last 1 year	31.0	22.0
Last 2 years	5.6	-5.0
Last 3 years	11.3	3.7
Last 4 years	12.0	6.5
Last 5 years	14.9	11.8
Since Inception (4/90)	14.7	13.5

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, 1999

Portfolio Manager: Parker Hall | **Assets Under Management: $900,585,954**

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

No comments at this time.

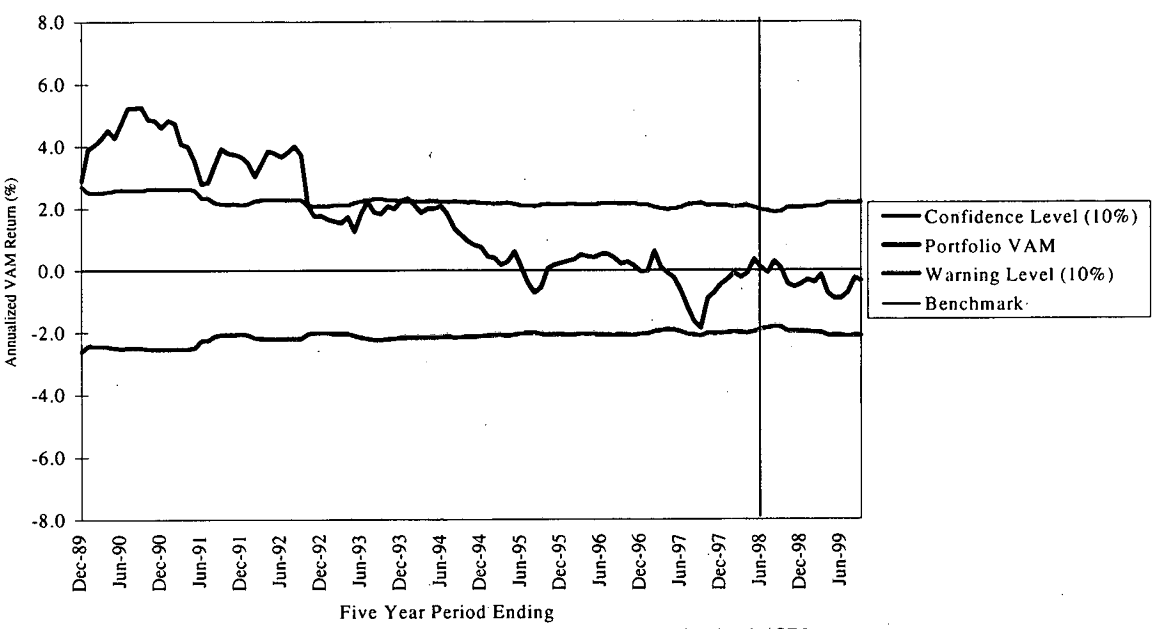
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.3%	-4.7%
Last 1 year	32.3	36.2
Last 2 years	25.2	24.6
Last 3 years	26.7	29.7
Last 4 years	27.0	28.4
Last 5 years	28.5	28.9
Since Inception (7/93)	23.4	23.9

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT - Domestic Equity
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, 1999

Portfolio Manager: John Lindenthal — **Assets Under Management: $752,846,620**

Investment Philosophy

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

Staff Comments

Staff performed an annual review of Oppenheimer Capital at their New York offices in October. From the review, staff uncovered no negative issues related to the organization. Oppenheimer continues to execute their investment strategy and remains a solid organization. Oppenheimer has underperformed their custom benchmark during the most recent quarter and year. Stock selection in the basic materials and capital goods sectors were the leading detractors of performance. In addition, negative returns due to Waste Management, Ace Ltd., Avon Products, and Monsanto impacted performance. Further, Oppenheimer's overweight in the financial sector also hurt performance due to the rising interest rate environment.

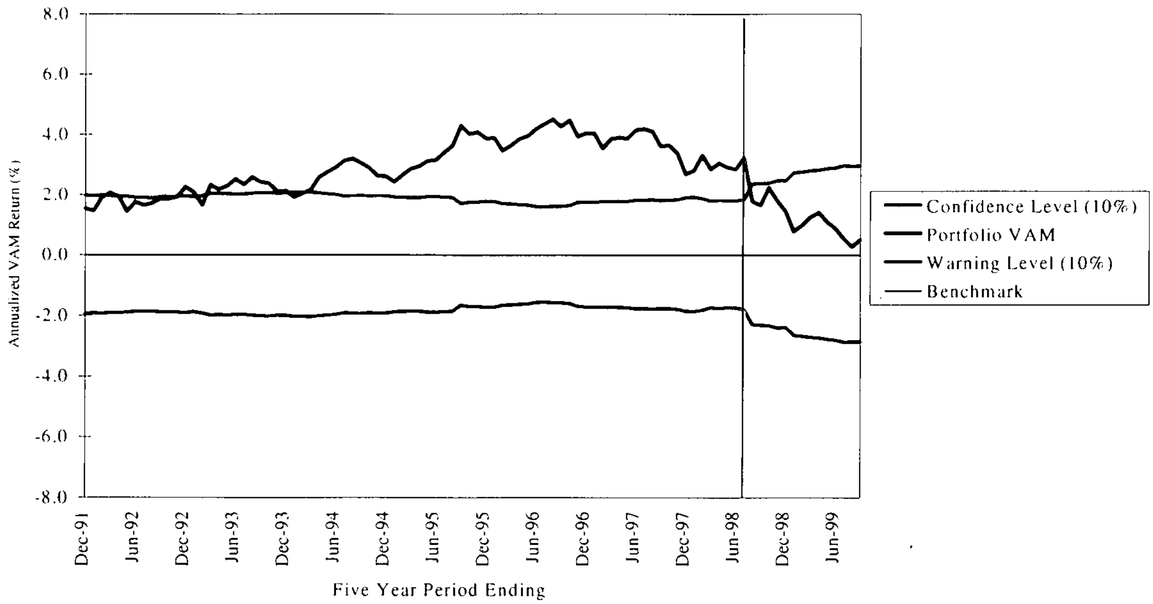
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-9.9%	-8.2%
Last 1 year	17.7	24.5
Last 2 years	10.4	15.1
Last 3 years	19.5	21.9
Last 4 years	20.5	21.6
Last 5 years	23.2	22.6
Since Inception (7/93)	19.5	18.8

Recommendation

No action required.

OPPENHEIMER CAPITAL
Rolling Five Year VAM



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending September, 1999

Portfolio Manager: John Nagorniak | **Assets Under Management: $2,144,435,322**

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

No comments at this time.

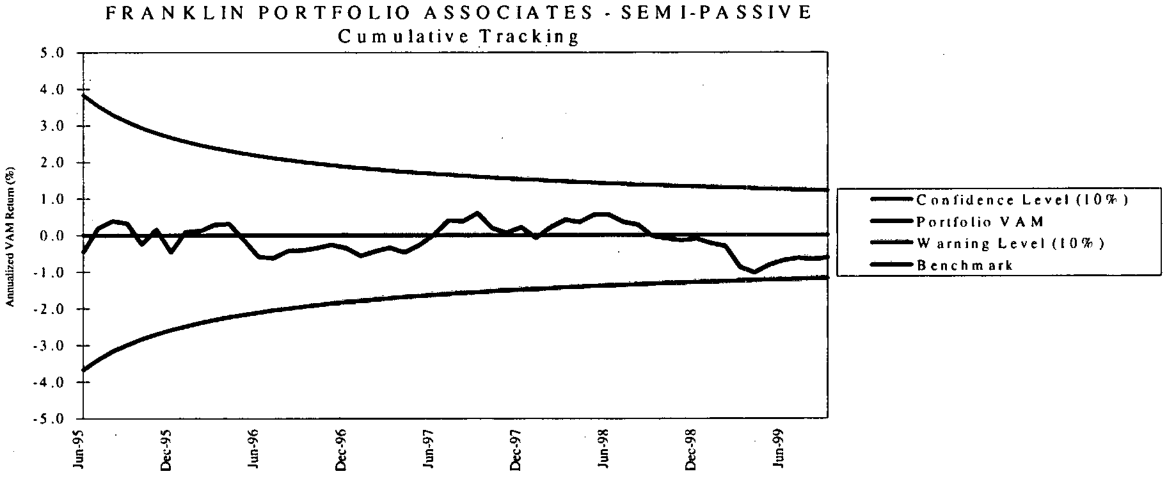
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-6.9%	-7.0%
Last 1 year	18.8	22.2
Last 2 years	13.0	15.6
Last 3 years	22.3	23.2
Last 4 years	21.1	22.1
Last 5 years	N.A.	N.A.
Since Inception (1/95)	23.9	24.6

* Completeness Fund

Recommendation

No action required.



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

Portfolio Manager: Jim Wiess **Assets Under Management: $2,276,146,211**

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 J.P. Morgan at their New York offices in October. During the review, staff uncovered no negative issues. J.P. Morgan continues to refine and implement their investment process and remains a stable organization. J.P. Morgan underperformed the Completeness Fund benchmark during the most recent quarter, but has outperformed for all other time periods.

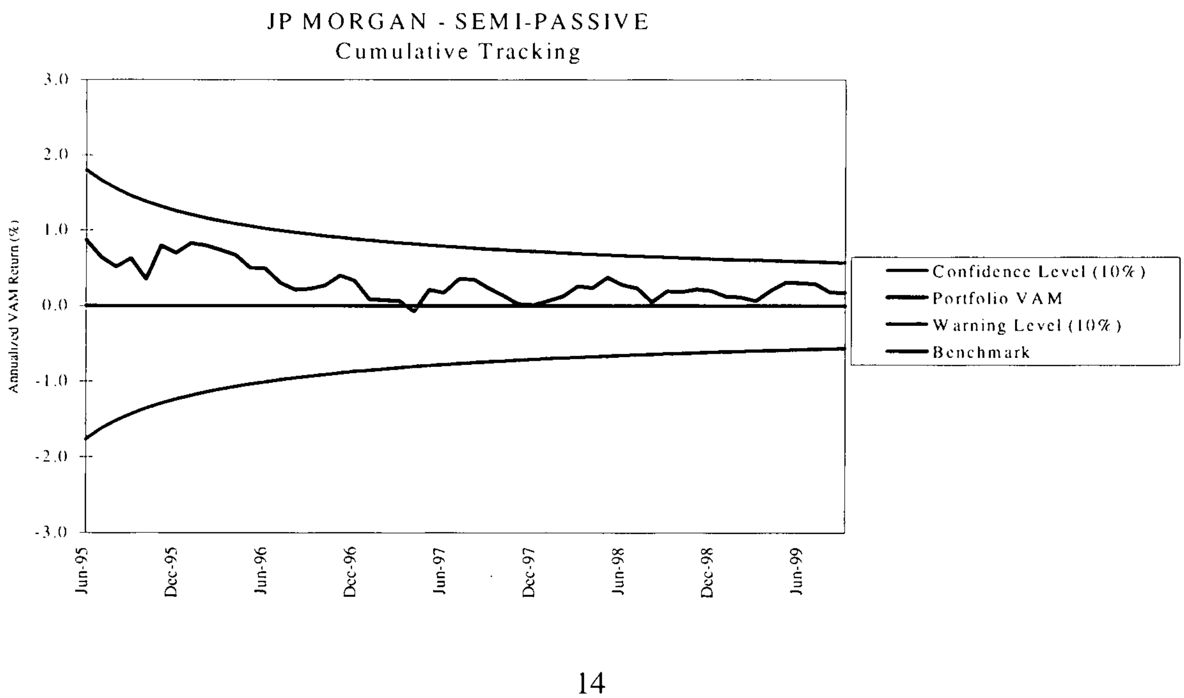
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-7.5%	-7.0%
Last 1 year	22.3	22.2
Last 2 years	15.7	15.6
Last 3 years	23.4	23.2
Last 4 years	22.2	22.1
Last 5 years	N.A.	N.A.
Since Inception (1/95)	24.8	24.6

* Completeness Fund

Recommendation

No action required.



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 1999

Portfolio Manager: Nancy Feldkircher — **Assets Under Management: $2,213,555,415**

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

No comments at this time.

Quantitative Evaluation

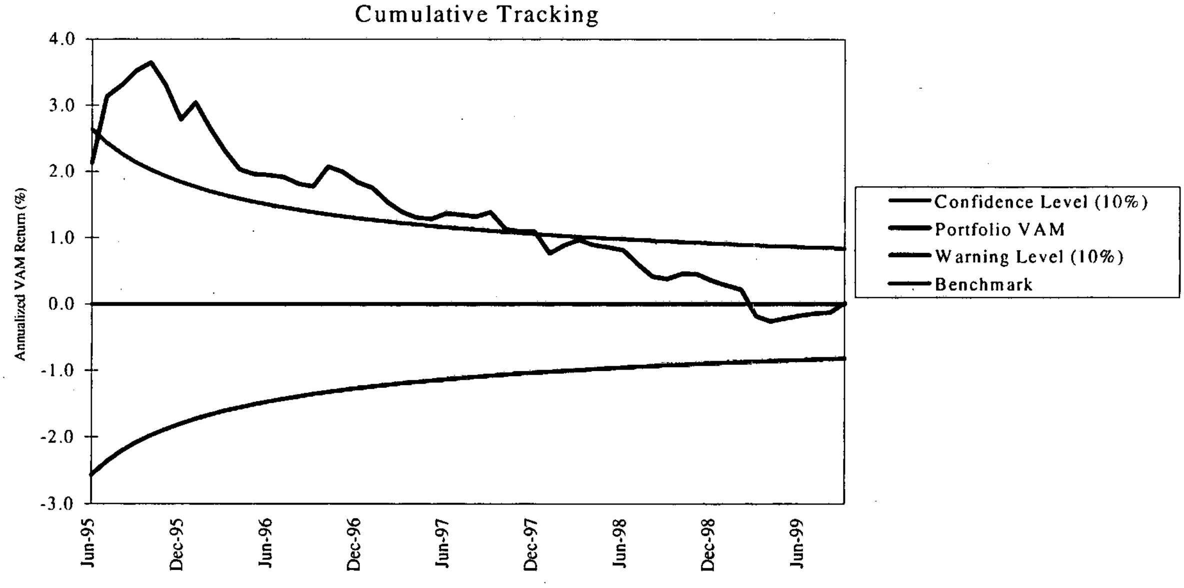
	Actual	Benchmark*
Last Quarter	-6.2%	-7.0%
Last 1 year	20.6	22.2
Last 2 years	13.5	15.6
Last 3 years	22.0	23.2
Last 4 years	21.3	22.1
Last 5 years	N.A.	N.A.
Since Inception (1/95)	24.6	24.6

* Completeness Fund

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending September, 1999

Portfolio Manager: Rich Johnson **Assets Under Management: $6,884,437,428**

Investment Philosophy
Passive

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

Staff Comments

No comments at this time.

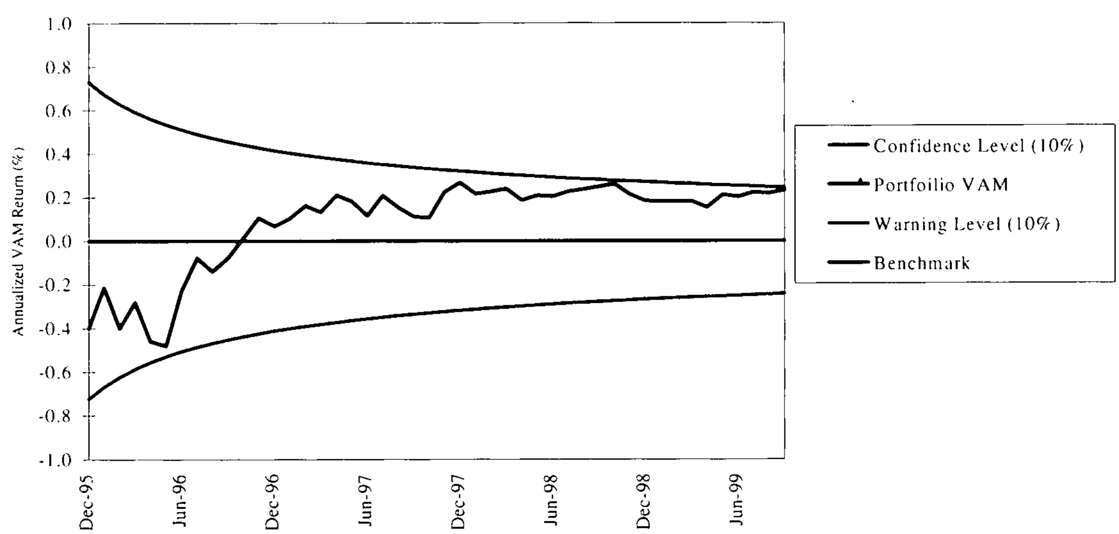
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.5%	-6.6%
Last 1 year	27.2	26.9
Last 2 years	14.9	14.5
Last 3 years	22.3	21.9
Last 4 years	21.5	21.2
Last 5 years	N.A.	N.A.
Since Inception (7/95)	22.4	22.2

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Third Quarter, 1999

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COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending September, 1999

	Quarter		1 Year		3 years		5 Years		Since Inception (1)		Market Value	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	(in millions)	%
Active Managers												
CIC Asset	-12.7	-10.6	10.3	17.1	13.8	18.1	17.7	20.4	16.2	19.5	$68.60	12.7%
Compass Capital	-11.2	-9.0	18.6	30.1	16.2	22.0	19.9	23.3	18.7	21.7	77.00	14.3%
New Amsterdam	-6.7	-6.1	21.1	33.8	21.4	21.2	21.9	20.8	19.5	19.7	79.92	14.9%
Valenzuela Capital	-13.5	-11.4	1.0	15.5	9.5	10.8	14.4	14.6	14.0	14.1	61.61	11.5%
Wilke/Thompson	2.3	-4.7	15.0	30.8	3.3	8.6	10.8	13.2	10.7	12.6	52.38	9.7%
Winslow Capital	-6.4	-5.7	20.4	45.3	16.6	25.7	18.2	24.7	17.9	23.2	74.34	13.8%
Zevenbergen Capital	-4.6	-3.7	74.5	48.2	37.0	25.9	32.6	25.0	29.5	23.5	124.49	23.1%
											$538.33	**100.0%**
									Since 4/1/94			
Current Aggregate	-7.7	-7.1	25.6	32.6	18.7	19.8	20.7	21.0	19.4	19.8		
Historical Aggregate (2)	**-7.7**	**-7.1**	**25.9**	**32.3**	**19.6**	**20.0**	**21.0**	**20.9**	**19.7**	**19.7**		

(1) Since retention by the SBI.

(2) Includes the performance of terminated managers.

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CIC ASSET MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Jorge Castro **Assets Under Management: $68,597,828**

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 underperformed their benchmark for the quarter and the year. During the quarter, security selection within the finance sector was the primary cause for the underperformance. Over the past year, CIC's portfolio underperformed primarily as a result of their decision to rotate out of very large cap stocks and into stocks at the lower end of the large cap universe, which they felt held better value.

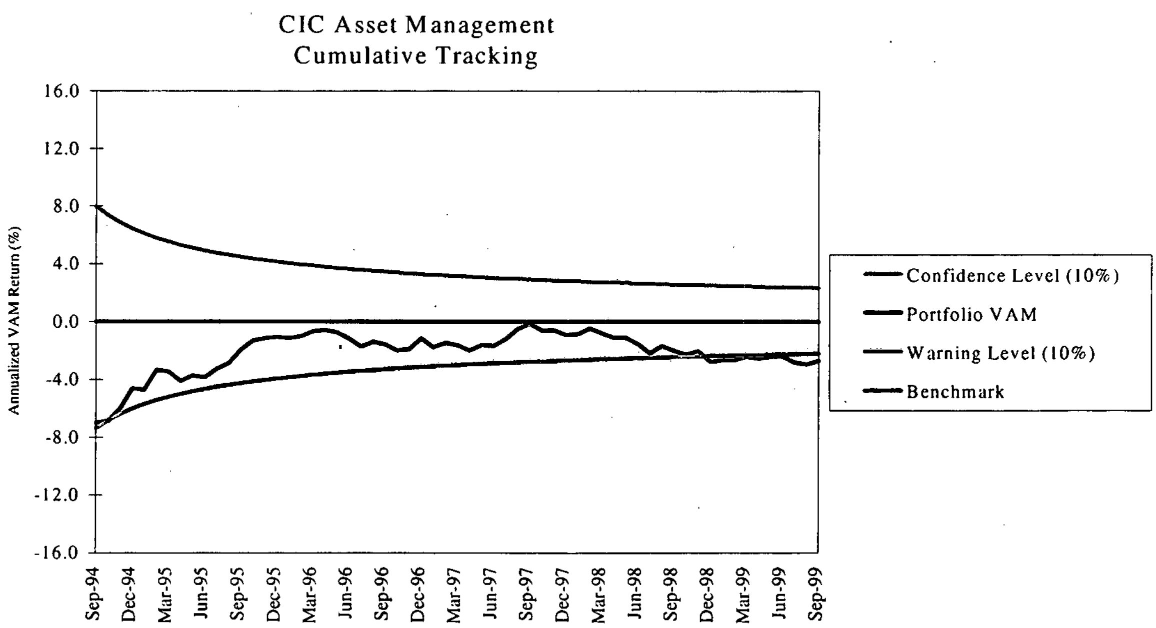
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-12.7%	-10.6%
Last 1 Year	10.3	17.1
Last 2 Years	1.2	8.9
Last 3 Years	13.8	18.1
Last 4 Years	15.1	18.7
Last 5 Years	17.7	20.4
Since Inception (4/94)	16.2	19.5

* Custom benchmark since inception date.

Recommendation

No action required.



COMPASS CAPITAL MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Charles Kelley | **Assets Under Management: $76,996,444**

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

Compass underperformed their benchmark for the quarter and the year due to their underweighing of the technology sector. Over the past year, the portfolio's weight in technology stocks has consistently been less than half the technology sector weight in the benchmark. Compass' discipline of purchasing stocks with reasonable valuation has kept the technology weighting in the portfolio lower than the benchmark.

Quantitative Evaluation

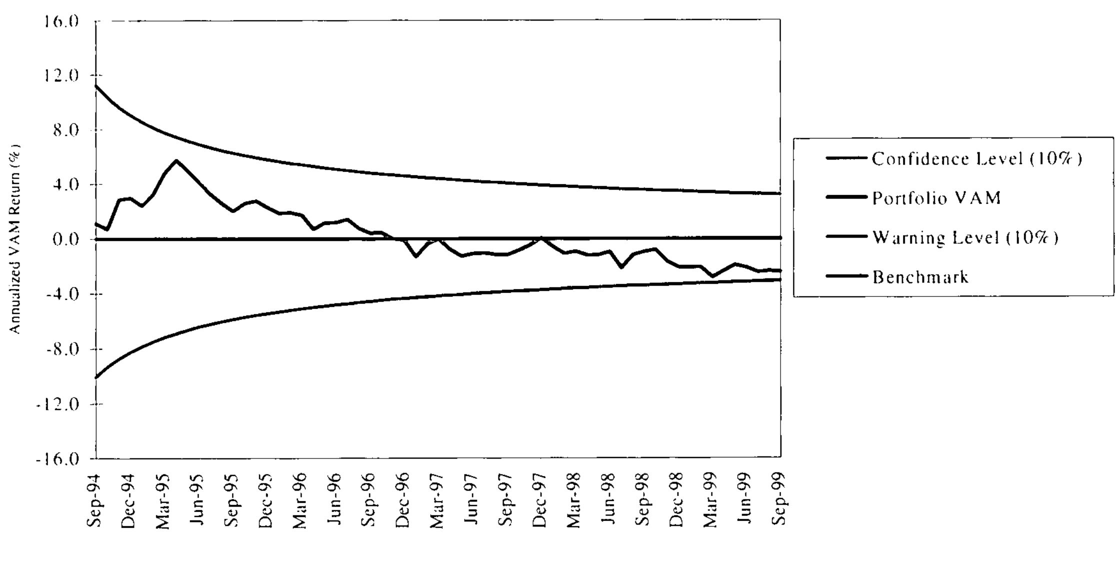
	Actual	Benchmark*
Last Quarter	-11.2%	-9.0%
Last 1 Year	18.6	30.1
Last 2 Years	10.2	15.5
Last 3 Years	16.2	22.0
Last 4 Years	18.1	23.0
Last 5 Years	19.9	23.3
Since Inception (4/94)	18.7	21.7

* Custom benchmark since inception date.

