

**MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 19, 1996
&
INVESTMENT ADVISORY
COUNCIL MEETING
March 18, 1996**

**AGENDA
STATE BOARD OF INVESTMENT
MEETING**

**Tuesday, March 19, 1996
8:30 A.M. - Room 230
Minnesota Judicial Building
25 Constitution Avenue
Saint Paul, MN**

TAB

- 1. Approval of Minutes of December 20, 1995**

- 2. Report from the Executive Director (H. Bicker)**
 - A. Quarterly Investment Review (September 30 - December 31, 1995)** **A**
 - B. Portfolio Statistics (December 31, 1995)** **B**
 - C. Administrative Report** **C**
 1. Reports on budget and travel.
 2. Update on 1996 Legislative Session
 3. Approval of contract extension for consultants

- 3. Reports from Manager Search Committees** **D**
 1. Semi-Passive Bond Manager Search Committee (E. Voss)
 2. Emerging Markets Manager Search Committee (P. Sausen)

- 4. Reports from the Investment Advisory Council (J. Yeomans)**
 - A. Domestic Manager Committee** **E**
 1. Review of manager performance.
 2. Results of Semi-Passive Bond Manager Search.
 3. Update on Domestic Equity Manager Meeting on benchmarks.
 4. Recommendation to place a stock manager on probation.
 5. Approval of contract renewals.

 - B. International Manager Committee** **F**
 1. Review of manager performance.
 2. Update on asset allocation transition from 10% to 15% international exposure in the Combined Funds.
 3. Update on implementation of currency overlay program.
 4. Approval of contract renewals.
 5. Approval of staff position paper on emerging markets investing.

 - C. Alternative Investment Committee** **G**
 1. Review of current strategy.
 2. Results of a review session with an existing real estate manager, Aetna.
 3. Approval of a new resource manager, Merit Energy, for the Post Retirement Fund.
 4. Approval of a new private equity manager, TCW/Crescent, for the Post Retirement Fund.

**Minutes
State Board of Investment
December 20, 1995**

The State Board of Investment (SBI) met at 8:30 A.M. on Tuesday, October 10, 1995 in Room 125, State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson, Chair; 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.

Mr. Carlson called the meeting to order and the minutes of the October 10, 1995 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 September 30, 1995 (Combined Funds 12.7% vs. Inflation 3.5%) and outperformed the median fund (Combined Funds 14.2% vs. Median 13.8%) for the most recent five years. He added that the Combined Funds also outperformed their composite index (Combined 14.2% vs. Composite 13.8%) over the same five year period. Mr. Carlson complemented Mr. Bicker on the performance of the Combined Funds. Mr. Bicker reported that the Basic Funds had exceeded their composite index (Basics 14.2% vs. Composite 13.9%) over the last five years while the Post Fund had slightly underperformed its composite index for the 2.25 year period July 1, 1993 - September 30, 1995 (Post 10.7% vs. Composite 10.8%).

Mr. Bicker reported that the Basic Funds' assets increased 5.9% for the quarter ending September 30, 1995 due to positive investment returns and that the asset mix is basically in-line with policy targets. He said that the Basic Funds had outperformed its composite index for the quarter (Basics 6.5% vs. Composite 6.3%) and had trailed it for the year (Basics 19.8% vs. Composite 20.4%).

Mr. Bicker reported that the Post Fund's assets increased 6.3% during the quarter ending September 30, 1995 and that the asset mix is in-line with policy targets. He said that the Post Fund had outperformed its composite index for the quarter (Post 6.0% vs. Composite 5.7%) but had trailed it for the year (Post 20.1% vs. Composite 20.3%).

Mr. Bicker stated that the domestic stock manager group outperformed for the quarter (Domestic Stocks 9.2% vs. Wilshire 5000 9.1%) and that the international stock manager group had outperformed its target for the quarter (International Stocks 5.2% vs. EAFE Free 4.2%). He added that the bond manager group outperformed its target for the quarter (Bonds 2.1% vs. Lehman Aggregate 2.0%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP 3.0% Composite 2.9%) and year (ARP 15.5% vs. Composite 14.5%). He concluded his report with the comment that as of September 30, 1995 the SBI was responsible for over \$27 billion in assets. In response to a comment from Mr. Carlson, Mr. Bicker confirmed that the domestic stock segment had underperformed for the year ending September 30, 1995.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. He noted that the 1995 Annual Report had been circulated for comment would be distributed in final form in January 1996.

Mr. Bicker reported that the post retirement benefit increase for fiscal year 1995 is 6.4%, payable to eligible retirees beginning January 1, 1996. He stated that he also wanted to make the Board aware of some potential legislation affecting the Post Fund. He said that the retirement systems are considering a change to the assumed rate of return for the Post Fund from 5% to 6% and an increase in the percentage used in the high-five formula from 1.5% to 1.7%. He added that the end result would be that the initially promised benefit would be higher while the annual benefit increases would be slightly lower. In response to a comment from Mr. Carlson, Mr. Bicker stated that from the data available to date, this legislation would not have a significant financial impact on the Post Fund. Mr. Carlson requested that the State Treasurer, the State Finance Department and the Department of Employee Relations all be involved in evaluating the impact of any changes on the Fund. Mr. Carlson voiced his concern about what might happen under more stressful economic conditions and he asked Mr. Bicker and Mr. McGrath to keep the Board apprised of the State Treasurer's analysis and on the progress of the legislation.

Mr. Bicker referred members to the handout showing the revised Board meeting dates for calendar year 1996 that had been confirmed by all members.

Administrative Committee Report

Mr. McGrath referred members to Tab D of the meeting materials and asked Mr. Bicker to explain the two recommendations to Board members. In response to questions from Mr. Carlson, Mr. McGrath confirmed that there had been a representative of each Board member at the Administrative Committee meeting when these recommendations were discussed.

Mr. Bicker stated that Great West, one of the state's Deferred Compensation Plan vendors, is requesting that their contract be amended to include a "payment for a specified period" payout option. He said that this is a minor amendment that would give participants additional flexibility in their payout options. Mr. Carlson asked for discussion on the Committee's recommendation as stated in the Committee Report, which reads, "The SBI Administrative Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute an amendment

to the Great-West contract for the State Deferred Compensation Plan to add 'Payments for a Specified Period' as a payout option for participants in the Plan". Hearing none, the recommendation was approved.

Mr. Bicker briefly reviewed the SBI's Certificate of Deposit (CD) program and said that while the program has been very successful, that there is a demand for additional deposits beyond the \$800,000 per institution available through the CD program. He stated that the Committee is recommending that the Board approve the addition of a Securities Repurchase Program that would operate very similarly to the CD Program but that would be 110% collateralized. Mr. Carlson asked for discussion on the Committee's recommendation as stated in the Committee Report, which reads, "The SBI Administrative Committee recommends that the SBI authorize the SBI Executive Director, with assistance from SBI legal counsel, to establish a Securities Repurchase Program as described in Attachment 1. Under the program, United Bankers' Bank, Bloomington, MN will act as custodian/safekeeping bank for the securities in the program". Hearing none, the recommendation was approved.

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that at the June 1995 meeting, the Board had approved a proposal to grant limited authority to existing bond managers to invest up to 10% of their bond portfolios in BB and B rated debt. She said that during the quarter, five of the active bond managers were interviewed and that based on those interviews, the Committee is recommending that BEA Associates, IDS Advisory Group, Miller Anderson & Sherrerd, Standish Ayer & Wood, and Western Asset Management be given authority to make those investments in below investment grade debt securities. Mr. Humphrey moved approval of the Committee's recommendation. Ms. Dutcher seconded the motion. The motion passed.

Ms. Yeomans updated the Board on the implementation of the revised asset allocation targets for the Basic and Post Retirement Funds that had been approved at the October 1995 Board meeting. She said that funds were being moved from domestic stocks and bonds to international stocks in order to meet these revised targets. In response to questions from Mr. Carlson, Ms. Yeomans said that the international segment has performed well, but that domestic stocks have performed even better recently. Mr. Bicker added that the rebalancing guidelines state that rebalancing must occur if the actual allocations deviate from the targets by 10% and Mr. Bicker said he is satisfied with those guidelines. Mr. Carlson asked for Mr. Bicker's comments on the international area. Mr. Bicker said that he believes there are growth opportunities in Eastern Europe, however he noted that those countries first have to establish an entire infra-structure in which to operate. In response to a question from Mr. Carlson, Ms. Yeomans said that the IAC is also satisfied with the SBI's current rebalancing guidelines. She added that the transition to the revised allocation targets should be completed by fiscal year end.

Ms. Yeomans reported that the Committee is recommending that the SBI terminate its contract with TCW, a specialty manager in mortgages. She noted that due to changes in the marketplace it appears that this type of investment strategy is no longer viable and that these types of securities are thinly traded. She added that the Committee is also recommending that the benchmark for IDS be changed to the Lehman Aggregate. In response to question from Mr. Carlson, Ms. Yeomans confirmed that IDS would have the flexibility to invest in all areas of the market just as the other active bond managers do. Mr. Bicker said that TCW was not being terminated due to poor performance and that if approved, funds from TCW's portfolio will be used in the asset allocation move. He added that this is a situation where the SBI can reduce the number of managers it retains. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report, which reads "The Committee recommends that the SBI terminate its contract with Trust Company of the West for active domestic bond management and change the benchmark for the IDS bond portfolio from the government and corporate sectors of the Lehman Aggregate to the Lehman Aggregate as a whole". Ms. Grove seconded the motion. The motion passed. Mr. Carlson commented that the Board may wish to revisit the issue of the number of managers retained by the SBI at a later date.

Ms. Yeomans referred members to a memo from the IAC on an issue that arose after the Committee had met (**Attachment 1**). She reported that Fidelity Management Trust Company had given notice that they will resign management of their semi-passive bond portfolio, effective January 1, 1996 because the SBI would not agree to their increased fee structure. She said the IAC is recommending that the Board convene a Search Committee to interview four manager candidates. Mr. Carlson stated that formal action by the Board was not required on this recommendation.

International Manager Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and she reviewed the performance of the international segment, noting that the currency impact was positive for the quarter. In response to questions from Mr. Carlson, Ms. Yeomans and Mr. Bicker said that over the most recent three year period, the domestic stock segment had outperformed the international segment by about one percentage point annualized. In response to comments by Mr. Carlson and Mr. Humphrey, Mr. Bicker confirmed that staff monitors all areas of investment on an on-going basis. However, he stated that staff believe that asset allocation decisions should be made using a long-term time horizon. Mr. Carlson then compared various returns for the funds and stated that the variance in returns between the domestic and international segments was not as large as he first thought.

Ms. Yeomans stated that at the October 1995 meeting, the Board had approved an allocation of up to 2% of the total funds to emerging markets. She said the Committee is recommending that the Board approve the use of the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) as the performance standard for the emerging markets allocation. Ms. Grove moved approval of the Committee's recommendation, as stated in the Committee Report, which reads "The Committee recommends that the SBI adopt the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) as

the performance standard for the emerging markets allocation". Ms. Dutcher seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee is also recommending a list of finalists to be considered for the emerging markets manager search. Mr. Bicker clarified that the revised finalist list is contained in the handout to the Board (Attachment 1). In response to a question from Mr. Carlson, Mr. Bicker reviewed where each firm is headquartered. Ms. Yeomans added that the recommendation includes convening a Search Committee to conduct the interviews in St. Paul. Ms. Growe moved approval of the Committee's recommendation, as stated in Attachment 1, which reads, "The IAC recommends that a Manager Search Committee be convened to make recommendations to the SBI concerning the retention of emerging markets specialists for the SBI's emerging markets allocation. The Search Committee should consider the firms listed in this addendum as finalists for the search". Mr. Humphrey seconded the motion. The motion passed.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab G of the meeting materials and said that the Committee is recommending three alternative investments for the Basic Funds and one investment for the Post Fund. In response to questions from Mr. Carlson, Mr. Bicker confirmed that there is still approximately \$800 million available for investment in the alternative investment area. Ms. Dutcher moved approval of the Committee's recommendations, as stated in the Committee Report. Mr. McGrath seconded the motion. The motion passed. In response to a question from Mr. Bicker, Mr. Carlson clarified that the motion had been to approve all four of the Committee's recommendations. The recommendations read as follows:

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 First Reserve Fund VII. This commitment will be allocated to the Basic Retirement Funds. 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 Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$25 million or 20%, whichever is less, in Banc Fund IV. This commitment will be allocated to the Basic Retirement Funds. 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 ChiCorp Management 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 ChiCorp Management or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$50 million or 20%, whichever is less, in Zell/Merrill Lynch Real Estate Opportunity Partners IV. This commitment will be allocated to the Basic Retirement Funds. 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 Zell/Merrill Lynch 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 Zell/Merrill Lynch or reduction or termination of the commitment.

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to \$20 million or 20%, whichever is less, in Equitable Real Estate Hyperion High Yield Commercial Mortgage Fund. 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 Hyperion/Equitable 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 Hyperion/Equitable or reduction or termination of the commitment.

Proxy Committee Report

Mr. Manahan, Deputy State Treasurer, referred members to the Proxy Committee Report which was handed out at the meeting (**Attachment 2**) and he gave a brief summary of recent activity regarding tobacco companies. He stated that prior to the December 1995 Board meeting, the Committee had met with a group of private citizens who had requested that the SBI review its current policy concerning tobacco holdings. He said that since that meeting, staff had gathered additional information on tobacco stocks and he reviewed the Board's current directive to the Proxy Committee which states that "SBI directs the Proxy Committee where feasible, to sponsor, co-sponsor and support shareholder resolutions that call for a company to reduce its involvement in liquor and tobacco production, product marketing and other related lines of business in order to diversify its business in a manner that will reduce or eliminate potential liability to legal claims associated with liquor and tobacco that may negatively impact the value of the SBI's holdings." Mr. Manahan reported that during the 1995 proxy voting season, the Committee had voted on 15 tobacco-related shareholder resolutions and that the

Committee plans to co-sponsor additional resolutions on tobacco-related issues for the 1997 proxy season. He added that the Committee is in the process of co-sponsoring a shareholder resolution which will be submitted to Albertson's at its annual meeting in December 1995. Mr. Manahan said the Committee believes that its proxy activities have been consistent with the Board's directive. He added that additional reports gathered on tobacco companies conclude that the potential for adverse claims against tobacco companies has already been factored into the current price of these stocks. In conclusion, he said that the Committee is recommending no change to the Board's current policy at this time.

Mr. Humphrey thanked both the Proxy Committee and staff for their work on this issue. He said that he has been examining several areas related to tobacco investments and that several complex issues are involved. He said that he is not prepared at this time to bring any proposal to the Board but that he said he will continue his study and may possibly have a recommendation at a future date.

Mr. Ravnitsky, a private citizen, asked for permission to address the Board and was recognized by Governor Carlson. Mr. Ravnitsky stated that he was one of the presenters to the Proxy Committee. He said he believes it is the SBI's duty to take into consideration both social and financial aspects when making policy decisions and he asked the Board to reconsider its tobacco position over the next year. He stated that the State of Minnesota is not presenting a consistent policy in the tobacco area by investing in tobacco companies while at the same time taking legal action against them. Mr. Carlson clarified for Mr. Ravnitsky that the Board is required by law to invest the assets according to fiduciary guidelines which focus on rates of return. He added that it is not the Board's responsibility to engage in social policy. Mr. Carlson suggested that Mr. Ravnitsky focus his attention on how his personal pension money is being invested. In response to a comment from Mr. Ravnitsky, Mr. Carlson stated that the action of the Attorney General's office against tobacco companies does not change the policies under which the State Board of Investment operates. He agreed with Mr. Ravnitsky that there are many issues where the state does not have consistent policies, however, he said that the SBI will continue to follow the investment guidelines, set out in statute, which do not include consideration of social policies. He thanked Mr. Ravnitsky for his comments.

Mr. Humphrey stated that he wanted the record to reflect that he believes the Board does have a broader responsibility in investing its assets, other than merely investing the state's funds with regard to the dollars involved. He said the SBI consists of elected officials that represent a very broad range of constituents. He said he thought there was a very real

purpose in establishing a Board of elected officers to include a review not only of the dollar values but also the purpose and basis for those investments. Mr. Carlson stated that the Board would not engage in a full blown discussion or social policy and asked if there was any other business before the SBI. Hearing none, Mr. Carlson wished everyone a happy holiday and adjourned the meeting at 9:15 a.m.

Respectfully submitted,

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

Howard J. Bicker
Executive Director

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

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

Executive Director:

Howard J. Bicker

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

*An Equal Opportunity
Employer*

DATE: December 13, 1995

TO: Members, State Board Investment

FROM: Investment Advisory Council

SUBJECT: Addendum to Committee Reports for December 1995 Meetings

At its meeting on December 12, 1995, the Investment Advisory Council (IAC) modified recommendations in two Committee Reports dated December 5, 1995. The specific changes are shown below.

1. Domestic Manager Committee (Tab E) - Additional Recommendation

Fidelity Management Trust Company has given notice that they will resign management of their semi-passive bond portfolio effective January 1, 1996.

Given the size of the portfolio, approximately \$1.3 billion, the IAC believes it is preferable to retain a new manager rather than distribute the assets among the remaining semi-passive bond managers.

Staff has identified four (4) candidates for the search:

- Blackrock Financial Management
- J.P. Morgan Investment Management, Inc.
- Nicholas Applegate
- T. Rowe Price

A Manager Search Committee should be formed to make a recommendation to the SBI for the March 1996 meeting. SBI staff will manage the assets until the portfolio is transferred to the new manager.

RECOMMENDATION:

The IAC recommends that a Manager Search Committee be convened to interview the firms listed in this addendum for a semi-passive bond mandate.

2. International Manager Committee (Tab F) - Change in Action Item #2

The Committee Report states that staff expected to bring additional information on two emerging markets managers to the IAC meeting which could affect the list of managers recommended at finalists.

After discussion at the IAC, the list was modified to include the following six (6) firms:

More active: Capital International, City of London, Genesis, Montgomery
More structured: Boston International, JP Morgan

RECOMMENDATION:

The IAC recommends that a Manager Search Committee be convened to make recommendations to the SBI concerning the retention of emerging markets specialists for the SBI's emerging markets allocation. The Search Committee should consider the firms listed in this addendum as finalists for the search.

COMMITTEE REPORT

DATE: December 18, 1995

TO: Members, State Board Investment

FROM: Proxy Committee

At the State Board of Investment (SBI) meeting on October 10, 1995, the Chair of the Proxy Committee gave a verbal report to the Board concerning a request it had received from Mr. Mike Ravnitzky, a private citizen, concerning the SBI's policy regarding investments in tobacco related companies. At that time, the Chair indicated that the Committee had met with Mr. Ravnitzky and other individuals and had requested additional background information before making a further report to the Board.

Background

On September 26, 1995, the Committee met with Mr. Ravnitzky; Dr. Tracy Toomey, Director of Epidemiology, University of Minnesota; and Dr. Stuart Hanson, President, Park Nicollet Medical Foundation. The three presented information on the health effects of tobacco and asked that the SBI review its current policy concerning tobacco holdings.

At the Committee's request, staff gathered research reports on tobacco stocks. The reports generally conclude that the potential for adverse claims against tobacco companies have already been factored into the current market price of these stocks. (Attachment A.)

Current Directive to the Proxy Committee

When the Board voted to lift the restriction in March 1993, the SBI also accepted a report from the Proxy Committee which recommended that "SBI direct the Proxy Committee where feasible, to sponsor, co-sponsor and support shareholder resolutions that call for a company to reduce its involvement in liquor and tobacco production, product marketing and other related lines of business in order to diversify its business in a manner that will reduce or eliminate potential liability to legal claims associated with liquor and tobacco that may negatively impact the value of the SBI's holdings."

Recent Voting Activity by the Committee

The Proxy Committee reviewed the record over the last calendar year and determined that it voted on 15 tobacco-related shareholder resolutions during 1995. The SBI voted to support resolutions calling for the development of guidelines for accepting cigarette ads, the development of reports on manipulation of nicotine content, placement of warning labels on tobacco product logos, assistance to convert tobacco farms to other crops, and sale of tobacco business.

Preliminary information on the 1996 proxy season indicates that the SBI will have the opportunity to vote on several similar resolutions during the next year. The above directive will continue to guide the votes on those resolutions.

In addition, the Proxy Committee has agreed to co-sponsor a shareholder resolution submitted to Albertson's, a leading Western states grocery store chain, at its annual meeting in December 1995. The resolution calls for the company to take specific action to eliminate cigarette sales to youth in its outlets. (**Attachment B.**)

The Committee plans to co-sponsor additional resolutions on tobacco-related issues for the 1997 proxy season. Efforts to identify other co-sponsorship opportunities will intensify during the summer months in anticipation of filing deadlines in the last quarter of calendar 1996.

Conclusion

The Committee believes that it is taking appropriate action to carry out the SBI's directive of March 1993 concerning tobacco holdings and recommends no change in the policy at this time.

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

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

Executive Director:

Howard J. Bicker

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

*An Equal Opportunity
Employer*

DATE: November 29, 1995

TO: Members, Proxy Committee

FROM: Jim Heidelberg

SUBJECT: Tobacco Industry Research Reports

The following are some highlights taken from recent tobacco industry research reports prepared by various investment industry analysts. The company comments are in no particular order.

1. **Sanford Bernstein:** July 21, 1995 research memorandum concludes that the analysts "prefer Philip Morris to UST, given the former's better international growth prospects, higher quality of earnings (volume, not pricing), and a stock price that already incorporates litigation risk." August 3, 1995 research memorandum concludes that "We point out that valuations already incorporate a very hefty discount for litigation risk; adding potential FDA legislative risk, which similarly shortens the life of tobacco's cash flow stream, shouldn't add incrementally to this discount." In this research memo the analysts reiterate their conclusion to buy Philip Morris and RJR. Their overall opinion of court actions is that they will be favorable to the tobacco industry.
2. **Goldman Sachs:** June 8, 1995 research memorandum recommends purchase of Philip Morris and RJR. Philip Morris seen as "offering good potential for P/E improvement." Sum-of-the-parts analysis of RJR "suggests that tobacco operations are deeply discounted." In the same report, the analysts conclude that "significant new restrictive legislation is highly unlikely before next year's presidential election." They further observe that "we have been strongly encouraged by virtually every major legal development that has transpired" since several class action lawsuits against tobacco companies were certified by state and federal courts.
3. **Dean Witter:** July 20, 1995 research memorandum on Philip Morris maintains a buy recommendation on the stock. The memo also concludes that "Investment in tobacco stocks, however, should be restricted to higher-risk portfolios, in our view, because of the unique attributes associated with the tobacco industry. These include unpredictable litigation developments and potential changes in government regulations." In its July 28, 1995 research report on RJR, the firm finds RJR's second quarter 1995 results "uninspiring" and maintains a neutral rating on RJR. The report concludes that "...due to

the wide variety of tobacco-specific investment concerns (litigation, legislation, FDA and OSHA, among others), we feel that the market will likely continue to penalize tobacco companies that lack strong operating fundamentals.”

4. **Salomon Brothers:** July 18, 1995 research memorandum has a buy recommendation for RJR Nabisco because of “negative value accorded RJR’s domestic tobacco business”. Concerning Philip Morris, the analysis states: “Because of lingering class action risk, we expect Philip Morris to trade in the bottom half of its ten through 17 price/earnings range that prevailed in the 1990-93 time period, when litigation was quiet. Thus, Philip Morris shares can have a 70% variation in any year because of investor psychology related to litigation risk.”
5. **Rodman & Renshaw Inc.:** July 10, 1995 research memorandum recommends buying Philip Morris and RJR and UST, the leading seller of chewing tobacco. The report concludes that “...negative news will likely surface intermittently and impact the tobacco stocks. Such events should provide buying opportunities for those who favor purchasing consistent growth at extremely discounted valuations.” In sum, this analyst remains very positive on litigation: “We continue to believe that as litigation news filters through over the next several months, the propensity will be for favorable news rather than unfavorable.” July 28, 1995 research memorandum of RJR concludes that “The common, under pressure from the rash of antitobacco press in recent days, remains an attractive BUY...”
6. **Brown Brothers Harriman & Co.:** June 21, 1995 research memorandum on Philip Morris recommends buying the stock. The report concludes that “Notwithstanding the ongoing (effectively, permanent) smoking -and-health issue, we view MO (Philip Morris) as a 13%-15% average annual EPS grower (earnings per share) from the estimated 1995 base through 2000...”
7. **Oppenheimer & Co., Inc.:** June 2, 1995 report, “Tobacco Industry Outlook,” concludes that since American Brands sold American Tobacco Company to B.A.T., a British company, “American Brands no longer is exposed to litigation issues, a factor that historically has depressed stock price valuations of domestic tobacco manufacturers.” About Philip Morris which the firm recommends as a “buy”, the report notes that “Litigation fears have caused temporary stock price weakness in the past, creating periodic buying opportunities.” The report also states that “We believe that as concern about the potential threat of litigation dissipates, investors will refocus their attention on the company’s strong earnings visibility.”

8. **Warburg:** In a July 1995 report, "Tobacco Stocks & Markets", this British firm states about tobacco stocks that "In terms of US litigation we conclude the risk is one of share price volatility rather than material cash payments." The report also states that "In general, tobacco earnings are understood to be low growth and high risk but with above average cash generation." The report further observes that "The principal negative concerns are declining cigarette consumption, rising taxation and potential litigation. Product liability litigation has so far been largely a US phenomena, but it has influenced the valuation of tobacco businesses with no material US exposure..."

ALBERTSON'S, INC.

WHEREAS, President Clinton has declared nicotine addiction a *pediatric disease*;

- Each day 3000 children begin smoking regularly; most of these become addicted smokers and nearly 1000 of these will die of diseases caused by smoking;
- More than 4 million children and adolescents smoke cigarettes and 1 million adolescent boys use smokeless tobacco;
- Addiction to nicotine is the most common drug addiction problem among young people today;
- From 1991 to 1994, smoking increased 30 percent among eighth graders and 20 percent among 10th graders;
- Studies show that cigarettes and smokeless tobacco products are routinely sold to minors in violation of state laws by retail outlets;
- The promotional items and catalogues with tobacco product logos and images have proven to be very popular among youth;
- A recent California study found that point-of-purchase advertising or tobacco products was more likely to take place in places closer to schools than not;
- 30 percent of 9th graders who use tobacco report having shoplifted cigarettes;
- Teens purchase the most-heavily advertised cigarettes; these also tend to be highly promoted at point-of-purchase in our stores;
- Federal law requires states to enforce laws prohibiting sales to minors;
- The Attorney General of Massachusetts recently sued three major grocery store chains under the State's Consumer' Protection Law for selling cigarettes to minors and recovered \$77,000 from them;
- In California, unfair business practice actions have been taken against retail businesses for selling cigarettes to minors; Our Company could be held liable for the harm caused to minors to whom we illegally sell tobacco products from our store outlets;
- Tobacco industry-sponsored campaigns to prevent the illegal sale of cigarettes to children have proven to be ineffective in eliminating sales to minors. These include such tobacco industry campaigns as "*It's the Law*" and the *Jaycees Against Youth Smoking Program*;

RESOLVED that shareholders request the Board , to curb illegal sales of tobacco products in our grocery stores, to create a policy with implementation steps to assure shareholders to enforce efforts to curb underage access to cigarettes in our stores.

SUPPORTING STATEMENT

In implementing this policy, the shareholders ask the Board to assure our retailers will:

1. inspect a photo ID of customers for who might be under 18 years of age;
2. eliminate cigarette self-service displays;
3. not sell cigarettes in packages of less than 20 sticks;
4. not carry catalogues or promotional offers for tobacco products or promotional items such as t-shirts, caps, and lighters;
5. not display any advertising for tobacco products other than black and white ads relating to prices charged.

**AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING**

**Monday, March 18, 1996
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul**

- TAB**
- 1. Approval of Minutes of December 12, 1995**

 - 2. Report from the Executive Director (H. Bicker)**
 - A. Quarterly Investment Review (September 30 - December 31, 1995)** **A**
 - B. Portfolio Statistics (December 31, 1995)** **B**
 - C. Administrative Report** **C**
 1. Reports on budget and travel.
 2. Update on 1996 Legislative Session
 3. Approval of contract extension for consultants

 - 3. Reports from Manager Search Committees** **D**
 1. Semi-Passive Bond Manager Search Committee (E. Voss)
 2. Emerging Markets Manager Search Committee (P. Sausen)

 - 4. Reports from the Investment Advisory Council**
 - A. Domestic Manager Committee (D. Bergstrom)** **E**
 1. Review of manager performance.
 2. Results of Semi-Passive Bond Manager Search.
 3. Update on Domestic Equity Manager Meeting on benchmarks.
 4. Recommendation to place a stock manager on probation.
 5. Approval of contract renewals.

 - B. International Manager Committee (D. Veverka)** **F**
 1. Review of manager performance.
 2. Update on asset allocation transition from 10% to 15% international exposure in the Combined Funds.
 3. Update on implementation of currency overlay program.
 4. Approval of contract renewals.
 5. Approval of staff position paper on emerging markets investing.

 - C. Alternative Investment Committee (K. Gudorf)** **G**
 1. Review of current strategy.
 2. Results of a review session with an existing real estate manager, Aetna.
 3. Approval of a new resource manager, Merit Energy, for the Post Retirement Fund.
 4. Approval of a new private equity manager, TCW/Crescent, for the Post Retirement Fund.

**Minutes
Investment Advisory Council
December 12, 1995**

The Investment Advisory Council met on Tuesday, December 12, 1995 at 2:00 P.M. in the State Board of Investment (SBI) Conference Room, 55 Sherburne Avenue, St. Paul.

MEMBERS PRESENT: Gary Austin; John Bohan; Roger Durbahn; Ken Gudorf; Jay Kiedrowski; Han Chin Liu; Judy Mares; Malcolm McDonald; Gary Norstrom; Daralyn Peifer; Patrick Sexton and Jan Yeomans.

MEMBERS ABSENT: Dave Bergstrom; Laura King; Laurie Fiori Hacking; Michael Stutzer and Debbie Veverka.

SBI STAFF: Howard Bicker; Beth Lehman; Jim Heidelberg; John Griebenow; Mark Regal; Karen Vnuk; Debbie Griebenow; Charlene Olson and Lin Nadeau.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Carey Moe; Christie Eller; Jake Manahan; Ed Stuart, Lloyd Belford and John Hagman, REAM; David Thompson and George Jacques, Symmetric Investments, Inc.

Ms. Yeomans called the meeting to order and the minutes of the September 25 and October 9, 1995 meetings 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 September 30, 1995 (Combined Funds 12.7% vs. Inflation 3.5%) and exceeded the median fund (Combined Funds 14.2% vs. Median 13.8%) for the most recent five years. He added that the Combined Funds also outperformed their composite index (Combined 14.2% vs. Composite 13.8%) over the same five year period. He reported that the Basic Funds had exceeded their composite index (Basics 14.2% vs. Composite 13.9%) over the last five years while the Post Fund had underperformed its composite index for the 2.25 year period July 1, 1993 - September 30, 1995 (Post 10.7% vs. Composite 10.8%).

Mr. Bicker reported that the Basic Funds' assets increased 5.9% for the quarter ending September 30, 1995 due to positive investment returns and that the asset mix is basically in-line with policy targets. He said that the Basic Funds had outperformed composite

index for the quarter (Basics 6.5% vs. Composite 6.3%) but had trailed it for the year (Basics 19.8% vs. Composite 20.4%).

Mr. Bicker reported that the Post Retirement Fund had increased in value by 6.3% during the quarter due to positive investment returns and positive net contributions and that the Fund's asset mix was basically in-line with policy weights. He said that total fund had outperformed its composite index for the quarter (Post Fund 6.0% vs. Composite 5.7%) but had underperformed for the year (Post fund 20.1% vs. Composite 20.3%).

Mr. Bicker stated that the domestic stock manager group outperformed for the quarter (Domestic Stocks 9.2% vs. Wilshire 5000 9.1%). He said the international stock manager group had outperformed its target for the quarter (International Stocks 5.2% vs. EAFE Free 4.2%) and added that the bond manager group outperformed its target for the quarter (Bonds 2.1% vs. Lehman Aggregate 2.0%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP 3.0% vs. Composite 2.9%) and year (ARP 15.5% vs. Composite 14.5%). He said that the equity segment of the Assigned Risk Plan (ARP) had underperformed its benchmark for the quarter (Equity segment 7.7% vs. Benchmark 8.0%) and that the bond segment had matched its benchmark for the quarter (both at 1.7%). He concluded his report with the comment that as of September 30, 1995 the SBI was responsible for over \$27 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. He noted that revised meeting dates for calendar year 1996 had been distributed to members. He reported that the SBI's 1995 Annual Report had been circulated for comment and would be available in final form in mid January 1996. He announced that the post retirement benefit increase for fiscal year 1995 is 6.4%, payable to eligible retirees beginning January 1, 1996.

Domestic Manager Committee Report

Mr. Bohan referred members to Tab E of the meeting materials and briefly reviewed stock and bond manager performance for the quarter. He said that five active bond managers had given presentations to the Committee outlining their capability and yield enhancement expectations of investing in below investment grade debt. He said that staff recommends that each of the managers be given the authority to invest up to 10% of their bond portfolios in BB & B rated debt. He added that the Committee concurred with staff's recommendation.

Mr. Bohan reviewed the revised asset allocation targets for the Basic and Post Retirement Funds that had been approved at the October 1995 Board meeting. He stated that implementing these changes will require a move of approximately \$500 million from domestic stocks to international stocks and approximately \$500 million from bonds to international stocks. He noted that approximately \$300 million from domestic stocks will

come from the termination of Lynch and Mayer's contract and that additional funds will be raised from existing active stock managers before the end of the current fiscal year.

Mr. Bohan explained that the fixed income program will fund the asset allocation change by withdrawing amounts from both active and semi-passive managers. He added that staff is proposing that the active manager portion be raised through the termination of TCW as a bond manager. He reminded members that TCW has been a specialty manager for the SBI, investing exclusively in mortgage securities. He noted that the Collateralized Mortgage Obligations (CMO) market has declined significantly recently which raises questions about TCW's future ability to add value in this sector of the bond market. He said that the Committee is also recommending that the benchmark for the bond portfolio managed by IDS be changed from the government and corporate sectors of the Lehman Aggregate to the Lehman Aggregate as a whole. Mr. McDonald moved approval of the Committee's recommendations, as stated in the Committee Report. Mr. Gudorf seconded the motion. Mr. Bicker clarified that the recommendation to terminate TCW is reflective of a change in strategy and is not performance related. He added that the SBI needs to raise funds in this area and is also looking to reduce the number of manager it uses. The motion passed.

Mr. Bicker distributed a memo to members which stated that Fidelity Management Trust Company has given notice that they will resign management of their semi-passive bond portfolio effective January 1, 1996 (Attachment A). Mr. Bicker explained that Fidelity had proposed a substantial fee increase which he felt was unacceptable. He added that rather than letting its contract expire in June 1996, Fidelity had chosen to resign effective January 1, 1996. Mr. Bicker said that staff would like the IAC to consider two options for the management of this portfolio: splitting the assets between the two remaining semi-passive managers or retaining a new semi-passive manager. He stated that if members chose to proceed with a manager search, staff would recommend four firms as finalists. He added that staff is comfortable with either option. In response to a question from Mr. Bohan, Mr. Bicker said that all the finalists had agreed to a fee that is below the new fee requested by Fidelity. Mr. Bohan stated that he preferred hiring another semi-passive bond manager for reasons of diversification. Mr. Bicker said he was also leaning toward hiring a new manager, but that he wanted full discussion from members since the Council had also recently stated that they would like to reduce the number of managers retained.

In response to a question from Ms. Mares, Mr. Bicker stated that the SBI has not wanted to be more than one-third of a managers' assets. He said that if additional funds were dispersed to Goldman and Lincoln, the SBI would still be less than 10% of each firm's assets. Mr. Bicker asked if any members objected to his stance with Fidelity regarding the proposed fee increase and no one voiced any objections. Ms. Mares stated that Fidelity had also approached her previous employer with an increased fee schedule over a year ago and that they had also chosen not to pay the increased fees. She added that she believes Fidelity has made a decision to get out of the institutional side of the business. Ms. Mares noted that she felt Fidelity had provided excellent corporate credit analysis, something that

is not a strength Lincoln and Goldman and so she said she would be in favor of retaining a third manager who had strength in that area.

Mr. Bohan noted that for the last year Fidelity was one of the poorest performing semi-passive managers. Ms. Peifer said she was surprised by the degree of variance between their portfolio and the index and she said she felt the way they were operating strayed from the enhanced index approach they were retained to follow. Mr. Bicker stated that staff had also had discussions with them on that same issue.

Mr. McDonald asked Mr. Bicker's opinion of the manager candidates. Mr. Bicker said that he believes BlackRock has a good track record but that he has some concerns about the recent rapid growth of accounts under management by the firm. He said that Nicholas Applegate has a good track record in active bond management. He stated that J.P. Morgan is currently in the process of developing a semi-passive product and he noted that if they are selected, this will be a new type of account for Morgan to manage. He added that T. Rowe Price had been a finalist in the previous semi-passive manager search. He concluded by stating the importance of additional analysis of the firms by the Search Committee. In response to a question from Mr. McDonald, Mr. Bicker said that Fidelity's portfolio will be managed by SBI staff until a new manager is retained. Mr. Bohan made a motion to form a search committee for an additional enhanced index manager. Mr. McDonald seconded the motion. Mr. Bicker clarified that the motion includes conducting the search from the four firms listed as finalists, as listed in **Attachment A**. The motion passed.

International Manager Committee Report

Mr. Kiedrowski referred members to Tab F of the meeting materials and briefly reviewed the managers' performance. He stated that the Committee had evaluated various international indices in order to select an appropriate performance standard for the SBI's emerging markets program. He said that after discussing three alternatives, the Committee was recommending that the SBI use the Morgan Stanley Capital International Emerging Markets Free (MSCI EMF) as the performance standard. Mr. Kiedrowski moved approval of the Committee's recommendation but he withdrew his motion after Ms. Yeomans suggested that the benchmark and emerging markets finalists could be combined into one motion.

Mr. Bicker stated that staff had narrowed the list of emerging market candidates to nine firms for the Committee to consider. He said that the Committee had initially recommended five firms and had suggested that organizational issues with two other firms should be answered before considering those two firms as finalists. Mr. Bicker said that the questions had been resolved and that staff was recommending that the two firms be included as a finalist at this time. Mr. Bicker and Mr. Kiedrowski both stated that staff and the Committee felt that having six finalists was appropriate and Mr. Kiedrowski restated the Committee's preference to avoid significant external manager expansion. Mr. Bicker stated that staff was recommending the retention of 2-4 managers while most members of the Committee were recommending that 2 managers be retained. He said that

the number of managers would depend on the mix of managers selected and the amount of assets the SBI would be deploying into emerging markets. He added that it could take a considerable period of time to get the assets invested in the emerging markets.

In response to questions from Ms. Mares, Mr. Kiedrowski and Mr. Bicker confirmed that the emerging markets allocation would be phased in and that the phase-in period would depend on who is hired and by the time table the managers and the SBI feel is most appropriate. Mr. Bicker emphasized that the SBI is not interested in forcing these assets into the market place in an aggressive manner. Mr. Kiedrowski moved approval of the Committee's recommendations to convene a Search Committee to choose emerging markets managers from the list of six firms (Boston International, Capital International, City of London, Genesis Asset Managers, J.P. Morgan and Montgomery Asset Management) and to use the MSCI EMF index as the benchmark. Mr. McDonald seconded the motion. The motion passed. In response to a question from Mr. Norstrom, Ms. Lehman clarified that Malaysia is included in the EAFE Index and that those holdings were not included in the information reported on page 4 of the Committee Report. In response to a question from Ms. Mares, Mr. Bicker confirmed that the emerging markets benchmark would be phased-in as the assets are invested.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab G of the meeting materials and stated that the Committee had four recommendations, three involving investments with existing managers (First Reserve, Zell/Merrill Lynch and ChiCorp) and one investment with a new manager (Hyperion/Equitable). He briefly described the First Reserve and Zell/Merrill Lynch funds and their investment strategies. In response to a question from Ms. Yeomans, Mr. Gudorf and Mr. Bicker stated that they were not aware of any significant changes at the Zell real estate organization. Mr. Bicker noted, however, that one individual had left the Zell/Chilmark Fund recently. Mr. Gudorf continued by describing the investment with ChiCorp Management in Banc Fund IV. In response to a question from Ms. Mares, Mr. Bicker confirmed that ChiCorp's fee structure is consistent with their other funds and that for a large investor like the SBI, their fee structure will be beneficial. In response to a question from Mr. Bohan, Mr. Gudorf said that the funds associated with the first three recommendations are expected to result in returns in the mid-teens. He said that the investment with Hyperion is expected to return 300-400 basis points over Treasuries, with an opportunity to potentially add another 200 basis points from capital gains. Mr. Bicker and Mr. Gudorf briefly explained the Hyperion Fund and its strategy. Mr. Norstrom moved approval of all four of the Committee's recommendations, as stated in the Committee Report. Mr. Liu seconded the motion. In response to a question from Ms. Mares, both Mr. Gudorf and Mr. McDonald stated that they believe there are still attractive opportunities for the Zell organization in real estate. Mr. Bicker added that he believes there are still "distress" situations due to the fact that Japanese investors are now looking to sell many of their real estate holdings. Mr. McDonald added that Mr. Zell has also been successful at restructuring his lease agreements with tenants using values closer to replacement value. In response to a question from Ms. Peifer, Mr. Bohan stated that he believes the Japanese situation would be a key factor in evaluating any future investments

with the Zell group. Mr. Gudorf noted that he approves of Zell's exit strategy of setting up a real estate investment trust (REIT). The motion passed.

Ms. Yeomans stated that committee assignments for new members of the IAC had been determined. She stated that Ms. Mares and Mr. Sexton would serve on the Alternative Investment Committee, that Mr. Liu would join the International Manager Committee and that Mr. Durbahn would be assigned to the Domestic Manager Committee.

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

**MINNESOTA
STATE
BOARD OF
INVESTMENT**



Board Members:

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

Executive Director:

Howard J. Bicker

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

*An Equal Opportunity
Employer*

DATE: December 11, 1996

TO: Members, Investment Advisory Council

FROM: Howard Bicker *HB*

SUBJECT: Resignation of Semi-Passive Bond Manager

Fidelity Management Trust Company has given notice that they will resign management their semi-passive bond portfolio effective January 1, 1996.

Staff suggests that the IAC consider two options for the management of this portfolio:

- Split the assets between the remaining two semi-passive bond managers, Goldman Sachs Asset Management and Lincoln Capital Management. This would increase each of those portfolios to approximately \$1.9 billion.
- Retain a new enhanced index manager to take over the portfolio. Goldman, Lincoln and the new manager would each have portfolios of approximately \$1.3 billion.

At this time, staff is comfortable with either option. Splitting the portfolio between existing managers would be in keeping with the longer term goal of reducing the number of managers retained by the SBI. On the other hand, a retaining a new manager would still concentrate a large pool of assets with a very small number of managers.

If the SBI proceeds with a manager search, a Manager Search Committee should be convened during the next quarter to make a recommendation to the SBI at its March 1996 meeting. Staff would recommend the following four (4) firms as finalists for the search:

- Blackrock Financial Management
- J.P. Morgan Investment Management, Inc.
- Nicholas Applegate
- T. Rowe Price

The first three managers were identified from candidates within the Manager Monitoring Program and the fourth, T. Rowe Price, is a capable enhanced index manager that the SBI has considered in semi-passive bond manager search in 1993.

I ask that the IAC make a recommendation on this matter at its meeting on December 12, 1995. This recommendation will be forwarded to the SBI at their meeting on December 20, 1995.

Tab A

RETURN OBJECTIVES
Period Ending 12/31/95

COMBINED FUNDS: \$23.6 Billion	Return	Compared to Objective
<p>Provide Real Return (10 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over moving 10 year periods.</p>	11.9% (1)	8.4 percentage points above target
<p>Exceed Median Fund (5 yr.)</p> <p>Outperform the median fund from a universe of public and corporate funds with a balanced asset mix over moving 5 year periods.</p>	13.6% (1)	0.1 percentage points above target Rank: 45th percentile (2)
<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 moving 5 year periods.</p>	13.6% (1)	0.3 percentage points above target

BASIC RETIREMENT FUNDS: \$12.3 Billion	Return	Compared to Objective
<p>Exceed Composite Index (5 Yr.)</p> <p>Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over moving 5 year periods.</p>	13.6%	0.3 percentage points above target

POST RETIREMENT FUND: \$11.2 Billion	Return	Compared to Objective
<p>Exceed Composite Index</p> <p>Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Post Fund over moving 5 year periods.</p>	11.5% (3)	0.1 percentage points below target (3)

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

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

(3) Since asset allocation transition was completed, 7/1/93, annualized.

ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1995

	Active (Basics)	Retired (Post)	Total (Basics & Post)
Liability Measures			
1. Current and Future Benefit Obligation	\$16.9 billion	\$8.0 billion	\$24.9 billion
2. Accrued Liabilities	12.1	8.0	20.1
Asset Measures			
3. Current and Future Actuarial Value	\$16.7 billion	\$8.0 billion	\$24.7 billion
4. Current Actuarial Value	8.9	8.0	16.9
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	99%	100%	99%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	74%	100%	84%*

* 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 **83%** for the Basics, **100%** for the Post and **91%** for the Total, respectively.

Notes:

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

Actuarial Assumptions:

Salary Growth: 6.5%

Interest//Discount Rate: 8.5% Basics, 5.0% Post

Full Funding Target Date: 2020

EXECUTIVE SUMMARY
Basic Retirement Funds

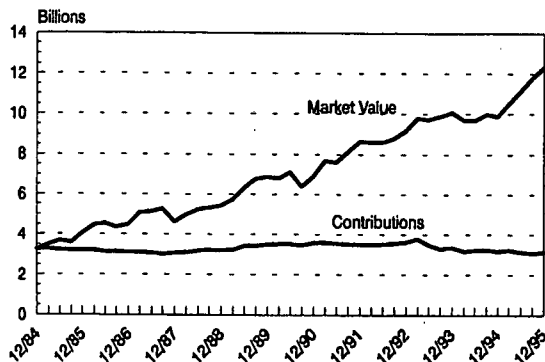
Asset Growth

The market value of the Basic Funds increased 4.7% during the fourth quarter of 1995. Positive net contributions and investment returns accounted for the increase during the period.

Asset Growth
During Fourth Quarter 1995
(Millions)

Beginning Value
 Net Contributions
 Investment Return
 Ending Value

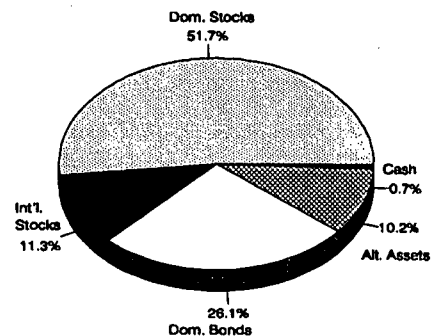
\$11,788
 52
 498
 \$12,338



Asset Mix

Domestic stocks and international stocks are over their policy target. Cash is slightly under the policy target.

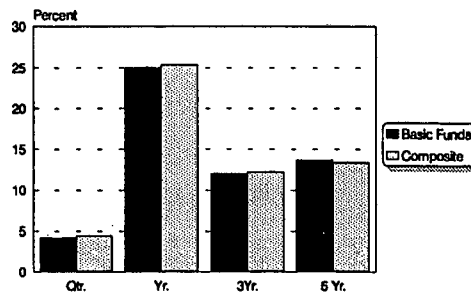
	Policy	Actual	Actual
	Asset	Mix	Market Value
	Mix	12/31/95	(Millions)
Domestic Stocks	50.0%	51.7%	\$6,377
Int'l. Stocks	10.0	11.3	1,394
Bonds	24.0	26.1	3,218
Alternative Assets	15.0	10.2	1,264
Unallocated Cash	1.0	0.7	85
	100.0%	100.0%	\$12,338



Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	4.2%	25.0%	12.0%	13.6%
Composite	4.4	25.3	12.2	13.3



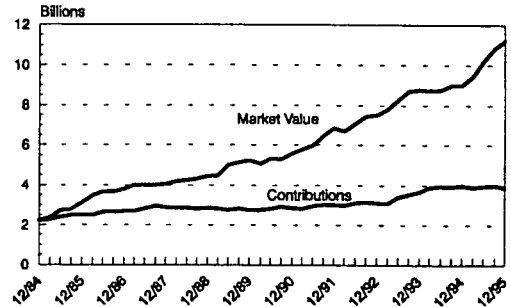
EXECUTIVE SUMMARY
Post Retirement Fund

Asset Growth

The market value of the Post Fund increased 3.3% during the fourth quarter of 1995. The increase resulted from positive investment returns.

Asset Growth
During Fourth Quarter 1995

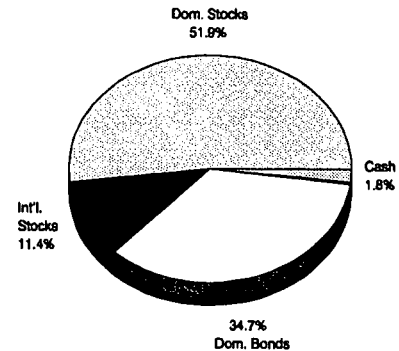
	(Millions)
Beginning Value	\$10,857
Net Contributions	-107
Investment Return	466
Ending Value	\$11,216



Asset Mix

Domestic stocks and international stocks are over the policy target while cash is under.

	Policy Mix	Actual Mix 12/31/95	Actual Market Value (Millions)
Domestic Stocks	50.0%	51.9%	\$5,822
Int'l. Stocks	10.0	11.4	1,274
Bonds	32.0	34.7	3,897
Alternative Assets	5.0	0.2	25
Unallocated Cash	3.0	1.8	198
	100.0%	100.0%	\$11,216



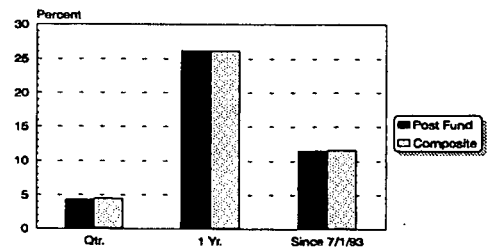
Note: Alt. Assets are 0.2%

Fund Performance

The Post Fund trailed its composite market index for the quarter and matched it for the year.

	Qtr.	1 Yr.	Since 7/1/93*
Post Fund	4.3%	26.1%	11.5%
Composite	4.5	26.1	11.6

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



EXECUTIVE SUMMARY

Stock and Bond Manager Performance

Domestic Stocks

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	4.5%	35.0%	14.1%	16.7%
Wilshire 5000*	4.9	36.5	14.8	17.2

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

	Qtr.	1 Yr.	3 Yr.	Since Incept.*
Int'l. Stocks	4.0%	12.4%	16.9%	14.2%
EAFE-Free	4.1	11.3	16.7	13.9

* since 10/1/92.

Bonds

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	4.2%	18.6%	8.5%	10.0%
Lehman Agg.*	4.3	18.5	8.2	9.6

* Prior to July 1, 1994, 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.

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.

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.

EXECUTIVE SUMMARY

Assigned Risk Plan

Investment Objectives

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

Asset Mix

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

	12/31/95 Target	12/31/95 Actual
Stocks	20.0%	23.6%
Bonds	80.0	76.2
Unallocated Cash	0.0	0.2
Total	100.0%	100.0%

Investment Management

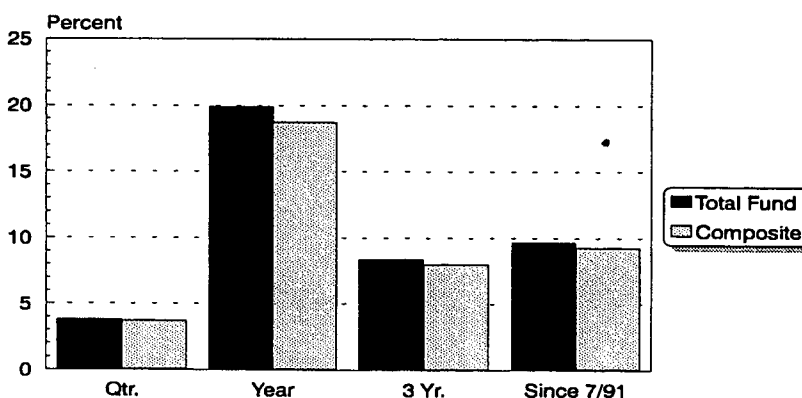
Voyageur Asset Management has managed the bond segment of the Fund since inception while GE Investment Management has managed the equity segment since 1/95. The entire portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991.

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 asset allocation targets.

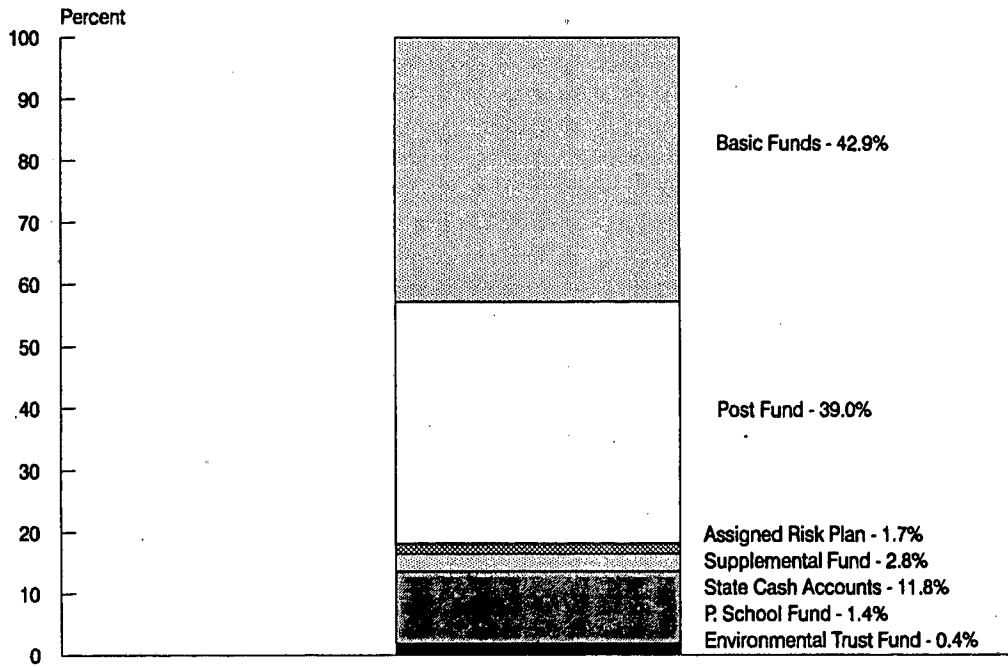
Market Value

On December 31, 1995 the market value of the Assigned Risk Plan was \$546 million.

