MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 4, 1997

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INVESTMENT ADVISORY
COUNCIL MEETING
June 3, 1997

Governor Arne H. Carlson

State Auditor Judi Dutcher

State Treasurer Michael A. McGrath

Secretary of State Joan Anderson Growe

Attorney General Hubert H. Humphrey III

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, June 4, 1997
8:30 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of March 5, 1997	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (January 1, 1997 - March 31, 1997)	**A**
B. Portfolio Statistics (March 31, 1997)	**B**
C. Administrative Report	**C**
1. Reports on budget and travel	
2. Results of 1997 Legislative Session	
3. Update on litigation concerning Mercury Finance	
4. Update on tobacco information	
3. Report from the SBI Administrative Committee (M. McGrath)	**D**
A. Update on Certificate of Deposit Program	
B. Approval of Executive Director's Workplan for FY98	
C. Approval of Budget Plan for FY98	
D. Approval of Continuing Fiduciary Education Plan	
E. Approval of process for Executive Director's evaluation for FY97	
F. Approval to transfer custody of certain non-retirement assets	
G. Discussion of agency head pay bill	
4. Report from Consultant Review Committee (P. Sausen)	**E**
5. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	**F**
1. Review of manager performance	
2. Annual review of benchmark quality	
3. Update on candidates for Manager Monitoring Program	
4. Recommendation to re-interview certain active stock managers (IAI, Wilke/Thompson, Winslow)	
5. Approval of contract renewals for certain managers (Barclays, Franklin, JP Morgan, Galliard)	
6. Approval of manager investment guidelines	
B. International Manager Committee	**G**
1. Review of manager performance	
2. Recommendations concerning manager status (Montgomery, Barings)	
3. Approval of manager investment guidelines	
4. Approval of policy statement on currency management	
C. Alternative Investment Committee	**H**
1. Review of current strategy	
2. Update on two real estate investments (Zell/Merrill Lynch, Heitman)	

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Minutes
State Board of Investment
March 5, 1997

The State Board of Investment (SBI) met at 8:30 A.M. Wednesday, March 5, 1997 in Room 125 State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson; State Auditor Judith H. Dutcher, State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe and Attorney General Hubert H. Humphrey III were present. The minutes of the December 12, 1996 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 December 31, 1996 (Combined Funds 12.0% vs. Inflation 3.7%), trailed the median fund (Combined Funds 11.6% vs. Median 11.8%) and outperformed their composite index (Combined Funds 11.6% vs. Composite 11.4%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 11.8% vs. Composite 11.7%) over the last five years and reported that the Post Fund had outperformed its composite index for the period July 1, 1993 through December 31, 1996 (Post Fund 12.2% vs. Composite 11.9%).

Mr. Bicker reported that the Basic Funds' assets increased 6.5% for the quarter ending December 31, 1996 due to positive investment returns. He said that the asset mix is essentially on target and that the Funds' had outperformed its composite index for the quarter (Basics 6.0% vs. Composite 5.3%) and for the year (Basics 16.3% vs. Composite 15.2%).

Mr. Bicker reported that the Post Fund's assets increased 4.4% for the quarter ending December 31, 1996 due primarily to investment returns. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 5.5% vs. Composite 4.7%) and for the year (Post 14.2% vs. Composite 12.5%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 7.5% vs. Wilshire 5000 6.9%) and for the year (Domestic Stocks 22.1% vs. Wilshire 5000 21.2%). He said that the international stock manager group outperformed for the quarter (International Stocks 3.1% vs. Int'l Composite 1.4%) and for the year (International Stocks 10.4% vs. Int'l Composite 5.7%). He added that the bond segment also outperformed for the quarter (Bonds 3.5% vs. Lehman Aggregate 3.0%) and year (Bonds 4.6% vs. Lehman Aggregate 3.6%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite for the quarter (ARP 4.1% vs. Composite 3.6%) and for the year (ARP 9.1% vs.

Composite 8.5%). He concluded his report with the comment that as of December 31, 1996 the SBI was responsible for $33.4 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. Mr. Bicker reported that the SBI had received a "clean" audit opinion on its financial statements for fiscal year 1996.

Mr. Bicker referred members to the legislative update and reminded members that the SBI did not sponsor an administrative bill this session. He reported that there is a bill on deferred compensation issues that would add flexibility for the SBI in selecting investment option providers. In response to a question from Mr. Carlson, Mr. Bicker explained that the bill would give the SBI the additional investment flexibility to contract directly with banks, mutual funds and separate accounts. Mr. Carlson voiced some nervousness about the bill and asked staff to keep his office informed on the progress of the bill. Mr. Bicker said that the second piece of legislation that impacts the SBI is a pension reform bill which will be heard soon by the Pension Commission. In response to a question from Mr. Carlson, Mr. Bicker confirmed that the Department of Finance had endorsed the bill.

Mr. Bicker stated that the Proxy Voting Committee needs to be formally reauthorized by the Board every two years and he requested the Board to take action to do so. In response to a request from Mr. Carlson, Mr. Bicker continued to address the remaining items in the Administrative Report.

Mr. Bicker referred members to the meeting materials for an update on the SBI's tobacco holdings and the changes that had taken place during the quarter ending December 31, 1996. He reminded members of the concerns expressed by various Board members at the December 1996 meeting regarding the volatility of companies deriving more than 50% of their revenues from tobacco. He said that in response to those concerns, he had notified all of the SBI's managers that every future purchase of stocks of companies that derive more than 50% of their revenues from tobacco must be followed by written justification to staff as to why the manager believes the investment is warranted. In response to questions from Mr. Carlson, Mr. Bicker confirmed that as of September 30, 1996, the cost value of the SBI's tobacco-related stock holdings was $235 million and the market value was $281 million. He said that as of December 31, 1996, the cost value was $256 million and the market value was $362 million.

Mr. Bicker reminded members that approval of the resolution concerning Proxy Voting Committee was still needed. Ms. Dutcher moved approval of the recommendation, as stated in the Executive Director's Administrative Report, which reads: "The Executive Director recommends that the SBI adopt the resolution in Attachment E which reauthorizes the Proxy Voting Committee and delegates proxy voting responsibilities according to established guidelines." Ms. Growe seconded the motion. The motion passed. (The resolution is included as Attachment A.)

Mr. Humphrey noted that Philip Morris had posted record earnings for the fourth quarter of 1996 and quoted the New York Times as stating that in one quarter the company had sold 891 billion cigarettes. In response to a question from Mr. Carlson, Mr. Humphrey confirmed that Congress still subsidizes tobacco growing. Mr. Carlson noted his concern about the conflicting views of the U.S. government regarding tobacco; that on one hand we subsidize the growth of tobacco and on the other hand we condemn its use.

Deferred Compensation Review Committee Report

Mr. Bicker referred members to Tab D of the meeting materials and noted that a review had been completed of the vendors for the Deferred Compensation and the Minnesota State Colleges and Universities (MnSCU) Plans. He stated that one of the vendors, Great-West, has recommended that two of their investment options be replaced. He explained that the proposed change replaces the Fidelity Advisors Income & Growth option with the Maxim Balanced Portfolio managed by Invesco. He said that the second change is to replace the Voyageur U.S. Government securities option with the Maxim Corporate Bond Portfolio managed by Loomis Sayles. In response to a question from Mr. Carlson, Mr. Bicker clarified that the Board needed to approve this change since the funds were named in the contract with Great-West. He added that staff would work on modifying the language of future contracts to eliminate the necessity of Board approval for such changes. The Board approved the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI accept Great-West's recommendation to replace two investment options in the 457 Plan. These options are: 1) Great-West Fidelity Advisors Income & Growth which will be replaced by the Great-West Maxim Balanced Portfolio managed by INVESCO and 2) Great-West Voyageur U.S. Government Securities which will be replaced by the Great-West Maxim Corporate Bond Portfolio managed by Loomis Sayles. The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute the necessary contract amendments to implement these changes. The Committee recommends that the Executive Director forward the action taken by the SBI on this matter to the MnSCU Board for its review and consideration."

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and summarized the performance of the domestic stock and bond managers. In response to a question from Mr. Carlson, Mr. Bicker confirmed that the Combined Funds had slightly trailed the median fund for the five year period ending December 31, 1996 and Ms. Yeomans noted that the domestic stock manager had outperformed the Wilshire 5000 for the latest year. Ms. Yeomans stated that staff and the Committee had reviewed GeoCapital during the quarter and that the Committee is recommending that the SBI continue to retain GeoCapital as a manager. In response to questions from Mr. Carlson, Mr. Bicker stated that GeoCapital is a small cap manager for the SBI with approximately $300 million under management. In response to a question from Mr. Humphrey, Mr. Bicker confirmed that the firm will continue to be monitored by staff or an on-going basis. He reminded members that the SBI contracts permit immediate termination. Ms. Growe moved approval of the Committee's recommendation as stated in the Committee Report, which reads: "The Committee recommends that the SBI continue to retain GeoCapital Corporation for active domestic stock management." The motion passed.

International Manager Committee Meeting
Ms. Yeomans referred members to Tab F of the meeting materials and stated that the international managers had all out performed the EAFE index for the quarter and that the currency overlay program had added 1.6% in value during the latest quarter.

Alternative Investment Committee Report
Ms. Yeomans referred members to Tab G of the meeting materials and said that the Committee is recommending an investment for the Basic Retirement Funds in Contrarian Capital Fund II. In response to a question from Mr. Carlson, Mr. Bicker confirmed that the fund will focus on high yield debt. Ms. Growe moved approval of the recommendation as stated in the Committee Report, which reads: "The IAC recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $40 million or 20%, whichever is less, in Contrarian Capital Fund II, 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 Contrarian Capital upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Contrarian Capital or reduction or termination of the commitment." The motion passed.

The meeting adjourned at 8:50 a.m.

Respectfully submitted,

Howard J. Bicker
Executive Director

RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT CONCERNING PROXY VOTING

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

WHEREAS, the SBI has previously established a Proxy Committee; and

WHEREAS, the SBI has previously adopted proxy voting guidelines:

NOW THEREFORE, BE IT RESOLVED THAT:

1. The SBI hereby reaffirms the Proxy Voting Guidelines previously adopted in March 1995 attached hereto and incorporated by reference herein (the Guidelines).
2. To advise and assist the SBI in the implementation of these proxy voting guidelines, the SBI hereby authorizes and reaffirms the establishment of the SBI Proxy Committee composed of a representative selected by each member of the SBI to be chaired by the designee of the Governor and convened as necessary in accord with the Guidelines.
3. The SBI further authorizes the SBI Proxy Committee to review the Guidelines periodically and report to the SBI as necessary.
4. The SBI further directs its staff to advise and assist the Proxy Committee in the implementation of this resolution and directs its Executive Director to obtain such consulting and reporting services as may be necessary.
5. This resolution shall take effect immediately.

Adopted this 5th day
of March, 1997

Arne H. Carlson

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

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, June 3, 1997
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

		TAB
1.	**Approval of Minutes of March 4, 1997**	
2.	**Report from the Executive Director (H. Bicker)**	
	A. Quarterly Investment Review (January 1, 1997 - March 31, 1997)	**A**
	B. Portfolio Statistics (March 31, 1997)	**B**
	C. Administrative Report	**C**
	1. Reports on budget and travel	
	2. Results of 1997 Legislative Session	
	3. Update on litigation concerning Mercury Finance	
	4. Update on tobacco information	
3.	**Report from the SBI Administrative Committee (M. McGrath)**	**D**
	A. Update on Certificate of Deposit Program	
	B. Approval of Executive Director's Workplan for FY98	
	C. Approval of Budget Plan for FY98	
	D. Approval of Continuing Fiduciary Education Plan	
	E. Approval of process for Executive Director's evaluation for FY97	
	F. Approval to transfer custody of certain non-retirement assets	
	G. Discussion of agency head pay bill	
4.	**Report from Consultant Review Committee (P. Sausen)**	**E**
5.	**Reports from the Investment Advisory Council**	
	A. Domestic Manager Committee (J. Bohan)	**F**
	1. Review of manager performance	
	2. Annual review of benchmark quality	
	3. Update on candidates for Manager Monitoring Program	
	4. Recommendation to re-interview certain active stock managers (IAI, Wilke/Thompson, Winslow)	
	5. Approval of contract renewals for certain managers (Barclays, Franklin, JP Morgan, Galliard)	
	6. Approval of manager investment guidelines	
	B. International Manager Committee (J. Mares)	**G**
	1. Review of manager performance	
	2. Recommendations concerning manager status (Montgomery, Barings)	
	3. Approval of manager investment guidelines	
	4. Approval of policy statement on currency management	
	C. Alternative Investment Committee (K. Gudorf)	**H**
	1. Review of current strategy	
	2. Update on two real estate investments (Zell/Merrill Lynch, Heitman)	

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Minutes
Investment Advisory Council
March 4, 1997

The Investment Advisory Council met on Tuesday, March 4 at 2:00 P.M. in the State Board of Investment (SBI) Conference Room, 55 Sherburne Avenue, St. Paul.

MEMBERS PRESENT: Gary Austin; Dave Bergstrom; Roger Durbahn; Peter Kiedrowski; Han Chin Liu; Patrick Sexton; Wayne Simoneau; Mike Stutzer; Mary Vanek and Jan Yeomans.

MEMBERS ABSENT: John Bohan; Doug Gorence; Ken Gudorf; Judy Mares; Malcolm McDonald; Daralyn Peifer and Gary Norstrem.

SBI STAFF: Howard Bicker; Jim Heidelberg; Sheila Berube Lois Buermann; Debbie Griebenow; Kristine Hanson; Mark Regal; Karen Vnuk; Charlene Olson and Lin Nadeau.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Carey Moe; Peter Sausen; Susan Mills, Nancy Anderson, Lloyd Belford, REAM; Ralph Wedgewood, Empire Equity; Carl Simmons and Eugene Edie.

Ms. Yeomans called the meeting to order and the minutes of the December 11, 1996 meeting were approved. Mr. Bicker introduced a new member, Mr. Simoneau, who is the Commissioner of Finance, to members of the IAC.

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 December 31, 1996 (Combined Funds 12.0% vs. Inflation 3.7%), trailed the median fund (Combined Funds 11.6% vs. Median 11.8%) and outperformed their composite index (Combined Funds 11.6% vs. Composite 11.4%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 11.8% vs. Composite 11.7%) over the last five years and reported that the Post Fund had outperformed its composite index for the period July 1, 1993 through December 31, 1996 (Post Fund 12.2% vs. Composite 11.9%).

Mr. Bicker reported that the actuarial data had been updated for June 30, 1996 and that the Combined Funds are currently 89% funded, up from 86% the previous year. He reported that the Basic Funds' assets increased 6.5% for the quarter ending December 31, 1996 due to positive investment returns. He said that the asset mix is essentially on target and that the Funds' had outperformed its composite index for the quarter (Basics 6.0% vs. Composite 5.3%) and for the year (Basics 16.3% vs. Composite 15.2%).

Mr. Bicker reported that the Post Fund's assets increased 4.4% for the quarter ending December 31, 1996 due to investment returns. He noted that the Fund had a withdrawal of $118 million during the quarter. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 5.5% vs. Composite 4.7%) and for the year (Post 14.2% vs. Composite 12.5%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 7.5% vs. Wilshire 5000 6.9%) and for the year (Domestic Stocks 22.1% vs. Wilshire 5000 21.2%). He said that the international stock manager group outperformed for the quarter (International Stocks 3.1% vs. Int'l Composite 1.4%) and for the year (International Stocks 10.4% vs. Int'l Composite 5.7%). He added that the bond segment also outperformed for the quarter (Bonds 3.5% vs. Lehman Aggregate 3.0%) and year (Bonds 4.6% vs. Lehman Aggregate 3.6%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite for the quarter (ARP 4.1% vs. Composite 3.6%) and for the year (ARP 9.1% vs. Composite 8.5%). He concluded his report with the comment that as of December 31, 1996 the SBI was responsible for $33.4 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. Mr. Bicker reported that the SBI had received a "clean" audit opinion on its financial statements for fiscal year 1996 and he noted that a copy of the expanded audit report had been sent to each IAC member by the Office of the Legislative Auditor.

Mr. Bicker referred members to the materials in Tab C for an update on legislative items. He reminded members that the SBI did not sponsor an administrative bill this session. He reported that a Deferred Compensation bill is being introduced through the Minnesota State Retirement System (MSRS) that would give the SBI additional investment flexibility in selecting investment option providers. He said that the Pension Commission would be addressing this bill when it convenes within the next few days.

Mr. Bicker said that the second piece of legislation that impacts the SBI is a major pension reform bill. He explained that the change involves an increase in the actuarial assumed rate of return in the Post Fund from the current 5% to 6%. He added that the effect of the change is that future post retirement benefit increases are reduced and the initial annuity is increased. He noted that other legislation impacting the SBI is the bill to abolish the State Treasurer's Office and a bill to add stock exposure to the Permanent School Fund.

Mr. Bicker stated that the Proxy Voting Committee needs to be formally reauthorized by the Board every two years and that he will request the Board's approval at the March meeting. Mr. Bicker stated that he will update the Board on the SBI's tobacco holdings and the changes that had taken place during the quarter ending December 31, 1996.

Deferred Compensation Review Committee Report

Mr. Bicker referred members to Tab D of the meeting materials and noted that a review had been completed of the vendors for the Deferred Compensation and the Minnesota State Colleges and Universities (MnSCU) Plans. He stated that one of the vendors, Great-West, has recommended that two of their investment options be replaced. He explained that Great-West wants to replace the Fidelity Advisors Income & Growth option with the Maxim Balanced Portfolio managed by Invesco. He said that the second change is to replace the Voyageur U.S. Government Securities option with the Maxim Corporate Bond Portfolio managed by Loomis Sayles. Mr. Bicker noted that the review had not been completed by a committee of the IAC, but that he wanted the IAC to be aware of the results of the review and the changes being considered.

Domestic Manager Committee Report

Mr. Bergstrom referred members to Tab E of the meeting materials and briefly summarized the performance of the domestic stock and bond managers. He stated that staff and the Committee had re-interviewed GeoCapital during the quarter and that the Committee is recommending that the SBI continue to retain GeoCapital as a manager and he moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Durbahn seconded the motion. The motion passed. Mr. Bergstrom noted that Wilke/Thompson underperformed dramatically for the quarter and the year. Mr. Bicker stated that the manager had made some bets that did not work and that staff would be meeting with them to discuss the issue. In response to a question from Mr. Kiedrowski, Mr. Bicker clarified that Wilke/Thompson is a small cap manager for the SBI in the Emerging Managers Program.

International Manager Committee Meeting

Mr. Kiedrowski referred members to Tab F of the meeting materials and stated that the international managers had all out performed the EAFE index for the quarter and that the currency overlay program had added 2.3% in value during the year. He added that the Committee will be reviewing the currency overlay program and will report back to members at the June 1997 meeting. Ms. Lehman invited all IAC members who are interested to participate in the review.

Alternative Investment Committee Report

Mr. Sexton referred members to Tab G of the meeting materials and said that the Committee is recommending an investment for the Basic Retirement Funds in Contrarian Capital Fund II. Ms. Yeomans noted that a quorum was not present when the Committee met, so she stated that she wanted all members to have an opportunity for questions and discussion on the investment. Mr. Bicker explained that Contrarian focuses on high yield debt and he noted that the manager has agreed to remove the short selling language from the contract if the SBI commits to the investment. In response to questions from Ms. Yeomans, Mr. Bicker confirmed that almost none of their past returns were attributable to taking short positions and that the securities the fund buys are generally publicly traded securities, except for possibly some small real estate investments. Mr. Simoneau moved approval of the Committee's recommendation to approve the investment with Contrarian Capital, as stated in the Committee Report. Ms. Vanek seconded the motion. The motion passed.

Mr. Bicker noted that the Alternative Investment Committee had also evaluated an investment with Churchill Capital during the quarter. He explained that staff and the Committee chose not to recommend the investment at this time due to concerns about recent staff turnover and some questions regarding call protection on portfolio investments. He said staff will continue to monitor the firm and that additional investment opportunities will be available, possibly within the next two years.
The meeting adjourned at 2:25 p.m.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

Tab A

RETURN OBJECTIVES
Period Ending 3/31/97

COMBINED FUNDS: $27.1 Billion	Return	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over moving 10 year periods.	10.7% (1)	7.1 percentage points above target
Exceed Median Fund (5 yr.) Outperform the median fund from a universe of public and corporate funds with a balanced asset mix over moving 5 year periods.	11.8% (1)	0.3 percentage point below target Rank: 60th percentile (2)
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 moving 5 year periods.	11.8% (1)	0.2 percentage point above target

BASIC RETIREMENT FUNDS: $14.4 Billion	Return	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over moving 5 year periods.	12.0%	0.1 percentage point above target

POST RETIREMENT FUND: $12.7 Billion	Return	Compared to Objective
Exceed Composite Index Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Post Fund over moving 5 year periods.	11.5% (3)	0.4 percentage point above target (3)

(1) Reflects performance of Basic Funds only through 6/30/93, Combined Funds thereafter.

(2) The SBI's stated performance 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).

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

ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1996

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

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

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

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

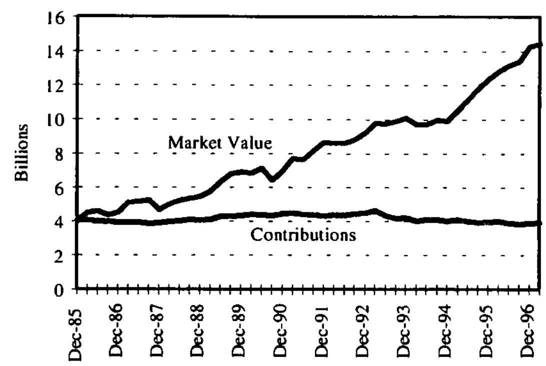
Actuarial Assumptions:

Salary Growth: 6.5%
Interest/Discount Rate: 8.5% Basics, 5.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY
Basic Retirement Funds

Asset Growth

The market value of the Basic Funds increased 0.9% during the first quarter of 1997. Positive investment returns accounted for most of the increase during the period.



Asset Growth During First Quarter 1997 (Millions)

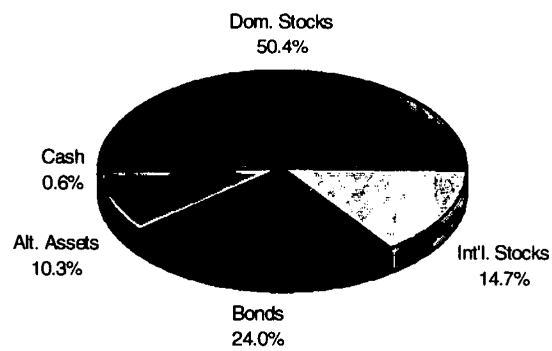
Beginning Value	$ 14,275
Net Contributions	24
Investment Return	106
Ending Value	$ 14,405

Asset Mix

During the quarter assets moved from domestic stocks to bonds and cash to accommodate normal fund rebalancing.

	Policy Targets	Actual Mix 3/31/97	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	50.4%	$7,262
Int'l. Stocks	**15.0**	14.7	2,114
Bonds	**24.0**	24.0	3,451
Alternative Assets*	**15.0**	10.3	1,493
Unallocated Cash	**1.0**	0.6	85
	100.0%	100.0%	$14,405

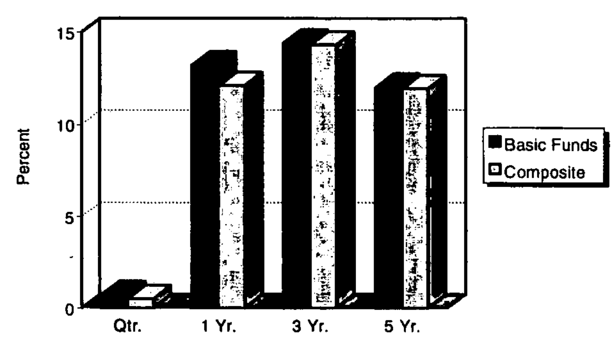
* Any uninvested allocation is held in domestic stocks



Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**0.7%**	**13.2%**	**14.4%**	**12.0%**
Composite	0.5	12.1	14.3	11.9

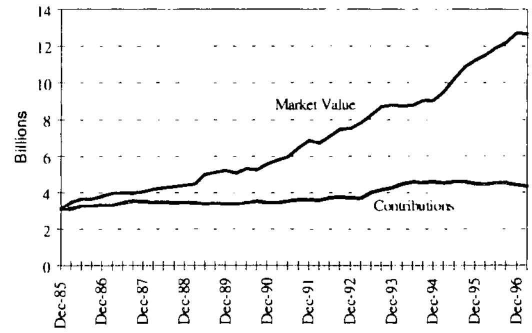


EXECUTIVE SUMMARY

Post Retirement Fund

Asset Growth

The market value of the Post Fund decreased 0.2% during the first quarter of 1997. The decrease resulted from negative contributions.

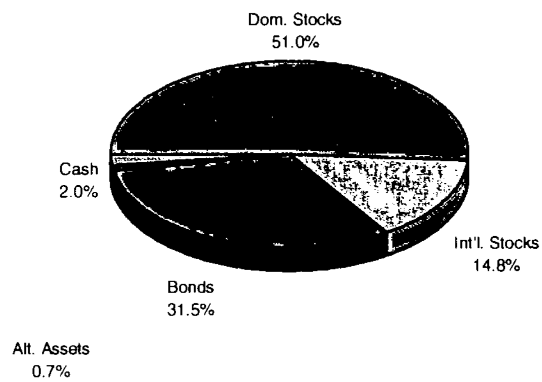


Asset Growth During First Quarter 1997 (Millions)

Beginning Value	$12,705
Net Contributions	-88
Investment Return	60
Ending Value	12,677

Asset Mix

During the quarter assets moved from domestic stocks to bonds and cash to accommodate normal fund rebalancing.



	Policy Targets	Actual Mix 3/31/97	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	51.0 %	$6,464
Int'l. Stocks	**15.0**	14.8	1,870
Bonds	**27.0**	31.5	3,997
Alternative Assets*	**5.0**	0.7	90
Unallocated Cash	**3.0**	2.0	256
	100.0%	100.0%	$12,677

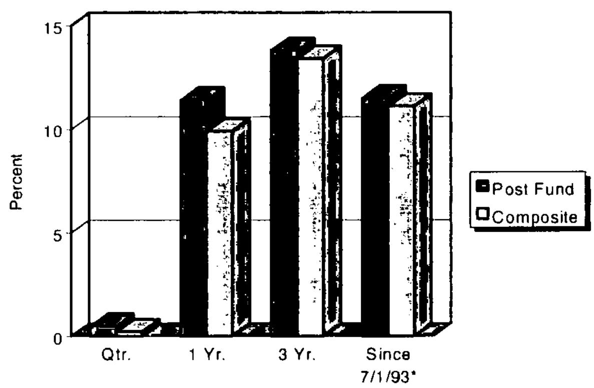
* Any uninvested allocation is held in bonds

Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	Since 7/1/93*
Post	**0.5%**	**11.4%**	**13.8%**	**11.5%**
Composite	0.2	9.9	13.4	11.1

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



EXECUTIVE SUMMARY
Stock and Bond Manager Performance

Domestic Stocks

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	**0.5%**	**15.8%**	**19.4%**	**14.9%**
Wilshire 5000*	0.6	15.5	20.0	15.3

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

International Stocks

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

	Qtr.	1 Yr.	3 Yr.	Since 10/1/92*
Int'l. Stocks	**2.1%**	**8.7%**	**9.7%**	**13.0%**
Composite Index*	-0.3	2.3	6.9	11.2

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

Bonds

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	**-0.5%**	**5.9%**	**7.1%**	**7.8%**
Lehman Agg.*	-0.6	4.9	6.9	7.3

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

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

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

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

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

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

EXECUTIVE SUMMARY
Assigned Risk Plan

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.

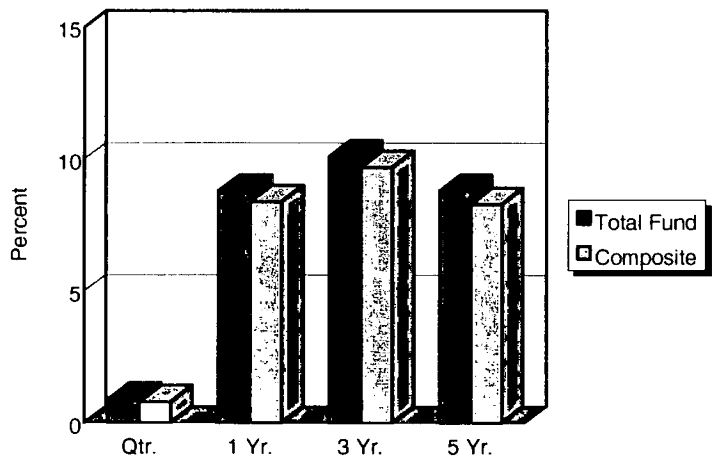
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	3/31/97 Target	3/31/97 Actual
Stocks	20.0%	29.2%
Bonds	80.0	70.8
Unallocated Cash	0.0	0.0
Total	100.0%	100.0%

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

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

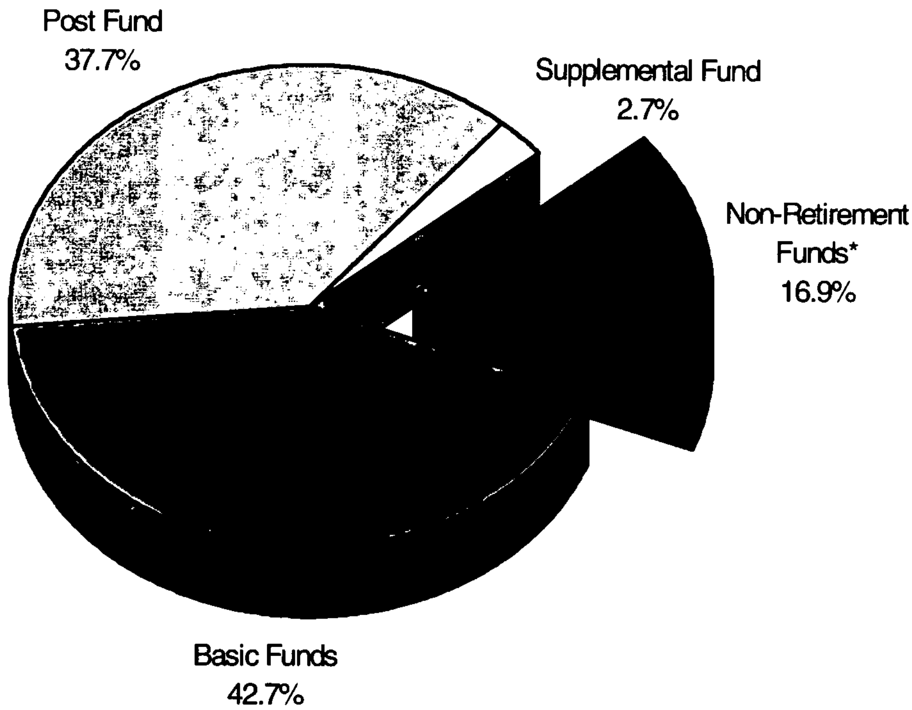
Market Value
On March 31, 1997 the market value of the Assigned Risk Plan was $555 million.



Period Ending 3/31/97

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund	**0.9%**	**8.8%**	**10.1%**	**8.8%**
Composite Index	0.8	8.4	9.7	8.3
Equity Segment	**2.4**	**18.2**	**21.0**	**13.6**
Benchmark	2.6	19.8	22.4	14.2
Bond Segment	**0.3**	**5.5**	**6.8**	**7.2**
Benchmark	0.3	5.5	6.7	6.8

EXECUTIVE SUMMARY
Funds Under Management



	3/31/97 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$14.4
Post Retirement Fund	12.7
Supplemental Investment Fund	0.9
Non Retirement Funds*	
Assigned Risk Plan	0.6
Permanent School Fund	0.4
Environmental Trust Fund	0.2
State Cash Accounts	4.5
Total	**$33.7**

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 1997
(January 1, 1997 - March 31, 1997)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 3/31/97				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	0.6%	15.5%	20.0%	15.4%	12.6%
Dow Jones Industrials	2.6	20.5	24.9	18.4	14.6
S&P 500	2.6	19.9	22.4	16.5	13.4
Russell 2000	-5.2	5.1	12.7	12.8	9.4
Domestic Fixed Income					
Lehman Aggregate*	-0.6	4.9	6.9	7.2	8.2
Lehman Gov't./Corp.	-0.9	4.5	6.6	7.3	8.1
90 Day U.S. Treasury Bills	1.3	5.3	5.3	4.5	5.8
International					
EAFE**	-1.6	1.5	6.5	10.6	6.0
Emerging Markets Free***	8.5	8.3	3.6	10.3	N/A
Salomon Non U.S. Gov't. Bond	-5.8	-0.2	6.8	9.5	9.0
Inflation Measure					
Consumer Price Index****	0.9	2.8	2.8	2.8	3.6

* Lehman Brothers Aggregate Bond index. Includes governments, corporates and mortgages.
** Morgan Stanley Capital International index of Europe, Australia and the Far East (EAFE)
*** Morgan Stanley Capital International Emerging Markets Free index.
**** Consumer Price Index (CPI) for all urban consumers, also known as CPI-U.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

Stocks moved up sharply in January, then lost much of that gain by the end of the quarter. The markets were very volatile during the quarter, due to concerns about interest rate increases and the potential for increasing inflation due to tight employment levels. On March 25, 1997, the Federal Reserve increased interest rates which contributed to a decline in the stock market, particularly in small growth stocks. The market ended the quarter only modestly positive for large value, small value, and large growth.

The Wilshire 5000 provided a 0.6% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter is shown below:

Large Value	1.5%
Small Value	1.0
Large Growth	2.6
Small Growth	-9.5

The Wilshire 5000 increased 15.5% during the latest year.

DOMESTIC BONDS

The bond market generated a negative 0.6% return for the quarter. During the quarter, the bond market went through two phases. In January and February the bond market continued the rally from the fourth quarter of 1996 and posted a 0.5% return. However, in March the combination of strong economic data and the Federal Reserve increasing short term rates caused the bond market to fear that more rate increases would be forth coming. The combination of all the events in March caused the bond market to incur a 1.1% return for the month.

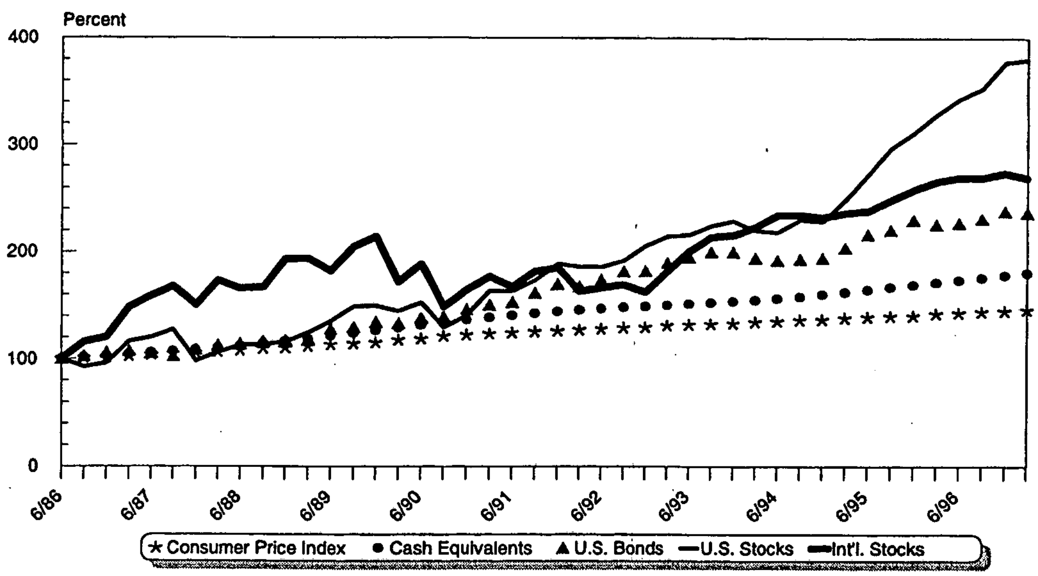
Overall, the Lehman Brothers Aggregate Bond Index decreased 0.6% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	-0.8%
Corporates	-1.0
Mortgages	0.1

The Lehman Aggregate increased 4.9% for the latest year.

PERFORMANCE OF CAPITAL MARKETS

Cumulative Returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE index) provided a return of -1.6% for the quarter. As shown below, performance varied widely among the major markets:

Japan	-11.8%
United Kingdom	1.2
Germany	11.3
France	5.9

The EAFE index increased by 1.5% during the latest year.

The EAFE index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 20 markets located in Europe, Australia and the Far East (EAFE). The major markets listed above comprise about 70% of the value of the international markets in the index.

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 8.5% for the quarter. The performance of the five largest stock markets is shown below:

Malaysia	-0.2%
South Africa	14.2
Brazil	21.8
Taiwan	9.5
Mexico	10.2

The Emerging Markets Free index increased by 8.3% for the year.

The Emerging Markets Free index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 60% of the value of the index.

REAL ESTATE

Nationally, many real estate markets are improving. Property types most favored by buyers at the present time include apartments, industrial parks and suburban office buildings. Shopping mall investments, however, have performed poorly which is reflective of the weak national retail environment.

PRIVATE EQUITY

Domestic private equity limited partnerships of all kinds raised $32.1 billion in 1996--a 13.2% increase from the upwardly revised $28.4 billion of 1995. It was the fifth consecutive annual rise, and the third consecutive annual record.

RESOURCE FUNDS

Crude oil prices weakened in the first quarter of 1997. The first quarter of 1997 price of West Texas Intermediate crude oil averaged $22.95 per barrel compared to an average price of $24.56 per barrel during the fourth quarter of 1996.

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.

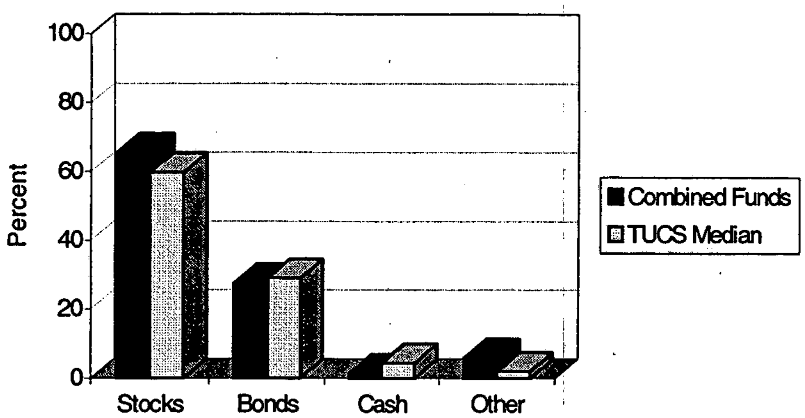
The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Asset Mix Compared to Other Pension Funds

On March 31, 1997, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$13,725	50.7%
International Stocks	3,984	14.7
Bonds	7,448	27.5
Alternative Assets	1,583	5.8
Unallocated Cash	342	1.3
Total	$27,082	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 on March 31, 1997 are shown below:



	Stocks*	Bonds*	Cash	Other
Combined Funds	**65.4%**	**27.5%**	**1.3%**	**5.8%**
Median Allocation in TUCS	59.8	29.0	4.4	2.0

* Both domestic and international.

COMBINED FUNDS
Performance Compared to Other Pension Funds

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

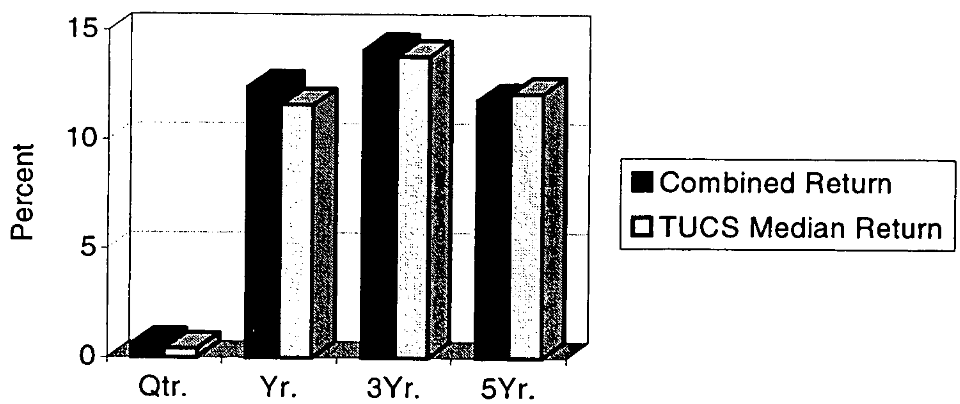
— **Differing Treatment of Fees.** All SBI returns in this report are shown *after* all management fees while TUCS data is reported *before* fees. If the SBI reported returns before fees, its returns and rankings would be *higher* than those shown in this report.

— **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 TUCS are shown below:



Period Ending 3/31/97

			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Combined Funds Return*	**0.6%**	**12.4%**	**14.1%**	**11.8%**
TUCS Median Fund Return**	0.4	11.6	13.8	12.1
Percentile Rank in TUCS	38th	39th	44th	60th

* After fees. Includes Basic Funds only through 6/30/93, Basic and Post thereafter.
** Before fees.

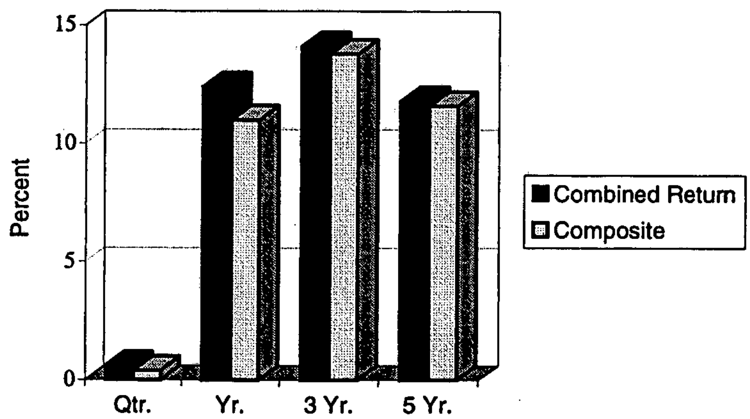
The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Index Weights 1Q97
Domestic Stocks	Wilshire 5000	50.0%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.5*
Alternative Assets	Wilshire Real Estate	2.1*
	Venture Capital Funds	2.9*
	Resource Funds	0.5*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

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



Period Ending 3/31/97

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	**0.6%**	**12.4%**	**14.1%**	**11.8%**
Composite Index***	0.4	11.0	13.8	11.6

**Includes performance of Basic Funds through 6/30/93, Basic and Post Funds thereafter.

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

BASIC RETIREMENT FUNDS

Investment Objectives

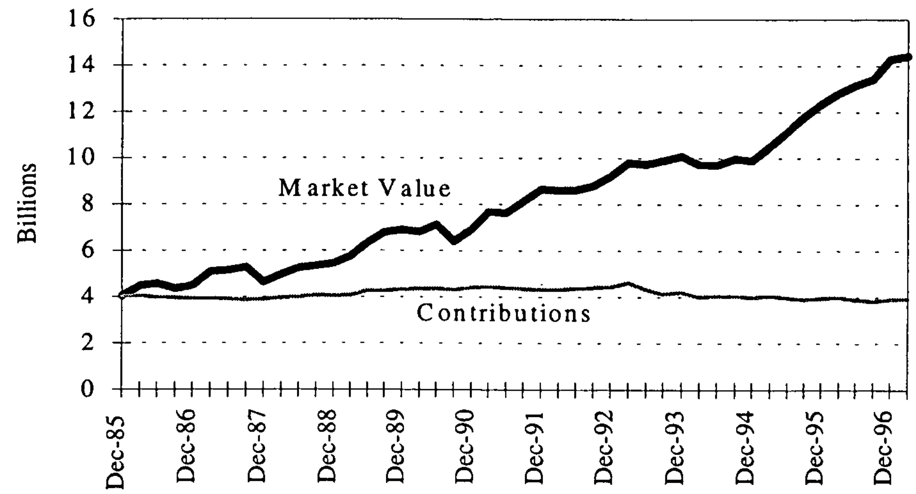
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 256,000 public employees participate in the Basic Funds.

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

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 0.9% during the first quarter of 1997. Positive investment returns accounted for most of the increase.



Last Five Years
In Millions

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

BASIC RETIREMENT FUNDS

Asset Mix

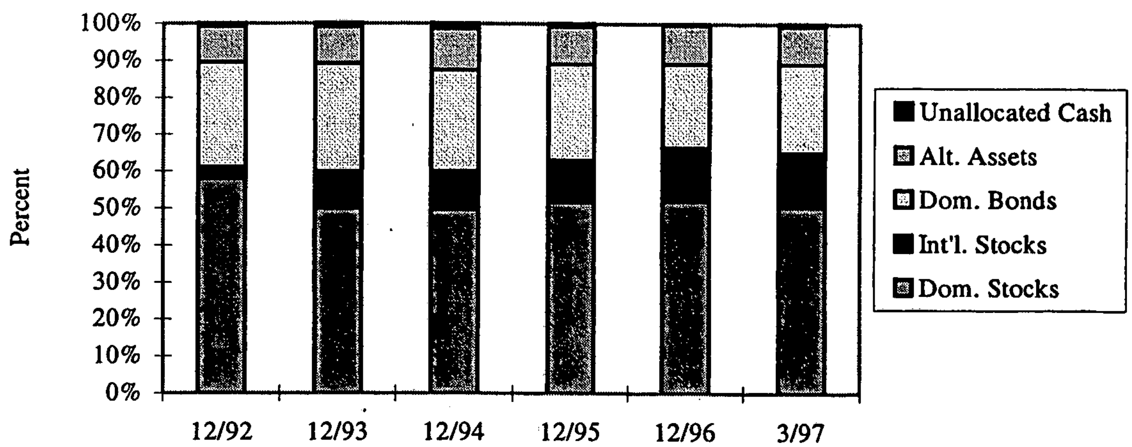
The long-term asset allocation of the Basic Funds is based on the superior performance of common stocks over the history of the capital markets. The asset allocation policy is designed to add value to the Basic Funds over their long-term investment time horizon.

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

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

The actual asset mix changed from the prior quarter due to market movements and asset rebalancing.

In October 1995, the Board revised its long term asset allocation targets for the Basic Funds, increasing international stocks from 10% to 15% and decreasing domestic stocks from 50% to 45%. The change was implemented over several quarters. Over the last year, assets have moved from domestic stocks and bonds to international stocks to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing.



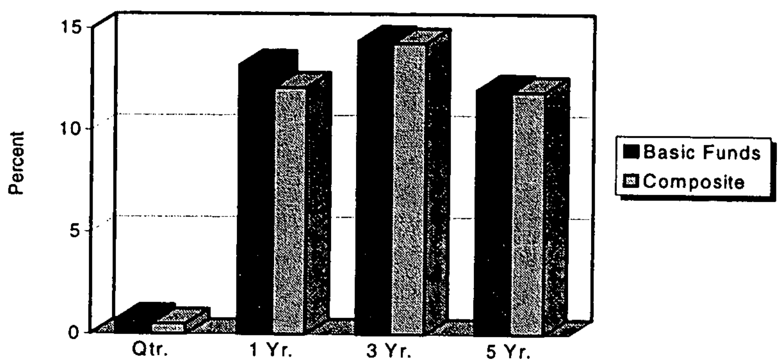
	Last Five Years					Latest Qtr.
	12/92	12/93	12/94	12/95	12/96	3/97
Domestic Stocks	49.9%	49.7%	51.7%	52.0%	52.0%	50.4%
Int'l. Stocks	10.0	10.3	11.3	14.5	14.5	14.7
Bonds	29.4	27.5	26.1	22.8	22.8	24.0
Real Estate	4.1	4.6	4.1	3.9	3.9	3.8
Private Equity	4.6	5.6	5.4	5.5	5.5	5.5
Resource Funds	1.1	0.9	0.7	1	1.0	1.0
Unallocated Cash	0.9	1.4	0.7	0.3	0.3	0.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance

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 1Q97
Domestic Stocks	45.0%	Wilshire 5000	50.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Wilshire Real Estate	3.7*
		Private Equity Funds	5.3*
		Resource Funds	1.0*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

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



Period Ending 3/31/97

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds	**0.7%**	**13.2%**	**14.4%**	**12.0%**
Composite Index**	0.5	12.1	14.3	11.9

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

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page14 for the performance of these asset pools. Performance of the Basic Funds' alternative assets is on page 15.

POST RETIREMENT FUND

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

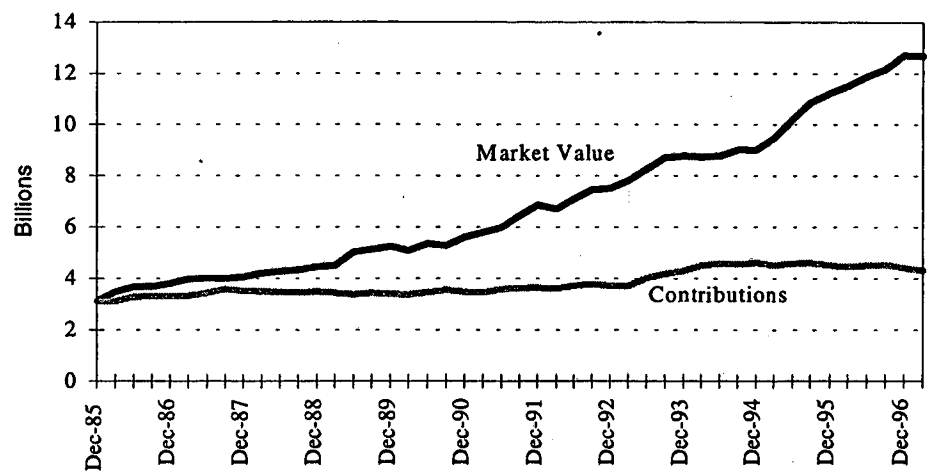
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 5% on its invested assets on an annualized basis. If the Post Fund exceeds this earnings rate, excess earnings are used to finance permanent benefit increases for eligible retirees.

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

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

Asset Growth

The market value of the Post Retirement Fund decreased by 0.2% during the first quarter of 1997. The decrease resulted from negative contributions.



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

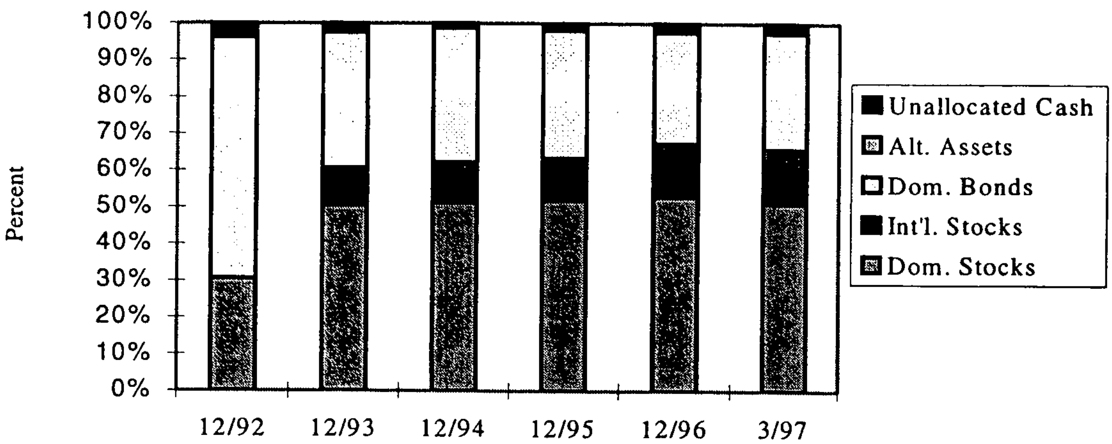
POST RETIREMENT FUND
Asset Mix

The Board adopted a new asset allocation strategy for the Post Fund in fiscal year 1993 which reflects the new 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%

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

In October 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%. Over the last year, assets have moved from bonds and domestic stocks to international stocks to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing.



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

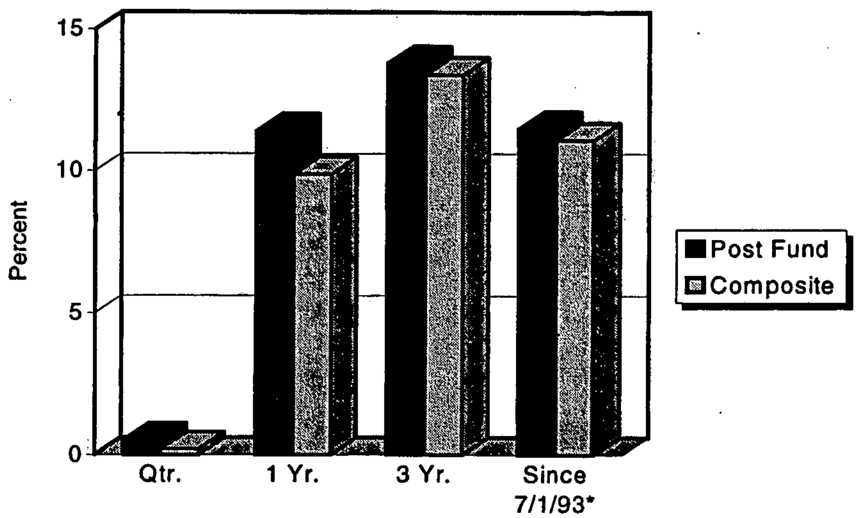
POST RETIREMENT FUND
Total Fund Performance

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 1Q97*
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	31.5*
Alternative Assets	5.0	Wilshire Real Estate	0.2*
Unallocated Cash	3.0	Private Equity Funds	0.3*
		91 Day T-Bills	3.0
	100%		100.0%

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

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



			Annualized	
	Qtr.	1 Yr.	3 Yr.	Since 7/1/93
Post Fund	**0.5%**	**11.4%**	**13.8%**	**11.5%**
Composite Index	0.2	9.9	13.4	11.1

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page14 for the performance of these asset pools.

STOCK AND BOND MANAGERS

Performance of Asset Pools

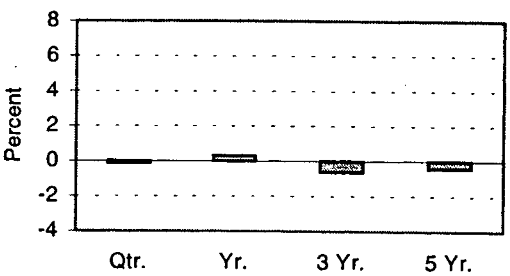
Domestic Stock Pool

Target: Wilshire 5000 Adjusted*
Expectation: If half of the pool is actively managed and half is passively and semi-passively managed, the entire pool is expected to exceed the target by +.25-.55% annualized, over time.

	Qtr.	Yr.	Annualized 3 Yrs.	Annualized 5 Yrs.
Stock Pool	**0.5%**	**15.8%**	**19.4%**	**14.9%**
Wilshire 5000*	0.6	15.5	20.0	15.3

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

Value Added to Wilshire 5000 Adjusted*



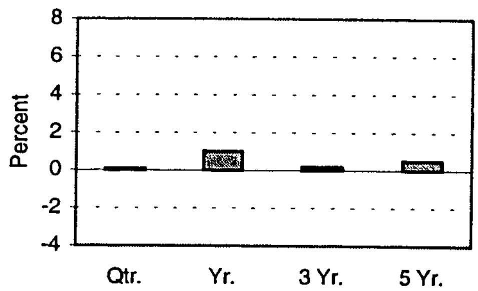
Bond Pool

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

	Qtr.	Yr.	Annualized 3 Yrs.	Annualized 5 Yrs.
Bond Pool	**-0.5%**	**5.9%**	**7.1%**	**7.8%**
Lehman Agg.*	-0.6	4.9	6.9	7.3

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

Value Added to Lehman Aggregate*



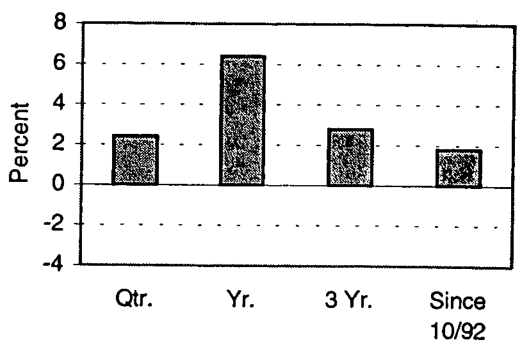
International Stock Pool

Target: EAFE-Free/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.

	Qtr.	Yr.	Annualized 3 Yr.	Annualized Since 10/1/92
Int'l. Pool	**2.1%**	**8.7%**	**9.7%**	**13.0%**
Composite Index*	-0.3	2.3	6.9	11.2

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

Value Added to Composite Index*



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools

Real Estate Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	**2.2%**	**8.7%**	**5.8%**	**1.8%**
Real Estate Index		7.9	4.8	0.6
Inflation	0.9	2.8	2.8	2.8

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. Some of the investments, therefore, are relatively immature and returns may not be indicative of future results.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	**3.4%**	**38.8%**	**21.7%**	**14.7%**

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. Some of the investments, therefore, are relatively immature and returns may not be indicative of future results.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	**4.5%**	**35.3%**	**18.2%**	**11.8%**

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.

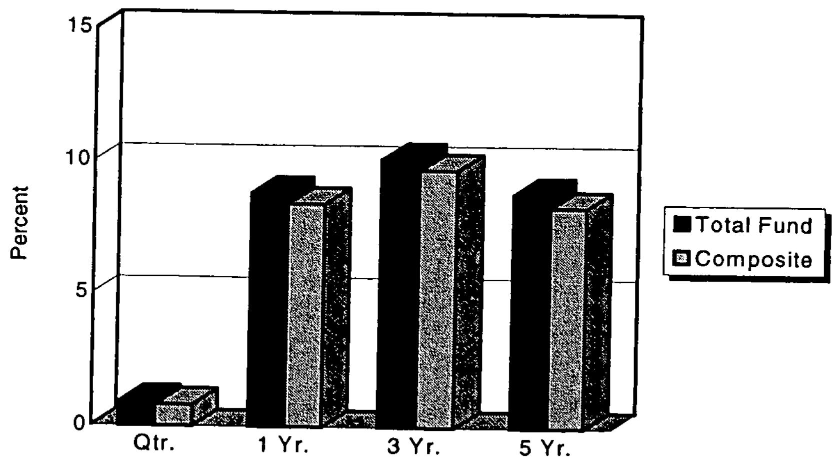
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	3/31/97 Target	3/31/97 Actual
Stocks	20.0%	29.2%
Bonds	80.0	70.8
Unallocated Cash	0.0	0.0
	100.0%	100.0%

Investment Management
The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991. Voyageur Asset Management has managed the bond segment of the Fund since inception. Since January 1995, GE Investment Management has managed the equity segment.

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

Market Value
On March 31, 1997 the market value of the Assigned Risk Plan was $555 million.



	Period Ending 3/31/97			
		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	**0.9%**	**8.8%**	**10.1%**	**8.8%**
Composite	0.8	8.4	9.7	8.3
Equity Segment	**2.4**	**18.2**	**21.0**	**13.6**
Benchmark	2.6	19.8	22.4	14.2
Bond Segment	**0.3**	**5.5**	**6.8**	**7.2**
Benchmark	0.3	5.5	6.7	6.8

SUPPLEMENTAL INVESTMENT FUND

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

1. It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan, Public Employees Defined Contribution Plan and Hennepin County Supplemental Retirement Plan.

2. It is one investment vehicle offered to employees as part of the state's Deferred Compensation Plan, the Individual Retirement Account Plan and College Supplemental Retirement Plan.

3. It serves as an external money manager for a portion of some local police and firefighter retirement plans.

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

The investment returns shown in this report are calculated using a time-weighted rate of return formula. They are net of investment management fees but they do ***not*** include a deduction for asset based charges used to defray costs of the administering retirement organizations.

On March 31, 1997 the market value of the entire fund was $883 million.

Investment Options

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

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

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

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

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

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

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

SUPPLEMENTAL INVESTMENT FUND
Income Share Account

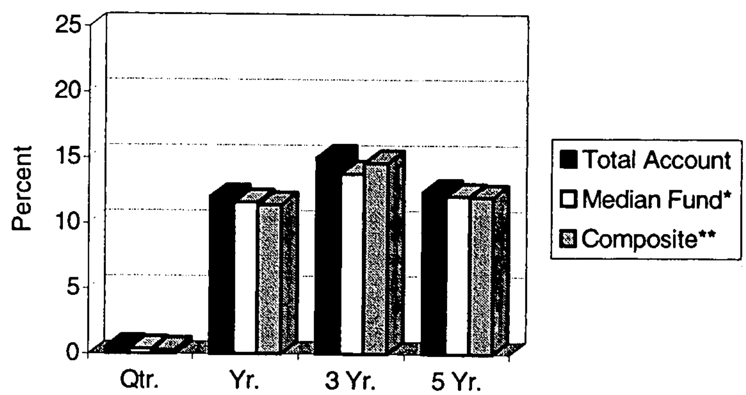
Investment Objective
The primary investment objective of the Income Share Account is similar to that of the Combined Funds. The Account seeks to maximize long-term real rates of return, while limiting short-run portfolio return volatility.

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

	Target	Actual
Stocks	60.0%	61.1%
Bonds	35.0	33.9
Unallocated Cash	5.0	5.0
	100.0%	100.0%

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

Market Value
On March 31, 1997 the market value of the Income Share Account was $422 million.



Period Ending 3/31/97

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Account	**0.5%**	**12.0%**	**15.0%**	**12.4%**
Median Fund*	0.4	11.6	13.8	12.1
Composite**	0.3	11.4	14.6	12.0
Equity Segment	**0.8**	**16.0**	**20.0**	**15.6**
Wilshire 5000***	0.6	15.5	20.0	15.3
Bond Segment	**-0.1**	**5.8**	**7.3**	**7.9**
Lehman Agg.****	-0.6	4.9	6.9	7.3

*TUCS Median Master Trust

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

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

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

SUPPLEMENTAL INVESTMENT FUND
Growth Share Account

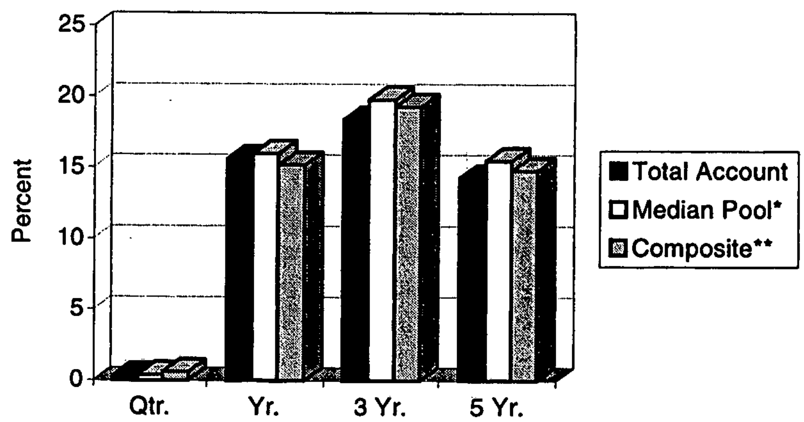
Investment Objective
The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

Asset Mix
The Growth Share Account is invested almost entirely in common stocks. Generally, the small cash equivalents component represents the normal cash reserves held by the Account as a result of net contributions not yet allocated to stocks or held in reserve to accomodate withdrawals.

The Account is invested 100% in common stock.

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

Market Value
On March 31, 1997 the market value of the Growth Share Account was $177 million.