Recommendation

No action required.

Compass Capital Management
Cumulative Tracking



NEW AMSTERDAM PARTNERS
Periods Ending September, 1999

Portfolio Manager: Michelle Clayman **Assets Under Management: $79,924,909**

Investment Philosophy

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

Staff Comments

New Amsterdam slightly underperformed their benchmark for the quarter due to weak sector selection. The firm was overweight consumer and health service stocks, both of which performed poorly. Over the past year, New Amsterdam's sector and stock selection was weak. The primary cause of their underperformance was an underweight in the technology sector. Poor stock selection and an overweight in the consumer sector also detracted from performance.

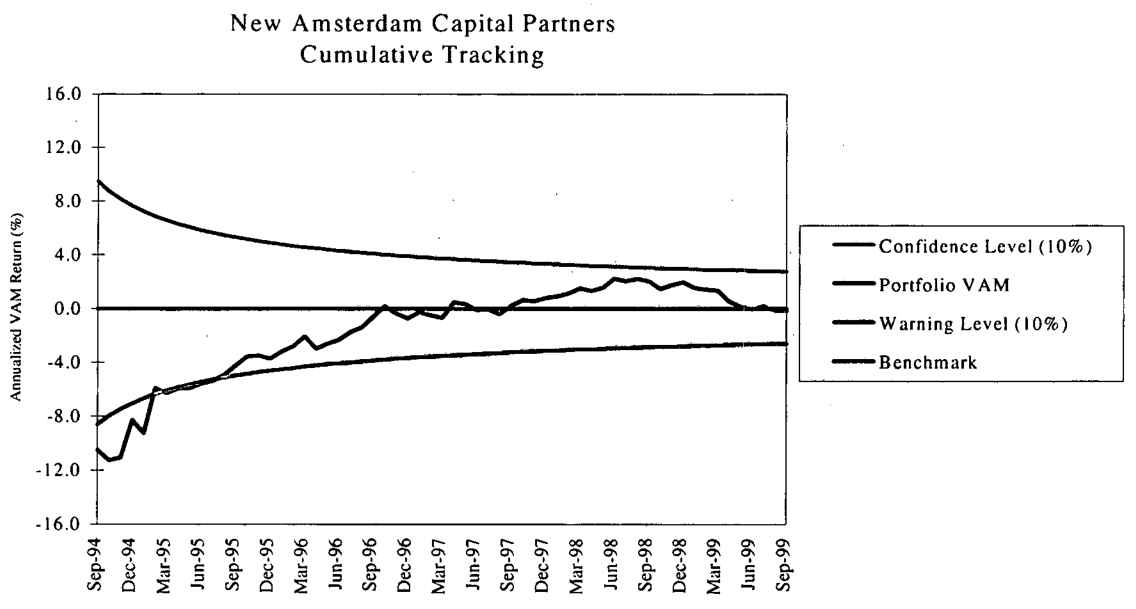
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-6.7%	-6.1%
Last 1 Year	21.1	33.8
Last 2 Years	11.9	12.7
Last 3 Years	21.4	21.2
Last 4 Years	21.1	19.4
Last 5 Years	21.9	20.8
Since Inception (4/94)	19.5	19.7

* Custom benchmark since inception date.

Recommendation

No action required.



VALENZUELA CAPITAL MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Tom Valenzuela **Assets Under Management: $61,606,765**

Investment Philosophy

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

Staff Comments

Valenzuela slightly underperformed during the quarter. Over the past year, Valenzuela has significantly lagged, primarily as a result of poor stock selection. Consumer cyclicals and financial services has adversely impacted performance recently.

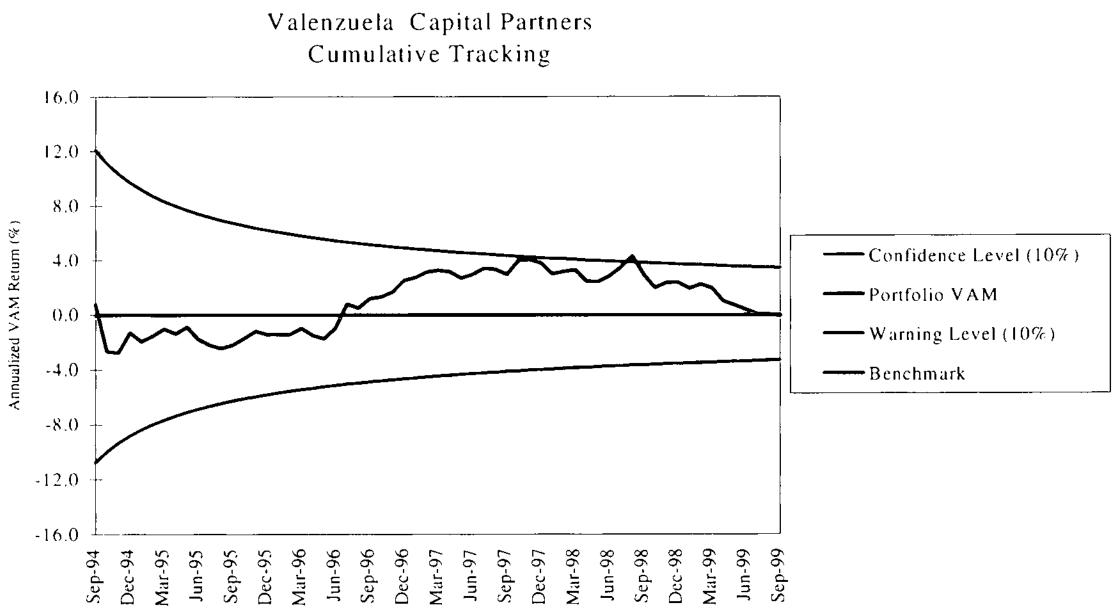
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-13.5%	-11.4%
Last 1 Year	1.0	15.5
Last 2 Years	-6.4	-1.3
Last 3 Years	9.5	10.8
Last 4 Years	13.0	12.2
Last 5 Years	14.4	14.6
Since Inception (4/94)	14.0	14.1

* Custom benchmark since inception date.

Recommendation

No action required.



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

Portfolio Manager: Mark Thompson **Assets Under Management: $52,377,606**

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

In August Wilke/Thomspon eliminated one research analyst, one portfolio manager, and the president of the firm. One of the two remaining portfolio managers assumed a research analyst position, thus reducing the investment staff from 6 to 4 professionals. The changes were made because the firm had built staff with the expectation of managing significantly more assets than they currently manage. As a result, they felt they needed to reduce staff to a more appropriate level.

During the past quarter, Wilke/Thompson outperformed the benchmark, primarily due to good stock selection and an overweighting in the consumer staple and technology sectors. During the past year the portfolio underperformed the benchmark due to overweights in the poorly performing healthcare and consumer sectors.

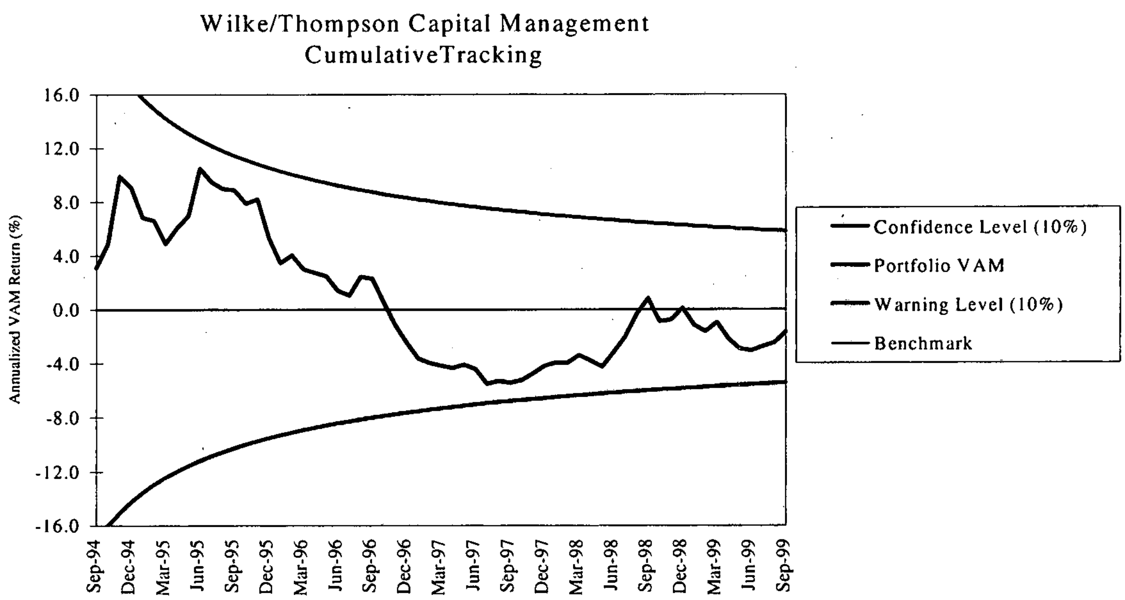
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.3%	-4.7%
Last 1 Year	15.0	30.8
Last 2 Years	5.4	0.1
Last 3 Years	3.3	8.6
Last 4 Years	4.2	10.1
Last 5 Years	10.8	13.2
Since Inception (4/94)	10.7	12.6

* Custom benchmark since inception date.

Recommendation

No action required.



WINSLOW CAPITAL MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Clark Winslow **Assets Under Management: $74,342,907**

Investment Philosophy

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

Staff Comments

Winslow underperformed their benchmark over the last quarter and year. Over the past quarter, an underweight in technology stocks caused the underperformance. The significant underperformance over the past year was also due to the portfolio's underweight allocation in the technology sector. Stock selection within the technology sector was also poor as the portfolio was concentrated in software stocks, which performed poorly on fears that Y2K would cause a slowdown in the industry. Recently, these stocks have performed better.

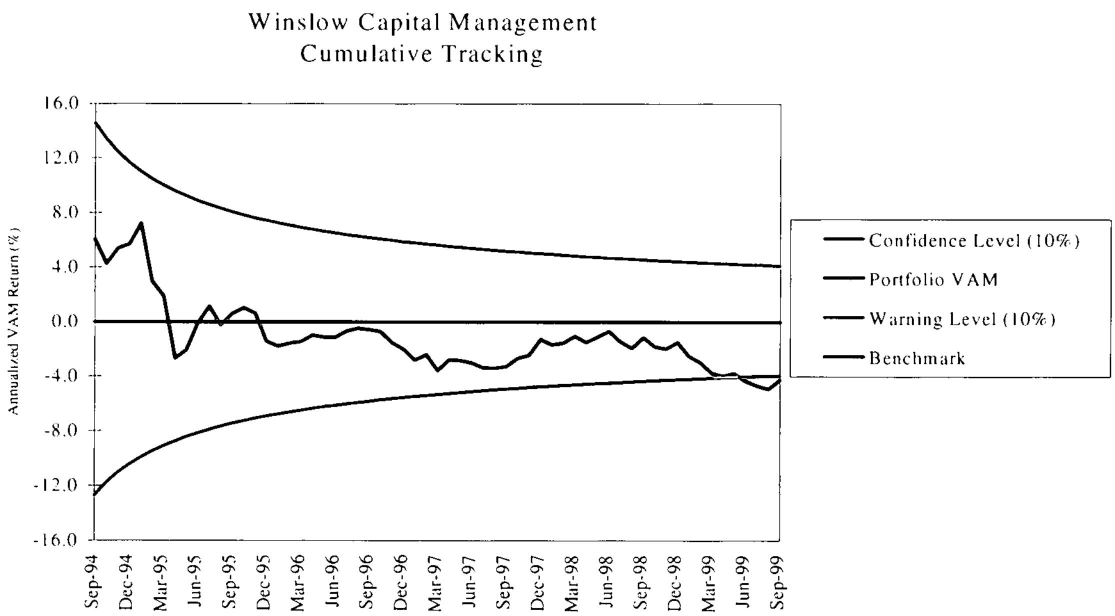
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-6.4%	-5.7%
Last 1 Year	20.4	45.3
Last 2 Years	13.3	20.5
Last 3 Years	16.6	25.7
Last 4 Years	16.3	23.8
Last 5 Years	18.2	24.7
Since Inception (4/94)	17.9	23.2

* Custom benchmark since inception date.

Recommendation

No action required.



ZEVENBERGEN CAPITAL INC
Periods Ending September, 1999

Portfolio Manager: Nancy Zevenbergen **Assets Under Management: $124,488,086**

Investment Philosophy

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

Staff Comments

Zevenbergen slightly lagged the benchmark for the quarter but significantly outperformed over the past year. Excellent stock selection in the technology, telecommunications, and internet sectors continue to be the primary drivers of the strong performance.

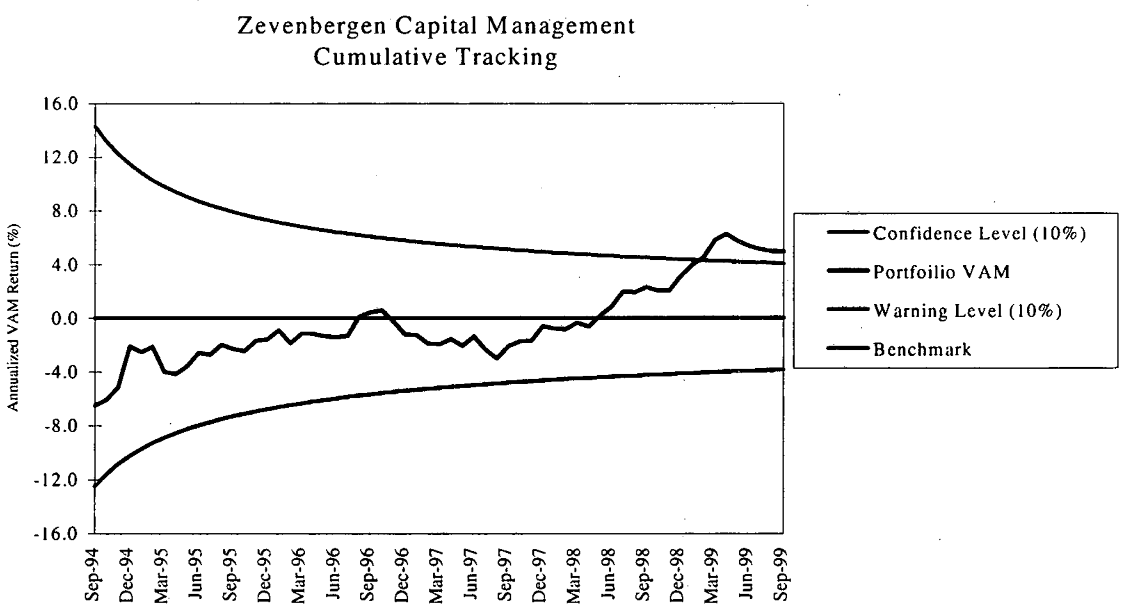
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-4.6%	-3.7%
Last 1 Year	74.5	48.2
Last 2 Years	43.2	20.9
Last 3 Years	37.0	25.9
Last 4 Years	33.5	23.9
Last 5 Years	32.6	25.0
Since Inception (4/94)	29.5	23.5

* Custom benchmark since inception date.

Recommendation

No action required.



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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Third Quarter, 1999

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COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending September, 1999

	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)	0.5	0.7	-0.7	-0.4	7.1	6.8	8.1	8.0	6.3	6.2	$745.24	7.3%
Credit Suisse	0.5	0.7	1.6	-0.4	7.6	6.8	8.6	7.8	6.6	6.1	620.67	6.1%
IAI	0.4	0.7	-1.0	-0.4	6.5	6.8	7.2	7.8	10.2	10.2	658.06	6.4%
Morgan Stanley	0.9	0.7	0.2	-0.4	6.8	6.8	8.3	7.8	10.5	10.2	1,016.90	9.9%
Standish	0.0	0.7	-0.9	-0.4	6.3	6.8	7.7	7.8	5.9	6.1	714.54	7.0%
Western	1.0	0.7	0.0	-0.4	8.0	6.8	9.2	7.8	11.4	10.2	1,310.99	12.8%
Semi-Passive Managers												
BlackRock	0.8	0.7	0.3	-0.4	7.3	6.8			6.9	6.5	1,982.21	19.4%
Goldman	0.8	0.7	-0.4	-0.4	6.9	6.8	8.1	7.8	6.4	6.1	1,599.31	15.6%
Lincoln	0.6	0.7	-0.4	-0.4	6.9	6.8	7.9	7.8	8.5	8.4	1,574.49	15.4%
											$10,222.40	**100.0%**
									Since 7/1/84			
Current Aggregate	0.7	0.7	-0.1	-0.4	7.1	6.8	8.1	7.8	10.6	10.2		
Historical Aggregate (2)	**0.7**	**0.7**	**-0.1**	**-0.4**	**7.1**	**6.8**	**8.1**	**7.8**	**10.1**	**10.1**		
Lehman Aggregate (3)		0.7		-0.4		6.8		7.8		9.7		

(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, 1999

Portfolio Manager: Jim Snyder **Assets Under Management: $745,242,439**

Investment Philosophy

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

Staff Comments

No comments at this time.

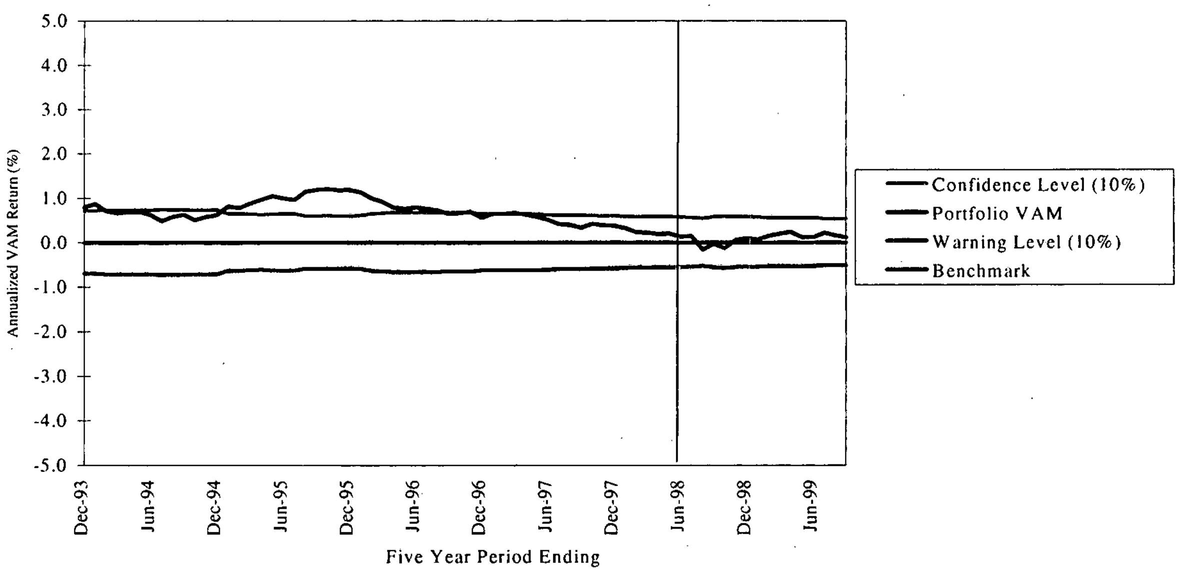
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	0.7%
Last 1 year	-0.7	-0.4
Last 2 years	5.6	5.4
Last 3 years	7.1	6.8
Last 4 years	6.3	6.4
Last 5 years	8.1	8.0
Since Inception (7/93)	6.3	6.2

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



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

INVESTMENT ADVISERS
Periods Ending September, 1999

Portfolio Manager: Larry Hill | **Assets Under Management: $658,058,992**

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

IAI underperformed the benchmark for the quarter and past year. During the quarter, the portfolio's overweight in the corporate sector and long duration strategy both hurt performance. Issue selection and yield curve strategies contributed to performance, but were not enough to offset widening spreads in the corporate sector. During the last year, the underperformance was caused primarily by the portfolio's long duration strategy in a rising rate environment.

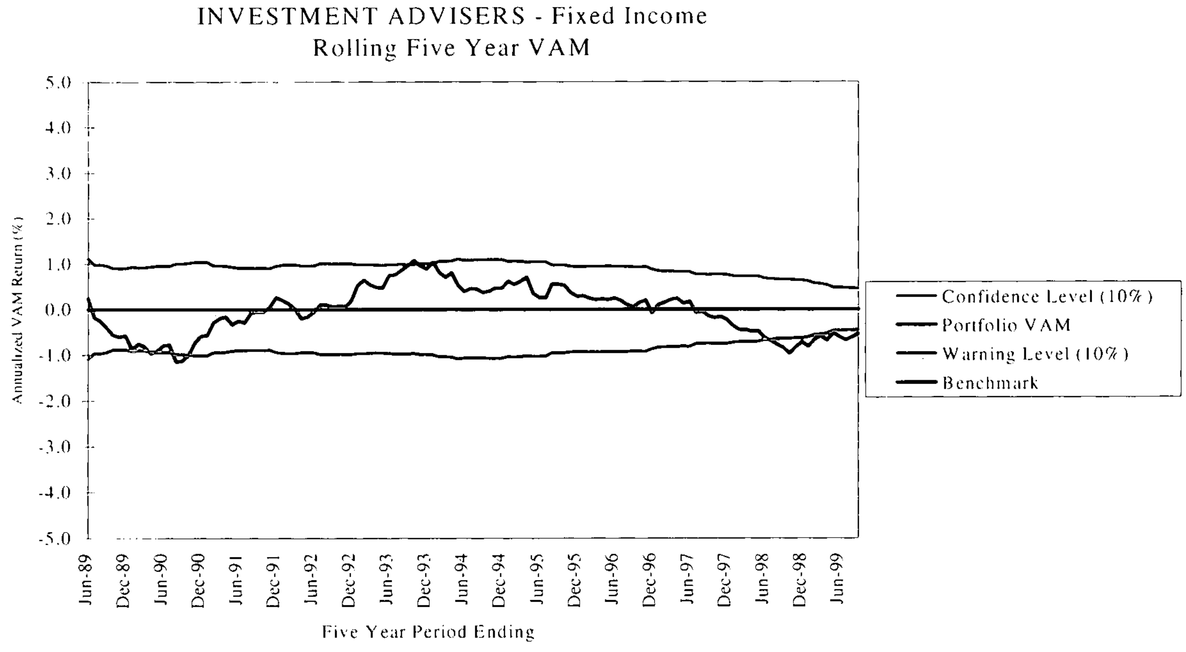
In recent weeks, IAI has lost two additional accounts worth approximately $180 million in fixed income assets. This put the SBI's portfolio at about 60% of IAI's fixed income assets under management

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.7%
Last 1 year	-1.0	-0.4
Last 2 years	4.8	5.4
Last 3 years	6.5	6.8
Last 4 years	6.0	6.3
Last 5 years	7.2	7.8
Since Inception (7/84)	10.2	10.2

Recommendations

No recommendation.



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

Portfolio Manager: Tom Bennett | **Assets Under Management: $1,016,896,038**

Investment Philosophy

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

Staff Comments

Morgan Stanley outperformed for the quarter and the year. Over the past quarter, their mortgage sector allocation contributed the most to their outperformance. Over the past year, the portfolio's overweighting in the corporate sector and holdings in Treasury Inflation Protected bonds contributed the most to their outperformance. The firm's above benchmark duration detracted from returns over the last quarter and year.