**Period Ending 12/31/95**

	Qtr.	Yr.	3 Yr.	Since 7/1/91
Total Fund	3.8%	19.9%	8.4%	9.7%
Composite Index	3.7	18.7	8.0	9.3
Equity Segment	5.4	36.1	9.9	12.1
Benchmark	6.0	37.6	11.4	13.1
Bond Segment	3.4	15.7	7.6	9.0
Benchmark	3.2	14.4	7.0	8.3

EXECUTIVE SUMMARY
Funds Under Management



12/31/95
Market Value
(Billions)

Basic Retirement Funds	\$12.3
Post Retirement Fund	11.2
Assigned Risk Plan	0.5
Supplemental Investment Fund	0.8
State Cash Accounts	3.4
Permanent School Fund	0.4
Environmental Trust Fund	0.1
Total	\$28.7

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Fourth Quarter 1995

(October 1, 1995 — December 31, 1995)

Table of Contents

	Page
Capital Market Indices.....	2
Financial Markets Review.....	3
Combined Funds.....	5
Basic Retirement Funds.....	8
Post Retirement Fund.....	11
Stock and Bond Manager Pools.....	14
Alternative Asset Pools.....	15
Assigned Risk Plan.....	16
Supplemental Investment Fund.....	17
Fund Description	
Income Share Account	
Growth Share Account	
Common Stock Index Account	
International Share Account	
Bond Market Account	
Money Market Account	
Fixed Return Account	
Permanent School Trust Fund.....	25
Environmental Trust Fund.....	26
State Cash Accounts.....	27

VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/95				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	4.9%	36.5%	14.9%	17.3%	14.2%
Dow Jones Industrials	7.5	36.9	18.9	17.6	16.5
S&P 500	6.0	37.6	15.4	16.6	14.8
Russell 2000	2.2	28.4	14.5	21.0	11.3
Domestic Fixed Income					
Lehman Aggregate	4.3	18.5	8.1	9.5	9.6
Lehman Gov't./Corp.	4.7	19.2	8.5	9.8	9.7
90 Day U.S. Treasury Bills	1.4	5.7	4.3	4.5	5.9
International					
EAFE**	4.1	11.2	16.7	9.4	13.6
Emerging Markets Free***	-1.4	-5.2	15.4	22.3	N/A
Salomon Non U.S. Gov't. Bond	2.1	19.6	13.4	12.2	13.9
Inflation Measure					
Consumer Price Index****	0.3	2.6	2.7	2.8	3.5

* Lehman Brothers Aggregate Bond index

** 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

For the quarter, the stock market generated strong positive returns. The increase was due to a number of factors: 1) the Federal Reserve reducing interest rates in July; 2) continuing low inflation; 3) good earning reports; and 4) positive cashflows into equity mutual funds. All these factors created a strong overall equity market causing all sectors of the market except technology to record positive returns. The top performing sector was energy (10.4%) and the weakest sector was technology (-1.6%).

The Wilshire 5000 provided a 4.9% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter are shown below:

Large Value	7.2%
Small Value	4.7
Large Growth	4.4
Small Growth	0.4

The Wilshire 5000 increased 36.5% during the latest year.

DOMESTIC BONDS

Returns for the quarter were high as interest rates fell. It appears that the economy is slowing, making inflation less of a threat. In that environment, investors are more willing to buy bonds, which contributes to a decline in interest rates. The yield curve steepened with two year rates declining 0.7% and long rates declining 0.6%.

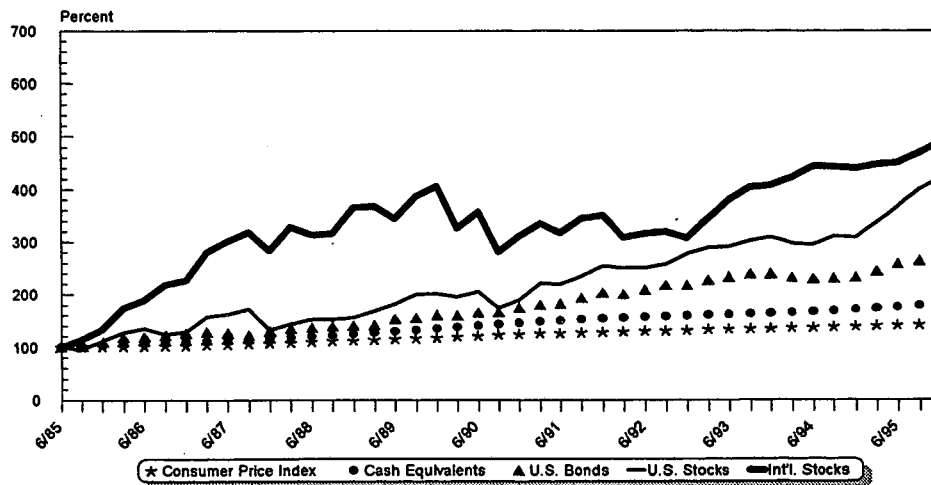
Overall, the Lehman Brothers Aggregate Bond Index increased 4.3% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	4.6%
Corporates	4.9
Mortgages	3.3

The Lehman Aggregate increased 18.5% for the latest year.

PERFORMANCE OF CAPITAL MARKETS

Cumulative Returns



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

FINANCIAL MARKETS REVIEW**INTERNATIONAL STOCKS**

In aggregate, the international stock markets (as measured by the EAFE index) provided a return of 4.1% for the quarter. As shown below, performance varied widely among the major markets:

Japan	5.1%
United Kingdom	3.2
Germany	2.3
France	5.6

The EAFE index increased by 11.2% during the latest year. The index is compiled by Morgan Stanley Capital International and is a measure of 20 markets located in Europe, Australia and the Far East (EAFE). The major markets listed above comprise about 75% of the value of the international markets in the index.

REAL ESTATE

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

PRIVATE EQUITY

According to the *Private Equity Analyst*, "total commitments to private equity partnerships of all kinds soared 29% in 1995 to \$27.2 billion. That's a new record, surpassing the previous peak of \$21.1 billion set in 1994." So far, 1996 looks to be another strong year for commitments to private equity partnerships.

RESOURCE FUNDS

Crude oil prices averaged \$17.67 per barrel during the quarter compared to \$17.17 per barrel a year earlier. Natural gas prices were weak during the quarter averaging \$1.60 per thousand cubic feet versus \$1.60 per thousand cubic feet a year earlier.

COMBINED FUNDS

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

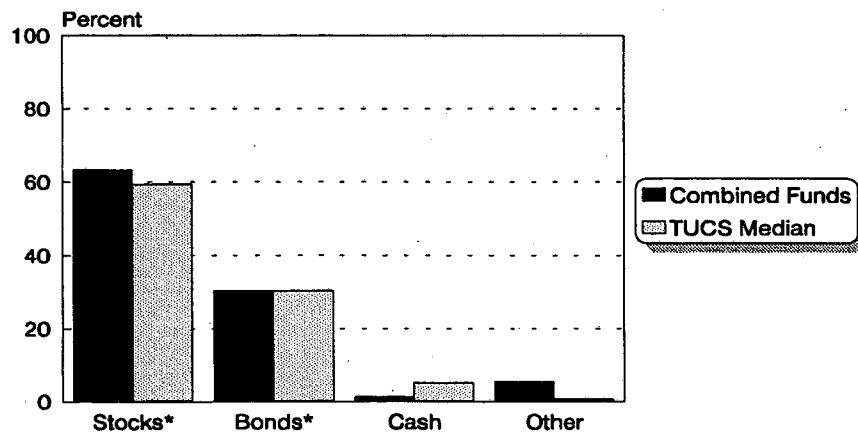
The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Asset Mix Compared to Other Pension Funds

On December 31, 1995, the actual asset mix of the Combined Funds was:

Comparisons of the Combined Funds' asset mix to the median allocation to stocks, bond and other assets of the public and corporate funds in TUCS on December 31, 1995 are shown below:

	\$ Millions	%
Domestic Stocks	\$12,199	51.8%
International Stocks	2,668	11.3
Bonds	7,115	30.2
Alternative Assets	1,289	5.5
Unallocated Cash	283	1.2
Total	\$23,554	100.0%



	Stocks*	Bonds*	Cash	Other
Combined Funds	63.1%	30.2%	1.2%	5.5%
Median Allocation in TUCS	59.2	30.2	5.1	0.7

* Both domestic and international.

COMBINED FUNDS
Performance Compared to Other Pension Funds

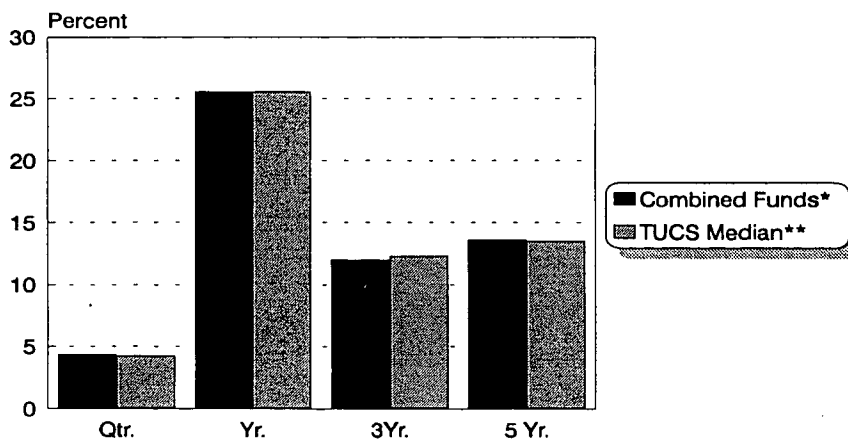
While the SBI is naturally concerned with how its returns compare to other pension investors, universe comparison data should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

- **Differing Treatment of Fees.** All SBI returns in this report are shown *after* all management fees while TUCS data is reported *before* fees. If the SBI reported returns before fees, its returns and rankings would be *higher* than those shown in this report.
- **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison.

In addition, it appears that many funds do not include alternative asset holdings in their reports to TUCS. This further distorts comparisons among funds.

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

With these considerations in mind, the performance of the Combined Funds compared to other public and corporate pension funds in TUCS are shown below:



Period Ending 12/31/95

	Annualized			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Return*	4.3%	25.5%	12.0%	13.6%
TUCS Median Fund Return**	4.2	25.5	12.3	13.5
Percentile Rank in TUCS	46th	49th	62nd	45th

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

The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent

five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).

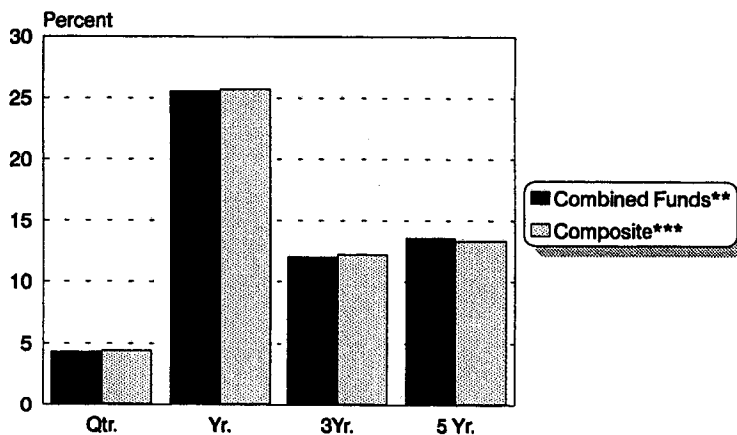
COMBINED FUNDS
Performance Compared to Composite Index

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

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

	Market Index	Combined Index Weights 4Q95
Domestic Stocks	Wilshire 5000	50.0%
Int'l. Stocks	EAFE-Free	10.0
Domestic Bonds	Lehman Aggregate	32.7*
Alternative Assets	Wilshire Real Estate	2.2*
	Venture Capital Funds	2.7*
	Resource Funds	0.4*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

* Alternative asset and bond 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 12/31/95

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	4.3%	25.5%	12.0%	13.6%
Composite Index***	4.4	25.7	12.2	13.3

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

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

BASIC RETIREMENT FUNDS

Investment Objectives

The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 250,000 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

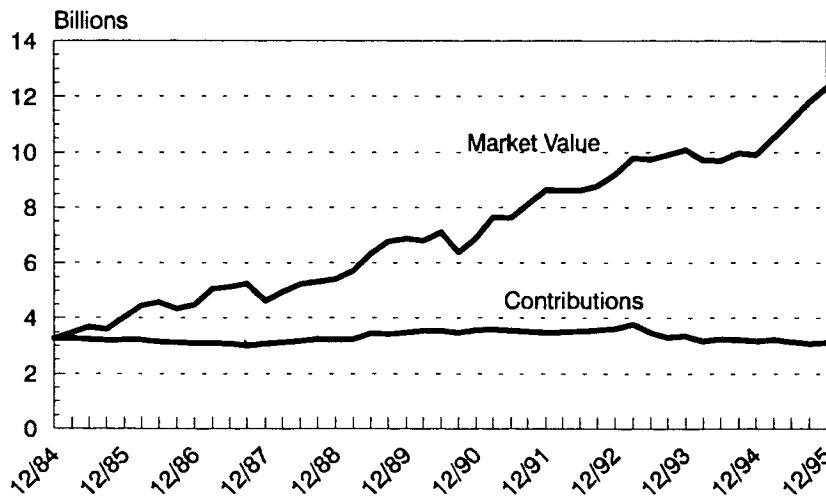
projected pension costs, the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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 4.7% during the fourth quarter of 1995.

Positive net contributions and investment returns accounted for the increase.



	Last Five Years							Latest Qtr.	
	12/90	12/91	12/92	12/93	12/94	3/95	6/95	9/95	12/95
Beginning Value	\$6,875	\$6,919	\$8,639	\$9,191	\$10,086	\$9,890	\$10,508	\$11,129	\$11,788
Net Contributions	91	-92	-34	-239	-206	63	-84	-60	52
Investment Return	-47	1,812	586	1,134	-10	555	705	719	498
Ending Value	\$6,919	\$8,639	\$9,191	\$10,086	\$9,890	\$10,508	\$11,129	\$11,788	\$12,338

BASIC RETIREMENT FUNDS

Asset Mix

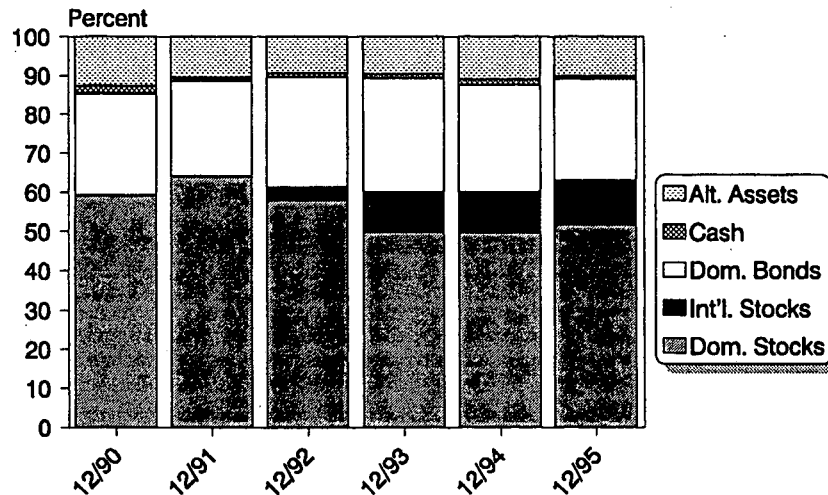
The long-term asset allocation of the Basic Funds is based on the superior performance of common stocks over the history of the capital markets. The asset allocation targets are designed to add value to the Basic Funds over their long-term investment time horizon.

Domestic Stocks	50.0%
Int'l. Stocks	10.0
Domestic Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

The actual asset mix changed from the prior quarter due to market movements and asset repositioning during the transition to revised asset allocation targets.

In October 1995, the Board revised its long term asset allocation targets for the Basic Funds. During the quarter, assets were moved from domestic stocks to international stocks to reflect the new international policy target of 15%.

*Alternative assets include real estate, venture capital and resource funds.



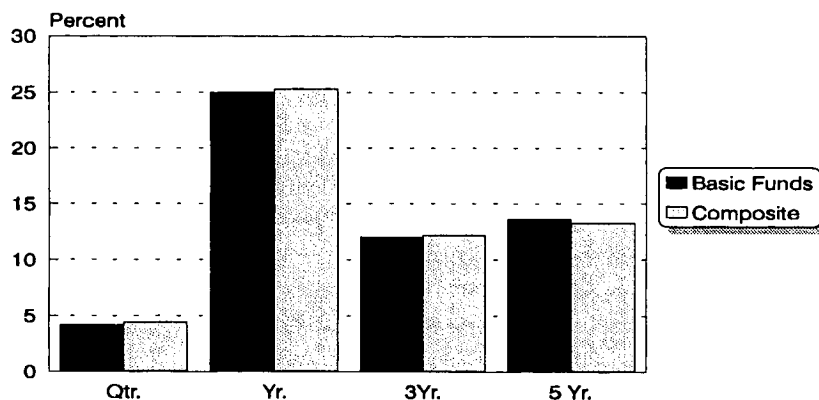
	Last Five Years						Latest Qtr.		
	12/90	12/91	12/92	12/93	12/94	3/95	6/95	9/95	12/95
Domestic Stocks	59.1%	63.9%	57.9%	49.9%	49.7%	49.0%	51.4%	52.8%	51.7%
Int'l. Stocks	0.0	0.0	3.2	10.0	10.3	9.4	9.6	9.6	11.3
Domestic Bonds	26.2	24.7	28.5	29.4	27.5	30.3	27.7	26.3	26.1
Real Estate	7.0	4.8	4.2	4.1	4.6	4.3	4.2	4.2	4.1
Private Equity	4.2	4.7	4.2	4.6	5.6	5.6	5.1	5.5	5.4
Resource Funds	1.5	1.1	1.2	1.1	0.9	0.8	0.9	0.8	0.7
Unallocated Cash	2.0	0.8	0.8	0.9	1.4	0.6	1.1	0.8	0.7
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance

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

	Basics Target	Market Index	Basics Composite 4Q95
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	10.0	EAFE-Free	10.0
Domestic Bonds	24.0	Lehman Aggregate	28.8*
Alternative Assets	15.0	Wilshire Real Estate Private Equity Funds Resource Funds	4.2* 5.2* 0.8*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

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



Period Ending 12/31/95

	Annualized			
	Qtr.	Yr.	3 Yr.	5 Yr.
Basic Funds	4.2%	25.0%	12.0%	13.6%
Composite Index**	4.4	25.3	12.2	13.3

**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 stock, domestic bond and international stock managers. See page 14 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 60,000 retirees receive monthly annuities from the assets of the Fund.

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

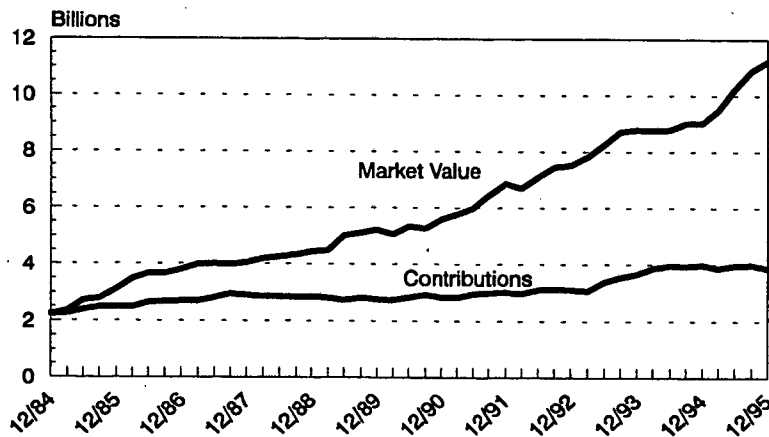
Through fiscal year 1992, unrealized capital gains (or losses) were excluded from the statutory definition of earnings. For this reason the Post Fund previously was not designed to maximize long-term total rates of return. Rather, the SBI attempted to generate a high, consistent stream of realized earnings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

Beginning in fiscal year 1993, the post retirement benefit increase formula is based on total return rather than realized earnings. As a result, the Board has adopted a new long-term asset allocation strategy for the Post Fund which incorporates a substantial commitment to common stocks. The transition to the new asset allocation strategy was completed by the start of fiscal year 1994 (7/1/93).

Asset Growth

The market value of the Post Retirement Fund increased by 3.3% during the fourth quarter of 1995.

The increase was due to positive investment returns.



	In Millions								Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95	6/95	9/95	12/95
Beginning Value	\$5,238	\$5,590	\$6,855	\$7,500	\$8,766	\$9,001	\$9,460	\$10,216	\$10,857
Net Contributions	88	162	95	386	314	-100	79	26	-107
Investment Return	264	1,103	550	880	-79	559	677	615	466
Ending Value	\$5,590	\$6,855	\$7,500	\$8,766	\$9,001	\$9,460	\$10,216	\$10,857	\$11,216

POST RETIREMENT FUND
Asset Mix

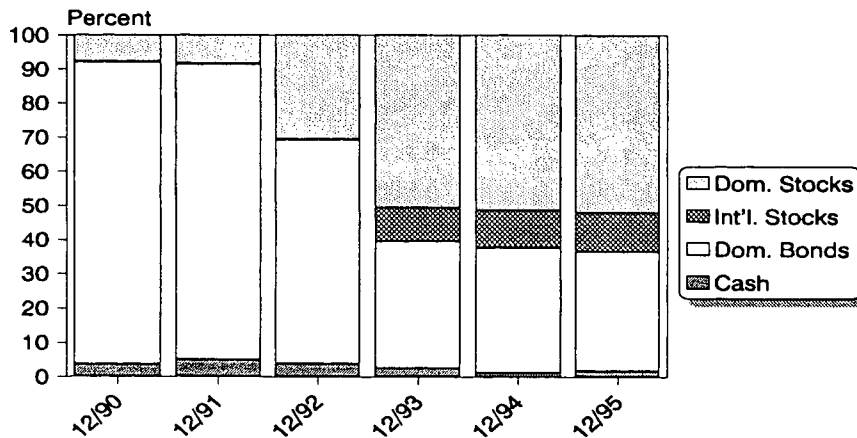
The Board adopted a new asset allocation strategy for the Post Fund in fiscal year 1993 which reflects the new post retirement benefit increase formula recently enacted by the Legislature. Throughout fiscal year 1993, the actual asset mix of the Post Fund moved toward a 50% allocation to common stocks.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

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

Funding for alternative assets began first quarter 1994. The allocation in domestic stocks, international stocks and domestic bonds changed from the prior quarter due to market movements and asset repositioning.

In October 1995, the Board revised its long term asset allocation targets for the Post Fund. During the quarter, assets were moved from domestic stocks to international stocks to reflect the new international policy target of 15%.

Domestic Stocks	50.0%
Int'l. Stocks	10.0
Domestic Bonds	32.0
Alternative Assets	5.0
Unallocated Cash	3.0
Total	100.0%



Note: Alt. Investments are 0.2% beginning 12/94.

	Last Five years								Latest Qtr.
	12/90	12/91	12/92	12/93	12/94	3/95	6/95	9/95	12/95
Dom. Stocks	7.9%	8.5%	30.6%	50.5%	51.2%	54.9%	51.3%	52.8%	51.9%
Int'l. Stocks	0.0	0.0	0.0	10.0	11.0	10.6	9.7	9.6	11.4
Dom. Bonds	88.5	80.0	65.6	36.9	36.5	33.0	35.3	34.4	34.7
Alt. Assets	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2
Unallocated Cash	3.6	5.0	3.8	2.6	1.2	1.4	3.6	3.0	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

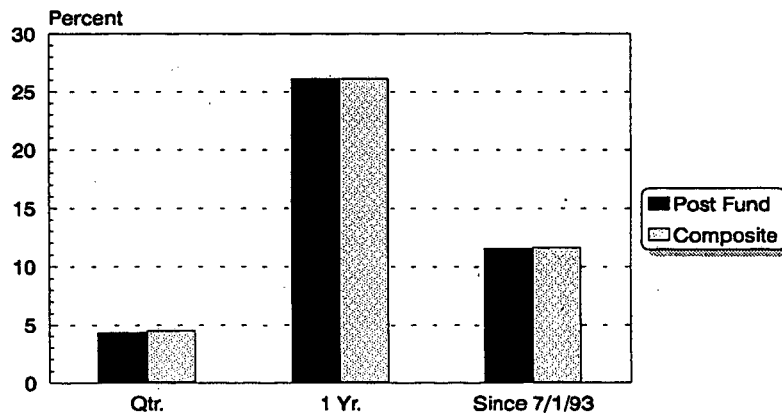
**POST RETIREMENT FUND
Total Fund Performance**

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

Asset Class	Post Target	Market Index	Post Composite 4Q95
Domestic Stocks	50%	Wilshire 5000	50.0%
Int'l. Stocks	10	EAFE-Free	10.0
Domestic Bonds	32	Lehman Aggregate	37.0*
Alternative Assets	5	---	0.0*
Unallocated Cash	3	91 Day T-Bills	3.0
	100%		100.0%

* Until the alternative asset allocation is fully funded, the composite will be overweighted in bonds.

The asset mix of the Post Fund was moved toward a 50% stock allocation during fiscal year 1993 and in fiscal year 1994, a 10% international stock allocation was added. The performance of the fund since 7/1/93 is shown below.



	Qtr.	1 Yr.	Since 7/1/93
Post Fund	4.3%	26.1%	11.5%
Composite Index	4.5	26.1	11.6

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, domestic bond and international stock managers. See page 14 for the performance of these asset pools.

STOCK AND BOND MANAGERS
Performance of Asset Pools

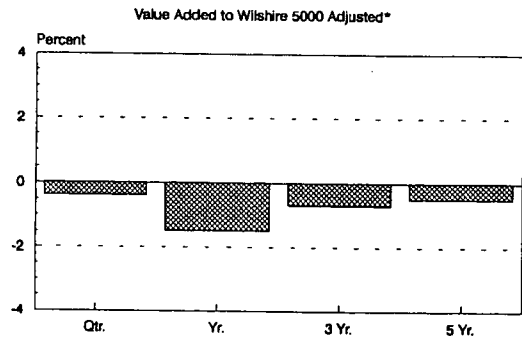
Domestic Stock Pool

Target: Wilshire 5000 Adjusted*

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Stock Pool	4.5%	35.0%	14.1%	16.7%
Wilshire 5000*	4.9	36.5	14.8	17.2

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



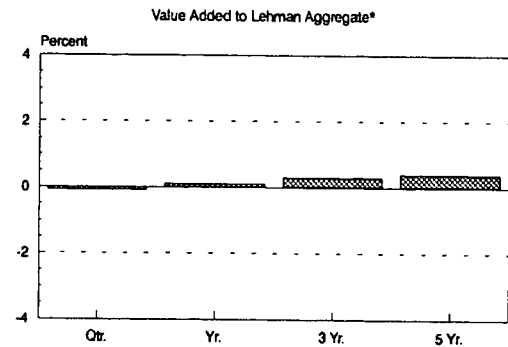
Domestic Bond Pool

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	4.2%	18.6%	8.5%	10.0%
Lehman Aggregate*	4.3	18.5	8.2	9.6

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

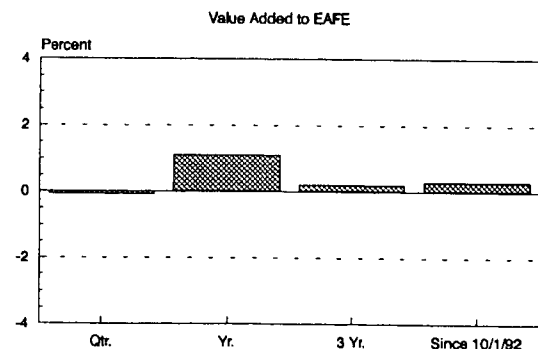


International Stock Pool

Target: EAFE-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.	3 Yr.	Since 10/1/92
Int'l. Pool	4.0%	12.4%	16.9%	14.2%
EAFE-Free	4.1	11.3	16.7	13.9



ALTERNATIVE ASSET MANAGERS
Performance of Asset Pools

Real Estate Pool (Basic Funds only)

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

The Wilshire Real Estate Index contains returns of 30 commingled funds. The index does not include returns from funds that are less than 3 years old or are not fully invested.

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Real Estate	-2.3%	6.9%	2.1%	-2.1%
Real Estate Index	-2.3	1.1	0.6	-3.6
Inflation	0.3	2.6	2.7	2.8

Private Equity Pool (Basic Funds only)

Expectation: Private equity investments (primarily venture capital) 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 venture capital programs in the mid-1980's. Some of the investments, therefore, are relatively immature and returns may not be indicative of future results.

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Private Equity	7.2%	14.9%	16.0%	16.4%

Resource Pool (Basic Funds only)

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

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Resource Funds	1.9%	15.6%	8.2%	8.5%

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.

	12/31/95 Target	12/31/95 Actual
Stocks	20.0%	23.6%
Bonds	80.0	76.2
Unallocated Cash	0.0	0.2
	100.0%	100.0%

Investment Management

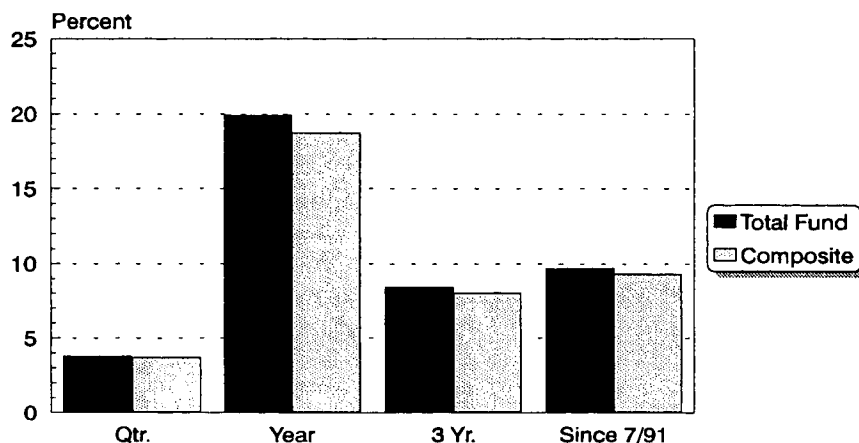
Voyageur Asset Management has managed the bond segment of the Fund since inception while GE Investment Management has managed the equity segment since 1/95. The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991.

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 asset allocation target.

Market Value

On December 31, 1995 the market value of the Assigned Risk Plan was \$546 million.



	Period Ending 12/31/95			
	Qtr.	Yr.	3 Yr.	Since 7/1/91
Total Account	3.8%	19.9%	8.4%	9.7%
Composite	3.7	18.7	8.0	9.3
Equity Segment	5.4	36.1	9.9	12.1
Benchmark	6.0	37.6	11.4	13.1
Bond Segment	3.4	15.7	7.6	9.0
Benchmark	3.2	14.4	7.0	8.3

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 December 31, 1995 the market value of the entire fund was \$751 million.

Investment Options

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

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

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

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

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

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

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

SUPPLEMENTAL INVESTMENT FUND
Income Share Account

Investment Objective

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

Asset Mix

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

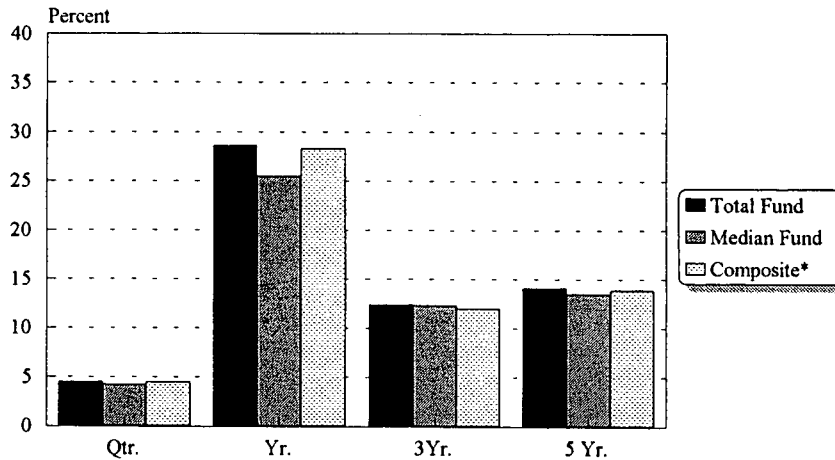
Investment Management

The Account combines internal and external management. Internal investment staff manage the entire fixed income segment. Throughout the period shown below, the entire stock segment has been a passively managed index fund designed to track the Wilshire 5000. Prior to April 1988, a significant portion of the stock segment was actively managed.

Market Value

On December 31, 1995 the market value of the Income Share Account was \$370 million.

	Target	Actual
Stocks	60.0%	59.1%
Bonds	35.0	34.7
Unallocated Cash	5.0	6.2
	100.0%	100.0%



	Period Ending 12/31/95			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	4.5%	28.6%	12.4%	14.1%
Median Fund*	4.2	25.5	12.3	13.5
Composite**	4.5	28.3	12.0	13.9
Equity Segment	4.9	35.2	15.0	17.4
Wilshire 5000***	4.9	36.5	14.8	17.2
Bond Segment	4.3	19.5	8.7	9.8
Lehman Agg.	4.3	18.5	8.2	9.6

*TUCS Median Master Trust

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

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

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

SUPPLEMENTAL INVESTMENT FUND
Growth Share Account

Investment Objective

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

Asset Mix

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

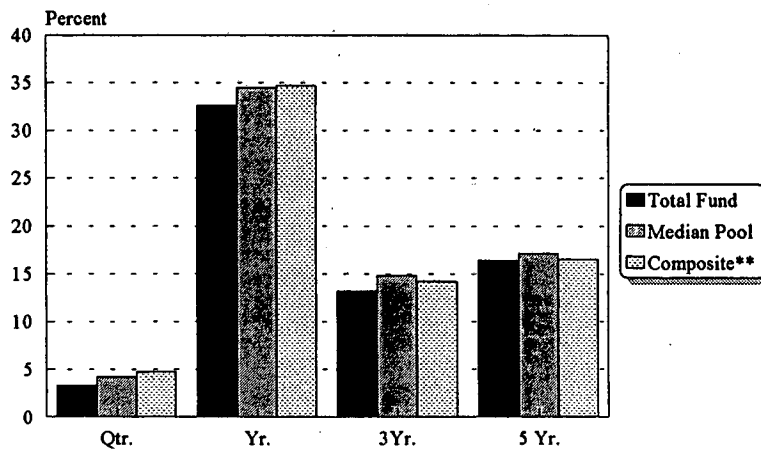
Investment Management

Throughout the period shown below, the entire Account has been managed by the same group of active external stock managers utilized by the Basic and Post Retirement Funds. Prior to April 1988, other active managers controlled a substantial portion of the account.

Market Value

On December 31, 1995 the market value of the Growth Share Account was \$142 million.

	Target	Actual
Stocks	95.0%	94.7%
Unallocated Cash	5.0	5.3
	100.0%	100.0%



Period Ending 12/31/95

	Annualized			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	3.3%	32.6%	13.2%	16.4%
Median Pool*	4.2	34.5	14.8	17.1
Composite**	4.7	34.7	14.2	16.5

* TUCS Median Equity Pool

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

**SUPPLEMENTAL INVESTMENT FUND
Common Stock Index Account**

Investment Objective and Asset Mix

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

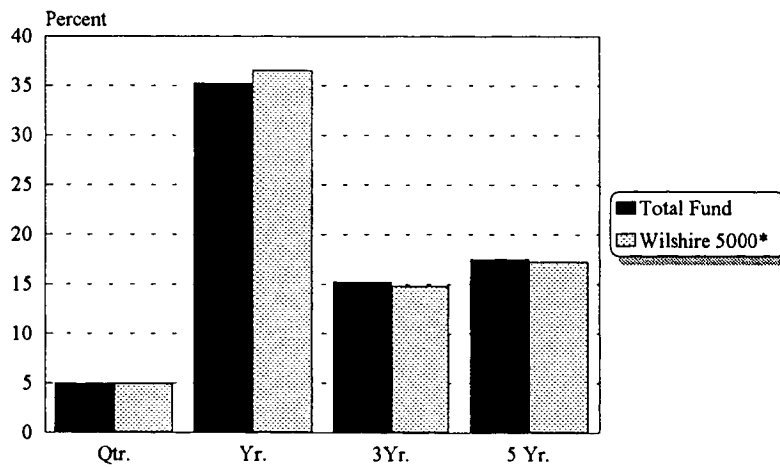
The Account is invested 100% in common stock.

Investment Management

Until July 1995, the entire Account was managed by Wilshire Associates as part of a passively managed index fund. Since July 1995, the Account has been managed by BZW Barclays Global Investors (formerly Wells Fargo Nikko Investment Advisors).

Market Value

On December 31, 1995 the market value of the Common Stock Index Account was \$81 million.



Period Ending 12/31/95
Annualized
Qtr. Yr. 3 Yr. 5 Yr.

Total Account	4.9%	35.2%	15.2%	17.5%
Wilshire 5000*	4.9	36.5	14.8	17.2

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

SUPPLEMENTAL INVESTMENT FUND
International Share Account

Investment Objective and Asset Mix

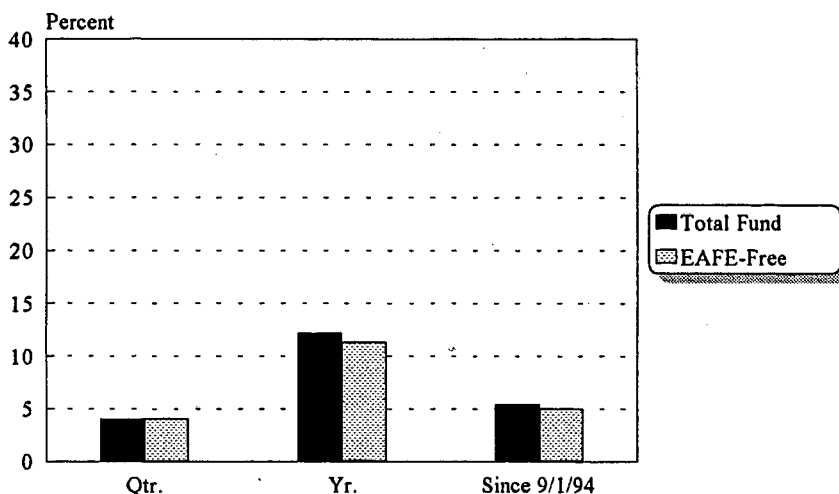
The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International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

Investment Management

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

Market Value

On December 31, 1995 the market value of the International Share Account was \$11 million.



	Period Ending 12/31/95		
	Qtr.	Yr.	Since 9/1/94
Total Account	4.0%	12.2%	5.4%
EAFE Free	4.1	11.3	5.0

SUPPLEMENTAL INVESTMENT FUND
Bond Market Account

Investment Objective

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

Asset Mix

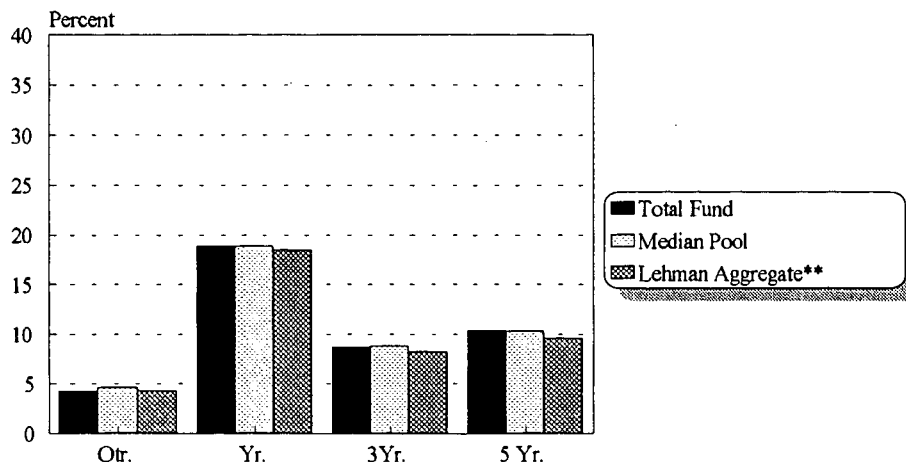
The Bond Market Account invests primarily in high-quality, government and corporate bonds that have intermediate to long-term maturities, usually 3 to 20 years.

Investment Management

The entire Account is managed by the same group of active external bond managers utilized by the Basic and Post Retirement Funds.

Market Value

On December 31, 1995 the market value of the Bond Market Account was \$25 million.



Period Ending 12/31/95
Annualized
Qtr. Yr. 3 Yr. 5 Yr.

Total Account	4.2%	18.9%	8.7%	10.4%
Median Pool*	4.6	18.9	8.8	10.3
Lehman Aggregate**	4.3	18.5	8.2	9.6

* TUCS Median Fixed Income Pool

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

SUPPLEMENTAL INVESTMENT FUND
Money Market Account

Investment Objective

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

Asset Mix

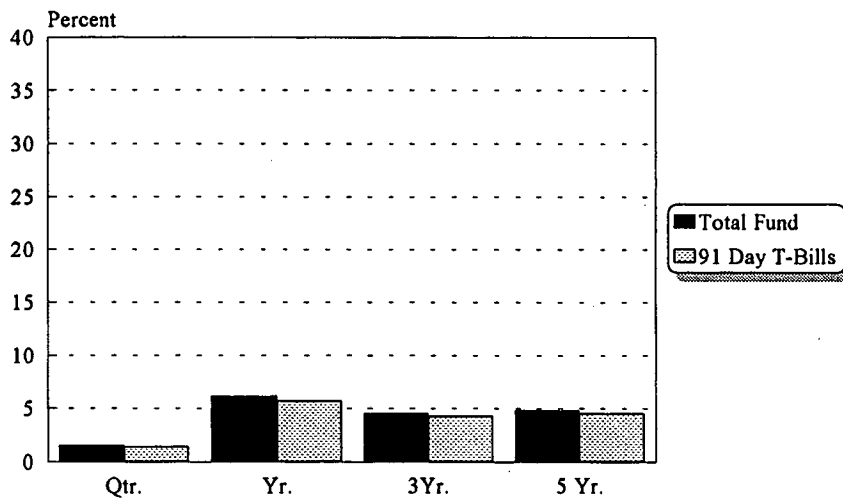
The Money Market Account is invested entirely in high quality short-term investments such as U.S. Treasury Bills, bank certificates of deposit, repurchase agreements, and high grade commercial paper. The average maturity of these investments is 30 to 60 days.

Investment Management

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

Market Value

On December 31, 1995 the market value of the Money Market Account was \$53 million.



Period Ending 12/31/95

Annualized

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	1.5%	6.1%	4.5%	4.8%
91 Day T-Bills	1.4	5.7	4.3	4.5

SUPPLEMENTAL INVESTMENT FUND

Fixed Interest Account

Investment Objectives

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

Asset Mix

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

Investment Management

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

Market Value

On December 31, 1995 the market value of the Fixed Interest Account was \$69 million.

Existing Contracts

Contract Period	Annual Effective Interest Rate	Manager
Nov. 1, 1993-Oct. 31, 1996	4.625% (blended rate)	Principal Mutual/Hartford Life

Blended Portfolio	Annualized Credited Interest Rate
Nov. 94	5.750%
Dec.	6.790
Jan. 95	6.790
Feb.	7.310
Mar.	6.910
Apr.	6.900
May	6.690
Jun.	7.012
Jul.	6.822
Aug.	7.001
Sep.	6.983
Oct.	6.826
Nov.	6.664
Dec.	6.493

PERMANENT SCHOOL FUND

Investment Objectives

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

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

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

Asset Mix

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

Investment Management

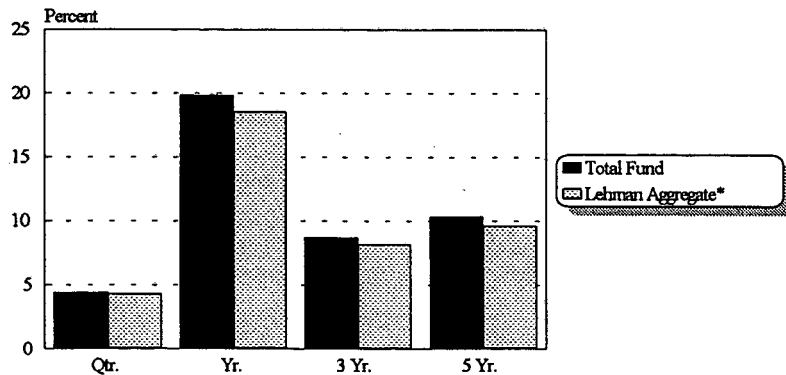
The Permanent School Fund is managed internally by SBI staff. The investment approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be slightly shorter or longer depending on the economic outlook. (Prior to July 1993 the fund used a buy and hold, laddered maturity structure).

Performance Benchmarks

Since July 1994 the Lehman Aggregate Index has been the benchmark for the Permanent School Fund.

Market Value

On December 31, 1995, the market value of the Permanent School Fund was \$440 million.



Period Ending 12/31/95

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund	4.4%	19.8%	8.7%	10.3%
Lehman Agg.*	4.3	18.5	8.2	9.6

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

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.

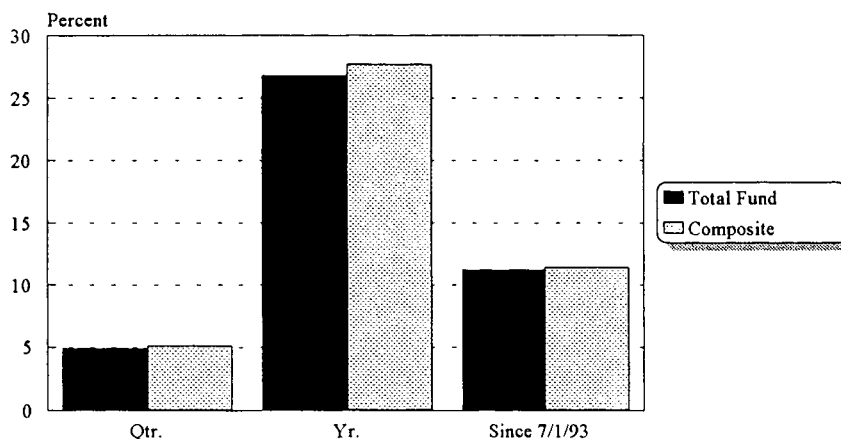
Investment Management

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 December 31, 1995 the market value of the Environmental Trust Fund was \$122 million.

	Target	Actual
Stocks	50.0%	48.7%
Bonds	50.0	49.1
Unallocated Cash	0.0	2.2
	100.0%	100.0%



	Period Ending 12/31/95		
	Qtr.	1 Yr.	Since 7/1/93
Total Fund	4.9%	26.8%	11.2%
Composite	5.1	27.7	11.4
Equity Segment	6.1	37.5	16.5
Benchmark	6.0	37.6	16.5
Bond Segment	4.0	18.7	7.5
Benchmark	4.3	18.5	6.9

STATE CASH ACCOUNTS

Description

State Cash Accounts represent the cash balances in more than 200 separate accounts that flow through the Minnesota State Treasury. These accounts range in size from \$5,000 to over \$400 million.

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

1. Trust Fund Pool contains the cash balances of retirement-related accounts managed internally and cash balances in the Permanent School Fund.
2. Treasurer's Cash Pool contains the cash balances of special or dedicated accounts necessary for the operation of certain State agencies and the balance of the Invested Treasurer's Cash.

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

Asset Mix

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

Investment Management

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

Period Ending 12/31/95

	Market Value (Millions)	Qtr.	Yr.	3 Yrs. Annualized
Treasurer's Cash Pool	\$2,866	1.6%	6.8%	4.7%
Trust Fund Cash Pool	105	1.5	6.2	4.9
Benchmark*		1.8	7.4	NA
91-Day T-Bills		1.4	5.7	4.3

* 75% State Street Short Term Investment Fund/25% 1-3 Year Treasuries. This benchmark was established in April 1993. The Investment Advisory Council (IAC) intend to review the appropriateness of this benchmark in FY96. Until that time, the IAC believes that the pools should continue to be monitored against 91-Day T-Bills.

Tab B

PORTFOLIO STATISTICS

	PAGE
I. Composition of State Investment Portfolios 12/31/95	1
II. Cash Flow Available for Investment 10/1/95 - 12/31/95	4
III. Monthly Transactions and Asset Summary - Retirement Funds	5

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value December 31, 1995 (in Millions)

	Cash And Short Term Securities	Bonds		Stocks		External Int'l.	Alternative Assets	Total
		Internal	External	Internal	External			
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	\$43,560 0.82%	-0-	\$1,381,916 26.04%	-0-	\$2,740,441 51.64%	\$598,532 11.28%	\$542,629 10.22%	\$5,307,078 100%
Public Employees Retirement Fund	\$18,596 .71%	-0-	\$681,178 26.08%	-0-	\$1,349,904 51.67%	\$295,184 11.30%	\$267,494 10.24%	\$2,612,356 100%
State Employees Retirement Fund	\$13,206 0.53%	-0-	\$652,843 26.13%	-0-	\$1,293,737 51.77%	\$282,917 11.32%	\$256,178 10.25%	\$2,498,881 100%
Public Employees Police & Fire Fund	\$8,941 0.73%	-0-	\$320,889 26.07%	-0-	\$635,932 51.67%	\$139,034 11.30%	\$125,969 10.23%	\$1,230,765 100%
Highway Patrol Retirement Fund	\$5 0.00%	-0-	\$47,332 26.49	-0-	\$92,235 51.62%	\$20,512 11.48%	\$18,587 10.41%	\$178,671 100%
Judges Retirement Fund	\$69 0.52%	-0-	\$3,463 26.13%	-0-	\$6,862 51.77%	\$1,501 11.33%	\$1,359 10.25%	\$13,254 100%
Public Employees P.F. Consolidated	\$170 0.05%	\$291 0.08%	\$94,965 26.15%	\$24 0.01%	\$188,935 52.02%	\$41,356 11.38%	\$37,445 10.31%	\$363,186 100%
Correctional Employees Retirement	\$699 0.52%	-0-	\$34,876 26.13%	-0-	\$69,114 51.77%	\$15,114 11.32%	\$13,693 10.26%	\$133,496 100%
POST RETIREMENT FUND	\$197,440 1.76%	-0-	\$3,896,437 34.74%	\$25,439 0.23%	\$5,822,321 51.91%	\$1,274,082 11.36%	-0-	\$11,215,719 100%
TOTAL BASIC & POST	\$282,686 1.20%	\$291 0.00%	\$7,113,899 30.20%	\$25,463 0.11%	\$12,199,481 51.80%	\$2,668,232 11.33%	\$1,263,354 5.36%	\$23,553,406 100%

	Cash And Short Term Securities		Bonds Internal		Bonds External		Stocks Internal		Stocks External		External Int'l.		Alternative Assets		Total	
MINNESOTA SUPPLEMENTAL FUNDS:																
Income Share Account	\$22,833 6.17%	\$128,263 34.69%	-0-	-0-	-0-	-0-	\$218,686 59.14%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$369,782 100%	
Growth Share Account	\$7,570 5.34%	-0-	-0-	-0-	-0-	\$134,227 94.66%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$141,797 100%	
Money Market Account	\$52,919 100%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$52,919 100%	
Common Stock Index Account	-0-	-0-	-0-	-0-	-0-	\$81,418 100%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$81,418 100%	
Bond Market Account	-0-	-0-	-0-	-0-	\$24,953 100%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$24,953 100%	
International Share Account	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$10,837 100%	-0-	-0-	-0-	-0-	\$10,837 100%	
Fixed Interest Account	-0-	-0-	-0-	-0-	\$68,970 100%	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	\$68,970 100%	
TOTAL SUPPLEMENTAL FUNDS	\$83,322 11.10%	\$128,263 17.09%	\$93,923 12.51%	\$7,207,822 29.66%	\$25,463 0.10%	\$12,633,812 51.98%	\$2,679,069 11.02%	\$1,263,354 5.20%	\$24,304,082							
TOTAL RETIREMENT FUNDS	\$366,008 1.51%	\$128,554 0.53%	\$7,207,822 29.66%	\$25,463 0.10%	\$12,633,812 51.98%	\$2,679,069 11.02%	\$1,263,354 5.20%	\$24,304,082								

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	\$16,052 2.94%	-0-	\$407,461 74.65%	-0-	\$122,309 22.41%	-0-	-0-	\$545,822 100%
ENVIRONMENTAL FUND	\$2,737 2.24%	\$60,039 49.06%	-0-	\$59,605 48.70%	-0-	-0-	-0-	\$122,381 100%
PERMANENT SCHOOL FUND	\$66,609 15.13%	\$373,679 84.87%	-0-	-0-	-0-	-0-	-0-	\$440,288 100%
TREASURERS CASH	\$2,864,105 100%	-0-	-0-	-0-	-0-	-0-	-0-	\$2,864,105 100%
HOUSING FINANCE AGENCY	\$61,411 27.03%	\$165,756 72.97%	-0-	-0-	-0-	-0-	-0-	\$227,167 100%
MINNESOTA DEBT SERVICE FUND	\$748 3.88%	\$18,514 96.12%	-0-	-0-	-0-	-0-	-0-	\$19,262 100%
MISCELLANEOUS ACCOUNTS	\$37,367 15.52%	\$203,347 84.48%	-0-	-0-	-0-	-0-	-0-	\$240,714 100%
GRAND TOTAL	\$3,415,037 11.87%	\$949,889 3.30%	\$7,615,283 26.48%	\$85,068 0.30%	\$12,756,121 44.35%	\$2,679,069 9.31%	\$1,263,354 4.39%	\$28,763,821 100%

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT**

**Net Cash Flow Available For Investment
October 1, 1995 - December 31, 1995**

Teachers Retirement Fund	\$47,500,000.00
Public Employees Retirement Fund	10,000,000.00
State Employees Retirement Fund	0.00
Public Employees Police & Fire	4,500,000.00
Highway Patrol Retirement Fund	(4,888,000.00)
Judges Retirement Fund	0.00
Public Employees P&F Consolidated	(4,799,905.00)
Correctional Employees Retirement Fund	0.00
Post Retirement Fund	(107,334,501.03)
Supplemental Retirement Fund - Income	2,014,616.30
Supplemental Retirement Fund - Growth	1,258,382.19
Supplemental Retirement Fund - Money Market	(2,587,134.06)
Supplemental Retirement Fund - Index	3,327,801.32
Supplemental Retirement Fund - Bond Market	1,081,041.65
Supplemental Retirement Fund - Fixed Interest,	6,606,767.26
Supplemental Retirement Fund - International	45,310.68
Total Retirement Funds Net Cash Flow	(43,275,620.69)
Assigned Risk Plan	1,589,877.13
Permanent School Fund	(27,620,405.35)
Total Net Cash Flow	(\$69,306,148.91)

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
Transaction and Asset Summary**

Retirement Funds

	Net Transactions			Cash Flow (Millions)	Asset Summary (at Market Value)			Total Mkt. Value (Millions)
	Bonds (Millions)	Stocks (Millions)	Total (Millions)		Short-Term % of Fund	Bonds % of Fund	Equity % of Fund	
January 1993	-138	158	20	40	2.6	44.0	53.4	17,617
February	-253	266	13	2	2.6	42.9	54.5	17,811
March	-272	335	63	70	2.6	40.7	56.7	18,180
April	-412	423	11	8	2.6	38.9	58.5	18,101
May	-206	200	-6	1	2.5	37.2	60.3	18,387
June	-250	210	-40	15	2.8	36.3	60.9	18,573
July	-17	-26	-43	20	3.1	36.4	60.5	18,649
August	0	10	10	-12	3.0	36.0	61.0	19,183
September	6	1	7	-15	2.8	36.2	61.0	19,216
October	-23	101	78	-21	2.3	35.8	61.9	19,433
November	-426	460	34	-22	2.0	34.0	64.0	19,032
December	-113	158	45	73	2.1	32.8	65.1	19,486
January 1994	-1	1	0	14	2.1	32.3	65.6	20,105
February	-26	-25	-51	10	2.5	32.1	65.4	19,735
March	-3	14	11	1	2.5	32.4	65.1	19,051
April	37	186	223	132	2.0	31.9	66.1	19,285
May	0	-24	-24	-11	2.1	31.8	66.1	19,349
June	-13	0	-13	-6	2.1	32.2	65.7	19,038
July	0	4	4	25	2.2	32.0	65.8	19,507
August	0	-1	-1	-18	2.1	31.3	66.6	19,982
September	0	25	25	-30	1.8	31.5	66.7	19,581
October	0	2	2	22	1.9	30.9	67.2	19,824
November	0	0	0	-41	1.7	31.8	66.5	19,324
December	2	14	16	7	1.7	31.7	66.6	19,493
January 1995	1	10	11	-11	1.5	32.0	66.5	19,681
February	1	0	1	-1	1.5	31.8	66.7	20,249
March	2	18	20	-18	1.3	31.5	67.2	20,607
April	1	-305	-304	-6	2.7	31.2	66.1	21,049
May	0	13	13	14	2.6	31.5	65.9	21,681
June	8	-12	-4	-3	2.6	31.3	66.1	22,028
July	1	13	14	19	2.5	30.4	67.1	22,646
August	(1)	14	13	(25)	2.3	30.5	67.2	22,814
September	0	13	13	(21)	2.1	30.1	67.8	23,369
October	1	(3)	(2)	(20)	2.1	30.6	67.3	23,294
November	(5)	87	82	(20)	1.6	30.1	68.3	23,975
December	11	(6)	5	(6)	1.5	30.2	68.3	24,304

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE COMMITTEE

DATE: March 11, 1996

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Budget and Travel Reports

A report on the SBI's administrative budget for the period ending January 31, 1996 is included as **Attachment A**.

