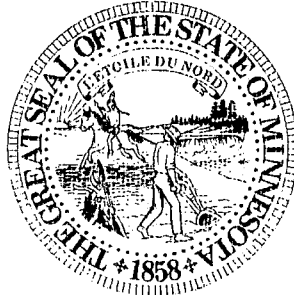

MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
June 11, 1998

&

INVESTMENT ADVISORY
COUNCIL MEETING
June 2, 1998



Governor Arne H. Carlson
State Auditor Judi Dutcher
State Treasurer Michael A. McGrath
Secretary of State Joan Anderson Growe
Attorney General Hubert H. Humphrey III

**AGENDA
STATE BOARD OF INVESTMENT
MEETING**

**Thursday, June 11, 1998
10:00 A.M. -Room 125
State Capitol - Saint Paul**

- | | |
|--|------------|
| | TAB |
| 1. Approval of Minutes of March 18, 1998 | |
| 2. Report from the Executive Director (H. Bicker) | |
| A. Quarterly Investment Review
(January 1, 1998 - March 31, 1998) | A |
| B. Administrative Report | B |
| 1. Reports on budget and travel | |
| 2. Update on litigation | |
| 3. Update on tobacco information | |
| 3. Report from the SBI Administrative Committee (M. McGrath) | C |
| A. Approval of Executive Director's Workplan for FY99 | |
| B. Approval of Budget Plan for FY98 | |
| C. Approval of Continuing Fiduciary Education Plan | |
| D. Approval of process for Executive Director's Evaluation for FY98 | |
| 4. Reports from the Investment Advisory Council (J. Yeomans) | |
| A. Domestic Manager Committee | D |
| 1. Review of manager performance | |
| 2. Review of the annual benchmark quality evaluation | |
| 3. Review of manager investment guidelines | |
| 4. Meeting with American Express Asset Management | |
| 5. Recommendation to remove Voyageur Asset Management from
watch status | |
| 6. Recommendation to renew the contract of GE Investment | |
| B. International Manager Committee | E |
| 1. Review of manager performance | |
| 2. Review of international manager short list | |
| 3. Review of updated investment guidelines | |
| C. Alternative Investment Committee | F |
| 1. Review of current strategy | |
| 2. Approval of new commitments for the Basic Retirement Funds: | |
| • Richard C. Blum & Associates | |
| • Welsh, Carson, Anderson & Stowe | |
| • The Banc Funds Company | |
| 3. Approval of a new commitment for the Post Retirement Fund: | |
| • Merit Energy Partners | |
| 5. Report from the Deferred Compensation Review Committee (P. Sausen) | G |

**Minutes
State Board of Investment
March 18, 1998**

The State Board of Investment (SBI) met at 8:30 A.M. Wednesday, March 18, 1998 in Room 125 State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson; State Auditor Judith H. Dutcher; State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe, and Attorney General Hubert H. Humphrey III were present. The minutes of the December 12, 1997 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending December 31, 1997 (Combined Funds 13.8% vs. Inflation 3.4%), exceeded the median fund (31st percentile) and outperformed its composite index (Combined Funds 14.5% vs. Composite 14.0%) for the most recent five year period. He stated that the Basic Funds had exceeded its composite index (Basics 14.9% vs. Composite 14.5%) over the last five years and reported that the Post Fund had outperformed its composite index for the period since July 1, 1993 (Post Fund 14.0% vs. composite 13.3%). Mr. Bicker noted that the actuarial valuations had been updated and that several retirement plans have already reached their fully funded status.

Mr. Bicker reported that the Basic Funds' assets increased 1.4% for the quarter ending December 31, 1997 due to positive investment returns. He said that staff is in the process of rebalancing the asset mix and that the Funds outperformed its composite index for the quarter (Basics 1.7% vs. Composite 1.3%) and for the year (Basics 22.6% vs. Composite 21.0%).

Mr. Bicker reported that the Post Fund's assets increased 0.4% for the quarter ending December 31, 1997 due to positive investment returns. He said that the Post asset mix is also being rebalanced and that the Fund had outperformed its composite index for the quarter (Post 0.9% vs Composite 0.5%) and for the year (Post 20.3% vs. Composite 18.5%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 2.4% vs. Wilshire 5000 1.7%) and for the year (Domestic Stocks 32.3% vs. Wilshire 5000 31.3%). He said that the international stock manager group outperformed for the quarter (International Stocks -8.9% vs. Int'l. Composite -9.1%) and for the year (International Stocks 4.3% vs. Int'l. Composite -0.1%). He added that the bond segment slightly underperformed for the quarter (Bonds 2.8% vs. Lehman Aggregate 2.9%) but had outperformed for the year (Bonds 10.2% vs. Lehman Aggregate 9.7%). He concluded his report with the comment that as of December 31, 1997 the SBI was responsible for over \$40 billion in assets.

In response to a question about the actuarial valuations from Mr. Humphrey, Mr. Bicker explained that the actuarial assumption of 8.5% that the State of Minnesota uses is pretty standard and that it may even be slightly on the aggressive side. He said that the investment markets have been significantly stronger than would normally be expected for the last 15 years and that strong returns during that extended period played a large part in expediting the funding levels of some of the plans. Mr. Carlson voiced concern over potential liabilities associated with other local pension plans and asked Mr. Bicker to include additional data on those local plans in future reports. Mr. Bicker noted that recent legislation addresses additional funding for local plans to achieve a fully funded status by 2000 and also pension plan uniformity.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for current budget and travel reports. He stated that the Office of the Legislative Auditor has completed its audit of the SBI for fiscal year 1997 and that the SBI received a "clean opinion" on its financial statements.

Mr. Bicker distributed an updated version of the legislative update to members and briefly reviewed a number of bills that relate to the SBI (see **Attachment A**).

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation concerning Mercury Finance Corporation. Ms. Eller stated that settlement negotiations with the company and its directors had broken off. She said that informal discovery is taking place to try to evaluate the basis for settlement. She added that a parallel state action is scheduled in early April and that the SBI is going to move to intervene and ask for the state action to be stayed pending the results of the Federal action.

Mr. Bicker referred members to the meeting materials in his Administrative Report for an update on tobacco information. He stated that staff had just received an updated tobacco report from the Investors Responsibility Research Center (IRRC) and that staff expects to have updated tobacco information for the June 1998 Board meeting. Mr. Bicker reminded members of the current policy whereby the SBI's managers notify the Board if they purchase shares in any tobacco related company that derives more than 50% of its revenue from tobacco. Mr. Carlson noted the Board's nervousness.

Mr. Bicker distributed to members an amendment to the State's Deferred Compensation Plan (see **Attachment B**). Ms. Eller stated that it is a technical amendment to bring the contract into conformance with Federal law. She noted that the group annuity contract for Great-West will be revised to place the employees' assets in a trust rather than having it be employer owned. Ms. Dutcher moved approval of the amendment, as stated in Attachment B. Mr. Humphrey seconded the motion. The motion passed.

Mr. Bicker gave a brief update on the progress of the bidding of contracts for the State's 457 Deferred Compensation Plan. He said that Requests for Proposals (RFP's) had been sent out by the SBI for investment products and by the Minnesota State Retirement System (MSRS) for recordkeeping and also for a service provider. He said that a

Deferred Compensation Review Committee has been formed to review the responses and make a recommendation to the Board at its June 1998 meeting. In response to a question from Mr. Carlson, Mr. Bicker clarified that the Committee will only be reviewing the proposals submitted by investment product providers and that MSRS will have a separate committee to review the recordkeeping and service provider proposals. He added that the Board would also have representatives participate in the MSRS review process since by law the SBI must also approve those contracts. In response to further questions from Mr. Carlson, Mr. Bicker confirmed that Peter Sausen is the Chair of the SBI's Deferred Compensation Review Committee. Mr. Carlson stated that he believes the Board should be involved in the whole decision-making process on for the entire deferred compensation package. Mr. Bicker reminded members that the Deferred Compensation Review Committee is made up of representatives of each Board member along with Investment Advisory Council members. Mr. Humphrey supported Mr. Carlson's statement that the board should be involved in the entire process. Mr. Bicker stated that the board would have the opportunity to review and accept MSRS's recommendations for recordkeeping and service provider vendors.

Mr. Michael Ravnitzky asked permission to address the Board. He stated that he would like the Board to more closely scrutinize the amount of revenue tobacco related companies obtain from tobacco products and use more up-to-date data in its analysis. Mr. Bicker confirmed that the updated data had just become available and that staff intends to update the information for the June 1998 Board meeting. Mr. Ravnitzky voiced his concern that the recent release of tobacco documentation could make tobacco investments more vulnerable and he asked that the Board take a closer look at the SBI's tobacco investments. Mr. Carlson stated that the Board is continuing to monitor the situation and he suggested that Mr. Ravnitzky also present his information and concerns to his own college pension officials for their consideration. He added that the assets the SBI manages are largely pension assets that are governed by laws of fiduciary responsibility. In response to a question from Mr. Ravnitzky pertaining to percentages of revenue derived from sales of tobacco, Mr. Carlson suggested that Mr. Ravnitzky meet privately with staff if he wished to address additional questions.

Master Custodian Review Committee

Mr. Sausen referred members to Tab C of the meeting materials and stated that the SBI's contract for master custody services expires on September 30, 1998. He said that staff had distributed Requests for Proposals (RFP's) and had received responses from six vendors. He stated that based on quality of service, low fees and higher level of indemnification, the Committee is recommending that State Street Bank and Trust should remain the SBI's custodian. Mr. Sausen noted that the contract dates had been revised to begin on May 1, 1998 and end on April 30, 2003. Ms. Grove moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI counsel, to negotiate and execute a contract with State Street Bank and Trust Company, Boston MA, for Master Custodial services for a five year period ending September 30, 2003.

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 State Street Bank and Trust Company 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 State Street Bank and Trust or reduction or termination of the commitment.” The motion passed.

Accounting System Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that an RFP was also issued for accounting services. He noted that three responses were received and that based on its review of the responses, the Committee is recommending that Financial Controls System, the SBI’s current vendor, should continue to provide the SBI’s accounting services. In response to a question from Mr. Humphrey, Ms. Eller stated that the SBI had received year 2000 warranty compliance from all of the responding vendors. Ms. Eller noted that the contracts for State Street and Financial Controls both contain the compliance language. Mr. Bicker added that staff is preparing to do a full Year 2000 compliance check for all managers used by the SBI during the next fiscal year. Mr. McGrath moved approval of the Committee’s recommendation, as stated in the Committee Report, which reads: “Based on the results of the RFP, the Committee unanimously recommends that the Board authorize the Executive Director, with the assistance of SBI counsel, to negotiate and execute a contract with Financial Controls System, Chadds Ford PA, for Accounting services for a five-year period ending June 30, 2003.

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 Financial Controls System 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 Financial Controls System or reduction or termination of the commitment.” Mr. Humphrey seconded the motion. The motion passed.

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and briefly reviewed the performance of the domestic stock and bond managers. She said that during the quarter staff and the Committee had reviewed Weiss Peck and Greer due to the departure of the portfolio manager for the SBI’s account. She said that staff is comfortable with the new portfolio manager and his management style and that the Committee is recommending that the firm be removed from the watch list. Ms. Growe moved approval of the Committees’ recommendation. The motion passed. Ms. Yeomans added that Investment Adviser’s had also been reviewed due to recent staff turnover. She reported

that the regional product that the SBI invests in has not been affected and that no action is required at this time.

Ms. Yeomans stated that the Committee is recommending that Independence Investment Associates be terminated in order to facilitate rebalancing needs. She said that their performance has lagged consistently over time. Mr. Bicker noted that the firm's style of management is more like a semi-passive manager and not an active manager. In response to questions from Ms. Growe, Mr. Bicker reviewed the SBI's rebalancing policy and noted that additional funds would be withdrawn from American Express and Forstmann Leff to fund the remainder of the rebalancing. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Domestic Manager Committee recommends that Independence Investment Associates be terminated and that the assets in the portfolio should be liquidated and used to complete the Combined Funds rebalancing." The motion passed.

International Manager Committee Meeting

Ms. Yeomans referred members to Tab F of the meeting materials and briefly reviewed the international managers' performance. She noted that during the quarter, staff and the Committee had reviewed Marathon's performance. She noted that the firm is more of a mid-cap value manager and that comparing their performance to EAFE may not be appropriate. She said that Richards & Tierney is working to develop a composite benchmark for Marathon to aid in evaluating their performance and that no action is needed at this time.

Ms. Yeomans stated that approximately \$400 million will be added to the international equity program as part of the rebalancing program. In response to questions from Mr. Carlson, Ms. Yeomans stated that the unification of the European currencies is expected to boost corporate profits in Europe. Mr. Carlson noted his concerns about economic conditions in Japan and Asia spreading to the European markets and he questioned the timing of the rebalancing. Mr. Bicker reminded members that the SBI has long-term asset allocation targets and a rebalancing policy. He said that the rebalancing is necessary now because the domestic stock market has significantly outperformed the fixed income and international markets and that the rebalancing will bring the SBI back to its original long-term asset allocation targets. Ms. Dutcher moved approval of the rebalancing and the motion passed, however, a motion was not needed because the Committee's recommendation had been approved earlier by the Board during the Domestic Manager Committee Report.

Ms. Yeomans stated that the Committee is recommending that Scudder be removed from the SBI's watch list. She said that Scudder's sale to the Zurich Group was completed and that the original staff and investment process remains intact and that the Committee has no concerns at this time. Ms. Growe moved approval of the Committee's recommendation as stated in the Committee Report, which reads: "In accordance with the SBI Manager Continuation Policy, the Committee recommends that the SBI remove Scudder from the watch list." The motion passed.

Ms. Yeomans stated that the Committee is recommending that the Board adopt the revised "Statement of Existing Philosophy on Currency Management" and she referred members to page 13 of the Committee Report for more information. She said that the recommendation is to reduce currency management in the international program from 100% to a target of 75% of the international program. She added that the active managers would continue to be responsible for their own currency exposure and that the size of the currency overlay program on the EAFE-Free Index Fund would be reduced. In response to a question from Mr. Humphrey, Ms. Yeomans confirmed that the SBI is increasing its international assets and asking that the currency hedge be reduced. She added that the reduced currency overlay program is being proposed to decrease the volatility of returns from currencies while still leaving potential for value to be added. In response to questions from Mr. McGrath, Ms. Yeomans stated that 75% was a level that everyone felt comfortable with and that if the SBI moved to a 50% level it would mean that the entire currency overlay program would need to be eliminated since 50% of the international segment is actively managed with the managers hedging their own currencies. Mr. Bicker reminded members that to date, the currency overlay program has been successful. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI adopt the revised "Statement of Existing Philosophy on Currency Management." The motion passed.

Alternative Investment Committee Meeting

Ms. Yeomans referred members to Tab G of the meeting materials and stated that the Committee is recommending six investments for the Basic Retirement Funds: four with existing private equity managers (Coral Partners, Warburg Pincus, Thoma Cressey and Golder Rauner), one with a new private equity manager (Fox Paine) and one with an existing resource manager (First Reserve). In response to questions from Mr. Carlson, she briefly explained each funds' strategy. Mr. McGrath moved approval of all six of the Committee's recommendations, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$20 million or 20%, whichever is less, in Coral Partners Fund V. This commitment will be allocated to the Basic Retirement Fund.

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

"The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to

\$100 million or 20%, whichever is less, in Warburg Pincus Equity Partners. 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 Warburg Pincus 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 Warburg Pincus or reduction or termination of the commitment.”

“The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of up to \$40 million or 20%, whichever is less, in Thoma Cressey Fund VI. 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 Thoma Cressey upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Thoma Cressey or reduction or termination of the commitment.”

“The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in GTCR Golder Rauner Fund VI. 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 Golder Rauner 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 Golder Rauner or reduction or termination of the commitment.”

“The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of up to \$40 million or 20%, whichever is less, in Fox Paine Capital Fund. 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 Fox Paine 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 Fox Paine or reduction or termination of the commitment.”

“The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI’s legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in First Reserve Fund VIII. 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 First Reserve 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 First Reserve or reduction or termination of the commitment.” The motion passed.

The meeting adjourned at 9:30 A.M.

Respectfully submitted,

A handwritten signature in cursive script, reading "Howard J. Bicker".

Howard J. Bicker
Executive Director

**Bills of Interest to the Minnesota State Board of Investment
1998 Legislative Session
Includes Action Through 3/16/98**

Description of Bill	HF/SF # and Author	Current Status
Abolish Office of State Treasurer	HF 2355 (Greiling)	In House Rules Committee
	SF 161 (Wiener)	On General Orders
Omnibus Pension bill -Contains provision to eliminate the SIF asset base charge	HF (2970) Kahn	House Ways & Means Passed 3/16; referred to Rules On Senate General Orders
Changing Environmental Trust Fund and Permanent School Fund to endowment fund status -Constitutional amendment to allow percent of fund distributions	HF 1883 (Kahn)	Environment and Natural Resources Committee laid over Amended onto SF 2775 in Senate Rules 3/11
Establish Children's Endowment Fund in Constitution -SBI would manage assets	HF 3167 (Slawik) SF 2775 (Hottinger)	House Ways and Means Passed 3/16; referred to Rules On General Orders
SBI sell portion of tobacco stocks -assets must be invested in MN technology Equity Fund	HF 2453 (Trimble) SF 2706 (Bechmann)	House Gov't Op approved and referred to State Gov't Finance Division No Hearing in Senate
SBI may not purchase additional shares of stock in tobacco companies	HF (2924) Luther SF (2680) Hottinger	No hearing by 2/13 No hearing by 2/13

AMENDMENT NO. 2 TO GROUP POLICY 88300-01

WHEREAS, Great-West Life & Annuity Insurance Company (herein called the "Insurance Company") and the State Board of Investment (herein called "SBI" or "Group Policyholder") and the Minnesota State Retirement System (herein called "MSRS" or "Group Policyholder") on behalf of the State of Minnesota and all employees participating in the State of Minnesota Deferred Compensation Plan, and all participants in the State of Minnesota Deferred Compensation Plan, agree that Group Policy No. 88300-01 together with the Letter Agreement (together collectively the "Group Annuity Contract") be amended to comply with changes required by the Small Business Job Protection Act of 1996.

WHEREAS, pursuant to Minn. Stat. § 352.96, subd. 2 (1997 Supp.) and rules promulgated thereto by MSRS all amounts contributed to the State of Minnesota Deferred Compensation Plan and all earnings are held for the exclusive benefit of plan participants and beneficiaries in trust, in custodial accounts or in qualifying annuity contracts;

WHEREAS, the Minnesota State Retirement System approved such an amendment; and

WHEREAS, the State Board of Investment approved such an amendment.

NOW, THEREFORE, it is agreed by and between the parties hereto that the Group Annuity Contract be amended in accordance in the terms of Amendment No. 1-96C attached to and forming a part of the Group Deferred Compensation Annuity Contract which is attached hereto and incorporated by reference herein.

IN WITNESS WHEREOF, the parties have, by their duly authorized officers or representatives, executed this Amendment, intending to be bound thereby.

STATE BOARD OF INVESTMENT

By _____

Name _____

Title _____

MINNESOTA STATE RETIREMENT SYSTEM

By _____

Name _____

Title _____

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

By _____

Name _____

Title _____

By _____

Name _____

Title _____

APPROVED AS TO FORM AND EXECUTION BY THE OFFICE OF THE ATTORNEY GENERAL:

By _____

Name _____

Title _____

DEPARTMENT OF ADMINISTRATION

By _____

Name _____

Title _____

As to encumbrance

By _____

Name _____

Title _____

**AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING**

**Tuesday, June 2, 1998
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul**

- | | |
|---|---|
| <p>1. Approval of Minutes of March 18, 1998</p> | TAB |
| <p>2. Report from the Executive Director (H. Bicker)</p> <p>A. Quarterly Investment Review
(January 1, 1998 - March 31, 1998)</p> <p>B. Administrative Report</p> <ul style="list-style-type: none">1. Reports on budget and travel2. Update on litigation3. Update on tobacco information | <p>A</p> <p>B</p> |
| <p>3. Report from the SBI Administrative Committee</p> <p>A. Approval of Executive Director's Workplan for FY99</p> <p>B. Approval of Budget Plan for FY98</p> <p>C. Approval of Continuing Fiduciary Education Plan</p> <p>D. Approval of process for Executive Director's Evaluation for FY98</p> | <p>C</p> |
| <p>4. Reports from the Investment Advisory Council</p> <p>A. Domestic Manager Committee (J. Bohan)</p> <ul style="list-style-type: none">1. Review of manager performance2. Review of the annual benchmark quality evaluation3. Review of manager investment guidelines4. Meeting with American Express Asset Management5. Recommendation to remove Voyageur Asset Management from watch status6. Recommendation to renew the contract of GE Investment <p>B. International Manager Committee (J. Mares)</p> <ul style="list-style-type: none">1. Review of manager performance2. Review of international manager short list3. Review of updated investment guidelines <p>C. Alternative Investment Committee (K. Gudorf)</p> <ul style="list-style-type: none">1. Review of current strategy2. Approval of new commitments for the Basic Retirement Funds:<ul style="list-style-type: none">• Richard C. Blum & Associates• Welsh, Carson, Anderson & Stowe• The Banc Funds Company3. Approval of a new commitment for the Post Retirement Fund:<ul style="list-style-type: none">• Merit Energy Partners | <p>D</p> <p>E</p> <p>F</p> |
| <p>5. Report from the Deferred Compensation Review Committee (P. Sausen)</p> | <p>G</p> |

**Minutes
Investment Advisory Council
March 3, 1998**

MEMBERS PRESENT: Gary Austin; Dave Bergstrom; Roger Durbahn; Ken Gudorf; P. Jay Kiedrowski; Han Chin Liu; Judy Mares; Malcolm McDonald; Bob McFarlin; Gary Norstrom; Daralyn Peifer; Mike Troutman and Mary Vanek.

MEMBERS ABSENT: John Bohan; Doug Gorence; Wayne Simoneau and Jan Yeomans.

SBI STAFF: Howard Bicker; Mansco Perry; Jim Heidelberg; Sheila Berube; Lois Buermann; Debbie Griebenow; Kristine Hanson; Mark Regal; Karen Vnuk and Carol Nelson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Carey Moe; Peter Sausen; Bob Heimerl, Lloyd Belford, REAM; and Carl Simmons.

Mr. McDonald called the meeting to order and welcomed Mr. Troutman back as a member of the IAC. The minutes of the December 2, 1997 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, 1997 (Combined Funds 13.8% vs. Inflation 3.4%), exceeded the median fund (31st percentile) and outperformed its composite index (Combined Funds 14.5% vs. Composite 14.0%) for the most recent five year period. He stated that the Basic Funds had exceeded its composite index (Basics 14.9% vs. Composite 14.5%) over the last five years and reported that the Post Fund had outperformed its composite index for the period since July 1, 1993 (Post Fund 14.0% vs. Composite 13.3%). Mr. Kiedrowski noted that the funds have performed very well over the long-term.

Mr. Bicker briefly reviewed the actuarial valuation data, noting that the data had been updated as of July 1, 1997. He said that generally speaking, the retirement systems are very well funded, due in part to the very strong stock market performance over the last several years.

Mr. Bicker reported that the Basic Funds' assets increased 1.4% for the quarter ending December 31, 1997 due to positive investment returns. He said that the Basic Funds need to be rebalanced and he said more discussion about that will take place in the Committee Reports. He reported that the Funds outperformed its composite index for the quarter

(Basics 1.7% Composite 1.3%) and for the year (Basics 22.6% vs. Composite 21.0%). Mr. Bicker reported that the Post Fund's assets increased 0.4% for the quarter ending December 31, 1997 due to positive investment returns. He said that the rebalancing of the Post asset mix will also be discussed later and he said that the Fund had outperformed its composite index for the quarter (Post 0.9% vs. Composite 0.5%) and for the year (Post 20.3% vs. Composite 18.5%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 2.4% vs. Wilshire 5000 1.7%) and for the year (Domestic Stocks 32.3% vs. Wilshire 5000 31.3%). He said that the international stock manager group outperformed for the quarter (International Stocks -8.9% vs. Int'l Composite -9.1%) and for the year (International Stocks 4.3% vs. Int'l. Composite -0.1%). He added that the bond segment slightly underperformed for the quarter (Bonds 2.8% vs. Lehman Aggregate 2.9%) but had outperformed for the year (Bonds 10.2% vs. Lehman Aggregate 9.7%).

He concluded his report with the comment that as of December 31, 1997 the SBI was responsible for over \$40 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the current budget and travel reports. Mr. Bicker reported that the SBI had received a "clean audit opinion" from the Office of the Legislative Auditor for the most recent fiscal year.

Mr. Bicker referred members to page 23 of his report for an update on the status of pending legislation that is of interest to the SBI. He noted that staff is monitoring the bill to abolish the office of the State Treasurer because it could affect the composition of the SBI's Board. He said that the Omnibus Pension bill contains a technical provision that would eliminate the Supplemental Investment Fund Asset-based charge. Mr. Bicker noted that the bill to change the Environmental Trust Fund and Permanent School Fund to an endowment fund status may be merged into the bill to establish a Children's Endowment Fund. He reported that there had not been much action on two bills relating to tobacco investments.

Ms. Eller of the Attorney General's Office gave members a brief update on the status of the class action lawsuit against Mercury Finance Corporation. She stated that settlement negotiations had stalled and likely would be terminated.

Mr. Bicker concluded his report by stating that an update on tobacco information was included in his report.

Master Custody Review Committee

Mr. Sausen referred members to Tab C of the meeting materials for details on the process the Committee had used to recommend the candidate for master custodian. He said that the Committee is recommending that the SBI enter into a five year contract with State Street Bank and Trust, the SBI's current custodian. Mr. Norstrom moved approval of the

Committee's recommendation as stated in the Committee Report. Mr. Durbahn seconded the motion. The motion passed. Mr. Kiedrowski requested that the minutes reflect his abstention on the vote.

Accounting System Review Committee

Mr. Sausen referred members to Tab D of the meeting materials and stated that an RFP was issued for accounting services. He noted that three responses were received and that based on its review of the responses, the Committee is recommending that Financial Controls System, the SBI's current vendor, should continue to provide the SBI's accounting services. Mr. Durbahn moved approval of the Committee's recommendation, as stated in the Committee Report. The motion was seconded. The motion passed.

Domestic Manager Committee Report

Mr. Bergstrom referred members to Tab E of the meeting materials and reviewed the performance of several of the domestic stock and bond managers. He said that during the quarter, staff and the Committee had reviewed Weiss Peck and Greer due to the departure of the portfolio manager for the SBI's account. He said that staff is comfortable with the new portfolio manager and his management style and that the Committee will continue to monitor the transition. He said that no action is needed at this time. Mr. Bergstrom added that Investment Advisers had also been reviewed due to recent staff turnover. He reported that staff and the Committee will continue to monitor their performance and that no action is required at this time.

Mr. Bergstrom reviewed the rebalancing activity that had occurred earlier during the quarter and stated that the Committee is recommending that Independence Investment Associates be terminated to further facilitate the rebalancing needs. He said that their performance has lagged consistently over time and that the firms' style of management is more like a semi-passive manager and not an active manager. Mr. Bergstrom moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Norstrom seconded the motion. The motion passed.

International Manager Committee Meeting

Ms. Mares referred members to Tab F of the meeting materials and briefly reviewed the international managers' performance. She noted that during the quarter, staff and the Committee had reviewed Marathon's performance. She noted that the firm is more of a mid-cap value manager and that comparing their performance to EAFE may not be appropriate. In response to questions from Mr. McDonald, she said that staff wishes to continue working to develop a composite benchmark for Marathon which will aid in evaluating their performance. Ms. Posey briefly explained the process Richards & Tierney has followed as they evaluated Marathon's benchmark. She noted that Marathon appears to be adding value through stock selection and not through regional or country bets. Mr. Bicker added that the benchmark analysis has been very helpful and that staff believes that further analysis is needed before taking any formal action.

Ms. Mares reviewed the rebalancing activity that had taken place during the quarter. She noted that Rowe Price Fleming had been allocated an additional \$140 million in order to

take advantage of a fee break which will result in substantial savings on fees paid to Rowe Price. Mr. Bicker added that the remaining rebalancing activity will be done, assuming that the Board concurs with the recommendation to terminate Independence. Ms. Mares stated that the Committee is recommending that Scudder be removed from the SBI's watch list. She said that staff has followed the changes that have taken place since the firm was purchased and that there are no concerns about the firm's staff or its investment process at this time. Ms. Mares moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.


Ms. Mares began the discussion regarding the revised statement of existing philosophy on currency management by thanking the Committee members for their continued hard work. She stated that the lessons learned during the last few years are that value was added and that currency management produces volatile results. She said that the revised philosophy recommendation reduces the level of currency management in the international program from 100% to a target of 75% of the entire program. She added that the active managers would retain their control over their own currency management and that the currency overlay program on the EAFE-Free Index Fund would be reduced to 50% of the portfolio. Mr. Bicker stated that when the SBI hired Record Treasury Management, it was basically the same as hiring another active manager. He said that staff and the Committee are uncomfortable with the fact that the performance of the currency overlay manager could overwhelm the performance of the entire international program under the current structure. He said that he believes the revised structure will allow value to be added while also constraining the level of volatility. Ms. Mares moved approval of the Committee's recommendation to adopt the revised "Statement of Existing Philosophy on Currency Management," as stated in the Committee Report. Mr. Han Chin Liu seconded the motion. In response to questions from Mr. Gudorf, Mr. Bicker stated that staff believes that the revised structure is a good compromise position. Ms. Mares noted that staff and the Committee had discussed and still believe that Record Treasury has the ability to continue to add value through the currency overlay program. Mr. Kiedrowski added that originally, currency management was looked at as a way to dampen volatility and that through this learning process many members believe that currencies should be viewed as another asset class. Ms. Posey reminded members that the currency overlay program is different from regular actively managed portfolios in that the market value of the account is the result of the profit or loss of the forwards that the manager purchases. She added that the U.S. dollar must continue to strengthen versus other currencies in order for the account to remain positive or grow in size. In response to questions from Mr. Kiedrowski, Ms. Posey said that diversification of the international asset class could be reduced from a total asset allocation viewpoint. In response to questions from Mr. Troutman, Mr. Bicker confirmed that the currency overlay manager uses an unhedged benchmark and is not allowed to short positions. The motion made earlier by Ms. Mares passed.

Alternative Investment Committee Meeting

Mr. Gudorf referred members to Tab G of the meeting materials and stated that the Committee is recommending six investments for the Basic Retirement Funds: four with

existing private equity managers (Coral Partners, Warburg Pincus, Thoma Cressey and Golder Rauner), one with a new private equity manager (Fox Paine) and one with an existing resource manager (First Reserve). He briefly reviewed each of the investments and moved approval of the six Committee recommendations, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.
The meeting adjourned at 3:00 P.M.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Howard Bicker".

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES
Period Ending 3/31/98

COMBINED FUNDS: \$35.3 Billion	Result	Compared to Objective
<p>Provide Real Return (10 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.</p>	14.2% (1)	10.8 percentage points above CPI
<p>Exceed Composite Index (5 yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.</p>	15.5% (1)	0.5 percentage point above composite index
<p>Exceed Median Fund (5 yr.)</p> <p>Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.</p>	30th percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: \$18.7 Billion	Result	Compared to Objective
<p>Exceed Composite Index (5 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.</p>	15.9%	0.4 percentage point above target

POST RETIREMENT FUND: \$16.6 Billion	Result	Compared to Objective
<p>Exceed Composite Index</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.</p>	15.4% (3)	0.7 percentage point above target (3)

- (1) Reflects performance of Basic Funds only through 6/30/93, Combined Funds thereafter. Performance is calculated net of fees.
- (2) The SBI's stated objective is to rank in the top half (above 50th percentile) of the comparative universe. The SBI will strive to achieve performance which ranks in the top third (above 33rd percentile). Performance is ranked gross of fees.
- (3) Since asset allocation transition to 50% domestic stocks was completed, 7/1/93, annualized.

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1997

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

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

The funding ratio required by **Governmental Standard Accounting Board Statement No. 5** compares Cost Value of assets to the Current Benefit Obligation. This calculation provides funded ratios of **103%** for the Basics, **100%** for the Post and **102%** for the Total, respectively.

Notes:

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

Actuarial Assumptions:

Salary Growth: 6.5%

Interest/Discount Rate: 8.5% Basics, 6.0% Post

Full Funding Target Date: 2020

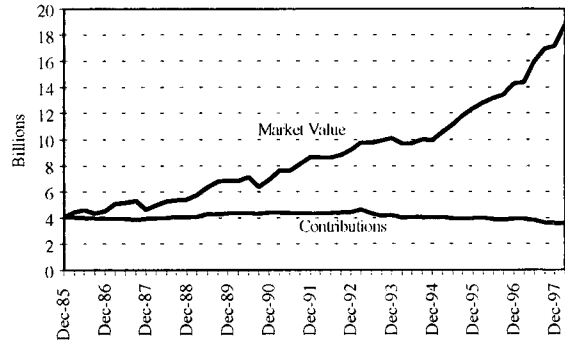
EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 9.2% during the first quarter of 1998. Positive investment returns accounted for the rise.

Asset Growth
During First Quarter 1998
(Millions)

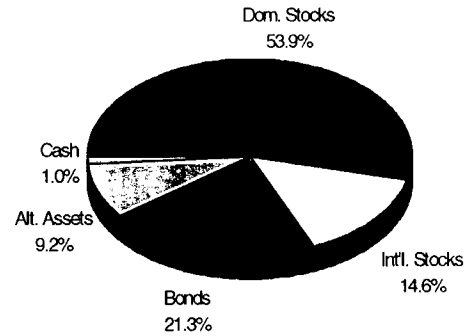
Beginning Value	\$ 17,146
Net Contributions	-21
Investment Return	1,590
Ending Value	\$ 18,715



Asset Mix

During the quarter, the allocation to domestic and international stocks increased reflecting strong domestic and foreign equity markets. The cash allocation increased reflecting an asset rebalancing.

	Policy Targets	Actual Mix 3/31/98	Actual Market Value (Millions)
Domestic Stocks	45.0%	53.9%	\$10,082
Int'l. Stocks	15.0	14.6	2,740
Bonds	24.0	21.3	3,984
Alternative Assets*	15.0	9.2	1,729
Unallocated Cash	1.0	1.0	180
	100.0%	100.0%	\$18,715

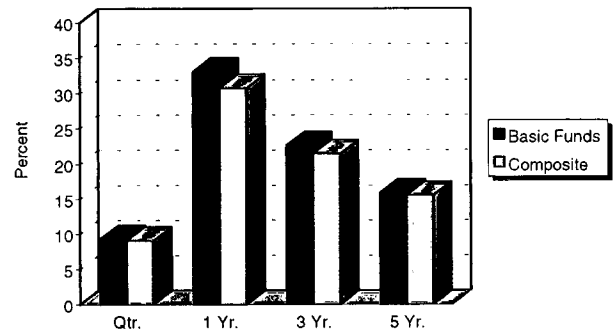


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	9.3%	33.0%	22.6%	15.9%
Composite	9.1	30.7	21.4	15.5



EXECUTIVE SUMMARY

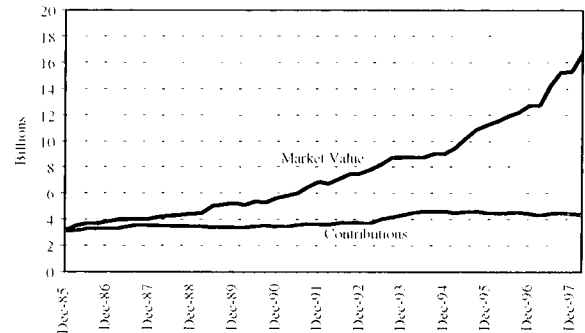
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 8.8% during the first quarter of 1998. The rise was due to positive investment returns.

Asset Growth During First Quarter 1998 (Millions)

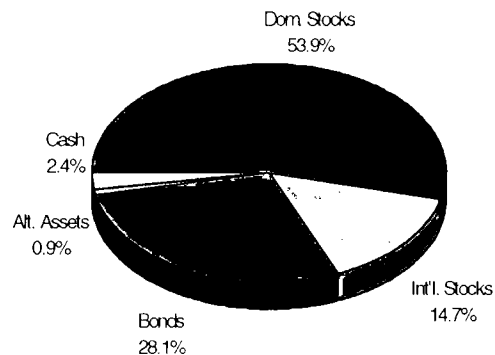
Beginning Value	\$15,273
Net Contributions	-96
Investment Return	1,433
Ending Value	\$16,610



Asset Mix

During the quarter, the allocation to international stocks increased reflecting strong foreign equity markets. The cash allocation increased reflecting an asset rebalancing.

	Policy Targets	Actual Mix 3/31/98	Actual Market Value (Millions)
Domestic Stocks	50.0%	53.9%	\$8,942
Int'l. Stocks	15.0	14.7	2,448
Bonds	27.0	28.1	4,662
Alternative Assets*	5.0	0.9	153
Unallocated Cash	3.0	2.4	405
	100.0%	100.0%	\$16,610



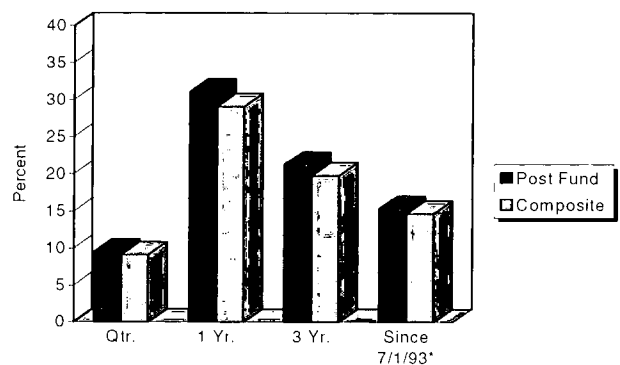
* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

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

	Qtr.	1 Yr.	3 Yr.	Since 7/1/93*
Post	9.5%	31.1%	21.3%	15.4%
Composite	9.1	29.1	19.8	14.7

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



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

Domestic Stocks

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	13.4%	49.3%	31.6%	21.1%
Wilshire 5000*	13.3	47.7	31.1	21.2

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Int'l. Stocks	12.9%	15.4%	13.5%	13.2%
Composite Index*	13.7	13.9	9.4	11.3

* 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	1.8%	12.7%	9.8%	7.5%
Lehman Agg.*	1.6	12.0	9.2	7.0

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

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

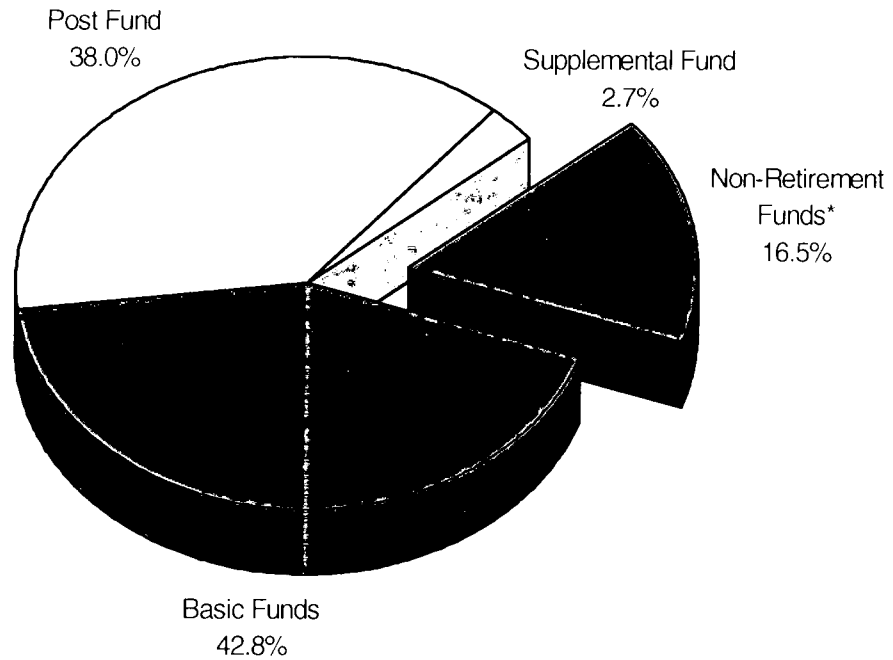
Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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

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

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

EXECUTIVE SUMMARY
Funds Under Management



**3/31/98
 Market Value
 (Billions)**

Retirement Funds	
Basic Retirement Funds	\$18.7
Post Retirement Fund	16.6
Supplemental Investment Fund	1.2
Non Retirement Funds*	
Assigned Risk Plan	0.7
Permanent School Fund	0.5
Environmental Trust Fund	0.2
State Cash Accounts	5.8
Total	\$43.7

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

First Quarter 1998
(January 1, 1998 - March 31, 1998)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 3/31/98				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	13.3%	47.7%	31.1%	21.3%	18.1%
Dow Jones Industrials	11.7	36.0	31.1	23.6	19.5
S&P 500	14.0	48.1	32.9	22.5	18.9
Russell 2000	10.1	42.0	24.4	17.7	14.8
Domestic Fixed Income					
Lehman Aggregate*	1.6	12.0	9.2	6.9	8.9
Lehman Gov't./Corp.	1.5	12.4	9.2	7.0	8.9
90 Day U.S. Treasury Bills	1.3	5.3	5.4	4.8	5.7
International					
EAFE**	14.7	18.6	10.6	11.9	6.2
Emerging Markets Free***	6.2	-13.4	2.5	7.7	16.6
Salomon Non U.S. Gov't. Bond	0.4	2.0	1.5	6.6	7.2
Inflation Measure					
Consumer Price Index****	0.5	1.4	2.3	2.5	3.4

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

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

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

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market moved higher during the quarter despite Asia's economic problems. The US continued to experience moderate economic growth, low inflation, steady-to-declining interest rates, and good corporate profit growth. Significant amounts of cash flowing into the equity market also puts upward pressure on stock market prices.

The Wilshire 5000 provided a 13.3% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter is shown below:

Large Value	16.4%
Small Value	10.0
Large Growth	12.9
Small Growth	8.3

The Wilshire 5000 increased 47.7% for the year ending March 31, 1998.

DOMESTIC BONDS

The bond market generated positive returns for the quarter with bond prices staying within a tight trading range. The entire return for the Lehman Aggregate was due to interest payments. The bond market is expected to remain at current levels until the economic data shows a strong indication of the direction of inflation and economic growth.

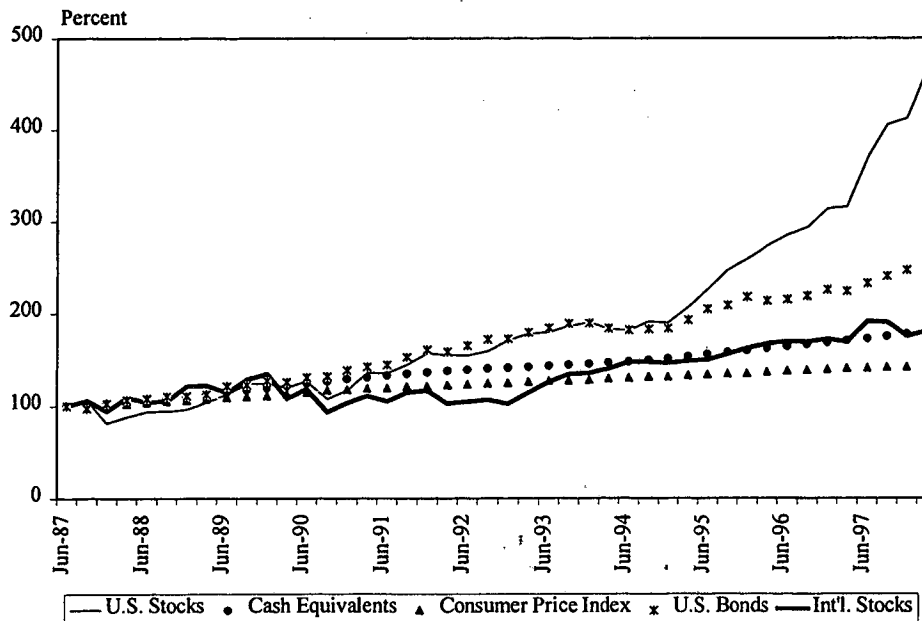
Overall, the Lehman Brothers Aggregate Bond Index increased 1.6% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	1.5%
Corporates	1.5
Mortgages	1.6

The Lehman Aggregate increased 12.0% for the latest year.

PERFORMANCE OF CAPITAL MARKETS

Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE-Free index) provided a return of 14.7% for the quarter. As shown below, performance varied widely among the major markets:

Japan	2.0%
United Kingdom	18.1
Germany	16.9
France	24.8

The EAFE-Free index increased by 18.4% during the latest year.

The EAFE-Free index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 21 markets located in Europe, Australia and the Far East (EAFE), adjusted for free-float. The major markets listed above comprise about 65% of the value of the international markets in the index.

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 6.2% for the quarter. The performance of the five largest stock markets in the index is shown below:

Brazil	7.8%
Mexico	-6.2
South Africa	16.9
Taiwan	8.6
India	6.3

The Emerging Markets Free index had a decrease of -13.4% for the year.

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

REAL ESTATE

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

PRIVATE EQUITY

Private equity fund raising and returns remain strong. Domestic private equity limited partnerships of all kinds raised \$51 billion in 1997, a 41% increase from the \$33.6 billion reported for 1996. It was the sixth consecutive annual rise.

RESOURCE FUNDS

During the first quarter of 1998, West Texas Intermediate crude oil averaged \$15.95 per barrel compared to an average price of \$19.96 per barrel during the fourth quarter of 1997. Despite the low oil prices, oil companies are continuing to aggressively drill for oil and gas.

COMBINED FUNDS

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

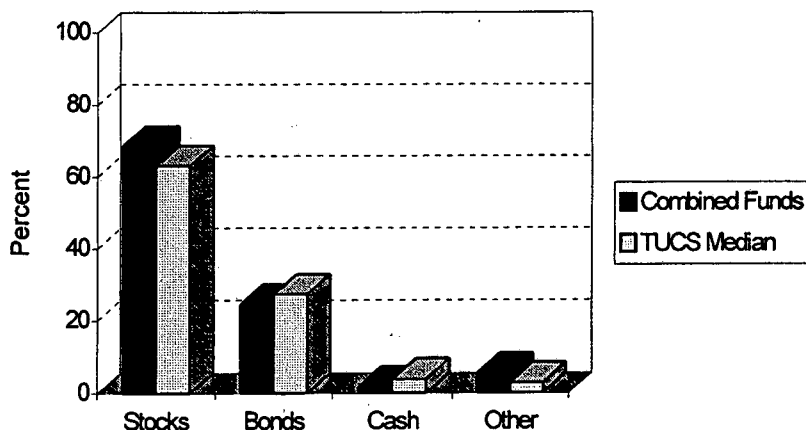
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On March 31, 1998, the actual asset mix of the Combined Funds was:

	\$ Millions	%
Domestic Stocks	\$19,024	53.8%
International Stocks	5,188	14.7
Bonds	8,645	24.5
Alternative Assets	1,883	5.3
Unallocated Cash	585	1.7
Total	\$35,325	100.0%

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



	Stocks*	Bonds*	Cash	Other
Combined Funds	68.5%	24.5%	1.7%	5.3%
Median Allocation in TUCS**	63.0	27.3	3.8	2.8

* Both domestic and international.

** Public and corporate plans over \$1 billion.

COMBINED FUNDS
Performance Compared to Other Pension Funds

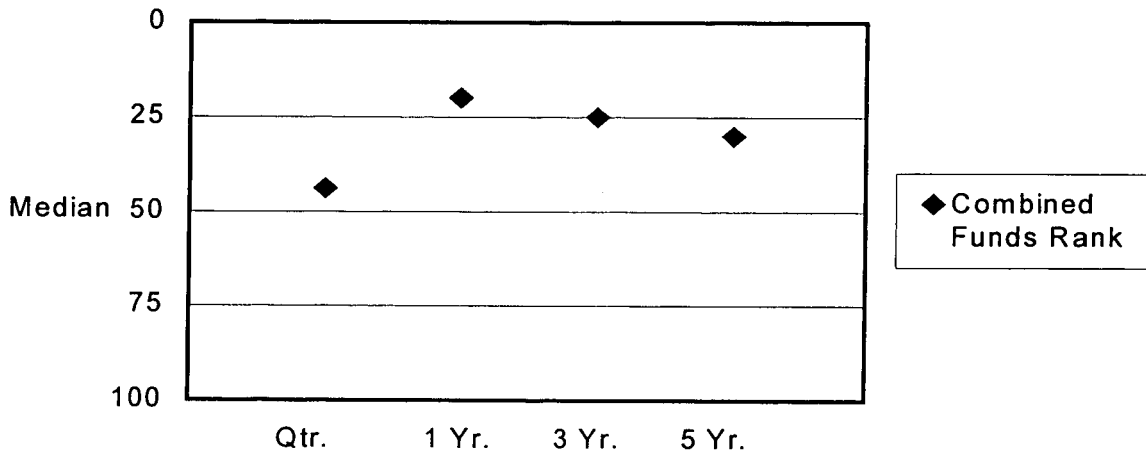
While the SBI is naturally concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an “apples to oranges” look at performance:

- **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports to TUCS. This further distorts comparisons among funds.
- **Differing Goals/Liabilities.** Each pension fund structures its portfolio to meet its own liabilities and risk tolerance. This will result in different choices on asset mix. Since asset mix will largely determine investment results, a universe ranking is not relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities.

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

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

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



Combined Funds Percentile Rank in TUCS*	Period Ending 3/31/98			
	Qtr.	Yr.	3 Yr.	5 Yr.
	44 th	20 th	25 th	30 th

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

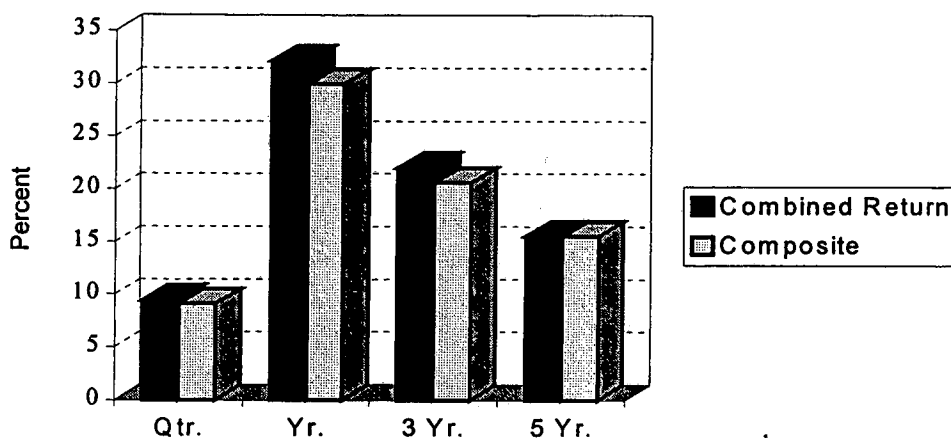
COMBINED FUNDS
Performance Compared to Composite Index

The Combined Funds' performance is evaluated relative to a composite of market indices. The composite is

weighted in a manner that reflects the asset allocation of the Combined Funds:

	Market Index	Combined Index Weights 1Q98
Domestic Stocks	Wilshire 5000	50.0%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.3*
Alternative Assets	Wilshire Real Estate	2.4*
	Venture Capital Funds	2.9*
	Resource Funds	0.5*
Unallocated Cash	91 Day T-Bills	1.9
		100.0%

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



Period Ending 3/31/98

	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds**	9.4%	32.1%	22.0%	15.5%
Composite Index***	9.1	29.9	20.6	15.0

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

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

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BASIC RETIREMENT FUNDS

Investment Objectives

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

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

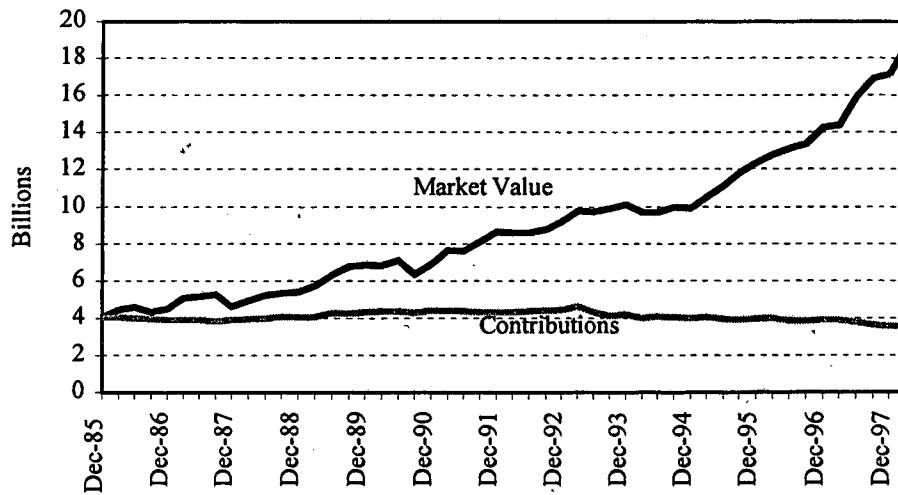
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 9.2% during the first quarter of 1998.