Period Ending 3/31/97

		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**0.3%**	**15.6%**	**18.4%**	**14.3%**
Median Pool*	0.4	16.0	19.8	15.5
Composite**	0.6	15.2	19.3	14.8

* TUCS Median Equity Pool

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

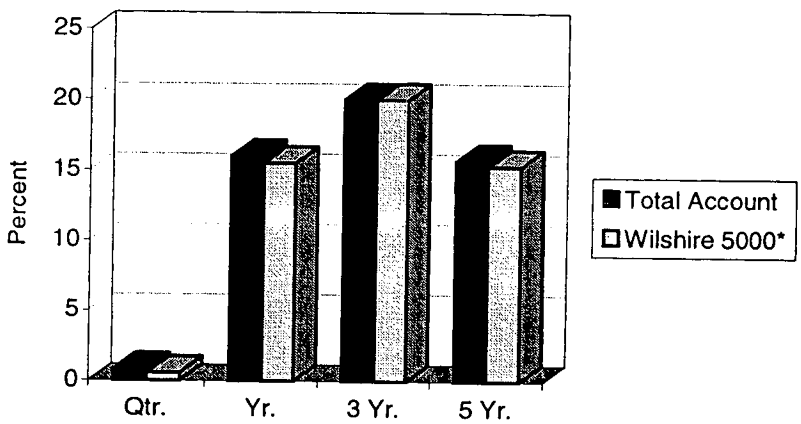
SUPPLEMENTAL INVESTMENT FUND
Common Stock Index Account

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

The Account is invested 100% in common stock.

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

Market Value
On March 31, 1997 the market value of the Common Stock Index Account was $120 million.



Period Ending 3/31/97

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**0.8%**	**16.0%**	**20.0%**	**15.7%**
Wilshire 5000*	0.6	15.5	20.0	15.3

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

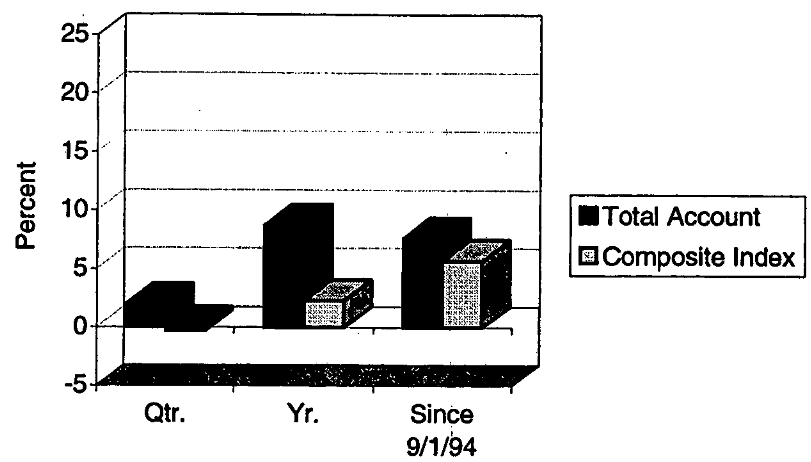
SUPPLEMENTAL INVESTMENT FUND

International Share Account

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

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

Market Value
On March 31, 1997 the market value of the International Share Account was $18 million.



Period Ending 3/31/97

	Qtr.	Yr.	Annualized Since 9/1/94
Total Account	**2.0%**	**8.7%**	**7.6%**
Composite Index*	-0.3	2.3	5.7

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

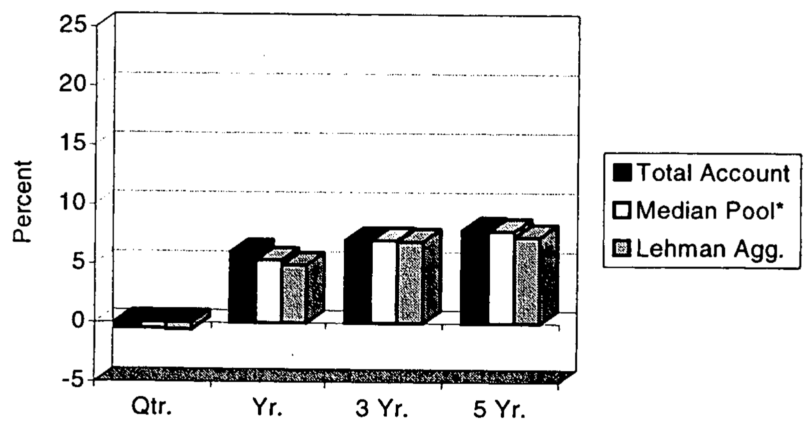
SUPPLEMENTAL INVESTMENT FUND
Bond Market Account

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

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

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

Market Value
On March 31, 1997 the market value of the Bond Market Account was $25 million.



	Period Ending 3/31/97			
			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**-0.5%**	**6.0%**	**7.0%**	**7.9%**
Median Pool*	-0.5	5.3	7.0	7.8
Lehman Aggregate**	-0.6	4.9	6.9	7.3

* TUCS Median Fixed Income Pool
** Prior to July 1, 1994, the Salomon Broad Investment Grade Index was used.

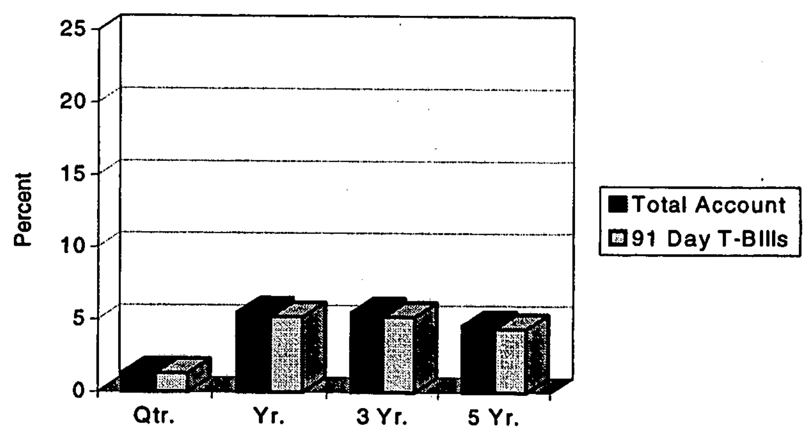
SUPPLEMENTAL INVESTMENT FUND
Money Market Account

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

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

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

Market Value
On March 31, 1997 the market value of the Money Market Account was $52 million.



Period Ending 3/31/97

		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**1.3%**	**5.5%**	**5.5%**	**4.6%**
91 Day T-Bills	1.3	5.2	5.2	4.4

SUPPLEMENTAL INVESTMENT FUND

Fixed Interest Account

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

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

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

Market Value
On March 31, 1997 the market value of the Fixed Interest Account was $69 million.

Period Ending 3/31/97

	Qtr.	Yr.	Annualized Since 11/1/94
GIC Pool	1.6%	6.8%	6.8%

PERMANENT SCHOOL FUND

Investment Objectives
The objective of the Permanent School Fund is to provide a high, consistent stream of income to assist in offsetting state expenditures on school aid while maintaining adequate portfolio quality.

The Permanent School Fund's investment objectives have been influenced by the legal provisions under which its investments must be managed. These provisions require that the Permanent School Fund's principal remain inviolate. Further, any net realized equity and fixed income capital gains must be added to principal. Moreover, if the Permanent School Fund realizes net capital losses, these losses must be offset against interest and dividend income before such income can be distributed. Finally, all interest and dividend income must be distributed in the year in which it is earned.

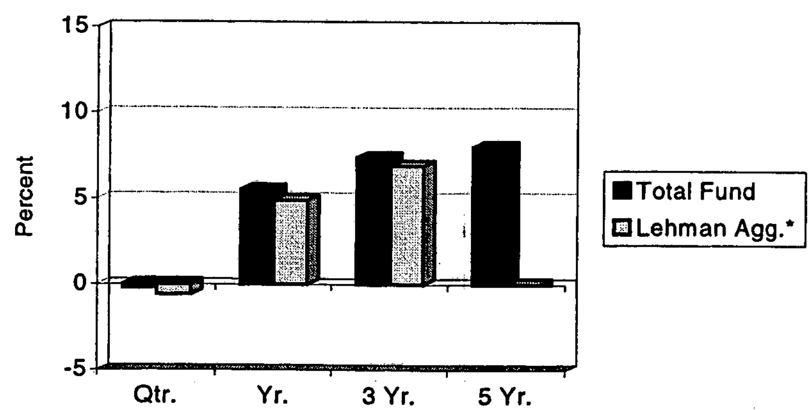
These legal provisions have limited the investment time horizon over which the Permanent School Fund is managed. Long-run growth in its assets is difficult to achieve without seriously reducing current spendable income and exposing the spendable income stream to unacceptable volatility. The SBI, therefore, has invested the Permanent School Fund's assets to produce the maximum amount of current income, within the constraint of maintaining adequate portfolio quality.

Asset Mix
The Permanent School Fund is invested entirely in a portfolio of fixed income securities to maximize current income.

Investment Management
The Permanent School Fund is managed internally by SBI staff. The investment 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 slightly shorter or longer depending on the economic outlook. (Prior to July 1993 the fund used a buy and hold, laddered maturity structure).

Performance Benchmark
Since July 1993 the Lehman Aggregate Index has been the benchmark for the Permanent School Fund. Prior to that date, an acceptable benchmark for the laddered portfolio was not available.

Market Value
On March 31, 1997 the market value of the Permanent School Fund was $427 million.



Period Ending 3/31/97

			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Fund	**-0.2%**	**5.5%**	**7.4%**	**8.0%**
Lehman Agg.	-0.6	4.9	6.9	NA

ENVIRONMENTAL TRUST FUND

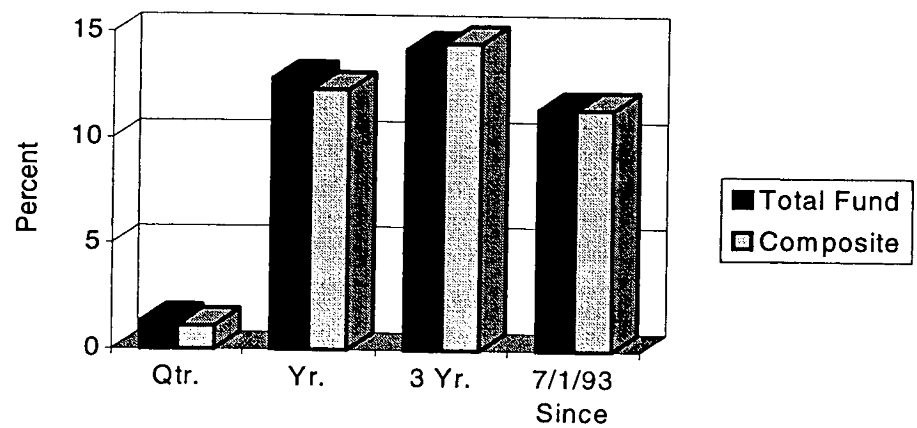
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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

	Target	Actual
Stocks	50.0%	49.1%
Bonds	48.0	48.8
Unallocated Cash	2.0	2.1
	100.0%	100.0%

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

Market Value
On March 31, 1997 the market value of the Environmental Trust Fund was $161 million.



Period Ending 3/31/97

	Qtr.	1 Yr.	Annualized 3 Yr.	Since 7/1/93
Total Fund	**1.3%**	**12.8%**	**14.2%**	**11.4%**
Composite	1.1	12.3	14.5	11.4
Equity Segment	**2.8**	**19.8**	**22.1**	17.8
S&P 500	2.6	19.8	22.4	17.9
Bond Segment	**-0.3**	**5.6**	**7.2**	6.0
Lehman Agg.	-0.6	4.9	6.9	5.4

STATE CASH ACCOUNTS

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

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 3/31/97

	Market Value (Millions)	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool	**$4,017**	**1.2%**	**5.6%**	**5.5%**	**5.0%**
Custom Benchmark*	53	1.1	5.4	5.6	NA
Trust Fund Cash Pool		**1.4**	**5.5**	**5.6**	**5.1**
Custom Benchmark**		1.2	5.5	5.6	NA
91-Day T-Bills		1.3	5.2	5.2	4.4

* Beginning in January 1997, the Treasurer's Cash Pool is measured against a blended benchmark consisting of the Lehman Brother's 1 to 3 year Government Index for the first $600 million and the IBC all Taxable Money Fund Index for the balance of the portfolio. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% 1-3 year Treasuries.

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

Tab B

PORTFOLIO STATISTICS

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value March 31, 1997 (in Thousands)

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	$42,943 0.69%	-0-	$1,480,389 23.93%	-0-	$3,115,048 50.36%	$907,094 14.66%	$640,647 10.36%	$6,186,121 100%
Public Employees Retirement Fund	$15,732 0.51%	-0-	$731,500 23.97%	-0-	$1,539,837 50.46%	$448,214 14.69%	$316,560 10.37%	$3,051,843 100%
State Employees Retirement Fund	$13,174 0.45%	-0-	$701,910 23.98%	-0-	$1,477,549 50.49%	$430,085 14.70%	$303,757 10.38%	$2,926,475 100%
Public Employees Police & Fire Fund	$6,532 0.45%	-0-	$348,018 23.98%	-0-	$732,591 50.49%	$213,243 14.70%	$150,607 10.38%	$1,450,991 100%
Highway Patrol Retirement Fund	$937 0.45%	-0-	$49,924 23.98%	-0-	$105,092 50.49%	$30,590 14.70%	$21,605 10.38%	$208,148 100%
Judges Retirement Fund	$76 0.45%	-0-	$4,043 23.98%	-0-	$8,511 50.49%	$2,477 14.70%	$1,750 10.38%	$16,857 100%
Public Employees P.F. Consolidated	$4.903 1.20%	$775 0.19%	$96,469 23.76%	$16 0.01%	$203,069 50.00%	$59,111 14.56%	$41,744 10.28%	$406,087 100%
Correctional Employees Retirement	$714 0.45%	-0-	$38,029 23.98%	-0-	$80,052 50.49%	$23,302 14.70%	$16,457 10.38%	$158,554 100%
POST RETIREMENT FUND	$256,220 2.02%	-0-	$3,997,354 31.53%	-0-	$6,463,517 50.99%	$1,869,934 14.75%	$89,729 0.71%	$12,676,754 100%
TOTAL BASIC & POST	$341,231 1.26%	$775 0.00%	$7,447,636 27.50%	$16 0.00%	$13,725,266 50.68%	$3,984,050 14.71%	$1,582,856 5.85%	$27,081,830 100%

	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	$21,132 5.00%	$143,380 33.94%	-0-	-0-	$257,966 61.06%	-0-	-0-	$422,478 100%
Growth Share Account	-0-	-0-	-0-	-0-	$176,584 100%	-0-	-0-	$176,584 100%
Money Market Account	$52,364 100%	-0-	-0-	-0-	-0-	-0-	-0-	$52,364 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	$119,615 100%	-0-	-0-	$119,615 100%
Bond Market Account	-0-	-0-	$25,356 100%	-0-	-0-	-0-	-0-	$25,356 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	$18,410 100%	-0-	$18,410 100%
Fixed Interest Account	$3,222 4.70%	-0-	$65.285 95.30%	-0-	-0-	-0-	-0-	$68,507 100%
TOTAL SUPPLEMENTAL FUNDS	$76,718 8.69%	$143,380 16.23%	$90,641 10.26%	-0-	$554,165 62.74%	$18,410 2.08%	-0-	$883,314 100%
TOTAL RETIREMENT FUNDS	$417,949 1.50%	$144,155 0.51%	$7,538,277 26.96%	$16 0.00%	$14,279,431 51.06%	$4,002,460 14.31%	$1,582,856 5.66%	$27,965.144 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	$42.137 7.59%	-0-	$356,853 64.30%	-0-	$155,992 28.11%	-0-	-0-	$554,982 100%
ENVIRONMENTAL FUND	$3,421 2.12%	$78,596 48.74%	-0-	$79,243 49.14%	-0-	-0-	-0-	$161,260 100%
PERMANENT SCHOOL FUND	$8,525 2.00%	$418,231 98.00%	-0-	-0-	-0-	-0-	-0-	$426,756 100%
TREASURERS CASH	$4,024,201 100%	-0-	-0-	-0-	-0-	-0-	-0-	$4,024,201 100%
HOUSING FINANCE AGENCY	$16,305 7.97%	$188,277 92.03%	-0-	-0-	-0-	-0-	-0-	$204,582 0.00%
MINNESOTA DEBT SERVICE FUND	$8,034 5.17%	$147,497 94.83%	-0-	-0-	-0-	-0-	-0-	$155,531 100%
MISCELLANEOUS ACCOUNTS	$95,687 45.81%	$111,789 53.52%	-0-	$1,399 0.67%	-0-	-0-	-0-	$208,875 100%
GRAND TOTAL	$4,616,259 13.70%	$1,088,545 3.23%	$7,895,130 23.43%	$80,658 0.24%	$14,435,423 42.83%	$4,002,460 11.88%	$1,582,856 4.69%	$33,701,331 100%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

Net Cash Flow Available For Investment
January 1, 1997 - March 31, 1997

Teachers Retirement Fund	$3,800,000.00
Public Employees Retirement Fund	(15,000,000.00)
State Employees Retirement Fund	0.00
Public Employees Police & Fire	(1,700,000.00)
Highway Patrol Retirement Fund	0.00
Judges Retirement Fund	(318,000.00)
Public Employees P&F Consolidated	(3,059,595.84)
Correctional Employees Retirement Fund	0.00
Post Retirement Fund	(88,719,236.44)
Supplemental Retirement Fund - Income	(1,024,137.47)
Supplemental Retirement Fund - Growth	138,732.99
Supplemental Retirement Fund - Money Market	705,913.77
Supplemental Retirement Fund - Index	4,109,463.68
Supplemental Retirement Fund - Bond Market	219,027.82
Supplemental Retirement Fund - Fixed Interest,	681,085.74
Supplemental Retirement Fund - International	1,600,295.37
Total Retirement Funds Net Cash Flow	**(98,566,450.38)**
Assigned Risk Plan	(10,784,000.00)
Permanent School Fund	(9,611,691.70)
Total Net Cash Flow	**($118,962,142.08)**

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
Transaction and Asset Summary

Retirement Funds

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

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 27, 1997

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 April 30, 1997 is included as **Attachment A.**

A report on travel for the period from February 16 - May 15, 1997 is included as **Attachment B.**

2. Legislative Report

The 1997 Legislature passed several bills with provisions of interest to the SBI:

a) *State Departments Omnibus Budget Bill (SF 1905)*
The SBI's administrative budget was funded at $2,163,000 for FY 98 and $2,247,000 for FY 99. These totals are the same as originally requested in the Governor's budget.

b) *Pension Uniformity Bill (SF 637)*
This bill makes benefit and funding changes for the three statewide pension systems and the first class city teacher funds. The bill increases the initial retirement annuity and decreases the inflation component of the Post Fund benefit increase. In effect, a portion of future post retirement benefit increases were exchanged for a higher benefit formula. Existing retirees will receive a one-time benefit increase effective July 1, 1997 to compensate them for the reduction in future Post Fund benefit increases.

c) *Omnibus Pension Bill (SF 1486)*
This bill contains several provisions of interest to the SBI:

- *Investment Flexibility for the Deferred Compensation Plan.* This provision will allow the SBI to provide participants in the State Deferred Compensation Plan with a range of investment choices in addition to insurance company investment products. These additional choices will include direct ownership of mutual fund share as well as investment options sponsored by registered investment management firms and qualified banks.

- *Study of 403(b) Tax Sheltered Annuities.* This provision directs the SBI, in consultation with the Commissioner of Commerce, to study the most desirable method for evaluating insurance companies for the existing 403(b) matching program. It also requires recommendations on the most effective delivery mechanism for bringing 403(b) annuities to employees. The SBI must report to the Legislature by February 1, 1998.

- *Investment Performance Reporting.* The bill amends existing investment reporting requirements for all public pension funds in the State. The SBI will provide monthly data on the Basic, Post and Combined Retirement Funds on behalf of the statewide retirement plans and quarterly data on behalf of local plans who participate in the Supplemental Investment Fund. The information is provided to the Office of the State Auditor who will, in turn, compile an annual report for the Legislature.

- *Higher Education Plans Advisory Council.* The bill establishes an advisory council for the MnSCU defined contribution plans. The new council will advise both the MnSCU Board and the SBI on administrative issues as well as vendor selection.

d) College Savings Program/Edvest (in SF 1888)
The higher education funding bill provides tax deferred savings and matching dollars to participants who contribute to a new college savings program termed "EdVest". Contributions are to be invested in a single investment vehicle designed and selected by the SBI. The SBI is also charged with the responsibility to assist the Higher Education Services Office (HESO) in selecting a record keeper for the program. The program is not expected to be operational for at least a year.

e) Stocks in Permanent School Fund (HF 1684)
The K-12 education funding bill provided for an adjustment in the amount of income that is expected to be generated from the Permanent School Fund (PSF) in future years. This would allow the SBI to move approximately 50% of portfolio from bonds into stocks and increase the long term growth of the fund.

Due to the Governor's veto of the K-12 education funding bill, the last item will not be enacted. It may be included in legislation considered by a Special Session.

3. Litigation Update

The SBI is seeking to become 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 June 4th.

4. Update on Tobacco Information

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

a) Tobacco-Related Holdings

As of March 31, 1997 the SBI held approximately 7.2 million shares in tobacco related companies identified by the Investor Responsibility Research Center (IRRC). This total is approximately 2.2 million shares fewer than were held on December 31, 1996. The market value of the SBI's holdings in these companies was approximately $355 million on March 31, 1997. This is a decrease of approximately $8 million from the market value of the shares held on December 31, 1996. SBI holdings in tobacco-related companies as of December 31, 1996 and March 31, 1997 are in **Attachment C.**

As I reported at the March 1997 meeting, I have directed the SBI's stock managers to inform SBI staff of the reasons for their decision to purchase additional shares of companies identified by the Investor Responsibility Research Center (IRRC) as deriving 50% or more of their revenue from the sale of tobacco. During the quarter, no domestic stock managers reported buying additional shares in any of these companies.

b) Activity in Other States

- Pennsylvania treasurer Barbara Hafer announced she was divesting tobacco stocks from the investments under her office's control and would ask the boards of the state's pension and worker compensation plans to divest tobacco stock holdings.

- Arizona attorney general Grant Woods has asked the state pension system to divest its tobacco stocks.

- Vermont treasurer James Douglas has requested state funds to divest their tobacco stocks.

- Massachusetts treasurer Joseph Malone testified in favor of divesting state funds of tobacco-related investments.

c) *Legal Developments Reported by the News Media*

- Reports identify 25 states that have now sued the tobacco industry to recoup state Medicaid moneys spent treating smoking-related illnesses. The State of Minnesota is one of these states.

- There have been numerous media reports about negotiations among tobacco industry parties, state attorneys general and others seeking a settlement covering the industry's liability. Any settlement is expected to require an act of Congress.

- In April 1997, a decision by U.S. District Judge William L. Osteen ruled that the FDA has jurisdiction to "impose access restrictions and labeling requirements on tobacco products", but that the FDA lacks authority to restrict advertising and promotion. The ruling is widely reported as affecting the dynamics of the settlement talks referenced above.

- In May 1997, R.J. Reynolds Tobacco Co., the defendant in a closely watched Florida tobacco lawsuit, was declared not liable for the death of a 49 year old woman allegedly due to cancer caused by smoking. The case was argued by the same plaintiff attorney who won a $750,000 judgment against Brown & Williamson Tobacco Co. in August 1996. Some observers believe the ruling makes the industry look less vulnerable to future tobacco lawsuits and may alter the dynamics of the tobacco settlement talks referenced above.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1997 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH APRIL 30, 1997

ITEM	FISCAL YEAR 1997 BUDGET	FISCAL YEAR 1997 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,538,114	$ 1,226,414
SEVERENCE PAYOFF	20,000	34,562
WORKERS COMPENSATION INSURANCE	1,000	614
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,560,114**	**$ 1,261,590**
STATE OPERATIONS		
RENTS & LEASES	90,500	75,415
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	13,382
BONDS AND INSURANCE	0	0
PRINTING & BINDING	16,000	15,392
PROFESSIONAL/TECHNICAL SERVICES	50,000	0
COMPUTER SYSTEMS SERVICES	202,500	152,526
COMMUNICATIONS	27,000	18,003
TRAVEL, IN-STATE	3,000	314
TRAVEL, OUT-STATE	55,000	31,738
SUPPLIES	42,000	30,592
EQUIPMENT	25,000	18,706
EMPLOYEE DEVELOPMENT	8,000	9,883
OTHER OPERATING COSTS	34,000	19,788
SUBTOTAL	**$ 566,000**	**$ 385,739**
TOTAL GENERAL FUND	**$ 2,126,114**	**$ 1,647,329**

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ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
February 16, 1997 - May 15, 1997

Purpose	Name(s)	Destination and Date	Total Cost
Manager Search **Alternative Investments:** AIG Capital Partners, Inc.	M. Regal	New York, NY 2/20-2/21	$793.85
Staff Education "1997 GIC/Stable Value Major Players' Conference" Sponsored by Investment Management Institute	J. Heidelberg	Albuquerque, NM 2/20-2/23	$549.68
Manager Monitoring **Domestic Equity Manager:** Barclays Global Investors **Manager Search** **Domestic Equity Managers:** Investment Research Company, Provident Investment Counsel, Tukman Capital	L. Buermann K. Hanson	San Francisco, CA San Diego, CA Pasadena, CA 2/25-2/28	$3,706.10
Manager Monitoring **Domestic Equity Managers:** Brinson, Lincoln, Weiss Peck & Greer **Consultant Meeting:** Richards & Tierney	L. Buermann K. Hanson	Chicago, IL 3/10-3/11	$1,223.34
Manager Monitoring **Alternative Investments:** Zell Real Estate Fund- Morgan Stanley	J. Griebenow	New York, NY 3/12-3/13	$1,281.90
Staff Conference State Street's 19th Annual Client Conference	H. Bicker M. Schmitt	Tucson, AR 3/14-3/19	$1,666.50
Board Member Travel Council of Institutional Investors Spring Conference	M. McGrath	Washington 3/22-3/25	$1,141.38

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring **Domestic Stock Manager:** GE Investments **Manager Search** **International Managers:** GE Investments, Bank of Ireland, J.P. Morgan, Morgan Stanley	K. Vnuk	Westchester/ Stamford/ Greenwich, CT New York, NY	$1,465.67

ATTACHMENT C

SBI Stock Holdings
in Tobacco Companies Identified by the IRRC
December 31, 1996

Company	Percent Revenue from Tobacco in 1994	SBI Shares 12/31/96	SBI Cost Value 12/31/96	SBI Market Value 12/31/96
Amer Group	8.0%	8,300	$ 172,369	$ 171,413
American Brands	53.4	197,600	8,330,238	9,805,900
American Maize	27.0	0	0	0
BAT	63.2	1,602,263	12,339,859	13,285,854
Brooke Group	97.2	10,200	67,137	51,000
Compagnie Fin..	66.2	80,000	2,751,015	2,420,000
Culbro	47.6	10,600	356,900	687,675
Dimon	74.6	231,699	4,499,102	5,358,039
Empresas	55.0	94,500	438,914	468,178
Glatfelter	n/a	192,200	3,618,790	3,459,600
Hanson PLC	8.3	1,967,224	3,705,617	2,763,618
Imasco Ltd.	16.4	0	0	0
Japan Tobacco	96.0	0	0	0
Loews	14.2	304,000	18,927,191	28,652,000
Philip Morris	44.0	1,980,860	141,319,306	223,094,357
Rembrandt	n/a	220,000	1,918,562	1,963,236
RJR Nabisco	49.9	1,075,098	19,298,452	21,999,107
Sara Lee	<5	572,405	15,703,802	21,322,086
Schweitzer-Maud.	93.0	16,970	339,848	536,676
SEITA	83.1	19,600	595,254	819,736
Standard Comm'l	64.4	15,188	189,180	307,557
Tabacalera SA	53.3	76,300	2,712,447	3,285,323
Universal Corp.	70.5	326,700	8,682,036	10,495,237
UST	86.5	260,900	7,465,167	8,446,637
Volvo AB	5.1	162,100	2,917,298	3,566,211
Total		**9,424,707**	**$256,348,486**	**$362,959,442**

Sources: List of companies and percent of revenue are from "The Tobacco Industry, 1995 Edition," IRRC, Washington D.C. SBI holdings data are from SBI bank records.

SBI Stock Holdings
in Tobacco Companies Identified by the IRRC
March 31, 1997

Company	Percent Revenue from Tobacco in 1995	SBI Shares 3/31/97	SBI Cost Value 3/31/97	SBI Market Value 3/31/97
Amer Group	7.7%	8,300	$ 172,369	$ 172,609
American Brands	56.6	308,400	14,034,913	15,612,750
American Maize	n/a	0	0	0
BAT	69.1	1,623,663	12,519570	13,783,511
Brooke Group	98.8	10,200	67,137	48,450
Compagnie Fin..	66.2	80,000	2,751,015	2,380,000
Culbro	56.4	10,600	356,900	993,750
Dimon	80.1	192,499	3,725,313	4,427,477
Empresas	55.6	94,500	438,914	473,036
Glatfelter	<25	167,400	3,159,227	2,762,100
Hanson PLC	31.9	295,902	1,644,166	1,394,551
Imasco Ltd.	16.3	0	0	0
Japan Tobacco	n/a	0	0	0
Loews	11.0	303,200	18,864,102	26,946,900
Philip Morris	48.9	1,948,860	143,020,457	222,413,647
Rembrandt	n/a	250,000	2,192,801	2,672,195
RJR Nabisco	48.2	710,398	19,782,440	20,935,310
Sara Lee	<2	403,905	11,450,515	16,358,152
Schweitzer-Maud.	94.0	8,810	170,867	266,502
SEITA	80.3	19,600	595,254	707,599
Standard Comm'l	62.3	15,338	189,158	274,167
Tabacalera SA	81.9	73,350	2,611,558	3,673,449
Universal Corp.	70.5	310,200	8,251,632	8,957,025
UST	86.9	197,300	5,696,713	5,499,737
Volvo AB	4.3	162,100	2,917,298	4,346,376
Total		**7,194,525**	**254,612,319**	**355,099,293**

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

Tab D

STATE OF MINNESOTA
OFFICE OF THE STATE TREASURER

303 State Administration Building
50 Sherburne Avenue
Saint Paul, Minnesota 55155

MICHAEL A. McGRATH
Treasurer

(612) 296-7091
Fax (612) 296-8615

DATE: May 27, 1997

TO: Members, State Board of Investment

FROM: Michael A. McGrath, Chair
SBI Administrative Committee

SUBJECT: Report from the SBI Administrative Committee

The SBI Administrative Committee met on May 23, 1997 to review the following agenda items.

- Update on Certificate of Deposit Program
- Review of Executive Director's proposed workplan for FY98
- Review of the budget plan for FY98
- Review of Continuing Fiduciary Education Plan
- Recommendation to move custody of additional assets from First Trust to State Street
- Discussion of agency head pay bill

1. Certificate of Deposit Program

The SBI sponsors a statewide program to purchase certificates of deposit (CD's) from all interested banks and savings institutions in Minnesota. This is an on-going program, offered quarterly, with the yield set by the SBI using the secondary CD rate quoted by the New York Federal Reserve Bank on the morning of the subscription date. Since the program began in 1980, the SBI has purchased over $2.2 billion of CD's from approximately 500 institutions throughout the State.

The goal of the program is to provide a reliable source of capital to financial institutions throughout Minnesota. Each institution can subscribe for up to $750,000.

At the last CD offering in April 1997,125 institutions participated for a total of $64.9 million.

With the cooperation of the Minnesota Bankers Association and the Independent Bankers Association, staff have arranged to have a brochure on the program distributed to all financial institutions in the State during June 1997. This will re-publicize the program at a time when many community banks who are not currently participating in the program may be searching for additional capital to loan to customers as a result of the spring flooding throughout the state.

For your information, a copy of the CD program brochure is included as **Attachment A**.

2. Executive Director's FY98 Workplan

Mr. Bicker presented his proposed workplan for FY98. Like the previous workplans, the FY98 plan follows the same category order found in the Executive Director's position description. The plan is a compilation of on-going responsibilities as well as the new initiatives the Executive Director will undertaken during the next fiscal year.

A summary of the proposed plan is shown in **Attachment B**. Supporting information was sent to each Board member in May 1997 as part of the FY98 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY98 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY98.

3. FY98 Administrative Budget Plan

The SBI's administrative budget is funded by a legislative appropriation from the general fund. All expenditures are billed back to the various funds under the supervision of the SBI and the receipts are deposited in the general fund as non-dedicated revenue.

An overview and summary of the budget is in **Attachment C**. Supporting information was sent to each Board member in May 1997 as part of the FY98 Management and Budget Plan.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY98 Administrative Budget Plan and that the Executive Director have the flexibility to reallocate funds between budget categories in the event budgeting needs change during the year.

4. Continuing Fiduciary Education Plan

Minnesota Statutes Chapter 356A requires each public pension plan to establish a continuing education plan for its fiduciaries. The plan approved by the Committee is in **Attachment D**. Please note that the travel allocation policy for Board members and their designees is included in the plan.

RECOMMENDATION:

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

5. Executive Director's FY97 Evaluation

The Committee discussed the process that will be used by the Board to evaluate the Executive Director for FY97. The Committee members agreed that the performance reviews should be completed prior to the September 1997 meeting of the SBI and should follow the process used in the past.

RECOMMENDATION:

The Committee recommends that the SBI adopt the following process for the Executive Director's FY97 performance evaluation:

- **The evaluation will be completed prior to the September 1997 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY97.**

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

- **As the chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board Members are encouraged to meet individually with the Executive Director to review their own evaluation.**

6. Custody of Assets

The Executive Director has recommended that the transfer custody of certain non-retirement assets from First Trust to State Street Bank. If approved, the transfer will both reduce costs to the State and increase administrative efficiency.

The SBI utilizes two custodian/clearing house banks:

- **State Street Bank & Trust.** Currently, State Street provides custody for all retirement related assets. This includes the Basic Funds, Post Fund and Supplemental Investment Fund.

- **First Trust.** Currently, First Trust provides custody for non-retirement assets. This includes the Assigned Risk Plan, Permanent School Fund, Environmental Trust Fund, as well as all State Cash Accounts.

The Executive Director recommended that custody of the Assigned Risk Plan, the Permanent School Fund and the Environmental Trust Fund be transferred to State Street Bank. Custody/clearing for the State Cash Accounts (e.g., Invested Treasurers Cash, bond proceeds) would remain with First Trust. The rationale for the change is described more fully below:

- **Increase in Efficiency**

  SBI staff undertook a comprehensive review of accounting and performance measurement systems during FY97. The goal of the study was to implement more efficient data collection, monitoring and verification processes across all portfolios under the SBI's control.

  During the course of the review, it became apparent that the separate performance reporting processes for the funds and assets custodied at First Trust are time consuming, inefficient and prone to error. For example, accounting data used in performance measurement for assets custodied at State Street are compiled electronically and are available to the SBI by the eighth business day of the month. Accounting data used in performance measurement from First Trust rely on paper systems that require several manual data entry steps and are unavailable to the SBI until the fourteenth business day of the month.

  By consolidating custody and performance reporting for all funds with stock and bond assets through one custodian (State Street), the SBI should improve the timeliness of a variety of accounting and performance reports and eliminate manual processes that are prone to error.

- **Reduction in Costs**

  Transferring stock and bond assets from First Trust to State Street will also reduce costs. During calendar year 1996 the custody costs for these asset pools would have been approximately $9,000 less at State Street than they were at First Trust. This would have been a savings of 10%.

RECOMMENDATION

The SBI Administrative Committee recommends that the SBI authorize the Executive Director to transfer custody of the Assigned Risk Plan, the Environmental Trust Fund and the Permanent School Fund from First Trust Bank, St. Paul, MN to State Street Bank and Trust, Boston, MA effective July 1, 1997. Further, the Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute any necessary contract amendments to implement this transfer.

7. Agency Head Pay Bill

The Conference Committee Report on the agency head "pay bill" (SF 412) failed to pass during the final hours of the 1997 Regular Legislative Session. It is expected that the pay bill will be an item in the upcoming Special Session.

The pay bill would establish a new process for setting the salary for the SBI's Executive Director and make the full Board responsible for recommending a salary rate for the incumbent in this position. The maximum salary rate authorized under the bill would be 85% of the Governor's salary.

The Committee did not take action on this item but asked that the issue be placed on the SBI agenda for discussion by the Board.

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Since the program began in 1980, the Minnesota State Board of Investment has purchased over $2.2 billion of CD's from approximately 500 financial institutions throughout the state.

Mn. State Board of Investment
Room 105, MEA Building
55 Sherburne Avenue
St. Paul, MN 55155

Certificate of Deposit Program

...providing a reliable source of capital to Minnesota financial institutions, regardless of size.

Bulk Rate
U.S. Postage
PAID
St. Paul, MN
Permit No. 171

Minnesota
State Board of Investment

Room 105, MEA Bldg.
55 Sherburne Avenue
St. Paul, MN 55155

Program Description

In July 1980, the Minnesota State Board of Investment (MSBI) established a statewide program to purchase CD's from all interested banks and savings institutions in Minnesota on a fair and equitable basis. This is an on-going program, offered quarterly, with the amount of funds committed depending upon the State's cash position and the relative attractiveness of CD's to other investment alternatives. A unique feature of the program is the use of five clearinghouse banks in Minnesota which are the focal point for financial institutions who subscribe to the program.

Questions & Answers

Who may participate?

Any financial institution which is chartered in the State of Minnesota and covered by FDIC insurance is eligible.

What maturities are available?

The MSBI will purchase CD's with 3 and/or 6 month maturities at each quarterly offering. The maturity date will be the 16th day of each January, April, July and October (all days will be moved forward, e.g. 16th to the 17th, for weekends and holidays).

How is the rate determined?

The yield will be set by the MSBI using the average secondary CD rate quoted by the New York Federal Reserve Bank on the morning of the subscription date.

How is the interest calculated?

Interest at maturity is computed on a 360 day basis.

Must financial institutions pledge collateral?

No. The FDIC has stated that it will insure up to $100,000 in each financial institution for each retirement plan under the control of the MSBI. Since the MSBI oversees the assets of 8 different plans, the total covered per institution is $800,000.

What are the minimum and maximum subscription amounts?

The minimum subscription amount is $100,000. The maximum amount any financial institution may have outstanding at any given time is $750,000. Based on historical participation levels, the MSBI expects to be able to fill subscriptions up to the maximum $750,000 limit per institution on an on-going basis.

Are CD "rollover" amounts guaranteed?

The MSBI **cannot** guarantee that the financial institution will be able to "rollover" CD's at maturity. However, as noted above, the MSBI expects to be able to fill all subscriptions up to the maximum.

What are the subscription dates of the CD offerings?

Subscription dates are the 2nd day of each January, April, July and October (all days will be moved forward, e.g. 2nd to the 3rd, for weekends and holidays). The settlement date is the 16th of each January, April, July and October (settlement dates will also be moved forward for weekends and holidays).

Who should financial institutions contact if they wish to subscribe?

Financial institutions must contact one of the clearinghouse banks on the subscription date to receive rate quotes and to place the order. Subscriptions are only available on the specified subscription dates. Orders must be placed through the clearinghouse bank between the hours of 9:00 a.m. and 3:00 p.m. on each subscription date. (Please note that it is **NOT** the clearinghouse bank's responsibility to contact financial institutions).

Who are the clearinghouse banks?

—Firstar Bank, St. Paul

—First Bank Nat'l. Association, Minneapolis

—Midway National Bank, St. Paul

—Norwest Bank, Minneapolis

—United Bankers Bank, Bloomington

(The clearinghouse banks have correspondent relationships with the financial institutions. Clearinghouse banks may charge the financial institution a transaction fee.)

How will the funds be transferred?

The clearinghouse bank will deposit funds in the financial institution's account at the clearinghouse bank on settlement date for purchases and charge the financial institution's account for the proceeds at maturity date.

Where will the Certificate be held?

The financial institution issuing the CD will hold the Certificate in safekeeping for the MSBI.

Who will initiate the necessary paperwork?

The MSBI will send all required paperwork to each financial institution along with a letter of instruction.

Note: Minnesota credit unions are also eligible to participate in the MSBI's CD program, however, due to NCUA insurance regulations, they are limited to a maximum of $100,000.

Questions should be directed to the Minnesota State Board of Investment at (612)296-3328.

5/97

ATTACHMENT B

STATE BOARD OF INVESTMENT
Executive Director's Proposed Workplan

FY98

(Categories A, B, C, D, E correspond to the position description)

A. DEVELOPMENT OF INVESTMENT POLICIES	**Projected Time Frame**
1. Review the policy statement for the Permanent School Fund.	Jul. - Dec.
2. Review the policy statement for the Assigned Risk Plan.	Jan. - Jun.
3. Review the structure of the 403(b) Program.	Jul. - Dec.
4. Review the structure of the 457 Program.	Jan. - Jun.
B. IMPLEMENTATION OF INVESTMENT POLICIES APPROVED BY THE SBI	
1. Meet or exceed the performance objectives established for the Basics, Post, and Combined Funds.	On-going, reported quarterly
• Obtain returns that are 3-5 percentage points over inflation over the last 10 years (FY89-FY98) for the Combined Funds.	
• Outperform the median fund from the TUCS universe of Master Trusts over the last 5 years (FY94-FY98) for the Combined Funds.	
• Outperform a composite of market indices over the last 5 years (FY94-FY98). Separate composites are constructed for the Combined, the Basics and the Post Funds.	
2. Implement Manager Monitoring Programs for bonds, domestic stocks, and international stocks.	On-going

3. Consider additional investments with new/existing alternative investment managers.	On-going

C. REVIEW AND CONTROL OF INVESTMENT POLICIES

1. Monitor and evaluate active stock and bond manager performance in accordance with the SBI's Manager Continuation Policy.	Semi-annual
2. Monitor insurance company vendors retained for the Deferred Compensation Plan (457), teacher tax sheltered annuities (403b) and Higher Education plans (401a).	On-going
3. Review investment guidelines for stock and bond managers on an annual basis.	Apr. - Jun.
4. Monitor implementation of the Board's guidelines on international investing.	On-going
5. Monitor implementation of Northern Ireland mandate.	On-going
6. Monitor implementation of proxy voting guidelines and procedures.	On-going
7. Provide staff support for initiatives assigned to the Proxy Committee.	As needed
8. Coordinate interaction with new Higher Education Plan Advisory Committee.	Jul. - Jun.

D. ADMINISTRATION AND MANAGEMENT OF STAFF OPERATIONS

1. Cooperate in all respects with the annual audit of SBI operations by the Legislative Auditor.	Jul. - Dec.
2. Coordinate police and fire fund consolidations.	As needed
3. Process police and fire contributions to the Supplemental Investment Fund	On-going

4. Select an external vendor for the SBI's accounting and portfolio management system through an RFP process.	Oct. - Mar.
5. Review the SBI's master custodial needs through an RFP process.	Oct. - Mar.
6. Prepare and seek approval of the SBI's legislative proposals for 1998 Legislative Session, if needed.	Oct. - May
7. Prepare FY99 Management and Budget Plan.	Feb. - Jun.

E. COMMUNICATION AND REPORTING

1. Prepare reports on investment results.	Quarterly
2. Prepare status reports on the Executive Director's FY98 workplan for review by the SBI, IAC and Consultant, as requested.	As requested
3. Meet with the SBI and IAC on a quarterly basis and at other times as required.	Quarterly, or as requested
4. Meet with the Board's designees on a monthly basis, as requested.	Monthly, or as requested
5. Compile and submit data for performance reports mandated under MS chapter 356.	Jul. - Jun.
6. Prepare FY97 Annual Report.	Jul. - Feb.
7. Coordinate round table discussions with SBI's external managers.	Periodic, 2-3 per year

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ATTACHMENT C

Administrative Budget
FY 98 Budget Plan
Overview

The FY98 budget plan is based on the SBI's FY98-99 Biennial Budget Request:

	FY97 Projected	FY98 Plan	Difference
Personal Services	$1,580,011	$1,594,500	$+14,489
Operating Expenses	545,935	568,500	+22,565
	$2,125,946	**$2,163,000**	**$+37,054**

Personal Services: **74% of the budget**
Salaries, retirement, insurance, FICA, severance

Personnel costs will be approximately $14,500 more than in FY97. This is due primarily to salary increases that are expected to be negotiated by the Department of Employee Relations and the various bargaining units that represent SBI employees. These contracts/agreements are estimated to provide an increase of approximately 2.5% over FY97.

Operating Expenses: **26% of the budget**
Rents, leases, printing, data processing
Professional/technical contracts
Communications, travel, employee development, misc. fees
Office equipment, furnishings, supplies

Overall, operating expenses will be approximately $22,000 more than the amount spent in FY 97. Within the individual expenditure categories listed above, projected expenditures generally will be close to the budgeted amount. The following are the categories where the differences are somewhat higher:

Category	FY98 vs. FY97
rent	+ 2,000
computer systems services	+ 1,700
travel	+ 3,400
supplies	+ 6,500
equipment	+ 3,300
employee development	+ 2,000
other operating costs	+ 2,500

In most of the categories showing increases this year over last, the increase is due to the restoration of reductions made in these categories last year.

STATE BOARD OF INVESTMENT
FISCAL YEARS 1998 BUDGET PLAN
GENERAL FUND SUMMARY

DESCRIPTION	FY 1995 ACTUAL	FY 1996 ACTUAL	FY1997 PROJECTED	FY 1998 BUDGET
PERSONAL SERVICES				
FULL TIME EMPLOYEES	$ 1,445,664	$ 1,468,513	$ 1,495,000	$ 1,522,500
PART TIME EMPLOYEES	0	28194	48,114	50000
SEVERENCE PAYOFF	0	3120	36,177	20,000
WORKERS COMPENSATION INSURANCE	906	618	720	1,000
MISCELLANEOUS PAYROLL	1,666	1,042	-	1,000
SUBTOTAL	$ 1,448,236	$ 1,501,487	$ 1,580,011	$ 1,594,500
STATE OPERATIONS				
RENTS & LEASES	101,699	88,550	90,500	92,500
REPAIRS/ALTERATIONS/MAINTENANCE	12,697	12,662	12,000	13,000
BONDS AND INSURANCE	895	-	-	-
PRINTING & BINDING	10,546	15,080	16,000	16,000
PROFESSIONAL/TECHNICAL SERVICES	40,707	13,535	50,000	50,000
COMPUTER SYSTEMS SERVICES	202,540	202,619	203,340	205,000
COMMUNICATIONS	22,227	22,548	25,650	27,000
TRAVEL, IN-STATE	79	2,727	600	3,000
TRAVEL, OUT-STATE	47,829	39,961	54,000	55,000
SUPPLIES	45,741	42,027	35,500	42,000
EQUIPMENT	70,341	75,298	21,700	25,000
EMPLOYEE DEVELOPMENT	6,944	11,375	10,145	12,000
OTHER OPERATING COSTS	35,977	31,011	26,500	28,000
SUBTOTAL	$ 598,222	$ 557,393	$ 545,935	$ 568,500
TOTAL GENERAL FUND	$ 2,046,458	$ 2,058,880	$ 2,125,946	$ 2,163,000
PERCENT INCREASE OVER PRIOR YEAR		0.6%	3.3%	1.7%

ATTACHMENT D

CONTINUING FIDUCIARY EDUCATION PLAN

REQUIRED BY MS 356A.13

The State Board of Investment (SBI) undertakes the following activities related to fiduciary education. Taken as a group, these activities shall constitute the plan for continuing fiduciary education required by Minnesota Statutes 356A.13 (copy attached). In addition, pursuant to statutory requirements of qualification, the SBI executive director and many members of the Board's Investment Advisory Council (IAC) can be reasonably considered to be experts with respect to their duties as fiduciaries.

1. Briefing for New Board/IAC Members

Shortly after election to the Board or appointment to the IAC, each new member is briefed on SBI operations and policies. As part of the briefing, SBI's legal counsel will review the member's fiduciary obligations and responsibilities as specified in Minnesota Statutes Chapters 11A and 356A.

2. Development and Review of Investment Policies

The SBI adopts comprehensive investment policies for each fund under its control. The policies cover investment objectives, asset allocation, management structure and performance evaluation. Policy papers or reports on these topics are developed and written by SBI staff in conjunction with the IAC and consultants. Relevant research and analyses from the academic and professional investment fields are used to formulate these policy guidelines.

After they are formally adopted by the Board, these written policies guide the management of all assets under the SBI's control. The SBI intends to review its stated investment policies periodically. This review may occur within the framework of the SBI's regular quarterly meetings or may take place at special meetings or seminars specifically designated for this purpose.

3. Input from Board's Consultants

The SBI retains outside investment consultants to advise the Board members on a wide variety of investment management issues. As part of their contracts with the SBI, the consultants offer to meet with the Board members or their designees to discuss investment-related issues. These individual consultations occur throughout the year. In addition, the general consultant is available at each meeting of the Board and IAC. These meetings are supplemented by quarterly reports on investment performance prepared by the general consultant.

4. Manager "Round Tables"

The SBI intends to convene small groups of its external money managers to discuss issues related to investment management and the financial markets. These "round table" discussions will be held periodically throughout the year and will be open to Board members and their designees, IAC members and other interested parties. It is anticipated that 2-3 round tables will be held each year.

5. Travel Allocation

The SBI allocates $2,500 annually to each Board member (or their designee) for costs associated with attendance at investment-related seminars and conferences. This allocation is used at the discretion of each Board member.

Date: May, 1997

1996 Minnesota Statutes

356A.13. CONTINUING FIDUCIARY EDUCATION.

Subdivision 1. **Obligation of fiduciaries.** A fiduciary of a covered pension plan shall make reasonable effort to obtain knowledge and skills sufficient to enable the fiduciary to perform fiduciary activities adequately. At a minimum, a fiduciary of a covered pension plan shall comply with the program established in accordance with subdivision 2.

Subd. 2. **Continuing fiduciary education program.** The governing boards covered pension plans shall each develop and periodically revise a program for the continuing education of any of their board members and any of their chief administrative officers who are not reasonably considered to be experts with respect to their activities as fiduciaries. The program must be designed to provide those persons with knowledge and skills sufficient to enable them to perform their fiduciary activities adequately.

Tab E

COMMITTEE REPORT

DATE: May 27, 1997

TO: Members, State Board Investment

FROM: Consultant Review Committee

The SBI retains consultants to provide independent advice to Board members and technical assistance to SBI staff on a variety of issues related to management of the assets under the SBI's control. Consultants are selected through a periodic request for proposal (RFP) process with review and recommendation by a Consultant Review Committee.

The members of the Consultant Review Committee are:

Peter Sausen, Chair	Governor's Representative
Christie Eller	Attorney General's Representative
Jake Manahan	Treasurer's Representative
Carey Moe	Auditor's Representative
Elaine Voss	Secretary of State's Representative
Doug Gorence	IAC Representative
Mary Vanek	IAC Representative

Review Process

The Board member designees on the Committee developed the RFP and criteria for evaluating responses. The range of tasks included in the RFP was very broad and consultants were encouraged to respond to any area of the RFP in which they have special expertise. The RFP stated that more than one consultant may be required to fulfill all the proposed duties. A copy of the RFP is included beginning on **page 5.**

The RFP was announced in the State Register on March 10, 1997 and sent to 21 firms. Seven (7) firms responded by the April 9, 1997 deadline:

Cambridge Associates
Mercer Consulting
Pension Consulting Alliance
Richards & Tierney, Inc.
Rogers Casey/BARRA
Jeffery Slocum & Associates
Wilshire Associates

Two firms, Richards & Tierney and Rogers Casey, responded to all sections of the RFP. The remaining five firms directed their responses to specific portions in the RFP or to a single asset class.

Suggested Framework
Given the broad scope of the tasks set forth in the RFP, the Committee concluded that the SBI would benefit from the following approach to consulting services:

- Select a primary or lead consultant to provide a broad range of consulting and analytical services.

- Select specialized consultant(s) to address specific additional needs, as necessary. At present, the Committee believes that the SBI would benefit from additional consulting assistance for special projects on a number of topics: assistance in reviewing new and existing alternative investments, particularly in real estate area; additional expertise in selecting and evaluating custodial services; assistance with asset allocation studies for particular funds; and on-going assistance in identifying candidates for stock and bond manager programs, including international assets.

Conclusions
After reviewing the strengths of each responder in relation to the above needs, the Committee recommends the following:

- **Richards & Tierney, Inc.** (R&T) should be retained as the SBI's primary or lead consultant. R&T can provide general consulting on all asset classes and offer access to a range of sophisticated analytical tools that will assist the SBI in the on-going development and evaluation of its investment programs.

- **Pension Consulting Alliance** (PCA) should be retained to provide additional assistance for special situations, as needed. Through the expertise of its two managing directors and its supplementary network of consulting specialists, the PCA is well positioned to respond to a variety of tasks as specific needs arise.

Richards & Tierney has served as the SBI's primary consultant since 1986. The firm was founded in 1984 and is wholly owned by six principles. The firm is located in Chicago, IL and currently has 20 pension fund clients.

The project team assigned to the SBI's account would be:

- Ann Posey, Principal (lead)
- Tom Richards, Principal (back up)
- 11 other professionals would perform work on the account relationship

Pension Consulting Alliance was founded in 1988 and is owned by two managing directors, Allan Emkin and Nori Gerardo. The firm's primary offices are in Encino, CA. PCA describes itself as a boutique pension consulting firm which contracts with specialized firms in several disciplines to provide technical research and databases. PCA focuses on consulting for large public plans. The firm has 19 clients, many of whom utilize PCA for work on specific asset classes. PCA has served as the SBI's international consultant since 1992.

Allan Emkin, Managing Director, would serve as the SBI's contact for all special project work. He would determine to what extent other personnel at PCA or among PCA's strategic allies would be utilized on a project-by-project basis.

Currently, R&T is the SBI's general consultant and PCA is the SBI's international consultant. In a special projects role, PCA would decrease involvement in the international program and increase its work for the SBI in other areas.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute contracts with Richards & Tierney, Inc. for general consulting services and with Pension Consulting Alliance for special projects. Both contracts should cover the five year period beginning July 1, 1997 and will be subject to the standard termination provisions required by state statute.

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REQUEST FOR PROPOSAL (RFP)

REGARDING THE SELECTION OF A CONSULTANT OR CONSULTANTS TO ASSIST THE MINNESOTA STATE BOARD OF INVESTMENT (SBI) IN CARRYING OUT ITS FIDUCIARY RESPONSIBILITIES.

This RFP does not obligate the SBI to complete the project and the SBI reserves the right to cancel the solicitation if the SBI considers it to be in its best interest.

I. INTRODUCTION

The Minnesota State Board of Investment (SBI) is charged with the investment of approximately $33.4 billion for the State and related constituents. Of this amount, nearly $27.9 billion represents retirement funds which the SBI invests on behalf of various State and local governmental employees.

The selected consultant(s) will report to the Board and its individual members. In carrying out its responsibilities, the consultant(s) will work closely with individual Board members and their staffs, the SBI's Executive Director and other SBI staff and members of the SBI's Investment Advisory Council.

The SBI has established performance objectives for each of the funds under its control. A brief description of each fund and its performance objectives is included as **Exhibit A**. In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The primary advisory responsibilities of the consultant(s) selected through this RFP shall include, but are not limited to, the subjects of investment objectives and asset allocation, management structures, performance measurement and evaluation, and other operational needs.

The SBI has retained the services of consulting firms since 1982. Currently, the firm of Richards & Tierney, Inc., Chicago, IL serves as the SBI's primary consultant. Pension Consulting Alliance, Studio City, California serves as the SBI's consultant for the international investment program. The SBI has responsibility for deferred compensation investment activities. Watson Wyatt and Company of Bloomington, Minnesota has been retained as the deferred compensation consultant. This RFP does not include services for the deferred compensation program.

The SBI has requested a Consultant Review Committee to prepare and distribute a formal RFP to evaluate available consulting services. The Committee will review responses and will recommend one or more candidates to the SBI for approval. The SBI assumes that the process for evaluating and selecting a consultant or consultants will proceed expeditiously and will be completed by June 1997.

II. PURPOSE

The SBI utilizes qualified consultants to provide independent, objective and creative input in the process of fulfilling its fiduciary responsibility.

The consultant(s) employed by the SBI through this RFP will be expected to offer analysis, advice and recommendations with respect to one or more of the following:

- Investment Policies
- Investment Management Structures
- Manager Selection
- Performance Evaluation
- Operations and Resources
- Special Projects
- On-Site Consultation and Assistance

Detailed requirements are set forth in Section V of this RFP.

III. CONSULTANT RELATIONSHIP

The selected Consultant(s) will report to the Board. However, the Consultant(s) will bear the responsibility for maintaining direct communication with members of the Board and their staffs, the SBI's Executive Director and other SBI staff and members of the SBI's Investment Advisory Council.

The SBI recognizes that more than one consulting firm may be required to fulfill the duties described in Section V . The SBI's goal is to hire a consultant or consultants whose experience, whether broad-based or specialized, can best satisfy its needs.

Consultants are encouraged to respond to each of the duties cited in Section V in which they have special expertise.

IV. BACKGROUND REGARDING THE SBI

A. Legal Authorization

The SBI was created pursuant to Article XI, Section 8, of the Minnesota Constitution for the purpose of "administering and directing the investment of all state funds." Statutory provisions relating to fiduciary responsibility, portfolio composition, and the types of securities in which the SBI may legally invest are set forth in Minnesota Statutes Chapter 11A and 356A, copies of which are attached as **Exhibit B**.

B. Composition

By constitutional requirement, the SBI is composed of five (5) elected officials: Governor, State Auditor, State Treasurer, Secretary of State, and State Attorney General.

The Consultant Review Committee is composed of a designee of each member of the SBI and two (2) members of the SBI's Investment Advisory Council.

C. Investments and Managers

Currently, the SBI invests in domestic and international equities, fixed income, real estate, venture capital, resource funds (oil and gas), guaranteed investment contracts and derivative securities.

Less than 15% of the assets under the control of the SBI are managed internally. The remaining assets are managed by external money managers:

25 Domestic Equity (21 active, 3 semi-passive and 1 passive)
9 Foreign Equity (5 active, 1 passive, and 3 emerging markets)
1 Currency
10 Fixed Income (7 active and 3 semi-passive)
14 Real Estate
24 Venture Capital
5 Resource

In addition, the SBI utilizes a master custodian to provide a variety of administrative and management functions.

D. Staffing and Support Services

The SBI has a staff of twenty-six (26) persons supervised by an Executive Director. This group manages the day-to-day investment responsibilities. The Executive Director reports investment developments to the SBI at its quarterly and special meetings. In order to carry out its duties effectively, the SBI staff maintains close contact with the Board members and their staffs, the State Legislature, the state-wide and local retirement systems with assets managed by the SBI, and the many firms providing various forms of investment services.

The SBI also receives investment assistance from its 17-member Investment Advisory Council (IAC), whose duties are set forth in Minnesota Statutes 11A.08. The IAC is composed of the State Commissioner of Finance, the Executive Directors of the three statewide retirement systems whose funds are invested by the SBI, a retiree representative, two active employee representatives and ten persons knowledgeable in general investment matters.

The IAC's duties are to advise the SBI on general investment policy matters and perform other advisory tasks as the SBI requests. In order to function efficiently, the IAC is organized into four separate committees: Asset Allocation, Domestic Managers, International Managers, and Alternative Investments. The committees consider issues of interest to the Board that fall within their specific areas of responsibility. The committees meet as needed and report to the full IAC at the IAC's quarterly meetings.

The SBI has established an Administrative Committee to oversee the Executive Director's work plan and administrative budget. The Committee is comprised of each Board member (or his/her designee) as well as the chair and vice chair of the IAC.

The Proxy Committee establishes guidelines for voting shares held by the SBI. Proxies are voted by the SBI accordingly.

Charts illustrating the SBI's functional organizational structure and decision making process are included as **Exhibits C and D**.

E. Funds Invested by the SBI

The funds invested by the SBI are listed below, along with their December 31, 1996 market values.

	Market Value (Billions)
Basic Retirement Funds	$14.3
Post Retirement Fund	12.7
Supplemental Investment Fund	0.9
Permanent School Fund	0.4
Assigned Risk Plan	0.6
Environmental Trust Fund	0.1
State Cash Accounts	4.4
Total	$33.4

A brief description of each fund is included as **Exhibit A**.

V. DUTIES OF THE CONSULTANT(S)

The SBI has established performance objectives for each of the funds under its control (See **Exhibit A**). In its efforts to meet or exceed these objectives, the SBI has sought and will continue to seek consultants' advice and recommendations in the design, development and implementation of its investment programs.

The following list of duties represents the consultant(s) primary areas of responsibility. The SBI expects the consultant(s) selected through this RFP to provide independent, objective and creative input to its decision making process.

Most of the duties outlined in this section have been addressed by the SBI in the past or are being addressed now. However, during the contract period, the consultant(s) may be required to perform any or all of the following tasks:

A. Investment Policies:

1. An initial project for the consultant retained will be to prepare a comprehensive review or analysis of the investment policies established for the Basic Retirement Funds and Post Retirement Fund and recommend changes, if appropriate. The review should address investment objectives, asset allocation and management structure. Performance benchmarks or measures at each management level (total fund, asset class segment, individual manager) should be reviewed as well.

2. Conduct a similar review for other funds managed by the SBI, as requested.

3. Provide technical assistance in analyzing the investment characteristics of available asset classes and alternative asset mixes for each fund managed by the SBI.

4. Advise in the development of guidelines and procedures for rebalancing the asset mix of each fund and for evaluating the effectiveness of such procedures.

5. Assist in developing or updating a comprehensive written investment policy statement for each fund managed by the SBI.

B. Investment Management Structures:

1. Assist in developing an appropriate investment management structure for each fund and asset class which considers the role of passive versus active management, the range and mix of available management styles, as well as the number of managers hired.

2. Assist in developing criteria for evaluating the effectiveness of the current investment management structure for each fund and for altering the investment management structures under various market conditions.

3. Keep the SBI abreast of new developments in investment management techniques within each asset class and each fund as a whole. Analyze how these new techniques might enhance the SBI's investment program and how they might best be implemented.

C. Manager Selection:

1. Assist in designing and implementing manager selection processes.

2. Analyze the SBI's needs for particular managers within each asset class.

3. Assist in establishing appropriate qualitative and quantitative requirements for reviewing potential candidates.

4. Assist in screening prospective managers and recommending finalists which meet stated requirements.

D. Performance Evaluation:

1. Assist in developing of a composite index for each fund to measure total fund performance relative to its established target asset mix.

2. Analyze actual performance relative to the composite indices established for the Basic Retirement Funds, Post Retirement Fund and Combined (Basic and Post) Funds on an on-going basis.

3. Assist in analyzing the performance of other SBI funds, as requested.

4. Where appropriate, provide performance attribution for each manager in each asset class utilized in the Basic Retirement Funds and Post Retirement Fund. Provide an analysis of the individual and aggregate risk positions of the above managers on a periodic basis.

5. Assist in establishing appropriate performance benchmarks at the asset class and individual manager level in all asset classes.

6. Maintain customized benchmark portfolios for each domestic stock manager retained by the SBI. Additional customized benchmarks may be requested during the life of contract.

7. Assist in evaluating manager performance and consistency relative to guidelines, standards, and desired characteristics.

8. Assist the SBI in continued implementation of performance-based fees. Currently, only domestic equity managers utilize performance-based fees.

E. Operations and Resources:

1. Review the Executive Director's annual work plan and recommend modifications, where appropriate.

2. Comment on the adequacy of the operational resources available to carry out the plan (e.g. budget, staffing, data processing systems).

F. Special Requests:

1. Prepare comprehensive analyses of specific issues designated by the SBI. These may include topics such as tobacco related investments, custodial relationships or data processing needs.

2. Present such analyses to the SBI and IAC when requested.

G. On-Site Consultation and Assistance:

1. Attend all quarterly and special meetings of the SBI and the Investment Advisory Council (IAC). Generally, the IAC and SBI meet on consecutive days once each quarter.