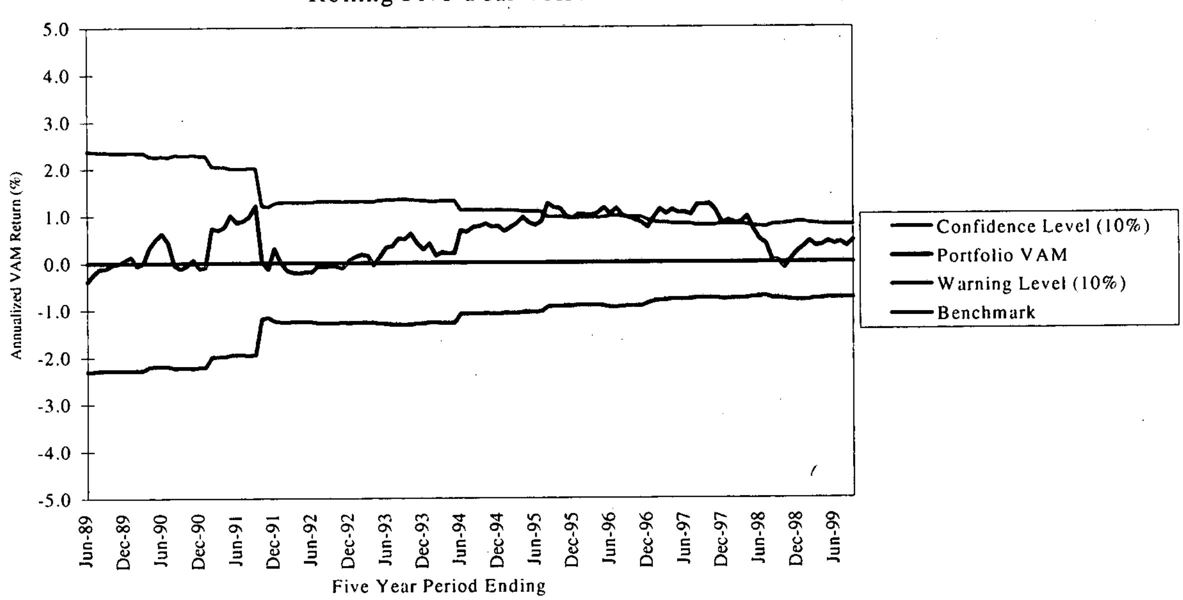
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.7%
Last 1 year	0.2	-0.4
Last 2 years	4.3	5.4
Last 3 years	6.8	6.8
Last 4 years	6.8	6.3
Last 5 years	8.3	7.8
Since Inception (7/84)	10.5	10.2

Recommendations

No action required.

MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Rolling Five Year VAM



STANDISH, AYER & WOOD
Periods Ending September, 1999

Portfolio Manager: Austin Smith **Assets Under Management: $714,537,710**

Investment Philosophy

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

Staff Comments

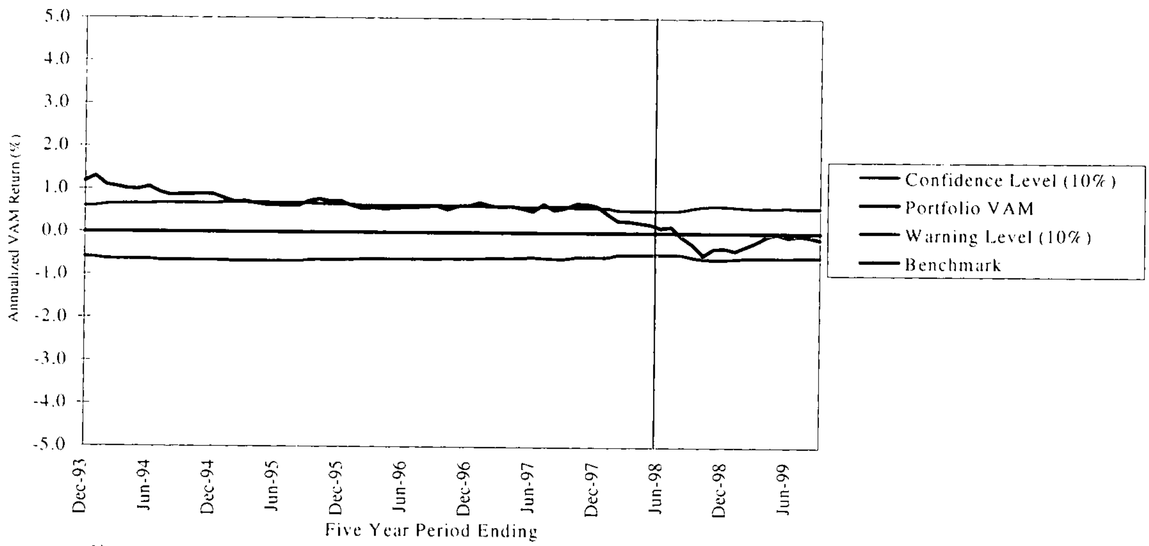
Standish significantly underperformed for the quarter, mostly due to widening spreads in the corporate and high yield sectors. Within the corporate sector, Standish suffered from poor security selection, mostly within the industrial sector. Poor security selection within the high yield sector also hurt performance. For the past year, Standish underperformed primarily as a result of poor security selection within the corporate sector. Though the organization is very stable and their investment process remains sound, staff is monitoring the firm closely due to the portfolio's poor performance

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	0.7%
Last 1 year	-0.9	-0.4
Last 2 years	4.0	5.4
Last 3 years	6.3	6.8
Last 4 years	6.3	6.3
Last 5 years	7.7	7.8
Since Inception (7/93)	5.9	6.1

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, 1999

Portfolio Manager: Ken Leech | **Assets Under Management: $1,310,992,101**

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 visited with Western Asset Management during the quarter at the SBI office to review the portfolio and discuss recent performance. Western outperformed the benchmark for the quarter as the portfolio benefited from an overweight in the mortgage sector and yield curve strategies. Good performance in these areas was somewhat offset by the portfolio's long duration stance as rates increased and an overweight in the corporate sector as spreads widened. During the past year, the portfolio has benefited from a consistent overweight in the corporate and mortgage sectors and good security selection within these sectors.

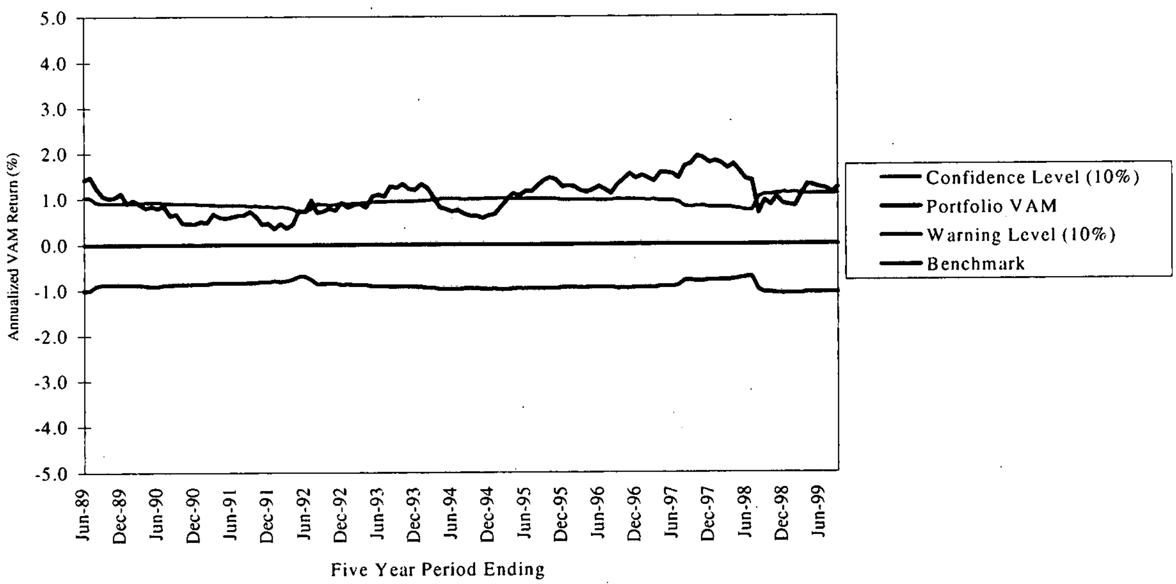
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	0.7%
Last 1 year	0.0	-0.4
Last 2 years	5.7	5.4
Last 3 years	8.0	6.8
Last 4 years	7.4	6.3
Last 5 years	9.2	7.8
Since Inception (7/84)	11.4	10.2

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Keith Anderson **Assets Under Management: $1,982,208,631**

Investment Philosophy

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

Staff Comments

BlackRock's portfolio outperformed the benchmark over the quarter and past year as several strategies contributed positively to performance. The portfolio's duration was slighlty shorter than the benchmark, which helped as interest rates increased over the quarter. Security selection within the mortgage sector also contributed to performance. The large overweighting in asset-backed securities also contributed to the outperformance. Over the past year, BlackRock outperformed due to a combination of sector and security selection.

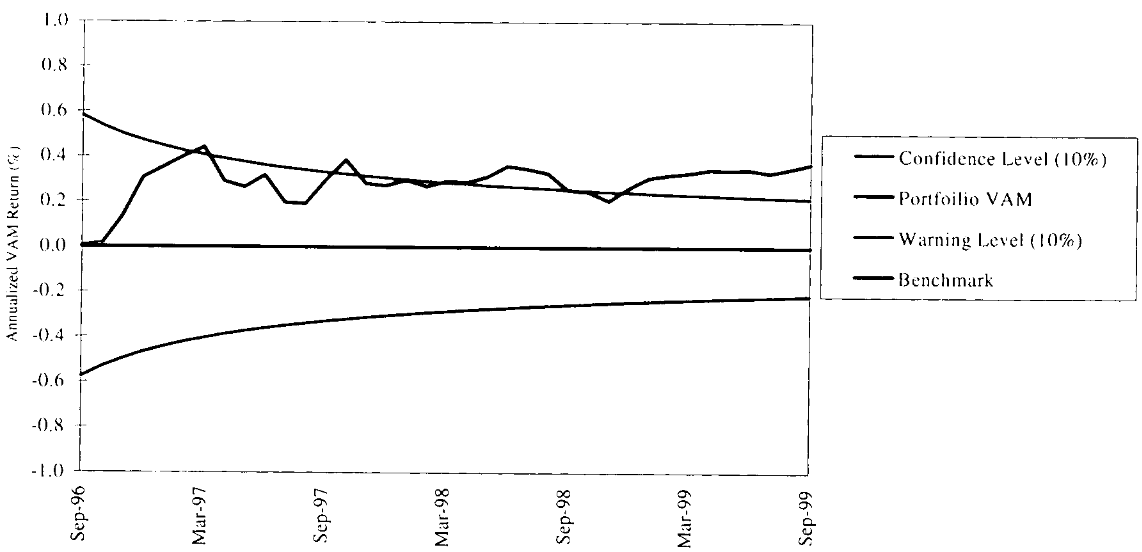
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	0.7%
Last 1 year	0.3	-0.4
Last 2 years	5.8	5.4
Last 3 years	7.3	6.8
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/96)	6.9	6.5

Recommendation

No action required.

BLACKROCK FINANCIAL MANAGEMENT
Cumulative Tracking



GOLDMAN SACHS
Periods Ending September, 1999

Portfolio Manager: Sharmin Mossavar Rahmani | **Assets Under Management: $1,599,312,938**

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

No comments at this time.

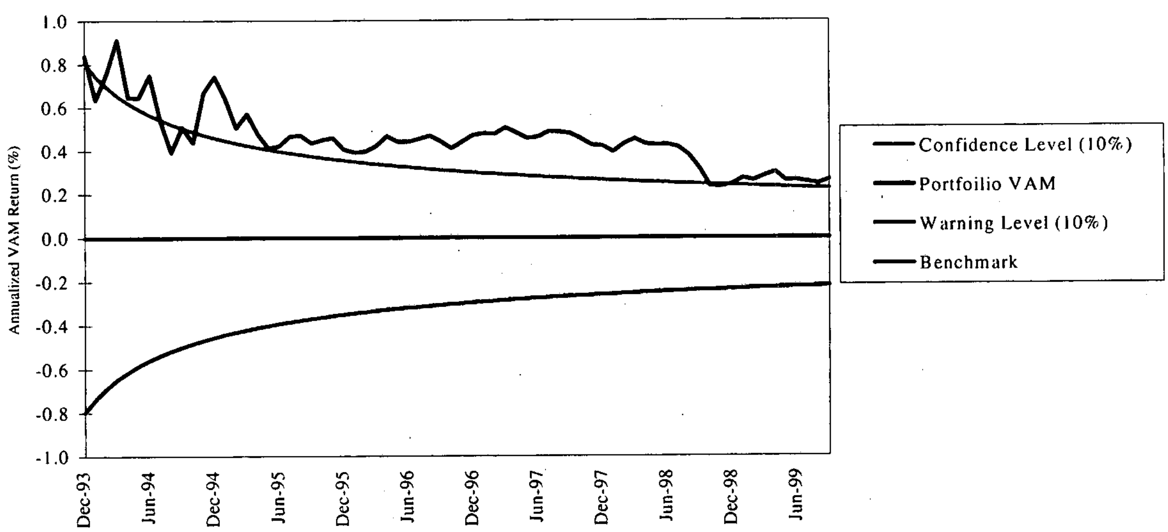
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	0.7%
Last 1 year	-0.4	-0.4
Last 2 years	5.2	5.4
Last 3 years	6.9	6.8
Last 4 years	6.5	6.3
Last 5 years	8.1	7.8
Since Inception (7/93)	6.4	6.1

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Tracking



LINCOLN CAPITAL MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,574,487,864**

Investment Philosophy

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

Staff Comments

No comments at this time.

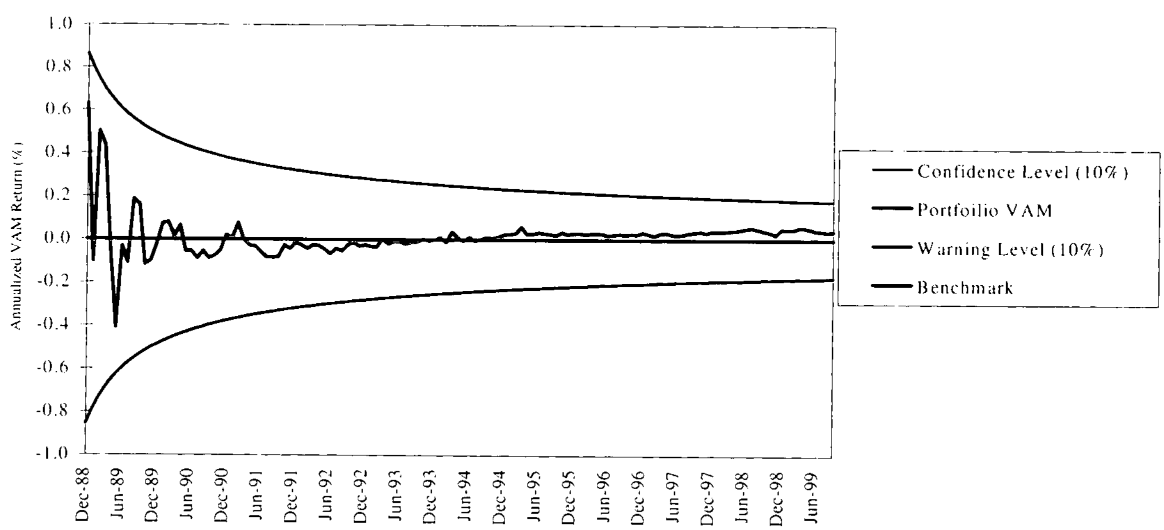
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.7%
Last 1 year	-0.4	-0.4
Last 2 years	5.5	5.4
Last 3 years	6.9	6.8
Last 4 years	6.4	6.3
Last 5 years	7.9	7.8
Since Inception (7/88)	8.5	8.4

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT - Fixed Income
Cumulative Tracking



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Third Quarter, 1999

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

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value ($ millions)
GE Investment Management (1)	-6.0	-6.2	29.1	27.8	25.3	25.2			26.3	26.6	$215.17
Voyageur Asset Management (2)	1.0	1.1	1.8	2.4	6.5	6.6	7.4	7.3	7.5	7.2	505.81
Internal Stock Pool (3)	-6.2	-6.2	28.0	27.8	25.3	25.2	25.1	25.1	20.9	20.8	493.71
Internal Bond Pool - Income Share (4)	0.4	0.7	-0.2	-0.4	7.2	6.8	8.3	7.8	8.6	8.2	219.38
Internal Bond Pool - Trust (5)	0.6	0.7	0.3	-0.4	7.2	6.8			8.1	7.6	374.00

(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.

Quarter Ending September, 1999

Tobacco Settlement Funds: Tobacco Prevention Fund
Medical Education Fund

Current Annualized Yield:	Tobacco Prevention Fund	6.16%
	Medical Education Fund	6.20%
Market Value of Funds as of the beginning of the current quarter (millions):	Tobacco Prevention Fund	$281.1
	Medical Education Fund	$181.4

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GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Periods Ending September, 1999

Portfolio Manager: Gene Bolton — **Assets Under Management: $215,171,365**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

The GE semi-passive portfolio posted negative gains during the third quarter of 1999, but outperformed the benchmark. It is significant that the portfolio was able to outperform the S&P 500 (for the third consecutive quarter) despite a sharp narrowing of the overall market. Staff is encouraged by the positive performance of the portfolio.

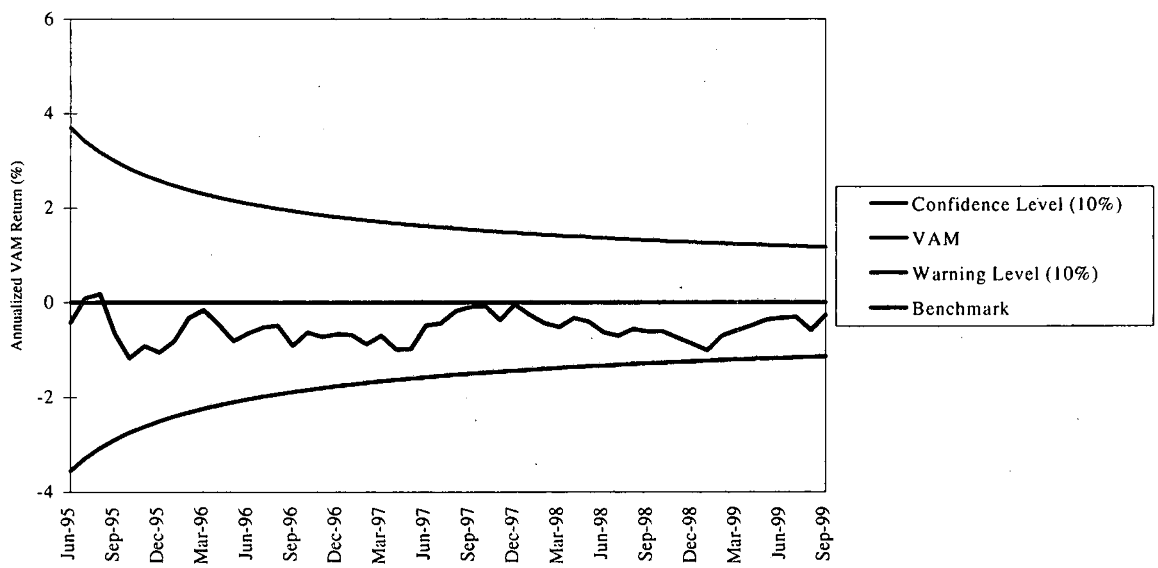
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.0%	-6.2%
Last 1 year	29.1	27.8
Last 2 years	17.5	18.1
Last 3 years	25.3	25.2
Last 4 years	23.7	24.0
Last 5 years	N.A.	N.A.
Since Inception (1/95)	26.3	26.6

Recommendation

No action required.

GE INVESTMENT MANAGEMENT
Cumulative Tracking



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

Portfolio Manager: Melissa A. Uppgren | **Assets Under Management: $505,805,454**

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

Staff met with Voyageur at their offices in Minneapolis in August 1999. Portfolio performance for the quarter and the year was negative as compared to the benchmark. Voyageur remains committed to the strategy of adding value through incremental yield and therefore continue to overweight spread product in the portfolio. While there have been recent personnel changes, the organization and investment process remain stable.

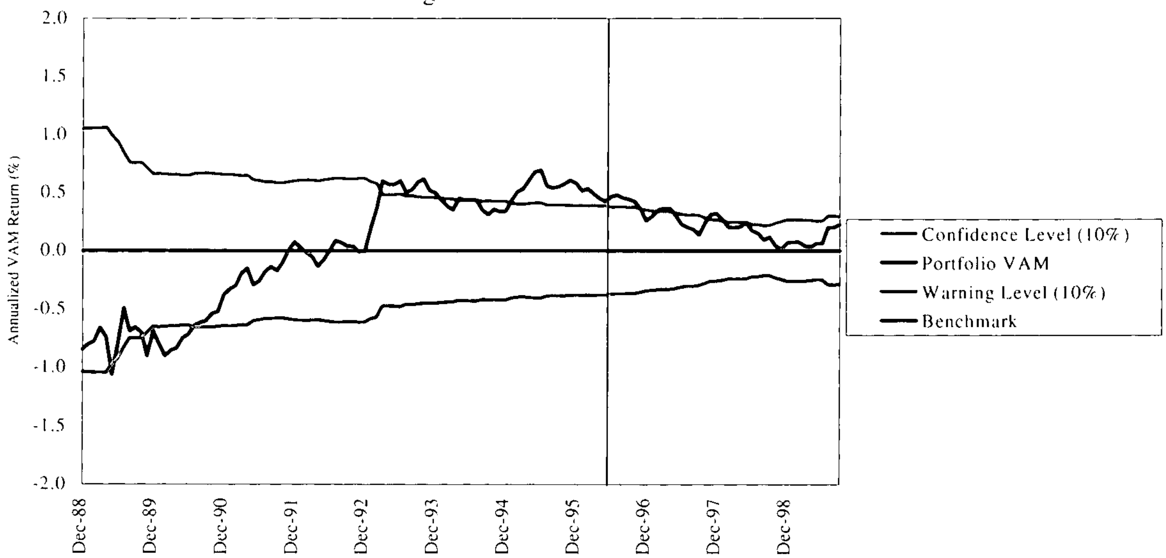
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	1.1%
Last 1 year	1.8	2.4
Last 2 years	5.5	5.6
Last 3 years	6.5	6.6
Last 4 years	6.3	6.4
Last 5 years	7.4	7.3
Since Inception (7/91)	7.5	7.2

Recommendation

No action required.

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year VAM



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

Portfolio Manager: Mike Menssen | **Assets Under Management: $493,706,440**

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.

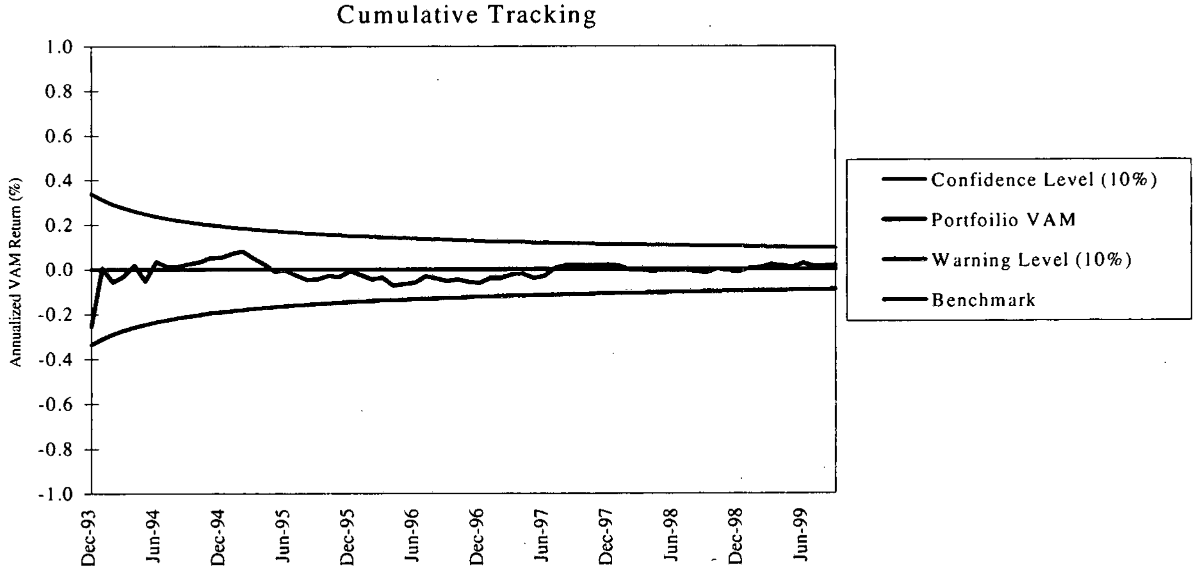
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.2%	-6.2%
Last 1 year	28.0	27.8
Last 2 years	18.2	18.1
Last 3 years	25.3	25.2
Last 4 years	24.0	24.0
Last 5 years	25.1	25.1
Since Inception (7/93)	20.9	20.8

Recommendation

No action required.