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



	Last Five Years					Latest Qtr.
	In Millions					
	12/93	12/94	12/95	12/96	12/97	3/98
Beginning Value	\$9,191	\$10,086	\$9,890	\$12,338	\$14,275	\$17,146
Net Contributions	-239	-206	-29	-59	-337	-21
Investment Return	1,134	-10	2,477	1,996	3,208	1,590
Ending Value	\$10,086	\$9,890	\$12,338	\$14,275	\$17,146	\$18,715

BASIC RETIREMENT FUNDS

Asset Mix

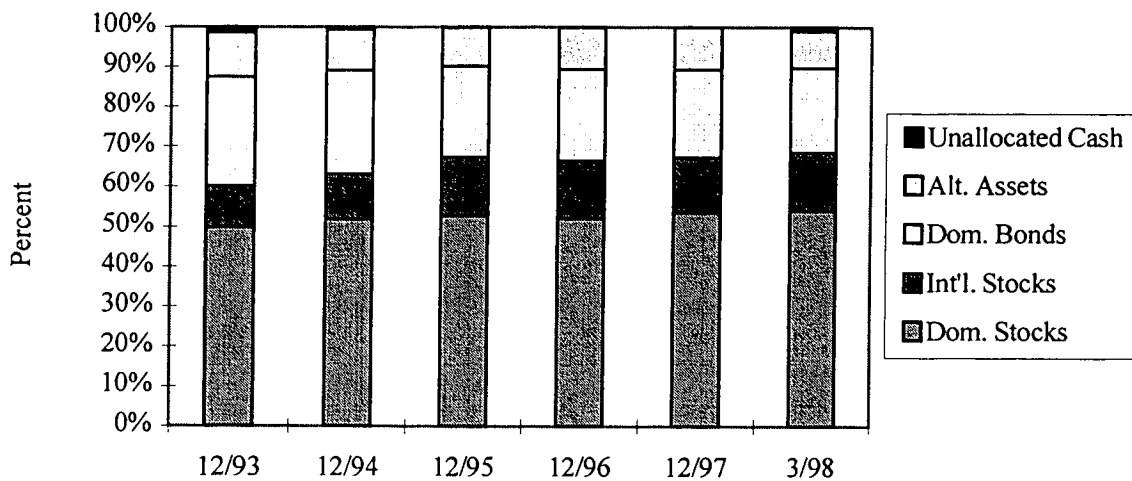
The long-term asset allocation of the Basic Funds is based on the superior performance of common stocks over the history of the capital markets. The asset allocation policy is designed to add value to the Basic Funds over their long-term investment time horizon.

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

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

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

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



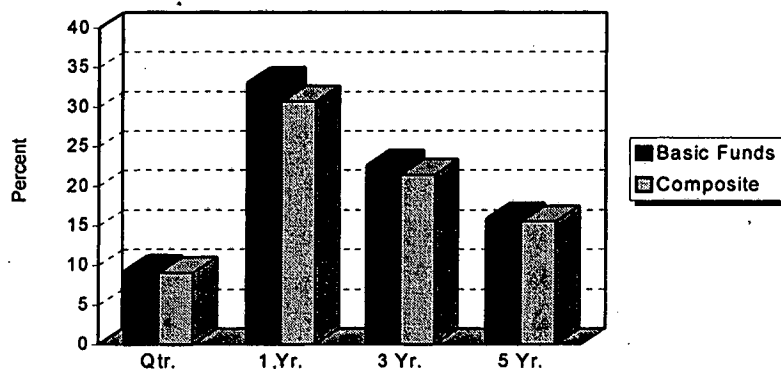
	Last Five Years					Latest Qtr.
	12/93	12/94	12/95	12/96	12/97	3/98
Domestic Stocks	49.7%	51.7%	52.0%	52.0%	53.6%	53.9%
Int'l. Stocks	10.3	11.3	14.5	14.5	13.6	14.6
Bonds	27.5	26.1	22.8	22.8	22.2	21.3
Real Estate	4.6	4.1	3.4	3.9	4.1	3.8
Private Equity	5.6	5.4	4.9	5.5	5.0	4.4
Resource Funds	0.9	0.7	1.0	1.0	1.4	1.0
Unallocated Cash	1.4	0.7	0.3	0.3	0.1	1.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite 1Q98
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	4.0*
		Private Equity Funds	5.0*
		Resource Funds	1.0*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

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



Period Ending 3/31/98

	Qtr.	Yr.	Annualized	
			3 Yr.	5 Yr.
Basic Funds**	9.3%	33.0%	22.6%	15.9%
Composite Index***	9.1	30.7	21.4	15.5

**Returns are reported net of fees.

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

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

POST RETIREMENT FUND

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

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

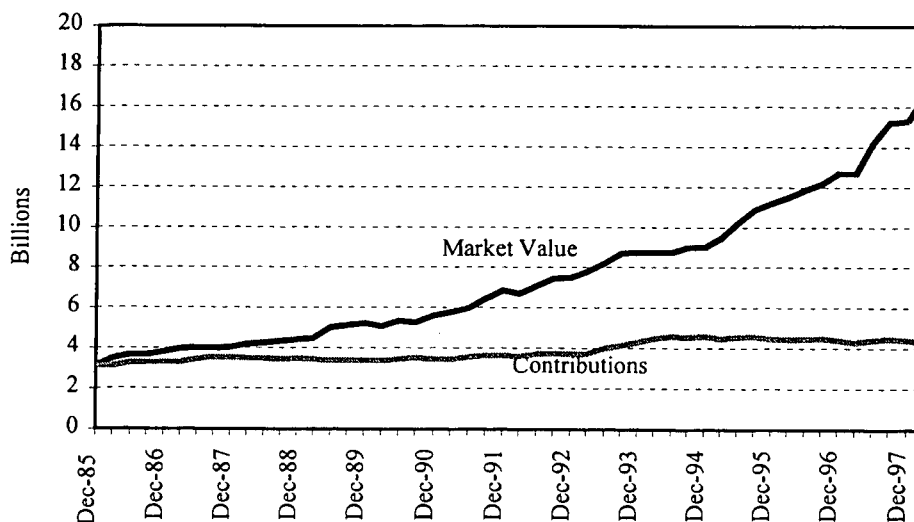
Through fiscal year 1992, unrealized capital gains (or losses) were excluded from the statutory definition of earnings. For this reason the Post Fund previously was not designed to maximize long-term total rates of return. Rather, the SBI attempted to generate a high, consistent stream of realized earnings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

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

Asset Growth

The market value of the Post Retirement Fund increased by 8.8% during the first quarter of 1998.

The increase resulted from positive investment returns.



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

POST RETIREMENT FUND

Asset Mix

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

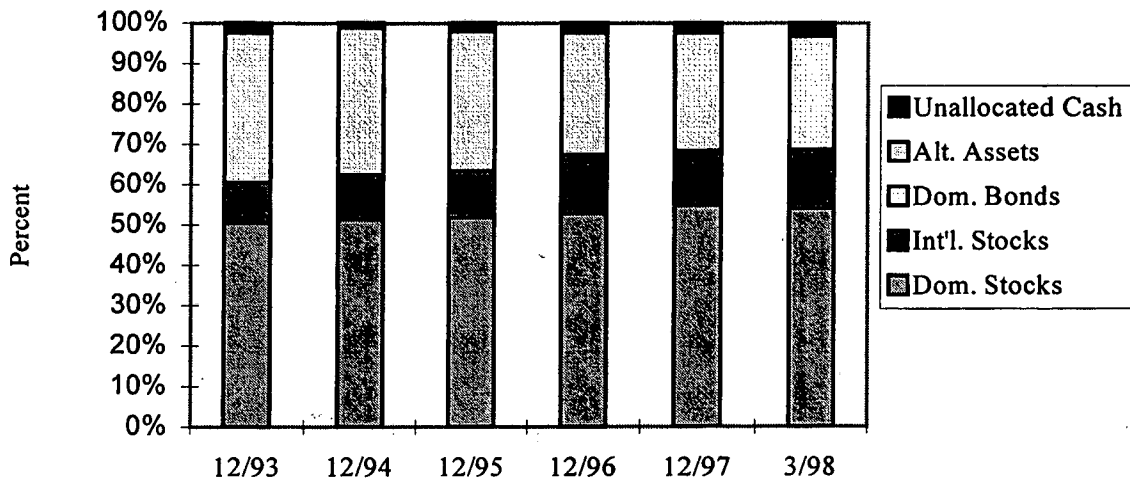
The large allocation to common stocks allows the Fund to increase the long-term earning power of its assets and allow the Fund to focus on generating higher long-term total rates of return.

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

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

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

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



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

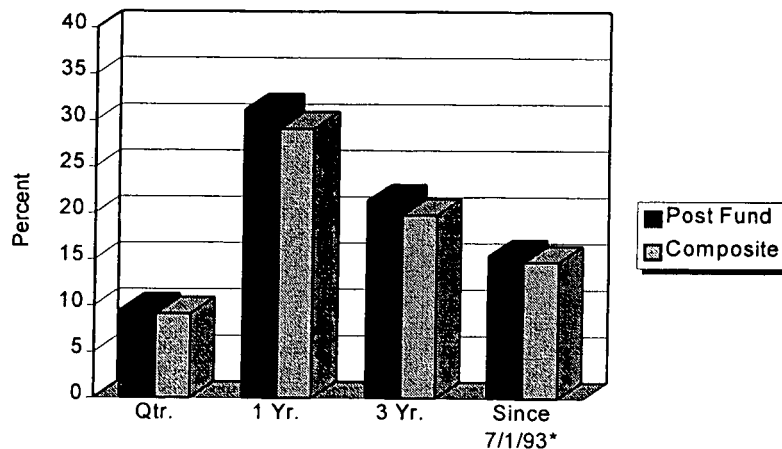
POST RETIREMENT FUND
Total Fund Performance (Net of Fees)

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

Asset Class	Post Target	Market Index	Post Composite 1Q98*
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	31.0*
Alternative Assets	5.0	Wilshire Real Estate	0.5*
Unallocated Cash	3.0	Private Equity Funds	0.5*
		91 Day T-Bills	3.0
	100%		100.0%

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

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



	Qtr.	1 Yr.	3 Yr.	Annualized Since 7/1/93
Post Fund**	9.5%	31.1%	21.3%	15.4%
Composite Index	9.1	29.1	19.8	14.7

** Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools.

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

Domestic Stock Pool

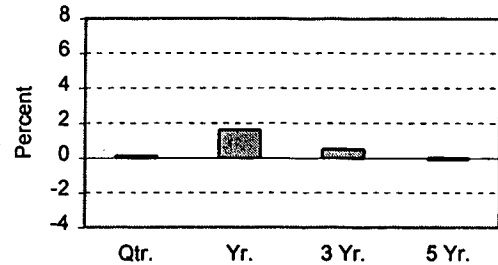
Target: Wilshire 5000 Adjusted*

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Stock Pool	13.4%	49.3%	31.6%	21.1%
Wilshire 5000*	13.3	47.7	31.1	21.2

*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

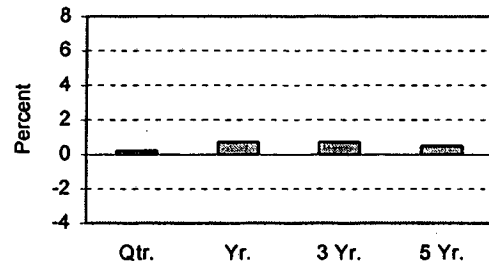
Target: Lehman Brothers Aggregate Bond Index

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.	5 Yrs.
Bond Pool	1.8%	12.7%	9.8%	7.5%
Lehman Agg.*	1.6	12.0	9.2	7.0

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

Value Added to Lehman Aggregate*



International Stock Pool

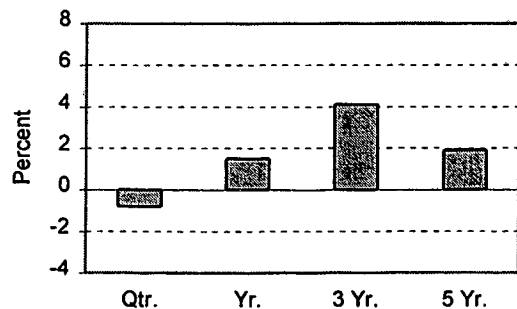
Target: Composite of EAFE-Free and Emerging Markets Free*

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

	Qtr.	Yr.	Annualized	
			3 Yr.	5 Yrs.
Int'l. Pool	12.9%	15.4%	13.5%	13.2%
Composite Index*	13.7	13.9	9.4	11.3

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

Value Added to International Composite*



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools
(Net of Fees)**Real Estate Pool (Basic Funds only)**

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

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Real Estate	1.8%	40.3%	16.4%	10.5%
Real Estate Index		15.8	8.7	5.6
Inflation	0.6	1.4	2.3	2.5

Private Equity Pool (Basic Funds only)

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

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Private Equity	6.2%	25.9%	29.7%	23.2%

Resource Pool (Basic Funds only)

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

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Resource Funds	-18.6%	49.8%	34.9%	20.9%

Yield Oriented Pool (Post Fund only)

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

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	Since 3/1/94
Yield Oriented	6.1%	14.0%	14.3%	10.7%

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, 1998 the market value of the entire Fund was \$1,216 million.

Investment Options

	3/31/98 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	\$564
Growth Share Account – an actively managed, all common stock portfolio.	\$271
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	\$203
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	\$25
Bond Market Account – an actively managed, all bond portfolio.	\$33
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	\$47
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	\$73

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	61.8%
Bonds	35.0	32.6
Unallocated Cash	5.0	5.6
	100.0%	100.0%

Period Ending

	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
Total Account	8.5%	33.1%	22.5%	15.9%
Wilshire 5000*	8.5	32.2	21.9	15.3

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending

	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
Total Account	13.6%	49.9%	31.3%	20.9%
Composite*	13.3	47.7	30.6	20.8

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

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

Period Ending

	Qtr.	1 Yr.	Annualized	
			3 Yr.	5 Yr.
Total Account	13.4%	48.4%	31.2%	21.6%
Wilshire 5000*	13.3	47.7	31.1	21.2

The Account is invested 100% in common stock.

INTERNATIONAL SHARE ACCOUNT

Investment Objective and Asset Mix

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

Annualized

	Period Ending		Since	
	Qtr.	1 Yr.	3 Yr.	9/1/94
Total Account	12.8%	15.3%	13.4%	9.7%
Composite*	13.7	13.9	9.4	7.1

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

Investment Objective

The investment objective of the Bond Market Account is to earn a high rate of return by investing 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.

	Period Ending			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.8%	12.7%	9.9%	7.5%
Lehman Agg.*	1.6	12.0	9.2	7.0

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

MONEY MARKET ACCOUNT

Investment Objective

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

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.

	Period Ending			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	1.4%	5.8%	5.8%	5.1%
91 Day T-Bills	1.3	5.3	5.4	4.8

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.

	Period Ending			
	Qtr.	1 Yr.	3 Yr.	Annualized Since
GIC Pool	1.4%	6.3%	6.7%	11/1/94 6.7%

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.

	3/31/98 Target	3/31/98 Actual
Stocks	20.0%	26.8%
Bonds	80.0	73.2
Total	100.0%	100.0%

Investment Management

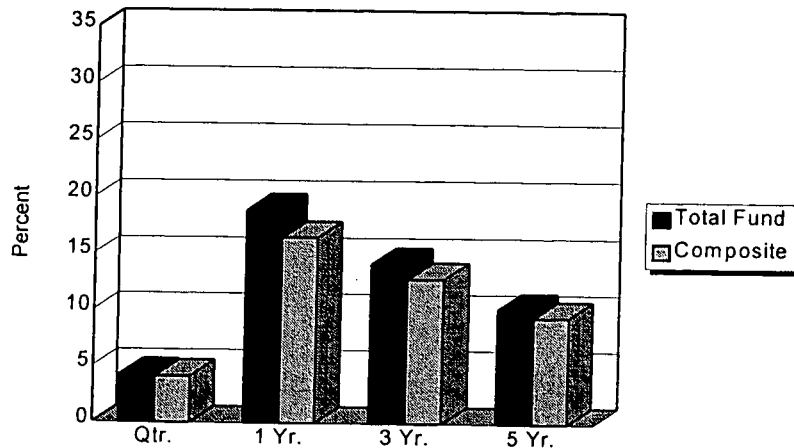
The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991. Voyageur Asset Management has managed the bond segment of the Fund since inception. Since January 1995, GE Investment Management has managed the equity segment.

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, 1998 the market value of the Assigned Risk Plan was \$672 million.



Period Ending 3/31/98

	Annualized			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund*	4.2%	18.8%	14.1%	10.1%
Composite	4.1	16.4	12.8	9.4
Equity Segment*	12.2	47.9	32.2	20.0
Benchmark	14.0	48.1	32.9	21.1
Bond Segment*	1.6	9.4	8.4	6.7
Benchmark	1.6	9.4	8.1	6.4

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

Investment Objectives

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

Asset Mix

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

	3/31/98 Target	3/31/98 Actual
Stocks	50.0%	52.4%
Bond	48.0	44.3
Unallocated Cash	2.0	3.3
	100.0%	100.0%

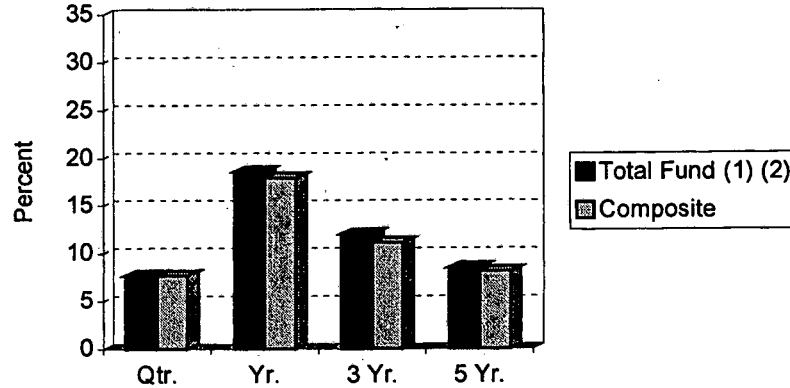
Prior to FY98, the Fund was invested entirely in fixed income securities in order to maximize current income. It is understood that the change in asset mix will reduce portfolio income in the short term, but will enhance the value of the fund, over time.

Investment Management

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

Market Value

On March 31, 1998 the market value of the Permanent School Fund was \$488 million.



	Period Ending 3/31/98			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	7.7%	18.6%	12.0%	8.5%
Composite	7.7	17.9	11.1	8.1
Equity Segment (1) (2)	13.8	N/A	N/A	N/A
S&P 500	14.0	N/A	N/A	N/A
Bond Segment (1)	1.6	12.0	10.3	7.6
Lehman Aggregate	1.6	12.0	9.2	7.0

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

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.

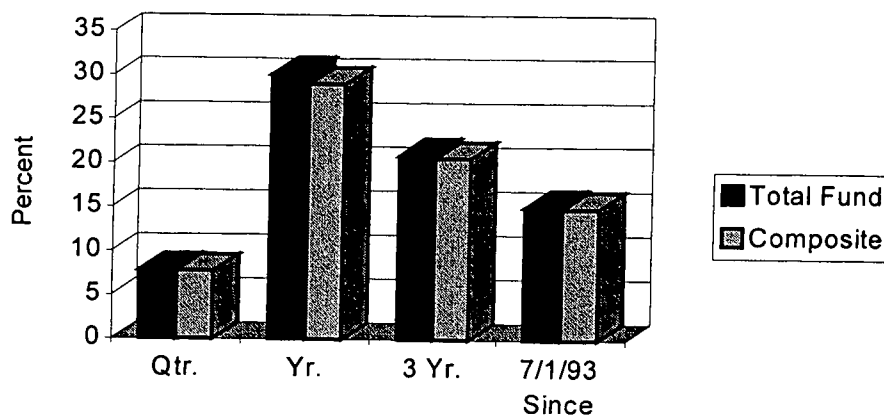
	3/31/98 Target	3/31/98 Actual
Stocks	50.0%	53.7%
Bonds	48.0	45.5
Unallocated Cash	2.0	0.8
	100.0%	100.0%

Investment Management

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

Market Value

On March 31, 1998 the market value of the Environmental Trust Fund was \$227 million.



Period Ending 3/31/98

	Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 7/1/93
Total Fund*	7.8%	30.1%	20.9%	15.1%
Composite	7.7	29.0	20.6	14.9
Equity Segment*	13.8	48.2	32.8	23.6
S&P 500	14.0	48.1	32.9	23.7
Bond Segment*	1.6	13.4	10.0	7.5
Lehman Agg.	1.6	12.0	9.2	6.8

* Actual returns are calculated net of fees.

STATE CASH ACCOUNTS

Description

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

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

1. Trust Fund Pool contains the 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.

	Market Value (Millions)	Period Ending 3/31/98		Annualized	
		Qtr.	Yr.	3 Yr.	5 Yr.
Treasurer's Cash Pool*	\$5,090	1.4%	5.6%	5.8%	5.1%
Custom Benchmark**		1.3	5.5	5.8	5.1
Trust Fund Cash Pool*	40	1.4	5.8	5.8	5.2
Custom Benchmark***		1.3	5.1	5.7	5.0
91-Day T-Bills		1.3	5.3	5.4	4.8

* Actual returns are calculated net of fees.

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

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

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value March 31, 1998 (in Thousands)

	Cash And		Bonds		Stocks		External Int'l.	Alternative Assets	Total
	Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External				
BASIC RETIREMENT FUNDS:									
Teachers Retirement Fund	87,595 1.10%	-0-	1,691,085 21.26%	-0-	4,277,698 53.78%	1,163,311 14.63%	733,874 9.23%	7,953,563 100%	
Public Employees Retirement Fund	35,284 0.88%	-0-	854,661 21.30%	-0-	2,163,336 53.92%	587,930 14.65%	370,946 9.25%	4,012,157 100%	
State Employees Retirement Fund	34,199 0.89%	-0-	820,267 21.29%	-0-	2,077,355 53.92%	564,305 14.65%	356,491 9.25%	3,852,617 100%	
Public Employees Police & Fire Fund	16,786 0.88%	-0-	405,669 21.30%	-0-	1,027,015 53.92%	279,069 14.65%	176,169 9.25%	1,904,708 100%	
Highway Patrol Retirement Fund	2,371 0.88%	-0-	57,131 21.30%	-0-	144,665 53.92%	39,303 14.65%	24,825 9.25%	268,295 100%	
Judges Retirement Fund	169 0.88%	-0-	4,087 21.31%	-0-	10,345 53.92%	2,811 14.65%	1,773 9.24%	19,185 100%	
Public Employees P.F. Consolidated	1,556 0.32%	78 0.02%	105,543 21.42%	16 -0-	267,151 54.21%	72,602 14.73%	45,830 9.30%	492,776 100%	
Correctional Employees Retirement	1,875 0.88%	-0-	45,231 21.30%	-0-	114,492 53.92%	31,115 14.66%	19,623 9.24%	212,336 100%	
TOTAL BASIC FUNDS	179,835 0.96%	78 -0-	3,983,674 21.29%	16 -0-	10,082,057 53.87%	2,740,446 14.64%	1,729,531 9.24%	18,715,637 100%	
POST RETIREMENT FUND	404,928 2.44%	-0-	4,661,709 28.06%	-0-	8,942,717 53.84%	2,448,014 14.74%	153,065 0.92%	16,610,433 100%	
TOTAL BASIC & POST	584,763 1.66%	78 -0-	8,645,383 24.47%	16 -0-	19,024,774 53.85%	5,188,460 14.69%	1,882,596 5.33%	35,326,070 100%	

	Cash And		Bonds		Bonds		Stocks		External		Alternative	Total
	Short Term	Securities	Internal	External	Internal	External	Internal	External	Int'l.	Assets		
MINNESOTA SUPPLEMENTAL FUNDS:												
Income Share Account	31,615 5.60%		184,127 32.63%	-0-	-0-	-0-	-0-	348,572 61.77%	-0-	-0-	-0-	564,314 100%
Growth Share Account	-0-		-0-	-0-	-0-	-0-	270,655 100%	-0-	-0-	-0-	-0-	270,655 100%
Money Market Account	47,391 100%		-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	47,391 100%
Common Stock Index Account	-0-		-0-	-0-	-0-	-0-	202,839 100%	-0-	-0-	-0-	-0-	202,839 100%
Bond Market Account	-0-		-0-	32,690 100%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	32,690 100%
International Share Account	-0-		-0-	-0-	-0-	-0-	-0-	-0-	24,572 100%	-0-	-0-	24,572 100%
Fixed Interest Account	853 1.16%		-0-	72,469 98.84%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	73,322 100%
TOTAL SUPPLEMENTAL FUNDS												
	79,859 6.57%		184,127 15.14%	105,159 8.65%	-0-	-0-	822,066 67.62%	24,572 2.02%	-0-	-0-	-0-	1,215,783 100%
TOTAL RETIREMENT FUNDS												
	664,622 1.82%		184,205 0.50%	8,750,542 23.95%	16	0.00	19,846,840 54.31%	5,213,032 14.27%	1,882,596 5.15%			36,541,853 100%

	Cash And Short Term Securities		Bonds Internal		Bonds External		Stocks Internal		Stocks External		External Int'l.		Alternative Assets		Total	
ASSIGNED RISK PLAN	23,278 3.47%	-0-	473,387 70.48%	-0-	-0-	-0-	-0-	175,000 26.05%	-0-	-0-	-0-	-0-	-0-	671,665 100%		
ENVIRONMENTAL FUND	1,784 0.79%	103,492 45.59%	-0-	121,722 53.62%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	226,998 100%		
PERMANENT SCHOOL FUND	16,180 3.31%	216,673 44.34%	-0-	255,829 52.35%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	488,682 100%		
TREASURERS CASH	5,087,444 100%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	5,087,444 100%		
HOUSING FINANCE AGENCY	73,526 33.56%	145,579 66.44%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	219,105 100%		
MINNESOTA DEBT SERVICE FUND	33,349 24.79	101,161 75.21%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	134,510 100%		
MISCELLANEOUS ACCOUNTS	181,929 45.37%	197,982 49.37%	-0-	21,080 5.26%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	400,991 100%		
GRAND TOTAL	6,082,112 13.90%	949,092 2.17%	9,223,929 21.07%	398,647 0.91%	20,021,840 45.74%	5,213,032 11.91%	1,882,596 4.30%	43,771,248 100%								

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: May 26, 1998

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, 1998 is included as **Attachment A**.

A report on travel for the period from February 16 - May 15, 1998 is included as **Attachment B**.

2. Update on Litigation

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

3. Update on Tobacco Information

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

a. Tobacco-Related Holdings

As of March 31, 1998 the SBI held approximately 9.8 million shares in tobacco related companies identified by the Investors Responsibility Research Center (IRRC). The market value of these shares was approximately \$311 million. A list of SBI holdings in tobacco-related companies as of March 31, 1998 begins on **page 7**.

The list of SBI holdings of tobacco-related companies is longer than the list that has been the basis of staff's previous reports on the subject. The expanded list reflects the findings contained in the newly released study by the Investors Responsibility Research Center (IRRC) entitled, "The Tobacco Industry: Profiles of Domestic and International Publicly Traded Companies Involved in the Tobacco Industry."

The seventh edition of the report by IRRC covers 77 companies engaged in one or more of the following business activities:

- Manufacture of tobacco products
- Manufacture of reconstituted tobacco
- Processing and re-drying of leaf tobacco
- Wholesale or retail distribution of tobacco products as a main line of business

Privately held and state owned/controlled tobacco companies are not included. Suppliers of products used in the manufacture of consumer tobacco products, such as packaging, paper or adhesives, are not included. On April 8, 1998 after the study was released, Sara Lee Corp. announced it had agreed to sell its Netherlands-based tobacco unit to Imperial Tobacco Group PLC of Great Britain. Consequently, Sara Lee does not appear on the expanded list.

Note also that the list includes SBI holdings in non-pension trust fund portfolios.

b. Activity in Other States

During the quarter, there were no new tobacco-related activities in other states.

c. Legal Developments Reported by the News Media

There have been numerous reports of legislative interest in bringing a tobacco bill before the Congress in 1998. However, recent developments add uncertainty to the possibility that action will be taken legislatively at the federal level.

In early April 1998, the Senate Commerce Committee passed a bill authored by Chair John McCain of Arizona that would substantially toughen the proposed national tobacco settlement that was reached in June 1997. On April 8, led by Steven Goldstone, CEO of RJR Nabisco Holdings Corp., cigarette makers announced they would no longer negotiate with the White House, the Congress and state attorneys general concerning a settlement.

On April 30 Congressional House Republican leaders rejected a bipartisan tobacco bill negotiated by House Commerce Committee Chair Thomas Bliley of Virginia and senior Committee member Rep. Henry Waxman of California. The McCain bill is scheduled for a Senate vote.

At the state level, the Minnesota tobacco suit has been settled. The case has been termed "the most comprehensive legal assault (the industry) has ever endured."

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On April 30 Congressional House Republican leaders rejected a bipartisan tobacco bill negotiated by House Commerce Committee Chair Thomas Bliley of Virginia and senior Committee member Rep. Henry Waxman of California. The McCain bill is scheduled for a House vote the week of May 18, yet there are reports that other House members "are drafting alternative tobacco bills."

At the state level, the Minnesota tobacco suit has been settled. The case has been termed "the most comprehensive legal assault (the industry) has ever endured."

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 1998 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH APRIL 30, 1998**

ITEM	FISCAL YEAR 1998 BUDGET	FISCAL YEAR 1998 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,600,000	\$ 1,277,121
SEVERENCE PAYOFF	20,000	25,913
WORKERS COMPENSATION INSURANCE	1,000	658
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	\$ 1,622,000	\$ 1,303,692
STATE OPERATIONS		
RENTS & LEASES	92,500	77,074
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	16,047
BONDS AND INSURANCE	0	0
PRINTING & BINDING	16,000	15,161
PROFESSIONAL/TECHNICAL SERVICES	45,000	19,265
COMPUTER SYSTEMS SERVICES	204,000	68,126
COMMUNICATIONS	26,000	20,941
TRAVEL, IN-STATE	3,000	460
TRAVEL, OUT-STATE	55,000	45,001
SUPPLIES	38,000	28,222
EQUIPMENT	12,500	5,897
EMPLOYEE DEVELOPMENT	12,000	7,058
OTHER OPERATING COSTS	24,000	18,706
SUBTOTAL	\$ 541,000	\$ 321,958
TOTAL GENERAL FUND	\$ 2,163,000	\$ 1,625,650

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ATTACHMENT B

STATE BOARD OF INVESTMENT

**Travel Summary by Date
February 16, 1998 –May 15, 1998**

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Staff Conference: Institutional Limited Partners Association Meeting	M. Regal	Denver, CO 2/26-2/27	\$582.12
Manager Monitoring Alternative Investments: Warburg, Pincus Annual Meeting	J. Griebenow	New York, NY 3/2-/3/3	275.00
Manager Monitoring Emerging Equity Managers: CIC Asset Management Zevenbergen Capital	M. Perry	Seattle, WA Los Angeles, CA 3/4-3/6	1,318.58
Staff Conference: State Street's Twentieth Annual Client Conference	M. Schmitt	Carlsbad, CA 3/6-3/10	775.00
Manager Monitoring Domestic Stock Manager: Barclays Global Investors Staff Conference: "Bullseye '98 Advisory Board Meeting" sponsored by Institute for Investment Research	K. Hanson	San Francisco, CA 3/13-3/15	153.00
Staff Conference: "Global Portfolio Management Conference" sponsored by Brinson Partners/SBC Brinson	K. Vnuk	San Diego, CA 3/25-3/29	1,533.00
Manager Monitoring Domestic Stock Managers: Brinson Partners Lincoln Capital Management Manager Search Domestic Stock Manager: Loomis Sayles	L. Buermann K. Hanson	Chicago, IL Bloomfield Hills, MI 3/31-4/1	1,544.63

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Staff Conference: “Public Funds Roundtable/ Workshop for Public Fund Trustees” sponsored by Institutional Investor Institute	M. Perry	Key Biscayne, FL 3/31-4/1	88.98
Miscellaneous Class Action Litigation	M. Perry	Chicago, IL 4/14	42.00
Manager Monitoring Alternative Investment Managers: The Banc Funds, Brinson Partners, GTCR Annual Meeting	J. Griebenow	Chicago, IL 4/13-4/15	548.00
Manager Monitoring Alternative Investment Manager: Merit Energy Company Partnership Meeting	J. Griebenow	Dallas, TX 4/22-4/23	489.00
Manager Monitoring Alternative Investment Manager: KKR Investors Conference Annual Meeting	M. Regal	Palm Springs, CA 4/25-4/29	1,099.93
Staff Conference: “The 1998 Private Equity Markets Summit” sponsored by Institute for International Research	M. Regal	New York, NY 5/5-5/6	174.00
Manager Monitoring Internal Fixed Income Brokers: Lehman Brothers, Mesirow Financial, Salomon Manager Monitoring External Fixed Income Manager: Lincoln Capital Staff Education: “Annual Fixed Income Workshops” sponsored by Capital Management Services	M. Menssen	Chicago, IL 5/5-5/6	401.00

SBI Stock Holdings
Tobacco Companies Identified by the IRRC
March 31, 1998

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

Company	Percent Revenue from Tobacco in 1996	SBI Shares 3/31/98	SBI Cost Value 3/31/98	SBI Market Value 3/31/98
800-JR Cigar Inc.	90%	4,800	\$125,594	\$95,400
Amer Group PLC	8	9,900	202,242	191,877
BAT Industries PLC	56	1,531,427	12,043,886	15,682,612
Brooke Group Ltd.	99	10,200	67,138	168,300
Caribbean Cigar Co.	100*	1,000	11,270	1,094
Consolidated Cigar Hldgs	100	6,200	173,149	101,138
DIMON, Inc.	85*	20,700	349,437	340,256
Dominican Cigar Corp.	>50	0	0	0
Empresas La Moderna	34	94,500	438,914	468,293
Gallaher Group PLC	100	0	0	0
General Cigar Holdings	100	7,112	45,860	166,243
Holt's Cigar Hldgs, Inc.	86	0	0	0
Imperial Tobacco Group	100	26,500	248,370	194,696
Loews Corporation	11	123,269	8,439,664	12,912,428
Philip Morris Cos., Inc.	53	5,655,522	144,366,844	243,894,386
Premium Cigars Intl	100	0	0	0
RJR Nabisco Holdings	48	456,198	13,775,817	15,140,071
Schweitzer-Mauduit Int'l.	94	9,810	204,787	329,861
Standard Commercial Corp	74*	6,356	70,397	100,902
Swedish Match AB	65	193,900	531,873	660,402
Swisher Int'l. Group, Inc.	100	2,800	49,959	36,575
Tamboril Cigar Co.	100	0	0	0
Universal Corp.	74*	149,220	4,547,969	6,565,680
UST Inc.	86	115,000	3,412,316	3,773,438
Subtotal		8,424,414	\$189,105,486	\$300,823,652

International Stocks

Company	Percent Revenue from Tobacco In 1996	SBI Shares 3/31/98	SBI Cost Value 3/31/98	SBI Market Value 3/31/98
Austria Tabak AG	100	0	0	0
Bangladesh Tobacco Co.Ltd.	100	0	0	0
BAT Kenya Ltd.	100	0	0	0
BAT Zimbabwe Ltd.	100	0	0	0
Brit.-American Tob. (Singapore)	100	0	0	0
Ceylon Tobacco Co. Ltd	97	0	0	0
Compagnie Financiere Richemont	69*	80,000	2,751,015	1,040,000
Compania Chilena de Tabacos	100	0	0	0
Compania Colombiana de Tab.	100	0	0	0
C.W. Obel A/S	0	0	0	0
Empresa Madeirense de Tabacos	41	0	0	0
Godfrey Phillips India Ltd.	88*	0	0	0
Grupo Carso SA de CV	21	0	0	0
Imasco Ltd.	16	0	0	0
ITC Ltd.	75*	0	0	0
Japan Tobacco Inc.	91*	0	0	0
Jerusalem Cigarette Co.	100	0	0	0
Karelia Tobacco Co., Inc.	100	0	0	0
Khyber Tobacco Co., Ltd.	>50	0	0	0
Lakson Tobacco Co., Ltd.	100	0	0	0
Malaysian Tobacco Co. Bhd	100	0	0	0
Nigerian Tobacco Co. Plc	100	0	0	0
Nobleza-Piccardo Saicyf	100	0	0	0
Pakistan Tobacco Co. Ltd.	>50	0	0	0
Papastratos Cigarette Mfg. Co.	100	0	0	0
Philippine Tobacco Corp.	89	0	0	0
PT BAT Indonesia	100	0	0	0
PT Gudang Garam	96	150,000	598,736	207,665
PT Hanjaya Madala Samp. Tbk.	>50	0	0	0
Rembrandt Group Ltd.	>50	250,000	2,192,801	2,063,953
RJ Reynolds Tobacco Co. Bhd	100	108,000	213,465	199,063
Rothmans Holdings Ltd.	98	56,200	252,029	366,990
Rothmans Inc. (Canada)	100	0	0	0
Rothmans Industries (Singapore)	100	0	0	0
Rothmans of Pall Mall (Malaysia)	98	120,000	921,821	1,005,518
Rothmans of Pall Mall (Zambia)		0	0	0
Rothmans of Pall Mall (Zimbab.)		0	0	0
Sarhad Cigarette Industries Ltd.	>50	0	0	0

International Stocks (con't)

Company	Percent Revenue from Tobacco In 1996	SBI Shares 3/31/98	SBI Cost Value 3/31/98	SBI Market Value 3/31/98
SCAC Delmas-Vieljeux	6	0	0	0
Seita	86	23,850	755,541	950,622
Shanghai Industrial Holdings Ltd	50	425,000	1,483,342	1,744,535
Souvenir Tobacco Co., Ltd.	>50	0	0	0
Souza Cruz SA	100	107,000	887,944	894,678
Tabacalera Nacional SA	100	0	0	0
Tabacalera SA	60	15,050	559,679	1,687,284
Tabak AS	100	0	0	0
TSL Ltd.	NA	0	0	0
Utico Holdings Ltd.	100	0	0	0
VST Industries Ltd.	99	0	0	0
WD & HO Wills Holdings Ltd.	100	0	0	0
West Indian Tobacco Co. Ltd.	100	0	0	0
Subtotal		1,335,100	\$10,616,373	\$10,160,308
Total SBI Holdings		9,759,514	\$199,721,859	\$310,983,960

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

* 1997 data

Tab C



**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 26, 1998

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 18, 1998 to review the following agenda items.

- Review of Executive Director's proposed workplan for FY99
- Review of budget plan for FY99
- Review of Continuing Fiduciary Education Plan

1. Executive Director's FY99 Workplan

Mr. Bicker presented his proposed workplan for FY99. Like the previous workplans, the FY99 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 undertake during the next fiscal year.

A summary of the proposed plan is shown in **Attachment A**. Supporting information was sent to each Board member in May 1998 as part of the FY99 Management and Budget Plan document.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY99 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY99.

2. FY99 Administrative Budget

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 B**. Supporting information was sent to each Board member in May 1998 as part of the FY99 Management and Budget Plan.

RECOMMENDATION:

The Committee recommends that the SBI approve the FY99 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.

3. 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 **Attachment C**. 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.

4. Executive Director's FY98 Evaluation

The Committee discussed the process that will be used by the board to evaluate the Executive Director for FY98. The Committee members agreed that the performance reviews should be completed prior to the September 1998 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 FY98 performance evaluation:

- The evaluation will be completed prior to the September 19⁹⁸ meeting of the SBI and will be based on the results of the Executive Director's workplan for FY98.
- 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.

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ATTACHMENT A

**STATE BOARD OF INVESTMENT
Executive Director's Proposed Workplan**

FY99

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

	Projected Time Frame
A. DEVELOPMENT OF INVESTMENT POLICIES	
1. Review the policy statement for the Assigned Risk Plan.	Jan. - Jun.
2. Update the currency position paper to reflect recent changes to the currency overlay program.	Oct. - Dec.
3. Review State's cash flow needs and determine appropriate investment strategies in light of 1998 Legislative action.	Jul. - Sep.
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 (FY90-FY99) for the Combined Funds.	
• Outperform the median fund from the TUCS universe of Master Trusts over the last 5 years (FY95-FY99) for the Combined Funds.	
• Outperform a composite of market indices over the last 5 years (FY95-FY99). Separate composites are constructed for the Combined, the Basics and the Post Funds.	
2. Implement the newly-developed 457 Deferred Compensation Plan.	Jul. - Jun.
3. Maintain Manager Short Lists for international, domestic, and emerging equity and external fixed income programs.	On-going

- | | |
|---|----------|
| 4. 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. Review investment guidelines for stock and bond managers on an annual basis. | Apr. - Jun. |
| 3. Monitor implementation of the Board's guidelines on international investing. | On-going |
| 4. Monitor implementation of Northern Ireland mandate. | On-going |
| 5. Monitor implementation of proxy voting guidelines and procedures. | On-going |

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. Review the SBI's local custodial needs through an RFP process. | Oct. - Mar. |
| 4. Prepare and seek approval of the SBI's legislative proposals for 1999 Legislative Session, if needed. | Oct. - May |
| 5. Prepare FY00 Management and Budget Plan. | Feb. - Jun. |
| 6. Review and update the Disaster Recovery Plan for the orderly transfer and continuation of the SBI's critical functions in the event of a disaster. | Jan. - Mar. |

- | | |
|--|-------------|
| 7. Develop and implement a plan to ensure Year 2000 compliance both at a staff-level and from all vendors and investment managers. | Jul. – Jun. |
|--|-------------|

E. COMMUNICATION AND REPORTING

- | | |
|--|----------------------------|
| 1. Prepare reports on investment results. | Quarterly |
| 2. Prepare status reports on the Executive Director's FY99 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. Prepare FY98 Annual Report. | Jul. - Feb. |
| 6. Coordinate round table discussions with SBI's external managers. | Periodic, 2-3 per year |

ATTACHMENT B

Administrative Budget FY 99 Budget Plan Overview

The FY99 budget plan is based on the SBI's FY98-99 Biennial Budget Request:

	FY98 Projected	FY99 Plan	Difference
Personal Services	\$1,660,800	\$1,737,475	\$+76,675
Operating Expenses	430,399	509,525	+79,126
	\$2,091,199	\$2,247,000	\$+155,801

Personal Services: 77% of the budget
Salaries, retirement, insurance, FICA, severance

Personnel costs will be approximately \$76,675 more than in FY98. This is due primarily to salary increases that have been negotiated by the Department of Employee Relations and the various bargaining units that represent SBI employees. These contracts/agreements provide an increase of approximately 3.5% over FY98.

Operating Expenses: 23% 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 \$79,000 more than the amount spent in FY 98. The majority of this increase is a contingent cost that will only occur if the SBI is required to relocate its office space. 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	FY99 vs. FY98
rent	+ 2,000
printing	+ 4,000
computer systems services	- 64,000
travel	+ 5,000
supplies	+ 4,000
equipment	+27,500
other operating costs	- 2,000

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.

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- 10 -

**STATE BOARD OF INVESTMENT
FISCAL YEARS 1999 BUDGET PLAN
GENERAL FUND SUMMARY**

DESCRIPTION	FY 1996 ACTUAL	FY 1997 ACTUAL	FY1998 PROJECTED	FY 1998 BUDGET	FY 1999 BUDGET
PERSONAL SERVICES					
FULL TIME EMPLOYEES	\$ 1,468,513	\$ 1,500,413	\$ 1,565,000	\$ 1,542,000	\$ 1,660,000
PART TIME EMPLOYEES	28,194	53,403	55,000	58,000	55,475
SEVERENCE PAYOFF	3,120	34,562	40,000	20,000	20,000
WORKERS COMPENSATION INSURANCE	618	718	800	1,000	1,000
MISCELLANEOUS PAYROLL	1,042	673	-	1,000	1,000
SUBTOTAL	\$ 1,501,487	\$ 1,589,769	\$ 1,660,800	\$ 1,622,000	\$ 1,737,475
STATE OPERATIONS					
RENTS & LEASES	88,550	90,498	92,489	92,500	94,525
REPAIRS/ALTERATIONS/MAINTENANCE	12,662	19,656	23,950	13,000	23,000
PRINTING & BINDING	15,080	15,531	16,000	16,000	20,000
PROFESSIONAL/TECHNICAL SERVICES	13,535	8,211	50,000	45,000	55,000
COMPUTER SYSTEMS SERVICES	202,619	203,600	69,000	204,000	5,000
COMMUNICATIONS	22,548	25,110	29,000	26,000	27,000
TRAVEL, IN-STATE	2,727	544	710	3,000	3,000
TRAVEL, OUT-STATE	39,961	52,318	55,250	55,000	60,000
SUPPLIES	42,027	39,471	38,000	38,000	42,000
EQUIPMENT	75,298	43,324	16,000	12,500	40,000
EMPLOYEE DEVELOPMENT	11,375	14,403	10,000	12,000	12,000
OTHER OPERATING COSTS	31,011	23,632	30,000	24,000	28,000
MOVING COSTS					
SUBTOTAL	\$ 557,393	\$ 536,298	\$ 430,399	\$ 541,000	\$ 509,525
TOTAL GENERAL FUND	\$ 2,058,880	\$ 2,126,067	\$ 2,091,199	\$ 2,163,000	\$ 2,247,000

PERCENT INCREASE OVER PRIOR YEAR

3.3% -1.6% 1.7% 3.9%

ATTACHMENT C

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, 1998

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 D

COMMITTEE REPORT

DATE: May 26, 1998

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

FROM: **Domestic Manager Committee**

The Domestic Manager Committee met on May 11, 1998 to consider the following agenda items:

- Review of manager performance for the period ending March 31, 1998.
- Review of annual benchmark quality evaluation.
- Review of manager investment guidelines.
- Meeting with American Express Asset Management.
- Recommendation to remove Voyager Asset Management from watch status.
- Recommendation to renew the contract of GE Investment for the Assigned Risk Plan.

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

INFORMATION ITEMS:

1. **Review of manager performance for the period ending March 31, 1998.**

- ***Stock Managers***

For the period ending March 31, 1998, the **domestic stock manager program** outperformed its aggregate benchmark and the Wilshire 5000 for the quarter and for the latest one-year and three year periods. The **current managers** outperformed the benchmark and the Wilshire 5000 for the quarter and for the latest one year, three year, and five-year periods.

Time period	Total Program	Wilshire 5000*	Current Mgrs. Only	Aggregate Benchmark
Quarter	13.4%	13.3%	13.4%	13.2%
1 Year	49.3	47.7	49.3	47.9
3 Years	31.6	31.1	32.2	31.0
5 Years	21.1	21.2	21.7	21.5

* Adjusted for SBI's restrictions, as appropriate.

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

- **Bond Managers**

For the period ending March 31, 1998, 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	1.8%	1.6%
1 Year	12.7	12.0
3 Years	9.8	9.2
5 Years	7.5	7.0

Current Mgrs. Only	Aggregate Benchmark
1.8%	1.6%
12.7	12.0
9.8	9.2
7.5	7.0

* Reflects Salomon BIG index prior to 7/94.

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

2. Review of the annual benchmark quality evaluation.

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. The custom benchmarks are evaluated by using a set of quantitative benchmark quality measures.

A review of the benchmark quality measures indicated that the managers’ current benchmarks are a good representation of the managers’ investment styles and that the benchmarks can be used as valid measurement standards. The benchmark quality evaluation did identify problems in the benchmark for *Cohen, Klingenstein & Marks*. Staff has initiated conversations with the manager to address concerns regarding their benchmark.

A summary of the benchmark quality evaluation and a description of the benchmark quality measures are included beginning on **page 5** of this tab.

3. Review of manager investment guidelines.

The SBI has established investment guidelines for its stock and bond managers that 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 technical in nature. In addition, staff has made changes to the language to enhance consistency across asset classes. The complete guidelines for domestic stock managers (active, semi-passive, emerging, and passive), bond managers (active and semi-passive), Assigned Risk Plan managers (stock and bond), and internal managers (stock, bond, and cash management) are attached beginning on **page 13**.

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

4. Meeting with American Express Asset Management.

At the February 1998 meeting, the Domestic Manager Committee had questions regarding the concentrated portfolio managed by American Express Asset Management (AEAM). AEAM was asked to attend this quarter's committee meeting to discuss their investment process and portfolio performance.

Since January 1997, AEAM has been managing a concentrated portfolio for the SBI that holds thirty of their analysts' best stock picks. This approach results in a portfolio where performance can vary significantly relative to the benchmark. Since the inception of this approach, the portfolio has had negative performance. The manager explained that the narrow movement in the market made it difficult to pick stocks during that period.

The committee agreed to review AEAM and its approach to concentrated portfolios again in February 1999.

ACTION ITEMS:

5. Recommendation to remove Voyageur Asset Management from watch status.

Voyageur was placed on watch in December 1997 due to the departure of Jane Wyatt, the Portfolio Manager of record on the SBI account. The investment process at Voyageur was and continues to be conducted on a team basis. Melissa Uppgren is the current Portfolio Manager of record. She has been involved with the SBI account since 1993.

In April, staff met with Ms. Uppgren and the other Voyageur team members responsible for the SBI's account, and staff believes there are no other significant issues. Voyageur has maintained satisfactory performance since inception. Staff is confident in their ability to manage the SBI's account, and recommends that Voyageur be removed from watch status.

RECOMMENDATION:

In accordance with the SBI Manager Continuation policy, the Committee recommends that the SBI remove Voyager Asset Management from the watch list.

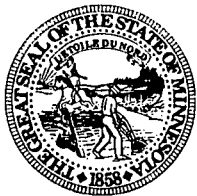
6. Recommendation to renew the contract of GE Investment.

GE Investment has been the common stock manager for the Assigned Risk Plan since January 1995. Their performance has been satisfactory and staff recommends renewal of their contract. Their contract expired on December 31, 1997, and the failure to promptly renew this contract was an oversight. The new contract will cover a five-year period retroactive to the expiration date of the previous contract, and it will include the immediate termination clause.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute a contract with GE Investment as the stock manager for the Assigned Risk Plan.

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



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State Auditor
Judi Dutcher

State Treasurer
Michael A. McGrath

Secretary of State
Joan Anderson Growe

Attorney General
Hubert H. Humphrey III

Executive Director:

Howard J. Bicker

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DATE: May 4, 1998

TO: Members, Domestic Manager Committee

FROM: Lois Buermann *LB*
Mansco Perry III

SUBJECT: Annual Benchmark Quality Evaluation

BACKGROUND

The SBI's Manager Continuation Policy requires staff to review all custom benchmarks for active domestic stock managers on an annual basis. The purpose of the analysis is to determine whether a benchmark adequately reflects the manager's unique investment style and therefore can be used as a valid performance measurement standard for the manager.

SUMMARY

Attached is a summary of the benchmark evaluation showing the key characteristics of the benchmarks through December 1997, Richards & Tierney's overall grade, and staff's assessment of each manager's benchmark. A glossary of terms is included for your reference.

The custom benchmarks for most of the active domestic stock managers are satisfactory and continue to show characteristics of a benchmark that reflects the investment style of the manager.

The benchmark quality evaluation has highlighted the need for additional work and improvement in the benchmark of Cohen, Klingenstein & Marks. While the benchmarks of Investment Advisers and Winslow Capital meet the statistical guidelines, their benchmarks scored lower than the remaining active managers.

RECOMMENDATIONS

Most of the active domestic equity managers' benchmarks are in good shape and no action is required.

The following actions have been taken or are on-going with respect to the benchmarks of Cohen, Klingenstein & Marks, Investment Advisers, and Winslow Capital:

Cohen, Klingenstein & Marks' benchmark requires additional work. This manager constructs its benchmark in-house rather than using the services of an outside vendor. In October 1997, staff met with the manager to discuss inadequacies in the benchmark. The manager agreed to review the benchmark more closely and more frequently than once a year. Updating the benchmark more often should improve benchmark quality overall, however, additional steps may be necessary. Staff will continue to monitor the manager's efforts to improve the benchmark quality during the next year.

Investment Adviser's benchmark shows significant improvement from one year ago. In June 1997, the manager modified the benchmark to better reflect the mid- and small capitalization nature of their investment process. The manager is making additional changes to their benchmark, effective May 1998, that will eliminate many names that are too illiquid to invest in and many names that their analyst team does not follow in their research process.

Winslow Capital's benchmark also scored somewhat lower due to high turnover and poor sector weightings in the benchmark relative to historical portfolios. During the year, Winslow experienced dissatisfaction with their benchmark builder, BARRA, and has enlisted the help of Richards & Tierney to assist in future benchmark construction as of January 1998. Staff believes the change in vendor will aid in the improvement of Winslow's benchmark quality.