   The consultant may be called upon to comment on specific items presented to the SBI for approval, to evaluate elements of the SBI's investment management programs, to review trends in the economy and capital markets.

2. Meet with each member of the SBI or their designee on a quarterly basis, or as requested, to discuss pertinent investment management issues.

3. Meet with SBI staff, as needed, to assure timely completion of the tasks set forth in this section.

VI. PREPARATION OF PROPOSAL

The consultant's response to this RFP shall be organized in the following manner. **Please observe the page limits shown for each section.** Please note that consultants will be evaluated, in part, on their ability to communicate clearly and succinctly. **Brevity will be appreciated.**

Section 1: **Work Plan**
Page Limit: **No more than 15**

- A statement of the services the consultant is prepared to provide the SBI in order to respond to one or more of the duties delineated in Section V of this RFP. If necessary, provide a statement of any other tasks the consultant believes must be performed to completely meet the SBI's needs.

- The consultant's operational plan for fulfilling the above.

- A statement of any expected tasks or contributions by the State of Minnesota (including the members of the Board, the Consultant Review Committee, the SBI staff, any other State agencies or the IAC) necessary to provide documents or other data needed by the consultant to accomplish the work plan.

- Designation of a project manager and project team for the consulting relationship.

- After reviewing the SBI's annual report, provide a statement of your firm's philosophy relating to the SBI's investment management structure, including but not limited to the use of benchmark portfolios.

Section 2: Organization and Personnel
Page Limit: No more than 10

- A description of the organization which includes the following information:

    - Date business commenced.

    - Ownership structure.

    - Affiliation with other firms (i.e. parent companies, brokerage firms, investment banking firms or other entities).

    - Description of the firm's financial position and sources of revenue. Include a copy of the firm's most recent audited financial statements.

    - Description of any litigation pending against the firm.

    - Number of consulting relationships gained and lost in each of the following periods:

        - January - December 1994
        - January - December 1995
        - January - December 1996
        - January - March 1997

    - Number and title of professional personnel gained and lost in the same periods.

- Brief description of the firm's growth plan and capacity to undertake this consulting relationship.

- A resume or biography of each professional staff person to be assigned to this consulting relationship, outlining their qualifications, previous experience in similar tasks or engagements and the relative contribution (in person-hours) of each.

Section 3: Computer Capability
Page Limit: No more than 3

- A description of the databases, software and hardware that will be used to support the proposed work plan.

- A description regarding how the databases and software will be accessed by SBI staff. Specify the hardware necessary to accomplish such access.

Section 4: Experience and References
Page Limit: No more than 7

- A presentation of the previous experience of the consultant with similar tasks or engagements.

- A list of all pension fund clients under contract as of March 1997.

- A list of at least three references. The references must be current public or private pension fund clients and should have accounts of similar size and complexity as those described in this RFP. The references shall include the name, title, organization, address and phone number of the responder's primary contact at the client organization.

Section 5: Fee Proposal
Page Limit: No more than 2

- An estimate of the total fee necessary to complete the consultant's proposed work plan. The fee estimate must include a breakdown of the costs attributable to each of the services included in the consultant's proposal as well as the estimate of time necessary to satisfactorily complete each task.

- A statement that the fee estimate is valid for a minimum of ninety (90) days. This period may be extended by mutual agreement between a responder and the Consultant Review Committee.

Section 6: Certificate of Compliance
Page Limit: No more than 1

- A copy of the consultant's Certificate of Compliance from the State of Minnesota Department of Human Rights pursuant to Minnesota Statutes Section 363.073, <u>or</u> certification in writing that the consultant has not had more than twenty (20) full time employees in the State of Minnesota at any time during the twelve (12) months preceding the date of this RFP. A copy of the applicable statute is in **Exhibit E**.

Section 7 or Attachments: Report Formats
Page Limit: None Specified

- Sample reports or reporting formats that the consultant would intend to provide the SBI on a regular basis. Provide the production schedule and the required inputs.

- List the accounting conventions used in performance calculations. Describe the firm's ability to modify/adapt these conventions.

- A list of research reports or articles prepared by the consultant for use by its clients within the last three (3) years.

- One (1) sample report or article from the above list which relates to one or more of the following topics: market analysis, asset allocation or performance evaluation.

VII. SUBMISSION OF RESPONSE

The responder shall submit twenty (20) copies of its RFP response to the SBI at the following address:

Beth Lehman
Assistant Executive Director
Minnesota State Board of Investment
Room 105, MEA Building
55 Sherburne Avenue
St. Paul, MN 55155

(612) 296-3328

- **No proposal received after 3:00 P.M. Central Time on April 9, 1997 will be considered.**

- **One (1) copy of the response must be <u>unbound</u> and <u>signed in ink</u> by an authorized officer of the responding firm.**

- **Each copy of the response must be sealed in a mailing envelope or package with the responder's name and address clearly written on the outside. Please identify the unbound copy on the outside of its envelope as well.**

VIII. PROJECT TIMETABLE AND RELATED REQUIREMENTS

<u>RFP Issued</u>.	3/10/97
<u>Consultants' proposals due.</u>	4/9/97

NO PROPOSALS RECEIVED AFTER 3:00 P.M. CENTRAL TIME ON 4/9/97 WILL BE CONSIDERED.

Proposals evaluated by the Consultant Review Committee. April-May 1997*

The Consultant Review Committee may require that a consultant submitting a proposal make an oral presentation to the Committee during the evaluation process. In such event, the Committee shall notify the consultant of the time and location of same.

Consultant selected by the SBI. June 1997*

Contract completed and executed. July 1997*

* Projected dates, subject to change.

IX. INFORMATION CONTACTS

The SBI's exclusive agents for purposes of responding to consultants' inquiries on RFP requirements are:

Howard Bicker
Executive Director

Beth Lehman
Assistant Executive Director

Minnesota State Board of Investment
Room 105, MEA Building
55 Sherburne Avenue
Saint Paul, Minnesota 55155
Telephone: (612) 296-3328

Other persons are not authorized to discuss RFP requirements with responders before the proposal submission deadline.

The SBI shall not be bound by and responders may not rely on information regarding RFP requirements obtained from non-authorized persons.

X. PROPOSAL SELECTION

A. Nature of Procurement.

This procurement is undertaken by the SBI pursuant to the provisions of Minnesota Statutes 16B.17, a copy of which is attached as **Exhibit F** . As such, it is not governed by strict competitive bidding requirements frequently associated with the purchase of supplies and materials by the State and selection will not be based exclusively on the concept of lowest responsible bidder. The SBI reserves the right to waive minor informalities.

Accordingly, the SBI shall select the Consultant(s) whose proposal and oral presentation, if requested, demonstrate, in SBI's sole opinion, clear capability to best fulfill the purposes of the RFP in a cost effective manner. The SBI reserves the right to accept or reject proposals, in whole or in part, and to negotiate separately as necessary to serve the best interest of the State of Minnesota.

B. Selection Criteria.

The evaluation of proposals will be based on:

1. **The quality and completeness of the consultant's work plan as it relates to the prescribed duties.** The approach, methodology and techniques should be appropriately specific, logical and organized. The consultant must demonstrate the capability to gather the necessary information, develop fully supportable conclusions, and communicate findings and recommendations clearly and succinctly.

2. **The consultant's demonstrated knowledge and experience in the areas related to the project.** It is imperative that the consultant has been frequently and recently engaged in the field of investment consulting for large pension plan sponsors. In addition, knowledge and experience with respect to endowments, cash accounts, and insurance portfolios is desirable.

3. **The quality of staff to be assigned to the project and available support.** The consultant must assign to this contract, in terms of numbers and quality, sufficient staff with experience in the fields of financial and investment analysis, data processing and systems support, and general pension fund management. The consultant should explain to the best of its ability to what extent back-up professional personnel are available to substitute for loss of professional personnel identified as necessary in the proposal.

4. **The quality of the data processing and analytical systems necessary to support the work plan.** The consultant should demonstrate its ability to manage and maintain the computer software, hardware and databases referenced in its proposal. The consultant's commitment to upgrade existing systems and to introduce new applications which will enhance its ability to perform its duties also will be assessed.

5. **The consultant's demonstrated ability to communicate effectively.** The consultant's ability to communicate with both technical and non-technical audiences will be evaluated.

6. **The consultant's demonstrated ability to manage the work plan effectively and assure the successful fulfillment of its duties.** The plan for performing and managing the contract, including the framework within which the project team will function relative to the State, will be evaluated. The consultant should demonstrate its ability to manage and control its duties, including specification of the reporting mechanisms and inter-relationships between the contracting parties.

XI. COST AND METHOD OF PAYMENT

- All costs relating to the proposal shall be explained in detail.
- Payment shall be made on a pro rata quarterly basis billed in arrears.
- The SBI reserves the right to reject a consultant's proposal on the basis of cost.

XII. PERIOD OF CONTRACT

The contract shall be for five (5) years commencing on or about July 1, 1997.

By Minnesota law, the contract may be canceled by the State or the contractor at any time, with or without cause, upon thirty (30) day written notice to the other party.

XIII. PUBLIC STATUS OF PROPOSALS SUBMITTED

Pursuant to Minnesota law, all proposals submitted in response to this RFP shall become the property of the State of Minnesota. Such proposals shall also constitute public records and shall be available for viewing and reproduction by any person.

DATE: March 10, 1997

Tab F

COMMITTEE REPORT

DATE: May 27, 1997

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on May 21, 1997 to consider the following agenda items:

- Review of manager performance for the period ending March 31, 1997.
- Review of annual benchmark quality analysis for active domestic equity managers.
- Update on domestic equity manager monitoring program short lists.
- Recommendation to re-interview IAI, Wilke/Thompson, and Winslow.
- Approval of contract renewals for Barclays, Franklin, JP Morgan, and Galliard.
- Approval of investment manager guidelines.

Board action is requested on the last three items.

INFORMATIONAL ITEMS:

1. Review of manager performance for the period ending March 31, 1997.

- ***Stock Managers***

For the quarter ended March 31, 1997, the domestic stock manager program lagged its aggregate benchmark and the Wilshire 5000 by 0.1 percentage point. For the latest year, the **current** managers outperformed the benchmark and the Wilshire 5000. For the last three years, the **current** managers underperformed the benchmark and the Wilshire 5000. For the five year period, the **current** managers outperformed the benchmark and the Wilshire 5000:

Time period	Total Program	Wilshire 5000*
Quarter	0.5%	0.6%
1 Year	15.8	15.5
3 Years	19.4	20.0
5 Years	14.9	15.3

* Adjusted for SBI's restrictions, as appropriate.

Current Mgrs. Only	Aggregate Benchmark
0.5%	0.8%
16.2	15.7
19.9	20.2
15.6	15.4

The performance evaluation reports for the stock managers start on **page V1** of this Tab. Manager Commentaries are in **Tab I.**

- *Bond Managers*

For the period ended March 31, 1997, the bond manager program and current managers outperformed the Lehman Aggregate and the aggregate benchmark for the quarter, and for the latest one year, three year, and five year periods.

Time period	Total Program	Lehman Aggregate*
Quarter	-0.5%	-0.6%
1 Year	5.9	4.9
3 Years	7.1	6.9
5 Years	7.8	7.3

* Reflects Salomon BIG index prior to 7/94.

Current Mgrs. Only	Aggregate Benchmark
-0.5%	-0.6%
5.9	4.9
7.2	6.9
7.8	7.3

The performance evaluation reports for the bond managers start on **page V35** of this Tab. Manager Commentaries are in **Tab I.**

2. **Annual benchmark quality analysis for active domestic equity managers.**

The SBI's Manager Continuation Policy requires staff to review all active domestic stock managers' custom benchmarks on an annual basis to determine if the benchmark can be used as a valid performance measurement standard for the manager. Staff is satisfied that all but two of the manager benchmarks meet the qualitative characteristics of a benchmark that reflects the manager's investment style. A summary of the benchmark quality analysis begins on **page 7.**

Analysis shows that **IAI's** benchmark has low coverage, low positive positions, and a size difference relative to the actual portfolio. IAI is currently working with Richards & Tierney to address each of these concerns. The improved benchmark could be in place as early as July 1, 1997.

Weiss, Peck & Greer's benchmark shows low coverage and a high level of turnover. Late in 1996, they began providing Richards & Tierney with a specific list of core stocks followed by their analysts to increase the benchmark coverage of names in their portfolio. They will take steps to limit turnover by rebalancing twice each year instead of quarterly. Staff will continue to follow their progress.

3. **Update on candidates for the Manager Monitoring Program.**

The SBI has established a Manager Monitoring Program to identify potential candidates as the starting point for any manager searches deemed necessary in future quarters. Up to 10 firms are to be identified for each manager group.

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

It should be noted that the semi-passive manager candidates were selected from a group of six firms who were asked to manage a paper portfolio against the completeness fund benchmark over the last year. The three managers chosen for the short list met or exceeded staff expectations in the paper portfolio assignment

Potential Active Domestic Stock Managers (begin on page 11)
Cohen, Klingenstein & Marks, Inc.
Jacobs Levy Equity Management, Inc.
Loomis, Sayles & Company
MacKay Shields
MFS Institutional Advisors, Inc.
Pacific Investment Management Company (PIMCO)
Provident Investment Counsel
Rothschild Asset Management Group
Tukman Capital Management, Inc.
Valenzuela Capital Management, Inc.

Potential Semi-Passive Domestic Stock Managers (begin on page 31)
Goldman Sachs Asset Management
Investment Research Company (IRC)
Weiss, Peck & Greer

ACTION ITEMS:

4. **Recommendation to re-interview three stock managers.**

As part of its review of manager performance, staff highlighted qualitative and quantitative issues with several managers in the domestic equity program and asked for Committee input on which, if any, should be re-interviewed at this time. The Committee agreed that concerns about three firms were sufficient to warrant this action during the next quarter:

- *IAI* has experienced a significant level of staff turnover in recent months.This qualitative issue is magnified by lagging performance.

- *Wilke/Thompson* and *Winslow Capital* are in the SBI's Emerging Manager Program. Performance over the last three years has trailed the benchmark significantly and raises concerns about the continued viability of these firms.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Domestic Manager Committee to re-interview Investment Advisers, Inc., Wilke/Thompson Capital Management, and Winslow Capital Management and recommend whether these firms should be terminated or continued in the SBI's domestic equity program.

5. Approval of contract renewals for Barclays, Franklin, J.P. Morgan, and Galliard.

The contracts for the semi-passive stock managers and for the stable asset fund will be expiring before the end of calendar 1997. In order to assure new contracts are executed in a timely fashion, staff suggested that the SBI begin the process of negotiating follow-on contracts with these parties.

As with all stock and bond manager contracts entered into by the SBI, the new agreements would be for a five year period but will provide for immediate termination should the SBI deem such action necessary.

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 the purposes noted below:

Barclays Global Investors	**semi-passive domestic stock**
Franklin Portfolio Associates	**semi-passive domestic stock**
J.P. Morgan Investment Management	**semi-passive domestic stock**
Galliard Capital Management	**stable asset**

6. Approval of investment manager guidelines.

The SBI has established investment guidelines for its stock and bond managers which govern their investment actions. These guidelines are part of the formal contractual agreement between the SBI and the manager, and may be changed at any time. SBI staff and the Committee annually review the established guidelines for accuracy and completeness.

The proposed changes are all technical in nature. The complete guidelines for domestic stock managers (active, semi-passive, passive, internal) and for bond managers (active, semi-passive, internal) are attached beginning on **page 37.**

Deletions from the current guidelines are noted by ~~strike-out~~ and additions are indicated by <u>underline</u>.

RECOMMENDATION:

The Committee recommends that the SBI adopt the Investment Manager Guidelines which begin on page 37 of this tab section.

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BENCHMARK QUALITY EVALUATION

For Period Ending
December 1996

	General Guidelines	Alliance Capital	Brinson Partners	Forstmann-Leff	Franklin Portfolio	GeoCapital Corporation	IDS Advisory
Benchmark Evaluation Period		8601-9612	9308-9612	8601-9612	8905-9612	9005-9612	9301-9612
Benchmark Coverage (Recent)	≥ 80%	98%	96%	90%	100%	85%	100%
Positive Active Positions (Recent)	Near 100%	96%	100%	100%	100%	96%	99%
Turnover (Recent semi-annual)	< 25%	23%	8%	25%	10%	20%	14%
Active Risk							
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	5.72	3.67	7.22	4.94	12.37	4.25
- Portfolio vs. Bnmk	Smaller #	4.45	2.91	5.59	3.52	7.06	3.55
Risk Reduction	% Change	22%	21%	23%	29%	43%	16%
Correlation Analysis							
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	0.645	0.610	0.636	0.704	0.824	0.553
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	-0.191	-0.040	-0.075	0.084	-0.130	0.180
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes	Yes	Yes	Yes
R&T's Overall Grade	(A, B, or C)	B+	A	B+	A	B+	B+
SBI's Overall Assessment	Excellent, Good, or Needs Improvement	Good	Excellent	Good	Excellent	Good	Good

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1996

	General Guidelines	Investment Advisers	Independence	Lincoln Capital	Oppenheimer Capital	Weiss, Peck & Greer
Benchmark Evaluation Period		9308-9612	9203-9612	9308-9612	9308-9612	9308-9612
Benchmark Coverage (Recent)	≥ 80%	73%	95%	90%	88%	58%
Positive Active Positions (Recent)	Near 100%	93%	99%	96%	100%	99%
Turnover (Recent semi-annual)	< 25%	4%	5%	23%	10%	32%
Active Risk						
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	Larger #	7.08	2.25	3.66	3.52	12.42
- Portfolio vs. Bnmk	Smaller #	5.25	2.05	2.83	2.93	5.20
Risk Reduction	% Change	26%	9%	23%	17%	58%
Correlation Analysis						
Portfolio vs S&P500 correlation to Bnmk vs S&P500	> 0.500	0.689	0.412	0.672	0.569	0.908
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.2 to 0.2	0.211	0.035	-0.280	0.157	0.026
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	No	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	No	Yes	Yes	No	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes	No	Yes
R&T's Overall Grade	(A, B, or C)	C+	A-	B+	B	B
SBI's Overall Assessment	Excellent, Good, or Needs Improvement	Needs Improvement	Good	Good	Good	Needs Improvement

GLOSSARY

Benchmark **coverage** measures the percentage of securities held in the actual portfolio which also are contained in the benchmark portfolio. If a benchmark truly captures the securities on which the manager has an investment opinion, it will have a high coverage ratio. Coverage ratios vary according to the level of discipline exhibited in a manager's definition and implementation of the investment process. A valid benchmark should produce a coverage ratio of 80% or greater.

An **active position** is the difference between the actual portfolio weight of a security less the corresponding benchmark weight of the same security. A good benchmark will generate positive active positions with very rare exceptions. The weighting of each holding in the active portfolio should exceed the corresponding weights assigned to the same securities in the benchmark because if a manager finds a particular stock attractive, he will hold more than the benchmark position. Conversely, if a manager feels a security is unattractive, he will not hold the security at all.

Benchmark **turnover** measures the proportion of the benchmark's market value allocated to purchases and reinvestment of income during a periodic rebalancing. A valid and investable benchmark should experience reasonable levels of turnover. Semi-annual turnover in the 20 to 30% range is consistent with a passive investment in the benchmark.

Active Risk analysis is a useful measure in determining explanatory power of a customized benchmark. It is the variability (standard deviation) of the manager's active return (active portfolio return less benchmark return). Since a customized benchmark is constructed to capture a manager's investment style, a good benchmark should produce lower active risk than using a market index as the benchmark. This indicates that the benchmark more effectively screens out random noise associated with factors unrelated to a manager's investment style. To indicate the amount of return the manager generates relative to the risk they take, an information ratio (IR) can be calculated. An IR is calculated by dividing the Value of Active Management (VAM or active return) by the active risk. Holding everything else constant, the lower active risk resulting from a valid benchmark will produce a higher information ratio (IR) than a market index. In general, the higher the information ratio the shorter the time frame needed to determine whether the manager can or cannot add value at a statistically significant level.

Correlation analysis: The explanatory power of a manager's benchmark can also be evaluated by looking at the correlation between three residual return series: the manager's actual returns versus those of the market, the benchmark returns versus those of the market, and the actual portfolio returns versus those of the benchmark.

A good benchmark should exhibit significantly positive correlation between portfolio vs market and benchmark vs market, because when the manager's benchmark, or investment style, performs well relative to the market, the actual portfolio should also do well relative to the market. A good benchmark will have a correlation between portfolio vs market and benchmark vs market greater than 0.50.

If a manager's investment style is accurately reflected in the benchmark, the manager's ability to add value relative to the benchmark should not be affected by the performance of its investment style relative to the market. Therefore, the correlation between benchmark vs market and portfolio vs benchmark should be essentially zero over time.

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MANAGER FACT SHEET

Manager: **Cohen, Klingenstein & Marks**
Investment Strategy/Style: **Large Capitalization Growth**

Investment Philosophy and Process

CKM believes that the price of highly liquid, large-cap securities correctly reflects the consensus view of the stock's value, but also believes that opportunities arise because stocks move away from and back to fair value over time. If an investment firm possesses better than average analytical skills, it can build an investment process that outperforms the market over time. CKM believes they have skills in three areas: 1) they have a long history of making economic forecasts with above average accuracy, 2) they have deep and broad experience in quantitative applications to investment problems, and 3) they have many years of fundamental securities analysis and can employ the relevant skills to identify opportunities in specific stocks.

CKM does not manage portfolios with strict adherence to a particular quantitative theory of market behavior, but they do use proprietary measures to monitor sector and industry concentration and economic sensitivities such as interest rates, corporate profits, and growth orientation.

The investment process is focused on economic analysis and forecasting, quantitative valuation and stock attribute analysis, and in-depth fundamental company and securities analysis. Economic analysis determines the portfolio's structure, such as industry, sector, and individual stock exposures. The quantitative step involves using computer analysis to produce a list of undervalued stocks consistent with the economic characteristics that have been chosen. The fundamental analysis step includes contacting company management, using Wall Street research, and gathering a variety of information from the Internet, in order to develop a story for each company. When the committee agrees on a stock, it is purchased for the portfolio. A stock is sold when the economic outlook changes, when it is no longer undervalued, or when the company's story has changed.

Research

CKM gathers information from traditional Wall Street sources, company managements, and electronic data services.

Trading

Trading activity at CKM is very light. During an average month, only a few stocks are sold and replaced. They trade through most of the large brokerage firms and continuously monitor the quality of execution. They have developed the process of step-out trading to avoid having to place simultaneous orders for the same security with numerous brokers, and believe this has worked to the advantage of all their clients.

Cohen, Klingenstein & Marks (cont'd.)

Ownership

CKM is 95% owned by three principals. An outside director owns the remaining 5%. Reconcile, Inc. is an affiliate of CKM, based on common ownership and management. Its sole function is as corporate general partner of an investment limited partnership managed by CKM.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 6

Total Number of Equity Traders: 2

Total Tax-Exempt Equity Assets Managed: $398 MM

Total Tax-Exempt Equity Assets Managed in this Discipline: $398 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 31

Three Largest Tax-Exempt Domestic Equity Accounts

Burroughs Wellcome Fund	$68 MM
Minnesota State Board of Investment	$55 MM
New York Hospital	$50 MM

MANAGER FACT SHEET

Manager: **Jacobs Levy Equity Management, Inc.**
Investment Strategy/Style: **Core Equity (S&P 500)**

Investment Philosophy and Process

Jacobs Levy believes that the investment market is very complex, requiring the use of sophisticated modeling techniques to disentangle and isolate each market effect from other market influences. They feel that market inefficiency, stock characteristics, and industry affiliations are important determinants of stock pricing. Using their proprietary modeling techniques, they believe they can produce reliable and consistent expected return predictions.

Jacobs Levy's investment process uses a database of price, earnings, macroeconomic, and company fundamental data. Their valuation models consist of 38 industry classifications and 32 equity attributes, such as earnings, size, growth, and volatility. Jacobs Levy forms valuation models for each equity attribute and industry return series. The return series are of two general types 1) those providing consistent rewards over time, and 2) those driven by economic conditions. Rigorous statistical procedures are used to filter out strong, meaningful, and recurring relationships. They apply this system to a universe of approximately 3000 stocks to arrive at a stock ranking according to attractiveness based on expected returns. During the last year, Jacobs Levy implemented an expert system to flag questionable or non-confirming data. This system expedites processing and provides a more consistent method of double-checking the facts and figures underlying all holdings and proposed trades.

The portfolio construction process uses an optimizer to maximize expected return given the plan sponsor's desired level of risk relative to a selected benchmark. The optimizer manages portfolio risk by controlling the active bets of the 32 equity attributes and 38 industry classifications.

Stocks are swapped out of the portfolio when their attractiveness, based on stock attributes, exposure to market inefficiencies, and industry affiliation, is surpassed by other stocks. In addition, the optimizer may at times suggest a partial sale of a position to better orient the overall risk/return profile of the portfolio. In all cases, a transaction cost hurdle is applied to determine appropriate stock sales, to ensure that only economical trades occur. After lists of suggested purchases and sales have been generated, they review recent company news in a "reality check," ensuring that the desired trades are appropriate given current circumstances.

Jacobs Levy Equity Management, Inc. (cont'd.)

Research

Jacobs Levy obtains its data and information through computer-readable services such as Compustat, I/B/E/S, and U.S. government electronic bulletin boards. The research and modeling are performed internally on proprietary systems.

In March 1997, Jacobs Levy installed Phase I, the culmination of three man-years of research on consensus earnings estimate revisions. Phase II, which will utilize individual analyst detail data, is underway. The firm has also completed significant new research to disentangle non-linear modeling across factor exposures and market segments, thus refining profit opportunities across exposure gradients and equity styles.

Trading

Jacobs Levy uses electronic networks to minimize transaction costs, including a DOT machine, Instinet, Posit, and Arizona Stock Exchange. They also have a proprietary system which accesses Wall Street's upstairs order flow and reveals brokers' trading desires. In an effort to control transaction costs, an internal monitoring system calculates transaction costs in real-time. In addition, they use the outside services of Abel Noser and Plexus to monitor costs. Over the past year, Jacobs Levy has improved their optimization inputs on transaction costs hurdles and expanded their use of proprietary, real-time trading analytics. Jacobs Levy uses the flexibility of their investment approach to substitute names when the cost warrants. They also use working orders, block orders, and principal package trades for more urgent trades.

Ownership

Jacobs Levy Equity Management, Inc. is 100% owned by Bruce Jacobs and Kenneth Levy on a 50/50 basis.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers / Analysts: 9

Total Number of Equity Traders: 4

Total Tax-Exempt Equity Assets Managed: $3,307 MM

Total Tax-Exempt Domestic Equity Assets Managed in this Style: $1,596 MM

Total Number of Tax-Exempt Domestic Equity Accounts in this Style: 10

Three Largest Tax-Exempt Domestic Equity Accounts

IBM	$582 MM
NY State Common Retirement Fund	$361 MM
GTE Services Corporation	$188 MM

MANAGER FACT SHEET

Manager: **Loomis, Sayles & Company**
Investment Strategy/Style: **Large Cap Value Equity (Detroit)**

Investment Philosophy and Process

Loomis, Sayles emphasizes fundamental research and a value-oriented investment philosophy. They invest in companies that sell at low prices in relation to projected earnings and cash flow. They use quantitative research to find attractive values, and fundamental research to identify companies with an improving earnings outlook. They closely watch companies to find catalysts for change, such as new products, restructuring, or new management. Security selection and research are the most important elements of their philosophy. They also seek to add value, although to a lesser extent, through industry selection. Sector weightings are limited to +/- 8% of the S&P 500 sector weightings. Risk is controlled by maintaining well-diversified portfolios of 50-60 stocks.

The Large Cap product is managed using a team approach. Each portfolio manager is assigned specific industries, and the portfolio management team meets weekly to discuss the current portfolio and buy/sell candidates. The portfolio managers work closely with a team of analysts in Boston. These analysts make company visits and do quantitative and qualitative research which is supplied to portfolio managers via an on-line database system.

Research

Loomis, Sayles commits $12 million dollars annually to their self-contained research area in Boston. Research analysts are grouped by specific industries and follow a career path in research. There are 15 equity analysts, 12 credit analysts, and 2 economists. There are also specialty analysts in each portfolio management office. The general approach is fundamental and technical research. 90% is generated internally and 10% is generated externally. Analyst visits, company visits, and quantitative screens are important to the portfolio managers' idea generation process.

The Boston Research Department supplies portfolio managers with on-line data concerning a company's historical and estimated financial and statistical ratios, earnings projections, and analytical commentary on current operations and outlook. The databases used by the Research Department include Factset, Research Direct, and Baseline. Portfolio Managers also receive Wall Street research and subscribe to ILX, BARRA, Bloomberg, Moody's, Standard & Poor's, First Call, and Fed Filings. They use Interactive Data Services Inc. (IDSI) for pricing stocks in the database.

Trading

Trading is decentralized at Loomis, Sayles. Traders are hired by and work directly with the portfolio management team. There are 2 traders responsible for handling all trade execution for the large cap value discipline in Detroit. Traders are very conscious of trading costs and always submit trades to a competitive bidding process unless directed to a particular broker by the client. Block trades are used as much as possible. They have developed a proprietary execution system to equitably distribute shares among client portfolios.

Ownership

Loomis, Sayles is affiliated with 12 financial companies under the umbrella of its parent, New England Investment Companies, L.P. (NEIC). Metropolitan Life Insurance Company (Met Life) owns 55% of NEIC. Loomis, Sayles is structured as a limited partnership and all shares are owned by NEIC.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 27

Total Number of Equity Traders: 2

Total Tax-Exempt Equity Assets Managed: $3,989 MM

Total Tax-Exempt Equity Assets Managed in this Discipline: $3,989 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 88

Three Largest Tax-Exempt Domestic Equity Accounts in this Discipline

Municipal Employees Retirement System of MI	$345.8 MM
New York City Police Pension	$339.5 MM
PERS of Nevada	$300.9 MM

MANAGER FACT SHEET

Manager: **MacKay Shields**
Investment Strategy/Style: **Value Equity**

Investment Philosophy and Process

MacKay Shields believes they can outperform the market and the competition with lower risk by combining their investment disciplines with the fundamental judgment of seasoned professionals. They construct their Value Equity portfolios with an emphasis on bottom-up stock selection. They use a value-oriented discipline that focuses on both the defensive and offensive characteristics of a stock. They rely on quantitative measures, such as low P/E, low price/cash flow, positive free cash flow, etc., to identify undervalued companies and protect against downside risk. Offensive measures are primarily qualitative and focus on maximizing the timing of their investments (earnings trends, management ownership, etc.). Sector limits keep the portfolio diversified.

MacKay Shields begins with the Compustat universe of over 7,200 publicly traded companies. They screen out the lowest market capitalization stocks, and apply their screening process on the remaining 2000 companies. They begin by selecting stocks based on P/E and price/cash flow ratios, and then screen for positive cash flow. They run financial tests such as interest coverage to determine financial soundness. Then they perform a more subjective screening based on finding "value catalysts" such as stock buybacks, management ownership, asset restructuring, discount to private market value, positive earnings trends, and above-average dividend yield. After the screening process, they typically have a focus list of 150 stocks. They then begin extensive fundamental research with company financial statements, Wall Street research, periodicals, competitors, and customers to learn the industry and company dynamics. They also contact company managements. Technical analysis is used to optimize the timing of purchases, such as monitoring insider transactions and the stock's supply and demand.

Research

MacKay Shields believes their research process is unique in that it is designed to pare down the overall research universe into a manageable focus list of securities. Their basic research is performed internally and relies on independent sources such as company financial statements, interviews with company managements, discussions with competitors, customers, and suppliers, and independent industry sources such as consulting studies, periodicals, and appraisals.

Trading

MacKay Shields' policy is to secure the best price and execution. The reasonableness of transactions costs, execution capability, and performance are some of the major factors in selecting brokers. The senior trader attends all investment meetings and the portfolio management team works with the trading staff to ensure that all investment decisions are implemented effectively and at the desired price levels. They use their best efforts to allocate block trades fairly among clients.

MacKay Shields (cont'd.)

Ownership

MacKay Shields was founded as an economic consulting firm in 1938 and began managing tax-exempt domestic equity accounts in 1960. In 1984, New York Life Insurance Company purchased MacKay Shields. The firm operates independently from its parent regarding both investments and compensation.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 7

Total Number of Equity Traders: 3

Total Tax-Exempt Equity Assets Managed: $11,658 MM

Total Tax-Exempt Equity Assets Managed in this Discipline: $6,796 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 141

Three Largest Tax-Exempt Domestic Equity Accounts

Corporate Account	$705 MM
Public Fund Account	$483 MM
Corporate Account	$431 MM

MANAGER FACT SHEET

Manager: **MFS Institutional Advisors, Inc.**
Investment Strategy/Style: **MFS Research Portfolio**

Investment Philosophy and Process

MFS believes that active management and bottom-up fundamental research are the best means of achieving consistent, above-benchmark returns. Their reliance on stock selection to add value is derived from the philosophy that relative earnings growth drives stock prices over time. They believe fundamental factors, such as the quality of products or services and the strength of management are the best measures of stock valuation and the most reliable indicators of the sustainability of trends. Opportunities for earnings growth and capital appreciation can be uncovered by research at the individual company level, regardless of the stage in the business cycle.

The MFS Research Portfolio is a "best ideas" growth equity portfolio managed collectively by MFS' team of analysts. Each analyst conducts rigorous, bottom-up fundamental analysis to select securities within the industries he/she covers that offer the highest probability of capital appreciation over the intermediate term. Sector and industry allocations are determined by the group, ensuring a portfolio that is broadly diversified across sectors, industries, and market capitalization ranges. Analysts can fund new ideas by selling current holdings in that industry, or by asking the team to fund the idea by reducing other holdings. Buy and sell decisions are made by majority vote after analysts present their rationale to the team. Analyst recommendations are preceded by extensive bottom-up fundamental analysis, which includes personal contacts with company managements, suppliers, competitors, and users, along with consultant ideas and Wall Street research. Stocks are evaluated across all capitalizations on the basis of valuation, expected 3-year earnings growth rates, and confidence in growth rate assumptions. Balance sheet, income statement, and cash flow analysis help determine a company's financial strength. Company visits and qualitative assessments of a company's management, products, and services also play a key role in investment decisions. Industry conferences augment fundamental security research. Individual stocks are viewed in the context of industry-wide fundamentals, so each analyst develops an in-depth knowledge of the economic, political, and international situations that affect the industries in which he/she specializes.

Research

The MFS Equity Research Department is staffed by 23 fundamental analysts and 3 quantitative analysts who compile data, perform security screening, and conduct performance analytics. Each analyst follows 2-4 diverse industries and tracks approximately 40-50 companies within each industry. The security universe includes approximately 3000 securities, of which 800-1000 are closely followed with proprietary earnings models. The resulting portfolio includes an average of 100-125 stocks in up to 52 industries (13 sectors).

MFS Institutional Advisors, Inc. (cont'd.)

Internal reports which include an earnings forecast, price target, and analyst rating are posted on-line to share with colleagues. Approximately 90% of MFS research is developed internally; the balance comes from external sources such as Wall Street brokerage firms and industry consultants.

Trading

The MFS Equity Trading Department consists of 4 traders and 3 supporting staff members. Trades are executed only under the direction of portfolio managers. MFS attempts to obtain execution at the most favorable prices by selecting broker/dealers on the basis of their professional capabilities and the value and quality of their brokerage services. Best execution includes capital commitment, research, expertise in particular types of transactions or securities, and I.P.O. and secondary syndicate participation. They currently use over 200 brokers and monitor transactions costs on an on-going basis. With almost $24 billion in equity assets under management, MFS is able to obtain very competitive execution. They do not typically use packaged trades.

Ownership

MFS Institutional Advisors, Inc. (MFSI) is a wholly-owned subsidiary of Massachusetts Financial Services Company, a subsidiary of Sun Life Assurance Company of Canada (U.S.).

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 40

Total Number of Equity Traders: 5

Total Tax-Exempt Equity Assets Managed: $2789.0 MM

Total Tax-Exempt Equity Assets Managed in this Discipline: $661.3 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 7

Three Largest Tax-Exempt Domestic Equity Accounts

Public Treasury	$448.7 MM
Small Cap Institutional Trust	$306.5 MM
Public Pension Plan	$290.1 MM

MANAGER FACT SHEET

Manager: **Pacific Investment Management Company (PIMCO)**
Investment Strategy/Style: **StocksPLUS**

<u>**Investment Philosophy and Process**</u>

Pacific Investment Management Company's (PIMCO) investment philosophy is based on the principle that stock index futures, when used as a non-leveraged vehicle for obtaining long-term equity exposure, offer an attractive means for enhancing equity market returns. They believe that stock index futures contracts are typically used as a means to gain market exposure over short, uncertain time horizons. Thus, the contracts must be backed with relatively risk-free debt securities which provide nearly perfect liquidity, since the entire portfolio could be liquidated on a moment's notice. This is why, in practice, the computation of the fair value of a stock index futures contract uses a riskless T-bill rate with a maturity equal to the expiration date of the futures contract. By maintaining constant exposure, PIMCO believes their skill as a fixed income manager gives them an advantage to seek out higher returns on the high quality fixed income securities they use to back the futures contracts. They actively manage the duration of the fixed income portfolio within a range of zero to one year, with six months being a neutral duration target. They feel the six month neutral point represents a very efficient point on the yield curve.

PIMCO's investment process involves going long S&P 500 index futures in an amount sufficient to cover 100% of the value of a client's investment. This requires an initial margin deposit in the form of T-bills equal to approximately 5% of the value of the investment. They use the remaining 95% to construct a portfolio of high quality fixed income securities (minimum issue quality of Baa).

They use the same process for determining the duration in the equity portfolios as they use in all their other fixed income accounts. The process to construct a fixed income portfolio begins with an annual, secular economics forum in which all investment professionals participate to establish a duration target for the portfolio. During the forum, internal and external professionals present information on long-term economic, geopolitical, fiscal, monetary, and demographic trends. On a quarterly basis, they define the exact duration target during an economics forecasting session. This session focuses on near-term outlook for GDP, inflation, business cycle position, and Federal Reserve policy. The portfolio's strategy is carried out by team consensus.

PIMCO's fixed income portfolio group works on a team or consensus basis to develop and implement portfolio strategy. The group's structure can best be described as a hub and spoke system, with a hub of five senior generalist portfolio managers receiving input from several specialists (governments, corporates, mortgages, derivatives, international, etc.). The generalists have responsibility for implementing strategy in specific portfolios, while the specialists assist them with expertise and execution in their respective areas.

Pacific Investment Management Company (cont'd.)

Research

PIMCO relies primarily on in-house research and internal credit analysis for decision making. They maintain several databases using data provided by the Bureau of Economic Analysis, the Commerce Department, the Congressional Budget Office, the Federal Reserve Board, the OECD, and others. They also developed and maintain over 30 computer models and programs to evaluate treasury coupon and strip curves, options embedded in various mortgage and corporate securities, and financial futures. They focus on issues with improving credit profiles and upgrade potential, indicated by being given greater appreciation potential by rating agencies.

Trading

The portfolio managers conduct all the trading and have constant access to live trading information through Telerate, Bloomberg, and Quotron. They also have direct lines to all the major dealers. PIMCO executes all trades on a best efforts basis and maintains relationships with those brokers who are able to make the best markets. The portfolio management team monitors trading and execution efficiency. They attempt to use PIMCO's size in the fixed income markets as an advantage in demanding tight markets from the dealer community. PIMCO also believes they have the ability to operate rapid-fire competitive bidding processes for trades when appropriate.

Ownership

Pacific Investment Management Company (PIMCO) is wholly-owned by publicly traded PIMCO Advisors L.P., which in turn is owned 18.4% by the public; 38.2% by senior management; and 43.4% by Pacific Mutual. Forty-five percent of the profits of each investment management subsidiary, including PIMCO, are kept at the subsidiary level for distribution among key professionals.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers / Analysts: 19

Total Number of Equity Traders: 0 (Portfolio Managers are responsible for trading.)

Total Tax-Exempt Equity Assets Managed: $8,397 MM

Total Tax-Exempt Equity Assets Managed in this Style: $8,397 MM

Total Number of Tax-Exempt Equity Accounts in this Style: 19

Three Largest Tax-Exempt Equity Accounts in this Style

Limited Partnership B	$1,147 MM
Public	$1,097 MM
Limited Partnership A	$1,051 MM

MANAGER FACT SHEET

Manager: **Provident Investment Counsel, Inc.**
Investment Strategy/Style: **Small Cap Growth Equity**

Investment Philosophy and Process

Provident Investment Counsel's (PIC) growth equity investment philosophy is to seek out companies with strong financial characteristics which are in a period of high, sustainable earnings growth. In-house analysts use a bottom-up security selection process to find companies with exceptional profitability, market share, return on equity, reinvestment rates, sales and dividend growth characteristics. Companies with a proprietary product, industry leadership, significant management ownership, and well thought out management goals, plans, and controls are especially attractive. Each company's valuation is assessed relative to its industry, earnings growth, and the market. Risk is controlled by selecting high quality companies and by diversifying across industry groups. The portfolio is not constructed based on residual or systematic risk guidelines or formal sector and industry weightings.

The Small Cap Growth Equity product is based on the philosophy that stock prices increase because the company's earnings are increasing. Academic studies and Provident's experience have shown that there is a small-cap performance bias in the equity market, which they believe exists because smaller companies grow at faster rates than larger companies. This product blends small company and growth stock investing. Portfolio candidates include emerging companies with less than $250 million in either market capitalization or sales. The portfolio maintains an average market capitalization of $500 to $600 million.

The first stage of the investment process involves combining three sources of information to generate ideas: 1) A highly selective analysts' network which includes many regional firms such as Robert Baird and Piper Jaffray; 2) Investment banking firms for initial public offering (IPO's); 3) Various computer screens, such as Compustat, to flag better performing small companies. The second stage of the investment process reduces the universe from about 4,000 companies to a watch list of 400 companies by seeking out companies with superior sales and earnings growth, high return on equity, strong pretax margins, and attractive valuations relative to growth rates. This stage uses more qualitative input aimed at examining attributes such as market share position and management goals.

Research

Provident's research effort includes the sources already described, including an analysts' network, investment banking firms, Compustat, and internally generated fundamental research. They use both internal and external sources and receive an abundance of fundamental and technical research from large Wall Street firms, regional houses, and smaller boutiques. Portfolio managers actively participate in security analysis, thus keeping the two functions tightly integrated.

Provident Investment Counsel (cont'd.)

Trading

Provident's trading department is responsible for generating, executing, and confirming all trades for the firm's accounts. They use block trades as well as other methods to provide best execution. Establishing excellent relationships with all the major and most regional brokerage houses has enabled Provident to increase their leverage in dealing with the brokerage community over time. As a result, they get much better allocation on syndicate deals and get the first call on research and trading ideas. Provident is also a major player in non-traditional trading, including participating in third-market trades and using electronic trading networks such as Instinet, POSIT, and AZX. They do not use packaged trades.

Ownership

Provident Investment Counsel, Inc. has been 100% owned by United Asset Management Corporation (UAM) since February 1995. Provident began as a private company in 1951.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 21

Total Number of Equity Traders: 3

Total Tax-Exempt Equity Assets Managed: $15,572 MM (261 accounts)

Total Tax-Exempt Equity Assets Managed in this Discipline: $2,307 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 16

Three Largest Tax-Exempt Domestic Equity Accounts

Commingled Fund	$1,154 MM
Public	$ 823 MM
Public	$ 573 MM

MANAGER FACT SHEET

Manager: **Rothschild Asset Management Inc.**
Investment Strategy/Style: **RAM Small-Cap**

Investment Philosophy and Process

Rothschild Asset Management believes they can achieve consistently superior performance through disciplined stock selection, favoring stocks that are cheap relative to their own history with the potential for positive earnings surprise. They emphasize risk control throughout the investment process and employ strict guidelines on trading history, liquidity, and market capitalization when creating their selection universe. Their stock ranking system seeks to avoid risk by avoiding momentum stocks and stocks with deteriorating earnings potential. They tightly control sector weights, but do not impose sector minimums.

The investment process begins by identifying 1500 stocks that meet their criterion for market capitalization, trading volume and trading history. They have developed a proprietary stock ranking system which ranks all the stocks in the universe after evaluating: a) valuation relative to the stock's own history (to identify out-of-favor stocks), b) earnings surprise potential (to avoid owning stocks that stay cheap), and c) short-term price reversal (to identify stocks that are attractive because of recent price weakness). The rankings are reviewed by the investment committee at its weekly meeting. Brokerage research and financial statements are used to conduct a fundamental review of the top ranked stocks. The highest ranked stocks are purchase candidates, while stocks with a ranking below the sixth decile are sale candidates.

An important risk control measure is to limit sector weights in the portfolio to the benchmark, plus or minus five percent. Position sizes are based upon both capitalization and trading volume, ensuring that portfolios are liquid and well-diversified.

Research

Approximately 80% of their research is generated internally at the New York office. They also use Compustat, I/B/E/S, IDC, First Call, and Dow Jones news reports.

Trading

Rothschild's two traders are responsible for monitoring portfolio holdings, brokerage allocation, and order execution and have the freedom to work orders between limits. Brokers' performance is monitored by both the trading desk and portfolio managers. They measure total implementation costs, including opportunity costs, by comparing actual account performance to a paper portfolio which is priced at the mid-point of the bid-asked spread, with no commissions. They began using Plexus Group in 1997 to monitor implementation costs. They work with a relatively illiquid universe and use Instinet whenever possible for OTC orders. They have also begun experimenting with the POSIT crossing network. They do not normally use principal transactions, except when they use packaged trades for large orders.

Rothschild Asset Management, Inc. (cont'd.)

Ownership

Rothschild Asset Management Inc. is a wholly-owned subsidiary of Rothschild North America, Inc., a holding company established in 1987 to manage the operations of the Rothschild Group through its subsidiaries and affiliates.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 6

Total Number of Equity Traders: 2

Total Tax-Exempt Equity Assets Managed: $968.4 MM

Total Tax-Exempt Equity Assets Managed in this Discipline: $372.8 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 14

Three Largest Tax-Exempt Domestic Equity Accounts in this Discipline

Undisclosed Taft-Hartley Account	$110.6 MM
AlliedSignal, Inc.	$101.0 MM
Kern County, CA	$ 42.0 MM

MANAGER FACT SHEET

Manager: **Tukman Capital Management, Inc.**
Investment Strategy/Style: **Concentrated Equity Portfolio (single-product firm)**

Investment Philosophy and Process

Tukman's investment approach is to manage concentrated portfolios of large capitalization, high quality stocks. Stock selection is based on fundamental, in-depth research and portfolios are concentrated with 10-20 holdings. The focus is on companies with high return on equity, good management, and dominant market share. Stocks are purchased at favorable P/E ratios relative to the S&P 500.

Tukman's research process begins with a computer screening of over 1,500 stocks. The universe is narrowed to fewer than 100 stocks based on five variables: high return on equity, high discretionary cash flow, high quality rating, moderate beta, and a high degree of trading liquidity. Input from suppliers, distributors, end-users, competitors, and company managements is included in the research process. A dividend discount model is used to calculate price-to-intrinsic value ratios on individual stocks. Stocks are purchased at favorable P/E ratios when temporary bad news depresses the price.

Research

All investment ideas are generated internally by Mel Tukman and Dan Grossman. Suppliers, distributors, end users, competitors, company managements and sell-side analysts provide input. This research is supplemented by outside data sources, including Ford Investment Services' dividend discount model, with internally-modified growth rates.

Trading

The two portfolio managers also perform the trading function. Best execution is always the primary goal, and trading is conducted on the basis of bidding for competitive blocks of stock. Tukman uses a small number of brokers who work individual names. Packaged trades are more effective with a diversified than a concentrated list of names, so they are not normally used as part of the portfolio trading process. The firm monitors the quality of execution by measuring expected price against the volume-weighted average price of the day. The execution tends to be a negative cost of 10-15 basis points, more than offsetting the commission cost.

Ownership

Tukman Capital Management was founded by Melvin T. Tukman in 1980. He was joined by Daniel L. Grossman in 1982. The firm is 100% employee-owned.

Tukman Capital Management, Inc. (cont'd.)

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 2

Total Number of Equity Traders: 0

Total Tax-Exempt Equity Assets Managed: $3,690 MM

Total Tax-Exempt Equity Assets Managed in this Discipline: $3,690 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 50

Three Largest Tax-Exempt Domestic Equity Accounts

Vanguard - Windsor II (mutual fund)	$1,407 MM
State Fund	$ 130 MM
Corporate	$ 126 MM

MANAGER FACT SHEET

Manager: **Valenzuela Capital Management, Inc.**
Investment Strategy/Style: **Value-Oriented Mid-Cap Equities**

Investment Philosophy and Process

Valenzuela Capital Management (VCM) looks for companies with attractive valuations which are experiencing or beginning to experience positive changes in revenues, gross or operating margins, and/or financial structure. They believe that valuations are driven by improving earnings growth and multiple expansion in strong markets, and that below-market valuations provide downside protection in weak markets. As a result, their approach provides capital appreciation with less volatility.

Portfolios are fairly concentrated and are constructed on a stock-by-stock basis. Industry exposure is a residual of the stock selection process. Portfolios are built using a six step process, based on VCM's expectations for a company's profit trends, future growth, and returns. The universe consists of about 2,000 names, to which value-oriented screens are applied to identify prospective investments.

The six-step process includes: 1) Generating ideas through the use of proprietary computer screens and ranking systems, trade journals, SEC disclosure statements, and Wall Street and regional research. 2) Quantitative analysis, which includes looking at approximately 25 different ratios calculated from financial statements. This information is entered into a computerized database, enabling VCM to closely track about 150 companies based on 3 to 5 year historical data. 3) Qualitative analysis, which involves interviewing company management, competitors, and suppliers. 4) Creating a one page research summary, which spells out VCM's expectations, notes the degree of monitoring necessary, and theorizes about what could go wrong with their investment thesis. 5) Creating a purchase list of approximately 80 names, including current holdings, which must be closely monitored. 6) Discussing stocks trading below the buy point and above the sell point at the weekly investment meeting. Stocks are purchased when there is evidence that they can appreciate 50% over a three year period or when the price declines to VCM's buy price. Stocks are subjected to a mandatory review when they underperform by 15% (relative to the overall market) over a six-month rolling period.

Research

VCM conducts its own research by visiting companies and scrutinizing balance sheet fundamentals. They read publications and trade journals, but use Wall Street research and investment ideas only on rare occasions. After identifying specific investment ideas, VCM uses ZACKS Investment Research for screening additional statistical and analytical data. They also use a quantitative market data service, Computerized Portfolio Management Services (CPMS) to rank the 2,000 stocks in the universe and to better design and evaluate portfolio strategy. CPMS uses First Call estimates and fundamental data from Ford Investment Services.

Trading

VCM's trading operation includes two separate functions: trade execution and trade verification. VCM does not give discretion to brokers. They monitor trading volume liquidity before placing an order, consider size and target price to minimize market impact, and make judgment calls on timing. VCM is a patient trader, executing small transactions and gradually building and trimming positions. Commission rates are negotiated with brokers, and trades are executed through Instinet or POSIT whenever possible. VCM works individual names and does not use packaged trades.

Ownership

Valenzuela Capital Management, Inc., is privately owned by its investment professionals and has no affiliation with other entities.

Staff / Assets Under Management

Total Number of Equity Portfolio Managers and Research Analysts: 4

Total Number of Equity Traders: 1

Total Tax-Exempt Equity Assets Managed: $1,025 MM

Total Tax-Exempt Equity Assets Managed in this Discipline: $1,025 MM

Total Number of Tax-Exempt Equity Accounts in this Discipline: 21

Three Largest Tax-Exempt Domestic Equity Accounts

California Public Employees' Retirement System	$295 MM
Pacific Gas & Electric Company	$158 MM
Los Angeles City Employees' Retirement System	$119

MANAGER FACT SHEET

Manager: **Goldman Sachs Asset Management**
Investment Strategy/Style: **CORE Equity (formerly Select Equity)**

Investment Philosophy and Process

Goldman Sachs' investment philosophy is that markets are not totally efficient and that investment insights can lead to consistent out-performance. Their approach exploits systematic irrationalities in human decision making. The CORE Equity strategy is based on the belief that if applied properly, traditional fundamental analysis and sophisticated quantitative valuation models can add value by identifying attractive securities and constructing portfolios. The fundamental analysis is performed by research analysts with detailed, hands-on knowledge and the ability to evaluate non-quantitative factors, while the model uses consensus estimates to provide objective predictions. Goldman Sachs believes that these two independent sources of expected returns provide added confidence in their combined return forecasts.

Goldman Sachs' investment process involves three steps. First, in-house fundamental research and objective quantitative analysis are used to estimate excess returns for 3,500 securities. The quantitative analysis uses a multifactor model to analyze securities for attractiveness in value, potential growth and earnings, timeliness, volatility of earnings and price, and liquidity. The net result of the fundamental research and quantitative analysis is a single expected return forecast for each security. Using this forecast for each security's expected return, Goldman Sachs completes the second step by building a portfolio with the use of portfolio optimization techniques to evaluate risk/reward profiles of potential portfolios. They control deviations from the client's benchmark along three dimensions: industry diversification, fundamental characteristics, and macro-economic sensitivities. The selected portfolio is the one which best fits a client's investment objectives and risk tolerance, and normally includes about 100-120 stocks. The final step is implementation and rebalancing. They use a mix of strategies designed to minimize slippage caused by missed opportunities, commissions, and market impact.

Research

Approximately 80% of the research used in the investment process is generated internally. All of the fundamental research for the Goldman Sachs' semi-passive strategy is generated internally through the resources of Goldman Sachs' Equity Investment Research Department. A staff of 200 professionals covers more than 1,800 companies in over 60 industries. In addition, Goldman Sachs' models utilize data from I/B/E/S, FirstCall, Compustat, Value Line, and FactSet to evaluate portfolios. They use Muller and Telstat as pricing sources for securities. Finally, their optimization process utilizes such risk-controlling tools as the BARRA E2 Model for fundamental factors and the Salomon Brothers' Risk Attribution Model (RAM) for economic factors.

Goldman Sachs Asset Management (cont'd.)

Trading

Goldman Sachs believes that cost effective trading strategies are especially important for a semi-passive product. They employ a variety of trading strategies including cross trades, incentive agency trades, blind strike bids (packaged trades), market orders, and limit orders. A portion of their trading is also done through electronic crossing networks (POSIT), and a Direct Order Trading (DOT) system (Quantex). Goldman Sachs evaluates the relationship between commissions, market impact, and missed opportunities before deciding which trading strategy to implement.

Ownership

Goldman Sachs Asset Management (GSAM) is a division of Goldman, Sachs & Co., a limited partnership. In August 1996, GSAM acquired CIN Management, and in January 1997, Goldman, Sachs & Co. acquired substantially all of Liberty Investment Management.

Staff / Assets Under Management

Total Number of Semi-Passive Equity Portfolio Managers/Analysts: 13

Total Number of Semi-Passive Equity Traders: 3

Total Tax-Exempt Equity Assets Managed: $5,882.0 MM

Total Tax-Exempt Domestic Semi-Passive Equity Assets Managed: $4,299.2 MM

Total Number of Tax-Exempt Domestic Semi-Passive Equity Accounts: 32

Three Largest Tax-Exempt Semi-Passive Domestic Equity Accounts

Western Conference of Teamsters Pension Trust Fund	$847.7 MM
GTE Investment Management Corp.	$480.5 MM
New York City Teachers	$434.7 MM

MANAGER FACT SHEET

Manager: **Investment Research Company Asset Management (IRC)**
Investment Style: **Benchmark Enhancement**

Investment Philosophy and Process

IRC seeks to add value by using a quantitative approach to discover fundamentally mis-priced securities. IRC constructs highly diversified, sector-neutral portfolios with an emphasis on risk management. Their valuation process tends to favor fundamentally attractive, lower volatility stocks with marginally lower betas relative to the client's benchmark. IRC has clear positions on which fundamental characteristics are value-added and which are sources of uncompensated risk. All IRC portfolios are industry and sector neutral, but explicit constraints are added for highly risk-averse clients. Finally, IRC uses its proprietary optimization system to minimize the level of stock specific risk in each portfolio.

For the Benchmark Enhancement product, two fundamental valuation filters (yield and P/E) are combined with a technical, momentum-based optimization in each of 19 industry sectors. In most sectors, low P/E, high yield stocks are historically underpriced. However, in some sectors (usually cyclical sectors), high yield, high P/E attributes are preferred. These sector-specific preferences are identified through statistical analysis involving extensive studies of historical patterns.

After the screening process, target stock weights are derived for each sector to maximize predicted annualized return. In a second stage, a final optimization aggregates all of the sector portfolios under an umbrella of risk control constraints. IRC believes that mis-pricings tend to be small. As a result, an overpriced stock would be underweighted, but not necessarily weighted at zero. The same reasoning applies to underpriced securities. This concept is implemented with the use of bandwidth constraints in the optimizer, which require that each stock be held within a certain percentage of its benchmark weight. As the bandwidth becomes smaller, tracking error decreases. This process results in a portfolio of 225-700 stocks, depending on the dispersion of the client's benchmark. (The number of stocks in the portfolio increases as the bandwidth becomes smaller.)

To achieve time diversification and to minimize turnover, IRC has developed a trading algorithm which re-optimizes 1/3 of the portfolio on a quarterly basis. Concurrent with the rebalancing, the bandwidth constraints are reimposed on the total portfolio each quarter. Overweighted issues are cut back, and underweighted positions are increased.

Investment Research Company Asset Management (cont'd.)

Research
Most of the firm's research is conducted internally and is proprietary to IRC. The firm applies state-of-the-art statistical and computer techniques to research and develop equity selection models. Outside information sources include data vendors such as Compustat, BARRA, ITG, and various other data repository sources. IRC maintains data on 9,000 securities and produces valuation rankings for approximately 2,500 stocks. Although their expertise is primarily large cap equities, IRC's quantitative models are capable of analyzing any U.S. stock.

Trading
IRC applies a structured, disciplined process to trading. All purchase and sell transactions are continuously monitored against their "strike" prices (i.e., the prices prevailing in the market immediately prior to the decision to buy or sell). Nearly all trades are executed within four business days of the decision date. IRC evaluates its brokers with internal and external tools to ensure compliance with the firm's objectives for timely and effective execution, and then verifies the results with Plexus. The firm makes substantial use of crossing networks and executes active trades through Paine Webber's DOT system or independent floor brokers.

Ownership
Investment Research Company became a wholly-owned subsidiary of United Asset Management (UAM) in March, 1994. IRC relocated from Chicago to San Diego in 1996.

Staff / Assets Under Management
Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 6

Total Number of Semi-Passive Equity Traders: 2

Total Tax-Exempt Equity Assets Managed: $2,035.6 MM

Total Tax-Exempt Domestic Semi-Passive Equity Assets Managed: $305.1 MM

Total Number of Tax-Exempt Domestic Semi-Passive Equity Accounts
(with tracking error below +/- 1.5% annually): 1

Total Number of Tax-Exempt Domestic Equity Accounts: 27

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts

Ameritech Corporation	$305.1 MM	(Tracking error less than 1.5%)
Virginia Retirement System	$312.6 MM	(Tracking error between 1.5% and 4%)
A Regional Bell Holding Co.	$279.7 MM	(Tracking error between 1.5% and 4%)

MANAGER FACT SHEET

Manager: **Weiss, Peck & Greer, L.L.C. (WP&G)**
Investment Strategy/Style: **Disciplined Equity Enhanced Index**

Investment Philosophy and Process

WP&G believes that all publicly available information is reflected in a stock's price, but hopes to exploit certain inefficiencies and add value to a client's benchmark by using models to represent anomalies that exist in the market. Their investment objective strives to achieve excess returns primarily through stock selection with the use of various risk measurement tools to construct portfolios with the most efficient ratio of risk to return.

WP&G's bottom-up investment approach uses a proprietary multi-factor model that seeks to identify stocks with increasing earnings expectations that are selling at low relative valuations. They start with a database of 2000 securities and produce valuation rankings for 1800 stocks, enabling them to identify the stocks within each industry that have the highest probability of outperforming their peers. WP&G believes that human judgment must accompany the use of quantitative models, and thus has a staff of professionals who ensure accurate data input, evaluate and anticipate changes in model predictions, and implement the strategy using model outputs. Current factors in the model can be classified into three broad categories: earnings momentum, value, and risk adversity. The earnings momentum factors seek to capture rising expectations by analyzing the magnitude of the change in expectations, the breadth of the change, and the impact of unexpected earnings announcements. The value factors identify under-valued securities by utilizing the price relationships of forecasted earnings to price, price to book, cash flow, and a multistage dividend discount model. Risk adversity factors focus on uncertainty models, including financial leverage and estimate dispersion. The strength of the relationships between factors varies over time, allowing the opportunity to add value by correctly predicting factor returns. Analysts are required to fully understand the inner workings of all prediction models, thus enabling them to anticipate alpha changes as they receive new company information. Finally, the portfolio management team focuses on the information ratio to give their clients a true measure of their skill in delivering excess returns. Re-balancing is focused on risk assessment and attribution, and occurs every three weeks. A typical portfolio holds about 110 stocks.

Research

WP&G uses First Call, I/B/E/S, Compustat and BARRA as their principal research and information sources. The quantitative research team includes 5 individuals, 3 of which have Ph.D's. Research and development is a critical part of the quantitative strategy, and they continue to search for ways to improve their process and enhance their decision making ability. Maintaining a leadership position in quantitative equity investing will be contingent on their continued ability to respond to rapid changes in the capital markets and technology industry.

Weiss, Peck & Greer, L.L.C. (cont'd.)

Trading

The goal of WP&G's quantitative equity trading operation is to establish portfolios with the lowest transactions costs in an appropriate time frame. The process begins with a pre-trade analysis that evaluates the difficulty of the order and estimates the expected costs of the trade using several liquidity and momentum factors. Given current market conditions, WP&G selects from four main types of trading facilities: 1) high technology brokers; 2) crossing networks; 3) principal brokers; and 4) client-directed or traditional brokers.

WP&G completes a rigorous pre-trade and post-trade analysis of every execution. The pre-trade analysis establishes a benchmark and determines the trading strategy. After executing each trade, WP&G grades themselves and the brokers using the implementation shortfall methodology. They compare execution prices to the price that existed when the order was given to the trading desk. They decompose trading costs into market impact, opportunity costs, market timing, and commissions. This allows them to evaluate brokers, the strategy they have implemented, and alternatives going forward.

For large, basket agency transactions, WP&G uses only brokers with the most sophisticated technology, who are able to monitor portfolios in real-time and communicate with WP&G electronically. Crossing networks are used as an additional source of liquidity. When pre-trade analysis identifies names that should be traded individually, they use Autex, Instinet, direct access brokers, or their extensive broker network to most effectively execute the trade while minimizing transaction costs.

Ownership

The firm is owned primarily by its 45 principal employees. Each WP&G principal owns a percentage interest in the firm and is actively involved in its day-to-day operations. Lloyds America Security Corporation, a subsidiary of Lloyds Bank, Plc. of London, acquired an interest in WP&G in 1987 and remains a non-managing principal of the firm. In April 1995, WP&G changed its ownership structure from a partnership to a Delaware Limited Liability Company.

Staff / Assets Under Management

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 9
Total Number of Semi-Passive Equity Traders: 2
Total Tax-Exempt Equity Assets Managed: $3,818.0 MM
Total Tax-Exempt Domestic Semi-Passive Equity Assets Managed: $1,174.0 MM
Total Tax-Exempt Semi-Passive Assets Managed With New Process: $450 MM
Total Number of Tax-Exempt Domestic Semi-Passive Equity Accounts: 46
Total Number of Tax-Exempt Semi-Passive Equity Accounts in New Process: 14

Three Largest Tax-Exempt Semi-Passive Domestic Equity Accounts in New Process

U.S. Large Equity Fund	$200.3 MM
WP&G Quantitative Equity Fund	$102.4 MM
Public Fund (Cook County)	$ 71.0 MM

MINNESOTA STATE BOARD OF INVESTMENT
EXTERNAL ACTIVE FIXED INCOME MANAGER INVESTMENT GUIDELINES

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

1. RISK/RETURN OBJECTIVES

A Manager's portfolio is expected to differ from the benchmark in a way consistent with its investment philosophy. Staff will evaluate differences based on characteristics such as duration, quality, sector weighting, industry weighting, ~~and~~ coupon and company selection.