A travel report for the period from November 16, 1995-February 15, 1996 is included as **Attachment B**.

2. Legislative Update

A summary of legislation of interest to the SBI is included as **Attachment C**.

3. Extension of Consulting Contracts

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

The last RFP process was conducted in 1992 and resulted in the retention of two firms:

Richards & Tierney, Inc.	general consulting services
Pension Consulting Alliance	international consulting services

Both firms signed four year contracts which expire on June 30, 1996. The terms of the agreement allow the contracts to be extended subject to mutual agreement. This possibility was also expressly addressed in the RFP.

One of the projects that I expect to bring forward in my FY1997 workplan is a review of the SBI's information needs with respect to accounting and performance data. My goal is to institute more efficient data collection, monitoring and verification processes across all portfolios under the SBI's control. I believe that it is in the SBI's best interest to conduct this review prior to initiating a new RFP for consulting services.

As a result, I am recommending that the SBI authorize a one year extension of the current contracts with Richards & Tierney and Pension Consulting Alliance. If approved, the extensions would provide a five year term (July 1, 1992-June 30, 1997). The new expiration date would also coincide with the term of the SBI's agreement with its external portfolio accounting vendor, Financial Controls Systems.

If approved, I would expect to initiate a new RFP both for consulting services and for portfolio accounting systems during the next year and to recommend new contracts for the period beginning July 1, 1997. The framework for the RFP requirement would be based, in large part, on the findings and conclusions of the needs assessment referenced above.

RECOMMENDATION:

The SBI authorizes the Executive Director, with assistance from SBI legal counsel, to negotiate and execute contract extensions of one year (July 1, 1996-June 30, 1997) for consulting services with:

Richards & Tierney, Inc.	Chicago, IL
Pension Consulting Alliance	Encino, CA

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 1996 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JANUARY 31, 1996**

ITEM	FISCAL YEAR 1996 BUDGET	FISCAL YEAR 1996 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,519,000	\$ 756,820
SEVERENCE PAYOFF	0	3,948
WORKERS COMPENSATION INSURANCE	0	0
MISCELLANEOUS PAYROLL	0	0
SUBTOTAL	\$ 1,519,000	\$ 760,768
STATE OPERATIONS		
RENTS & LEASES	88,550	51,654
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	6,851
BONDS AND INSURANCE	0	0
PRINTING & BINDING	15,950	10,602
PROFESSIONAL/TECHNICAL SERVICES	50,000	1,531
COMPUTER SYSTEMS SERVICES	202,500	101,299
COMMUNICATIONS	27,000	8,499
TRAVEL, IN-STATE	3,000	2,695
TRAVEL, OUT-STATE	50,000	14,257
SUPPLIES	48,000	15,664
EQUIPMENT	30,000	6,159
EMPLOYEE DEVELOPMENT	5,000	2,405
OTHER OPERATING COSTS	40,000	17,266
SUBTOTAL	\$ 573,000	\$ 238,882
TOTAL GENERAL FUND	\$ 2,092,000	\$ 999,650

(Blank)

ATTACHMENT B

STATE BOARD OF INVESTMENT

**Travel Summary by Date
November 15, 1995 - February 15, 1996**

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Board Member Travel "Public Funds Board Forum" sponsored by the Institute for International Research	J. Dutcher	San Francisco, CA 12/1-12/5	\$633.45
Manager Search Enhanced Index Fixed Income Blackrock Financial Mgmt., J. P. Morgan Investment Mgmt., T. Rowe Price Manager Monitoring Fixed Income Miller Anderson & Sherrerd	J. Lukens	New York, NY Philadelphia, PA Baltimore, MD 1/15-1/19	\$1,539.94
Manager Search Alternative Investments Crescent Capital Corporation, Merit Energy Company	J. Griebenow M. Regal	Dallas, TX 1/22-1/24	\$2,204.02
Manager Search Domestic Equity Manager Investment Research Company Manager Monitoring Domestic Equity Weiss Peck & Greer, Joint Manager Meeting on Benchmarks Consultant Meeting Richards & Tierney	M. Menssen L. Buermann	Chicago, IL 1/30-2/2	\$1,212.38

ATTACHMENT B (con't)

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Search Alternative Investments Madison Dearborn Capital Partners	M. Regal	Chicago, IL 1/30-2/2	\$751.19
Manager Monitoring Alternative Investments The Banc Funds Brinson Partners Golder Thoma, Cressey LaSalle Advisors Zell/ML Real Estate			
Manager Monitoring Emerging Managers Kennedy Capital Mgmt.	M. Perry	Chicago, IL St. Louis, MO 1/30-2/2	\$1,005.64
Manager Monitoring Fixed Income Lincoln Capital Mgmt.			
Manager Monitoring Domestic Equity Joint Manager Meeting on Benchmarks			
Manager Monitoring Domestic Equity Joint Manager Meeting on Benchmarks	H. Bicker B. Lehman J. Bohan	Chicago 1/31-2/1	\$1,831.01
Manager Search Enhanced Index Fixed Income Nicholas-Applegate Capital Mgmt.	J. Lukens M. Perry	Houston, TX 2/7-2/8	\$359.70
Staff Education Annual Proxy Edge User Group Meeting	D. Griebenow	Chicago, IL 2/7-2/8	\$313.51

ATTACHMENT C
Bills of Interest to the Minnesota State Board of Investment
1996 Legislative Session
Includes Action Through 3/7/96

Description of Bill	HF/SF # and Author	Current Status
Omnibus Pension Bill -Provision includes SBI director and state auditor on task force on pension fund investment reporting	HF 2417 (Jefferson) SF 2048 (Riveness)	House amended and passed 3/7 In Senate Finance
Abolish Office of State Treasurer	HF 87 (Greiling) SF 918 (Wiener)	In House Rules Committee Senate Rules Committee Hearing 3/12
Local government investment restrictions	HF 1567 (Long) SF 1441 (Pogemiller)	Conference Committee on HF 1567 to meet <u>?</u>
Pension Benefit Increase Bill -Post Fund Interest Assumption Change	HF 2693 (Jefferson)	Did not pass bill deadline
Establish an Education Investment Fund -SBI Invests	HF 2174 (Betterman) SF 1867 (Neuville)	Did not pass bill deadline Did not pass bill deadline

Tab D

COMMITTEE REPORT

DATE: March 11, 1996

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

FROM: Semi-Passive Bond Manager Search Committee

In February, a Manager Search Committee conducted a semi-passive bond manager search to replace Fidelity Management Trust Company, who resigned the SBI account in December 1995. The members of the Committee for this search were:

Name	Representing
Peter Sausen	Governor Carlson
Christie Eller	State Attorney General Humphrey
Jake Manahan	State Treasurer McGrath
Carey Moe	State Auditor Dutcher
Elaine Voss	Secretary of State Growe
Dave Bergstrom	Investment Advisory Council
John Bohan	Investment Advisory Council
Judy Mares	Investment Advisory Council

The Committee interviewed four firms on February 29, 1996. Each of the firms has extensive expertise in the management of fixed income portfolios against broad market indices. Also, each firm has extensive quantitative and risk management models. The firms interviewed were:

BlackRock Financial Management
J.P. Morgan Investment Management
Nicholas Applegate Capital Management
T. Rowe Price Associates

Two of the firms (BlackRock and T. Rowe Price) currently offer enhanced index/semi-passive bond products. The other two managers do not currently offer such products, but have the capability to do so.

On the basis of the interviews, questionnaire responses and supporting information gathered by staff and the SBI's consultant, Richard's & Tierney, the Search Committee is recommending that the SBI retain BlackRock Financial Management.

A brief description of BlackRock and a summary of past returns are attached.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute a contract with BlackRock Financial Management, New York, NY, for semi-passive bond management.

DOMESTIC BOND MANAGER FACT SHEET

Manager: *BlackRock Financial Management (BFM)*

Investment Approach

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 designated index. BlackRock's value added is derived primarily from sector and security selection driven by relative value analysis while applying disciplined risk control techniques.

BlackRock's objective is to provide excess returns with lower risk. Each portfolio is managed within a narrow band around a pre-set duration target, usually equal to the duration of a benchmark index. BlackRock believes that value is added through the use of a rigorous quantitative approach to the valuation of securities and portfolios, not through taking duration bets. Every day BlackRock measures each portfolio's risk exposures relative to its benchmark index.

All portfolio investment decisions are made using a relative value approach encompassing both fundamental and technical analysis. In structuring portfolios and determining relative value of sectors, BlackRock considers macroeconomic trends, supply/demand analysis, yield curve structure and trends, volatility and convexity analyses, and security specific option-adjusted analysis. In enhanced index portfolios, subsector and security selection decisions are made within the sector constraints.

BlackRock uses a team approach to both set and implement its investment strategy. Each portfolio manager specializes in researching particular sectors of the fixed income market and reports to the Investment Strategy Committee (ISC) weekly. The ISC collectively sets the broad investment strategy based on a consensus market outlook for all client portfolios. This strategy determines overall convexity bias, duration/maturity target, yield curve positioning and credit holdings bias. Blending the relative value guidelines established by the ISC with the specific objectives and constraints of the account, all portfolio managers make security selection decisions by focusing on the value of one security relative to the value of similar securities available in the market.

Assets Under Management

Total Fixed Income Assets	\$36.5 billion
Enhanced Index Fixed Income Assets	\$820 million
Number of Enhanced Index Fixed Income Accounts	3

Investment Manager: BLACKROCK CORE BOND ENHANCED						
Benchmark: LEHMAN AGGREGATE						
	—PORTFOLIO—		—BENCHMARK—		—VAM—	
	Qrtly Return	Annual Return	Qrtly Return	Annual Return	Qrtly Return	Annual Return
92	Q1					
	Q2					
	Q3	4.19%	4.30%		-0.10%	
	Q4	0.33%	4.54% *	0.27%	4.57% *	-0.04% *
93	Q1	4.38%	4.13%		0.24%	
	Q2	2.77%	2.65%		0.11%	
	Q3	3.13%	2.61%		0.51%	
	Q4	0.33%	11.00%	0.06%	9.75%	1.14%
94	Q1	-2.58%	-2.87%		0.30%	
	Q2	-0.84%	-1.03%		0.19%	
	Q3	0.83%	0.61%		0.22%	
	Q4	0.53%	-2.08%	0.38%	-2.92%	0.86%
95	Q1	5.17%	5.04%		0.13%	
	Q2	5.97%	6.09%		-0.12%	
	Q3	2.01%	1.96%		0.04%	
	Q4	4.38%	18.67%	4.26%	18.47%	0.17%
Latest:						
1 yr		18.67%		18.47%		0.17%
3 yr		8.86%		8.07%		0.72%
Cum 92Q3-95Q4		8.92%		8.26%		0.61%
Std Dev		4.16%		4.22%		0.40%

*Partial Period: 6 months - 9207-9212

COMMITTEE REPORT

DATE: March 11, 1996

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

FROM: Emerging Markets Manager Search Committee

During the last quarter, the Emerging Markets Manager Search Committee conducted a search for emerging markets specialists. The members of the Committee were:

<i>Name</i>	<i>Representing</i>
Peter Sausen, Chair	Governor Carlson
Christie Eller	State Attorney General Humphrey
Jake Manahan	State Treasurer McGrath
Carey Moe	State Auditor Dutcher
Elaine Voss	Secretary of State Growe
John Bohan	Investment Advisory Council
Ken Gudorf	Investment Advisory Council
Laurie Hacking	Investment Advisory Council
Daralyn Peifer	Investment Advisory Council
Mike Stutzer	Investment Advisory Council

The Committee interviewed six (6) firms on March 4-5, 1996. All finalists had been approved by the SBI and IAC at their December 1995 meetings:

<i>Firm</i>	<i>General Style</i>
Boston International Advisors	Structured country allocation Indexed stock selection
Capital International	Multiple Portfolio Manager system Value oriented, research driven stock selection
City of London	Closed-end funds Capitalizes on discounts to NAV
Genesis Asset Managers	Bottom up stock focus Value oriented, fundamental stock selection
JP Morgan Investment Management	Constrained bets around index Value oriented, fundamental stock selection
Montgomery Asset Management	Quantitative country allocation Value oriented, fundamental stock selection

Based on the interviews, questionnaire responses and supporting information gathered by staff and the SBI's consultants, Pension Consulting Alliance/InterSec and Richards & Tierney, the Committee is recommending that the SBI retain three (3) firms at this time:

City of London
Genesis Asset Managers
Montgomery Asset Management

A brief profile and summary return information for each firm are attached.

The recommendation for three firms reflects the Committee members' desire to balance several goals:

- to provide the SBI with broad coverage of emerging markets
- to utilize attractive, unique investment strategies
- to limit the number of managers retained by the SBI

Due to concerns about capacity, the Committee assumed that the allocations among managers would not be equal and that the City of London would receive a smaller allocation than either Genesis or Montgomery. The Committee believes that the final allocations should be made by SBI staff after further discussion and negotiations with the three firms.

RECOMMENDATION:

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

City of London	London, England, UK
Genesis Asset Managers, Ltd.	London, England, UK
Montgomery Asset Management. L.P.	San Francisco, CA

Further, the Committee recommends that the City of London receive a lower allocation than that provided to each of the other firms. The exact amounts should be left to the discretion of the Executive Director.

MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *City of London*

General Style: Uses closed-end country and regional funds
Capitalizes on discounts to NAV

Philosophy:

City of London has several objectives within their philosophy. First, they try to achieve long-term capital growth. Second, they make their investments through closed-end country and regional funds to assure broad diversification within markets, to participate in the performance of high quality fund managers, to enhance performance when discounts to net asset value (NAV) narrow. Finally, they identify and capitalize on inefficiencies in the emerging markets.

Portfolio Management:

Research is carried out by Olliff & Partners. They look at two levels of analysis. The first level compiles macro-economic data for each country in their universe. Their macro economist, with assistance from the portfolio manager, evaluates quantitative factors, such as GDP growth and inflation. Consideration is also given to a market's sensitivity to global and political events. Countries are then nominally ranked according to the relative strength of their fundamentals and the expected upward potential of their stock markets.

The second level is research on the closed-end country and regional funds. They analyze these funds for corporate activity, liquidation dates, liquidity and discounts to NAV. Analyzing the quality and expertise of the closed-end fund managers is also an important part of their research. They rely heavily on country visits to meet with fund managers and government officials. Most funds chosen will be "index trackers," i.e., funds which track their local index. Countries are then re-ranked according to the relative pricing and discounts to NAV of country specific funds.

Funds may be sold if the discount to NAV narrows 15%-20% from the original purchase value. Also, if macro developments are likely to cause a market to underperform, exposure to the country may be reduced.

Ownership and Staffing:

City of London is a wholly owned subsidiary of London based independent stockbrokers Olliff & Partners PLC. It was established in 1991 and employs 8 investment professionals for the emerging markets product. Investments are managed out of London.

Investment Manager: City of London
Information as of December 31, 1995

Statistics

Total Firm Assets:	\$227 million
Total Global Emerging Markets Assets:	\$223 million
Total Global Emerging Markets Accounts:	7
Total Global Emerging Markets Assets (Tax Exempt):	\$96 million
Largest Global Emerging Markets Accounts:	
Emerging Markets Country Fund (commingled)	\$71 million
The Emerging Markets Country Trust (UK Unit Trust)	\$62 million
The Emerging Markets Country Investment Trust (UK Investment Trust)	\$54 million

City of London

Summary Returns Information Provided in Questionnaire Response

12 Month Period Ending 12/31/95	Actual*	MSCI EMF	Difference	Intersec Median	Difference
1995	0.06%	-5.20%	5.14%%	-7.1%	7.16%
1994	-8.26	-7.32	-0.94	-9.0	0.74
1993	130.98	74.84	56.14	72.7	58.28
1992	31.64	11.40	20.24	12.3	19.34
1991	NA	59.91	NA	NA	NA

Period Ending 12/31/95	Actual*	MSCI EMF	Difference	Intersec Median	Difference
Last 1 year	0.06%	-5.20%	5.14%	-7.1%	7.16%
Last 2 years	-4.32	-6.27	1.95	-8.5	4.18
Last 3 years	28.36	15.38	12.98	14.8	13.56
Last 4 years	29.17	14.37	14.80	14.5	14.67
Last 5 years	NA	22.30	NA	NA	NA

* before fees

(Blank)

MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *Genesis Assets Managers Limited*

General Style: Bottom up stock selection
Identification of the most undervalued stocks across all markets

Philosophy:

Genesis believes that the critical factor for successful investment performance in emerging markets is stock selection. They also believe that challenges brought by 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.

Portfolio Management:

There are ten investments directors (professionals) that make portfolio stock selections. They first identify those countries in which structural change will most likely generate growth opportunities for businesses and/or where the environment is supportive of a flourishing private sector. Once a country is established as suitable for investment, they monitor the political and economic environment on a regular basis.

Each Director is assigned specific countries based on their linguistic abilities and experience. Each country is researched by two directors, one as lead and one as backup. Their internal policy precludes directors from being concentrated exclusively in one region of the world, which enables Genesis to take a global view.

They use fundamental (both qualitative and quantitative) analysis to determine which companies are the most attractive. They feel meeting a company's management is very important and will also make a plant visit, if practicable. They want to learn if management is capable, entrepreneurial and honest. They look for a well thought long-term corporate strategy, and the financial and human resources to implement it. Their time horizon is 3-5 years.

Stocks are selected based their estimate of the value of a company's future real earnings stream over five years relative to its current price. They use several other ratios as well, but consider price to operating cash flow as particularly important. Their portfolio consists of the most undervalued stocks, with emphasis on growth with value. Directors are responsible for making trades, but they have a seven member settlement department to assist with settlement problems that may arise.

Investment Manager: Genesis
Information as of December 31, 1995

Ownership and Staffing:

Genesis is owned by 9 non-management shareholders from Europe, the United States, the Middle East and Far East, as well as the investment professionals from the company. It was established in 1989 and employs 10 investment professionals for the emerging markets product. Investments are managed out of London.

Statistics

Total Firm Assets:	\$2.9 billion
Total Global Emerging Markets Assets:	\$2.3 billion
Total Global Emerging Markets Accounts:	18
Total Global Emerging Markets Assets (Tax Exempt):	\$1.5 million
Largest Global Emerging Markets Accounts:	
The Emerging Markets Fund of the Genesis Group Trust for Employee Benefit Plans (Commingled)	\$578.0 million
Gulliver (corporate separate account)	\$368.4 million
Genesis Emerging Markets Fund Ltd. (closed-end)	\$356.8 million

Genesis

Summary Returns Information Provided in Questionnaire Response

12 Month Period Ending 12/31/95	Actual*	MSCI EMF	Difference	Intersec Median	Difference
1995	-4.51%	-5.20%	0.69%	-7.1%	2.59%
1994	2.41	-7.32	9.73	-9.0	11.41
1993	72.67	74.84	-2.17	72.7	0.03
1992	NA	11.40	NA	12.3	NA
1991	NA	59.91	NA	NA	NA

Period Ending 12/31/95	Actual*	MSCI EMF	Difference	Intersec Median	Difference
Last 1 year	-4.51%	-5.20%	0.69%	-7.1%	2.59%
Last 2 years	-1.11	-6.27	5.16	-8.5	7.39
Last 3 years	19.08	15.38	3.70	14.8	4.28
Last 4 years	NA	14.37	NA	14.5	NA
Last 5 years	NA	22.30	NA	NA	NA

* before fees. Emerging Markets Fund of the Genesis Group for Employee Benefit Plans.

(Blank)

MANAGER FACT SHEET
Emerging Markets Specialists

Manager: *Montgomery Asset Management*

General Style: Quantitative country allocation
Value oriented, fundamental stock selection

Philosophy:

Montgomery combines quantitative investment techniques and fundamental stock selection to take advantage of market inefficiencies and low correlations within the emerging markets. They believe that investing across the spectrum of emerging market countries and capitalization ranges provides the greatest return potential within the context of risk control.

Portfolio Management:

Their top-down analysis begins with a quantitative approach which evaluates historical volatility and correlations between the markets in which they invest. Several other factors go into the model, such as average transaction costs for each country. The model identifies attractive countries which are then qualitatively analyzed for "event risk" which the model cannot take into account. Target weights are determined through the combination of the model outputs and the portfolio managers' subjective overlay. The optimization program is run at least monthly.

Industry and sector analysis is conducted to identify important policy or regulatory issues which may impact a sector within the countries they have selected. They have a maximum allocation of 25% of the portfolio in any one sector.

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 small 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. The final portfolio contains 175-250 securities in 20-40 countries.

Two lead portfolio managers started this emerging markets product. They have added two more portfolio managers. While each has special expertise (e.g. modeling, stock selection, country analysis) they make portfolio decisions on a team basis, although the two senior portfolio managers have final approval.

Ownership and Staffing:

Montgomery Asset Management is 78% owned by Montgomery Securities. The remainder is owned by employees. It was established in 1990 and employs 14 investment professionals and traders for the emerging markets product. Investments are managed out of San Francisco.

Investment Manager: Montgomery Asset Management
Information as of December 31, 1995

Statistics

Total Firm Assets:	\$6,703 million
Total Global Emerging Markets Assets:	\$1,511 million
Total Global Emerging Markets Accounts:	39
Total Global Emerging Markets Assets (Tax Exempt):	\$577 million
Largest Global Emerging Markets Accounts:	
Corporate Pension	\$92.4 million
Corporate Pension (commingled participant)	\$58.7 million
Corporate	\$55.2 million

Montgomery

Summary Returns Information Provided in Questionnaire Response

12 Month Period Ending 12/31/95	Actual*	MSCI EMF	Difference	Intersec Median	Difference
1995	-5.85%	-5.20%	-0.65%	-7.1%	1.25%
1994	-7.96	-7.32	-0.64	-9.0	1.04
1993	70.74	74.84	-4.10	72.7	-1.96
1992	NA	11.40	NA	12.3	NA
1991	NA	59.91	NA	NA	NA

Period Ending 12/31/95	Actual*	MSCI EMF	Difference	Intersec Median	Difference
Last 1 year	-5.85%	-5.20%	-0.65%	-7.1%	1.25%
Last 2 years	-6.91	-6.27	-0.64	-8.5	1.59
Last 3 years	13.95	15.38	-1.43	14.8	-0.85
Last 4 years	NA	14.37	NA	14.5	NA
Last 5 years	NA	22.30	NA	NA	NA

* before fees. The Institutional Series: Emerging Markets Portfolio.

Tab E

COMMITTEE REPORT

DATE: March 11, 1996

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on February 29, 1996 to consider the following agenda items:

- review of manager performance for the period ending December 31, 1995
- discussion of Semi-Passive Bond Manager Search
- update on February 1, 1996 Domestic Equity Manager Meeting on benchmarks
- recommendation to place a domestic stock manager, IAI, on probation
- recommendation regarding domestic manager contract renewals

Board action is requested on the final two (2) items.

INFORMATION ITEMS:

1. Review of manager performance

- *Stock Managers*

For the quarter ending December 31, 1995, the domestic stock manager program under performed its aggregate benchmark and the Wilshire 5000. For the latest year, the **current** managers matched the benchmark, but under performed the Wilshire 5000. For the latest three years, the **current** managers underperformed the benchmark and the Wilshire 5000. For the latest five years, the **current** managers exceeded the Wilshire 5000 and the benchmark.

Time Period	Total Program	Wilshire 5000*	Current Mgrs. Only	Aggregate Benchmark
Quarter	4.5%	4.9%	4.5%	4.8%
1 Year	35.0	36.5	35.7	35.7
3 Years	14.1	14.8	14.6	14.7
5 Years	16.7	17.2	18.4	17.7

* Adjusted for SBI's restrictions, as appropriate.

Performance was mixed among the active manager group for the quarter; six of the managers outperformed and seven underperformed their benchmarks. The technology bets made by several managers contributed the majority of the program's underperformance during the quarter.

Staff noted that the semi-passive managers have now completed their first full year of operation. As a group, the new managers have added value to their completeness fund benchmark and exceeded performance expectations.

The performance evaluation reports for the stock managers start on **page 5** of this Tab. Manager Commentaries are in **Tab H**.

- **Bond Managers**

For the period ending December 31, 1995, the bond program matched the Lehman Aggregate for the quarter and year and out performed for the latest three and five years. The **current** manager group outperformed their aggregate benchmark for the quarter and the latest one year, three year and five year periods.

Time Period	Total Program	Lehman Aggregate*	Current Mgrs. Only	Aggregate Benchmark
Quarter	4.2%	4.3%	4.3%	4.2%
1 Year	18.6	18.5	18.5	18.4
3 Years	8.5	8.2	8.6	8.2
5 Years	10.0	9.6	10.1	9.6

* Reflects Salomon BIG index prior to 7/94.

The performance evaluation reports for the bond managers start on **page 39** of this Tab. Manager Commentaries are in **Tab H**.

2. Results of the Semi-Passive Bond Manager Search Committee

Staff updated the Domestic Manager Committee on the recommendation from the Manager Search Committee concerning the retention of a semi-passive bond manager to replace Fidelity Management Trust Company, who resigned the SBI account in December, 1995. (See full report under Tab D).

The following managers were interviewed by the Manager Search Committee:

BlackRock Financial Management
J.P. Morgan Investment Management
Nicholas Applegate Capital Management
T. Rowe Price Associates

Staff reported that the Manager Search Committee is recommending that BlackRock Financial Management be retained. After further comment by the two members of the Domestic Manager Committee who served on the Search Committee, the Domestic Manager Committee chose to forward the recommendation to the Board for action.

3. Update on Domestic Equity Manager benchmark meeting

On February 1, 1996 staff hosted a joint meeting of the SBI's active, semi-passive and passive domestic stock managers. The purpose of the meeting was to review the goals and objectives of the SBI's domestic equity program, to discuss performance expectations and concerns and to review benchmark quality issues. The meeting was held in Chicago and was attended by representatives of each firm along with the Chair of the Domestic Manager Committee. Presentations on the various topics were given by SBI staff and Richards & Tierney, the SBI's consultant. The day long session generated constructive discussions among the participants on a variety of issues.

Feedback since the meeting indicates that staff's goals for the meeting were met.; managers gained a better understanding of the SBI's overall objectives and their specific roles within the domestic equity program. Staff intends to continue discussions on benchmark quality with each firm through follow up meetings over the next three to six months.

ACTION ITEMS:

1. Recommendation to place a domestic equity manager, IAI, on probation

In July 1993, the SBI retained IAI to manage a domestic stock portfolio patterned after the IAI Regional Equity Fund. This strategy was developed by Bing Carlin who was designated as the SBI's portfolio manager. Mr. Carlin has now retired and Mark Hoonsbeen, previously an associate portfolio manager, has assumed responsibility for the SBI account. Staff will closely monitor the transition over the next six months to determine whether the investment philosophy and process is still being consistently applied.

RECOMMENDATION:

The Committee recommends that the SBI place IAI on probation due to a change in portfolio managers for the SBI active stock account with the firm. this action is recommended in accordance with the guidelines in the SBI's Manager Continuation Policy.

2. Recommendation to Renew Manager Contracts

Contracts with most of the SBI's stock and bond managers expire on June 30, 1996. Staff proposed that all of the contracts be renewed for a five year period with a change in the termination provision. Currently, the contracts provide that the agreements may be terminated with 30 days notice. Staff proposes that a change be made to the new contract to provide for immediate termination. All other terms conditions of the contracts are expected to remain unchanged.

RECOMMENDATION:

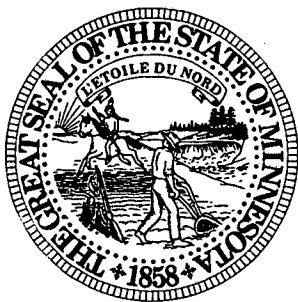
The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute five year contract extensions with the following firms, subject to inclusion of a provision which provides for immediate termination:

Domestic Equity Managers

Alliance Capital Management
Brinson Partners, Inc.
Forstmann Leff Associates
Franklin Portfolio Associates Trust
GeoCapital Corporation
IDS Advisory Group
Independence Investment Assoc., Inc.
Investment Advisers, Inc.
Jundt Associates, Inc.
Lincoln Capital Management
Oppenheimer Capital
Waddell & Reed Asset Management
Weiss Peck & Greer

Fixed Income Managers

BEA Associates
Goldman Sachs Asset Management
IDS Advisory Group
Investment Advisers, Inc.
Lincoln Capital Management
Miller Anderson & Sherrerd
Standish Ayer & Woods
Western Asset Management



STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Fourth Quarter, 1995

(Blank)

DOMESTIC STOCK MANAGERS
Period Ending 12/31/95

Current Managers	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 %		
Alliance	1.6	3.3	38.1	35.0	14.5	11.5	18.8	15.5	17.6	12.5	\$971.36	7.7%
Brinson	7.3	4.4	40.9	34.7					17.4	15.2	\$370.86	2.9%
Forstmann-Leff	3.7	3.2	32.1	32.4	10.8	13.2	14.6	15.7	12.7	12.4	\$376.46	3.0%
Franklin Portfolio	0.2	3.8	32.3	34.5	15.9	14.8	18.1	18.3	14.3	14.0	\$491.96	3.9%
GeoCapital	-0.1	5.6	29.6	43.6	12.7	22.1	20.2	24.6	15.9	19.1	\$329.67	2.6%
IAI	7.0	4.5	33.2	34.0					16.6	16.8	\$153.46	1.2%
IDS	8.1	5.0	36.6	36.5	15.6	16.0	19.0	18.1	15.3	14.8	\$509.98	4.0%
Independence	4.6	5.9	37.8	37.6	15.2	15.4			14.8	14.8	\$501.76	4.0%
Jundt Associates	-2.3	1.2	18.2	33.7					10.7	17.3	\$262.93	2.1%
Lincoln	7.2	5.7	41.5	37.0					18.6	17.1	\$370.69	2.9%
Oppenheimer	4.9	5.8	43.0	35.2					18.0	15.2	\$374.91	3.0%
Waddell & Reed	0.3	2.2	27.9	32.2	13.7	16.2	16.4	18.5	12.5	12.6	\$495.51	3.9%
Weiss Peck & Greer	5.8	0.1	39.7	38.6					13.7	17.9	\$278.06	2.2%
Emerging Managers (2)	2.4	4.4	30.2	36.1					18.7	22.5	\$365.14	2.9%
Semi-Passive (3)												
Franklin Portfolio	5.4	6.1	35.4	36.0					35.4	36.0	\$1,050.77	8.3%
JP Morgan	6.4	6.1	36.9	36.0					36.9	36.0	\$1,086.73	8.6%
BZW Barclays	6.3	6.1	39.8	36.0					39.8	36.0	\$1,086.76	8.6%
Passive												
BZW Barclays (4)	4.9	4.9							13.8	13.8	\$3,526.93	28.0%
											\$12,603.93	100.0%
									Since 1/1/84			
Current Aggregate	4.5	4.8	35.7	35.7	14.6	14.7	18.4	17.7	15.6	13.7		
Historical Aggregate (5)	4.5	4.8	35.0	35.8	14.1	14.8	16.7	17.3	14.0	14.3		
Wilshire Adjusted		4.9		36.5		14.8		17.2		14.3		
Wilshire 5000		4.9		36.5		14.9		17.3		14.6		

(1) Since retention by the SBI. Time period varies for each manager.

(2) Aggregate of emerging manager group.

(3) Semi-passive managers retained 1/95. All use completeness fund benchmark.

(4) Passive manager retained 7/95 to manage a Wilshire 5000 index fund.

(5) Includes the performance of terminated managers.

(Blank)

ALLIANCE CAPITAL MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Jack Koltes

Assets Under Management: \$971,357,839

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.
- Well-acquainted with needs of large clients.
- Investment style consistently and successfully applied over a variety of market environments.

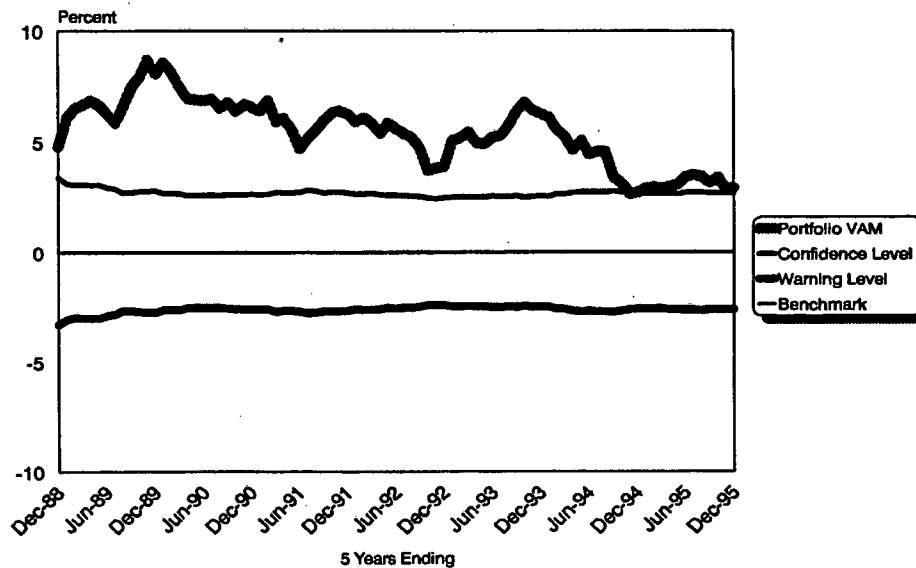
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	3.3%
Last 1 year	38.1	35.0
Last 2 years	16.4	16.9
Last 3 years	14.5	11.5
Last 4 years	13.7	10.8
Last 5 years	18.8	15.5
Since Inception (1/84)	17.6	12.5

Recommendation

No action recommended.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 12/31/95

Portfolio Manager: Jeff Diermeier

Assets Under Management: \$370,863,539

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.
- Investment style consistently and successfully applied over a variety of market environments.

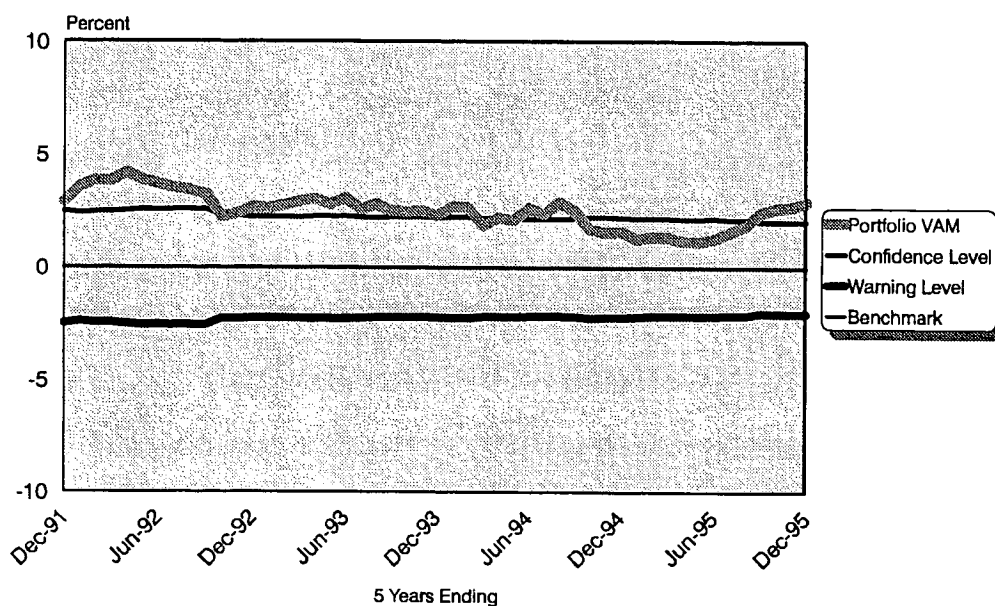
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.3%	4.4%
Last 1 year	40.9	34.7
Last 2 years	19.3	16.1
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	17.4	15.2

Recommendation

No action recommended.

BRINSON PARTNERS
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

FORSTMANN LEFF ASSOCIATES

Period Ending 12/31/95

Portfolio Manager: Joel Leff

Assets Under Management: \$376,463,450

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Highly successful and experienced leadership.
- Well acquainted with needs of large clients.

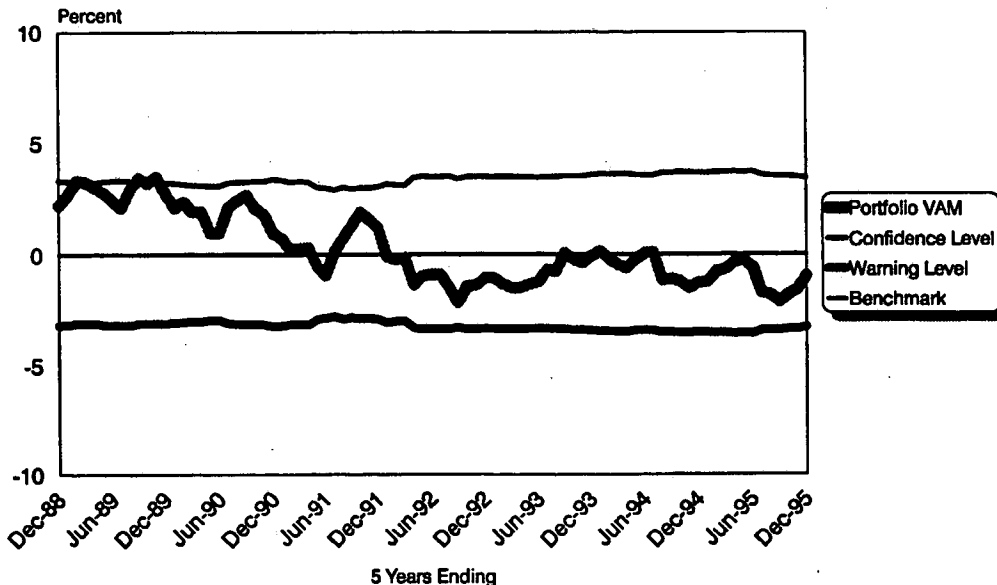
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	3.2%
Last 1 year	32.1	32.4
Last 2 years	11.2	15.5
Last 3 years	10.8	13.2
Last 4 years	9.1	12.6
Last 5 years	14.6	15.7
Since Inception (1/84)	12.7	12.4

Recommendation

No action recommended at this time. The firm was recommended for continuation after a formal re-interview in August. Staff continues to closely monitor the firm.

**FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods**



Note: Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES

Period Ending 12/31/95

Portfolio Manager: John Nagorniak

Assets Under Management: \$491,957,281

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. They use the BARRA E.2 risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark to achieve a residual risk of 3.0% to 4.0 for the active portfolio.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Firms investment approach has been consistently applied over a number of markets cycles.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

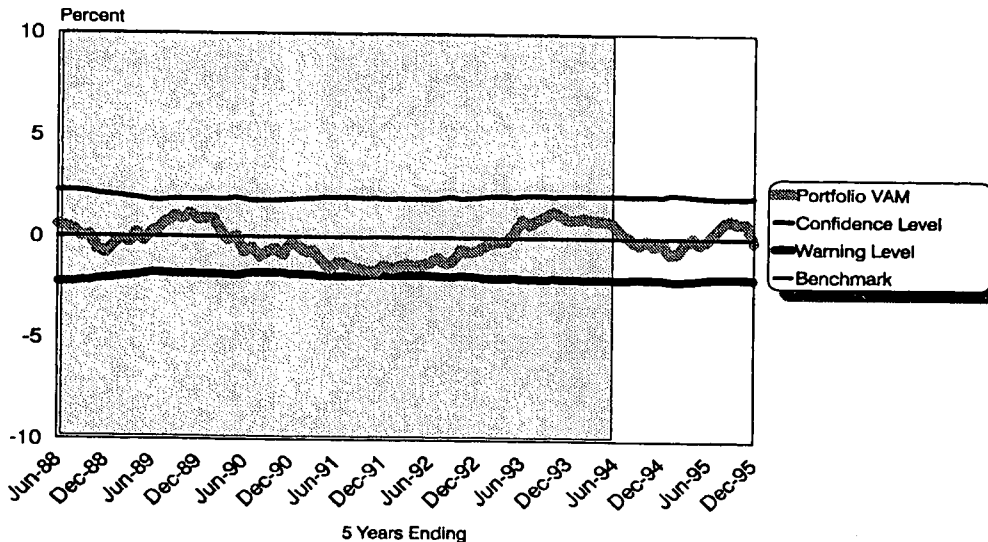
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	3.8%
Last 1 year	32.3	34.5
Last 2 years	15.3	16.0
Last 3 years	15.9	14.8
Last 4 years	14.9	14.4
Last 5 years	18.1	18.3
Since Inception (4/89)	14.3	14.0

Recommendation

No action recommended.

FRANKLIN PORTFOLIO
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

GEOCAPITAL CORP.
Period Ending 12/31/95

Portfolio Manager: Barry Fingerhut

Assets Under Management: \$329,669,199

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 an individual stock selection analysis to invest in the growth/technology and intrinsic value areas of the market. In the growth/technology area, GeoCapital looks for companies that will have above average growth due to a good product development and limited competition. In the intrinsic value area, the key factors in this analysis are corporate assets, free cash flow, and a catalyst that will cause a positive change in the company. The firm generally stays fully invested, with any cash positions due to the lack of attractive investment opportunities.

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Investment style consistently and successfully applied over a variety of market environments.
- Attractive, unique investment approach.
- Highly successful and experienced professionals.

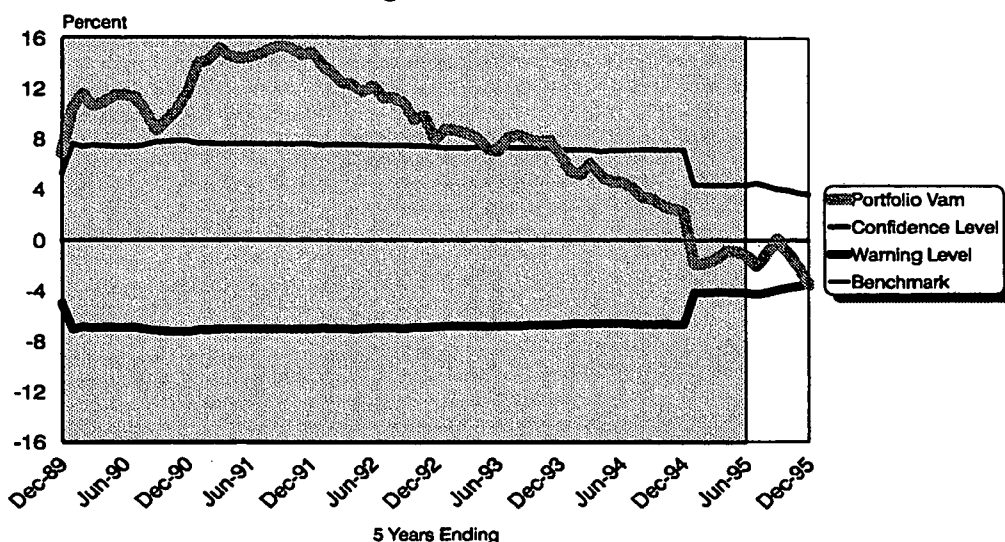
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	5.6%
Last 1 year	29.6	43.6
Last 2 years	11.2	22.3
Last 3 years	12.7	22.1
Last 4 years	9.8	18.8
Last 5 years	20.2	24.6
Since Inception (4/90)	15.9	19.1

Recommendation

No action recommended. Staff continues to closely monitor the firm due to performance concerns.

**GEOCAPITAL
Rolling Five Year Time Periods**



Note: Shaded area includes performance prior to managing SBI account.
Scale differs from other manager VAM graphs. Graph uses 80/20 confidence interval.

INVESTMENT ADVISERS INC.

Period Ending 12/31/95

Portfolio Manager: Mark Hoonsbeen

Assets Under Management: \$153,464,878

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 and South Dakota. Twenty percent of the portfolio can be used to purchase large capitalization stocks that display the same quality and growth characteristics but have headquarters outside this region.

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Attractive, unique investment approach.
- Investment style successfully applied over a number of market cycles.

Concerns:

- Portfolio manager retired on December 31, 1995.
- Performance: Portfolio VAM was below warning level for past 3 quarters.

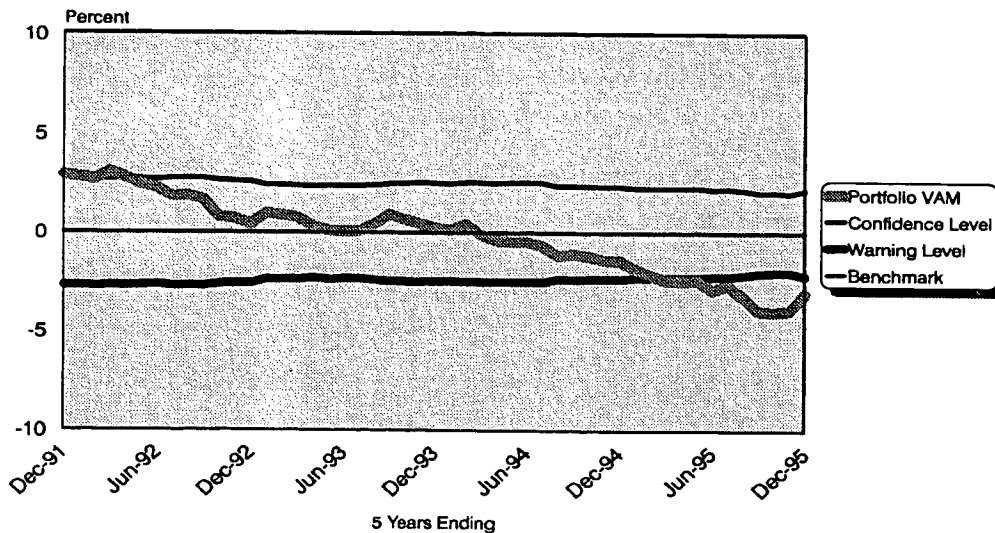
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.0%	4.5%
Last 1 year	33.2	34.0
Last 2 years	15.9	17.6
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	16.6	16.8

Recommendation

Staff recommends that IAI be put on probation due to above concerns. Because of Julian (Bing) Carlin's retirement, the portfolio will be managed by Mark Hoonsbeen. Mr. Hoonsbeen has worked with Mr. Carlin for the past 18 months. The firm will continue to be closely monitored.

**INVESTMENT ADVISERS
Rolling Five Year Time Periods**



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

IDS ADVISORY
Period Ending 12/31/95

Portfolio Manager: Pete Anderson

Assets Under Management: \$509,976,041

Investment Philosophy

IDS employs a "rotational" style of management, shifting among industry sectors based upon its outlook for the economy and the financial markets. The firm emphasizes primarily sector and industry weighting decisions. After the sector weightings have been determined IDS will select the best companies in those sectors based on fundamental analysis by their in-house analysts to reach the desired weightings. Moderate market timing is also used. Over a market cycle, IDS will invest in a wide range of industries. It tends to buy liquid, large capitalization stocks. While IDS will make occasional significant asset mix shifts over a market cycle, the firm is a less aggressive market timer than most rotational managers.

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Investment style consistently and successfully applied over a variety of market environments.
- Familiar with the needs of large institutional clients.

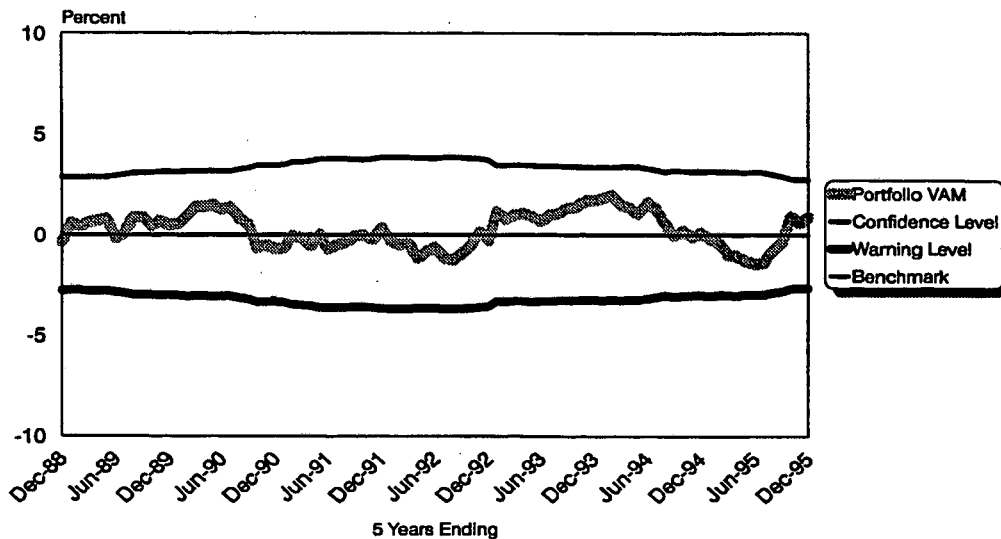
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.1%	5.0%
Last 1 year	36.6	36.5
Last 2 years	17.4	18.2
Last 3 years	15.6	16.0
Last 4 years	14.6	15.7
Last 5 years	19.0	18.1
Since Inception (1/84)	15.3	14.8

Recommendation

No action recommended.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

INDEPENDENCE INVESTMENT ASSOCIATES
Period Ending 12/31/95

Portfolio Manager: Bill Fletcher

Assets Under Management: \$501,758,513

Investment Philosophy

Independence believes that individual stocks which outperform the market always have two characteristics: they are intrinsically cheap and their business is in the process of improving. Independence ranks their universe using a multifactor model. Based on input primarily generated by their internal analysts, the model ranks each stock based on 10 discreet criteria. Independence constricts their portfolio to the top 60% of their ranked universe. The portfolio is optimized relative to the benchmark selected by the client to minimize the market and industry risks. Independence maintains a fully invested portfolio and rarely holds more than a 1% cash position.

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Attractive, unique investment approach.
- Highly successful and experienced professionals.
- Attractive, unique investment approach.

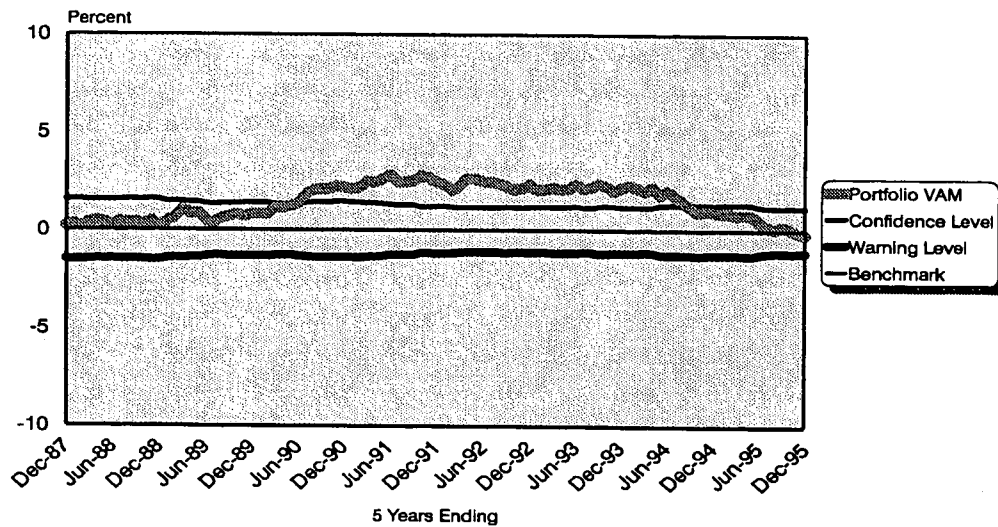
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.6%	5.9%
Last 1 year	37.8	37.6
Last 2 years	16.8	18.1
Last 3 years	15.2	15.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/92)	14.8	14.8

Recommendation

No action recommended.

INDEPENDENCE INVESTMENT ASSOCIATES
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

JUNDT ASSOCIATES
Period Ending 12/31/95

Portfolio Manager: James Jundt

Assets Under Management: \$262,933,464

Investment Philosophy

Jundt Associates' investment philosophy is growth oriented with a focus on companies generating significant revenue increases. They concentrate on larger-capitalization companies, with at least half the equity securities consisting of companies with annual revenues over \$750 million. Within these parameters, the firm's mission is to establish equity positions in 30 to 50 of the fastest growing corporations in America. Particular emphasis is placed on companies the firm believes will achieve annual revenue growth of 15% or greater. Jundt utilizes a bottom-up stock selection process combined with a top-down theme overlay. The firm attempts to identify five to seven investment themes and typically invests three to five stocks in each theme.

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Attractive, unique investment approach.
- Investment style has been consistently applied over a number of market cycles.

Current concerns are:

- Significant underperformance over the two years.

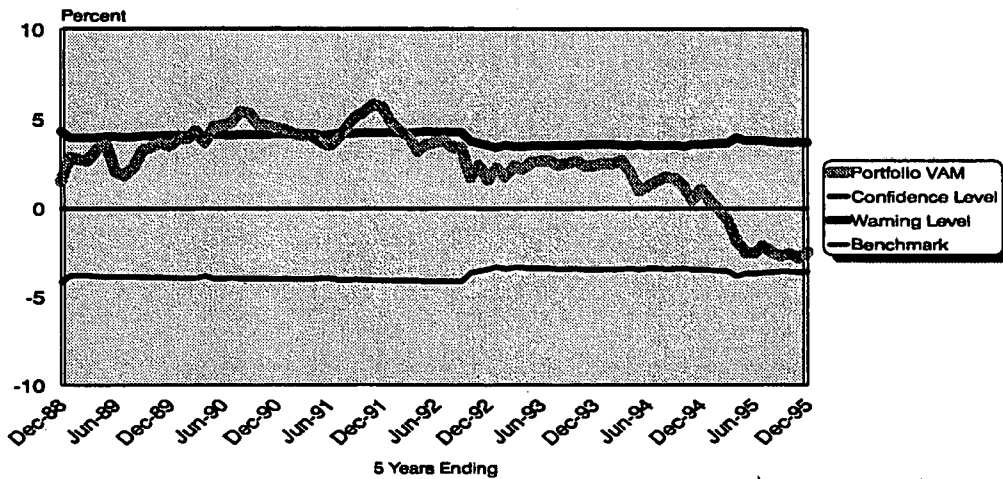
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.3%	1.2%
Last 1 year	18.2	33.7
Last 2 years	11.5	17.9
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	10.7	17.3

Recommendation

No action recommended. Staff continues to closely monitor the firm due to performance concerns.

JUNDT ASSOCIATES
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

LINCOLN CAPITAL MANAGEMENT
 Period Ending 12/31/95

Portfolio Manager: Parker Hall

Assets Under Management: \$370,690,595

Investment Philosophy

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Organizational continuity and strong leadership.
- Familiar with the needs of large clients.
- Investment style has been consistently applied over a number of market cycles.