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1997

General Guidelines	GeoCapital Corporation	Investment Advisers	Lincoln Capital	Oppenheimer Capital	Weiss, Peck & Greer
Benchmark Evaluation Period	9005-9712	9308-9712	9308-9712	9308-9712	9308-9712
Benchmark Coverage (Recent)	90%	94%	96%	89%	91%
Positive Active Positions (Recent)	98%	100%	100%	100%	99%
Turnover (Recent semi-annual)	< 25%	10%	15%	12%	32%
Active Risk					
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	12.73	7.94	3.93	3.52	14.16
- Portfolio vs. Bnmk	7.35	5.08	3.32	3.16	5.67
Risk Reduction	42%	36%	16%	10%	60%
Correlation Analysis					
Portfolio vs S&P500 correlation to Bnmk vs S&P500	0.827	0.775	0.591	0.438	0.917
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.229	0.155	-0.295	-0.038	0.073
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	No	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	No	Yes
R&T's Overall Grade	B+	B-	B+	B	B
SBI's Overall Assessment	Good	Good	Good	Good	Good

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1997

General Guidelines	CIC Asset	Cohen, Klingenstein & Marks	Compass Capital	New Amsterdam Partners
Benchmark Evaluation Period	9405-9712	9405-9712	9405-9712	9405-9712
Benchmark Coverage (Recent)	79%	92%	96%	100%
Positive Active Positions (Recent)	100%	100%	100%	100%
Turnover (Recent semi-annual)	22%	28%	15%	21%
Active Risk				
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	4.35	6.56	5.06	5.33
- Portfolio vs. Bnmk	3.36	6.26	4.29	4.50
Risk Reduction	23%	5%	15%	16%
Correlation Analysis				
Portfolio vs S&P500 correlation to Bnmk vs S&P500	0.648	0.386	0.541	0.567
Portfolio vs Bnmk correlation to Bnmk vs S&P500	0.163	-0.220	-0.138	-0.220
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes
R&T's Overall Grade	B	D+	B	B+
SBI's Overall Assessment	Good	Needs Improvement	Good	Excellent

BENCHMARK QUALITY EVALUATION

For Period Ending
December 1997

General Guidelines	Valenzuela Capital	Wilke Thompson	Winslow Capital	Zevenbergen Capital
Benchmark Evaluation Period	9405-9712	9405-9712	9405-9712	9405-9712
Benchmark Coverage (Recent)	97%	87%	97%	85%
Positive Active Positions (Recent)	100%	100%	100%	100%
Turnover (Recent semi-annual)	18%	40%	30%	14%
Active Risk				
Annualized Std. Dev. of VAM - Portfolio vs. S&P500	6.19	16.86	8.80	6.70
- Portfolio vs. Bnmk	4.38	7.64	6.59	5.93
Risk Reduction	29%	55%	25%	12%
Correlation Analysis				
Portfolio vs S&P500 correlation to Bnmk vs S&P500	0.729	0.904	0.664	0.543
Portfolio vs Bnmk correlation to Bnmk vs S&P500	-0.254	0.336	0.059	-0.315
Relative Style Coordinate Analysis (Portfolio located closer to bnmk than S&P500?)	Yes	Yes	Yes	Yes
Risk Characteristics (B/P, E/P, Growth, Etc.) (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes
Economic Sector Weights (Portfolio similar to bnmk over time?)	Yes	Yes	Yes	Yes
R&T's Overall Grade	B+	B	B-	B
SBI's Overall Assessment	Excellent	Good	Good	Good

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.

MINNESOTA
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Michael A. McGrath

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Attorney General
Hubert H. Humphrey III

Executive Director:

Howard J. Bicker

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DATE: May 4, 1998

TO: Members, Domestic Manager Committee

FROM: SBI Staff

SUBJECT: Review of Investment Manager Guidelines

The Minnesota State Board of Investment (SBI) has established guidelines for the internal and external 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 SBI and manager. The guidelines address return objectives, benchmarks, pricing and performance measurement, performance evaluation, eligible investments, communication, proxy voting, commodity futures trading, separate account/daily pricing, and future modifications.

Staff reviews the guidelines, annually, for accuracy and completeness. The Committee is asked to review the attached material and suggest any additional modifications that members feel are necessary to reflect SBI policy and procedural requirements.

The majority of modifications were additions or changes to language to enhance consistency across asset classes. A complete review of the guidelines by staff generated the following additional changes:

- ◆ *All managers.* Staff added language to the guidelines requiring managers to notify SBI of any class action suits that arise from ownership of any holding.
- ◆ *External passive domestic manager.* The use of covered call options as hedging devices is not appropriate for a passive manager. While covered calls have never been used by the manager, deleting them from the guidelines is a technical correction.
- ◆ *Assigned Risk Plan common stock manager.* Guidelines were updated to reflect the S&P500 as the benchmark that has been in place since GE Investment was hired.
- ◆ *Internal pooled cash manager.* The guidelines were modified to reflect the benchmark change approved by the Board in September 1996 where a fixed dollar amount is managed against each of two benchmarks instead of percentages of assets under management.

The complete guidelines are attached. Additions are noted by underline and deletions are indicated by ~~strike-out~~.

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES EXTERNAL ACTIVE DOMESTIC COMMON STOCK MANAGERS

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

1. RETURN/RISK OBJECTIVES

The external common stock managers are expected to deliver cumulative returns in excess of a predetermined benchmark portfolio (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. 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 performance will be evaluated according to the qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers.~~

4. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guideline will assess performance relative to the return/risk objectives in #1 above.

3-5. 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.
- (c) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.

- (d) 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.
- (e) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (f) Individual Manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.
- (g) 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~~
 - (5) ~~(6)~~ the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. ~~In addition, all~~ All commodity futures transactions must be done on a fully collateralized basis.

5.6. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlight any organizational changes which may impact management of the SBI's account.
- (c) 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. 7. PROXY VOTING

The SBI is responsible for proxy voting.

7. 8. 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.

9. SEPARATE ACCOUNT AND DAILY PRICING

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

8. 10. FUTURE MODIFICATIONS

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

Revised: ~~August 1997~~ May 1998

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. 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 performance will be evaluated according to ~~the~~ qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guideline will assess performance relative to the return/risk objectives in #1 above.

~~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.~~

3.5. 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.

- (c) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.
- (d) 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.
- (e) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (f) Individual manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.
- (g) 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~~
 - (5) (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.

5.6. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary" as described in the SBI's Manager Continuation Policy 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.
- (c) 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. 7. PROXY VOTING

The SBI is responsible for proxy voting.

7. 8. 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.

9. SEPARATE ACCOUNT AND DAILY PRICING

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

8. 10. FUTURE MODIFICATIONS

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

Date: ~~August 1997~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES EXTERNAL SEMI-PASSIVE DOMESTIC COMMON STOCK MANAGER

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

1. RETURN/RISK OBJECTIVES

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

- (a) The actual portfolio will realize active risk (annualized residual standard deviation), relative to the benchmark, in excess of one (1) 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 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. 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 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 this investment manager.~~

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guideline will assess performance relative to the return/risk objectives in #1 above.

3. 5. 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.
- (c) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.
- (d) 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.
- (e) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (f) 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)~~(5) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. ~~In addition, all~~ All commodity futures transactions must be done on a fully collateralized basis.

5. 6. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlight any organizational changes which may impact management of the SBI's account.
- (c) 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.

6.7. PROXY VOTING

The SBI is responsible for proxy voting.

7.8. 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.

9. SEPARATE ACCOUNT AND DAILY PRICING

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

8.10. 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: ~~August 1997~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES EXTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

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

1. RETURN/RISK OBJECTIVES

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

- (a) The actual portfolio will realize tracking error, relative to the benchmark, no greater than ± 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 benchmarks will be the Wilshire 5000. SBI reserves the right to change the benchmarks upon notification to manager.

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 performance will be evaluated according to qualitative and quantitative guidelines ~~established by SBI~~ set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guideline will assess performance relative to the return/risk objectives in #1 above.

3. 5. 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.
- (c) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.
- (d) 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.
- (e) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (f) Investment Managers are not constrained regarding:
 - (1) transaction turnover
 - ~~(2) use of covered call options as hedging devices~~
 - ~~(2)(3) liquidity requirements~~
 - ~~(3)(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~~
 - ~~(4)(6) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. In addition, all All commodity futures transactions must be done on a fully collateralized basis.~~

5. 6. COMMUNICATION

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

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

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

6.7. PROXY VOTING

The SBI is responsible for proxy voting.

7.8. 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.

9. SEPARATE ACCOUNT AND DAILY PRICING

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

8.10. FUTURE MODIFICATIONS

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

Revised: ~~August 1997~~ May 1998

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MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES EXTERNAL ACTIVE FIXED INCOME MANAGERS

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

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

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.

~~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 portfolio.~~
- ~~c) *Measurable.* It is possible to calculate the benchmark's return on a monthly basis.~~
- ~~d) *Appropriate.* The benchmark is consistent with the investment styles of the SBI's active managers.~~
- ~~e) *Specified in Advance.* The benchmark is established prior to the start of the evaluation period.~~

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 performance is evaluated ~~using the~~ according to qualitative and quantitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, ~~help the SBI decide whether to continue or terminate investment managers, which may change from time to time,~~ assist the SBI in its decisions concerning retention and termination of investment managers.

~~3.~~ 5. 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.

g) 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~~ All commodity futures transactions must be done on a fully collateralized basis.

5.6. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, on a quarterly basis (~~see #4 above~~). The Commentary will summarize performance results over the most recent quarter and year, and highlight any organizational changes which may impact management of the SBI's account.

(c) 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.

6.7. 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.

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. 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.

7.9. 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~~ the investment guidelines.

June 1997 May 1998

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 incorporate 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 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 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 strategies in place exceed 100% of the current portfolio market value.

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

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 portfolio with characteristics similar to ~~the Lehman Brothers Aggregate Bond Index (Lehman Aggregate)~~ benchmark. The specific manager risk tolerances are specified in #3 6 below. These parameters should generate only moderate/semi-passive tracking error 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~~ benchmark return on an annualized basis, over time, after fees.

2. BENCHMARKS

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

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.

~~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 portfolio.~~
- ~~c) **Measurable.** It is possible to calculate the benchmark's return on a monthly basis.~~
- ~~d) **Appropriate.** The benchmark is consistent with the investment styles of the SBI's active managers.~~
- ~~e) **Specified in Advance.** The benchmark is established prior to the start of the evaluation period.~~

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 performance is evaluated ~~using the~~ according to quantitative and qualitative guidelines established in the SBI's Manager Continuation Policy. These guidelines, ~~help the SBI decide whether to continue or terminate investment managers, which may change from time to time,~~ assist the SBI in its decisions concerning retention and termination of investment managers.

~~2.~~ 5. 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~~ 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.
- (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.

- (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 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~~ All commodity futures transactions must be done on a fully collateralized basis.

3.6. 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

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

Corporate Credit Guidelines

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

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

Duration Guidelines

\pm 0.2 years of the Lehman Brothers Aggregate duration

5. 7. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year, and highlight any organizational changes which may impact management of the SBI's account.
- (c) 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. 8. 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.

9. SEPARATE ACCOUNT AND DAILY PRICING

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

7. 10. 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~~ the investment guidelines.

Revised: ~~June 1997~~ May 1998

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 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.
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* Issues in this category may include:

- a) 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

INVESTMENT GUIDELINES ASSIGNED RISK PLAN COMMON STOCK MANAGER

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

1. RETURN/RISK OBJECTIVES

The Manager is expected to deliver cumulative returns in excess of a predetermined benchmark portfolio (see Benchmarks below). Over time, the 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 0.10 or greater.

2. BENCHMARKS

~~The 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.~~

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

3. PRICING AND PERFORMANCE MEASUREMENT

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

3. 5. ELIGIBLE INVESTMENTS

The Manager will be restricted to holding stocks, stock index futures, options, bonds, and cash equivalents. The manager's investments ~~of the 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, and/or be listed on the New York Stock Exchange or American Stock Exchange.
- (b) 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) Cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (d) Individual Manager holdings in convertible bonds shall not exceed five (5) percent of the total market value of the portfolio.

(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~~ All commodity futures transactions must be done on a fully collateralized basis.

5. 6. COMMUNICATION

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

~~(a) 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.~~

(b) 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 highlight any organizational changes which may impact management of the SBI's account.

(c) 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. 7. PROXY VOTING

The SBI is responsible for proxy voting.

7. 8. 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 the Manager.

9. SEPARATE ACCOUNT AND DAILY PRICING

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

8. 10. FUTURE MODIFICATIONS

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

Revised: ~~May 1996~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES ASSIGNED RISK PLAN ASSET MIX/BONDS

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

1. ASSET MIX

Manager must recommend an appropriate asset mix for the fixed income segment of the program based upon the liability stream of the Assigned Risk Plan. Manager must provide written analysis to support its asset mix decisions on an on-going basis as requested by SBI staff.

2. RETURN/RISK OBJECTIVES

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

3. BENCHMARK

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

- (a) **Unambiguous.** The names and weights of securities comprising the benchmark are clearly delineated.
- (b) **Investable.** The option is available to forego active management and simply hold the benchmark portfolio.
- (c) **Measurable.** It is possible to readily calculate the benchmark's return on a monthly basis.
- (d) **Appropriate.** The benchmark is consistent with Manager's investment style or biases.

- (e) **Reflective of current investment opinions.** Manager has current investment opinions (be they positive, negative, or neutral) on the securities which make up the benchmark.
- (f) **Specified in advance.** The benchmark must be available prior to the start of an evaluation period.

4. PRICING AND PERFORMANCE MEASUREMENT

The Account will be priced by the SBI's cutodian 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 Cutodian and the SBI.

5. PERFORMANCE EVALUATION

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

4.6. ELIGIBLE FIXED INCOME INVESTMENTS

Fixed income investments must satisfy the following criteria and constraints:

- (a) Government obligations of the U.S., its agencies, Canada, its provinces, or U.S. sponsored organizations must be payable in U.S. dollars and comply with the provisions of *Minnesota Statutes* (MS) 11A.24 subdivision 2.
- (b) U.S. and Canadian corporate obligations must be payable in U.S. dollars; be among the top four quality categories by a nationally recognized rating agency if the security is rated; or deemed to be among the top four quality categories equivalent if the security is not rated; and otherwise comply with all provisions of MS 11A.24 subdivision 3.
- (c) Other obligations not specified in (a) or (b) must meet the provisions of MS 11A.24 subdivision 4.
- (d) Cash equivalent reserves shall be invested in the SBI's STIF fund managed by the custodian bank.

~~(d)~~ (e) Manager is not constrained regarding:

- (1) transaction turnover.
- (2) use of covered call options as hedging devices.
- (3) number of fixed income issues which must be held at any given point in time.
- (4) the use of fixed income index futures or options to adjust the effective total portfolio duration. All futures and options positions must be fully collateralized.

5. CASH EQUIVALENTS

6. 7. CFTC CLEARING BROKER COMMODITY FUTURES TRADING AGREEMENT

~~The use of futures or options requires a separate commodities trading agreement between the SBI, Manager, and CFTC clearing broker prior to commencement of 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 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. 8. COMMUNICATION

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

~~(a) 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.~~

(b) 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 highlight any organizational changes which may impact management of the SBI's account.

(c) The Manager will promptly inform SBI staff and 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.

8. 9. PROXY VOTING

The SBI is responsible for proxy voting.

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. 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. 11. FUTURE MODIFICATIONS

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

Date: ~~May 1996~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES INTERNAL PASSIVE DOMESTIC COMMON STOCK MANAGER

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

1. RETURN/RISK OBJECTIVES

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

- (a) The actual portfolio will realize tracking error, relative to the benchmark, no greater than ± 20 basis points over any twelve month period.
- (b) Over a 3 to 5 year period, the return should be no more than negative 10 basis points relative to the predetermined benchmark due to 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. 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.

~~3.~~ 4. 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.

- (b) Manager may not purchase restricted stock, letter stock, or private placements.
- (c) Without prior written authorization from the SBI, manager may not purchase open or closed-end funds or pooled investment vehicles of any kind.
- (d) 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.
- (e) Cash equivalent reserves shall be invested in a STIF fund designated by the SBI.
- (f) 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)~~(4) the use of stock index futures to adjust the effective equity exposure of the portfolio from 0 to 100%. ~~However, all~~ All commodity futures transactions must be done on a fully collateralized basis.

4. 5. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlight any organizational changes which may impact management of the SBI's account.
- (c) 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.

5. 6. PROXY VOTING

The SBI is responsible for proxy voting.

6. 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. SEPARATE ACCOUNT AND DAILY PRICING

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

7. 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.

Revised: ~~August 1997~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES INTERNAL ACTIVE FIXED INCOME MANAGER

The investment actions of State Board of Investment (SBI) internal active fixed income manager will be governed and evaluated by 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, coupon and ~~company~~ issue 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. 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.

3.4. 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 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) 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 ± 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.

4.5. COMMUNICATION

(a) 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.~~

(b) 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.

(c) 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.

5. 6. 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.

7. SEPARATE ACCOUNT AND DAILY PRICING

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

6. 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: ~~June 1997~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INTERNAL SHORT-TERM CORPORATE FIXED-INCOME MANAGER INVESTMENT GUIDELINES

The investment actions of the State Board of Investment (SBI) internal active short-term corporate 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, coupon and ~~company~~ issue selection.

The portfolio is expected to deliver annualized returns that meet or beat 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 1-3 year government treasury indexes. 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 only corporate fixed-income instruments. The manager has the option to be less than fully invested. The investments must satisfy the following criteria:

- 1) U.S. and Canadian corporate obligations with one to three years remaining to maturity. All obligations must be payable in U.S. dollars, and are A-rated or better by a Nationally Recognized Statistical Rating Organization, and comply with all provisions of Minnesota Statutes 11A.24, subdivision 3.
- 2) Yankee corporate bonds with one to three years remaining to maturity, encompassing those foreign-domiciled issuers who borrow U.S. dollars and pay in U.S. dollars, and A-rated or better, by a Nationally Recognized Statistical Rating Organization.
- 3) Euro-dollar corporate obligations with one to three years remaining to maturity denominated in U.S. dollars and A-rated or better by a Nationally Recognized Statistical Rating Organization.

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

- 1) Up to 20% of the portfolio may be invested in U.S. dollar-denominated international securities;
- 2) Cash will be swept to the ITC fund.
- 3) No one issuer may exceed the greater of 10% of the portfolio's total value or \$5 million dollars.
- 4) The Manager is required to contain capital realized gains and losses to not more than 10% of the daily cash income distribution of the Invested Treasurer's Cash Pool unless prior permission of the Head of Short-Term Trading and either the SBI Director or Assistant Director of the Special Projects Manager has been received.
- 5) When the securities in the account approach one year to maturity, the Short-Term Traders will be given first right of refusal to purchase at the highest of three competitive bids.
- 6) Manager must have a clear description of a security before purchase. Manager must be able to certify daily the exact principal outstanding, the interest rate and the calculation method for each security.

4. COMMUNICATION

The Executive Director requires managers to communicate on a regular basis.

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

5. SEPARATE ACCOUNT AND DAILY PRICING

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

5.6. 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 1997~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES INTERNAL POOLED CASH MANAGEMENT

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

1. RISK/RETURN OBJECTIVES

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

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

2. INVESTED TREASURER'S CASH FUND BENCHMARK

The major cash pool, the Invested Treasurer's Cash Fund, is evaluated against a blended benchmark. Currently that benchmark is composed of the Lehman 1-3 Year Government Bond Index (~~25%~~) (\$600 million) and IBC All Taxable Money Fund Average Index (~~75%~~) remainder. SBI reserves the right to change the benchmark upon notification to the Manager. Other cash portfolios are difficult to evaluate due to their unique purposes and funding requirements.

3. ELIGIBLE INVESTMENTS AND PORTFOLIO CONSTRAINTS

A. The Manager may hold only fixed income investments that meet the criteria in *Minnesota Statutes*, section 11A.24. In addition to statutory investment guidelines, the Executive Director and staff of the State Board of Investment have adopted additional restrictions. References to quality categories of rating organizations do not include modifiers that may be used within categories. The investments must satisfy the following criteria and constraints:

- a) Government obligations of the U.S. or its agencies, Canada or its provinces, or obligations of other U.S. sponsored organizations. Such obligations must comply with the provisions of *Minnesota Statutes*, section 11A.24, subdivision 2, and be payable in U.S. dollars.
- b) U.S. and Canadian corporate obligations, including private placements, must be payable in U.S. dollars and be rated in the top three long term debt quality categories by a nationally recognized statistical rating organization (NRSRO).

- c) Bankers acceptances and deposit notes of U.S. banks rated in the top three deposit quality categories by a NRSRO.
- d) Commercial paper, including asset backed commercial paper and rated private placement commercial paper, of U.S. corporations or their Canadian subsidiaries rated in the top commercial paper quality category by a NRSRO.
- e) Asset backed securities, including private placements, that are U.S. dollar denominated and rated in the top two long term debt quality categories by a NRSRO.
- f) Repurchase agreements must be backed by collateral meeting the requirements of *Minnesota Statutes*, section 11A.24 and:
 - 1) If with a dealer, the dealer must be a primary dealer recognized by the New York Federal Reserve Bank, and:
 - a. if done on a tri-party basis, the dealer must have short-term obligation ratings no lower than A2/P2.
 - b. if done on a hold in custody basis, the dealer must have net excess regulatory capital of at least \$200 million.
 - 2) If with a bank, the bank must have deposit ratings of A1/P1 and be among the largest one hundred banks as rated by deposits.
- g) Mortgage securities that are U.S. dollar denominated and rated in the top three categories by a NRSRO.
- h) International securities must be payable in U.S. dollars and must meet the same quality criteria as domestic securities.
- i) The Cash Pools may not hold a security that exceeds five years to its final legal maturity.
- j) The Cash Pools may not hold structured securities that are leveraged or tied to more than one index.
- k) The Cash Pools may not hold 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) A portfolio must not be leveraged.
 - b) Up to 20 percent of a portfolio may be invested in international securities.
 - c) Up to 5 percent of a portfolio may exceed three years to maturity.

4. COMMUNICATION

~~The SBI Executive Director requires internal managers to communicate on a regular basis. 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 its managers. The Manager is expected to report monthly on returns and duration to the executive director and assistant executive director.~~

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

(b) The Manager is expected to provide the Executive Director with a "Manager Commentary" as requested by the Executive Director 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.

(c) The Manager will promptly inform the Executive Director 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.

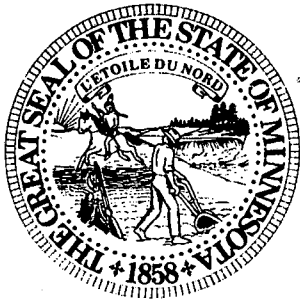
5. SEPARATE ACCOUNT AND DAILY PRICING

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

5.6. 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 1998



STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

First Quarter, 1998

**COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending March, 1998**

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Alliance Capital	18.0	16.4	69.1	54.1	40.6	34.0	25.7	22.1	21.0	15.7	\$1,228.21	6.2%
American Express AMG	10.5	14.5	37.4	49.8	27.4	33.4	18.9	23.1	16.5	17.5	\$541.22	2.7%
Brinson Partners	15.5	12.7	43.9	47.6	33.2	30.1			23.6	21.8	\$680.30	3.4%
Forstmann-Leff	14.9	11.1	54.4	38.2	34.6	26.4	22.4	18.4	16.3	14.4	\$568.77	2.9%
Franklin Portfolio	10.0	13.0	51.0	45.7	31.7	28.8	22.1	20.2	18.7	17.3	\$537.65	2.7%
GeoCapital	14.9	11.3	51.8	41.1	24.8	21.8	18.6	20.2	18.2	18.3	\$536.35	2.7%
IAI	8.4	11.6	32.1	45.7	21.5	28.3			17.1	21.6	\$221.33	1.1%
Independence	14.4	14.3	46.9	48.8	31.7	33.3	21.3	22.5	20.2	21.0	\$615.81	3.1%
Lincoln	15.1	16.8	45.7	55.2	33.7	34.7			24.7	25.2	\$689.27	3.1%
Oppenheimer	15.7	13.1	48.9	47.2	35.4	31.1			25.5	22.3	\$729.66	3.7%
Weiss Peck & Greer	7.2	11.2	36.7	38.3	23.2	21.0			15.2	17.0	\$395.06	2.0%
Emerging Managers (2)	15.3	14.3	52.6	47.8	29.8	30.2			24.9	25.6	\$655.05	3.3%
Semi-Passive Managers (3)												
Franklin Portfolio	13.3	12.5	52.1	48.9	33.0	32.3			33.5	33.0	\$1,986.43	10.0%
JP Morgan	13.4	12.5	49.9	48.9	32.6	32.3			33.3	33.0	\$2,020.33	10.2%
Barclays Global Investors	12.4	12.5	48.9	48.9	33.7	32.3			34.3	33.0	\$2,025.01	10.2%
Passive Manager (4)												
Barclays Global Investors	13.3	13.3	48.4	47.7					30.3	30.0	\$6,415.58	32.3%
Current Aggregate												
Current Aggregate	13.4	13.2	49.3	47.9	32.2	31.0	21.7	21.5	18.3	16.1	\$19,846.04	100.0%
Historical Aggregate (5)												
Historical Aggregate (5)	13.4	13.2	49.3	47.9	31.6	31.0	21.1	21.3	16.5	16.7		
Wilshire Adjusted		13.3		47.7		31.1		21.2		16.7		
Wilshire 5000		13.3		47.7		31.1		21.3		16.9		

- (1) Since retention by the SBI. Time period varies for each manager.
(2) Aggregate of emerging manager group. The benchmark reflects a composite of published indexes prior to implementation of custom benchmarks on 4/1/96.
(3) Semi-passive managers retained 1/95. All use completeness fund benchmark.
(4) Passive manager retained 7/95 to manage a Wilshire 5000 index fund.
(5) Includes the performance of terminated managers.

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ALLIANCE CAPITAL MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Jack Koltes

Assets Under Management: \$1,228,213,299

Investment Philosophy

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

Staff Comments

- Alliance continues to exceed performance expectations.
- Staff will visit their office during 2Q98 to perform an annual review.
- Alliance is taking a slightly more defensive position by owning more names in the portfolio and by diversifying across more stocks in the consumer and financial sectors.

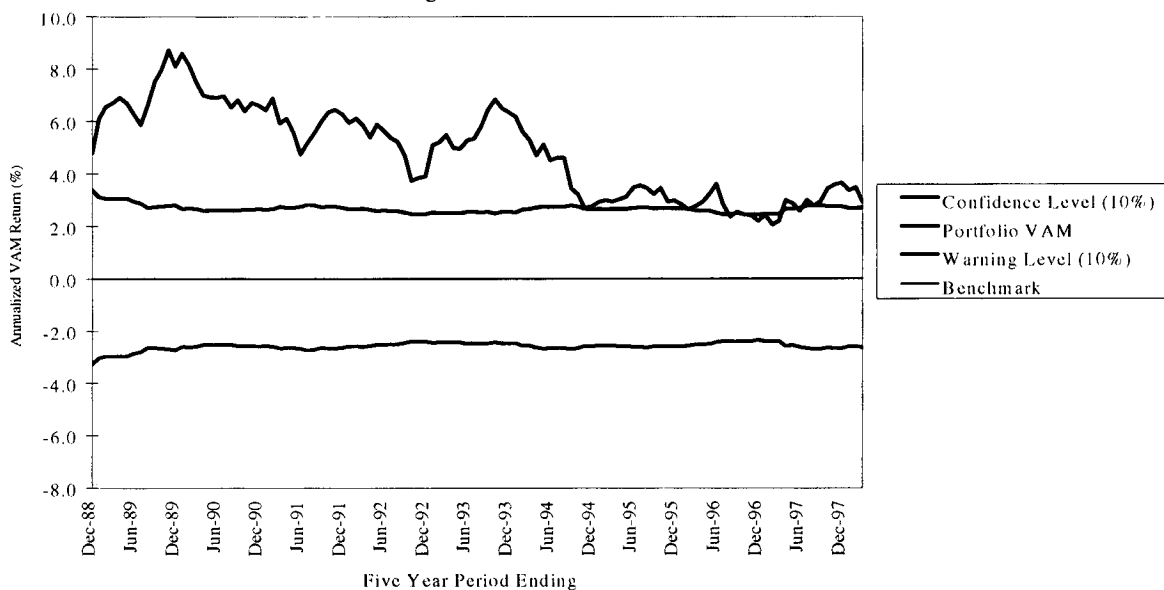
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18.0%	16.4%
Last 1 year	69.1	54.1
Last 2 years	43.3	34.9
Last 3 years	40.6	34.0
Last 4 years	32.5	28.5
Last 5 years	25.7	22.1
Since Inception (1/84)	21.0	15.7

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year VAM



AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Jim Johnson

Assets Under Management: \$541,219,942

Investment Philosophy

American Express Asset Management Group (AMG) employs a concentrated style of management. The methodology by which the portfolio is managed is based on a fundamentally driven and quantitatively managed process. Using 20 to 30 of the top-rated stocks by American Express Financial research analysts, the portfolio seeks to maximize the greatest level of risk-adjusted return for a predetermined level of risk tolerance. Due to the level of concentration, the active risk versus the normal portfolio will be higher than that of the typical active manager. Trading within the portfolio is also analyst driven, which will lead to turnover between 80 and 120 percent per year. Because the focus of the methodology is concentrated stock selection, the portfolio will remain fully invested at all times.

Staff Comments

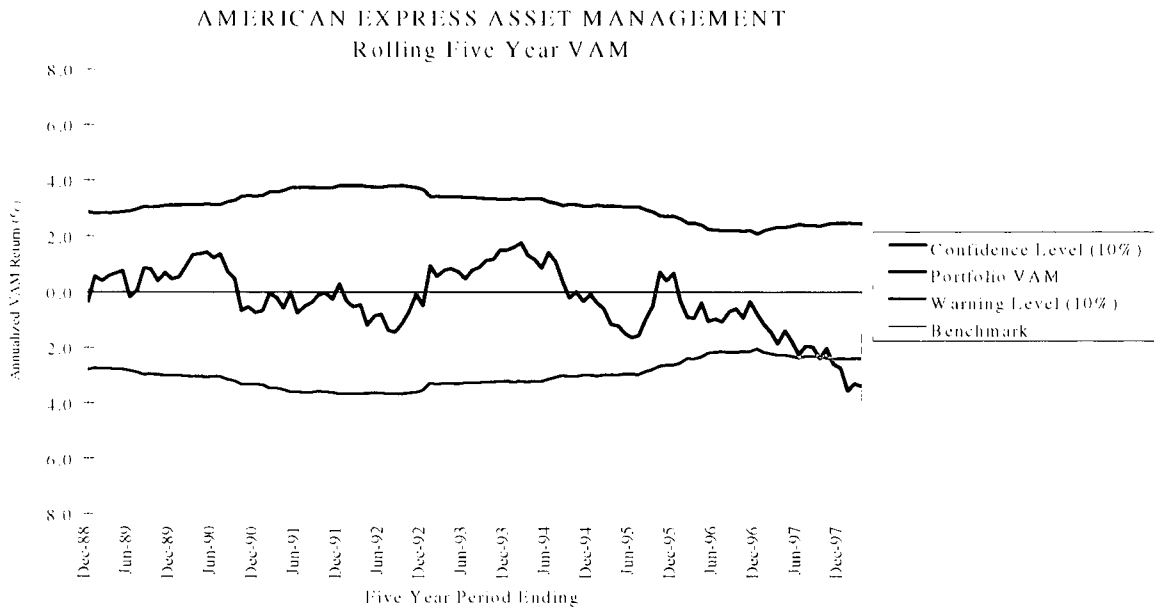
- Due to performance concerns, the Domestic Manager committee reviewed AMG for the December 1997 Board Meeting. They recommended that no action be taken at that time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.5%	14.5%
Last 1 year	37.4	49.8
Last 2 years	24.9	33.8
Last 3 years	27.4	33.4
Last 4 years	22.8	28.5
Last 5 years	18.9	23.1
Since Inception (1/84)	16.5	17.5

Recommendation

AMG will discuss their investment and portfolio construction processes at the May 1998 Domestic Manager Committee meeting.



BRINSON PARTNERS
Periods Ending March, 1998

Portfolio Manager: Jeff Diermeier

Assets Under Management: \$680,297,807

Investment Philosophy

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

Staff Comments

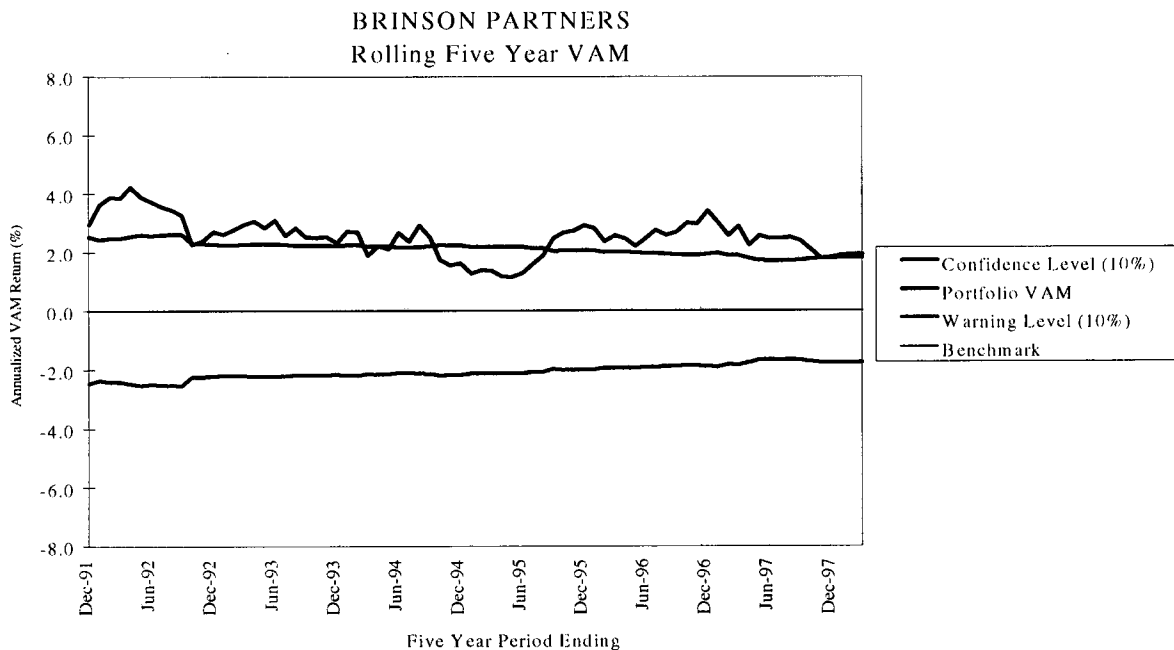
- Swiss Bank Corporation (SBC) and Union Bank of Switzerland have merged into a single organization called United Bank of Switzerland (UBS). SBC Brinson and UBS Asset Management have become the Brinson division of UBS, headed by Gary Brinson.
- Staff visited Brinson Partners in Chicago in March 1998. The merger appears to be going smoothly and is not expected to impact the investment process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.5%	12.7%
Last 1 year	43.9	47.6
Last 2 years	30.5	30.1
Last 3 years	33.2	30.1
Last 4 years	28.2	25.7
Last 5 years	N.A.	N.A.
Since Inception (7/93)	23.6	21.8

Recommendation

No action required.



Note: Shaded area includes performance prior to retention by the SBI.

FORSTMANN-LEFF ASSOCIATES
Periods Ending March, 1998

Portfolio Manager: Joel Leff

Assets Under Management: \$568,770,855

Investment Philosophy

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

Staff Comments

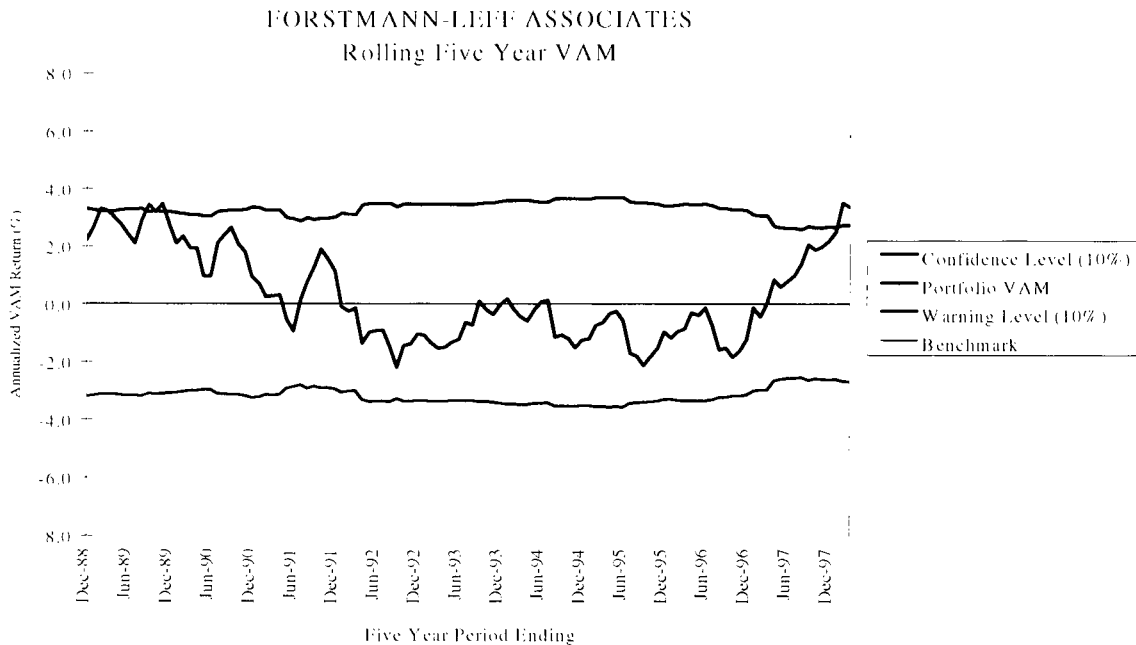
- FLA visited the SBI in April 1998. They discussed their views on the economy, the market, problems in Asia, and their investment strategy. They are underweight in financials due to a flat yield curve and Asian financial problems. They are overweight in consumer non-durables and technology. There are no issues to report at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.9%	11.1%
Last 1 year	54.4	38.2
Last 2 years	35.1	24.3
Last 3 years	34.6	26.4
Last 4 years	26.9	22.9
Last 5 years	22.4	18.4
Since Inception (1/84)	16.3	14.4

Recommendation

No action required.



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 1998

Portfolio Manager: John Nagorniak

Assets Under Management: \$537,651,247

Investment Philosophy

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

Staff Comments

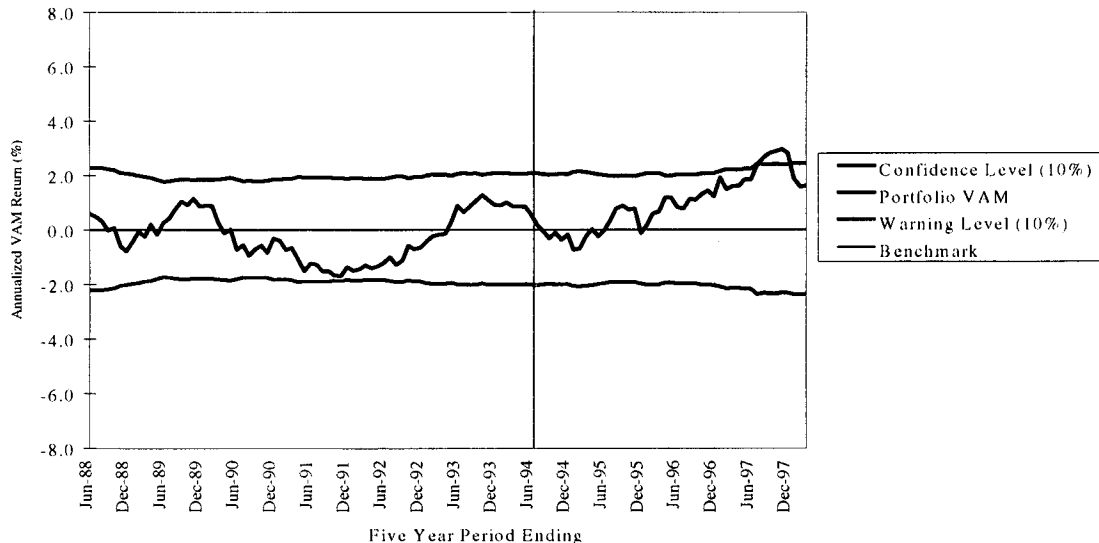
- Franklin Portfolio Associates visited the SBI in April 1998. They have broadened the team by adding several new staff members. Their performance during the quarter was hurt by holdings such as Compaq which did poorly and by having no exposure to banks. There are no other issues to report at this time.

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	10.0%	13.0%	No action required.
Last 1 year	51.0	45.7	
Last 2 years	31.4	28.2	
Last 3 years	31.7	28.8	
Last 4 years	26.7	24.8	
Last 5 years	22.1	20.2	
Since Inception (4/89)	18.7	17.3	

Recommendation

FRANKLIN PORTFOLIO ASSOCIATES
 Rolling Five Year VAM



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

GEOCAPITAL CORP.
Periods Ending March, 1998

Portfolio Manager: Barry Fingerhut

Assets Under Management: \$536,354,892

Investment Philosophy

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

Staff Comments

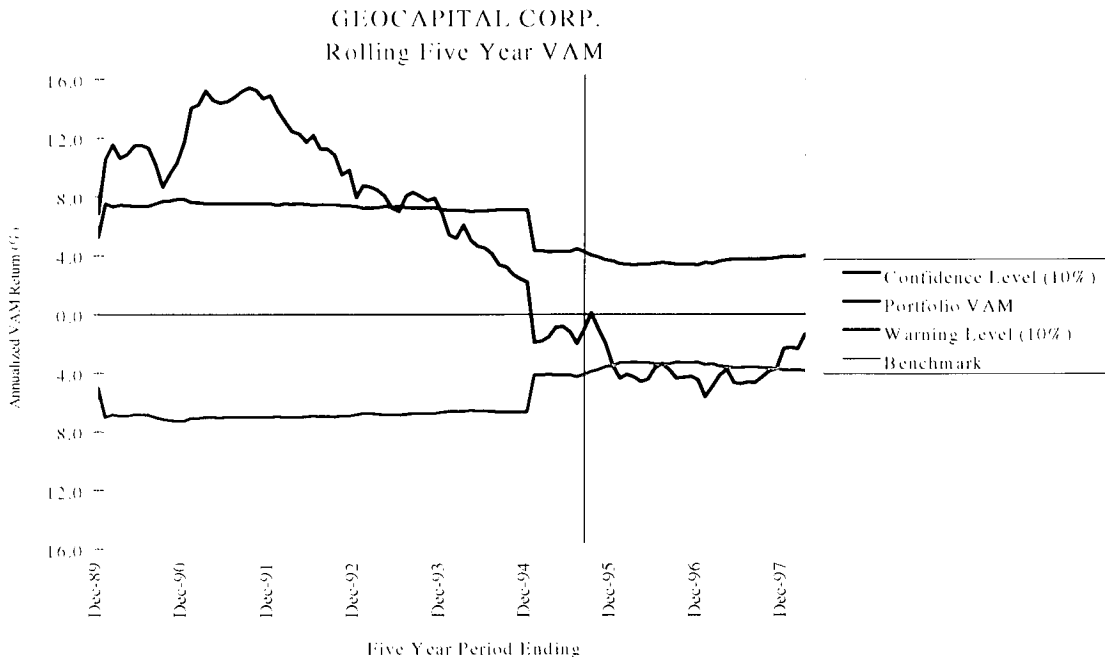
- GeoCapital was reinterviewed by the Domestic Manager committee and retained by the Board in March 1997.
- Affiliated Managers Group (AMG) has completed their investment in GeoCapital. They are helping GeoCapital improve their back-office operations and client servicing. AMG has implemented long-term employment contracts and incentives for key investment people at GeoCapital. Staff believes this acquisition will have a positive impact on the firm.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.9%	11.3%
Last 1 year	51.8	41.1
Last 2 years	24.2	15.5
Last 3 years	24.8	21.8
Last 4 years	20.0	21.5
Last 5 years	18.6	20.2
Since Inception (4/90)	18.2	18.3

Recommendation

No action required.



Note: Scale differs from other VAM graphs.

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

INVESTMENT ADVISERS INC.
Periods Ending March, 1998

Portfolio Manager: Mark Hoonsbeen

Assets Under Management: \$221,330,530

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.

Staff Comments

- Due to concerns about organizational changes and a poor benchmark, IAI was re-interviewed by the Domestic Manager Committee and retained by the Board in September 1997. Staff agreed to review the firm again in 1Q98 and did so in January. No action was taken, but the firm will be reviewed again at the August 1998 Committee meeting.
- IAI has completed work on an improved benchmark to be implemented May 1, 1998. This revision will eliminate many illiquid names, as well as securities that are currently not included in their research universe.

Quantitative Evaluation

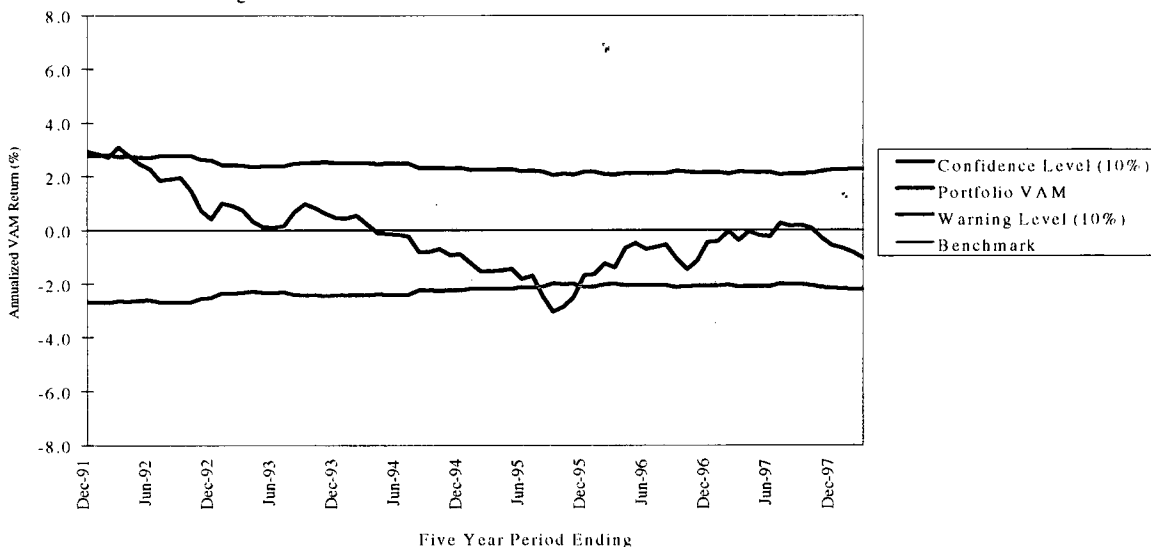
	Actual	Hist. Bnmk	New Bnmk
Last Qtr.	8.4%	11.6%	11.6%
Last 1 Yr.	32.1	45.7	44.0
Last 2 Yrs.	17.6	27.9	23.6
Last 3 Yrs.	21.5	28.3	24.0
Last 4 Yrs.	18.6	25.1	20.6
Last 5 Yrs.	N.A.	N.A.	N.A.
Since Incep. (7/93)	17.1	21.6	N.A.

Note: The VAM graph below depicts IAI's historical performance relative to the historical benchmark from December 1991 through January 1994, relative to the backtested benchmark from January 1994 through September 1997, and relative to the revised benchmark from September 1997 forward.

Recommendation

No action required.

INVESTMENT ADVISERS, INC.
 Rolling Five Year VAM - "Back Tested" Benchmark



Note: Shaded area includes performance prior to retention by the SBI.

LINCOLN CAPITAL MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Parker Hall

Assets Under Management: \$689,272,483

Investment Philosophy

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

Staff Comments

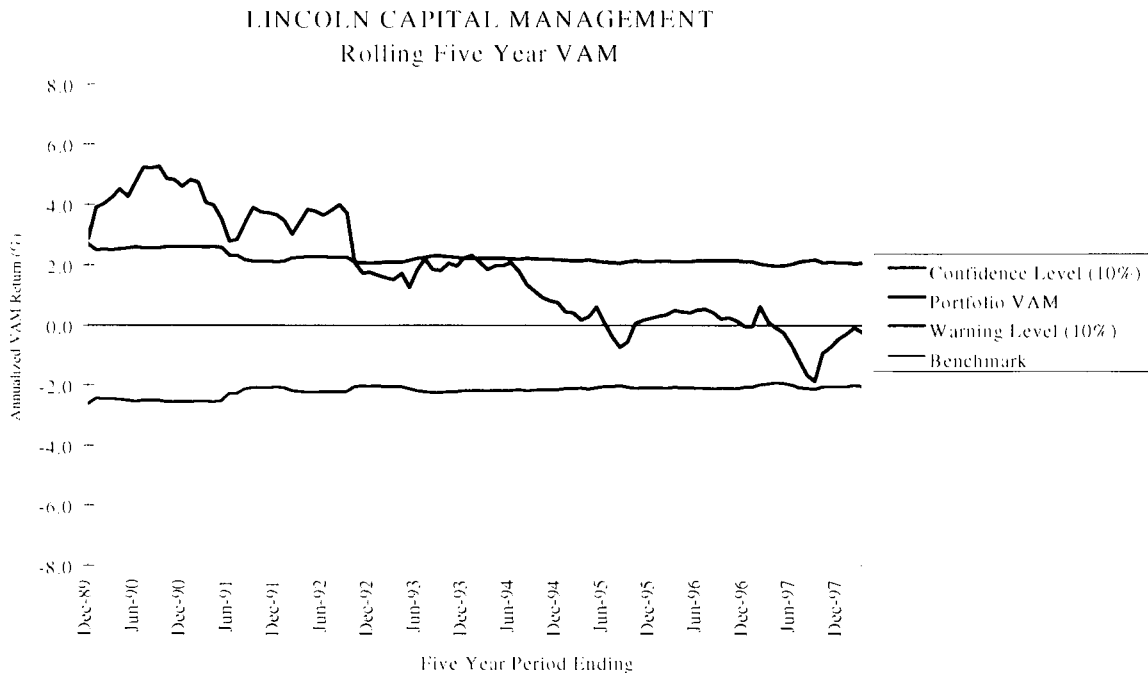
- Lincoln Capital Management has defined the transition periods for two of their senior people. Tim Ubben will retire in two years and Parker Hall will remain actively involved for up to three years.
- Searches for a new financial services analyst and a fourth portfolio manager will take place in 1998.
- Staff met with Lincoln Capital both at the SBI and in Chicago in March 1998. Underperformance has largely been due to "omission misses" and poor stock-selection in the technology, retail and energy sectors. The investment process is unchanged and no significant issues were uncovered during these visits.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.1%	16.8%
Last 1 year	45.7	55.2
Last 2 years	31.9	36.3
Last 3 years	33.7	34.7
Last 4 years	29.7	30.3
Last 5 years	N.A.	N.A.
Since Inception (7/93)	24.7	25.2

Recommendation

No action required.



OPPENHEIMER CAPITAL
Periods Ending March, 1998

Portfolio Manager: John Lindenthal

Assets Under Management: \$729,661,807

Investment Philosophy

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

Staff Comments

- PIMCO Advisors acquired a 1/3 controlling interest in Oppenheimer Capital, effective November 1997. This change is not expected to impact Oppenheimer's investment process.
- Staff performed an annual review of Oppenheimer at their New York office in October 1997. The organization and investment process have remained stable and the visit uncovered no negative issues.

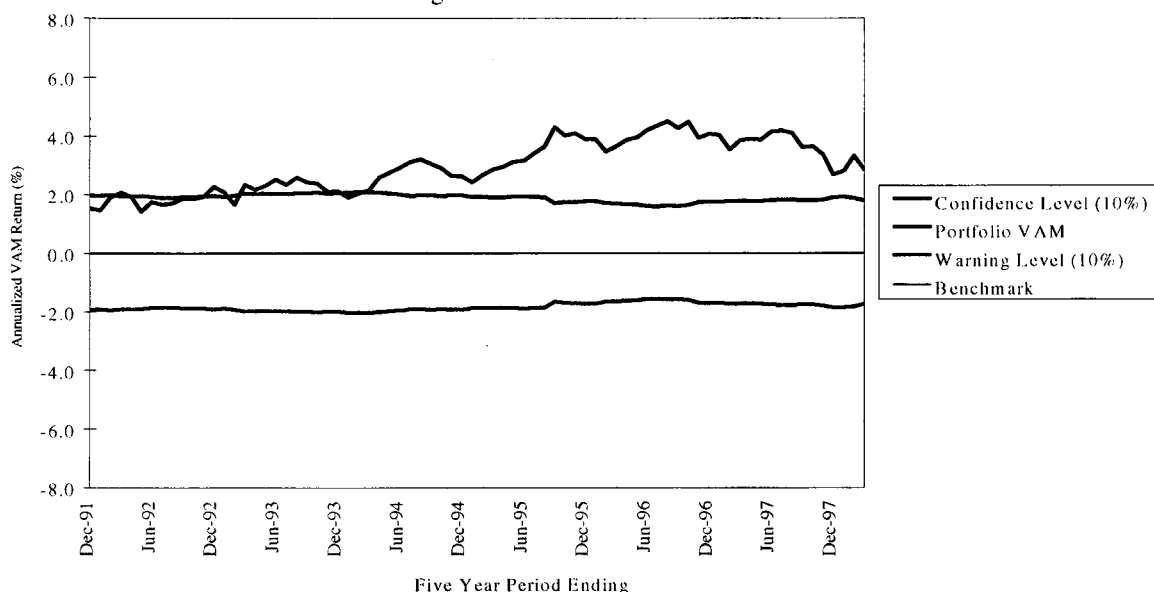
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.7%	13.1%
Last 1 year	48.9	47.2
Last 2 years	34.2	31.0
Last 3 years	35.4	31.1
Last 4 years	30.2	26.5
Last 5 years	N.A.	N.A.
Since Inception (7/93)	25.5	22.3

Recommendation

No action required.