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Tracking



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

Portfolio Manager: Mike Menssen **Assets Under Management: $219,380,081**

Investment Philosophy
Income Share Account

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

Staff Comments

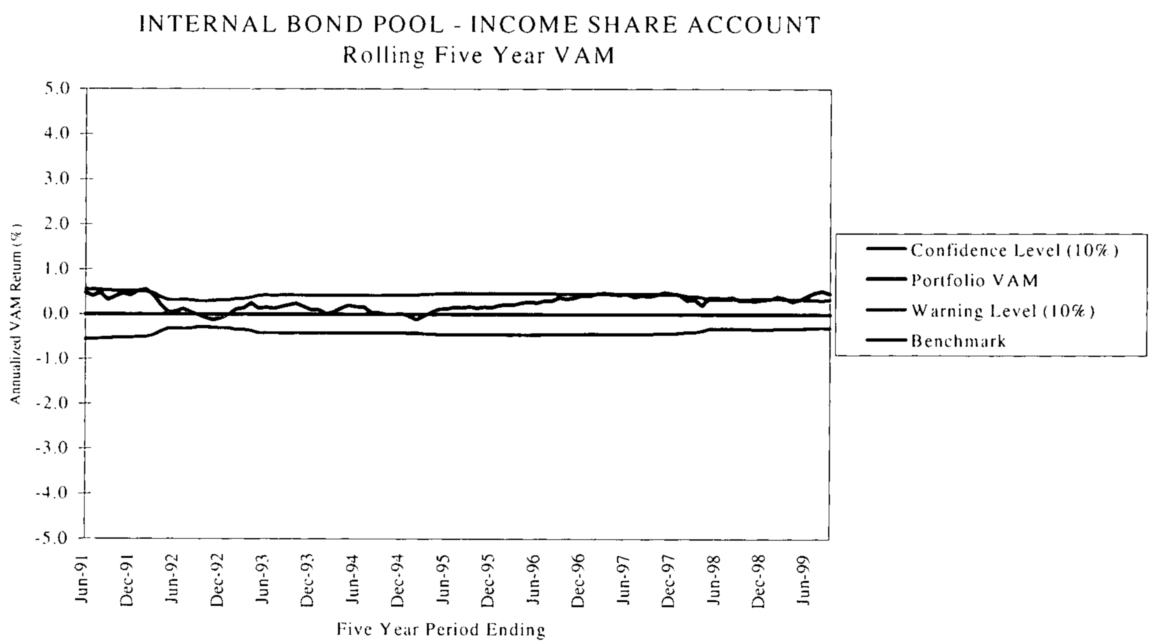
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.7%
Last 1 year	-0.2	-0.4
Last 2 years	5.6	5.4
Last 3 years	7.2	6.8
Last 4 years	6.8	6.3
Last 5 years	8.3	7.8
Since Inception (7/86)	8.6	8.2

Recommendation

No action required.



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

Portfolio Manager: Mike Menssen — **Assets Under Management: $373,999,488**

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

The Internal Bond Pool – Trust/Non-Retirement Account under-performed during this quarter due to an overweight in mortgage backed securities and also an overweight in lower grade (BBB) corporate issues. The market has also recently preferred on-the-run Treasuries and more liquid corporate issues which are less favored by this "buy and hold" portfolio.

Quantitative Evaluation

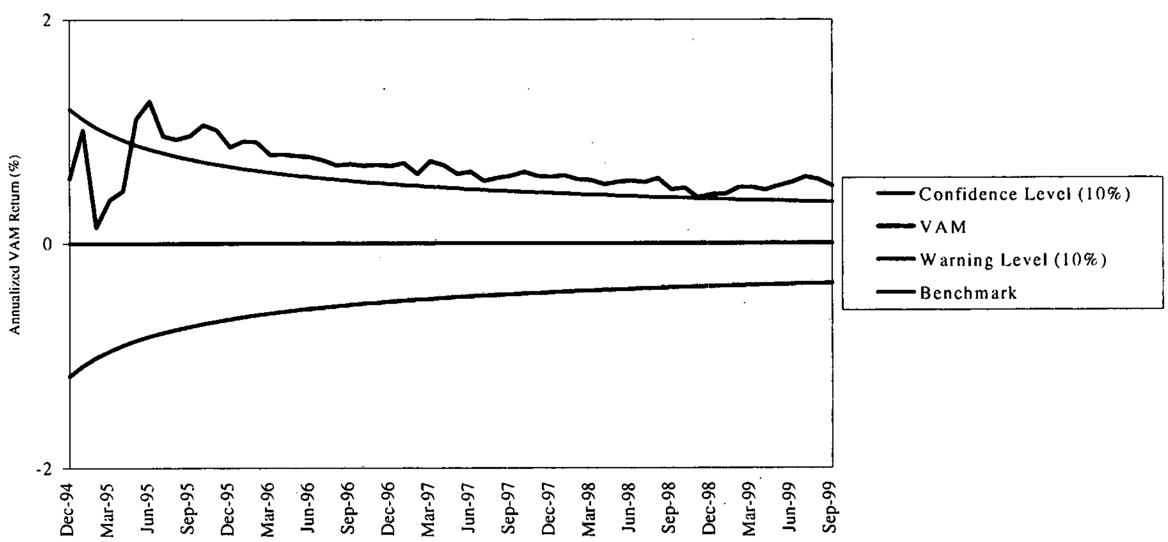
	Actual	Benchmark
Last Quarter	0.6%	0.7%
Last 1 year	0.3	-0.4
Last 2 years	5.8	5.4
Last 3 years	7.2	6.8
Last 4 years	6.7	6.3
Last 5 years	N.A.	N.A.
Since Inception (7/94)*	8.1	7.6

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

Recommendation

No action required.

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Cumulative Tracking



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STATE BOARD OF INVESTMENT

Deferred Compensation Plan Evaluation Reports

Third Quarter, 1999

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MN STATE 457 DEFERRED COMPENSATION PLAN
MUTUAL FUND MANAGERS
Periods Ending September, 1999

457 Mutual Funds	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Retention by SBI* %	Since Retention by SBI* %	State's Participation In Fund ($ millions)
Large Cap Equity:											
Janus Twenty	1.2	-6.2	54.6	27.8	41.6	25.2	35.5	25.1	1.2	-6.2	249.38
(S&P 500)**											
Small Cap Equity:											
T. Rowe Price Small-Cap Equity	-2.5	-6.3	16.7	19.1	9.1	8.7	15.1	12.4	-2.5	-6.3	184.35
(Russell 2000)											
Equity Index:											
Vanguard Institutional Index	-6.2	-6.2	28.0	27.8	25.2	25.2	25.1	25.1	-6.2	-6.2	154.35
(S&P 500)											
Balanced:											
INVESCO Total Return	-8.4	-3.5	7.4	15.4	13.7	17.8	15.1	18.1	-8.4	-3.5	106.87
(60% S&P 500/40% Lehman Gov-Corp)											
Bond:											
Dodge & Cox Income Fund	0.4	0.7	0.0	-0.4	6.8	6.8	8.1	7.8	0.4	0.7	24.11
(Lehman Aggregate)											
International:											
Fidelity Diversified International	5.4	4.4	33.1	30.8	17.0	10.3	15.3	9.1	5.4	4.4	52.54
(MSCI EAFE-Free)											

Numbers in black are returns **since** retention by SBI.
Numbers in blue include returns **prior** to retention by SBI.

*The mutual fund managers were retained by the SBI in July 1999.
**Benchmarks for the Funds are notated in parentheses below the Fund names.

Fixed Fund:	%
Blended Yield Rate for current quarter***:	6.1
Bid Rates for current quarter:	
Great West Life	6.9
Minnesota Life	6.8
Principal Life	6.9

***The Blended Yield Rate for the current quarter includes the return on the existing porfolio assets and also the Liquidity Buffer Account (money market). The Bid Rates for the current quarter are for the new cash flow only.

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MN STATE 457 DEFERRED COMPENSATION PLAN
LARGE CAP EQUITY – JANUS TWENTY
Periods Ending September, 1999

State's Participation in Fund: $249,380,265
Portfolio Manager: Scott W. Schoelzel **Total Assets in Fund: $26,170,500,000**

Investment Philosophy
Janus Twenty

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

Staff Comments

The fund manager uses the S&P 500. While this fund has a small number of securities, 81% of the variability of its returns is explained by the benchmark (R squared is .81). There is a lack of suitable alternative indexes against which to measure the performance of a fund with so few holdings.

Quantitative Evaluation

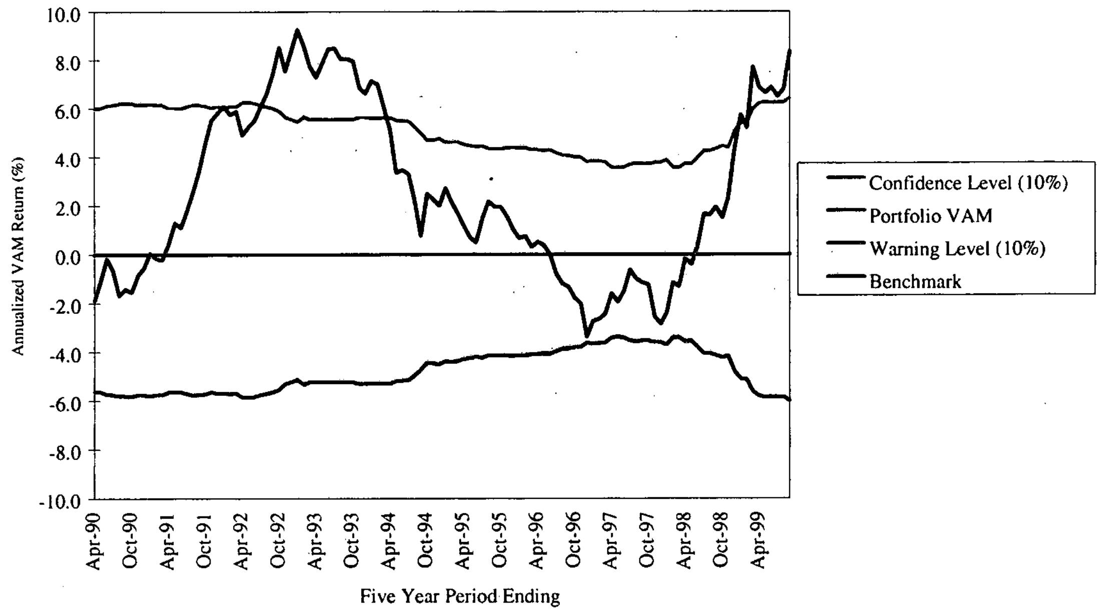
	Actual	Benchmark*
Last Quarter	1.2%	-6.2%
Last 1 year	54.6	27.8
Last 2 years	43.1	18.1
Last 3 years	41.6	25.2
Last 4 years	36.3	24.0
Last 5 years	35.5	25.1
Since Retention by SBI (7/99)	1.2	-6.2

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

Recommendation

No action required.

LARGE CAP EQUITY - JANUS TWENTY
Rolling Five Year VAM



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

MN STATE 457 DEFERRED COMPENSATION PLAN
SMALL CAP EQUITY – T. ROWE PRICE SMALL CAP EQUITY FUND
Periods Ending September, 1999

Portfolio Manager: Gregory A. McCrickard

State's Participation in Fund: $184,346,095
Total Assets in Fund: $1,494,548,405

Investment Philosophy
T. Rowe Price Small Cap Equity Fund

The strategy of this fund is to invest primarily in stocks of small to medium-sized companies that are believed to offer either superior earnings growth or appear undervalued. The fund normally invests at least 80% of assets in equities traded in the U.S over-the-counter market. The manager does not favor making big bets on any particular sector or any particular stock. The fund's combination of growth and value stocks offers investors relatively more stable performance compared to other small cap stock funds.

Staff Comments

It is appropriate to measure the fund against the Russell 2000. It is a small-cap fund using a blend of value and growth stocks with 93% of the variability of its returns explained by the benchmark (R squared is .93). The Russell 2000 is the same benchmark used by the manager.

Quantitative Evaluation

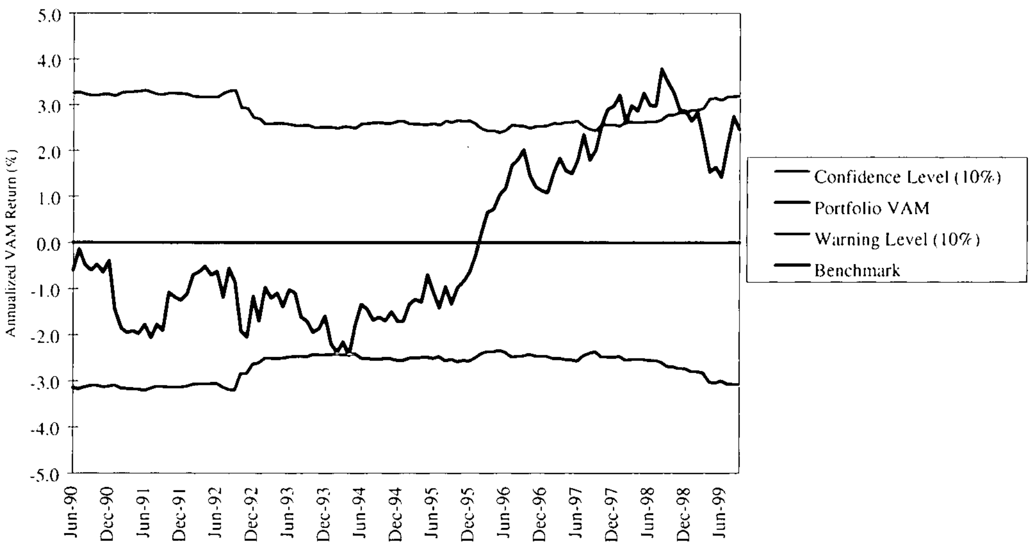
	Actual	Benchmark*
Last Quarter	-2.5%	-6.3%
Last 1 year	16.7	19.1
Last 2 years	-0.1	-1.8
Last 3 years	9.1	8.7
Last 4 years	12.4	9.8
Last 5 years	15.1	12.4
Since Retention by SBI (7/99)	-2.5	-6.3

*Benchmark is the Russell 2000.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Recommendation

No action required.

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



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

MN STATE 457 DEFERRED COMPENSATION PLAN
EQUITY INDEX – VANGUARD INSTITUTIONAL INDEX
Periods Ending September, 1999

State's Participation in Fund: $154,346,255

Portfolio Manager: George U. Sauter **Total Assets in Fund: $25,248,866,000**

Investment Philosophy
Vanguard Institutional Index

This fund attempts to provide investment results, before fund expenses, that parallel the performance of the Standard & Poor's 500 Index. The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The managers have tracked the S&P 500's performance with a high degree of accuracy. The fund may use futures and options for temporary purposes, but generally remains fully invested in common stock.

Staff Comments

The fund is passively managed to the S&P 500 index. It is therefore appropriate to measure this fund against the S&P 500.

Quantitative Evaluation

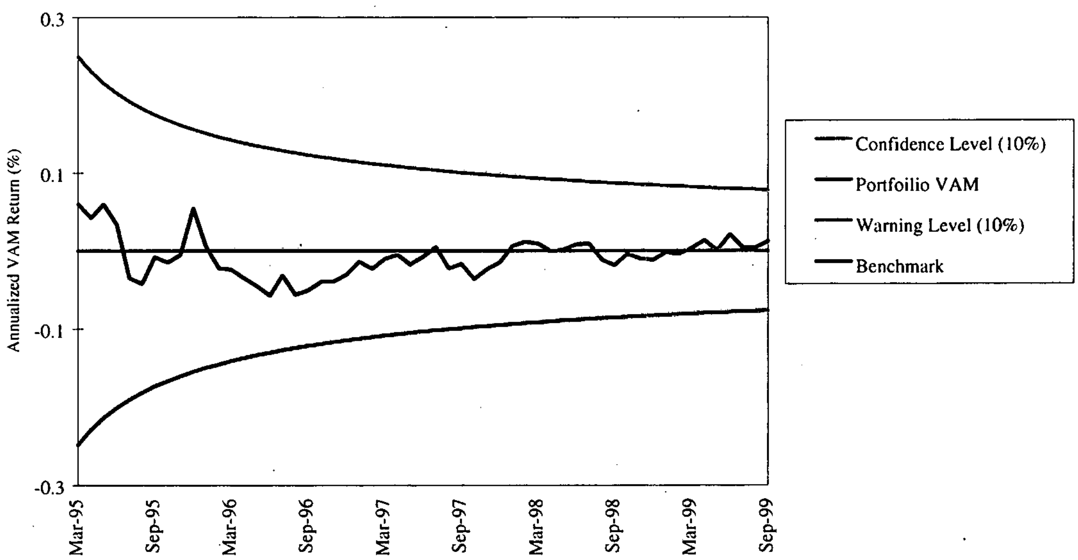
	Actual	Benchmark*
Last Quarter	-6.2%	-6.2%
Last 1 year	28.0	27.8
Last 2 years	18.2	18.1
Last 3 years	25.2	25.2
Last 4 years	24.0	24.0
Last 5 years	25.1	25.1
Since Retention by SBI (7/99)	-6.2	-6.2

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

Recommendation

No action required.

EQUITY INDEX - VANGUARD INSTITUTIONAL INDEX
Cumulative Tracking



Note: Shaded area includes performance prior to managing SBI account

MN STATE 457 DEFERRED COMPENSATION PLAN
BALANCED – INVESCO TOTAL RETURN
Periods Ending September, 1999

State's Participation in Fund: $106,872,311
Portfolio Manager: Edward Mitchell, Jr. **Total Assets in Fund: $3,372,180,000**

Investment Philosophy
Invesco Total Return

This fund is designed for investors who want to invest in a mix of stocks and bonds in the same fund. The fund seeks both capital appreciation and current income. The managers start from a 60% stock / 40% bond asset allocation and adjusts the mix based on the expected risks and returns of each asset class. The fund invests in mid- to large-cap value stocks and in high quality bonds with the bond portfolio having a duration somewhat less than the bond market as a whole.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-8.4%	-3.5%
Last 1 year	7.4	15.4
Last 2 years	6.8	13.3
Last 3 years	13.7	17.8
Last 4 years	13.4	16.9
Last 5 years	15.1	18.1
Since Retention by SBI (7/99)	-8.4	-3.5

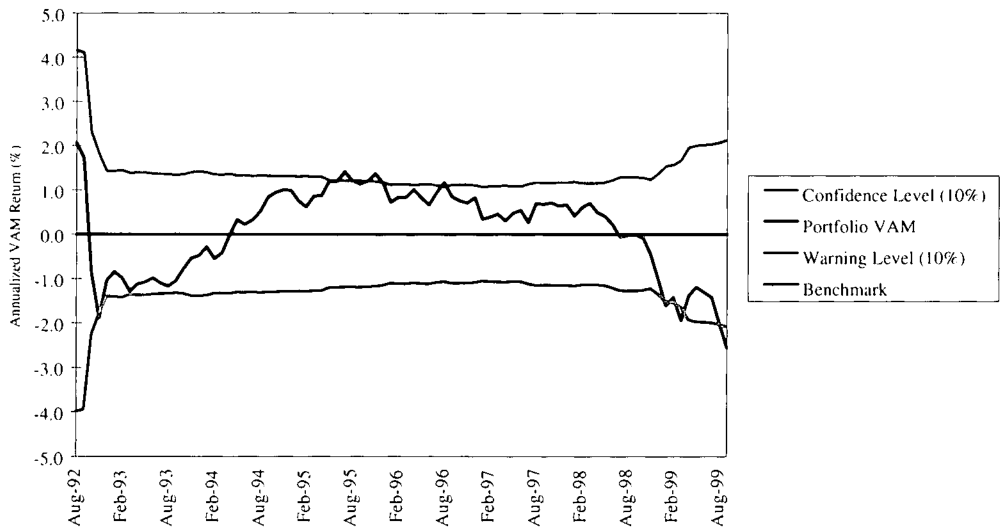
*Benchmark is the 60% S&P 500/ 40% Lehman Gov-Corp.
Numbers in black are returns since retention by SBI.
Numbers in blue include returns prior to retention by SBI.

Staff Comments

It is appropriate to measure this balanced fund against a composite index of a 60% S&P 500 / 40% Lehman Gov.-Corp. which is also used by the manager. The manager shifts the fund's asset allocation from the neutral 60/40 allocation. While the fund must maintain at least 30% in equities and at least 30% in fixed income, the manager has not shifted the allocation this dramatically. Because mortgages have not been held in any significant amount in the past three years, the choice of the Lehman Gov.-Corp. portion of the benchmark is appropriate.

Performance for this fund is being closely monitored. The recent under-performance for the quarter and the year was due to a higher than neutral weighting in equities (which under-performed bonds during the quarter) and the poor performance of many attractively valued consumer cyclical, basic materials and capital goods stocks that were over-weighted relative to the benchmark. Owning too few technology stocks was the most significant drag on the fund's equity returns.

BALANCED - INVESCO TOTAL RETURN
Rolling Five Year VAM



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

MN STATE 457 DEFERRED COMPENSATION PLAN
BOND – DODGE & COX INCOME FUND
Periods Ending September, 1999

State's Participation in Fund: $24,106,250
Portfolio Manager: Dana Emery | **Total Assets in Fund: $1,019,669,142**

Investment Philosophy
Dodge & Cox Income Fund

The objective of this fund is a high and stable rate of current income with capital appreciation being a secondary consideration. This portfolio is invested primarily in intermediate term, investment-grade quality corporate and mortgage bonds and, to a lesser extent, government issues. While the fund invests primarily in the U. S. bond market, it may invest a small portion of assets in dollar-denominated foreign securities. The duration of the portfolio is kept near that of the bond market as a whole.

Staff Comments

The Dodge & Cox Income fund invests broadly in the bond market. The Lehman Aggregate is therefore a suitable benchmark and is used by the manager.

Quantitative Evaluation

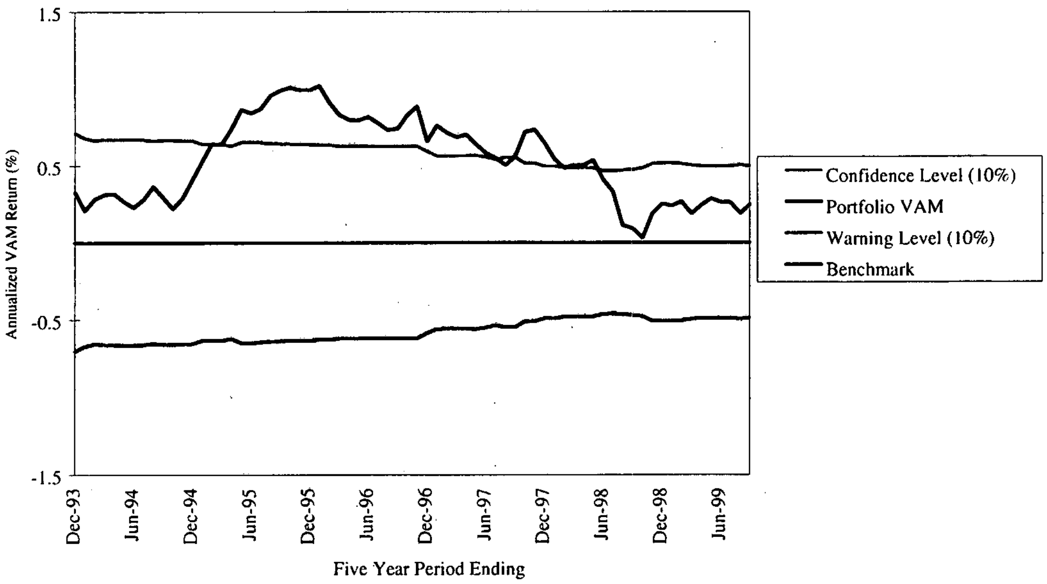
	Actual	Benchmark*
Last Quarter	0.4%	0.7%
Last 1 year	0.0	-0.4
Last 2 years	5.1	5.4
Last 3 years	6.8	6.8
Last 4 years	6.3	6.3
Last 5 years	8.1	7.8
Since Retention By SBI (7/99)	0.4	0.7

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

Recommendation

No action required.