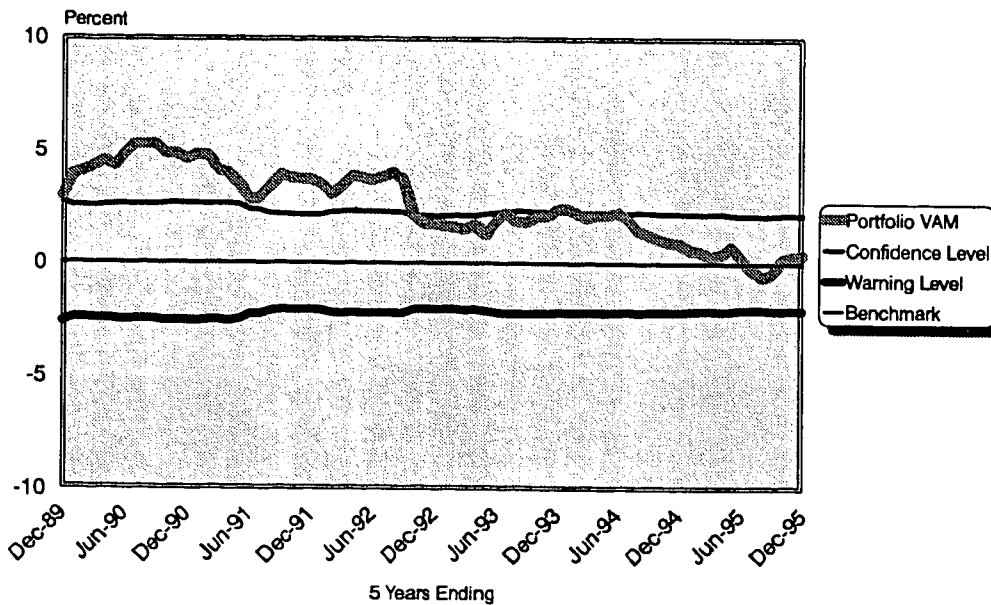
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.2%	5.7%
Last 1 year	41.5	37.0
Last 2 years	21.4	19.6
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	18.6	17.1

Recommendation

No action recommended.

LINCOLN CAPITAL MANAGEMENT
 Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

OPPENHEIMER CAPITAL
Period Ending 12/31/95

Portfolio Manager: John Lindenthal

Assets Under Management: \$374,905,937

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

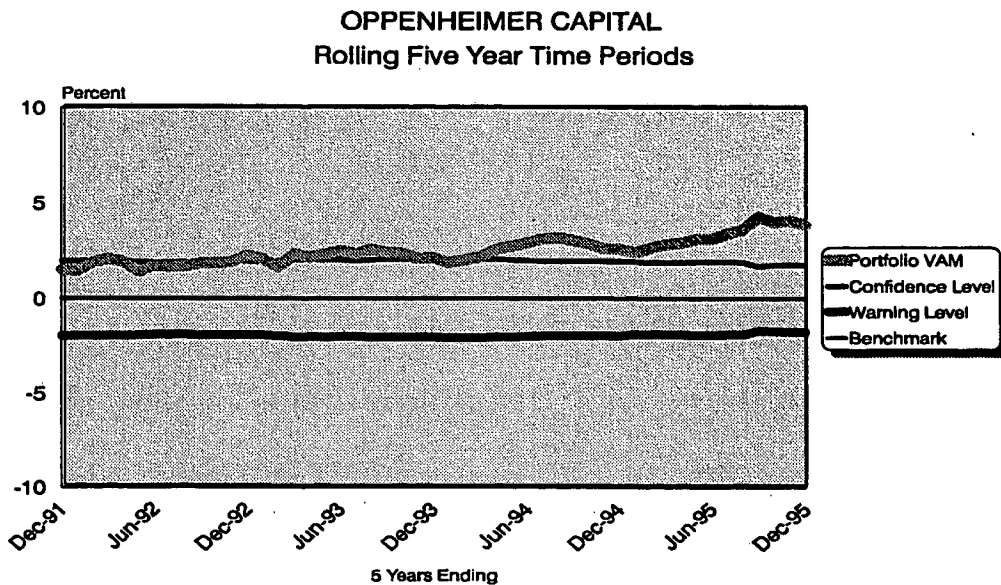
- Highly successful and experienced professionals.
- Familiar with the needs of large institutional clients.
- Investment style has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.9%	5.8%
Last 1 year	43.0	35.2
Last 2 years	19.9	16.9
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	18.0	15.2

Recommendation

No action recommended.



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

WADDELL & REED ASSET MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Henry Herrmann

Assets Under Management: \$495,506,701

Investment Philosophy

Waddell & Reed focuses its attention primarily on smaller capitalization growth stocks. However, the firm has demonstrated a willingness to make significant bets against this investment approach for extended periods of time and has been very eclectic in its choice of stocks in recent years. The firm is an active market timer and will raise cash to extreme levels at various points in the market cycle.

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

—Highly successful and experienced professionals.

Current concerns are:

—Significant organizational changes have occurred at the firm in the past year.

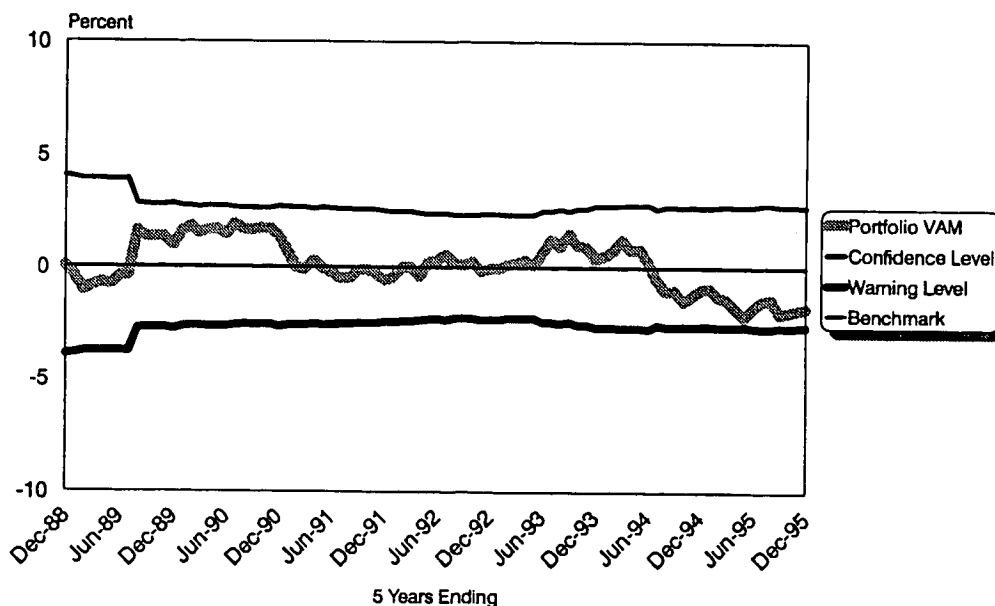
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	2.2%
Last 1 year	27.9	32.2
Last 2 years	13.6	15.7
Last 3 years	13.7	16.2
Last 4 years	14.0	15.3
Last 5 years	16.4	18.5
Since Inception (1/84) (1/84)	12.5	12.6

Recommendation

No action recommended at this time. The firm was recommended for continuation after a formal re-interview in August.

WADDELL & REED
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

WEISS, PECK & GREER
 Period Ending 12/31/95

Portfolio Manager: Melville Straus

Assets Under Management: \$278,060,253

Investment Philosophy

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Investment style has been consistently applied over a number of market cycles.

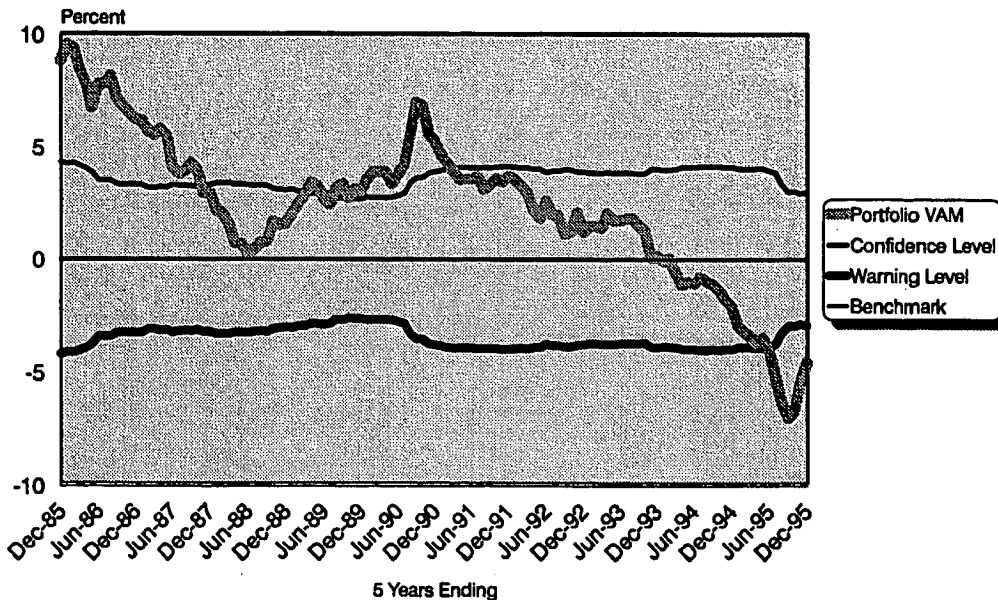
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.8%	0.1%
Last 1 year	39.7	38.6
Last 2 years	13.6	17.1
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	13.7	17.9

Recommendation

No action necessary at this time. Staff continues to closely monitor the firm due to performance concerns.

WEISS, PECK & GREER
 Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 12/31/95

Portfolio Manager: John Nagorniak

Assets Under Management: \$1,050,768,975

Investment Philosophy
Semi-Passive

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, 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. They use the BARRA E.2 risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark. For this semi-passive mandate, they seek to achieve a residual risk of 1.5% or less. The firm remains fully invested at all times.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Firm's investment approach has been consistently applied over a number of markets cycles.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	5.4%	6.1%
Last 1 year	35.4	36.0
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/95)	35.4	36.0

Recommendation

No action required.

* Completeness Fund

VAM graph will be created for period ending 12/31/96.

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Period Ending 12/31/95

Portfolio Manager: Rick Nelson

Assets Under Management: \$1,086,730,287

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 these 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 sector. Stocks most undervalued are placed in the first quintile. The portfolio includes stocks from the first four quintiles always favoring the highest ranked stocks whenever possible and sells those in the fifth quintile. In addition, the portfolio will closely approximate the sector, style, and security weightings of the index chosen by the plan sponsor. The firm remains fully invested at all times.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.4%	6.1%
Last 1 year	36.9	36.0
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/95)	36.9	36.0

Recommendation

No action required.

* Completeness Fund

VAM graph will be created for period ending 12/31/96.

BZW BARCLAYS GLOBAL INVESTORS
Period Ending 12/31/95

Portfolio Manager: Nancy Feldkircher

Assets Under Management: \$1,086,760,276

Investment Philosophy
Semi-Passive

The Core Alpha Model desegregates individual equity returns for each of the 3500 stocks in their universe into three components (fundamental, expectation, and technical). 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. An alpha is then calculated. The estimated alphas are used in a portfolio optimization algorithm to identify the optimal portfolio.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.
- Attractive, unique investment approach.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.3%	6.1%
Last 1 year	39.8	36.0
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/95)	39.8	36.0

Recommendation

No action required.

* Completeness Fund

VAM graph will be created for period ending 12/31/96.

BZW BARCLAYS GLOBAL INVESTORS

Period Ending 12/31/95

Portfolio Manager: Andrew R. Olma

Assets Under Management: \$3,526,927,754

Investment Philosophy

Passive

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

Qualitative Evaluation

(reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	4.9%	4.9%	No action required.
Last 1 year	N/A	N/A	
Last 2 years	N/A	N/A	
Last 3 years	N/A	N/A	
Last 4 years	N/A	N/A	
Last 5 years	N/A	N/A	
Since Inception (7/95)	13.8	13.8	

Tracking graph will be created for period ending 7/31/97.

**GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Period Ending 12/31/95**

Portfolio Manager: Gene Bolton

Assets Under Management: \$128,927,357

**Investment Philosophy
Assigned Risk Plan**

GE Investment's Multi-Style Equity program attempts to outperform the S&P 500 consistently while controlling overall portfolio risk through a multiple manager approach. Five portfolio managers with different styles ranging from growth to value are supported by 10 industry analysts. The five portfolios are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between growth and value. All GE managers focus on stock selection from a bottom-up prospective.

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Firms investment approach has been consistently applied over a number of markets cycles.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.4%	6.0%
Last 1 year	36.1	37.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/95)	36.1	37.6

Recommendation

No action recommended.

VAM graph will be created for period ending 12/31/96.

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Period Ending 12/31/95

Portfolio Manager: Mike Menssen

Assets Under Management: \$59,605,185

Investment Philosophy
Environmental Trust Fund

The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy used replicates the S&P 500 by owning all of the names in the index at the weightings of the index. The optimization model's estimate of tracking error with this strategy is 4 to 6 basis points per year.

Qualitative Evaluation
(reported by exception)

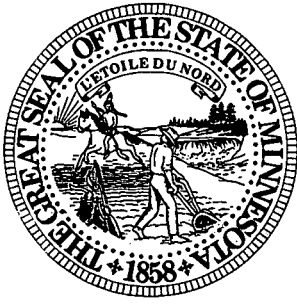
Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	6.1%	6.0%	No action recommended.
Last 1 year	37.6	37.6	
Last 2 years	18.2	18.1	
Last 3 years	N/A	N/A	
Last 4 years	N/A	N/A	
Last 5 years	N/A	N/A	
Since Inception	16.5	16.5	
(7/93)			

Tracking graph will be created for period ending 6/30/98.

(Blank)



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Fourth Quarter, 1995

(Blank)

EMERGING EQUITY MANAGERS
Period Ending 12/31/95

Current Managers	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)	Pool %
	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk	Actual	Bmk		
	%	%	%	%	%	%	%	%	%	%		
CIC Assets	6.9	5.7	37.8	35.5					20.9	22.2	\$41.81	11.5%
Cohen, Klingenstein, & Marks	4.9	1.5	29.5	33.4					22.8	19.9	42.95	11.8%
Compass Capital	6.1	5.1	33.0	30.8					21.3	18.6	42.06	11.5%
Kennedy Capital	-0.4	-1.9	25.8	25.0					13.7	13.5	37.53	10.3%
New Amsterdam	2.9	3.1	30.3	30.6					14.9	19.4	38.25	10.5%
Valenzuela Capital	4.2	3.4	29.3	31.4					16.7	18.4	39.32	10.8%
Wilke/Thompson	-2.6	1.0	32.3	28.9					23.3	17.1	43.27	11.9%
Winslow Capital	-1.5	1.9	22.9	31.4					17.9	19.6	39.99	11.0%
Zevenbergen Capital	1.8	1.2	29.1	30.7					17.8	19.7	39.94	10.9%
Historical Aggregate	2.4	2.4 *	30.2	31.2 *					18.7	19.1 *	\$365.14	100.0%
Current Aggregate	2.4	2.4 *	30.0	31.1 *					19.1	18.9 *		

Note:

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

All benchmarks are customized since inception date.

* weighted average of above benchmarks

(Blank)

CIC ASSET MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Jorge Castro

Assets Under Management: \$41,813,667

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.9%	5.7%
Last 1 Year	37.8	35.5
Since Inception (4/94)	20.9	22.2

* Custom benchmark since inception date.

COHEN KLINGENSTEIN & MARKS INCORPORATED
Period Ending 12/31/95

Portfolio Manager: George Cohen

Assets Under Management: \$42,951,362

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.9%	1.5%
Last 1 Year	29.5	33.4
Since Inception (4/94)	22.8	19.9

* Custom benchmark since inception date.

COMPASS CAPITAL MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Charles Kelley

Assets Under Management: \$42,064,961

Investment Philosophy

Compass Capital Management (CCM) combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value). They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy and companies whose earnings have grown well over long time periods, but which may experience earnings pressure with downturns in the economy. Particular focus is given to growth in sales, earnings, dividends, book value and the underlying industry. Due to their "growing company" orientation, their portfolios generally hold no utility, bank, deep cyclical (auto companies for example), or oil and gas stocks.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	6.1%	5.1%
Last 1 Year	33.0	30.8
Since Inception (4/94)	21.3	18.6

* Custom benchmark since inception date.

KENNEDY CAPITAL MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Richard Sinise

Assets Under Management: \$37,530,622

Investment Philosophy

Kennedy Capital Management (KCM) is dedicated to exploiting pricing inefficiencies in under-followed and misunderstood small capitalization stocks. They believe that stocks are efficiently priced where there is a proper distribution of information. However, many emerging growth companies suffer from lack of analytical coverage and information flow, and therefore, are "invisible" to institutional investors. KCM believes it is this lack of information which creates pricing inefficiencies. They anticipate that by closing this information gap they can transform these holdings into attractive institutional candidates. This, in turn, will increase the price of the stock.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-0.4%	-1.9%
Last 1 Year	25.8	25.0
Since Inception (4/94)	13.7	13.5

* Custom benchmark since inception date.

NEW AMSTERDAM PARTNERS

Period Ending 12/31/95

Portfolio Manager: Michelle Clayman**Assets Under Management: \$38,253,027****Investment Philosophy**

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.9%	3.1%
Last 1 Year	30.3	30.6
Since Inception (4/94)	14.9	19.4

* Custom benchmark since inception date.

VALENZUELA CAPITAL MANAGEMENT

Period Ending 12/31/95

Portfolio Manager: Peter McCarthy**Assets Under Management: \$39,321,289****Investment Philosophy**

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.2%	3.4%
Last 1 Year	29.3	31.4
Since Inception (4/94)	16.7	18.4

* Custom benchmark since inception date.

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 12/31/95

Portfolio Manager: Mark Thompson

Assets Under Management: \$43,274,257

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-2.6%	1.0%
Last 1 Year	32.3	28.9
Since Inception (4/94)	23.3	17.1

* Custom benchmark since inception date.

WINSLOW CAPITAL MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Clark Winslow

Assets Under Management: \$39,992,736

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	-1.5%	1.9%
Last 1 Year	22.9	31.4
Since Inception (4/94)	17.9	19.6

* Custom benchmark since inception date.

ZEVENBERGEN CAPITAL INC
Period Ending 12/31/95

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$39,937,498

Investment Philosophy

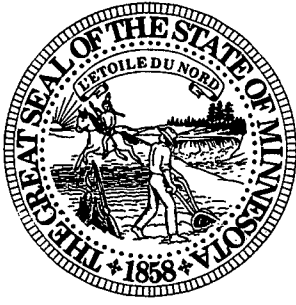
Zevenbergen is an equity growth manager. The investment philosophy is based on the belief that earnings drive stock prices while quality provides capital protection. Hence, portfolios are constructed with companies showing above-average earnings growth prospects and strong financial characteristics. 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 to potential diversification. The firm emphasizes that they are not market timers.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	1.8%	1.2%
Last 1 Year	29.1	30.7
Since Inception (4/94)	17.8	19.7

* Custom benchmark since inception date.

(Blank)



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 1995

(Blank)

40

DOMESTIC BOND MANAGERS
Period Ending 12/31/95

Current Managers	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		
	%	%	%	%	%	%	%	%	%	%		
BEA	4.1	4.3	17.9	18.5					6.7	6.9	\$328.21	4.6%
IAI	4.4	4.3	16.1	18.5	8.1	8.2	9.8	9.5	11.9	11.8	533.71	7.5%
Miller	4.1	4.3	19.1	18.5	8.5	8.2	10.6	9.6	11.9	11.8	598.23	8.4%
Standish	4.2	4.3	17.9	18.5					6.4	6.9	536.55	7.5%
Western	4.2	4.3	20.8	18.5	9.8	8.2	11.1	9.7	13.0	11.7	1,025.54	14.4%
IDS(2)	5.4	4.6	20.7	19.1					7.8	7.1	287.66	4.0%
TCW (3)	2.6	3.3	17.7	16.8					5.4	6.6	272.01	3.8%
Semi-Passive												
Fidelity (4)	4.4	4.3	17.7	18.5	8.3	8.2	9.8	9.6	10.0	9.9	1,178.23	16.5%
Goldman (4)	4.3	4.3	18.4	18.5					7.4	6.9	1,197.26	16.8%
Lincoln (4)	4.3	4.3	18.5	18.5	8.3	8.2	9.6	9.6	9.9	9.9	1,181.46	16.5%
											\$7,138.85	100.0%
									Since 7/1/84			
Current Aggregate	4.3	4.2	18.5	18.4	8.6	8.2	10.1	9.6	12.2	11.7		
Historical Aggregate (5)	4.2	4.2	18.6	18.4	8.5	8.2	10.0	9.6	11.6	11.6		
Lehman Aggregate (6)		4.3		18.5		8.2		9.6		11.1		

(1) Since retention by the SBI. Time period varies for each manager.

(2) Govt./Corp. only

(3) Mortgages only. Manager terminated effective 11/95.

(4) Semi- passive manager

(5) Includes performance of terminated managers

(6) Prior to July 1994, this index reflects the Salomon BIG

(Blank)

BEA ASSOCIATES
Period Ending 12/31/95

Portfolio Manager: Bob Moore

Assets Under Management: \$328,214,197

Investment Philosophy

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

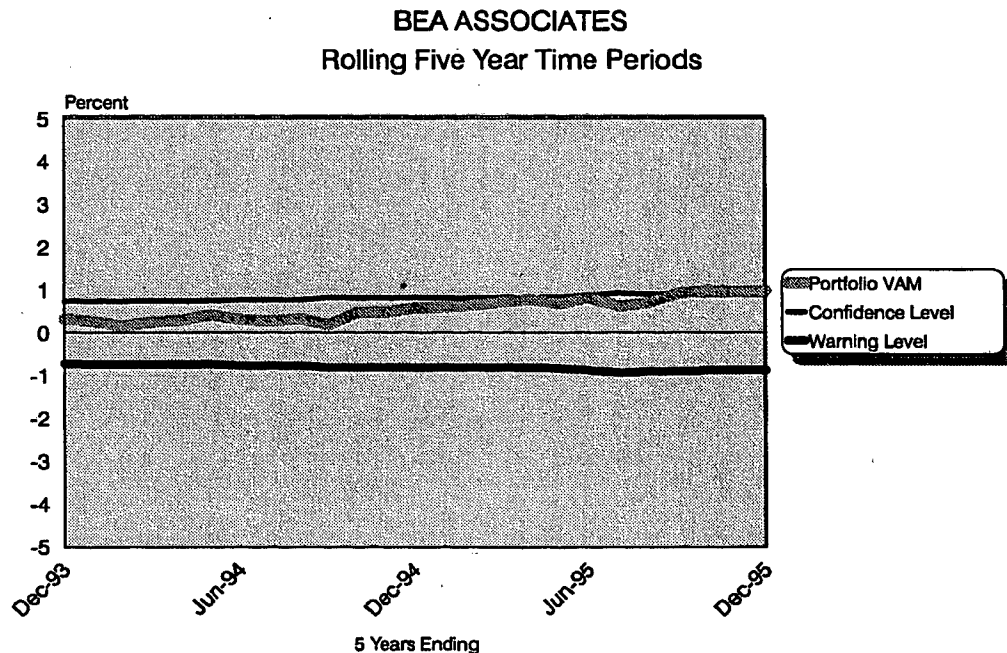
- Highly successful and experienced professionals.
- Extensive option analysis capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	4.3%
Last 1 year	17.9	18.5
Last 2 years	6.7	7.3
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.7	6.9

Recommendations

No action recommended.



Notes: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

INVESTMENT ADVISERS

Period Ending 12/31/95

Portfolio Manager: Larry Hill

Assets Under Management: \$533,711,258

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The current evaluation notes the following:

—The manager's duration decisions have added value over the long term. Recently, this strategy has not been as successful.

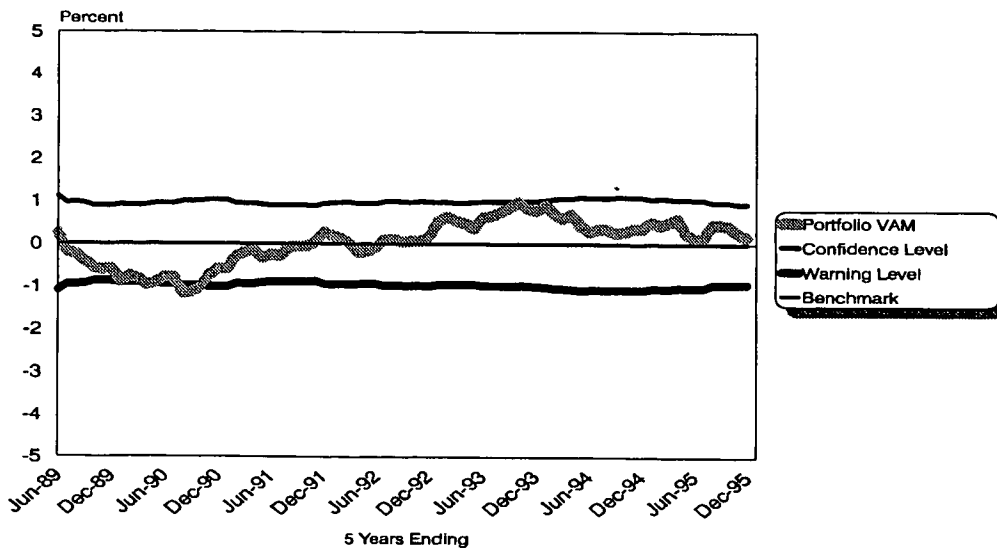
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4%	4.3%
Last 1 year	16.1	18.5
Last 2 years	5.8	7.3
Last 3 years	8.1	8.2
Last 4 years	8.0	8.0
Last 5 years	9.8	9.5
Since Inception (7/84)	11.9	11.8

Recommendations

No action recommended.

INVESTMENT ADVISERS
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

MILLER ANDERSON & SHERRERD
 Period Ending 12/31/95

Portfolio Manager: Tom Bennett

Assets Under Management: \$598,229,989

Investment Philosophy

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

Qualitative Evaluation
 (reported by exception)

The firms strengths continue to be:

- Highly successful and experienced professionals.
- Extensive securities research process.

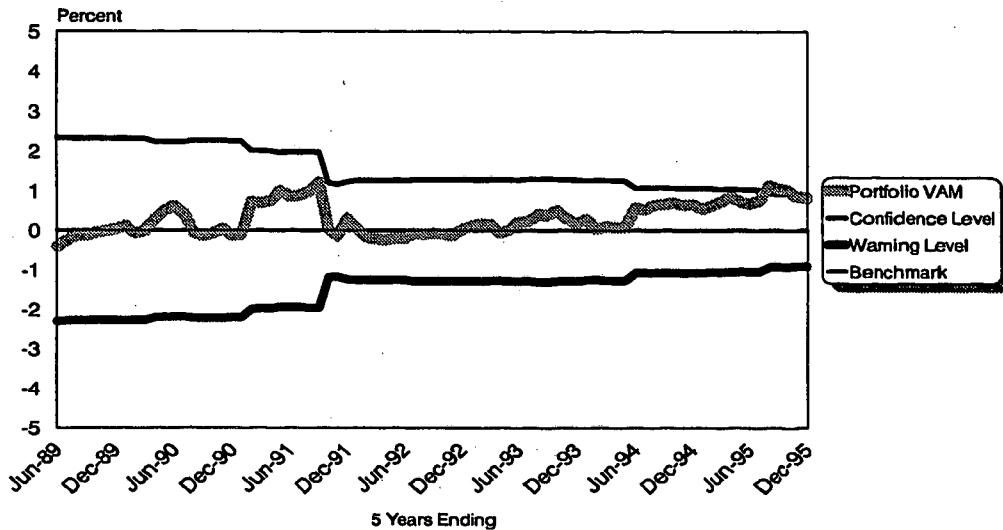
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	4.3%
Last 1 year	19.1	18.5
Last 2 years	6.8	7.3
Last 3 years	8.5	8.2
Last 4 years	8.2	8.0
Last 5 years	10.6	9.6
Since Inception (7/84)	11.9	11.8

Recommendations

No action recommended.

MILLER ANDERSON
 Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

STANDISH, AYER & WOOD
 Period Ending 12/31/95

Portfolio Manager: Austin Smith

Assets Under Management: \$536,550,765

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Highly successful and experienced professionals
- Extensive corporate research capabilities.

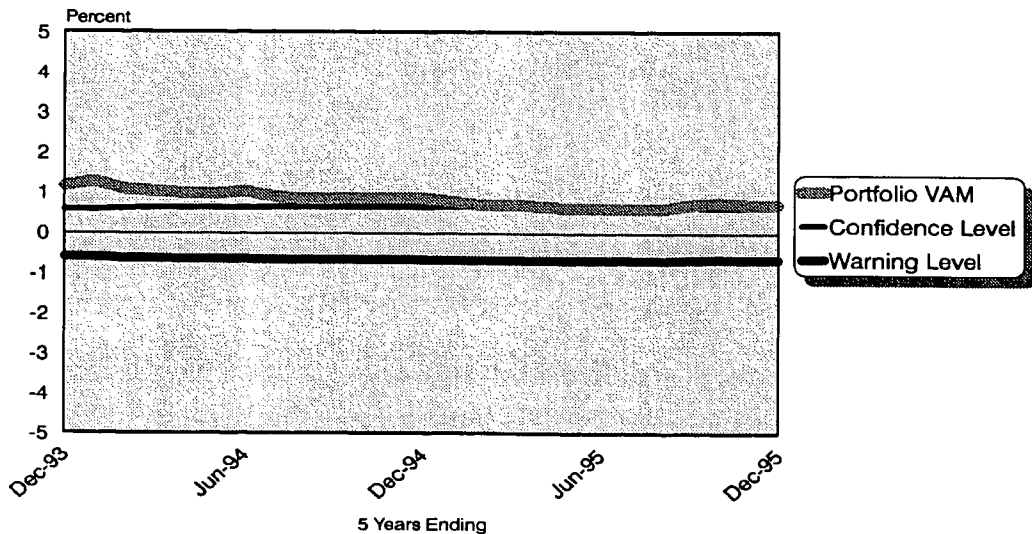
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	4.3%
Last 1 year	17.9	18.5
Last 2 years	6.4	7.3
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.4	6.9

Recommendations

No action recommended.

STANDISH, AYER & WOOD
 Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

WESTERN ASSET MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Kent Engel

Assets Under Management: \$1,025,535,928

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

The firm's exceptional strengths continue to be:
 —Highly successful and experienced professionals.
 —Extensive securities research process.

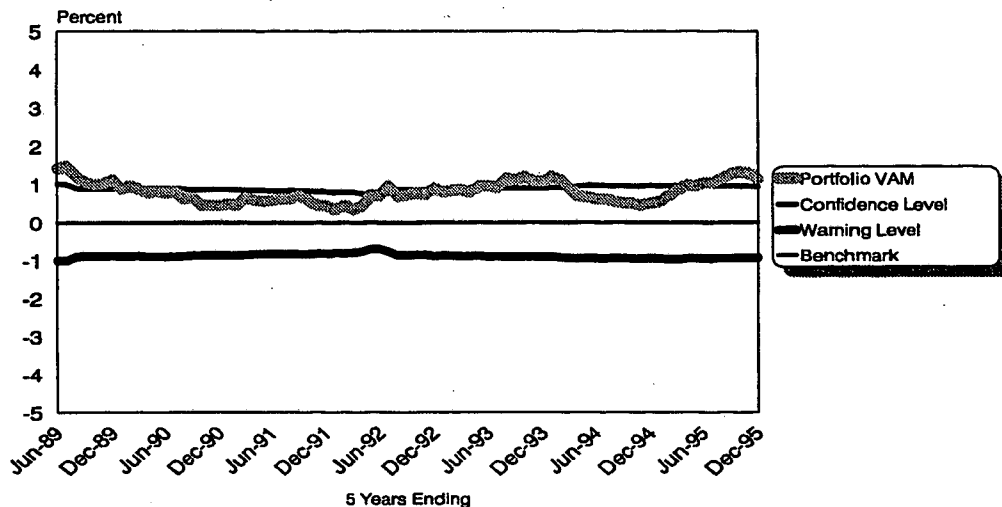
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	4.3%
Last 1 year	20.8	18.5
Last 2 years	7.7	7.3
Last 3 years	9.8	8.2
Last 4 years	9.4	8.0
Last 5 years	11.1	9.7
Since Inception (7/84)	13.0	11.7

Recommendations

No action recommended.

WESTERN ASSET MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

IDS ADVISORY GROUP

Period Ending 12/31/95

Portfolio Manager: Ed Labenski

Assets Under Management: \$287,655,576

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Extensive corporate research capabilities.

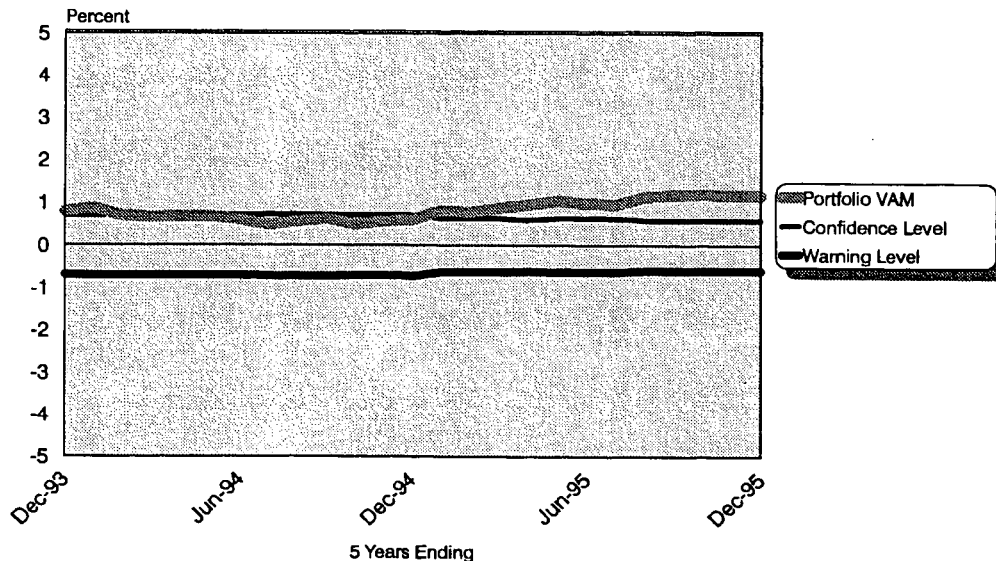
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.4%	4.6%
Last 1 year	20.7	19.1
Last 2 years	8.0	7.3
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	7.8	7.1

Recommendations

No action recommended.

**IDS ADVISORY GROUP
Rolling Five Year Time Periods**



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

TCW
Period Ending 12/31/95

Portfolio Manager: Philip Barach

Assets Under Management: \$272,006,383

Investment Philosophy

TCW manages a mortgage only portfolio for the SBI. TCW is a mortgage manager that emphasizes security selection. TCW invests a significant portion of the portfolio in collateralized mortgage obligations (CMO's). The staff analyzes various Wall Street models used to evaluate CMO's and determines the validity of their underlying assumptions. Historically, they have added significant value by understanding the strengths and weaknesses of these models. This helps them purchase undervalued securities and avoid those that are overpriced.

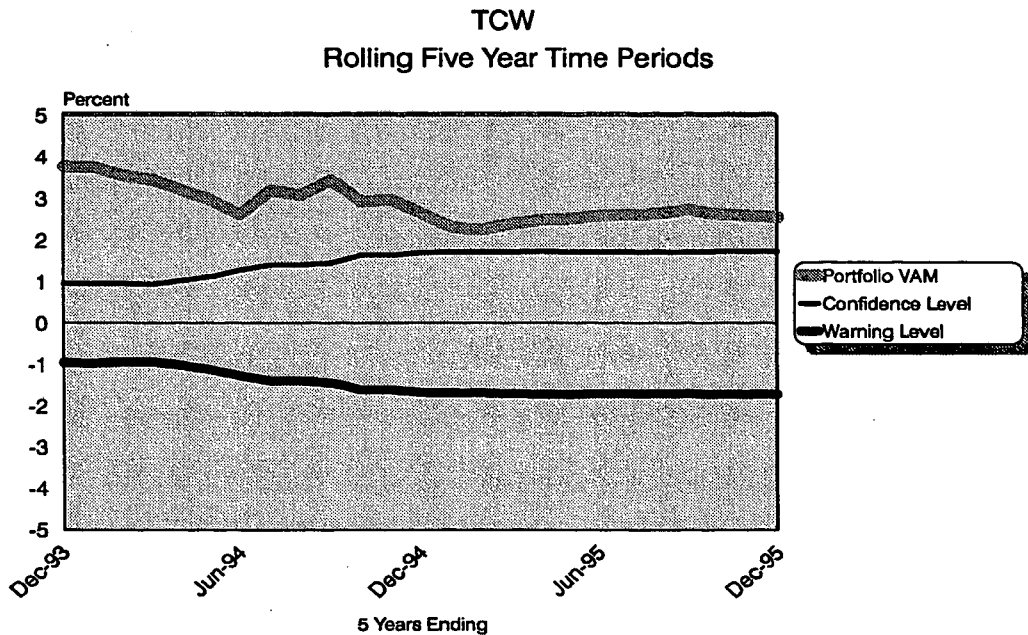
**Qualitative Evaluation
 (reported by exception)**

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.6%	3.3%
Last 1 year	17.7	16.8
Last 2 years	5.3	7.3
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.4	6.6

Recommendations

The SBI's relationship with TCW was terminated in 12/95.



Note: Shaded area includes performance prior to managing the SBI account. Graph uses 80/20 confidence interval.

FIDELITY MANAGEMENT TRUST
Period Ending 12/31/95

Portfolio Manager: Charles Morrison

Assets Under Management: \$1,178,225,817

Investment Philosophy

Fidelity is an enhanced index manager who builds an index portfolio using stratified sampling and a risk factor model. Using stratified sampling, Fidelity divides the Salomon BIG into subsectors based on characteristics like maturity, coupon, sector and quality and chooses securities to represent each cell. The portfolio is then compared to the Salomon BIG using a risk factor model. Fidelity adds value to the portfolio through sector selection, issue selection, credit research and yield curve strategies. Fidelity weights sectors based on their relative value and attempts to buy stable credits or credits likely to be upgraded. Finally, Fidelity changes the maturity distribution of the portfolio securities to take advantage of non-parallel shifts in the yield curve.

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Extensive securities research process.
- Quantitative capabilities.

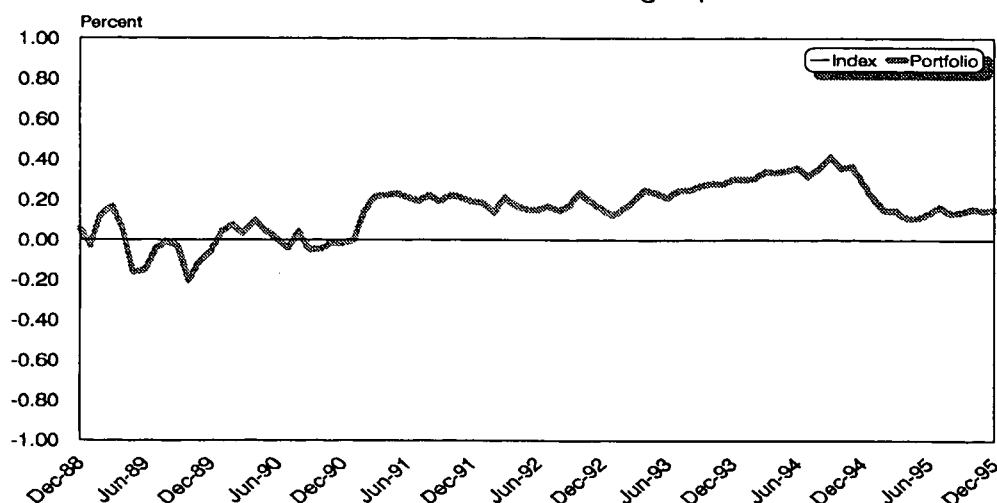
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4%	4.3%
Last 1 year	17.7	18.5
Last 2 years	7.0	7.3
Last 3 years	8.3	8.2
Last 4 years	8.2	8.0
Last 5 years	9.8	9.6
Since Inception (7/88)	10.0	9.9

Recommendations

Fidelity terminated its relationship with the SBI in 12/95.

FIDELITY MANAGEMENT TRUST
Cumulative Annualized Tracking Report



GOLDMAN SACHS
Period Ending 12/31/95

Portfolio Manager: Sharmin Mossavar Rahmani

Assets Under Management: \$1,197,255,387

Investment Philosophy

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Quantitative capabilities.

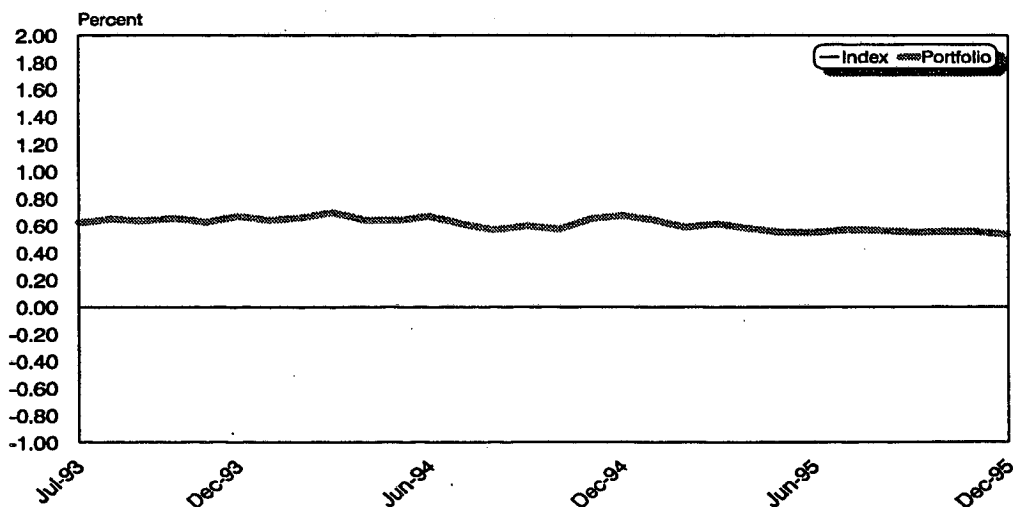
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	4.3%
Last 1 year	18.4	18.5
Last 2 years	7.6	7.3
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	7.4	6.9

Recommendations

No action recommended.

GOLDMAN SACHS
Cumulative Annualized Tracking Report



LINCOLN CAPITAL MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,181,465,000

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

The firm's strengths are:

- Highly successful and experienced professionals.
- Extensive quantitative capabilities.

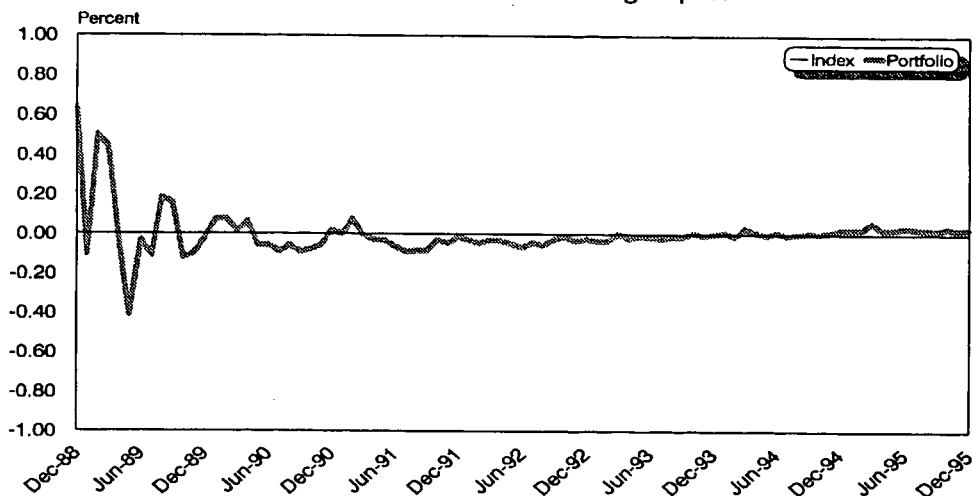
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	4.3%
Last 1 year	18.5	18.5
Last 2 years	7.4	7.3
Last 3 years	8.3	8.2
Last 4 years	8.1	8.0
Last 5 years	9.6	9.6
Since Inception (7/88)	9.9	9.9

Recommendations

Andrew Johnson replaced Brian Johnson as the SBI portfolio manager. Staff recommends no action at this time.

LINCOLN CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Period Ending 12/31/95

Portfolio Manager: Jane Wyatt

Assets Under Management: \$415,975,318

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 has the quality constraints and risk tolerance of MWCARP. Due to the specific liability requirement of MWCARP, return enhancement will focus on sector analysis and security selection. Yield curve and duration analysis are secondary considerations.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Firms investment approach has been consistently applied over a number of markets cycles.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

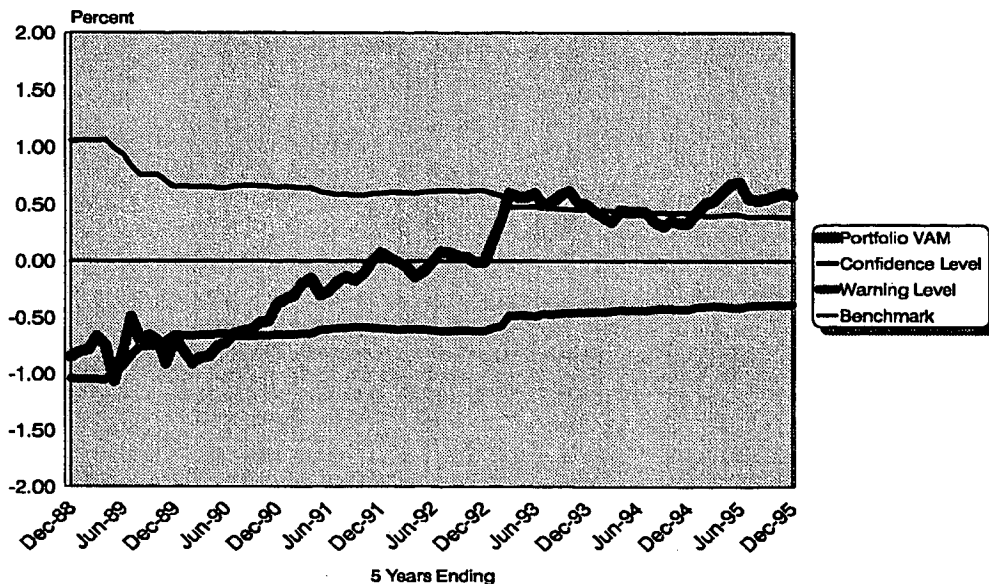
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.4%	3.2%
Last 1 year	15.7	14.4
Last 2 years	7.1	6.7
Last 3 years	7.6	7.0
Last 4 years	7.9	7.1
Last 5 years	N/A	N/A
Since Inception (5/91)	9.0	8.3

Recommendation

No action recommended.

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

INTERNAL BOND POOL - Income Share
 Period Ending 12/31/95

Portfolio Manager: Jim Lukens

Assets Under Management: \$128,262,915

Investment Philosophy
Income Share Account

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 shorter or longer depending on the economic outlook.

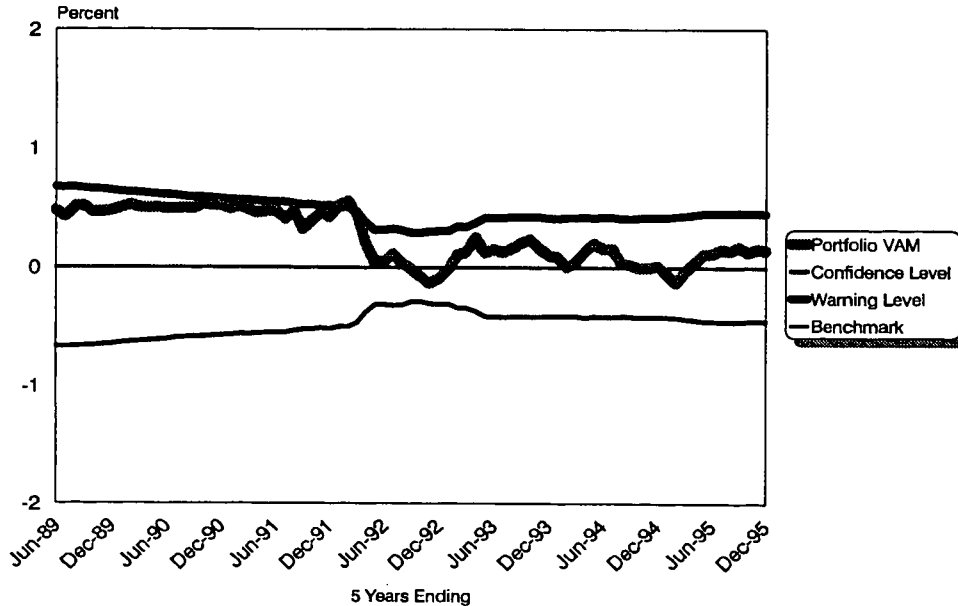
Qualitative Evaluation
 (reported by exception)

Quantitative Evaluation

	Actual	Benchmark	
Last Quarter	4.3%	4.3%	No action recommended.
Last 1 year	19.5	18.5	
Last 2 years	7.4	7.3	
Last 3 years	8.7	8.2	
Last 4 years	8.6	8.0	
Last 5 years	9.9	9.6	

Recommendation

INTERNAL BOND POOL - Income Share
 Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

INTERNAL BOND POOL - Trust/Non-Retirement Assets
Period Ending 12/31/95

Portfolio Manager: Jim Lukens

Assets Under Management: \$500,326,384

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

Qualitative Evaluation
(reported by exception)

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 shorter or longer depending on the economic outlook.

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	4.4%	4.3%	No action recommended.
Last 1 year	19.7	18.5	
Last 2 years	N/A	N/A	
Last 3 years	N/A	N/A	
Last 4 years	N/A	N/A	
Last 5 years	N/A	N/A	
Since Inception (7/94)*	13.7	12.7	

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

Tracking graph will be created for period ending 6/30/96.

Tab F

COMMITTEE REPORT

DATE: March 11, 1996

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

FROM: International Manager Committee

The International Manager Committee met on February 23, 1996 to discuss the following agenda items:

- Review of manager performance for the period ending December 31, 1995
- Update on asset allocation transition from 10% to 15% international exposure in the Combined Funds
- Update on implementation of currency overlay program
- Approval of contract renewals with Barings and Brinson
- Approval of staff position paper on emerging markets investing

Action is requested on the last two items.

INFORMATION ITEMS:

1. Review of manager performance

For the period ending December 31, 1995, the international stock program trailed the EAFE-Free index by 0.1 percentage point for the quarter. The program outperformed the index by 0.9 percentage point for the latest year and by 0.2 percentage point annualized for the last three years. The program has outperformed the EAFE-Free index by 0.3 percentage point annualized since inception (3.25 years).

Time Period	Actual	EAFE
Quarter	4.0%	4.1%
1 Year	12.4	11.3
3 Years	16.9	16.7
Since Inception (10/92)	14.2	13.9

Two of the six active managers outperformed for the quarter and five of the six outperformed for the year. Performance evaluation reports begin on page 57 and Manager Commentaries are in Tab H.

Performance attribution for the quarter shows the following for the entire program:

	Actual	EAFE	Value Added
Local Currency	5.57	6.30	-0.73
Country Selection			-0.46
Security Selection			-0.27
Currency Impact	-1.48	-2.12	+0.64
Currency Effect			+0.46
Hedging Activity			+0.18
US Dollar Return	4.01	4.05	0.04

Source: State Street Analytics

2. Update on Asset Allocation Transition

In October 1995, the SBI approved an increase in the allocation to international stocks from 10% to 15% of the Combined Funds. As part of this increase, the Board approved an allocation of 2% of the Combined Funds to emerging markets.

From October 1995 to February 1996, approximately \$840 million was added to the SBI's international pool. Approximately \$540 million was added to the EAFE index fund over a period of five months. In February 1996, approximately \$300 million was added to the active manager group through contributions of \$100 million each to Brinson, Marathon and Rowe Price-Fleming. In future quarters, emerging markets specialists are expected to be retained and funded with a total of \$450-500 million. These changes should bring the total program to the new 15% target.

3. Update on Currency Overlay Program

In October 1995, the SBI approved a currency overlay program for the EAFE index fund. Record Treasury Management was retained to implement an options-based hedging program for the five largest currencies in the EAFE index fund: Japanese Yen, German Mark, British Pound Sterling, French Franc and Swiss Franc.

The hedging program will be phased-in from December 1995-November 1996. As of January 31, 1996, the program had generated a \$2.55 million profit. Summary data are shown below:

	Currency Exposure* 1/31/96	Assets Covered by Overlay Program** 1/31/96		Assets Hedged as of 1/31/96	
Yen	\$666.4 mill	\$116.4 mill	17.46%	\$87.9 mill	13.2%
Sterling	274.8 mill	45.9 mill	16.71	45.9 mill	16.71
Mark	116.8 mill	19.2 mill	16.48	19.2 mill	16.48
Fr. Franc	105.3 mill	17.3 mill	16.39	17.3 mill	16.39
Sw. Franc	92.1 mill	16.1 mill	17.48	16.1 mill	17.48
Total	\$1,255.5 mill	\$214.9 mill	17.12%	\$186.4 mill	14.85%

Profit(Loss) Since Inception (Dec. 1995)

\$2,553,366

* Based on currency exposure of the SBI's EAFE index fund.

** Assets covered will be less than exposure during phase-in period. One twelfth of the exposure will be added to the overlay program each month from December 1995 through November 1996.

ACTION ITEMS:

1. Approval of Contract Renewals

On March 31, 1995, contracts with Brinson Partners and Baring Asset Management will expire. Staff recommends that both contracts be renewed for a five year period, April 1, 1995-March 31, 2001. Staff also proposed that the contracts be amended to reduce the termination clause from 30 days notice to immediate termination. All other terms of the contracts will remain unchanged.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute five year contract renewals with the following international stock managers subject to inclusion of a provision which provides for immediate termination.

- **Baring Asset Management**
- **Brinson Partners**

2. Approval of Position Paper on Emerging Markets Investing

In October 1995, the SBI approved an allocation of up to 2% of the Combined Funds to the stocks of emerging markets. Over the last several quarters, staff and the Committee have discussed various aspects of emerging markets investing. Staff has prepared a position paper which summarizes these discussions and presents additional information on these markets.

The Committee is forwarding the paper to the IAC and recommends that the SBI adopt the paper as its policy statement and implementation plan for emerging markets. The paper is included in this report and begins on **page 7**. The major findings and recommendations discussed in the paper are shown below:

- There is wide agreement that a small exposure to emerging markets can increase potential returns without increasing risk at the total fund level. Although these markets are more volatile than those of developed countries, the low correlations these markets have with each other and with more mature markets may actually reduce total portfolio risk.
- Although many definitions are used for emerging markets, staff recommends that the SBI use the classification adopted by major custodian banks: a non EAFE, non North American market that has a functional stock exchange or a very active over-the-counter market, securities that are available to foreign portfolio investments, and a convertible currency or a capital-plus-income repatriation plan. Although Malaysia is part of the EAFE index, staff recommends that Malaysia be considered an emerging market as well.
- Staff recommends using the Morgan Stanley Capital International Emerging Markets Free (EMF) as its asset class target and performance standard due to its risk/return characteristics, its investability and less concentrated country weights. Once the emerging markets allocation is fully implemented, a blended benchmark should be used for the SBI's international program, weighted 87% EAFE and 13% EMF. This weighting reflects the SBI's long term asset allocation targets for the international segment of the Combined Funds.
- In order to avoid an unintended overweighting to emerging markets, staff recommends that the SBI's existing active international managers limit their exposure to emerging markets, including Malaysia, to no more than 15% of their individual portfolios. While this constraint is not expected to affect the investment approach of any of the current managers, it should be included as part of the managers' contractual investment guidelines.

- The SBI should consider a range of implementation alternatives as it selects emerging markets specialists. Passive investing is not widely used among institutional investors and available vehicles are very limited at the present time. As a result, staff has suggested that the SBI focus on active or structured approaches to these markets at the present time. Important selection criteria include the quality and depth of resources, stability of the management team, attention to trading and liquidity constraints, size of assets under management, and length of track record. Closed-end funds, separate accounts and commingled funds should all be considered and a choice based on the method that is judged most advantageous for the SBI.

RECOMMENDATION:

The Committee recommends that the SBI adopt the staff position paper which begins on page 7 as its policy statement on emerging markets investing for the retirement funds.