OPPENHEIMER CAPITAL
Rolling Five Year VAM



Note: Shaded area includes performance prior to retention by the SBI.

WEISS, PECK & GREER
Periods Ending March, 1998

Portfolio Manager: Melville Straus

Assets Under Management: \$395,064,748

Investment Philosophy

Weiss, Peck & Greer's dynamic growth process concentrates on small to medium size growth companies that have demonstrated consistently superior earnings growth rates. The process emphasizes companies in new or dynamic, rapidly growing industries where there is a potential for a major acceleration in earnings growth. The firm also believes that superior stock selection can be achieved through in-depth fundamental company research.

Staff Comments

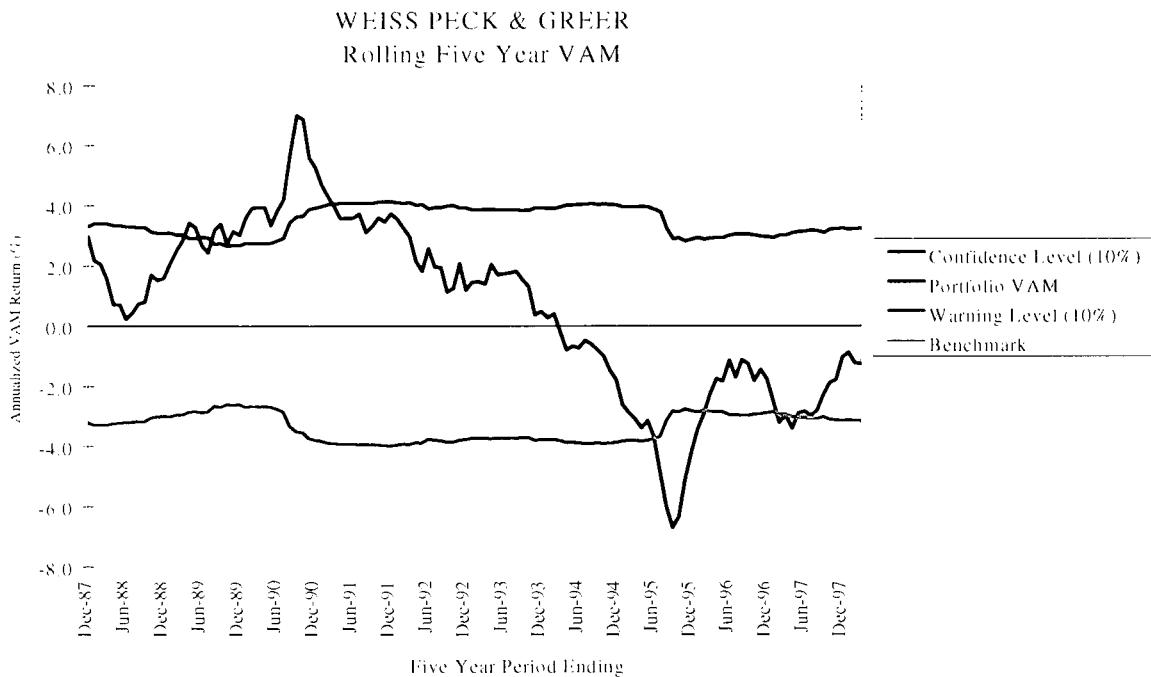
- Mickey Strauss, Portfolio Manager, left Weiss, Peck & Greer at the end of December 1997. Management of the portfolio has been transitioned to Adam Starr, who will use a more disciplined and risk-controlled "Growth at a Reasonable Price" style.
- Nancy Enslein joined the small-cap team as a Generalist Research Analyst during IQ98.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.2%	11.2%
Last 1 year	36.7	38.3
Last 2 years	14.2	15.7
Last 3 years	23.2	21.0
Last 4 years	17.7	18.6
Last 5 years	N.A.	N.A.
Since Inception (7/93)	15.2	17.0

Recommendation

No action required.



Note: Shaded area includes performance prior to retention by the SBI.

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending March, 1998

Portfolio Manager: John Nagorniak

Assets Under Management: \$1,986,430,409

Investment Philosophy
Semi-Passive

Staff Comments

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

- Franklin Portfolio Associates visited the SBI in April 1998. They have broadened the team by adding several new staff members, but there are no other issues to report at this time.

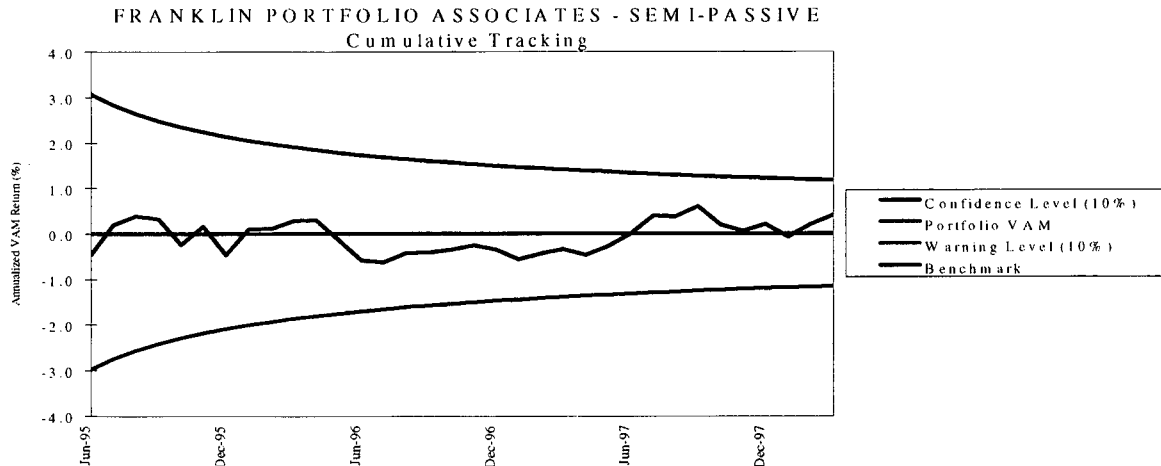
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	13.3%	12.5%
Last 1 year	52.1	48.9
Last 2 years	33.6	32.9
Last 3 years	33.0	32.3
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	33.5	33.0

Recommendation

No action required.

* Completeness Fund



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

Portfolio Manager: Rick Nelson

Assets Under Management: \$2,020,328,977

Investment Philosophy
Semi-Passive

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

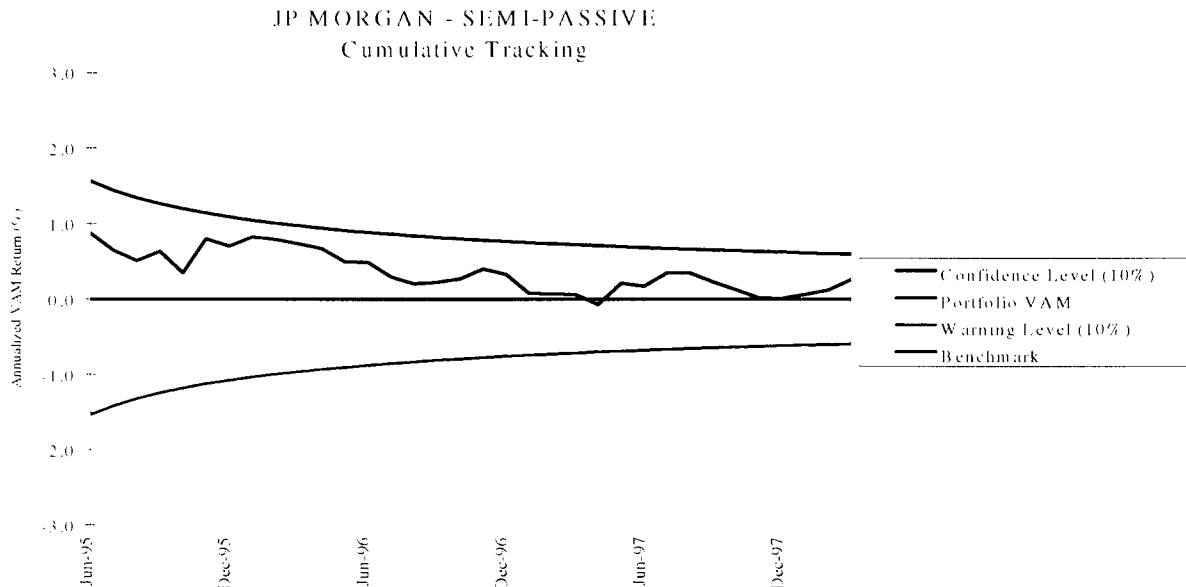
Staff Comments

- Staff met with J.P. Morgan in February 1998. J.P. Morgan underwent a 5% staff reduction during 1Q98, but still expects headcount growth to exceed 10% in 1998. Staff cuts were focused in non-investment areas and should not impact management of the SBI's portfolio.

Quantitative Evaluation

	Actual	Benchmark*	Recommendation
Last Quarter	13.4%	12.5%	No action required.
Last 1 year	49.9	48.9	
Last 2 years	32.9	32.9	
Last 3 years	32.6	32.3	
Last 4 years	N.A.	N.A.	
Last 5 years	N.A.	N.A.	
Since Inception (1/95)	33.3	33.0	

* Completeness Fund



BARCLAYS GLOBAL INVESTORS
Periods Ending March, 1998

Portfolio Manager: Nancy Feldkircher

Assets Under Management: \$2,025,008,632

Investment Philosophy
Semi-Passive

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

Staff Comments

- Staff visited BGI's San Francisco office in February 1998. Although the portfolio slightly underperformed the benchmark for the quarter, performance has been within the range of expectations. BGI's research group continues to make improvements to the stock selection models, but there have been no significant changes to the investment process.

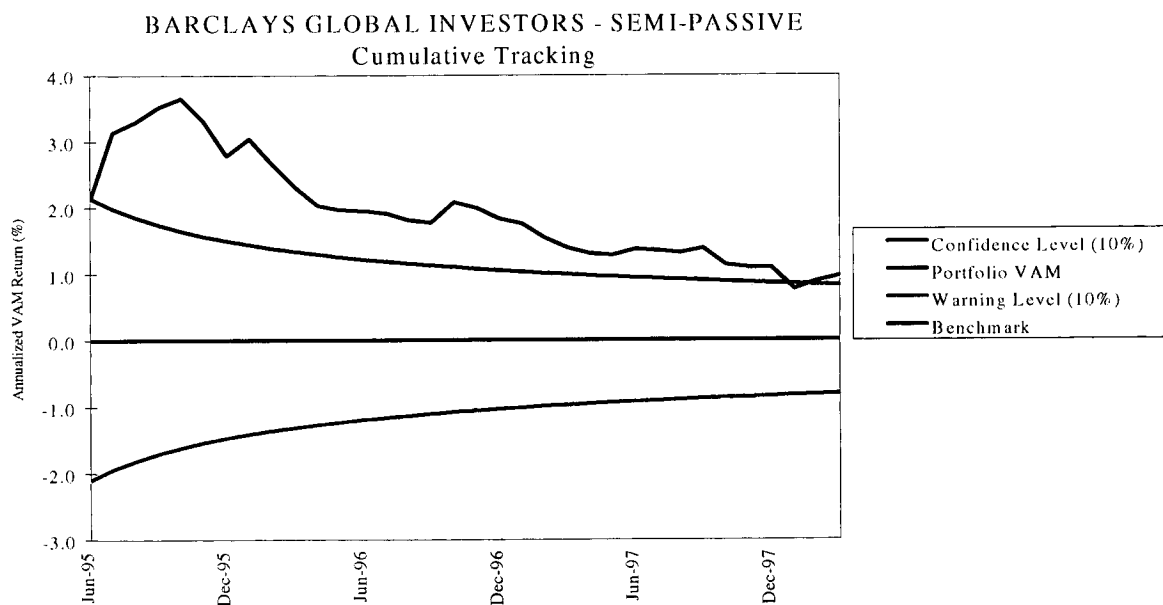
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	12.4%	12.5%
Last 1 year	48.9	48.9
Last 2 years	33.1	32.9
Last 3 years	33.7	32.3
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	34.3	33.0

Recommendation

No action required.

* Completeness Fund



BARCLAYS GLOBAL INVESTORS
Periods Ending March, 1998

Portfolio Manager: Tom Seto

Assets Under Management: \$6,415,580,653

Investment Philosophy
Passive

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

Staff Comments

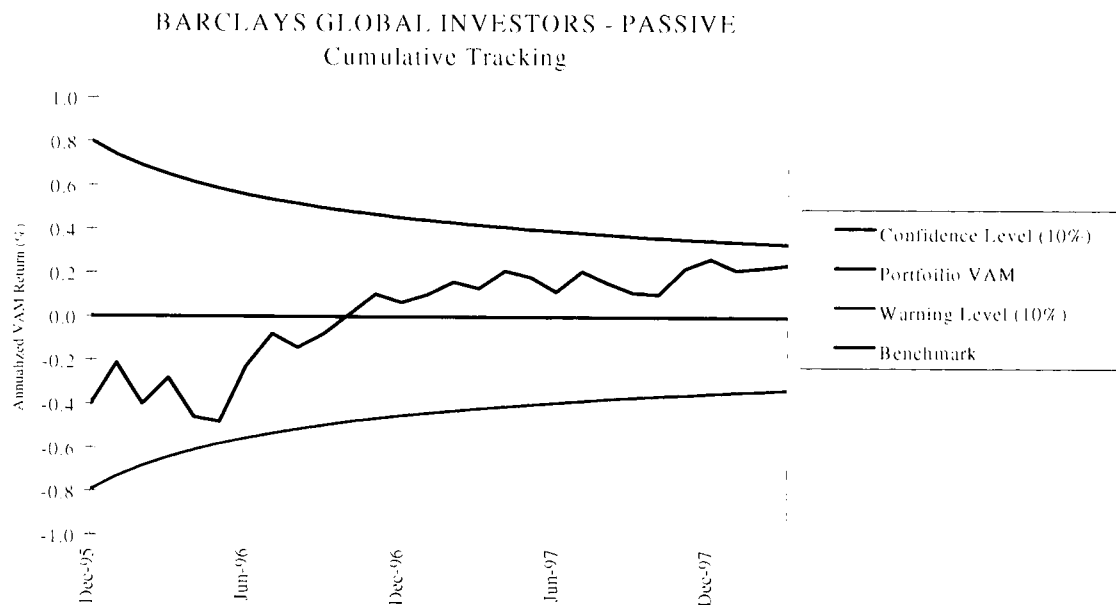
- Staff visited BGI's office in San Francisco during February 1998. Positive tracking in the portfolio has been caused by using substitution rather than full-replication in the micro-cap area of the Wilshire 5000. Going forward, BGI will reduce tracking error by using crossing opportunities to become more fully replicated in this segment of the market.

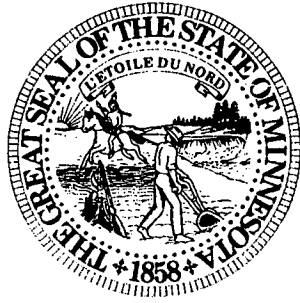
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.3%	13.3%
Last 1 year	48.4	47.7
Last 2 years	31.2	30.6
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)	30.3	30.0

Recommendation

No action required.





STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

First Quarter, 1998

**COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending March, 1998**

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
CIC Assets	12.3	12.1	49.1	46.6	31.9	31.8			26.4	27.4	\$76.47	11.7%
Cohen, Klingenstein, & Marks	18.9	15.1	52.8	45.5	34.2	30.7			29.7	25.8	151.54	23.1%
Compass Capital	9.7	14.2	45.6	51.0	27.9	31.5			25.4	26.6	74.16	11.3%
New Amsterdam	16.9	13.4	58.8	46.5	32.8	27.5			25.9	24.1	75.35	11.5%
Valenzuela Capital	11.1	12.2	49.7	44.8	34.2	28.1			27.8	23.8	80.07	12.2%
Wilke/Thompson	18.2	15.7	46.9	48.6	15.9	23.4			15.4	19.5	53.19	8.1%
Winslow Capital	16.5	15.7	60.9	50.3	27.1	29.6			23.9	25.2	70.63	10.8%
Zevenbergen Capital	17.0	16.0	58.0	51.0	31.1	30.0			25.2	25.6	73.64	11.2%
											\$655.05	100.0%
									Since 4/1/94			
Current Aggregate	15.3	14.3 *	52.6	47.8 *	30.0	29.3 *			25.5	25.0 *		
Historical Aggregate	15.3	14.3 *	52.6	47.8 *	29.8	28.9 *			24.9	24.5 *		

Note:

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

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

CIC ASSET MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Jorge Castro

Assets Under Management: \$76,467,609

Investment Philosophy

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

Staff Comments

Staff met with CIC in their office to review their organization, investment strategy, and portfolio performance. Staff believes there are no issues at this time.

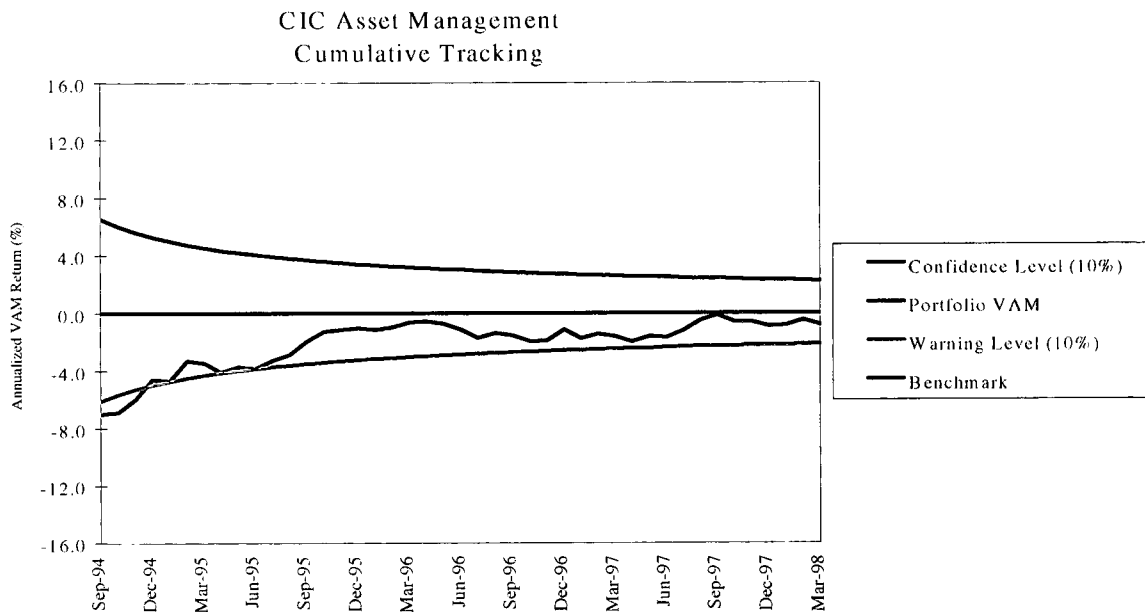
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	12.3%	12.1%
Last 1 Year	49.1	46.6
Last 2 Years	30.5	31.8
Last 3 Years	31.9	31.8
Since Inception (4/94)	26.4	27.4

Recommendation

No action required.

* Custom benchmark since inception date.



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending March, 1998

Portfolio Manager: George Cohen

Assets Under Management: \$151,544,128

Investment Philosophy

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

Staff Comments

Staff met with Cohen during the previous quarter to discuss staff's concern regarding Cohen's review of its customized benchmark. Cohen has agreed to more frequent rebalancings of its benchmark. Staff will continue to monitor the situation closely.

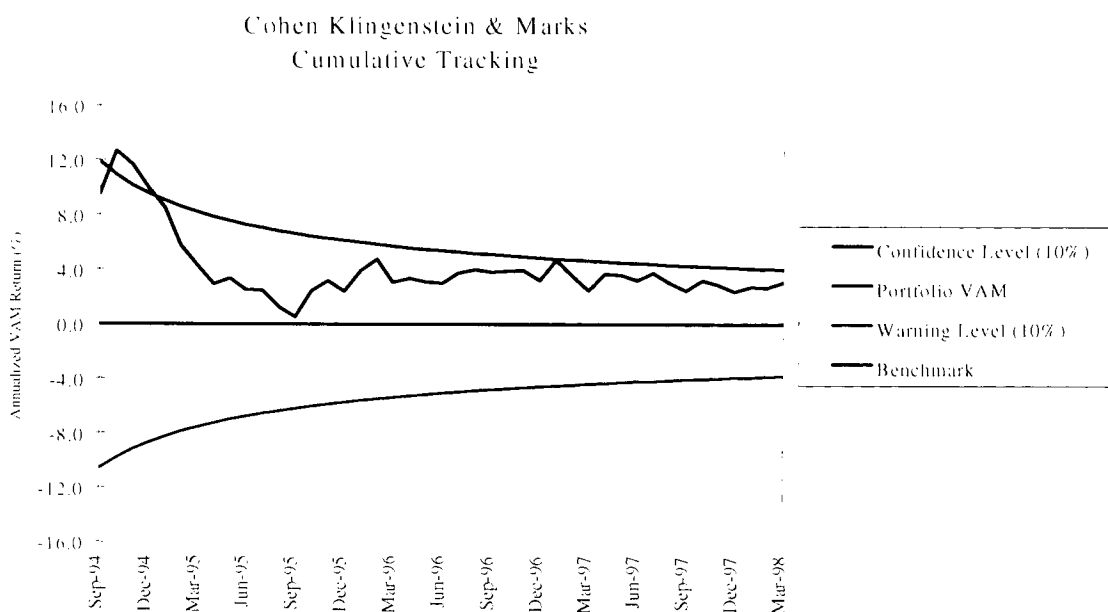
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	18.9%	15.1%
Last 1 Year	52.8	45.5
Last 2 Years	34.9	30.9
Last 3 Years	34.2	30.7
Since Inception. (4/94)	29.7	25.8

Recommendation

No action required.

* Custom benchmark since inception date.



COMPASS CAPITAL MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Charles Kelley

Assets Under Management: \$74,156,235

Investment Philosophy

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

Staff Comments

No comments at this time.

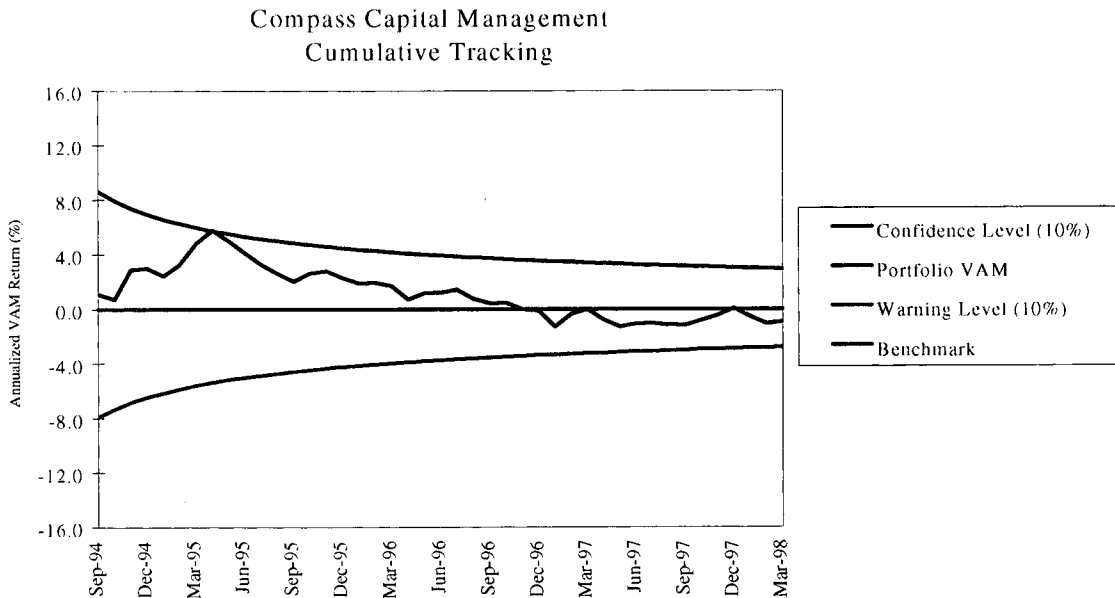
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.7%	14.2%
Last 1 Year	45.6	51.0
Last 2 Years	28.1	32.8
Last 3 Years	27.9	31.5
Since Inception (4/94)	25.4	26.6

Recommendation

No action required.

* Custom benchmark since inception date.



NEW AMSTERDAM PARTNERS
Periods Ending March, 1998

Portfolio Manager: Michelle Clayman

Assets Under Management: \$75,350,499

Investment Philosophy

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

Staff Comments

No comments at this time.

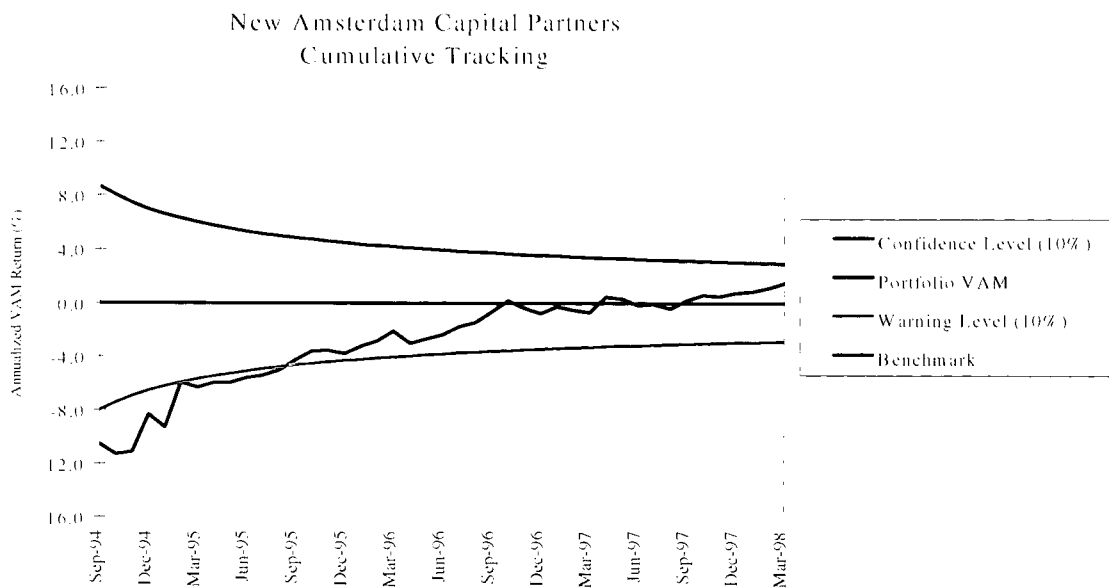
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	16.9%	13.4%
Last 1 Year	58.8	46.5
Last 2 Years	35.0	28.4
Last 3 Years	32.8	27.5
Since Inception (4/94)	25.9	24.1

Recommendation

No action required.

* Custom benchmark since inception date.



VALENZUELA CAPITAL MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Tom Valenzuela

Assets Under Management: \$80,066,416

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

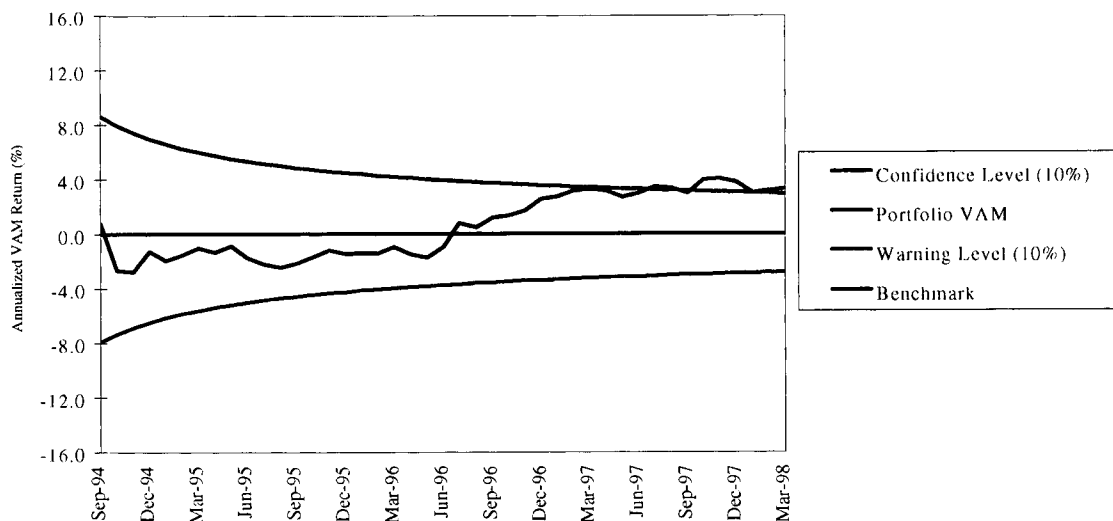
	Actual	Benchmark*
Last Quarter	11.1%	12.2%
Last 1 Year	49.7	44.8
Last 2 Years	37.7	27.8
Last 3 Years	34.2	28.1
Since Inception (4/94)	27.8	23.8

Recommendation

No action required.

* Custom benchmark since inception date.

Valenzuela Capital Partners
 Cumulative Tracking



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

Portfolio Manager: Mark Thompson

Assets Under Management: \$53,189,787

Investment Philosophy

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

Staff Comments

No comments at this time.

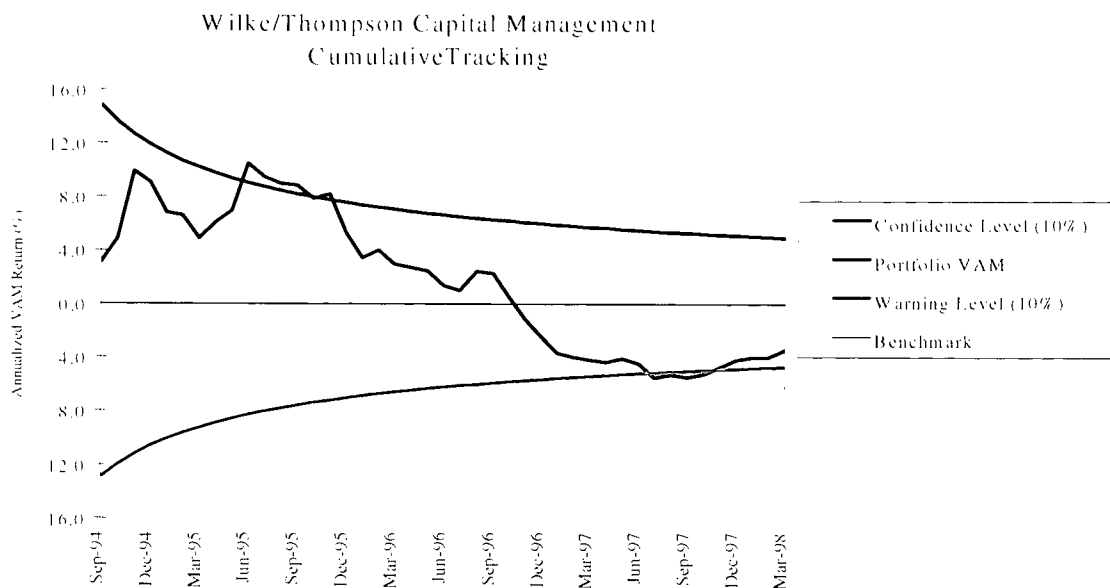
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	18.2%	15.7%
Last 1 Year	46.9	48.6
Last 2 Years	9.1	20.4
Last 3 Years	15.9	23.4
Since Inception (4/94)	15.4	19.5

Recommendation

No action required.

* Custom benchmark since inception date.



WINSLOW CAPITAL MANAGEMENT

Periods Ending March, 1998

Portfolio Manager: Clark Winslow

Assets Under Management: \$70,631,487

Investment Philosophy

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

Staff Comments

No comments at this time.

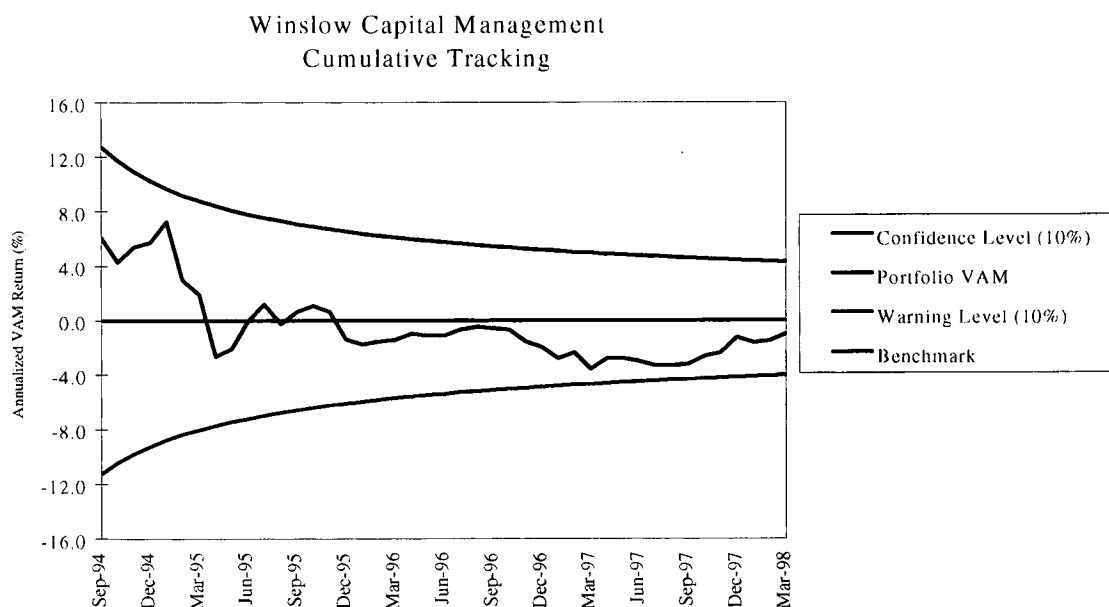
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	16.5%	15.7%
Last 1 Year	60.9	50.3
Last 2 Years	29.2	30.0
Last 3 Years	27.1	29.6
Since Inception (4/94)	23.9	25.2

Recommendation

No action required.

* Custom benchmark since inception date.



ZEVENBERGEN CAPITAL INC
Periods Ending March, 1998

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$73,639,595

Investment Philosophy

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

Staff Comments

Staff met with Zevenbergen in their office to review their organization, investment strategy, and portfolio performance. Staff believes there are no issues at this time.

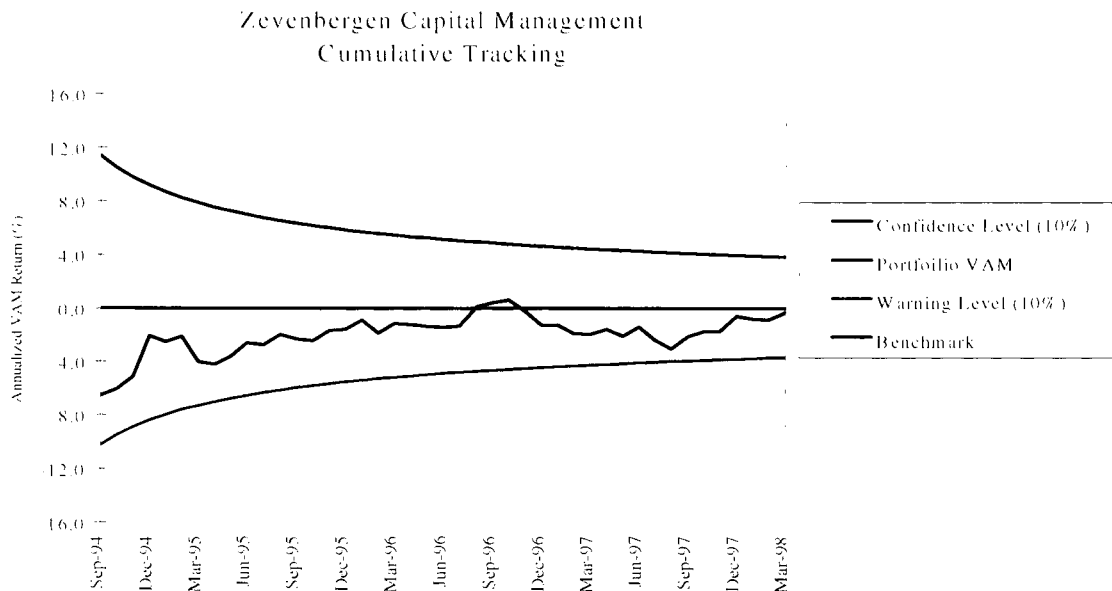
Quantitative Evaluation

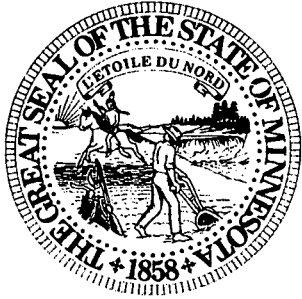
	Actual	Benchmark*
Last Quarter	17.0%	16.0%
Last 1 Year	58.0	51.0
Last 2 Years	32.0	31.5
Last 3 Years	31.1	30.0
Since Inception (4/94)	25.2	25.6

Recommendation

No action required.

* Custom benchmark since inception date.





STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

First Quarter, 1998

**COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending March, 1998**

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
American Express (AMG)	1.7	1.6	12.4	12.0	9.5	9.4			6.9	6.8	\$559.50	6.4%
BEA	2.1	1.6	14.5	12.0	10.4	9.2			7.5	6.8	587.10	6.8%
IAI	1.6	1.6	11.5	12.0	8.4	9.2	6.5	7.0	11.0	10.9	613.62	7.1%
Miller	2.0	1.6	12.3	12.0	10.5	9.2	7.9	7.0	11.3	10.9	827.26	9.5%
Standish	1.6	1.6	11.9	12.0	9.9	9.2			6.9	6.8	687.24	7.9%
Western	2.0	1.6	14.8	12.0	11.4	9.2	8.8	7.0	12.3	10.8	1,241.24	14.3%
Semi-Passive Managers												
BlackRock	1.7	1.6	12.2	12.0					8.7	8.4	1,398.57	16.1%
Goldman	1.8	1.6	12.3	12.0	9.6	9.2			7.2	6.8	1,397.49	16.1%
Lincoln	1.6	1.6	12.2	12.0	9.2	9.2	7.1	7.0	9.1	9.1	1,366.01	15.7%
											\$8,678.03	100.0%
									Since 7/1/84			
Current Aggregate	1.8	1.6	12.7	12.0	9.8	9.2	7.5	7.0	11.4	10.9		
Historical Aggregate (2)	1.8	1.6	12.7	12.0	9.8	9.2	7.5	7.0	10.7	10.8		
Lehman Aggregate (3)		1.6		12.0		9.2		7.0		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.

AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Jim Snyder

Assets Under Management: \$559,501,951

Investment Philosophy

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

Staff Comments

Ed Labenski, Portfolio Manager of record, is retiring from American Express Asset Management during second quarter 1998. The new manager of record is Jim Snyder. The process and team of analysts remains the same. We anticipate no transition issues.

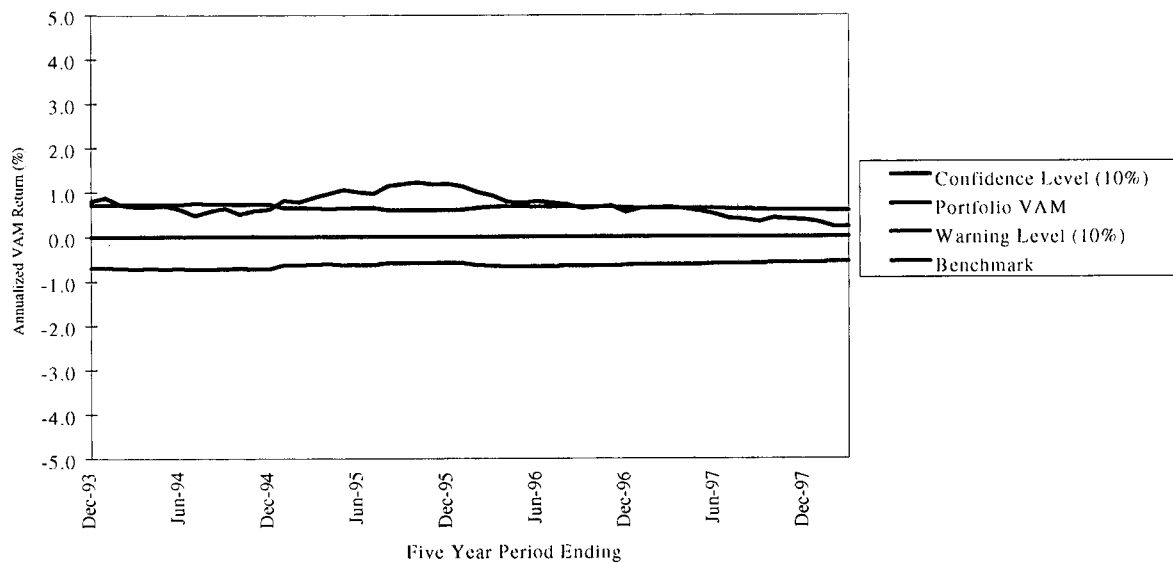
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.6%
Last 1 year	12.4	12.0
Last 2 years	8.6	8.4
Last 3 years	9.5	9.4
Last 4 years	8.3	8.2
Last 5 years	N/A	N/A
Since Inception (7/93)	6.9	6.8

Recommendations

No action required.

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



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

BEA ASSOCIATES
Periods Ending March, 1998

Portfolio Manager: Bob Moore

Assets Under Management: \$587,101,429

Investment Philosophy

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

Staff Comments

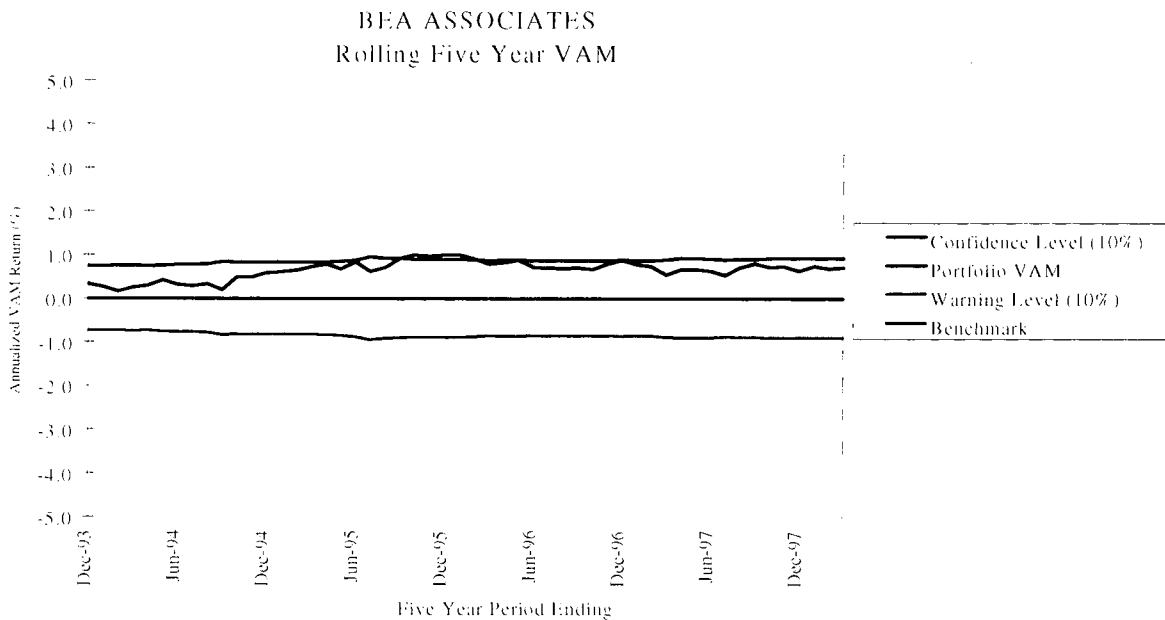
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.1%	1.6%
Last 1 year	14.5	12.0
Last 2 years	10.2	8.4
Last 3 years	10.4	9.2
Last 4 years	8.9	8.1
Last 5 years	N/A	N/A
Since Inception (7/93)	7.5	6.8

Recommendations

No action required.



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

INVESTMENT ADVISERS
Periods Ending March, 1998

Portfolio Manager: Larry Hill

Assets Under Management: \$613,619,504

Investment Philosophy

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

Staff Comments

No comments at this time.

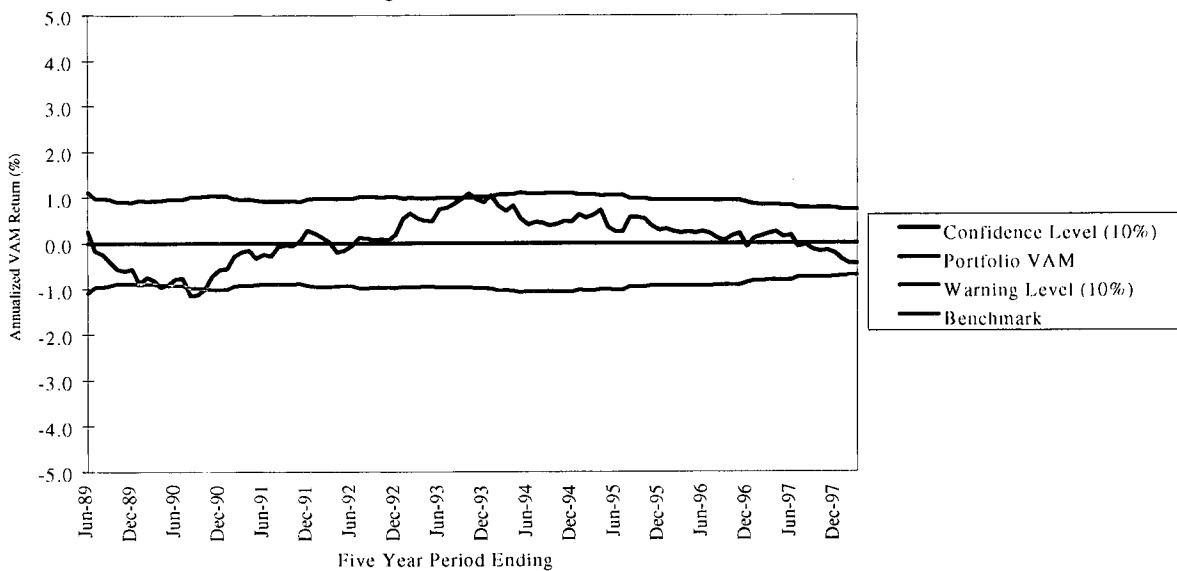
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.6%
Last 1 year	11.5	12.0
Last 2 years	8.0	8.4
Last 3 years	8.4	9.2
Last 4 years	7.3	8.1
Last 5 years	6.5	7.0
Since Inception (7/84)	11.0	10.9

Recommendations

No action required.

INVESTMENT ADVISERS - Fixed Income
Rolling Five Year VAM



MILLER ANDERSON & SHERRERD
Periods Ending March, 1998

Portfolio Manager: Tom Bennett

Assets Under Management: \$827,257,527

Investment Philosophy

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

Staff Comments

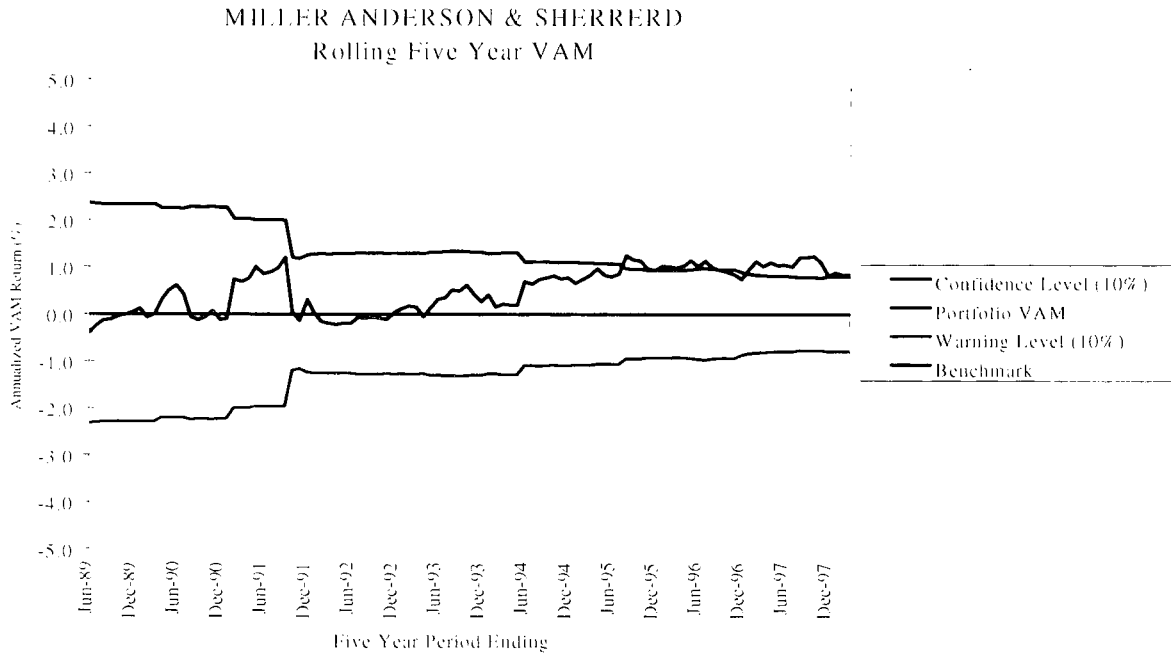
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	1.6%
Last 1 year	12.3	12.0
Last 2 years	9.9	8.4
Last 3 years	10.5	9.2
Last 4 years	8.8	8.1
Last 5 years	7.9	7.0
Since Inception (7/84)	11.3	10.9

Recommendations

No action required.



STANDISH, AYER & WOOD
Periods Ending March, 1998

Portfolio Manager: Austin Smith

Assets Under Management: \$687,237,535

Investment Philosophy

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

Staff Comments

No comments at this time.

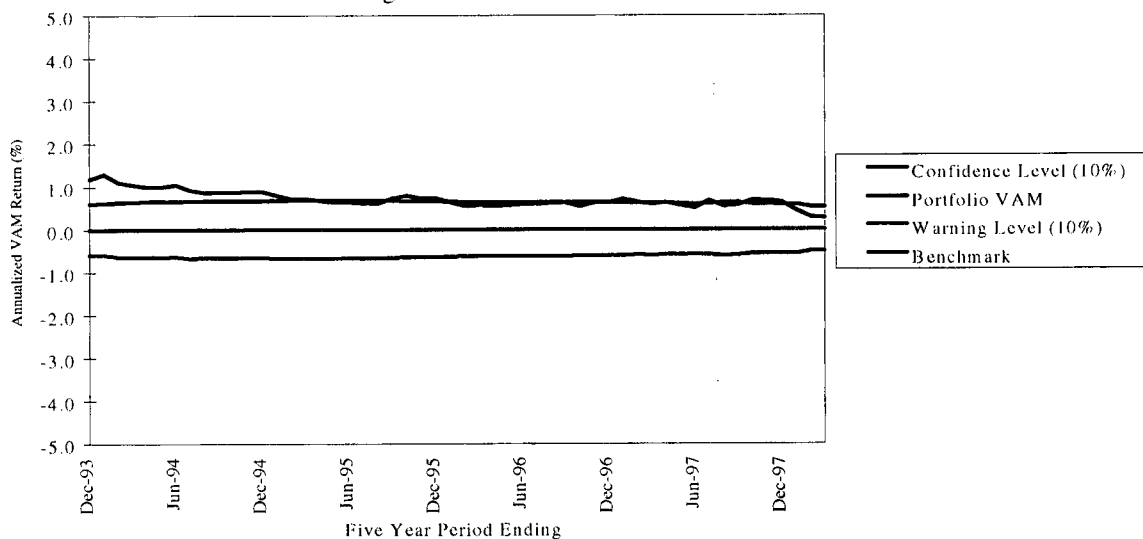
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.6%
Last 1 year	11.9	12.0
Last 2 years	9.3	8.4
Last 3 years	9.9	9.2
Last 4 years	8.3	8.1
Last 5 years	N/A	N/A
Since Inception (7/93)	6.9	6.8

Recommendations

No action required.