A Manager's portfolio is expected to deliver annualized returns of at least 25 basis points above the benchmark, over time, after fees. Excess returns should be commensurate with portfolio risk measured using annualized standard deviation.

2. BENCHMARKS

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

~~• Managers who invest in all sectors of the investment grade bond universe are compared to the Lehman Brothers Aggregate Bond Index (Lehman Aggregate), or its appropriate subset in the case of a sector specialist.~~

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

These indices satisfy the following characteristics:

a)	***Unambiguous.***	The securities comprising the benchmarks are clearly delineated.
b)	***Investable.***	The option is available to forego active management and hold the benchmark portfolios.
c)	***Measurable.***	It is possible to calculate ~~each~~ the benchmark's return on a monthly basis.
d)	***Appropriate.***	The benchmarks ~~are~~ is consistent with the investment styles of the SBI's active managers.
e)	***Specified in Advance.***	The benchmarks ~~are~~ is established prior to the start of the evaluation period.

3. ELIGIBLE INVESTMENTS

The investment Managers may hold fixed income instruments, fixed income options and futures, and cash equivalents. The investments of each manager must satisfy the following criteria and constraints:

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

b) U.S. and Canadian corporate obligations must be payable in U.S. dollars, be rated among the top four quality categories by a nationally recognized rating agency, and comply with all provisions of Minnesota Statutes 11A.24 subdivision 3.

c) Other obligations not specified in (a) or (b) must meet the provisions of Minnesota Statutes 11A.24 subdivision 4, clauses 1 through 5.

d) Total portfolio duration must stay within a 3 to 7 year band.

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

f) Investments can be made in Yankee bonds. This market encompasses those foreign-domiciled issuers who register with the SEC and borrow U.S. dollars via issues underwritten by a U.S. syndicate for delivery in the United States and payable in U.S. dollars. The obligations must be rated among the top four quality categories by a nationally recognized rating agency.

Investment managers are not constrained regarding:

1) transaction turnover.
2) use of covered call options as hedging devices.
3) liquidity requirements.
4) number of fixed income issues held.
5) the percentage of assets held in cash reserves.
6) the use of bond index futures to adjust the effective fixed income exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance is evaluated using the guidelines established in the SBI's Manager Continuation Policy. These guidelines help the SBI decide whether to continue or terminate investment managers.

5. COMMUNICATION

~~The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the agreed upon benchmark. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.~~

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

6. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures or options trading agreement entered into by a manager 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 for the State of Minnesota.

7. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to insure the managers, both individually and collectively, are in compliance with Minnesota statues and SBI policy. Managers will be notified in advance of changes to these guidelines.

Revised: May 199~~5~~ 7

Following is an example of a proposed addendum to the external active fixed income manager investment guidelines. The purpose of the addendum is to state deviations from the standardized investment guidelines. Generally, the deviations from the standardized guidelines reflect additional or modified authority granted to an individual investment manager. Such authorities are granted at the discretion of staff and do not necessarily apply to all managers. Examples of such authority are the ability to invest in foreign bonds, discretion to invest in below investment grade bonds, etc.

Addendum to External Active Fixed Income Manager Investment Guidelines

The guidelines of Minnesota State Board of Investment (SBI) external active fixed income managers ~~shall~~ may incorporate all or some of the following modifications:

Amendment to Section 3 of External Active Fixed Income Manager Investment Guidelines:

In addition to the investments allowed under Section 3, the external active fixed income manager is authorized to:

g) invest up to 10% of the portfolio in ~~foreign~~ non-dollar denominated fixed income securities. The Manager has discretion to hedge the currency exposure up to the 10% limit using currency forwards, futures or options. In addition, all currency transactions must be done on a fully collateralized basis.

h) invest up to 10% of the portfolio in dollar denominated fixed income instruments rated BB or B by Standard and Poor's or an equivalent rating by another nationally recognized rating agency.

i) invest up to 5% dollar denominated non-rated securities which, if rated by a nationally recognized rating agency, would have a rating of BBB or better.

j) use the following market neutral strategies for the simultaneous purchase and sale of options and futures:

1) Hedged volatility transactions
2) Inter-market spreads
3) Calendar spreads
4) Box spreads

At no time shall the combined market exposure of all ~~enhanced cash~~ market neutral strategies in place exceed 100% of the current portfolio market value. In addition, all transactions must be done on a fully collateralized basis.

The manager may invest in puts and call options and future contracts traded on a contract market regulated by a governmental agency or by a financial institution regulated by a governmental agency. This allows the manager to invest in the following:

1) U.S. or foreign stock index futures
2) U.S. or foreign stock index options
3) U.S. or foreign options on stock index futures
4) U.S. or foreign forward exchange contracts
5) U.S. or foreign currency options
6) U.S. or foreign currency futures

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE FIXED INCOME MANAGERS

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

1. RISK/RETURN OBJECTIVES

The SBI expects external semi-passive fixed income managers to develop and manage the ~~index~~ portfolio with characteristics similar to the Lehman Brothers Aggregate Bond Index (Lehman Aggregate). The specific Manager risk tolerances are specified ~~below in the section on investment parameters~~ in #3 below. These parameters should generate only moderate/semi-passive tracking errors from index performance and are consistent with an enhanced index strategy.

The management objective is to provide a return above the Lehman Aggregate index performance. The Manager will be expected to generate minimum returns of 10 basis points above the Lehman Aggregate index return on an annualized basis, over time, after fees.

2. ELIGIBLE INVESTMENTS

The investment managers may hold fixed income instruments, fixed income index options and futures, and cash equivalents. The investments of each manager 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 SBI investment guidelines 11A.24 subdivision 2.

(b) U.S. and Canadian corporate obligations must be payable in U.S. dollars, be rated among the top four quality categories by a nationally recognized rating agency, and comply with all provisions of 11A.24 subdivision 3.

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

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

(e) Investments can be made in Yankee bonds. This market encompasses those foreign-domiciled issuers who register with the SEC and borrow U.S. dollars via issues underwritten by a U.S. syndicate for delivery in the United States and payable in U.S. dollars. The obligations must be rated among the top four quality categories by a nationally recognized rating agency.

Investment managers are not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirement
(4) number of fixed income issues which must be held at any given point in time
(5) the use of bond index futures to adjust the effective fixed income exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

3. INVESTMENT PARAMETERS

The investment parameters are based on contribution to duration. Contribution to duration is the sector percentage multiplied by the sector duration.

Sector Weighting Guidelines

Treasury/Agency Sector	± 75% of the Lehman Brothers Government sector contribution to duration
Mortgage Sector	± 75% of the Lehman Brothers Mortgage-Backed sector contribution to duration
Corporate Sector	± 75% of the Combined Lehman Brothers Corporate and Asset-Backed sectors contribution to duration
Issues Outside the Index	Maximum 10% of the Lehman Brothers Aggregate contribution to duration

Corporate Credit Guidelines

AAA/AA ± 75% of the combined Lehman Brothers Corporate AAA and AA contribution to duration

A/BBB ± 75% of the combined Lehman Brothers Corporate A and BBB contribution to duration

Duration Guidelines

± 0.2 years of the Lehman Brothers Aggregate duration

4. PERFORMANCE EVALUATION

Manager performance is evaluated using the guidelines established in the SBI's Manager Continuation Policy. These guidelines help the SBI decide whether to continue or terminate investment managers.

~~5. COMMUNICATION~~

~~The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the agreed upon benchmark. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.~~

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

6. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures or options trading agreement entered into by a manager 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 for the State of Minnesota.

7. FUTURE MODIFICATIONS

The SBI reserves the right to modify these investment guidelines at any time to insure the managers, both individually and collectively, are in compliance with Minnesota statues and SBI policy. Managers will be notified in advance of changes to these guidelines.

Revised: May 199~~5~~ 7

Following is an example of a proposed addendum to the external semi-passive fixed income manager investment guidelines. The purpose of the addendum is to state deviations from the standardized investment guidelines. Generally, the deviations from the standardized guidelines reflect additional or modified authority granted to an individual investment manager. Such authorities are granted at the discretion of staff and do not necessarily apply to all managers. Examples of such authority are the ability to invest in foreign bonds, discretion to invest in below investment grade bonds, etc.

Addendum to External Semi-Passive Fixed Income Manager Investment Guidelines

The guidelines of Minnesota State Board of Investment (SBI) external semi-passive fixed income managers ~~shall~~ may incorporate the following modifications:

Amendment to Section 3 of External Semi-Passive Fixed Income Manager Investment Guidelines:

The investment parameter relating to Issues Outside of Index is modified as follows:

Issues Outside the Index*	Maximum 10% of the Lehman Brothers Aggregate contribution to duration.

* Issues in this category may include:

a) ~~foreign~~ non-dollar denominated bonds.

b) dollar denominated fixed income securities rated BB or B by Standard and Poor's or an equivalent rating by another nationally recognized rating agency.

c) dollar denominated non-rated securities which, if rated, would have a rating of BBB or better (up to a maximum of 5%).

MINNESOTA STATE BOARD OF INVESTMENT

INTERNAL ACTIVE FIXED INCOME MANAGER INVESTMENT GUIDELINES

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

1. RISK/RETURN OBJECTIVES

The portfolio is expected to differ from the benchmark in a way consistent with the manager's investment philosophy. Differences will be evaluated based on characteristics such as duration, quality sector weighting, industry weighting, ~~and~~ coupon and company selection.

The portfolio is expected to deliver annualized returns at least 25 basis points above the benchmark over time. Excess returns should be commensurate with portfolio risk measured using annualized standard deviation.

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.

This index satisfies the following characteristics:

a) **Unambiguous.**	The securities comprising the benchmarks are clearly delineated.
b) **Investable.**	The option is available to forego active management and hold the benchmark portfolios.
c) **Measurable.**	It is possible to calculate each benchmark's return on a monthly basis.
d) **Appropriate.**	The benchmark is consistent with the manager's investment style.
e) **Specified in Advance.**	The benchmark is established prior to the start of the evaluation period.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

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

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

b) U.S. and Canadian corporate obligations must be payable in U.S. dollars, be rated among the top four quality categories by a nationally recognized rating agency, and comply with all provisions of Minnesota Statues 11A.24, subdivision 3.

c) Other obligations not specified in (a) or (b) must meet the provisions of *Minnesota Statutes* 11A.24, subdivision 4, clauses 1 through 5.

d) Yankee bonds, encompassing those foreign-domiciled issuers who register with the SEC and borrow U.S. dollars via issues underwritten by a U.S. syndicate for delivery in the United States and payable in U.S. dollars, must be rated among the top four quality categories by a nationally recognized rating agency.

e) Eurodollar bonds denominated in U.S. dollars, issued and traded outside the jurisdiction of any single country, underwritten by an international syndicate, and issued in bearer form, must be rated among the top four quality categories by a nationally recognized rating agency.

f) The Manager may invest in BB rated securities.

g) The Manager may not purchase interest-only collateralized mortgage obligations, principal-only collateralized mortgage obligations, nor inverse floating rate collateralized mortgage obligations.

B. In aggregate the investments must satisfy the following portfolio constraints:

a) Total portfolio duration must stay within a $\pm$ 1 year of benchmark duration.

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

c) Up to 5 percent of the portfolio may be invested in Yankee bonds.

d) Up to 5 percent of the portfolio may be invested in Eurodollar bonds.

e) Up to 5 percent of the portfolio may be invested in BB rated securities.

f) The Manager is not constrained regarding:

1) transaction turnover.

2) liquidity requirements.

3) number of fixed income issues held.

4) the percentage of assets held in cash reserves.

5) the use of bond index futures to adjust the effective fixed income exposure. However, all commodity futures transactions must be done on a fully collateralized basis.

4. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.

The SBI requires a quarterly written report containing information as requested by SBI for each Account under the investment management supervision of the Manager. The Manager is expected to report monthly on returns and duration to the executive director and assistant executive director.

5. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trades agreement entered into by the Manager 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.

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: ~~June 1996~~ May 1997

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL ACTIVE 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 (see Benchmarks below). 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 one (1) percent.

(b) The actual portfolio will generate positive cumulative excess returns significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be .50 or greater.

2. BENCHMARKS

Each manager must provide and maintain a customized benchmark (normal) portfolio, agreed upon by both manager and 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. ELIGIBLE INVESTMENTS

The investment managers will be restricted to holding common stocks, preferred stocks, equity options, warrants, convertible bonds, stock index futures, and cash equivalents. The investments of each manager must satisfy the following criteria and constraints.

(a) 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 or American Stock Exchange.

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

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

~~(d)~~(e) Individual Manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.

~~(e)~~(f)- Investment Managers are not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the 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. COMMUNICATION~~

~~The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the benchmark portfolio. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.~~

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

- The Manager will promptly inform SBI staff and the SBI's custodian of any class action suits which arise as a result of the SBI's ownership of any holding in the Account. The SBI reserves the right to initiate or participate in such class actions on its own behalf.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager 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. 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.

Revised: May ~~1996~~ 7

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of 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 a 3 to 5 year period, 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 ~~initial~~ benchmarks will be the Wilshire 5000. ~~and a tilted index/customized benchmark furnished by a consultant retained by SBI.~~ SBI reserves the right to change these benchmarks upon notification to manager.

3. ELIGIBLE INVESTMENTS

The investment manager will be restricted to holding common stocks, stock index futures, and cash equivalents. The investments must satisfy the following criteria and constraints.

(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states and/or be listed on the New York Stock Exchange or American Stock Exchange.

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

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

~~(d)~~(e) Investment Managers are not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established by SBI. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of this investment manager. The quantitative guideline will assess performance relative to the return/risk objectives in #1 above.

~~5. COMMUNICATION~~

~~The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the benchmark portfolio. The SBI requires a quarterly written report containing information as requested by SBI for each Account under the investment management supervision of the Manager.~~

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

- The Manager will promptly inform SBI staff and the SBI's custodian of any class action suits which arise as a result of the SBI's ownership of any holding in the Account. The SBI reserves the right to initiate or participate in such class actions on its own behalf.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager 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. 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.

Revised: May ~~1996~~ 7

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of 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) percent, but no more than one and one half (1.5) percent.

(b) The actual portfolio will generate positive cumulative excess returns significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be 0.10 or greater.

2. BENCHMARK INDEX

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

3. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding common stocks, preferred stocks, equity options, warrants, stock index futures, and cash equivalents. The investments must satisfy the following criteria and constraints.

(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states and/or be listed on the New York Stock Exchange or American Stock Exchange.

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

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

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

~~(d)~~(e) Manager is not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to 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 this investment manager.

~~**5. COMMUNICATION**~~

~~The SBI requires its investment managers to communicate with SBI staff on a regular basis. The Manager is expected to meet with staff to review the results of the Manager's investment decision making process at least annually. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio. The SBI requires a quarterly written report containing information as requested by SBI for each Account under the investment management supervision of the Manager.~~

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

- The Manager will promptly inform SBI staff and the SBI's custodian of any class action suits which arise as a result of the SBI's ownership of any holding in the Account. The SBI reserves the right to initiate or participate in such class actions on its own behalf.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager 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. 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: May 1996 7

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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 that exceed a predetermined benchmark portfolio by at least 1.0 percentage point, net of fees, annually (see Benchmarks below). 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 one (1) percent.

(b) The actual portfolio will generate positive cumulative excess returns significant enough to compensate the SBI for the active risk assumed. Generally, the ratio of annualized excess return to active risk in (a) above should be .50 or greater.

2. BENCHMARKS

Each manager must provide an initial published index benchmark agreed upon by both manager and SBI prior to the effective date of the contract, for purpose of performance evaluation and risk measurement. The published index must be representative of the manager's investment style.

Within 24 months of retention, each manager must provide benchmark (normal) portfolio, agreed upon by both manager and 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. ELIGIBLE INVESTMENTS

The investment managers will be restricted to holding common and preferred stocks, convertible bonds, equity options, warrants, stock index futures and cash equivalents. The investments of each manager must satisfy the following criteria and constraints.

(a) 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. These include American Depository Receipts (ADR's) traded on the NYSE and the ASE, but exclude ADR's traded over-the-counter.

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

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

~~(d)~~ (e) Individual manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.

~~(e)~~ (f) Investment Managers are not constrained regarding:

(1) transaction turnover
(2) use of covered call options as hedging devices
(3) liquidity requirements
(4) number of individual equity issues which must be held at any given time
(5) the percentage of assets held in cash reserves which must be held at any given time
(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all commodity futures transactions must be done on a fully collateralized basis.

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to the guidelines established in the SBI's Manager Continuation Policy. These guidelines assist the SBI in its decisions concerning retention and termination of investment managers.

Manager performance will be compared against an agreed upon published index until completion of a customized benchmark. Upon completion of an acceptable custom benchmark, return comparisons will be restated back to the date the investment manager's relationship began with the SBI.

~~5. COMMUNICATION~~

~~The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision-making process at least annually. In reviewing past and current investment strategies and performance, the manager is expected to present the analysis relative to the agreed upon benchmark. The SBI requires a quarterly written report containing information as requested by the SBI for each account under the investment management supervision of the manager.~~

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

6. PROXY VOTING

The SBI is responsible for proxy voting.

7. COMMODITY FUTURES TRADING

Any commodity futures trading agreement entered into by the Manager 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.

8. 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.

Date: May 199~~6~~ 7

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
INTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

The investment actions of 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 $\pm$ 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 fees, 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. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding common stocks, stock index futures, and cash equivalents that meet the criteria in *Minnesota Statutes*, section 11A.24. The investments must satisfy the following criteria and constraints:

(a) The stocks held must be issued by corporations organized under the laws of the U.S. or its states and/or be listed on the New York Stock Exchange or American Stock Exchange.

<u>(b) Manager may not purchase restricted stock, letter stock, or private placements.</u>

~~(b)~~<u>(c)</u> 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.

~~(c)~~<u>(d)</u> Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.

~~(d)~~(e) The Manager is not constrained regarding:

(1) transaction turnover

(2) liquidity requirements

(3) number of individual equity issues which must be held at any given time

(4) the percentage of assets held in cash reserves which must be held at any given time

(5) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. However, all commodity futures transactions must be done on a fully collateralized basis.

~~4. COMMUNICATION~~

~~The SBI requires its investment managers to communicate with SBI staff on a regular basis. Managers are expected to meet with staff to review the results of the manager's investment decision making process at least annually. In reviewing past and current investment strategies and performance, the Manager is expected to present the analysis relative to the benchmark portfolio.~~

~~The SBI requires a quarterly written report containing information as requested by SBI for each Account under the investment management supervision of the Managers. The Manager is expected to report monthly on returns and tracking error to the executive director and assistant executive director.~~

4. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

5. PROXY VOTING

The SBI is responsible for proxy voting.

6. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager 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. 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.

June 1996

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

First Quarter, 1997

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DOMESTIC STOCK MANAGERS
Period Ending 3/31/97

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 Years Actual %	3 Years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception (1) Actual %	Since Inception (1) Bmk %	Market Value (in millions)	Pool %
Active Managers												
Alliance	4.0	2.3	21.4	18.1	22.1	20.9	16.9	14.5	18.0	13.2	$926.45	6.5%
Brinson	1.0	0.8	18.4	14.7	23.4	19.2			18.7	15.7	$472.65	3.3%
Forstmann-Leff	2.6	-0.6	18.2	11.8	18.9	18.1	13.8	13.7	13.8	12.7	$496.68	3.5%
Franklin Portfolio	0.6	0.3	14.3	12.8	19.5	18.5	17.3	15.5	15.1	14.2	$617.13	4.3%
GeoCapital	-10.1	-9.6	1.7	-5.5	11.0	15.6	10.0	14.7	14.0	15.3	$353.40	2.5%
IAI	-4.5	-0.3	4.8	12.3	14.4	18.9			13.4	15.9	$167.59	1.2%
IDS	-5.3	2.1	13.5	19.5	18.3	22.1	15.2	17.4	15.1	15.4	$596.68	4.2%
Independence	3.0	2.7	17.5	19.9	20.6	22.5	16.3	16.9	15.6	16.2	$619.22	4.3%
Lincoln	0.8	1.5	19.5	19.8	24.7	23.0			19.6	18.2	$473.26	3.3%
Oppenheimer	2.5	1.5	21.0	16.6	24.5	20.3			19.9	16.4	$490.03	3.4%
Weiss Peck & Greer	-12.8	-8.6	-4.5	-3.2	11.9	12.7			10.0	11.9	$289.11	2.0%
Emerging Managers (2)	-1.8	-0.6	10.5	12.3	16.9	19.0			16.9	19.0	$431.92	3.0%
Semi-Passive Managers (3)												
Franklin Portfolio	2.2	2.3	17.3	18.6					26.0	26.5	$1,306.43	9.1%
JP Morgan	1.8	2.3	17.7	18.6					26.5	26.5	$1,347.83	9.4%
Barclays Global Investors	1.7	2.3	18.9	18.6					28.2	26.5	$1,360.11	9.5%
Passive Manager (4)												
Barclays Global Investors	0.8	0.6	16.0	15.5					20.9	20.6	$4,330.93	30.3%
									Since 1/1/84			
Current Aggregate	0.5	0.8	16.2	15.7	19.9	20.2	15.6	15.4	16.3	14.1	$14,279.43	100.0%
Historical Aggregate (5)	**0.5**	**0.8**	**15.8**	**15.6**	**19.4**	**20.0**	**14.9**	**15.4**	**14.3**	**14.6**		
Wilshire Adjusted		0.6		15.5		20.0		15.3		14.6		
Wilshire 5000		0.6		15.5		20.0		15.4		14.9		

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

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ALLIANCE CAPITAL MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Jack Koltes | **Assets Under Management: $926,454,657**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

—Well-acquainted with needs of large clients.

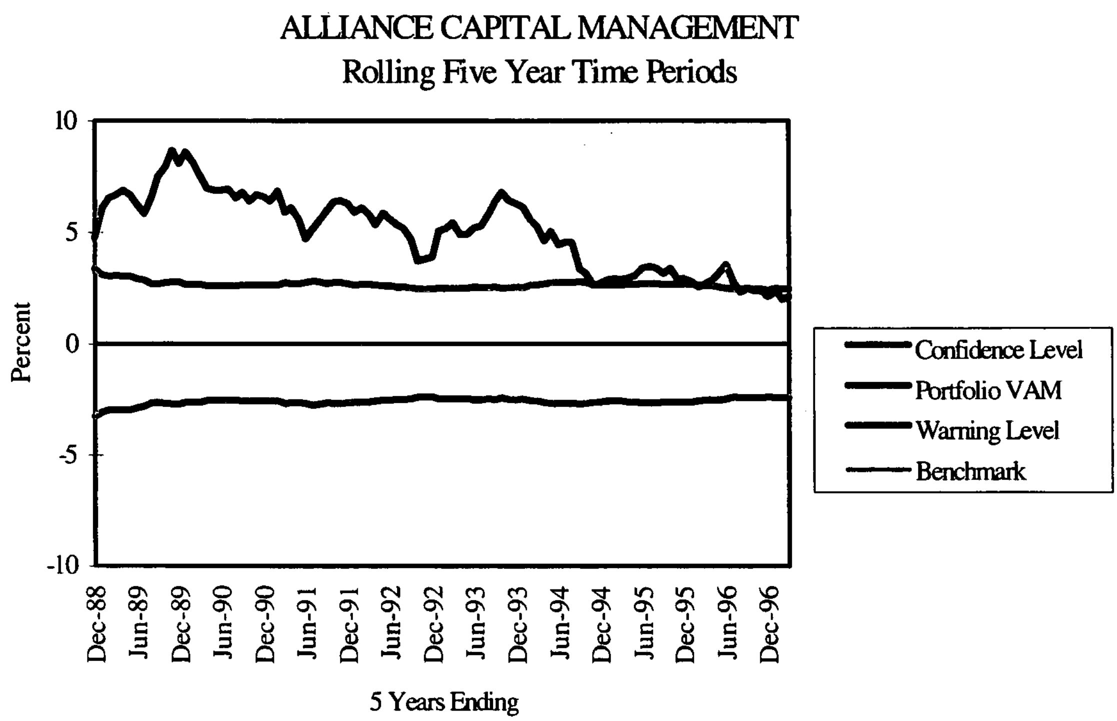
—Investment style consistently and successfully applied over a variety of market environments.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	2.3%
Last 1 year	21.4	18.1
Last 2 years	28.2	25.0
Last 3 years	22.1	20.9
Last 4 years	16.7	15.3
Last 5 years	16.9	14.5
Since Inception (1/84)	18.0	13.2

Recommendation

No action required.



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 3/31/97

Portfolio Manager: Jeff Diermeier | **Assets Under Management: $472,649,732**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

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

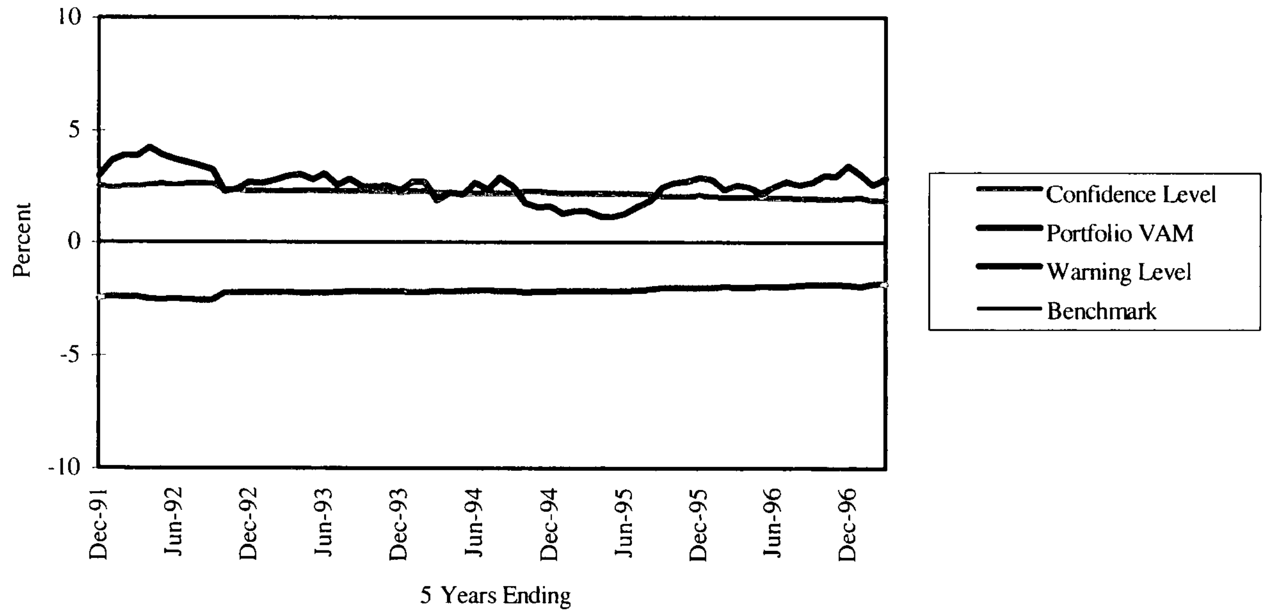
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	0.8%
Last 1 year	18.4	14.7
Last 2 years	28.1	22.2
Last 3 years	23.4	19.2
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	18.7	15.7

Recommendation

No action required.

BRINSON PARTNERS
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

FORSTMANN LEFF ASSOCIATES
Period Ending 3/31/97

Portfolio Manager: Joel Leff | **Assets Under Management: $496,678,401**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced leadership.

—Well acquainted with needs of large clients.

Concerns:

—Portfolio VAM appears to have diminished, over time.

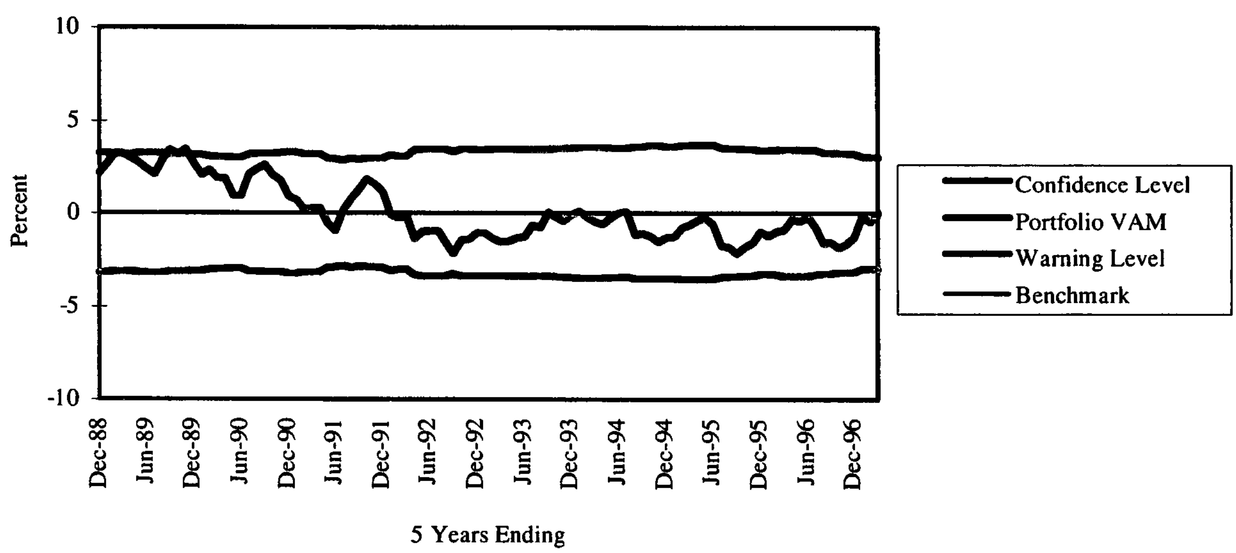
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	-0.6%
Last 1 year	18.2	11.8
Last 2 years	25.7	20.9
Last 3 years	18.9	18.1
Last 4 years	15.5	13.9
Last 5 years	13.8	13.7
Since Inception (1/84)	13.8	12.7

Recommendation

No action at this time. In November 1996, Forstmann Leff was reviewed by staff and the Domestic Manager Committee. The Committee recommended no action be taken. Staff continues to monitor the firm.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 3/31/97

Portfolio Manager: John Nagorniak | **Assets Under Management: $617,132,296**

Investment Philosophy

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. Franklin uses the BARRA E2 risk model to monitor the portfolio's systematic risk and industry weightings, relative to the selected benchmark, to achieve a residual risk of 3.0 to 3.5 percent for the active portfolio.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Firm's investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

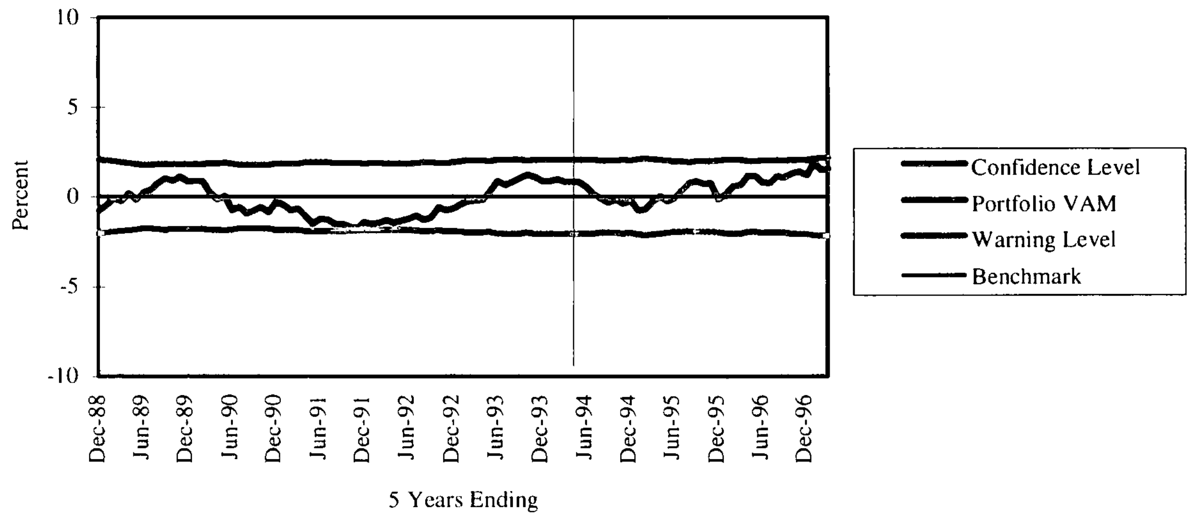
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.3%
Last 1 year	14.3	12.8
Last 2 years	23.0	21.1
Last 3 years	19.5	18.5
Last 4 years	15.8	14.6
Last 5 years	17.3	15.5
Since Inception (4/89)	15.1	14.2

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES
Rolling Five Year Time Periods



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.
Graph uses 80/20 confidence interval.

GEOCAPITAL CORP.
Period Ending 3/31/97

Portfolio Manager: Barry Fingerhut | **Assets Under Management: $353,395,733**

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 intrinsic value 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 intrinsic value 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 the lack of attractive investment opportunities.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

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

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

Concerns:

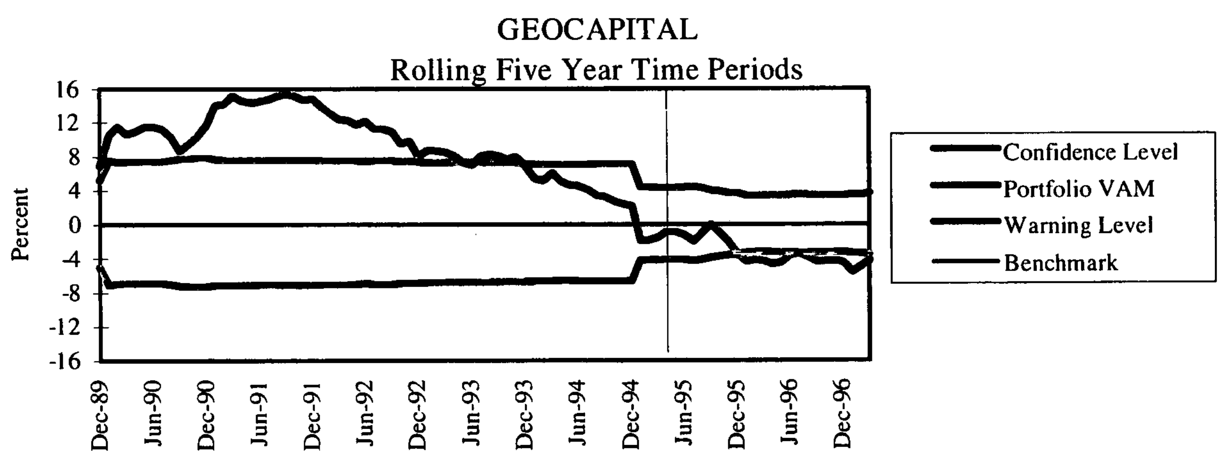
—Performance for the past year has been good, however, the 5 year rolling VAM continues to lag expectations.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-10.1%	-9.6%
Last 1 year	1.7	-5.5
Last 2 years	13.2	13.2
Last 3 years	11.0	15.6
Last 4 years	11.5	15.5
Last 5 years	10.0	14.7
Since Inception (4/90)	14.0	15.3

Recommendation

No action at this time. GeoCapital was reinterviewed by the Domestic Manager Committee during the 1Q97. In March 1997 the Board concurred with the Committee's recommendation to continue to retain GeoCapital. Staff continues to monitor the firm.



Note: Scale differs from other VAM graphs. Graph uses 80/20 confidence interval.
Area to the left of vertical line includes performance prior to retention by the SBI.

INVESTMENT ADVISERS INC.
Period Ending 3/31/97

Portfolio Manager: Mark Hoonsbeen **Assets Under Management: $167,593,207**

Investment Philosophy

IAI's investment philosophy is to own the highest quality companies which demonstrate sustainable growth. IAI tries to achieve this objective by investing at least 80% of the portfolio in companies which have their headquarters in Minnesota, Wisconsin, Illinois, Iowa, Nebraska, Montana, North Dakota, or South Dakota. If IAI cannot find enough investment opportunities in the region, up to 20% of the portfolio can be used to purchase stocks that display the same quality and growth characteristics but have headquarters outside this region.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Attractive, unique investment approach.

Concerns:

—The equity team has experienced signficant staff turnover and internal re-organization.

—Performance continues to lag expectations.

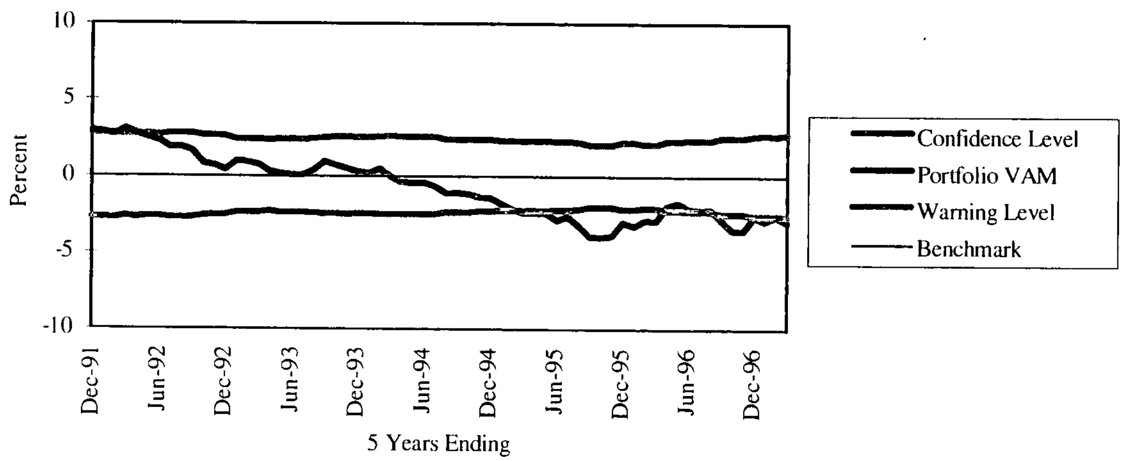
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.5%	-0.3%
Last 1 year	4.8	12.3
Last 2 years	16.5	20.5
Last 3 years	14.4	18.9
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	13.4	15.9

Recommendation

No action at this time. IAI was reviewed by staff and the Domestic Manager Committee in November 1996. The Committee recommended no action be taken at that time. Staff continues to closely monitor performance and organizational changes at the firm.

INVESTMENT ADVISERS INC.
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

IDS ADVISORY
Period Ending 3/31/97

Portfolio Manager: Jim Johnson **Assets Under Management: $596,679,038**

Investment Philosophy

IDS employs a "rotational" style of management, shifting among industry sectors based upon its outlook for the economy and the financial markets. The firm primarily emphasizes sector and industry weighting decisions. After the sector weightings have been determined, IDS reaches the desired weightings by selecting the best sectors based on fundamental analysis by their in-house analysts. Moderate market timing is also used. Over a market cycle, IDS will invest in a wide range of industries. They tend to buy liquid, large capitalization stocks. While IDS will make occasional significant asset mix shifts over a market cycle, the firm is a less aggressive market timer than most rotational managers.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

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

—Familiar with the needs of large institutional clients.

Concerns:

—Performance continues to lag expectations.

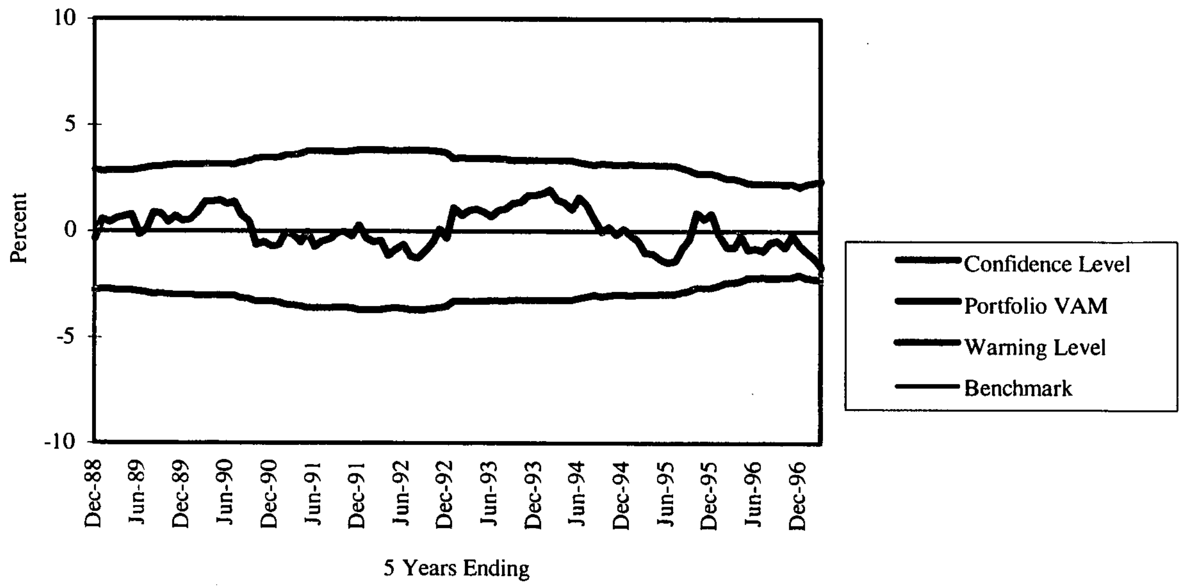
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.3%	2.1%
Last 1 year	13.5	19.5
Last 2 years	22.7	25.9
Last 3 years	18.3	22.1
Last 4 years	14.7	17.1
Last 5 years	15.2	17.4
Since Inception (1/84)	15.1	15.4

Recommendation

No action required.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval

INDEPENDENCE INVESTMENT ASSOCIATES
Period Ending 3/31/97

Portfolio Manager: Bill Fletcher **Assets Under Management: $619,216,769**

Investment Philosophy

Independence believes that individual stocks which outperform the market always have two characteristics: they are intrinsically cheap and their business is in the process of improving. Independence ranks their universe using a multifactor model. Based on input primarily generated by their internal analysts, the model ranks each stock based on 10 discrete criteria. Independence restricts their portfolio to the top 60% of their ranked universe. The portfolio is optimized relative to the client's benchmark to minimize market and industry risks. Independence maintains a fully invested portfolio and rarely holds more than a 1% cash position.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

Concerns:

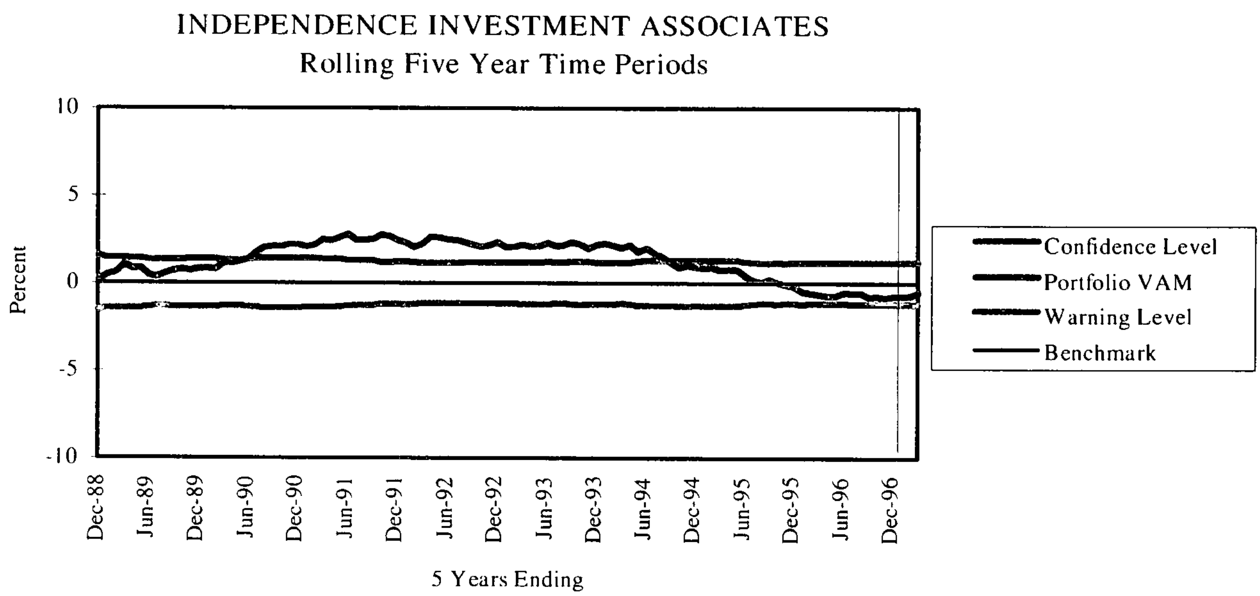
—Portfolio VAM appears to have diminished over time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	2.7%
Last 1 year	17.5	19.9
Last 2 years	24.7	26.2
Last 3 years	20.6	22.5
Last 4 years	15.6	16.6
Last 5 years	16.3	16.9
Since Inception (2/92)	15.6	16.2

Recommendation

No action required.



Note: Area to the left of vertical line includes performance prior to retention by the SBI.
Graph uses 80/20 confidence interval.

LINCOLN CAPITAL MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Parker Hall | **Assets Under Management: $473,256,518**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Organizational continuity and strong leadership.

—Familiar with the needs of large clients.

—Investment style has been consistently and successfully applied over a number of market cycles.

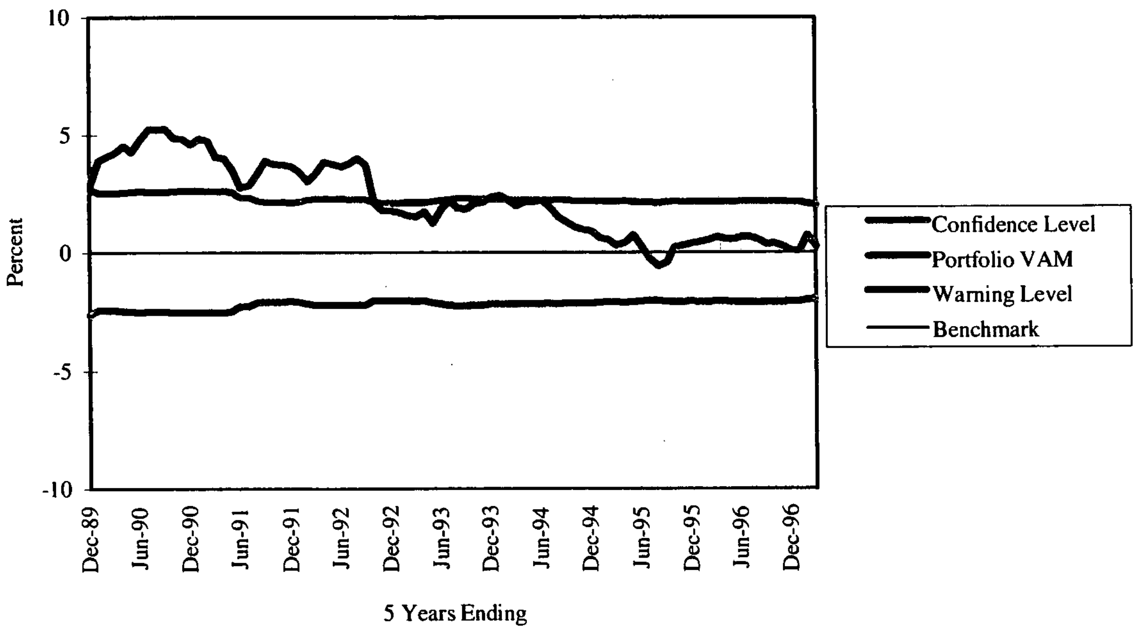
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	1.5%
Last 1 year	19.5	19.8
Last 2 years	28.1	25.5
Last 3 years	24.7	23.0
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	19.6	18.2

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

OPPENHEIMER CAPITAL
Period Ending 3/31/97

Portfolio Manager: John Lindenthal | **Assets Under Management: $490,032,907**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

—Investment style has been consistently and successfully applied over a number of market cycles.

—Performance has exceeded expectations over time.

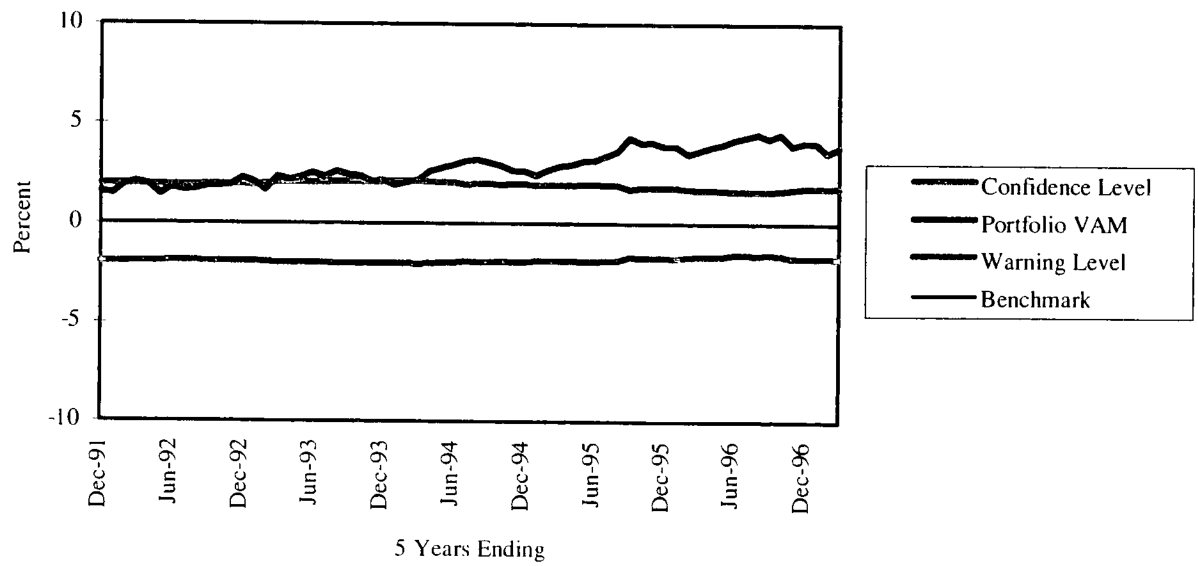
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.5%	1.5%
Last 1 year	21.0	16.6
Last 2 years	29.2	23.7
Last 3 years	24.5	20.3
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	19.9	16.4

Recommendation

No action required.

OPPENHEIMER CAPITAL
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

WEISS, PECK & GREER
Period Ending 3/31/97

Portfolio Manager: Melville Straus — **Assets Under Management: $289,109,935**

Investment Philosophy

Weiss, Peck & Greer's dynamic growth process concentrates on small to medium size growth companies that have demonstrated consistently superior earnings growth rates. The process emphasizes companies in new or dynamic, rapidly growing industries where there is a potential for a major acceleration in earnings growth. The firm also believes that superior stock selection can be achieved through in-depth fundamental company research.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Investment style has been consistently applied over a number of market cycles.

Concerns:

—Performance pattern has been very volatile, over time.

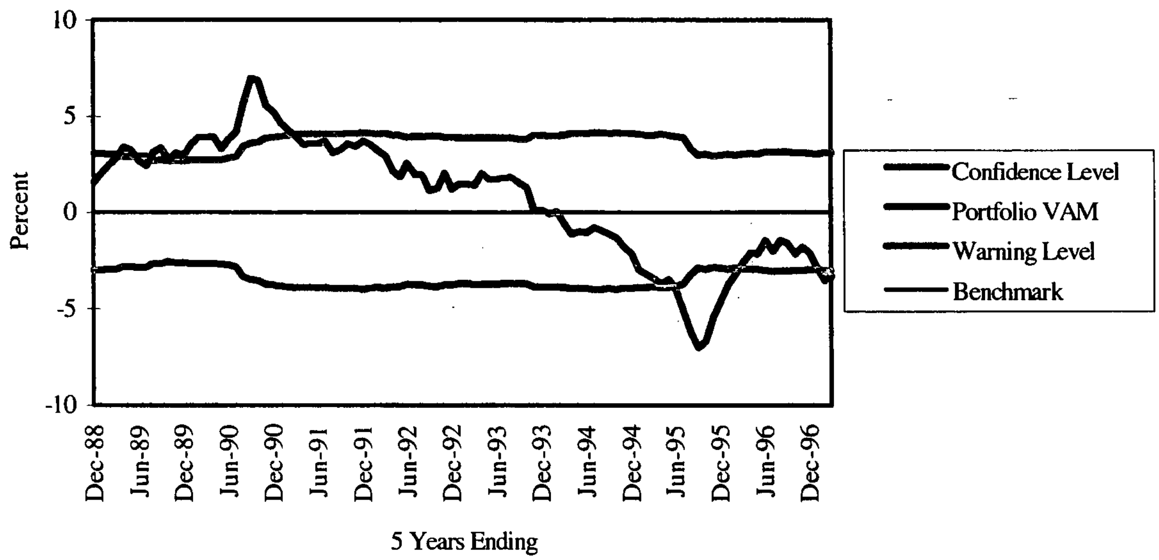
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-12.8%	-8.6%
Last 1 year	-4.5	-3.2
Last 2 years	17.0	13.2
Last 3 years	11.9	12.7
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	10.0	11.9

Recommendation

No action at this time. Weiss, Peck & Greer was reviewed by Staff and the Domestic Manager Committee in November 1996. The Committee recommended that no action be taken. Staff continues to monitor the firm.

WEISS, PECK & GREER
Rolling Five Year Periods



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 3/31/97

Portfolio Manager: John Nagorniak **Assets Under Management: $1,306,431,666**

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 E2 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 acheive a residual risk of 1.5% or less. The firm remains fully invested at all times.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firm's investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Quantitative Evaluation

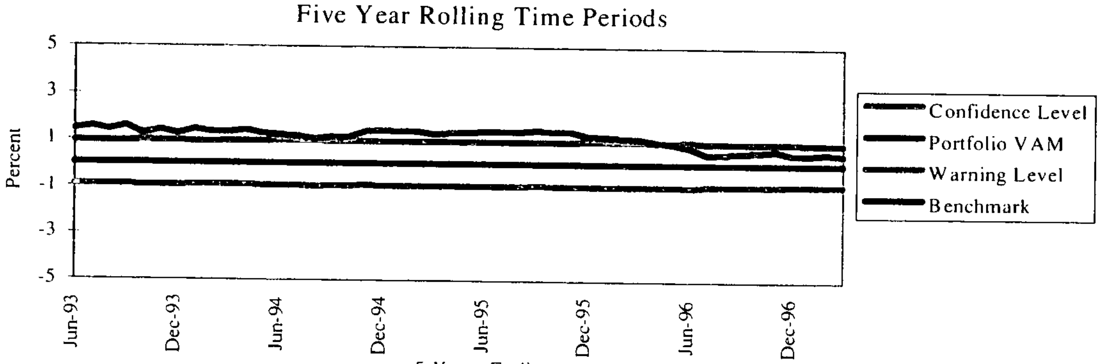
	Actual	Benchmark*
Last Quarter	2.2%	2.3%
Last 1 year	17.3	18.6
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	26.0	26.5

* Completeness Fund

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES - SEMI-PASSIVE
Five Year Rolling Time Periods



Note: Graph uses 80/20 confidence interval. Scale differs from other manager VAM graphs.
Shaded area includes performance prior to managing SBI account.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Period Ending 3/31/97

Portfolio Manager: Rick Nelson **Assets Under Management: $1,347,834,032**

Investment Philosophy
Semi-Passive

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.8%	2.3%
Last 1 year	17.7	18.6
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	26.5	26.5

* Completeness Fund

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

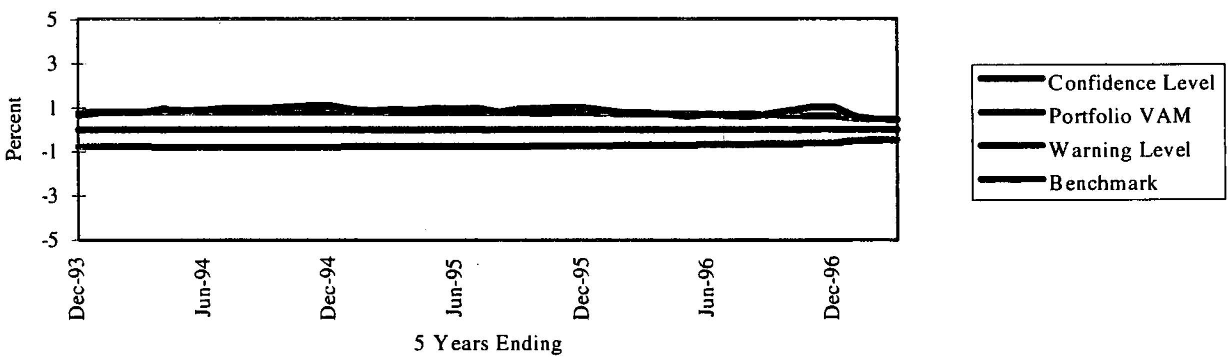
—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Recommendation

No action required.

J.P. MORGAN INVESTMENT MANAGEMENT - SEMI-PASSIVE
Five Year Rolling Time Periods



Note: Graph uses 80/20 confidence interval. Scale differs from other manager VAM graphs.
Shaded area includes performance prior to managing the SBI account.

BARCLAYS GLOBAL INVESTORS
Period Ending 3/31/97

Portfolio Manager: Nancy Feldkircher | **Assets Under Management: $1,360,112,759**

Investment Philosophy
Semi-Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Attractive, unique investment approach.

Quantitative Evaluation

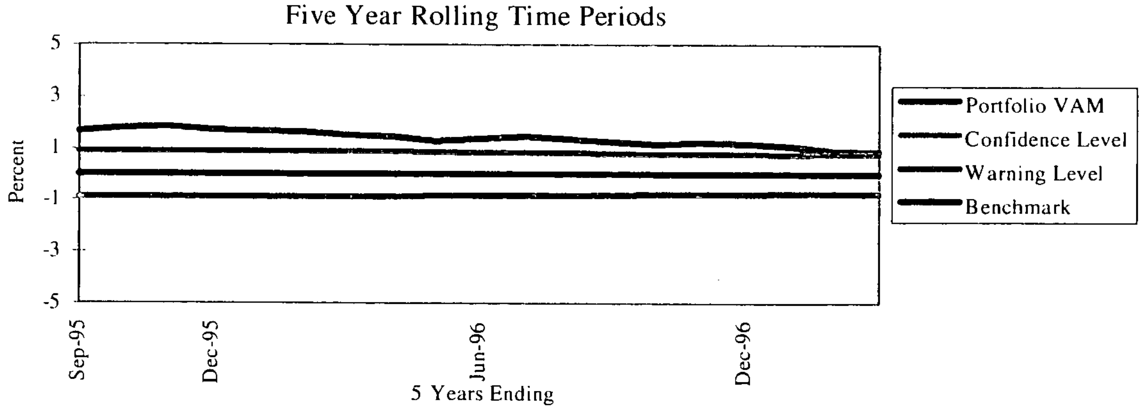
	Actual	Benchmark*
Last Quarter	1.7%	2.3%
Last 1 year	18.9	18.6
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	28.2	26.5

* Completeness Fund

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS-SEMI-PASSIVE
Five Year Rolling Time Periods



Note: Graph uses 80/20 confidence interval. Scale differs from other manager VAM graphs.
Shaded area includes performance prior to managing the SBI account.

BARCLAYS GLOBAL INVESTORS
Period Ending 3/31/97

Portfolio Manager: Andrew R. Olma | **Assets Under Management: $4,330,934,833**

Investment Philosophy
Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	0.6%
Last 1 year	16.0	15.5
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/95)	20.9	20.6

Recommendation

No action required.

Tracking graph will be created for period ending 6/30/97.

GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Period Ending 3/31/97

Portfolio Manager: Gene Bolton **Assets Under Management: $162,164,403**

Investment Philosophy
Assigned Risk Plan

GE Investment's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. Four portfolio managers with different styles ranging from growth to value are supported by industry analysts and research assistants. The four portfolios are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up prospective.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

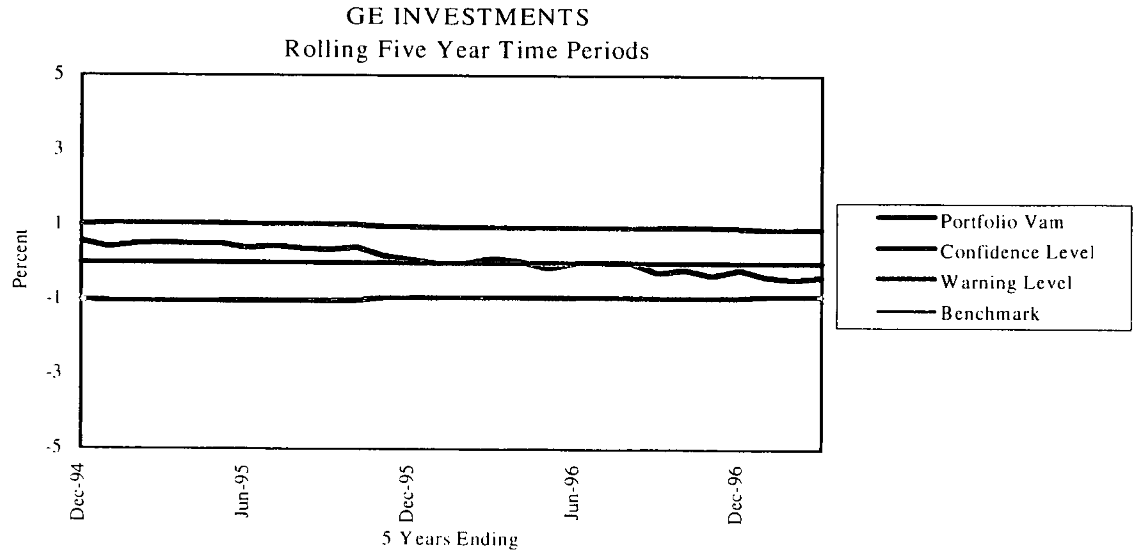
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.4%	2.6%
Last 1 year	18.2	19.8
Last 2 years	25.0	25.9
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	27.0	27.9

Recommendation

No action required.