EMERGING MARKETS INVESTING

Minnesota State Board of Investment

Staff Position Paper

February 1996

(Blank)

Emerging Markets Investing

Table of Contents

EXECUTIVE SUMMARY

PART 1: Rationale for Emerging Markets Investing

Definition of Emerging Markets

Benefits

Volatility/Risk

Recommended Allocation

Effect on Existing Active International Managers

PART 2: Investment Considerations and Constraints

Emerging Markets Life Cycle

Volatility Factors

Accounting Issues

Currency Issues

Regulatory and Custodial Issues

Costs

Market Impact

PART 3: Benchmark Issues

PART 4: Management Structure

Passive, Structured and Active Approaches

Country vs. Stock Selection

Criteria for Portfolio Managers

Investment Vehicles

FINAL RECOMMENDATION SUMMARY

Appendixes A-G

Bibliography

(Blank)

EXECUTIVE SUMMARY

In October 1995, the State Board of Investment (SBI) approved an allocation to emerging markets of up to 2% of the Combined Funds. This paper discusses emerging markets, the investment opportunities and limitations they present, and an implementation plan regarding the new allocation.

There is not one clear cut definition of emerging markets. The most widely accepted definition comes from the World Bank. It defines an emerging market as a country with an average per capita GNP of less than US\$8,955. Other entities focus on typical characteristics, such as relatively rapid economic growth and an immature equities market.

Staff recommends use of the common custodial definition: a non-EAFE (Europe, Australia and the Far East), non-North American market that has a functional stock exchange or a very active over-the-counter market, securities that are available to foreign portfolio investments, and a convertible currency or a capital-plus-income repatriation plan. Although Malaysia is included in EAFE, Staff recommends that it be considered an emerging market, since it has emerging market characteristics.

Many investors are concerned about the greater level of volatility in these markets. There are other risks as well, such as political instability, dramatic currency swings, illiquidity, high transaction costs and unpredictable growth. Studies have shown that emerging markets have low correlations with each other and with the developed countries. There is wide agreement that adding a diversified emerging markets portfolio to a fund can increase potential returns without increasing risk because of these low correlations (and may lower total portfolio risk if the allocation is sufficiently large).

Only small allocations were considered by Staff because of current liquidity constraints in emerging markets. The 2% allocation approved by the Board will translate to 13% of the international program. Staff recommends allowing the current active international managers to continue to invest opportunistically in emerging markets, capping their exposure at 15% to avoid overexposure.

There are five widely accepted emerging markets benchmarks - two from Morgan Stanley Capital International (MSCI), two from the International Finance Corporation (IFC) and one from Barings. Although none of the benchmarks are an ideal representation of a

portfolio manager's universe, Staff believes that investable indexes with broad exposure are the best currently available. The MSCI Emerging Markets Free (EMF) Index and the IFC Investable (IFCI) Index fit these general criteria. While both indexes have favorable and unfavorable characteristics, Staff recommended the MSCI EMF over the IFCI because of its superior risk/return characteristics, and its somewhat less concentrated country weights.

There is little agreement on the success of top-down versus bottom-up management in the emerging markets. Staff therefore recommends that managers be chosen for success within their unique investment style. Other selection criteria should include the quality and depth of resources, stability of the management team, size of assets under management, and length of track record. Three investment vehicles are available (closed-end fund, separate accounts, and commingled funds) and selection should be based on the method that is most advantageous to the particular needs of the SBI.

EMERGING MARKETS

In October 1995, the State Board of Investment (SBI) increased its long term international equity asset allocation from 10% to 15% of the Combined Funds. As part of this increase, the Board approved an allocation of up to 2% of the total portfolio to the stocks of emerging markets. At this level, emerging market equities would represent approximately 13% of the SBI's international stock pool.

This position paper discusses the rationale for an allocation to emerging markets, describes the opportunities and limitations of emerging markets investing, and presents an implementation plan for the SBI's investments in these markets. The discussion is divided into four sections:

- rationale for emerging markets investing
- investment considerations and constraints
- benchmark issues
- management structure

PART 1: Rationale For Emerging Markets Investing

Definition of Emerging Markets

There is no uniform definition of what constitutes an "emerging market." The most widely quoted definition comes from the World Bank. They define an emerging market as a country with an average per capita gross national product (GNP) of less than US\$8,955.¹

The International Finance Corporation (IFC), which promotes the growth of private enterprises in its developing member countries, has stated that emerging implies change and that change seems to run through everyone's definition.² The IFC has also said that "'emerging' can refer to any market in a developing economy, with the implication that all have the potential for development."

¹ From the International Finance Corporation, a member of the World Bank Group. As of December 31, 1994.

² International Finance Corporation, "Emerging Stock Markets Factbook 1994," page 2.

Other common characteristics of emerging markets include:³

- relatively rapid economic growth
- an immature equities market
- a government which promotes growth through the private equity sector
- a trend towards stable economic, financial and political institutions.

Countries which have many of these characteristics are captured in a common definition used by custodians. They define an emerging market as a non-EAFE (Europe, Australia and the Far East), non-North American market that has a functional stock exchange or a very active over-the-counter market, securities that are available to foreign portfolio investments, and a convertible currency or a capital-plus-income repatriation plan.⁴

This definition allows inclusion of markets with very small market capitalizations which are not included on the traditional emerging markets indexes, or countries with greater per capita incomes having many of the characteristics common to emerging markets. Although Malaysia is part of the EAFE index, and would therefore be excluded from the definition, custodians generally include it as an emerging market because it has emerging market characteristics.⁵

Whatever definition is used, it is important to recognize that characteristics may be dissimilar from country to country. Emerging market countries may have vastly different political systems, or be in markedly different economic stages.⁶

Staff recommends that the SBI use the common custodial definition for emerging markets: a non-EAFE, non-North American market that has a functional stock exchange or a very active over-the-counter market, securities that are available to foreign portfolio investments, and a convertible currency or a capital-plus-income repatriation plan. Like most custodians, Staff would also include Malaysia as an emerging market.

³ The following is based on information published by Douglas Stone, "The Emerging Markets and Strategic Asset Allocation," Russell Research, July 1990, page 4.

⁴ State Street Global Navigator, "Defining Emerging Markets," Nov/Dec 1992.

⁵ Originally, Singapore and Malaysia had a combined market which was included in EAFE. When they split their markets, Malaysia remained in the EAFE index even though it was not truly a developed market.

⁶ More information is included in Part 2: Investment Considerations and Constraints.

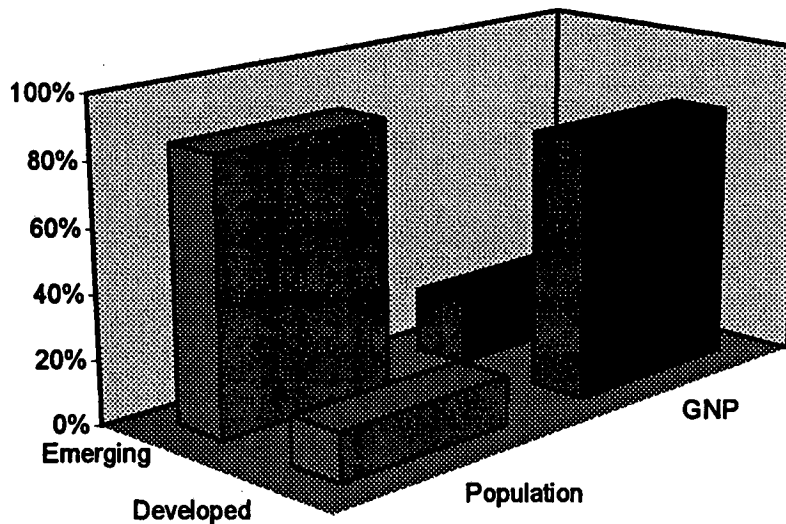
Benefits

Few plan sponsors or investment managers focused on emerging markets until the late 1980's. Interest continues to grow in response to the potential for higher returns over time, and low correlations among emerging and developed markets.

While emerging markets accounted for 85% of the world's population in 1993, they represented only 20% of world GNP (see Exhibit 1). By the end of 1994, emerging stock markets comprised almost 13% of the world stock market capitalization, a growth of 21% over 1993.⁷ Economic growth in these countries is projected to be 5.6%, approximately double the 2.7% projected annual growth for developed countries.⁸

Exhibit 1

Comparison of World Population and GNP, 1993



Source: International Finance Corporation, *Emerging Stock Markets Factbook 1995*

Return history for emerging markets is relatively short (the oldest index, compiled by the International Finance Corporation, began in 1985), but comparisons show that emerging markets have outperformed other markets. The five year annualized return for the

⁷ International Finance Corporation, "Emerging Stock Markets Factbook 1995."

⁸ According to the International Monetary Fund (IMF), June 1995.

Morgan Stanley Capital International Emerging Markets Free Index (MSCI EMF) is 22.3%. This is significantly higher than the five year annualized return for the MSCI EAFE, the MSCI World, the S&P 500 or the Wilshire 5000 (see Exhibit 2). The outperformance is more notable considering the stunning U.S. returns in calendar 1995 compared to the negative return for emerging markets (see Appendix A, B and C for additional return data).

Exhibit 2

Emerging Markets Periods Ending December 31, 1995
(U.S. Dollars)

Index benchmarks:	Annualized Return			Standard Deviation
	One Year	Three Years	Five Years	Five Years
S&P 500	37.6%	15.3%	16.6%	+9.9%
Wilshire 5000	36.4%	14.9%	17.3%	+9.9%
MSCI World	20.7%	15.8%	11.7%	+11.4%
MSCI EAFE	11.2%	16.7%	9.4%	+15.4%
MSCI Emerging Markets Free	-5.2%	15.4%	22.3%	+18.8%

Source: Richards & Tierney.

Correlations within emerging markets and between other asset classes are low (see Exhibit 3). This provides important diversification benefits for the total portfolio. By adding an asset class (such as emerging markets) with a low correlation to other assets, the risk/volatility of the total portfolio may be reduced.

It is important to note that the history of data available to compute emerging markets correlations is short, which may affect the statistical significance of these numbers. Also, the emerging markets indexes themselves have changed rapidly, which may lessen the reliability of the correlation numbers. Nonetheless, Staff believes that correlations are likely to remain low in the future.

Exhibit 3

**Correlation Coefficient Matrix of Selected IFCI Total Return Indexes,
Five Years Ending December 1994**

	S&P500	EAFE	IFCI	BRA	GRE	KOR	MAL	MEX	THA	VEN
S&P 500	1.00									
EAFE	0.44	1.00								
IFCI Composite	0.48	0.42	1.00							
BRAZIL	0.26	0.20	0.49	1.00						
GREECE	0.03	0.12	0.26	0.33	1.00					
KOREA	0.02	0.11	0.28	-0.09	-0.04	1.00				
MALAYSIA	0.34	0.41	0.66	0.01	-0.02	0.17	1.00			
MEXICO	0.36	0.23	0.69	0.20	-0.09	0.32	0.37	1.00		
THAILAND	0.38	0.28	0.61	0.08	0.13	0.17	0.63	0.34	1.00	
VENEZUELA	-0.11	-0.09	-0.03	-0.05	0.07	0.20	-0.10	-0.05	-0.14	1.00

Source: International Finance Corporation, *Emerging Stock Markets Factbook 1995*

The positive effect diversification into emerging markets has on an international portfolio is shown in Exhibit 4. This "efficient frontier" shows the return increase and risk reduction that an investor would have gained during this period when adding emerging markets to a passive EAFE portfolio.⁹ The risk reduction advantage ends when an international portfolio includes 50% or more emerging markets. At that point, risk begins increasing again, even though returns continue increasing.

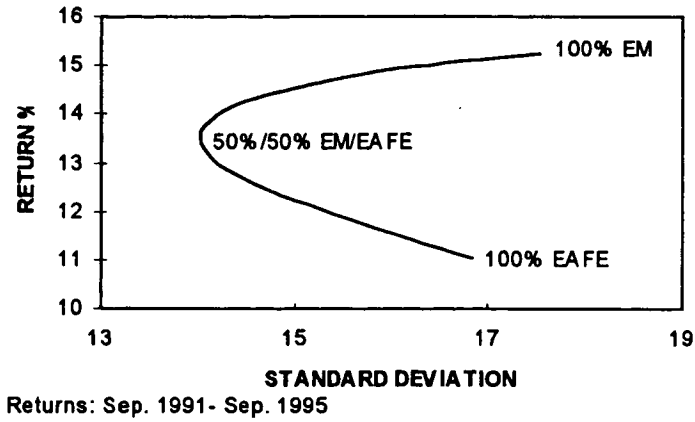
Volatility/Risk

While the efficient frontier analysis highlights the benefits of adding emerging markets to a portfolio, the SBI must recognize the volatility that is inherent in these markets. The return swings associated with a *single market* can be quite dramatic. Turkey is an excellent example as shown in Exhibit 5. It declined 50.7% in 1992 followed by a stupendous recovery of 230.6% in 1993, then a decline of 39.6% the next year.

⁹ The efficient frontier used the IFC Investable Index, which was comprised of 25 countries as of December 31, 1995.

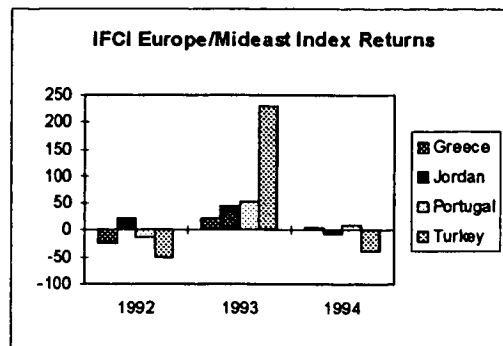
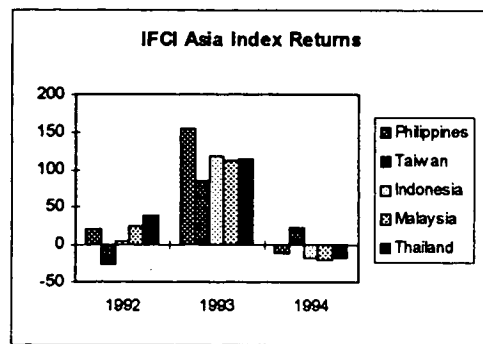
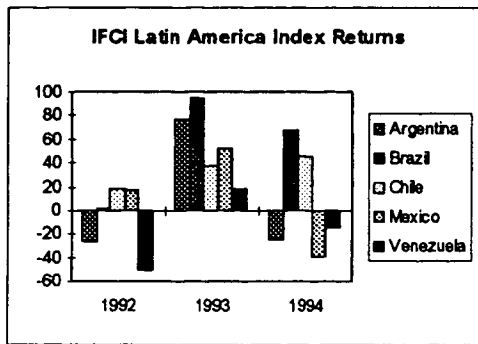
Exhibit 4

Emerging Markets Diversification Benefits with EAFE



Source: Ibbotson. The IFC Investable Index is used for emerging markets.

Exhibit 5

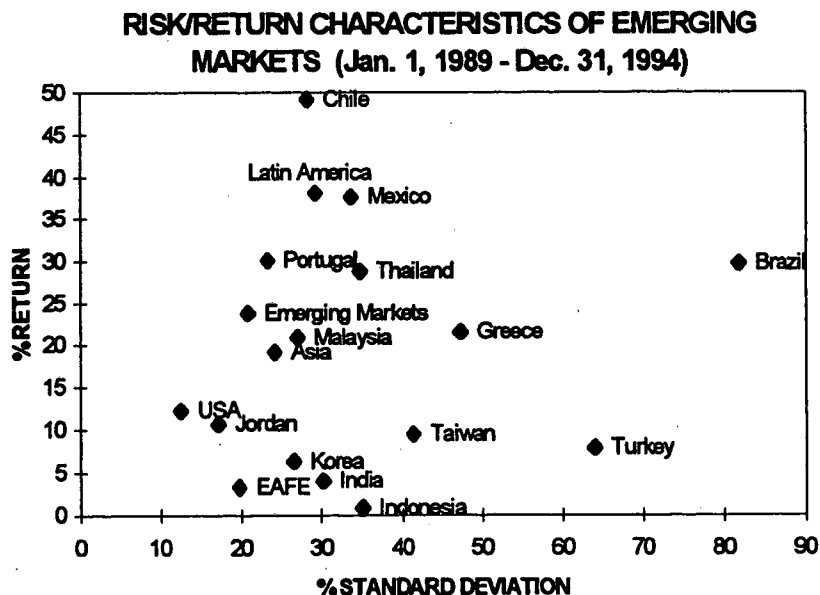


Source: International Finance Corporation, *Emerging Markets Factbook 1995*

Due to the low correlations between individual markets, the volatility of a diversified *emerging markets portfolio* is much lower than for most individual markets. However, the volatility associated with emerging markets investing is higher than for developed markets (MSCI EMF $\pm 18.8\%$, MSCI EAFE $\pm 15.4\%$ for the last five years).

Risk/return characteristics for several markets, including the U.S., EAFE, and the IFC's Investable (IFCI) emerging markets index, are shown in Exhibit 6. Emerging markets had a much higher annualized return than the U.S. or EAFE, for slightly higher risk.

Exhibit 6



Source: International Finance Corporation, *Emerging Stock Markets Factbook 1995*

This chart can be used to highlight the similarity between the risk/return patterns for emerging markets and venture capital. The risk associated with an individual market (like a single venture capital investment) is high and returns can be very positive or very negative on a year to year basis.

On the other hand, the risk of an emerging markets portfolio (as with a venture capital fund) is much lower because investments are more diversified across both strong and weak

performers. A few high return markets are expected to offset low returns from other markets (analogous to the “winners” and “losers” in a venture capital fund). Overall, investors expect higher long term returns to compensate for higher volatility and lower liquidity relative to other asset classes.

Recommended Allocation

When considering an emerging markets allocation, the effect it will have on both the international program and the total fund should be analyzed. Five of the SBI's international managers invest opportunistically in emerging markets (Barings, Marathon, Rowe-Price Fleming, Scudder and Templeton). One active manager (Brinson) has historically excluded emerging markets, other than Malaysia. The passive manager, State Street Global Advisors, does not invest outside the EAFE index.

The SBI's recent aggregate exposure to emerging markets is shown in Exhibit 7. This data is interesting because it shows the changes in the SBI's exposure to emerging markets over a few quarters:

- *International program.* Without Malaysia¹⁰, the emerging markets exposure has been as low as 2.12% and as high as 3.35% over the last two years. As of December 31, 1995, the emerging markets exposure was 2.14% excluding Malaysia. This compares to the long term target of up to 13% of the international program.

Total fund. The total fund had an emerging markets exposure of 0.24% on December 31, 1994, excluding Malaysia. This compares to the long term target of up to 2% of the total fund.

¹⁰ Malaysia is included in both the EAFE and the emerging markets indexes. The SBI's investment in Malaysia has been less than the EAFE benchmark weight, so it has not been included as an emerging market for this analysis.

Exhibit 7

TOTAL INTERNATIONAL PORTFOLIO

Emerging Markets Weights

	1Q 1994	2Q 1994	3Q 1994	4Q 1994	1Q 1995	2Q 1995	3Q 1995	4Q 1995
Latin America								
Argentina	0.10	0.10	0.12	0.11	0.12	0.11	0.11	0.11
Brazil	0.08	0.08	0.28	0.26	0.28	0.35	0.39	0.29
Chile	0.06	0.07	0.18	0.19	0.11	0.14	0.12	0.14
Colombia								
Mexico	1.18	1.13	1.12	0.61	0.24	0.29	0.36	0.29
Peru								
Venezuela								
Total	1.42	1.38	1.70	1.17	0.75	0.89	0.98	0.83
East Asia								
China							0.02	
Korea	0.57	0.69	0.71	0.44	0.41	0.41	0.48	0.37
Philippines				0.03		0.10	0.13	0.14
Taiwan								
Total	0.57	0.69	0.71	0.47	0.41	0.51	0.63	0.51
South Asia								
India	0.07					0.04	0.04	0.04
Indonesia								0.01
Malaysia *	1.99	1.85	2.06	1.76	1.83	1.93	1.94	1.92
Pakistan								
Sri Lanka								
Thailand	0.45	0.32	0.35	0.35	0.31	0.39	0.43	0.35
Total	2.51	2.17	2.41	2.11	2.14	2.36	2.41	2.32
Europe/Mideast /Africa								
Czech Republic					0.04	0.07	0.11	0.10
Greece	0.03	0.04	0.03	0.04	0.04	0.05	0.05	0.03
Hungary								
Jordan								
Poland								
Portugal	0.21	0.17	0.18	0.17	0.18	0.20	0.15	0.09
S. Africa		0.08	0.30	0.31	0.43	0.35	0.34	0.28
Turkey								
Zimbabwe								
Total	0.24	0.29	0.51	0.52	0.65	0.60	0.54	0.40
Other								
Cayman Islands			0.08					
Total	0.00	0.00	0.08	0.00	0.00	0.00	0.00	0.00
Total EM Exposure	4.74	4.53	5.41	4.27	3.95	4.36	4.56	4.08
w/o Malaysia	2.75	2.68	3.35	2.51	2.12	2.43	2.62	2.14
Number of Countries	10	10	11	11	11	13	14	14
w/o Malaysia	9	9	10	10	10	12	13	13

* Malaysia is also part of EAFE. Malaysia's EAFE weight is 2.19% as of 12/31/95

The SBI's current exposure also lacks broad diversification in terms of the number of countries represented in the portfolio. Exhibit 8 compares the distribution of the SBI's emerging markets exposure to the country weights within two leading emerging markets indexes, MSCI EMF and the IFC Investable (IFCI). It shows that the SBI's current exposure includes slightly more than half of the countries included in the indexes.

These figures suggest that the SBI would receive two benefits from a separate allocation to emerging markets specialists: higher exposure to emerging markets within the international program and greater diversification within the emerging markets exposure. Both should assist the SBI in achieving higher returns for the total portfolio without increasing total portfolio risk over the long term.

Asset mix simulations support this conclusion (see Exhibit 9). The simulations use the same return, risk and correlation assumptions as those employed by Staff for the most recent asset allocation review (refer to Tab D of the materials for the October 1995 meeting of the SBI for more information on the asset allocation study). The results show that even a small allocation to emerging markets provides risk/return benefits for the total fund.

A 2% allocation within the Combined Funds translates to \$471 million and a 4% allocation to \$972 million, as of December 31, 1995. Given the liquidity constraints associated with emerging markets investing, a 2% allocation appears to be an appropriate target for the Combined Funds at the present time. The SBI may choose to consider higher exposure at some point in the future, after it has greater experience with emerging markets investing or the aggregate capitalization and liquidity of emerging markets increases.

Staff reiterates its recommendation that up to 2% of the Combined Funds be allocated to emerging markets specialists. While asset mix simulations suggest that higher exposure would provide additional benefits to the Funds, Staff believes that a 2% target is an appropriate initial allocation due to the liquidity constraints associated with emerging markets investing. At this level, 13% of the international program would be exposed to emerging markets through emerging markets specialists.

Exhibit 8

EMERGING MARKETS WEIGHTS - December 31, 1995

	<u>Indexes</u>		<u>Actual SBI Exposure</u>	
	IFCI	EMF	w/o Malaysia	w/Malaysia
<i>Latin America</i>				
Argentina	3.7%	3.8%	4.9%	2.6%
Brazil	10.6	11.2	12.9	7.0
Chile	1.9	5.3	6.3	3.4
Colombia	1.3	0.8	-	-
Mexico	9.3	8.3	12.9	7.0
Peru	1.1	1.2	-	-
Venezuela	0.4	0.4	-	-
<i>East Asia</i>				
China	0.3	-	-	-
Korea	2.9	3.3	16.5	8.9
Philippines	2.8	3.0	6.3	3.4
Taiwan	2.8	-	-	-
<i>South Asia</i>				
India	2.3	5.8	1.8	0.9
Indonesia	2.3	5.4	0.5	0.2
Malaysia	19.8	16.7	-	46.2
Pakistan	0.8	0.6	-	-
Sri Lanka	0.1	0.1	-	-
Thailand	4.7	9.9	15.6	8.4
<i>Europe/Mideast/Africa</i>				
Czech Republic	-	-	4.5	2.4
Greece	1.6	1.3	1.3	0.7
Hungary	0.1	-	-	-
Israel	-	2.8	-	-
Jordan	0.2	0.2	-	-
Poland	0.3	0.2	-	-
Portugal	1.4	2.0	4.0	2.2
South Africa	27.0	16.4	12.5	6.7
Turkey	2.3	1.3	-	-
Zimbabwe	0.0*	-	-	-
	100%	100%	100%	100%
Number of Countries	25	22	13	14
Number of Stocks	1136	890	159	307
Market Capitalization	\$600 billion	\$690 billion	\$58 million	\$109 million
Average Market Capitalization	\$528 million	\$775 million	\$365 million	\$355 million

*less than 0.1%.

Sources: IFC, MSCI and State Street Analytics

Exhibit 9

Effect of Adding Emerging Markets Exposure

Asset Mix Simulations - Combined Funds

(assumes Basic and Post are equal in size)

Domestic Equity	47.5%	47.5%	47.5%
<i>International Equity</i>	<i>15.0%</i>	<i>13.0%</i>	<i>11.0%</i>
<i>Emerging Markets Equity</i>	<i>0.0%</i>	<i>2.0%</i>	<i>4.0%</i>
Alternative Assets	10.0%	10.0%	10.0%
Domestic Bonds	27.5%	27.5%	27.5%
Non Dollar Bonds	20.5%	20.5%	20.5%
Cash Equivalents	2.0%	2.0%	2.0%
Expected Return	10.19%	10.24%	10.30%
Standard Deviation	<u>+11.41%</u>	<u>+11.29%</u>	<u>+11.19%</u>

Effect on Existing International Managers

Should the SBI restrict its current managers from investing in emerging markets when the separate allocation is implemented? No. The emerging markets exposure among the SBI's existing manager group has been minimal (see Exhibit 10). As a matter of policy, the SBI's active managers do not expect to include more than 10-15% exposure to emerging markets within their individual portfolios.

Staff believes that this small exposure will not significantly affect the SBI's aggregate emerging markets investments after emerging markets specialists are added to the international program. The opportunistic approach used by the active managers should continue to be viewed as a return enhancement relative to their EAFE benchmark rather than a method to gain broad exposure to emerging markets.

When the emerging markets allocation is fully funded, aggregate emerging markets holdings (active, passive and emerging markets managers included) will range from approximately 13-18% of the international program, including all holdings in Malaysia. If

Exhibit 10

SBI'S EMERGING MARKETS EXPOSURE

December 31, 1995

	<u>Excluding Malaysia</u>	<u>Including Malaysia</u>
Barings	5.75%	7.53%
Brinson	--	1.07
Marathon	5.32	6.76
Rowe-Price Fleming	6.47	9.34
Scudder	3.96	6.34
Templeton	10.32	10.32
State Street (EAFE index)	--	2.18
Total International Pool	2.14	4.06
Total Combined Funds	0.24	0.46

Source: State Street Analytics

all active managers invested in emerging markets at their maximum policy weights at the same time (a highly unlikely scenario), the aggregate exposure could be as high as 19-20% of the international program, or approximately 3% of the total fund. This level of exposure is still beneficial for the international program, as a review of the efficient frontier in Exhibit 5 shows.

Staff recommends that the current active international managers be allowed to continue to invest opportunistically in emerging markets, as originally anticipated when those managers were retained. In order to avoid overweighting, staff recommends that active international managers be allowed to hold no more than 15% of their portfolio in emerging markets equities.

Staff does not expect this limit to alter the portfolio strategy of any existing manager, however, this constraint should be formalized and reflected in contractual investment guidelines.

PART 2: Investment Considerations and Constraints

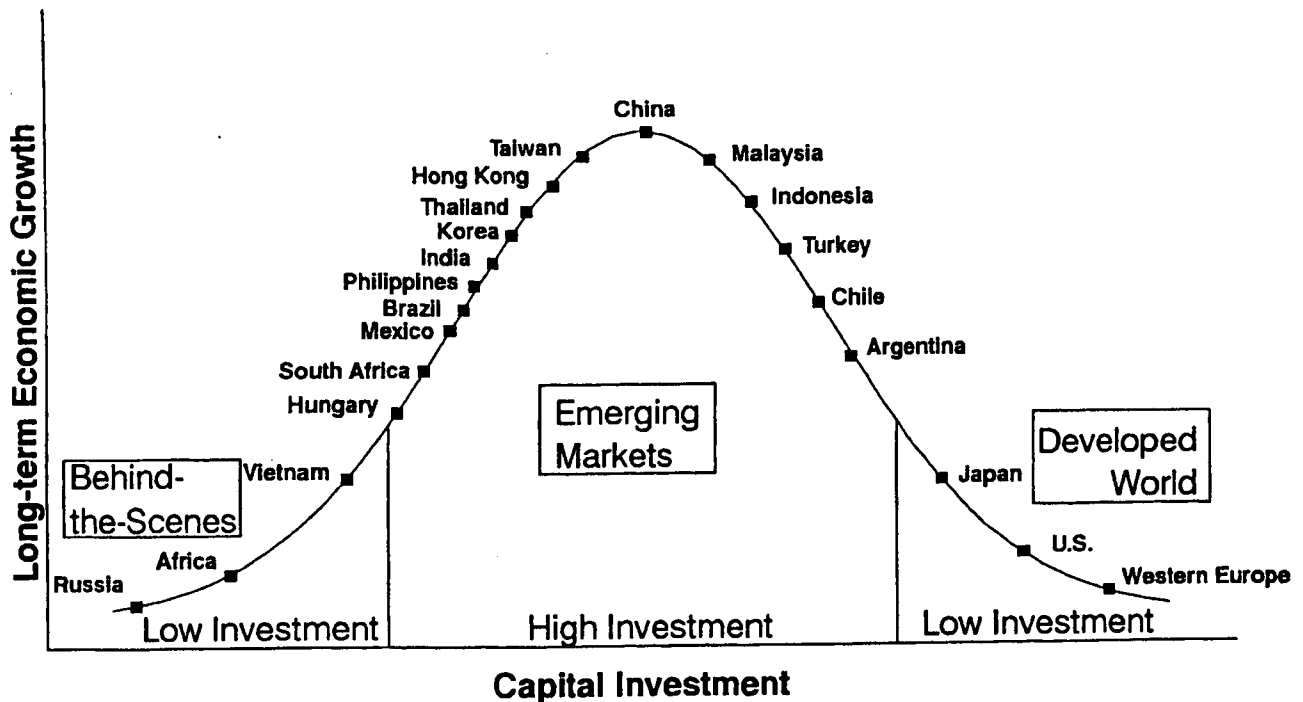
In the following few sections, more detailed information on emerging markets will be given, including life cycles, volatility factors, accounting and currency issues, regulatory and custody problems, costs, and market impact. This information is given to develop a more thorough understanding of emerging markets.

Emerging Markets Life Cycle

Emerging markets go through a distinct life cycle (see Exhibit 11). Throughout this cycle, equity prices tend to fluctuate widely, especially in the early stages of development. This may be caused by capital issuance increases and large inflows of foreign funds that may result in periodic overvaluation. Overvaluation can also occur as domestic liquidity picks up, driving prices out of proportion to economic fundamentals. Overvaluations set the stage for a downward correction, which may be triggered by unexpected political or economic events.

Exhibit 11

Market Economic Lifecycle



Source: Morgan Stanley

Eventually, as the markets continue to develop and mature, growth will stabilize and equity risk premiums will fall to levels typical of a developed country. By this time, many government companies are privatized, new issues are frequent, a service sector is evolving, and equity and currency derivatives have developed.

Japan is an example of a market that went through the emerging stages to become a fully developed market during recent decades. There was a time when the U.S. was also considered an emerging market, so the concept of emerging markets is not new.

Understanding the emerging market life cycle leads to a better understanding of the volatility inherent in these markets. It is unrealistic to expect them to behave like developed markets and an investor must understand that wide fluctuations will occur. This type of rapid growth is difficult, if not impossible, to achieve in developed countries, which is why long-term expected returns are higher in emerging markets. However, an investor pays a risk premium for those returns through higher volatility.

Volatility Factors

Volatility can result from many things, among them are:

- economic and/or political instability
- currency swings
- illiquidity
- rapid and/or unpredictable growth
- constant change

Other factors may also increase the volatility in a market. Many emerging markets lack the institutional mechanisms available in more developed markets to dampen speculative tendencies. In some markets, insider trading is commonplace. In India, for example, it is not even illegal. A country may also be highly dependent on a small range of commodity exports or industrial sectors. In this case, volatility can result from a lack of diversification within an economy and its stock market.

“Thin” markets can increase volatility. If a market has only a handful of stocks (or a few stocks with large capitalizations compared to the rest) and one or two do poorly, they will have more impact in a thin market than in a market which is “deeper” (like the U.S. market and those of most other developed markets).

Repatriation risk may occur when a country restricts the ability of investors to bring principal and income back to their countries of origin. Many countries restrict the repatriation of money to prevent the rapid movement of “hot money,” which can cause greater volatility in a market.

Expropriation was a risk experienced by many companies and investors in Vietnam after the war and in Portugal in the 1970’s. This is the risk that the government will seize private companies and nationalize them. Even the threat of expropriation could significantly increase volatility. Although expropriation could occur again, it has been decades since a country has attempted or done this.

Managers address repatriation and expropriation risk by scrutinizing the markets and economies in which they invest. Most firms will eliminate countries from consideration until adequate markets mechanisms and infrastructure exist. In general, volatility can be controlled through broad diversification across multiple markets. Most emerging markets specialists will hold investments in 20 or more markets at a given time, which effectively limits their exposure to the adverse conditions in a single economy.

Accounting Issues

Accounting methods differ from country to country. Even in developed markets, comparing companies from different countries is problematic. There are additional accounting issues to be aware of in the emerging markets, as well as a limited amount of reliable information. Because of accounting differences, financial statement valuation methods that work in developed countries may not be meaningful in emerging markets.

In many emerging countries, the most important factor affecting accounting is inflation. In countries with moderate inflation, portfolio managers can make adjustments to the appropriate balance sheet items and to income statements so that comparisons can be made in real terms.¹ Countries with hyper-inflation may use price indexing, where prices, wages, interest paying accounts and debt are indexed periodically to rise with inflation. Adjustments for hyper-inflation are unnecessary in countries with price indexing.

¹ Gary S. Schieneman, “The Research Challenge: Analyzing the Numbers,” *Managing Emerging Markets Portfolios*, AIMR, February 1994, pages 40-41.

Some practitioners think that ensuring the financial strength of a company is more important in emerging markets than elsewhere, thus balance sheets take on greater importance than income statements. Income statements, however, are more prevalent in the emerging markets and balance sheets may be unavailable. Even when balance sheets do exist, they lack uniformity. Since no standards exist for book value, for example, what is included can vary widely, even between companies within a market.²

Such accounting differences often result in earnings ratios and book values that are not comparable to those in developed countries. Portfolio managers compensate for these differences by adjusting ratios or substituting measures that are more meaningful. For example, while many managers look at absolute and relative values in developed markets, absolute values may be more relevant in emerging markets.³ A stock that is cheap relative to its own market may not be a good buy if the market is already overvalued.

Currency Issues

Generally, derivatives are non-existent or underdeveloped in the emerging markets, which means that currency risk cannot be hedged away. This leaves investors vulnerable to currency swings. For example, the late 1994/early 1995 devaluation of the Mexican peso had a profound impact on that market and on investor's perceptions.

Many of the emerging markets tie their currencies to the U.S. dollar. For U.S. investors, this mitigates much of the currency risk that may occur in these markets. For those currencies not tied to the U.S. dollar, portfolio managers may choose to avoid companies that have a large currency risk; i.e., avoid companies that do not have any foreign sources of revenue or that have a lot of foreign debt on the balance sheets. Other portfolio managers may factor currency risk into a country's (or a stock's) expected return before making their investment decisions.

² Donald M. Krueger, "Valuation Techniques for Emerging Market Securities," *Managing Emerging Markets Portfolios*, AIMR, February 1994, pages 32-33.

³ Shaw B. Wagener, "Bottom-Up Investing in Emerging Markets," *Managing Emerging Markets Portfolios*, AIMR, February 1994, page 30.

Regulatory and Custodial Issues

There are many regulatory and custody barriers in emerging markets. These problems are not caused just by the laws and regulations set forth by the local securities commissions. Problems also occur from the difficulty in enforcing contractual and property rights, or where corporate governance practices are unfavorable to shareholders. Rules regulating competition, or the structure of industrial and financial ownership may cause additional difficulties.⁴

An example of a unfavorable shareholder's rights practice occurred in Russia. Russia does not have share certificates, hence ownership is recorded in the register of the issuer. A London company called TransWorld Metals bought a 20% stake in aluminum producer Krasnoyarsk. After a dispute, Krasnoyarsk crossed TransWorld Metals' name off its registry, eliminating TransWorld's investment. An example of the difficulty in enforcing contractual rights occurred in China. Lehman Brothers have a lawsuit against China United Petroleum Chemicals and Minmetals International Non-Ferrous Metal Trading Company for renegeing on obligations incurred during foreign exchange transactions.

Foreign investors may also have taxation, ownership limitations, currency rules and repatriation regulations set by governments to prevent what is considered by the governments to be excessive foreign control. Some countries require the foreign investor to get prior approval from the government, or an investor identification number or special license. Obtaining approvals, ID's or licenses may take days or weeks.

The most common market entry requirement pertains to currency transactions. Some countries require foreign investment money to flow through a specially created cash account, or different currency types, so the government can keep track of foreign investment money. South Africa, for example, previously had a financial rand and a commercial rand for its currency. Financial instruments were bought and sold in financial rand, but interest and dividends accrued in commercial rand.

Custodial issues must also be addressed by investors. A large majority of the custodial problems arise from markets that have manual settlement and clearing. India, although it has had a functional market for many years, has a system that is so manual it can take

⁴ Rudof van der Bijl, "Regulatory Environments in Emerging Markets," *Managing Emerging Markets Portfolios*, AIMR, February 1994, page 80.

months to settle a trade. Some emerging markets are now emphasizing quick settlement and have instituted measures to cancel a trade that settles too slowly or to fine the company that fails to settle on time. In the U.S., investors have been accustomed to 5 day settlement (recently changed to 3 day). In Israel, settlement is the same day, which can be onerous when money is transferring from another part of the world.

All markets have problems such as fraud and abuse. These factors may be especially prevalent in emerging markets, where market mechanisms and infrastructure are still developing.⁵ However, many emerging countries are reviewing and implementing regulations which should help curb these problems.

As discussed, there are a large number of regulatory and custodial issues associated with emerging markets. Working through these problems can be expensive and difficult. A portfolio manager must have strong custodial and brokerage relationships to ensure adequate resolution when these circumstances arise. The SBI should ensure that emerging markets portfolio manager candidates pay careful attention to these issues and have the appropriate relationships in place.

State Street, the SBI's custodian, is one of the largest custodial banks with exceptional expertise in emerging markets.⁶ They are capable of efficiently handling large emerging markets accounts, which would eliminate many of the custodial problems typically associated with these markets.

Costs

Transaction costs in the emerging markets can be higher than in the developed markets for several reasons. Commission rates are often high, typically between 50 and 200 basis points. "Spreads" between the bid and offer prices are normally wider than in developed markets. There are also various taxes payable and higher custody fees.⁷ Finally, varying liquidity levels can cause a price impact on markets when a large institutional order is placed.

⁵ *Managing Emerging Markets Portfolios*, AIMR, February 1994, page 5.

⁶ *Global Custodian Survey*, Fall 1994, page A29.

⁷ Higher custody costs are due to regulatory and custodial problems unique to emerging markets, and subcustodial costs that are incurred when the custodian is not present in a market.

Pension Consulting Alliance (PCA) estimates that annual costs range between 3.25% and 7.70%, with turnover ranging between 45% and 90% annually.⁸ As with any portfolio, keeping turnover low helps reduce the portfolio's overall costs. This is especially true in emerging markets because costs are much higher. Exhibit 12 gives examples of commission and taxes, and bid/offer costs in various markets. Manager fees range from approximately 0.30% per annum for a passive account to 1.50% per annum for active management.⁹ In addition, custodial costs range from 0.20-0.30% per annum.

Portfolio managers may be able to reduce commission costs through negotiation and strong relationships with brokerage firms. The SBI may be able to reduce manager fees through negotiation or by placing larger amounts of assets with a manager to take advantage of the price breaks typically associated with larger portfolios.

Even though overall costs may be high, a conservative (high) cost estimate for an actively managed portfolio indicates that additional returns can still be gained after costs. For a \$50 million portfolio with 100% turnover, estimated costs are 4.68% (most managers turn over a portfolio less frequently - 50% turnover would be an average of every two years). This estimate includes management fees of 1.50%, commission and taxes of 0.60%, bid-offer spread (both ways) of 2.28% and custodial fees of 0.30% (the commission and taxes, and bid-offer spread numbers are based on the costs for investing in the IFCI index).¹⁰

Referring to the five year period in Exhibit 2 (1991-1995) and assuming that future returns will be similar, emerging markets would give an additional 8.22% return over EAFE after these estimated costs have been subtracted. With these assumptions and estimates, adding emerging markets to an international program will add value over the long-term, even though total costs may be quite high. As these markets become more efficient, total costs should decrease.

⁸ Costs include management fees, commissions, taxes, bid/ask spreads and market impact.

⁹ From Staff records based on a portfolio size of \$50 million.

¹⁰ Custodial costs and manager fees for the SBI will be substantially less than these estimates because of management fee price breaks for larger portfolios and lower negotiated custodial fees.

Exhibit 12

IFCI EMERGING MARKETS TRANSACTION COSTS (1995)

Market	Commissions and Taxes	Bid-Offer Spread (One Way)
<i>Latin America</i>		
Argentina	0.60%	1.40%
Brazil	0.50	1.60
Chile	1.50	1.50
Colombia	1.10	2.50
Mexico	0.45	0.84
Peru	1.00	2.00
Venezuela	1.75	2.00
<i>East Asia</i>		
Korea	0.50	0.50
Philippines	0.75	1.10
Taiwan	0.15	0.80
<i>South Asia</i>		
India	1.90	2.50
Indonesia	0.90	1.85
Malaysia	0.55	0.50
Pakistan	1.15	2.50
Sri Lanka	1.60	2.50
Thailand	0.70	0.80
<i>Europe/Mideast/Africa</i>		
Greece	0.80	1.05
Hungary	1.10	3.00
Jordan	0.80	2.50
Poland	2.00	0.68
Portugal	0.70	1.25
South Africa	0.35	1.25
Turkey	0.65	1.25
Zimbabwe	2.30	2.50
<i>IFCI Index</i>		
Latin America	0.60	1.14
Latin America	0.66	1.41
Asia	0.70	0.88
Europe/Mideast/Africa	0.44	1.24

Source: State Street Global Advisors

Market Impact

Market impact is an issue that has not been discussed in great detail in emerging markets literature. However, it deserves a few words here. In the emerging markets, stock availability may be limited and market capitalizations are small. In addition, many countries have foreign ownership restrictions or other restrictions which may reduce liquidity. These conditions create a limited supply of shares from which to buy compared to markets of developed countries. When large pools of money come into small markets at the one time, competition for these shares can drive up prices artificially.

Investors can reduce market impact by investing smaller amounts of money at any given time. A portfolio of \$50-75 million is considered a relatively large portfolio in the emerging markets. By not investing more than this at one time or with one portfolio manager, the investor can help control market impact. If larger amounts of money will ultimately be invested, it may be prudent to invest through several tranches, and not publicize when it will happen or how much it will be.

Portfolio managers can also help control market impact in several ways. They can limit the amount of money they invest at one time, or limit the number of investors they will take on during a specific time period. They can also limit their trades to less than a stock's or a market's average daily volume (many managers recommend limiting trades to no more than 1/3 of the average daily volume).

Market capitalizations in the emerging markets are increasing rapidly, as companies grow to meet the demands of the population, as countries privatize public companies to raise cash, and as consumer wealth is created. Over time, this should increase liquidity and reduce the market impact of transactions in emerging markets, unless investor demand outpaces supply.

Staff recommends that the SBI invest in the emerging markets in tranches, limiting the initial dollar amounts given to each portfolio manager hired. In addition, attention to turnover, transaction costs and market impact should be considerations in the SBI's choice of managers.

PART 3: Benchmark Issues

There are a variety of indexes which can be used as a performance standard or benchmark for emerging markets. None is ideal for evaluation purposes and there is no universally accepted index among plan sponsors or investment managers.

Compiling a representative index for emerging markets is problematic for several reasons. The most important reasons are investability, pricing, new markets and country weightings.¹¹

- ***Investability*** is the foremost problem, because a number of countries establish restrictions on access to foreign investors. These restrictions may eliminate foreign ownership completely, may limit the proportion of shares that may be purchased by foreigners, or may create separate share classes for foreign investors (which frequently trade at a premium to local shares). In addition, companies in emerging markets are often dominated by a founding family or governmental agency. Consequently, the shares available to other investors may be considerably less than the company's outstanding shares (free float).
- ***Index pricing inaccuracies*** can be caused by varying commission and tax rates, and wide differences between prices quoted by buyers and sellers of the same security (bid/ask spread). In addition, an institutional-sized order in a market or stock with low liquidity may move prices from published levels.
- ***As countries open their markets*** to foreign investors, they may be added to one or more indexes. This changing environment creates additional complexity. Obtaining accurate data, determining if and when a market should be included, and selecting representative stocks create extra work and difficult decisions for index providers.
- ***Index country weights*** are typically based on market capitalizations. Market under- and over-valuations can significantly distort capitalization, especially as a proportion to GNP. Index compilers have considered adjusting country weights based on each the size of each market's economy, but have not done so to date.

¹¹ Information in the following "bullet" points is taken from Genesis Investment Management Limited, "The global Emerging Markets Indices, An Overview," pages 5-8.

With these considerations in mind, there are two published indexes that the SBI should consider: International Finance Corporation Investable Emerging Markets Index (IFCI) and Morgan Stanley Capital International Emerging Markets Free (MSCI EMF).

Both MSCI and the IFC publish global indexes as well, which include one or more markets that are not open to foreign investors. They are less representative of the investment universe available to the SBI and Staff excluded them for this reason. Barings also publishes an emerging markets index composed of fewer and more liquid stocks in larger capitalization markets. It is the least diversified published index, and was excluded on this basis.

The remainder of this section provides comparative information on MSCI EMF and IFCI. For additional data on other emerging markets indexes, readers should refer to Appendixes D, E, F and G.

The IFCI and MSCI EMF are both capitalization weighted, although their construction methodologies vary considerably. The characteristics of each can be summarized as follows:

- **IFCI.** This index excludes markets that are effectively closed to foreign investors. It also excludes stocks whose annual trading volume is less than \$10 million or whose investable market capitalization is below \$25 million. The index is comprised of approximately 60% of the capitalization of each market and is not adjusted for cross holdings or low trading volumes. The four largest markets in the index are Malaysia, South Africa, Brazil and Mexico, which comprised 66.7% of the index as of December 31, 1995.
- **EMF.** This index includes countries which are open (“free”) to foreign investors, although their decision rules on this criteria are somewhat flexible. It adjusts for cross holdings and also excludes certain shares or portions of market capitalization in Mexico, Philippines, Venezuela and Korea to reflect their judgment on the free float available to foreign investors. The four largest markets in the index are Malaysia, South Africa, Brazil and Thailand, which comprised 54.2% of the index as of December 31, 1995.

Selected features of the methodology used by each provider are in Exhibit 13.

Exhibit 13

INDEX METHODOLOGY

	IFCI	MSCI EMF
Country Selection	Follows World Bank criteria, i.e. GNP per capita is less than \$8955.	Generally follows World Bank criteria as shown for IFCI. Also considers liquidity, regulatory environment, and perceived risk.
Stock Selection	Includes top 60% of each market.	Aims to capture 60% of total markets cap and industry groups.
Minimum Average Daily Trading Volume	\$10 million in last year.	Determined on country by country basis
Adjustments Made for Market Restrictions	Yes.	Taiwan excluded. Korea held at 20% of market cap.
Adjustments for Float	No.	Very low float may exclude a stock.
Adjustments for Cross Holdings	No.	Yes.
Market Cap and Price History*	Since 1989.	Since 1988.
Data Availability on Individual Companies	Since 1989 for earnings, book value, dividends.	Since 1993 for earnings, cash earnings, book value, dividends.
Pricing	Weekly.	Daily.
Updates	As necessary.	Annually.

* Data histories will vary depending on when each country was included in the index.

Sources: Acadian and Brinson.

In terms of the number of countries and issues, IFCI is the broadest index with 25 countries and 1136 stocks as of December 31, 1995. By comparison, EMF has 22 countries and 890 issues. When market capitalization is considered, the picture reverses. EMF is broader in terms of market capitalization (EMF \$690 billion vs. \$600 billion IFCI). Country weights in EMF are also less concentrated, with 54.2% in its largest four market compared to IFCI with 66.7% in its largest four markets (review Exhibit 8).

Both indexes plan to add countries in 1996. The IFCI added the Czech Republic on Jan. 1, 1996. Other countries they are considering for 1996 include: Costa Rica, Ecuador, Jamaica, Tunisia, Morocco, Egypt, Kenya, Mauritius, Ghana, Botswana, Cote d'Ivoire, Latvia, Slovakia, Slovenia, Russia, Bangladesh. EMF does not publicly announce countries to be added until approximately two months before inclusion in the index.

Two reasons for investing in emerging markets are the potential for superior investment returns and the low correlations of returns with other equity assets. Selection of an SBI benchmark should take these issues into consideration. In this regard, EMF appears to have a slight edge over the IFCI, although history (1989-1995) is too short to draw firm conclusions.

Return comparisons are shown in Exhibit 15. Comparisons are shown for the IFCI, EMF, EAFE and World Indexes. Both the IFCI and EMF reflect the outperformance of emerging markets available over this time period. However, their cumulative and year-to-year returns are quite different due to differences in construction methodology and country inclusion.

EMF had the highest returns over the last seven years. EMF also provided the highest return per unit of risk as shown in Exhibit 16. This means that the EMF outperformed the IFCI on both an absolute and on a risk adjusted basis during the time period considered.

Exhibit 15

INVESTMENT RETURNS OF GLOBAL EMERGING MARKETS INDEXES
December 31, 1988 to December 31, 1995

INDEX	1989	1990	1991	1992	1993	1994	1995	Dec. 31, 88 to Dec. 31, 95
IFC Investable	55.47	(5.20)	36.06	1.18	75.26	(13.55)	(10.29)	175.78
MSCI EM Free	59.19	(13.74)	55.94	9.05	71.26	(8.67)	(6.94)	239.89
MSCI EAFE	9.22	(24.71)	10.19	(13.89)	30.50	6.24	9.42	18.37
MSCI World	14.75	(18.75)	16.03	(7.17)	20.40	3.36	18.70	48.34

Sources: Genesis Investment Management Limited, MSCI and IFC

Note: Based on Price Indexes, not Total Return Indexes

Exhibit 16

VOLATILITY AND AVERAGE MONTHLY RETURNS OF
GLOBAL EMERGING MARKETS INDEXES
(DECEMBER 31, 1988 TO DECEMBER 31, 1995)

INDEX	Volatility (% Monthly Standard Deviation)(A)	Average Monthly % Return (B)	% Return Per Unit of Risk (B/A)
IFC Investable	5.91	1.39	0.23
MSCI EM Free	6.49	1.68	0.26
MSCI EAFE	5.31	0.34	0.06
MSCI World	4.02	0.55	0.14

Source: Genesis Investment Management Limited

Correlations with the MSCI EAFE are shown in Exhibit 17. While the emerging markets indexes are very similar in this regard, the IFCI has the lowest correlation to EAFE.

Exhibit 17

CORRELATION OF MONTHLY RETURNS WITH MSCI EAFE

(December 31, 1988 to December 31, 1995)

<u>INDEX</u>	Correlation Coefficient with <u>MSCI EAFE</u>
IFC Investable	0.39
MSCI EM Free	0.41

Source: Genesis Investment Management Limited

Data for the EMF index is available more quickly than for the IFCI, although construction methodology is monitored more carefully by the IFCI. For administrative reasons, using the MSCI EMF fits well with the SBI's use of the MSCI EAFE index for its international program. Both the IFCI and the MSCI EMF are widely used as benchmarks.

Staff recommends the use of the MSCI Emerging Markets Free Index for its emerging markets allocation because of superior risk/return characteristics, its investability, and its less concentrated country weights. For the entire international program, a blended benchmark combining the MSCI EAFE and EMF should be used. Once the emerging markets allocation is completely funded, the international program pool should use a blended benchmark weighted 87% EAFE and 13% EMF.

PART 4. Management Structure

Passive, Structured and Active Approaches

There are three different investment structures from which to choose in the emerging markets area. **Passive** investing attempts to replicate an index and its returns. Tracking error is the return above or below the index return. Tracking error can be attributed to several things, including the tax treatment of dividends and how they are reinvested, or using ADR's instead of local stocks. Passive investing in emerging markets is relatively new and not widely used. Tracking error tends to be quite high, in the range of $\pm 0.40\%$ to $\pm 1.00\%$, annually, compared to $\pm 0.05\%$ to $\pm 0.30\%$ for developed markets.

Structured investing follows a specific structure for investing, but does not attempt to replicate index returns. Examples of structured investing are equal weighting, liquidity tiering, and other methods that follow a specific structure but do not make active decisions away from that structure. Structured investing is fairly widely used in the emerging markets.

Active investing can vary from very active with big bets against an index, to relatively inactive with small bets made around an index. Due to inefficiencies in the emerging markets, most portfolio managers believe that they should be able to add significant value over the emerging market indexes through active approaches.

The short-term statistical evidence available to support this is inconclusive. For the four year annualized period ending December 31, 1995, median managers beat the IFC Emerging Markets Investable but underperformed the MSCI Emerging Markets Free, according to the Russell universe. Data from InterSec indicates that median managers tied or slightly outperformed the MSCI Emerging Markets Free for the same period. It should be noted that, in addition to inclusive data, four years is an insufficient time period from which to draw conclusions, and there are very few managers who have been investing in emerging markets as a separate asset class for more than four years.

Country versus Stock Selection

There is not a strong consensus for country selection (or top-down investing) versus stock selection (or bottom-up investing) in emerging markets. Studies have shown that a large percentage of a manager's return is due to country selection. For example, State Street

found that 46% of an individual stock's return is explained by its country's return in the emerging markets versus 30% for developed markets. Research suggests this occurs because of the lack of breadth, depth and industry diversity, and the tendency for emerging markets to be trending in nature.¹²

One must be careful, however, when using attribution numbers. If a stock picking manager finds good stock values in a country that does well, is the value added actually due to country selection or to their bottom-up stock analysis? In most attribution models, only the value added above the country index will be counted as stock attribution, even though country selection was not part of their decision.

The reason most frequently given for the bottom-up approach is summed up in the Association for Investment Management and Research's (AIMR) February 1994 publication, "Fundamental analysis can be particularly effective in emerging markets because the markets are less efficient than developed markets and are relatively uncorrelated with other markets, because company performance can vary from market performance, and because research on individual companies can add significant value."

The same source points out that top-down knowledge is also necessary when selecting individual stocks, but this knowledge is used to pick attractive companies rather than countries. They suggest that the two styles of investing are not mutually exclusive and may be used ideally together in emerging markets investing.

Staff has found that most companies do combine the two approaches, selecting companies with good fundamentals in markets they believe will prosper. One difference between top-down and bottom-up investing, however, is that a bottom-up manager may select a great stock even if they feel the country will not be strong, whereas a top-down investor would be more likely to avoid that country altogether.

Most sources agree that commitment, and on-site research are essential to the investment process, whether top-down or bottom-up. A portfolio manager must travel to both the countries and companies of interest to get up-to-date information and verify data.

¹² "Emerging Markets Research Summary," State Street Global Advisors, 2nd Quarter 1994, page 21.

Criteria for Portfolio Managers

Over the past year, Staff have been actively reviewing available emerging markets specialists. From this review, Staff developed several criteria that were important in screening portfolio managers:

- quality and depth of resources
- stability of the management team
- assets under management
- length of track record

A portfolio manager must be committed to researching and evaluating all aspects of emerging markets investing. In addition to country and security analysis, attention to trading costs and custodial issues are particularly important in these markets.