STANDISH, AYER & WOOD
Rolling Five Year VAM



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

WESTERN ASSET MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Kent Engel

Assets Under Management: \$1,241,244,359

Investment Philosophy

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

Staff Comments

No comments at this time.

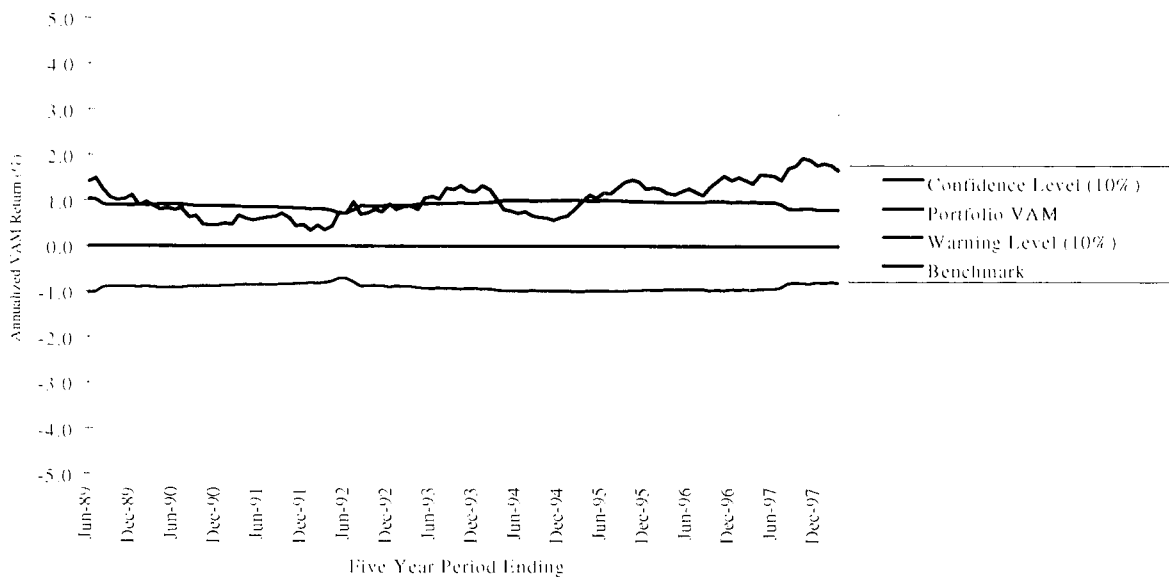
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	1.6%
Last 1 year	14.8	12.0
Last 2 years	11.0	8.4
Last 3 years	11.4	9.2
Last 4 years	9.7	8.1
Last 5 years	8.8	7.0
Since Inception (7/84)	12.3	10.8

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year VAM



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Keith Anderson

Assets Under Management: \$1,398,569,862

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	1.6%
Last 1 year	12.2	12.0
Last 2 years	8.7	8.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/96)	8.7	8.4

Recommendation

No action required.

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

GOLDMAN SACHS
Periods Ending March, 1998

Portfolio Manager: Sharmin Mossavar Rahmani

Assets Under Management: \$1,397,493,404

Investment Philosophy

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

Staff Comments

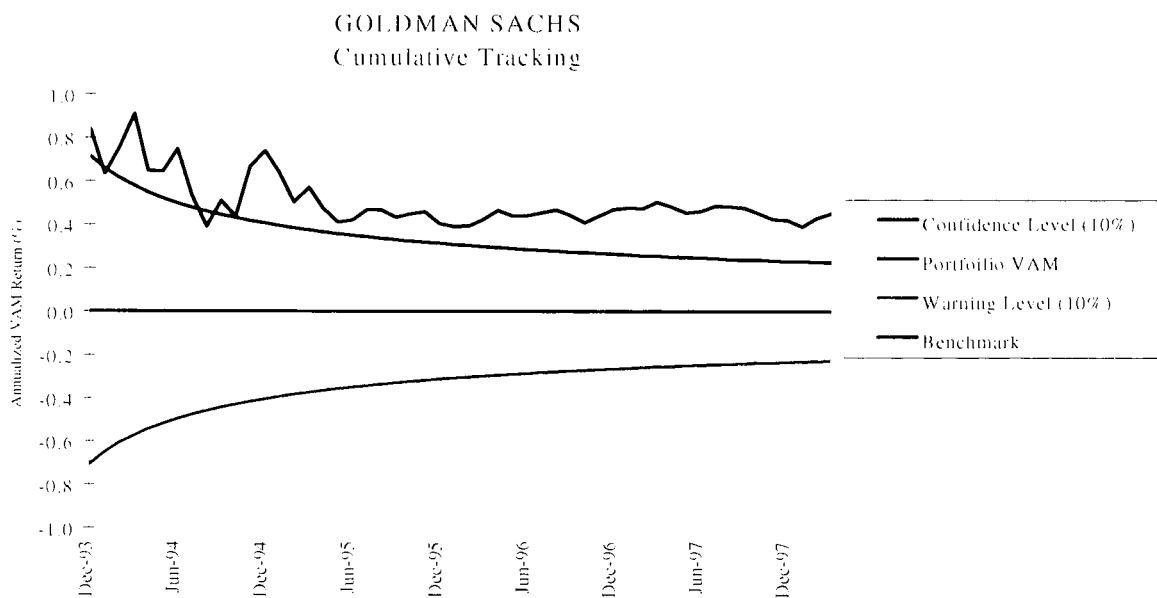
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.8%	1.6%
Last 1 year	12.3	12.0
Last 2 years	8.9	8.4
Last 3 years	9.6	9.2
Last 4 years	8.5	8.1
Last 5 years	N/A	N/A
Since Inception (7/93)	7.2	6.8

Recommendations

No action required.



LINCOLN CAPITAL MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,366,008,227

Investment Philosophy

Lincoln is an enhanced index manager that uses a quantitative approach to managing the portfolio. Lincoln calculates the index's expected return for changes in 54 variables. These variables include interest rates, yield curve shape, call features and sector spreads. Lincoln then constructs a portfolio to match the expected returns for a given change in any of the variables. Lincoln relaxes the return tolerances, defined as the difference between the portfolio's expected returns and that for the index, for an enhanced index fund. The portfolio's securities are selected from a universe of 250 liquid issues using a proprietary risk-valuation model. A linear program or portfolio optimizer then constructs the most undervalued portfolio that still matches the return characteristics of the index.

Staff Comments

No comments at this time.

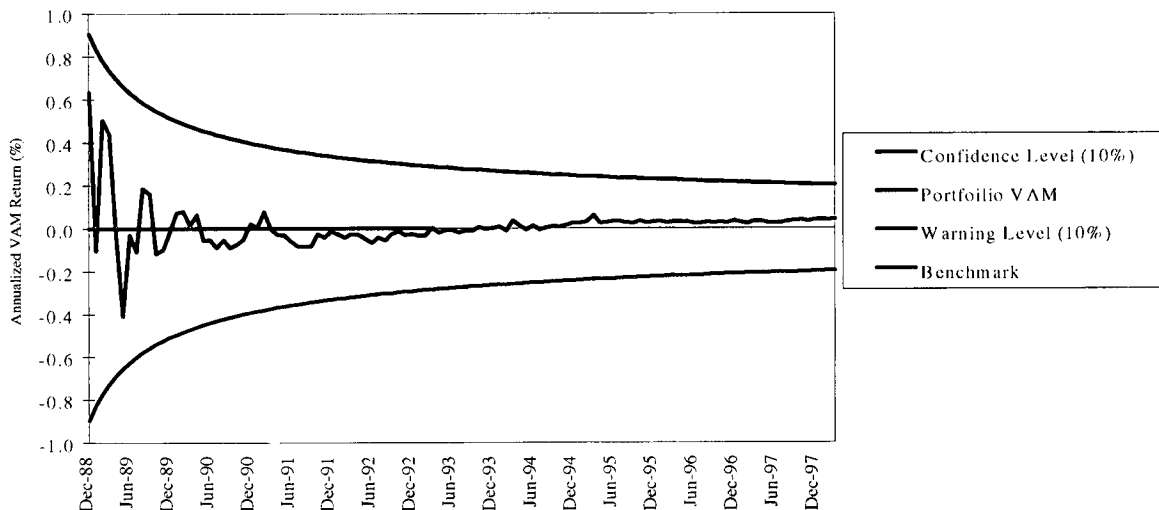
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.6%
Last 1 year	12.2	12.0
Last 2 years	8.5	8.4
Last 3 years	9.2	9.2
Last 4 years	8.2	8.1
Last 5 years	7.1	7.0
Since Inception (7/88)	9.1	9.1

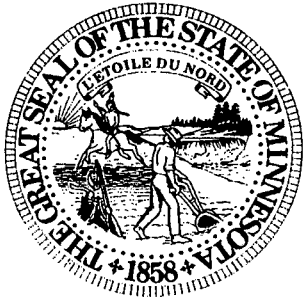
Recommendations

No action required.

**LINCOLN CAPITAL MANAGEMENT - Fixed income
 Cumulative Tracking**



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STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

First Quarter, 1998

**COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending March, 1998**

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	
	%	%	%	%	%	%	%	%	%	%	
GE Investment Management (1)	12.2	14.0	47.9	48.1	32.2	32.9			33.1	33.8	\$180.01
Voyageur Asset Management (2)	1.6	1.6	9.4	9.4	8.4	8.1	6.7	6.4	8.1	7.7	491.63
Internal Stock Pool (3)	13.8	14.0	48.2	48.1	32.9	32.9			23.6	23.7	398.62
Internal Bond Pool - Income Share (4)	1.6	1.6	12.3	12.0	10.0	9.2	7.5	7.1	9.2	8.8	183.97
Internal Bond Pool - Trust (5)	1.6	1.6	12.1	12.0	9.9	9.2			9.6	9.0	337.15

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

**GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Periods Ending March, 1998**

Portfolio Manager: Gene Bolton

Assets Under Management: \$180,007,215

**Investment Philosophy
Assigned Risk Plan**

Staff Comments

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.

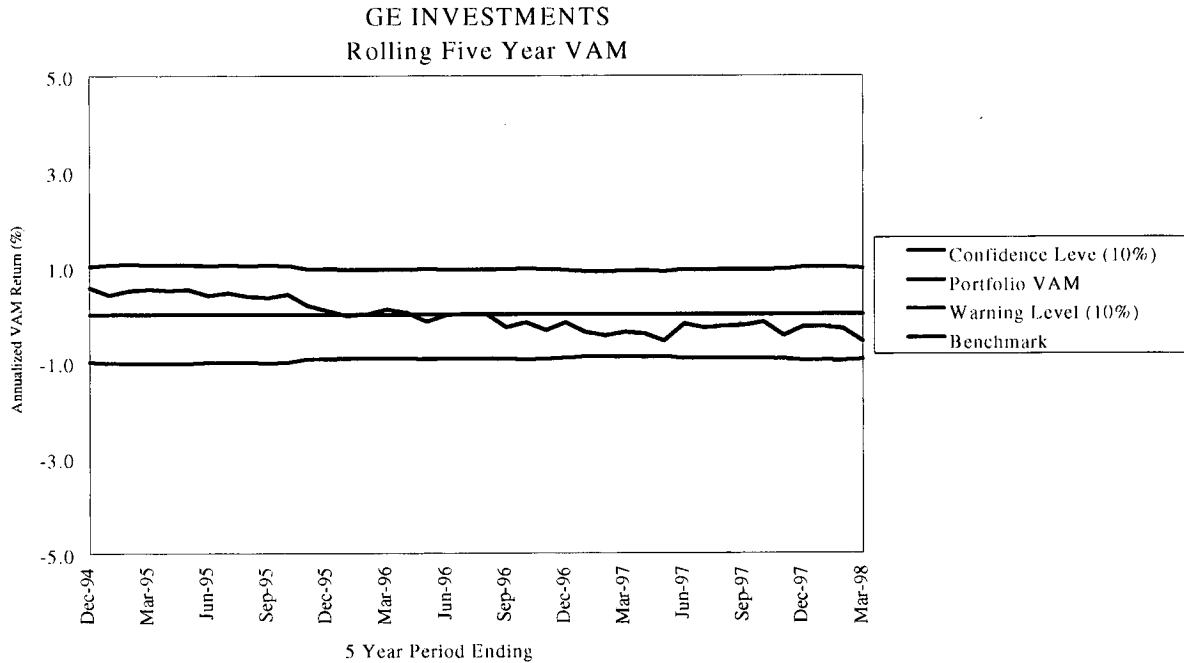
No comments at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	12.2%	14.0%
Last 1 year	47.9	48.1
Last 2 years	32.2	33.2
Last 3 years	32.2	32.9
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	33.1	33.8

No action required.



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

Portfolio Manager: Melissa A. Uppgren

Assets Under Management: \$491,634,359

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

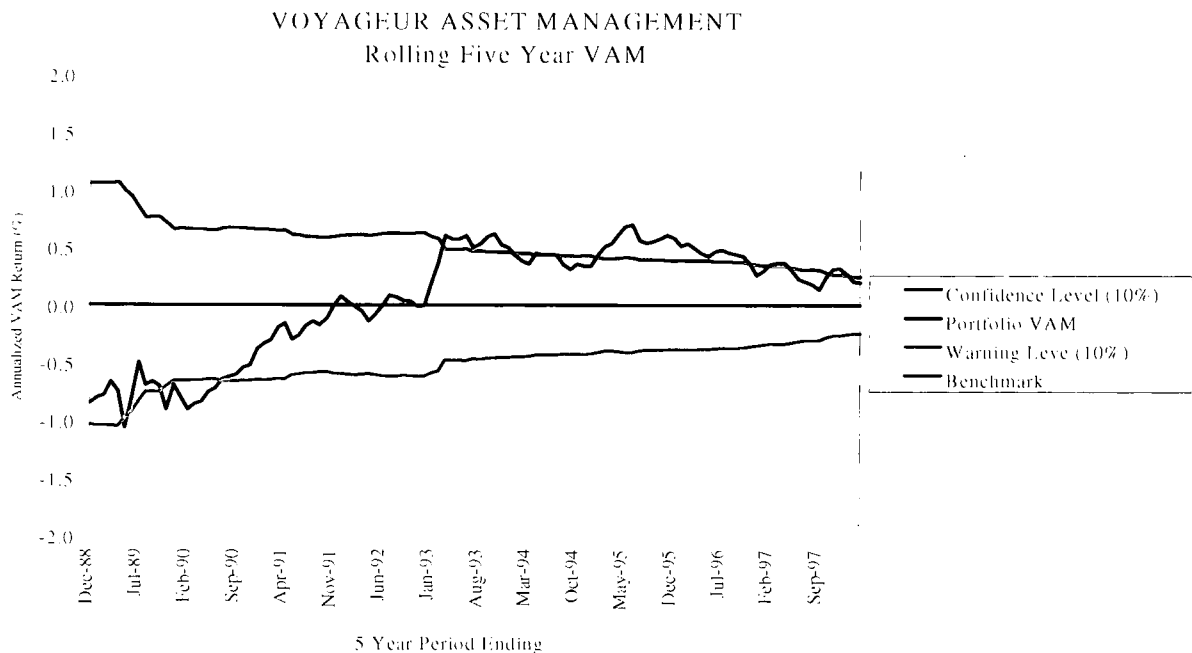
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.6%
Last 1 year	9.4	9.4
Last 2 years	7.5	7.4
Last 3 years	8.4	8.1
Last 4 years	7.5	7.4
Last 5 years	6.7	6.4
Since Inception (7/91)	8.1	7.7

Recommendation

No action required.



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

Portfolio Manager: Lois Buermann

Assets Under Management: \$398,623,940

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

Staff Comments

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.

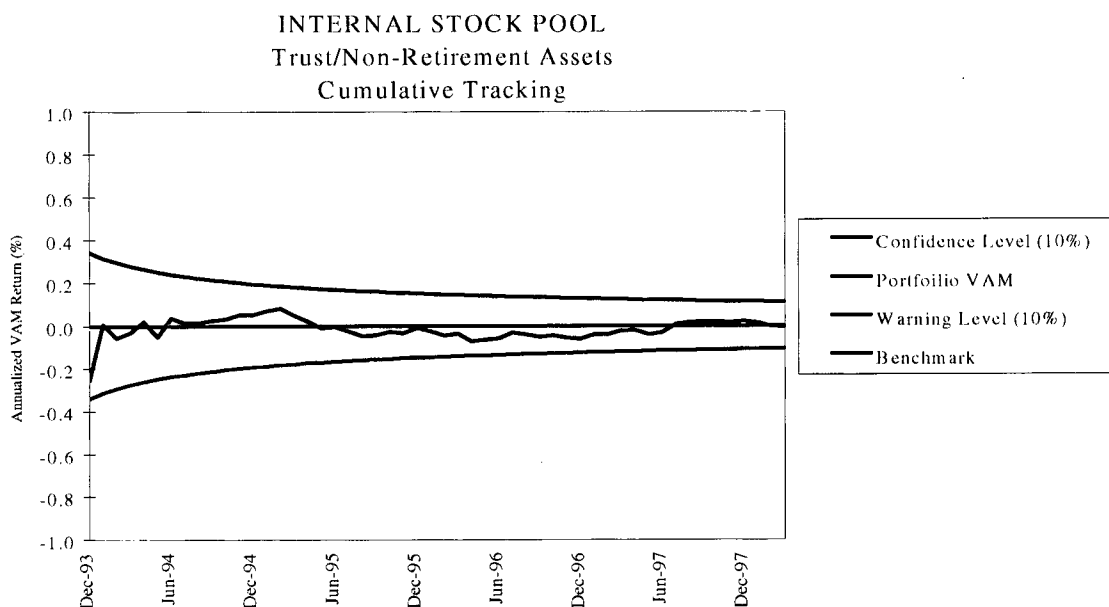
No comments at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark
Last Quarter	13.8%	14.0%
Last 1 year	48.2	48.1
Last 2 years	33.3	33.2
Last 3 years	32.9	32.9
Last 4 years	28.4	28.4
Last 5 years	N.A.	N.A.
Since Inception (7/93)	23.6	23.7

No action required.



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

Portfolio Manager: Mike Messen

Assets Under Management: \$183,970,335

Investment Philosophy
Income Share Account

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

Staff Comments

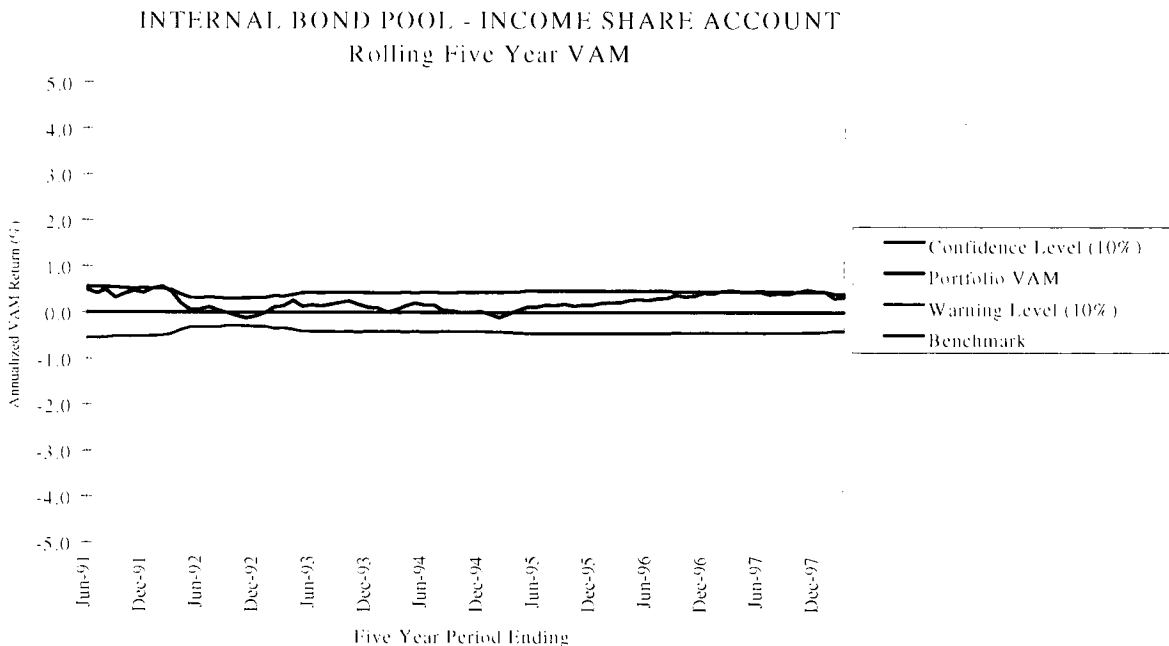
No comments at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.6%
Last 1 year	12.3	12.0
Last 2 years	9.0	8.4
Last 3 years	10.0	9.2
Last 4 years	8.5	8.1
Last 5 years	7.5	7.1

Recommendation

No action required.



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

Portfolio Manager: Mike Messen

Assets Under Management: \$337,148,451

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

Staff Comments

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

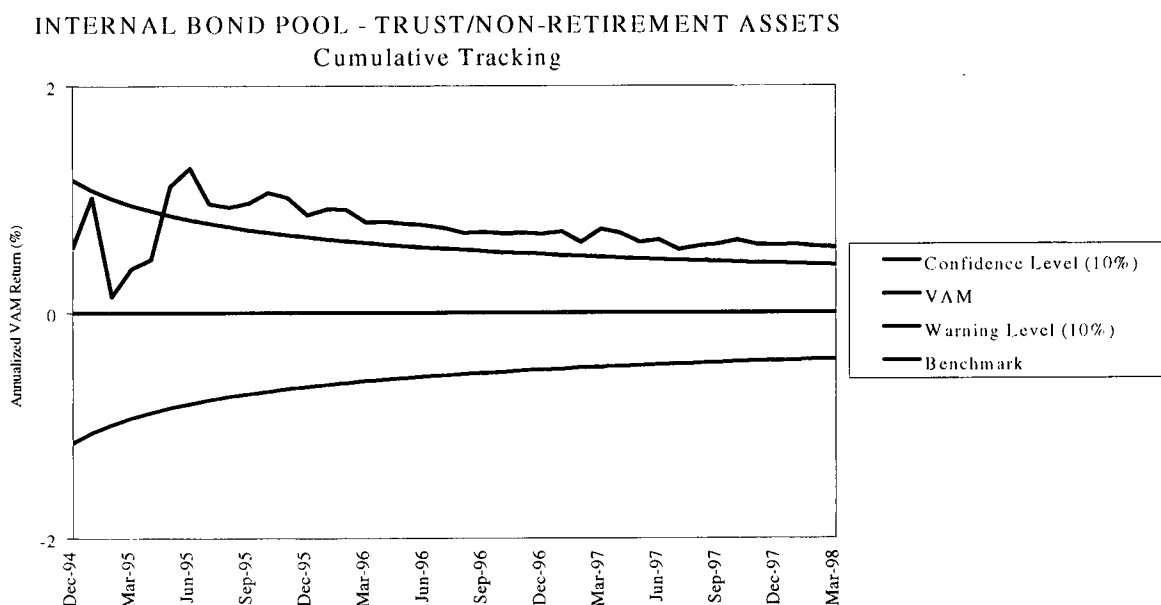
No comments at this time.

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	1.6%	1.6%	No action required.
Last 1 year	12.1	12.0	
Last 2 years	8.8	8.4	
Last 3 years	9.9	9.2	
Last 4 years	N/A	N/A	
Last 5 years	N/A	N/A	
Since Inception (7/94)*	9.6	9.0	

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



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Tab E

COMMITTEE REPORT

DATE: May 26, 1998

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

FROM: **International Manager Committee**

The International Manager Committee met on May 11, 1998 to consider the following agenda items:

- Review of manager performance for the period ending March 31, 1998.
- Review of international manager short list.
- Review of updated investment guidelines.

INFORMATION ITEMS:

1. Review of manager performance

For the quarter ending March 31, 1998, the **international stock program** underperformed its composite index and outperformed the composite index for the latest one year, three year, and five year periods. Performance of the **equity managers** (without the currency overlay) underperformed the target for the quarter, and outperformed for the latest one year, three year, and five year periods:

Time Period	Total Program	Composite Index*	Equity Mgrs. Only
Quarter	12.9%	13.7%	12.5%
1 Year	15.4	13.9	14.1
3 Year	13.5	9.4	12.0
5 Year	13.2	11.3	12.3
Since Incept. 10/92	13.4	11.7	12.6

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

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

2. Review of the international manager short list.

The SBI has established a process by which to identify potential candidates for future manager searches. This process includes on-going manager meetings and analysis of potential candidates. The result is a list of up to ten candidates deemed suitable for future manager searches.

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

Potential Active EAFE Equity Managers (begins on page 3)

Bank of Ireland Asset Management (BIAM)

Brandes Investment Partners, L.P.

Invesco

Lazard Asset Management

Putnam Investments

Potential Active Emerging Markets Equity Managers (begins on page 23)

Citibank Global Asset Management

Foreign & Colonial Emerging Markets Limited

J.P. Morgan Investment

Pictet International Management Limited

3. Review of updated investment guidelines.

The SBI has established guidelines for the external managers, which govern their investment actions. The guidelines address return objectives, eligible investments, communication, proxy voting, commodity futures trading, separate account/daily pricing, and future modifications. Investment guidelines are reviewed annually by SBI staff and the Committee for accuracy and completeness.

Technical changes were made to the guidelines for the international equity managers. Guidelines for the currency overlay manager were updated to reflect changes made to the program during the second quarter 1998. Updated guidelines for the international managers (active, emerging markets, index fund and currency overlay) begin on **page 39** in this Tab. Deletions from the existing text are noted with ~~strike-through~~. Additions are indicated by underline.

MANAGER FACT SHEET

EAFE Manager

Manager: Bank of Ireland Asset Management (BIAM)

General Style: Mostly bottom-up, thematic, value-oriented

Portfolio Management

Philosophy

BIAM believes that value arises from the ability of assets to generate income. They define value as companies currently selling at prices that do not fully reflect BIAM's view of future earnings potential. Their goal is to gain exposure to a company's earnings at a discount to its prospective growth rate.

Approach

They use a fundamental, bottom-up approach based on economic themes. They believe that there are basic economic events that may transcend political and geographic boundaries, therefore, their economist looks for themes that will drive earnings. An example of a general theme is opportunities arising from changes in consumption patterns. Once determined, they look for stocks that fit these themes while meeting fundamental and value-oriented criteria. Analysts concentrate on specific regions and do all stock selection - portfolio managers are implementers only. Portfolio managers ensure that client mandates are being followed and that portfolios meet other pertinent criteria. Portfolio dispersion is carefully monitored so that dispersion between similar portfolios is minimal.

Country Selection/Allocation

Country weightings are a residual of their stock selection process. They do not set country minimum/maximum weights. They may include securities from emerging markets in their portfolios.

Sector Selection/Allocation

Sector weightings are a residual of their stock selection process. They do not set minimum/maximum weights. However, theme selections could lead to overweighting in sectors that will benefit from those themes.

Stock Selection

Stocks are first screened using political, economic and liquidity constraints. Next, they screen out stocks that do not fall into their thematic preferences. This leaves them with about 475 stocks that they follow closely. When analyzing stocks, they look for strong balance sheets with low leverage, proven management, and strong competitive positions. They like stocks that are priced at a discount to their long-term growth rates. Dividend growth rates and cash flow generation are also important in their company analysis. To supplement their research, analysts visit major economic centers and individual

Bank of Ireland Asset Management (cont.)

Stock Selection (cont.)

companies. Although they consider themselves to be a value manager, they admit that they could be called value with a growth overlay. Exposure in a stock is limited to 5% of the portfolio's value at the time of purchase, and an absolute limit of 7% of market value.

Currency

Currency exposure is factored into their macroeconomic theme analysis and stock selection. They hedge occasionally on a defensive basis.

Trading

Trading is done by the analysts. They place price and quantity limits on each order and monitor execution to ensure compliance. They only deal with brokers in local markets, or with brokers that have offices in their time zone but have subsidiaries or affiliates in the local markets. They do this to ensure quality of execution derived from familiarity with local markets and trading methods. They examine the price at which all trades are executed against the reported range for each stock. They also have links with the various custodians to ensure immediate notification of difficulties being experienced in settlement/delivery.

Ownership

Bank of Ireland Asset Management (BIAM) is a wholly owned subsidiary of the Bank of Ireland. Bank of Ireland was originally founded in 1783. BIAM's main office is in Dublin, where investment decisions are made. They also have offices in London, where U.K. client services are located, and Greenwich, Connecticut, where U.S. client services are located.

Statistics as of December 31, 1997

Number of Portfolio Managers	16
Number of Analysts	12
Number of Traders	Trading is done by the analysts.
Total Firm Assets	\$26.0 billion
International (EAFE) Assets	\$10.9 billion
International (EAFE) Accounts	165

Largest International (EAFE) Accounts

State Plan	Public Pension	\$1,450 million
State School Plan	Public Pension	\$791 million
State Plan	Public Pension	\$595 million

Bank of Ireland Asset Management (cont.)

Portfolio Characteristics

Cash	Range 0-5%. Average 3.1%.
Emerging Markets	<10%.
Countries	15-20.
Stocks	90-95.
3 Yr. Avg. Turnover	30%.
Capitalization	Higher than the MSCI EAFE index.
Price/Earnings	Lower than the MSCI EAFE index.
Price/Book	Higher than the MSCI EAFE index.

Strengths

Team approach with a stable team in place, very unique approach/process, great returns.

Weaknesses

Asset growth has been pretty significant (>50% a year). Analysts don't make client visits.

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MANAGER FACT SHEET
EAFE Manager

Manager: Brandes Investment Partners, L.P.

General Style: Bottom-up, value, concentrated

Portfolio Management

Philosophy

Brandes' philosophy is based on the assumption that stock prices are more volatile than the underlying intrinsic value of businesses. They believe that a stock should be viewed as a small piece of a business that is for sale. The key to success, in their opinion, is to buy stocks of businesses that have determinable value, but which are unpopular or overlooked at the moment.

Approach

They have a bottom-up, concentrated, value-oriented approach. They use Graham & Dodd analysis. Ideas are developed by reading global and industry publications, research reports, and outside contacts. Portfolio managers do the stock analysis, and have regional and industry responsibilities. They create the opportunity for superior performance with below-average risk by choosing stocks that are at a substantial discount to their estimates of intrinsic value.

Country Selection/Allocation

Country weightings are a residual of stock selection. They don't have any minimum country weights, but they do have a maximum weight of 20% in any one country, with the exception of Japan. In Japan, they have a maximum of 1.5 times the index weight. They may include securities from emerging markets in their portfolios.

Sector Selection/Allocation

Sector weightings are a residual of stock selection. They have no minimum industry weights, but they do have a maximum weight of 20% in any one industry.

Stock Selection

Stocks are screened for low price/cash flow, low price/book value, low price/earnings ratios, and low debt/equity ratios. This process identifies about 500 companies for more intensive research. Portfolio managers and associates then review all available information on a company, with an emphasis on the financial statements. Securities normally must have strong balance sheets and cash flow. Managers and associates have industry and regional responsibilities, so there are two people assigned to each idea, one with industry experience and one with regional experience. Although portfolio managers and associate managers do stock research, final stock selections are made by the Investment Committee. The Committee includes three managing partners and a principal of the firm. It meets at least weekly. Maximum exposure to any one stock at cost is 5%.

Brandes Investment Partners, L.P. (cont.)

Currency

Currency exposure is factored into their stock selection process by limiting the weight assigned to individual securities. They do not hedge currency exposure.

Trading

They have a trading department that is supervised and managed by two people with more than 10 years of trading experience, each. Traders and portfolio managers monitor trading costs daily. They limit market impact by using predetermined buy and sell target prices. They also limit market impact by closely evaluating trading ranges before initiating any trades. They block orders whenever possible to take advantage of their trading size and to reduce cost to clients. They actively negotiate commissions and spreads on discretionary accounts to get best price and execution.

Ownership

Brandes is 95.5% beneficially owned, either directly or indirectly, by senior investment professionals of the firm. The remaining 4.5% is indirectly owned by an investor/client. Their office is located in San Diego, California.

Statistics as of December 31, 1997

Number of Portfolio Managers	30
Number of Analysts	2 (23 portfolio managers also do research.)
Number of Traders	9
Total Firm Assets	\$15.6 billion
International (EAFE) Assets	\$10.8 billion (\$4.3 billion institutional)
International (EAFE) Accounts	6,873 (99 institutional)

Largest International (EAFE) Accounts

Ameritech	ERISA	\$285 million
Brandes Int'l Eq Pool	Comingled	\$256 million
Alaska State	Public Pension	\$249 million

Brandes Investment Partners, L.P. (cont.)

Portfolio Characteristics

Cash	Range 0-10%. Average 2%.
Emerging Markets	Up to 20%. Average 14%.
Countries	15-20.
Stocks	40-60.
3 Yr. Avg. Turnover	30%.
Average Capitalization	Lower than the MSCI EAFE index.
Price/Earnings	Lower than the MSCI EAFE index.
Price/Book	Lower than the MSCI EAFE index.

Strengths

Good process, concentrated portfolio, great returns.

Weaknesses

Asset growth has been pretty significant (>50% a year).

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MANAGER FACT SHEET
EAFE Manager

Manager: Invesco

General Style: Bottom-up, value-oriented, quantitative, concentrated

Portfolio Management

Philosophy

Invesco seeks the highest return available consistent with the portfolio's goals. They minimize the use of forecasting because history shows that correctly forecasting future events and market movements is always difficult, and that to do so consistently over time is virtually impossible. They aim to exceed the client's benchmark while maximizing predictability and consistency of investment returns.

Approach

They have a bottom-up, value-oriented approach that uses a proprietary quantitative screening process to identify undervalued international companies. During their screening process, they adjust goodwill, discretionary reserves, depreciation and inflation for each company to put companies on an equal footing for valuation purposes across countries. They conduct fundamental analysis on the undervalued securities identified by their screening process. Finally, the portfolio is designed using statistical risk analysis to measure the diversification attributes and return characteristics relative to the client's benchmark.

Country Selection/Allocation

Country selection is a residual of stock selection and the risk analysis that is done during portfolio construction. They typically include some emerging markets companies in their portfolio.

Sector Selection/Allocation

Sector selection is a residual of stock selection and the risk analysis that is done during portfolio construction.

Stock Selection

Accounting and inflation-related adjustments are made to the stocks in their database. From this database, stocks are ranked on a valuation basis from one country to another using a multi-factor model. Company ranks are adjusted upward for stable earnings and low leverage. The staff then analyzes 350-400 stocks that have a favorable rank and are relatively liquid. They believe the embedded characteristics that determine the profitability of medium to large-sized companies change gradually over time. Therefore, during analysis, they determine whether those embedded characteristics that contributed to the company's past financial record are consistent with the company's current business strategy. They also determine whether the business strategy is consistent with the

Invesco (cont.)

Stock Selection (cont.)

company's operating environment and with the corporate resources available to the company. Stocks are placed on a purchase list if all members of the Investment Committee agree. The Investment Committee is comprised of the head of the product and the portfolio managers. They meet weekly to discuss the purchase list. During portfolio construction, statistical measurements are utilized to ensure the use of stocks that rank highly in their valuation work, and to measure and control risk.

Currency

They usually maintain an unhedged portfolio, except in extreme conditions. If currency hedging is used, it is used only for defensive purposes. They have not hedged the portfolio in the history of this product.

Trading

Invesco's international traders have an average of 15 years of experience. Their objective is to seek the best possible price, therefore, obtaining best execution. Traders receive orders directly from the portfolio managers through the portfolio management system. They then block like purchases or sales together, and seek the best price through direct trader communication and Autex.

Ownership

Invesco is owned by AMVESCAP PLC, which is a publicly traded investment management firm. AMVESCAP is listed on both the London and New York exchanges. Employees own about 40% of the firm's shares, comprising the largest shareholder group. Assets for this product are managed out of their Atlanta, Georgia office. They have additional offices in London, Tokyo and Hong Kong.

Statistics as of December 31, 1997

Number of Portfolio Managers	42	
Number of Analysts	Portfolio managers are also analysts	
Number of Traders	9	
Total Firm Assets	\$192.2 billion	
International (EAFE) Assets	\$2.9 billion	
International (EAFE) Accounts	73	
Largest International (EAFE) Accounts		
IRT Fund	Commingled Fund	\$208 million
Missouri LAGERS	Public Pension	\$166 million
Mutual Fund	Mutual Fund	\$110 million

Invesco (cont.)

Portfolio Characteristics

Cash	0-5%. Average 2.7%.
Emerging Markets	Not more than 10%. Has not exceeded 5%, historically.
Countries	15-20.
Stocks	50-60.
3 Yr. Avg. Turnover	30%.
Capitalization	Higher than the MSCI EAFE index.
Price/Earnings	Lower than the MSCI EAFE index.
Price/Book	Lower than the MSCI EAFE index.

Strengths

An interesting process, low personnel turnover, very good returns. Invesco says this product will not be affected by the Chancellor LGT purchase.

Weaknesses

Less than a five year track record. They took on a lot of assets in 1997. They purchased Chancellor LGT in January 1998.

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MANAGER FACT SHEET

EAFE Manager

Manager: Lazard Asset Management

General Style: Bottom-up, value, concentrated

Portfolio Management

Philosophy

Lazard believes that there are three key reasons why prudent value investing outside the US can enhance performance opportunities while reducing total portfolio risk over the long-term. First, investors tend to overvalue successful companies and undervalue recent underperformers, typically value stocks. Second, international diversification reduces the total volatility of a portfolio due to the relatively low correlation of returns between many international markets. Finally, investing outside the US provides an additional opportunity set from which to select potential outperformers.

Approach

Lazard is a bottom-up, value manager. They add value by evaluating companies the same way managements measure their own performance, by focusing on financial productivity and the long-term sustainability of returns. They look at return on equity (ROE), return on assets (ROA), and operating margins. Analysts are organized by industry because they believe that, as the business world has globalized, where and how a company does business is more important than where it is domiciled.

Country Selection/Allocation

Country weightings are a residual of stock selection. Country weightings are reviewed by the Portfolio Construction Team and the Risk Control Team to ensure diversification. They also have minimum and maximum target exposures to ensure portfolio diversification. Smaller countries have a range from 0-5%. Larger countries have a minimum weight of 0%; maximum weights range from 10-20%, depending on the country. The UK has a range of 0-40%. Japan's range is from 0-50%. They may invest in emerging markets.

Sector Selection/Allocation

Sectors are a residual of stock selection. They have minimum and maximum ranges. Their minimum range in any sector is 0%. Their maximum ranges are from 10-40%, depending on the sector.

Stock Selection

They screen for companies with characteristics that indicate undervaluation versus a local country index and versus the MSCI EAFE index. They look for companies with high financial returns (i.e. ROE, ROA) that are also attractively priced with low price/book and price/cash flow valuations. Next, they go through an accounting validation process

Lazard Asset Management (cont.)

Stock Selection (cont.)

to see if a company's stated financial statistics and business value are real. Analysts focus on determining if a company's financial productivity is accurately stated, looking for and taking advantage of pricing anomalies, and discovering opportunities (including hidden value per share). The remaining 450 or so companies are then analyzed to ensure the sustainability of returns and to identify a catalyst for price revaluation. Company visits are important during this stage. Finally, the team defines the pool of undervalued securities. Each security purchased is given a target price based upon its value indicator and appreciation potential. Stocks are generally purchased on an equal-weighted basis. Their average stock position is 1.5% and they typically will not invest more than 3% in any one stock at the time of purchase.

Currency

They may hedge defensively if an existing equity position is at significant risk of currency devaluation/depreciation. They have a separate currency team that makes currency decisions.

Trading

Their equity traders are based in New York and London. Portfolio managers and analysts work closely with the firm's traders to implement trades on a best-execution basis. Traders are responsible for seeking the most favorable combination of price and quantity that can be traded at a point in time given the liquidity, market conditions, and required urgency of execution. They use individual stock orders and basket or program trades when feasible.

Ownership

Lazard Asset Management is a division of LF&Co., a broker dealer based in New York. Lazard Asset Management controls other asset management services provided by Lazard Asset Management Limited in London, Lazard Japan Asset Management KK in Tokyo, Lazard Asset Management Egypt in Cairo, and Lazard Asset Management Pacific Co. in Sydney, Australia. Lazard also works closely with Lazard Freres Gestion in Paris. LF&Co. is a New York limited liability company with 67 general members and 27 limited members.

Lazard Asset Management (cont.)

Statistics as of December 31, 1997

Number of Portfolio Managers	5	
Number of Analysts	26	
Number of Traders	11	
Total Firm Assets	\$59.9 billion	
International (EAFE) Assets	\$9.0 billion	
International (EAFE) Accounts	262	
Largest International (EAFE) Accounts		
CA State Teachers	Public Pension	Not given
Mississippi Public	Public Pension	Not given
Employees		
Capital Asset Trust	Corporate Pension	Not given

Portfolio Characteristics

Cash	Range 0-10%. Average approximately 3.6%.
Emerging Markets	Up to 10%.
Countries	Average 15.
Stocks	60-80.
3 Yr. Avg. Turnover	39.6%.
Capitalization	Lower than the MSCI EAFE index.
Price/Earnings	Lower than the MSCI EAFE index.
Price/Book	Lower than the MSCI EAFE index.

Strengths

Reasonable asset growth, good process, concentrated portfolio, consolidation of other investment service offices.

Weaknesses

Some turnover due to consolidations, take small separate accounts (\$5 million).

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MANAGER FACT SHEET

EAFE Manager

Manager: Putnam Investments

General Style: Top-Down, bottom-up, quantitative and fundamental

Portfolio Management

Philosophy

Putnam believes that active investment management will outperform passive management over the medium to long-term. They maintain that a well thought out, disciplined investment process applied consistently by experienced investment professionals and supported by world class resources, will outperform the average active manager over the same time frame. The Core International Team believes that consistent, above-average relative returns and below-average relative risk are attained through a balance of country diversification and the selection of truly underpriced companies, complemented by a defensive currency management strategy.

Approach

They have both a top-down and bottom-up approach. Top-down country allocation is based on identifying and focusing a large portion of their investments in the ten most attractive markets, rather than in two or three top markets. Stock selection is based on a measure of price compared to payback, which allows them to identify stocks selling for less than their real or relative worth. Stocks can be growth, cyclical or mature. They believe this approach is resilient and will perform well during all stages of the business and market cycle.

Country Selection/Allocation

They continually review the markets eligible for investment in this Core product. They add markets when there are adequate regulations to protect the rights of shareholders and readily available company financial data. Countries must also have sufficient liquidity and a political/social environment that promotes economic growth and capital market development. Country allocations are set at their monthly and quarterly Investment Policy Committee meetings, which all investment professionals attend. Meetings start with a review of quantitatively derived country return forecasts and currency recommendations. They identify current global economic trends and focus on areas of significant change since the previous meeting. The Committee also discusses bottom-up opportunities within countries and sectors, utilizing a global present value model for sector analysis. The final step is to discuss results of the committee's qualitative and quantitative country rankings, where they reconcile differences and establish clear targets for country and currency. They may invest in emerging markets. They have minimum country weights of 0%. Maximum weights range from 5-35%, depending on the country.

Putnam Investments (cont.)

Sector Selection/Allocation

Sector weightings are a residual of stock selection. Industry weightings are reviewed to ensure that no industry is unreasonably over- or underweighted. Their maximum exposure to any one industry is 15%.

Stock Selection

Putnam believes that price discrepancies occur between the underlying value of a company (which tends to change slowly over time) and the company's stock price (which tends to fluctuate frequently over the shorter term). They use a three-step process to identify attractive stocks. They first screen for liquidity and market capitalization, then for companies with a positive valuation indicator. The valuation indicator they use compares the price investors must pay relative to what they earn. The difference is the stock's percentage discount to fair market value. They verify their results through due diligence, understanding the downside risks, and completing fundamental research. They analyze various return on equity ratios, accounting policies, cash flow, and real return to shareholders. Company visits are key to their research process, allowing the analyst to assess management, the company's strategic direction, and the company's competitive position within its industry and region. With additional insights from this research, analysts recalculate earnings models. Analysts' written recommendations outline a company's quality, target price, and whether the stock is sufficiently discounted to be considered a buy. They have an average target position of 1%, with a minimum weight in any one stock of 0.5% and a maximum of 3%. The number of stocks in the portfolio may vary depending on whether they find small or mid caps more attractive than large caps at any given time.

Currency

Long-term currency trends and short-term currency movements are reviewed at weekly and monthly meetings for potential impact on their portfolios. Putnam's Global Fixed Income and Global Asset Allocation Team are sources of input for the Core team's currency strategies. The Core team uses hedging as a protective strategy when the portfolio's base currency is undervalued, and as a defensive measure to offset a commitment to a country with a high degree of perceived currency risk. They will hedge up to 80% of a particular currency exposure.

Trading

They have 24-hour trading capabilities. There are six full-time trading professionals for international equities. Putnam also has local trading relationships in every market where they purchase stocks. They have an automated trade entry system that monitors the execution of all trades, transactions costs, and timing of trades. Trade instructions are detailed by the portfolio manager and assistant on this electronic trade entry system. Transactions are reviewed regularly by portfolio managers and senior trading professionals to ensure their goal of best execution.

Putnam Investments (cont.)

Ownership

Putnam is owned by Marsh & McLennan. Putnam recently acquired an equity stake in itself and will distribute newly created non-voting shares to senior employees. These shares will eventually represent 12% of Putnam's value.

Statistics as of December 31, 1997

Number of Portfolio Managers	8 (dedicated to Core product)
Number of Analysts	43
Number of Traders	6
Total Firm Assets	\$235.1 billion
International (EAFE) Assets	\$10.4 billion (includes mutual funds)
International (EAFE) Accounts	32 (doesn't include mutual funds)

Largest International (EAFE) Accounts (commingled fund not included)

Not given	Public Pension	\$789 million
Not given	Public Pension	\$782 million
Not given	Corporate Pension	\$422 million

Portfolio Characteristics

Cash	Range 0-15%. Average 6%.
Emerging Markets	<15%. Average 3.8%.
Countries	Minimum 10. Average 17-20.
Stocks	100-150.
3 Yr. Avg. Turnover	50%.
Capitalization	Lower than the MSCI EAFE index.
Price/Earnings	Lower than the MSCI EAFE index.
Price/Book	Higher than the MSCI EAFE index.

Strengths

Stable and deep portfolio management team, interesting process, good returns.

Weaknesses

Lots of business/structural changes have recently occurred.

MANAGER FACT SHEET
Emerging Markets Manager

Manager: Citibank Global Asset Management

General Style: Top-down, bottom-up, growth at a reasonable price

Portfolio Management

Philosophy

Citibank believes that equity market returns are linked to corporate earnings growth. They say that "This overriding relationship can be quantitatively demonstrated to be true over time for the emerging markets as well as for the developed markets." They also believe that, for emerging markets, stock market valuation is significantly influenced by liquidity flows.

Approach

They have both a top-down and a bottom-up approach, looking for growth at a reasonable price. Their central strategy team looks at macroeconomic issues, while local portfolio managers forecast local equity market returns by estimating price/earnings ratios and aggregating them. The central strategy team makes country allocation decisions based on both sets of information. Local portfolio managers select stocks through fundamental research. Stocks are purchased to achieve two objectives – to implement a strategy consistent with the top-down country allocation strategy, and to add further value.

Country Selection/Allocation

Initially, they evaluate each country in their universe for adequate liquidity and custody/settlement facilities. Countries meeting these two criteria are included on their closely followed list. The central strategy team reviews macro-economic conditions for each market on the list. The focus is on gross domestic product growth, inflation, monetary policy and overall liquidity conditions over the upcoming one and two years. Local portfolio managers forecast local equity market returns by estimating price/earnings ratios over the next twelve and twenty-four months, and analyzing current and prospective valuation structures. They aggregate the expected earnings growth for at least 80% of the market capitalization in each market. These forecasts are then reviewed by the central strategy team against internally developed top-down five-year sustainable earnings per share growth forecasts and market consensus. The strategy team also takes global liquidity, the potential for changes in political risk, historical norms, and peer market valuations into consideration. With this information, they develop one-year forecasts for each market, then set country allocation targets. They have a minimum allocation to a country/region of 2% and a maximum of 25%, with no more than 40% in any two countries.

Citibank Global Asset Management (cont.)

Sector Selection/Allocation

Sector weightings are a residual of stock selection. From time to time, they may choose to overweight a sector or emphasize an investment theme.

Stock Selection

The local portfolio managers and their teams research stocks. They prefer companies that exhibit strong EPS growth opportunities on a sustainable basis from their core lines of business. Financial analysis is supplemented by qualitative assessment of company managements. For each company, they look at earnings, quality and competitiveness of product, and quality of management. Their earnings analysis is primarily forward-looking, focusing on consistency and growth of operating earnings, and cash flow projections. Company visits are an important part of their qualitative analysis. Once a stock makes their closely followed list, they monitor company valuations. If the stock becomes available at a reasonable valuation, they assign it a buy designation. They use BARRA and the buy designations to develop model portfolios for each country. Model portfolios will contain both large and mid cap plays, and stocks are generally equal-weighted on a tiered basis. The maximum weight for any one stock is 5% of the total portfolio.

Currency

They forecast currency as part of their country decision. Both the local portfolio managers and the central strategy team provide input for currency forecasts, but the central strategy team is responsible for final currency forecasts. They don't hedge because research has indicated that hedging in the emerging markets is seldom an efficient strategy.

Trading

About 98% of their trades are executed through their London, Brazil, and Hong Kong trading desks. Occasionally, trades are executed through their Singapore office. They have trading policies that address best execution, crossings, batching of orders, suitability, and in-house transactions, which are incorporated into Citibank's Fiduciary Manual. They have rigorous criteria to evaluate counterparties before approving them for trade execution, including price, commission, size of order, etc. Each month, senior management reviews business directed, quality of execution and commissions paid to brokers.

Ownership

Citibank Global Asset Management is the investment management business of Citibank, N.A., the principal subsidiary of the U.S. bank holding company, Citicorp. Citicorp is a publicly owned company. Assets are managed out of their London office, although the firm's headquarters are in New York. They have other offices throughout the world.

Citibank Global Asset Management (cont.)

Statistics as of December 31, 1997

Number of Portfolio Managers	22
Number of Analysts	Portfolio managers are also analysts.
Number of Traders	2
Total Firm Assets	\$71.2 billion
Global Emerging Markets Assets	\$1.2 billion
Global Emerging Markets Accounts	13

Largest Global Emerging Markets Accounts

Global EM Eq Fund	CEBT	\$262 million
US Corp. Pension	Corporate Pension	\$208 million
US Tax-Ex Corp	Corporate Pension	\$156 million

Portfolio Characteristics

Cash	Maximum 5%. Average 5.2% (cash balances may move higher during reallocation periods).
Countries	Range 8-34. Average 15.
Stocks	175-200.
3 Yr. Avg. Turnover	82%.
Capitalization	Mid cap bias compared to the MSCI EMF.
Price/Earnings	More growth oriented than the MSCI EMF.
Price/Book	More growth oriented than the MSCI EMF.

Strengths

Deep resources, very good returns, have resolved inconsistencies in the analysts' quantitative processes at the local level.

Weaknesses

Fairly high portfolio turnover, low asset growth, some personnel turnover.

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MANAGER FACT SHEET
Emerging Markets Manager

Manager: Foreign & Colonial Emerging Markets Limited

General Style: Top-down, bottom-up, growth at a reasonable price

Portfolio Management

Philosophy

The cornerstone of Foreign & Colonial's their philosophy is that superior economic growth is taking place in the emerging markets. They believe this growth will lead to superior investment opportunities, and through the volatility inherent in these markets, opportunities of "unfair value" will occur.

Approach

Their approach is team-oriented, for both top-down asset allocation and bottom-up security selection. They apply a top-down macroeconomic approach to country allocation, employing a Core plus Satellite discipline. Each emerging market is comprehensively analyzed each month, with all portfolio managers present. Particular emphasis is placed on a form of political analysis that examines the likely impact of political changes. Stock selection is based on growth at the right price. Within individual markets, security selection is the responsibility of the country portfolio managers, whose analysis is fundamentally driven. Country portfolio managers are grouped by region.