BOND - DODGE & COX INCOME FUND
Rolling Five Year VAM



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

MN STATE 457 DEFERRED COMPENSATION PLAN
INTERNATIONAL – FIDELITY DIVERSIFIED INTERNATIONAL
Periods Ending September, 1999

Portfolio Manager: Gregory Fraser

State's Participation in Fund: $52,542,116
Total Assets in Fund: $3,259,000,000

Investment Philosophy
Fidelity Diversified International

The goal of this fund is capital appreciation by investing in securities of companies located outside of the United States. While the fund invests primarily in stocks, it may also invest in bonds. Most investments are made in companies that have a market capitalization of $100 million or more and which are located in developed countries. To select the securities, the fund utilizes a rigorous computer-aided quantitative analysis supplemented by relevant economic and regulatory factors. The manager rarely invests in currency to protect the account from exchange fluctuations.

Staff Comments

It is appropriate to measure the fund against the EAFE-Free index. The fund invests primarily in large companies in developed markets within the EAFE index. Using EAFE-Free rather than EAFE is important because it reflects stocks foreigners can invest in, and it corresponds with the benchmark of the SIF International Share Account which is also an investment option in the 457 Plan. The fund has held less than seven percent, and a decreasing amount each year, of emerging markets securities in the last four years.

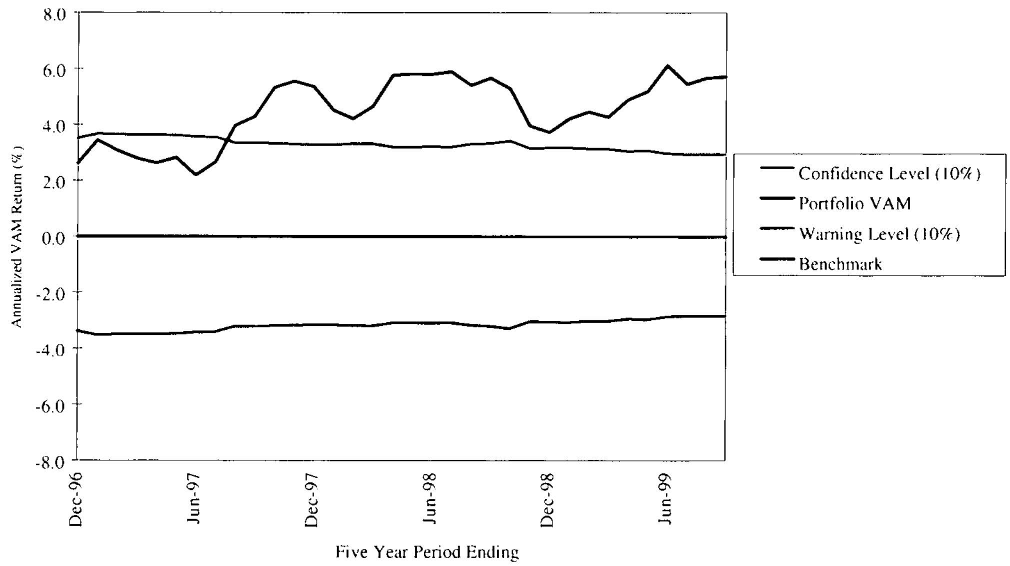
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.4%	4.4%
Last 1 year	33.1	30.8
Last 2 years	12.5	9.5
Last 3 years	17.0	10.3
Last 4 years	16.8	9.9
Last 5 years	15.3	9.1
Since Retention By SBI (7/99)	5.4	4.4

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

Recommendation

No action required.



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

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending September, 1999

Total Assets in MN Fixed Fund: $26,108,585 *
*Includes $5-10M in Liquidity Buffer Account

Total Assets in 457 Plan: $609,338,882 **
**Includes all assets in new and old fixed options

Principal Life

Ratings:	Moody's	Aa2
	S&P	AA
	A.M. Best	A+
	Duff & Phelps	AA+

Assets in MN Fixed Fund: $7,127,317

Investment Philosophy

The manager invests in fixed income securities, commercial mortgages, mortgage-backed securities and residential whole loans, with lesser amounts invested in stock, cash equivalents and direct real estate. The manager relies upon in-house analysis and prefers investments that offer more call protection. The manager strongly prefers private placements to corporate bonds in the belief that private placements offer higher yields and superior protective covenants compared to public bonds. A portion of the fixed income portfolio is invested in US dollar-denominated foreign corporate bonds. Mortgage-backed bonds are actively managed to prices at or below par to reduce prepayment risk. Conservative underwriting standards, small loan sizes and an emphasis on industrial properties minimizes commercial loan risk.

Minnesota Life

Ratings:	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA

Assets in MN Fixed Fund: $4,274,773

Assets in Prior MN 457 Plan: $244,047,736

Total Assets: $248,322,509

Investment Philosophy

Investment decisions support an asset/liability match for the company's many product lines. A conservative investment philosophy uses a number of active and passive investment strategies to manage general account assets and cash flow. Assets are primarily invested in a widely diversified portfolio of high quality fixed income investments that includes public and private corporate bonds, commercial mortgages, residential mortgage securities and other structured investment products, providing safety of principal and stable, predictable cash flow to meet liabilities and to invest in and produce consistent results in all phases of the economic cycle.

Great West Life

Ratings:	Moody's	Aa2
	S&P	AA+
	A.M. Best	A++
	Duff & Phelps	AAA

Assets in MN Fixed Fund: $2,848,758

Assets in Prior MN 457 Plan: $339,182,561

Total Assets: $342,031,319

Investment Philosophy

The Company observes strict asset/liability matching guidelines to ensure that the investment portfolio will meet the cash flow and income requirements of its liabilities. The manager invests in public and privately placed corporate bonds, government and international bonds, common stocks, mortgage loans, real estate, redeemable preferred stocks and short-term investments. To reduce portfolio risk, the manager invests primarily in investment grade fixed maturities rated by third-party rating agencies or by the manager if private placements. Mortgage loans reflect a broadly diversified portfolio of commercial and industrial mortgages subject to strict underwriting criteria.

MN STATE 457 DEFERRED COMPENSATION PLAN
MN FIXED FUND
Periods Ending September, 1999

Current Quarter

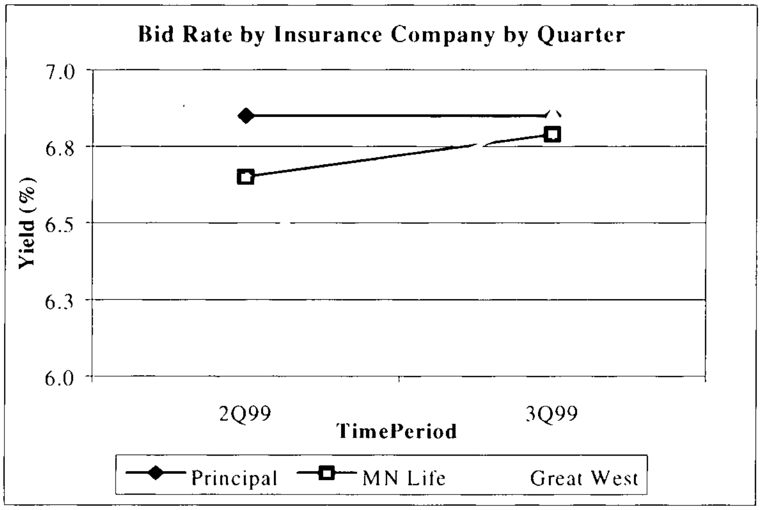
Dollar Amount of Bid: $20,500,000 **Blended Rate: 6.14%**

Bid Rates:

Principal Life	6.85%
Minnesota Life	6.79%
Great West Life	6.85%

Dollar Amount in existing Minnesota Life portfolio: $244,047,736

Rate on existing Minnesota Life portfolio: 6.09%



Staff Comments on Bid Rates

The insurance companies have submitted bids during the first two quarters on the new inflow of dollars into the MN Fixed Fund. The spread on the bid rates in the third quarter bid narrowed from those of the second quarter bid.

Percentage Allocation of Dollars by Quarter

	3Q99	4Q99
Principal Life	50%	33.3%
Minnesota Life	30%	33.3%
Great West Life	20%	33.3%

Staff Comments

There are seven alternative percentage allocation "scenarios" for the MN Fixed Fund. Each quarter, one scenario will be applied, based on the spread in the bid rates of the insurance companies. Each scenario assigns a set percentage of the bid dollars to the top, second and low bidder. In the most recent quarter, the percentage allocation to each company was equal because all three companies' bids were within 10 basis points of each other.

Tab H

COMMITTEE REPORT

DATE: November 30, 1999

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

FROM: **International Manager Committee**

The International Manager Committee met on November 15, 1999 to consider the following agenda items:

- Review of manager performance for the period ending September 30, 1999
- Annual review of investment manager guidelines
- Discussion of the international manager search recommendations

No Board/IAC action is required at this time.

INFORMATION ITEMS:

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

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

Time Period	Total Program	Composite Index*	Equity Mgrs. Only
Quarter	2.5%	3.4%	2.8%
1 Year	31.8	34.5	31.9
3 Year	10.2	8.7	9.0
5 Year	9.6	8.1	8.9

* The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96 the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

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

2. Annual review of investment manager guidelines

The SBI has established guidelines for the external managers that govern their investment actions. While these guidelines may be changed at any time, they are part of the formal contractual agreement between the SBI and the manager. The guidelines address return objectives, risk constraints, benchmarks, authorized investments, performance evaluation, communication, and reporting requirements.

Staff and the Committee review the guidelines annually for accuracy and completeness. This year, the primary changes were to increase the consistency of language across all asset classes and to incorporate greater detail in the requirements and constraints. In addition, the following modifications were incorporated into the guidelines:

- *Active Developed Market Managers.* Staff changed the language to prevent developed market managers from investing in emerging countries. This modification reflects a recent policy change.
- *All active stock managers.* Staff added language to the guidelines to incorporate the SBI's current policy on tobacco related stocks.
- *All managers.* Staff added language to the guidelines requiring managers to certify, in writing, annually that the manager has been in compliance with all of the SBI's investment guidelines and to notify the SBI immediately if the portfolio moves outside of these guidelines.

The investment guidelines for the international managers (active developed, passive developed, and emerging) are attached beginning on **page 5**.

3. Discussion of the international manager search recommendations

The International Search Committee met on September 21-22, 1999 to conduct a search for active international developed market managers and to re-interview Record Treasury Management. The Search Committee recommendations were presented to the International Manager Committee for informational purposes.

The Search Committee interviewed eight (8) firms. Based on the interviews and other information, the Search Committee is recommending that four (4) firms be retained by the SBI at this time:

American Express Asset Management	London, UK
Blairlogie Capital Management	Edinburgh, Scotland
INVESCO Global Asset Management	Atlanta, Georgia
Montgomery Asset Management, LLC	San Francisco, California

On November 10, 1999, the Search Committee reconvened to vote on the retention of Record Treasury Management. After some discussion, the Search Committee concluded that further evaluation is needed to better define the role of a currency manager for the international program. If that role is determined, a currency manager search could be conducted in the future.

The Search Committee voted not to retain Record Treasury at this time. Upon approval by the Board, any current hedges will be closed out, and Record Treasury would remain under contract until the existing hedges expire over the next twelve months. This recommendation would preclude Record Treasury from conducting any additional hedging.

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL DEVELOPED MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) active international developed markets equity managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVE

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark portfolio. Over time, each manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of three (3.0) percentage points.

(b) The actual portfolio will generate positive cumulative returns in excess of the benchmark over rolling five-year periods. The goal is to obtain an information ratio of 0.20 or greater. An information ratio is the ratio of annualized excess return to active risk.

2. PERFORMANCE BENCHMARK

The performance benchmark for the portfolio will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australasia and the Far East-Free (EAFE-Free), capitalization weighted. SBI reserves the right to change the benchmark upon notification to the Manager.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE MARKETS

Subject to the constraints in #6 below, the Manager is authorized to purchase common stocks only in the countries included in the EAFE-Free index and in Canada. Manager may not purchase the shares of companies domiciled in emerging market countries.

6. ELIGIBLE INVESTMENTS

Subject to the constraints in #5 above, the Manager will be restricted to purchasing common stocks, currency forwards and the SBI's STIF fund. The Manager may hold preferred stock and warrants, if received from underlying assets. The Manager must have the SBI's written approval to purchase preferred stock, warrants, open-end country funds and closed-end country or regional funds, stock index futures and options, and currency futures and options provided:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements may not be purchased in the Account.

(d) Debt securities, except cash equivalents may not be purchased in the Account.

(e) The Manager shall not hold more than five (5) percent of the total outstanding shares of any corporation in the SBI's portfolio.

(f) The stock of companies domiciled in the US shall not be held in the Account. However, with the SBI's prior written authorization, Manager may hold open-end and closed-end funds, which invest primarily in international securities.

(g) American Depository Receipts (ADR's), Great Britain Depository Receipts (GDR's), and securities issued by Canada or its provinces may be held in the Account provided they are depository eligible and can be priced on a daily basis. Non-U.S. securities issued pursuant to Rule 144A may be purchased for the Account if, upon issuance,. they will be publicly-traded securities in their local market(s) and can be priced on a daily basis.

(h) Upon written authorization by the SBI, stock options and stock index futures, purchased through a governmentally regulated futures exchange, may be used to adjust the effective equity exposure of the portfolio. Over-the-counter instruments are not permitted. All future transactions must be done on a fully collateralized basis. .

(i) Currency forwards may be used to adjust the effective non-US currency exposure of the portfolio from 0 to 100%. Manager has no obligation to hedge currency risk and will not be required to do so.

(j) With regards to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of their revenue from the manufacture of consumer tobacco products.

7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's Account, and affirm account reconciliation with the Custodial Bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

8. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The Manager is responsible for monitoring both the long term and short term credit ratings of each counterparty bank and the Manager will notify the SBI of any downgrade in either rating promptly.

9. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

10. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

11. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

13. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way. Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Revised: December 1999

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
INTERNATIONAL EMERGING MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) international emerging markets equity managers will be governed and evaluated by the following guidelines:

1. RETURN/RISK OBJECTIVE

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark portfolio. Over time, each manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of six (6.0) percentage points.

(b) The actual portfolio will generate positive cumulative returns in excess of the benchmark over rolling five-year periods. The goal is to obtain an information ratio of 0.20 or greater. An information ratio is the ratio of annualized excess return to active risk.

2. PERFORMANCE BENCHMARK

The performance benchmark for the Account will be the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) index, capitalization weighted. SBI reserves the right to change the benchmark upon notification to manager.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

(g) American Depository Receipts (ADR's) and Great Britain Depository Receipts (GDR's) may be held in the Account provided they are issued by a company domiciled in an emerging market, are depository eligible and can be priced on a daily basis. Non-U.S. securities issued pursuant to Rule 144A may be purchased for the Account if, upon issuance they will be publicly-traded securities in their local market(s) and can be priced on a daily basis.

(h) The Manager shall not hold more than five (5) percent of the total outstanding shares of any corporation or closed-end fund in the SBI's portfolio.

(i) Currency forwards may be used to adjust the effective non-U.S. currency exposure of the Account from 0 to 100%. Manager has no obligation to hedge currency risk and will not be required to do so.

(j) With regards to tobacco related stocks, the account may not purchase shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products. In addition, the Manager shall divest shares of any company that obtains more than 15 percent of its revenues from the manufacture of consumer tobacco products by September 2001. The SBI will periodically provide the Manager with a list of companies that derive more than 15% of their revenue from the manufacture of consumer tobacco products.

7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, and highlight any organizational changes which may impact management of the SBI's account and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

8. COUNTERPARTY BANKS

Each counterparty bank used by the Manager to execute currency transactions must have a credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring both the long term and short term credit ratings of each counterparty bank and the Manager will notify the SBI of any downgrade in either rating promptly.

9. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

10. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by a legal representative of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

11. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

13. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Revised: December 1999

MINNESOTA STATE BOARD OF INVESTMENT

CITY OF LONDON

INVESTMENT GUIDELINES
INTERNATIONAL EMERGING MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) international emerging markets equity managers will be governed and evaluated by the following guidelines:

1. **RETURN/RISK OBJECTIVE**

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark portfolio. Over time, each manager will be expected to produce portfolios which differ from the manager's benchmark portfolio in the following manner:

(a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of six (6.0) percentage points.

(b) The actual portfolio will generate positive cumulative returns in excess of the benchmark over rolling five-year periods. The goal is to obtain an information ratio of 0.20 or greater. An information ratio is the ratio of annualized excess return to active risk.

2. **PERFORMANCE BENCHMARK**

The performance benchmark for the Account will be the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) index, capitalization weighted. SBI reserves the right to change the benchmark upon notification to manager.

3. **ACCOUNT RECONCILIATION**

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE MARKETS

Subject to the constraints in #6 below and as otherwise provided in #6 below, the Manager is authorized to purchase securities in the following markets:

Group I. The Manager is not restricted regarding publicly traded securities of companies domiciled in, or closed-end funds investing principally in, the following markets:

Barbados	Czech Republic	Mauritius
Canada	Estonia	Poland
Chile	Greece	Slovak Republic
Costa Rica	Hungary	Trinidad & Tobago
Cyprus	Luxembourg	Uruguay

Group II. The Manager may purchase publicly traded securities of companies domiciled in, or closed-end funds investing principally in, the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the Manager chooses to invest in one or more of these markets, the Manager must notify the SBI in writing of its decision to do so.

Argentina	India	Mexico	Swaziland
Bolivia	Israel	Mongolia	Taiwan
Botswana	Jamaica	Namibia	Thailand
Brazil	Kazakhstan	Nepal	Tunisia
Bulgaria	Kenya	Panama	Turkey
Columbia	Korea, Republic of	Papua New Guinea	Ukraine
Cote d'Ivorie	Latvia	Philippines	Venezuela
Dominican Republic	Lithuania	Romania	Zambia
Ecuador	Malawi	South Africa	Zimbabwe
Ghana	Malaysia	Sri Lanka	

Group III. The Manager may invest in publicly traded securities of companies domiciled in, or closed-end funds investing principally in, the following markets if the Manager believes it would be a breach of fiduciary responsibility not to do so. If the Manager chooses to invest in one or more of these markets, the Manager must appear at a meeting of the SBI Administrative Committee to present its reason(s) for the decision to do so.

Bangladesh	Lebanon	Peru
China, Peoples Republic of	Liberia	Russia
Croatia	Mauritania	Saudi Arabia
Egypt	Morocco	Turkmenistan
Guatemala	Myanmar	United Arab Emirates (UAE)
Indonesia	Nigeria	Uzbekistan
Jordan	Oman	Vietnam
Kuwait	Pakistan	

6. ELIGIBLE INVESTMENTS

Subject to the constraints in #5 above, the Manager will be restricted to purchasing common stocks, closed-end funds, currency forwards and the SBI's STIF fund. The Manager may hold preferred stock and warrants, if received from underlying assets and open-end funds that have been converted from closed-end funds held by the account. The Manager must have the SBI's written approval to purchase preferred stock, warrants, equity futures and options, and currency futures and options provided:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Private placements may not be purchased.

(d) Debt securities, except cash equivalents may not be purchased.

(e) The stock of companies domiciled in, or open and closed-end funds investing principally in, any of the following countries shall not be held in the account: U.S.; Canada; and all EAFE markets. Notwithstanding the foregoing sentence, Manager may hold closed-end funds (or open-end funds that have been converted from closed-end funds held by the Account), provided all or substantially all of the assets of such instruments or funds satisfy this constraint.

(f) The stock of companies domiciled in developing countries outside the EMF benchmark shall not exceed 20% of the portfolio's market value in aggregate.

(g) American Depository Receipts (ADR's) and Great Britain Depository Receipts (GDR's) may be held in the Account provided they are issued by a company domiciled in an emerging market, are depository eligible and can be priced on a daily basis. Non-U.S. securities issued pursuant to Rule 144A may be purchased for the Account if, upon issuance they will be publicly-traded securities in their local market(s) and can be priced on a daily basis.

(h) The Manager may not hold more than 20% of any open or closed-end fund in the SBI's portfolio.

(i) Currency forwards, may be used to adjust the effective non-U.S. currency exposure of the Account from 0 to 100%. Manager has no obligation to hedge currency risk and will not be required to do so.

7. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, and highlight any organizational changes which may impact management of the SBI's account and affirm account reconciliation with the custodial bank.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

8. COUNTERPARTY BANKS

Each counterparty bank, used by the Manager to execute currency transactions must have a credit rating of A1/P1 or better from each of the following rating organizations: S&P, Moody's and IBCA.

Any agreement entered into must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that SBI liability for settlement, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota.

The Manager is responsible for monitoring both the long term and short term credit ratings of each counterparty bank and the Manager will notify the SBI of any downgrade in either rating promptly.

9. PROXY VOTING

The SBI retains the right to vote its proxies directly. Unless the SBI notifies the Manager that it is exercising this right, the Manager shall vote all proxies on behalf of the SBI according to guidelines provided to the Manager by the SBI. The Manager shall report annually on its voting practices with respect to the SBI portfolio. This report shall be received by the SBI within sixty (60) days following the fiscal year ending June 30. The SBI represents that such delegation of voting rights is consistent with applicable *Minnesota Statutes*. The SBI agrees to instruct the Custodian to forward all proxy materials to the Manager upon receipt. Manager shall not be liable with regard to voting of proxies in the event proxy materials are not received by the Manager in a timely manner.

10. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by a legal representative of the SBI before entering into the agreement. The agreement must provide that SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

11. SEPARATE ACCOUNT AND DAILY PRICING

Manager will manage the Account on a separate account basis. All assets will be held in custody by the SBI's custodian bank and its network of sub-custodians. All securities held in the Account must be capable of being priced by the custodian on a daily basis. Commingled vehicles may not be held in the Account without the written approval of the SBI.

12. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time. The Manager will be notified in advance of changes to the investment guidelines.

13. COMPLIANCE WITH GUIDELINES

The Manager must immediately inform the SBI, in writing, if these guidelines are violated in any way.

Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Revised: December 1999

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EAFE-FREE INDEX FUND MANAGER

The investment actions of the Minnesota State Board of Investment (SBI) EAFE-Free Index Fund Manager will be governed and evaluated by the following guidelines:

1. RETURN/TRACKING ERROR OBJECTIVE

The Manager is expected to deliver cumulative returns that closely track the predetermined index provided to the Manager. The Manager is expected to achieve the following:

(a) The actual portfolio will realize tracking error, relative to the benchmark, no greater than ± 60 basis points over any twelve month period.

(b) Over a 3 to 5 year period, the return should be no more than ± 20 basis points relative to the predetermined benchmark due to fees, transaction costs, etc.

2. BENCHMARK INDEX

The benchmark index will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australasia and the Far East Free (EAFE-Free). SBI reserves the right to change the benchmark upon notification to Manager.

3. ACCOUNT RECONCILIATION

The Account will be priced by the SBI's custodian bank and such prices will be used to measure performance of the SBI Account. The Manager agrees to accept the prices established by the Custodian. The Manager will review the Custodian's pricing on a monthly basis and report any differences or discrepancies to the Custodian. The Manager may appeal to the SBI if the Manager and Custodian cannot arrive at mutually agreeable pricing. At the end of each quarter, the Manager will report to the SBI that the Manager agrees with the Custodian's pricing for the quarter.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established by SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.

5. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding stocks in the benchmark index, stock index futures, and the SBI's STIF fund subject to the following constraints:

(a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

(b) U.S. cash equivalents shall be invested in the SBI's STIF fund, managed by its custodian bank.

(c) Stock index futures, purchased through a regulated futures exchange, may be used to equitize cash in the portfolio. Over-the-counter future instruments are not permitted. All future transactions must be done on a fully collateralized basis.

6. COMMUNICATION

The SBI requires its investment managers to communicate, at a minimum, with SBI staff on the following basis:

(a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.

(b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, within twelve (12) business days after quarter-end. The Commentary will summarize performance results over the most recent quarter and year, discuss future strategy, highlight any organizational changes which may impact management of the SBI's Account, and affirm account reconciliation with the custodian.

(c) The Manager will promptly inform SBI staff and the SBI's custodian of any litigation related to any holding in the Account. The SBI reserves the right to initiate or participate in any litigation on its own behalf.

7. PROXY VOTING

The SBI is responsible for proxy voting. The SBI may delegate responsibility for proxy voting in certain countries to the Manager. If so, such delegation will be made in writing along with appropriate voting policy direction.

8. OPTIONS AND FUTURES TRADING AGREEMENT

Any options and futures trading agreement entered into by the Manager must be reviewed and approved by legal representatives of the SBI before entering into the agreement. The agreement must provide that the SBI liability for margin requirements, commissions and fees is limited solely to funds of the SBI and does not constitute a general obligation of the State of Minnesota. The total SBI liability for margin requirements, commissions and fees among all brokers for any individual SBI manager is limited to the total market value of the assets for that manager.

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Within twenty (20) business days following the SBI's June 30 fiscal year end, the Manager must certify, in writing, that they are in compliance with these guidelines and have been in compliance over the last twelve months. If the Manager has violated the guidelines in the past twelve months and cannot certify compliance over this period, the Manager must describe in the letter all violations that occurred in the last twelve months.

Date: December 1999

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Third Quarter, 1999

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COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending September, 1999

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Equity Pool %
Active EAFE												
Brinson (1)	2.4	4.4	28.0	30.8	11.5	10.3	11.6	9.1	11.3	11.2	$594.85	9.9%
Marathon (2)	4.2	4.4	39.4	30.8	8.7	10.3	7.9	9.1	9.5	8.8	443.26	7.4%
Rowe Price (2)	3.6	4.4	27.2	30.8	10.5	10.3	10.0	9.1	10.3	8.8	632.90	10.6%
Scudder (2)	5.3	4.4	33.5	30.8	13.5	10.3	13.1	9.1	12.0	8.8	494.86	8.3%
Active Emerging Markets												
City of London (3)	-7.2	-5.2	45.5	56.5					-0.8	-3.8	244.51	4.1%
Genesis (4)	-5.7	-5.2	26.4	56.5	-7.5	-4.5			-6.3	-5.0	212.36	3.5%
Montgomery (4)	-7.0	-5.2	35.4	56.5	-8.0	-4.5			-7.1	-5.0	210.02	3.5%
Passive EAFE												
State Street (5)	4.4	4.4	31.5	30.8	10.7	10.3	9.4	9.1	11.8	11.5	3,159.18	52.7%
									Since 10/1/92			
Equity Only*	2.8	3.4	31.9	34.5	9.0	8.7	8.9	8.1	11.4	10.8	5,991.95	100.0%
Total Program**	**2.5**	**3.4**	**31.8**	**34.5**	**10.2**	**8.7**	**9.6**	**8.1**	**11.9**	**10.8**	**$5,996.87**	

* Equity managers only. Includes impact of terminated managers. The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

** Includes impact of currency overlay unrealized gain/loss. The international benchmark is EAFE Free plus Emerging Markets Free (EMF). The weighting of each index fluctuates with market capitalization. From 12/31/96 to 6/30/99 the benchmark was fixed at 87% EAFE-Free/13% Emerging Markets Free. On 5/1/96, the portfolio began transitioning from 100% EAFE to the 12/31/96 fixed weights. 100% EAFE-Free prior to 5/1/96.

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

Impact of Currency Overlay Program

Cumulative Dollar Value Added (Since inception, December 1, 1995) $148,336,003

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BRINSON PARTNERS
Periods Ending September, 1999

Portfolio Manager: Richard Carr **Assets Under Management: $594,853,515**

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

Brinson underperformed for the quarter and the year. During the quarter, overweighting the United Kingdom and Australia negatively impacted the portfolio. Currency strategies reduced performance for both the quarter and the year. The underweight to the Japanese Yen was the primary driver of underperformance for both periods. For the full twelve months, the underweight to Hong Kong reduced the performance. The modest average underweight to Japan also detracted from the full year's return.

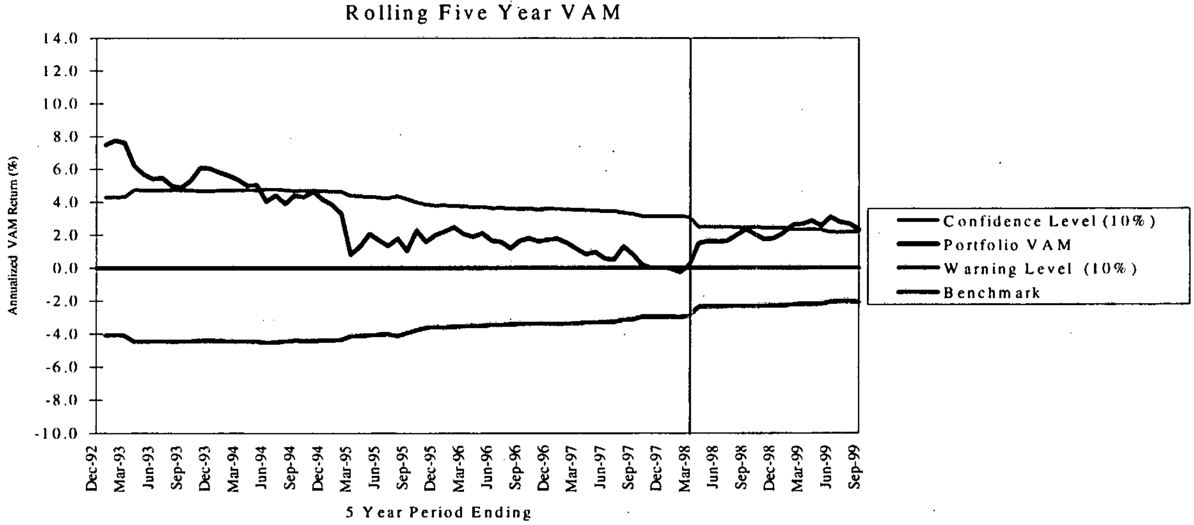
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	4.4%
Last 1 year	28.0	30.8
Last 2 years	8.9	9.5
Last 3 years	11.5	10.3
Last 4 years	12.2	9.9
Last 5 years	11.6	9.1
Since Inception (4/93)	11.3	11.2

Recommendations

No action required.

BRINSON PARTNERS, INC. (INT'L)
Rolling Five Year VAM



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

MARATHON ASSET MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: William Arah **Assets Under Management: $443,264,732**

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

No comments at this time.

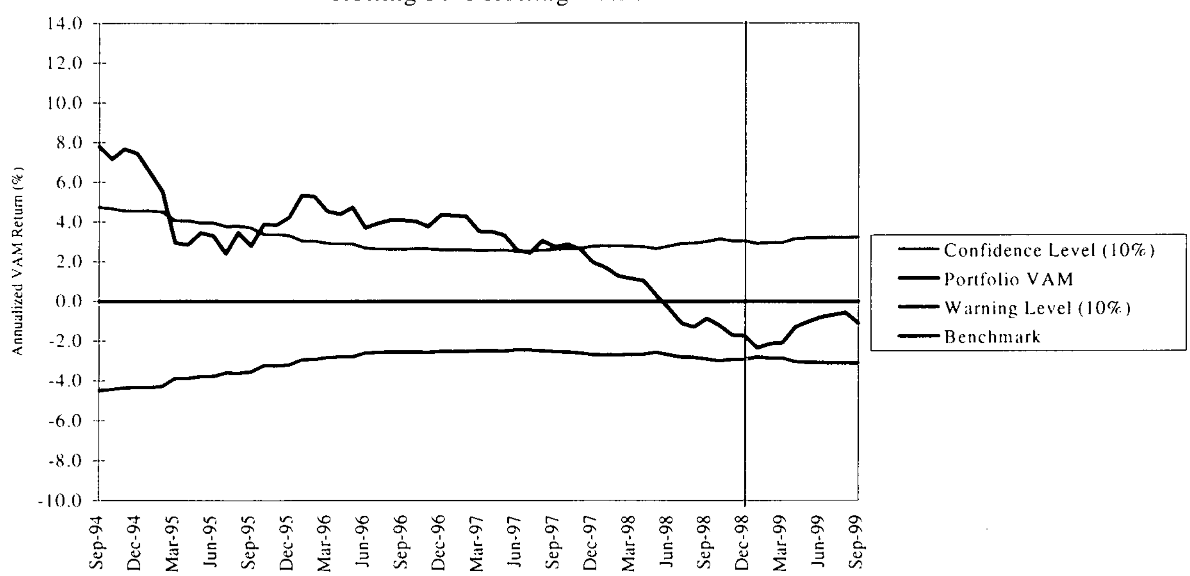
Quantitative Evaluation

	Actual	EAFE Benchmark	Custom Benchmark
Last Quarter	4.2%	4.4%	4.6%
Last 1 year	39.4	30.8	31.4
Last 2 years	8.5	9.5	8.4
Last 3 years	8.7	10.3	7.8
Last 4 years	9.2	9.9	8.3
Last 5 years	7.9	9.1	7.1
Since Inception (11/93)	9.5	8.8	7.6

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



5 Year Period Ending

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

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

Portfolio Manager: David Warren **Assets Under Management: $632,902,245**

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

Rowe-Price underperformed the benchmark for the quarter and one-year periods primarily due to country allocation. The overweight to Latin America hurt the quarterly performance. Underweighting Japan, which continues to rise, was negative for the quarter and the year. Stock selection was positive for the quarter, particularly in Japan and Germany, but it was neutral for the year. Overweighting the Dutch market and underweighting Singapore were smaller negatives for the year.

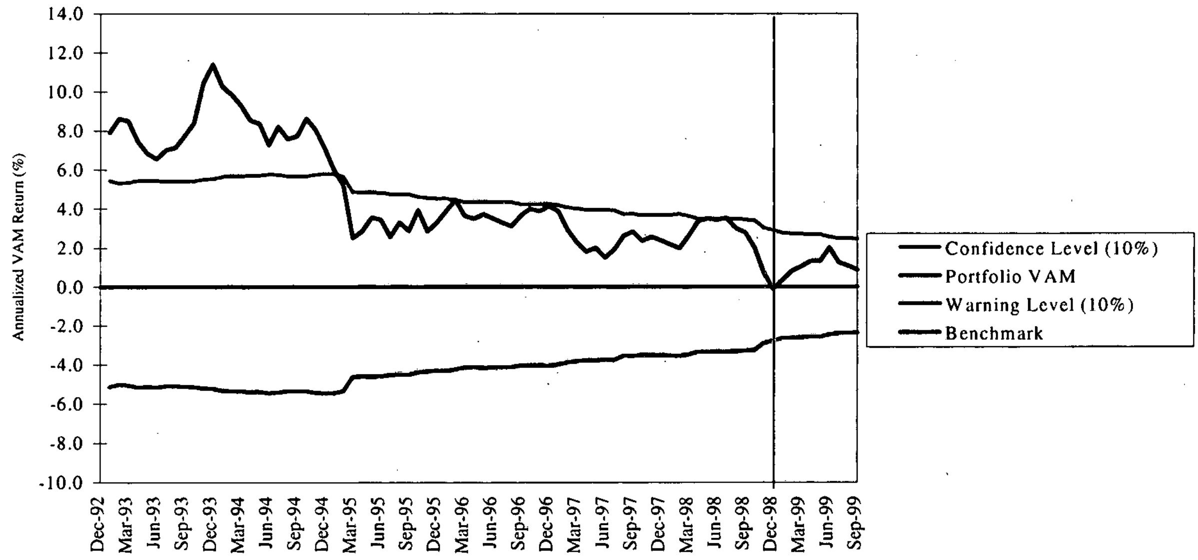
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.6%	4.4%
Last 1 year	27.2	30.8
Last 2 years	7.3	9.5
Last 3 years	10.5	10.3
Last 4 years	11.2	9.9
Last 5 years	10.0	9.1
Since Inception (11/93)	10.3	8.8

Recommendations

No action required.

ROWE PRICE-FLEMING
Rolling Five Year VAM



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

SCUDDER, STEVENS & CLARK
Periods Ending September, 1999

Portfolio Manager: Sheridan Reilly — **Assets Under Management: $494,861,362**

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

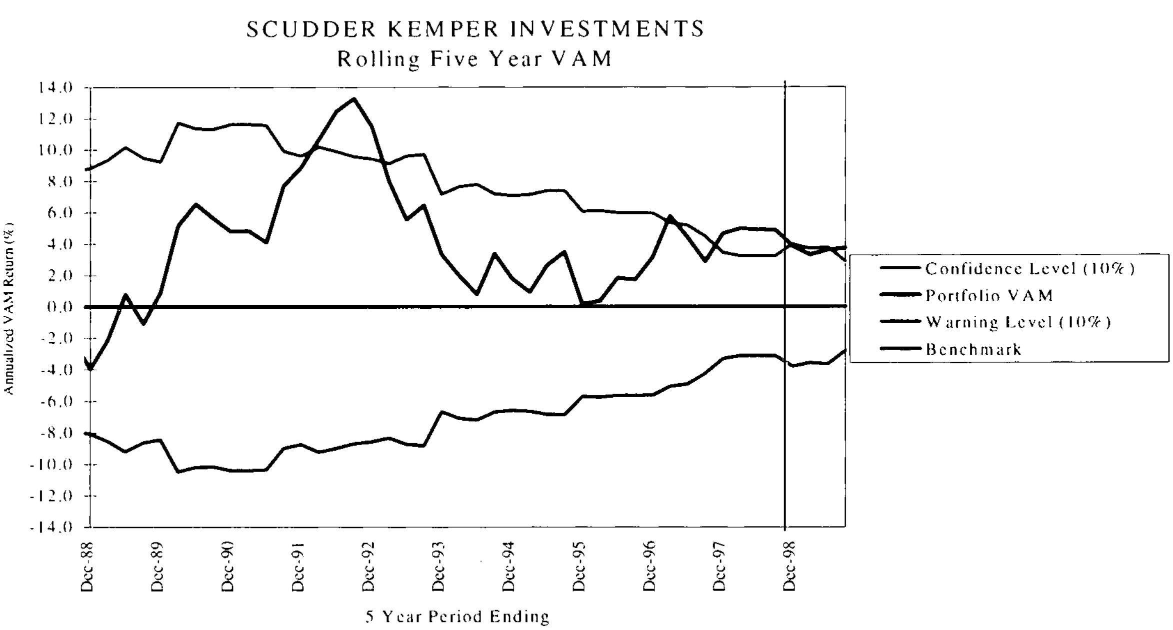
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.3%	4.4%
Last 1 year	33.5	30.8
Last 2 years	9.3	9.5
Last 3 years	13.5	10.3
Last 4 years	13.9	9.9
Last 5 years	13.1	9.1
Since Inception (11/93)	12.0	8.8

Recommendations

No action required.



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

CITY OF LONDON
Periods Ending September, 1999

Portfolio Manager: Barry Olliff | **Assets Under Management: $244,508,575**

Investment Philosophy

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

Staff Comments

City of London underperformed the benchmark for the quarter and the year. Underperformance for both periods was primarily due to the Fund's country allocation decisions. The overweight positions in Thailand and Korea, along with the underweight position in Greece, led the quarterly underperformance. Since the start of the year, the Fund has underperformed the benchmark due to its underweight exposure to Greece, Taiwan and Korea over the first two quarters.

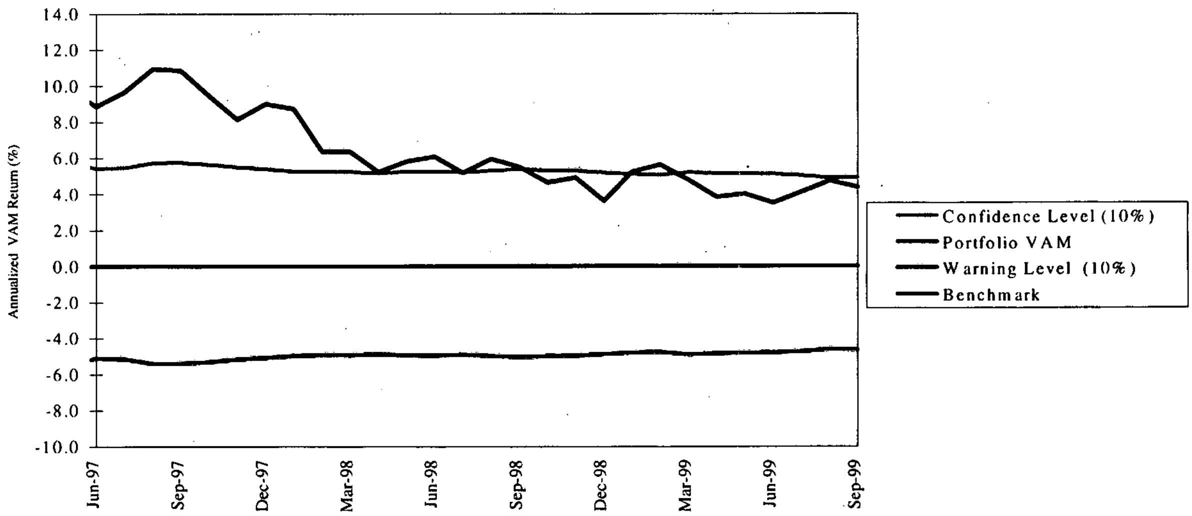
Quantitative Evaluation

	Actual	**Benchmark**
Last Quarter	-7.2%	-5.2%
Last 1 year	45.5	56.5
Last 2 years	-11.4	-9.6
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)	-0.8	-3.8

Recommendations

No action required.

CITY OF LONDON
Rolling Five Year VAM



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

GENESIS ASSET MANAGERS, LTD.
Periods Ending September, 1999

Portfolio Manager: Paul Greatbatch **Assets Under Management: $212,358,834**

Investment Philosophy

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

Staff Comments

Genesis underperformed the benchmark for the quarter and the year. The continued overweight exposure to Latin America was the primary reason performance lagged during the quarter. Stock selection also had a negative impact with the portfolio's largest holding performing poorly. Relative performance was also hurt by Genesis' underweight in India. The decision to be largely out of Greece contributed to underperformance.

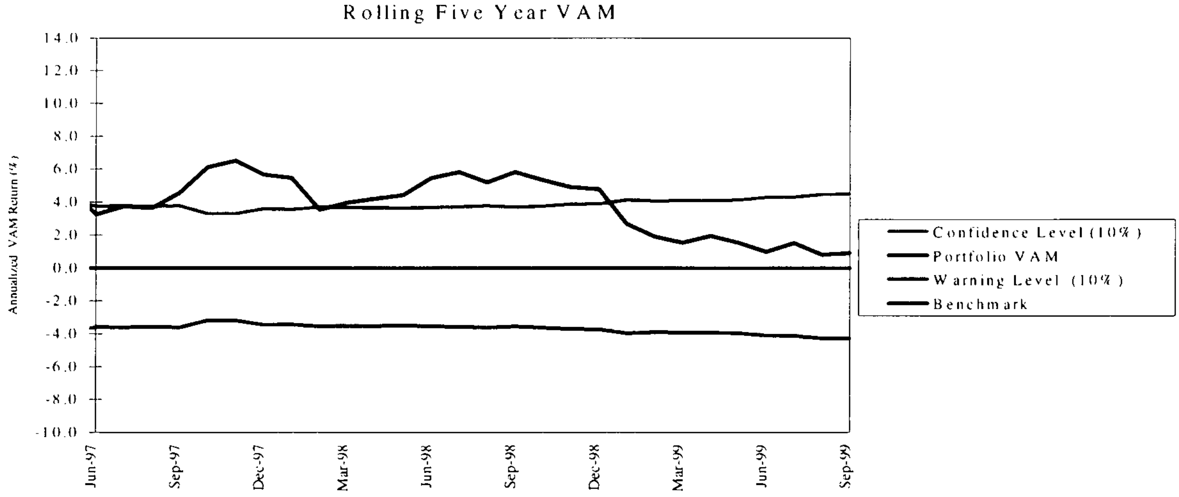
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.7%	-5.2%
Last 1 year	26.4	56.5
Last 2 years	-19.1	-9.6
Last 3 years	-7.5	-4.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	-6.3	-5.0

Recommendations

No action required.

GENESIS ASSET MANAGERS
Rolling Five Year VAM



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

MONTGOMERY ASSET MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Josephine Jimenez **Assets Under Management: $210,016,846**

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

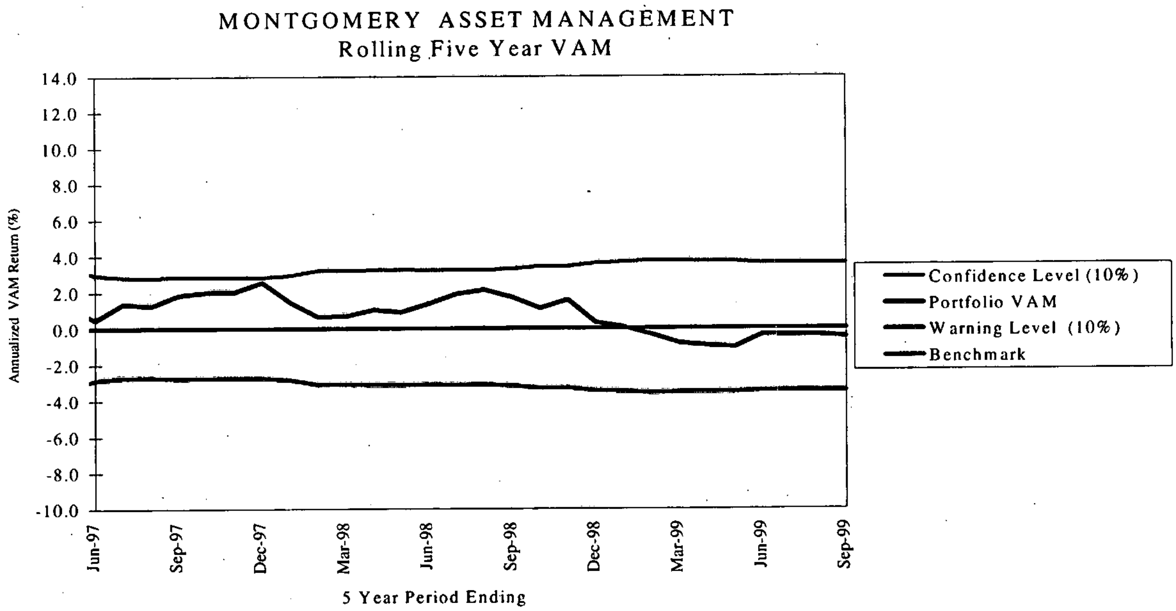
Montgomery underperformed the benchmark for the quarter and one-year periods. For the quarter, the portfolio's underperformance can largely be attributed to the underweight positions in Greece and Turkey. The portfolio's underperformance for the year was largely a result of fourth quarter 1998 and first quarter 1999 returns. Underweight positions in Korea and Indonesia during fourth quarter 1998 had a negative impact on returns. During the first quarter of 1999, the underperformance was largely attributable to Montgomery's broad exposure to small-cap names, and an overweight position in central Europe.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-7.0%	-5.2%
Last 1 year	35.4	56.5
Last 2 years	-19.3	-9.6
Last 3 years	-8.0	-4.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	-7.1	-5.0

Recommendations

No action required.