Notes: Shaded areas includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Period Ending 3/31/97

Portfolio Manager: Lois Buermann | **Assets Under Management: $80,641,620**

Investment Philosophy
Environmental Trust Fund

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

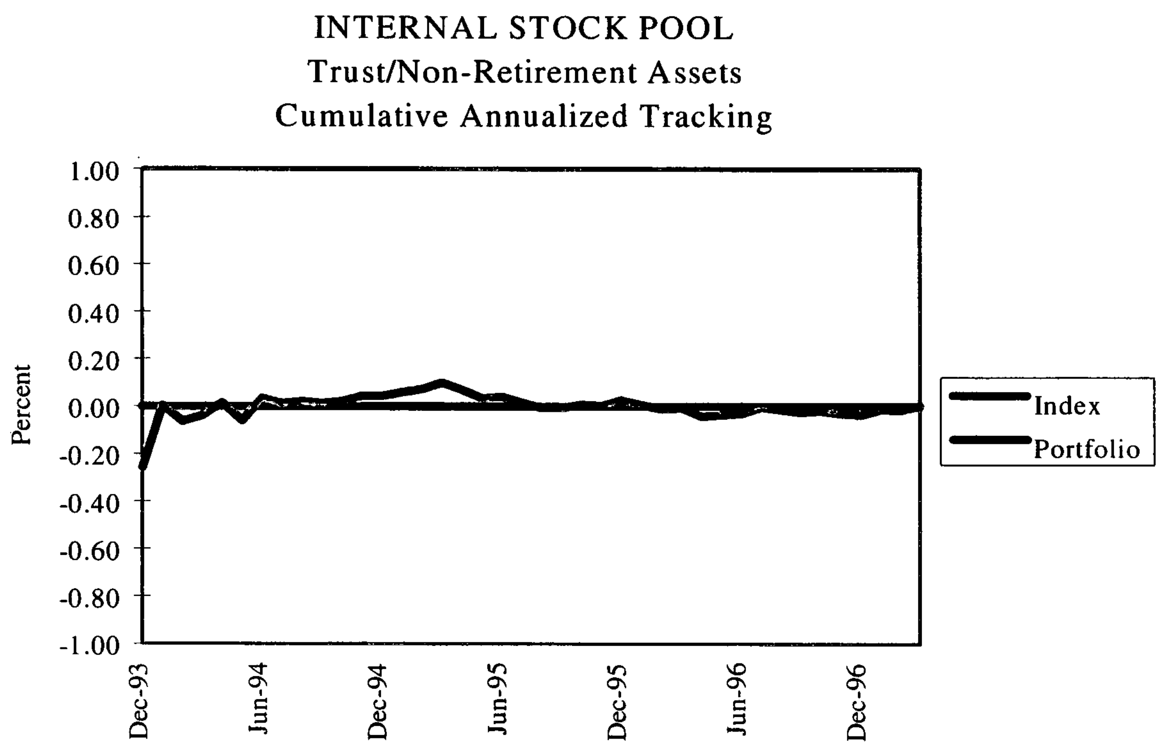
Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.8%	2.6%
Last 1 year	19.9	19.8
Last 2 years	25.8	25.9
Last 3 years	22.4	22.4
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	17.9	17.9

Recommendation

No action required.



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STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

First Quarter, 1997

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EMERGING EQUITY MANAGERS
Period Ending 3/31/97

	Quarter		1 Year		3 years		5 Years		Since Inception		Market	Pool
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
CIC Assets	0.6	2.4	14.2	18.4	19.6	21.6			19.6	21.6	$51.27	11.9%
Cohen, Klingenstein, & Marks	1.3	2.8	19.1	17.7	22.7	19.8			22.7	19.8	55.51	12.9%
Compass Capital	1.2	1.0	12.6	16.6	19.3	19.3			19.3	19.3	50.93	11.8%
Kennedy Capital	-1.2	-2.6	13.1	6.4	15.7	12.5			15.7	12.5	46.49	10.8%
New Amsterdam	0.2	0.3	14.8	12.5	16.5	17.4			16.5	17.4	47.46	11.0%
Valenzuela Capital	3.1	0.3	26.7	12.9	21.2	17.4			21.2	17.4	53.48	12.4%
Wilke/Thompson	-13.5	-8.2	-19.1	-2.4	6.5	11.1			6.5	11.1	36.20	8.4%
Winslow Capital	-6.8	-1.6	3.7	12.4	13.6	17.8			13.6	17.8	43.95	10.2%
Zevenbergen Capital	-4.1	-1.7	10.4	14.4	15.8	18.1			15.8	18.1	46.63	10.8%
											$431.92	**100.0%**
									Since 4/1/94			
Current Aggregate	-1.8	-0.6 *	10.5	12.2 *	17.1	17.4*			17.1	17.4 *		
Historical Aggregate	**-1.8**	**-0.6 ***	**10.5**	**12.2 ***	**16.9**	**17.5***			**16.9**	**17.5 ***		

Note:
Inception date for all managers is 4/1/94.
* Weighted average of above benchmarks.

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CIC ASSET MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Jorge Castro | **Assets Under Management: $51,274,144.82**

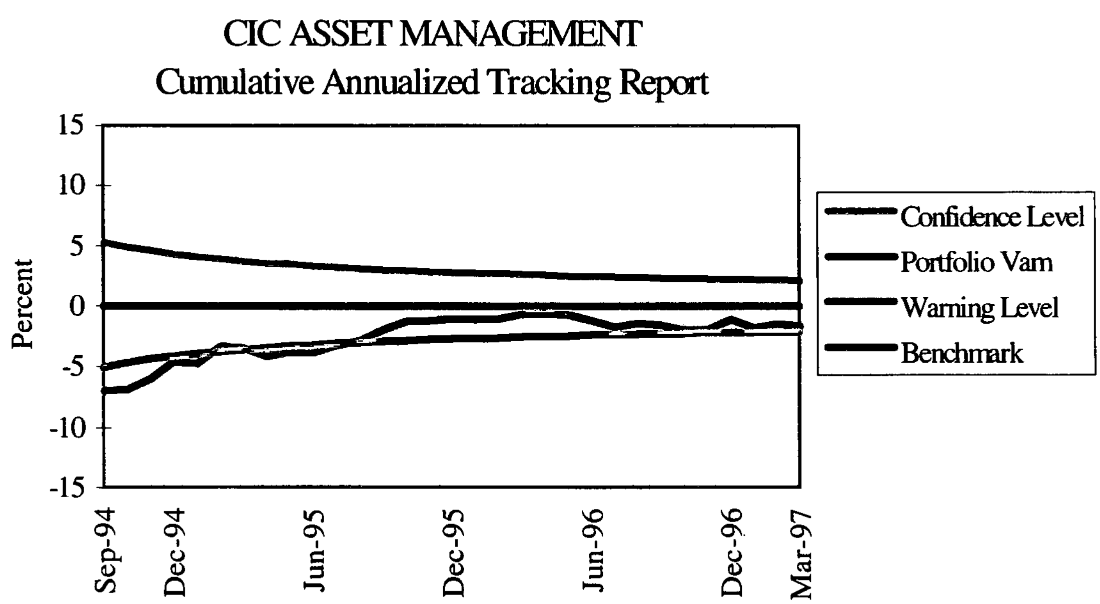
Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.6%	2.4%
Last 1 Year	14.2	18.4
Last 2 Years	24.0	25.0
Last 3 Years	19.6	21.6
Since Inception (4/94)	19.6	21.6

* Custom benchmark since inception date.



Note: Graph uses 80/20 confidence interval.

COHEN KLINGENSTEIN & MARKS INCORPORATED
Period Ending 3/31/97

Portfolio Manager: George Cohen **Assets Under Management: $55,508,087.57**

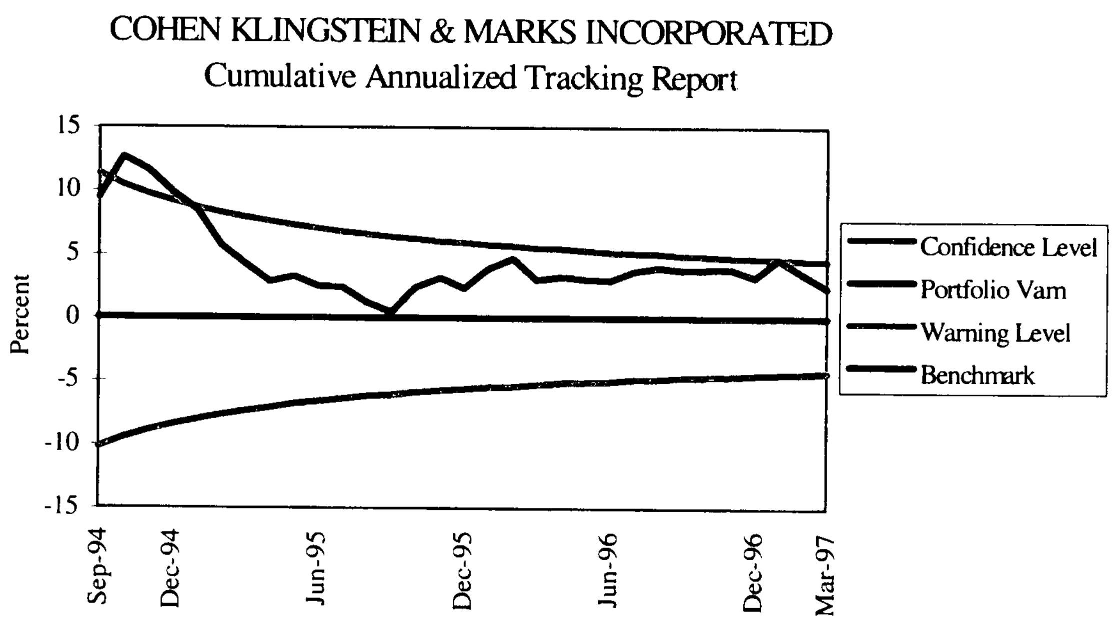
Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.3%	2.8%
Last 1 Year	19.1	17.7
Last 2 Years	25.7	23.8
Last 3 Years	22.7	19.8
Since Inception (4/94)	22.7	19.8

* Custom benchmark since inception date.



Note: Graph uses 80/20 confidence interval.

COMPASS CAPITAL MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Charles Kelley | **Assets Under Management: $50,926,594.51**

Investment Philosophy

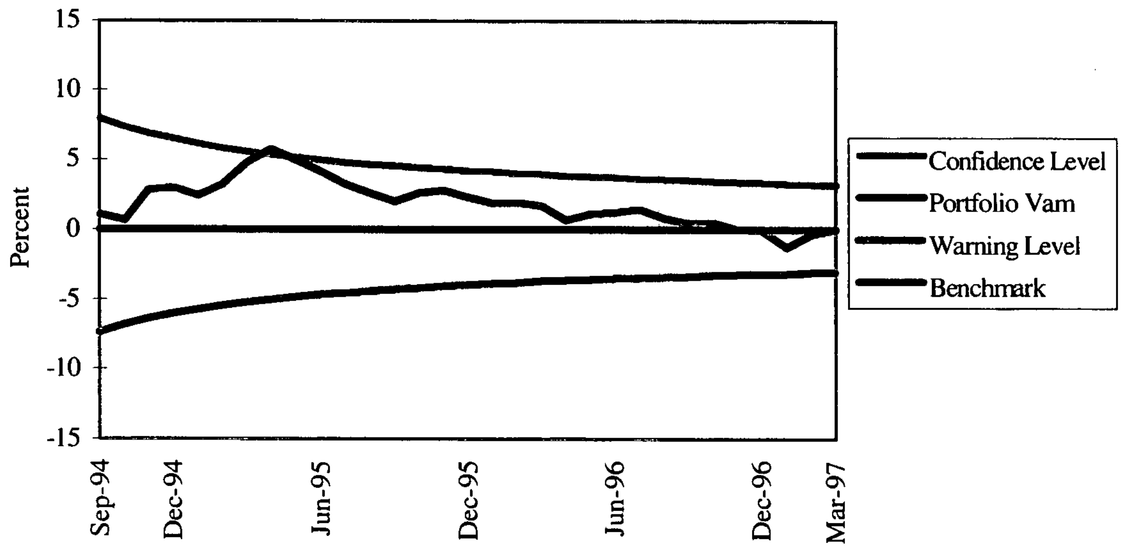
Compass Capital Management (CCM) combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value). They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy and companies whose earnings have grown well 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 hold no utility, bank, deep cyclical (auto companies for example), or oil and gas stocks.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.2%	1.0%
Last 1 Year	12.6	16.6
Last 2 Years	19.8	22.7
Last 3 Years	19.3	19.3
Since Inception (4/94)	19.3	19.3

* Custom benchmark since inception date.

COMPASS CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.

NEW AMSTERDAM PARTNERS
Period Ending 3/31/97

Portfolio Manager: Michelle Clayman **Assets Under Management: $47,462,162.92**

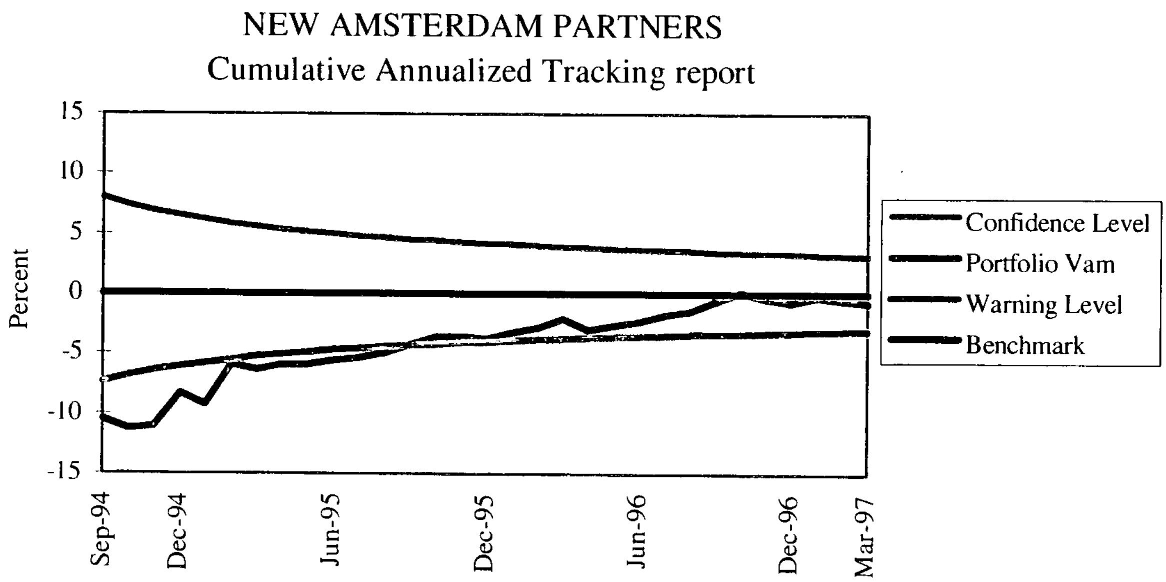
Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.2%	0.3%
Last 1 Year	14.8	12.5
Last 2 Years	21.5	18.9
Last 3 Years	16.5	17.4
Since Inception (4/94)	16.5	17.4

* Custom benchmark since inception date.



Note: Graph uses 80/20 confidence interval.

VALENZUELA CAPITAL MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Tom Valenzuela | **Assets Under Management: $53,480,110.15**

Investment Philosophy

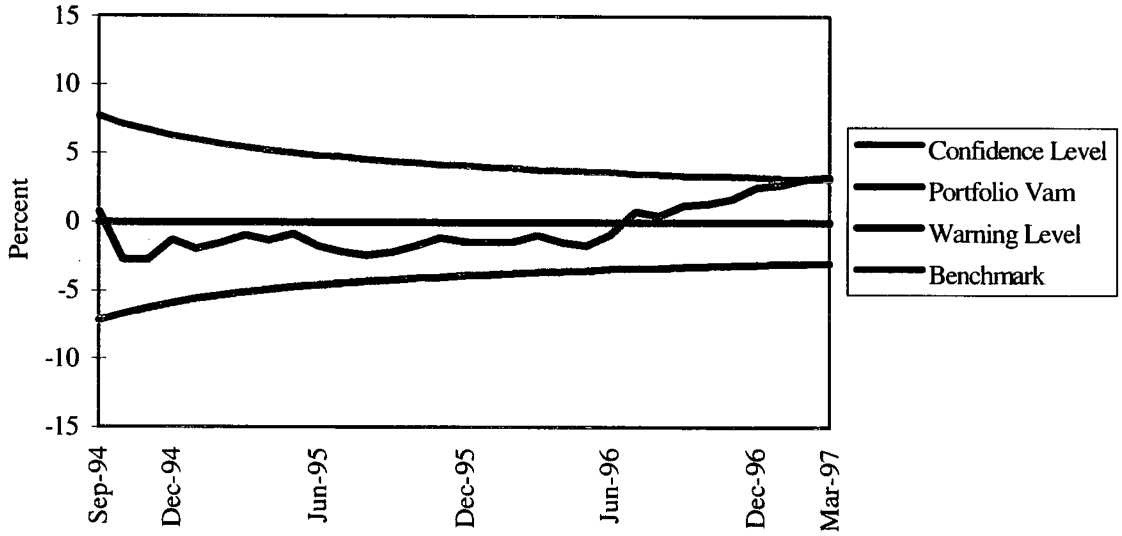
Valenzuela Capital Management's (VCM) believes that stock selection and adherence to valuation analysis are the backbone of superior performance. Their investment philosophy is one of risk averse growth. VCM seeks companies undergoing strong rates of change in earnings, cash flow and returns. These companies 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 believe that below market valuations provide downside protection during weak market periods. In strong markets the portfolios will be driven by both earnings growth and multiple expansion.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.1%	0.3%
Last 1 Year	26.7	12.9
Last 2 Years	27.1	20.5
Last 3 Years	21.2	17.4
Since Inception (4/94)	21.2	17.4

* Custom benchmark since inception date.

VALENZUELA CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 3/31/97

Portfolio Manager: Mark Thompson **Assets Under Management: $36,201,775.39**

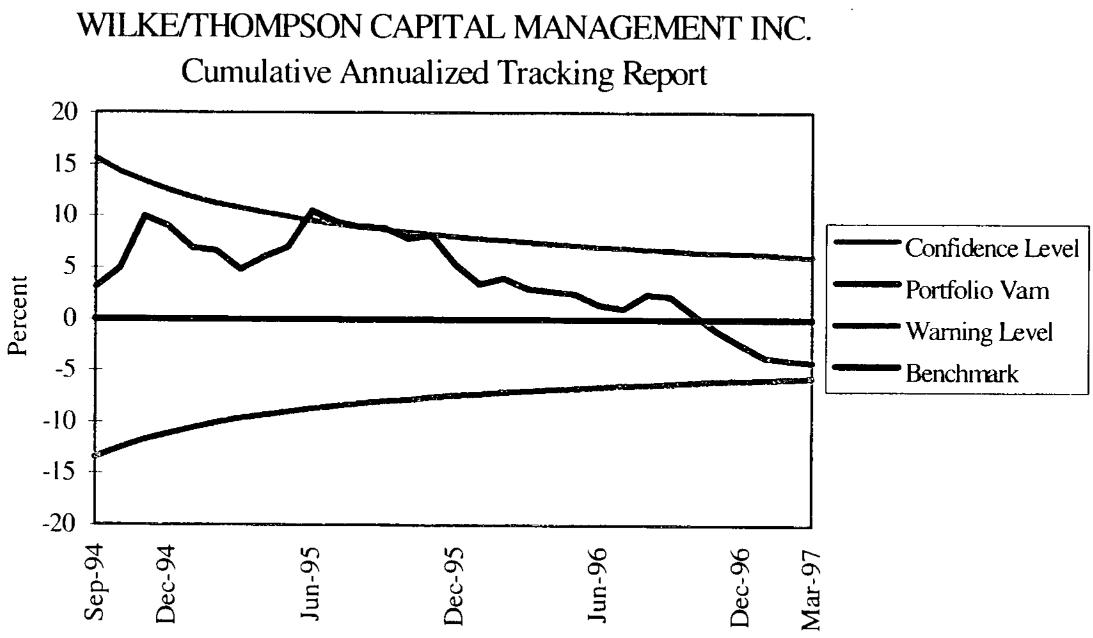
Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-13.5%	-8.2%
Last 1 Year	-19.1	-2.4
Last 2 Years	3.0	12.4
Last 3 Years	6.5	11.1
Since Inception (4/94)	6.5	11.1

* Custom benchmark since inception date.



Note: Graph uses 80/20 confidence interval. Scale differs from other graphs.

WINSLOW CAPITAL MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: **Clark Winslow** **Assets Under Management: $43,946,349.02**

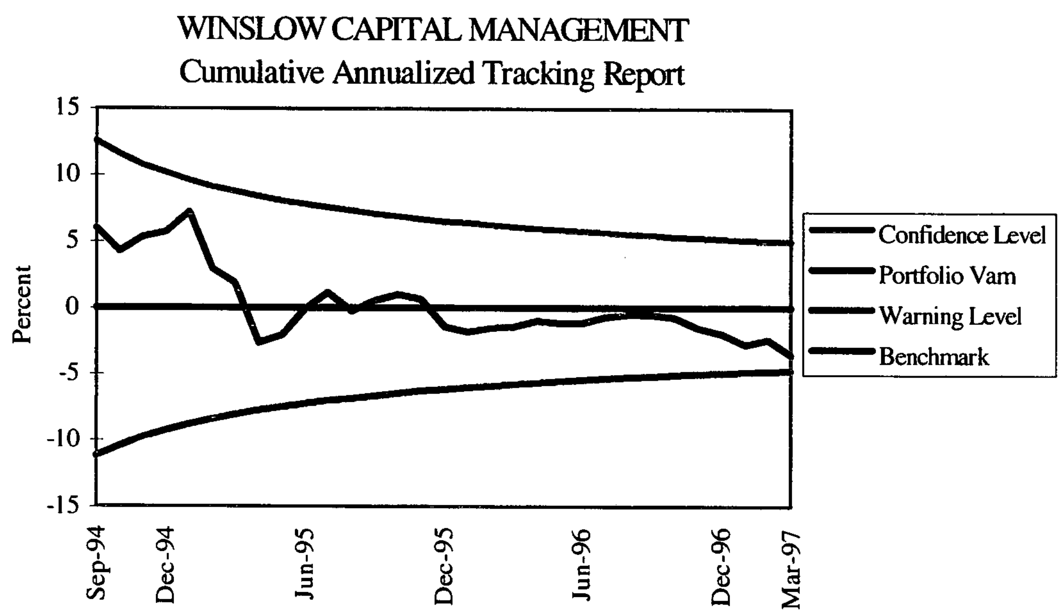
Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-6.8%	-1.6%
Last 1 Year	3.7	12.4
Last 2 Years	12.9	20.4
Last 3 Years	13.6	17.8
Since Inception (4/94)	13.6	17.8

* Custom benchmark since inception date.



Note: Graph uses 80/20 confidence interval.

ZEVENBERGEN CAPITAL INC
Period Ending 3/31/97

Portfolio Manager: **Nancy Zevenbergen** **Assets Under Management: $46,626,253.67**

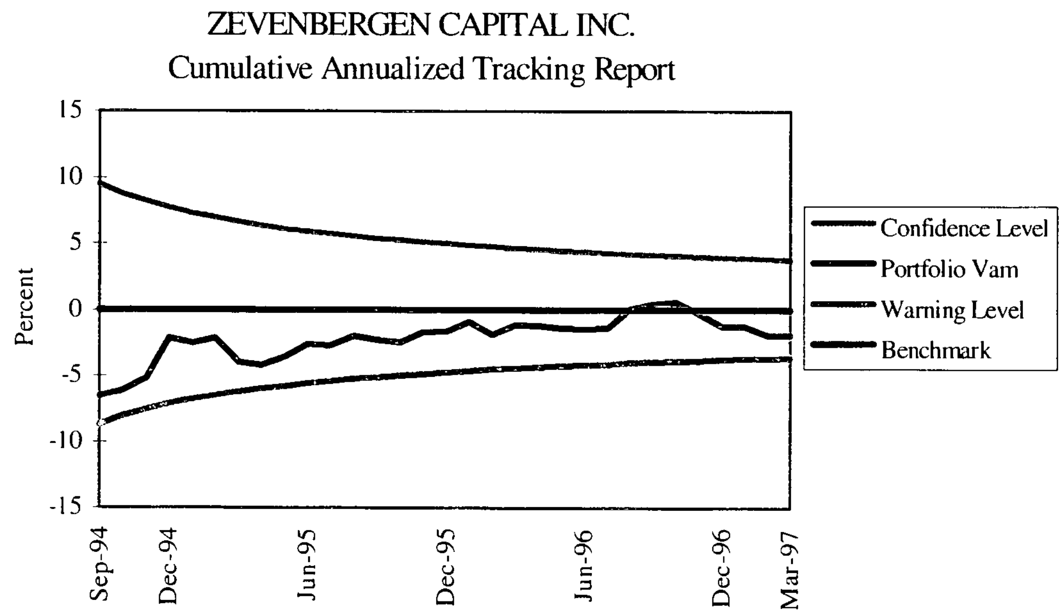
Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-4.1%	-1.7%
Last 1 Year	10.4	14.4
Last 2 Years	19.5	20.6
Last 3 Years	15.8	18.1
Since Inception (4/94)	15.8	18.1

* Custom benchmark since inception date.



Note: Graph uses 80/20 confidence interval.

STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 1997

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BOND MANAGERS
Period Ending 3/31/97

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Active Managers												
BEA	-1.2	-0.6	6.1	4.9	7.1	6.9			5.7	5.4	$442.77	5.9%
IAI	-0.7	-0.6	4.7	4.9	6.0	6.9	7.5	7.3	10.9	10.8	546.89	7.3%
IDS	-0.4	-0.6	4.9	4.9	7.0	7.0			5.5	5.5	341.79	4.6%
Miller	-0.3	-0.6	7.5	4.9	7.7	6.9	8.4	7.3	11.2	10.8	736.93	9.9%
Standish	-0.4	-0.6	6.7	4.9	7.1	6.9			5.6	5.4	613.87	8.2%
Western	-0.3	-0.6	7.3	4.9	8.1	6.9	8.7	7.3	12.1	10.8	1,080.98	14.5%
Semi-Passive Managers												
BlackRock	-0.3	-0.6	5.4	4.9					5.4	4.9	1,247.22	16.7%
Goldman	-0.3	-0.6	5.7	4.9	7.3	6.9			5.9	5.4	1,244.64	16.7%
Lincoln	-0.6	-0.6	5.0	4.9	6.9	6.9	7.3	7.3	8.8	8.8	1,217.90	16.3%
											$7,472.99	**100.0%**
									Since 7/1/84			
Current Aggregate	-0.5	-0.6	5.9	4.9	7.2	6.9	7.8	7.3	11.3	10.8		
Historical Aggregate (2)	**-0.5**	**-0.6**	**5.9**	**4.9**	7.1	**6.9**	**7.8**	**7.3**	**10.8**	**10.7**		
Lehman Aggregate (3)		-0.6		4.9		6.9		7.3		10.3		

(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.

BEA ASSOCIATES
Period Ending 3/31/97

Portfolio Manager: Bob Moore | **Assets Under Management: $442,765,286.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

— Highly successful and experienced professionals.

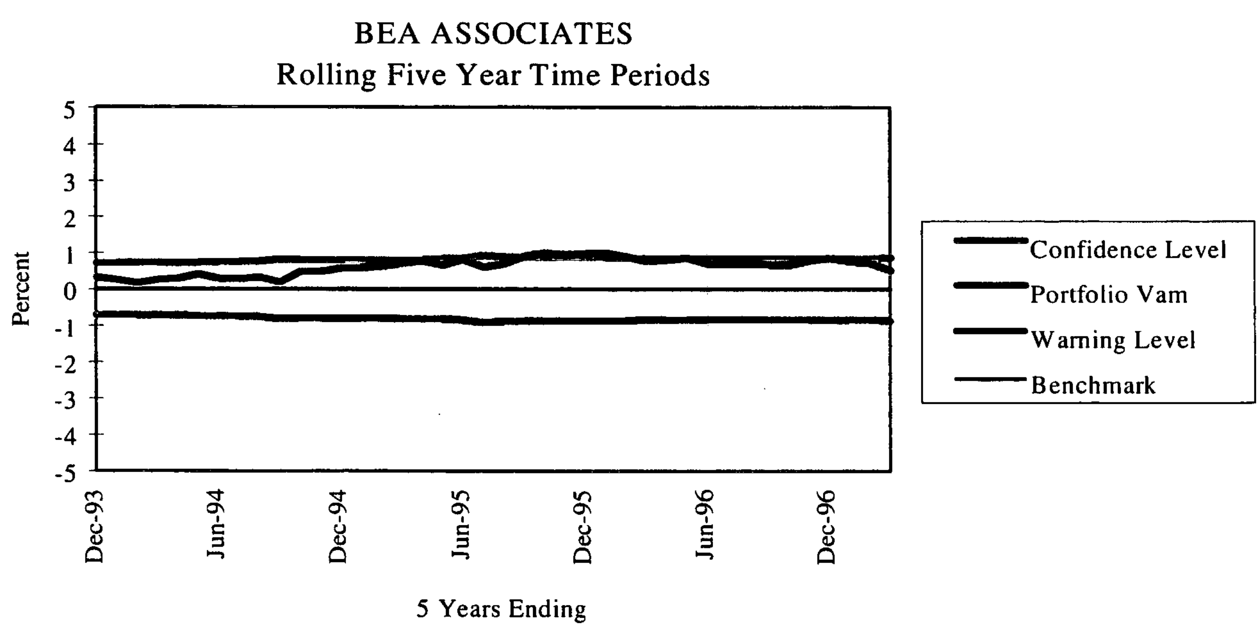
— Extensive option analysis capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.2%	-0.6%
Last 1 year	6.1	4.9
Last 2 years	8.4	7.8
Last 3 years	7.1	6.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.7	5.4

Recommendations

No action required.



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

INVESTMENT ADVISERS
Period Ending 3/31/97

Portfolio Manager: Larry Hill | **Assets Under Management: $546,890,790.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Current concerns:

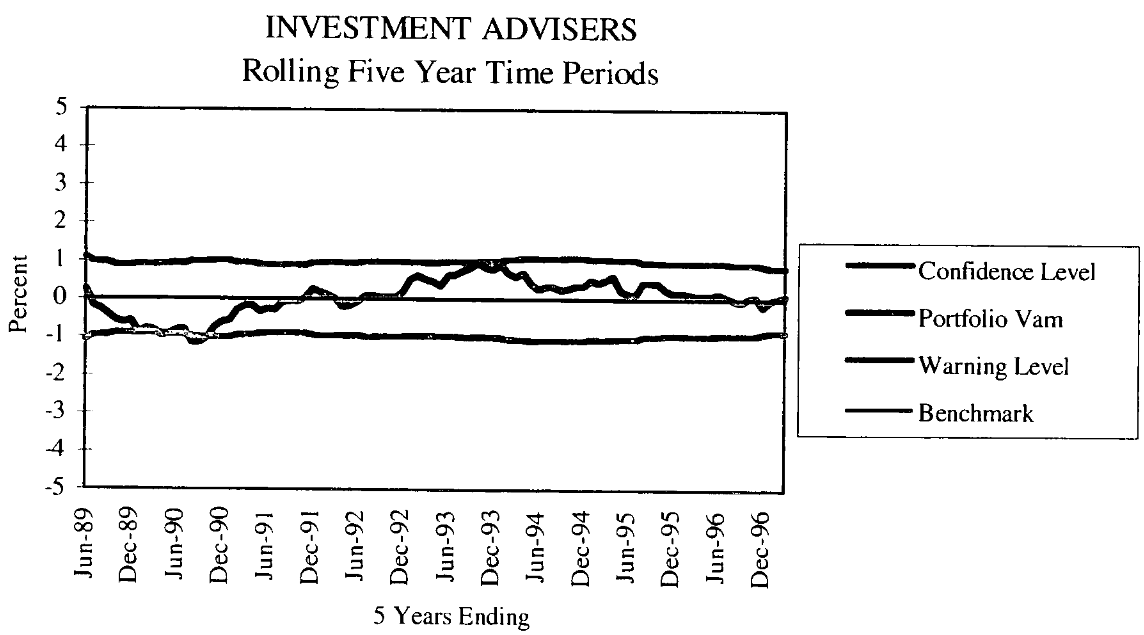
—The manager's duration decisions have added value over the long term. Recently, this strategy has not been as successful.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.7%	-0.6%
Last 1 year	4.7	4.9
Last 2 years	6.9	7.8
Last 3 years	6.0	6.9
Last 4 years	5.3	5.8
Last 5 years	7.5	7.3
Since Inception (7/84)	10.9	10.8

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

IDS ADVISORY GROUP
Period Ending 3/31/97

Portfolio Manager: Ed Labenski **Assets Under Management: $341,785,962.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive corporate research capabilities.

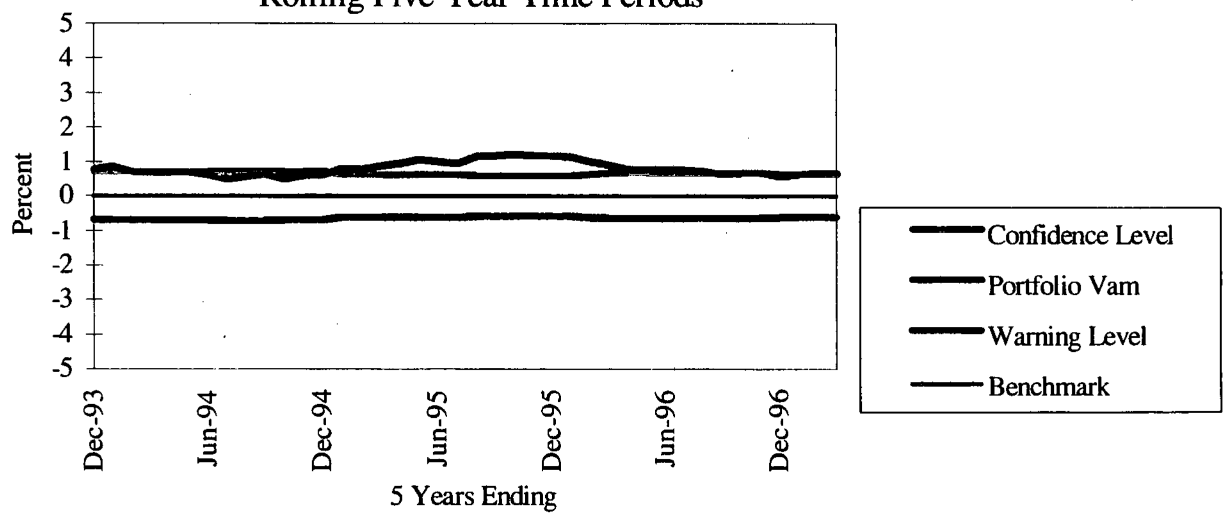
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.4%	-0.6%
Last 1 year	4.9	4.9
Last 2 years	8.2	8.1
Last 3 years	7.0	7.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.5	5.5

Recommendations

No action required.

IDS ADVISORY GROUP
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

MILLER ANDERSON & SHERRERD
Period Ending 3/31/97

Portfolio Manager: Tom Bennett **Assets Under Management: $736,931,907.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The firms strengths continue to be:

—Highly successful and experienced professionals.

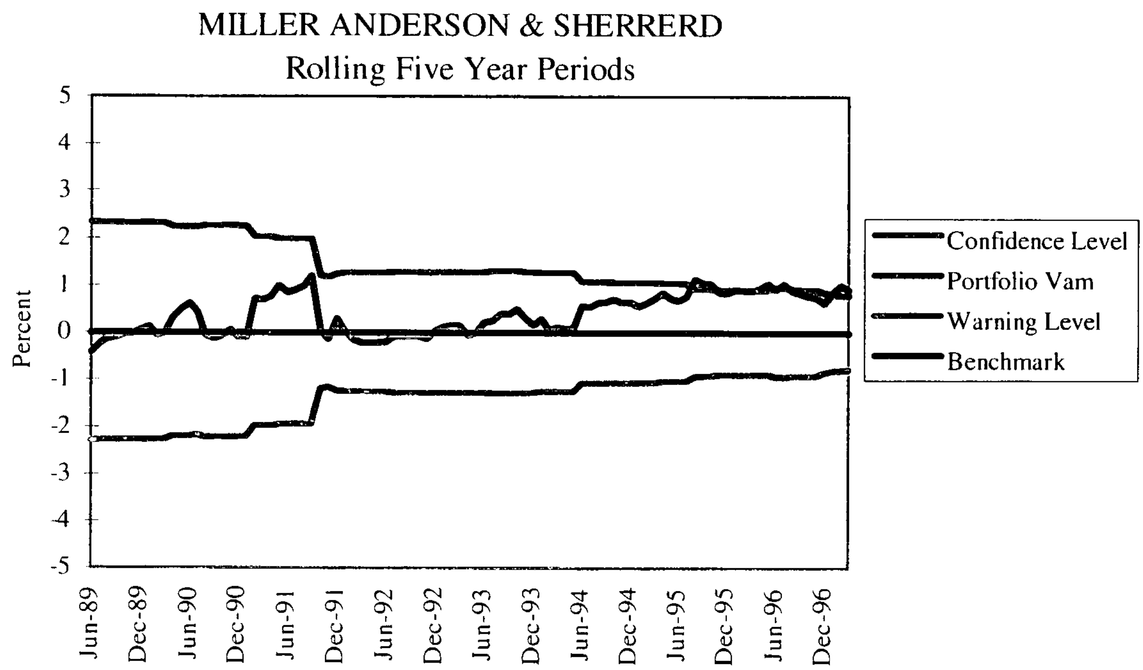
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	7.5	4.9
Last 2 years	9.7	7.8
Last 3 years	7.7	6.9
Last 4 years	6.8	5.8
Last 5 years	8.4	7.3
Since Inception (7/84)	11.2	10.8

Recommendations

No action required.



Note: Grpah uses 80/20 confidence interval.

STANDISH, AYER & WOOD
Period Ending 3/31/97

Portfolio Manager: **Austin Smith** | **Assets Under Management: $613,867,818.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals

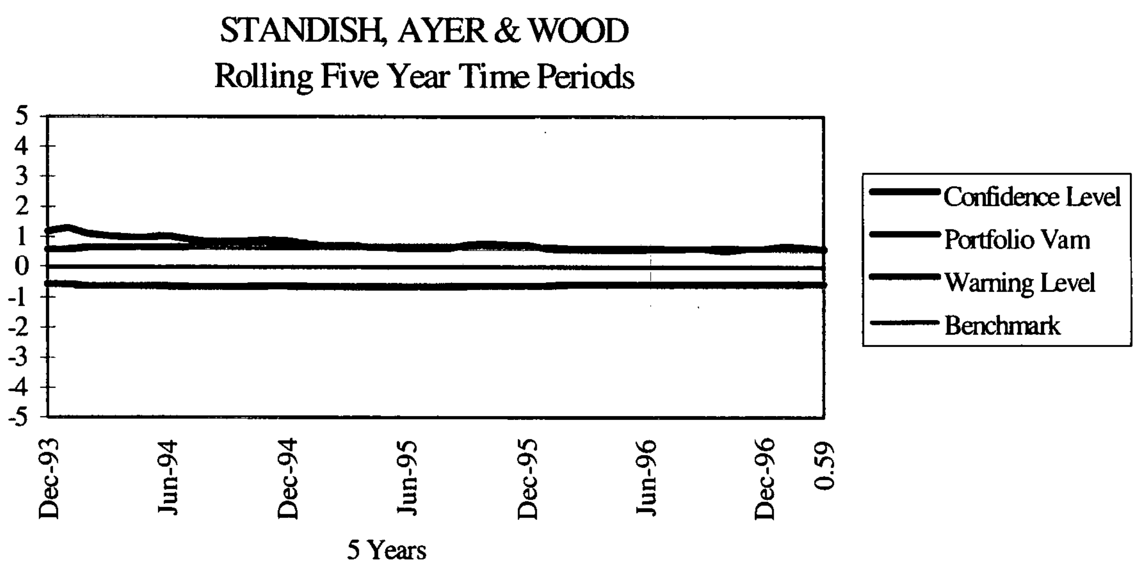
—Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.4%	-0.6%
Last 1 year	6.7	4.9
Last 2 years	8.9	7.8
Last 3 years	7.1	6.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.6	5.4

Recommendations

No action required.



Note: Shaded area includes performance prior to managing the SBI account.
Graph uses 80/20 confidence interval.

WESTERN ASSET MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Kent Engel **Assets Under Management: $1,080,981,571.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The firm's exceptional strengths continue to be:

—Highly successful and experienced professionals.

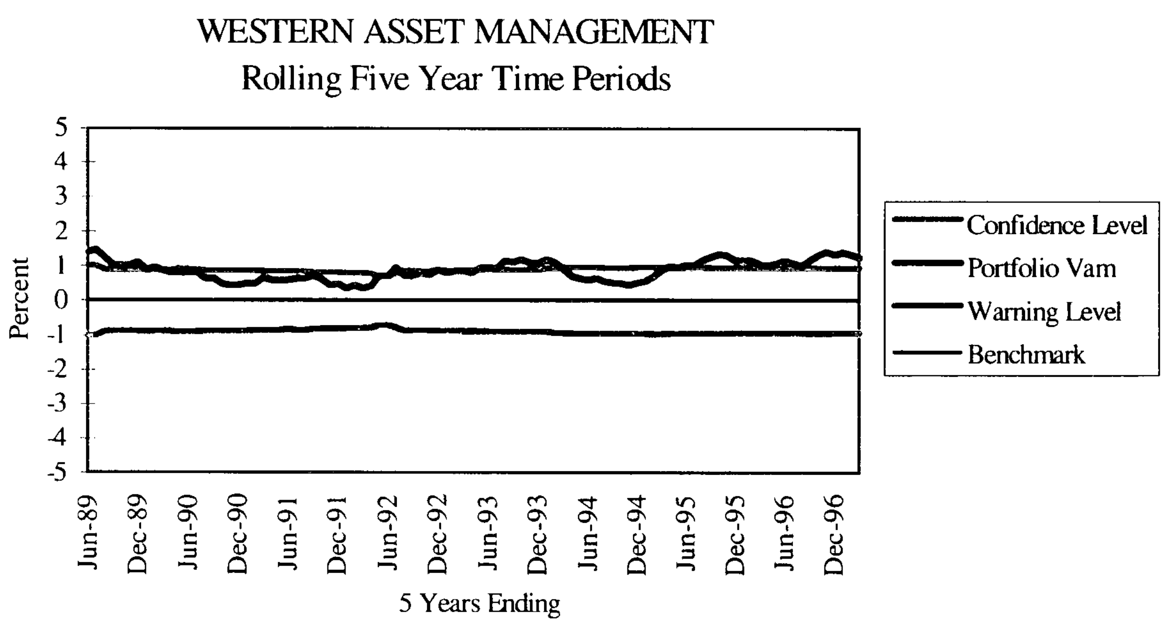
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	7.3	4.9
Last 2 years	9.7	7.8
Last 3 years	8.1	6.9
Last 4 years	7.3	5.8
Last 5 years	8.7	7.3
Since Inception (7/84)	12.1	10.8

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

BLACKROCK FINANCIAL MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Keith Anderson **Assets Under Management: $1,247,224,099.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Strong quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	5.4	4.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/96)	5.4	4.9

Recommendation

No action required.

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

GOLDMAN SACHS
Period Ending 3/31/97

Portfolio Manager: Sharmin Mossavar Rahmani | **Assets Under Management: $1,244,642,566.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

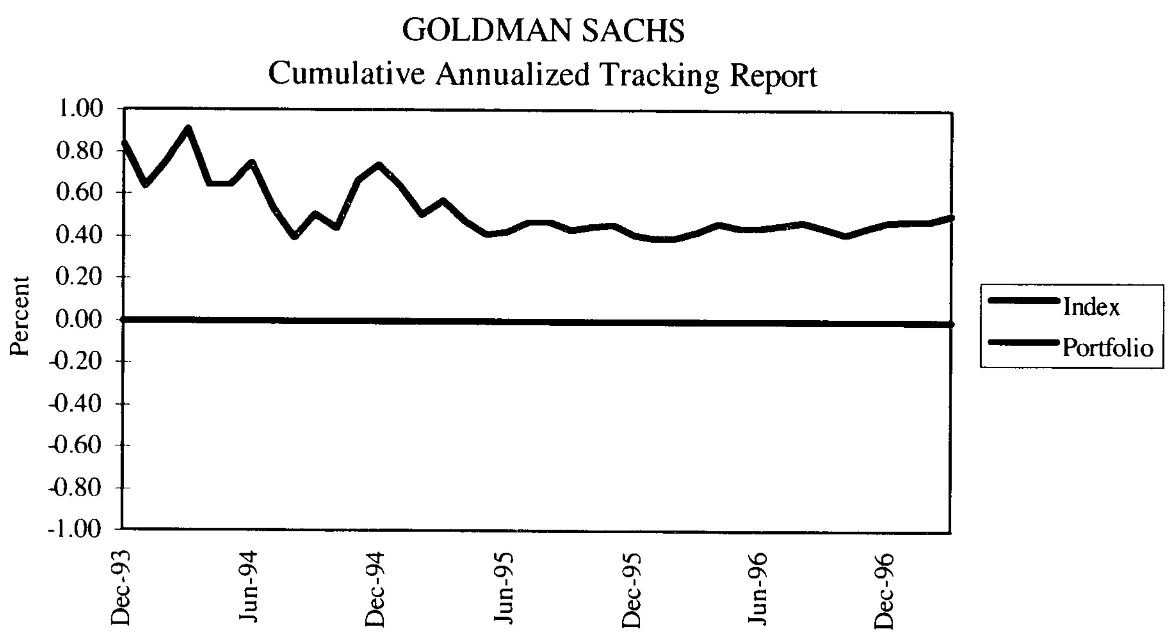
—Quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	5.7	4.9
Last 2 years	8.3	7.8
Last 3 years	7.3	6.9
Last 4 years	N\A	N\A
Last 5 years	N\A	N\A
Since Inception (7/93)	5.9	5.4

Recommendations

No action required.



LINCOLN CAPITAL MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,217,901,055.00**

Investment Philosophy

Lincoln is an enhanced index manager that uses a quantitative approach to managing the portfolio. Lincoln calculates the index's expected return for changes in 54 variables. These variables include interest rates, yield curve shape, call features and sector spreads. Lincoln then constructs a portfolio to match the expected returns for a given change in any of the variables. Lincoln relaxes the return tolerances, defined as the difference between the portfolio's expected returns and that for the index, for an enhanced index fund. The portfolio's securities are selected from a universe of 250 liquid issues using a proprietary risk-valuation model. A linear program or portfolio optimizer then constructs the most undervalued portfolio that still matches the return characteristics of the index.

Qualitative Evaluation
(reported by exception)

The firm's strengths are:

—Highly successful and experienced professionals.

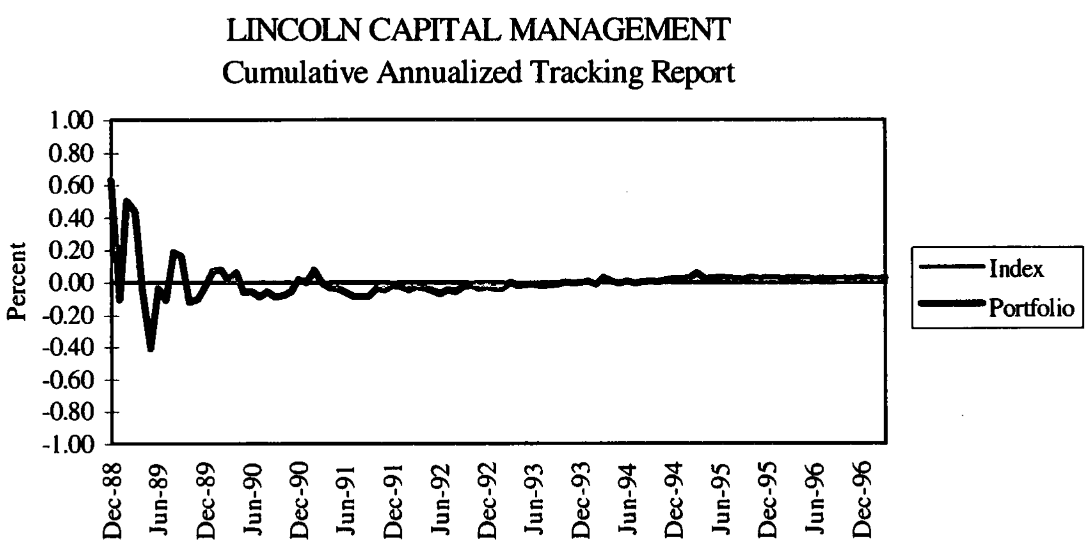
—Extensive quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.6%	-0.6%
Last 1 year	5.0	4.9
Last 2 years	7.7	7.8
Last 3 years	6.9	6.9
Last 4 years	5.8	5.8
Last 5 years	7.3	7.3
Since Inception (7/88)	8.8	8.8

Recommendations

No action required.



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Period Ending 3/31/97

Portfolio Manager: Jane Wyatt | **Assets Under Management: $392,817,230**

Investment Philosophy
Assigned Risk Plan

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firms investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

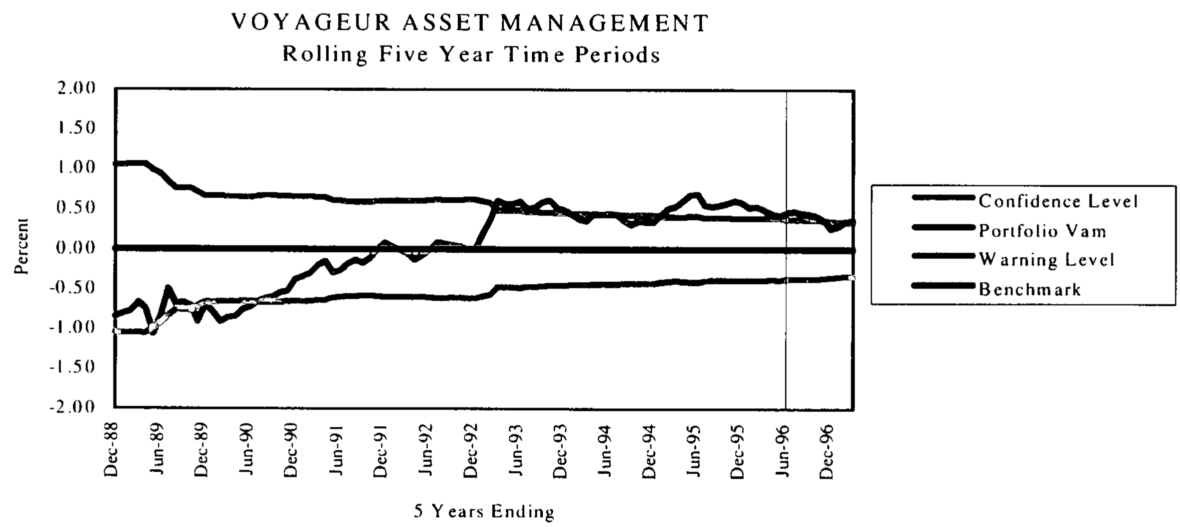
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	0.3%
Last 1 year	5.5	5.5
Last 2 years	7.8	7.4
Last 3 years	6.8	6.7
Last 4 years	6.0	5.7
Last 5 years	7.2	6.8
Since Inception (7/91)	7.9	7.4

Recommendation

No action required.



Notes: Area through 6/96 includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Area to the left of the vertical line includes performance prior to retention by the SBI.

INTERNAL BOND POOL - Income Share Account
Period Ending 3/31/97

Portfolio Manager: Mike Menssen | **Assets Under Management: $144,701,264**

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 somewhat shorter or longer depending on the economic outlook.

Qualitative Evaluation
(reported by exception)

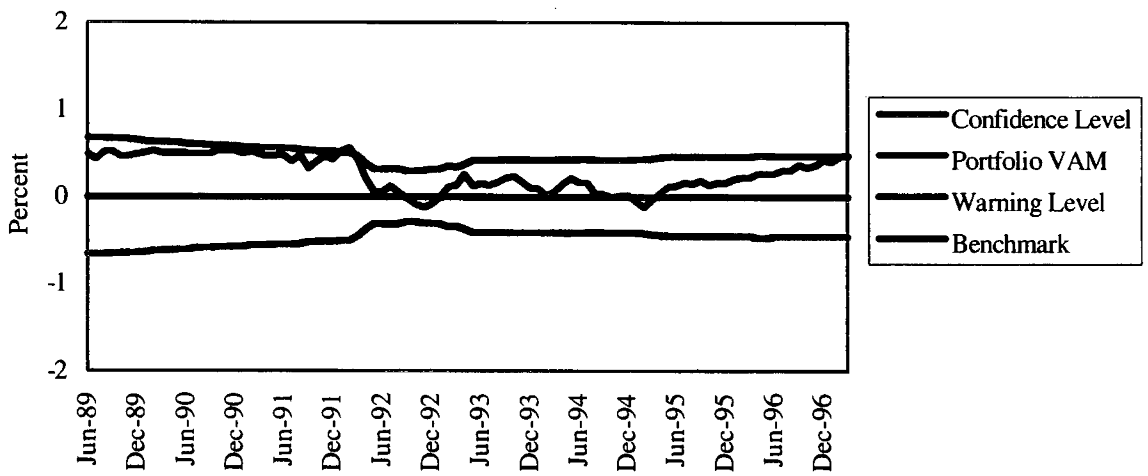
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	-0.6%
Last 1 year	5.8	4.9
Last 2 years	8.9	7.8
Last 3 years	7.3	6.9
Last 4 years	6.3	5.8
Last 5 years	7.9	7.3

Recommendation

No action required.

INTERNAL BOND POOL - Income Share
Rolling Five Year Time Periods



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Period Ending 3/31/97

Portfolio Manager: Mike Menssen **Assets Under Management: $501,208,596**

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 somewhat shorter or longer depending on the economic outlook.

Qualitative Evaluation
(reported by exception)

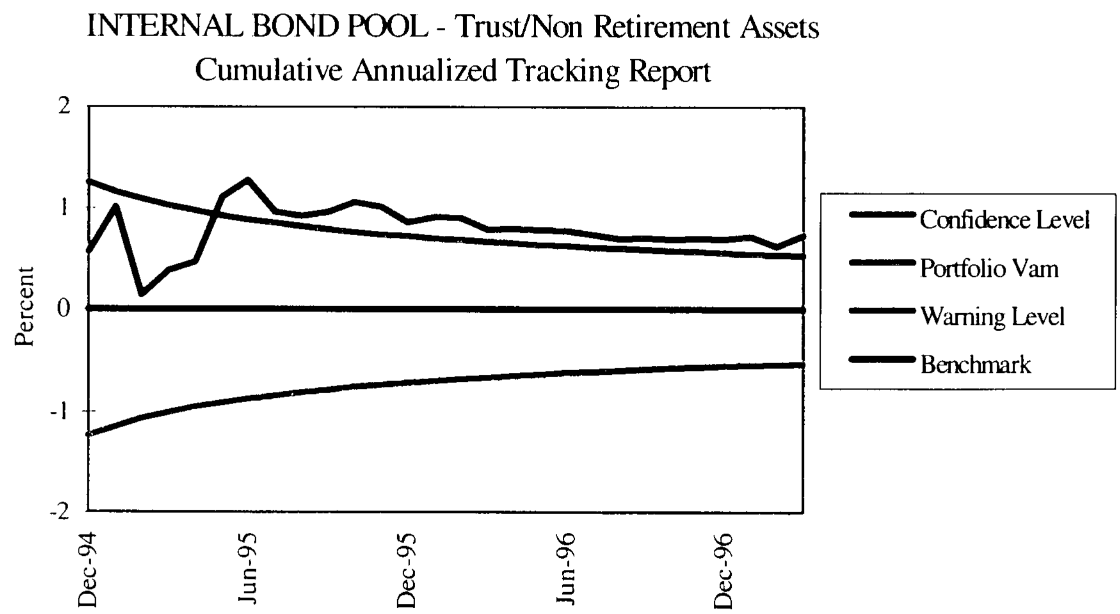
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	-0.6%
Last 1 year	5.6	4.9
Last 2 years	8.7	7.8
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/94)*	8.7	7.8

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

Recommendation

No action required.



Tab G

COMMITTEE REPORT

DATE: May 27, 1997

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

FROM: **International Manager Committee**

The International Manager Committee met on May 1, 1997 to review the following agenda items:

- Review of manager performance for the period ending March 31, 1997.
- Recommendation to place Montgomery Asset Management on probation due to ownership change.
- Recommendation to terminate the SBI's contractual relationship with Barings Asset Management due to changes in the portfolio management team.
- Approval of updated Investment Manager Guidelines.
- Approval of statement of philosophy on currency management.

Board action is requested on the last four (4) items.

INFORMATION ITEM:

1. Review of manager performance

The international stock program outperformed its composite index by 2.4 percentage points for the quarter ending March 31, 1997. The program outperformed by 6.4 percentage points over the last year, by 2.8 percentage point annualized for the last three years and by 1.8 percentage points annualized since inception (4.5 years). The **current** managers have also outperformed the composite index in all time periods.

Time Period	Total Program	Composite Index*		Current Managers Only
Quarter	2.1%	-0.3%		2.1%
1 Year	8.7	2.3		8.5
3 Year	9.7	6.9		9.5
Since Incept. 10/92	13.0	11.2		12.9

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

All five of the active EAFE managers outperformed the index during the quarter and year. As in 4Q96, the dominant factor in the returns was a manager's decision regarding the Japanese market which continued to perform poorly. A manager's decision to explicitly hedge yen exposure was also beneficial as the dollar appreciated significantly against the yen during 1Q97.

One of the emerging markets specialists outperformed the Emerging Markets Free index for the quarter. Since inception during the last half of calendar 1996, all three managers have outperformed the index.

The passive manager had negative tracking error against the EAFE index for the latest quarter and positive tracking error for the latest year.

The currency overlay program added considerable value to the EAFE index fund during the quarter (index fund *with* overlay +1.5%; index fund *without* overlay -1.8%). Over the last year, the overlay program has added 5.5 percentage points to the return of the EAFE index fund.

Performance evaluation (VAM) reports begin on **page V1.** Manager Commentaries are in **TAB I.**

ACTION ITEMS:

1. Recommendation to place Montgomery Asset Management on probation.

Pending regulatory approval, Montgomery Securities has agreed to sell Montgomery Asset Management, one of the SBI's emerging markets managers, to Commerzbank, a large German bank. (For a brief description of the sale, please refer to Montgomery's Manager Commentary in Tab I). At this time, staff does not believe that this ownership change will adversely affect Montgomery Asset Management or the SBI's emerging markets account. However, in accordance with the SBI's Manager Continuation Policy, staff recommends that Montgomery Asset Management be placed on probation.

RECOMMENDATION:

In accordance with the SBI Manager Continuation policy, the Committee recommends that the SBI place Montgomery Asset Management on probation.

2. Recommendation to terminate the SBI's relationship with Barings Asset Management

In 1995, Barings PLC underwent bankruptcy and a subsequent purchase by ING, a large bank based in the Netherlands. Although Baring Asset Management (BAM) was in no way involved with the derivatives scandal which caused the Barings PLC bankruptcy, BAM experienced modest asset and client loss immediately after the bankruptcy. Since then, outlook, asset growth and performance had been improving and the personnel at BAM had remained fairly stable throughout the transition.

In April 1997, the head of Barings North American Operations and the SBI's portfolio manager (Philip Bullen), resigned along with two other members of the Strategic Policy Group (Chris Goudie and Kathleen Matthews). Their departures directly impact BAM and the decision making team for the SBI's account and reduce the Strategic Policy Group from 10 to 7 members. Four of the remaining members have been with the Strategic Policy Group since its inception in 1979. These departures follow the retirement of another member (Peter Hartley) of the Strategic Policy Group and the resignation of the firm's head US marketer (Jamie MacMillan) within the last year.

Staff believe these personnel changes are likely to destabilize Barings Asset Management and their North American operations. As a result, staff recommended that the SBI terminate its relationship with Barings Asset Management. After discussion, the Committee concurred. The SBI's international consultant, Pension Consulting Alliance, was present for the Committee's discussion and also concurs with the staff recommendation.

Subsequent to the Committee meeting, staff met with the newly designated portfolio manager for the SBI's account (James Williams) and learned of other structural changes to the decision-making process at BAM that have been under consideration over the last year and are being implemented at the present time. These include further reductions in the membership of the Strategic Policy Group (down to a total of 5 members), separation of the roles of chief strategist and chief investment officer and the creation of four new teams called "subsidiary investment groups" to coordinate implementation of portfolio strategy across client portfolios around the globe. Staff do not know whether these additional structural changes will be beneficial or detrimental to BAM over the long run. However, these new developments did not change staff's recommendation concerning terminating the SBI's contract with BAM at the present time.

RECOMMENDATION:

The Committee recommends that the SBI terminate its contractual relationship with Baring Asset Management for international stock management.

3. Approval of updated Investment Manager Guidelines

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

Staff and the Committee review the guidelines annually for accuracy and completeness:

- *Active, Passive and Emerging Markets.* Staff and the Committee are recommending technical changes to make the guidelines more uniform across all manager groups and to reflect current practice. None of the changes affect the substance of the existing guidelines.

- *Currency Overlay.* Staff and the Committee are recommending changes in the benchmark and evaluation standard to reflect current practice on these issues. It should be noted that implementation section and return expectation section of the guidelines reflect the specific investment methodology employed by the current overlay manager, Record Treasury Management. If the SBI chose a different manager at some point in the future, this sections of the guidelines would likely need to be modified.

Deletions from the existing guidelines are note with ~~strike through~~. Additions are indicated by <u>underline</u>.

RECOMMENDATION:

The Committee recommends that the SBI adopt the Investment Manager Guidelines which begin on page 7 of this tab section.

4. **Approval of statement of existing philosophy on currency management.**

   At its last meeting, the IAC agreed that the Committee and staff should review the rationale imbedded in the current approach to currency management within the SBI's international stock program. The result would be a written statement of philosophy which could be reaffirmed or modified by the full Council and forwarded to the Board.

   The "Statement of Existing Philosophy on Currency Management" which begins on **page 29** is staff's attempt to summarize the rationale for the existing currency overlay program.

   The Committee endorsed the statement as presented. The Committee believes that the principles embodied in the statement remain appropriate for the SBI and that the decision to use a systematic/structured approach to currency management in the EAFE index fund should be reaffirmed by the IAC/SBI.

   If the statement is approved, the Committee would proceed with a more detailed review of the results achieved to date by the current overlay manager, Record Treasury Management. This review could result in a recommendation to continue with Record Treasury or to consider other firms who employ systematic/structured approaches to currency management.

   The Committee noted that the stated goal of the currency overlay program is to provide least one percentage point value added relative to an unhedged target, over time, net of all costs. Record Treasury and other managers will be evaluated with this goal in mind. If this return expectation is deemed to be an unfeasible goal, staff and the Committee would expect to recommend that the SBI discontinue the currency overlay program.

RECOMMENDATION:

The Committee recommends that the SBI affirm the existing approach to currency management which is articulated in the "Statement of Existing Philosophy on Currency Management" which begins on page 29. Further, the Committee recommends that staff formally update the position paper on currency management to incorporate the principles outlined in the statement.

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL EQUITY MANAGER

The investment actions of the State Board of Investment (SBI) active international and active country/passive stock managers will be governed by the following guidelines:

1. RETURN OBJECTIVE

The Manager is expected to deliver returns that exceed the benchmark, net of fees and transaction costs, by at least 1 percentage point annually, over time.

2. PERFORMANCE BENCHMARK

Until a benchmark that is more representative of the Manager's style is developed, the performance benchmark for the portfolio will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australia and the Far East (EAFE), capitalization weighted, excluding those securities that US investors are not allowed to own. This is commonly referred to as EAFE Free by MSCI.

3. PRICING AND PERFORMANCE MEASUREMENT

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 and the SBI.

4. PERFORMANCE EVALUATION

Manager will be evaluated according to the guidelines set forth in the SBI's Manager Continuation Policy.

5. ELIGIBLE MARKETS

Subject to the constraints 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 the following markets:

Australia	Finland	Japan	Slovak Republic
Austria	France	Luxembourg	Slovenia
Barbados	Germany	Netherlands	Spain
Belgium	Greece	New Zealand	Sweden
Canada	Hong Kong	Norway	Switzerland
Costa Rica	Hungary	Poland	United Kingdom
Czech Republic	Italy	Portugal	Uruguay
Denmark	Ireland	Singapore	

Group II. The Manager may purchase publicly traded securities of companies domiciled 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	Ghana	Mauritius	Sri Lanka
Bangladesh	India	Mexico	Taiwan
Bolivia	Israel	Mongolia	Thailand
Botswana	Jamaica	Namibia	Trinidad & Tobago
Brazil	Kazakhstan	Nepal	Tunisia
Chile	Kenya	Panama	Turkey
Cote d'Ivorie	Korea, Republic of	Papua New Guinea	Venezuela
Colombia	Latvia	Philippines	Ukraine
Ecuador	Lithuania	Romania	Zambia
Egypt	Malawi	Russia	Zimbabwe
Estonia	Malaysia	South Africa	

Group III. The Manager may invest in publicly traded securities of companies domiciled 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 to present its reason(s) for the decision to do so.