Given the large number of markets and their unique characteristics, this generally requires building and maintaining an investment team of sufficient size to support a complex investment process. The current management team must be responsible for the track record presented by the investment firm, and prospects must appear high that they will stay together.

Generally, the SBI does not want to be more than one-third of a firm's assets in the discipline under consideration. For example, if each firm were to receive a \$100 million to invest in emerging markets, each would need to have at least \$200 million in its global emerging markets product in order to be considered.

There are relatively few emerging markets managers with track records longer than three years, however, firms with longer histories are preferable. Generally, firms with records of less than three years should not be considered.

Investment Vehicles

There are three different investment vehicles available to emerging markets investors. Each type has its own advantages and disadvantages. The three types are:

- closed-end funds¹³
- separate funds
- commingled funds.

Closed-end funds are often started when entry into an emerging market is limited. A country which wants to encourage foreign investment but discourage "hot money" investing may allow a closed-end fund to invest in their market. Closed-end funds trade on the stock exchange of one or more countries, so they do not have the problem of handling redemptions in illiquid emerging markets. Active investors often choose these funds because of the greater liquidity.

When a closed-end fund is first offered, the initial offering price usually reflects the net asset value of the underlying shares in the fund. After the initial offering, the price often falls to a discount. However, closed-end funds have also sold at a premium. Another characteristic of closed-end funds is that performance tends to be more closely correlated to the U.S. market than foreign markets. This may indicate that closed-end funds do not provide as much diversification as direct participation in a market.¹⁴

The two methods for direct participation in a market are separate accounts and commingled funds. Both methods can be used for active or passive management. Separate accounts are the most flexible for an investor but can be more expensive, especially if the size of the account is small (less than \$25 million). The flexibility comes from the investor's ability to tailor the separate account to suit the investor's specific needs. Expenses are related to higher custody, settlement and transaction costs incurred by separate portfolios, however, expenses decrease as the size of the portfolio increases. Additionally, an emerging market may require the plan sponsor to provide required documentation before a portfolio manager will be allowed to invest or settle trades.

Commingled accounts include monies from several different investors. A commingled account is managed more or less like a mutual fund. Commingled funds can be advantageous in emerging markets because they eliminate hurdles in entering markets, exposure is immediate, custody and settlement are simplified, and plan sponsors avoid

¹³ A fund whose shares are traded through brokers at market prices; the fund will not redeem shares at their net asset value. The market price of the fund can differ from the net asset value.

¹⁴ Leslie B. Kautz, Howard D. Perlow and George Sands, "Emerging Markets: A Framework for Institutional Investment," *The Journal of Investing*, Spring 1993, page 49.

potential problems that may arise from establishing custodial relationships in emerging markets.

There are also several cost efficiencies to be gained from investing in a commingled account. The first comes from the savings in custody costs. The biggest custody issue is probably forged and/or fraudulent shares. Follow-up on custody issues will cost less for one fund when the cost is spread out among many investors instead of one investor bearing the whole cost.

Another cost savings comes from regulatory and settlement costs. A country may require detailed information and/or documentation from each separate account before investment will be allowed. Many countries now have penalties for failure to settle. Again, for a commingled fund, even though there may be many investors, the documentation or settlement is only required once for the whole fund, instead of for each investor. These cost considerations are frequently a reflection of the size of the portfolio that is invested. The smaller the portfolio, the more likely that commingling will provide cost savings to the investor. Given the size of the SBI's allocation and portfolios, commingling may not be as advantageous.

In the past, the SBI has avoided commingled funds for several reasons:

- investment restrictions
- loss of in-depth reporting
- expense
- inability to vote proxies
- lag time in pricing/valuation.

Three of these reasons are not a problem for the emerging markets program, because the SBI investment restrictions have been lifted, commingled funds now offer in-depth reporting similar to separate funds (including detailed asset listings), and commingled accounts can be less expensive for the reasons mentioned previously. One commingling issue for the SBI would be the inability to vote our own proxies. This could be addressed by reviewing a commingled fund manager's proxy voting policies for their compatibility with SBI practices.

The lag time in pricing/valuation associated with many commingled vehicles will also continue to be a problem for the SBI. For a variety of administrative reasons, the SBI has recently converted from five day to one day pricing/valuation on all stock and bond holdings. Commingled funds that do not have one day pricing or do not price securities in time for our custodian to process the data would be unable to participate in the SBI's emerging markets program.

Staff recommends that investment in the emerging markets can be accomplished through closed-end funds, separate accounts, or commingled funds, as long as the commingled fund has timely one day pricing.

FINAL RECOMMENDATION SUMMARY

There is wide agreement that investing even a small percent of a portfolio in emerging markets can increase potential returns without increasing risk at the total fund level. Although these markets are more volatile than those in developed countries, the low correlations these markets have with each other and with the developed countries may actually help reduce portfolio risk.

Although many definitions are used for the emerging markets, Staff recommends the use of the custodial definition: a non-EAFE, non-North American market that has a functional stock exchange or a very active over-the-counter market, securities that are available to foreign portfolio investments, and a convertible currency or a capital-plus-income repatriation plan. Staff would include Malaysia as an emerging market, even though it is part of the EAFE index.

Staff recommends making an allocation to emerging markets because of the potential for increased returns, the potential for reduced risk through greater diversification, and because the long-term view required for emerging markets investing is compatible with the SBI's asset allocation strategy for the Combined Funds. A 2% allocation was recommended by Staff, endorsed by the IAC, and approved by the Board in October 1995. Additionally, Staff recommends allowing the current active international managers to continue investing opportunistically in emerging markets, but limiting their emerging markets exposure to 15% of their portfolio to avoid overweighting.

The benchmark recommended by Staff is the MSCI Emerging Markets Free Index because of its superior risk/return characteristics, its investability, and its less concentrated country weights. Once the emerging markets allocation has been fully implemented, a blended benchmark should be used for the international program, weighted 87% EAFE and 13% EMF.

Management structure could include passive, structured or active investing. Passive investing is not widely used; active is the most prevalent in emerging markets. Important portfolio manager criteria include the quality and depth of resources, stability of the management team, assets under management, and length of track record. Closed-end funds, separate accounts and commingled funds should all be considered and a choice based on the method that is most advantageous for the SBI.

APPENDIX A

Emerging Markets Annualized Returns to December 31, 1994

(U.S. Dollars)

Index Benchmarks:	<u>1994</u>	<u>1992-94</u>	<u>1990-94</u>	<u>1989-94</u>
	One Year	Three Year	Five Year	Six Year
S&P 500	-2.0%	10.2%	5.4%	8.8%
MSCI World	3.4%	4.9%	1.7%	3.8%
MSCI EAFE	6.2%	6.1%	-0.2%	1.3%
MSCI EM Global	-2.4%	18.3%	7.5%	13.7%
MSCI EM Free	-8.7%	19.5%	18.1%	24.1%
IFC Global	-2.2%	16.6%	4.8%	11.5%
IFC Investable	-13.6%	15.3%	14.6%	20.6%
Baring	-6.2%	18.2%	14.9%	19.8%

Notes: These numbers are based on price indexes, not total return indexes. Six years is the longest period for which common data exists for all the above indexes.

Source: Genesis Investment Management Limited, March 1995

APPENDIX B

IFC GLOBAL TOTAL RETURN INDEXES

Ten Years from December, 31 1984 to December, 31 1994

	ANNUAL PERCENT CHANGE									
	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
IFCG Composite	27.7	12.8	13.5	58.2	54.7	-29.9	17.6	0.3	67.5	-0.5
IFCG Latin America	65.6	-2.5	-30.4	70.2	51.6	-3.7	123.5	5.7	56.6	-0.1
IFCG Asia	9.7	27.7	31.4	72.0	54.9	-36.1	0.5	1.3	70.1	0.5
S&P500	31.7	18.6	5.2	16.5	31.6	-3.1	30.4	7.6	10.0	1.3
MSCI EAFE	56.7	69.9	24.9	28.6	10.8	-23.2	12.5	-11.9	32.9	8.1

	ANNUALIZED PERCENT CHANGE									
	10 YR	9 YR	8 YR	7 YR	6 YR	5 YR	4 YR	3 YR	2 YR	1 YR
IFCG Composite	18.6	17.6	18.3	19.0	13.4	6.6	18.4	18.7	29.1	-0.5
IFCG Latin America	26.3	22.5	26.1	37.3	32.4	28.9	38.7	18.3	25.1	-0.1
IFCG Asia	18.5	19.5	18.5	16.8	9.5	2.1	14.6	20.1	30.7	0.5
S&P500	14.3	12.5	11.8	12.8	12.2	8.7	11.8	6.2	5.6	1.3
MSCI EAFE	17.9	14.2	8.7	6.6	3.3	1.8	9.2	8.2	19.9	8.1

APPENDIX C

International Finance Corporation Investable Total Return Indexes 1990-1994 (annual percent change in U.S. dollars)

Selected Markets	1990	1991	1992	1993	1994
<i>Latin America</i>					
Argentina	-42.5	444.9	-25.7	77.2	-24.3
Brazil	-69.5	285.1	1.0	94.2	67.3
Chile	44.9	110.9	18.0	37.2	46.0
Mexico	27.2	113.9	16.7	51.6	-38.6
Venezuela	-	56.9	-50.7	17.5	-14.5
<i>Asia</i>					
Philippines	-57.8	71.3	20.6	153.5	-11.1
Taiwan	-	-	-26.5	85.3	22.7
Indonesia	-	-40.4	3.9	116.7	-18.7
Malaysia	-9.4	10.3	24.1	110.9	-19.2
Thailand	-24.4	20.6	38.5	113.8	-18.2
<i>Europe/Mideast/Africa</i>					
Greece	105.3	-19.0	-25.8	22.9	3.4
Jordan	7.1	7.3	20.1	45.4	-7.3
Poland	-	-	-	739.6	-42.4
Portugal	-33.9	5.2	-12.6	52.5	9.5
Turkey	2.5	-45.8	-50.7	230.6	-39.6

Source: International Finance Corporation, *Emerging Stock Markets Factbook 1994*.

APPENDIX D

INDEXES AND COUNTRIES REPRESENTED - December 31, 1994

<u>Indexes</u>	<u># of Stocks</u>	<u># of Countries</u>	<u>Countries within Index</u>
Barings Securities Emerging Markets	315	15	Argentina, Brazil, Chile, Greece, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Portugal, Taiwan, Thailand, Turkey
International Finance Corporation Global	1,266	24	Argentina, Brazil, Chile, Colombia, Greece, Hungary, India, Indonesia, Jordan, Korea, Malaysia, Mexico, Nigeria, Pakistan, Peru, Philippines, Poland, Portugal, Sri Lanka, Taiwan, Thailand, Turkey, Venezuela, Zimbabwe
International Finance Corporation Investable	890	23	Argentina, Brazil, Chile, Colombia, Greece, Hungary, India, Indonesia, Jordan, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Portugal, Sri Lanka, Taiwan, Thailand, Turkey, Venezuela, Zimbabwe
Morgan Stanley Capital International Emerging Markets Global	864	20	Argentina, Brazil, Chile, Colombia, Greece, India, Indonesia, Jordan, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Portugal, Sri Lanka, Taiwan, Thailand, Turkey, Venezuela
Morgan Stanley Capital International Emerging Markets Free	768	19	Argentina, Brazil, Chile, Colombia, Greece, India, Indonesia, Jordan, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Portugal, Sri Lanka, Thailand, Turkey, Venezuela

Sources: IFC and MSCI.

APPENDIX E

INVESTMENT RETURNS OF GLOBAL EMERGING MARKETS INDEXES

December 31, 1988 to December 31, 1994

<u>INDEX</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>Dec. 31, 88 to Dec. 31, 94</u>
IFC Global	51.71	(30.90)	15.63	(1.37)	64.15	(2.18)	91.95
IFC Investable	55.47	(5.20)	36.06	1.18	75.26	(13.55)	207.42
MSCI EM Global	50.59	(33.03)	29.11	2.63	65.50	(2.42)	115.81
MSCI EM Free	59.19	(13.74)	55.94	9.05	71.26	(8.67)	265.22
Baring EM	47.70	(27.39)	66.59	5.69	66.64	(6.16)	195.29
MSCI EAFE	9.22	(24.71)	10.19	(13.89)	30.50	6.24	8.18
MSCI World	14.75	(18.75)	16.03	(7.17)	20.40	3.36	25.12

Source: Genesis Investment Management Limited, March 1995

Note: Based on Price Indexes, not Total Return Indexes

APPENDIX F

VOLATILITY AND AVERAGE MONTHLY RETURNS OF GLOBAL EMERGING MARKETS INDEXES (DECEMBER 31, 1988 TO DECEMBER 31, 1994)

INDEX	Volatility (% Monthly Standard Deviation)(A)	Average Monthly % Return (B)	% Return Per Unit of Risk (B/A)
IFC Global	6.19	1.10	0.18
IFC Investable	6.06	1.75	0.29
MSCI EM Global	6.34	1.27	0.20
MSCI EM Free	6.73	2.04	0.30
Baring EM	7.40	1.79	0.24
MSCI EAFE	5.55	0.26	0.05
MSCI World	4.21	0.40	0.10

Source: Genesis Investment Management Limited, March 1995

APPENDIX G

CORRELATION OF MONTHLY RETURNS OF GLOBAL EMERGING MARKETS INDEXES WITH MONTHLY RETURNS OF MSCI EAFE AND MSCI WORLD INDEXES

(December 31, 1988 to December 31, 1994)

<u>INDEX</u>	<u>Correlation Coefficient with MSCI EAFE</u>	<u>Correlation Coefficient with MSCI World</u>
IFC Global	0.31	0.36
IFC Investable	0.38	0.45
MSCI EM Global	0.37	0.41
MSCI EM Free	0.41	0.47
Baring EM	0.39	0.45

Source: Genesis Investment Management Limited, March 1995

Bibliography

Association for Investment Management and Research (AIMR), *Managing Emerging Market Portfolios*, February 1994

Lawrence K. Duke and Michael G. Papaioannou, "Accessing Emerging Stock Markets: Prerequisites for International Investors," *The Journal of Investing*, Summer 1993

Genesis Investment Management Limited, *The Global Emerging Markets Indexes: An Overview*, March 1995

Global Custodian Survey, Fall 1994

International Finance Corporation, *Emerging Stock Markets Factbook 1994*

International Finance Corporation, *Emerging Stock Markets Factbook 1995*

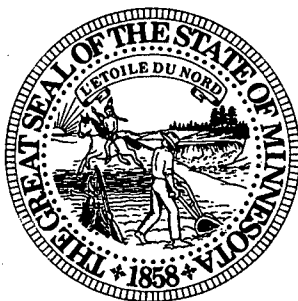
Leslie B. Kautz, Howard D. Perlow and George Sands, "Emerging Markets: A Framework for Institutional Investment," *The Journal of Investing*, Spring 1993

John Meier, "A Comparison of Emerging Markets Benchmarks," *The Journal of Investing*, Summer 1994

Pension Consulting Alliance (PCA), *A Review of Emerging Markets*

State Street Global Advisors, *Emerging Markets Research Summary*, 2nd Quarter 1994

Douglas Stone, "The Emerging Markets and Strategic Asset Allocation," *Research Commentary*, Russell, July 1990



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 1995

INTERNATIONAL STOCK MANAGERS
Period Ending 12/31/95

Current Managers	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Baring (1)	5.6	4.1	11.8	11.3					14.1	13.6	\$207.92	7.8%
Brinson (1)	6.2	4.1	17.3	11.3					11.2	13.6	196.34	7.3%
Marathon (2)	3.0	4.1	6.4	11.3					10.4	7.6	185.68	6.9%
Rowe Price (2)	3.1	4.1	12.4	11.3					9.0	7.6	180.69	6.7%
Scudder (2)	3.2	4.1	16.9	11.3					8.8	7.6	184.02	6.9%
Templeton (2)	2.2	4.1	17.5	11.3					10.4	7.6	189.44	7.1%
State Street (3)	4.0	4.1	11.1	11.3	16.7	16.7			14.1	13.9	1,534.96	57.3%
Current Aggregate	4.0	4.1	12.4	11.3	16.9	16.7			14.2	13.9	\$2,679.05	100.0%

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

(2) Fully active. Retained November 1, 1993

(3) Index. Retained October 1, 1992

BARING INTERNATIONAL INVESTMENT LTD.

Period Ending 12/31/95

Portfolio Manager: Philip Bullen

Assets Under Management: \$207,915,953

Investment Philosophy

Barings manages an active country/passive stock portfolio for the SBI. Barings' strategic policy team is responsible for the country and currency decisions. Country allocation decisions are made using a macroeconomic framework which seeks to identify growing economies as evidenced by positive changes in GDP and interest rates. The team uses multiple inputs including regional specialists, local market valuations and a computer model that functions as an audit of the qualitative valuation process. Currency specialists within Barings provide assessments on flow of funds, currency rates, monetary policy, inflation and interest rates. Barings uses country index funds managed by State Street Global Advisors to implement their country allocations. At Barings' direction, State Street also implements currency/hedging strategies for the portfolio.

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Familiar with the needs of large institutional clients.

Current concerns are:

- New ownership by ING effective February 1995.

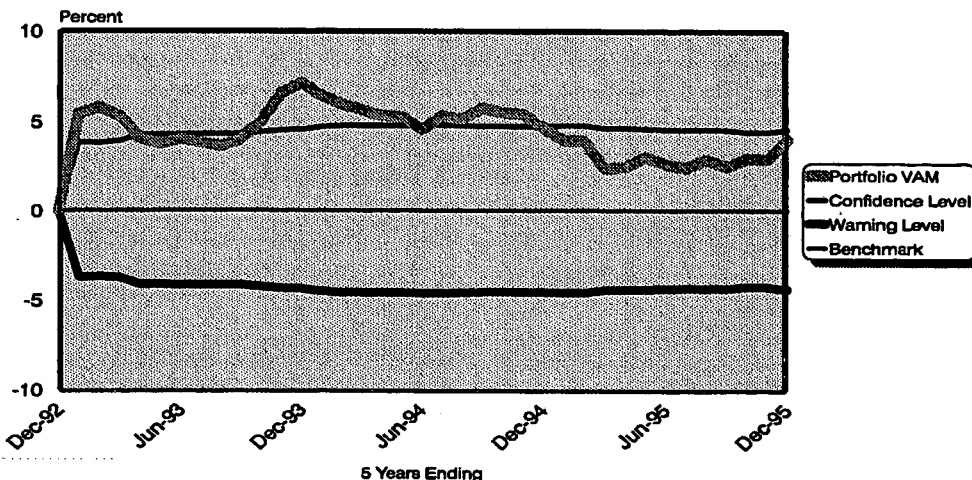
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.6%	4.1%
Last 1 year	11.8	11.3
Last 2 years	6.3	9.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	14.1%	13.6%

Recommendations

No action recommended.

**BARING INT'L. INVESTMENT LTD.
Rolling Five Year Time Periods**



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 12/31/95

Portfolio Manager: Richard Carr

Assets Under Management: \$196,340,595

Investment Philosophy

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

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

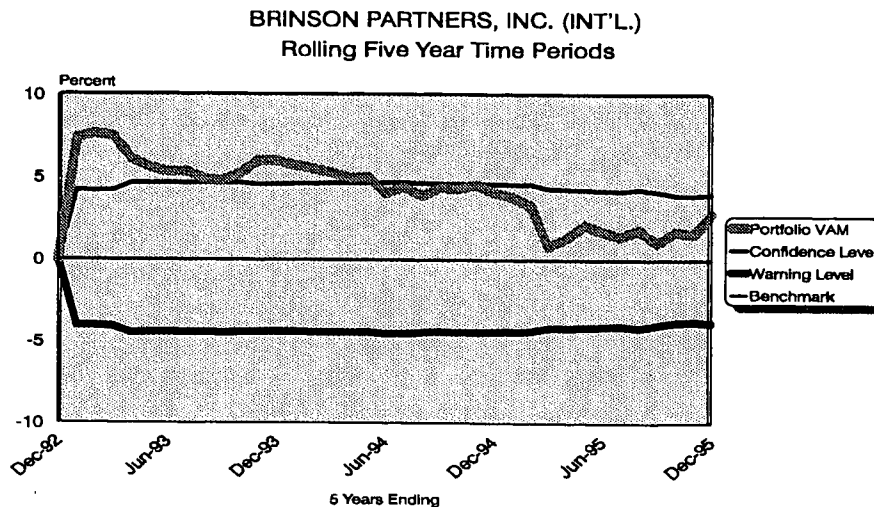
- Highly successful and experienced professionals.
- Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.2%	4.1%
Last 1 year	17.3	11.3
Last 2 years	10.1	9.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	11.2%	13.6%

Recommendations

No action recommended.



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval.

MARATHON ASSET MANAGEMENT
Period Ending 12/31/95

Portfolio Manager: William Arah

Assets Under Management: \$185,681,458

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

—Attractive, unique investment approach.

Current concerns are:

—The firm has experienced significant client growth over the last two years.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.0%	4.1%
Last 1 year	6.4	11.3
Last 2 years	11.5	9.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	10.4%	7.6%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 12/31/95

Portfolio Manager: Martin Wade

Assets Under Management: \$180,685,730

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Extensive securities research process.
- Successful investment approach which has been consistently applied over a number of market cycles.
- Familiarity with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	4.1%
Last 1 year	12.4	11.3
Last 2 years	6.0	9.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	9.0%	7.6%

Recommendations

No action recommended.

VAM graph will be created for period ending 3/31/96.

SCUDDER, STEVEN & CLARK
Period Ending 12/31/95

Portfolio Manager: Nicholas Bratt

Assets Under Management: \$184,017,601

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Strong leadership.
- Extensive securities research capabilities.
- Successful investment approach which has been consistently applied over a number of market cycles.

Current concerns are:

- Growth plan appears aggressive.
- Staffing and organizational changes are being in response to growth.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	4.1%
Last 1 year	16.9	11.3
Last 2 years	7.0	9.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	8.8%	7.6%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

TEMPLETON INVESTMENT COUNSEL, INC.
Period Ending 12/31/95

Portfolio Manager: Jim Chaney

Assets Under Management: \$189,435,975

Investment Philosophy

Templeton's goal is to identify those companies selling at the greatest discount to future intrinsic value. The firm takes a long-term approach to investing and believes that, over time, markets are efficient and patience will reward those who have identified undervalued stocks. Stock selection dominates Templeton's investment approach; country, sector and industry weightings are a residual of the stock selection process. Stock ideas are obtained from a worldwide network of research sources and screens of their own global database. From this preliminary list, analysts conduct fundamental analysis to distinguish a "cheap" stock from a "bargain." Templeton seeks stocks that are cheap relative to their own price history, their global industry and their domestic market. Each stock on the resulting "bargain list" has established buy and sell price targets and is purchased and sold accordingly.

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Extensive securities research process.
- Successful investment approach which has been consistently applied over a number of market cycles.

Current concerns are:

- Growth plan appears aggressive.
- Staff has been expanded significantly over the last two years.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.2%	4.1%
Last 1 year	17.5	11.3
Last 2 years	10.4	9.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	10.4%	7.6%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

Tab G

COMMITTEE REPORT

DATE: March 11, 1996

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met during the quarter to review the following information and action items:

- Review of current strategy.
- Results of a review session with an existing real estate manager, Aetna.
- Investment for the Post Retirement Fund with a new resource manager, Merit Energy.
- Investment for the Post Retirement Fund with a new private equity manager, TCW/Crescent Mezzanine.

Board action is requested on the last two items.

INFORMATION ITEMS:

1) Review of Current Strategy.

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

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments

in less diversified, more focused (specialty) commingled funds. Currently, the SBI has committed \$566 million to twenty-one (21) commingled real estate funds.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. To date, the SBI has committed to twenty-nine (29) commingled private equity funds for a total commitment of \$861 million.
- The strategy for resource investment requires that investment be made in resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has committed \$138 million to eight (8) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employee's pension assets, an allocation to yield-oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. Since 1994, the SBI has committed \$135 million to five (5) yield oriented private equity funds for the Post Fund.

2) Results of Review Session with an Existing Manager.

During the quarter, staff held a review session with one of the SBI's real estate managers, Aetna. The meeting went well and produced no major surprises.

A summary of the review session is included as **Attachment C** of this Committee Report.

ACTION ITEMS:

- 1) Investment for the Post Retirement Fund with a new resource manager, Merit Energy, in Merit Energy Partners - B, L.P.**

Merit Energy is seeking investors in a new \$150 million resource fund, Merit Energy Partners - B, L.P.. This Fund is the twelfth fund raised and managed by Merit Energy. Since 1989, Merit has raised eleven funds totaling \$206.5 million. Merit Energy Partners - B, L.P. fund will make investments in proved developed oil and gas reserves that are located primarily in the lower 48 states with a concentration in Texas, Wyoming and New Mexico.

More information on the Merit Energy Partners - B, L.P fund 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 \$25 million or 20%, whichever is less, in Merit Energy Partners - B, L.P fund. 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 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 or reduction or termination of the commitment.

- 2) Investment for the Post Retirement Fund with a new private equity manager, TCW/Crescent, in TCW/Crescent Mezzanine Partners, L.P.**

TCW/Crescent is seeking investors in a new \$300-450 million private equity fund, TCW/Crescent Mezzanine Partners, L.P. This Fund is the first fund raised and managed by TCW/Crescent. Since 1992, the Crescent principals have invested \$197 million in mezzanine securities primarily for separate account clients. TCW/Crescent Mezzanine Partners, L.P. fund will make mezzanine investments including subordinated debt with equity participations primarily in profitable, middle market companies.

More information on the TCW/Crescent Mezzanine Partners, L.P fund 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 \$40 million or 20%, whichever is less, in TCW/Crescent Mezzanine Partners, L.P. This commitment will be allocated to the Post Retirement Fund.

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

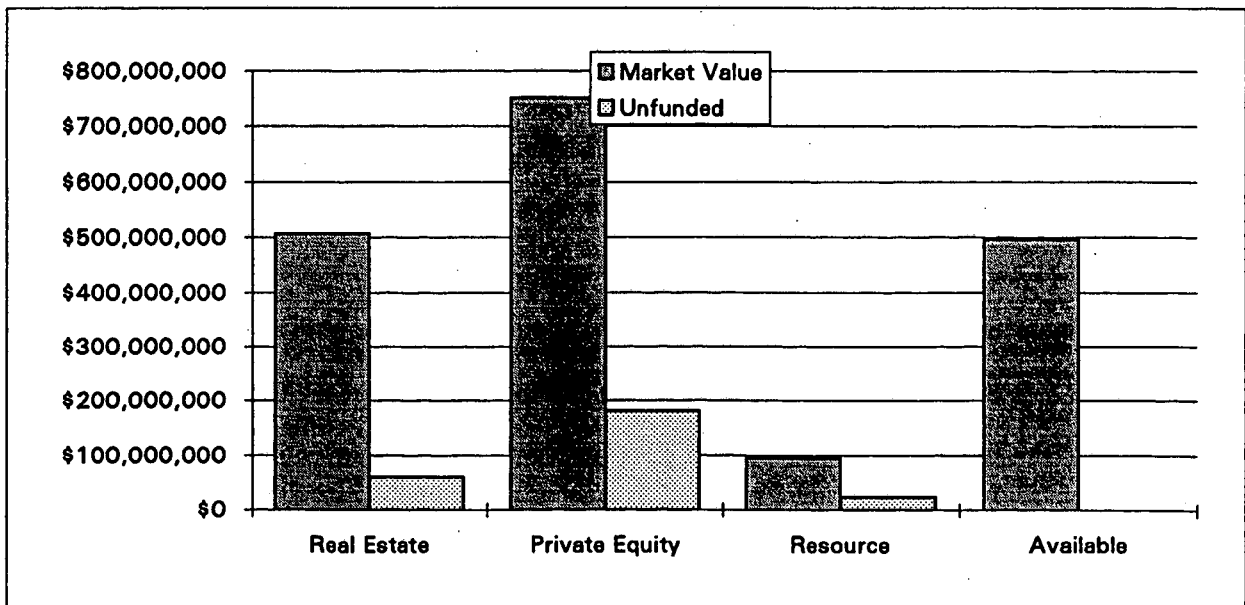
ATTACHMENT A

Minnesota State Board of Investment
Alternative Investments Basic Retirement Funds
 December 31, 1995

Market Value of Basic Retirement Fund (Basic)	\$12,337,683,988
Amount Available For Investment	\$496,816,083

	<i>Current Level</i>	<i>Target Level</i>	<i>Difference</i>
Market Value	\$1,353,836,515	\$1,850,652,598	\$496,816,083
MV + Unfunded	\$1,619,692,831	\$2,467,536,798	\$847,843,966

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	\$507,824,279 4.1%	\$80,948,213 0.5%	\$588,772,492 4.6%
Private Equity	\$751,488,900 6.1%	\$181,241,573 1.5%	\$932,730,473 7.6%
Resource	\$94,523,336 0.8%	\$23,666,530 0.2%	\$118,189,866 1.0%
Total	\$1,353,836,515 11.0%	\$285,856,316 2.2%	\$1,619,692,831 13.1%



ATTACHMENT A (con't)

STATE OF MINNESOTA ALTERNATIVE INVESTMENTS - BASIC FUNDS December 31, 1995

	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
AETNA 013420	Sep-84	2,376,529	2,376,529	2,915,949	0	0	8.51	1.3
AETNA 007367	Apr-82	40,000,000	40,000,000	69,092,159	0	0	4.48	13.7
AEW III	Sep-86	20,000,000	20,000,000	16,127,744	5,065,395	0	0.59	10.3
AEW IV	Sep-86	17,400,000	15,000,000	3,834,605	829	2,400,000	-13.98	9.3
AEW V	Dec-87	15,000,000	15,000,000	9,323,002	1,911,749	0	-3.75	8.0
AMERICAN REPUBLIC	Feb-90	1	1	1	0	0	0.00	5.9
COLONY INVESTORS II	Apr-85	40,000,000	3,812,532	3,657,801	198,688	36,187,468	3.17	0.8
EQUITABLE	Oct-81	40,000,000	40,000,000	71,162,428	0	0	4.48	14.2
FIRST ASSET REALTY	Apr-84	918,185	918,185	874,015	43,421	0	0.08	1.7
HEITMAN I	Aug-84	20,000,000	20,000,000	11,595,271	12,239,834	0	2.58	11.4
HEITMAN II	Nov-85	30,000,000	30,000,000	21,390,095	14,478,132	0	2.42	10.1
HEITMAN III	Jan-87	20,000,000	20,000,000	11,690,202	8,678,113	0	0.28	8.9
HEITMAN V	Dec-91	20,000,000	20,000,000	21,905,461	2,841,180	0	6.74	4.1
LASALLE	Sep-91	15,000,000	14,844,401	14,937,878	1,414,288	355,599	6.26	4.3
PAINE WEBBER	Feb-90	500,000	500,000	181,130	155,864	0	-7.59	5.9
REALTY ASSOCIATES FUND III	Jun-84	40,000,000	39,000,000	33,905,748	8,318,325	1,000,000	8.77	1.6
RREEF	May-84	75,000,000	75,000,000	66,657,672	29,638,312	0	3.00	11.7
TCW III	Aug-85	40,000,000	40,000,000	31,158,211	10,900,073	0	0.81	10.4
TCW IV	Nov-86	30,000,000	30,000,000	21,719,714	3,188,311	0	-2.39	9.2
ZELL/MERRILL LYNCH II	Nov-91	50,000,000	40,388,854	57,141,300	1,713,084	9,611,146	14.94	4.1
ZELL/MERRILL LYNCH III	Jan-94	50,000,000	38,806,000	38,554,000	388,406	11,394,000	1.13	1.8
TOTAL REAL ESTATE		566,192,715	505,244,502	507,824,279	101,152,994	60,948,213		

PRIVATE EQUITY								
ALLIED	Sep-85	5,000,000	5,000,000	2,403,763	3,795,349	0	3.77	10.3
BANK FUND III TRUST	Oct-92	20,000,000	18,000,000	20,521,573	1,421,758	2,000,000	12.13	3.2
BLACKSTONE PARTNERS II	Nov-93	50,000,000	15,968,440	30,992,833	1,752,723	34,031,560	84.46	2.1
BRINSON	May-88	5,000,000	5,000,000	2,382,683	5,471,157	0	10.53	7.6
BRINSON II	Nov-90	20,000,000	15,800,000	8,533,662	17,849,922	4,200,000	24.42	5.1
CHURCHILL CAPITAL PARTNERS II	Oct-92	20,000,000	13,400,000	8,899,270	4,947,831	6,800,000	8.24	3.2
CORAL PARTNERS I SUPERIOR	Jun-86	7,011,823	7,011,823	3,513,518	4,885,814	0	3.05	9.5
CORAL PARTNERS II	Jul-90	10,000,000	8,000,000	10,512,093	1,579,857	2,000,000	7.08	5.4
CORAL PARTNERS IV	Jul-94	15,000,000	4,519,110	4,858,970	0	10,480,890	3.33	1.4
DSV	Apr-85	10,000,000	10,000,000	10,685,399	3,571,961	0	3.82	10.7
FIRST CENTURY	Dec-84	10,000,000	10,000,000	6,998,106	8,124,745	0	8.07	11.1
GOLDER THOMA III	Oct-87	14,000,000	14,000,000	20,784,341	14,824,875	0	24.81	8.2
GOLDER THOMA IV	Jan-84	20,000,000	12,200,000	12,251,839	463,026	7,800,000	4.00	1.9
HELLMAN & FRIEDMAN III	Sep-94	40,000,000	10,258,808	9,898,892	0	29,741,394	-9.14	1.3
IAI VENTURES I	Mar-91	1,148,890	1,148,890	509,308	948,109	0	13.84	4.8
IMR PARTNERSHIP	Aug-92	15,000,000	1,374,800	1,087,180	38,997	13,625,100	-8.30	3.4
INMAN BOWMAN	Jun-85	7,500,000	7,500,000	2,535,422	6,991,610	0	3.44	10.6
KKR I	Jun-84	25,000,000	25,000,000	34,241,013	86,892,303	0	28.81	11.6
KKR II	Apr-86	18,365,339	18,365,339	85,589,670	44,259,293	0	26.49	9.7
KKR III	Nov-87	145,950,000	145,950,000	244,814,039	124,573,517	0	11.56	8.1
KKR IV	Dec-93	150,000,000	125,181,949	104,159,417	28,211,740	24,838,051	10.18	2.0
MATRIX II	Aug-85	10,000,000	10,000,000	2,143,721	18,693,728	0	13.68	10.4
MATRIX III	May-90	10,000,000	10,000,000	22,485,473	26,293,686	0	65.67	5.7
NORTHWEST	Jan-84	10,000,000	10,000,000	1,380,300	12,793,949	0	4.71	12.0
SUMMIT I	Dec-84	10,000,000	10,000,000	931,245	18,958,217	0	12.98	11.0
SUMMIT II	May-88	30,000,000	28,500,000	9,425,156	54,280,489	1,500,000	28.00	7.6
T. ROWE PRICE	Nov-87	102,242,242	102,242,242	44,193,285	76,009,693	0	25.28	8.1
WARBURG PINCUS	Dec-94	50,000,000	9,750,000	8,712,880	83,650	40,250,000	-12.88	1.0
ZELL/CHILMARK	Jul-90	30,000,000	25,825,422	35,645,039	4,110,233	4,174,578	8.95	5.5
TOTAL VENTURE CAPITAL		861,216,394	679,974,821	751,488,900	571,528,130	181,241,573		

RESOURCES								
AMGO I	Sep-81	15,000,000	15,000,000	7,494,664	3,614,536	0	-2.69	14.3
AMGO II	Feb-83	7,000,000	7,000,000	8,649,209	2,325,453	0	4.66	12.9
AMGO IV	May-88	12,300,000	12,300,000	16,723,232	7,571,921	0	11.85	7.8
AMGO V	May-90	18,800,000	15,925,203	26,943,934	8,729,562	874,797	17.30	5.7
APACHE III	Dec-86	30,000,000	30,000,000	4,504,928	38,609,298	0	10.27	9.0
MORGAN OIL&GAS	Aug-88	15,000,000	14,999,972	12,969,580	1,664,833	28	-0.48	7.4
SIMMONS OFS	Aug-91	17,000,000	15,827,843	13,873,780	838,189	1,172,157	-3.48	4.4
SIMMONS OFS II	Jul-95	25,000,000	3,380,462	3,364,029	0	21,619,548	-1.20	0.5
TOTAL RESOURCES		138,100,000	114,433,470	94,523,336	63,353,862	23,666,530		
TOTAL PORTFOLIO		1,565,509,109	1,299,652,793	1,353,836,515	736,034,986	265,856,316		

ATTACHMENT B

Minnesota State Board of Investment

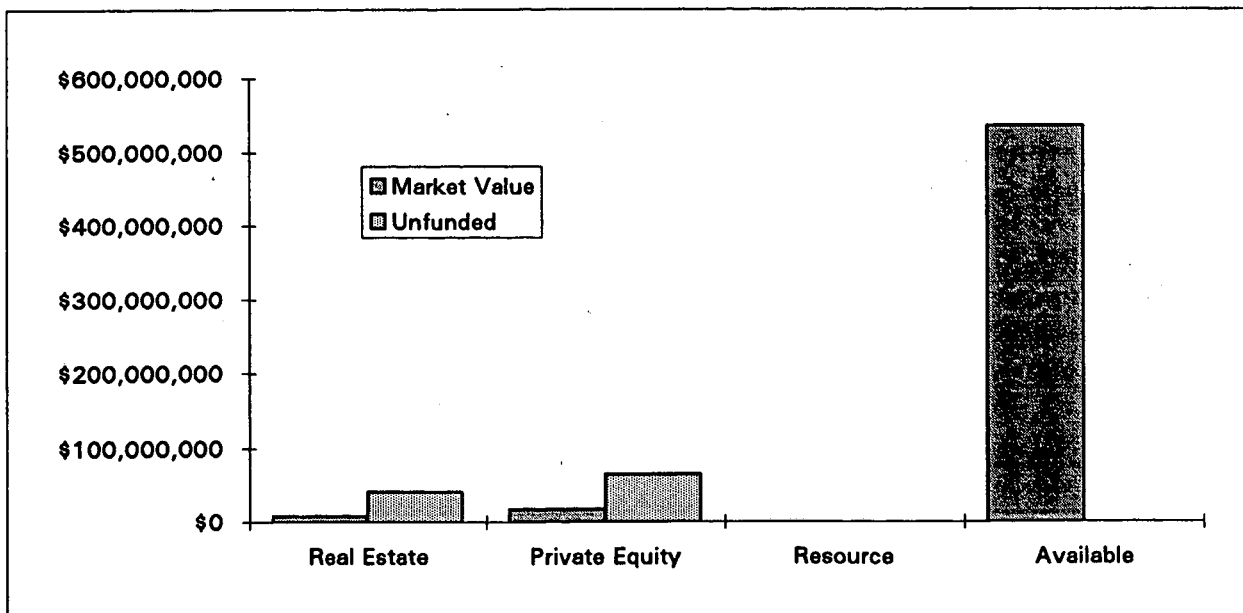
Alternative Investments Post Retirement Fund

December 31, 1995

Market Value of Post Retirement Fund (Post)	\$11,215,718,743
Amount Available For Investment	\$535,347,328

	<i>Current Level</i>	<i>Target Level</i>	<i>Difference</i>
Market Value	\$25,438,609	\$560,785,937	\$535,347,328
MV + Unfunded	\$131,971,864	\$1,121,571,874	\$989,600,010

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	\$8,196,165 0.1%	\$41,596,884 0.3%	\$49,793,029 0.4%
Private Equity	\$17,242,444 0.1%	\$64,936,391 0.5%	\$82,178,835 0.7%
Resource	\$0 0.0%	\$0 0.0%	\$0 0.0%
Total	\$25,438,609 0.2%	\$106,533,255 0.9%	\$131,971,864 1.1%



ATTACHMENT B (con't)

STATE OF MINNESOTA ALTERNATIVE INVESTMENTS - POST FUND December 31, 1996

	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
CB COMMERCIAL MTG FUND II	Jul-95	10,000,000	4,558,500	4,555,688	65,167	5,441,500	8.24	0.3
COLONY INVESTORS II	Dec-94	40,000,000	3,844,636	3,640,477	65,540	36,155,364	-8.82	0.8
TOTAL REAL ESTATE		50,000,000	8,403,136	8,196,165	130,707	41,596,864		
PRIVATE EQUITY								
CITICORP MEZZANINE	Dec-94	40,000,000	10,063,609	7,989,663	3,236,113	29,936,391	15.72	1.0
KLEINWORT BENSON	Jul-95	25,000,000	0	0	0	25,000,000	N/M	0.2
SUMMIT SUB-DEBT FUND	Mar-94	20,000,000	10,000,000	9,252,781	3,060,534	10,000,000	31.04	1.8
TOTAL VENTURE CAPITAL		85,000,000	20,063,609	17,242,444	6,296,647	64,936,391		
RESOURCES								
TOTAL RESOURCES		0	0	0	0	0		
TOTAL PORTFOLIO		135,000,000	28,466,745	25,438,609	6,427,354	106,533,255		

REVIEW SUMMARY

AETNA REAL ESTATE SEPARATE ACCOUNT
February 8, 1996

MANAGER REPRESENTATIVES: Dan Leary

SBI ASSETS UNDER MANAGEMENT: \$72.0 million (12/31/95)

BACKGROUND AND DESCRIPTION

RESA is a \$1.4 billion open-end, commingled, real estate fund formed in January 1978 with no termination date. Investors have the option to withdraw all or a portion of their investment on a quarterly basis, subject to liquidity constraints established by the Fund. RESA primarily makes equity investments in existing real estate. Investments are diversified by location and type of property. On-site management of properties is contracted to outside firms or conducted by a joint venture partner.

QUALITATIVE EVALUATION

Aetna's RESA fund performance during 1995 was positively affected by moderate appreciation across property types, generally as a result of increases in occupancy and rental rates. Total performance (investment income and gains, net of fees) totaled 2.69% for the fourth quarter and 11.09% for calendar year 1995.

Aetna recently reached an agreement in principal to sell Aetna Realty Investors (ARI), the management entity of RESA, to a partnership controlled by TA Associates, Inc. and ARI management. ARI will continue to be RESA's advisor, thereby creating continuity of product structure and investment management professionals. TA Associates has approximately \$1 billion of capital under management with current investments in 66 companies; their areas of specialization include financial services, healthcare services and information technology companies.

RESA looks to 1996 as another year of gradual absorption of vacant space, low levels of new construction and increases in occupancy and rental rates. RESA has increased its allocation to apartment properties and properties in California over the past year due to its future outlook for the real estate market.

Currently the Fund has investor withdrawal requests representing 14% of fund assets. These withdrawal requests will be funded, when possible, out of excess fund cash over the next several years.

ATTACHMENT C (con't)

**QUANTITATIVE EVALUATION
(12/31/95)**

	<u>RESA 013420*</u>	<u>RESA 007367</u>
COMMITMENT:	\$2,591,431	\$40,000,000
FUNDED COMMITMENT:	\$2,591,431	\$40,000,000
MARKET VALUE OF FUNDED COMMITMENT:	\$2,915,948	\$69,092,159
CASH DISTRIBUTIONS:	0	0
INCEPTION DATE:	September 1994	April 1982
INTERNAL RATE OF RETURN: (annualized, since inception)	8.51%	4.46%

* Acquired from police and fire consolidation.

**DIVERSIFICATION PROFILE
(12/31/95)**

<u>By Property</u>		<u>By Location</u>	
Apartment	33%	West	40%
Office	24%	Northeast	24%
Retail	15%	Southeast	17%
Office/R&D	10%	South Central	10%
Industrial	9%	Northwest	8%
Hotel	<u>9%</u>	Midwest	<u>1%</u>
	100%		100%

RESOURCE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund: Merit Energy Partners - B, L.P.

Type of Fund: Resource Limited Partnership

Total Fund Size: \$150 million

Fund Manager: Merit Energy Company
12222 Merit Drive
Suite 1500
Dallas, TX 75251
Phone (214) 701-8377
Fax (214) 960-1252

Manager Contact: William K. Gayden

II. Organization & Staff

Merit Energy Company is a private firm specializing in direct investments in producing oil and gas properties. Its goal is to provide attractive returns to investors through cost-effective management of low risk energy investments.

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.

Merit employs 34 individuals in its Dallas office, as well as 54 field personnel.

Merit Energy Fund B is the twelfth fund raised and managed by the General Partner. Since 1989, Merit has raised eleven funds totaling \$206.5 million.

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

ATTACHMENT D (con't)

developed reserves while also allowing investors to benefit from any future development or higher commodity prices. No leverage is utilized.

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.

Several alternatives exist for exiting the investment:

- **Cash Flow**

This method would involve acquiring properties and paying out the cash flow generated by the sale of production. Once fully developed, successful oil and gas properties can generate annual cash flows equal to 25-30% of investment.

- **Sale of Assets**

Oil and gas properties have historically proven to be very liquid and large packages of concentrated properties have brought a premium. There are also chances for opportunistic sales of individual properties at a premium price.

- **Sale of the Company**

Selling the partnership and the Company as a going concern may generate better results in certain markets (e.g., large energy price spikes).

IV. Investment Performance

Previous fund performance as of December 31, 1995 is shown below and on the next page. Partnerships with a asterisk (*) indicate dissolved funds with fully realized net returns to limited partners. Returns for other funds value remaining reserves at December 31, 1995 using flat energy prices.

Fund Name	Inception Date	Total Equity Commitments	IRR from Inception
Merit Energy Partners, L.P.	9/89	\$14.2 million	12.03%
Merit Energy Partners II, L.P.*	11/89	\$20.0 million	10.80
Merit Energy Partners III, L.P.	7/90	\$15.5 million	9.23
Merit Energy Partners IV, L.P.*	1/91	\$10.0 million	12.60
Merit Energy Partners V, L.P.	2/92	\$30.0 million	12.61

ATTACHMENT D (con't)

Merit Energy Partners VI, L.P.	9/92	\$25.0 million	8.92
Merit Energy Partners VII, L.P.	10/92	\$20.0 million	9.83
Merit Energy Partners VIII, L.P.	3/94	\$20.0 million	9.64
Merit Energy Partners IX, L.P.	5/94	\$20.0 million	11.06
Merit Energy Partners X, L.P.	3/94	\$13.0 million	10.12
Merit Energy Partners A, L.P.	6/94	\$13.8 million	11.53
Merit Energy Partner III-A	5/95	\$5.0 million	12.17

V. General Partners Investment

1% of the Partnership's total contributed capital will be provided by the General Partner. Merit will commit an additional \$3 million of its own equity for investments in working interests.

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 a annual management fee, payable monthly in arrears, equal to 1.25% of *invested* capital (not committed capital) up to \$150 million, plus 1.0% on amounts in excess of \$150 million. A minimum first year management fee of \$750,000 will be based on a total partnership size of \$150 million. If the Fund does not sufficiently invest in the first year to support the first year fee, the fee will be carried over and credited toward operating profits in the second year of the Fund.

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:

ATTACHMENT D (con't)

- (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.

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund: TCW/Crescent Mezzanine Partners, L.P.

Type of Fund: Private Equity Limited Partnership

Total Fund Size: \$300-450 million

Fund Manager: TCW Crescent Mezzanine, L.L.C.
11100 Santa Monica Blvd.
Suite 2050
Los Angeles, CA 90025
Phone (310) 575-9700
Fax (310) 575-1997

Manager Contact: Robert D. Beyer

II. Organization & Staff

TCW/Crescent Mezzanine Partners is being established by the former operating partners of Crescent Capital Corporation, the principals of Hicks, Muse, Tate & Furst, Inc. and TCW Asset Management Company to continue the mezzanine investment strategy presently followed by Crescent. The Crescent principals have worked together for over nine years, while the principals of Hicks Muse have extensive experience in leveraged acquisitions and merchant banking activities. TCW has over \$50 billion in assets under management and offers more than forty domestic and international fixed income, equity and specialized investment strategies.

The Crescent principals and Hicks Muse formed Crescent Capital Corporation in 1991 to create an entity specializing in below-investment-grade securities. Aggregate assets managed by Crescent grew from \$100 million in 1991 to more than \$1.4 billion by December 1994.¹ In March 1995, Crescent entered into a strategic alliance with TCW to assist in the management of TCW's high yield bond portfolios. In September 1995, an agreement was reached by TCW and Crescent, whereby Crescent will be acquired by TCW. As of December 1995, aggregate assets managed by Crescent totaled \$2.7 billion.²

Prior to assisting in the management of TCW's high yield bond portfolios, Crescent employed 31 individuals. Crescent added three high yield bond professionals to its staff

¹ This \$1.4 billion consists of \$900 million in high yield public debt, \$300 million in bank debt, \$96 million in mezzanine debt, \$20 million in distressed securities and \$35 million in private equities.

² Approximately \$1 billion of these assets relate to the TCW high yield bond portfolios.

ATTACHMENT E (con't)

after assuming responsibility for the TCW high yield portfolios and now has 34 employees (25 investment professionals and nine staff). TCW/Crescent has seven dedicated mezzanine professionals (five are full-time, two are at least half-time) and plans to add one new associate in the near future. The Crescent principals will be responsible for the day-to-day operations of the Partnership.

III. Investment Strategy

The Partnership will invest primarily in profitable, middle market companies with revenues ranging from \$25-300 million. Mezzanine investments will include subordinated debt with equity participation, as well as senior debt, preferred stock and common stock.

The Partnership generally will act as the lead investor, investing \$10-30 million in privately negotiated subordinated debt and equity securities issued in connection with leveraged transactions (e.g., management buyouts, acquisitions, refinancings, recapitalizations and later-stage growth capital financings). In order to maintain maximum flexibility in structuring investments and to take advantage of changing markets, the Partnership may also pursue other related investments on a limited basis (e.g., convertible securities, senior equity instruments, common stock and liquid mezzanine investments).

Credit research will be the single most fundamental important component of the investment process. In selecting investments, research professionals will analyze opportunities with an emphasis on principal preservation (i.e., an issuer's ability to service its debt and maintain profitability). The Partnership will target companies with strong businesses evidenced by well-established products or services, defensible market niches and experienced and proven management teams. A bottom-up research oriented analysis of company is completed and traditionally, a private credit rating has been obtained from Moody's. TCW/Crescent is currently negotiating with Standard & Poor's to provide credit ratings for potential Fund investments.

The majority of investments that Crescent has realized have been done so prior to stated maturities through early redemptions and secondary market trades. These early redemptions are due primarily to the way mezzanine securities are structured such that the controlling equity holders are usually unable to realize their gain or loss prior to redeeming the subordinated debt. In addition, Crescent has often structured equity participation rights which were realized before or simultaneously with the controlling equity holder. These features protect the priority position of the mezzanine investor in the capital structure and give the controlling equity holder incentives to redeem the subordinated debt.

IV. Investment Performance

From November 1992 through June 1995, Crescent Capital Corporation invested approximately \$197 million in mezzanine securities. These investments have yielded a net IRR of 18.5%.

ATTACHMENT E (con't)

TCW/Crescent Partners is affiliated with three other funds:

- MACH I is a \$530 million structured fund raised in December 1993. The Fund invests in bank debt, subordinated debt and equity. While it is fully invested, replacement investments may be made from time to time. The Fund is scheduled to terminate in the year 2008. TCW is the general partner of the Fund. MACH I is a hold-to-maturity fund and does not get marked to market; however, it does generate current income of approximately 10% and is expected to have an annualized total return for investors of approximately 20%.
- Shared Opportunity Fund (SHOP) was a \$25 million limited partnership organized in December 1992. SHOP invested in distressed securities and other high opportunity securities and began liquidation in June 1994. The Crescent principals and the principals of Hicks Muse formed the general partner of SHOP and own limited partnership interests. The Fund is almost entirely liquidated. From inception through December 31, 1994, the Fund achieved an annualized net return for investors of 27.2%.
- Shared Opportunity Fund (SHOP II) is a \$50 million limited partnership raised in September 1994. SHOP II invests in distressed securities and other high opportunity securities. The Fund has a rolling investment period and terminates in the year 2004. TCW is the general partner of the Fund. From inception through December 31, 1995, the Fund achieved an annualized net return for investors of 21.3%.

V. General Partners Investment

A total of 1% of the Partnership's total contributed capital will be provided by the General Partner.

VI. Takedown Schedule

10% of committed capital at closing with the balance called as needed on 10 days' notice.

VII. Management Fee

The Partnership will pay the General Partner an annual management fee, payable quarterly in advance, of 1.75% of aggregate capital commitments for the first five years (the investment period). Thereafter, the fee will equal 1.25% of aggregate invested capital.

The management fee will be reduced by all fees received by the General Partner from portfolio companies (e.g. closing fees, directors' fees, management fees and investment banking fees), as well as any net break-up fees and litigation proceeds from broken deals.

VIII. Term

The Partnership's term will be ten years from the initial closing date and is subject to three one year extensions at the General Partner's discretion to allow for an orderly liquidation of the Partnership's investments.

IX. Distributions

Dividend and interest income, net of expenses, will be distributed quarterly, 80% pro rata to the Limited Partners and 20% to the General Partner.

Distributions of cash and securities will be made at the discretion of the General Partner. Cash proceeds from the disposition of investments and distributions of securities in kind will be distributed as follows:

- 100% to the Partners until the Partners have received distributions equal to (i) their contributed capital for such investment and (ii) an amount equal to 8% per annum compounded return;
- 100% to the Partners until each Partner has received aggregate distributions to date equal to its capital contributions in respect to all realized investments to date;
- 100% to the General Partner until the General Partner has received distributions equal to 20% of all amounts distributed pursuant to the preferred return in respect of its carried interest;
- 80% to the Partners and 20% to the General Partner in respect of its carried interest.

There is no requirement that distributed securities in kind be freely tradeable.

X. General Partner Giveback

After the final distribution of the assets of the Partnership among the Partners, the General Partner will contribute to the Partnership an amount equal to the greater of the following:

- (i) the amount by which the Limited Partners' total distribution are less than their contributed capital plus the preferred return; and
- (ii) the amount by which total distributions to the General Partner on account of of the General Partner's carried interest exceed 20% of the difference between the Partnership's total distributions to the Partners and the total amount of contributed capital for investments.

ATTACHMENT E (con't)

In no event will the General Partner be required to contribute an amount in excess of 100% of the net amount distributed to the General Partner (reduced by distributions to the General Partner used to pay taxes) during the life of the Partnership on account of the General Partner's 20% carried interest in the Partnership's net profits.

XI. Affiliated Funds

The General Partner will establish a separate investment entity or structure primarily for insurance company investors (an "Affiliated Fund") to accommodate certain regulatory restrictions applicable to such investors. The Affiliated Fund will co-invest with the Partnership in each Partnership investment on a fixed-ratio basis and will have the same terms as the Partnership, except for increased up-front organizational costs associated with establishing an investment trust.

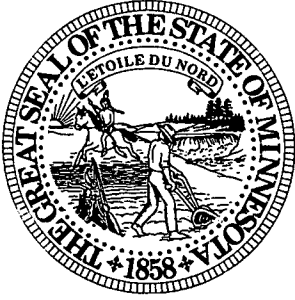
XII. Other Funds

A portion of Crescent's mezzanine investments may be allocated toward other funds managed by the Crescent principals. Specific restrictions apply as to the allocation of mezzanine debt to these funds:

- The Fund will receive an allocation of the mezzanine investment identical to the one it would receive if there were no other funds managed by Crescent.
- The other funds must co-invest in every consecutive mezzanine investment of the Fund or they lose the right to be a co-investor for any future mezzanine investments.
- Funds other than the mezzanine partnership cannot be allocated more than 20% of the aggregate mezzanine investment.

Other funds may also be raised that will have the same restrictions with respect to the allocation of mezzanine investments.