Country Selection/Allocation

Analysis begins by reviewing ten factors for each emerging country that incorporate key assumptions and risk factors. Portfolio managers prepare a forecast on earnings per share and price/earnings for the current and following year-end. Forecasts are used to calculate an implicit twelve-month total return forecast for each country. Risk analysis is conducted to see which political, structural and economic factors are likely to affect the future political stability of each country and the underlying markets. This risk analysis focuses on the absence or presence of opposition to existing government policies, and considers which groups benefit from or are hurt by those policies. This risk analysis is used as a diagnostic tool to check the quality of the twelve-month return forecasts and to make an overall assessment of market risk. Markets are ranked, then adjusted for risk. The risk adjusted returns set the parameters for over- and underweighting countries relative to the index. The Strategy Team makes the country allocation decisions, allocating about 80% to the ten largest core countries, and about 20% to the smaller satellite markets. The Strategy Team is comprised of the Chief Investment Officer (CIO), Deputy CIO, and the heads of the regional desks. Asset allocation in core markets can shift plus or minus 7% from the neutral index weighting. Weightings in satellite markets range from 0-7%.

Foreign & Colonial Emerging Markets Limited (cont.)

Sector Selection/Allocation

They do not have a formal sector allocation process. However, as part of the stock selection process, they have a bias towards sectors likely to benefit from economic liberalization and trade. They also pay attention to those industries likely to benefit from a shift in the business cycle.

Stock Selection

They use bottom-up, fundamental analysis to develop a "Selected Equity List." This is not a buy list, but a list of quality companies. Before a security can be included on this list, they analyze the company for quality of management, financial strength, and above average growth potential. Portfolio managers carry out extensive research through management interviews, company visits, analysis of financials, and interviews with local contacts in the company's market. Portfolio managers must formally present each company to the Selected Equity Committee, focusing on management quality, growth outlook, and financial risk. The Committee, comprised of the heads of the regional desks, decides if the stock should go on the Selected Equity List. From this list, country portfolio managers then develop model portfolios for each country, in conjunction with the Regional Team Head and the Chief Investment Officer. The country portfolios broadly reflect the market's capitalization and sector weightings. Up to five stocks within each country portfolio can be under- or overweighted where the portfolio manager has firm conviction (positive or negative).

Currency

Their view is that, in a large, diversified, multi-currency portfolio, there is an element of insurance provided within the portfolio itself. As a policy, they do not actively hedge because they consider currency risk to be an integral part of country risk.

Trading

They have a centralized dealing desk. Three dealers have responsibility for the trading of emerging markets orders. In consultation with the country portfolio managers, the dealers agree on the strategies to be adopted on individual trades and asset allocation. London, New York and local market brokers are used to execute trades in order to reduce market impact wherever possible. They audit trades to ensure that they are executed on the best terms and to assign credit limits.

Ownership

Foreign & Colonial Emerging Markets Limited is a wholly owned subsidiary of Foreign & Colonial Management Limited. The parent company is owned 65% by Hypo Bank and 35% by four investment trusts that it manages. Their offices are in London.

Foreign & Colonial Emerging Markets Limited (cont.)

Statistics as of December 31, 1997

Number of Portfolio Managers	21
Number of Analysts	Portfolio managers are also analysts.
Number of Traders	3
Total Firm Assets	\$4.8 billion
Global Emerging Markets Assets	\$2.1 billion
Global Emerging Markets Accounts	12

Largest Global Emerging Markets Accounts

US portfolio	Public Pension	\$611 million
UK portfolio	Closed-end Fund	\$494 million
UK portfolio	Corporate Pension	\$278 million

Portfolio Characteristics

Cash	Maximum 10%. Average 2.7%.
Countries	Average 20.
Stocks	150-170.
3 Yr. Avg. Turnover	<40%.
Capitalization	Not given.
Price/Earnings	Not given.
Price/Book	Not given.

Strengths

Interesting combination process, lengthy experience in emerging markets with closed-end country funds, specialize in emerging markets, sufficient personnel to handle growth, good returns so far.

Weaknesses

Global product has been in existence for less than 4 years, poor stock selection, some personnel turnover.

MANAGER FACT SHEET
Emerging Markets Manager

Manager: J.P. Morgan Investment Management, Inc.

General Style: Top-down, bottom-up, active around the index

Portfolio Management

Philosophy

J.P. Morgan believes that the value of financial assets is determined by the return the assets are expected to provide investors. They also believe that intense, fundamental, global research maximizes the opportunity of having an insight to the level and direction of cash flows. They seek to achieve superior long-term returns on a consistent basis. Through research, they gain an information advantage that can be exploited to capture mispricings while actively controlling risk. Particular to emerging markets, they believe that decisions are enhanced by sensitivity to local market, economic, and political conditions. Characteristics of their strategy are disciplined adherence to the client's benchmark, broad diversification, and sensitivity to sector weights.

Approach

They are a top-down and a bottom-up manager, combining quantitative and qualitative analysis. They rank undervalued markets using a dividend discount model. The portfolio management team meets on a regular basis to discuss valuations and factors not included in the model. Their macroeconomic analysts focus on long-term earnings and dividend growth for each country. Their stock universe is ranked each week on the basis of price-to-earnings, price-to-book, and return on equity. Analysts specialize by both country and industry, researching a company's long-term earnings and dividend prospects.

Country Selection/Allocation

J.P. Morgan examine's countries from two levels. First, they identify countries that have high real expected returns relative to other countries and to their own history. Second, they identify countries that demonstrate high real returns relative to currency risk. Countries highlighted by one or both of these valuations are overweighted. They may also hold a less attractive country if it provides access to a particular issue or provides appropriate diversification. The portfolio management team considers factors that the model does not, such as information on earnings momentum, liquidity, asset allocation shifts, changes in taxes, and political issues. Final allocations are made by the portfolio managers, based on model output and other factors. They typically allow country allocations to range 0-10% away from the benchmark. Typically, they do not let the total portfolio deviate more than 25% in aggregate from benchmark weights. They have minimum and maximum weights that vary by country.

J.P. Morgan Investment Management, Inc. (cont.)

Sector Selection/Allocation

Sector and industry weights are maintained at benchmark weights.

Stock Selection

Each week, they rank their stock universe on the basis of earnings growth, dividend discount rates, price-to-book, and price-to-earnings. The analysts closely follow 400 of these stocks. They focus on major companies in each market and on smaller companies where confidence is high. They look for companies that show favorable valuations against peers in a similar industry. Analysts research a company's long-term earnings and dividend prospects. They also conduct on-site visits to develop a complete perspective on each company and ensure a high quality of company management. They believe that local market factors and investors are the price determinants of stock returns, so they compare companies within markets, not across markets. Stocks are selected so that industries/sectors remain neutral (although this is not always possible when there are a limited number of companies in the country).

Currency

Currently, they do not hedge currencies. However, as forward instruments become more practical to use in the emerging markets, portfolio managers expect to separate the currency allocation decision from the country and security allocation decisions.

Trading

They have five traders that trade emerging markets securities. Trading experience ranges from 24 years to 3 years. J.P. Morgan believes that best execution means obtaining the lowest possible net price per security unit for a purchase, and the highest possible net price for a sale. Transaction costs are controlled by negotiating with brokers competing for business. They restrict their use of brokers to those that are reputable, adequately capitalized and have a good record of execution. Brokers are selected through a formal brokerage committee.

Ownership

They are owned by J.P. Morgan & Co. Incorporated. Emerging markets assets are managed out of New York, but they also have offices in London and Singapore.

J.P. Morgan Investment Management, Inc. (cont.)

Statistics as of December 31, 1997

Number of Portfolio Managers	6
Number of Analysts	25
Number of Traders	5
Total Firm Assets	\$260.0 billion
Global Emerging Markets Assets	\$4.3 billion
Global Emerging Markets Accounts	44

Largest Global Emerging Markets Accounts

Not given	Commingled Fund	\$859 million
Not given	Mutual Fund	\$639 million
Not given	Corporate Pension	\$360 million

Portfolio Characteristics

Cash	Maximum 20%. Average 8.76%.
Countries	>25.
Stocks	250-300.
3 Yr. Avg. Turnover	35%.
Capitalization	Lower than the MSCI EMF index.
Price/Earnings	Lower than the MSCI EMF index.
Price/Book	Lower than the MSCI EMF index.

Strengths

Solid process, deep resources, team dedicated only to emerging markets, reasonable asset growth, good returns, low staff turnover.

Weaknesses

Rumors that J.P. is a possible buy-out candidate.

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MANAGER FACT SHEET
Emerging Markets Manager

Manager: Pictet International Management Limited

General Style: Mostly bottom-up

Portfolio Management

Philosophy

Pictet believes that emerging markets offer the most extraordinary pricing anomalies. They also believe that their disciplined screening approach will uncover those anomalies and provide outperformance while reducing risk.

Approach

Their approach is primarily bottom-up with some top-down. In markets where they have a weighting of at least 3-5%, they measure country risk by analyzing the macroeconomics and liquidity characteristics of the markets. For stock selection, they focus on balance sheet resilience and strength, under-valuation of industrial capacity on an international basis, and a potential for high return on equity. They seek companies that belong to and are controlled by shareholders, not creditors.

Country Selection/Allocation

Pictet performs custodial and socio-economic analysis before investing in a country, and will only invest in countries that meet their custody demands. Socio-economic analysis includes the freedom to invest and repatriate capital, commitment to free enterprise, and deregulation of the economy. They will not invest in countries that do not meet these criteria. When they analyze the macroeconomic and liquidity characteristics of markets, they focus on credit ratings of the countries, indicators of economic liquidity, valuations of the countries relative to their own histories, and valuations of local currencies. They place a 15% limit on individual markets. Within this constraint, the team is free to purchase the most attractive securities.

Sector Selection/Allocation

They strive to be broadly diversified across all sectors, but sector weights are a residual of stock selection.

Stock Selection

Portfolio managers have regional responsibilities. Analysts and portfolio managers look for three types of companies: stable growing companies with cash generative power, cyclical growing companies that have undervalued industrial capacity, and financial companies with capital strength and business franchise. For stable growing companies, they look for balance sheet strength, cash generation, and low valuation versus the market. For cyclical companies, they analyze all data in US dollars, since this method

Pictet International Management Limited (cont.)

Stock Selection (cont.)

has been extremely accurate in assessing the replacement cost value of a company. For financial companies, they look for balance sheet strength, cash generation, and a low comparable price/deposit ratio. Company visits are an important part of their research process. They construct portfolios from the best stocks in each area. They place a 2% limit on individual stocks at the time of purchase.

Currency

They do not actively hedge emerging markets currencies. However, they look at the valuation of local currency as part of the country risk analysis they undertake.

Trading

Most trades are executed in local markets, with a small portion of trades executed in London. They monitor all trades for market impact and cost. Their administration department conducts a separate review of trades, auditing for abnormal costs or spreads. Commissions are reviewed by their internal audit department. This review highlights higher trading volumes where commissions paid may be renegotiated. Executions are monitored by their trading desk.

Ownership

They are owned by Pictet & Cie, which is wholly owned by 8 partners. Emerging markets assets are managed out of London. Pictet & Cie have additional offices in Geneva, Zurich, Luxembourg, Singapore, Tokyo, Montreal, Hong Kong, Nassau and the Isle of Man.

Statistics as of December 31, 1997

Number of Portfolio Managers	8
Number of Analysts	4
Number of Traders	4
Total Firm Assets	\$6.6 billion
Global Emerging Markets Assets	\$1.6 billion
Global Emerging Markets Accounts	18

Largest Global Emerging Markets Accounts

Pictet Umbrella Trust Corporate Pension	\$428 million
State of Connecticut Public Pension	\$169 million
PGGM Public Pension	\$151 million

Pictet International Management Limited (cont.)

Portfolio Characteristics

Cash	Maximum 10%. Average <2%.
Countries	>35. Average 37.
Stocks	200-220.
3 Yr. Avg. Turnover	75%
Capitalization	Higher than the MSCI EMF index.
Price/Earnings	Higher than the MSCI EMF index.
Price/Book	Higher than the MSCI EMF index.

Strengths

A unique process, good returns, low personnel turnover, reasonable asset growth.

Weaknesses

Fairly high portfolio turnover. Few large accounts.

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DATE: May 4, 1998

TO: Members, International Manager Committee

FROM: SBI Staff

SUBJECT: **Review of Investment Manager Guidelines**

The Minnesota State Board of Investment (SBI) has established guidelines for the external 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 SBI and manager. The guidelines address return objectives, benchmarks, pricing and performance measurement, performance evaluation, eligible investments, communication, proxy voting, commodity futures trading, separate account/daily pricing, and future modifications.

Staff reviews the guidelines annually for accuracy and completeness. The Committee is asked to review the attached material and suggest any additional modifications that members feel are necessary to reflect SBI policy and procedural requirements.

The majority of modifications were additions or changes to language to enhance consistency across asset classes. A complete review of the guidelines by staff generated the following additional changes:

- ◆ *All managers.* Staff added language to the guidelines requiring managers to notify SBI of any class action suits that arise from ownership of any holding.
- ◆ *EAFE Index manager.* Deleted "bonds" from eligible investments. This was a technical correction to the guidelines.
- ◆ *Currency overlay manager.* The guidelines were updated to reflect the changes made to the program during the second quarter 1998.

The complete guidelines are attached. Additions are noted by underline and deletions are indicated by ~~strike-out~~.

MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
ACTIVE INTERNATIONAL EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) active international and active country/passive stock managers will be governed and evaluated 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 U.S. 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 performance will be evaluated according to the qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guidelines will assess performance relative to the return/risk objectives in #1 above.

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'Ivoire	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 will be restricted to holding ~~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:

- (a) All securities held must be covered by the authorization in *Minnesota Statutes* Chapter 11A.24.
- (b) U.S. cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (c) Private placements may not be held in the Account.
- (d) 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.
- (e) 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.
- (f) 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.
- (g) 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 U.S. or U.K.
- (h) Securities traded on the Russian exchanges shall not be held in the Account without the written approval of the SBI.
- (i) Non-US stock index futures may be used to adjust the effective equity exposure of the Account from 0 to 100%. ~~In addition, all~~ All transactions must be done on a fully collateralized basis.
- (j) 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~~ 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.

- (l) The 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.

7. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlight any organizational changes which may impact management of the SBI's Account.

(c) 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.

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. 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.

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. Commingled vehicles may not be held in the Account without the written 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 advance of changes to the investment guidelines.

Revised: ~~June 1997~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES EMERGING MARKETS EQUITY MANAGERS

The investment actions of the Minnesota State Board of Investment (SBI) emerging markets equity managers will be governed and evaluated 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, capitalization weighted.

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. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guidelines will assess performance relative to the return/risk objectives in #1 above.

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'Ivoire	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~~ will be restricted to holding 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:

- (a) All securities held must be covered by the authorization in *Minnesota Statutes* Section 11A.24.
- (b) U.S. cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- (c) Private placements may not be held in the Account.
- (d) 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.
- (e) 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.
- (f) 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 U.S. or U.K.
- (g) Securities traded on the Russian exchanges shall not be held in the Account without the written approval of the SBI.
- (h) Non-U.S. stock index futures may be used to adjust the effective equity exposure of the Account from 0 to 100%. ~~In addition, all~~ All transactions must be done on a fully collateralized basis.

- (i) Currency forwards, futures and options may be used to adjust the effective non-U.S. 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.

(k) 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.

7. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, on a quarterly basis (see #4 above). The Commentary will summarize performance results over the most recent quarter and year and highlight any organizational changes which may impact management of the SBI's account.

(c) 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.

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. 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.

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. Commingled vehicles may not be held in the Account without the written 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: ~~June 1997~~ May 1998

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**MINNESOTA STATE BOARD OF INVESTMENT
INVESTMENT GUIDELINES
EAFE-FREE INDEX FUND MANAGER**

The investment actions of the Minnesota State Board of Investment (SBI) EAFE-Free Index Fund Manager will be governed and evaluated by the following guidelines:

1. RETURN/TRACKING ERROR OBJECTIVE

The Manager is expected to deliver returns that track the benchmark index within ± 20 basis points on an ~~annual~~ annualized 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 U.S. 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. PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines established by SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guidelines will assess performance relative to the return/risk objectives in #1 above.

4.5. ELIGIBLE INVESTMENTS

The Manager ~~may hold~~ will be restricted to holding stocks, stock index futures, ~~bonds~~ and cash equivalents subject to the following constraints:

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

- (b) U.S. cash equivalent reserves shall be invested in the SBI's STIF fund, managed by its custodian bank.
- ~~(c) The use of non-US~~ Non-U.S. stock index futures may be used to adjust the effective equity exposure of the portfolio from 0 to 100%. ~~In addition, all~~ All transactions must be done on a fully collateralized basis.
- (d) 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.

5. 6. COMMUNICATION

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

- (a) The Manager is expected to meet with SBI staff to review the results of the Manager's investment decision-making process on at least an annual basis.
- (b) The Manager is expected to provide SBI staff with a "Manager Commentary," as described in the SBI's Manager Continuation Policy, 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.
- (c) 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. 7. PROXY VOTING

The SBI is responsible for proxy voting. The SBI may delegate responsibility for proxy voting in certain countries to the Manager. If so, such delegation will be made in writing along with appropriate voting policy direction.

7. 8. 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. 9. SEPARATE ACCOUNT AND DAILY PRICING

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

Date: ~~June 1997~~ May 1998

MINNESOTA STATE BOARD OF INVESTMENT

INVESTMENT GUIDELINES CURRENCY OVERLAY MANAGER

The investment actions of the Minnesota State Board of Investment currency overlay manager will be governed by the following guidelines:

3. 1. OBJECTIVES

Over a full cycle of dollar strength and weakness, the Manager is expected to add value to the International Program, at least 1 percentage point annualized to the return of the evaluation standards described in #4 (a), (b) and (c), net of all costs.

In periods within a full cycle, ~~Record Treasury Management~~ the Manager is expected to achieve the following results: ~~These objectives are based upon scenario analysis completed by Record Treasury at the request of the SBI:~~

- (a) In periods when the **US dollar strengthens** relative to the currencies listed in #1 6, the Manager is expected to outperform the ~~evaluation standards in #4(a), (b) and (c)~~ benchmark in #2(a). 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.
- (b) In periods when the **US dollar weakens or is trendless (flat/choppy)** relative to the currencies listed in #1 6, the Manager is expected to underperform the ~~evaluation standards in #4(a), (b) and (c)~~ benchmark in 2(a) by no more than 4 percentage points of the average annual exposure managed, annualized.
- (c) 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 2.75 percentage points of ~~the SBI's EAFE Index Fund~~ the average annual currency exposure managed.

2. BENCHMARK

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

The manager will be evaluated on two benchmarks:

a) Total Impact Benchmark:

Manager will be compared to a benchmark of zero value added.

b) Implementation Benchmark:

Manager will construct a benchmark using the returns that would have been available from comparable OTC options.

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

5. 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 SBI account. Any cash equivalents held in the account will be included in the calculation of performance.

4. ~~Evaluation~~ PERFORMANCE EVALUATION

Manager performance will be evaluated according to qualitative and quantitative guidelines set forth in the SBI's Manager Continuation Policy. These guidelines, which may change from time to time, assist the SBI in its decisions concerning retention and termination of investment managers. The quantitative guideline will assess performance relative to the objectives in #1 above.

The Manager will be evaluated on ~~four~~ two levels. The results achieved will be compared to the objectives in ~~#3~~ 1, above:

a) Total Policy Impact:

The actual unhedged return of the SBI's ~~EAFE Index Fund~~ international equity only will be compared to the actual return of the ~~Index Fund~~ equity only 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.~~

~~e) 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) b) Implementation Benchmark

~~The Manager will construct a benchmark using the returns that would have been available from comparable OTC options. The returns of this the OTC benchmark will be compared to the Manager's actual returns to measure cost effectiveness of the Manager's implementation methodology, at least annually. ~~The method used to construct the implementation benchmark will be approved by the SBI's consultant.~~~~

5. ELIGIBLE INVESTMENTS

~~1. Currencies Included~~

The Manager is directed to implement a currency overlay program based upon the actual unhedged level of currency exposure identified by SBI staff 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
- Dutch Guilder
- Euro

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:

- (a) 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.
- (b) 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.
- (c) All currency positions must mature/expire within one year or less from the date of execution.
- (d) Any U.S. cash equivalent reserves held in the account shall be invested in the SBI's STIE fund and managed by its custodian bank.
- (e) 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.

2.6. 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.

~~The Manager will rebalance outstanding currency positions when the value of the underlying stock in the corresponding market advances or declines by 4 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.~~

The value of the currency managed by manager will be determined by SBI staff.

7. COMMUNICATION

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

- (a) 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.
- (b) 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.

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 20% of the SBI's ~~EAFE Index Fund value~~ currency exposure managed.

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.

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. The total SBI liability for margin requirements, commissions, and fees among all brokers for any individual SBI manager is limited to the currency exposure managed.

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: ~~December 1997~~ May 1998

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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

First Quarter, 1998

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**COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending March, 1998**

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)	Equity Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
Active EAFE												
Brinson (1)	13.0	14.7	17.5	18.4	16.9	10.5	12.1	11.9	12.1	11.9	\$436.12	8.4%
Marathon (2)	13.7	14.7	10.2	18.4	10.0	10.5			9.3	8.8	383.36	7.4%
Rowe Price (2)	12.4	14.7	16.3	18.4	15.0	10.5			11.5	8.8	571.49	11.1%
Scudder (2)	12.0	14.7	18.3	18.4	18.0	10.5			12.6	8.8	305.57	5.9%
Active Emerging Markets												
City of London (3)	7.0	6.2	-2.5	-13.4					6.2	-2.9	108.11	2.1%
Genesis (4)	4.0	6.2	-9.6	-13.4					1.2	-5.3	241.52	4.7%
Montgomery (4)	-3.8	6.2	-13.0	-13.4					-2.1	-5.3	229.47	4.4%
Passive EAFE												
State Street (5)	14.6	14.7	18.8	18.4	10.9	10.5	12.1	11.9	12.5	12.3	2,892.72	56.0%
									Since 10/1/92			
Equity Only*	12.5	13.7	14.1	13.9	12.0	9.4	12.3	11.3	12.6	11.7	5,168.35	100.0%
Total Program**	12.9	13.7	15.4	13.9	13.5	9.4	13.2	11.3	13.4	11.7	\$5,213.01	

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

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

(1) Active country/passive stock. Retained April 1, 1993.

(2) Fully active. Retained November 1, 1993.

(3) Retained November 1, 1996.

(4) Retained May 1, 1996.

(5) Retained October 1, 1992.

Impact of Currency Overlay Program

	Qtr.	Yr.	Since Dec. 95
Index Fund*	14.6	18.8	11.5
Index + Overlay**	15.2	21.0	15.2

* EAFE-Free 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.

BRINSON PARTNERS
Periods Ending March, 1998

Portfolio Manager: Richard Carr

Assets Under Management: \$436,118,008

Investment Philosophy

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

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

Staff Comments

In December 1997, Brinson announced that Swiss Bank Corp., Brinson's parent company, and UBS Union Bank of Switzerland intended to merge. UBS Asset Management will be combined into the Brinson Division after a detailed evaluation of both businesses is completed. Staff will monitor this merger to ensure there are no adverse impacts on the SBI's portfolio.

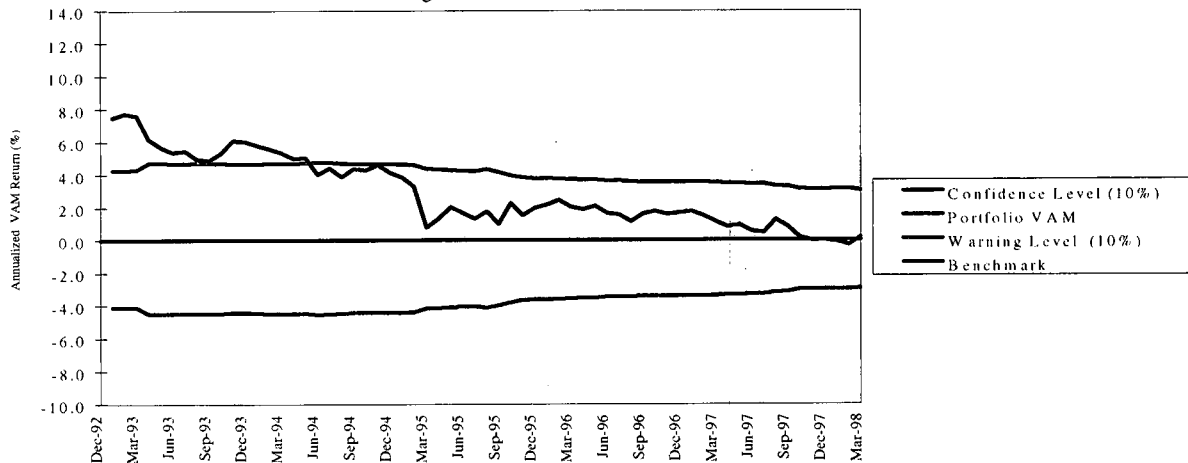
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.0%	14.7%
Last 1 year	17.5	18.4
Last 2 years	13.0	9.6
Last 3 years	16.9	10.5
Last 4 years	12.6	9.4
Last 5 years	12.1	11.9
Since Inception (4/93)	12.1	11.9

Recommendations

No action required.

BRINSON PARTNERS, INC. (INT'L)
 Rolling Five Year VAM



5 Year Period Ending
 Note: Shaded area includes performance prior to managing SBI account.

MARATHON ASSET MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: William Arah

Assets Under Management: \$383,358,383

Investment Philosophy

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

Staff Comments

Staff met with Marathon during February 1998. Marathon believes that growth stocks' recent outperformance will revert back to the mean. There are other stocks that have room for improvement, but they feel no one is recognizing that right now. They believe their portfolios are positioned to outperform when the focus shifts away from growth.

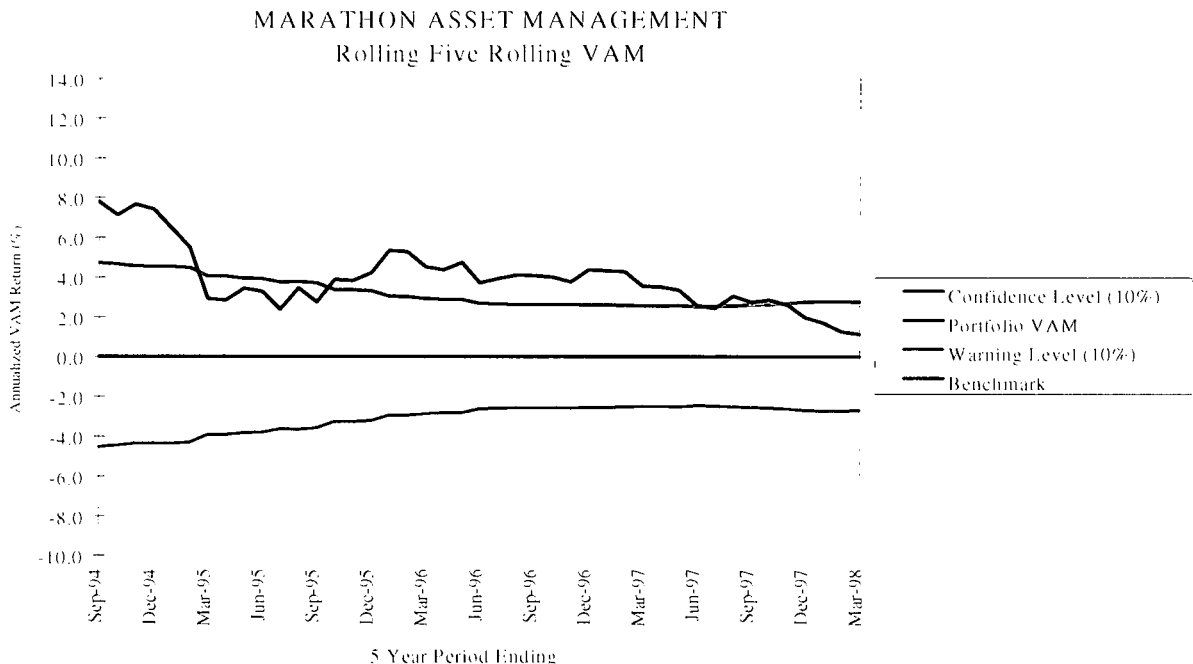
Marathon mentioned that they would consider closing to separate accounts if new account growth picked up dramatically. They expect little, if any, new account growth in 1998.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.7%	14.7%
Last 1 year	10.2	18.4
Last 2 years	7.0	9.6
Last 3 years	10.0	10.5
Last 4 years	7.8	9.4
Last 5 years	N/A	N/A
Since Inception (11/93)	9.3	8.8

Recommendations

No action required.



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

Portfolio Manager: Martin Wade

Assets Under Management: \$571,490,804

Investment Philosophy

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

Staff Comments

Staff met with Rowe Price-Fleming during February 1998. Rowe Price updated staff on the portfolio and their views on international markets. Rowe Price received additional funds on February 1, 1998 as a result of SBI's rebalancing. Staff has no concerns with this manager at this time.

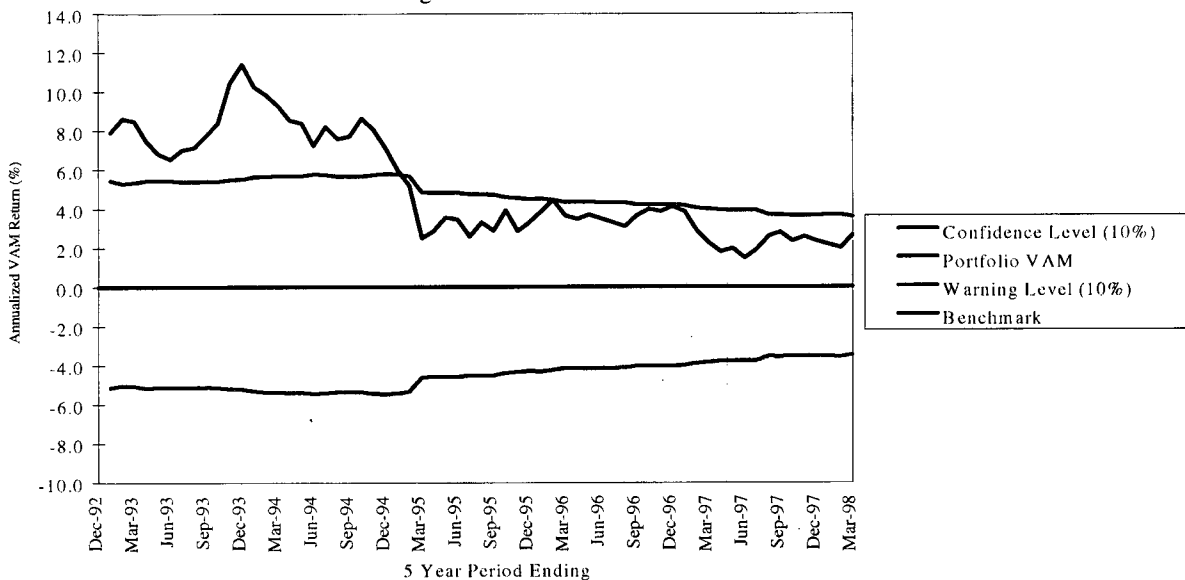
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.4%	14.7%
Last 1 year	16.3	18.4
Last 2 years	13.0	9.6
Last 3 years	15.0	10.5
Last 4 years	11.5	9.4
Last 5 years	N/A	N/A
Since Inception (11/93)	11.5	8.8

Recommendations

No action required.

ROWE PRICE-FLEMING
Rolling Five Year VAM



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

SCUDDER, STEVENS & CLARK
Periods Ending March, 1998

Portfolio Manager: Sheridan Reilly

Assets Under Management: \$305,573,358

Investment Philosophy

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

Staff Comments

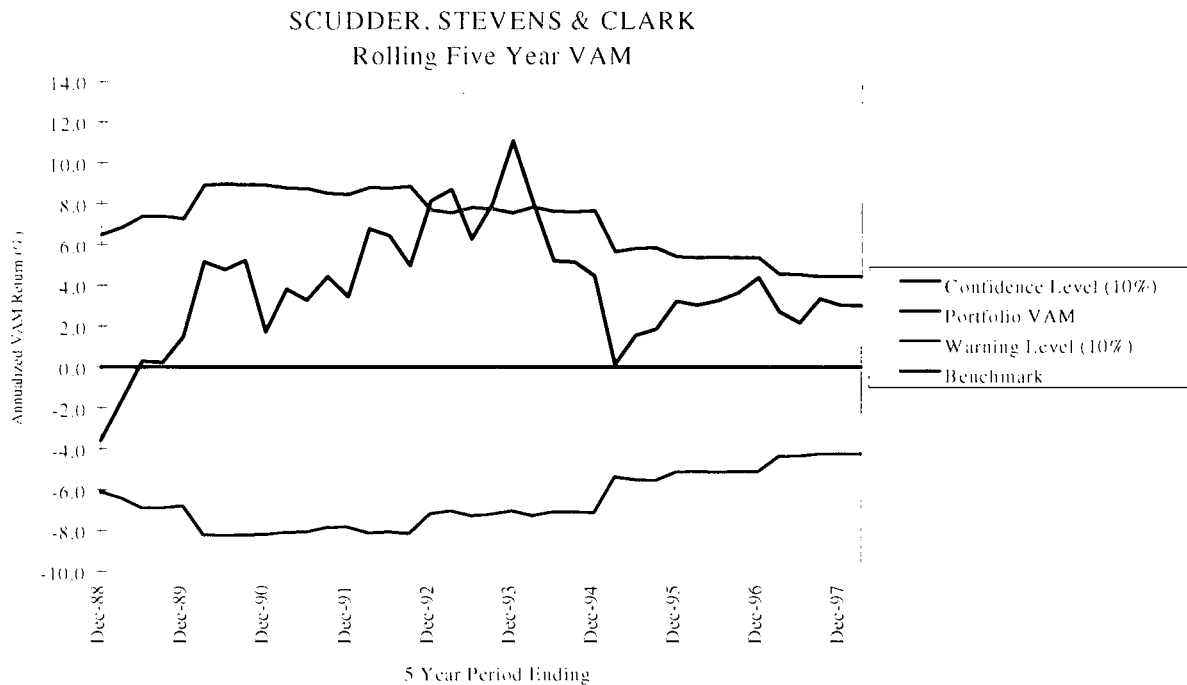
Sheridan Reilly, a portfolio manager with Scudder since 1995, has taken over responsibilities for international institutional accounts. Deborah Chaplin, a portfolio manager from Scudder's domestic equity area, has moved to international equities and will co-manage institutional accounts with Sheridan. Staff met with Scudder regarding this change and will continue to monitor them to ensure there is no adverse impact on the SBI's account.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.0%	14.7%
Last 1 year	18.3	18.4
Last 2 years	14.8	9.6
Last 3 years	18.0	10.5
Last 4 years	13.5	9.4
Last 5 years	N/A	N/A
Since Inception (11/93)	12.6	8.8

Recommendations

No action required.



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

CITY OF LONDON
Periods Ending March, 1998

Portfolio Manager: Barry Olliff

Assets Under Management: \$108,105,920

Investment Philosophy

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

Staff Comments

Staff met with City of London during February 1998. City of London plans to reopen their emerging markets closed-end fund product to new investors. Staff has some concerns, but will monitor performance for any adverse effects.

City of London continues to deepen their organization, adding staff in compliance and marketing. They are also looking at new products to offer investors. They may add a third office, in Bangkok, Thailand. Staff will continue to closely monitor City of London as it grows.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.0%	6.2%
Last 1 year	-2.5	-13.4
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)	6.2	-2.9

Recommendations

No action required.

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

GENESIS ASSET MANAGERS, LTD.
Periods Ending March, 1998

Portfolio Manager: Paul Greatbatch

Assets Under Management: \$241,515,177

Investment Philosophy

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

Staff Comments

Staff met with Genesis during March 1998. Genesis updated staff on the portfolio and their views on emerging markets. Genesis received additional funds on March 1, 1998, as a result of SBI's rebalancing. They had no problems with the funding. Staff has no concerns with this manager at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	6.2%
Last 1 year	-9.6	-13.4
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)	1.2	-5.3

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

MONTGOMERY ASSET MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Josephine Jimenez

Assets Under Management: \$229,473,172

Investment Philosophy

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

Staff Comments

Staff met with Montgomery during April 1998. Montgomery's underperformance during the first quarter was due to a dramatic rise in Southeast Asian markets where they are underweight, and to profit-taking in Russia, where they are overweight. Montgomery also updated staff on their outlook for emerging markets. Staff has no concerns with this manager at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.8%	6.2%
Last 1 year	-13.0	-13.4
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)	-2.1	-5.3

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

STATE STREET GLOBAL ADVISORS
Periods Ending March, 1998

Portfolio Manager: Lynn Blake

Assets Under Management: \$2,892,720,138

Investment Philosophy

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

Staff Comments

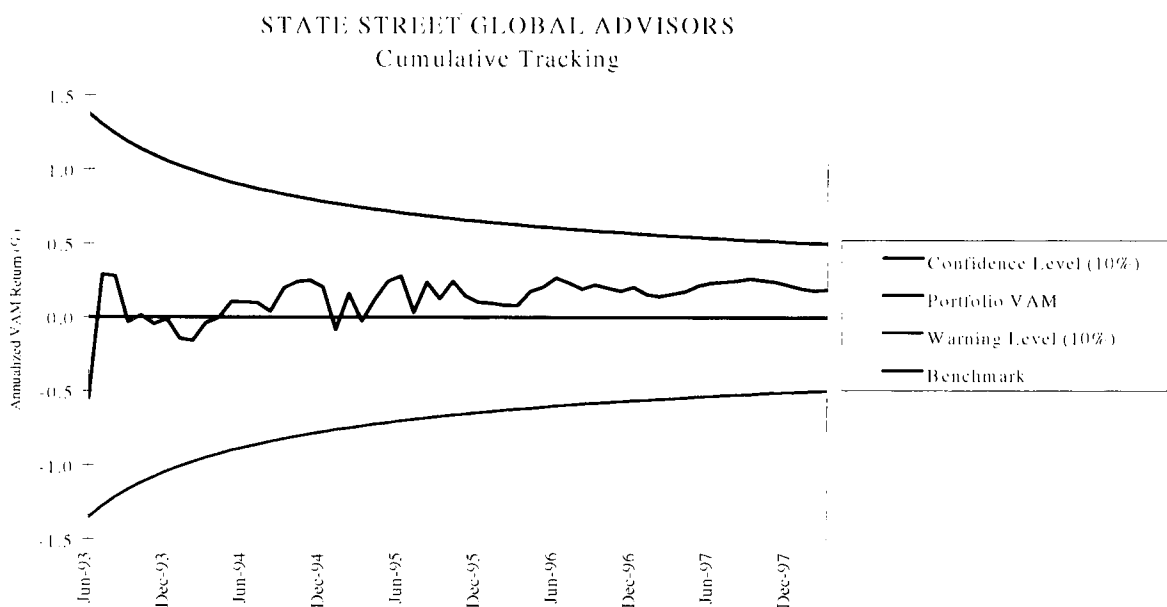
Staff met with State Street during March 1998. State Street updated staff on personnel additions and growth in assets. Staff has no concerns with this manager at this time.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.6%	14.7%
Last 1 year	18.8	18.4
Last 2 years	10.0	9.6
Last 3 years	10.9	10.5
Last 4 years	9.7	9.4
Last 5 years	12.1	11.9
Since Inception (10/92)	12.5	12.3

Recommendation

No action required.



RECORD TREASURY MANAGEMENT
Periods Ending March, 1998

Portfolio Manager: Les Halpin

Exposure Included in Overlay:\$2,047,700,000

Investment Philosophy

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

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

Staff Comments

In March, the Board approved a reduction in the currency overlay program to lower the volatility of the International Program's total return relative to the unhedged benchmark. The reduction was implemented on April 1, 1998. Staff met with Record Treasury to discuss implementation of the reduction.

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	15.2%	14.6%
Last 1 Year	21.0	18.8
Last 2 Years	14.0	9.9
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (12/95)	15.2	11.5

Recommendations

No action required.

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

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Tab F

COMMITTEE REPORT

DATE: May 26, 1998

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on May 18, 1998 to review the following information and action items:

- Review of current strategy.
- Investments for the Basic Retirement Fund with two new private equity managers (Richard C. Blum & Associates and Welsh, Carson, Anderson & Stowe) and an existing private equity manager (The Banc Funds Company). An investment with an existing resource manager (Merit Energy Partners) is being recommended for the Post Retirement Fund.

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

INFORMATION ITEMS:

1) **Review of Current Strategy.**

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

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds. Currently, the SBI has an investment at market value of \$668 million in twenty (20) commingled real estate funds.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. Currently, the SBI has an investment at market value of \$801 million in thirty-six (36) commingled private equity funds.
- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of \$183 million in ten (10) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. The SBI has an investment at market value of \$152 million in eleven (11) yield oriented funds for the Post Fund: Four (4) are in real estate, six (6) are in private equity and one (1) is in resource.

ACTION ITEMS:

- 1) **Investment for the Basic Retirement Fund with a new private equity manager, Welsh, Carson, Anderson & Stowe in Welsh, Carson, Anderson & Stowe Fund VIII, L.P.**

Welsh, Carson, Anderson & Stowe is seeking investors for a new \$3.0 billion private equity fund, Welsh, Carson, Anderson & Stowe Fund VIII, L.P. This Fund is the eighth private equity fund managed by Welsh, Carson, Anderson & Stowe. Welsh, Carson, Anderson & Stowe Fund VIII, L.P. will focus, like prior funds, on assembling a diverse portfolio of private equity investments in the technology and healthcare sectors.

More information on Welsh, Carson, Anderson & Stowe Fund VIII, L.P. is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$100 million or 20%, whichever is less, in Welsh, Carson, Anderson & Stowe Fund VIII, 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 Welsh, Carson, Anderson & Stowe 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 Welsh, Carson, Anderson & Stowe or reduction or termination of the commitment.

- 2) Investment for the Basic Retirement Fund with an new private equity manager, Richard C. Blum & Associates, in RCBA Strategic Partners, L.P.**

Richard C. Blum & Associates is seeking investors for a new \$600 million private equity fund, RCBA Strategic Partners, L.P. RCBA Strategic Partners, L.P. will focus on assembling a diverse portfolio of public and private equity investments.

More information on RCBA Strategic Partners, L.P. is included as Attachment D.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$50 million or 20%, whichever is less, in RCBA Strategic Partners, L.P.. Additionally, the Committee recommendation is contingent upon RCBA Strategic Partners, L.P. achieving at least \$500 million in total investor commitments. 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 Richard C. Blum & Associates 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 Richard C. Blum & Associates or reduction or termination of the commitment.

3) Investment for the Basic Retirement Fund with an existing private equity manager, The Banc Funds Company, in Banc Fund V.

The Banc Funds Company is seeking investors for a new \$300 million private equity fund, Banc Fund V. This Fund is the fifth private equity fund managed by The Banc Funds Company. Banc Fund V will focus, like prior funds, on assembling a diverse portfolio of investments in the financial services industry sector.

More information on Banc Fund V is included as **Attachment E**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$60 million or 20%, whichever is less, in Banc Fund V. This commitment will be allocated to the Basic Retirement Fund.

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

4) Investment for the Post Retirement Fund with an existing resource manager, Merit Energy Partners, in Merit Energy Partners C (CI and CII), L.P.

Merit Energy Partners is seeking investors for a new \$300 million resource fund, Merit Energy Partners C (CI and CII), L.P. This Fund is the thirteenth resource fund managed by Merit Energy Partners. Merit Energy Partners C (CI and CII), L.P. will focus, like prior funds, on assembling a portfolio of income producing oil and gas properties.

More information on Merit Energy Partners C (CI and CII), L.P. is included as **Attachment F**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$60 million or 20%, whichever is less, in Merit Energy Partners C (CI and CII), L.P. This commitment will be allocated to the Post Retirement Fund.

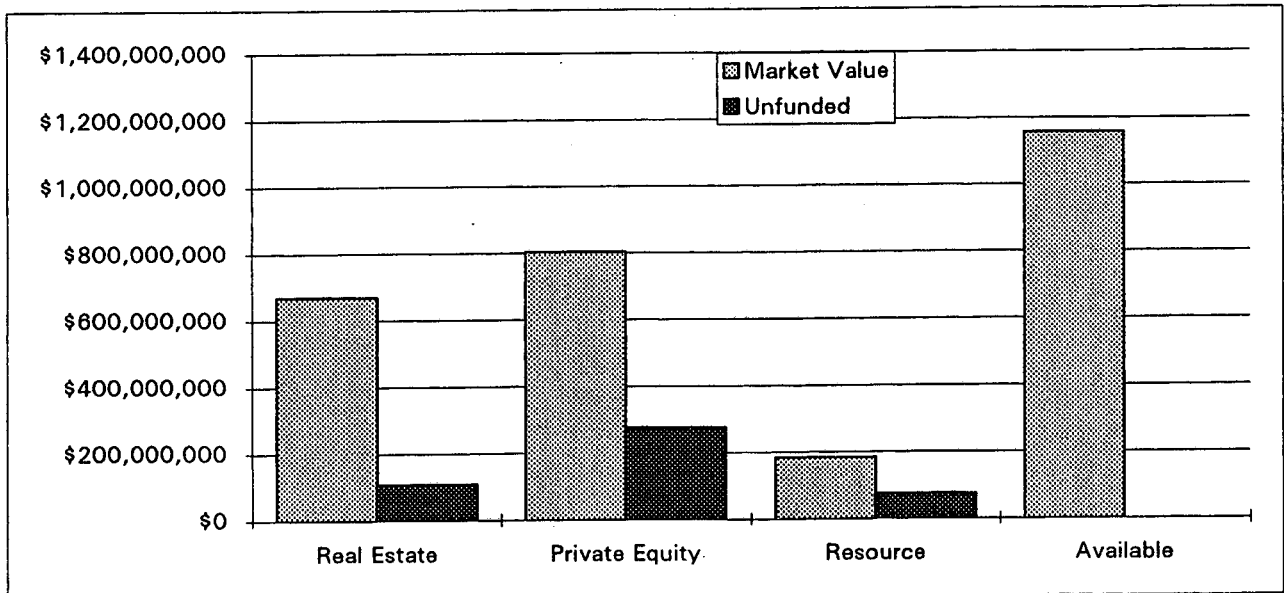
Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any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

ATTACHMENT A
Minnesota State Board of Investment
Alternative Investments
Basic Retirement Funds
March 31, 1998

Market Value of Basic Retirement Funds	\$18,715,208,354
Amount Available For Investment	\$1,154,314,482

	<i>Current Level</i>	<i>Target Level</i>	<i>Difference</i>
Market Value	\$1,652,966,771	\$2,807,281,253	\$1,154,314,482
MV + Unfunded	\$2,107,750,247	\$3,743,041,671	\$1,635,291,424

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$668,500,691 3.6%	\$106,330,406 0.6%	\$774,831,097 4.1%
Private Equity	\$801,461,888 4.3%	\$274,346,203 1.5%	\$1,075,808,090 5.7%
Resource	\$183,004,192 1.0%	\$74,106,867 0.4%	\$257,111,060 1.4%
Total	\$1,652,966,771 8.8%	\$454,783,476 2.4%	\$2,107,750,247 11.3%



ATTACHMENT B

STATE OF MINNESOTA ALTERNATIVE INVESTMENTS - PRIVATE EQUITY 3/31/98

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
ALLIED	5,000,000	5,000,000	478,330	5,849,820	0	3.75	12.5
BANK FUND							
Fund III	20,000,000	20,000,000	40,819,820	7,883,092	0	27.20	5.4
Fund IV	25,000,000	21,250,000	24,528,068	516,989	3,750,000	17.49	2.1
BLACKSTONE PARTNERS II	50,000,000	42,029,341	31,092,231	41,191,091	7,970,659	54.62	4.4
BRINSON PARTNERS							
VPAF I	5,000,000	5,000,000	1,128,255	7,344,638	0	9.75	9.9
VPAF II	20,000,000	18,579,998	6,358,982	27,407,476	1,420,002	25.00	7.3
CHURCHILL CAPITAL PARTNERS II	20,000,000	20,000,000	11,183,810	14,280,444	0	11.09	5.4
CONTRARIAN CAPITAL II	37,000,000	18,530,891	18,214,688	12,446	18,469,109	-3.26	0.8
CORAL PARTNERS							
Fund I Superior	7,011,923	7,011,923	1,422,829	4,845,028	0	-2.08	11.8
Fund II	10,000,000	9,571,306	8,611,432	23,545,087	428,694	25.96	7.7
Fund IV	15,000,000	9,000,000	10,507,729	867,187	6,000,000	11.39	3.7
IAI Ventures I	1,146,890	1,146,890	0	1,536,770	0	14.70	7.1
DSV	10,000,000	10,000,000	5,146,231	18,912,262	0	8.45	13.0
FIRST CENTURY	10,000,000	10,000,000	2,794,897	13,636,954	0	8.93	13.3
GOLDER THOMA CRESSEY RAUNDER							
Fund III	14,000,000	14,000,000	7,813,145	50,783,418	0	31.03	10.4
Fund IV	20,000,000	19,000,000	22,743,787	14,480,689	1,000,000	29.80	4.2
Fund V	30,000,000	18,300,000	18,031,832	0	11,700,000	-2.12	1.7
HELLMAN & FRIEDMAN III	40,000,000	21,675,913	16,019,734	12,347,236	18,324,087	18.98	3.5
IAI U.S. VENTURE FUND II	15,000,000	7,344,773	6,851,096	343,980	7,655,227	-2.81	1.2
IMR PARTNERSHIP	15,000,000	1,524,900	310,628	1,148,997	13,475,100	-1.51	5.7
INMAN BOWMAN	7,500,000	7,500,000	492,297	9,519,814	0	3.82	12.8
KOHLBERG KRAVIS ROBERTS							
1984 Fund	25,000,000	25,000,000	11,292,579	115,061,979	0	28.55	13.8
1986 Fund	18,365,339	18,365,339	65,014,212	134,761,039	0	28.20	12.0
1987 Fund	145,950,000	145,950,000	190,243,201	246,828,775	0	12.36	10.4
1993 Fund	150,000,000	150,000,000	132,086,626	98,368,144	0	11.64	4.3
1996 Fund	200,000,000	54,096,675	46,362,963	5,677,541	145,903,325	-7.98	1.6
MATRIX							
Fund II	10,000,000	10,000,000	1,146,774	19,868,174	0	13.45	12.6
Fund III	10,000,000	10,000,000	1,449,576	70,242,885	0	74.78	7.9
NORTHWEST VENTURE CAPITAL	10,000,000	10,000,000	140,370	15,368,680	0	5.70	14.2
PIPER JAFFREY HEALTHCARE FUND	10,000,000	4,500,000	4,001,319	415,800	5,500,000	-4.38	1.1
SUMMIT PARTNERS							
Fund I	10,000,000	10,000,000	211,088	20,106,935	0	13.15	13.3
Fund II	30,000,000	28,500,000	3,666,524	65,325,350	1,500,000	28.60	9.9
Fund V	25,000,000	1,250,000	1,250,000	0	23,750,000	0.00	0.0
T. ROWE PRICE	184,075,142	184,075,142	26,376,540	182,927,726	0	18.71	10.4
WARBURG PINCUS	50,000,000	42,500,000	69,070,548	5,491,919	7,500,000	38.42	3.2
ZELL/CHILMARK	30,000,000	30,000,000	14,599,747	44,461,488	0	12.87	7.7

TOTAL PRIVATE EQUITY BASIC FUNDS	1,285,049,294	1,010,703,091	801,461,888	1,281,359,852	274,346,202		
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POST FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
CITICORP MEZZANINE	40,000,000	16,232,396	13,104,945	6,886,015	23,767,605	11.73	3.2
KLEINWORT BENSON	25,000,000	12,972,872	12,466,229	450,973	12,027,128	-0.44	2.5
SUMMIT PARTNERS (POST)							
Summit Sub-Debt Fund I	20,000,000	18,000,000	8,922,440	18,410,192	2,000,000	30.10	4.0
Summit Sub-Debt Fund II	45,000,000	13,500,000	15,495,074	831,652	31,500,000	48.78	0.7
T. ROWE PRICE	1,619,284	1,619,284	589,831	1,327,817	0	76.81	1.1
TCW/CRESCENT MEZZANINE	40,000,000	29,275,847	24,612,785	6,621,214	10,724,153	7.64	2.0

TOTAL PRIVATE EQUITY POST FUNDS	171,619,284	91,600,398	75,191,304	34,527,863	80,018,886		
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TOTAL PRIVATE EQUITY	1,456,668,577	1,102,303,489	876,653,191	1,315,887,715	354,365,088		
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STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - REAL ESTATE
3/31/98

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
AETNA	42,376,529	42,376,529	100,993,091	0	0	6.24	15.9
AEW							
<i>AEW III</i>	20,000,000	20,000,000	102,965	21,490,056	0	0.72	12.6
<i>AEW IV</i>	15,000,000	15,000,000	31,369	4,393,315	0	-10.86	11.5
<i>AEW V</i>	15,000,000	15,000,000	3,730,561	8,160,057	0	-2.51	10.3
AMERICAN REPUBLIC	1	1	1	0	0	0.00	8.2
COLONY CAPITAL							
<i>Colony Investors II</i>	40,000,000	35,540,364	31,232,787	6,798,033	4,459,636	5.67	3.0
<i>Colony Investors III</i>	100,000,000	12,784,829	12,784,829	0	87,215,171	0.00	0.2
EQUITABLE	40,000,000	40,000,000	89,435,835	0	0	5.37	16.5
EQUITY OFFICE PROPERTIES TRUST	140,388,854	140,388,854	226,635,384	29,429,403	0	22.24	6.3
FIRST ASSET REALTY	916,185	916,185	363,307	674,321	0	4.47	3.9
HEITMAN							
<i>Heitman I</i>	20,000,000	20,000,000	7,217,818	14,469,734	0	1.09	13.6
<i>Heitman II</i>	30,000,000	30,000,000	20,564,678	19,015,317	0	3.20	12.4
<i>Heitman III</i>	20,000,000	20,000,000	11,661,787	10,309,716	0	1.18	11.2
<i>Heitman V</i>	20,000,000	20,000,000	20,450,474	7,898,621	0	7.16	6.3
LASALLE INCOME PARKING FUND	15,000,000	14,644,401	13,468,991	5,100,120	355,599	6.52	6.5
RREEF USA Fund III	75,000,000	75,000,000	42,872,174	68,347,612	0	4.10	13.9
T.A. ASSOCIATES REALTY							
<i>Realty Associates Fund III</i>	40,000,000	39,200,000	43,712,508	15,672,319	800,000	15.96	3.8
<i>Realty Associates Fund IV</i>	50,000,000	36,500,000	32,218,412	1,406,759	13,500,000	8.45	1.2
TCW							
<i>TCW III</i>	40,000,000	40,000,000	6,318,245	42,008,449	0	1.99	12.7
<i>TCW IV</i>	30,000,000	30,000,000	4,705,478	23,425,133	0	-0.70	11.4
TOTAL REAL ESTATE BASIC FUNDS	753,681,569	647,351,163	668,500,691	278,598,965	106,330,406		
POST FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
COLONY INVESTORS II	40,000,000	35,540,364	31,232,787	6,798,033	4,459,636	5.67	3.0
WESTMARK REALTY ADVISORS							
<i>Westmark Comm. Mtg. Fund II</i>	13,500,000	13,397,500	13,271,466	2,673,823	102,500	10.20	1.3
<i>Westmark Comm. Mtg. Fund III</i>	21,500,000	19,301,000	19,495,209	942,012	2,199,000	11.25	1.3
<i>Westmark Comm. Mtg. Fund IV</i>	14,300,000	1,681,644	1,679,460	39,750	12,618,356	9.31	0.3
TOTAL REAL ESTATE POST FUNDS	89,300,000	69,920,508	65,678,921	10,453,618	19,379,492		
TOTAL REAL ESTATE	842,981,569	717,271,671	734,179,612	289,052,584	125,709,898		

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - RESOURCE
3/31/98

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
APACHE III	30,000,000	30,000,000	3,999,991	42,220,182	0	11.08	11.3
FIRST RESERVE CORP.							
AMGO I	15,000,000	15,000,000	9,510,301	6,533,545	0	0.51	16.5
AMGO II	7,000,000	7,000,000	12,560,354	4,135,479	0	7.48	15.2
First Reserve Fund IV (SEA)	12,300,000	12,300,000	7,404,461	24,711,716	0	13.64	9.9
First Reserve Fund V	16,800,000	16,800,000	35,470,302	19,152,370	0	20.15	7.9
First Reserve Fund VII	40,000,000	25,611,384	31,757,554	2,981,814	14,388,616	50.26	1.7
MORGAN OIL&GAS	15,000,000	15,000,000	10,884,115	10,419,967	0	5.12	9.6
SIMMONS							
SCF Fund II	17,000,000	14,847,529	36,447,468	6,148,819	2,152,471	24.66	6.7
SCF Fund III	25,000,000	17,434,220	34,969,647	7,973,704	7,565,780	66.65	2.8
SCF Fund IV	50,000,000	0	0	0	50,000,000	0.00	0.0

TOTAL RESOURCE BASIC FUNDS	228,100,000	153,993,133	183,004,192	124,277,596	74,106,867		
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POST FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR %	PERIOD YEARS
MERIT ENERGY PARTNERS	24,000,000	11,457,658	10,943,184	1,197,382	12,542,342	7.31	1.7

TOTAL RESOURCE POST FUNDS	24,000,000	11,457,658	10,943,184	1,197,382	12,542,342		
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TOTAL RESOURCE	252,100,000	165,450,791	193,947,376	125,474,978	86,649,209		
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PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund: Welsh, Carson, Anderson & Stowe VIII, L.P.