Burma (Myanmar)	Kuwait	Pakistan
China, Peoples Republic of	Lebanon	Swaziland
Croatia	Morocco	United Arab Emirates (UAE)
Indonesia	Nigeria	Vietnam
Jordan	Peru	

6. ELIGIBLE SECURITIES

Subject to the constraints in #5 above, the Manager may hold stocks; warrants; convertibles; common trust funds, open-end country funds, and closed-end country or regional funds registered under the Investment Company Act of 1940; equity options; currency futures and options; financial and commodity futures and options thereon; currency forwards; and cash equivalents provided:

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

- US cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

- <u>Private placements may not be held in the Account.</u>

- Debt securities, except cash equivalents <u>and convertibles</u>, may not be held in the Account. Further, convertibles shall not comprise more than 5% of the Account.

- No more than 15% of the Account at market value may be held in the stock of companies domiciled in emerging markets. For this purpose, emerging markets are defined as Malaysia plus all non-EAFE, non-North American markets.

- Except for open-end or closed-end funds which invest primarily in international securities, the stock of companies domiciled in the US shall not be held in the Account.

- <u>ADR's, GDR's, RDC's and 144(A) securities may be held in the Account provided they are depository eligible and can be priced on a daily basis. In addition, 144(A) securities must be traded in the US or UK.</u>

- <u>Securities traded on the Russian exchanges shall not be held in the Account without the written approval of the SBI.</u>

- Non-US stock index futures may be used to adjust the effective equity exposure of the Account from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis.

- Currency forwards, futures and options may be used to adjust the effective non-US currency exposure of the portfolio from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis. <u>Manager has no obligation to hedge currency risk and will not be required to do so.</u>

The Manager is not constrained regarding:

- transaction turnover
- use of covered call options as hedging devices
- liquidity requirements
- number of individual equity issues which must be held at any given time

7. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

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

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's Account.

8. 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 periodically on its voting practices with respect to the SBI Account. 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.

9. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures or options trading agreement entered into by the Manager 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.

10. 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. <u>Commingled vehicles may not be held in the Account without the written approval of the SBI.</u>

11. 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: April 1997

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MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EAFE INDEX FUND MANAGER

The investment actions of the State Board of Investment (SBI) EAFE Index Fund Manager will be governed by the following guidelines:

1. RETURN/TRACKING ERROR OBJECTIVE

The Manager is expected to deliver returns that track the benchmark index within $\pm$ 20 basis points on an annual basis before management fees, custody charges and return enhancements such as securities lending income.

2. BENCHMARK INDEX

The benchmark index will be the Morgan Stanley Capital International (MSCI) Index of Europe, Australia and the Far East (EAFE), capitalization weighted, excluding those securities that US investors are not allowed to own. This is commonly referred to as EAFE Free by MSCI.

3. PRICING AND PERFORMANCE MEASUREMENT

The Account will be priced by the SBI's custodian bank and such prices will be used to measure the performance of the 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 and the SBI.

4. ELIGIBLE INVESTMENTS

The Manager may hold stocks, stock index futures, bonds and cash equivalents subject to the following constraints:

- All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.
- US cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- The use of non-US stock index futures may be used to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis.

The Manager is not constrained regarding:

- transaction turnover
- ~~use of covered call options as hedging devices~~
- liquidity requirements
- number of individual equity issues which must be held at any given time

5. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

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

- ~~The Manager is expected to provide SBI staff with a status report pertaining to number of accounts, assets under management, and relevant personnel and ownership changes on a quarterly basis.~~

- The Manager is expected to provide SBI staff with a "Manager Commentary" on a quarterly basis. The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's Account.

6. 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.

7. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures trading agreement entered into by the Manager 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.

8. 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.

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.

Date: April 1997

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES
EMERGING MARKETS EQUITY MANAGER

The investment actions of the State Board of Investment (SBI) emerging markets equity managers will be governed by the following guidelines:

1. RETURN OBJECTIVE

Manager is expected to deliver returns that exceed the benchmark, net of fees and transaction costs, by at least 1 percentage point annually, over time. SBI acknowledges that Manager gives no assurance that these returns will, in fact, be achieved.

2. PERFORMANCE BENCHMARK

Until a benchmark that is more representative of the Manager's style is developed, the performance benchmark for the Account will be the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) index.

3. PRICING AND PERFORMANCE MEASUREMENT

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 and the SBI.

4. PERFORMANCE EVALUATION

The Manager will be evaluated according to the guidelines set forth in the SBI's Manager Continuation Policy.

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 the following markets:

Australia	Finland	Japan	Slovak Republic
Austria	France	Luxembourg	Slovenia
Barbados	Germany	Netherlands	Spain
Belgium	Greece	New Zealand	Sweden
Canada	Hong Kong	Norway	Switzerland
Costa Rica	Hungary	Poland	United Kingdom
Czech Republic	Italy	Portugal	Uruguay
Denmark	Ireland	Singapore	

Group II. The Manager may purchase publicly traded securities of companies domiciled 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	Ghana	Mauritius	Sri Lanka
Bangladesh	India	Mexico	Taiwan
Bolivia	Israel	Mongolia	Thailand
Botswana	Jamaica	Namibia	Trinidad & Tobago
Brazil	Kazakhstan	Nepal	Tunisia
Chile	Kenya	Panama	Turkey
Cote d'Ivorie	Korea, Republic of	Papua New Guinea	Venezuela
Colombia	Latvia	Philippines	Ukraine
Ecuador	Lithuania	Romania	Zambia
Egypt	Malawi	Russia	Zimbabwe
Estonia	Malaysia	South Africa	

Group III. The Manager may invest in publicly traded securities of companies domiciled 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.

Burma (Myanmar)	Kuwait	Pakistan
China, Peoples Republic of	Lebanon	Swaziland
Croatia	Morocco	United Arab Emirates (UAE)
Indonesia	Nigeria	Vietnam
Jordan	Peru	

6. ELIGIBLE SECURITIES

Subject to the constraints in #5 above, the Manager may hold stocks, warrants, convertibles, common trust funds, closed-end country or regional funds (or open-end country or regional funds that have been converted from closed-end funds held by the account), equity options, currency futures and options, financial and commodity futures, and commodities and options thereon, currency forwards and cash equivalents provided:

- All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

- US cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.

- Private placements may not be held in the Account.

- Debt securities, except cash equivalents and convertibles, may not be held in the Account. Further, convertibles shall not comprise more than 5% of the Account.

- The stock of companies domiciled in any of the following countries shall not be held in the account: U.S.; Canada; all EAFE markets, except Malaysia, Singapore and Hong Kong. Notwithstanding the foregoing sentence, Manager may hold closed-end country or regional funds (or open-end country or regional 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.

- ADR's, GDR's, RDC's and 144(A) securities 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. In addition, 144(A) securities must be traded in the US or UK.

- ~~The stock of companies domiciled in Russia~~ Securities traded on the Russian exchanges shall not be held in the Account without the ~~express~~ written approval of the SBI.

- Non-US stock index futures may be used to adjust the effective equity exposure of the Account from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis.

- Currency forwards, futures and options may be used to adjust the effective non-US currency exposure of the Account from 0 to 100%. In addition, all transactions must be done on a fully collateralized basis. Manager has no obligation to hedge currency risk and will not be required to do so.

The Manager is not constrained regarding:

- transaction turnover
- liquidity requirements
- number of individual issues which must be held at any given time

7. COMMUNICATION

The SBI requires its investment managers to communicate with SBI staff on a regular basis.

- 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.

- The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's account.

8. 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 periodically on its voting practices with respect to the SBI portfolio. 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.

9. COMMODITY FUTURES TRADING AGREEMENT

Any commodity futures or options trading agreement entered into by the Manager 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.

10. 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 on a daily basis. Commingled vehicles may not be held in the Account without the express approval of the SBI.

11. FUTURE MODIFICATIONS

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

Revised: April 1997

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INVESTMENT GUIDELINES
CURRENCY OVERLAY

The investment actions of the Manager will be governed by the following guidelines:

1. Currencies Included

The Manager is directed to implement a currency overlay program based upon the actual unhedged currency exposure of the SBI's EAFE index fund for the five currencies listed below. This index fund is designed to track the performance of the Morgan Stanley Capital International EAFE Free index.

Currencies included the program will be limited to:

- Japanese Yen
- British Pound Sterling
- German Mark
- French Franc
- Swiss Franc

~~1.~~ 2. Implementation by Record Treasury Management

The SBI directs the Manager to construct in-house options using strike prices set at 2% out-of-the-money on the start date of each tranche for each currency.

The SBI directs the Manager to use its standard implementation schedule involving the regular setting of in-house options. This process establishes twelve tranches for each currency included in the program, except the Japanese Yen, and constructs in-house options in monthly increments. For the Japanese Yen, twenty four tranches will be constructed using semi-monthly intervals. Implementation for the currencies included in the program will not be completed until mid month of month eleven of the contract period.

The Manager will rebalance outstanding currency positions when the value of the underlying stock in the corresponding market advances or declines by 2 percentage points or more of the total value of SBI's EAFE Index Fund. When such rebalancing is necessary, it will be implemented as follows: For declines in value, all tranches in that currency will be reduced pro-rata; for advances in value, out-of-the money options will be increased pro-rata, and in-the-money options will be increased only after their next trade, if any.

~~2.~~ 3. Objectives

~~The currency overlay program has the following objectives. The objectives are based upon scenario analysis completed by the Manager at the request of the SBI:~~

Over a full cycle of dollar strength and weakness, the Manager is expected to add at least 1 percentage point annualized to the return of the ~~benchmark in #3~~ evaluation standards described in #4 (a), (b) and (c) , net of all costs.

In periods within a full cycle, Record Treasury Management is expected to achieve the following results. These objectives are based upon scenario analysis completed by Record Treasury at the request of the SBI:

- In periods when the US dollar strengthens relative to the currencies listed in ~~#3~~ #1, the Manager is expected to outperform the ~~benchmark in #3~~ evaluation standards in #4(a), (b) and (c). The extent of the outperformance will be dependent upon the extent of the dollar's move relative to the currencies included in the program; the greater the move in the dollar, the greater the participation in the available outperformance.

- In periods when the US dollar weakens or is trendless (flat/choppy) relative to the currencies listed in ~~#3~~ #1, the Manager is expected to underperform the the ~~benchmark in #3~~ evaluation standards in #4(a), (b) and (c) by no more than 3 percentage points annualized.

- In all periods, the Manager is expected to minimize the costs associated with providing the above protection. The average annual cost is expected to be approximately 2 percentage points.

~~3. Benchmark~~

~~The Manager's benchmark will be measured in US dollars and will be comprised of the unhedged return of the following currencies:~~

- ~~Japanese Yen~~
- ~~British Pound Sterling~~
- ~~German Mark~~
- ~~French Franc~~
- ~~Swiss Franc~~

~~The weights given each currency will be based upon their proportionate weight in the EAFE index and will be rebalanced at the start of each calendar quarter based on the index weights on the last day of the previous quarter. The SBI's~~

~~international consultant will be responsible for determining the weights in the benchmark and for calculating benchmark return.~~

4. Evaluation

The Manager will be evaluated on four levels. The results achieved will be compared to the objectives in #2, above:

a) Total Policy Impact:

The actual unhedged return of the EAFE index fund will be compared to the actual return of the Index Fund plus the currency overlay program implemented by the Manager. Both returns will be calculated net of costs by a source designated by the SBI.

b) Five Markets, Stock Plus Currency:

The unhedged stock return of the five markets included in the overlay program will be compared to the actual return of the five markets with the currency overlay program implemented by the Manager. A source designated by the SBI will be responsible for calculating both returns using a weighting methodology that is acceptable to the SBI.

c) Five Markets, Currency Only:

The unhedged return of the five currencies in the program will be compared to the Manager's actual currency return, net of costs. The weights given each currency will be based upon their proportionate weight in the EAFE-Free index. A source designated by the SBI will be responsible for calculating both returns using a weighting methodology that is acceptable to the SBI.

d) Implementation Benchmark

The Manager will construct a benchmark using the returns that would have been available from comparable OTC options. The returns of this benchmark will be compared to the Manager's actual returns to measure cost effectiveness of the Manager's implementation methodology. The method used to construct the implementation benchmark will be approved by the SBI's consultant.

~~4.~~ 5. Pricing and Performance Measurement

The Account will be priced by the SBI's custodian bank and such prices will be used to measure the performance of the SBI account. Any cash equivalents held in the account will be included in the calculation of performance.

~~5.~~ 6. Eligible Investments

The Manager is authorized to take currency positions using spot foreign exchange contracts, forward foreign exchange contracts, and options and futures on foreign currencies. These securities may be over-the-counter or exchange traded and are subject to the following constraints:

- Hedging foreign currency exposure back to the US dollar is the only type of hedge that is authorized. Cross hedging and proxy hedging are prohibited.

- Net long or short currency positions are prohibited. The prohibition on net long positions means that all transactions must be executed on a fully collateralized basis and the currency exposure of the underlying stock position may not be leveraged. The prohibition on net short positions means that that the Manager cannot have negative exposure to any foreign currency.

- All currency positions must mature/expire within one year or less from the date of execution.

- Any US cash equivalent reserves held in the account shall be invested in the SBI's STIF fund and managed by its custodian bank.

- The Manager is not authorized to hold any stock or bond, US or foreign, or any derivative instrument related to such securities.

In addition to the above, all transactions undertaken on behalf of the SBI must be covered by the authorization in *Minnesota Statutes* Section 11A.24.

~~6.~~ 7. Communication

The SBI requires its investment managers to communicate with SBI staff on a regular basis:

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

- ~~The Manager is expected to provide SBI staff with a status report pertaining to number of accounts, assets under management, and personnel and ownership changes on a quarterly basis.~~

- The Manager is expected to provide SBI staff with a "Manager Commentary" on a quarterly basis. The Commentary will summarize performance results over the most recent quarter and year and highlights any organizational changes which may impact management of the SBI's Account.

~~7.~~ 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.

The Manager will maintain facilities on behalf of the SBI with a minimum of six and maximum of ten banks. In no case may the netted value of outstanding positions with a single bank exceed $400 million.

Any agreement entered into 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.

The SBI reserves the right to withdraw the Manager's authority to use the facility established with any counterparty bank. The Manager may add or delete counterparty banks with the knowledge and approval of the SBI.

~~8.~~ 9. Commodity Futures Trading Agreements

Any commodity futures trading agreement entered into 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.

~~9.~~ 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.

Revised: April 1997

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Statement of Existing Philosophy on Currency Management

The SBI's approach to currency management addresses several inter-related policy issues or questions:

Issue #1 Use of a Constant Hedge.
Should the SBI attempt to reduce the volatility associated with currency exposure by using a passive/constant hedge?

Decision and Rationale: No, not at this time. Research suggests that if a plan sponsor's allocation to international assets is less than 20%, constant hedging does not generate significant risk reduction benefits for the total fund. Consequently, the SBI has rejected constant hedging as long as the SBI's allocation to international stocks remains below 20%. (Currently, the SBI's long term target for international stocks is 15% of the Combined Funds. Two percentage points of this allocation is directed toward the emerging markets.)

From this decision, it follows that the SBI's policy benchmark for international assets should be unhedged and the performance of the program should be measured against an unhedged standard. Currently, the asset class target/policy benchmark for the international stock program is a blended index of 87% EAFE-Free and 13% Emerging Markets-Free. Both components are measured on an unhedged basis to reflect the SBI's decision to reject constant/passive hedging.

Issue #2 Role of Currency Management within the International Program.
Should the SBI attempt to add value through active currency management within the international stock program?

Decision and Rationale: Yes. Given the large impact that currency can have on returns, the SBI believes that currency exposure should be explicitly managed within the international stock program in order to maximize returns. The goal of currency management at this level is to add value (or avoid loss) relative to the unhedged policy benchmark for the international program.

Risk reduction is not a goal *per se*, except to the extent that explicitly managing currency exposure mitigates the possibility of currency losses and would therefore reduce the larger risk that the SBI may abandon its entire international investing program due to disappointing currency returns over the short run.

Issue #3 Actively Managed Segment.
How should currency management be addressed within the actively managed portion of the international stock program?

Policy Decision and Rationale: Currency management is one component of active international stock management. A manager's currency views may be imbedded in country or stock selection decisions or may result in an explicit decision to increase/decrease exposure to a particular currency through hedging activity. Since currency management is already being addressed by active managers, no further action by the SBI is required to assure that the currency exposure of this segment of the portfolio is being managed.

Issue #4 Passively Managed/Indexed Segment.
How should currency management be addressed within the passively managed (indexed) portion of the international stock program?

Decision and Rationale. The SBI has allocated up to 50% of the international program to an unhedged EAFE-Free index fund. The SBI has chosen to manage the currency exposure of the EAFE-Free index fund by employing a currency overlay program.

There are two basic approaches to currency overlay: *forecasting/market timing* approaches which attempt to anticipate the direction or level of exchange rates, and *systematic/structured* approaches which move in and out of currencies in reaction to observable currency trends or fluctuations. Systematic approaches to currency overlay have return patterns that are more predictable and can be constrained with respect to their level of expected volatility. Therefore, a *systematic approach* to currency overlay is deemed to be more consistent with the SBI's tolerance for active management risk.

While systematic approaches to currency overlay are expected to add value, the SBI recognizes that there is an element of "insurance" (i.e., protection again the negative effects of a rising dollar) associated with this form of management. There will be times when the SBI will pay an "insurance premium" in terms of management fees and transactions costs without observable return to the portfolio because the negative event of a currency loss does not occur within the measurement period. The specific methodology selected should seek to minimize implementation costs in order to minimize this "insurance premium" factor.

Issue #5 Operating Constraints.
What operating constraints should be imposed on the SBI's currency overlay program for the EAFE index fund?

Decision and Rationale: In order to simplify the program, the SBI has established the following operating constraints for its currency overlay program.

- **Currencies Included**. The program is limited to currencies that comprise 5% or more of the EAFE-Free index. At the close of calendar 1996 this included: Japanese Yen (32.3%), British Pound Sterling (19.2%), German Mark (8.2%), French Franc (6.9%) and Swiss Franc (5.6%). Together, these five currencies comprise over 70% of the EAFE-Free index. They are also the most liquid currencies in world markets and can be hedged directly.

- **Benchmarks**. The benchmark for the program is the actual unhedged return of the SBI's EAFE index fund. Value added/lost against this benchmark will measure the impact of the SBI's decision to employ an overlay program, over time. Additional standards will be developed by staff and the SBI's consultants to assist in evaluating the cost effectiveness of the specific investment approach/methodology that is selected.

- **Hedging Limits**. Hedging the above exposures back to the US dollar is the only type of hedge that is authorized. Cross hedging and proxy hedging are not allowed. Net long or short currency positions are prohibited.

- **Authorized Instruments**. Currency positions may be implemented using currency forwards, options or futures. The manager has the flexibility to use over-the-counter as well as listed/exchange-traded currency instruments.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 1997

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INTERNATIONAL STOCK MANAGERS
Period Ending 3/31/97

Current Managers	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)	Pool %
Baring (1)	0.3	-1.6	4.7	1.4	8.3	6.6			11.8	10.4	$225.61	5.6%
Brinson (1)	0.7	-1.6	8.8	1.4	11.0	6.6			10.8	10.4	331.24	8.3%
Marathon (2)	-1.1	-1.6	3.8	1.4	7.0	6.6			9.0	6.1	307.86	7.7%
Rowe Price (2)	-0.1	-1.6	9.8	1.4	9.9	6.6			10.1	6.1	320.66	8.0%
Scudder (2)	1.7	-1.6	11.4	1.4	12.0	6.6			10.9	6.1	218.33	5.4%
City of London (3)	7.8	8.5							11.6	10.8	110.83	2.8%
Genesis (4)	11.5	8.5							13.3	4.1	226.48	5.7%
Montgomery (4)	8.3	8.5							10.5	4.1	220.54	5.5%
State Street (5)	-1.8	-1.6	1.9	1.4	6.9	6.6			11.1	10.9	1,968.64	49.2%
									Since 10/1/92			
Current Aggregate*	2.1	-0.3	8.5	2.3	9.5	6.9			12.9	11.2	$4,002.46	100.0%
Historical Aggregate*	**2.1**	**-0.3**	**8.7**	**2.3**	**9.7**	**6.9**			**13.0**	**11.2**		

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

(1) Active country/passive stock. Retained April 1, 1993.
(2) Fully active. Retained November 1, 1993.
(3) Emerging Markets specialist. Retained November 1, 1996.
(4) Emerging markets specialist. Retained May 1, 1996.
(5) Index. Retained October 1, 1992.

Impact of Currency Overlay Program

	Qtr.	Yr.	Since Dec. 95
Index Fund**	-1.8	1.9	6.6
Index + Overlay***	1.5	7.4	11.0

** EAFE index fund managed by State Street Global Advisers.
*** Index fund with currency overlay program implemented by Record Treasury Management.
Program was phased-in from Dec. 95 - Nov. 96.

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BARING INTERNATIONAL INVESTMENT LTD.
Period Ending 3/31/97

Portfolio Manager: James Williams | **Assets Under Management: $225,613,751**

Investment Philosophy

Barings manages an active country/passive stock portfolio for the SBI. Barings' strategic policy team is responsible for the country and currency decisions. Country allocation decisions are made using a macroeconomic framework which seeks to identify growing economies as evidenced by positive changes in GDP and interest rates. The team uses multiple inputs including regional specialists, local market valuations and a computer model that functions as an audit of the qualitative valuation process. Currency specialists within Barings provide assessments on flow of funds, currency rates, monetary policy, inflation and interest rates. Barings uses country index funds managed by State Street Global Advisors to implement their country allocations. At Barings' direction, State Street also implements currency/hedging strategies for the portfolio.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Current concerns are:

—New ownership by ING effective February 1995.

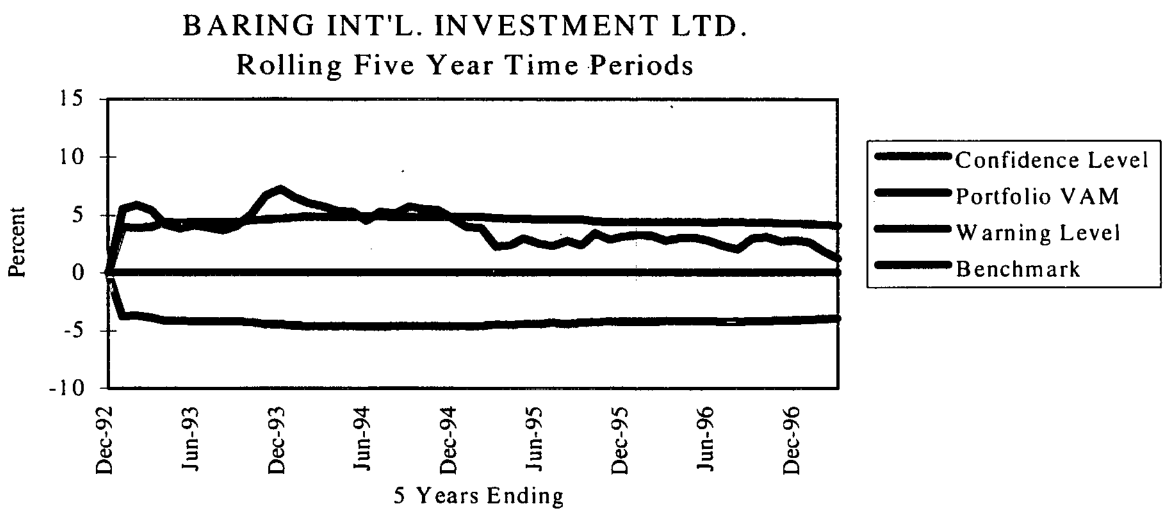
—Personnel turnover on the Strategic Policy Group

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	-1.6%
Last 1 year	4.7	1.4
Last 2 years	10.7	6.8
Last 3 years	8.3	6.6
Last 4 years	11.8	10.4
Last 5 years	N/A	N/A
Since Inception (4/93)	11.8%	10.4%

Recommendations

Terminate the SBI's relationship with the firm due to personnel changes in the Strategic Policy Group. Philip Bullen (portfolio manager), Chris Goudie (back-up manager) and Kathy Matthews resigned in April. These changes follow the retirement of Peter Hartley within the last year.



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 3/31/97

Portfolio Manager: Richard Carr **Assets Under Management: $331,238,607**

Investment Philosophy

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

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

— Highly successful and experienced professionals.

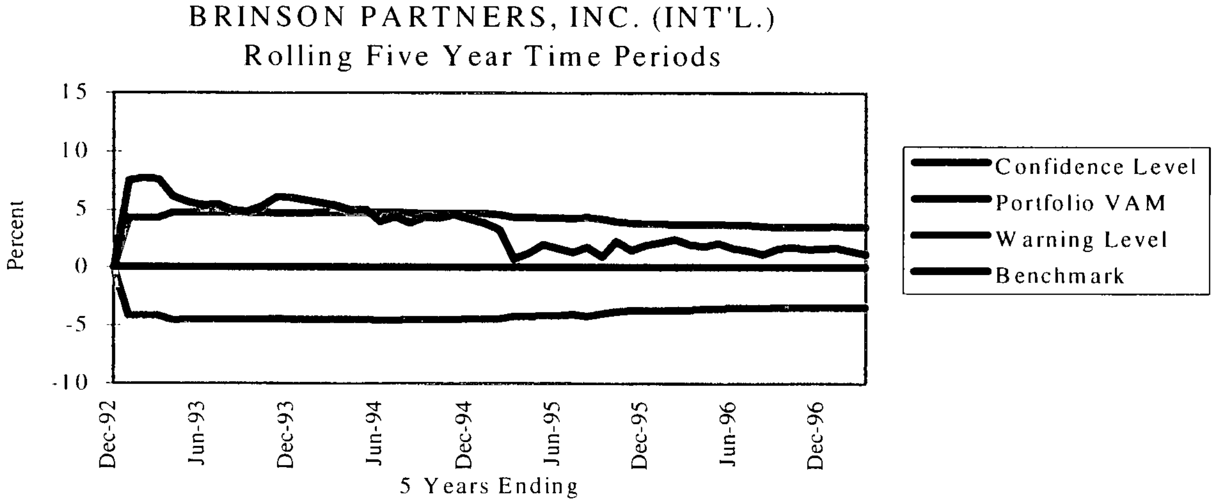
— Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.7%	-1.6%
Last 1 year	8.8	1.4
Last 2 years	16.6	6.8
Last 3 years	11.0	6.6
Last 4 years	10.8	10.4
Last 5 years	N/A	N/A
Since Inception (4/93)	10.8%	10.4%

Recommendations

No action required.



Note: Shaded area includes performance prior to managing SBI account.
Graph uses 80/20 confidence interval.

MARATHON ASSET MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: William Arah **Assets Under Management: $307,857,209**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

Current concerns are:

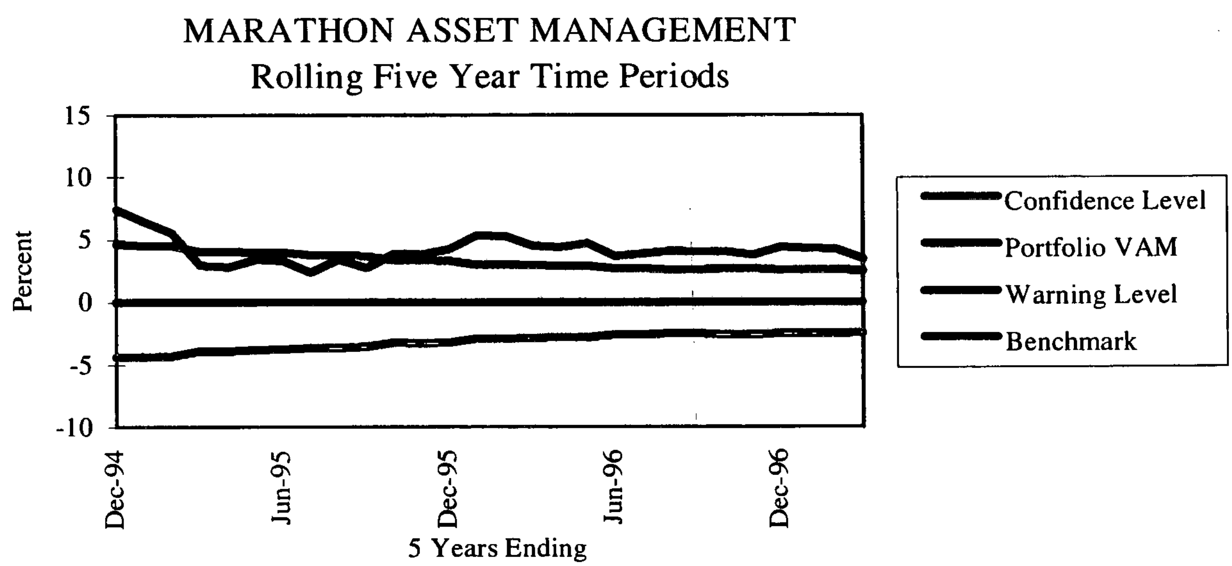
—The firm has experienced significant client growth over the last three years.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.1%	-1.6%
Last 1 year	3.8	1.4
Last 2 years	9.9	6.8
Last 3 years	7.0	6.6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	9.0%	6.1%

Recommendations

No action required.



Note: Shaded area includes performance prior to managing SBI account.
Graph uses 80/20 confidence interval.

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 3/31/97

Portfolio Manager: Martin Wade | **Assets Under Management: $320,658,296**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

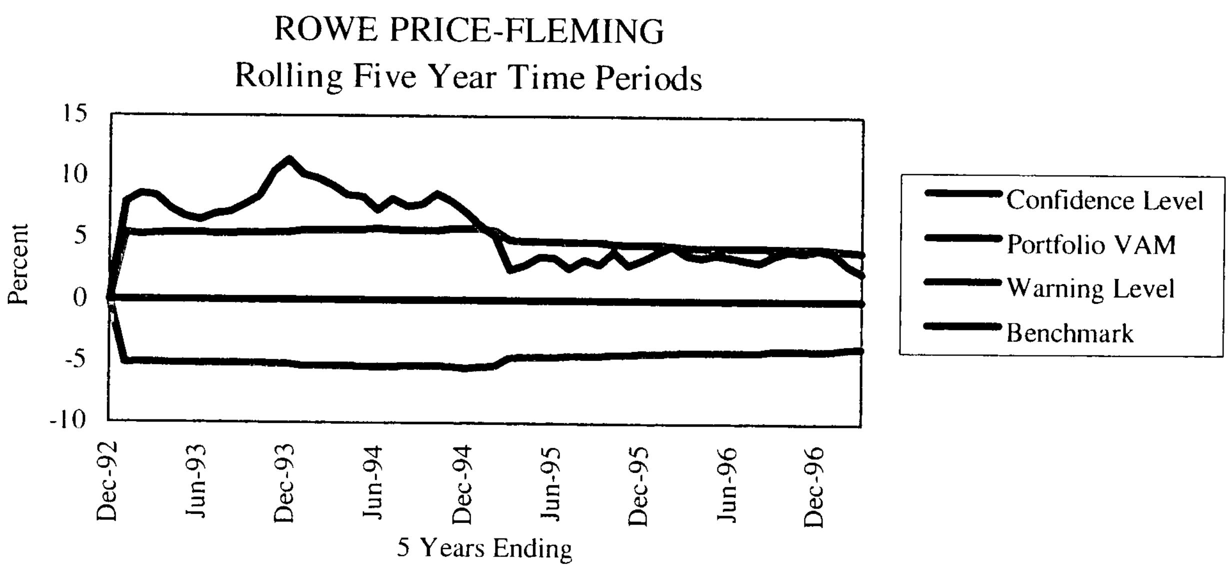
- Extensive securities research process.
- Successful investment approach which has been consistently applied over a number of market cycles.
- Familiarity with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	-1.6%
Last 1 year	9.8	1.4
Last 2 years	14.3	6.8
Last 3 years	9.9	6.6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	10.1%	6.1%

Recommendations

No action required.



Note: Shaded area includes performance prior to managing SBI account.
Graph uses 80/20 confidence interval.

SCUDDER, STEVENS & CLARK
Period Ending 3/31/97

Portfolio Manager: Irene Cheng **Assets Under Management: $218,326,004**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Strong leadership.

—Extensive securities research capabilities.

—Successful investment approach which has been consistently applied over a number of market cycles.

Current concerns are:

—Growth plan appears aggressive.

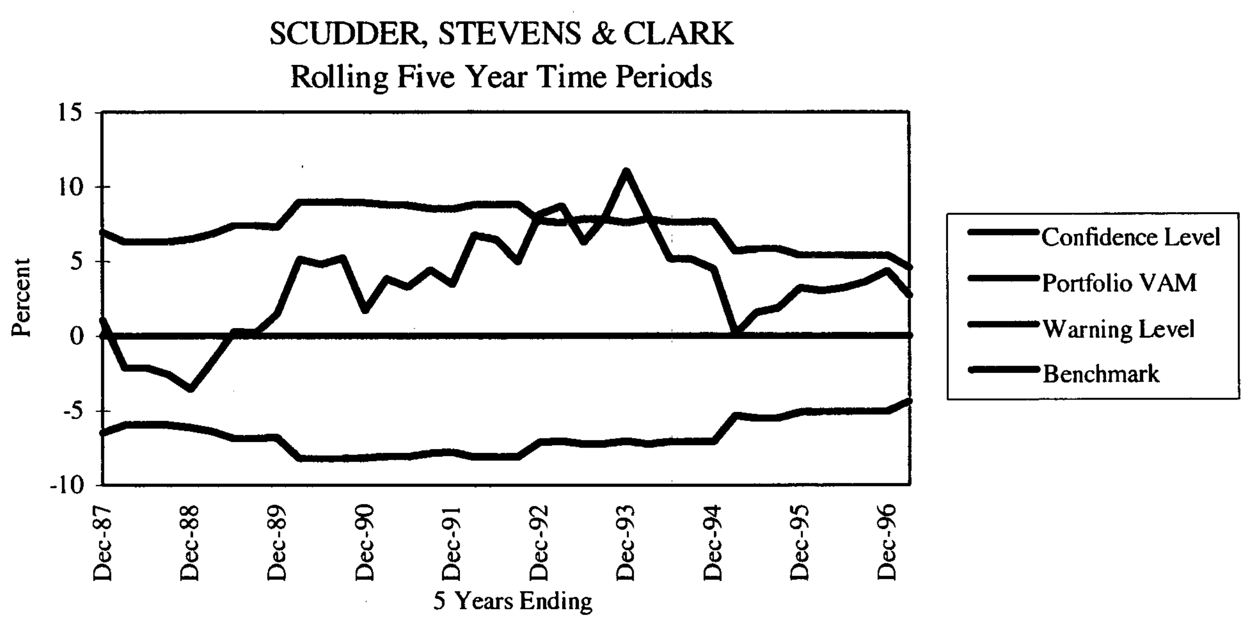
—Staffing and organizational changes are being made in response to growth.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	-1.6%
Last 1 year	11.4	1.4
Last 2 years	17.9	6.8
Last 3 years	12.0	6.6
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	10.9%	6.1%

Recommendations

No action required.



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Uses quarterly returns. Monthly composite returns prior to the inception of the SBI account are unavailable.

CITY OF LONDON
Period Ending 3/31/97

Portfolio Manager: Barry Olliff **Assets Under Management: $110,830,450**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

— Attractive, unique investment approach.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.8	8.5
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	11.6%	10.8%

Recommendations

No action recommended at this time.

VAM Graph will be drawn for period ending 6/30/98.

GENESIS ASSET MANAGERS, LTD.
Period Ending 3/31/97

Portfolio Manager: Paul Greatbatch **Assets Under Management: $226,477,828**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Investment approach has been successfully applied to emerging markets for nearly a decade.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	11.5	8.5
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	13.3%	4.1%

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

MONTGOMERY ASSET MANAGEMENT
Period Ending 3/31/97

Portfolio Manager: Josephine Jimenez **Assets Under Management: $220,544,348**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Current concerns are:

—New ownership by Commerzbank effective spring 1997.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.3	8.5
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	10.5%	4.1%

Recommendations

Place the manager on probation due to the ownership change in accordance with the guidelines in the SBI's Manager Continuation Policy.

VAM Graph will be drawn for period ending 6/30/98.

STATE STREET GLOBAL ADVISORS
Period Ending 3/31/97

Portfolio Manager: Lynn Blake — **Assets Under Management: $1,968,644,292**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

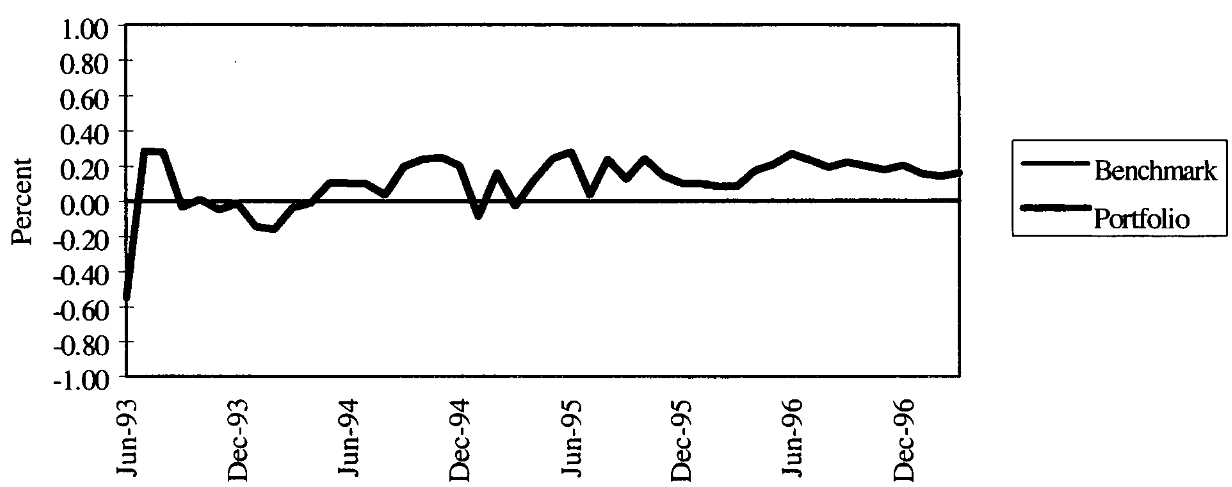
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.8%	-1.6%
Last 1 year	1.9	1.4
Last 2 years	7.2	6.8
Last 3 years	6.9	6.6
Last 4 years	10.5	10.4
Last 5 years	N/A	N/A
Since Inception (10/92)	11.1	10.9

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Cumulative Annualized Tracking Report



Tab H

COMMITTEE REPORT

DATE: May 27, 1997

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met during the quarter to review the following information items:

- Review of current strategy.
- Status report on existing investments with Zell/Merrill Lynch real estate and Heitman real estate.

INFORMATION ITEMS:

1) Review of Current Strategy.

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

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds. Currently, the SBI has committed $656 million to twenty-two (22) commingled real estate funds.
- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. To date, the SBI has committed $1.1 billion to thirty-four (34) commingled private equity funds.

- The strategy for <u>resource</u> investment requires that investment be made in resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has committed $178 million to nine (9) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employee's pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. Since 1994, the SBI has committed $264 million to nine (9) yield oriented funds for the Post Fund: Three (3) are in real estate, five (5) are in private equity and one (1) is in oil and gas.

2) **Status report on existing investments with Zell/Merrill Lynch Real Estate and Heitman Real Estate.**

During the quarter, **Zell/Merrill Lynch** proposed combining four Zell/Merrill/Lynch real estate funds into a single company (a Real Estate Investment Trust or REIT) to take public via a public security offering sometime this summer. The SBI is an investor in three of four Zell/Merrill/Lynch real estate funds. Total market value of the SBI's investments is approximately $160 million.

The SBI was an active participant in the negotiations regarding the Zell/Merrill/Lynch real estate funds consolidation that led up to a final proposal presented to and approved by a majority of the investor group. Currently, the company is filing its registration statement with the SEC. The new company expects to be the largest publicly traded full service office REIT in the U.S. with 82 office properties and 10 parking properties diversified across the U.S.

In addition to the Zell/Merrill/Lynch consolidation proposal, **Heitman** recently proposed to their investors a consolidation of eighteen Heitman/JMB real estate funds into four property type specialized REITS that could someday be taken public. The SBI is an investor in four Heitman real estate commingled funds. The total market value of the SBI's investments is approximately $60 million. After discussing the proposal with their investors, Heitman decided to drop the initiative and continue each fund's original strategic plan. This is likely to result in liquidation of the commingled fund holdings over the next few years.

ATTACHMENT A

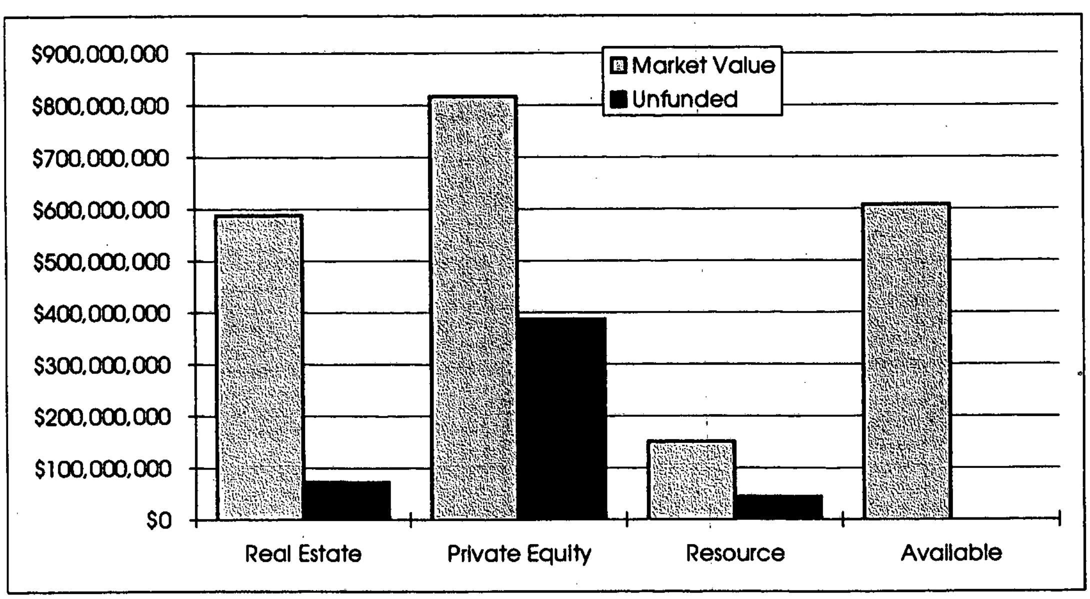
Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
March 31, 1997

Market Value of Basic Retirement Funds	$14,405,076,821
Amount Available For Investment	$607,213,304

	Current Level	*Target Level*	*Difference*
Market Value	$1,553,548,219	$2,160,761,523	$607,213,304
MV + Unfunded	$2,055,948,123	$2,881,015,364	$825,067,241

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$587,511,161 *4.1%*	$72,212,999 *0.5%*	$659,724,160 *4.6%*
Private Equity	$815,803,124 *5.7%*	$386,574,797 *2.7%*	$1,202,377,921 *8.3%*
Resource	$150,233,934 *1.0%*	$43,612,108 *0.3%*	$193,846,042 *1.3%*
Total	**$1,553,548,219** ***10.8%***	**$502,399,904** ***3.5%***	**$2,055,948,123** ***14.3%***

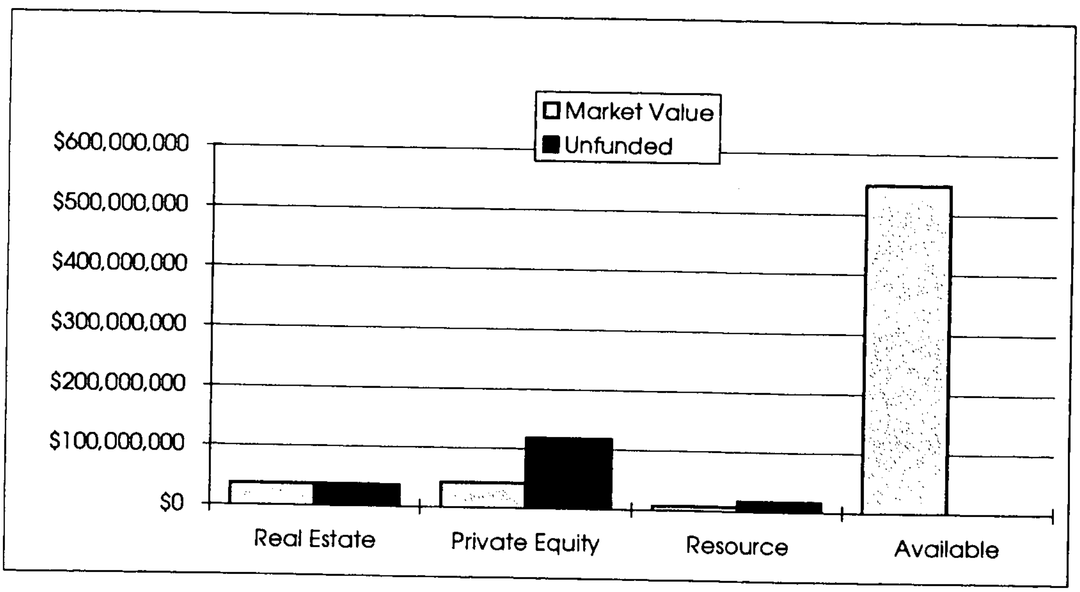


Minnesota State Board of Investment
Alternative Investments
Post Retirement Fund
March 31, 1997

Market Value of Post Retirement Fund	$12,676,754,125
Amount Available For Investment	$548,082,916

	Current Level	*Target Level*	*Difference*
Market Value	$85,754,790	$633,837,706	$548,082,916
MV + Unfunded	$256,684,703	$1,267,675,412	$1,010,990,709

Asset Class	**Market Value**	**Unfunded Commitment**	**Total**
Real Estate	$37,118,964 *0.3%*	$36,675,270 *0.3%*	$73,794,234 *0.6%*
Private Equity	$41,552,757 *0.3%*	$117,100,655 *0.9%*	$158,653,412 *1.3%*
Resource	$7,083,069 *0.1%*	$17,153,988 *0.1%*	$24,237,057 *0.2%*
Total	**$85,754,790** ***0.7%***	**$170,929,913** ***1.3%***	**$256,684,703** ***2.0%***



ATTACHMENT B

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - REAL ESTATE
March 31, 1997

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
AETNA	42,376,529	42,376,529	85,505,032	0	0	5.40	14.9
AEW							
Fund III	20,000,000	20,000,000	2,337,959	18,698,529	0	0.48	11.6
Fund IV	17,400,000	15,000,000	3,229,351	1,075,974	2,400,000	-11.57	10.5
Fund V	15,000,000	15,000,000	7,600,426	3,688,672	0	-3.28	9.3
AMERICAN REPUBLIC	1	1	1	0	0	0.00	7.2
COLONY INVESTORS II	40,000,000	22,542,600	21,829,200	570,650	17,457,400	0.37	2.0
EQUITABLE	40,000,000	40,000,000	78,481,185	0	0	4.80	15.5
FIRST ASSET REALTY	916,185	916,185	409,177	574,158	0	2.93	2.9
HEITMAN							
Fund I	20,000,000	20,000,000	7,859,430	12,896,104	0	0.53	12.6
Fund II	30,000,000	30,000,000	19,562,610	17,550,424	0	2.64	11.4
Fund III	20,000,000	20,000,000	10,607,934	9,520,662	0	0.09	10.2
Fund V	20,000,000	20,000,000	19,596,588	6,971,724	0	6.80	5.3
LASALLE	15,000,000	14,644,401	15,023,083	2,592,517	355,599	6.50	5.5
T.A. ASSOCIATES REALTY							
Realty Associates III	40,000,000	38,000,000	42,004,806	12,320,798	2,000,000	12.12	2.8
Realty Associates IV	50,000,000	11,500,000	11,500,000	0	38,500,000	0.00	0.2
RREEF USA FUND III	75,000,000	75,000,000	59,925,655	45,505,312	0	3.72	12.9
TCW							
Fund III	40,000,000	40,000,000	25,354,988	19,378,049	0	1.23	11.7
Fund IV	30,000,000	30,000,000	14,888,236	11,293,133	0	-1.55	10.4
ZELL/MERRILL LYNCH							
Fund II	40,388,854	40,388,854	53,884,200	10,722,840	0	12.89	5.3
Fund III	50,000,000	50,000,000	68,987,100	2,404,542	0	22.04	3.2
Fund IV	50,000,000	38,500,000	38,924,200	348,578	11,500,000	5.07	1.0
TOTAL REAL ESTATE (BASICS)	***656,081,569***	***583,868,570***	***587,511,161***	***176,112,666***	***72,212,999***		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
COLONY INVESTORS II	40,000,000	22,542,600	21,829,200	570,650	17,457,400	0.37	2.0
WESTMARK REALTY ADVISORS							
Westmark Comm. Mtg. Fund II	13,500,000	13,193,130	12,760,459	1,383,490	306,870	6.06	1.6
Westmark Comm. Mtg. Fund III	21,500,000	2,589,000	2,529,305	52,642	18,911,000	-1.20	0.3
TOTAL REAL ESTATE (POST)	***75,000,000***	***38,324,730***	***37,118,964***	***2,006,782***	***36,675,270***		

TOTAL REAL ESTATE	***731,081,569***	***622,193,300***	***624,630,125***	***178,119,448***	***108,888,269***

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - PRIVATE EQUITY
March 31, 1997

BASIC FUNDS	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
ALLIED	5,000,000	5,000,000	765,271	4,997,296	0	2.41	11.5
BANK FUND							
Fund III	20,000,000	20,000,000	26,992,665	3,320,290	0	16.47	4.4
Fund IV	25,000,000	11,250,000	11,344,596	10,691	13,750,000	1.72	1.1
BLACKSTONE PARTNERS II	50,000,000	24,756,428	24,742,309	23,167,860	25,243,572	49.35	3.4
BRINSON PARTNERS							
VPAF I	5,000,000	5,000,000	1,557,498	6,834,437	0	11.31	8.9
VPAF II	20,000,000	17,979,998	8,690,616	21,100,687	2,020,002	23.42	6.3
CHURCHILL CAPITAL PARTNERS II	20,000,000	20,000,000	13,696,041	9,855,122	0	9.80	4.4
CORAL PARTNERS							
IAI Ventures I	1,146,890	1,146,890	96,382	1,477,912	0	15.73	6.1
Fund I (Superior)	7,011,923	7,011,923	2,356,356	4,685,814	0	0.08	10.8
Fund II	10,000,000	9,000,000	25,741,379	1,579,857	1,000,000	25.37	6.7
Fund IV	15,000,000	7,500,000	8,936,999	392,447	7,500,000	15.20	2.7
DSV	10,000,000	10,000,000	7,549,227	10,109,058	0	5.67	12.0
FIRST CENTURY	10,000,000	10,000,000	4,266,337	11,397,158	0	8.45	12.3
GOLDER THOMA CRESSEY RAUNER							
Fund III	14,000,000	14,000,000	13,695,369	39,793,279	0	30.34	9.4
Fund IV	20,000,000	17,400,000	18,879,345	7,455,551	2,600,000	22.79	3.2
Fund V	30,000,000	3,000,000	2,920,835	0	27,000,000	-17.06	0.7
HELLMAN & FRIEDMAN III	40,000,000	19,664,974	18,580,733	194,171	20,335,026	-4.37	2.5
IAI U.S. VENTURE FUND II	15,000,000	2,163,559	2,163,559	0	12,836,441	0.00	0.2
IMR PARTNERSHIP	15,000,000	1,524,900	403,058	1,148,997	13,475,100	0.65	4.7
INMAN BOWMAN	7,500,000	7,500,000	2,424,366	6,991,610	0	3.13	11.8
KOHLBERG KRAVIS ROBERTS							
1984 Fund	25,000,000	25,000,000	12,933,838	109,717,026	0	28.53	12.8
1986 Fund	18,365,339	18,365,339	125,941,209	57,997,789	0	28.58	11.0
1987 Fund	145,950,000	145,950,000	201,194,434	215,902,446	0	12.53	9.4
1993 Fund	150,000,000	122,264,910	169,976,591	42,759,053	27,735,090	14.20	3.3
1996 Fund	200,000,000	2,143,034	2,143,034	0	197,856,966	0.00	0.6
MATRIX							
Fund II	10,000,000	10,000,000	2,189,951	18,980,606	0	13.66	11.6
Fund III	10,000,000	10,000,000	4,010,804	66,659,384	0	74.86	6.9
NORWEST VENTURE CAPITAL	10,000,000	10,000,000	562,842	14,829,284	0	5.64	13.2
PIPER JAFFRAY HEALTHCARE FUND	11,000,000	900,000	900,000	0	10,100,000	0.00	0.1
SUMMIT PARTNERS							
Fund I	10,000,000	10,000,000	221,419	19,925,323	0	13.08	12.3
Fund II	30,000,000	28,500,000	4,384,127	61,981,526	1,500,000	28.20	8.9
T. ROWE PRICE	123,959,827	123,959,827	31,052,834	135,647,486	0	16.29	9.4
WARBURG PINCUS	50,000,000	27,500,000	27,303,000	223,300	22,500,000	0.08	2.2
ZELL/CHILMARK	30,000,000	28,877,400	37,186,100	14,510,950	1,122,600	10.79	6.7
TOTAL PRIVATE EQUITY (BASICS)	***1,163,933,979***	***777,359,182***	***815,803,124***	***913,646,409***	***386,574,797***		

POST FUND	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
CITICORP MEZZANINE	40,000,000	15,441,525	13,323,709	4,348,738	24,558,475	11.48	2.25
KLEINWORT BENSON	25,000,000	6,584,775	5,319,197	71,515	18,415,225	-30.60	1.50
SUMMIT PARTNERS							
Summit Sub-Debt Fund I	20,000,000	15,000,000	12,031,243	10,907,764	5,000,000	23.98	3.00
Summit Sub-Debt Fund II	40,000,000	0	0	0	40,000,000	0.00	0.30
TCW/CRESCENT MEZZANINE	40,000,000	10,873,045	10,878,608	3,570,492	29,126,955	0.69	1.00
TOTAL PRIVATE EQUITY (POST)	***165,000,000***	***47,899,345***	***41,552,757***	***18,898,509***	***117,100,655***		

TOTAL PRIVATE EQUITY	***1,328,933,979***	***825,258,527***	***857,355,881***	***932,544,918***	***503,675,452***

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - RESOURCE
March 31, 1997

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
FIRST RESERVE CORP.							
AMGO I	15,000,000	15,000,000	8,510,030	3,614,536	0	-1.74	15.5
AMGO II	7,000,000	7,000,000	10,091,370	2,325,453	0	5.37	14.2
AMGO IV	12,300,000	12,300,000	16,935,534	7,892,318	0	10.72	8.9
AMGO V	16,800,000	16,800,000	33,052,459	9,182,365	0	17.41	6.9
First Reserve Fund VII	40,000,000	11,886,668	9,058,316	2,719,454	28,113,332	-2.80	0.7
APACHE III	30,000,000	30,000,000	14,470,321	40,506,792	0	13.85	10.3
MORGAN OIL & GAS	15,000,000	15,000,000	12,663,859	2,016,345	0	-0.35	8.6
SIMMONS							
OFS II	17,000,000	14,847,529	30,143,984	1,221,564	2,152,471	21.44	5.7
OFS III	25,000,000	11,653,695	15,308,061	0	13,346,305	23.35	1.8
TOTAL RESOURCE (BASICS)	**178,100,000**	**134,487,892**	**150,233,934**	**69,478,827**	**43,612,108**		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
MERIT ENERGY	24,000,000	6,846,012	7,083,069	70,340	17,153,988	14.46	0.7
TOTAL RESOURCE (POST)	**24,000,000**	**6,846,012**	**7,083,069**	**70,340**	**17,153,988**		

TOTAL RESOURCE	**202,100,000**	**141,333,904**	**157,317,003**	**69,549,167**	**60,766,096**

Tab I

STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending March 31, 1997

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Manager Commentary
Alliance Capital Management L.P.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$182 Billion	Actual	4.0%	21.4%
Total Firm Assets Managed in this Discipline	$ 20 Billion	Benchmark	2.3%	18.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

We outperformed the benchmark this quarter, +4.0% for the portfolio versus +2.3% for the benchmark. In addition to positive stock selection, overweighting the financial sector once again contributed positively to performance. The financial sector of the S & P 500 returned +4.6% versus +2.7% for the entire S & P 500 and +2.3% for the benchmark. Although the technology sector did not outperform the broader market, the portfolio's holdings, led by Dell +27%, Microsoft +11% and Intel +6%, performed extremely well. Although Cisco -24% continues to consolidate its leadership position in networking, it suffered from concerns that order growth for networking hardware has peaked. Having underperformed in the previous quarter, the consumer services sector rebounded due to strong retail sales. Retailers such as Walmart +23%, Sears +9% and Home Depot +7% easily outperformed the benchmark. Underperforming stocks, particularly Gillette -7% and Philip Morris +1%, were concentrated in the consumer staples sector.

We outperformed the benchmark for the year, +21.4% for the portfolio versus +18.1% for the benchmark. The overweightings of the technology and financial sectors contributed to the outperformance. Intel +145%, Compaq +98% and Microsoft +78% stand out among the portfolio's technology holdings and Merrill Lynch +41%, MBNA Corp. +41% and Citibank +35% led among the financial holdings. Core holdings such as Gillette +40%, Coke +35% and Philip Morris +30% in the consumer staples sector also contributed to the outperformance. Traditional pharmaceutical stocks such as Merck +35% and Schering Plough +25% performed extremely well as their top line growth accelerated. Other areas of healthcare did not perform as well; the biotech company Amgen -4% and the medical device maker Medtronic +4% both lagged the benchmark. Several holdings in the consumer services sector negatively impacted performance such as Time Warner +6%, Airtouch -26% and Northwest Airlines -27%.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Although the recent Fed action has heightened volatility in the market, this commitment to maintaining moderate growth and moderate inflation has not caused us to alter our views. Our overweightings of the financial and technology sectors remain intact. We acknowledge that the Fed hike negatively impacts market psychology towards financial stocks but we still feel that premier financial growth companies with dominant industry positions and earnings growth of 12-15% per annum are just too cheap at a P/E multiple of 12-13x. Our overweighting of the technology sector remains grounded in the United States' technology leadership and the continued adoption of these new technologies worldwide.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Won	Lost
Minneapolis Police Relief Assn. MacArthur Foundation	None

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff visited Alliance Capital's Minneapolis office on January 16, 1997. At that time, the move to a more concentrated portfolio was underway. In the past, the portfolio held about 50 stocks. It currently holds 38 names. Alliance has structured the portfolio to more equally weight each name.

Alliance believes the market's fundamentals look good, but valuations are very high. As mentioned above, they continue to see long term value in the technology and finance areas. They also continue to invest in firms with growth potential in foreign markets.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$71.6 Billion	Actual	1.0%	18.4%
Total Firm Assets Managed in this Discipline	$17.2 Billion	Benchmark	0.8%	14.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Key factors affecting the performance of stocks during the first quarter of 1997 included a 0.25% increase in the Federal Funds rate, generally strong economic activity, strong but slowing corporate profits and an increase in intra-day market volatility.

   During the first quarter of 1997, the portfolio was helped by overweights with respect to book-to-price, earnings variability and financial leverage. Underweights with respect to foreign earnings and relative strength also added to first quarter returns. Positive returns to these exposures were meaningfully offset during the first quarter by a negative contribution from an underweight to the size factor, as large capitalization stocks outperformed small and intermediate capitalization issues. During the twelve months ending in March, the portfolio was helped by overweights in stocks with high exposure to the earnings-to-price, book-to-price and financial leverage measures. Overweights in stocks that have a high degree of liquidity detracted from portfolio performance during the same period, as did an underweight with respect to size.

   During the first quarter of 1997, portfolio performance benefited from an overweight in transportation and underweights in telephone and electric utilities, chemicals and consumer durables. Positive returns to these exposures largely offset negative returns to underweights in energy and consumer non-durables and overweights in capital goods and paper. For the twelve months ending in March, positive returns from a relative overweight in banks and from underweights in electric and telephone utilities, non-durables and chemicals more than offset negative contributions to performance from our relative underweights in energy, capital goods and technology and overweights in paper and transportation. Stock selection detracted from portfolio performance during both the first quarter and for the year ending in March. Holdings which had a negative contribution to stock selection during the first quarter of 1997 included Burlington Northern Santa Fe, Lockheed Martin, Mattel and Tyson Foods.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our process remains focused on identifying those stocks that are most attractive in price/value terms through intensive individual company analysis, which incorporates strategic themes and industry research. The portfolio remains relatively market-like in regard to factor characteristics at this time. We find stocks with high price-to-book modestly attractive. We are also underweighted regarding foreign earnings exposure and size.

   From an industry perspective, we continue to possess an overweight in financial/interest sensitive stocks, which comprises an overweight in banks and a neutral position in non-bank financials. We believe that restructuring and consolidation will increase efficiency and raise market shares for banks, although we remain cautious of growing credit card loss levels.

The portfolio remains underweighted in utilities, including both electric utilities and the traditional telephones; a position that has added meaningfully to portfolio performance during the past two years. We continue to see evidence that the eventual deregulation of power generation is accelerating competitive pressure from lower cost utility and non-utility generators and will increase the purchasing power of larger power users. Competition will also intensify in the telecommunications and cable industries as regulatory barriers between traditional business lines are blurred and the traditional regional telephone companies are pushed toward "cost of service" pricing.

The demographic profile of U.S. consumer and the pressures from sustained reduction in labor content in many corporations suggest trend growth in this area will continue to be slightly below that of the general economy. Nevertheless, we find a number of individual stocks that appear attractive on a stock specific basis with overweights in selected tobacco and leisure related stocks. The portfolio also remains overweighted in health care and drug stocks. Key drivers include the aging of the population, major technological advance and the popular attitude that health care is a right and not a privilege. All of our health care selections are companies with a strong capability for cost effective new products.

We are overweighted in railroads because of the secular improvement in railroad industry and our belief that profitability will continue as regulatory barriers continue to fall, enabling rails to shed excess labor costs and abandon unprofitable routes. We are underweighted in the energy sector. Our petroleum outlook calls for steady increases in world demand for oil which will increase the call on OPEC oil, but at a rate well within the production capabilities of these countries. Our 1997 estimate for the normalized price of West Texas intermediate crude oil is $20.50/bbl, slightly in excess of current futures market prices. The portfolio is overweight in paper stocks and underweight in chemicals. Market prices for many commodities are below beginning-of-1996 levels, as a result of slowing economic growth and capacity additions. Finally, the portfolio is overweight with respect to aerospace and pollution control and underweight in technology.

Key holdings include Burlington Northern Santa Fe, Chase Manhattan, Citicorp, CMS Energy, Corning, Lockheed Martin, Philip Morris, Tyson Foods and Xerox.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No changes this quarter.
   Five new accounts totaling $658 million were funded. None departed.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Brinson Partners in their Chicago office on March 11, 1997. Discussion topics included the organization, firm growth, portfolio strategy, benchmark analysis, research, company analysis, and trading.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$3.5 Billion	Actual	2.6%	18.2%
Total Firm Assets Managed in this Discipline	$1.4 Billion	Benchmark	-0.6%	11.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Performance for the first quarter was strong, largely due to superior performance in the consumer non durables, technology and interest sensitive sectors. Consumer retailing names including Costco Companies (previously Price/Costco), Barnes & Noble Bookstores and OfficeMax Corp. did very well on strong consumer spending and same store comparisons. Within the technology area we avoided most of the trouble the market experienced, having sold several of our positions earlier in the quarter to realize gains. Our largest holding, EMC Corp., hit new highs during the sell off. Within the interest sensitive sector we were positioned in the California savings & loans, where merger and acquisition activity produced a bidding war for Great Western Financial Corp.