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

STATE STREET GLOBAL ADVISORS
Periods Ending September, 1999

Portfolio Manager: Lynn Blake **Assets Under Management: $3,159,184,058**

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

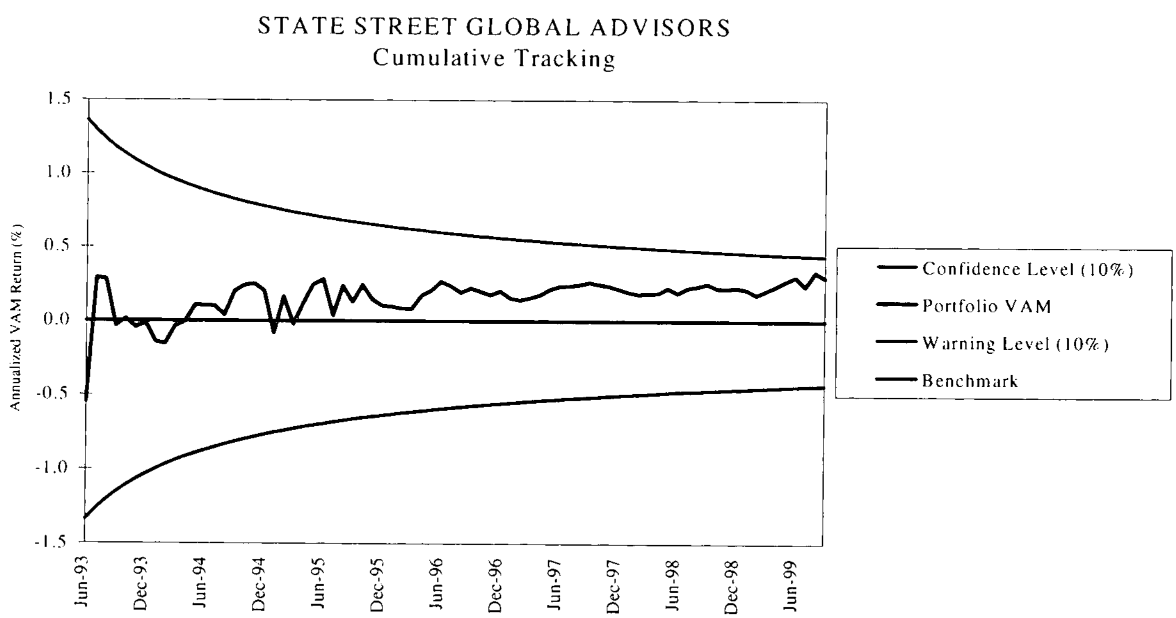
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4%	4.4%
Last 1 year	31.5	30.8
Last 2 years	9.9	9.5
Last 3 years	10.7	10.3
Last 4 years	10.4	9.9
Last 5 years	9.4	9.1
Since Inception (10/92)	11.8	11.5

Recommendation

No action required.



RECORD TREASURY MANAGEMENT
Periods Ending September, 1999

Portfolio Manager: Neil Record — **Notional Portfolio Value: $478,490,000**

Investment Philosophy

Record Treasury avoids all forms of forecasting in its approach to currency management. 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 currency management to currencies that comprise 5% or more of the EAFE index: Japanese Yen, British Pound Sterling, Swiss Franc, and the Euro. 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 comments at this time.

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	3.8%	4.4%
Last 1 Year	31.1	31.5
Last 2 Years	10.2	9.9
Last 3 Years	12.9	10.7
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (12/95)	12.7	10.7

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 I

COMMITTEE REPORT

DATE: November 30, 1999

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

FROM: **Alternative Investment Committee**

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

- Review of current strategy.
- Investment for the Post Retirement Fund with a new private equity manager, Goldman Sachs Merchant Banking.
- Investment for the Post Retirement Fund with a new private equity manager, DLJ Merchant Banking.
- Pre-approval of follow-on investments with three existing alternative investments managers: (1) GTCR Golder Rauner, in GTCR Fund VII for the Basic Retirement Funds; (2) Fox Paine, in Fox Paine Capital Fund II, L.P. for the Basic Retirement Funds (3) Merit Energy, in Merit Energy Fund D for the Post Retirement Fund.
- Increase in investment commitment for the SBI Post Retirement Fund to Citicorp Mezzanine III, L.P.
- Increase in investment for the SBI Basic Retirement Funds to Thoma Cressey Fund VI, L.P.

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

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where

Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs. Currently, the SBI has an investment at market value of $692 million in twenty (20) commingled real estate funds and REITs.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. Currently, the SBI has an investment at market value of $996 million in forty-two (42) commingled private equity funds.

- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of $169 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. Since 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 $236 million in sixteen (16) yield oriented funds for the Post Fund: five (5) are in real estate, nine (9) are in private equity and two (2) are in resource funds.

ACTION ITEMS:

1) **Investment for the Post Retirement Fund with a new private equity manager, Goldman Sachs Merchant Banking, in GS Mezzanine Partners II, L.P.**

   Goldman Sachs Merchant Banking is seeking investors for a new $1.0 billion private equity fund, GS Mezzanine Partners II, L.P. This Fund is the second private equity fund managed by Goldman Sachs Merchant Banking that will focus on mezzanine investments. GS Mezzanine Partners II, L.P. will focus, like their prior fund, on assembling a diverse portfolio of primarily mezzanine and subordinated debt investments with equity participations.

   More information on GS Mezzanine Partners II, L.P. is included as **Attachment C**.

   RECOMMENDATION:

   The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $100 million or 20%, whichever is less, in GS 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 nor its Executive Director have any liability for reliance by Goldman Sachs Merchant Banking 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 Goldman Sachs Merchant Banking or reduction or termination of the commitment.

2) **Investment for the Post Retirement Fund with a new private equity manager, DLJ Merchant Banking, in DLJ Investment Partners II, L.P.**

   DLJ Merchant Banking is seeking investors for a new $1.6 billion private equity fund, DLJ Investment Partners II, L.P. This Fund is the second private equity fund managed by DLJ Merchant Banking that will focus on mezzanine investments. DLJ Investment Partners II, L.P. will focus, like their prior fund, on assembling a diverse portfolio of primarily mezzanine and subordinated debt investments with equity participations.

   More information on DLJ Investment Partners II, L.P. is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $75 million or 20%, whichever is less, in DLJ Investment 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 nor its Executive Director have any liability for reliance by DLJ Merchant Banking 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 or reduction or termination of the commitment.

3) **Pre-approval of follow-on investments with three existing alternative investments managers: (1) GTCR Golder Rauner, in GTCR Fund VII for the Basic Retirement Funds** - the SBI has invested in five other private equity funds with this manager over the last twelve years; **(2) Fox Paine, in Fox Paine Capital Fund II, L.P for the Basic Retirement Funds** - the SBI has invested in one other private equity fund with this manager over the last one and one half years; **(3) Merit Energy, in Merit Energy Fund D for the Post Retirement Fund** - the SBI has invested in two other resource funds with this manager over the last three years.

Staff and the Alternative Investment Committee want the flexibility to review and execute an investment with these existing managers potentially before the next quarterly SBI meeting in March 2000.

More information on GTCR Fund VII, Fox Paine Capital Fund II, L.P. and Merit Energy Fund D are included as **Attachments E, F and G**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with final approval from the Committee and assistance from the SBI's legal counsel, to negotiate and execute the following commitments:

- **A $175 million or 20%, whichever is less, additional investment for the Basic Retirement Funds with an existing private equity manager, GTCR Golder Rauner, in GTCR Fund VII.**

- **A $100 million or 20%, whichever is less, additional investment for the Basic Retirement Funds with an existing private equity manager, Fox Paine, in Fox Paine Capital Fund II, L.P.**

- **A $100 million or 20%, whichever is less, additional investment for the Post Retirement Fund with an existing resource manager, Merit Energy, in Merit Energy Fund D.**

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by GTCR Golder Rauner, Fox Paine and Merit Energy 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 GTCR Golder Rauner, Fox Paine and Merit Energy or reduction or termination of the commitment.

4) **Increase in investment commitment for the SBI to Citicorp Mezzanine III, L.P.**

This was an investment approved last quarter by the SBI and closed on in October 1999 for the Post Retirement Fund. The total size of the fund was increased to accommodate a new investment by a large corporate pension fund and a potential increased investment by the SBI. As a result of the increased fund size, the SBI may have an opportunity to obtain greater participation in the Fund.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a $25 million increase (from $75 to $100 million, but no more than 20% of the total fund) in investment commitment for the SBI to Citicorp Mezzanine III, L.P

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

5) **Increase in investment for the SBI in Thoma Cressey Fund VI, L.P. by purchase of another investor's interest.**

This was an investment approved in March 1998 by the SBI and closed on in May 1998 for the Basic Retirement Funds. The SBI may have the opportunity to consider increasing its investment by purchasing a secondary interest from another institutional investor in Thoma Cressey Fund VI, L.P.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a $15 million increase (from $35 to $50 million, but no more than 20% of the total fund) in investment commitment for the SBI to Thoma Cressey Fund VI, L.P.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment nor its Executive Director have any liability for reliance by Thoma Cressey 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 Thoma Cressey or reduction or termination of the commitment.

Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
September 30, 1999

Market Value of Basic Retirement Funds	$19,237,988,947
Amount Available for Investment	**$1,028,303,494**

	Current Level	Target Level	Difference
Market Value	$1,857,394,848	$2,885,698,342	$1,028,303,494
MV +Unfunded	$2,652,311,644	$3,847,597,789	$1,195,286,145

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$692,322,698	$58,847,830	$751,170,528
Private Equity	$995,912,301	$627,232,429	$1,623,144,730
Resource	$169,159,848	$108,836,537	$277,996,385
Total	$1,857,394,848	$794,916,796	$2,652,311,644

Minnesota State Board of Investment

Alternative Investments
Post Retirement Funds
September 30, 1999

Market Value of Post Retirement Funds	$18,847,741,620
Amount Available for Investment	**$705,566,541**

	Current Level	Target Level	Difference
Market Value	$236,820,540	$942,387,081	$705,566,541
MV +Unfunded	$542,293,416	$1,884,774,162	$1,342,480,746

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$67,724,005	$24,691,396	$92,415,401
Private Equity	$138,370,265	$237,242,685	$375,612,950
Resource	$30,726,270	$43,538,795	$74,265,065
Total	$236,820,540	$305,472,876	$542,293,416

ATTACHMENT B

State of Minnesota
- Alternative Investments -
As of September 30, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
Aetna	42,376,529	42,376,529	122,103,164	0	0	6.89	17.42
AEW V	15,000,000	15,000,000	457,246	11,169,287	0	-2.71	11.79
Colony Capital							
Colony Investors II	40,000,000	36,986,764	22,107,536	22,633,616	3,013,236	9.28	4.50
Colony Investors III	100,000,000	70,021,005	67,952,798	1,720,000	29,978,995	-3.72	1.75
Equity Office Properties Trust	140,388,854	140,388,854	180,266,536	35,276,584	0	11.10	7.84
First Asset Realty	916,185	916,185	231,705	832,852	0	4.70	5.42
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,949,401	19,858,944	0	1.69	15.14
Heitman Advisory Fund II	30,000,000	30,000,000	3,988,581	39,063,139	0	3.94	13.86
Heitman Advisory Fund III	20,000,000	20,000,000	406,424	21,939,393	0	1.36	12.69
Heitman Advisory Fund V	20,000,000	20,000,000	20,642,105	11,150,943	0	7.90	7.82
Lasalle Income Parking Fund	15,000,000	14,644,401	13,531,902	6,968,438	355,599	7.23	8.03
Lend Lease Real Estate	40,000,000	40,000,000	111,953,962	1,186,302	0	6.28	17.97
RREEF USA Fund III	75,000,000	75,000,000	12,713,275	108,094,912	0	4.71	15.39
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	40,000,000	52,360,840	13,845,278	0	13.22	5.33
Realty Associates Fund IV	50,000,000	50,000,000	54,139,606	6,297,265	0	11.13	2.66
Realty Associates Fund V	50,000,000	24,500,000	24,410,600	0	25,500,000	-0.81	0.35
TCW							
TCW Realty Fund III	40,000,000	40,000,000	361,809	48,390,849	0	2.05	14.16
TCW Realty Fund IV	30,000,000	30,000,000	1,717,860	27,223,733	0	-0.38	12.91
Funds in Liquidation (AEW III, AEW IV)	35,000,000	35,000,000	27,350	28,541,925	0	N/A	N/A
Real Estate - Basic Totals	803,681,568	744,833,738	692,322,698	404,193,463	58,847,830		
Real Estate-Post							
Colony Investors II	40,000,000	36,986,764	22,107,536	22,633,616	3,013,236	9.28	4.50
Westmark Realty Advisors							
Westmark Coml MTG Fund II	13,500,000	13,397,500	11,501,243	6,077,854	102,500	9.78	4.18
Westmark Coml MTG Fund III	21,500,000	21,275,052	20,766,340	4,117,804	224,948	8.15	2.83
Westmark Coml MTG Fund IV	14,300,000	13,027,788	12,427,386	884,081	1,272,212	3.84	1.75
Westmark Coml MTG Fund V	21,000,000	921,500	921,500	0	20,078,500	0.00	0.12
Real Estate - Post Totals	110,300,000	85,608,604	67,724,005	33,713,356	24,691,396		
Real Estate Totals	913,981,568	830,442,342	760,046,703	437,906,818	83,539,226		

State of Minnesota
- Alternative Investments -
As of September 30, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Basic							
Allied	5,000,000	5,000,000	211,774	6,059,302	0	3.59	14.04
Bank Fund							
Banc Fund III	20,000,000	20,000,000	29,095,660	15,131,601	0	18.39	6.93
Banc Fund IV	25,000,000	25,000,000	26,295,600	5,189,040	0	10.99	3.62
Banc Fund V	48,000,000	16,800,000	16,292,371	15,419	31,200,000	-5.16	1.21
Blackstone Partners II	50,000,000	49,068,876	50,250,135	43,149,984	931,124	47.43	5.85
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	506,678	8,107,616	0	9.77	11.39
Brinson Partners II	20,000,000	18,779,998	6,396,860	31,223,266	1,220,002	26.05	8.84
Churchill Capital Partners II	20,000,000	20,000,000	6,478,464	22,235,448	0	13.56	6.92
Contrarian Capital II	37,000,000	33,306,178	31,904,219	12,446	3,693,822	-2.74	2.33
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	1,863,480	5,130,811	0	-0.04	13.28
Coral Partners Fund II	10,000,000	8,069,315	7,207,881	28,026,570	1,930,685	25.41	9.18
Coral Partners Fund IV	15,000,000	12,750,000	9,047,033	3,119,933	2,250,000	-1.96	5.19
Coral Partners Fund V	15,000,000	4,535,815	4,289,493	0	10,464,185	-7.71	1.29
Crescendo							
Crescendo II	15,000,000	13,344,773	13,463,670	2,637,994	1,655,227	17.64	2.74
Crescendo III	25,000,000	12,000,000	9,296,928	2,641,808	13,000,000	-0.95	0.90
DSV	10,000,000	10,000,000	3,360,058	20,726,316	0	8.30	14.47
First Century	10,000,000	10,000,000	3,244,703	14,103,791	0	9.33	14.79
Fox Paine and Company	40,000,000	17,028,434	15,909,240	0	22,971,566	-16.01	1.44
Golder Thoma Cressey Rauner							
Golder, Thoma, Cressey Fund III	14,000,000	14,000,000	7,702,437	51,021,716	0	30.48	11.92
Golder, Thoma, Cressey Fund IV	20,000,000	19,750,000	19,878,209	27,630,098	250,000	33.24	5.66
Golder, Thoma, Cressey Fund V	30,000,000	28,050,000	35,211,800	4,989,654	1,950,000	22.98	3.25
GTCR Fund VI	90,000,000	49,725,000	53,577,991	0	40,275,000	16.91	1.25
GHJM Marathon Fund IV	40,000,000	5,390,000	5,390,000	0	34,610,000	-11.28	0.46
Hellman & Friedman							
Hellman Friedman III	40,000,000	28,026,638	15,583,010	33,287,778	11,973,362	31.96	5.03
Hellman Friedman IV	150,000,000	0	0	0	150,000,000	N/A	0.00
Kohlberg Kravis Roberts							
KKR 1986 Fund	18,365,339	18,365,339	27,905,953	202,769,596	0	28.83	13.46
KKR 1987 Fund	145,950,000	145,950,000	216,118,750	254,086,869	0	12.28	11.85
KKR 1993 Fund	150,000,000	150,000,000	47,132,541	257,492,782	0	19.50	5.78
KKR 1996 Fund	200,000,000	104,544,675	89,762,412	30,721,894	95,455,325	8.99	3.08
Matrix							
Matrix Partners II	10,000,000	10,000,000	1,077,169	21,440,166	0	14.03	14.12
Matrix Partners III	10,000,000	10,000,000	2,093,807	74,227,244	0	75.11	9.40
Piper Jaffrey Healthcare							
Piper Jaffray Healthcare Fund II	10,000,000	7,600,000	6,032,317	658,415	2,400,000	-8.64	2.58
Piper Jaffray Healthcare Fund III	9,631,250	3,345,314	3,207,146	0	6,285,936	-7.47	0.69
RCBA Strategic Partners, L.P	50,000,000	31,333,804	38,136,874	72,120	18,666,196	33.19	0.77
Summit Partners							
Summit Venture II L.P	30,000,000	28,500,000	4,277,988	66,746,294	1,500,000	28.65	11.38
Summit Venture V L.P	25,000,000	11,250,000	10,766,820	572,514	13,750,000	0.95	1.50
T. Rowe Price	229,762,087	229,762,087	22,672,266	220,387,989	0	9.68	N/A
Thoma Cressey	35,000,000	4,200,000	3,827,968	0	30,800,000	-12.26	1.11
Warburg Pincus							
Warburg Pincus Equity Partners	100,000,000	26,000,000	27,161,992	93,000	74,000,000	7.27	1.26
Warburg Pincus Ventures	50,000,000	50,000,000	78,465,043	18,598,006	0	27.22	4.75
Welsh, Carson, Anderson & Stowe	100,000,000	44,000,000	44,570,768	0	56,000,000	2.44	1.19
Zell/ Chilmark L.P.	30,000,000	30,000,000	188,578	76,414,975	0	17.69	9.22
Funds in Liquidation (KKR 1984, Summit Venture I)	35,000,000	35,000,000	56,217	148,678,911	0	N/A	N/A
Venture Capital-Basic Totals	1,999,720,599	1,372,488,170	995,912,301	1,697,401,366	627,232,429		

State of Minnesota
- Alternative Investments -
As of September 30, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Post							
Citicorp Mezzanine	40,000,000	33,733,501	31,722,326	16,060,312	6,266,499	20.85	4.75
GTCR Capital Partners	80,000,000	0	0	0	80,000,000	N/A	0.00
Kleinwort Benson	25,000,000	21,560,476	19,000,301	3,729,021	3,439,524	3.15	4.00
Summit Partners							
Summit Sub. Debt Fund I	20,000,000	18,000,000	2,941,484	24,269,430	2,000,000	26.21	5.50
Summit Sub. Debt Fund II	45,000,000	22,500,000	21,631,243	11,812,010	22,500,000	34.36	2.16
T. Rowe Price	8,777,302	8,777,302	1,112,614	6,897,445	0	-17.30	N/A
TCW/Crescent Mezzanine							
TCW Crescent Mezzanine Partners	40,000,000	39,783,392	30,946,992	14,597,972	216,608	8.55	3.50
TCW Crescent Mezzanine Partners II	100,000,000	37,179,946	31,015,305	5,924,576	62,820,054	-1.62	0.85
William Blair Mezzanine III	60,000,000	0	0	0	60,000,000	N/A	0.00
Venture Capital-Post Totals	418,777,302	181,534,617	138,370,265	83,290,766	237,242,685		
Venture Capital Totals	2,418,497,901	1,554,022,787	1,134,282,566	1,780,692,132	864,475,114		

State of Minnesota
- Alternative Investments -
As of September 30, 1999

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource-Basic							
Apache	30,000,000	30,000,000	2,895,360	42,821,459	0	10.77	12.75
First Reserve							
First Reserve I	15,000,000	15,000,000	6,788,000	6,664,976	0	-0.79	18.00
First Reserve II	7,000,000	7,000,000	8,290,000	5,482,744	0	5.51	16.65
First Reserve IV	12,300,000	12,300,000	0	31,030,962	0	13.15	11.37
First Reserve V	16,800,000	16,800,000	17,219,101	33,349,758	0	16.74	9.42
First Reserve VII	40,000,000	39,836,027	35,913,775	7,411,411	163,973	6.56	3.25
First Reserve VIII	100,000,000	33,698,116	31,196,880	0	66,301,884	-16.48	1.42
Morgan Oil & Gas	15,000,000	15,000,000	3,596,843	20,906,987	0	6.86	11.10
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	22,555,706	6,661,613	2,152,471	11.32	8.15
Simmons - SCF Fund III	25,000,000	19,156,791	24,793,018	10,226,217	5,843,209	20.89	4.25
Simmons - SCF Fund IV	50,000,000	15,625,000	15,911,165	0	34,375,000	-5.71	1.50
Resource-Basic Totals	328,100,000	219,263,463	169,159,848	164,556,126	108,836,537		
Resource-Post							
Merit Energy Partners							
Merit Energy Partners B L P	24,000,000	19,632,849	19,657,346	1,902,425	4,367,151	6.04	3.25
Merit Energy Partners C	50,000,000	10,828,356	11,068,924	32,173	39,171,644	3.26	0.92
Resource-Post Totals	74,000,000	30,461,205	30,726,270	1,934,598	43,538,795		
Resource Totals	402,100,000	249,724,668	199,886,119	166,490,724	152,375,332		

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. BACKGROUND DATA

NAME OF FUND:	GS Mezzanine Partners II, L.P. (the "Fund", the "Partnership", or "GSMP II")
FUND MANAGER:	GS Mezzanine Advisors II, L.L.C.
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	$800 million - $1.0 billion
MANAGER CONTACT:	Muneer A. Satter Goldman Sachs & Co. 85 Broad Street New York, New York 10004 Phone: (212) 902-9645 Fax: (212) 357-5505

II. ORGANIZATION & STAFF

Goldman Sachs, a leading international investment banking firm with greater than 13,000 employees worldwide, is establishing GS Mezzanine Partners II, L.P. (the "Fund," the "Partnership," or "GSMP II") as a vehicle for investors seeking both long-term capital appreciation as well as current returns through investments in mezzanine securities. The Fund will be the successor to GS Mezzanine Partners, L.P. ("GSMP I"), formed in 1996 with $800 million in committed capital.

The Principal Investment Area of Goldman Sachs' Merchant Banking Division (the "PIA"), which has achieved thirteen years of successful results in its private investments, will evaluate, structure, monitor, manage, and harvest the Fund's investments. The PIA currently consists of 34 employees based in New York and Menlo Park, and 32 employees based in London, Hong Kong, and Tokyo.

All investment decisions are made by the Investment Committee of Goldman Sachs which currently consists of twelve managing directors and one advisory director of Goldman Sachs. The members of the Investment Committee are as follows: Richard A. Friedman, Henry Cornell, Robert V. Delaney, Joseph H. Gleberman, Scott B. Kapnick, Sanjeev K. Mehra, Robin Neustein, Terence M. O'Toole, Peter M. Sacerdote, Muneer A. Satter, Richard S. Sharp, Gene T. Sykes and Barry S. Volpert.

III. INVESTMENT STRATEGY

The Partnership will be guided by an investment strategy that is generally the same as that for a predecessor fund, GSMP I, and is similar in many respects to that of the Firm's successful private equity partnerships. The Partnership's investment objective is to achieve long-term capital appreciation and current returns through investments in mezzanine securities. These securities will principally include fixed income securities such as debt and preferred stock, often with an equity component, such as warrants, options, a convertible feature, or common stock associated with the debt or preferred stock purchase. The Fund may make use of leverage by incurring debt to finance a portion of its investment in a given portfolio company. The investment strategy for the Fund has four key elements which are summarized below.