Type of Fund: Private Equity Limited Partnership

Total Fund Size: \$3.0 billion

Fund Manager: Welsh, Carson, Anderson & Stowe
320 Park Avenue
Suite 2500
New York, NY 10022-6815
Phone: (212) 893-9500
Fax: (212) 893-9575

Manager Contact: Bruce Anderson

II. Organization and Staff

Welsh, Carson, Anderson & Stowe ("WCAS") has raised approximately \$4.6 billion in equity and subordinated debt through ten limited partnerships. The firm has been active for over 19 years in completing management buyouts and other private equity investments in both the healthcare and information services industries.

WCAS has offices in New York and New Jersey and has 21 employees, including ten investment professionals.

WCAS VIII (the "Fund") is the eleventh fund raised by WCAS.

III. Investment Strategy

WCAS specializes in management buyouts and other private equity investments in the information technology and healthcare industries. It focuses on control positions in medium-sized, growth-oriented companies. The Firm is generally able to provide all or most of the required capital in a transaction through its equity and captive subordinated debt funds. Once a transaction is completed, the General Partners are actively involved in setting portfolio company strategy, organization, acquisitions and financing.

The Fund will not invest more than:

- 20% of aggregate commitments in any single investment (the three largest investments will not exceed 50%),
- 20% of aggregate commitments in investments outside North America,
- 5% of aggregate commitments in publicly traded securities.

In addition, the Fund will not pursue any hostile transactions.

IV. Investment Performance

Previous fund performance as of March 31, 1998 is shown below. The WCAS funds are equity partnerships, whereas the WCAS CP funds are captive subordinated debt partnerships.

Fund Name	Inception Date	Total Equity Commitments	Net IRR from Inception
WCAS #	3/79	\$ 33.3 million	19.4%
WCAS II #	12/80	\$ 31.7 million	14.2
WCAS III	3/83	\$ 80.8 million	8.5
WCAS IV	1/85	\$ 177.9 million	13.7
WCAS CP	12/87	\$ 208.8 million	18.3
WCAS V	1/89	\$ 371.4 million	33.7
WCAS CP II	10/90	\$ 354.3 million	16.9
WCAS VI	5/93	\$ 604.2 million	16.6
WCAS VII	10/95	\$ 1,425.7 million	(2.3)
WCAS CP III	5/97	\$ 1,279.2 million	10.1

WCAS and WCAS II have been fully liquidated.

V. General Partners Investment

The Principals will invest one percent (1%) of the capital of the Fund. In addition, they will co-invest five percent (5%) of the capital invested by the Partnership in each transaction on the same terms as those obtained by the Fund.

VI. Takedown Schedule

Five percent (5%) at the closing of the Fund's first investment, with the balance to be called as needed with ten days' advance notice.

VII. Fees

The General Partner shall receive an annual fee, payable quarterly in advance, as follows:

Year 1:	1.50%	Year 9:	1.50%
Year 2:	1.75%	Year 10:	1.25%
Years 3-7:	2.00%	Year 11:	0.75%
Year 8:	1.75%	Year 12:	0.25%

In years one through seven, the payments will be based on committed capital. In years eight through twelve, the payments will be based upon the lower of committed capital or net asset value.

All transaction, break-up, consulting or director fees resulting from investment activities will reduce the quarterly management fee and thereby inure to the benefit of the Fund.

The Fund will pay all organizational expenses, which are expected not to exceed \$750,000.

VIII. Term

The Fund will have a commitment period of six years and a term of 12 years, subject to extension for additional periods with the consent of two-thirds of the Partnership interests.

IX. Allocations/Distributions

Allocations

Net operating profits, gains or losses for any fiscal year will be allocated to the Partners in the following manner:

- In proportion to their relative capital contributions, if and to the extent that the capital accounts of the Limited Partners at the beginning of such fiscal year (including any prior distributions), plus the profits, gains or losses so allocated, *are equal to or less than* the capital contributions paid in by the Limited Partners, and

- 80% to all Partners, in proportion to their relative capital contributions, and 20% to the General Partner if and to the extent that the Limited Partner's capital accounts (including any prior distributions), plus such profits, gains or losses *exceed* the capital contributions paid in by the Limited Partners.

All short-term income from money market investments will be allocated based upon capital contributions.

Distributions

The Principals may, but are not required to, make distributions of cash and securities held by the Fund. Such distributions will be made as follows:

- Distributions of cash will be made to all Partners in proportion to their respective capital accounts;
- Distributions of securities will be made (a) to all Partners, in proportion to their relative capital contributions, to the extent of the cost basis of such securities, and (b) 80% to all Partners, in proportion to their relative capital contributions, and 20% to the General Partner with respect to any remaining securities;
- Upon termination of the Fund, liquidating distributions of cash and securities will be made to all Partners in proportion to their respective capital accounts.

X. *Reinvestment of Capital*

The Fund may not invest more than 125% of aggregate capital commitments of all the Partners over the life of the Fund. Any amounts invested in securities that are sold, redeemed or otherwise realized for cash within 12 months after the date of investment shall not be included in determining such aggregate amount.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund: RCBA Strategic Partners, L.P.

Type of Fund: Private Equity Limited Partnership

Total Fund Size: \$600 million.

Fund Manager: Richard C. Blum & Associates
909 Montgomery Street
San Francisco, CA 94133
Phone: (415) 434-1111
Fax: (415) 434-3130

Manager Contact: Richard C. Blum
George F. Hamel, Jr.

II. Organization & Staff

Richard C. Blum & Associates, L.P. ("RCBA") is a merchant banking and equity investment management firm founded in 1975 by Richard C. Blum. Previously, Mr. Blum was employed by Sutro & Co., Inc. Other principals of the Fund include N. Colin Lind, Jeffrey W. Ubben, and William C. Johnston. Prior to joining RCBA in 1986, Mr. Lind was employed by R.H. Chappell Co. Prior thereto, he was employed by Davis Skaggs, Inc. and Wheat First Securities. Prior to joining RCBA in 1995, Mr. Ubben was employed by Fidelity Management & Research Co. Prior to joining RCBA in 1997, Mr. Johnson was employed by Apac Holdings, Ltd. Prior thereto, he was employed by Dillon, Reed & Co. and Blyth Eastman Dillon & Co.

The firm has 25 employees, including seven investment professionals.

III. Investment Strategy

The foundation of RCBA's investment strategy is a value-oriented approach that is research intensive and emphasizes preservation of capital. The Fund will target two types of transactions:

Strategic Block Investments

The Fund will acquire large ownership stakes in publicly-traded companies both through open market purchases and negotiated transactions. RCBA will target companies with market capitalizations in the range of \$200 million to \$1.5 billion and will normally purchase positions ranging in size (at acquisition cost) from \$50 million to \$125 million. The goal will be to build a productive relationship with management, and initiate and assist in the implementation of strategies to generate superior returns on invested capital.

Control Transactions

The Fund will make investments in which it acquires controlling interests in companies, or as part of a control group, through going-private transactions or privately negotiated securities purchases. RCBA believes that it will generate the majority of its control transaction opportunities from publicly-traded companies in which it has already established a strategic block relationship. The Fund may also source control investments in companies in which it does not already have an interest, or which are not publicly-traded.

In strategic block investments that involve accumulating publicly-traded securities, other accounts managed by RCBA will invest alongside the Fund on a "cash available for investment" basis. However, the General Partner, in its discretion, may allocate a particular investment where the amount available for investment does not exceed \$5 million to other accounts managed by RCBA without regard to cash available for investment.

The Fund will not invest more than:

- 25% of aggregate commitments in any single investment (up to 35% where the General Partner believes in good faith that the amount invested can be reduced to no more than 25% within 180 days from the date of the initial investment),
- 15% of aggregate commitments in investments outside the United States and Canada.

The Fund will also not pursue the acquisition of a business if such acquisition is opposed by a majority of the members of such business's board of directors or by stockholders possessing a majority of the voting power of such business's outstanding securities.

IV. Investment Performance

Since 1975, RCBA has invested in 73 transactions totaling \$1.8 billion in aggregate purchase price. These transactions have generated \$2.9 billion in value and a net IRR of 19.4%.

V. General Partner's Investment

The General Partner, together with other affiliates of the Principals will commit an amount equal to at least three percent (3%) of total commitments.

VI. Takedown Schedule

Commitments will be drawn down on an as-needed basis, with a minimum of ten business days' prior notice.

VII. Fees

The Fund will pay an annual management fee, payable semiannually in advance, of 1.5% of total commitments for the first six years (the commitment period). Thereafter, the management fee will equal 1.25% of any unreturned funded commitments.

The management fee will be reduced by (a) 50% of all transaction or monitoring fees paid by portfolio companies to the General Partner, and (b) 100% of all breakup fees paid by portfolio companies, net of unreimbursed expenses.

The Fund will pay organizational expenses, not to exceed \$1.0 million.

VIII. Term

Ten years, subject to two consecutive one-year extensions at the discretion of the General Partner.

IX. Distributions

All dividends, interest and other income (other than net proceeds from the sale or other disposition of investments) received in cash by the Fund, net of expenses and appropriate reserves, will be distributed annually. Net proceeds from the sale or other disposition of an investment, net of expenses and appropriate reserves, will be distributed as soon as practicable after receipt thereof.

Distributions will be made as follows:

- a return of investment capital, management fees and other expenses attributable to realized investments; plus
- a return of aggregate net losses from writedowns of portfolio companies; plus
- an 8% preferred return on the above amounts; then
- 80% to the General Partner and 20% to the Limited Partners as a catch-up until the General Partner has received its 20% carried interest; and

- 80% to the Limited Partner and 20% to the General Partner.

All distributions will be made in cash or marketable securities (or securities that are the subject of immediately exercisable registration rights). Upon termination of the Fund or the withdrawal of a Limited Partner, distributions may also include restricted securities or other assets of the Fund. Each Limited Partner will have the option to require the General Partner to dispose of its portion of any in-kind distribution and to distribute to such Limited Partner the cash proceeds from such disposition instead.

Thirty percent (30%) of the after-tax distributions to which the General Partner is entitled to will be deposited in a segregated reserve account pending the future performance of the Fund. Such amount may be subject to reallocation and distribution to the Limited Partners following the termination of the Fund to the extent necessary to preserve the overall 80/20 profit allocation.

X. *Reinvestment of Capital*

During the commitment period, the General Partner may retain or recall for investment the invested capital portion of any proceeds received by the Fund from the disposition of a Strategic Public Investment.

PRIVATE EQUITY MANAGER SUMMARY PROFILE**I. Background Data**

Name of Fund: Banc Fund V

Type of Fund: Private Equity Limited Partnership

Total Fund Size: \$300 million

Fund Manager: The Banc Funds Company
208 South LaSalle Street
Suite 200
Chicago, IL 60604-1003
Phone: (312) 855-6202
Fax: (312) 855-8910

Manager Contact: Charles J. Moore

II. Organization & Staff

The Banc Funds Company (TBFC), a company organized and controlled by Charles Moore, will manage Banc Fund V.

The Fund management team has worked together since the inception of Fund I in 1986. TBFC employs nine individuals, seven of which are investment professionals.

TBFC has significant prior banking operations, professional accounting and banking regulatory experience. Fund management will be responsible for the day-to-day operations of Banc Fund V, including researching, negotiating and making investments, and managing the Fund's portfolio. The Fund will have a Valuation Committee composed of experienced investors with expertise in investment management and banking.

Banc Fund V is the fifth fund raised and managed by the General Partner.

III. Investment Strategy

Banc Fund V is being organized to take advantage of the consolidation occurring in the banking industry. The Fund's goal is to generate superior returns by investing in well-managed banks, thrifts and other companies which will be acquisition targets in this consolidation process. These subregional companies form a sub-niche of the financial

services industry and typically have less than \$7 billion in assets. A typical investment is \$3-8 million per company. The Fund will invest only in U.S.-based institutions.

IV. Investment Performance

Previous fund performance as of March 31, 1998 is shown below. An asterisk (*) indicates a fund in which the SBI has invested capital.

Fund Name	Inception Date	Total Equity Commitments	Net IRR from Inception
Fund I (liquidated in 1994)	7/86	\$51.0 million	15.13%
Fund II (liquidated in 1997)	8/89	\$60.2 million	17.03%
Fund III *	10/92	\$124.7 million	27.20%
Fund IV *	2/96	\$149.7 million	17.58%

The ending market values used in the IRR calculations for Funds III and IV were discounted by 27% and 32%, respectively.

V. General Partners Investment

A total of 1% of the Partnership's total contributed capital is estimated to be provided by the General Partner.

VI. Takedown Schedule

5% of committed capital at closing with the balance called as needed on 10 days' notice in amounts equal to at least 5% of committed capital.

VII. Management Fee

The management fee will be based on capital taken down. The Fund will pay the Fund Manager 5% of the first \$20 million and 1.74% of the next \$230 million of capital that is taken down. The fee will be set in the Partnership Agreement so that, on average, when all capital is taken down, it will not exceed 2% of committed capital.

VIII. Term

The Fund will be established with an nine year life. The first seven and one half years will be devoted to building the portfolio and the last one and one half years will concentrate on maximizing value and liquidating the portfolio.

IX. Distributions

Fund IV will annually distribute all current income, net of expenses and management fee, to investors.

The General Partner will receive a 20% carried interest. It will not receive its carried interest until it has returned 100% of the Limited Partners' capital contributions.

RESOURCE MANAGER SUMMARY PROFILE**I. Background Data**

Name of Funds: Merit Energy Partners C (CI and CII), L.P.

Type of Funds: Resource Limited Partnerships

Total Fund Size: \$300 million (CI and CII combined)

Fund Manager: Merit Energy Company
12222 Merit Drive, Suite 1500
Dallas, TX 75251
Phone: (972) 701-8377
Fax: (972) 960-1252

Manager Contact: William K. Gayden

II. Organization & Staff

Merit Energy Company, was founded in 1989. The management team at Merit has worked together for over a decade. William K. Gayden, President, previously held many senior positions at Electronic Data Systems. He was a member of the EDS Board of Directors and was responsible for negotiating acquisitions and sales on behalf of EDS, as well as its sale to General Motors. From 1986 to 1989, Mr. Gayden was the President of Petrus Oil Company, L.P. He was responsible for the reorganization, expansion and sale of Petrus to Bridge Oil Ltd. for \$112 million. Other key managers were employed by Petrus Oil for significant periods of time. In total, Merit now employs 56 individuals in its Dallas office, as well as 125 field personnel.

Merit Energy Fund C is the thirteenth fund raised and managed by the General Partner.

III. Investment Strategy

Merit's investment focus is to acquire properties with proved developed reserves that provide acceptable rates of return, assuming flat prices for oil and gas. To maintain a relatively low risk profile, it seeks to recover the majority of the value from the proved developed reserves while also allowing investors to benefit from any future development or higher commodity prices.

Merit seeks to acquire properties with the following characteristics: 10-12% returns using flat prices; low operating cost potential; above-average reserve life; high percentage of proved, developed, producing reserves; shallow to medium depth; production from multiple well bores; low risk development opportunities; geographic concentration of assets; and control of operations.

Merit's investments are located in the lower forty-eight states, primarily concentrated in Texas, New Mexico and Wyoming. It operates a substantial percentage of its properties. By placing an emphasis on control of physical operations, Merit is able to use its engineering and geological expertise to control costs and be a low cost producer.

Merit Energy Fund C will actually be comprised of two funds (CI and CII), roughly equal in size, which will be essentially the same except for the potential use of leverage in Fund CII up to 35% of Fund CII assets.

IV. Investment Performance

Previous fund performance as of March 31, 1998 is shown below. Partnerships with a asterisk (*) indicate dissolved funds with fully realized net returns to limited partners. Returns for other funds value remaining reserves at March 31,1998 using flat energy pricing (\$18.50 per barrel oil, \$2.20 per MCF gas) for 1999 and beyond and a present value discount rate of 10%.

Fund Name	Inception Date	Total Equity Commitments	Net IRR from Inception
Merit Energy Partners, L.P.	9/89	\$14.2 million	16.16%
Merit Energy Partners II, L.P.*	11/89	\$20.0 million	10.84
Merit Energy Partners III, L.P.	7/90	\$27.0 million	10.70
Merit Energy Partners IIIA, L.P.	6/94	\$5.0 million	20.13
Merit Energy Partners IV, L.P.*	1/91	\$10.0 million	12.56
Merit Energy Partners V, L.P.	2/92	\$30.0 million	17.99
Merit Energy Partners VI, L.P.	9/92	\$25.0 million	11.07
Merit Energy Partners VII, L.P.	10/92	\$20.0 million	16.54
Merit Energy Partners VIII, L.P.	3/94	\$20.0 million	13.22
Merit Energy Partners IX, L.P.	5/94	\$20.0 million	14.88
Merit Energy Partners X, L.P.	3/94	\$30.0 million	16.28
Merit Energy Partners A, L.P.	6/94	\$13.7 million	14.58
Merit Energy Partners B, L.P.	7/96	\$130.4 million	12.75

V. General Partners Investment

3% of the Partnership's total program size will be provided by the General Partner.

VI. Takedown Schedule

One half of one percent (.5%) of capital will be taken down upon closing. Additional capital will be called as needed on 10 days' notice.

VII. Management Fee

The General Partner will receive an annual management fee equal to 1.25% of the greater of invested capital or book value up to the committed capital amount plus 1.0% on amounts in excess of committed capital (due to reinvested earnings). A minimum first year management fee of .5% of program size will be charged.

VIII. Term

The Fund will be established with an eight year life. The first five years will be devoted to building the portfolio and the last three years will be principally concerned with reinvesting earnings in excess of distributions.

IX. Distributions

For each fiscal year, annual distributions will be made to the Limited Partners in an amount equal to 6% of its called capital commitments or 6% of its actual capital account, whichever is less.

Annual allocations of profits will be made as follows:

- (a) 100% to the Capital Partners (the Limited Partners and the General Partner) until the Capital Partners receive a cumulative 8% return, then:
- (b) 100% to the General Partner as a carried interest until the General Partner has received 13% of cumulative book profits (after depletion) in (a) and (b) as a carried interest, then:
- (c) 87% to the Capital Partners and 13% to the General Partners as a carried interest.

The General Partner also receives a 2% carried interest from cash flow to compensate it for the risks associated with acquiring the working interests.

Tab G

COMMITTEE REPORT

DATE: May 26, 1998

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

SUBJECT: Committee Action Regarding the State Deferred Compensation Plan

At the March 18, 1998 meeting of the Board, the Governor requested that the SBI review the suggested changes to the 457 State Deferred Compensation Plan and bring a package of recommendations to the Board for review at the June 11 meeting.

The 457 State Deferred Compensation Plan (the Plan) is a supplemental retirement savings plan for approximately 250,000 eligible State, local government and school district employees throughout the State. The Plan's structure has been changed several times over the years in order to ensure that the program remains attractive to participants. The current contracts with vendors expire June 30, 1999.

The SBI has issued a request for proposal (RFP) for investment product providers for the Plan and the Minnesota State Retirement System (MSRS) has issued two separate RFP's seeking recordkeeping and enrollment/communication providers for the Plan.

The SBI is responsible for selecting product providers for investment of employee and employer contributions into the Plan. MSRS is responsible for selecting recordkeeper and enrollment/communication providers for the Plan. State law requires the SBI to approve all contracts before execution.

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

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

Investment Options

The SBI's RFP was announced in the State Register January 20, 1998 and distributed to 84 potential vendors. By the February 27, 1998 deadline for submittals, the SBI had received responses from thirty-three (33) companies offering 135 options.

The SBI's Deferred Compensation Review Committee met on April 13 and April 23 to review responses and supporting materials. The Committee selected the following investment option providers to recommend to the Board. (Additional information about each investment option is included in **Attachment A.**)

Asset Class/Option	Recommendation
Large Cap Equity	Janus Twenty Fund
S&P 500 Index	Vanguard Institutional Index Fund
Small Cap Equity	T. Rowe Price Small Cap Stock Fund
International	Fidelity Diversified International Fund
Bond	Dodge & Cox Income Fund
Balanced	INVESCO Total Return Fund
Fixed Option	Great-West Life & Annuity Insurance Company The Minnesota Mutual Life Insurance Company Principal Mutual Life Insurance Company
Payout Annuities	Great-West Life & Annuity Insurance Company The Minnesota Mutual Life Insurance Company Principal Mutual Life Insurance Company

Recordkeeping and Enrollment/Communication

MSRS's RFP's for recordkeeping and enrollment/communication providers were announced in the State Register on January 20, 1998. MSRS distributed both of its RFP's to each of thirty-five (35) potential vendors. By the February 27, 1998 deadline for submittals, MSRS had received seven recordkeeping proposals and five enrollment/communication proposals. With the assistance of their deferred compensation plan consultant, Watson Wyatt, the MSRS board selected three finalists for interviews for each position.

The MSRS committee interviewed finalists for the two positions at its offices on April 27 and 28. SBI Board designees to the Deferred Compensation Review Committee participated in the interviews. Based on these interviews and on-site visits to the three recordkeeping sites conducted April 28, May 4 and May 5, the MSRS board selected the following companies. (Additional information about these proposed vendors is included in **Attachment B.**)

Recordkeeping	Minnesota Mutual/Great-West
Enrollment/Communication	NBI/Ochs Services, Inc.

The SBI's Deferred Compensation Review Committee met on May 19 to review all recommendations to be made to the SBI for each component of the proposed new 457 Deferred Compensation Plan (investment options, recordkeeping, and enrollment/communication).

RECOMMENDATION:

The Deferred Compensation Review Committee recommends that the executive director be authorized, in consultation with legal counsel, to negotiate and execute contracts for the following investment options:

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

Fixed Option	Great-West Life & Annuity Insurance Company The Minnesota Mutual Life Insurance Company Principal Mutual Life Insurance Company
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Payout Annuities	Great-West Life & Annuity Insurance Company The Minnesota Mutual Life Insurance Company Principal Mutual Life Insurance Company
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The Committee further recommends that the Board approve the selection by the Minnesota State Retirement System, subject to successful contract negotiations, of Minnesota Mutual/Great-West as Plan recordkeeper and NBI/Ochs Services, Inc. as Plan enroller/communicator.

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

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ATTACHMENT A

Large Cap Option

Company Submitting Proposal: Great-West

Option Name: Janus Twenty Fund

	1997	1996	1995
Assets	\$6.0 billion	\$4.1 billion	\$3.1 billion
Nbr of Holdings	28	25	48
Median Mkt Cap.	\$27.4 billion	\$29.2 billion	\$12.1 billion
Alloc: Bonds & \$	15.7%	3.0%	3.2%
Non \$	0.0%	4.6%	11.8%

Year Ending: 12/31	Total Return %	S & P 500 / Russell 1000
1997	29.7	33.3 / 32.9
1996	27.9	23.2 / 22.4
1995	36.2	37.6 / 37.8
1994	(6.73)	1.4 / 0.4
1993	3.43	10.1 / 10.2

Period Ending 12/31	Annualized Return %	S & P 500 / Russell 1000
Last 1 Year	29.7	33.3 / 32.9
Last 2 Years	28.8	28.2 / 27.5
Last 3 Years	31.2	31.2 / 30.9
Last 4 Years	20.5	23.0 / 22.5
Last 5 Years	16.9	20.3 / 19.9

Fees: 92 basis points of account balance

Rebates: 15 basis points

Year 2000 Plan: Yes

Fund Objective and Manager Biography: see attached Morningstar report.

Janus Twenty

Prospectus Objective: Growth

Janus Twenty Fund seeks capital appreciation consistent with preservation of capital.

The fund invests primarily in a concentrated portfolio of between 20 and 30 common stocks. To select investments, the advisor evaluates improvement in profit margins, earnings, and unit growth; these factors indicate the fundamental investment value of the security. The advisor also seeks stocks with strong current financial positions and the potential for future growth. It may invest without limit in foreign securities. The fund is nondiversified.

Prior to May 22, 1989, the fund was named Janus Value Fund.

Portfolio Managers

Scott W. Schoelzel. Since 8-97, BA '80 Colorado C. Schoelzel joined Janus Capital Corp. as a vice president of investments in January 1994. Other funds currently managed: Idex, Idex Growth, Idex 3. Funds previously managed: Founders Grth (10-91 - 12-93), Idex Cap Appr (06-95 - 02-97), Janus Olympus (12-95 - 09-97).

Performance Data 1998

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total	
1993	0.33	2.30	3.61	-2.73	3.43	
1994	-3.73	-6.42	5.64	-1.99	-6.73	
1995	6.91	14.25	10.81	0.64	36.22	
1996	9.31	4.35	5.87	5.87	27.86	
1997	1.60	17.77	9.37	-0.90	29.70	
Trailing	Total	Return%	+/- S&P 500	+/- Wil Large Grth	% Rank All Cat	Growth of \$10,000
3 Mo	6.00	-1.59	-3.86	11	32	10,600
6 Mo	1.33	-2.23	-1.74	71	55	10,133
1 Yr	24.99	-1.91	-2.78	9	30	12,499
3 Yr Avg	32.24	1.74	-0.67	2	8	23,125
5 Yr Avg	17.55	-2.77	-2.56	15	40	22,440
10 Yr Avg	21.54	3.86	2.31	2	6	70,342
15 Yr Avg	—	—	—	—	—	—

Tax Analysis	Tax-Adj Ret%	% Rank Cat	% Pretax Ret	% Rank Cat
3 Yr Avg	25.63	31	79.5	82
5 Yr Avg	13.75	56	78.4	76
10 Yr Avg	18.98	4	88.1	35

Potential Capital Gain Exposure: 29% of assets

Analysis by Christine Benz 02-06-98

Despite Janus Twenty Fund's toned-down performance toward the end of last year, it didn't stay a kinder, gentler offering for long.

This fund had a much-publicized management change in mid-1997. After longtime manager Tom Marsico departed to launch his own firm, Janus turned this offering over to Scott Schoelzel, who had been running the much smaller Janus Olympus for about a year and a half.

Many investors obviously weren't fazed by the change, as assets continued to roll in at a good clip even after Marsico left. Schoelzel didn't immediately invest the new cash, though. Instead, the fund's cash position went from about 10% of assets at the end of September to about 16% at the end of 1997. That wasn't such a bad thing: Although the fund looked lackluster in the year's last two months, it held up very well in October, when worries over Asia rocked the domestic market.

Now that Schoelzel has the fund more

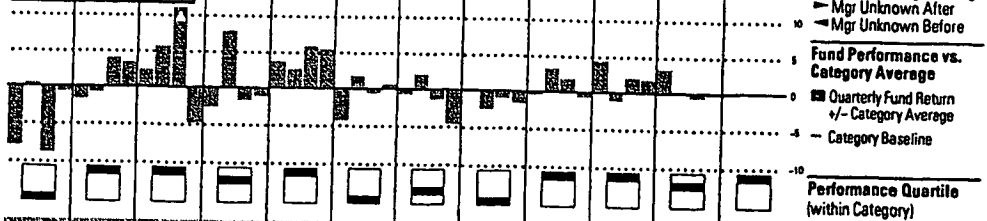
fully invested—he has cash down to about 6%—it's clear that the fund remains just as aggressive as it was under Marsico. Like his predecessor, Schoelzel favors high-growth, market-leading firms, and won't hesitate to pay up for them. If anything, Schoelzel looks to be even more enamored of high-quality, classic-growth stocks than Marsico was. He dumped huge positions in First Data and Dupont, for example, and upped the fund's stakes in Microsoft and Pfizer.

Clearly, such decisions will continue to make or break performance. With a big asset base and concentrated format, this fund doesn't give Schoelzel the flexibility to move among different pockets of the market as he did while running Olympus. Indeed, his well-timed shift from smaller-cap, high-P/E names into giant-cap issues was a key driver of Olympus' success during his tenure. This fund is built to showcase stock-picking, and it's too soon to assess Schoelzel's abilities in this area.

Address:	100 Fillmore Street Suite 300 Denver, CO 80206-4923 800-525-8983	Minimum Purchase:	\$2500	Add: \$100	IRA: \$500
Inception:	04-26-85	Min Auto Inv Plan:	\$500	Systematic Inv:	\$100
Advisor:	Janus Capital	Sales Fees:	No-load		
Subadvisor:	None	Management Fee:	1.00% max./0.65% min.		
Distributor:	Janus Distributors	Actual Fees:	Mgt: 0.66%	Dist: —	
NTF Plans:	Fidelity, Schwab, Jack White	Expense Projections:	3Yr: \$30	5Yr: \$51	10Yr: \$114
		Annual Brokerage Cost:	0.22%	Income Distrib:	Annually
		Total Cost (relative to category):		Below Avg	

Ticker	Load	NAV	Yield	SEC Yield	Total Assets	Mstar Category
JAVLX	None	\$32.41	N/A	—	\$6,003.6 mil	Large Growth

Return	Risk	Rating
High	Above Avg	★★★★
Above Avg	Above Avg	★★★★



Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	History
NAV	9.08	10.01	14.66	14.56	24.19	24.29	24.42	22.71	25.67	27.47	30.99	32.41	NAV
Total Return %	-11.65	19.05	50.85	0.59	69.21	1.97	3.43	-6.73	36.22	27.86	29.70	4.58	Total Return %
+/- S&P 500	-16.91	2.44	19.17	3.71	38.73	-5.65	-6.62	-8.04	-1.31	4.91	-3.66	3.48	+/- S&P 500
+/- Wilshire LG	-16.39	3.95	15.64	0.25	22.59	-3.95	3.97	-9.70	-1.66	0.91	-4.00	1.41	+/- Wilshire LG
Income Return %	4.20	8.81	0.10	1.27	0.10	0.75	1.80	0.28	10.04	0.71	0.36	0.00	Income Return %
Capital Return %	-15.85	10.24	50.75	-0.68	69.11	1.22	2.41	-5.28	26.18	27.15	29.34	4.58	Capital Return %
Total Return % Rank Cat	93	16	1	31	2	78	70	84	23	6	35	3	Total Return % Rank Cat
Income \$	0.41	0.80	0.02	0.19	0.02	0.18	0.25	0.07	2.28	0.18	0.10	0.00	Income \$
Capital Gains \$	1.18	0.00	0.43	0.00	0.42	0.19	0.45	0.00	2.99	5.32	4.46	0.00	Capital Gains \$
Expense Ratio %	1.79	1.70	1.88	1.32	1.07	1.12	1.05	1.02	0.99	0.92	—	—	Expense Ratio %
Income Ratio %	2.98	3.35	0.68	1.28	1.30	1.27	0.87	0.57	0.62	0.67	—	—	Income Ratio %
Turnover Rate %	202	317	220	228	163	79	99	102	147	137	—	—	Turnover Rate %
Net Assets \$mil	13.5	7.1	67.8	243.9	1,348.4	3,137.2	3,515.9	2,504.3	3,057.4	4,070.7	6,003.6	—	Net Assets \$mil

Risk Analysis

Time Period	Load-Adj Return	Risk % Rank All Cat	Morningstar Return Risk	Morningstar Risk-Adj Rating
1 Yr	24.99	81	49	1.71
3 Yr	32.24	89	74	1.24
5 Yr	17.55	89	74	1.21
10 Yr	21.54	83	64	2.20

Average Historical Rating (119 months): 3.7★

1=low, 100=high

Category Rating (3 Yr)

Other Measures	Standard Index S&P 500	Best Fit Index S&P 500
Alpha	-1.5	-1.5
Beta	1.14	1.14
R-Squared	81	81
Standard Deviation	18.53	18.53
Mean	29.26	29.26
Sharpe Ratio	1.63	1.63

Return High

Risk Average

Portfolio Analysis 11-30-97

Share change since 09-97	Total Stocks	31	Sector	PE	YTD Ret%	% Assets
⊕ Schlumberger			Energy	28.1	-8.46	8.47
⊕ Microsoft			Technology	49.5	15.43	6.29
⊕ Dell Computer			Technology	43.1	18.38	5.98
⊕ Monsanto			Cyclicals	61.6	12.95	5.87
⊕ Pfizer			Health	47.8	9.64	5.57
⊕ General Electric			Cyclicals	31.0	5.62	5.28
⊕ Lucent Technologies			Technology	NMF	10.89	4.78
⊕ Warner-Lambert			Health	47.0	21.19	4.43
⊕ UAL			Services	6.0	-3.92	4.42
⊕ Eli Lilly			Health	NMF	-2.87	4.42
⊕ Citicorp			Financials	15.8	-5.42	4.23
⊕ Fannie Mae			Financials	21.8	8.65	3.87
⊕ Merrill Lynch			Financials	12.7	-13.20	3.09
⊕ Time Warner			Services	NMF	3.53	2.37
⊕ SLM Holding			Financials	10.9	5.97	2.28
⊕ America Online			Services	NMF	5.66	2.10
⊕ US Bancorp			Financials	29.9	-2.18	2.02
⊕ Cisco Systems			Technology	51.2	13.12	1.70
⊕ Coca-Cola Enterprises			Staples	72.4	-10.30	1.23
⊕ Federal Express			Services	17.1	6.55	1.19
⊕ Colgate-Palmolive			Staples	31.0	0.06	1.12
⊕ Applied Materials			Technology	24.9	8.92	1.11
⊕ Home Depot			Retail	40.4	2.76	1.04
⊕ CBS			Cyclicals	NMF	1.70	0.91
⊕ Halliburton			Energy	25.3	-13.30	0.77

Current Investment Style

Style	Stock Port Avg	Relative S&P 500 Current	Hist	Rel Cat
Price/Earnings Ratio	36.1	1.35	1.2	1.16
Price/Book Ratio	10.5	1.67	1.3	1.41
Price/Cash Flow	25.4	1.44	1.3	1.13
3 Yr Earnings Growth	25.1	1.23	1.9	1.02
1 Yr Earnings Est%	23.1	1.77	—	1.20
Debt % Total Cap	48.0	1.07	1.0	1.42
Med Mkt Cap \$mil	37,125	1.0	1.0	1.48

Special Securities % of assets 11-30-97

Restricted/Illiquid Secs	0	Utilities	0.0	0.0	7	0
Emerging-Markets Secs	0	Energy	8.4	1.0	9	0
Options/Futures/Warrants	No	Financials	18.7	1.1	40	9
		Cyclicals	14.9	1.1	26	0
		Durables	1.4	0.4	18	0
		Staples	2.7	0.3	13	0
		Services	12.7	0.9	26	5
		Retail	1.2	0.2	24	0
		Health	16.8	1.5	36	0
		Technology	23.1	1.9	37	0

Composition % of assets 12-31-97

Cash	15.7	Large	29.8	Medium	0.8	Small	0.0
Stocks*	84.3	Micro	0.0	Health	16.8	1.5	36
Bonds	0.0	Micro	0.0	Technology	23.1	1.9	37
Other	0.0	Micro	0.0				
*Foreign (% of stocks)	1.4						

S & P Option

Company Submitting Proposal: The Vanguard Group

Option Name: Vanguard Institutional Index Fund

	1997	1996	1995
Assets	\$15.4 billion	\$11.4 billion	\$6.7 billion
Nbr of Holdings	510	500	500
Median Mkt Cap.	\$34.1 billion	\$24.5 billion	\$18.4 billion
Alloc: Bonds & \$	0.0 %	0.0 %	0.0 %
Non \$	1.9 %	3.7 %	3.8 %

Year Ending: 12/31	Total Return %	S & P 500 %
1997	33.4	33.3
1996	23.1	23.2
1995	37.6	37.6
1994	1.3	1.4
1993	10.0	10.1

Period Ending 12/31	Annualized Return %	S & P 500 %
Last 1 Year	33.4	33.3
Last 2 Years	28.1	28.2
Last 3 Years	31.2	31.2
Last 4 Years	23.0	23.0
Last 5 Years	20.3	20.3

Fees: 6 basis points of account balance

Rebates: 0 basis points

Year 2000 Plan: Yes

Fund Objective and Manager Biography: see attached Morningstar report.

Vanguard Instl Index

Rating
★★★★

2332 Domestic Equity Funds

Net Assets
\$15112.1 mil

Morningstar Category
Large Blend

Investment Approach

Equity Style
Value Blend Growth

Large

Medium

Small

Fixed-Income Style

Short	Int	Long

High

Medium

Low

Composition
as of 09/30/97

Cash	1.1	US & Canada	97.3
Stocks*	98.9	Europe	2.1
Bonds	0.0	Japan	0.0
Other	0.0	Latin America	0.0
*Foreign	3.1	Pacific Rim	0.0
(% of stocks)		Other	0.0

Regional Exposure
% of assets as of 09/30/97

Risk and Return Profile

Morningstar	3Yr	5Yr	10Yr
	2332 funds	1292 funds	676 funds
Rating	5★	5★	—
Risk	0.76	0.83	—
Return	1.59	1.52	—
Average Historical Rating Over 54 Mos: 3.7★s			

Equity Portfolio Statistics

	Portfolio Average	Relative Index	Relative Category
P/E Ratio	26.6	0.98	1.01
P/C Ratio	17.4	0.98	1.00
P/B Ratio	6.0	0.98	1.07
3 Yr Earnings Gr%	21.5	1.00	0.97
Mdn Mkt Cap (\$mil)	33537	0.98	1.42

Sector Weightings as of 09-30-97

	% of Stocks	Relative S&P500
Utilities	2.7	0.93
Energy	9.4	1.06
Financials	16.1	0.99
Industrial Cyclicals	15.3	1.03
Consumer Durables	3.8	1.09
Consumer Staples	10.5	0.97
Services	12.4	0.92
Retail	5.2	0.95
Health	10.4	0.95
Technology	14.1	1.08

MPT Statistics/Other Measurements

	S&P 500	Best Fit: S&P 500	
R-squared	100	100	
Beta	1.00	1.00	
Alpha	0.05	0.05	

	3 Yr	5 Yr	10 Yr
Sharpe Ratio	2.02	—	—
Std Deviation	14.39	12.63	—
Mean	31.20	20.28	—

Fixed-Income Portfolio Statistics

Avg Eff Mat/Duration	—/—
Avg Weighted Coupon	—
Avg Weighted Price	—
Avg Credit Quality	—

Turnover Ratio %	9%
Assets in Top 10 Holdings %	18.68
Total Holdings	509

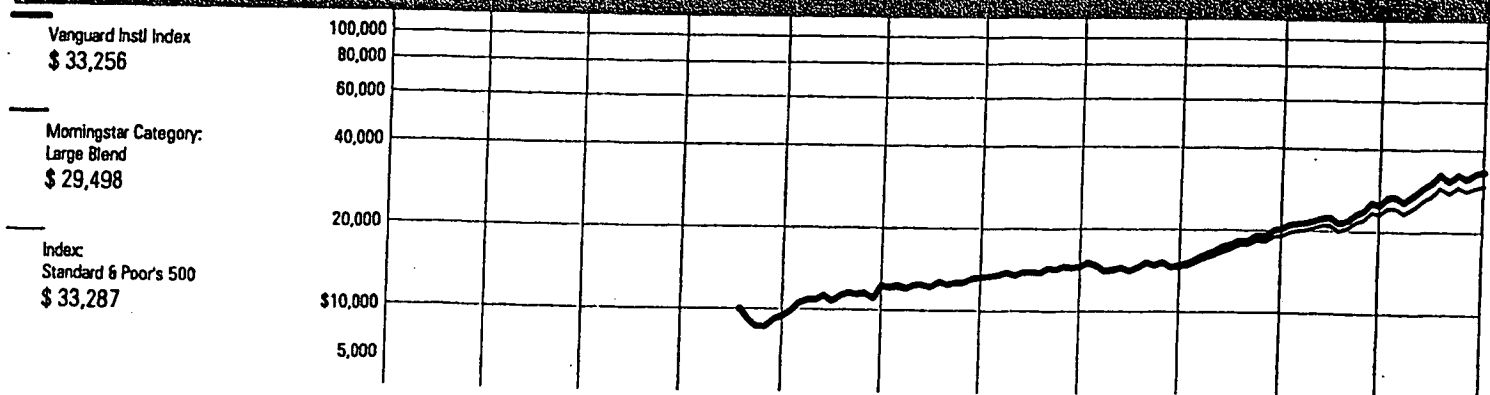
12-Month Yield	1.54%
30-day SEC Yield	1.63%
Potential Cap Gains Exp	41%

Trailing Period Performance

	YTD	1 Mo	3 Mo	12 Mo	3 Yr Annlzd	5 Yr Annlzd	10 Yr Annlzd	15 Yr Annlzd	Load-Adjusted Return% as of 12-31-97	
Total Return % as of 12-31-97	33.36	1.73	2.87	33.36	31.20	20.28	—	—	12 Mo	33.36
+/- S&P 500	0.01	0.01	0.00	0.01	0.07	0.03	—	—	5 Yr	20.28
+/- Wil Large Blend	0.06	-0.23	-0.15	0.06	0.54	1.24	—	—	10 Yr	—

% Rank within Morningstar Category :				11(667)	5(468)	8(280)			Inception	17.59
1 = Best 100 = Worst (number of funds)										

Growth of \$10,000 from 01-01-90 to 12-31-97



Calendar Year Performance

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Total Return %	—	—	—	—	30.34	7.54	10.02	1.31	37.60	23.06	33.36
+/- S&P 500	—	—	—	—	-0.14	-0.08	-0.04	-0.01	0.07	0.11	0.01
+/- Wil Large Blend	—	—	—	—	-2.13	-0.66	0.28	3.66	-0.06	1.51	0.06

Operations

Family: Vanguard Group
Inception: 07-90
Manager: Sauter, George U.
Tenure: 8 Years
Telephone: 800-345-1172
Objective: Growth and Income

Ticker: VINIX
Minimum Initial Purchase: \$10000000
Minimum IRA Purchase: \$—
Minimum Auto Investment Plan: \$—
Purchase Constraints: T/
Shareholder Report Grade: —

VINIX
\$10000000
\$—
\$—
T/
—

Front-End Fees: 0.00%
Deferred Load: 0.00%
12b-1 Fee: 0.00%
Expense Ratio: 0.06%
Assets: \$15112.1 mil
NAV: 89.56

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Although data are gathered from reliable sources, Morningstar cannot guarantee completeness and accuracy. If used as supplemental sales literature, this report must be accompanied by a prospectus and disclosure statement. For redistribution, please call Morningstar.



Vanguard Instl Index

12-31-97

Rating

★★★★★

Manager Name

Sauter, George U.

Morningstar Category

Large Blend

Risk and Return Profile

	Rel to Inv Category	Rel to Stock Funds
Risk	Average	Average
Return	High	High
Rating	⑤	★★★★★

Analysis by Amy L. Arnold 05-15-92

Vanguard Institutional Index Fund's expenses can't get much lower. All Vanguard funds are quite frugal, but this one is positively parsimonious. Its expense ratio is just 8 basis points per annum, which is one of the lowest in our entire mutual-fund universe. Aside from its

Prospectus Summary

Vanguard Institutional Index Fund seeks to replicate the aggregate price and yield performance, before fund expenses, of the S&P 500 index.

The fund invests in all 500 stocks listed in the S&P 500 index in approximately the same proportions as they are represented in the index. The correlation between the performance of the fund and that of the index is expected to be 0.95 or higher. The fund may invest up to 20% of assets in futures and options for temporary purposes, but generally remains fully invested in common stocks. The fund is designed for institutional investors.

advantages.

For one, the fund is able to replicate the S&P 500's performance with astounding accuracy. It invests

market capitalization. To remain fully invested, the fund also purchases some S&P 500 Index futures contracts. Thus, it comes as no surprise that the fund has moved in virtual lockstep with its benchmark in 1991, for example, its returns missed the S&P 500's by an infinitesimal 7 basis points. Second, the fund is a convenient, efficient way for institutional investors to purchase a diversified portfolio of

advisors and endless hours digging through research materials, institutions can simply "buy the average" with this fund.

That's not a bad idea, particularly when it comes to large-cap stocks. Because up-to-the-minute information about these huge corporations is readily available, it's difficult for active managers to outperform a passive index. So for the large-cap portion of institutional portfolios, this fund is an excellent choice.

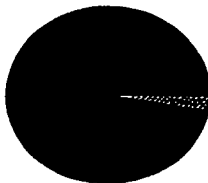
It's not for everyone, though. Smaller institutions might find it difficult to scrape together the \$10 million required to open an account with the fund. Indeed, just 85 shareholders make up the fund's more than \$1 billion asset base.

Manager Profile

George U. Sauter. Since 07-90. MBA '80 U. of Chicago. BA '76 Dartmouth C.

Investment Approach

Composition % of assets 09-30-97



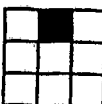
● Cash	1.1
● Stocks	98.9
● Bonds	0.0
● Other	0.0
▨ *Foreign (% of stocks)	3.1

Investment Style

Equity

Style

Value Blend Growth



Size: Blend
Style: Large

Fixed-Income

Maturity

Short Int Long

High Quality

Medium

Low

Quality:

Maturity:

Sector Weightings

% of assets 09-30-97

■ Utilities	2.7
■ Energy	9.4
■ Financials	16.1
■ Industrial Cyclicals	15.3
■ Consumer Durables	4.0
■ Consumer Staples	10.5
■ Services	12.2
■ Retail	5.2
■ Health	10.4
■ Technology	14.1

Top 10 Securities

% Net Assets	Total Stocks:	509
	Total Bonds:	0
3.02	General Electric	
2.15	Microsoft	
2.15	Exxon	
2.05	Coca-Cola	
2.04	Intel	
1.63	Merck	
1.61	Royal Dutch Petroleum (NY)	
1.41	IBM	
1.36	Philip Morris	
1.26	Procter & Gamble	

19 % Net Assets in Top 10 Securities

Country

Sector

US	Industrial Cyclicals
US	Technology
US	Energy
US	Consumer Staples
US	Technology
US	Health
NET	Energy
US	Technology
US	Consumer Staples
US	Consumer Staples

International Investments

Regional Exposure % of assets

US	97.3
Europe	2.1
Japan	0.0
Latin America	0.0
Pacific Rim	0.0
Other	0.0
Top Five Countries	
(out of 3 countries) % of assets.	
USA	96.3
Netherlands	2.1
Canada	1.0
	0.0
	0.0

Vanguard Instl Index

12-31-97

EQ Style

Large/Blend

FI Style

Morningstar Category

Large Blend

Short-Term Volatility

3 Mo Rolling Return

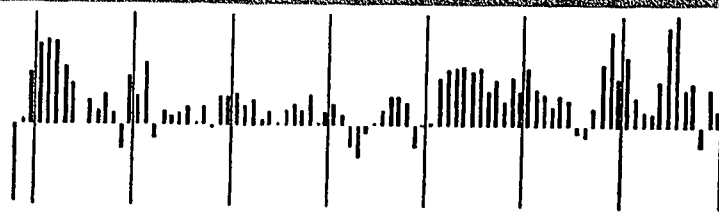
Best Rtn 19.68 % 05/97-07/97

Worst Rtn -13.81 % 08/90-10/90

Out of 87 periods

Num of times Below T-bill 19

Num of times Below Zero 12



Longer-Term Volatility

3 Yr Rolling Return (Annualized)

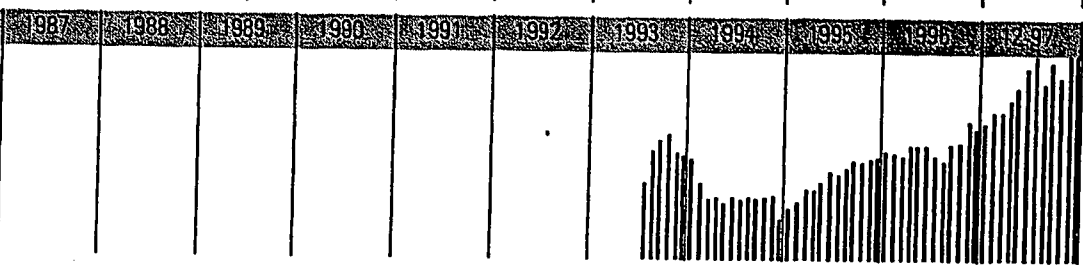
Best Rtn 31.20 % 01/95-12/97

Worst Rtn 6.23 % 01/92-12/94

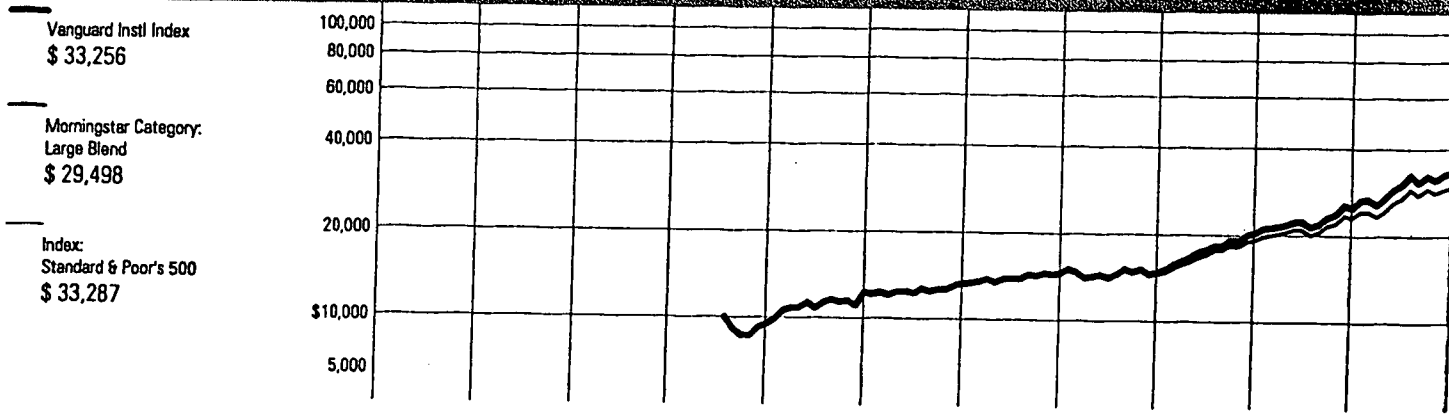
Out of 54 periods

Num of times Below T-bill 0

Num of times Below Zero 0



Growth of \$10,000 from 08-01-90 to 12-31-97



Calendar Year Performance

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Quartile Performance w/ Inv Cat			—	—	☐	☐	☐	☐	☐	☐	☐
Total Return %			—	—	30.34	7.54	10.02	1.31	37.60	23.06	33.36
+/- Standard & Poor's 500	—	—	—	—	-0.14	-0.08	-0.04	-0.01	0.07	0.11	0.01
Income \$			0.00	0.52	1.16	1.17	1.19	1.21	1.27	1.36	1.39
Capital Gains \$			0.00	0.00	0.06	0.25	0.18	0.34	0.16	0.99	0.72
Expense Ratio %			—	0.09	0.08	0.07	0.07	0.07	0.06	0.06	—
Net Assets (\$mil)			—	465.0	1069.4	1524.7	3102.9	3265.2	6674.4	11426.4	15112.1
NAV			—	31.62	39.91	41.45	44.20	43.22	57.93	68.86	89.56

Trailing Time-Period Performance 12-31-97

	Inception 07-31-90	YTD	3 Mo	12 Mo	3 Yr Annualized	5 Yr Annualized	10 Yr Annualized	15 Yr Annualized
Quartile Performance w/ Inv Cat	—	☐	☐	☐	☐	☐	—	—
Total Return %	17.57	33.36	2.87	33.36	31.20	20.28	—	—
+/- Standard & Poor's 500	—	0.01	0.00	0.01	0.07	0.03	—	—
Load-Adjusted Return %	17.57	33.36	2.87	33.36	31.20	20.28	—	—
Load- and Tax-Adjusted Return %	—	26.17	2.12	26.17	25.35	16.35	—	—

Fees and Costs

12b-1 Fee:	— %	Expense Projection:	3 Yr: \$ 2	Front-End Load:	0.00 %	12 Month:	1.54 %
Expense Ratio:	0.06 %		5 Yr: \$ 3	Deferred Load:	0.00 %	SEC	1.63 %
Average Expense Ratio w/ Inv Category:	0.19 %		10 Yr: \$ 8				

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Although data are gathered from reliable sources, Morningstar cannot guarantee completeness and accuracy.