   Performance for the year was helped by a significant overweight in and better than market performance in the technology sector. In addition, the consumer retailers and services groups, particularly the lodging names, helped us to produce superior performance within the consumer sectors. Key names included Costco Companies, which doubled, CompUSA, Borders Group and Barnes & Noble Bookstores. Healthcare holdings also performed better than those in the benchmark, partially due to the strong returns of Healthsouth Corp. and Vivus. The only area of weakness in the portfolio for the year were the cyclical holdings, including the metals and forest products areas which did not exhibit improving pricing for their commodities, as we had expected. However, we were not overweighted in the area, which minimized their effect on performance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to favor the mid cap growth segment of the market in this environment. Valuations remain very attractive relative to the larger cap names, with discounts averaging roughly 50%. Though liquidity factors ordinarily cause a significant drop in smaller cap names in the early phase of any decline, we have fared quite well through the sell off, and expect the market to sort out the mid cap valuation advantage as thoughtful investing resumes. Should mid cap names continue to weaken with the market, we may step up our commitment to the area.

   Earnings prospects within the *consumer* retailers should continue to be strong, with geographic expansion and vigorous consumer spending providing fuel for growth. The lodging names, particularly Host Marriott Corp, remain attractive with strong earnings growth and at least three years to profit from current capacity limitations within the full service end of the sector. We remain out of the consumer durables groups. Within the *health care* sector we continue to hold a very selective group of names, foremost of which is

Healthsouth Corporation. The company's prospects have further strengthened with the recent acquisition of Horizon Healthcare, as well as problems experienced by its major competitor, Columbia/HCA.

Having taken accumulated gains in many of our August 1996 *technology* acquisitions earlier this year, we are once again looking for opportunities to pick up good values in this sector. One trade which deserves mention was the recent sale of Micron Technology. You may recall that we had previously selected Micron for portfolios over Intel, in light of upside potential of 100% in the former over 25% in the latter. With Micron's upward move and Intel's decline, the upside potential in both names has equalized. In light of Intel's lower expected volatility and better quality of earnings, we took gains in the Micron, rotating exposure to Intel for the environment ahead.

With global economic growth expected in the range of 3-4%, we continue to like *industrial* infrastructure and commodity cyclicals with a global orientation. However, plans to extend exposure in this area have been delayed due to recent Fed activity. Currently, our exposure is concentrated within the agricultural area as well as paper and forest products names, where pricing appears to be bottoming. Holdings within the *financial* area are focused within the California savings and loan group, where merger and acquisition activity has begun to bear fruit. The bidding war between A.H. Ahmanson and Washington Mutual for Great Western Financial suggests more deals may be in the wind. Other than this segment, the interest sensitive area may have further difficulty in the current interest rate environment.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant ownership or personnel changes at the firm over the quarter. No accounts were gained or lost in this discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

No issues to report at this time.

Staff Comments

Staff met with Forstmann-Leff at SBI's office on January 31, 1997. At that time, they indicated they had begun concentrating the portfolio by increasing the weightings of their top picks.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$10.5 Billion	Actual	0.6%	14.3%
Total Firm Assets Managed in this Discipline	$ 617 Million	Benchmark	0.3%	12.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Last Quarter's Performance:
The first quarter was somewhat more difficult than the fourth quarter of last year. The very large cap stocks did fine but the average stock did not fare all that well. For the period, the account outperformed its benchmark with a total return of 0.6%, net of fees, compared to the 0.3% benchmark return. For the same period, the S&P 500 produced a return of 2.72%. According to our performance attribution analysis, stock selection bets were positive contributors to active return in the quarter. Industry exposures made a small negative contribution and risk-index exposures were slightly positive. The performance of the account was hurt because our valuation models find the very large cap stocks, which have been the driving force in this market, to be expensive. Also, momentum measures we use did not perform well in the first quarter.

Twelve Month Performance:
The twelve month portfolio return was strong in absolute and relative terms. Our performance attribution analysis indicates that stock selection bets, risk-index bets and industry bets contributed to active return.

Top 5 and Bottom 5 Industry or
Risk Factor Contributors to Active Return

Factor	Qtr Active Bets	Qtr Return Contrib.	Factor	12 Mths Active Bets	12 Mths Return Contrib.
Top 5:					
Producer Goods	3.40	0.25	Misc. Finance	3.37	0.99
Trading Factor	0.16	0.25	Producer Goods	1.44	0.86
Misc. Finance	5.11	0.23	Thrifts	1.79	0.83
Retail	3.91	0.19	E/P Factor	0.32	0.82
Variability-in-Mkts	0.03	0.18	Variability-in-Mkts	0.07	0.45
Bottom 5:			Bottom 5:		
Domestic Oils	2.94	-0.25	Other Insurance	-0.50	-0.66
E/P Factor	0.32	-0.25	Banks	-2.08	-0.49
Electric Utilities	-0.29	-0.24	Drugs	-0.76	-0.29
Banks	-5.92	-0.21	Soaps	-1.76	-0.29
Other Insurance	1.18	-0.17	Chemicals	-1.98	-0.29

Note: 1. Bets are monthly averages.
2. Risk Index differences are in standard deviations.
3. Industry differences are in percents.
4. Contributions are percents aggregated from monthly data.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As of March 31,1997, the following active bets existed in the account relative to the benchmark:

   A. Risk factor bets (standard deviations from benchmark = or > .1):

Success = 0.16	Earnings/Price = 0.38	Trading = 0.26
Book/Price = -0.21	Labor Intensity = -0.20	

   B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Business Machines	5.35%	Banks	-5.89%
Misc. Finance	4.77	Telephones	-4.03
Domestic Oils	4.59	Drugs	-3.18
Retail	4.33	Chemicals	-2.96
Food Stores	3.81	Media	-2.26

   Active portfolio bets are based on: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes over the last quarter.
   There were no account gains or losses in this discipline during the period. On a firm-wide basis we gained one international account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
GeoCapital Corporation

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$1.7 Billion	Actual	-10.1%	1.7%
Total Firm Assets Managed in this Discipline	$1.7 Billion	Benchmark	-9.6%	-5.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The following chart highlights our functional bets in the actual portfolio relative to the benchmark and the relative performance of both entities. A new benchmark portfolio was established in early 1996 which we continue to believe more accurately reflects our current universe of securities. In the first quarter of 1997, we suffered relative to the benchmark primarily due to the significant market loss of Mercury Finance as a result of fraudulent accounting revelations in January and the slight underperformance in technology securities in February. Performance for the last two months of the quarter, however, significantly outperformed the benchmark, so that by March 31st, we have nearly made up the very poor relative performance that occurred in January 1997.

	Quarter Ending 3/31/97	**Year Ending 3/3/97**
Consumer Non-Durable	Positive Same weightings/ higher returns 45.85% Geo/39.25% benchmark	Positive Higher weightings/ higher returns 44.60% Geo/41.91% benchmark
Technology	Negative Lower weightings/ lower returns 32.04% Geo/32.95% benchmark	Positive Higher weightings/ higher returns 31.86% Geo/31.30% benchmark
Financial	Negative Lower weightings/ lower returns 9.46% Geo/11.03% benchmark	Negative Higher weightings/ lower returns 12.44% Geo/10.85% benchmark
Total	87.35% Geo/83.23% benchmark	88.90% Geo/84.06% benchmark

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   In technology, greater emphasis has been placed on Data Networking, Educational Software and Private Schools. Healthcare declines (within consumer non-durable) have been more than offset by distribution, retail, and lodging companies. Financial stocks have declined due to the sales of fully valued commercial banks and Mercury Finance. Going forward, active bets in finance will continue to be below benchmark levels.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No changes.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

First Quarter 1997 Comments

Our clients faced a difficult start to 1997, as the first quarter saw stocks, in general, and small-capitalization stocks, in particular, give back early quarter gains. The equity market weakness was driven by the Fed's monetary policy tightening in March and the market's expectation that further rate increases are on the way. Our clients' specific first quarter portfolio performance was most negatively impacted by weakness in the technology sector and the problems involving accounting irregularities at one of our significant portfolio positions, Mercury Finance. (All shares were sold during the first quarter.)

Given our long-term investment perspective and history of investing in software companies, we continue to favor the small-cap technology sector over the next 3-5 years. We believe that companies within this market sector will benefit greatly as information technology in many forms will continue to be implemented on a large scale and across a broad spectrum of applications by both corporations and consumers. We believe that weakness in many of our technology portfolio positions where the fundamental outlook and earnings picture remain intact represents a buying opportunity brought about by rate-driven market uncertainty.

Returns in our clients' special situation investments, in general, tended to be given by company-specific events rather than overall market conditions. A number of investments in such areas as lodging, investment management and furniture manufacturing showed strong gains as the market recognized value. As on the growth/software side of the portfolios, we have been adding to positions where we believe fundamentally strong companies which are well-positioned to bring out value were caught up in overall market weakness.

We will continue to pursue our investment discipline through a company-specific, fundamental analytical approach. The current macro environment is especially stable with low levels of inflation. Despite recent Fed actions to tighten the money supply (perhaps with more tightening to come), we continue to find attractive investments that should present excellent opportunities for the smaller companies on which we focus.

Staff Comments

GeoCapital was re-interviewed by the Domestic Manager Committee on February 18, 1997. The Committee recommended that GeoCapital be retained, and that Staff continue to monitor their performance.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$ 15 Billion	Actual	-4.5%	4.8%
Total Firm Assets Managed in this Discipline	$753 Million	Benchmark	-0.3%	12.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio was down -4.5% during the quarter ended March 31, 1997, which compares to -0.3% for our benchmark. The primary reason for our underperformance remains the overall underperformance of small capitalization stocks and the outperformance of large capitalization stocks within the region. The portfolio has been weighted toward small capitalization stocks and this has been the primary reason for the underperformance over the last three quarters.

   The large capitalization stocks (market capitalization greater than $5 billion) in our benchmark were up 3.65% for the quarter and had a positive impact of 1.94% on the benchmark because these stocks comprise 53.20% of the benchmark. By comparison, the large cap stocks in the portfolio were up 6.24% but had an impact of 1.24% because these stocks were only 18.34% of the portfolio. In addition, the small capitalization stocks in our benchmark were down 4.15% and had a negative impact of 0.95% because these stocks currently comprise only 22.98% of the benchmark. The portfolio, in comparison, had a weighting of 58.09% in small cap stocks and this overweighting in combination with the overall poor performance of small cap stocks during the quarter led to a negative impact of 4.73% on the portfolio's performance.

   On a sector basis, the quarter can be described as an across the board blood-letting quarter. With the exception of energy, which was up 7.44% based on Amoco's performance during the quarter, all other sectors were down modestly. The largest impact to the portfolio was the technology and financial sectors, having impacts of -2.02% and -0.89%, respectively. In the capital goods sector, IDEX Corp. (-12.57%), ABC Rail (-13.60%) and Pentair (-11.02%) had a negative impact of -0.82% on the portfolio and the entire sector had a negative impact of 0.53%. By comparison, the capital goods sector had a positive impact of .31% for the benchmark. This was primarily due to the performance of the larger cap names in capital goods, namely Minnesota Mining (3.21%), Caterpillar (7.80%)and Deere & Co. (8.51%), which had good absolute performance. Due to the significant weighting of these names in the benchmark, they had a positive impact of .34% on the benchmark. The difference between the benchmark and the portfolio's performance in the capital goods sector was a negative 0.84%.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   While we have maintained our active bet on the small and middle capitalization stocks, we believe that the benchmark may be inaccurately measuring our investment performance because of the significant weighting in large cap stocks. Consequently, rather than alter our investment style to match the benchmark, we are in the process of reviewing the benchmark so that it better measures our investment style. Consequently, we continue to have an active bet on the smaller and middle capitalization names when using the current benchmark. Finally, we reduced our weighting in small capitalization capital goods names at the beginning of the current quarter.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

3a. Ownership changes: None

3b. Personnel Changes:

During the first quarter, several personnel changes occurred within IAI. Rick Leggott, Head of IAI's Small Cap Equity product, resigned to form his own firm. Subsequently, R. J. New, Small Cap Equity portfolio manager, resigned and joined Mr. Leggott. These individuals were not involved in the management of IAI's Regional product.

Later in the quarter, Suzanne Zak, Head of IAI's Midcap Investment Team, resigned to form her own firm. Subsequently, Todd McCallister, portfolio manager - Midcap Equities, left the firm to join Eagle Asset Management. These individuals were also not involved in the management of the Regional product.

Following Ms. Zak's departure, Mark Hoonsbeen was named to head the IAI Growth Equity Team. Mark has restructured this team to merge the resources of the Midcap Team and the Regional Team, creating a group of seven investment professionals dedicated to managing the Growth Equity, Midcap and Regional products.

3c. Accounts gained or lost:

No change for the Regional product. Several Small Cap and Midcap accounts have been lost due to personnel departures.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

During the first quarter, Staff met with IAI at their offices on January 16, 1997 and March 14, 1997 to discuss IAI's investment process and recent changes to the Domestic Equity Team. The investment professionals for IAI's Regional, Mid-Cap, and Large-Cap products have been combined and one team of six portfolio managers and analysts now covers all three products.

Staff is concerned about the amount of staff turnover IAI has experienced and is concerned that the Domestic Equity Team may not place the same level of focus on the Regional Product that SBI experienced in the past. Staff will continue to monitor IAI's performance and will closely follow any other organizational changes that are made.

Manager Commentary
IDS Advisory (IDS Equity Advisors)

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$32.9 Billion	Actual	-5.3%	13.5%
Total Firm Assets Managed in this Discipline	$ 7.2 Billion	Benchmark	2.1%	19.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the first quarter of 1997, the MNSBI concentrated portfolio underperformed the MNSBI Normal by 7.4 percent. This period was characterized by a very narrow market which can be an extremely difficult stock picking environment. In particular, the portfolio lost over 400 basis points due to stock picking within the technology sector. Although there were some active sector bets, which are residual to the bottom-up process, the value detracted due to these bets was negligible. Despite the clearly unfavorable relative performance, the active volatility experienced in the first quarter was as predicted under the new, more concentrated portfolio methodology which began 1/1/97. Over the trailing 12 period ending 3/31/97, the portfolio has underperformed the MNSBI by 6.00 percent. The portfolio outperformed the Normal by 3.06 percent over the 9 months ending 12/31/96 chiefly due to an overweighting in technology. However the stock selection of the first quarter in 1997 overwhelmed the value added during this period.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As of the end of the quarter, we found the sector weightings in the Normal portfolio to be no longer representative of our investable universe. For example, the Technology sector weight in the Normal portfolio was approaching 25 percent, which is not reflective of our investment style. In conjunction with Richards & Tierney and the MNSBI staff, we modified the Normal portfolio to better reflect our investable universe and investment style. The modified Normal portfolio is effective 4/1/97. With the modification of the benchmark, we rebalanced the portfolio with consideration for minimizing transaction costs. We now hold 28 stocks, all 1-rated by our internal analysts. These holdings were chosen consistent with the "risk-adjusted optimal" methodology. Although this approach is bottom-up oriented, we will always have residual sector bets which may be constrained if there is an unacceptable amount of marginal risk associated with the bet. Our current exposures are as follows:

Sector Exposure	**Concentrated Portfolio**	**MNSBI Normal**	**Active Bet**
Basic Materials	1.94	5.40	-3.46
Consumer Cyclical	15.26	11.24	4.02
Consumer Non-Cyclical	29.34	26.15	3.18
Energy	1.52	4.82	-3.30
Finance	12.91	16.24	-3.33
Industrial	8.62	6.87	1.75
Technology	23.52	21.81	1.71
Transportation	0.00	2.10	-2.10
Utilities	6.05	5.37	0.68
Cash	0.85	0.00	0.85

Currently, we are slightly overexposed in the consumer cyclical, consumer non-cyclical, industrial, and technology sectors, and slightly underexposed in the basic materials, energy, and finance sectors. There are two holdings which are not in the normal portfolio, comprising 4.5 percent of the portfolio. The active bets of the individual holdings range from approximately 2.0 percent to 4.0 percent, however each stock's marginal contribution to portfolio risk-adjusted return is commensurate with its active bet. The cash weighting is negligible and is available only for transactional purposes.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

The following individuals have joined IDS:
Henry Kaczmarek-Equity Analyst,
John Schonberg-Equity Portfolio Manager,
Megan Scipione-Associate Equity Analyst,
Curt Weaver-Equity Analyst,
Suzanne Hudson-International Economic Analyst

The following promotions took place over the last quarter:
Mike Wolf was promoted to Vice President American Express Financial Corporation,
Marty Hurwitz was promoted to Vice President American Express Financial Corporation,
Kurt Winters has been promoted to Senior Portfolio Manager,
Guru Baliga has been promoted to Senior Portfolio Manager,
Pam Gildy was promoted to Vice President,
David Friedrichsen was promoted to Senior Analyst,
Mike Koehl was promoted to Senior Analyst.

First Quarter 1997

	Gains		**Losses**	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Fixed Income	2	300.1	0	0.0
Balanced	1	10.1	1	20.4
Mid Cap Equities	1	16.7	0	0.0
Global Bonds	0	0.0	1	16.3
Total				

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

Staff met with IDS at SBI's offices on January 6, 1997 and on March 20, 1997. We discussed the move to a more concentrated portfolio and changes to the custom benchmark. Comments made in these meetings agree with those made above.

Manager Commentary
Independence Investment Associates

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$25.9 Billion	Actual	3.0%	17.5%
Total Firm Assets Managed in this Discipline	$12.4 Billion	Benchmark	2.7%	19.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Surprising most equity strategists, the U.S. stock market began the year on a strong note, producing positive returns for the ninth consecutive quarter. The S&P 500 was actually up over 10% by mid February before correcting 7% in the second half of the quarter, still producing 2.7% for the full three-month period. The market continued to be very narrow in January with 10 stocks accounting for over 30% of the S&P 500's robust performance. January continued all the trends of the last year, starting us off on the wrong foot with under-performance. By mid-February there was a break in the trends and performance was strong.

The skittish final two weeks in March erased some of the February recovery but left us ahead of the S&P 500 and your custom benchmark as well. 1997 began with the continuation of many of the same cyclical phenomena which impacted last year's results. For example, $29.4 billion in cash, an all-time record high, was invested in equity mutual funds in January. This liquidity continued to drive the 50 largest cap stocks in the S&P 500--the "mega-cap" stocks--which returned 8.4% during the month, dramatically outperforming the 450 remaining S&P 500 issues at 4.4%. As the magnitude of cash inflows tapered off, buying pressure on the mega-cap stocks subsided. In February and March, the mega-cap stock phenomenon started to turn, with a broader array of S&P 500 issues finally doing better. Concurrently, your portfolio began to outperform. The last few weeks in March were wrought with panic and emotion creating some under-performance for very different reasons than last year.

As you can see from your portfolio results, the quantitative valuation model which drives our stock selection process (Cybercode) was not robust during the very beginning of the year. Much of this weakness came in January and was centered on continuing problems differentiating between "good" and "bad" stocks within the positive ranked mega-cap stocks, a continuation of 1996. In other words, January's underperformance was a result of the models working particularly poorly for buy recommendations and even more poorly for buy recommendations on very large stocks. We believe the frenzied attempts to invest the huge inflows of capital into the US equity market have made it tough to assess, on a fundamental basis, which stocks will be aggressively pursued by the market. Despite these early trends, we were encouraged by a February break from this pattern -- the first break in almost two years.

Among the best-performing stocks this quarter were the consumer non-cyclicals, a sector which includes many of the high-flying food, beverage, and household product companies that also led the market in 1996. These stocks (for example, Coca Cola, Procter & Gamble, Campbell Soup) are very expensive relative to the stock market as a whole and represent today's version of the early 1970's "Nifty Fifty". Because they are trading at such relatively high P/E multiples, our valuation model which focuses on owning stocks which are undervalued or "cheap" has not found them attractive. As a result, these stocks are not in your portfolio, creating an underweight versus the S&P 500 in the consumer non-cyclicals sector. When the market retrenches (as it did near the end of this quarter), these expensive issues are often the most vulnerable, and our philosophy of owning stocks of companies which are not only fundamentally strong but are also "cheap" returns to favor. In fact, your portfolio has consistently outperformed on flat to down market days while lagging on the robust up days when cash flows seem most concentrated in the new "Nifty Fifty". This is not to imply that we are "bear market managers" but simply to say that this market has become emotional on the upswings but regains some of its fundamental focus on down days.

Macro economics aside, some of the quantitative arguments which seek to explain rising stock market valuation levels have focused on its reduced volatility. Indeed, the past two years have seen an increasingly docile stock market which has produced relatively uninterrupted daily gains. These quants argue that reduced volatility reduces the risk premium of the market and allows higher P/E's and higher valuation. Recently, however, the volatility has increased dramatically; if the recent volatility continues it would certainly create the opposite argument for lower valuation levels and a higher risk premium and perhaps, an end to the upward momentum that we have recently seen.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Independence's investment philosophy of owning "cheap" stocks with "improving fundamentals" continues and is evident in your portfolio since its P/E ratio of 14.6 is lower than your benchmark's P/E (reflecting "cheapness") and its long-term growth rate of 10.7% is higher than your benchmark's (reflecting "improving fundamentals"). As is always the case, your account's risk characteristics mirror those of your benchmark with a beta (a measure of volatility) of 1.00, an R^2 (a measure of diversification) of .98, and a tracking error (a measure of non-market risk) of 2.07%. As of March 31, 1997, your portfolio owned 100 stocks and was fully invested. We continuously monitor your investment policy guidelines to ensure full compliance at all times.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There has been no change in our ownership, investment staff, our philosophy or our daily implementation. Four accounts in your discipline were lost in the first quarter, two for performance, one for plan restructure and one for asset allocation. One new account was gained.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Independence at SBI's office on January 22, 1997. Comments made in the meeting agree with those made above.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$40.1 Billion	Actual	0.8%	19.5%
Total Firm Assets Managed in this Discipline	$16.6 Billion	Benchmark	1.5%	19.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Quarter - The active portfolio underperformed the benchmark by 70 basis points net of fees. Sector allocations added 30 basis points while issue selections decreased returns by 100 basis points. The underweighted position in technology and overweighted position in consumer non-durables were the sources of the positive sector variance.

   The issue selection problem was broadly spread (healthcare, specialty chemicals, retail, and financial services). There have been some "mid-cap" problem stocks, mostly due to earnings short-falls. In addition, there was a modest transaction "hit" as the portfolio was transitioned to the more concentrated 30 stock portfolio.

   Year - The active portfolio lagged the benchmark roughly 30 basis points net of fees. Sector allocations reduced returns by approximately 110 basis points while stock selections added 80 basis points. Most of the negative sector variance continues to be due to the underweighting of technology issues in the fourth calendar quarter. Issue selection was good in consumer non-durables and technology.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The top ten holdings in the portfolio currently represent nearly 50% of assets. These positions will be the key to relative performance. Bottom-up issue selection is based upon fundamental analysis and valuation parameters.

   There are meaningful industry weighting variances currently. Consumer non-durables are materially overweighted. Most of those companies are "global brand" entities. We like their superior long term growth rates, high and improving ROI's, and predictable earnings patterns. Technology is underweighted, reflecting less certain earnings trends currently. Finance is also underweighted, reflecting Lincoln's view that interest rates will rise somewhat from current levels. Additionally, the financials are trading at the high end of historical valuation parameters.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No ownership or personnel change. There was one new equity relationship added in the first calendar quarter of 1997.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The new 30 stock portfolio will have somewhat greater variability than the prior more diversified set of selections.

Staff Comments

Staff met with Lincoln Capital Management at their offices in Chicago on March 11, 1997. Discussions covered a variety of topics including organizational issues, portfolio strategy, the process of company analysis, trading, etc. Comments made above are consistent with those made during the meeting.

Manager Commentary
Oppenheimer Capital

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$49.9 Billion	Actual	2.5%	21.0%
Total Firm Assets Managed in this Discipline	$29.2 Billion	Benchmark	1.5%	16.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the quarter, the portfolio outperformed the benchmark by 100 basis points. From a sector perspective, consumer non-durables made the greatest contribution to performance, led by Warner Lambert. Warner Lambert was the best performing stock in the portfolio for the quarter, rising about 16%. The stock was aided by the FDA approval of their diabetes drug, Troglitizone, which should help them grow their business by 15 - 20% over the next few years while improving profitability and cash generation. Telecommunications also made a significant contribution as Sprint rose 14%. Sprint's strong capital base coupled with service offerings in voice, video and data services make it one of the best positioned telecommunications providers, domestically and internationally. With increasing deregulation in the U.S. and several strategic allowances abroad, the company has the potential to create significant value long term.

The returns of the five largest contributors to and detractors from performance were as follows:

Five Largest Contributors		Five Largest Detractors	
Warner Lambert	15.9%	Countrywide Credit	-13.3%
Sprint	14.4	Tenneco	-12.9
Transamerica	13.3	Aflac	-12.1
DuPont	13.2	Lockheed Martin	-7.8
Exel Ltd.	12.4	McDonnell Douglas	-6.9

For the year ended March 31, 1997, the portfolio outpaced the benchmark by 440 basis points. Once again, stock selection and overweighting relative to the benchmark made financial stocks the largest contributors to the portfolio's outperformance, returning 28% for the year. The technology sector, led by Intel, was underweighted relative to the benchmark, yet made a significant contribution to annual outperformance.

The returns of the five largest contributors to and detractors from performance were as follows:

Five Largest Contributors		Five Largest Detractors	
Intel	145.1%	Hercules	-30.6%
Warner Lambert	71.4	Freeport McMoran	-25.8
Travelers	47.3	Tenneco	-15.5
Citicorp	38.1	AMR	-7.8
McDonnell Douglas	34.3	RR Donnelley & Sons	-8.4

Oppenheimer (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets*

   We continue to have an "active bet" in the portfolio on financial stocks, which include banks, insurance companies and financial service companies. We own these stocks for company specific attributes of high and sustainable returns on capital, shareholder oriented managements, and strong industrial positions. We do not own these stocks as interest rate proxies or for other "top down" considerations. Though we are aware of the risk inherent in a higher interest rate environment, we are not concerned with this scenario over the intermediate term and believe that such a scenario may contribute to earnings for some of the stocks.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no changes which affected the management of the Minnesota State Board of Investment portfolio. However, there have been the following changes in investment professional staff:

   Additions:
   Michael Borkan, SVP, Relationship Manager
   Oswald James, VP, Relationship Manager
   Pat Prapas, VP, Chief Administrative Officer - International Equities

   CORE EQUITY ACCOUNTS GAINED/LOST:
   Accounts Gained: 7 accounts with $150 million in assets
   Accounts Lost: 1 account with $12.3 million in assets

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Weiss, Peck & Greer

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$12.9 Billion	Actual	-12.8%	-4.5%
Total Firm Assets Managed in this Discipline	$ 1.1 Billion	Benchmark	-8.6%	-3.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The first quarter of 1997 began well for the equities markets. During January, the Minnesota portfolio was up 3.0%, with the Minnesota Normal and Russell 2500 Growth Index up 4.3% and 3.0%, respectively. During February, however, investor sentiment turned decidedly negative towards small capitalization growth companies. As a myriad of concerns about interest rates, inflation and corporate earnings expectations became more pronounced, investors began a flight to large capitalization companies. As a result, the average small cap growth manager's performance was negative for the quarter versus a 2.7% increase for the S&P 500. The small cap swoon continued through the end of March, resulting in the account losing 12.8% versus the benchmark's 8.6% fall.

The portfolio's performance during the quarter was hampered by several sectors that were adversely affected by this change in investor sentiments. A prime example is the networking industry within the technology sector. The industry became increasingly more competitive as several events transpired: Intel instituted price cuts on its ethernet adapters; 3Com announced a tender offer for US Robotics; and, finally, Ascend Communications agreed to merge with Cascade Communications. The uncertainty surrounding these events caused investors to sell their shares of networking companies, depressing share prices near their 52 week lows. Our optimism on the outlook for networking stocks remains largely intact, but our overweighting of this group hurt our relative performance. Another sector that had a poor showing for the quarter was business services. After having a strong run in 1996, investors began harvesting their profits in this group in the face of weakening market support for small caps.

The portfolio's investments in the Capital Goods and Transportation groups performed well during the quarter as cyclical growth companies reaped the benefits of a growing economy. Our airline holdings bounced back from their poor 1996 performance as consumers began increasing their air travel to more normalized levels. We continue to believe that the economy's strength will support these shares over the near term.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our investment emphasis remains in the areas of technology, retail, biotechnology and business services, as we believe their long term secular trends will continue to outpace the economy's growth rate. As a risk reduction mechanism we have begun to concentrate our attention on companies that have a greater ability to weather the current volatility of the market. The correction in stock prices has created an excellent opportunity for us to purchase stocks at attractive valuations.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Mitch Cantor joined WPG as Chief Operating Officer and Managing Principal. Mr. Cantor was formerly associated with Goldman Sachs & Co. where he was responsible for U.S. equity investing in their Asset Management Division. Prior to that, Mr. Cantor was a Senior Partner and Research Director at Sanford C. Bernstein and Company. Mr. Cantor has an MBA from the University of Pennsylvania's Wharton School and a BA in Economics from Brown University.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Weiss, Peck & Greer at SBI's office on February 6, 1997. Discussions covered a variety of topics including WP&G's organizational changes, investment process, and current portfolio strategy. Comments made above coincide with those made during that meeting.

Manager Commentary
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$10.5 Billion	Actual	2.2%	17.3%
Total Firm Assets Managed in this Discipline	$ 1.3 Billion	Benchmark	2.3%	18.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Last Quarter's Performance:
For the period, the account slightly lagged the benchmark's return, gaining 2.2% compared to 2.3%. According to our performance attribution analysis, stock specific bets were a small positive contributor to active return. Industry bets and risk index bets were slight detractors.

Twelve Month Performance:
The return for the account was behind its benchmark return for the past twelve months. Our performance attribution analysis indicates that stock specific bets were a negative contributor to active return. Risk factor bets were a small positive and industry bets were a neutral factor.

Top 5 and Bottom 5 Industry or
Risk Factor Contributors to Active Return

Factor	Qtr Active Bets	Qtr Return Contrib.	Factor	12 Mths Active Bets	12 Mths Return Contrib.
Top 5:					
Success	0.03	0.13	E/P Factor	0.17	0.39
Misc. Finance	1.53	0.11	Misc. Finance	1.42	0.38
Telephones	-1.23	0.09	Gas Utilities	1.31	0.29
Trading Factor	0.07	0.08	Oil Service	0.50	0.22
B/P Factor	0.08	0.07	Telephones	-0.83	0.15
Bottom 5:			Bottom 5:		
Size Factor	-0.11	-0.13	Banks	-0.98	-0.30
E/P Factor	0.16	-0.11	Electronics	-0.43	-0.21
Cosmetics	-0.32	-0.10	Size Factor	-0.08	-0.16
Labor Intensity	-0.06	-0.10	Leverage Factor	-0.07	-0.16
Electronics	-0.38	-0.07	Miscellaneous	-0.20	-0.15

Note:
1. Bets are monthly averages.
2. Risk Index differences are in standard deviations.
3. Industry differences are in percents.
4. Contributions are percents aggregated from monthly data.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As of March 31, 1997, the following active bets existed in the account relative to the benchmark:

   A. Risk factor bets (standard deviations from benchmark = or > .1):

      Earnings/Price = 0.13

   B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Electric Utilities	1.61%	Telephones	-2.28%
Food	1.12	Services	-1.86
Forest Products	0.76	Beverages	-1.38
Domestic Oils	0.70	Banks	-1.21
Retail	0.69	Paper	-0.72

   Active portfolio bets are a function of: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes over the last quarter. There were no account gains or losses in this discipline during the period. On a firm-wide basis we gained one international account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Franklin Portfolio Associates participated in a semi-passive manager discussion session held on March 13, 1997 at SBI's offices. The purpose of the meeting was to provide an opportunity for staff, semi-passive managers, and R&T to discuss the semi-passive program and develop an understanding of how each group's actions affect the others. Possible changes and improvements to the program and process were also discussed at length.

Manager Commentary
J.P. Morgan Investment Management, Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$208 Billion	Actual	1.8%	17.7%
Total Firm Assets Managed in this Discipline	$ 7.9 Billion	Benchmark	2.3%	18.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The Research Enhanced Index (REI) strategy trailed its benchmark in the first quarter with weak relative performance in the finance and energy sectors partially offset by strength in the chemicals sector. Because portfolio sector weights are equal to the benchmark sector weights, the relative performance is due to stock selection within each sector rather than from sector over/under weighting. Further, the large number of stocks in the portfolio reduces the potential relative return impact of a small number of stocks. In other words, many small, active, individual stock positions drive performance.

Among the stocks which had the largest positive impact in the quarter were Time Warner, Nationsbank and Lucent Technologies. Time Warner announced strong fourth quarter earnings and has benefited recently from their cost-cutting efforts. The benefits of Nationsbank's purchase of Boatmans Bancshares have been greater than expected and their aggressive share repurchasing has supported the stock when other bank stocks were falling. Lucent Technologies' fourth quarter earnings exceeded expectations as they have gained new business from firms that chose not to deal with them when they were a unit of AT&T.

Stocks that negatively impacted performance included Microsoft (underweight), Mercury Finance, and Paging Network. Microsoft again reported surprisingly strong earnings as they continue to dominate the desk-top software market. Mercury Finance plunged as the company was forced to restate their earnings due to fraudulent accounting. Paging Network fell sharply on worries over their pricing schemes as they entered the Dallas market.

For the year ending January 31, 1997, the portfolio underperformed its benchmark. Performance was mixed with the transportation and insurance sectors adding the most to return while the technology and multi-industry sectors detracted the most from return.

Most of the relative weakness can be attributed to underweighted positions in Large Cap "Nifty Fifty" stocks such as Coca Cola, Intel, General Electric and especially Microsoft. The relative strength stemmed from individual stock selection decisions such as Warner Lambert, Service Corporation and Tyco Labs.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our stock selection process overweights those stocks within each sector that have the highest expected return or dividend discount rate (DDR - the discount rate that equates projected earnings/dividends to the current price) and underweights those with low DDR's. Since the portfolio is fully invested, sector neutral, and factor neutral, the only active bets are individual stock over- and under- weightings. As prices and earnings estimates change, so do DDR's. Monthly portfolio rebalancing redistributes the portfolio weights such that within each sector, stocks with the lowest DDR's are sold and stocks with the highest DDR's are purchased, within specified limits. Regular rebalancing and constant oversight ensures that our analysts' latest estimates are reflected in the portfolio. As of March 31, the largest positive bets in the SBI portfolio are Exxon, Mobil and Unilever, while the largest negative bets are Merck, Johnson & Johnson and General Electric.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the first quarter, four new accounts were added, and none were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

J.P. Morgan participated in a semi-passive manager discussion session held on March 13, 1997 at SBI's offices. The purpose of the meeting was to provide an opportunity for staff, semi-passive managers, and R&T to discuss the semi-passive program and develop an understanding of how each group's actions affect the others. Possible changes and improvements to the program and process were also discussed at length.

Manager Commentary
Barclays Global Investors
Semi-Passive Account

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$390.0 Billion	Actual	1.7%	18.9%
Total Firm Assets Managed in this Discipline	$ 12.5 Billion	Benchmark	2.3%	18.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Barclays Global Investors' Alpha Tilts Strategy, customized for the Minnesota SBI, underperformed the Minnesota Custom Benchmark by 0.6% in the first quarter of 1997, and outperformed by 0.3% over the last 12 months. This strategy systematically evaluates companies according to a broad set of investment characteristics in order to construct a risk-controlled, index-like portfolio with expected returns in excess of the benchmark. The active risk level of the portfolio is generally maintained at 1.0-1.5%; from inception and over the past year the realized active risk was well within this range.

   The attribution of added returns in the fourth quarter is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.56% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value added 0.06% in the first quarter. The use of signaling measures, which include corporate financing activity and informed insider trading, contributed 0.02% to active return in the first quarter. Industry weighting differences contributed -0.20% to the portfolio's active return, despite the tight risk controls we use in this area. Finally, the portfolio experienced negative security-specific returns in the first quarter, representing the idiosyncratic or residual returns of individual companies that cannot be explained by their industry group, style, size or other common characteristics. Over shorter measurement intervals, the returns attributable to security-specific sources can be relatively large in magnitude, but this source of tracking error risk tends to diversify toward zero over longer holding periods. The Alpha Tilts portfolio minimizes this risk through broad diversification (approximately 800 stocks) and by limiting the active positions taken in individual companies.

Active Return Attribution:

	Quarter	**Past Year**
Analyst inputs:	0.56%	2.12%
Fundamental value:	0.06	0.47
Signaling inputs:	0.02	0.01
Other common factors:	-0.34	-0.61
Industry weights:	-0.20	-0.30
Stock-specific	-0.62	-1.33
Total active return:	**-0.51%**	**0.35%**

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The current Minnesota Alpha Tilts portfolio is similar in structure to the fourth quarter 1996 portfolio. Our investment process seeks to identify companies for which consensus expectations will be improving, by carefully modeling the linkage between changes in analysts' forecasts and future expectations and returns. We emphasize companies that are trading at multiples (based on earnings and book value) that are below their industry peer group. Finally, we identify companies whose management has "signaled" their view of stock valuation to the market in the form of insider trading activity and corporate financing activity. These areas of emphasis in the portfolio are designed to be relatively consistent over time; we do not make subjective or ad hoc changes to our investment process. The rationale for these bets is based on a combination of economic/investment theory about how markets and investors operate and rigorous empirical testing to validate these ideas and determine the optimal way to incorporate them in highly risk-controlled portfolios. In general, we are seeking to capture systematic return effects that are generally overlooked by traditional investors.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No significant ownership or personnel changes took place in the past quarter. BGI added 5 new clients in our US Alpha Tilts Strategies during the first quarter, with a total funding of approximately $580 million. There were no lost clients in the US Alpha Tilts Strategies during first quarter 1997.

   <u>New Alpha Tilts Clients, First Quarter 1997:</u>

ABP	Bay Area Rapid Transit
Praxair	Los Angeles County MTA
GM Motors Insurance Corp.	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   At this time, there are no special issues pertinent to the management of the SBI account.

Staff Comments

Barclays Global Investors participated in a semi-passive manager discussion session held on March 13, 1997 at SBI's offices. The purpose of the meeting was to provide an opportunity for staff, semi-passive managers, and R&T to discuss the semi-passive program and develop an understanding of how each group's actions affect the others. Possible changes and improvements to the program and process were also discussed at length.

Staff also visited BGI's offices in San Francisco on February 26, 1997.

Manager Commentary
Barclays Global Investors
Passive Account

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$390 Billion	Actual	0.8%	16.0%
Total Firm Assets Managed in this Discipline	$ 13 Billion	Benchmark	0.6%	15.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   Barclays Global Investors' (BGI) Wilshire 5000 Strategy outperformed the Wilshire 5000 by 20 basis points (bps) during the first quarter of 1997. The tracking error was due to the security specific misweights in the optimized portion of the portfolio. At the end of the fourth quarter, the expected annual tracking error of the portfolio was 16 bps.

   Tracking error, due to security specific misweights, for the last twelve months has also been positive (50 basis points). Please also note that the performance discussed above is net of fees.

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations.*

   We continue to look for opportunities to rebalance the portfolio and use cash flows to minimize the portfolio's expected tracking error. We seek to rebalance over time, preferably by using crossing opportunities, to minimize tracking error.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   As part of BGI's reorganization into vertically integrated businesses and strategic global functions, Nic Stuchfield, previously Chief Operating Officer, has been named Chief Investment Officer of Indexed Investments. Blake Grossman, former CIO of the Institutional Group, is focusing his role as the CIO of Advanced Active Investments.

   There were no new or lost clients during the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   During the first quarter, BGI traded approximately $75.4 million in the Wilshire 5000 portfolio. Trades were done to facilitate rebalancing, index changes, and dividend reinvestment. Of the $75.4 million traded, $34.8 million was crossed either with other BGI clients/funds, through Instinet/Posit, or with brokers. The remainder was actively traded through Instinet or traded open market. Assuming that the cross transactions saved Minnesota just one half of the bid/offer spread, the amount saved was $129 thousand (est. 37 bps times the amount crossed). Much of the trading done in the open market involved new stocks added to the index.

Staff Comments

Staff visited BGI's San Francisco office on February 26, 1997. Discussions covered topics such as the organization, investment process, systems, and trading strategy.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$199 Million	Actual	0.6%	14.2%
Total Firm Assets Managed in this Discipline	$199 Million	Benchmark	2.4%	18.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

CIC's performance in the first quarter was .6% versus 2.4% for the benchmark return. Our performance relative to the benchmark was hurt by our underweighting in consumer cyclicals and by our overweightings in basic industries and technology. Within the technology sector we were particularly negatively affected by our holding in Silicon Graphics which was down 23.53%. We were also hurt by our holdings in ATT (-14.79%) and Union Texas Petroleum (-17.68%). The overall market was led in the first quarter by very high quality large cap stocks with high earnings predictability. Valuations on these securities have become extremely stretched relative to the 'value' strategy that CIC uses and we are finding it increasingly difficult to find new buy ideas. The securities which continue to outperform are those that have the least value in our opinion.

Portfolio Construction Table: Industry exposures and cash holdings changed as follows:

Sector	**Normal Portfolio Benchmark 3/31/97**	**Portfolio 12/31/96**	**Portfolio 3/31/97**
Consumer Cyclicals	12.86%	7.78%	8.05%
Consumer Non-Durables	7.86	5.52	8.35
Technology	4.59	9.38	8.38
Energy	11.39	13.35	11.09
Basic Materials	11.90	19.30	15.53
Capital Goods	12.81	7.46	11.41
Utilities	15.87	13.06	10.67
Financials	22.74	22.14	23.39
Cash	0.00	2.03	3.13
TOTAL	**100.00%**	**100.00%**	**100.00%**

CIC Asset Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   During the quarter we decreased our exposure to energy stocks from 117% of the normal portfolio benchmark to 97%. We did this by eliminating our position in Union Texas Petroleum as we lost confidence in the company's ability to increase production in the near term. We increased our exposure to consumer nondurables from 70% to 106% by adding American Home Products, Baxter International, and Dean Foods while taking profits in Bristol Myers and eliminating Foundation Health. Finally, we significantly reduced our exposure to financial stocks from 103% to 80.58% by taking profits in BankAmerica, BancOne, Federal Home Loan Mortgage, Lincoln National, and Ahmanson. Given current interest rates, our models indicate that financials, and especially bank stocks, are overvalued.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None to report.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None to report.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Cohen, Klingenstein & Marks Incorporated

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$664 Million	Actual	1.3%	19.1%
Total Firm Assets Managed in this Discipline	$664 Million	Benchmark	2.8%	17.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The account increased by 1.3% (net) during the first quarter of 1997 which compares to a 2.8% gain for the benchmark. For the past twelve months, the account rose 19.1% (versus 17.7%). Broadly speaking, the account remained aggressive, both in relation to our investment universe and to the benchmark. In particular, the account is more Growth and Interest-Rate oriented than the benchmark while it is under weighted in the Stable and Energy sectors. It is also under-weighted relative to the benchmark in Economic Cyclicals. This relative positioning, which has applied for the past year, reflects our optimism about long-term economic growth, and our expectation for steady near-term growth and lower interest rates. The first quarter was not kind to this positioning. By and large, the Stable stocks and some of the inflation hedges (Energy, for example) did well, while the Technology stocks and Interest-Rate Sensitive ones lagged. This explains under-performance for the quarter. For the past twelve months the story line is a bit different: the Growth stocks (particularly Technology) did particularly well (benefiting relative performance) while the Economic Cyclicals did poorly (also benefiting relative performance since we are under-weighted here). There were other influences, but these were the major ones.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We believe that the market is slightly under-valued based on consensus profit and interest rate expectations. On the other hand, we believe that the consensus remains a bit too cautious on both rates (which we expect to fall) and profits. This, along with expected increases in profits can propel the market higher. This reflects no significant change in outlook.

Cohen, Klingenstein & Marks (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Accounts Gained	**Accounts Lost**
8 ($19.2 mil)	0

Excludes addition/withdrawals to/from existing accounts.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Kennedy Capital's contract expired on March 31, 1997. On April 1, the SBI transferred $44 million from the Kennedy Capital account to Cohen, Klingenstein and Marks.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$255 Million	Actual	1.2%	12.6%
Total Firm Assets Managed in this Discipline	$140 Million	Benchmark	1.0%	16.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	QUARTER		**YEAR**	
Sectors	**Active Bets**	**Value Added**	**Active Bets**	**Value Added**
Technology	Underweighted	Worked	Underweighted	Did Not Work
Consumer Non-Durables	Underweighted	Did Not Work	Underweighted	Worked
Consumer Durables	Overweighted	Worked	Overweighted	Did Not Work
Capital Goods	Overweighted	Did Not Work	Overweighted	Did Not Work
Financial	Equal	Worked	Equal	Worked
Basic Industries	Overweighted	Did Not Work	Overweighted	Did Not Work
Transportation	Underweighted	Worked	Underweighted	Worked
Miscellaneous	Underweighted	Did Not Work	Underweighted	Did Not Work
Energy	No Position	No Bnmk. Position	No Position	No Bnmk. Position
Utilities	No Position	No Bnmk. Position	No Position	No Bnmk Position

<u>Quarter</u>

The first quarter of 1997 can be characterized as a quarter of extreme emotion and valuations. The month of January was a continuation of the fourth quarter leadership with high valuations. The months of February and March saw corrections in valuations, especially in the technology sector. Compass' largest active bet is in technology. The outperformance to the benchmark by Compass in the first quarter is mainly attributable to the portfolio's underweighting in technology. Compass' underweighting is based upon the high valuations of technology stocks at the beginning of the quarter. Since the close of the quarter, Compass has added a technology stock to the portfolio, thereby increasing the weighting in the portfolio. However, the portfolio is still underweighted to the benchmark in the technology sector.

<u>Year</u>

The underperformance for the past year is attributable to three active bets: 1) underweighting in technology 2) overweighting in capital goods and 3) a diversified portfolio between mid-cap, large-cap and ultra large-cap stocks. These three bets are still in place today.

Compass Capital Management (con't)

First, the underweighting in technology stocks is solely attributable to the sector's overvaluation. However, the market did correct this overvaluation somewhat during the latter half of the first quarter of 1997. In fact, this correction in valuation gave Compass the opportunity to reduce our underweighted position in technology by adding a new holding in April of '97. Second, the overweighting in capital goods is attributable to the reasonable valuations and growth prospects of the securities held in this sector. Finally, diversification by market capitalization has penalized Compass over the past twelve months. However, Compass will not change its basic philosophy on valuation. Over the past eighteen months, five new stocks have been added to the portfolio; all five having a market cap between $1-5 billion. So far, the portfolio has been slightly penalized by these mid-cap names.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Compass continues to somewhat underweight the technology sector, based upon high relative valuations. However, the portfolio has three major overweightings: capital goods (9%), basic materials (6%) and consumer durables (8%). The sole rationale for these active bets is growth at a reasonable price.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   The four principal/founders continued to repurchase Compass stock from the outside owner.

   Accounts lost: three accounts (total $3 million) due to consolidation in medical practices.

   Accounts gained: one account ($1 million).

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
New Amsterdam Partners LLC

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$346 Million	Actual	0.2%	14.8%
Total Firm Assets Managed in this Discipline	$322 Million	Benchmark	0.3%	12.5%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the quarter ended March 31, 1997 the return on your portfolio was 0.2%. This compares with 0.3% for our customized benchmark, 2.7% for the S&P 500 Index, -1.5% for the S&P MidCap, 1.1% for the Russell 1000 and -5.4% for the NASDAQ Index.

At quarter's end, the portfolio contained forty five stocks. During the quarter we sold one position, BankAmerica Corp. We purchased three new names: Conseco, Access Health and American Power Conversion. Conseco, an insurance company, was a replacement for BankAmerica. Access Health increased our Health Services exposure and American Power Conversion, a manufacturer of computer power surge protection equipment, was a high expected return candidate in the Producer Manufacturing area. We also fine tuned some existing positions in the portfolio. Our core strategy remains the same: we use a valuation model to identify stocks with better than average forecast long-term growth and profitability selling at relatively cheap valuation multiples.

This quarter our sector selection skill was slightly positive. We were overweighted in the best performing sectors (Finance, Retail Trade, Transportation, and Consumer Non-Durables) and were underweighted in some of the worst performing sectors such as Utilities, Energy Minerals and Process Industries. Our stock picking ability in the quarter was only mediocre. Our stock selections outperformed their peers in seven of seventeen economic sectors and underperformed in the remaining ten sectors. Our best performing stocks included Phelps Dodge (+9.1%), American Power Conversion (+20.3%), Schering Plough (+12.9%), Pepsico (+11.1%), AES Corp. (+22.7%), Microsoft (+11.0%), Wal Mart Stores (+22.8%) and BankAmerica Corp. (+12.1%). We also, however, had some disappointing holdings. This quarter, technology stocks were hit hard, particularly in February and March. We were underweighted in technology but Cabletron Systems, a networking stock, was down -11.3%, and U.S. Robotics fell -20.5%. Falling oil prices hurt Union Texas Petroleum (-17.7%), and problems at low-grade personal finance companies affected the prices of two mortgage finance companies: Green Tree (down -12.4%) and Countrywide Credit (-13.3%). We believe that these two stocks have been unfairly penalized and expect them to bounce back. Other poorly performing companies included Mattel (-13.3%), First Brands (-13.4%) and Access Health (-58.0%). Access Health gave an upbeat management presentation to institutional investors on February 12. Three weeks later, however, the company pre-announced an earnings shortfall causing the stock to drop sharply. We believe that at these levels, the stock has more upside than downside and are continuing to hold. Fortunately the stock is a relatively small position in the portfolio.

New Amsterdam Partners (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to maintain an overweighting in consumer and finance stocks but are underweighted in the energy sector, utilities and in cyclical stocks. The account remains fully invested.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the first quarter 1997 we added one new employee. Cheryl Scorey joined us as an Investment Analyst. Cheryl was a summer intern with us in 1995. She recently graduated with honors from Oxford University with a B.A. in Philosophy, Politics and Economics.

   We lost one client, Artemis Partners LP, during the quarter. Assets lost were $1.3 million. Artemis, a fund of funds specializing in equities, had a client who made an asset allocation shift toward the bond market.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We believe that the market is currently going through a correction rather than entering a prolonged downdraft. We expect the stock market to rise 5 to 10% in 1997. Although interest rates may continue to tick up in the short term, we believe that the longer term GDP and inflation outlook should lead to lower interest rates. We expect 1997 GDP growth to be around 2.5% and inflationary increases to be around 2.9%.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1.0 Billion	Actual	3.1%	26.7%
Total Firm Assets Managed in this Discipline	$1.0 Billion	Benchmark	0.3%	12.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why*

Under our "bottom up" style, each stock pick is an active bet. For the quarter, gains were made throughout the portfolio, with the largest contribution to performance stemming from Conseco, adding 0.56%, continuing to benefit from accretive acquisitions; Footstar, +0.53%, experiencing improved sales and margins following its spin-off from Melville, as well as benefiting from a turnaround in Kmart; and Tenet Healthcare, +0.40%, as earnings are benefiting from integration of a recent acquisition. Performance was adversely affected by Rohm & Haas Company, costing 0.35%, where the dollar's strength hurt earnings; Cooper Cameron (0.30%), in sympathy with declining oil prices; and Rohr (0.27%), due to concerns about competition in the consolidating aerospace industry.

For the twelve months, the most significant gains came from Tosco Corp., contributing 2.03%, as earnings accelerated following the purchase of Unocal's West Coast refineries; Conseco, +1.94%; and Eckerd Corp., +1.59%, from continued strong sales growth and ultimate acquisition by JC Penney. The poorest performers for the period were Rohm & Haas, costing 0.43%; WR Grace & Co., (0.28%), due to a change in valuation of the restructured company following spin-off of the medical business; and Lydall, (0.26%), experiencing slower than expected sales growth.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to our benchmark? Summarize the rationale for making these active bets.*

Valenzuela Capital applies fundamental value-oriented research to selecting equities. We believe that earnings and cash flow growth fuel price appreciation and that high price-to-earnings ratios cause volatility and risk. Hence, we try to sell higher P/E stocks and buy stocks in companies whose earnings will grow but whose P/E's are at or below the market. The portfolio was slightly realigned during the quarter. We added to positions we felt still represented good value and trimmed others, largely for reasons of valuation. New investments were initiated in Ethan Allen Interiors, Great Western Financial, Rohm & Haas Company and SEACOR Holdings. We realized gains in MGIC Investment Corp., Mazel Stores, and Pep Boys. During the quarter, Eckerd Corp. was acquired by JC Penney, and Duracell International was acquired by Gillette Company.

Valenzuela Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Deborah G. George joined the firm as Senior Vice President of Client Service. She has twenty years of experience in the investment management industry. Her career has been dedicated to building and maintaining strong client relationships. A letter has been sent advising that we would like to introduce her personally to members of the staff in the near future.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   During the first quarter, the economy continued to demonstrate signs that it is in the latter stage of the economic cycle. Recent data released by government and industry sources has not indicated that the robust economic growth rates of past quarters are beginning to moderate. Anecdotal company evidence also has not suggested a slowing. However, the robust earnings of this cycle have probably peaked, and earnings growth is likely to decelerate during the course of 1997. Inflation seems to remain under control, although labor markets are currently tight. Moreover, some have described the strength in the financial markets as inflationary. The Fed's recent preemptive increase in the discount rate in March is likely to reinforce that deceleration. Consequently, we continue to vigilantly watch both government and anecdotal evidence about the rise of inflation. Even in the absence of inflationary pressures, decelerating earnings are likely to pressure the equity markets. On the heels of two strong years, we continue to be more cautious about the outlook for 1997. Stock selection will be important, and we will continue to focus our efforts on companies that will deliver superior earnings in a less robust environment.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$ 1.4 Billion	Actual	-13.5%	-19.1%
Total Firm Assets Managed in this Discipline	$603 Million	Benchmark	-8.2%	-2.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The SBI has undergone a period of severe underperformance relative to its benchmark over the past two quarters, and as a result, for the past 12 months. In general, we have seen a trend towards momentum investing that has created inordinate volatility in our names. We continue to buy and hold companies with solid long-term fundamentals, however the market has been fixated on short-term events and has reacted swiftly when these short-term trends are not positive. Although we did experience fundamental disappointments in a couple of our companies, the portfolio is as fundamentally sound as it has been historically, which fuels our conviction that our performance will rebound.

   During the first quarter, the SBI portfolio had scant positive contributions from a handful of sectors: pharmaceuticals, restaurants, and retailing. Those minimal gains were not enough to offset the declines in all other sectors. While the majority of our stocks declined for the quarter, the underperformance in the period was caused by a few big declines in a more limited number of names. For example, ten names represented almost 80% of the portfolio decline.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We have seen periods of underperformance and deviation from our benchmark in the past, and in each instance, these periods have been followed by periods of strong outperformance. An inflection point may have been reached in late March when the Federal Reserve raised short-term interest rates. This action and the threat of future rate hikes served to change the psychology of the market to pay more attention to the fundamentals of companies as opposed to indiscriminately investing in a few large, liquid stocks without regard to their valuation levels. Our investment philosophy centers around the belief that sales and earnings growth drive stock prices, and although they may deviate for short periods of time, ultimately the fundamentals of a company will drive its stock price.

   The portfolio has been punished the past two quarters and is down significantly in both absolute and relative terms. Recent market action leads us to sense that this period of underperformance is very near to giving way to another period of strong outperformance. Such a period is anticipated and eagerly awaited by all. While its timing is uncertain, its coming is inevitable. Our focus continues to be on finding high quality growth companies so we will be there when the turn comes.

Wilke/Thompson Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Wilke/Thompson Capital Management had no ownership or professional personnel changes during the first quarter. However, in April we hired Maureen Pettirossi, CFA as a Senior Research Analyst. Prior to joining Wilke/Thompson, Maureen had been Vice President of Equity Research at Dain Bosworth, Inc. where she specialized in research on small capitalization growth stocks, particularly in the business and information services area.

   Wilke/Thompson Capital Management is presently closed to new account relationships in our Small Cap Growth product and is only accepting additional contributions from existing clients or replacing lost clients. We lost one institutional account in the first quarter with a value of $1,017,185.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Wilke/Thompson looks forward to continuing to serve the Minnesota State Board of Investment as its money manager. In addition to the hiring of Maureen as a Senior Research Analyst, Wilke/Thompson is continuing to explore the possibility of adding additional individuals to the Wilke/Thompson team.

Staff Comments

Staff met with Wilke/Thompson on March 11, 1997 to review fourth quarter and total year performance. While staff believes that the firm has not deviated from its investment approach, staff remains concerned about the adverse performance trend Wilke/Thompson has experienced during the past four quarters. Staff will continue to closely monitor the firm's performance and organization.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$980 Million	Actual	-6.8%	3.7%
Total Firm Assets Managed in this Discipline	$527 Million	Benchmark	-1.6%	12.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the quarter ending March 31, 1997, the Minnesota State Board of Investment account depreciated 6.8% net of fees. The Russell 1000 Growth experienced a return of 0.5% during the first quarter while the S&P 500 appreciated 2.7%. The benchmark "normal" portfolio constructed by BARRA for Winslow Capital returned -1.6% for the first quarter and 12.4% over the most recent twelve months. This compares with the performance of the SBI account over the last twelve months of 3.7% net of fees versus 17.5% for the Russell 1000 Growth and 19.8% for the S&P 500.

In the first quarter of 1997, Winslow Capital underperformed the "normal" by 5.2% net of fees. This can be attributed to the portfolio's overweighted exposure to technology and the business service sectors. The portfolio continued to be underweighted in energy and capital goods which proved to be a negative to performance. Our overweighted positions in healthcare and slight overweighting in the consumer service sector relative to the "normal" portfolio were additive to the quarter ending performance.

The investment process at Winslow Capital focuses on identifying strong future earnings growth companies and being sensitive to what we pay for that future earnings growth stream. Taking advantage of downside price volatility, we added a new name to the SBI's portfolio. Our fundamental research led us to the conclusion that Ascend Communications was an outstanding company, but during 1996 we found the stock to be overpriced. Early in 1997 the stock moved from its high of $80 to the mid-$40's. After reviewing our fundamental analysis, we purchased the stock in your portfolio. In addition to Ascend Communications, we repurchased WalMart in your account during the first quarter.

For the twelve months ending March 31, 1997, Winslow Capital has experienced negative sector and stock selection relative to the "normal" portfolio. The disparity in our sector selection can be attributed to our underweighting in the energy and traditional financial sectors while being overweigthed in telecommunication companies. Over the same time period stock selection has been a negative contributor to performance. This can be attributed to our ownership of more medium sized and faster earnings growth companies. We are confident that the companies owned in your portfolio will continue to exhibit this strong future earnings growth. Eventually, the market will begin to recognize the extremely attractive valuations of these companies relative to their future earnings growth streams. The portfolio is currently forecasted to achieve earnings growth of 23% through 1998, while selling at only 16.5 times our 1998 estimates. This compares to the S&P 500 with earnings growth of 6% and a P/E of 16 times 1998 estimates. Your portfolio is growing 300% faster than the market and trading at a very slight 4% P/E premium.

Winslow Capital (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Winslow Capital follows a fundamental "bottom up" investment process that leads us to companies with above-average future earnings growth. Above-average growth is a necessity, but stock valuation is also important. These investment philosophy guidelines have driven us to overweight positions in the technology, consumer service and healthcare sectors relative to our "normal" benchmark portfolio. We continue to look for individual stocks in these sectors to report strong earnings. In the most recent quarter, the average reported earnings gain for the companies in your portfolio was 30%.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   On April 1, 1997 Winslow Capital was pleased to announce the addition of Joe Docter and Bart Wear to the team of investment professionals. Wear and Docter, both 37, were previously partners at Baird Capital Management. Prior to Baird Capital, Bart and Joe were Senior Vice Presidents and Portfolio Managers at Firstar Investment Research and Management Company in Milwaukee. Each has 14 years of investment experience and is a Chartered Financial Analyst. They will participate fully in the team process of research and portfolio management at Winslow Capital.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$422 Million	Actual	-4.0%	10.5
Total Firm Assets Managed in this Discipline	$422 Million	Benchmark	-1.7%	14.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	MSBI	Custom Benchmark	Sector Over/Under-Weight to Benchmark
First Quarter 1997	-4.0%	-1.7%	
Sector Outperformance			
Health Care	1.9%	0.5%	Under-weight
Producer Durables	3.5%	0.0%	Under-weight
Financial Services	3.5%	-2.9%	Over-weight
Sector Underperformance			
Technology	-10.7%	-4.9%	Under-weight
Consumer Discretionary	-4.6%	2.0%	Equivalent
Consumer Staples	-0.6%	4.3%	Under-weight

Continuing the trend from 1995 and 1996, bigger was better for the first quarter of 1997. There was a common theme running throughout every sector, the largest companies maintained slight gains, while small- and mid-cap stocks underperformed. Performance from the health care sector was aided by returns from the large pharmaceutical companies, and the deliberate bet against investing in med-tech and HMO's. Our financial services sector outperformed on profit taking off high relative valuations for the group.

Taking a respite from the huge gains delivered by our technology stocks over the past three years, we experienced a significant decline in the sector. The benchmark's positive sector return masked a deeper decline in small- and mid-cap issues, kept afloat by the heaviest weighted names, such as Hewlett-Packard Co., Intel Corp. and Microsoft Corp. In addition to the "only-large-cap-was-positive" explanation, another rationale for the underperformance in both consumer sectors can be described by what we *did not* own. Coca-Cola Co., Philip Morris, and Proctor and Gamble Co. held their ground during the quarter, which presents the argument for active management out-performance. Mid-cap potential is strong when we note Coke's P/E at 42x and Proctor's at 27x, against their growth rates of 12-15%.

	MSBI	Custom Benchmark	Sector Over/Under-Weight to Benchmark
03/31/96 to 03/31/97	10.5%	14.4%	
Sector Outperformance			
Financial Services	26.9%	20.0%	Over-weight
Health Care	10.7%	9.1%	Under-weight
Sector Underperformance			
Technology	13.2%	25.5%	Under-weight
Consumer Discretionary	1.1%	7.8%	Equivalent
Consumer Staples	22.2%	28.6%	Under-weight
Producer Durables	7.7%	19.7%	Under-weight

Zevenbergen Capital (con't)

Large-cap companies were again the winner for the one-year period ending March 31, 1997. The financial services and health care sectors remained the strongest performers, driven by continuing positive fundamentals for both industries, namely, consolidation and cost savings in the finance area and more rapid FDA approvals and product pipeline strength for pharmaceutical companies.

A number of issues in the technology area, although not large individual weightings, were impacted by selling activities of a large mutual fund which has had extremely poor returns recently, precipitating fund redemptions. That selling pressure can explain much of the technology stock underperformance for several of our mutual holdings (i.e. Cambridge Technologies, Peoplesoft, Paychex, Inc.). We are hopeful the fund is near completion of their liquidation activities, allowing these fundamentally strong stocks to gain lost ground.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

With indexing having been THE place to be for the past two years, 1997's early market correction could be a precursor for active-management outperformance in coming periods. As large-cap stock valuations bounced near historic highs, this over-extended group led the market's correction in March. Mid- and small-cap securities now offer the biggest opportunity for price appreciation. These stocks have been the overlooked orphans of mutual fund in-flow/index mania. Active managers, like ZCI, tend to invest in these size companies for their higher growth prospects and better relative valuations.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no changes to report for the period.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
BEA Associates

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$28.6 Billion	Actual	-1.2%	6.1%
Total Firm Assets Managed in this Discipline	$ 4.2 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The performance of the Lehman Aggregate index for the first quarter of 1997 was -.56%. After rising approximately 15 basis points in the first two months of the quarter, interest rates rose an additional 35 basis points in the month of March. This was primarily due to the 25 basis point increase in the Federal Funds rate. The State of Minnesota portfolio returned a net return of -.23% for the quarter, generating outperformance of 33 basis points. This outperformance can be attributed in large part to the strength of corporate bonds in January and February.