Tab H



STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending December 31, 1995

Domestic Stock Managers	1
Emerging Stock Managers	35
Domestic Bond Managers	53
International Stock Managers	69
Assigned Risk Plan	83
Internal Stock and Bond Pools	87

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$149.2 Billion	Actual	1.6%	38.1%
Total Firm Assets Managed in this Discipline	\$ 14.7 Billion	Benchmark	3.3%	35.0%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

During the fourth quarter, we underperformed the benchmark because of our overweight in technology and finance, two sectors that were very strong performers for the year. Many technology stocks declined as investors became concerned that PC sales would be disappointing during the important holiday season. Cellular stocks were weak because of soft pricing and higher inventories in cellular handsets. In the financial sector, some stocks underperformed because of concern on credit card quality and others were affected by the budget stalemate and its potential impact on interest rates. During the quarter, the best performing stocks were in the healthcare and consumer sectors as signs of a slowing economy began to emerge which make their relative earnings more attractive.

For the year, we outperformed our benchmark. Our airline overweight was a positive as both UAL and Northwest were up substantially as improving yield structures and a reduction in capacity translated into strong earnings for these companies. Our technology overweight contributed to the outperformance particularly our largest holdings which were up substantially, i.e., Intel +78%, Cisco +110%, and Hewlett Packard +68%. During this period, however, the cellular stocks underperformed. The financial stocks benefited from declining interest rates and our overweight was a major positive, i.e., Fannie Mae +72%, Citicorp +62% and Merrill Lynch +43%. While we were underweighted in consumer staples and only equal weighted in healthcare, our stock selection was very positive, i.e., Amgen +101%, Merck +72%, Philip Morris +57%, and Pepsi +54%. Also, our underweight in basic industry contributed positively as many of these stocks underperformed as concerns on the economy began to grow.

On the negative side, was our overweight in cable as the delay in the passage of the telecommunications bill and the threat of competition affected these stocks. Our overweight in retail was also a negative as weak consumer spending and increased competition in the retail environment caused underperformance.

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our large overweight in the financial area continues as we believe that these stocks will benefit from both the favorable interest rate environment and the longer term trends favoring financial intermediaries. All of the stocks we hold are attractively valued on a P/E to growth rate basis. Our technology sector is overweighted particularly emphasizing those companies involved in the strong worldwide growth of the PC industry. The recent concerns on PC sales did not materialize and we expect unit growth this year to be up 15-20%. We have recently reduced cellular exposure by eliminating our position in Motorola. In the consumer and healthcare

Alliance (con't)

sectors, we will be stock specific particularly emphasizing companies with a strong international presence to take advantage of the rapidly developing international markets.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Won	Lost
International Ladies Garment Workers Union	TRW
Northeast Utilities	
DePauw University	
Twin City Federal	

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$50.2 Billion	Actual	7.3%	40.9%
Total Firm Assets Managed in this Discipline	\$12.2 Billion	Benchmark	4.4%	34.7%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

A number of broad trends affected the performance of stocks during 1995. Stocks that benefited from lower bond yields, technological advances, consolidation or restructuring and better product pricing were winners. Economically sensitive stocks and stocks in industries subject to chronic overcapacity were among the losers. The performance of nearly all of the best and worst performing industry groups can be explained by one or more of these drivers.

Active factor exposures detracted slightly from portfolio performance during the fourth quarter but added to portfolio returns for the twelve months ending December 31, 1995. During both the fourth quarter and twelve months ending in December the portfolio benefited from an overweight with respect to stocks with high earnings/price and book/price measures and an underweight with respect to stocks with a high degree of price volatility. Positive returns to these exposures were partially offset during both periods by a negative contribution from an underweight with respect to relative strength and size.

Industry weightings added meaningfully to portfolio performance during the fourth quarter and represented the largest increment to performance for the year ending in December. During the fourth quarter of 1995, positive returns from relative overweights in the aerospace, property casualty insurance, drug and oil service sectors and from an underweight in miscellaneous finance companies more than offset negative contributions to performance from our relative overweights in paper and railroad issues and underweights in traditional telephones and business machines. For the twelve months ending in December, portfolio performance benefited from overweights in aerospace, drugs, oil service and tobacco and from underweights in chemicals and hotel/restaurant issues. Positive returns to these exposures more than offset negative returns to overweights in the steel and railroad sectors and an underweight in energy. Stock selection added the largest increment to portfolio performance during the fourth quarter and was approximately flat for the year ending in December. Holdings that contributed to positive stock selection during the twelve months included Kimberly Clark, Mattel, Cigna, Honeywell and Burlington Northern. Holdings which, on a stock specific basis, detracted from performance during 1995 included RJR Nabisco, Forest Labs and Inland Steel.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our process remains focused on identifying those stocks that are most attractive in price/value terms through intensive individual company analysis, which incorporates strategic themes and industry research. We have an important positive relative exposure to the traditional value measures of earnings/price and book/price. The portfolio continues to carry a positive relative exposure to stocks that possess a high degree of economic sensitivity. Finally, the portfolio possesses an important underweight in companies with high foreign earnings exposure driven by our belief in an undervalued dollar. From an industry perspective we continue to possess an overweight in financial/interest sensitive stocks, which comprises a modest underweight in

Brinson Partners, Inc. (con't)

banks and an overweight in property casualty insurance. A common thread in our insurance holdings is a trend toward restructuring along with our belief that uncertainty surrounding environmental liabilities for casualty insurance companies may diminish and estimated liabilities may decline.

The portfolio underweights utilities, including both electric utilities and the traditional telephones. Little if any rate relief appears available to utilities due to accelerating competitive pressure from lower cost utility and non-utility generators. Additionally, investors remain concerned that utilities will use dividend cuts to manage cash flow problems. Competition will also intensify in the telecommunications and cable industries as regulatory barriers between traditional business lines are blurred and protection diminishes for the traditional regional telephone companies.

We are modestly overweight in tobacco stocks, believing the discount applied by the market to these shares to be too large. The portfolio also remains overweighted in selected health care and drug stocks. While the immediate threat of direct government regulation of health care has now passed, the industry faces a longer-term intensification of competition due to the growing power of health care consumers. Since we see this trend progressing, all of our health care selections are companies which we believe can maintain profitability in a more competitive environment. This position is further supported by the demographics of an aging population and technological advances in previously underserved areas of health care.

We are overweighted in transportation resulting from an overweight in railroads. In general, we believe that secular improvement in railroad industry profitability will continue as regulatory barriers continue to fall. The portfolio is slightly underweighted in the basic industries comprised of neutral weights in iron, steel and paper stocks and an underweight in chemicals. We find market prices for most commodities above our estimate of the equilibrium level, which is not unusual during the mature phase of an economic recovery. Finally, the portfolio is overweight with respect to aerospace and defense and underweight in producer goods. Key holdings include Citicorp, Burlington Northern, Honeywell, Lockheed Martin and Schering-Plough.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There have been no significant organizational changes in this past quarter. Two analysts were added to our U.S. Equity research group. Charles Swain and Greg Anderson will be focusing mainly on commodities and financial services, respectively. No US Equity accounts were gained or lost during the quarter.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$2.7 Billion	Actual	3.7%	32.1%
Total Firm Assets Managed in this Discipline	\$1.3 Billion	Benchmark	3.2%	32.4%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance for the fourth quarter slightly outperformed the benchmark. Stock selection in the medical and related area was strong, as were selections in the technology sector. The one area of weakness was in the consumer area, particularly among the retailers who suffered late in the year as earnings were impacted by heavier than expected pricing promotions and a general delay in purchases in order to capture discounted products.

For the year, performance slightly underperformed the benchmark. Although our mid-year move toward higher growth names was well timed, the mid-cap orientation of these portfolio selections constrained performance, particularly in the fourth quarter. Current valuation comparisons indicate that these smaller names, which trailed the year's rally, continue to trade at more attractive levels than the larger segment of the market. These names began to advance in the third quarter, but stalled in the final months of the year. They should begin to outperform again as the market recognizes the relative valuation opportunities in this area. Further to this mid-cap orientation, underperformance was largely due to an overweight in the consumer retailing sector, which encountered difficulties in the fourth quarter, as noted above. Although the largest holding in this group, Price/Costco Inc., outperformed its sector for the year with strong fundamentals and solid prospects for 1996, the group cost the portfolio in missed opportunities elsewhere. An overweight in the top performing health care sector was extremely productive, with our largest holding, HEALTHSOUTH Rehabilitation Corp., gaining 60% during the year. Portfolio selections in the consumer services sector added considerably to the portfolio, largely due to key holdings in the entertainment (Walt Disney Co.), hotel/motel (Host Marriott Corp.) and restaurant (McDonald's Corp.) groups. Strong stock performance and overweights in the capital goods and industrial and transportation sectors made a significant impact on year-end returns.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We expect to see GDP advance in the range of 1% to 2% in 1996. As anticipated, corporate profit results have been mixed this year, with overall gains somewhat higher than was generally expected, due in large part to continued efficiency gains. With the majority of these improvements behind us and slower economic growth ahead, profit gains for 1996 are not expected to exceed 5%. Wage inflation remains moderate and steady, and with the bulk of commodity price increases behind us, we expect CPI for the year to fall in the area of 2.5%. In this slow growth, benign inflation environment, we expect to see a moderately higher stock market, with a marked P/E expansion among growth companies who can deliver earnings without disappointment. To paraphrase a highly respected Wall Street strategist, weaker earnings on the one hand will be battling it out with the twin benefits of higher allowable multiples and lower inflation.

Forstmann (con't)

The magnitude of such P/E expansions is significant. As we follow the market's P/E upwards, the related expansion of P/E multiples for growth companies is enormous. At a market P/E of 12.5x, the allowable P/E for a stock with a 25% growth rate should equate to roughly 250% that of the markets. As the market's P/E expands to 17.5x, the same growth stock should exhibit a P/E approximately 350% of the market's. Using HEALTHSOUTH Rehabilitation Corp., a current holding with a 25% earnings growth rate as an example, we find that the current P/E of 20x 1996 earnings is significantly discounted to an allowable P/E in excess of 50x. Clearly, even without an expansion in overall market multiples, such a stock has ample room to advance.

In our view, the twin benefits of strong aggregate profit growth and meaningful reductions in interest rates, which helped to fuel 1995's record advance, are largely behind us. 1996 should prove to be a more discriminating market with greater volatility. However, our outlook for the year ahead is not unfavorable, particularly for the area in which we are investing. The underpricing of high growth mid-cap names discussed above provides significant opportunities in which to add value. In an environment of moderate economic activity and relatively stable interest rates, the market should reward such companies with higher price earnings multiples. Currently, multiples for these mid-size growth names show little if any premium to their slower growing counterparts. Consequently, we have been exploiting market weakness to position the portfolio for the year ahead.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Over the course of the quarter there were no ownership changes to report. With the full integration of the Advent portfolio accounting and management software, the firm was able to reduce its complement of support staff, particularly in the account/back office area. No investment management personnel were affected by this change.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

No issues to report at this time.

Staff Comments

No comments at this time.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$ 8.3 Billion	Actual	0.2%	32.3%
Total Firm Assets Managed in this Discipline	\$491 Million	Benchmark	3.8%	34.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Last Quarter's Performance:

According to our performance attribution analysis, stock selection bets and risk factor tilts contributed to active return shortfall in the quarter. Industry bets had no net impact during the period. Note, factor and industry contributions represent the combination of the average bets made relative to the benchmark and the performance of these factors/industries. Stocks which detracted from performance during the period were Micron Technology, Texas Instruments, Arrow Electronics, First USA Corp., and Union Camp. The first three issues are reflective of the sharp declines in technology stocks which occurred during the period. Account holdings which performed well in the period were Safeway Inc., Halliburton Co., Travelers Inc., Archer Daniels, and Allstate Corp. In general, winning stocks reflected investor responses to the slower growth and lower interest-rate environment. Oil stocks, such as Halliburton, did well as oil prices rose. Market conditions were unusually turbulent and was extremely narrow in the fourth quarter. When we look at the difference in performance between ourselves and the benchmark for the quarter, the driver was the lack of discriminatory power in our valuation measures. They simply did not perform well for us in the period. We tend to have experiences like this when market leadership narrows.

The risk factor bet which helped performance was a positive tilt on Success (a measure of past relative strength). Positive tilts on Earnings Variability and Variability-in-Markets hurt performance. Industry contributors to active return were positive bets in Oil Services, Gas Utilities, Foods, and Producer Goods. Industry bet's that hurt performance were Health-Non Drugs, Drugs, Services, Banks, and Telephones. In these instances, the portfolio was underweighted in these industries and they performed well. Note that our investment process does not specifically target industry groups for over and under weighting but rather these bets transpire out of our selection of individual stocks.

Twelve Month Performance:

The data from our performance attribution analysis point to risk factors and industry bets as positive contributors to active performance. Stock selection made a negative contribution. Stocks that hurt performance were EMC Corp. (a maker of computer storage devices), Arrow Electronics, Micron Technology, and Scientific Atlanta - all of these issues were in the volatile technology area. Winners Safeway Inc., Bank of New York, Merck, and Capital Cities (a takeover play). The two risk factors with the largest positive contribution to performance were E/P and Success. In both cases the portfolio was positively tilted relative to the benchmark and both factors had positive returns. A risk factor which had a negative impact was Earnings Variability. We had a positive average tilt on the factor which had a negative return. Industry bets that helped performance were Food, Gas Utilities, Food Stores and Publishing. In all cases, the account had positive active bets in these groups and they did well. Underweighting of Services, Misc., Finance, Health (Non-Drugs), and Beverages, industries that were strong performers in the period, hurt performance.

Franklin (con't)

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As of December 31, the following active bets existed in the account relative to benchmark:

- A. Factor bets (bets stated as standard deviation from benchmark):

Success = 0.12 Earnings/Price = 0.42 Book/Price = 0.15
Earnings Variability = 0.25

- B. Industry bets (bets stated as percentage deviation from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Gas Utilities	3.57%	Retail	-4.21%
Misc. Finance	2.72	Health (Non-Drugs)	-3.81
Oil Services	2.08	Drugs	-2.51
Paper	2.07	Apparel, Textile	-1.30
Food	1.95	Telephones	-1.30

- C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

IBP Inc.	3.05%	Green Tree Accep.	2.26%
Halliburton Co.	2.66	Analog Devices	2.19
Unicom Corp.	2.49	Informix Corp.	2.10
Travelers Inc.	2.30	IBM Corp.	2.10
Textron Inc.	2.27	Exxon Corp.	2.08

All active bets in the portfolio are based on two factors - (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk characteristics of the overall portfolio relative to the benchmark. The portfolio construction objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. We attempt to maintain a total tracking error of approximately 3% to 3.5% relative to the benchmark with the tracking error resulting from stock bets being better than 70%. The industry bets above are a result of the stock selection bets. As of quarter-end, the forecast total tracking error for the portfolio was 3.87% with 76% of the tracking coming from stock specific risk.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

On a firm-wide basis we gained one account and lost two during the period.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

We have formed a joint venture with QUANTEC, a London based firm that specializes in global risk management tools. We are working together on both valuing stocks and building portfolios at a global level for clients.

Staff Comments

No comments at this time.

**Manager Commentary
GeoCapital Corporation**

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$1.859 Billion	Actual	-0.1%	29.6%
Total Firm Assets Managed in this Discipline	\$.329 Billion	Benchmark	5.6%	43.6%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the quarter and the year, GeoCapital trailed the benchmark. The benchmark continued to benefit from good performance in the very small cap illiquid stocks including some new IPO's. We have modified the benchmark portfolio in early January which should eliminate this problem. In addition, we raised cash in the 4th quarter of 1995 through the sales of large positions in United Healthcare, Foundation Health and Maybelline. This brought our cash position higher than usual and higher than the benchmark, which hurt our relative performance. During the 4th quarter, we initiated new positions in Morrison Restaurants and Heilig Meyers where we believe the stocks are cheap and the long term outlook is favorable. On a short term basis, these stocks have underperformed.

For the 12 months and quarter ended 12/95 the economic sectors with the most negative impact were consumer non-durables and cash, while technology stocks had the most positive impact.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We continue to add to our technology holdings as short term product transition delays give us more attractive prices in order to buy. The financial, health care services area and computer software area continue to consolidate and represent attractive investment industries. In addition, as discussed above, we are initiating positions in consumer non-durable companies (Morrison Restaurants and Heilig Meyers) for potential long term appreciation. We plan to continue to invest our cash position cautiously as the market presents us with reasonable valuations for our favored stocks.

Large relative active bets continue in the following areas:

	GeoCapital	Benchmark
Consumer Non-Durables	41.29%	37.68%
Services (Funeral)	12.60%	5.01%
Health-Care	8.79%	15.24%
Hotel/Motel	8.45%	2.71%
Capital Goods	-0-	2.02%
Energy	.61%	4.27%
Technology	30.97%	39.74%
Computer Services	22.09%	19.04%
Telecommunications	1.45%	11.45%
Financial	17.15%	10.61%
Banks-Money Center	3.41%	.55%
Credit & Misc. Financial	5.42%	1.35%

GeoCapital (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No change in personnel.

No accounts were gained or lost.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Technology stocks were strong through much of the year, although we gave back some of these gains in our software and information technology investments toward the latter part of the year. We still think that the investment case for software stocks is favorable. We believe that the trend toward corporate downsizing and the continuing search for operational efficiencies are here for the long term and will entail significant ongoing investment in the necessary information technology. In addition, 1995 saw the consolidation wave which we have experienced in some of our other areas of investment interest - some examples are health care, banking and other specialized financial companies - really take off in the technology sector. We expect to see more of this activity in 1996.

In general, we expect the environment to be positive for small companies in 1996. Inflation does not appear to be a threat looking out to next year and so we would not expect to see interest rates increasing. In fact, given the low growth economic environment, there are probably good reasons to expect rates to go down somewhat from today's levels. This type of scenario, along with the potential for a capital gains tax cut, has historically been a good environment for small stock outperformance.

Looking out over the next few months, we expect to add names or add to existing positions in companies that report disappointing results for the short term but which we believe represent investment opportunities for the long term. We are also looking to add new names in areas of significant underperformance through 1995. One example of this is the consumer/retail sector of the economy. Give what we believe will be continuing short term overall weakness in this area, we are selectively looking at special situations where we see the market discounting significant long term value.

Staff Comments

Staff met with GeoCapital in early January, 1996, to discuss their investment strategy and the portfolio performance. Comments made during that meeting coincide with those made above.

In the past, GeoCapital's benchmark has held a large number of very small companies that they were unable to invest in due to illiquidity. GeoCapital has modified their benchmark building process to include a screen that will remove those very small companies from their benchmark. This will ensure that the benchmark better reflects GeoCapital's investment universe. Staff feels this should improve the benchmark's quality.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$ 15 Billion	Actual	7.0%	33.2%
Total Firm Assets Managed in this Discipline	\$ 835 Million	Benchmark	4.5%	34.0%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the quarter ended December 31, 1995, the Portfolio returned 7.0% versus a benchmark return of 4.5%. Our outperformance was generated broadly across the stocks held in the Portfolio. Within individual sectors, our under-weighted position in electronic technology and our over-weighted capital goods stocks lead the way. Specifically, helping the quarter's performance were stocks in the agricultural sector (which are included in capital goods in our break-down).

For the year, the Portfolio returned 33.2%. The factors that caused the slight under-performance for the year were: first, an average cash position of over 15% which held back relative performance by over 3%; second, the final impact of our benchmark change. The first quarter of calendar 1995 reflects our "old" benchmark which had significantly higher performance than our current "regional" benchmark. Starting in the March 1996 quarter, our annual performance reporting will reflect the regional benchmark for the whole period. Lastly, the annual actual return was negatively impacted by substantial rates of returns to very narrow sectors of the market to which we had little to no exposure during the year. These included airlines (we favored rails), banks (we favored specialty finance early in the year and life insurance later), and technology (we captured the telecommunications equipment performance in the first half but missed a couple of very strong stocks).

All in all, we believe 1995 was a good year where we were able to demonstrate the strength of our stock selection process. That is, we generated significant relative performance out of our stock positions without relying on the "hot" sectors to drive our numbers.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The portfolio continues to show an active over-weighting in the "capital goods" area. We have begun to reestablish our telecommunications equipment company positions that were sold on a price basis in the summer of 1995. These stocks have now fallen sufficiently in price to be attractive for purchase again.

There have been no other shifts in portfolio strategy from a sector perspective.

IAI (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Bing Carlin, Co-Manager of the Regional Portfolios at IAI, has retired from active management at IAI. Mark Hoonsbeen, who has co-managed with Bing since June 1994, has assumed full responsibility for the day-to-day management of all Regional accounts including SBI's. We anticipate no changes in the style of management due to Bing's retirement.

Amy Dean, who has been the Portfolio Assistant for all Regional accounts, has been promoted to Associate Equity Analyst. Amy will be working with the Regional Team to find, analyze, and recommend investments for the Regional Portfolios. She has also begun the Chartered Financial Analyst (CFA) program. Amy will be transitioning into her new responsibilities over the next six months.

The parent company of IAI, Trustee Savings Bank, has merged with Lloyd's Bank. This merger is not expected to result in any significant changes at IAI.

No accounts were gained or lost under this discipline during the quarter.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff is recommending that IAI be placed on probation due to the change in portfolio managers and concerns about performance.

Bing Carlin has retired, and Mark Hoonsbeen is officially SBI's portfolio manager. Staff met with IAI at their office in early December, 1995, to discuss the situation. Mark has hired an analyst to assist him in company analysis and visits. He anticipates that he will add another in the future to cover any industries that they feel they are weak in.

Mark assured staff that they will continue to use the same process in the regional fund. They follow 400 companies, and they make bets on the companies they believe will perform well over 18 months to 3 years.

IAI is owned by Hill Samuel Group, Plc. which is owned by Trustee Savings Bank Group, Plc. (TSB). TSB and Lloyds Bank are merging and will consolidate the retail banks in England. There will also likely be some consolidation of investment management groups. So far IAI feels this will have minimal affect on the investment of SBI's account. Staff will continue to monitor IAI and the consolidation of the investment management groups.

Manager Commentary
IDS Advisory Group, Inc.

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$24.0 Billion	Actual	8.1%	36.6%
Total Firm Assets Managed in this Discipline	\$ 6.5 Billion	Benchmark	5.0%	36.5%

1. *Past Performance.* Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

The State of Minnesota account outperformed the Normal Portfolio over the latest three months and one year.

In the first 30 days of the year, the account underperformed by 222 basis points. In addition, the fund was too conservatively positioned given the ultimate returns generated by the market. In particular, cash held within the account reduced performance by roughly 300+ basis points. Sector weightings were mixed. Our heavy weighting in financials and their excellent performance were quite helpful. Our underweighting in technology hurt us early in the year although our stock selection in this sector was satisfactory. Clearly, our decision to underweight certain cyclical sectors was beneficial as the basic industrial and consumer cyclical areas significantly underperformed the general market. In summary, we performed in line with the market but could have generated significantly better returns if we had taken a more aggressive posture and assumed a higher beta.

2. *Future Strategy.* What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

Our sector weights are as follows:

	12/31/94	12/31/95	Benchmark 12/31/95
Technology	15.3	19.3	16.2
Consumer Stable	9.1	22.1	25.8
Consumer Cyclical	18.2	9.2	12.9
Utilities (non electric)	1.9	6.6	6.6
Financial Services	13.5	11.5	11.0
Energy	7.4	7.8	6.4
Industrial Basic	13.6	3.8	5.3
Industrial Growth	4.1	10.3	2.6
Industrial Cyclical	11.2	7.1	8.1
Equity Cash	<u>5.8</u>	<u>2.3</u>	<u>5.0</u>
	100.0	100.0	100.0

We are reasonably sanguine about both the economy and financial markets. It is our belief that the economy will grow at approximately 2% and that inflation will remain at approximately the 3% level. We anticipate a significant decline in short-term interest rates and a modest decline in longer duration obligations. Liquidity will be plentiful as the Fed seeks to avoid a recession. Finally, we believe that S&P 500 earnings will advance approximately 2-5%. While the economic outlook is positive, much of the good news has been incorporated into market prices. The S&P 500 is selling at 17x our estimate of 1996 earnings, yielding only 2.3%, and selling for more than 4x book value. Clearly, these valuation levels preclude a

IDS Advisory Group, Inc. (cont'd)

repeat of 1995's market returns. However, our dividend discount models indicate a rate of return on the order of 10-12%. Taking a somewhat more conservative posture, we are currently projecting a 8-10% total rate of return from the S&P 500 over the next 12 months. Given our belief that earnings will be sluggish, companies with substantially above average profit growth are likely to outperform the general market. With this in mind, we are heavily overweighted in the technology and industrial intermediate growth areas. In both of these sectors, earnings are likely to advance at double digit rates while price/earnings multiples are less than that of the general market. We also have substantial weightings in the consumer stable and financial sectors which are also likely to show above average growth. We remain underweighted in many cyclical areas including industrial basics, industrial intermediate cyclicals, and consumer cyclicals. We are also underweighted in the utilities and energy areas reflecting our belief that earnings are likely to be anemic in these areas and valuations are extended.

3. **Organizational Issues.** Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

In December Jim Weiss left the employment of American Express to join State Street Boston Research and Management. We are currently seeking a very senior individual to replace Jim. In addition, we have promoted an experienced senior analyst to the position of associate portfolio manager within IDS Advisory Group.

Product	Gains		Losses	
	# of Accounts	Assets (\$MM)	# of Accounts	Assets (\$MM)
Large Cap Equities	3	176.8	0	0
Balanced	1	6.2	1	65.8
International	2	73.6	0	0
Regional - Pacific	0	0.0	0	0
Global Ex-Australia	1	37.2	0	0
Latin America	0	0.0	0	0
Small Cap Equities	0	0.0	0	0
Mid Cap Equities	0	0.0	0	0
Research Core	0	0.0	0	0
Research Aggressive	1	10.1	0	0
Global Bonds	2	55.0	0	0

4. **Other Comments.** Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

None.

Staff Comments

Staff met with IDS in late January, 1996, to discuss their organization, investment strategy and the portfolio performance. Comments made during that meeting coincide with those made above.

Manager Commentary
Independence Investment Associates

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$21.4 Billion	Actual	4.6%	37.8%
Total Firm Assets Managed in this Discipline	\$11.4 Billion	Benchmark	5.9%	37.6%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

1995 was the best year for the stock market in 37 years. An environment of moderate economic growth, rising profits, low inflation and declining interest rates created fertile ground for the stock market's record setting appreciation. Interest rates play an important role in how the U.S. stock market moves. Throughout 1995, the Fed kept short-term interest rates at an artificially high level. The Fed's conservative posture has helped moderate economic growth while keeping inflation in check, but the odds now favor a more accommodative stance. In December, central banks around the world cut interest rates including a 50 basis point cut by the German Bundesbank, and a 25 basis point cut by the U.K. Central Bank. The U.S. Fed followed with a 25 basis point cut in late December.

In addition to interest rates, two other major drivers of the U.S. stock market this year have been increased corporate productivity and strong investment cash flow. Increased productivity through the use of technology, merger-related economies of scale, and cost containment from downsizing have paid off handsomely for many companies this year. And, looking at the market as a whole, the demand for equities has exceeded its supply, pushing stock prices higher. There have been large, regular inflows into equity mutual funds at the astronomical rate of 2-3 billion dollars per week. This combined with a shrinking equity supply from increased merger and acquisition activity has helped pushed equity prices higher.

This year the stock market was characterized by narrow sector leadership and rapid group rotation. Through December, only three of eight economic sectors outperformed the Dow. The winners were financials, technology, and consumer staples (multinational companies which have benefited from the weak dollar such as Coke, Philip Morris and Merck). 1995 has also been a banner year for large, blue-chip companies. Small capitalization stocks have lagged considerably as is evidenced by the 28.4% performance of the Frank Russell 2000 versus the S&P 500 at 37.5%.

Cybercode, the valuation model which drives our individual stock selection, discriminated effectively between the "good" and "bad" stocks for the overall year. The year started off with the intrinsic value components working better, while the momentum components took the lead in the second half. The combined Cybercode ranking has approximately 50% of its weight in each model type. Monthly volatility of individual model prediction accuracy remains above average, an occurrence which is consistent with the rapid industry/sector rotation which has characterized the recent market environment. While our momentum component valuation models performed well on a monthly measurement basis, their higher than normal ranking volatility led to a sharp fall-off in the persistence of their skill. As our moderate portfolio turnover depends on some persistence of model skill, we were unable to capture this short-term value added, which thus resulted in the performance shortfall in the fourth quarter. We continue to update the model weightings on a regular basis throughout the year but there have been no additions or deletions.

Independence (con't)

For the fourth quarter of 1995, the best performing stocks in your portfolio included healthcare and energy issues such as Bristol Myers, Halliburton and Exxon. Other large holdings which also outperformed your benchmark included Kimberly Clark, Home Depot, Boeing and NYNEX. Stocks which underperformed the market included Texas Instruments, Mead and Wal-Mart. Turnover for the full year was 67%, right around our historical average of 60% for our diversified core equity accounts. New positions were initiated in Microsoft, Motorola and Chrysler during the quarter while IBM, Citicorp and DuPont were eliminated. In recent months holdings in the Consumer Cyclical and Utility sectors were increased as a result of our individual stock selection while Consumer Noncyclicals, Financials and Basic Materials were reduced. While industry/sector weightings are consciously managed to be close to the benchmark, your portfolio is slightly overweighted in individual issues in the Financial and Consumer Cyclical industries.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As always, we remain disciplined in adherence to our basic investment philosophy of cheapness with improving fundamentals and follow a disciplined investment process. Your fund is highly diversified with 111 stocks and managed with risk control in every step of the investment process. Your portfolio has a beta of 1.00 and a standard deviation of residual return of 2.0% relative to the S&P 500 and remains fully invested. Over 85% of the residual variance, which can also be interpreted as the exposure to active return opportunity, is attributable to individual stock selection. Consistent with our investment philosophy, your portfolio's P/E of 13.4X is lower than the market P/E of 16.4x and the long term EPS growth rate of your portfolio is 9.8%, higher than the market's long term growth rate of 7.0%.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

At year end, Independence had assets under management of \$21.4 billion dollars. This growth of 36% over year end 1994 comes from the great bond and stock markets of 1995 plus new clients and additional assets from our existing client base. We have experienced no turnover in our investment staff in 1995 while adding several talented individuals during the course of the year. We end the year with 79 employees. In addition to our core business of U.S. equity management, we have just received word that our first client has decided to fund our new international equity product which follows our equity philosophy of "cheapness and improving fundamentals" while maintaining tight risk control. We have also completed enhancements to our existing fixed income product.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Jundt Associates, Inc.

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$3,082 Million	Actual	-2.3%	18.2%
Total Firm Assets Managed in this Discipline	\$2,513 Million	Benchmark	1.2%	33.7%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Quarter: Over one-third of our negative relative performance in the quarter came from one stock (Nokia), which was a large holding and reported disappointing earnings. Consumer non-durables accounted for over 40% of portfolio benchmark, and our returns were about one-third less than the benchmark. Technology returns were about the same as the benchmark and about the same weight (30%+).

Twelve Months: Over half of the negative return vs. the benchmark was in the technology area. We did not have any semi-conductor exposure, which hurt us during the year. Since then, this area has been hit severely in the market place. Holding higher levels of cash also hurt during the first 9 months of the year. Consumer non-durables, about equal weighted with the benchmark, showed about the same level of positive return.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Current cash position is about 5%. The technology and consumer non-durable areas account for 85% of the portfolio and about 70% of the benchmark. Important individual holdings include Microsoft, Cisco, 3Com, Biogen, Genzyme, Home Depot, Boston Chicken, Oxford Health, and Healthsource. We feel these companies will be able to grow at very healthy rates over the next 12 months despite a faltering economy and poor trends in the earnings of cyclical exposed companies. With interest rates down and inflation at a low level, we feel that a portfolio with a strong growth bias will perform very well on a relative and absolute basis over the next 12 to 18 months.

Jundt (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

None.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff met with Jundt at their office in early January, 1996 to discuss the organization, investment strategy, and portfolio performance. Comments made during that meeting coincide with those made above.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$37.7 Billion	Actual	7.2%	41.5%
Total Firm Assets Managed in this Discipline	\$11.5 Billion	Benchmark	5.7%	37.0%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Quarter - The portfolio return exceeded the benchmark by roughly 150 basis points, of which 60 basis points is attributable to sector allocation and 90 basis points to stock selection. The positive sector allocation contribution resulted from an underweight in retail issues as well as the overweights in consumer and communications. The positive stock selection variance was generated in health care and consumer non-durables.

Calendar 1995 - The portfolio return exceeded the benchmark by roughly 450 basis points. Sector allocations reduced the return by roughly 80 basis points, while stock selection added approximately 560 basis points. The negative sector allocation variance was due to underweight in the very strong health care and technology sectors. Stock selection was very good in technology and quite good in consumer non-durables as well as health care.

Lincoln's selections in technology (Intel, Hewlett Packard, Cisco, and Oracle) performed in a superior manner because of large upward EPS revisions during the first three quarters of the year. Over the last four months of calendar 1995 investors switched to steady growth companies (health care and consumer non-durables). Lincoln's selections in these areas experienced modest upside EPS surprises and improved relative P/E multiples. The poorest performing sector was retail, beset with earnings disappointments. Although this sector was underweighted for the second half of 1995, we wished we owned none.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

At 12/31/95, the active portfolio was underweighted in the retail and media industries, overweight in consumer non-durables (mostly global franchise companies) and "other" (primarily outsourcers such as Automatic Data Processing and General Motors "E" shares - soon to be Electronic Data Systems again). The other sector weightings are generally neutral.

Most of the key bets are in individual issues with the top ten stocks accounting for 40+% of the portfolio. We deem these issues to have superior fundamental and relative valuation attractiveness.

Lincoln (con't)

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No significant ownership or personnel changes. Lincoln plans to add one more analyst to the nine person team in the first quarter of 1996. No equity accounts were gained or lost in the most recent quarter.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

**Manager Commentary
Oppenheimer Capital**

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$37.9 Billion	Actual	4.9%	43.0%
Total Firm Assets Managed in this Discipline	\$24.9 Billion	Benchmark	5.8%	35.2%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

FOR THE QUARTER ENDED DECEMBER 31, 1995

During the fourth quarter the portfolio was negatively impacted by the short term earnings disappointments in three technology related companies, Arrow Electronics, Motorola and Nokia. We continue to believe that these companies enjoy superior industrial positions, generate high returns on capital and have attractive reinvestment opportunities. Security selection in the finance and capital goods sectors contributed positively to performance for the fourth quarter. The top five contributors to performance and the bottom five detractors from performance for the fourth quarter follow:

<u>Top Five</u>		<u>Bottom Five</u>	
First Interstate Bancorp	36.3%	Nokia	(44.1)%
Monsanto	22.4	Motorola	(25.2)
Federal Home Loan Mortgage	21.2	Champion International	(21.9)
Travelers	18.8	Arrow Electronics	(20.9)
Lockheed Martin	18.3	Morgan Stanley	(16.6)

FOR THE YEAR ENDED DECEMBER 31, 1995

The portfolio outpaced the benchmark by 780 basis points for the year ended December. The key factor which enabled the outstanding performance was excellent security selection within the finance, materials and services, technology and capital goods sectors. Our major positions in financial companies, including Federal Home Loan Mortgage, Citicorp, Travelers Group, Transamerica, EXEL, American International Group and First Interstate Bancorp appreciated on average by 63.7% as compared to 56.4% for the benchmark's sector return. Importantly, we did not own any of these companies as interest rate proxies or for other "top down" considerations. These stocks appeared undervalued to us regardless of the interest rate environment the decline in interest rates in 1995 added to their outstanding performance.

Our focus on corporate restructuring and free cash flow also produced some large gains. Notable among the big winners in 1995 was McDonnell Douglas, which rose about 95%. The competitive position and cash flow characteristics of its defense business as well as its strengthened management team drove the stock price for the second year in a row. Hercules and Monsanto, two chemical companies identified as turnaround candidates a few years ago with superior and very focused management, also performed well with an average return of about 60%.

The following securities were the top ten contributors to performance for the year:

First Interstate Bancorp	109.0%	Federal Home Loan Mortgage	68.3%
Travelers	97.8	Citicorp	66.3
McDonnell Douglas	96.5	Exel	58.6
Mellon Bank	84.4	Lockheed Martin	51.9
Monsanto	79.1	Hercules	49.0

Oppenheimer (con't)

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets*

We expect some of our stocks to benefit from the changing environment, such as industry consolidation, which is expected to be a major ongoing phenomenon over the next several years. Also, some of our companies are potential acquirers which can create shareholder value through the economies of scale resulting from a merger or acquisition. Examples of consolidating industries in which we participate through your portfolio positions include banking (First Interstate), insurance (Travelers), retail (May Department Stores), defense (Lockheed Martin and McDonnell Douglas) and distribution (Arrow Electronics).

We have begun to build a position in Countrywide Credit Industries, the nation's largest independent mortgage lender and servicers. CCR is a high return company with a large competitive advantage operating in a fragmented market. The main points of the investment case include 1) the unique and differentiated low cost approach to mortgage origination that CCR began in 1974 and is exploiting today without any meaningful look alike; 2) the increasing cost efficiencies due to economies of scale in the servicing operation; 3) the ambitious and competitive owner-operators that manage the company aggressively; 4) reasonable valuation at nine times economic earnings. In summary, CCR is the market and technology leading, lowest cost, most disciplined mortgage originator, selling at extremely attractive valuation.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Joanna Migdal, Managing Director, left the firm and Beatrice Liu, Vice President, left for personal reasons

CORE EQUITY ACCOUNTS GAINED/LOST:

Accounts Gained: 6 accounts with \$87.2 million in assets.
Accounts Lost: 3 accounts with \$48.0 million in assets.

(Two of the accounts we lost were a result of corporate restructuring. The third account was lost due to a switch from active equity management to passive equity management.)

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Waddell & Reed

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$24.1 Billion	Actual	0.3%	27.9%
Total Firm Assets Managed in this Discipline	\$ 0.6 Billion	Benchmark	2.2%	32.2%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

The portfolio underperformed the benchmark by 185 basis points for the quarter ending 12/31/95. During the quarter, the market rotated out of economically sensitive areas, particularly technology, and into defensive/stable areas was very pronounced. Our heavy overweighting in technology had a negative impact on performance late in the quarter, neutralizing previous gains in that sector. Our biotechnology, hospital management, and cable television holdings performed well during this period.

We remain overweighted in technology (60% of the portfolio as of December 31, 1995), because we think this continues to be an economic sector with true growth potential. We are, however, shifting our emphasis to software and service companies where earnings growth is more assured; conversely, we have moved away from commodity hardware technology where a much slower economy could yield sharply negative results. Specific security changes were as follows:

Positions Increased

Allied Waste
Broderbund
Cerner
DuPont
Federal National Mtg.
Motorola
Silicon Graphics
Teradyne

New Stocks

Alza Corp.
Beverly Ent.
Emeritus Corp.
Evergreen Media
GT Interactive
Infinity Broadcasting
LeCroy Corp.
Nimbus CD
Ornda Healthcorp.
Physio Control
Sequus Pharmaceutical

Stocks Sold

ADC Telecom.
A.G. Edwards
Black & Decker
C.R. Bard
Compaq
Integrated Device
Intel
Mattel
Micron Technology
MCI

Stocks Reduced

LSI Logic
Mid-America Apt.
Southwest Airlines
Texas Instruments

Underperformance for the year is attributable to (as previously discussed):

- 1) The excessive use of cash early in 1995.
- 2) A slow move to overweight technology stocks.
- 3) Price declines in the technology sector in the fourth quarter.

2. **Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

We have been surprised by the Federal Reserve's reluctance to ease monetary policy. We had expected the Fed to cut 50 basis points more than they have. Fed funds at 5.50% in an environment of 2% inflation is a very tight policy, especially given the sluggish nature of the U.S. economy. Unless the Fed steps hard on the accelerator, we anticipate further significant economic slowing in the first half of the year, which will compound the substantial slowing of corporate profit growth that is already occurring.

Waddell (con't)

Since October, we have been reducing our cyclical exposure. In hindsight, we should have done more. However, we were of the opinion that the Fed would ease aggressively and we thought such a move would clearly favor cyclical stocks. This logic has not prevailed. The Fed, for reasons unclear to us, has maintained its tight money posture.

Looking into next year, equity markets are likely to show little real progress until the Fed gets more aggressive. Once the Fed moves strongly, stocks should perform well, particularly the economically sensitive groups. Currently, we are increasing our exposure to interest-sensitive issues and reducing exposure to commodity cyclicals. We will continue to concentrate investments in those stocks which we think will provide superior earnings growth in a much more difficult earnings environment.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

The firm has had no significant ownership changes occur. Personnel changes include:

Staff Additions:

Mr. Timothy Dykman, Fixed Income Analyst

Staff Resignations:

Mr. Mark Yockey, International Portfolio Manager

Mr. Dean Tenerelli, Investment Analyst

Mr. John Meara, Industry Analyst

An existing client in the aggressive equity style restructured their portfolio to include another of the firm's disciplines.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

We have had no significant issues or events occur in the last quarter that would affect the management of the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Weiss Peck and Greer

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$12.6 Billion	Actual	5.8%	39.7%
Total Firm Assets Managed in this Discipline	\$ 1.3 Billion	Benchmark	0.1%	38.6%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The fourth quarter of 1995 was a very strong one for Weiss, Peck and Greer, one in which we outperformed the benchmark by 5.7% overall, with stock selection lending 4.56% to this. The results of this quarter led to our outperformance of the benchmark for the twelve month period ended December 31.

We experienced strong relative performance in Healthcare, Transportation and the Consumer areas for the quarter. Consumer Non-Durables, Consumer Miscellaneous and Transportation were the top outperforming sectors for the twelve months as well. We did not benefit from our holdings in Healthcare, however, until the second half of the year. Our Healthcare holdings returned 17.04% versus the benchmark's 13.00% for the quarter, but fell short in relative performance for the year at 43.16% versus 53.23%.

The fourth quarter was a difficult one in general for technology. Both our performance and that of the benchmark, suffered with negative returns in this sector, which is the largest weighting in both cases. Better stock selection helped to edge our performance ahead of the benchmark's, but our slightly larger average weighting resulted in negative relative performance. Unfortunately, this was a problem that remained constant throughout the year, resulting in the biggest deficit of relative performance. We did show a 37.36% return for this sector, but that did not keep pace with the benchmark's 46.72% return and its average 2% overweighting.

We had a strong showing in the financial sector, during the quarter, that was further enhanced by our overweighting versus the benchmark. We returned 9.69% in this area with an average weight of just under 8%, while the benchmark posted a 1.73% return.

Intermediate Goods continued to be a problem area for us, returning -2.32% versus the benchmark's 5.59% for the quarter, and -1.09% versus 31.75% for the year.

The hedging strategy we implemented in the fourth quarter proved to be a great benefit. The trading and other category for our portfolio added 1.24% to performance, 100 basis points coming from the month of December alone.

Weiss Peck (con't)

2. *Future Strategy.* What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

Looking forward into 1996, we still see signs of a slowing economy. We are therefore reducing our investment in Intermediate Goods and Industrials, maintaining an overweighting in Healthcare, and increasing our position in Financials and other interest sensitive areas.

We are also re-initiating our hedging strategy.

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

At year end, Weiss, Peck & Greer made the decision to refocus coverage resources on the pure growth areas. As part of the strategic analysis, the small capitalization analytical team was reduced by one. The remaining industry coverage has been absorbed by the other team members.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

One small cap growth client, a Canadian mutual fund, left Weiss, Peck & Greer. The fund's management firm had recently acquired an investment management firm and the decision was reached to move the management of the fund to their affiliate.

Staff Comments

Staff met with WP&G in late November, 1995, to review their organization, investment strategy, and portfolio performance. WP&G had indicated, at that time, that they would be terminating an analyst and would replace him with a new hire. Now, they feel a replacement is not needed. Staff plans to review WP&G's ability to cover their research universe and any potential negative impact to the SBI account.

Manager Commentary
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	12/31/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$8.3 Billion	Actual	5.4%	35.4%
Total Firm Assets Managed in this Discipline	\$1.1 Billion	Benchmark	6.1%	36.0%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Last Quarter's Performance:

According to our performance attribution analysis, stock specific bets and risk factor exposures were negative contributors to active return. Industry bets were a positive. Issues which hurt account performance were Handelman Co., ACX Technology, Champion International, Wyle Labs and Topps Company. Strong contributors for the quarter were Immulogic Pharmaceuticals, Guidant Corp., Vesta Insurance Group, Genetics Institute, Federal Paper Board (a takeover play). Three of the top five performers were in the medical-biotechnology field. Market conditions were unusually turbulent and leadership was extremely narrow in the fourth quarter. When we look at the difference in performance between ourselves and the benchmark for the quarter, the driver was the lack of discriminatory power in our valuation measures. They simply did not perform well for us in the period. We tend to have experiences like this when market leadership narrows.

A positive tilt on the Success risk factor made a positive contribution to performance. However, positive tilts on Earnings Variability and Variability-in-Markets made negative contributions. Positive industry bets in Gas Utilities, Health (non-Drugs), Other Insurance and Oil Service helped the account. Underweighting Banks, Telephones, Services, and Construction cost the account during the period. Note that our investment process does not specifically target industry groups for over and underweighting but rather these bets transpire out of our selection of individual stocks.

Twelve Month Performance:

Risk factor and industry bets helped performance for the year. Stock specific bets detracted from performance. Specifically, positive tilts on Success and Earnings-to-Price risk factors made positive contributions to performance. A positive tilt on Earnings Variability had a negative effect on performance. Overweighting Chemicals, Gas Utilities, Other Insurance, and Electric Utilities helped the account for the period. We were underweighted relative to the benchmark in Telephones, Banks, Railroads, and Services. These industries performed well and hence the bets cost the account some performance.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As of December 31, 1995, the following significant active bets existed in the account relative to the benchmark:

A. Factor bets (bets stated as standard deviations from benchmark):

Earnings/Price = 0.13

Book/price = 0.11

Franklin (con't)

B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Electric Utilities	1.39%	Railroads	-0.99%
Health (Non-Drugs)	1.27	Banks	-0.92
Gas Utilities	1.09	Telephones	-0.78
Oil Service	0.49	Motor Vehicles	-0.58
Railroads	0.48	Services	-0.52

C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

Ford Motor	-0.65%	Ahmanson H.F.	0.51%
Allstate Corp.	0.53	Cincinnati Bell	0.50
American Homes	-0.52	Travelers Inc.	0.49
Coca Cola Enterp.	0.52	Bell Atlantic	-0.49
General Motors	-0.52	Intel Corp.	-0.48

All active bets in the portfolio are based on two factors - (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk characteristics of the overall portfolio relative to the benchmark. The portfolio construction objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. We attempt to maintain a total tracking error of under 1.5% relative to the benchmark with the tracking error resulting from stock bets being better than 70%. As a result of the stock selection bets, the portfolio acquires the factor and industry bets as described above. As of quarter-end, the forecast total tracking error for the portfolio was 1.17% with 81% of the tracking coming from stock specific risk.

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

There were no significant personnel or organizational changes at the firm since the last quarter. There were no account gains or losses in this discipline during the period. On a firm-wide basis we gained one account and lost two during the period.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

We have formed a joint venture with QUANTEC, a London based firm that specializes in global risk management tools. We are working together on both valuing stocks and building portfolios at a global level for clients.

Staff Comments

No comments at this time.

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

Period Ending:	12/31/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$139 Billion	Actual	6.4%	36.9%
Total Firm Assets Managed in this Discipline	\$ 6.7 Billion	Benchmark	6.1%	36.0%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The Research Enhanced Index (REI) portfolio is sector and style neutral relative to the benchmark, thus the only bets are individual stock selection decisions.

The REI portfolio outperformed its customized benchmark in the fourth quarter as a result of positive stock selection. Among the stocks to add the most value were two underweighted positions; Kmart which plunged as the possibility of a bankruptcy filing filled the news, and American Express which fell in sympathy with other credit card companies as investors feared that consumers had become over leveraged. Overweighted positions which had the greatest positive impact included Fifth Third Bancorp which soared on strong earnings, U.S. West Communication which appreciated as investors perceived the RBOCs to be the beneficiaries of the upcoming telecom legislation, and Thomas & Betts which outperformed other technology companies as they are less exposed to a feared slowdown in PC demand.

On the negative side, stocks which detracted from performance included underweighted positions in Johnson & Johnson which rose in response to new product approvals, Kimberly Clark which rallied as investors anticipated substantial cost savings resulting from the recent merger, and First Interstate Bancorp which rallied after receiving takeover bids.

The U.S. equity market enjoyed a spectacular year. While many managers trailed their benchmarks, the Research Enhanced Index Fund was able to surpass its benchmark by a substantial margin. This success can be attributed to individual stock selection, broad diversification, and sector neutrality. As a result of their positive impact on the portfolio in the fourth quarter, both Kmart and U. S. West Communications were top contributors for the year. Other names to add value during the year included Service Corporation International which rallied as several international acquisitions were successful, and Monsanto which surged as investors were optimistic about the potential for their agricultural biotech products.

Adversely, the underweighted position in Johnson & Johnson curbed performance during the year as well as the quarter. Other names to detract from return included Forest Labs which dropped sharply as investors questioned management's decision to sacrifice near term earnings in order to improve future growth, and Times Mirror, underweighted in the portfolio, which surged following aggressive restructuring moves.

J.P. Morgan (con't)

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The REI strategy overweights stocks in the top quintiles and underweights those in the bottom quintiles. The portfolio is rebalanced so that stocks that have moved into the bottom quintiles are sold, and the proceeds are used to purchase stocks in the top quintiles. Within each sector, the stocks are ranked by DDR into quintiles. The first quintile or the top 20% consist of the most undervalued stocks, while those in the fifth quintile contain the most overvalued stocks.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant ownership or personnel changes during the last quarter. Two accounts in the discipline were awarded during the fourth quarter.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff met with J.P. Morgan in late November, 1995, to discuss their investment strategy and portfolio performance among other things. Information collected during that meeting coincide with comments made above.

Manager Commentary
BZW Barclays Global Investors
Semi-Passive Account

Period Ending:	12/31/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$261.7 Billion	Actual	6.3%	39.8%
Total Firm Assets Managed in this Discipline	\$ 5.8 Billion	Benchmark	6.1%	36.0%

1. *Past Performance.* Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

BGI Global Investors' Alpha Tilts Strategy, customized for the Minnesota SBI, outperformed the Minnesota Custom Benchmark by 0.2% in the fourth quarter of 1995, and outperformed by 3.8% on a year-to-date basis (inception date 12/31/94). This strategy systematically evaluates companies according to a broad set of investment characteristics in order to construct a risk-controlled, index-like portfolio with expected returns in excess of the benchmark. The active risk level of the portfolio is generally maintained at 1.0-1.5%; during the fourth quarter (and year-to-date) the realized active risk was well within this range.

The attribution of added returns in the fourth quarter is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.45% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value had neutral results in the fourth quarter. The use of signaling measures, which include corporate financing activity and informed insider trading, contributed 0.03% in the fourth quarter. As expected, industry weighting differences made only a small contribution to the portfolio's active return (0.13%), due to the tight risk controls we use in this area. Finally, the portfolio experienced positive security-specific returns in the fourth quarter, representing the idiosyncratic or residual returns of individual companies that cannot be explained by their industry group, style, size or other common characteristics. Over shorter measurement intervals, the returns attributable to security-specific sources can be relatively large in magnitude, but this source of tracking error risk tends to diversify toward zero over longer holding periods. The Alpha Tilts portfolio minimizes this risk through broad diversification (approximately 700 stocks) and by limiting the active positions taken in individual companies.

Active Return Attribution:

	Quarters	YTD
Analyst inputs:	0.45%	2.34%
Fundamental value:	0.00	0.36
Technical inputs:	0.03	0.02
Other common factors:	-0.31	-0.59
Industry weights:	0.13	0.25
Stock-specific	-0.14	1.42
Total active return:	0.17%	3.80%

BZW Barclays Global Investors (con't)

2. *Future Strategy.* What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

The current Minnesota Alpha Tilts portfolio is similar in structure to the second quarter 1995 portfolio. Our investment process seeks to identify companies for which consensus expectations will be improving, by carefully modeling the linkage between changes in analysts' forecasts and future expectations and returns. Secondly, we emphasize companies that are trading at multiples (based on earnings and book value) that are below their industry peer group. Finally, we identify companies whose management has "signaled" their view of stock valuation to the market in the form of insider trading activity and corporate financing activity. These areas of emphasis in the portfolio are designed to be relatively consistent over time; we do not make subjective or ad hoc changes to our investment process. The rationale for these bets is based on a combination of economic/investment theory about how markets and investors operate and rigorous empirical testing to validate these ideas and determine the optimal way to incorporate them in highly risk-controlled portfolios. In general, we are seeking to capture systematic return effects that are generally overlooked by traditional investors.

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

The acquisition of Wells Fargo Nikko Investment Advisors by Barclays PLC (UK) proceeded smoothly and closed on December 31, 1995. The new firm will continue to be based in San Francisco with Fred Grauer continuing in his role as Chairman and CEO. The acquisition should not impact your business with us or the relationship you have with WFNIA's key people, who are very supportive of this development.

We added twelve additional new clients in our Alpha Tilts Strategies during the fourth quarter, with a total funding of approximately \$950 million. There were no lost clients in the Alpha Tilts Strategies during 1995.

New Alpha Tilts Clients, 4th Quarter 1995:

Houston Police Officers' Pension System
Workers Compensation Board of Alberta
Champion International
Overseas Partners Ltd.
Fairfax Uniformed Retirement System
Wisconsin Alumni Foundation

Madison Gas & Electric Co.
Huston Foundation
Kimberly Clark
Pacific Telesis
Centerior Energy
J. Marion Sims Foundation

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

At this time, there are no special issues pertinent to the management of the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
BZW Barclays Global Investors
Passive Account

Period Ending:	12/31/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$261.7 Billion	Actual	4.9%	13.8%
Total Firm Assets Managed in this Discipline	\$ 11.5 Billion	Benchmark	4.9%	13.8%

1. *Past Performance. Summarize your performance over the last quarter and Year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

BZW Barclays Global Investors' (BGI) Wilshire 5000 Strategy outperformed the Wilshire 5000 by 6 basis points (bps) during the fourth quarter of 1995. The tracking error was due to the security specific misweights in the optimized portion of the portfolio. At the end of the fourth quarter, the expected annual tracking error of the portfolio was 17 bps. This means that two thirds of the time the portfolio should track the index to within 5 bps per month and 95% of the time the portfolio should tracks to within 10 bps per month.

YTD tracking error was influenced largely by the rebalance which took place during the month of July in which the portfolio mistracked by 42 bps. The portfolio was being rebalanced from a completion strategy to a Wilshire 5000 strategy.

2. *Future Strategy. Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations.*

We continue to look for opportunities to rebalance the portfolio. We seek to rebalance on a cross only basis over time to minimize tracking error.

BZW Barclays Global Investors (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Our new name is BZW Barclays Global Investors, N.A. (BGI). Wells Fargo Nikko Investment Advisors was formally acquired by Barclays PLC (UK) as of December 31, 1995. The new firm will continue to be based in San Francisco and Fred Grauer will continue in his role as Chairman and CEO. The acquisition should not impact your business with us or the relationship you have with BGI's key people, who are very supportive of this development.

Existing clients withdrew a net \$25 million from all US Equity Market strategies during the fourth quarter. One client was lost withdrawing an additional \$9 million from a US Equity Market strategy.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

During the fourth quarter, WFNIA traded approximately \$97 million (based on trade date prices) in the Wilshire 5000 portfolio. Trades were done to facilitate rebalancing, a \$20 million withdrawal, and dividend reinvestment. Of the \$97 million traded, \$71 million was crossed either with other WFNIA clients/funds, through Instinet/Posit, or with brokers. Less than \$26 million was traded in the open market. Assuming that these cross transactions saved Minnesota just one half of the bid/offer spread, the amount saved was \$263 thousand (estimated by taking 37 basis points times the amount crossed).

The total assets under management, at the top of the previous page, include assets managed by the BZW Investment Management Quantitative Division.