Access Proprietary Deal Flow: The Fund has unique access to internally generated investment opportunities. As a full-service, global investment bank, Goldman Sachs maintains a broad network of relationships with companies, leveraged buyout and other private equity firms, investors, entrepreneurs, and financial intermediaries around the world. This proprietary source of quality deal flow allows the Fund to be very selective in committing capital to mezzanine investments.

Focus on Underserved Market Niche: Most mezzanine lenders are unwilling to pursue investments larger than $30 million primarily due to capital limitations. In addition, the minimum size required to successfully execute a high yield offering is generally in excess of $100 million. Consequently, a significant opportunity exists for mezzanine funds able to invest in the $30 million to $100 million range (larger than most mezzanine lenders but smaller than the high yield market).

Consider Broad Array of Potential Transactions: The Fund will consider a broad array of domestic and international investment opportunities. Goldman Sachs professionals have experience in executing transactions in all of the following areas, and the Firm is well positioned to access the sources of each of these potential investment types: private equity-sponsored transactions, recapitalizations, refinancings, acquisitions, restructurings and structured transactions.

Utilize Broad Goldman Sachs Resources: The Fund will call on the considerable resources of Goldman Sachs in evaluating, structuring, monitoring, managing, and harvesting its investments. The depth and breadth of the Firm's advisory and research activity result in significant in-house expertise in virtually every industry and type of transaction. These combined resources bring a highly analytical and disciplined approach to evaluating and structuring investments.

IV. INVESTMENT PERFORMANCE

Previous fund performance as of September 30, 1999 for GS Mezzanine Partners Fund I and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Fund I	1996	$800 million		11.9%

V. GENERAL PARTNER'S INVESTMENT

Goldman Sachs will commit a minimum of $150 million of the capital of the Partnerships.

VI. TAKEDOWN SCHEDULE

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

VII. FEES

Each Limited Partner, including Goldman Sachs (GSLP), will be charged an annual management fee on invested capital (reduced by the amount of capital contributions relating to harvested investments that has been returned to the Partners) at a rate calculated as follows: 1.50% of the amount of committed capital less than $15 million, 1.25% of the amount of committed capital from $15 million to $35 million, and 1.00% of the amount of committed capital greater than $35 million.

Goldman Sachs employees may receive fees and options customarily paid and granted to directors on the boards of portfolio companies, and these fees and options are not required to be shared with the Partnership. Goldman Sachs' policy is that the fees and options received by its employees and consultants (but not its former officers or employees, or the former limited partners of The Goldman Sachs Group, L.P.) must be paid over to Goldman Sachs.

Goldman Sachs will absorb all expenses of organizing the Partnership and offering LP Interests. The Partnership will bear its ongoing expenses and will be responsible for out-of-pocket expenses.

VIII. ALLOCATIONS AND DISTRIBUTIONS

The GSLP will receive an override (the "Override") if the Fund achieves certain returns, such Override never to exceed 20% of total profits, based on the following formula: Net Gain (the excess of short- and long-term capital gains and cash flow from dividends, interest, and fees over expenses (other than withholding taxes imposed on income payable to the Fund) and capital losses, computed by marking remaining positions to market and calculating unrealized gains and losses) will be allocated to the General and Limited Partners (including the GSLP) in accordance with their capital contributions (subject to adjustment in the event of a default by any Limited Partner in making any capital contribution), until the Partners have achieved a return of 8% per annum on contributed capital less distributions on an annually compounded basis (the "Preferred Return"). Net Gain in excess of the Preferred Return will be allocated to the GSLP until the GSLP has achieved an override equal to 20% of aggregate Net Gain. Any additional Net Gain will be allocated 20% to the GSLP and 80% to the General and Limited Partners (including the GSLP), in accordance with their capital contribution. Losses will be allocated in a manner designed appropriately to reverse on a cumulative basis allocations made. No Override will be allocated if the Preferred Return is not achieved. Unrealized gains and losses will be determined based on the fair value of investments as determined by the Investment Committee. No independent appraisals will be obtained.

IX. TERM

The Fund will terminate at the end of ten years, unless extended at the option of the General Partner for up to three one-year periods. Additional extensions of the term of the Fund will require the approval of a majority-in-interest of the Partners other than the GSLP.

X. DIVERSIFICATION

No more than 20% of leveraged committed capital may be invested in any one company. The Fund may not invest more than 30% of leveraged committed capital in companies or entities in which The Goldman Sachs Group, Inc. or its affiliates, including GSCP I, II and III, have an investment. No more than 20% of leveraged committed capital may be invested in securities that are publicly traded when the investment is made.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. BACKGROUND DATA

NAME OF FUND:	DLJ Investment Partners II, L.P. (the "Fund" or "DLJIP II")
FUND MANAGER:	DLJ Investment Partners II, Inc. and DLJ Investment Associates II, LLC
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	$1.6 billion
MANAGER CONTACT:	John Moriarty, Jr. DLJ Investment Partners 277 Park Avenue New York, New York 10172 Phone: (212) 892-3514 Fax: (212) 892-7272

II. ORGANIZATION & STAFF

DLJ Investment Partners II, L.P. (the "Fund" or "DLJIP II") is being formed by the merchant banking group ("DLJMB") of Donaldson, Lufkin & Jenrette, Inc. ("DLJ"), a large investment banking firm, to invest in mezzanine securities with attractive risk-adjusted rates of return. The Fund will be the successor to DLJ Investment Partners, L.P. ("DLJIP I"), which was formed in 1995 with $500 million in committed capital. DLJIP II will be led by a group of dedicated professionals ("DLJIP") with access to all of the resources of DLJMB.

Each investment made by DLJIP II must be approved by the Investment Committee. The members of the Investment Committee are Lawrence M.v.D. Schloss, Thompson Dean, John M. Moriarty, Jr., Andrew H. Rush, Hamilton E. James, Peter T. Grauer and Nicole S. Arnaboldi. The Investment Committee members collectively have nearly 100 years of experience as principals. The management of DLJMB's activities has been exceptionally stable throughout its history, and the members of the Investment Committee have all worked together at DLJ for ten years or more. DLJIP has a dedicated team of senior professionals, including John Moriarty, Andrew Rush, Douglas Ladden and David Wittels, each of whom has extensive mezzanine and private equity investment experience. This group draws upon the resources of DLJMB's 63 dedicated professionals worldwide and DLJ's 1,000 investment banking professionals to augment its expertise and capacity where appropriate.

III. INVESTMENT STRATEGY

DLJIP will employ a flexible, yet highly disciplined, investment approach to create a diversified portfolio of mezzanine investments with a moderate risk profile. The Fund's flexibility allows DLJIP to structure specific transactions to meet issuers' unique requirements. DLJIP II will invest in a variety of securities, including subordinated debt with warrants, preferred stock with warrants, common stock or other securities, including interests in joint ventures. It is anticipated that, depending upon market conditions and the ultimate mix of investments, DLJIP II's portfolio will generate an aggregate yield of approximately 10% to 12%, including a cash yield of approximately 6% to 8%.

DLJIP II may invest in a variety of transactions including leveraged acquisitions, investments with corporate partners, financings for growth companies and recapitalizations. The Fund will target strong companies which generally have attractive market positions, above average profitability, a strong management team and well-defined strategies. DLJIP will consider investments of varying size, but generally expects to invest $25 million to $75 million per transaction. The Fund may make use of leverage by incurring debt to finance a portion of its investment in a given portfolio company.

IV. INVESTMENT PERFORMANCE

Previous fund performance as of March 31, 1999 for DLJ Investment Partners Fund I and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Fund I	1996	$500 million		13.0%

V. GENERAL PARTNER'S INVESTMENT

DLJ will commit 15% of the limited partnership interests, up to $150 million.

VI. TAKEDOWN SCHEDULE

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

VII. FEES

Each Limited Partner will pay an annual management fee, payable semi-annually in advance to the Managing General Partner, throughout the term of the Partnership. During the Commitment Period, the management fee will be equal to 1.75% per annum of such Limited Partner's Commitment. After the Commitment Period, the management fee will be equal to 1.25% per annum of such Limited Partner's funded Commitment immediately prior to the date on which the fee is payable.

Certain income constituting Special Income (as defined below) could be realized by the Fund, the Managing General Partner or any employee of any General Partner in connection with the Fund's investment activities. "Special Income" includes, among other things, commitment, break-up, "topping" or similar income realized with respect to a Mezzanine Investment or proposed Mezzanine Investment. Special Income realized by the Partnership will be allocated and distributed solely to the Managing General Partner's capital account. Any Special Income will first be applied to unreimbursed out-of-pocket expenses related to that transaction, and 50% of any excess after payment of such expenses will be used to reduce the management fees paid by the Limited Partners. The Fund does not intend to charge fees to Portfolio Companies. However, DLJSC or affiliated entities (other than the General Partners) may earn customary investment banking fees and other advisory fees in which the Fund will not participate.

VIII. ALLOCATIONS AND DISTRIBUTIONS

Each Partner's percentage (based upon its capital contribution for any investment divided by all Partners' capital contributions for that investment) of the proceeds received by the Partnership from an investment in any Portfolio Company (which shall include all proceeds from disposition, net of expenses, as well as any dividends or interest income earned on that investment) will be distributed in the following order of priority:

(i) 100% to such Partner until such Partner has received distributions equal to its original invested capital in that Portfolio Company;

(ii) 100% to such Partner to make up for such Partner's aggregate realized losses on other investments to the extent not returned in previous cumulative distributions;

(iii) 100% to such Partner to provide the Priority Return (as defined below) with respect to the investment giving rise to the proceeds;

(iv) 100% to the General Partners until the General Partners have received in the aggregate 20% of the total amount distributed pursuant to clause (iii) and this clause (iv) with respect to the subject investment;

(v) 80% to such Partner and 20% to the General Partners.

"Priority Return" means the amount required at such time so that the aggregate distributions of proceeds to the Partner (excluding distributions made pursuant to clause (ii) above) with respect to the investment giving rise to the proceeds provides a compound annual rate of return of 8% on such Partner's capital contributions with respect to the investment.

Prior to the termination of the Partnership, distributions will generally be in cash or marketable securities. Upon termination of the Partnership, distributions may also include restricted securities or other non-cash assets of the Partnership. Distributions of cash will generally be made within 60 days after proceeds are received, other than reasonable amounts held in reserve to fund Partnership obligations.

IX. TERM

The Partnership will terminate ten years from the final closing, but may be extended in the discretion of the Managing General Partner for up to three additional one-year periods.

X. DIVERSIFICATION

The total cost of the investment by the Fund in any portfolio company (a "Portfolio Company") may not exceed 25% of the Fund's aggregate capital commitments. Without approval of the Advisory Committee, the Partnership shall not make an investment at any time if as a result of such investment more than 25% of the aggregate capital commitments of all partners at such time would be invested in issuers that are organized and headquartered outside of the United States and Canada.

ATTACHMENT E

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background

Name of Fund:	GTCR Golder Rauner, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$1.25 billion core fund + $500 million overage fund*
Fund Manager:	GTCR Golder Rauner, L.L.C. 6100 Sears Tower Chicago, IL 60606 Phone: (312) 382-2200 Fax: (312) 382-2201
Manager Contact:	Bruce Rauner

* The overage fund may or may not be drawn down to finance GTCR Golder Rauner's larger investments or the latter stages of its best larger consolidations.

II. Organization & Staff

GTCR Golder Rauner, L.L.C., formed in early 1998, is one of two successors to Golder, Thoma, Cressey, Rauner, Inc., the current name of the firm originally established in 1980 by Bryan Cressey, Stanley Golder and Carl Thoma when they left First Chicago Corporation's venture capital group. Bruce Rauner joined the firm in 1981. Stanley Golder reduced his involvement with the firm starting with Fund III in 1987.

From 1980-1996, Golder, Thoma, Cressey, Rauner, Inc. raised in excess of $1.2 billion in equity capital for five investment funds. In late 1997, the principals of Golder, Thoma, Cressey, Rauner, Inc. began to consider the timing, size, management and ownership of a new Fund VI. After extensive discussion, it was decided that they would raise two separate new funds through two separate new firms.

Bruce Rauner, the former co-head of Golder, Thoma, Cressey, Rauner, Inc. has led six of the former nine Principals and all of the Associates, Analysts, and support personnel in the formation of a new firm, GTCR Golder Rauner. Over the last two years, the firm has successfully raised and invested GTCR Golder Rauner Fund VI, an $870 million fund.

GTCR Golder Rauner's staff of seven Principals, two Vice Presidents, three Associates, six Analysts, a Chief Financial Officer and respective support personnel conduct a nationwide investment program from an office located in Chicago.

III. Investment Strategy

GTCR Golder Rauner invests in consolidating, fragmented industries by teaming with top executives to build companies through acquisition and internal growth. The Principals proactively pursue consolidation investments in those industries where the firm's market knowledge, deal contacts and management relationships make it a leading private equity investor.

GTCR Golder Rauner initiates industry consolidation investments either by funding seed capital to form a new company with management or by teaming with the existing management of a platform company. In either situation, the firm provides significant additional equity capital for management to build a market leading company by acquiring other companies in the industry and by growing internally.

IV. Investment Performance

Previous fund performance as of September 30, 1999 for Golder, Thoma, Cressey, Rauner, Inc. and GTCR Golder Rauner Funds with SBI participation is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Golder, Thoma, Cressey, Rauner Fund III	1987	$235 million	$14 million	30.48%
Golder, Thoma, Cressey, Rauner Fund IV	1994	$312 million	$20 million	33.24%
Golder, Thoma, Cressey, Rauner Fund V	1996	$521 million	$30 million	22.98%
GTCR Golder Rauner Fund VI	1998	$870 million	$90 million	16.91%

V. General Partner's Investment

The Principals will make a cash contribution of at least $40 million.

VI. Takedown Schedule

Capital contributions will be drawn down as needed, with not less than 10 days' prior written notice.

VII. Fees

The $1.25 billion core fund will, commencing on the first drawdown of capital, pay the General Partner an annual management fee, payable quarterly in advance, equal to:

Year(s)	Management Fee
1	1.5% of commitments
2	1.75% of commitments
3	2.0% of commitments
4-7	2.15% of commitments
8	1.82% of commitments
9	1.55% of commitments
10	1.32% of commitments
Thereafter	2.0% of invested capital, not to exceed the amount payable in year ten

The $500 million overage fund will have no management fee.

The management fee will be reduced by (i) all of any director's fees, financial consulting fees or advisory fees earned by the General Partner from Portfolio Companies and (ii) any transaction fees and break-up fees from transactions not completed which are paid to the General Partner or the Partnership.

The Partnership will reimburse the General Partner for up to $750,000 of the partnership's organizational and startup expenses.

VIII. Term

The term of the Partnership will be ten years, but may be extended for up to a maximum of three consecutive one-year periods at the discretion of the General Partner if the Partnership holds non-marketable securities, as long as Limited Partners holding at least a majority of interests do not oppose any such extension.

IX. Distributions

Net proceeds attributable to the disposition of investments in portfolio companies, as well as distributions of securities in kind, together with any dividends or interest income received with respect to investments in portfolio companies that are not re-invested in portfolio companies, will be distributed in the following order of priority:

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

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

(ii) the funded commitments attributable to all organizational expenses, management fees and other expenses paid to date and allocated to realized investments and unrealized investments written down as of that time; and

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

All short-term interest income, other than short-term interest income received from portfolio companies, including interest income earned on bridge financings during the first year, will be distributed 100% to the Partners in proportion to funded commitments; provided that any short-term investment income on the undistributed net profits from the disposition of, or otherwise with respect to, a portfolio company will be distributed to the Partners pro rata according to their respective shares of such undistributed net profits.

The General Partner may in its sole discretion (but is not required to) make distributions of cash or securities at any time and from time to time. The General partner presently anticipates distributing dividends, interest and other income received with respect to portfolio company investments at least annually, in each case net of amounts held in reserve to meet Partnership obligations and liabilities.

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

After termination of the Partnership, the General Partner will be required to restore funds to the Partnership to the extent that it may have received cumulative distributions in excess of amounts otherwise distributable to the General Partner pursuant to the distribution formula set forth above, but in no event more than the cumulative distributions received by the General Partner with respect to its 20% carried interest, less income taxes thereon.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background

Name of Fund:	Fox Paine Capital Fund II, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$750 million
Fund Manager:	Fox Paine & Company, LLC 950 Tower Lane, Suite 1150 Foster City, CA 94404 Phone: (650) 525-1300 Fax: (650) 525-1396
Manager Contact:	Saul A. Fox W. Dexter Paine, III

II. Organization & Staff

Fox Paine and Company, L.P. is a privately held investment firm co-founded in 1997 by Saul Fox and Dexter Paine. Messrs. Fox and Paine have over 29 years of investing experience, as well as prior careers in law and commercial banking. Mr. Fox was previously a general partner at Kohlberg Kravis Roberts & Co. Prior thereto, he was associated with the law firm of Latham & Watkins. Mr. Paine was previously a general partner at Kohlberg & Co. Prior thereto, he was a general partner at Robertson Stephens & Co. and a vice president in the structured finance group at Bankers Trust Company.

Fox Paine Capital Fund, L.P. ("Fund I"), the first fund raised by the firm, closed in April 1998. Fox Paine will organize Fox Paine Capital Fund II, L.P. ("Fund II", together with Fund I the "Funds") in early 2000.

III. Investment Strategy

The purpose of the Funds is to generate long-term, market superior investment returns by acquiring, on a conservative price-to-value basis, middle market operating businesses and significantly enhancing the total return on investment through a combination of extensive hands-on participation in the direction of these businesses by Fox Paine and the prudent use of financial leverage.

Fox Paine's value creation strategy is based on three tenets: (i) acquire businesses on a conservative price-to-value basis; (ii) provide extensive hands-on participation by the firm to grow revenues and cash flow; and (iii) produce successful exit strategies built on generating significant industry interest and selling to strategic buyers rather than making stock distributions.

Over the years, Messrs. Fox and Paine have employed their value creation strategy through investments targeting (a) industries lacking ready access to capital; (b) complex transactions requiring careful due diligence and innovative structuring; and (c) management partners with the ability and insight to substantially enhance the value of their respective company.

The Funds will not invest more than:

- 25% of aggregate commitments in any single investment (33-1/3% with advisory board approval),
- 25% of aggregate commitments in investments outside North America,
- 15% of aggregate commitments in non-control, public or private, debt or equity securities where the Fund is not a lead or an organizing investor.

IV. *Investment Performance*

Previous fund performance as of September 30, 1999 for Fox Paine Capital Fund I and the SBI's investments with previous funds, where applicable, is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Fund I	1996	$502 million	$40 million	-16.01%*

* This figure represents investments carried at cost minus management fees and expenses. Fund I has an investment in a company scheduled for IPO mid-November, 1999 which could potentially have a significant positive affect on the IRR.

V. *General Partner's Investment*

The General Partner is expected to commit $15.0 million to Fund II.

VI. *Takedown Schedule*

Commitments will be drawn down on an as-needed basis, with a minimum of ten business days' prior notice to the limited partners.

VII. Fees

The Funds pay the General Partner an annual management fee, payable semiannually in advance, of two percent (2.0%) of aggregate capital commitments for the first six years (the commitment period). Thereafter, the management fee will equal two percent (2.0%) of funded commitments less the cost basis of realized investments.

The management fee is reduced by 50% of all (a) monitoring fees, consulting fees, investment banking fees, advisory fees and directors' fees paid by portfolio companies, and (b) transaction fees and breakup fees paid by portfolio companies, net of expenses.

The Funds will pay organizational expenses, not to exceed 0.75% of total commitments.

VIII. Term

Following the end of the respective commitment periods, the Funds terminate on the sooner of (a) the distribution of sales proceeds or securities attributable to all remaining investments, or (b) seven years after the purchase of the last acquired portfolio company. The Funds may be extended by the general partner for up to two additional one-year periods (unless objected to by a majority in interest of investors).

IX. Distributions

All dividends, interest and other income (other than net proceeds from the sale or other disposition of investments) received in cash by the respective Funds, net of expenses and appropriate reserves, will be distributed quarterly. Net proceeds from the sale or other disposition of an investment, net of expenses and appropriate reserves, will be distributed as soon as practicable after receipt.

All distributions will be made as follows:

- First, a 100% priority return of capital to all investors in proportion to funded commitments until investors receive distributions equal to the aggregate investments in all realized and unrealized investments, all organizational and offering expenses, all net management fees, plus all other costs and expenses; and

- Second, (a) 80% to all investors in proportion to funded commitments and (b) 20% to the General Partner.

All distributions will be made in cash or marketable securities. Upon termination of the respective Funds, distributions may also included restricted securities or other assets of the respective Funds.

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RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Funds:	Merit Energy Partners D (DI and DII), L.P.
Type of Funds:	Resource Limited Partnerships
Total Fund Size:	$400 to $500 million (est.) (DI and DII combined)
Fund Manager:	Merit Energy Company 12222 Merit Drive, Suite 1500 Dallas, TX 75251 Phone: (972) 701-8377 Fax: (972) 960-1252
Manager Contact:	William K. Gayden

II. Organization & Staff

Merit Energy Company was founded in 1989. The management team at Merit has worked together for over a decade. William K. Gayden, President, previously held many senior positions at Electronic Data Systems. He was a member of the EDS Board of Directors and was responsible for negotiating acquisitions and sales on behalf of EDS, as well as its sale to General Motors. From 1986 to 1989, Mr. Gayden was the President of Petrus Oil Company, L.P. He was responsible for the reorganization, expansion and sale of Petrus to Bridge Oil Ltd. for $112 million. Other key managers were employed by Petrus Oil for significant periods of time. In total, Merit now employs 71 individuals in its Dallas office, as well as 169 field personnel.

Merit Energy Fund D is the fourteenth fund raised and managed by the General Partner.

III. Investment Strategy

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

Merit seeks to acquire properties with the following characteristics: 10-12% returns using flat prices; low operating cost potential; above-average reserve life; high percentage of proved developed producing reserves; shallow to medium depth; production from multiple well bores; low risk development opportunities; geographic concentration of assets; and control of operations.

Merit's investments are located in the lower forty-eight states, primarily concentrated in Texas and Wyoming. Merit operates a substantial percentage of its properties. By placing an emphasis on control of physical operations, Merit is able to use its engineering and geological expertise to control costs and be a low cost producer.

Merit Energy Fund D will actually be comprised of two funds (DI and DII), roughly equal in size, which will be essentially the same except for the potential use of leverage in Fund DII up to 35% of Fund DII assets.

IV. *Investment Performance*

Previous fund performance as of September 30, 1999 for Merit Energy Partners Funds with SBI participation is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Merit B	1996	$130.4 million	$24 million	6.04%*
Merit C	1998	$300 million	$50 million	3.26%*

* Oil prices have increased significantly since February, 1999 (from approximately $12/barrel to approximately $24/barrel recently). This will likely boost the IRR from inception for these funds.

V. *General Partners Investment*

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

VI. *Takedown Schedule*

One half of one percent (.5%) of capital will be taken down upon closing. Additional capital will be called as needed on 16 days' notice.

VII. Management Fee

The General Partner will receive an annual management fee equal to 1.25% of the greater of invested capital or book value up to the committed capital amount plus 1.0% on amounts in excess of committed capital (due to reinvested earnings). A minimum first year management fee of .5% of program size will be charged.

VIII. Term

The Fund will be established with a fifteen year life. The first six years will be devoted to building the portfolio through property acquisitions and development, the next three years will be principally concerned with reinvesting earnings in excess of distributions, and the last six years will be devoted to distributing 100% of the cash flow to the limited partners.

IX. Distributions

For each fiscal year, annual distributions will be made to the Limited Partners in an amount equal to 6% of its called capital commitments or 6% of its actual capital account, whichever is less.

Annual allocations of profits will be made as follows:

(a) 100% to the Capital Partners (the Limited Partners and the General Partner) until the Capital Partners receive a cumulative 8% return, then:

(b) 100% to the General Partner as a carried interest until the General Partner has received 13% of cumulative book profits (after depletion) in (a) and (b) as a carried interest, then:

(c) 87% to the Capital Partners and 13% to the General Partners as a carried interest.

The General Partner also receives a 2% carried interest from cash flow to compensate it for the risks associated with acquiring the working interests.