At quarter end the government and agency bond portion of the State of Minnesota portfolio was 31%, representing an underweight of approximately 20%. The decision to maintain our underweight was based on our desire to run the portfolio more aggressively than the index, as it related to spread risk. That being said, versus year end 1996, we scaled back some of our underweight as security selection spread targets were reached. There were no meaningful yield curve strategies as of year end.

The investment grade corporate bond weighting of 25% represented a 7% overweight. Of the 15% in "high grade" corporate bonds, 6% is in putable bonds. We feel putable bonds are currently very attractive due to the recent level of low interest rate volatility. Should interest rate volatility return to its historic norm, the putable bonds should perform well. Asset and commercial backed bonds (7.4%) and floating rate notes (2.9%) were also in the portfolio at quarter end. In total, these sectors added modestly to incremental performance.

The mortgage (MBS) portion of the portfolio had little impact on incremental performance (approximately 3 basis points) in the first quarter. The positive impact of our decision to overweight the sector (34%) was somewhat mitigated by our coupon selection. We look to reduce our mortgage-backed securities overweight position in light of the recent spread contraction.

For the quarter, volatility arbitrage positions added modestly to performance.

The below investment grade portion (9.8%) added approximately 20 basis points for the quarter. Security selection was very good as our decision to own low quality electric utility bonds (2.5%) and airline bonds (.5%) benefited the portfolio. The emerging market debt portion of 3.1% added approximately 6 basis points as our conservative position in Brazil (1.2%) and Mexico (.8%) saw continued spread compression.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As we begin the second quarter, the tone of the bond market is considerably different than at the beginning of the first quarter. The Federal Reserve's decision to raise rates has paused the rally in spread product. With forward rates already anticipating two more 25 basis point increases, many investors feel that spread product is already sufficiently adjusted. BEA feels that as short rates continue upward, spread will continue to widen. As a result, we continue to manage the State of Minnesota fixed income portfolio in a defensive manner.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

The discrepancy between SBI and BEA returns was due to a pricing error. Our custodian mispriced a currency hedge which resulted in approximately 85 basis points reduction in returns. This will be reversed in April. Procedures have recently been implemented between BEA and the custodian which should prevent similar mispricings in the future.

Manager Commentary
IDS Advisory (IDS Fixed-Income Advisors)

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$32.9 Billion	Actual	-0.4%	4.9%
Total Firm Assets Managed in this Discipline	$3.8 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the quarter ended March 31, 1997, the total return on your portfolio of -0.4% compared with a -0.6% return on the Lehman Brothers Aggregate Bond Index. For the twelve months ended March 31, 1997 your account returned +4.9% as compared to the 4.9% return of the benchmark. High Yield securities added value in the first quarter. The total return on high yield securities was +3.37% in the quarter and contributed a positive return on the total portfolio of +0.18%.

   Portfolio duration continues to remain close to the benchmark and has enable your account to essentially mirror the Index during the generally rising interest rate environment of the past twelve months.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   With the Federal Reserve Board's recent increase in interest rates, the market environment's apprehension has increased. We believe this is justified because we expect the FRB to raise short-term interest rates an additional 100-125 basis points, over the next 9-12 months with an increase of 25 basis points expected at the May FRB meeting. With this negative tone overhanging the market, we believe it is prudent at this time to maintain portfolio duration at or below the Lehman Brothers Aggregate benchmark until there is economic evidence that will satisfy Chairman Greenspan that inflation is not about to come out of hiding.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

The following individuals have joined IDS:
Henry Kaczmarek-Equity Analyst, John Schonberg-Equity Portfolio Manager, Megan Scipione-Associate Equity Analyst, Curt Weaver-Equity Analyst, Suzanne Hudson-International Economic Analyst

The following promotions took place over the last quarter:
Mike Wolf was promoted to Vice President American Express Financial Corporation, Marty Hurwitz was promoted to Vice President American Express Financial Corporation, Kurt Winters has been promoted to Senior Portfolio Manager, Guru Baliga has been promoted to Senior Portfolio Manager, Pam Gildy was promoted to Vice President, David Friedrichsen was promoted to Senior Analyst, Mike Koehl was promoted to Senior Analyst.

First Quarter 1997

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	0	0.0	0	0.0
Fixed Income	2	300.1	0	0.0
Balanced	1	10.1	1	20.4
International	0	0.0	0	0.0
Regional - Specialized	0	0.0	0	0.0
Global Ex-Australia	0	0.0	0	0.0
Latin America	0	0.0	0	0.0
Small Cap Equities	0	0.0	0	0.0
Mid Cap Equities	1	0.0	0	0.0
Research Core	0	16.7	0	0.0
Research Aggressive	2	0.0	0	0.0
Global Bonds	1	0.0	1	16.3
Structured Fixed Income	0	0.0	0	0.0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

Staff visited IDS on April 22, 1997. Individual meetings were arranged with SBI's portfolio manager, a mortgage analyst, a high-grade bond analyst, and a high yield analyst. The comments above are consistent with those made during the meetings.

Manager Commentary
Investment Advisers, Inc.
(Fixed Income)

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$15.1 Billion	Actual	-0.7%	4.7%
Total Firm Assets Managed in this Discipline	$ 4.3 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio slightly lagged its benchmark during the first quarter. Our overweighting in ABS, our issue selection in Treasuries and MBS, and our yield curve strategy all contributed positively to the first quarter return. Our slightly longer-than-benchmark duration and overweighting in corporates (on a dollar duration basis) negatively impacted the first quarter results as interest rates moved higher.

   The slight lag in 12-month trailing period return performance is entirely explained by the first quarter results.

   During the first quarter, we reduced our MBS weighting due to narrow spreads, swapped into undervalued CMOs and ARMs, reduced our corporate dollar-duration exposure, reduced our ABS exposure, moved to a barbelled yield-curve stance, reduced portfolio duration to virtually even with the benchmark, and increased our holdings of U.S. Treasuries.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The portfolio's duration is neutral to the benchmark. The portfolio has a barbelled yield curve structure, with an underweighting in intermediate-maturity bonds. With additional Fed tightenings possible, we believe that the yield curve is likely to flatten further. With regard to sector weightings, the portfolio is overweighted in ABS and U.S. Treasuries, underweighted in Agencies and MBS, and neutrally weighted in corporates (on a dollar-duration basis). The portfolio has a seasoned coupon-barbell bias in its MBS positions. The corporate holdings de-emphasize utilities and telecommunication issues.

   Our rationale for making these active bets is based on several factors. First, we are positioned late in the second phase of the credit cycle. Second, cyclical inflation pressures are likely to re-emerge during the second half of 1997. Third, corporate and MBS yield spreads are near their cyclical narrows. Fourth, the Fed is in a tightening mode, with a reactive, "wait-and-see" style.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no ownership changes during the first quarter of 1997.

IAI lost one account in this discipline in the first quarter of 1997.

During the first quarter of 1997, IAI added two members to its fixed income team. Marcy Winson, Vice President, will manage individual fixed income portfolios with an emphasis on mortgage-backed securities. Nicholas Pifer joined IAI as a fixed income analyst focusing on international economic research and analysis of foreign bond markets. There were no departures from the fixed income team during this time period.

Total firm additions and departures for the first quarter of 1997 are as follows:

Staff *Additions* are as follows:

Year Hired	Name	Title/Responsibility
1997 1Q	Marcy Winson	Vice President/Fixed Income Portfolio Manager
1997 1Q	Nic Pifer	Associate Fixed Income Analyst
1997 1Q	Shona Richardson	Far East Fund Manager
1997 1Q	Christopher Anderson	Associate Latin American Equity Analyst

Staff *Departures* are as follows:

Year Departed	Name	Title/Responsibility
1997 1Q	Rick Leggott	Senior Vice President/Equity Portfolio Manager (Small Cap)
1997 1Q	R.J. New	Vice President/Equity Portfolio Manager (Small Cap)
1997 1Q	Suzanne Zak	Senior Vice President/Equity Portfolio Manager (Growth Equity)
1997 1Q	Todd McCallister	Vice President/Equity Portfolio Manager (Growth Equity)
1997 1Q	Doug Platt	Senior Vice President/Equity Portfolio Manager (Value Equity)

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

No additional comments.

Staff Comments

On April 23, 1997, staff met with IAI's portfolio managers and analysts. There has been no personnel turnover in the Fixed Income area, and performance returns have been satisfactory. The comments above are consistent with those made during the meeting.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$42.5 Billion	Actual	-0.3%	7.5%
Total Firm Assets Managed in this Discipline	$26.4 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the last quarter, your portfolio provided a return of 0.0% versus a benchmark return of (0.6)%. Over the last twelve months, your investment results were 7.4% versus 4.9% for the benchmark.

   During the quarter, interest rates rose and the yield curve steepened. We began the quarter with a duration of about 5 years and reduced the duration to 4.8 years throughout the quarter. Our strategy included overweighting corporates, a significant overweight in mortgages and a 5% allocation to foreign securities. During the quarter, the mortgage position provided a significant contribution to relative returns while corporate securities detracted slightly. The duration, yield curve and foreign holdings were essentially neutral in terms of overall portfolio contribution.

   Over the last year, our active decisions with regard to duration, yield curve, corporate, mortgage securities and foreign securities all added to investment results. Yield spreads, particularly for medium quality securities, narrowed during the last year. Your exposure to these securities as well as your allocation to foreign fixed income securities added to investment returns.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We remain neutral with regard to duration and yield curve, continue to be overweight mortgage securities (47.9 vs. 29.6%) and corporate securities (21.7% vs. 19.6%)within the portfolio, and have a modest exposure to the non-dollar fixed income market.

   We find the fixed income market place increasingly attractive. Real interest rates have increased and the yield curve has steepened in anticipation of additional Federal Reserve restraint. Both the level of real rates and the slope of the curve indicate increasing value within the fixed income market place. We would anticipate increasing duration over the next several months.

   Mortgage and corporate securities continue to offer attractive option-adjusted, credit-adjusted yield spreads. We have reduced holdings of current coupon mortgages somewhat to reflect their strong performance in the first quarter and continue to maintain an overweight position in corporate securities. In particular, we find capital notes and surplus notes of large, high quality issuers attractive. We have increased these holdings to about 8% of the portfolio. These securities represent an important portion of the portfolio's overall duration, as well as a significant portion of our corporate exposure. We continue to be biased toward larger, non-economically sensitive corporate issuers and anticipate that our overweightings in mortgage and corporates and the resultant underweighting in Treasuries will add to value over time.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the last quarter, one equity portfolio manager resigned and one retired. In this period, we gained 13 fixed income accounts and lost none.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Variance between SBI returns and Miller returns is due to pricing differences. On an ongoing basis staff continues to work with the managers to achieve greater consistency between our custodial records and their internal records.

Manager Commentary
Standish, Ayer & Wood

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$31.0 Billion	Actual	-0.4%	6.7%
Total Firm Assets Managed in this Discipline	$14.0 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

First Quarter and Year Attribution (Rel. to Lehman Aggregate)

	1ST QUARTER	LAST 12 MONTHS
Duration	-0.17	-0.15
Yield Curve	0.05	0.15
Domestic Sectors	0.24	1.49
Non-Dollar	0.09	0.48
Fees	-0.04	-0.17

- Corporates strong; below investment grade still outstanding. (Year and Quarter).
- Overweighting in mortgages positive in 96. Taking profits in 1st quarter has been neutral so far.
- Non dollar continues very strong. (J.P. Morgan Non-U.S. (Hedged) over Lehman Aggregate by 7.82% for the year and 1.92 for 3 mos.)
- Reduced duration muted negative impact of recent interest rate rise.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Sector	Weighting Strategy	Rationale
Mortgages	Slightly Underweight	Spreads have tightened, continuing to reduce weighting.
Corporates	Slightly Higher Overweight	High grade industrial spreads very narrow. Reducing some more cyclical credits. Limiting duration in corporates. Selling some below investment grade. Bulking up the finance sector.
International	Average weighting	U.S. has been worst performing market. Foreign markets remain reasonably attractive in spite of superior performance.
Treasuries	Less underweight	Spread sectors have tightened so much that Treasuries appear to be better values. Money flowing from mortgages to Treasuries.

Standish (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel additions:	Pierre Chung	Investment Grade Research Analyst
Personnel Lost:	James Sweeney	Mortgage/Fixed Income Portfolio Manager
	Darren Cullen	International Economist
	Kathy Barna	Int'l Fixed Research Analyst
	Karen Arese	Int'l Fixed Bond Trader
	Michael Schoek	Int'l Equity Portfolio Manager
Accounts Gained:	None	
Accounts Lost:	Insurance Foundation $31.2 million	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

Staff has no comments at this time.

Manager Commentary
Western Asset Management

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$28.6 Billion	Actual	-0.3%	7.3%
Total Firm Assets Managed in this Discipline	$6.4 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio recorded moderate performance gains in the first quarter. The portfolio's overweight duration exposure was the principal drag on performance, since interest rates rose across the board. However, the portfolio's barbelled yield curve exposure helped offset the negative impact of higher rates, as short and intermediate rates rose more than long-term rates. Overweight exposure to both the corporate and mortgage sector contributed to performance as spreads narrowed on balance for the quarter. Selected corporate issues turned in above-average performance as well. The portfolio's exposure to emerging market debt securities also made an important contribution to performance, as spreads continued to narrow.

Performance over the past year remains well ahead of the benchmark. As for the quarter, the portfolio's long duration posture throughout the past year has been a drag on performance, since interest rates have risen substantially. Fortunately, the success of other major strategies has more than offset the negative impact of rising rates. Yield curve positioning has contributed to overall results, as yield curve exposure has successfully anticipated several major shifts in the shape of the yield curve. Mortgage overweighting throughout the past year was a definite positive, as mortgages outperformed all other sectors. Corporate overexposure throughout the past year has added importantly to returns, particularly the emphasis on the lower end of the investment quality scale, as these issues turned in very strong performances. Emerging market debt exposure has also contributed handsomely to returns as spreads have narrowed rather dramatically.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

With their recent decision to tighten monetary policy in order to slow the economy's rate of growth, the Fed has introduced a note of uncertainty and volatility to the bond market, and this has in turn translated into a sharp rise in interest rates. At the same time, the promise of tax relief has faded, and this makes fiscal policy relatively more austere than before. Interest rates appear to be quite high relative to underlying inflation, as suggested by the strong dollar, falling gold price and stable industrial commodity prices. It's difficult to know just when the economy will respond to higher rates, so there is a risk that continued economic strength may push rates higher. Still, the political and monetary forces already in play seem to favor an economic slowdown occurring sooner rather than later. When it does, short-and intermediate-term rates are likely to fall relative to long-term interest rates.

Western Asset (con't)

We thus believe that the fundamentals remain favorable for the bond market, so we are maintaining an overweight duration exposure. We continue to hold a barbell exposure to maturities, with the aim of protecting against further signs of unexpected economic strength, since this would likely cause the yield curve to flatten, but remain alert to signs of economic weakness, as this would signal the need for a bulleted exposure to maturities to take advantage of an eventual steepening of the yield curve.

Despite our bullish outlook for interest rates, the mortgage sector still looks moderately attractive, so we are maintaining a modest overweighting to the sector. Spreads are not particularly generous, but declining volatility and an emphasis on discount coupons and commercial mortgages should help offset any rise in prepayment risk. The corporate sector remains marginally attractive, so we are targeting a neutral to slightly overweight exposure to the sector as spreads hover near relatively low levels. However, we still find value in longer-dated issues, as well as in the lower range of credit quality.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Hired: James M. Lisko, Research Analyst
Jae Y. Choi, Research Analyst
Susan M. Bolton, Client Service Executive
Rudi Otter, Marketing Executive

Accounts Gained: 12 Accounts Gained

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
BlackRock Financial Management

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$47.2 Billion	Actual	-0.3%	5.4%
Total Firm Assets Managed in this Discipline	$2.32 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

During the first quarter, the MSBI Enhanced Index Core Bond Portfolio posted a return of -0.3%, net of fees, versus -0.6% for the Lehman Aggregate Index. Since its April 1, 1996 inception, the Portfolio has returned 5.4%, net of fees, versus 4.9% for the Lehman Aggregate Index. Following is a month-by-month breakdown of performance:

	MSBI	**LEHM**	**DIFFERENCE**
April 1996	-0.45%	-0.56%	0.11%
May	-0.23%	-0.20%	-0.03%
June*	1.22%	1.34%	-0.12%
July	0.37%	0.27%	0.10%
August	-0.17%	-0.17%	0.00%
September*	1.73%	1.74%	-0.01%
October	2.27%	2.22%	0.05%
November	1.75%	1.71%	0.04%
December*	-0.80%	-0.93%	0.13%
January 1997	0.42%	0.31%	0.11%
February	0.40%	0.25%	0.15%
March*	-1.16%	-1.11%	-0.05%

*Quarter-End fees deducted from last month of quarter.

The Portfolio substantially outperformed the Lehman Aggregate Index during January and February and slightly underperformed during March. Total outperformance for the first quarter was +21 basis points, net of fees, versus the index. During the quarter, significant contributions to performance included:

- a slightly shorter duration than the benchmark
- an emphasis on seasoned mortgage pass-throughs
- the outperformance of inflation indexed Treasury bonds
- our reduced allocation to corporates
- the outperformance of manufactured housing asset-backed securities

Since April 1, 1996, the Portfolio has outperformed the index by 51 basis points on a net-of-fees basis. During our first year of managing MSBI's portfolio, much of the value we have added is attributable to the outperformance of spread product, our overweighting within the increasingly attractive asset-backed sector, our yield curve positioning, and our security selection.

BlackRock Financial Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   - Maintain a defensive position with a duration slightly short of the benchmark, as we expect further Fed tightening.

   - Maintain a yield curve flattening bias, with a focus on the 2-year and 30-year parts of the curve.

   - Maintain a moderately cautious outlook for the corporate sector as corporate bonds have historically underperformed Treasuries during the initial phases of monetary tightening. Within the corporate sector, we look to emphasize capital securities issued by large banks, and utility securities that are expected to benefit from the improved regulatory environment.

   - Maintain a bias towards securities with better convexity as we are concerned that interest rate volatility may increase.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the first quarter, BlackRock was hired to manage two new enhanced index mandates. Both funded the first week of April:

   - State University Retirement System of Illinois, an existing client with a mortgage mandate, hired BlackRock to manage an additional portfolio, a $100 million enhanced index core account.

   - A large European pension plan hired BlackRock to manage a $235 million enhanced index mortgage portfolio.

   During February, Andrew Sanford, a vice president and portfolio manager at BlackRock who specialized in municipal bonds, left the firm to pursue other career opportunities. Andrew's departure does not affect the management of MSBI's Portfolio.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$104.9 Billion	Actual	-0.3%	5.7%
Total Firm Assets Managed in this Discipline	$19.0 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the first quarter, the portfolio outperformed the Lehman Aggregate by 26 bps (gross of fees). This outperformance is due primarily to the asset-backed, corporate, emerging market and mortgage sectors.

For the past 12 months, the mortgage sector added about 22 bps to incremental return primarily due to superior security selection.

For the past 12 months, term structure and the portfolio's Treasury securities added approximately 3 bps. Agencies did not materially impact the portfolio's performance.

For the past 12 months, the corporate sector added about 24 bps to incremental return primarily due to the outperformance of the portfolio's industrial and financial holdings.

For the past 12 months, the emerging market sector added about 18 bps. The sector's contribution to incremental return was attributable to both yield advantage and the fact that the short duration of these holdings minimized the effects of spread widening in the sector over 1Q97. Colombian, Chilean, and Mexican bonds were the leading contributors.

1Q97			
Duration/Term Structure/Convexity	-1.3	Emerging Markets	3.8
Treasury	2.3	Mortgage	8.6
Agency	-1.3	Municipal	0.3
Asset-Backed	1.9	*Index Price Mismatch	4.3
Corporate	5.9	Residual	1.4
		Total	**26.0**

*The index pricing mismatch is the difference between GSAM's pricing at 5:00 p.m. and that of an Index pricing at 3:00 p.m. Most indexes, except for those of Salomon Brothers, price at 3:00 p.m.

Goldman (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   32% allocation to the mortgage sector (2% overweighting): Pass-through spreads approached their tightest levels in two-years at the beginning of March, only to widen an average of 7 bps as yields continued their ascent and the curve flattened. Although low implied volatility and extended cross-over buying remain positives for the sector, we remain concerned that these supports could weaken. Hence, our outlook for the CMO sector is cautious. *26% allocation to the corporate sector* (8% overweighting): While we anticipate no near-term deterioration in quality fundamentals or technical support, we are less optimistic on the sector's prospects for significant spread compression. We are therefore continuing to emphasize short-duration, higher spread bonds in order to add incremental yield (without incremental volatility) to the portfolio. *12% allocation to asset-backed sector* (11% overweighting): We believe that the majority of ABS remain well insulated from adverse credit and prepayment surprises. In addition, positive fundamental and technical trends continue to support the sector as a whole. Investor interest remains broadbased, ratings are firm and, relative to similarly-rated spread products, ABSs still offer attractive yield enhancement opportunities. *5% allocation to the emerging market sector* (5% overweighting): Increased volatility in global debt and equity markets has led to a period of spread widening in the emerging market debt sector. While the direction of U.S. monetary policy has been the primary driver of emerging market behavior of late, a myriad of other factors are likely to influence the sector in the months ahead. Despite the potential for further spread widening, the credit fundamentals for countries and companies in the emerging market universe continue to improve rapidly. Thus, we continue to be cautiously optimistic on the sector.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

U.S. Fixed Income Accounts Gained:		**U.S. Fixed Income Accounts Lost:**	
U.S. Clients	6	U.S. Clients	0
Non-U.S. Clients	2	Non-U.S. Clients	0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Lincoln Capital Management Company
(Fixed Income)

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$40.1 Billion	Actual	-0.6%	5.0%
Total Firm Assets Managed in this Discipline	$12.1 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	1st Quarter 1997		**12 Months Ended 3/31/97**	
	Active Strategy	**Value Added**	**Active Strategy**	**Value Added**
Mortgages	Neutral	0.00%	Overweighted	0.00%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Neutral	0.00
Asset-Backeds	Overweighted	0.00	Overweighted	+0.01
Agencies	Neutral	0.00	Neutral	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.01	N/A	+0.16
Less Fees		-0.01		-0.04
Total		**-0.01%**		**+0.09%**

On a net-of-fee basis, your portfolio underperformed the Lehman Brothers Aggregate Index by 1 basis points for the first quarter 1997 and outperformed the Lehman Aggregate by 9 basis points for the year ending March 31, 1997.

There have been two significant changes in portfolio strategy since the beginning of 1997. The .125 duration year overweight in mortgages was reduced to zero in mid-January as mortgage spreads narrowed inside of historical levels. Mortgage spreads remain narrow, consequently your portfolio is neutral with respect to the index. The other significant change relates to the overweight of asset-backed securities in your portfolio. In March, we began to opportunistically increase that overweight. The portfolio is currently overweighted by 9%. When the implementation is completed over the next month or so, your portfolio will have a 10% overweight in asset-backed securities with an average duration of approximately 2.0 years. As in the past, this strategy aims to capture the yield advantage of asset-backed securities with only a moderate exposure to a widening asset-backed spreads.

For the past twelve months, asset-backs contributed positively to the portfolio's return; however, the primary component of value-added was security selection.

Lincoln (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	Strategy	Rationale
Asset-Backed Securities	Overweighted vs Treasuries	1. High Quality 2. Attractive Yield 3. Low Event Risk 4. Low Prepayment Risk

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no accounts gained or lost in this discipline over the last quarter. Two new professionals joined fixed income; Ann Benjamin and Matt Peron. Their biographies are shown below.

Ann H. Benjamin, Vice President, joined LCM in 1997. Previously, Ann had spent eight years at Stein Roe, where she managed both the Stein Roe Income Fund and the Stein Roe High Yield Fund. She also has experience in international and emerging market debt. Ann is a graduate of Chatham College and has a Master's degree from Carnegie Mellon University. She is active with the St. Joseph's Carondelet Child Center in Chicago.

Matthew Peron, Vice President, joined LCM in 1997. Prior to joining Lincoln, Matt was a trader and risk manager at First Chicago NBD, where he spent five years. For the previous two years, he was a software engineer and business analyst for Sumitomo Bank Capital Markets. Matt has a BS in electrical engineering from Swarthmore College and an MBA from the University of Chicago.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

There are no issues or developments that would impact the SBI account.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Baring Investment Services

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$12.3 Billion	Actual	0.3%	4.7%
Total Firm Assets Managed in this Discipline	$ 3.3 Billion	Benchmark	-1.6%	1.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The following figures show a breakdown of the returns for the last quarter:

	Total Return %	**Currency %**	**Market Weighting %**	**Tracking Error %**
Minnesota State Board	0.3	-3.4	4.2	0.0
MSCI EAFE-Free Index	-1.6	-5.7	1.4	---
Relative Return	1.9	2.4	-0.2	0.0

Currency (Relative return 2.4%): Underweighting the Yen added significant value as did the underweighting of Deutschemark and French Franc. The overweighting of the Dollar-linked Hong Kong Dollar also value. Zero exposure to the Malaysian Ringgit detracted -0.2%.

Market Weighting (Relative return -0.2%): Overweighting of Hong Kong, a poor market this quarter, detracted -0.4% while underweighting of strong markets; Sweden, Netherlands and Switzerland also detracted. Underweighting Japan was positive as was overweighting Germany, the top performer of the quarter.

Tracking Error (Relative return 0.0%): Marginal negative tracking in Singapore was offset by smaller positives in other markets in general.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The main features and changes to your portfolio during the quarter were:

- Further reduction in the exposure to Japanese equities.
- A reduction in the Yen hedge.
- Continued emphasis upon the European equity markets.
- Increased weighting in Switzerland.

The main focus of the portfolio remains in the major European equity markets of Germany, France and the UK. We are forecasting an economic recovery in Europe in the coming twelve months and a strong rebound in profits due to corporate restructuring and a strong US Dollar.

Although fiscal policy remains tight in Europe in order to meet the criteria for monetary union, monetary policy has been easy to offset this drag on economic growth. Real short term interest rates are at 15 year lows and many economies have been experiencing the steepest yield curves in post war history. As a result of this easy monetary environment financial markets have been and are forecast to continue to perform well. We are maintaining the French Franc, Deutschemark and Sterling hedges into the Dollar, in light of this environment.

The Japanese economy is experiencing a text book production led recovery, however, there are concerns over its strength and durability which are adversely effecting market sentiment. We remain confident that the recovery in both the economy and corporate profits will exceed consensus expectation. However, we slightly reduced your portfolio's weighting to fund the increased position in Swiss equities. The Yen continued to weaken against the US Dollar over the quarter and we therefore reduced the Yen hedge as it nears our 130 target.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   We gained one new client at $18.5 million and our existing active/passive client base contributed $36 million to their accounts. We lost no active/passive clients during the quarter.

4. ***Other Comments.***

   None.

Staff Comments

Both outlook and performance had been improving at Barings since the ING purchase, however, the April departures of Philip Bullen (the SBI's portfolio manager and head of US operations), Chris Goudie (SBI's backup manager), and Kathy Matthews have once again raised concerns. Their departures directly impact Barings Asset Management, their Boston office, and the Strategic Policy Group (which makes the country allocation decisions). Staff believes these personnel departures will destabilize Barings Asset Management and their North American operations. Therefore, staff recommends the SBI terminate its relationship with this manager.

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

Jan. - Mar. 1997

Local Returns		**Currency Returns**	
Country selection	-0.3	Currency effect	-0.2
Stock selection	-0.2	Hedging activity	2.2
Timing	0.3	Timing	0.0

Total Value Added to EAFE **1.9**

Source: State Street Analytics

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$71.6 Billion	Actual	0.7%	8.8%
Total Firm Assets Managed in this Discipline	$18.5 Billion	Benchmark	-1.6%	1.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio outperformed the benchmark in the quarter, gaining 0.7% in dollar-adjusted terms versus a return -1.6% for the unhedged EAFE-Free Index, and also significantly outperformed the one-year period, with an increase of 8.8% against an unhedged benchmark return of 1.4%. Market allocation was neutral for the first quarter, but added value for the full year. The portfolio was helped in the quarter by underweights of Japan and southeast Asia, as by overweights of the Netherlands, Finland, France and Belgium. Detracting from quarterly performance were the underweights of Switzerland and Sweden, as well as overweights of New Zealand and Australia. Strategic cash also detracted. The story for the full year is much the same, with the exception that successful overweight and underweight strategies had a greater positive impact on performance than the negative effect of unsuccessful strategies.

Currency strategies have had a major positive impact on relative performance, both during the quarter and for the full year, where it continued to play a dominant role in the portfolio's outperformance. The portfolio continued to gain in both time periods from the strategy of being overweight the U.S. dollar, while underweight the yen and core DM-bloc currencies. The combination of yen weakness and a negative cash differential resulted in a -7.39% currency effect in the first quarter and just under 18% decline for the full year. Similarly, the core European currencies were down on average 6.5% for the quarter and one year periods. The strategy of holding any minimal positions in these currencies was highly beneficial. It should be noted that over the course of the quarter, these positions were gradually scaled back, leading to today's neutral currency strategies for both sets of currencies.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The portfolio maintains a strategic cash allocation of 5%. This is based on our view that most non-U.S. equity markets are overvalued. Japan remains underweight, but the scale of this underweight has been reduced to 3.0%, bringing it closer to the overall "all other markets" underweight of -2.0%. Japan continues to appear overvalued, despite some signs of an economic rebound, the low level of corporate profitability, the glacial pace of much-needed regulatory reforms and the significant level of bad loan problems that continue to hang over the banking sector. However, the market's weak performance has brought its valuation somewhat closer to the all other group.

The aggregate all other markets enjoyed very strong performance over the past year, growing over 30% in hedged returns. During the first quarter, within the all other markets, Finland was pared back to neutral, Singapore was added at a neutral level, France was reduced to a small overweight, while Spain and the Netherlands were also reduced. At this time there are only small overweights of Australia, New Zealand and various European markets. Underweights are held in Japan, Malaysia, Hong Kong, Canada and Switzerland.

Several currency strategy changes were made in the first quarter, gradually bringing the significant underweight positions in the yen and DM bloc currencies back to neutral. The current portfolio is now almost currency neutral, with only a small U.S. dollar overweight and modest underweights of the Hong Kong dollar, the Australian dollar and the pound sterling.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

None this quarter.

One new account funded $50 million. None departed.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None this quarter.

Staff Comments

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

Jan. - Mar. 1997

Local Returns		**Currency Returns**	
Country selection	0.6	Currency effect	-0.1
Stock selection	-0.2	Hedging activity	1.9
Timing	0.1	Timing	0.1

Total Value Added to EAFE 2.3

Source: State Street Analytics

Manager Commentary
Marathon Asset Management

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$7.1 Billion	Actual	-1.1%	3.8%
Total Firm Assets Managed in this Discipline	$5.1 Billion	Benchmark	-1.6%	1.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The fund declined 1.10% in the first quarter of 1997, marginally outperforming the 1.60% drop in the MSCI EAFE-Free Index. Outperformance was due to stock selection in the Pacific (primarily Hong Kong, Australia and Japan) and the U.K. Positive returns from the Fund's weighting in emerging markets (South Africa and Mexico) were offset by the underweighting of "hard currency" Europe, notably Switzerland and Germany. No shifts in model allocations occurred in the quarter; movements in country weightings were hence primarily due to relative market action.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Distinct nervousness has become apparent in equity markets over the last few month and, whilst the only real loser to date remains Japan, signs of overheating (particularly visible in the residential housing markets of the U.S., U.K. and Australia), continued notes of caution from the Fed, and uncertainty over Europe's monetary future have all fuelled a growing sense of uncertainty. This has been reflected in declining ratios of market gainers to losers, an ongoing move to larger capitalization issues offering safety and liquidity, and savage price declines on earnings disappointments. Yet, despite this, indices have stayed resilient. The key to this reflects the critical role of Japanese monetary policy; earlier this decade it was a zero real cost of money in America that fuelled equity prices, now it is a zero real cost of money in Japan. Hence it is not to Mr. Greenspan et al that one must look but to Mr. Mitsuzuka. As long as the state of Japan's financial system necessitates "free" money then this cycle, with its recycling of liquidity out of Japan into the rest of the world, will continue its current course.

The end however is unlikely to be that far away. The Bank of Japan, Ministry of Finance and MITI have all expressed concern about the possible detrimental effect on capital allocation and investment in Japan of current monetary policy. With the world's largest ever fiscal tightening (abolishment of special tax reduction for individuals, ending of the large public works programme of the last four years and raising consumption tax) now behind us in Japan the next step is monetary tightening, either late this year or early in 1998. The impact of such a move is likely to be three fold: global interest rates will trend higher (or remain high) reflecting a more realistic global demand-supply balance for funds; the yen should appreciate (or cease to depreciate) and funds flow back into Japan and, logically, into equity; and the global emphasis will shift from the developed bloc towards the emerging bloc (a more likely beneficiary of direct Japanese real investment flows), with major implications for real economic activity versus financial asset pricing. The Fund, with its bias away from interest rate sensitives, focus on value issues, and overweighting of commodity based-markets, should perform well in such an environment.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel Lost:	We have gained three new employees and lost one in the quarter. The new employees were an Executive Secretary, a Settlements Assistant and an IT Officer. The leaver was an Assistant Trader.
Accounts Gained:	NIL
Accounts Lost:	NIL - Note though that the number of segregated accounts has decreased by one following the merging of two of our accounts.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

During the quarter, staff met with Jeremy Hosking in SBI offices. His comments on portfolio strategy mirrored the information in #1 and #2, above. Staff discussed Marathon's business plan at some length. Marathon does not believe that their substantial asset/client growth has impacted performance and maintains that growth has been consistent with their long term business plans. Staff remains concerned and will continue to monitor the firm closely on this issue.

Performance attribution (gross of fees) for the quarter relative to EAFE is shown below:

Jan. - Mar. 1997

Local Returns		**Currency Returns**	
Country selection	-0.6	Currency effect	-0.1
Stock selection	0.6	Hedging activity	0.0
Timing	0.2	Timing	0.5

Total Value Added to EAFE 0.6

Source: State Street Analytics

Manager Commentary
Rowe Price-Fleming International

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$29.7 Billion	Actual	-0.1%	9.8%
Total Firm Assets Managed in this Discipline	$23.3 Billion	Benchmark	-1.6%	1.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Our **Country allocation** relative to the benchmark provided positive value-added over the quarter. The most value was added by your portfolio's substantial underweighting of the Japanese market. Exposure to Latin America also proved beneficial with particular value added through exposure to Brazil. Less successful were weightings in Europe, with the negative of underweightings in Germany and Switzerland more than offsetting the benefit of our overweight position in the Dutch market. A small amount of value was also subtracted in the Pacific with overweightings in Hong Kong and Singapore unhelpful.

   Stock selection relative to the Index was a small negative over the quarter. After a strong performance in 1996, some of our European holdings, not surprisingly, gave back a bit of ground in the early part of this year with stocks in the Netherlands and Sweden the worst performers. Stock selection in the Pacific was positive, with favoured growth stocks in Japan and Malaysia posting particularly good results. The inclusion of medium- and select smaller-sized companies in your portfoio helped performance over the quarter.

   We continue to have no currency hedges in place in your portfolio, although the fact that we are underweight the yen and overweight dollar-linked currencies proved beneficial.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Current position and outlook

   Although international market performance has been mixed thus far in 1997, we are hopeful that a more positive trend will be established later in the year. The economic outlook world-wide remains benign -- with a low growth, low inflation scenario firmly in place in most of the non-U.S. world. This scenario remains supportive of good corporate profits growth abroad which should be the principle driver of global stock market performance over the balance of the year.

   This economic scenario also remains supportive of present bond market levels internationally which, in turn, should continue to underpin equity valuations. Japanese market weakness over the last year has discounted a lot of bad news and we are hopeful that we will see Japan's market rise over the balance of the year. In other parts of the world, investment opportunities remain selectively attractive in the established markets of Europe as well as the developing economies of Asia and Latin America.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no changes in the ownership or personnel of RPFI in the last quarter.

   Two separate accounts were gained during the first quarter of 1997, no accounts were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

Jan. - Mar. 1997

Local Returns		**Currency Returns**	
Country selection	1.5	Currency effect	-0.1
Stock selection	-0.6	Hedging activity	0.0
Timing	0.3	Timing	0.6

Total Value Added to EAFE **1.6**

Source: State Street Analytics

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$11.8 Billion*	Actual	1.7%	11.4%
Total Firm Assets Managed in this Discipline	$11.4 Billion*	Benchmark	-1.6%	1.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The positioning of your portfolio did not undergo much change in the first quarter, reflecting the fact that the fundamental conditions were largely unchanged. The portfolio remains significantly underweighted in Japan, at 16% versus 29% in EAFE, and overweighted in Europe, at 62% vs. 60% for the broad index.

   The rise in the dollar during the quarter offset much of the local currency appreciation of your portfolio. We had no currency hedges in place and have no plans to implement any. The increase in the price of the dollar, fueled in particular by the strong growth and rising interest rate trend in the U.S. while most foreign economies remained soft, is unlikely to be sustained at the first quarter pace. While our stock selection is biased by our view that the dollar would more likely rise than fall, we do not have strong enough conviction of the scope or timing of further movement to undertake any currency hedges. 1997 is likely to experience a shift in the relative growth rates of the U.S. and the overseas economies and when that occurs the long appreciation of the dollar may moderate or even reverse.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The combination of low interest rates and declining currencies are having the stimulative effect we anticipated in the European economies. The management emphasis on creating "shareholder value" provides confidence that the restructuring theme is on target. Shifting the restructuring theme from Europe to Japan presents a key investment challenge for 1997. Reasonable valuations, deregulation and financial liquidity will provide the bridge for us to construct, on a stock by stock basis, a large Japanese position in your portfolio.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   International Equity Product Group Personnel Turnover:

   Gained:

Name	Date Hired	
Sean Goldrick	1/27/97	Analyst-India, Australia/New Zealand, Korea
Kimberly Purvis	2/03/97	Analyst-Hospital Supplies & Services
Laurie Feldman	2/10/97	Analyst-Food Companies
Richard Taft	2/10/97	Analyst-Trucking Companies

Lost: None

Organizational Structure Changes: None.

International Equity Accounts over $25 million gained/lost (in discipline) - first quarter, 1997:

Gained: None
Lost: None

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

* *Data in heading on previous page is for 4th quarter 1996.*

Staff Comments

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

Jan.- Mar. 1997

Local Returns		**Currency Returns**	
Country selection	4.1	Currency effect	-0.1
Stock selection	-0.7	Hedging activity	0.0
Timing	0.1	Timing	0.1

Total Value Added to EAFE 3.4

Source: State Street Analytics

Manager Commentary
City of London

				Since
Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Inception**
Total Firm Assets Under Management	$0.9 Billion	Actual	7.8%	11.6%
Total Firm Assets Managed in this Discipline	$0.9 Billion	Benchmark	8.5	10.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The Fund's performance suffered during the first two months of the year from its overweight position in Thailand. In addition the performance was adversely affected by an underweight position in Turkey in January and Malaysia in February.

   During March especially, the portfolio's holdings performed well compared to the benchmark constituent stock markets. The Taipei listed Kwang Hua Fortune Fund posted a gain in NAV of 4.1% compared to a modest 1% fall in the stock market during this month.

   The portfolio's holdings that invest in Mexico also performed well in March with the New York list Mexico Fund rising by 0.5% in NAV terms compared to a market fall of 2.2%.

   The Fund's overall performance during the quarter was boosted by a general narrowing of discounts at which the underlying portfolio holdings trade. Discounts tended to widen in January, but narrowed during the following two months.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   On a country basis City of London has five active bets relative to the benchmark.

   - We further reduced our exposure to Korea which now stands at 0.4% of our portfolio against a benchmark level of 3.9%. The failure to push through significant structural economic reform supports the view that there will not be a short term recovery in the Korean market.

   - Our second underweight country exposure is in India where recent political developments could lead to a prolonged period of under performance against other emerging markets. The market is cheap on a historical basis but this is outweighed by the political uncertainty.

City of London (con't)

- Our exposure to Thailand is three times the benchmark weighting. Steady if not spectacular improvement in the economic fundamentals and the government move to bolster property and finance markets suggest that we might be at the low point of the market cycle. An improvement in investor sentiment could lead to a strong, sustained rally.

- Our fourth active difference between our weighting and the benchmark was in the Greater China region (China, Hong Kong, and Taiwan). The most compelling argument for overweight here is the calm political environment combined with expansionary monetary policy.

- Finally, we are overweight in Mexico as the economy continues to grow steadily and the US listed Mexican closed end funds provide the opportunity for out performance.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   In the Attribution Department, Magnus Kovacec appointed an assistant, Michael Worth. The appointment arises as City of London dedicates more resources to the Attribution area of Fund Management.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No related issues/events occurred.

Staff Comments

Attribution is not available for City of London at this time. Staff are working with State Street Analystics to address this.

Staff met with Barry Olliff during the quarter. Several staff changes were recently made at City of London. Courtney Short was hired in Philadelphia as a support person. She has worked out well, so she will now take over client servicing. Jeff Prine, who previously worked for IMRO as an inspector, has been appointed City of London's compliance officer. Clair Blighton is the new compliance assistant. Jeff and Clair will be introducing a compliance monitoring program for their US and Canadian custodians.

Barry's comments on strategy mirrored the information in 1 and 2 above. He expects a number of current holdings to liquidate or become open-ended. This should cause a narrowing of discounts over the next 6-9 months, resulting in outperformance for those funds.

Manager Commentary
Genesis Asset Management Limited

Period Ending:	3/31/97	Returns	Qtr.	Since Inception
Total Firm Assets Under Management	$6.2 Billion	Actual	11.5%	13.3%
Total Firm Assets Managed in this Discipline	$5.5 Billion	Benchmark	8.5%	4.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The MSCI EMF benchmark produced strongly positive returns in January and February before falling back in sympathy with the decline on Wall Street in March. The net rise for the quarter was 8.5%. The noteworthy trends in the quarter were very much a continuation of those in evidence in 1996, namely strength in Latin America and Emerging Europe was offset by underperformance of the Asian components of the indices. Of the 26 composite indices, 18 showed positive returns, with 8 in positive territory. However, of the 13 markets to outperform the composite index, 5 were in Latin America (Brazil, Chile, Columbia, Mexico & Peru), 5 in emerging Europe (Greece, Hungary, Israel, Portugal and Turkey). In Asia, only Pakistan and Taiwan outperformed and as did South Africa after several quarters in the doldrums. Among those 13 markets which underperformed, 8 were supplied by Asia. Against this background, it is not surprising that the MSBI portfolio outperformed its MSCI EMF benchmark, given its strong relative weighting in both Latin America and Europe and its underweighting in Asia.

   In Latin America, stock selection added value to Argentina, Chile and Venezuela where the portfolio was overweight and in Mexico where the portfolio was underweight. The Peruvian exposure (overweight) lagged the MSCI constituent, and positions in Ecuador and Panama (not in the benchmark) both added value.

   In Eastern Europe the portfolio benefited from its relatively large positions in both Greece and Hungary. Due to the fact that it is no longer classified as a middle-income country by the World Bank, the exposure to Portugal was culminated in the quarter. Performance was hurt by a substantial underweighting in South Africa, and by relatively poor stock performance there.

   In Asia, the portfolio avoided the worst of the ravages there by being underweight almost across the board, and through relatively good stock selection. Even the position in Thai Farmers Bank, (the only exposure to this particularly worrying sector) was liquidated at a higher price than that shown on the 1996 year-end valuation.

   No new funding was received over the quarter and the cash level was reduced from 9.6% to 5.3%. The relative high cash position was a drag on performance. In addition two new countries were added (China and Slovenia) to bring the number of geographic exposures to 33.

Genesis (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Future strategy will be dictated more by elective valuation than by economic factors. The two economic events we are monitoring are:

   (i) The sustainability of Brazil's current account deficit.
   (ii) The deepening sense of crisis in the Czech Republic.

   The first of these is being monitored with a view to possibly reducing exposure in Brazil, while the situation in the Czech Republic may create opportunities there. The situation in Korea is continuing to produce opportunities for corporate bargain-hunters. Although the pay-off is likely to be long-term, we are convinced it should be substantial for the patient investor.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no personnel and ownership changes during the period.

4. ***Other Comments.***

   No other pertinent matters arose.

Staff Comments

Performance attribution (gross of fees) relative to EMF for the quarter is shown below:

Jan. - Mar. 1997

Local Returns		**Currency Returns**	
Country selection	1.6	Currency effect	-0.1
Stock selection	2.7	Hedging activity	0.0
Timing	0.3	Timing	-1.0

Total Value Added to EMF **3.3**

Source: State Street Analytics

Manager Commentary
Montgomery Asset Management

				Since
Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Inception**
Total Firm Assets Under Management	$7.8 Billion	Actual	8.3%	10.5%
Total Firm Assets Managed in this Discipline	$2.5 Billion	Benchmark	8.5%	4.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The inception date of the Portfolio is May 1, 1996. Since inception, the Portfolio has advanced 10.5% compared to the Morgan Stanley Emerging Free Index (MSEF) return of 4.1%. For the first quarter, the Portfolio advanced 8.3% compared to the MSEF Index of 8.5%.

   During the first quarter, the three main contributors to performance were our investments in Taiwan, our overweight in Brazil, and our overweight in Russia. We increased our allocation to Taiwan by approximately 3.4% during the quarter to approximately 8.5% of the Portfolio. This proved to be a good decision as the MSEF Taiwan Index advanced 9.5% during the quarter and we added 101 basis points to performance. Stock selection added 98 basis points. For example, China Development, an investment trust company with investments in over 160 projects in Taiwan, rose 33%, and Delta Electronics, a producer of power supply equipment and monitors, rose 74% during the quarter. We also increased our Brazilian allocation during the quarter from approximately 16.1% to approximately 20.3%. The MSEF Brazil Index rose 21.8%, and our investments there added 84 basis points to performance. The Russian portion of the Portfolio added the most to performance by adding 165 basis points during the quarter. We increased our investments there to approximately 5.8%. The MSEF Russia Index was up 50.4% during the quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   In Latin America, we have a weight in Brazil of approximately 20.3% versus the MSEF Index weight of 13.8%. Brazil remains the largest country allocation in the Portfolio and we remain positive that Cardoso will be able to pass the re-election amendment. The economy is growing strongly, with inflation under control, and the privatization scenario looks positive for electric utilities. Foreign sentiment is also positive, particularly since S&P upgraded Brazilian debt to BB- from B+.

   In Emerging Europe, we have an allocation to Russia of approximately 5.8%. This is over double what it was at the end of the fourth quarter. Valuations are still attractive relative to book value, earnings per share and cashflow. The recent shakeup in the Russian cabinet has netted the strongest pro-reform cabinet since 1991.

Montgomery (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   On March 25, 1997, Montgomery Securities announced it had entered into an agreement with Commerzbank Aktiengesellschaft of Frankfurt, Germany, for the sale of Montgomery Asset Management. While this change in ownership must be approved by the Federal Reserve Board, we believe it is an excellent strategic opportunity for all parties.

   During the quarter, we did not lose any accounts.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   As of March 31, 1997, the SBI account was 97.43% invested in equities, with total assets of $221,380,164. The Portfolio is well diversified in 24 countries, 43 industries and 163 companies.

Staff Comments

During the quarter, staff met with Mark Geist, President and Chief Operations Officer of Montgomery Asset Management (MAM), to discuss Commerbank's purchase of MAM. Staff believes that this ownership change will not have an adverse affect. However, staff will monitor MAM during this transition. In accordance with the SBI's Manager Continuation Policy staff is recommending that the firm be placed on probation. Staff also met with Angeline Ee this quarter, who took over many of Tom Haslett's responsibilities when he left the firm. She is a knowledgeable and enthusiastic team member, with strong experience.

Performance attribution (gross of fees) relative to EMF for the quarter is shown below:

Jan. - Mar. 1997

Local Returns		**Currency Returns**	
Country selection	-1.2	Currency effect	1.0
Stock selection	0.5	Hedging activity	0.0
Timing	0.2	Timing	-0.5

Total Value Added to EMF 0.0

Source: State Street Analytics

Manager Commentary
State Street Global Advisors

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Firm Assets Under Management	$265.0 Billion	Actual	-1.8%	1.9%
Total Firm Assets Managed in this Discipline	$ 62.0 Billion	Benchmark	-1.6%	1.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   The portfolio closely tracked the index for the 1st quarter, outperforming by 0.02%. For the last twelve months, the portfolio outperformed the MSCI EAFE-free index by 0.43%. Approximately 26 basis points is explained by the lower dividend withholding tax rate paid by the portfolio versus the withholding tax rate included in the net benchmark calculation. An additional 8 basis points is due to index changes and our trading methodology. The remaining 0.09% of tracking error is attributed to futures mistracking, cashdrag and dividend smoothing in the benchmark calculation.

2. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Due to sizable asset and client growth, the Global Structured Products Group hired two new portfolio managers last quarter, Shayne White and Sarah Meier. They are responsible for global portfolio management and product and systems development. Jeff Davis resigned in March to join a firm specializing in private equity in emerging markets. Jeff's responsibilities had been predominantly in marketing and client service and his responsibilities have been absorbed by existing members within the Global Structured Products Group.

   We gained 10 new accounts with assets of $180 million and lost one account with assets of $15 million.

3. ***Other comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   SSgA recently formed the SSgA Global Alliance to identify, establish, develop and manage new and diverse investment management businesses worldwide. Headed by John Snow, the team will expand the range of investment opportunities and technologies comprising SSgA. Global Alliance will be a separate business unit - in turn made up of a number of separately managed/separately named units - that will increase our ability to focus on and grow unique investment management opportunities.

Staff Comments

The discussion of value added in #1 for the first quarter does not correspond to the returns shown in the heading. This is due to currency pricing differences between SSgA and the custodian.

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

Jan. - Mar. 1997

Local Returns		**Currency Returns**	
Country selection	0.0	Currency effect	-0.2
Stock selection	-0.1	Hedging activity	0.0
Timing	0.1	Timing	-0.1

Total Value Added to EAFE -0.2

Source: State Street Analytics

Manager Commentary
Record Treasury Management

Period Ending:	3/31/97	Returns	Qtr.	Year
Total Assets Under Mgmt.	$5.4 billion	Index + Record	1.5%	7.4%
Total Currency Overlay	$3.4billion	Index Fund Only	-1.8%	1.9%

1. ***Performance/Strategy****. Summarize your currency positions and profit/loss. Highlight performance over the most recent quarter and year.*

	Currency Exposure* 3/31/97	Actual Hedge** as of 3/31/97	
Yen (JPY)	$556.6 million	$453.8 million	81.53%
Sterling (GBP)	369.9 million	29.2 million	7.91
Mark (DEM)	176.2 million	123.3 million	70.01
Fr. Franc (FRF)	141.8 million	99.5 million	70.18
Sw. Franc (CHF)	118.4 million	89.1 million	75.26
Total	**$1,362.9 million**	**$795.0 million**	**58.33%**

Profit (Loss) During Latest Quarter	**$ 60,224,293**
Profit (Loss) During Latest Year	**$107,831,244**

* *Based on currency exposure of the SBI's EAFE index fund for these five currencies.*
** *In-house options are placed 2% out-of-the-money for each monthly/semi-monthly tranche. This requires a 2% strengthening of the USD to trigger a hedge for that tranche.*

Market/Performance Comments:

Currency	**JPY/USD**	**USD/GBP**	**DEM/USD**	**FRF/USD**	**CHF/USD**
Rate 12/31/96	116.07	1.7112	1.5411	5.1988	1.3428
Rate 3/31/97	123.77	1.6415	1.6681	5.6275	1.4402
Strengthening of USD	6.63%	4.07%	8.24%	8.25%	7.25%

Market

GBP weakened against the USD during January, stabilized mid-quarter, and finished the quarter 4.07% weaker vs. the USD. DEM, FRF and CHF all weakened finishing the quarter 7.25% to 8.25% weaker vs. the USD. JPY also weakened steadily throughout the quarter, finishing 6.63% down against the USD.

Performance

The returns for this report reflect a benchmark revision from EAFE net dividends, to EAFE Free net dividends. This slightly changes the asset base for reporting purposes, but has no impact on the overlay revenues generated by Record. The EAFE Free net dividend index fell 1.63% for the quarter vs. a 1.95% decline for the EAFE net dividend index. This is the first full quarter for the fully implemented Record overlay program (12 Record hedges in place). The stronger USD generates two effects on the overlay program. First, as the USD strengthens, the hedge ratio on existing positions rises. Second, as profitable Record hedges mature, we replace them with new hedges at levels 2% out of the money. This replacing of in-the-money hedges with new out-of-the-money hedges reduces the hedge ratio. The combined impact of these factors has slightly reduced the hedge ratio from 66% to 58% of the hedgeable exposures.

Record (continued)

2. ***Current Market Values.*** *Show the value of each tranche in US dollars as of the end of the quarter.*

Tranche Date	JPY*	GBP*	DEM*	FRF*	CHF*
Apr. 10, 1997	2,913,979	0	938,288	496,464	1,097,461
Apr. 24	2,845,347	--	--	--	--
May 9	4,085,865	0	975,238	742,545	633,052
May 27	3,241,148	--	--	--	--
Jun. 10	3,113,030	0	969,240	313,230	1,112,535
Jun. 25	3,307,786	--	--	--	--
Jul. 09	3,027,679	0	754,093	310,248	1,046,823
Jul. 24	3,354,469	--	--	--	--
Aug. 11	3,531,193	0	1,070,848	845,548	1,291,882
Aug. 27	3,313,799	--	--	--	--
Sep. 10	3,203,716	0	904,429	847,253	1,232,979
Sep. 24	2,905,800	--	--	--	--
Oct. 9	1,971,457	0	383,654	447,459	1,037,488
Oct. 24	2,285,581	--	--	--	--
Nov. 12	2,043,365	(557,276)	950,771	711,657	1,036,710
Nov. 26	2,251,727	--	--	--	--
Dec. 10	2,194,276	(559,600)	727,484	609,803	668,631
Dec. 24	1,360,427	--	--	--	--
Jan. 09, 1998	1,121,082	(240,816)	567,293	470,373	380,466
Jan. 26	224,934	--	--	--	--
Feb. 09	0	(168,080)	(467,919)	(216,044)	(197,781)
Feb. 24	0	--	--	--	--
Mar. 09	(198,421)	0	0	0	0
Mar. 24	0	--	--	--	--
Total (Not discounted)	**52,098,237.88**	**(1,525,772.20)**	**7,773,419.03**	**5,578,536.04**	**9,340,245.90**

* *% returns are calculated from the total assets of SBI's EAFE index fund.*
Mark to market at actual cost of close out; i.e., using the forward rate to the position's value date.
Profit/(loss) since inception includes $34,566,577.36 of realized profit.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List currency overlay accounts gained or lost over the same time period.*

   There have been no personnel gains or losses.
   There have been no client gains or losses. The change in funds under management has come from existing programs.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None to report.

Staff Comments

No comments at this time.

Manager Commentary
GE Investment Management, Inc.
Assigned Risk Plan - Stocks

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$57.8 Billion	Actual	2.4%	18.2%
Total Firm Assets Managed in this Discipline	$11.0 Billion	Benchmark	2.6%	19.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The GE Multi-Style strategy returned 2.4% in the first quarter, compared to 2.6% for the S&P 500. During the quarter, market performance was driven by the very large capitalization companies. The top quintile of the S&P 500 in terms of market cap. rose 3.6% during the quarter while the other four quintiles all rose by less than the 2.6% increase achieved by the total index. During the quarter we were helped by our overweighting in several Capital Goods stocks, especially Textron, United Technologies and Allied Signal, all of which continue to show solid earnings gains. We also had good stock selection in the Consumer Stable area with PepsiCo, Abbott Labs and Bristol Myers making positive contributions. In the Energy sector our overweighting of the Oil Service group, particularly Schlumberger and Baker Hughes, made a positive contribution, but this was offset by the poor performance of Anadarko Petroleum and Burlington Resources in the Exploration area. We were also helped by the good performance of DuPont in the Basic Materials sector, and by our underweighting in the Utility sector due to our concern over the impact of deregulation.

   Technology was the sector where we suffered our greatest underperformance. Once again we were hurt by our underweighting in Microsoft, with the stock continuing to advance despite a PE ratio of more than double the S&P 500. We were also hurt by the decline in Reuters, First Data Corp and Equifax, three companies that continue to do well fundamentally. With Reuters there is the perception that currency will be a problem while in the case of First Data and Equifax rising consumer debt is the concern. In the Financial sector Federal National Mortgage Association, Loews and TIG Holdings all underperformed due to fear of rising interest rates despite their long term record of doing well in all interest rate environments. In the Consumer Cyclical sector NTL Inc. (formerly International Cabletel) and Circus Circus were hurt by the fear that fundamentals were deteriorating although we continue to believe that their prospects are positive. We were also hurt by earnings shortfalls in Scholastic and Harmon International.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   During the quarter we added to stable, growing companies such as ConAgra, Sara Lee, Ralston Purina, CPC International and Pitney Bowes, while reducing cyclical exposure in ABB, Emerson, Ingersol Rand and Eaton. We added to two growth names, RP Scherer and Watson Pharmaceutical, and also added to First Data Corp and Scholastic on weakness. We reduced holdings in ATT and MCI Corp. due to concerns about deregulation and competition, and we reduced holdings in WMX Technologies which has been a disappointment. We continue to believe that our focus on careful, fundamental analysis and bottom-up stock selection will add value over the long term. We believe that our approach, with its emphasis on high quality companies with good relative value, leaves the portfolio well positioned for what could be a very volatile period during the remainder of the year.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with GE during the quarter to discuss the organizational changes recently made. The retirement of John Kohlhepp reduced the number of value managers from three to two. At that time, they also repositioned the portfolio to eliminate the value bias. Staff does not believe that John Kohlhepp's retirement will be detrimental to GE's process.

They recently created a research department, headed by Dick Sanderson. Previously, analysts worked directly with the portfolio managers. This still largely occurs, but analysts are now encouraged to work with all of the portfolio managers. Analysts report directly to Dick now, who encourages their development as analysts. The "research department" is slowly defining itself and its objectives, without moving so quickly that normal functioning is upset. However, this department is not yet fully developed, and changes are still likely to occur. Staff will continue monitoring the research department's development to insure that these changes will not negatively impact GE's process.

Manager Commentary
Voyageur Asset Management
Assigned Risk Plan - Bonds

Period Ending:	3/31/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$ 8.7 Billion	Actual	0.3%	5.5%
Total Firm Assets Managed in this Discipline	$ 2.9 Billion	Benchmark	0.3%	5.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   There have been several adjustments to the portfolio during the past few months. Some one-year corporate holdings were sold and replaced with 18-month Treasuries to take advantage of the steep yield curve. The effect was a pick-up in yield, liquidity and improved credit quality. Allocation to the mortgage sector was also increased this quarter. Initially, 15-year Freddie Mac 6.5% and 30-year GNMA 8% coupons were purchased. Later in the quarter, the GNMA 8% position was sold and swapped into GNMA 7.5% 30-years. This trade captured the strong performance put in by GNMA 8%'s and added the "cheaper", more positively convex GNMA 7.5%'s. There were also a few selective trades in the asset backed arena. We took advantage of the tight spreads in this sector by selling some older positions and reinvesting the proceeds into newer, more liquid issues.

   The effective duration of your portfolio at quarter end was 3.25, slightly longer than the benchmark's effective duration of 3.09 (105%). Our goal, as always, is not to take excessive duration risk bets, but, rather, to try and add value through issue selection and sector allocation.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We believe that the mortgage sector of the market could be one of the best performing areas in 1997. In that vein, we remain overweighted at 32% mortgages versus the benchmark weighting of 25% and expect to maintain this position going forward. Since the beginning of the year, Salomon Brother's Mortgage Bond Index has returned .54% while Treasuries have lost .58%. Corporates have suffered slightly during the past month with spreads widening on the heels of the 25 basis point hike in the Fed Funds rate. We are cautious on corporate spreads and will look for opportunities to lighten SBI's corporate bond holdings.

   Looking forward, Voyageur's long-term favorable secular view of the fixed income market continues. Economic growth should start to slow down as the Fed tightens monetary policy and inflation remains remarkably subdued. Although the Fed may adjust rates higher by another 25 to 50 basis points over the next six months, we do not expect interest rates to rise significantly from these levels.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

   Accounts gained in this discipline:
   Total Tax-Exempt Clients and Assets Gained in 1st Quarter. 1 client/$45 million

   Accounts lost in this discipline:
   Tax-Exempt Clients: 1 Public pool/$47 million
   [Client decided to hire in-state (Oregon) investment manager]

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   As mentioned previously, Voyageur's parent, Dougherty Financial Group, Inc., has entered into an agreement to sell its retail mutual fund and unit investment trust businesses to Delaware Management Holdings, a subsidiary of Lincoln National Corporation. The transaction is expected to close April 30, subject to approval of Voyageur fund shareholders. Voyageur's institutional investment management business remains unaffected by this pending transaction, and Voyageur remains committed to the institutional investment management business. The retail mutual fund family being sold represents $2.7 billion in assets.

   This change will not affect the management of the SBI account. Jane Wyatt, Melissa Uppgren and Dorrie Marks will continue to be involved with the account, as will Ed Kohler and Jean Daleki.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Internal Stock Pool
Trust/Non-Retirement Assets

Period Ending;	**3/31/97**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$80.6 Million	Actual	2.8%	19.9%
Total Firm Assets Managed in this Discipline	$80.6 Million	Benchmark	2.6%	19.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   For the quarter, the index fund had positive tracking of 0.2% relative to the benchmark. For the year, it had a positive tracking error of 0.1%. The tracking error was due to slight weighting differences for each name in the portfolio compared to its weighting in the S&P 500.

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectation.*

   Staff will continue to examine the trade-offs between the tracking error caused by not holding a fully replicated portfolio and the trading costs to implement all index changes with limited cash flows.

Internal Stock Pool (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Internal Bond Portfolios

Period Ending:	**3/31/97**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$0.6 Billion	Actual	-0.2%	5.6%
Assets Managed in this Discipline	$0.6 Billion	Benchmark	-0.6%	4.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance, First Quarter '97

The above returns reflect the combined portfolios of the Environmental Trust Fund, the Income Share Account, and the Permanent School Fund. Collectively, the funds outperformed the index returns.

- A significant overweighting of mortgages added value to the portfolio. Mortgages outperformed the aggregate (0.13% vs. -0.56%).
- An underweighted corporate position generated positive excess return because corporates underperformed the aggregate (-1.00 vs. -0.56%).
- A slightly shorter duration increased performance as interest rates increased.
- Treasuries were underweighted in the portfolio and they underperformed the aggregate (-0.81% vs. -0.56%).

Performance for the Year

Collectively, the funds outperformed the index.

- An underweighted Treasury position and overweighted mortgage position generated almost all the excess return for the year.

Internal Bond Pool (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Yield Curve Strategy

   Given the uncertainty with interest rates and a reasonable probability that rates will increase the portfolio has a yield curve neutral to the benchmark and a slight negative duration bet (0.1 years).

   Corporate Strategy

   Corporate spreads are still tight and we will continue to underweighted them. We will look to selectively add corporates to the portfolio if spreads widen or potential credit rating upgrades are found.

   Mortgage Strategy

   We will remain overweighted in mortgages. With the increase in rates, mortgages still remain relatively attractive. However, when additions to the corporate sector are made in the future, most of the funding will come from the mortgage sector.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

None at this time.