Vanguard Instl Index

Release Date: 12-31-97

Rating ★★☆☆★
Net Assets \$15112.1 mil
Morningstar Category Large Blend

Investment Approach

Equity Style	Equity Portfolio Statistics	Portfolio Avg	Relative Index	Relative Category	Composition % of assets as of 09-30-9	Regional Exposure % of assets as of 09-30-97
Value Blend Growth	Price/Earnings Ratio	26.6	0.98	1.01	Cash 1.1	U.S.&Canada 97.3
	Price/Cash Flow	17.4	0.98	1.00	Stocks* 98.9	Europe 2.1
	Price/Book Ratio	6.0	0.98	1.07	Bonds 0.0	Japan 0.0
	3 Yr Earnings Growth %	21.5	1.00	0.97	Other 0.0	Latin America 0.0
	Med Market Cap (\$mil)	33537	0.98	1.42	*Foreign 3.1	Pacific Rim 0.0
					(% of stocks)	Other 0.0

Fixed-Income Style

Fixed-Income Portfolio Statistics

Short Int Long

Avg Eff Mat/Duration —
 Avg Weighted Coupon —
 Avg Weighted Price —
 Avg Credit Quality —

Sector Weightings as of 09-30-97

Sector	% of Stocks	Relative S&P500
Utilities	2.7	0.93
Energy	9.4	1.06
Financials	16.1	0.99
Industrial Cyclical	15.3	1.03
Consumer Durables	3.8	1.09
Consumer Staples	10.5	0.97
Services	12.4	0.92
Retail	5.2	0.95
Health	10.4	0.95
Technology	14.1	1.08

Turnover Rate

9%
18.68
509

Assets in Top 10 Holdings

Total Holdings

(Blank)

- 12 -

Small Cap Option

Company Submitting Proposal: T. Rowe Price

Option Name: T. Rowe Price Small Cap Stock Fund

	1997	1996	1995
Assets	\$816 million	\$416 million	\$279 million
Number of Holdings	199	171	148
Median Market Cap.	\$371 million	\$293 million	\$247 million
Percent Bonds & Cash	9.9%	8.0%	8.8%
Non \$	2.7%	3.0%	1.9%

Year Ending: 12/31	Total Return %	Russell 2000 %
1997	28.8	22.4
1996	21.1	16.5
1995	33.9	28.4
1994	0.1	(1.8)
1993	18.4	18.9

Period Ending 12/31	Annualized Return %	Russell 2000 %
Last 1 Year	28.8	22.4
Last 2 Years	24.9	19.4
Last 3 Years	27.8	22.3
Last 4 Years	20.2	15.8
Last 5 Years	19.9	16.4

Fees: 102 basis points of account balance

Rebates: up to 15 basis points

Year 2000 Plan: Yes

Fund Objective and Manager Biography: see attached Morningstar report.

T. Rowe Price Small Cap Stock

Ticker: OTCFX Load: None NAV: \$22.95 Yield: 0.4% SEC Yield: — Total Assets: \$721.3 mil Mstr Category: Small Blend

Prospectus Objective: Small Company

T. Rowe Price Small Cap Stock Fund seeks long-term growth of capital.

The fund normally invests at least 80% of assets in equities traded in the U.S. over-the-counter market. It may invest the remaining assets in exchange-listed securities. Management focuses on securities of companies that it believes offer superior earnings growth or are undervalued based on various valuation measures. The fund may also invest up to 10% of assets in foreign issues, including ADRs.

Prior to Sept. 9, 1992, the fund was named USF&G Over-the-Counter Securities Fund. From that date until May 1, 1997, it was named T. Rowe Price Over-the-Counter Securities Fund.

Portfolio Managers

Gregory A. McCrickard, CFA. Since 9-92. BA U. of Virginia; MBA Dartmouth C. McCrickard is a vice president at T. Rowe Price Associates. He was a trust officer with Wachovia Bank in Winston-Salem, North Carolina from 1981 to 1984.

Performance 09-30-97

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1993	2.78	3.18	7.09	4.25	18.40
1994	-3.05	-0.94	5.82	-1.52	0.08
1995	5.00	9.18	12.39	3.89	33.85
1996	4.72	8.72	3.66	2.57	21.05
1997	-3.54	15.49	14.01		

Trailing	Total Return%	S&P 500	Russ 2000	+/- S&P 500	+/- Russ 2000	% Rank All Cat	Growth of \$10,000
3 Mo	14.01	6.52	-0.87	11	84		11,401
6 Mo	31.67	5.43	-1.85	11	76		13,167
1 Yr	30.28	-10.15	-2.92	25	75		13,028
3 Yr Avg	26.55	-3.34	3.57	12	34		20,266
5 Yr Avg	22.93	2.18	2.42	5	17		20,076
10 Yr Avg	12.84	-1.91	0.60	27	56		33,455
15 Yr Avg	15.93	-2.68	0.55	36	33		91,816

Tax Analysis	Tax-Adj Return %	% Pretax Return
3 Yr Avg	22.83	86.0
5 Yr Avg	18.36	80.0
10 Yr Avg	9.53	74.3

Potential Capital Gain Exposure: 25% of assets

Analysis by Russell Kings

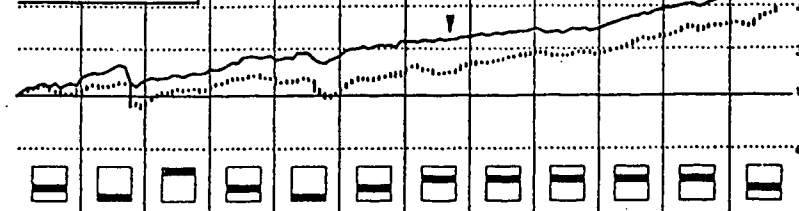
T. Rowe Price Small Cap Stock Fund's five-year anniversary is still worth celebrating.

It's been five years since T. Rowe Price bought this fund from USF&G and installed Greg McCrickard as manager. In each of its past four years it has landed in its group's second quartile. Unfortunately, McCrickard has his work cut out for him if he wants to reach the second quartile for the calendar year 1997. With only a couple of months to go, he's running about two percentage points behind the small blend average. Like a number of other T. Rowe Price funds, this one has been holding the wrong tech stocks this year. PC and semiconductor stocks have been great, but the fund owned hard-hit networking stocks instead. The fund was also hurt by a few disappointments beyond tech, such as telemarketer Sital.

The fund's 1997 performance doesn't take the shine off its long-term record. The fund's total returns rank in the top 20% of the

Historical Profile

Return: Above Avg
Risk: Average
Rating: ★★ ★★
Above Avg



Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	09-97
Return	17.04	13.19	14.14	16.23	12.72	16.86	14.37	15.39	13.80	16.32	18.07	22.95
Risk	4.72	-12.61	27.15	19.13	-20.47	38.60	13.91	18.40	0.08	33.85	21.05	27.01
Rating	-13.96	-17.87	10.54	-12.55	-17.35	8.12	6.29	8.35	-1.23	-3.69	-1.89	-2.62
NAV	-0.97	-3.84	2.26	2.89	-0.96	-7.45	-4.50	-0.50	1.91	5.41	4.52	0.40
Yield	0.31	1.88	0.80	0.81	0.61	0.55	0.50	0.00	0.22	0.75	0.51	0.00
SEC Yield	4.40	-14.49	26.35	18.32	-21.08	38.05	13.41	18.40	-0.14	33.10	20.55	27.01
Total Assets	55	92	11	57	76	63	44	39	43	27	47	67
Mstr Category	0.06	0.32	0.13	0.13	0.09	0.09	0.07	0.00	0.03	0.12	0.09	0.00
Investment Style	2.54	1.51	2.50	0.48	0.10	0.68	4.64	1.58	1.56	2.01	1.58	0.00
Performance Quartile	0.85	1.00	1.55	1.45	1.47	1.34	1.32	1.20	1.11	1.11	1.07	—
History	0.95	0.80	0.69	0.63	0.73	0.48	0.03	0.24	0.74	0.56	—	—
NAV	31	49	27	33	35	31	31	41	42	58	31	—
Total Return %	247.1	213.3	292.6	316.1	215.4	268.1	186.8	204.6	196.7	278.6	415.6	721.3

Risk Analysis

Time Period	Load-Adj Return %	Rel % Rank All Cat	Morningstar Return	Morningstar Risk-Adj Rating
1 Yr	30.20			
3 Yr	26.55	75 17	1.25 0.93	★★★★
5 Yr	22.93	65 8	1.50 0.82	★★★★★
10 Yr	12.84	75 18	0.94 1.01	★★★

Average Historical Rating (142 months): 2.9★

*1=low, 100=high

Category Rating (3 Yr)

Other Measures	Standard Index S&P 500	Best Fit Index Russ 2000
Alpha	7.5	5.6
Beta	0.55	0.83
R-Squared	27	90
Standard Deviation		14.61
Mean		24.45
Sharpe Ratio		1.65

Return: Average
Risk: Below Avg

Portfolio Analysis 06-30-97

Share Chg (12-96)	Amount	Total Stocks	Total Fixed-Income	%	Value \$	% Net Assets
30	300	Harleysville Group			11,419	2.09
5	301	Analogic			10,338	1.89
15	300	JP Foodservice			8,606	1.57
0	250	Analysts International			8,375	1.53
302	420	Alliant Communications			8,216	1.50
15	315	Richfood Holdings			8,190	1.50
-143	158	Selective Insurance Group			7,629	1.39
30	190	PartnerRe			7,244	1.32
0	160	Collective Bancorp			7,220	1.32
25	110	WR Berkley			6,435	1.18
43	175	Matthews International CIA			6,344	1.16
57	237	Source Services			6,330	1.16
180	300	McGrath RentCorp			6,000	1.10
85	300	Holophane			5,888	1.08
127	160	Woodward Governor			5,780	1.06
37	210	Unitog			5,644	1.03
20	222	Tracor			5,550	1.01
112	306	Glacier Bancorp			5,546	1.01
0	155	Quorum Health Group			5,522	1.01
25	150	Poe & Brown			5,456	1.00
100	200	Coach USA			5,313	0.97
0	212	Electro Rent			5,261	0.96
0	125	Renal Care Group			5,219	0.95
0	175	UICI			5,157	0.94
110	210	Coinmach Laundry			5,040	0.92

Current Investment Style

Style Value Blend Growth	Price/Earnings Ratio	26.7	Stock Port Avg	Relative S&P 500	Rel Cat
	Price/Book Ratio	4.1	Current <td>1.01</td> <td>1.1</td>	1.01	1.1
	Price/Cash Flow	19.3	Hist	0.68	0.8
	3 Yr Earnings Gr%	23.8		1.12	1.3
	1 Yr Earnings Est%	23.8		1.09	1.8
	Debt % Total Cap	25.6		1.55	—
	Med Mkt Cap \$mil	587		0.59	0.9
	Foreign %	4.0		0.0	0.72

Special Securities

% of assets 06-30-97	Restricted/Illiquid Secs	1	Emerging-Markets Secs	Trace	Options/Futures/Warrants	No
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Composition

% of assets 09-30-97	Market Cap	Giant	0.0	Large	1.3	Medium	22.2	Small	55.3	Health	11.4	1.1	18	7
Cash	9.1	Micro	21.3	Tech	14.1	1.0	20	13						

Address: 100 E. Pratt Street
Baltimore, MD 21202
800-638-5660 / 410-547-2308
T. Rowe Price Associates
Advisor: None
Subadvisor: T. Rowe Price Investment Services
States Available: All plus PR
Report Grade: A
NTF Plans: N/A

Minimum Purchase: \$2500 Add: \$100 IRA: \$1000
Min Auto Inv Plan: \$50 Systematic Inv: \$50
Date of Inception: 06-01-56
Sales Fees: No-load
Management Fee: 0.45%+0.48% max./0.31% mn.(G)
Actual Fees: Mgt: 0.78% Dist: —
Expense Projections: 3Yr: \$34 5Yr: \$59 10Yr: \$131
Annual Brokerage Cost: 0.36% Income Distrib: Annually
Total Cost (relative to category): Below Avg

International Option

Company Submitting Proposal: Fidelity Investments

Option Name: Fidelity Diversified International Fund

	1997	1996	1995
Assets	\$1.54 billion	\$754 million	\$341 million
Non \$	92.7%	91.0%	93.1%

Year Ending: 12/31	Total Return %	EAFE – Free %	Period Ending 12/31	Annualized Return %	EAFE – Free %
1997	13.7	1.5	Last 1 Year	13.7	1.5
1996	20.0	6.1	Last 2 Years	16.8	3.8
1995	18.0	11.3	Last 3 Years	17.2	6.2
1994	1.1	7.8	Last 4 Years	13.0	6.6
1993	36.7	32.7	Last 5 Years	17.3	11.4

Fees: 125 basis points of account balance

Rebates: 10 basis points if there are between \$25 million and \$50 million in Fidelity options
15 basis points if there is more than \$50 million in Fidelity options

Year 2000 Plan: Yes

Fund Objective and Manager Biography: see attached Morningstar report.

Fidelity Diversified International

Ticker: FDIVX Load: None NAV: \$17.48 Yield: 0.8% SEC Yield: — Total Assets: \$1,507.1 mil Mstar Category: Foreign Stock

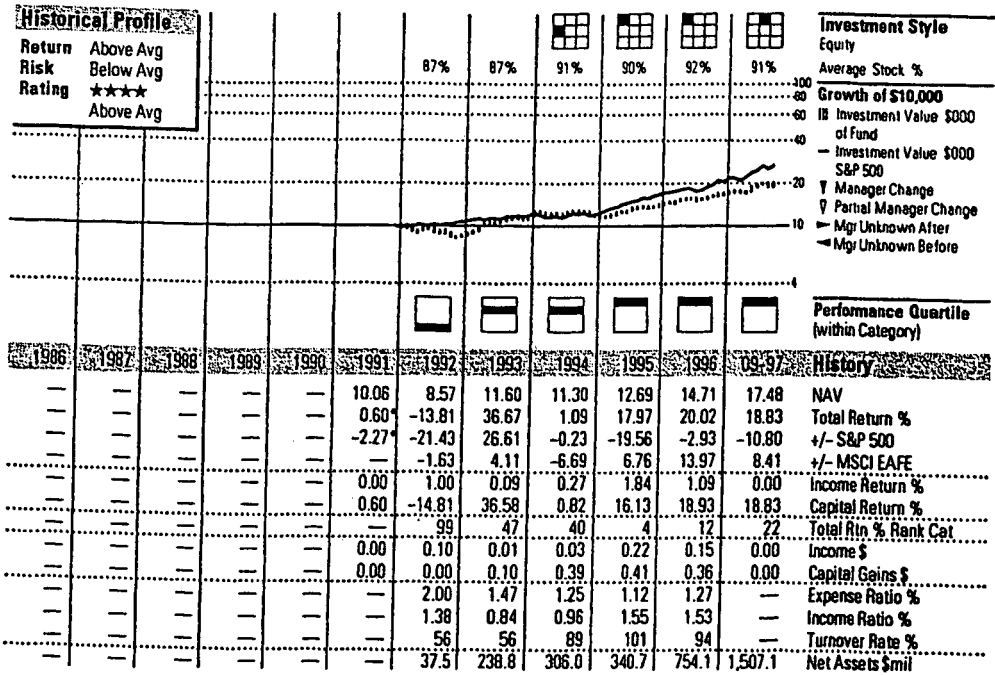
Prospectus Objective: Foreign Stock

Fidelity Diversified International Fund seeks capital appreciation.

The fund invests primarily in equities of companies located in at least three countries outside of the United States; most investments are made in companies of developed countries with capitalizations of \$100 million or more. To select securities, the fund utilizes a computer-aided quantitative analysis in conjunction with fundamental research. The computer model reviews historical earnings, dividend yields, P/B ratios, earnings-per-share, and financial leverage on a large universe of equities. The fund considers macroeconomic factors.

Historical Profile

Return: Above Avg
Risk: Below Avg
Rating: ★★ ★★ Above Avg



Portfolio Manager(s)

Gregory Fraser, CFA. Since 12-91. BA '82 Harvard U.; MBA '88 Wharton. Fraser joined Fidelity Investments in 1986 and began managing portfolios for the company in 1989. Prior to assuming his present position, he served the company as an analyst. Prior to joining Fidelity, Fraser was a marketing analyst for Procter & Gamble.

Performance 09-30-97

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1993	14.35	5.71	6.95	5.71	36.67
1994	1.98	0.42	3.03	-4.20	1.09
1995	1.24	5.59	6.79	3.34	17.97
1996	5.12	5.62	1.42	6.58	20.02
1997	2.52	12.07	3.43	—	—

Trailing	Total Return %	+/- S&P 500	+/- MSCI EAFE	% Rank All Cat	Growth of \$10,000
3 Mo	3.43	-4.06	4.14	55 24	10,343
6 Mo	15.92	-10.32	3.73	43 16	11,592
1 Yr	26.65	-13.78	14.47	31 19	12,665
3 Yr Avg	17.25	-12.64	8.42	36 5	16,119
5 Yr Avg	17.14	-3.61	4.80	28 11	22,052
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Return %	% Pretax Return
3 Yr Avg	15.68	90.9
5 Yr Avg	16.03	93.5
10 Yr Avg	—	—

Potential Capital Gain Exposure: 15% of assets

Analysis by Michael Breen 10-10-97

Fidelity Diversified International Fund isn't simply a blackbox.

Unlike many funds that use multiple computer models, this offering's system doesn't simply spit out buy lists. Manager Greg Fraser has his hands firmly on the levers, constantly updating and expanding his models to reflect changing macroeconomic, market, and stock factors. The fund has steadily improved since its terrible start, and its returns now land near the top decile in its category for the five-year period. It has also been less risky than the bulk of its peers.

Importantly, Fraser uses his models as "focusing tools" to create short lists of attractive markets and stocks that are then put through rigorous fundamental analysis. Critical to the fund's success—and what separates Fraser from most managers using quantitatively based approaches—are the subjective aspects of the process. Fraser cross-checks his lists with Fidelity's industry

analysts, who provide input on issues such as regulatory concerns that can't be factored into the models. He also sits in on management interviews for many of the firms he is considering buying. Fraser says that disagreements between his models and Fidelity's analysts go to the humans.

The biggest difficulty Fraser faces is procuring accurate data. Lax accounting standards and currency fluctuations mean that much of the data from emerging markets is dubious at best. Fraser says this partly explains the fund's small stake in developing economies. He notes, however, that he has also found emerging markets expensive in recent years. Although Fraser says that data quality from these areas is steadily improving, it's unlikely that the fund's emerging-markets stake will increase substantially anytime soon.

This fund's complex model-based system won't suit everyone, but there's no arguing with its success.

Risk Analysis

Time Period	Load-Adj Return %	Risk % Rank All Cat	Morningstar Return Risk	Morningstar Risk-Adj Rating
1 Yr	26.65	—	—	—
3 Yr	17.25	74 7	2.71 0.54	★★★★
5 Yr	17.14	81 23	1.71 0.70	★★★★
Incept	12.93	—	—	—

Average Historical Rating (34 months): 3.8★s

*1=low, 100=high * T-Bill return substituted for category avg

Category Rating (3 Yr)

Other Measures	Standard Index S&P 500	Best Fit Index MSCI/Ctry
Alpha	-2.4	3.5
Beta	0.63	0.95
R-Squared	45	86
Standard Deviation	—	12.18
Mean	—	16.56
Sharpe Ratio	—	1.13

Return: High
Risk: Low

Portfolio Analysis 04-30-97

Share Chg (10-96) 000	Amount 000	Total Stocks	Total Fixed-Income	Value \$000	% Net Assets
15	15	Novartis (Reg)	—	19,763	1.86
250	450	Fuji Photo Film	—	17,179	1.61
1,050	1,250	National Bank of Canada	—	14,580	1.37
150	200	Sony	—	14,546	1.37
555	625	Alcatel Alsthom (ADR)	—	13,906	1.31
30	70	Unilever (NY)	—	13,738	1.29
300	550	Canon	—	13,031	1.22
350	700	Shell Transport & Trading	—	12,399	1.16
—	516	Freeport McMoRan Cop/Gld B Pld	—	12,110	1.14
86	86	Credit Suisse Group (Reg)	—	9,719	0.91
5	8	Nestle (Reg)	—	9,715	0.91
650	650	New Germany	—	9,344	0.88
55	90	DSM	—	8,966	0.84
250	550	Matsushita Electric Indt	—	8,788	0.83
625	625	TCW/DW Emerg Opps	—	8,281	0.78
350	350	New Holland	—	7,744	0.73
60	330	Takeda Chemical Industries	—	7,611	0.71
56	100	Nintendo	—	7,304	0.69
620	620	GT Glob Develop Mkts	—	7,367	0.69
125	125	Depla Bank	—	6,773	0.64

Current Investment Style

Style	Price/Earnings Ratio	Price/Cash Flow	Price/Book Ratio	3 Yr Earnings Gr%	Med Mkt Cap \$mil	Stock Port Avg	Rel MSCI EAFE Current	Rel MSCI EAFE Hist	Rel Cat
Value Blend Growth	23.4	11.2	3.2	18.9	7,069	3.7	0.8	0.88	0.88
Large Mid Small	—	—	—	—	—	—	—	—	—

Currency Exp 06-30-97

	% assets		% assets		% assets
Japan	17	Japan	18	Europe	46
Canada	9	United Kingdom	10	Pacific/Asia	8
United Kingdom	8	Canada	9	Latin America	3
U.S.	6	U.S.	6	Japan	18
Netherlands	6	Netherlands	6	Other	17
Total U.S. \$ Exp:	13				

Hedging History: Rate

Special Securities % of assets 04-30-97	Restricted/Illiquid Secs	Emerging—Markets Secs	Options/Futures/Warrants	Composition % of assets 06-30-97	Cash	Bonds	Other	Sector Weightings	% of Stocks	Rel Cat	5-Year High Low
—	9	1	No	6.6	0.0	92.3	1.1	Utilities	3.7	0.8	—
—	—	—	—	—	—	—	—	Energy	6.7	1.2	—
—	—	—	—	—	—	—	—	Financials	24.7	1.3	—
—	—	—	—	—	—	—	—	Ind Cyclics	17.5	0.9	—
—	—	—	—	—	—	—	—	Cons Dur	11.2	1.1	—
—	—	—	—	—	—	—	—	Cons Stpls	9.1	1.4	—
—	—	—	—	—	—	—	—	Services	13.4	0.9	—
—	—	—	—	—	—	—	—	Retail	1.8	0.4	—
—	—	—	—	—	—	—	—	Health	7.7	1.1	—
—	—	—	—	—	—	—	—	Tech	4.3	0.6	—

Address: 82 Devonshire Street, Boston, MA 02109, 800-544-8888
 Advisor: Fidelity Management & Research
 Subadvisor: FMR (U.K.)/FMR (Far East)/Fidelity Intl Investment
 Distributor: Fidelity Distributors
 States Available: All plus PR
 Report Grade: A-
 NTF Plans: Fidelity

Minimum Purchase: \$2500 Add: \$250 IRA: \$500
 Min Auto Inv Plan: \$2500 Systematic Inv: \$100
 Date of Inception: 12-27-91
 Sales Fees: No-load
 Management Fee: 45% + 52% max / 27% min (S) + (-) 20% P
 Actual Fees: Mgt: 0.85% Dist: —
 Expense Projections: 3Yr: \$41 5Yr: \$71 10Yr: \$156
 Annual Brokerage Cost: 0.46% Income Distrib: Annually
 Total Cost (relative to category): Below Avg

Bond Option

Company Submitting Proposal: Dodge & Cox

Option Name: Dodge & Cox Income Fund

	1997(as of 9/30)	1996	1995
Assets	\$705 mm	\$533 million	\$303 million
Duration	4.7 years	5.1 years	4.9 years
High Yield %	0.7 %	0.5 %	3.8 %
Non \$	0.0%	0.0 %	0.0 %
Average Quality	AA+	AA+	AA+

Year Ending: 12/31	Total Return %	Lehman Aggregate %
1997	10.0	9.7
1996	3.6	3.6
1995	20.2	18.5
1994	(2.9)	(2.9)
1993	11.4	9.7

Period Ending 12/31	Annualized Return %	Lehman Aggregate %
Last 1 Year	10.0	9.7
Last 2 Years	6.8	6.6
Last 3 Years	11.1	10.4
Last 4 Years	7.4	6.9
Last 5 Years	8.2	7.5

Fees: 49 basis points of account balance

Rebates: 8 basis points

Year 2000 Plan: Yes

Fund Objective and Manager Biography: see attached Morningstar report.

Dodge & Cox Income

Prospectus Objective: Corp Bond—High Quality

Dodge & Cox Income Fund seeks income consistent with long-term preservation of capital; capital appreciation is a secondary consideration.

The fund normally invests at least 80% of assets in the following: debt obligations issued or guaranteed by the U.S. government, its agencies, or instrumentalities; investment-grade debt securities, including U.S. dollar-denominated foreign issues; unrated securities deemed to be investment-grade quality; bankers' acceptances, bank certificates of deposit, repurchase agreements, and commercial paper. At least 65% of assets are held in the first two categories. The fund may invest up to 25% of assets in dollar-denominated foreign securities.

Portfolio Managers

Management Team

Performance 01-31-98

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1993	4.76	3.21	3.14	-0.16	11.34
1994	-2.38	-1.51	0.45	0.56	-2.89
1995	5.49	7.01	2.05	4.36	20.21
1996	-2.07	0.46	2.03	3.23	3.62
1997	-0.77	3.68	3.69	3.12	10.00

Trailing	Total Return %	+/- LB Agg	+/- LB ITGvt/Corp	% Rank All Cat	Growth of \$10,000
3 Mo	2.67	-0.10	0.32	49 35	10,267
6 Mo	4.57	-0.34	0.41	20 31	10,457
1 Yr	11.00	0.25	2.14	47 14	11,100
3 Yr Avg	10.75	0.58	1.90	51 12	13,583
5 Yr Avg	7.93	0.58	1.40	54 13	14,645
10 Yr Avg	—	—	—	—	—
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Ret %	% Rank Cat	% Pretax Ret	% Rank Cat
3 Yr Avg	7.92	13	73.7	10
5 Yr Avg	5.06	12	63.8	8
10 Yr Avg	—	—	—	—

Potential Capital Gain Exposure: 4% of assets

Analysis by Mark Wright 09-30-97, Updated annually; the next update will be published August 6, 1998

Dodge & Cox Income Fund follows a simple strategy, but it works.

Management tries to add to this fund's returns mostly by investing in bonds that have slightly higher yields to maturity than the Treasuries that dominate its benchmark, the Lehman Brothers Aggregate index. Whereas Treasuries take up about 60% of the fund's benchmark, they normally constitute less than 25% of the fund. Instead, management invests mostly in mortgages and corporate bonds.

This is a common strategy, and one that has worked well for the fund. Indeed, its returns have consistently beaten its benchmark's. Of course, the market has favored such a strategy for many years now. A strong economy has bolstered the prices of corporates throughout the 1990s, and relatively stable interest rates have kept mortgage prepayments at bay for a number of years now.

The biggest risk to this fund is that

corporates and mortgages will underperform—something that will inevitably happen.

Management has been very careful with the bonds it has picked, though, so even in a difficult environment, the fund shouldn't fare too badly. One of management's precautions has been to stick primarily to seasoned mortgages that won't prepay too quickly if rates fall. With its corporates, management sticks to investment-grade issues.

Management isn't likely to squander its yield advantage on poor interest-rate bets, either. Although it says it will move duration as much as 15% away from its benchmark, in the past it has almost always kept duration within a couple tenths of a year of the Lehman Brothers Aggregate.

Add to management's well-executed strategy this fund's low expense ratio, and it should be an excellent choice for just about anyone looking for a high-quality intermediate-term offering.

Ticker DODIX Load None NAV \$12.21 Yield 6.0% SEC Yield 6.21% Total Assets \$705.5 mil Mstar Category Inter-Term Bond

Historical Profile

Return Above Avg
Risk Average
Rating ★★ ★★
Above Avg



Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	01-98	History
NAV	—	10.00	10.68	10.61	11.59	11.55	11.89	10.74	12.02	11.68	12.08	12.21	NAV
Total Return %	—	—	14.09	7.42	18.04	7.80	11.34	-2.89	20.21	3.62	10.00	1.08	Total Return %
+/- LB Aggregate	—	—	—	-1.54	2.04	0.40	1.60	0.03	1.74	—	0.32	-0.20	+/- LB Aggregate
+/- LB Int Govt/Corp	—	—	—	-1.75	3.41	0.63	2.56	-0.96	4.90	-0.44	2.14	-0.23	+/- LB Int Govt/Corp
Income Return %	—	—	7.18	7.98	8.39	7.36	6.92	6.58	7.74	6.31	6.40	0.00	Income Return %
Capital Return %	—	—	6.91	-0.56	9.65	0.44	4.42	-9.47	12.47	-2.69	3.60	1.08	Capital Return %
Total Rtn % Rank Cat	—	—	—	45	25	32	31	27	10	31	13	77	Total Rtn % Rank Cat
Income \$	—	—	0.69	0.81	0.82	0.82	0.78	0.76	0.81	0.74	0.73	0.00	Income \$
Capital Gains \$	—	—	0.01	0.01	0.04	0.09	0.17	0.05	0.03	0.00	0.00	0.00	Capital Gains \$
Expense Ratio %	—	—	0.66	0.69	0.64	0.62	0.60	0.54	0.54	0.50	—	—	Expense Ratio %
Income Ratio %	—	—	7.85	7.99	7.63	7.14	6.50	6.90	6.85	6.65	—	—	Income Ratio %
Turnover Rate %	—	—	3	13	15	12	26	55	53	37	—	—	Turnover Rate %
Net Assets \$mil	—	—	32.8	52.1	96.2	136.3	180.0	195.4	303.3	532.8	705.5	705.5	Net Assets \$mil

Risk Analysis

Time Period	Load-Adj Return %	Risk % Rank All Cat	Morningstar Return Risk	Morningstar Risk-Adj Rating
1 Yr	11.00	—	—	—
3 Yr	10.75	43 62	1.08 ² 1.16	★★★★
5 Yr	7.93	32 61	0.75 ² 1.10	★★★★
Incept	9.79	—	—	—

Average Historical Rating (74 months): 3.9★

¹Low, 100=high ²T-Bill return substituted for category avg.

Category Rating (3 Yr)

Other Measures	Standard Index LB Agg	Best Fit Index LB Corp
Alpha	-0.2	0.0
Beta	1.17	0.91
R-Squared	99	99
Standard Deviation	—	5.10
Mean	—	10.36
Sharpe Ratio	—	1.21

Return Above Avg
Risk Average

Portfolio Analysis 09-30-97

Total Fixed-Income: 90	Date of Maturity	Amount \$000	Value \$000	% Net Assets
US Treasury Note 7.125%	10-15-98	29,000	29,421	4.46
GNMA 15yr 7%	02-15-09	23,975	24,425	3.70
FHLMC CMO PAC 7.1%	11-15-06	21,000	21,341	3.24
FNMA 7%	07-01-08	19,368	19,658	2.98
FNMA 15yr 5.5%	12-01-08	16,409	16,376	2.48
Walt Disney 7.55%	07-15-93	15,034	15,726	2.38
Vendee Mtg CMO 7.25%	07-15-16	14,877	15,202	2.31
US Treasury Note 5.875%	11-15-99	15,000	15,009	2.28
US Treasury Note 5.125%	11-30-98	15,000	14,902	2.26
FHLMC CMO PAC 7%	09-15-07	13,000	13,228	2.01
Ford Motor 8.875%	01-15-22	11,000	13,164	2.00
FHLMC CMO PAC 6%	08-15-08	13,285	12,865	1.95
Vendee Mtg CMO 7%	06-15-10	12,616	12,825	1.94
General Electric Cap 8.85%	03-01-07	10,000	11,639	1.76
FHLMC CMO PAC 8%	04-15-07	10,900	11,418	1.73
US Treasury Note 6.25%	02-15-03	10,750	10,852	1.65
Lockheed Martin 7.75%	05-01-26	10,000	10,668	1.62
FNMA 8%	08-01-10	10,118	10,430	1.58
Vendee Mtg CMO 8%	07-15-18	10,000	10,378	1.57
FNMA CMO PAC 7%	07-25-15	10,000	10,159	1.54

Current Investment Style

Duration Short Int Long	Avg Eff Duration ¹	4.7 Yrs
	Avg Eff Maturity	11.3 Yrs
	Avg Credit Quality	AA
	Avg Wtd Coupon	7.42%
	Avg Wtd Price	104.89% of par

¹Figure provided by fund; as of 12-31-97

Duration Management as of 12-31-97

Current Duration	Category Avg
2 Yrs	3.5 Yrs
Duration Benchmark	LB Aggregate
Benchmark's Duration	4.42 Yrs
Duration Range	3.5 Yrs - 5.8 Yrs

Special Securities % of assets 09-30-97

	Coupon Range	% of Bonds	Ref Cat
○ Restricted/Illiquid Secs	0	0.0	0.00
○ Exotic Mortgage-Backed	0	0%	23.3 0.65
○ Emerging-Markets Secs	0	7% to 8.5%	60.2 1.45
○ Options/Futures/Warrants	No	8.5% to 10%	14.7 0.98
		More than 10%	1.8 0.29

Credit Analysis % of bonds 12-31-97

	1.00=Category Average
US Govt	56 BB
AAA	11 B
AA	4 Below B
A	16 NR/NA
BBB	13

Data Analyst: Paul Herbert

Address:	One Sansome Street 35th Floor San Francisco, CA 94104 800-521-3979	Minimum Purchase:	\$2500	Add: \$100	IRA: \$1000
*Inception:	01-03-89	Min Auto Inv Plan:	\$2500	Systematic Inv:	\$100
Advisor:	Dodge & Cox	Sales Fees:	No-load		
Subadvisor:	None	Management Fee:	0.50% max./0.40% min.		
Distributor:	Dodge & Cox	Actual Fees:	Mgt: 0.43% Dist: —		
NTF Plans:	N/A	Expense Projections:	3Yr: \$16 5Yr: \$28 10Yr: \$63		
		Income Distrib:	Quarterly		
		Total Cost (relative to category):	Low		

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MORNINGSTAR Mutual Funds

Flex / Balanced Option

Company Submitting Proposal: Great-West

Option Name: INVESCO Total Return Fund

	1997	1996	1995
Assets	\$2.16 billion (10/31/97)	\$1.23 billion	\$768 million
US Equity	66.0%	67.4%	63.1%
Non \$	0.0%	0.0%	0.0%
High Yield	0.0%	0.0%	0.0%
Ave. Quality Bonds	AAA	AAA	AAA

Year Ending: 12/31	Total Return %	50% Leh.Agg. 50% S&P 500
1997	25.0	21.2
1996	13.1	13.2
1995	28.7	27.7
1994	2.5	(0.7)
1993	12.4	9.9

Period Ending 12/31	Annualized Return %	50% Leh.Agg. 50% S&P 500
Last 1 Year	25.0	21.2
Last 2 Years	18.9	17.1
Last 3 Years	22.1	20.6
Last 4 Years	16.9	14.8
Last 5 Years	15.9	13.8

Fees: 86 basis points of account balance

Rebates: 15 basis points

Year 2000 Plan: Yes

Fund Objective and Manager Biography: see attached Morningstar report.

Invesco Total Return

Prospectus Objective: Asset Allocation

Invesco Total Return Fund seeks capital appreciation and current income.

The fund invests in a combination of equities and investment-grade fixed-income securities. It maintains at least 30% of assets in equities, and at least 30% in fixed- and variable-rate debt securities. The dollar-weighted average maturity of the fund's fixed-income component normally varies between three and 15 years. The fund may invest up to 25% of assets in foreign securities.

Prior to Jan. 1, 1991, the fund was named Invesco Institutional Flex Fund. From that date until July 1, 1993, the fund was named Financial Flex Fund.

Portfolio Managers

Edward C. Mitchell Jr., CFA. Since 9-87. BA U. of Virginia; MBA U. of Colorado. Mitchell is president of Invesco Capital Management Inc. He began his investment career in 1969.

David S. Griffin, CFA. Since 1-93. BA Ohio Wesleyan U.; MBA William and Mary. Griffin is currently a portfolio manager with Invesco Capital Management in 1991.

Performance 1993-97

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Total
1993	3.98	1.28	2.53	4.07	12.36
1994	-2.95	0.97	4.41	0.20	2.52
1995	7.49	7.90	5.32	5.31	28.64
1996	2.58	1.72	2.22	6.00	13.07
1997	1.87	11.86	6.70	—	—

Trailing	Total Return %	+/- S&P 500	+/- LB Agg	% Rank All Cat	Growth of \$10,000
3 Mo	5.78	-0.89	2.35	10 8	10,578
6 Mo	11.83	-1.74	5.26	24 16	11,183
1 Yr	21.01	-7.49	13.43	23 10	12,101
3 Yr Avg	21.82	-9.21	11.51	25 13	18,078
5 Yr Avg	15.90	-4.23	8.30	25 11	20,915
10 Yr Avg	14.15	-4.56	4.94	37 29	37,566
15 Yr Avg	—	—	—	—	—

Tax Analysis	Tax-Adj Ret %	% Rank Cat	% Pretax Ret	% Rank Cat
3 Yr Avg	20.16	9	92.4	11
5 Yr Avg	14.07	7	88.5	11
10 Yr Avg	12.25	13	86.6	6

Potential Capital Gain Exposure: 24% of assets

Analysis by Paul D. Ellenbogen, 12/19/97

Invesco Total Return Fund wins points for performance, not style.

This fund has a fair amount of latitude to adjust its allocations—70% is the limit for either stocks or bonds. Starting from a neutral 60%/40% split in favor of stocks, comanagers Edward Mitchell and David Griffin change the mix based on their expected risk-adjusted returns for each asset class. In 1997, they've been bullish, with 62% or so in equities for the first half of the year and 67% for the latter part. Because the stock market has been so strong, that decision has pushed the fund's year-to-date returns into the category's top decile. Keeping the fund's equity stake high has contributed to its strong three-, five-, and 10-year returns as well.

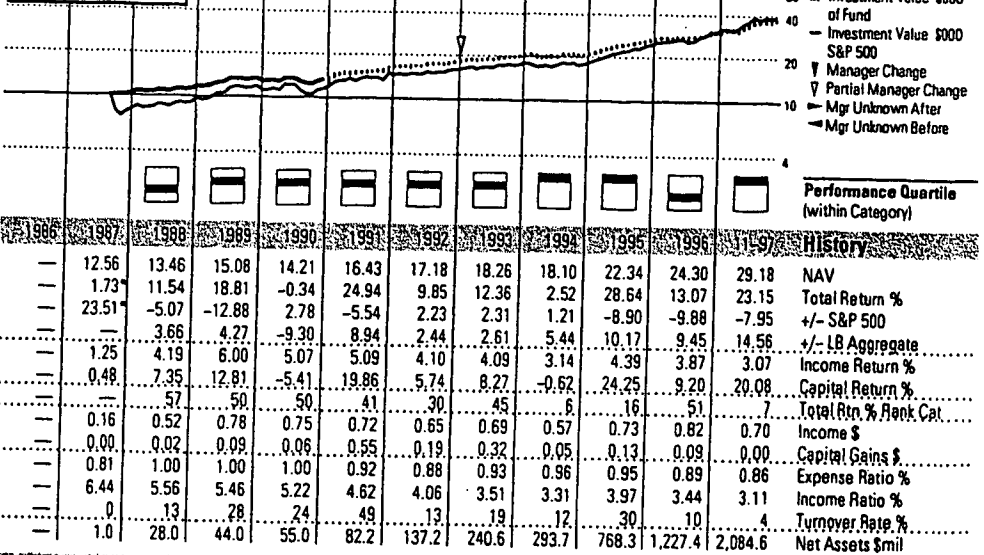
The pair screens an equity universe of 800 mid- to large-cap stocks with at least a 10-year financial record, looking for favorable returns on equity, earnings reinvestment rates, and price/book ratios. They require the firms

that pass this test to meet qualitative criteria as well, such as having good management and established brands. Mitchell and Griffin's equity picks differ just enough from the standard large-cap value fare to give them an edge. For example, IBM is a common holding in large-cap value portfolios, but Compaq, which has doubled in value in 1997, is not. The difference is that these managers will buy high-multiple stocks from growth sectors on weakness. On the other hand, the domestic electrics that make up the fund's double-market weighting in utilities are a contrarian bet, and helped keep the fund ahead of its peers in October when most stocks tumbled.

Invesco's fixed-income staff handles the bond assets, keeping a short to intermediate duration, with a high-quality bias. The bond stake is entirely Treasury and agency debt right now, for example. While the resulting mix of assets isn't original, or daring, it has brought success over the long haul.

Ticker	Load	NAV	Yield	SEC Yield	Total Assets	Mstar Category
FSFLX	None	\$29.18	2.7%	2.95%	\$2,084.6 mil	Domestic Hybrid

Historical Profile	
Return	Average
Risk	Low
Rating	★★★★
	Above Avg



Risk Analysis

Time Period	Load-Adj Return %	Risk % Rank All Cat	Morningstar Return Risk	Morningstar Risk-Adj Rating
1 Yr	21.01			
3 Yr	21.82	45 21	0.93 0.44	★★★★
5 Yr	15.90	43 18	0.99 0.52	★★★★
10 Yr	14.15	47 29	0.71 0.53	★★★★

Average Historical Rating (87 months): 3.8★s

*1=low, 100=high

Category Rating (3 Yr)

Other Measures	Standard Index S&P 500	Best Fit Index S&P 500
Alpha	1.4	1.4
Beta	0.59	0.59
R-Squared	92	92
Standard Deviation	8.32	8.32
Mean	20.14	20.14
Sharpe Ratio	2.25	2.25

Return Above Avg

Risk Below Avg

Portfolio Analysis 10-31-97

Total Stocks: 82	PE Ratio	YTD Return %	% Net Assets	
Share change since 09-97				
- Compaq Computer	Technology	26.9	109.80	1.61
+ Electronic Data Systems	Technology	25.7	-10.80	1.18
British Telecom (ADR)	Services	21.8	34.82	1.17
Unicom	Utilities	13.9	13.35	1.13
Morgan Stanley/Dean Witter	Financials	16.7	66.06	1.13
Bristol-Myers Squibb	Health	29.9	75.69	1.11
Ford Motor	Durables	8.2	39.20	1.11
First Chicago NBD	Financials	16.3	48.32	1.11
IBM	Technology	18.3	45.82	1.09
+ DTE Energy	Utilities	13.1	6.94	1.09

Equity Style

Style: Value	Rel S&P
Size: Large-Cap	

Price/Earnings Ratio	Price/Book Ratio	Price/Cash Flow	3 Yr Earnings Growth	1 Yr Earnings Est%	Debt % Total Cap	Med Mkt Cap \$mil
21.6	4.1	13.8	15.2	8.0	46.9	13,220

Special Securities % of assets 10-31-97

Restricted/Illiquid Secs	0
Emerging-Markets Secs	1
Options/Futures/Warrants	No

Composition

% of assets 10-31-97	Market Cap
Cash	9.3
Stocks*	64.4
Bonds	26.3
Other	0.0
Foreign (% of stocks)	11.9

Fixed-Income Style

Duration: Intermediate	Rel S&P
Quality: High	

Avg Eff Duration ¹	Avg Eff Maturity	Avg Credit Quality	Avg Wtd Coupon
4.3 Yrs	6.6 Yrs	AAA	7.16%

Sector Weightings Stocks S&P

Sector	% of Stocks	Ret S&P	5-Year High Low
Utilities	6.7	2.3	8 1
Energy	6.4	0.7	8 2
Financials	14.3	0.9	19 8
Cyclicals	20.4	1.4	26 19
Durables	4.9	1.4	6 2
Staples	6.9	0.6	11 5
Services	12.1	0.9	14 5
Retail	8.5	1.6	13 7
Health	9.4	0.9	14 8
Technology	10.4	0.8	14 7

Address: P.O. Box 173706
Denver, CO 80217-3706
800-525-8085 / 303-930-6300
09-22-87

Inception: Invesco Funds Group
Advisor: Invesco Capital Management
Subadvisor: Invesco Capital Management
Distributor: Invesco Funds Group
NTF Plans: Fidelity, Schwab, Jack White

Minimum Purchase: \$1000
Add: \$50 IRA: \$250
Systematic Inv: \$50

Sales Fees: No-load
Management Fee: 0.75% max./0.50% min., 0.02%A
Actual Fees: Mgt: 0.75%
Expense Projections: 3Yr: \$30 5Yr: \$53 10Yr: \$117
Annual Brokerage Cost: —
Income Distrib: Quarterly

Total Cost (relative to category): Below Avg

Great-West Life & Annuity Insurance Company

Great-West Life & Annuity Insurance Company (Great-West) is a wholly-owned subsidiary of the Great-West Life Assurance Company. Great-West offers a wide range of life insurance, health insurance, and retirement and investment products to individuals, businesses, and other private and public organizations. Great-West, based in Denver, Colorado, has assets in excess of \$18.5 billion. It is one of the largest providers of investment products in the 457 market, offering investment options in 14 state 457 deferred compensation plans. Great-West has been a product provider for the Minnesota State Deferred Compensation Plan since 1981. It is highly rated as shown in the table below.

The Minnesota Mutual Life Insurance Company

The Minnesota Mutual Life Insurance Company provides insurance, pension and investment products to individuals and businesses. With more than \$144 billion of life insurance in force, it is one of the largest mutual life insurance companies in America. Headquartered in St. Paul, Minnesota Mutual has assets in excess of \$14.4 billion. Minnesota Mutual has been an investment product provider for the State Deferred Compensation Plan since 1981. It is highly rated as shown in the table below.

Principal Mutual Life Insurance Company

Principal Mutual Life Insurance Company is part of the Principal Financial Group, a diversified family of financial services companies offering a full range of insurance and financial products and services for businesses, groups and individuals. Principal Mutual Life Insurance Company, based in Des Moines, Iowa, is the seventh largest U.S. life insurance company with over \$61 billion of assets. It is highly rated by the major ratings agencies as shown in the table below. The SBI retained Principal Mutual as a guaranteed investment contract holder for the Supplemental Investment Fund in 1986, 1987, and 1993.

	S&P	Moody's	Duff & Phelps	A.M. Bet
Great-West	AA+	Aa2	AAA	A++
Minnesota Mutual	AA+	Aa2	AAA	A++
Principal Mutual	AA+	Aa1	AAA	A+

(Blank)

ATTACHMENT B

MINNESOTA MUTUAL/GREAT-WEST

8515 E. ORCHARD ROAD
ENGLEWOOD, CO 80111

400 North Robert Street
St. Paul, MN 55101

PLAN MANAGEMENT EXPERIENCE:

Minnesota Mutual and Great-West have joined together to provide recordkeeping services for the Minnesota State Deferred Compensation Plan. The system integration and partnership between Minnesota Mutual and Great-West allows MSRS to reach its goal of offering a completely unbundled deferred compensation plan program.

Minnesota Mutual, one of the largest mutual life insurance companies in the nation, provides defined contribution service to more than 250,000 participants. Great-West is the number one provider of services to the state government deferred compensation market. Fourteen of the fifty states utilize the services of Great-West and/or one of its subsidiary companies. Great-West also serves nearly 1,000 cities, counties, and special districts.

As incumbent product providers, they understand the specific plan needs and goals of MSRS. Their flexibility and joint resources will allow them to meet these needs and goals by providing recordkeeping services to the plan in the most efficient manner possible.

SIMPLIFIED PLAN CONVERSION:

Minnesota Mutual/Great-West have a great deal of experience transitioning public employer defined contribution plans. Building on this experience, they have streamlined their transition process to minimize the required blackout period, during which only limited transactions will be allowed.

INTEGRATED RECORDKEEPING SYSTEM:

The joint bid allows them to integrate their recordkeeping system, providing substantial benefits to MSRS and plan participants. Participants will enjoy the ease and simplicity of using a single voice response unit and personal customer service representatives to manage and track their accounts. Additionally, they have the ability to easily maintain participant history and convert MSRS records to their system. Participants will receive one quarterly statement detailing all their investment activity.

LOCAL, DEDICATED PLAN MANAGEMENT:

Located in St. Paul, Minnesota Mutual will serve as the daily overall contact for the plan. A dedicated plan manager based in Minnesota will be assigned to the Minnesota account. Great-West will also house an experienced team of professionals assigned to the plan.

NBI/Ochs Services, Inc.
85 East 7th Place, Suite 285
St. Paul, MN 55101

NBI/Ochs Services, Inc. brings the combined strengths of two well-established, experienced Minnesota companies to this proposal. To benefit participant services and to coordinate all activities, the principals of National Benefits, Inc. and Ochs Services, Inc. have formed a new corporation, NBI/Ochs Services, Inc., for the sole purpose of servicing the Minnesota State Deferred Compensation Plan (MSDCP). The new corporation representatives will work exclusively for the MSDCP.

National Benefits, Inc. has had a total of 20 years of experience as a marketer/servicer for several large 457 plans. Over the past 17 years, National Benefits has provided these services to the Minnesota State Deferred Compensation Plan. In addition, Hawaii Benefits, Inc., a sister company to National Benefits, has provided similar services to the State of Hawaii's 457 plan.

The Ochs Companies have had 57 years of experience working with public employees in the State of Minnesota. During the past 17 years, Ochs Services has provided enrollment and education services for the MSDCP.

NBI/Ochs Services, Inc. is 50% owned by William H. Ochs and 50% owned by James M. Bye. NBI/Ochs Services, Inc. is independent of any financial ownership or financial obligation to any product provider, recordkeeper, or any other company. NBI/Ochs Services, Inc. is fully qualified to provide all of the services requested in the RFP and has complied with all of the requirements set forth in the RFP.