Staff Comments

No comments at this time.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$218 Million	Actual	6.9%	37.8%
Total Firm Assets Managed in this Discipline	\$218 Million	Benchmark	5.7%	35.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

CIC's performance in the fourth quarter was 6.85% versus 6.64% for the Russell Value index. For the last one year CIC returned 38.03% versus 38.36% for the Russell Value Index. CIC's strong performance came primarily from our underweighting in technology stocks which were down 2.5% in the quarter along with strong performance from our increased weighting in energy stocks (up 7.6%). We had especially strong performance from U.S. Healthcare (+32.23%), Texaco (+23.15%), Freddie Mac (+21.25%), Bellsouth Corp. (+20.14%), and Campbell Soup (+20.11%). Our year to date performance was helped by our large exposure to financial stocks, telephone stocks, consumer nondurables and a general market emphasis on large cap blue chip stocks which substantially outperformed small and mid cap stocks.

During the fourth quarter we increased our sector weights in consumer cyclicals, technology, and energy while we decreased our weights in consumer non-durables, basic industries, capital goods and financials. We established new positions in Amoco, Phillips Petroleum, Rohm & Haas and Union Texas Petroleum. We significantly increased existing positions in Allegheny Power System, Boston Edison, Campbell Soup, Dean Witter Discovery, Echlin, Ford, Limited, Lincoln National, and Xerox. We eliminated positions in Caterpillar, Chevron, John Deere & Co., Dow Chemical, Household International, International Paper, Pacificare Health Systems, and Wachovia Corporation. We slightly decreased the number of stocks in the portfolio from 50 to 46 while cash decreased from 5.77% to 2.37% at quarter end.

Portfolio Construction Table: Industry exposure and cash holdings changed as follows:

Sector	Russell Value 12/31/95	Portfolio 9/30/95	Portfolio 12/31/95
Consumer Cyclicals	7.69%	6.21%	15.73%
Consumer Non-Durables	7.94	21.00	14.82
Technology	4.28	5.54	7.33
Energy	13.11	6.53	12.43
Basic Industries	11.68	12.67	7.30
Cap. Goods Industries	8.09	6.62	5.78
Utilities & Telephones	22.12	13.91	13.37
Financial Services	25.09	21.75	20.87
Cash	0.0	5.77	2.37
TOTAL	100.00%	100.00%	100.00%

CIC Asset Management (con't)

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We continue to hold 21.3% of our portfolio in financial stocks (83% of the Russell 1000 Value Index and 161% of the S&P weight). We are slightly underweighted in energy (95% of Russell weight) and utility stocks (62% of Russell). We are underweight in capital goods (84% of Russell) and basic industries (62% of Russell) as we are still concerned about decelerating earnings outlooks. We remain heavily overweighted in consumer nondurables (195% of Russell) and consumer cyclicals (181% of Russell). Consumer nondurables outperformed for the year and for the quarter and are closer to fair value. Thus, we are inclined to reduce our overweighting during the first quarter. We still see good value in consumer cyclicals.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Two existing accounts, Chrysler Corporation and the Bankers Trust Minority Equity Trust Fund increased the size of their accounts during the fourth quarter. CalPERS did not renew CIC's contract after six years due to poor performance in the early years of the contract.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

CIC has completed the development of its custom benchmark. Benchmark results have been restated to the inception date of the SBI portfolio.

Manager Commentary
Cohen, Klingenstein & Marks Incorporated

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$333.9 Million	Actual	4.9%	29.5%
Total Firm Assets Managed in this Discipline	\$333.9 Million	Benchmark	1.5%	33.4%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The account increased by 4.9% during the fourth quarter of 1995 which compares to a 1.4% for our benchmark. Broadly speaking, the account remained aggressive (in the context of the generally conservative large capitalization stocks that we purchase) with overweighting in Growth, Interest-Rate Sensitive, and Cyclical stocks. This was true for the entire past twelve months as we did not meaningfully reposition the portfolio over this period. The overweighting in Growth (Healthcare, in particular) and Interest-rate Sensitive stocks (Bank and Insurance) aided relative performance. The overweighting in Cyclicals, however, worked to our disadvantage (e.g., Allied Signal, Ford Motor, USX-U.S. Steel). Stock selection within these broad categories also had a bearing on relative performance: stocks such as Merck, Cisco, First Interstate and SunAmerica were a big help while a few Technology stocks (EMC Corp., General Instrument, most notably) dragged down performance. While these comments are generally applicable to both the last twelve months and last quarter, the dynamics were a bit different last quarter: Technology stocks gave ground while the Cyclicals rebounded some.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We believe that the market remains a bit undervalued based on consensus profit and interest rate expectations. What's more, we believe that the consensus is too pessimistic implying even greater opportunity for market gains. Given our optimism (both near and long-term), and our belief that rates will decline some, the portfolio remains "Growthy," with above-market exposure to Interest-rate Sensitive and Cyclical stocks. No change here. We did sell one stock last quarter, First Interest, (after takeover offers), replacing it with another regional commercial bank, KeyCorp.

Cohen, Klingenstein & Marks (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant ownership or personnel changes last quarter.

Accounts Gained	Accounts Lost
Five (approximately \$60 Million) Excludes additions to existing A/C's.	None

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Cohen, Klingenstein & Marks has completed the development of its custom benchmark. Benchmark results have been restated to the inception date of the SBI portfolio.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$217 Million	Actual	6.1%	33.0%
Total Firm Assets Managed in this Discipline	\$110 Million	Benchmark	5.1%	30.8%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Again, the primary driver of investment performance during the past three and twelve month periods, was being fully invested. Since the inception of the relationship, a very small cash position has been held. This has added to investment performance greatly.

<u>Sectors</u>	<u>(Active Bets)</u> <u>Relative to S&P 500</u>	<u>Qtr.</u>	<u>Year</u>
Technology	Overweighted	Did Not Work	Worked
Consumer Staples	Overweighted	Worked	Worked
Capital Goods	Overweighted	Worked	Did Not Work
Financial	Underweighted	Worked	Did Not Work
Energy	No Position	Did Not Work	Worked
Transportation	No Position	Worked	Did Not Work
Utilities	No Position	Did Not Work	Worked
Basic Industries	Equal	Did Not Work	Did Not Work
Consumer Cyclical	Overweighted	Did Not Work	Did Not Work

During the fourth quarter, technology stocks were hit hard as concerns of declining earnings overhung the market. This concern lead investors into defensive issues, consumer staples and energy issues. Compass overweighting in consumer cyclical stocks continued to hurt the portfolio as the retail environment continues its repositioning. The interest rate decline during the year lead to outperformance of interest rate sensitive securities. However, Compass portfolio structure and investment disciplines do not rely on interest rate forecasting, thereby, the portfolio was negatively affected by the underweighting in financial stocks and no positions in utility stocks.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The largest overweighted active bets are within the Consumer Staples (28.08%) and Consumer Cyclical (19.53%) sectors of the portfolio. The largest underweighted active bets are within the Energy (0%), Utilities (0%) and Financial (4.60%) sectors of the portfolio.

The active bets that were in place during the fourth quarter are the same today. The retail segment of the consumer cyclical sectors has become very attractive based upon valuations to historical norms. Profits have been taken in medical, drug and technology sectors as stocks

Compass Capital Management (con't)

have become fair to fully valued. Recently reported earnings of the portfolio holdings continue to be strong with few exceptions.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No significant ownership or personnel changes during the quarter.

No accounts lost.

One Pension Plan gained.

Two Endowment Funds gained

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

The customized benchmark has been completed by Richards & Tierney.

Staff Comments

Compass Capital has completed the development of its custom benchmark. Benchmark results have been restated to the inception date of the SBI portfolio.

**Manager Commentary
Kennedy Capital Management**

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$1,391 Million	Actual	-0.4%	25.8%
Total Firm Assets Managed in this Discipline	\$ 743 Million	Benchmark	-1.9%	30.0%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Kennedy Capital Management slightly underperformed against the Russell 2000 for both the past quarter and the past year net of fees. However, the Minnesota's returns slightly exceeded the Russell 2000 value index for the year, but not for the quarter. By buying unrecognized stocks, KCM tends to be a value oriented investor and we generally are not in "growth" sectors. In 1995 this hurt us in that we had low ownership in the technology sector.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Kennedy Capital Management will continue to buy small stocks that are not followed by analysts and which have low institutional ownership. Portfolio characteristics will continue to show a value tilt. See Below:

	Minnesota	Ru 2000	Ru 2000 Value
Trailing P/E	14.4	22.7	17.7
Price/Book	2.7	2.4	1.7
Yield	2.4%	1.5%	2.4%

Kennedy Capital Management (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

The organization continues to evolve as the Executive Vice President takes more organizational duties and Jerry Kennedy devotes his time almost exclusively to investments and training analysts.

The firm has added one more analyst, Rich Todaro, and another trader, Sharon Howard. Scott Dowdy was added to the back office. KCM now has 26 full-time employees and is currently making plans to occupy new space.

Three accounts were closed with total assets of about \$8 million. One of these accounts was taken over by another company. One account was in bankruptcy and the PBGC closed the account. The firm has been asked to manage one new account in a larger market cap than our core growth and value style. We think that account will be \$30 million.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Staff Comments

Kennedy Capital has completed the development of its custom benchmark. Benchmark results have been restated to the inception date of the SBI portfolio.

Staff met with Kennedy Capital to review portfolio performance and investment strategy. Staff believes there are no concerns at this time.

Manager Commentary
New Amsterdam Partners L.P.

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$270 Million	Actual	2.9%	30.3%
Total Firm Assets Managed in this Discipline	\$252 Million	Benchmark	3.1%	30.6%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Our investment style is a logical and structured discipline that may be described as Growth at a Reasonable Price or Relative Value that ranks securities on an expected return rating. Our portfolios look for high expected return stocks with better than average forecast growth and return on equity but lower valuation ratios (P/E and Price/Book). The portfolio has a midcap orientation. Your portfolio meets those characteristics. Characteristics as of December 31, 1995:

	Minnesota	S&P MidCap	S&P 500
Expected Return	13.9%	9.0%	8.0%
P/E	19.1x	18.9x	17.5x
Price to Book	3.7x	3.7x	3.9x
Yield	1.4%	1.8%	2.3%
Growth	11.1%	10.9%	8.3%
Return on Equity	20.2%	13.0%	16.7%
Wtd Avg Mkt Cap	\$11.8bn	\$2.2bn	\$30.9bn

This quarter, as indeed, this year, the main determinant of return was market capitalization. While the S&P 500 was up 37.6% for the year, the broader based Russell 3000 rose 33.6%. Within the Russell 3000, the Russell 1000 (the largest stocks) returned 34.4% while the smaller stocks forming the Russell 2000 were up only 26.2%. In general, smaller and medium capitalization stocks markedly lagged the largest companies. Our returns were in line with our capitalization range and the composition of the universe of stocks from which we pick.

The second major factor affecting returns this year was sector selection. Technology was the big winner in 1995, even though technology stock prices started to fade in the fourth quarter. The Finance sector also had a sizzling year, with many finance stocks up over 50%. One of the poorest performing sectors was Retail Trade, where stocks in the discount and specialty retailing areas dropped sharply. Our sector selection skill in 1995 was mediocre. While our overweighting in the Finance area proved to be prescient, the run-up in technology stock prices caused us to pull out of some of our technology holdings too soon. Another crimp in performance came from our exposure to Retail stocks. As prices fell, the sector appeared to become more attractive, yet it turned out that we, in common with many analysts, had overestimated earnings for those companies. Our stock selection skill, however, appeared to be good. Our internal analytical work indicates that our stock selection ability added over 2% in value, relative to our benchmark. In particular, our Finance and Health related stocks performed especially well during 1995.

New Amsterdam Partners (con't)

In the fourth quarter of 1995, our Consumer Durables and Services, Energy Minerals, Health, and Commercial Services picks outperformed their peers. Our Finance, Utilities, Transportation, Consumer Non-Durables, Non-Energy Minerals and Retail stocks did worse than their respective groups. The best performing individual securities included Travelers Group (+18.6%), Merck (+17.8%) and Cabletron Systems (+28.8%). Three of our worst performing securities were retailers (CML, Musicland and Lands' End) resulting in our retailing picks being down -8.2% in the quarter. Advanced Micro Devices (-43.3%) continued to disappoint due to continued delays in the introduction of their next generation microprocessor chip. Stride Rite, the shoe manufacturer, down (-33.3%) also hurt performance. CML and Musicland, as noted above, were sold. We continue to monitor the other positions closely.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

At the moment, we still continue to maintain an overweighting in consumer and finance stocks which appear to be cheap on our model. We are underweighted in the utility area (particularly in telephone stocks), in the energy sector and in cyclical stocks. We remain fully invested in the account and continue to stick to our investment discipline.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

On December 31, 1995, the firm's name will change to New Amsterdam Partners LLC. The active principals in the firm, Michelle Clayman and Keith Graham, will remain the same. Michelle Clayman's ownership is now 80% of the company, and Keith Graham owns 20%. There were no significant personnel changes. No accounts were gained or lost.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

We remain cautiously bullish on the equity markets in 1996, although do not expect them to repeat 1995's performance. We believe that interest rates will continue to fall slowly, and this will be good for stock prices. We are forecasting moderate GDP growth of around 2.5% for next year, and expect inflation to stay at or below 3%. Productivity gains will continue, although at a slower pace than in the past few years. This should allow corporate profits to grow 7%, and permit stock prices to rise further. 1996, however, we believe will be a stock picker's market rather than 1995's sector picker's market. Companies that yield earnings disappointments will be punished sharply, and a premium will be placed on companies with stable, above average earnings growth. We believe that 1996 therefore be favorable to our "Growth at a Reasonable Price" approach which looks for companies with superior profitability and forecast growth, selling at reasonable multiples.

Staff Comments

No comments at this time.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$1.1 Billion	Actual	4.2%	29.3%
Total Firm Assets Managed in this Discipline	\$1.1 Billion	Benchmark	3.4%	31.4%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why

Under our "bottom up" style, each stock pick is an active bet. Gains were made throughout the portfolio, with the largest contribution to performance stemming from Student Loan Marketing and Federal National Mortgage Association (adding 0.79% and 0.63%, respectively, benefiting from the strong bond market favoring financial stocks), and Rite Aid (+0.61% from participation in the strong sales and earnings trend for the drug store industry). Performance was adversely affected by Kmart (costing -1.14% as there is concern about deterioration in the company's financial liquidity), James River (-0.86% because the slowing economy is impacting pricing for paper producers), and W. R. Grace (-0.37% from a delay in the company's restructuring which has unnerved investors). For the twelve months, the most significant gains stem from McDonnell Douglas (contributing 2.76% as a result of restructuring, an improved commercial aircraft market, and merger expectations), and both Sallie Mae and Fannie Mae again (adding 2.60% and 1.89%, respectively, in the favorable environment for financials). The poorest performers were Kmart (costing 1.45% for the year), Sensormatic Electronics (-0.50% due to revenue and earnings shortfall), and MacFrugal's (-0.44% stemming from poor sales in early 1995). The portfolio's return for the year was in line with the newly created customized benchmark. Both VCM and the benchmark were shy of the S&P 500's 37.54%. The greatest returns during 1995 in the S&P 500 came from three sectors: Consumer Staples (contributing 10.32% of the 37.54%), interest-sensitive Financial and Utility stocks (contributing 6.85% and 4.28%, respectively), and Technology (6.03%). Our performance in financial issues outperformed the S&P sector, and underperformed in Consumer Staples, which was driven by the large-capitalization drug and health issues, and Technology. VCM and its benchmark do not invest in the large cap sector nor in the high valuation and volatile companies which helped to deliver the S&P's 1995 return.

2. **Future Strategy.** What active bets are in place at the present time relative to our benchmark? Summarize the rationale for making these active bets.

Valenzuela Capital's investment philosophy is one of "risk-averse growth." We believe that growth in earnings and cash flow fuel price appreciation and that high price-to-earnings ratios cause volatility and risk. Hence, we try to sell higher P/E stocks and buy stocks in companies whose earnings will grow but whose P/E's are at or below the market. The portfolio was slightly realigned during the quarter. We added to positions we felt still represented good value and trimmed others, largely for reasons of valuation. New investments were initiated in Baker Hughes, Household International, Northern Trust, Prudential Reinsurance, Revco and TJX Companies. Realized gains were taken in Charter Medical (now Magellan Health Services),

Valenzuela Capital (con't)

Marsh & McLennan, Unocal and Crown Vantage, a small position which had been spun off from James River the previous quarter. Also sold were Temple-Inland, where the slowing economy is impacting earnings, and Kmart. In addition, after initiating a new position in Liz Claiborne, the security was sold as the Christmas season developed below expectations.

- 3. Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Valenzuela Capital Management was one of several managers terminated in a restructuring of the investment program for the City of New York Teachers' Retirement System. The California State Teachers' Retirement System, in a trend towards indexation, also terminated its account with VCM after twenty months of management.

- 4. Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

The marked slowdown in the economy during the fourth quarter is now showing up as weak reported earnings for many corporations. We believe the economy will continue its moderate pace through the first half of 1996. This, coupled with the budget battle in Washington and the Federal Reserve's unwillingness to lower interest rates, is raising investors' level of anxiety. Earnings shortfalls in general, and especially in the technology sector, have caused sharp corrections in the stocks delivering the disappointments. As we proceed through 1996, we expect to see further disappointments. It is, therefore, important to be invested in those companies that have solid fundamentals and whose valuations are reasonable relative to their earnings power.

Staff Comments

Valenzuela has completed the development of its custom benchmark. Benchmark results have been restated to the inception date of the SBI portfolio.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$1,282 Billion	Actual	-2.6%	32.3%
Total Firm Assets Managed in this Discipline	\$ 669 Million	Benchmark	1.0%	28.9%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Returns for the Minnesota State Board of Investment portfolio had been strong through the end of November, but sharp corrections in many stocks in December pulled down results for the fourth quarter. Trends in performance in the portfolio were similar for the fourth quarter and the year. Areas that contributed most positively to returns included business services stocks, software issues, healthcare, niche-industrial services companies, and a rebound in some depressed restaurant issues. Weakness in the quarter, and for the year, was seen in the retail group, particularly apparel, computer equipment/distribution, and electronics issues. The sharp year-end correction was driven by a sell-off in technology, especially stocks that were in any way related to PC sales. That area was due for a correction, as it had been a market leader for some time.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As we look into 1996 we see opportunity for growth stock investors. There are a number of positive factors that will affect the markets. On the political front, it is an election year, which is usually a positive for the equity markets. An eventual resolution to the current budget wrangling will be a plus. Particularly positive for growth stocks is the very real potential for a capital gains tax cut during the year which would most likely be retroactive to the beginning of the year. Economically, we have reasonable, albeit slowing growth in the economy, low inflation and low interest rates, all of which are positive for growth stock investors. On the cautionary side of the ledger we have a market that has set a record run for length of time and move up without at least a 10% correction. Interest rates are unlikely to decline in 1996 as dramatically as they did last year. Finally, earnings growth is slowing for many companies. Our expectation is for a choppy first half of the year for the markets with some correction, and a better second half with a return to rising stock prices. We will continue to focus on high-quality growth stocks that have the ability to grow their earnings regardless of the overall economic environment.

Wilke/Thompson Capital (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Wilke/Thompson Capital Management had no ownership or personnel changes last quarter.

Wilke/Thompson Capital Management added two accounts in this style during the quarter that total \$12.1 million and did not lose any accounts.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Despite a rough fourth quarter of 1995, the SBI portfolio has continued to experience phenomenal performance relative to its benchmark since the inception of the account in April of 1994. We look forward to continuing to serve the SBI in 1996.

Staff Comments

No comments at this time.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$760 Million	Actual	-1.5%	22.9%
Total Firm Assets Managed in this Discipline	\$412 Million	Benchmark	1.9%	31.4%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Winslow Capital began managing assets for the Minnesota State Board of Investment on April 1, 1994. In the quarter ended December 29, 1995 the SBI portfolio depreciated 1.54% on a total return basis net of fees versus the benchmark Russell 1000 Growth increase of 4.55%. The performance for the SBI account over the last twelve months shows an increase of 22.91% net of fees versus 37.18% for the benchmark and 37.58% for the S&P 500.

The Large Cap growth portfolios continue to be overweighted in technology, telecommunications, and consumer services/specialty retail. We also maintain a slight overweighting in the healthcare sector versus our benchmark. The investment process we follow is a fundamental "bottom up" approach that lead us to companies that exhibit strong earnings growth. In the most recent quarter, the average reported earnings gain for the companies in your portfolio was 32%. We continue to believe these companies have outstanding potential because they meet our strict criteria of high earnings growth at attractive valuations.

While we are confident that our high earnings growth strategy will add value over the longer term, during the final seven weeks of 1995 it proved to be a negative for the portfolios performance. Two factors had a measurable impact on performance during the fourth quarter of the year. First, with the fear of a possible recession in 1996 instead of only a soft landing, the largest "A" quality and stable growth (9-12% annually) and financial stocks were superior performers. The top quintile of the Russell 1000 Growth rose 44.1% for the year. This compares with 30.2% in the second quintile. Our investment philosophy precludes us from owning the slower growing large stable growth stocks. While prices gained 50-60% in 1995, these companies achieve earnings growth of less than 13% annually. Our investment strategy maintains a minimum growth rate hurdle of 14%. We believe that our earnings growth philosophy will continue to produce favorable long-term results as it has in the past.

The second factor affecting performance was the market's flight from technology during the final seven weeks of the year. As of November 10, 1995 our Large Cap portfolios were within 100 basis points of their relevant indices. In the period November 10 - December 31, the S&P 500 rose 4.4% while the Morgan Stanley High Technology index dropped 11.7%, an underperformance of -16.1%. The pressure to reduce technology sector weightings and the decline in technology stocks are overdone in our opinion. The disappointments occurred in the secondary and tertiary companies. The industry leaders, which are the majority of our holdings, were adversely affected by their industry association. We maintain our confidence in these companies and their fundamental growth prospects going forward.

Winslow Capital (con't)

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Winslow Capital Management, Inc. was hired to manage a Large Cap growth portfolio for the SBI. We have always been and will always be driven by strong future earnings growth potential at reasonable valuations. We continue to believe the sectors that are likely to exhibit the best earnings growth will be technology, specialty retail/consumer services, healthcare and telecommunications. Winslow Capital is overweighted in these sectors because on fundamental, bottom-up" analysis we believe specific companies within the aforementioned sectors are poised to achieve strong future earnings growth. This growth will become more important as we experience a slowing of the domestic economy. As the growth of GDP slows, we will see certain companies and sectors of the market receive a premium for their ability to sustain strong earnings growth. Notwithstanding the portfolio gain in 1995, we continue to believe that on an absolute and relative basis our P/E ratios remain attractive. The portfolio is currently forecasted to achieve earnings growth of 26% over the next year, while selling at only 18 times our 1996 estimates.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

None.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Winslow Capital has completed the development of its custom benchmark. Benchmark results have been restated to the inception date of the SBI portfolio.

**Manager Commentary
Zevenbergen Capital, Inc.**

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$337 Million	Actual	1.8%	29.1%
Total Firm Assets Managed in this Discipline	\$337 Million	Benchmark	1.2%	30.7%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

1995 was a banner year for the S&P 500 and Russell 1000 Growth Index, one which produced a 48% return if one invested in the top-ten weighted stocks of the S&P (representing 18% of the index). This statistic measures the narrowness of the market return in relationship to the Minnesota State Board of Investment Account's performance from a more diversified, cross-capitalized portfolio. The Russell 1000 Growth Index showed no sign of slowing in the fourth quarter, posting a 4.6% gain. The Minnesota State Board of Investment Account gained 2.0% for the fourth quarter. While the technology sector was the most important contributor to 1995's overall performance, fourth quarter was characterized by profit taking from this year's amazing run and a rotation into defensive, large-capitalization issues.

We achieved strong results in both the Healthcare and Consumer Staples sectors. The Healthcare group soared on positive gains from biotech and drug company holdings and a favorable regulatory environment as the FDA eased their process of approval for many drugs.

Our biggest hurdle for the year was the Telecommunications sector. The lack of a telecommunications bill continued to cast a cloud over this group's performance, despite strong fundamentals for individual companies. We continue to be encouraged by the cable group. Future revenue and cash flow gains are anticipated to come from continued subscriber growth and cross-sale of new products. Our holdings remain attractive in terms of high growth rates and modest valuations, and little, but good news ahead.

2. **Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

Zevenbergen Capital selects stocks based on a fundamental characteristics and growth potential of individual companies. This "bottom up" investment process is our primary focus, but we as well, are mindful of the economic, political and regulatory environments in which these companies operate. Several of the macro level issues which are expected to effect the portfolio positively in the next year are outlined below:

KEY PERFORMANCE FACTORS

1994 Impact	1995 Impact	Events	Future
-	+	Declining Interest Rate Environment	+
-	0	Slowing Economic Growth	+
0	0	Growth vs. Value	+
+	+	Technology = Productivity Enhancement	+
Passive	Passive	Market Cap Bias	Active
-	0	Cable Exposure	+
-	-	Telecommunications Legislation	0

Key: - Negative impact, + Positive impact, 0 Neutral impact

Zevenbergen Capital (con't)

Zevenbergen Capital is more confident than ever that growth equities present a superior investment vehicle in a slowing economic environment. Despite significant price appreciation during 1995 for many quality stocks in our portfolio, the sell off during the last quarter of the year means that many names (both old and new) are now trading at significant discounts to their long term growth rates. These holdings should help to propel the portfolio during the coming year.

We continue to focus on holding quality companies as we expect the markets to further differentiate among those that have proven themselves in periods of decelerating economic growth from those less, well-capitalized entrants.

- 3. Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

In recognition of on-going contributions to our clients, Lisa Foley, Investment Operations Manager and Leslie Campbell, Investment Associate became new principals of our firm. Cindi Schoettler and Brooke de Boutray were also awarded increased ownership during the quarter.

There were no accounts gained or lost during the fourth quarter of 1995.

- 4. Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Zevenbergen Capital outperformed the custom benchmark for Minnesota State Board of Investment for the fourth quarter of 1995. We continue to make progress in the area of review and evaluation and await the final decision for our returns to be compared to the custom index.

Staff Comments

Zevenbergen Capital has completed the development of its custom benchmark. Benchmark results have been restated to the inception date of the SBI portfolio.

Manager Commentary
BEA Associates

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$28.0 Billion	Actual	4.1%	17.9%
Total Firm Assets Managed in this Discipline	\$ 4.0 Billion	Benchmark	4.3%	18.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The State of Minnesota portfolio managed by BEA Associates outperformed providing a return of 4.91% versus a market return of 4.26%. Much of the outperformance (approximately 50 basis points) can be ascribed to profits generated from the volatility arbitrage positions. As we anticipated, option premiums on the Yen/Dollar relationship declined thereby benefiting our short volatility position. Other positions such as being long volatility on the Nikkei and DAX markets also were positive contributors.

The bond portfolio added ten basis points as United States interest rates continued to decline. While our decision to overweight mortgages had little impact, the security selection within the mortgage component added approximately five basis points. Our corporate exposure continues to be neutral with outperformance of five basis points attributable to security selection.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

An important theme throughout the portfolio is BEA's belief that financial asset volatility will continue to decline and that the interest rate environment will be a genuine one. The implication within the portfolio is that we continue to carry short volatility arbitrage positions and will opportunistically overweight corporate bonds and mortgage-backed bonds.

Our security selection will continue to focus on deleveraging stories (airlines, cables, and banks) in light of the fact that generic corporate bonds appear fully valued. The utility bond market lagged in 1995 and may provide opportunities as the winners and losers in the trend toward national competition become more apparent. While we continue to be underweighted in utilities, we are currently researching credits so that we can act quickly when opportunities arise.

The mortgage overweight of approximately 10% should generate returns in the first quarter as managers increase their allocation to this historically cheap sector. As the regulatory related pressures abate BEA will take advantage of any first quarter relative strength.

BEA Associates (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

None.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

As of 1/1/96 BEA was given permission by the State of Minnesota to invest up to 10% in below investment grade bonds (BB/B) in an opportunistic fashion.

Staff Comments

The differences between quarterly portfolio returns as reported by staff and the portfolio manager reflect variances in fixed income security pricing.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$15.0 Billion	Actual	4.4%	16.1%
Total Firm Assets Managed in this Discipline	\$ 4.6 Million	Benchmark	4.3%	18.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio outperformed the benchmark during the fourth quarter of 1995. Strategic moves in the MBS sector and issue selection in the MBS and U.S. Treasury sectors enhanced returns. The duration and yield curve decisions were neutral forces during the quarter. The portfolio underperformed its benchmark for the trailing 12-month period due to a defensive duration stance and an underweighting in corporate bonds during the first half of 1995.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Relative to the benchmark, the portfolio is currently duration-neutral and curve-neutral. With regard to sector weightings, the portfolio is overweighted in ABS, underweighted in U.S. Treasuries, and neutrally weighted in corporates, agencies and MBS. The cash position is minimal. The portfolio is overweighted in Baa-rated corporates and has more convexity than the benchmark. The MSB holdings have a positive convexity bias relative to the MBS portion of the benchmark.

Our rationale for these active bets is based on several factors. First, corporate profitability and cash flow is strong, biasing credit spreads to narrow. Second, positive secular forces for disinflation are currently offsetting the negative cyclical forces for rising inflation. MBS are vulnerable to a surge in prepayments if rates move even modestly lower. Managing MBS convexity is critical here. Third, the Fed is in a mid-cycle easing mode. The latest rounds of easing are likely to prevent a recession and are likely to reignite the U.S. economy by late 1996. Cyclical inflation forces are likely to reassert themselves by late 1996 and early 1997.

Investment Advisors, Inc. (con't)

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

IAI hired one additional Domestic Equity Analyst, James Steiner who will specialize in our Regional Equity Product.

IAI lost one investment professional, Elizabeth Gold who specialized in Emerging Markets Equities.

In December of 1995, IAI's owner, TSB merged with Lloyds Bank to form Lloyds TSB Group plc, a publicly traded company in the U.K. IAI does not anticipate that the change in ownership of our parent company will have any effect on our activities.

IAI gained one fixed income account with \$33mm in assets and lost one fixed income account with \$8.3mm in assets. In this discipline, IAI gained one account which had \$33mm in assets.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

No additional comments.

Staff Comments

No comments at this time.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$35.0 Billion	Actual	4.1%	19.1%
Total Firm Assets Managed in this Discipline	\$20.8 Billion	Benchmark	4.3%	18.5%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Over the last quarter, your portfolio has provided a return of 4.0% (net of fees) versus a benchmark return of 4.3%. Over the last twelve months, your portfolio has provided a 19.2% return (net of fees) versus a 18.5% return for its benchmark.

Rates fell sharply throughout the year and especially in the fourth quarter. Over the course of the year, we cut the duration of your portfolio from 5.8 years to 4.5 years and increased the mortgage allocation from 37% to 62% of the portfolio. In addition, corporates were increased modestly from 14% to 17%, and foreign (fully hedged) was held at 10% throughout the year. For the quarter, we were slightly defensive in terms of interest rate risk relative to the benchmark and this detracted from overall portfolio performance. The large allocation of the mortgages held back performance as the market continued its rally. Corporates and foreign both added to investment results in the fourth quarter.

For the full year, the duration decisions and the exposure to corporate securities added to performance. Mortgages, reflecting their underperformance in the fourth quarter, detracted slightly and foreign was a slight negative for the year, in spite of the strong fourth quarter.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Interest rates have fallen to a level such that the value within the fixed income market place, as measured by real interest rates and the shape of the yield curve, is below average. Consequently, we've moved the portfolio to a more neutral stance with regard to duration and interest rate risk. We anticipate that a strengthening of the economy throughout 1996 will push interest rates modestly higher. In addition, we've begun to build into the portfolio more of a barbell structure, given that long yields now appear to be very attractive relative to short and intermediate yields. Mortgages are maintained at roughly twice the benchmark rate (62% versus 28%) with the expectation that these securities will do well in a flat to modestly rising interest rate environment. We anticipate that the next several quarters will continue to be a favorable time for corporate credit quality and, consequently, we are using our new investment authority to increase our exposure in corporates, with particular focus on lower and medium quality credits.

Miller, Anderson & Sherrerd (con't)

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

The combination of Morgan Stanley Asset Management and Miller, Anderson & Sherrerd was completed on January 4, 1996. Within the fixed income group, we have hired no new professionals, although it is our intention at some point during the upcoming year to increase our credit analytical and portfolio management capability by integrating the Morgan Stanley Asset Management high yield credit team with the MAS credit team.

Firmwide, we gained two investment professionals in the fourth quarter and lost one to retirement. Three fixed income accounts were gained and none were lost.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

**Manager Commentary
Standish, Ayer & Wood**

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$29.4 Billion	Actual	4.2%	17.9%
Total Firm Assets Managed in this Discipline	\$11.8 Billion	Benchmark	4.3%	18.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Fourth Quarter and Year Attribution (Rel. to Lehman Aggregate)

	4TH QUARTER	YTD
Duration	05	-.16
Yield Curve	-.01	.03
Domestic Sectors	.02	.44
Non-Dollar	.06	-.10
Fees	-.05	-.20

- Non-dollar rebounded in fourth quarter, recouping save of previous shortfall.
- Corporation spreads widened a bit at year end (especially industrials). Financials performed well.
- Mortgages about even for year end fourth quarter amid much turbulence.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

<u>Sector</u>	<u>Weighting Strategy</u>	<u>Rationale</u>
Mortgages	Strong overweight	Spreads remain very wide. Concentrate on lower coupons.
Corporates	Reduced overweight	Industrial spreads very narrow. Finances better.
International	Weighting modest	Europe countries to look strong. Japan poor value.
Treasuries	Underweight	Sector fairly extended.

Standish (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel additions: Christine H. Psyhogeos Municipal PM/Analyst

Accounts: Gained 3 Pensions \$150 million

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

Manager Commentary
Western Asset Management

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$19.8 Billion	Actual	4.2%	20.8%
Total Firm Assets Managed in this Discipline	\$11.7 Billion	Benchmark	4.3%	18.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Outperformance in the fourth quarter came from a variety of sources. The portfolio's long duration exposure benefited from a decline in interest rates. An underweighting to the mortgage sector also contributed to relative returns, as prepayment concerns caused the mortgage sector to lag other sectors. Performance was helped also by an overweighting to corporate issues, since corporates were the top performing sector. The portfolio's barbell exposure to the yield curve added little to performance since the yield curve was roughly unchanged.

Outperformance for the year was substantial, and was due primarily to the success of all major portfolio strategies. The portfolio held a long duration posture throughout the year, so this contributed significantly to returns given the dramatic decline in interest rates across the board. Yield curve strategies also made important contributions to returns, as the portfolio's bulleted structure was rewarded in the first quarter by a steepening of the curve. The portfolio's barbell exposure had little impact on returns for the balance of the year as the curve shifted down in roughly parallel fashion. Mortgage overweighting was a positive in the first quarter, and being underweight for the rest of the year also helped as mortgage spreads generally widened. Corporate overexposure throughout the year added importantly to returns, particularly the emphasis on the lower end of the investment quality scale, as these issues turned in very strong performances.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our economic outlook remains little changed from previous periods. We believe the Fed has managed monetary policy well, and a result, inflation is under control and the economy is unlikely to overheat. The combination of these factors argues for continued, gradual ease on the part of the Fed. As for fiscal policy, we continue to believe that government spending will gradually decline relative to GDP, that tax burdens will moderate, and that this in turn will reinforce a low-inflation outlook for the future.

Western Asset (con't)

But whereas this view ran counter to market expectations for most of the past year, it is now much less controversial. Indeed, market expectations have swung from anticipating an 8% Fed funds rate by the end of 1995, to now expecting a 4.75% funds rate by the middle of 1996. Consequently, although we continue to expect interest rates to decline further, the reward for taking long-duration risk has diminished substantially. For this reason, we are targeting a neutral to somewhat positive duration exposure as market conditions warrant.

We believe the yield curve still has the potential to flatten, since long-term rates remain well above current and prospective levels of inflation, and the Fed is unlikely to move aggressively to cut short-term rates, barring a recession. Consequently, we are holding a modest barbell exposure to maturities.

Given our less bullish bias to duration risk, we are emphasizing yield, and targeting an overweight exposure to the mortgage sector in order to take advantage of the attractive spreads available there. Since prepayment risk is still a concern, we are concentrating on low coupon issues with minimal prepayment risk. The continuing decline in corporations' cost of capital, improved earnings prospects and ongoing balance sheet improvements all augur well for selected corporate issues. But since yield spreads are relatively narrow, we plan to reduce our corporate overweighting somewhat in order to help fund an increased mortgage exposure. The remainder of the increased mortgage allocation will be funded by reducing cash and Treasury positions.

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

Western Asset added six accounts. One account lost.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

None.

Staff Comments

No comments at this time.

Manager Commentary
IDS Advisory (IDS Fixed-Income Advisors)

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$24.0 Billion	Actual	5.4%	20.7%
Total Firm Assets Managed in this Discipline	\$4.6 Billion	Benchmark	4.6%	19.1%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the quarter ended December 29, 1995, investment performance of your portfolio of +5.45% compared favorably to the +4.66% return registered by the Lehman Brothers Government/Corporate Bond Index. For the 12 months ended December 29, 1995, your account returned +20.96% compared with the +19.23% return of the Lehman Brothers Government/Corporate Bond Index. Cash in your account continued to be maintained at minimal levels with duration at levels near that permitted by investment guidelines. This duration decision proved beneficial to the portfolio as interest rates continued to decline during the quarter.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Yield spreads between Corporates and Treasuries remain stubbornly narrow. However, your recent approval allowing IDS to invest up to 10% in High Yield Securities is being implemented. It is our intention to have about 5% of the portfolio invested by the end of January. Further commitment to the high yield sector will be made opportunistically. This shift to high yield securities will allow us to better maintain yields in the generally declining interest rate environment we expect to continue.

IDS (con't)

3. **Organizational Issues.** Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

In December Jim Weiss left the employment of American Express to join State Street Boston Research and Management. We are currently seeking a very senior individual to replace Jim. In addition, we have promoted an experienced senior analyst to the position of associate portfolio manager within IDS Advisory Group.

Product	Fourth Quarter 1995			
	Gains		Losses	
	# of Accounts	Assets (\$MM)	# of Accounts	Assets (\$MM)
Large Cap Equities	3	176.8	0	0
Fixed Income	0	0	0	0
Balanced	1	6.2	1	65.8
International	2	73.6	0	0
Regional - Pacific	0	0	0	0
Global Ex-Australia	1	37.2	0	0
Latin America	0	0	0	0
Small Cap Equities	0	0	0	0
Mid Cap Equities	0	0	0	0
Research Core	0	0	0	0
Research Aggressive	1	10.1	0	0
Global Bonds	2	55.0	0	0
Structured Fixed Income	0	0	0	0

4. **Other Comments.** Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

None at this time.

Staff Comments

Jim Weiss was an equity portfolio manager at IDS/American Express. He had no responsibilities for the management of the SBI fixed income account.

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$46.3 Billion	Actual	4.3%	18.4%
Total Firm Assets Managed in this Discipline	\$15.4 Billion	Benchmark	4.3%	18.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the fourth quarter the portfolio outperformed the Lehman Aggregate Index by 5 bps. The portfolio's corporate sector holdings were primarily responsible:

YTD, the mortgage sector detracted about 12 bps from the portfolio's performance due to prepayment fears caused by the rally in the Treasury market. In the fourth quarter, the mortgage sector detracted approximately 6 bps from the portfolio's performance, primarily due to spread widening on collaterals.

YTD, the portfolio's term structure detracted a total of 7 bps from the portfolio's return primarily due to the barbelled portfolio structure in the second quarter, the portfolio's Treasury securities added about 3 bps to its incremental return. Agencies added about 6 bps due to security selection. In the fourth quarter - the portfolio's Treasury securities added approximately 2 bps to incremental return due to security selection.

YTD, the portfolio's corporate securities added about 18 bps to its incremental return due largely to the outperformance of the portfolio's industrial and financial securities. In the fourth quarter, the portfolio's corporate securities added about 1 bp to incremental return, primarily from the OAS advantage of the industrial and financial subsectors and securities.

YTD, the portfolio's emerging market securities added about 4 bp to its incremental return. In the fourth quarter, the portfolio's EMD securities added approximately 1 bp to its incremental return, primarily from the relatively high OAS of its securities.

Duration/Term Structure/Convexity	-1.6	Emerging Markets	0.6
Treasury	2.2	Mortgage	-6.1
Agency	0.9	Municipal	0.0
Asset-Backed	-1.1	Index Price Mismatch	6.4
Corporate	1.1	Residual	<u>2.4</u>
		Total	5.0

Goldman (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The duration/term structure of the portfolio is neutral to the benchmark. In Agencies, portfolio is slightly (2%) underweighted with respect to benchmark in favor of other higher-yielding spread sectors.

32% allocation to the mortgage sector (4% overweighting). Positive outlook on collateral due to recent widening. Overweight GNMA's relative to conventionals due to recent cheapening. Focus on cusp securities in the new issue sector (7.5% - 8.0%). Underweight 15-year mortgages due to tight option-adjusted spread levels. Continue to add stable CMOs when attractive relative to Agency pass-throughs.

30% allocation to corporates (17% overweighting). Presently, the outlook for the corporate sector is cautiously optimistic. General fundamentals remain reasonably good. Technicals are being supported by asset allocation away from mortgages into corporates. We are underweighting utilities due to increased competition and a hostile regulatory environment. 10% allocation to asset-backed sector, which should still continue to benefit from strong investor demand for short-duration paper with incremental yield and low spread volatility.

2.5% allocation to emerging market debt. We continue to maintain a cautious approach regarding Republic of Columbia bonds due to near-term political risk. We continue to like CAF for the incremental spread that a 5-year BBB at 150 bps can provide. We have added YPF for capital gain potential; we expect spreads to tighten from the purchase level of 200 bps to approximately 165 to 175 bps.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no changes in the ownership of GSAM. There was one change to our U.S. fixed income portfolio management staff: Elizabeth Schupf Lonsdale joined our team as Vice President; Municipal Credit Research Analyst.

U.S. Fixed Income Accounts Gained: 5

U.S. Clients	5
Non-U.S. Clients	0

U.S. Fixed Income Accounts Lost: 1

U.S. Clients	0
Non-U.S. Clients	1

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$37.7 Billion	Actual	4.3%	18.5%
Total Firm Assets Managed in this Discipline	\$13.4 Billion	Benchmark	4.3%	18.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	4th Quarter 1995	Value	12 Months Ended 12/31/95	Value
	<u>Active Strategy</u>	<u>Added</u>	<u>Active Strategy</u>	<u>Added</u>
Mortgages	Overweighted	-0.05%	Overweighted	-0.07%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Neutral	0.00
Asset-Backeds	Overweighted	+0.01	Overweighted	+0.02
Agencies	Overweighted	0.00	Overweighted	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.07	N/A	+0.16
Less Fees		<u>-0.01</u>		<u>-0.04</u>
Total		+0.01%		+0.03%

The rally of 1995 was extended during the fourth quarter as yields fell roughly 60 basis points along the Treasury curve. Expectations for slow economic growth, lower inflation and short-rates, and the prospects for a balanced-budget agreement all contributed to the rally.

Corporates continued to outperform all other sectors in the quarter, with a total return of 4.94%. Governments returned 4.57% and mortgages returned 3.32%.

1995 was a difficult year for mortgages. Mortgages did poorly for two reasons; spreads widened as lower rates raised expectations for refinancing, which limited price appreciation. Additionally, the increased volatility widened the risk premium for the negative convexity of mortgages relative to historical levels. This leaves mortgage spreads close to four-year wides, offering an attractive value added opportunity. Accordingly, the portfolio continues to be overweighted in current coupon conventional pass-throughs.

Security selection continued to positively impact portfolio returns both in the fourth quarter and for the full year.

Lincoln (con't)

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	Strategy	Rationale
Government Trust Certificates Resolution Funding Corporation	Overweighted vs Treasuries	1. Government Guarantee 2. Attractive Yield 3. Certain Cash Flow
Asset-Backed	Overweighted vs Treasuries	1. High Quality 2. Attractive Yield 3. Low Event Risk 4. Low Prepayment Risk
Current Coupon Year Mortgages	Overweighted vs Treasuries	1. Agency Quality 2. Low Prepayment Risk 3. Wide Nominal Spreads

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

	Number	Market Value (\$ millions)
Accounts Gained	4	\$554
Accounts Lost	0	0

Robert Schank, Vice President, Client Service, joined Lincoln on January 1, 1996.

Brian Johnson, Vice President, resigned from Lincoln effective January 31, 1996. Andrew A. Johnson will replace Brian Johnson as a senior portfolio manager with responsibility for index portfolios.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

There are no issues or developments that would impact the SBI account.

Staff Comments

Staff met with Lincoln Capital after the departure of Brian Johnson who had primary responsibility for the SBI portfolio. Andrew Johnson, Brian's successor as portfolio manager, has worked on the SBI portfolio for the past seven years and is now responsible for fixed income indexed portfolios. Staff met with Andrew Johnson and his backup, Terrence Glomski, to discuss portfolio strategy and to review Lincoln's indexing analytical model. Staff believes that there will be no disruption in the investment process due to the departure of Brian Johnson.

Manager Commentary
Baring Investment Services

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$11.6 Billion	Actual	5.6%	11.8%
Total Firm Assets Managed in this Discipline	\$ 2.2 Billion	Benchmark	4.1%	11.3%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The following figures show a breakdown of the returns for the last quarter:

	Total Return	Currency	Market Weighting	Tracking Error
	%	%	%	%
Minnesota State Board	5.6	-1.0	5.9	0.4
MSCI EAFE Index	4.1	-2.1	6.3	—
Relative Return	1.5	1.1	-0.4	0.4

Currency (Relative return 1.1%): The underweighting in yen by virtue of the continued hedge contributed positively. The European currency allocation slightly detracted from performance as most EU currencies gained against the Deutschmark. However, exposure to non-index Korean won and Thai baht added a few basis points as both outperformed EAFE. Exposure to the overweight Hong Kong dollar was also a positive contributor to performance.

Market Weighting (Relative return -0.4%): While the contribution from this area was marginally negative, it was composed of a combination of many small positive decisions and a few poor ones. Gains from underweight in Finland, Italy and Sweden matched the loss from exposure to Korea and Thailand. The gain from overweighting Japan was offset by the underweighting to Switzerland.

Tracking Error (Relative return +0.4%): Positive tracking error in Korea in November and December accounted for the contribution this quarter.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The main features of your portfolio are:

Overweight: Japan, France, Hong Kong and US Dollars
Underweight: Germany, UK, Scandinavia and Yen

Japan continues to be out of phase with the North American and European economies. While the latter economies are slowing toward an end-of-cycle period, Japan continues to show signs of early cycle recovery. Japan's growth will start to surprise on the upside and by 1997 we could see the economy expanding back at its long term potential growth rate of 3 to 4%. The Japanese companies that we were encouraged to learn from in the 1980's are still there—leaner than before and maybe a bit wiser too. We continue to like Japan which is enjoying the first year of what could be a 4 or 5 year recovery cycle in profits. We will continue to protect

Baring (con't)

against your yen exposure however, because the corollary of a strong economy will be a weak currency.

The Southeast Asian markets remain attractive. We believe the fundamental strength in earnings growth, the central banks' sound policies, and the fading of political worry will lead to upward market valuations in 1996. Your portfolio will continue its overweighting to the region with emphasis on Hong Kong, Singapore and Korea.

In Europe we can identify many areas where valuations look compelling. In France negative sentiment could hardly become more pronounced. Our forecast is for both the economy and the equity market to recover from the lows of 1995. Lower interest rates led by the Bundesbank will promote economic activity in Continental Europe. Our forecast for Europe is that the failure of confidence will come to an end, that the inventory cycle will be unwound and that we are now a short distance from some recovery in growth. The "flight to quality" that dominated the markets for much of 1995 will become less of an issue as investors move away from more expensive markets such as Switzerland and the Netherlands and view the valuations on offer in France in a more favorable light. This could give the European markets a lively period ahead and we will continue to keep your weightings in spite of all the gloom.

3. **Organizational Issues.** Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

There were no personal changes relative to the management of your Active/Passive portfolio during the fourth quarter.

In the Active/Passive Discipline:

No accounts were gained or lost during the fourth, however, net cash flows into the Active/Passive funds for the quarter totaled \$59 million.

4. **Other Comments.**

None.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Sep. - Dec. 1995
Country selection*	0.16
Stock selection*	0.11
Currency effect	0.06
Hedging activity	1.16
Total Value Added to EAFE	1.56

Source: State Street Analytics * in local currency

**Manager Commentary
Brinson Partners, Inc.**

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$50.2 Billion	Actual	6.2%	17.3%
Total Firm Assets Managed in this Discipline	\$12.0 Billion	Benchmark	4.1%	11.3%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio outperformed the benchmark both in the quarter and for the year. Market allocation decisions produced positive results in both the fourth quarter and the full year. The portfolio especially benefited from key underweights in the quarter: significant underweights of Southeast Asia and no allocation to Scandinavian markets added to returns. On the other hand, the underweight of Japan and holding strategic cash detracted from performance. The overweight in the Netherlands added value. For the full year, the underweight of Japan significantly added to returns, as did overweights in Canada, Australia, Belgium, the U.K. and the Netherlands. The full year was also helped by underweighting select Scandinavian and Southeast Asian markets, but underweighting Hong Kong and Switzerland hurt results. Strategic cash had a neutral impact.

Currency allocation decisions added considerable value during the quarter and the year, playing a significant part in both periods' outperformance. The most important factor in both periods was the yen strategy. A sizable underweight early in the year and no exposure for much of 1995 added value as the yen continued to decline in the fourth quarter and ended the year down -7.72%. Other important positives for the quarter and the year have been the overweights of the U.S. and Canadian dollars, which both strengthened against the yen for the year, and overweights in the Swedish krona, the Italian lira and the Spanish peseta, which also appreciated in 1995.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

There is a 4% strategic cash allocation. This is based on our view that most non-U.S. equity markets are overvalued. Both Japan and the All Other markets are somewhat underweighted, with each roughly 2% below the benchmark. Within the AO market, we have eliminated our exposure to Hong Kong, reduced the already underweight position in Switzerland, pared back the U.K. and modestly added to France and Malaysia. Both HK and Switzerland were very strong this year and now appear quite expensive. Our overweights are in the Netherlands, France, Belgium, New Zealand and Australia. In early October the U.S. dollar exposure was increased by 7.5%, proportionately reducing the allocation to the core DM-bloc currencies. In December, the Swedish krona, which had performed very well, was eliminated, with proceeds added to the relatively weak British pound. We continue to believe that the U.S. and Canadian dollars, where the portfolio is significantly overweight, offer the most attractive return potential, while the yen and DM-bloc currencies, the portfolio's major underweights, remain overvalued.

Brinson (con't)

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

There have been no significant organizational changes and no turnover of our senior investment professionals in this past quarter.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

None this quarter.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Sep. - Dec. 1995
Country selection*	-0.11
Stock selection*	0.47
Currency effect	0.48
Hedging activity	1.23
Total Value Added to EAFE	2.16

Source: State Street Analytics * in local currency

Manager Commentary
Marathon Asset Management

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$4.0 Billion	Actual	3.0%	6.4%
Total Firm Assets Managed in this Discipline	\$2.6 Billion	Benchmark	4.1%	11.3%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio underperformed the MSCI EAFE Index in the fourth quarter of 1995, rising 2.94% (est) versus an index gain of 4.13%. Strong stock returns in Japan were offset by the poor performance of Continental Europe, where corrections in the soft currency markets (notably Finland) were forced by difficult stock returns in the hard currency bloc in the wake of slowing growth expectations.

Asset Allocation over the quarter was driven by relative market returns, with Marathon's belief that 1996 will see a reacceleration of late cycle growth remaining unchanged. This stance has been subject to considerable questioning over the last quarter, with severe cyclical sell-offs in Europe and the U.S., falling commodity prices and rising inventories.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

What then will change? The key appears to be probable shifts in the impact of Japan's extremely loose monetary policy on the global economy. The current bias of this liquidity now from Japan is two-fold: high yielding government bonds (from everyone able to borrow a weakening yen at 0.6% and buy a strengthening dollar yielding 3.6%) and Asian equity (from Japanese individuals). Both these flows are already in full force (witness Hong Kong's remarkable de-linking from the Dow so far in 1996) but a further key component has yet to start: corporate recycling. Whilst these liquidity flows have inevitably had an impact on global interest rates, particularly at the long end (one only has to ask where U.S. rates would be now in the absence of 0.5% yen cash costs), they have failed to address a basic global problem, namely that the global demand centres for capital are in the emerging/high risk world. Their major impact to date has hence been on financial assets in the mature world not growth. Global economic expansion is now driven far more by corporate investment flows (and resulting multiplier effects) into the non-developed world, not by marginal shifts in the U.S. or U.K. interest rate structure. For global growth to reaccelerate the liquidity flows must recommence into the real economies of those markets that want and need the capital: record U.S. share repurchases in 1995 tell us that this is not in the States, more is it likely to be in a Europe struggling to readjust to increasingly unrealistic EMU targets.

Marathon (con't)

As Japan's economic recovery advances the "no brainer" liquidity switch from Japanese cash to U.S. Treasuries then will be increasingly suspect, to be replaced by growing confidence in Japan's corporate base, rising Japanese corporate demand for credit and a switch towards real long-term investments both within Japan and regionally as Japan's manufacturing base continues to shift offshore. Such a trend should coincide with (and reinforce) the return of China to the global market place, and later this year concerns over a U.S. and European slowdown may well have been supplanted by a return of concerns regarding excess global demand for credit, with an accompanying shift in pricing power towards cyclicals, upstream manufacturing and commodity related areas.

Against such a background smaller markets should perform well at the beginning of 1996 as Japanese liquidity floods off shore. Longer term however they are not likely to benefit from a trend towards increasing corporate demand for credit, rising commodity costs, growing competition and rising real interest rates. The Portfolio remains then overweight the commodity markets of Australia and S. Africa, underweight Europe and the interest rate sensitive markets of SE Asia, and fully weighted Japan.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel: Hired European Equities Analyst

Accounts Gained: 3

Accounts Lost: One. Sphere Investment Trust plc, a UK investment trust reached the end of its life and was wound up in accordance with its constitution. In addition, a previously segregated account client decided instead to participate in one of Marathon's commingled vehicles.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Performance attribution for the quarter relative to EAFE is shown below:

	Sep. - Dec. 1995
Country selection*	-1.19
Stock selection*	-0.05
Currency effect	0.07
Hedging activity	0.21
Total Value Added to EAFE	-0.92

Source: State Street Analytics * in local currency

Manager Commentary
Rowe Price-Fleming International

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$22.2 Billion	Actual	3.1%	12.4%
Total Firm Assets Managed in this Discipline	\$16.2 Billion	Benchmark	4.1%	11.3%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Country allocation was a small negative for the quarter and the calendar year. Over the quarter, exposure to Brazil subtracted value as did the underweighting in Japan. For the year, the negative impact of exposure to the smaller markets of the Pacific and Latin America particularly Brazil, Mexico and Thailand more than offset the value added through overweighting the Netherlands and underweighting Japan.

Stock selection was a small negative over the quarter but positive for the year. Over the quarter, your portfolio underperformed in Japan as a result of the strong rally in Japanese bank stocks. For the year, value was added in the UK, parts of Continental Europe and Japan. Smaller companies completed a miserable year on a weak note and subtracted significant value where held.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Current position and outlook

We remain optimistic about the outlook for international markets in 1996. The economic cycle world-wide continues to move forward, earnings growth is good, bond markets are supportive and valuations are reasonable. Selectively, the Japanese market looks attractive. Growth companies in Europe appear good value. The smaller markets of Asia and Latin America look ready to outperform once again. We are hopeful that 1996 will be a year in which we see good performance both absolutely and relatively from international investment.

Rowe Price (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There have been no changes in the ownership of RPFI.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Sep. - Dec. 1995
Country selection*	-0.59
Stock selection*	-0.83
Currency effect	0.53
Hedging activity	0.01
Total Value Added to EAFE	-0.83

Source: State Street Analytics * in local currency

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$103.0 Billion	Actual	3.2%	16.9%
Total Firm Assets Managed in this Discipline	\$ 9.3 Billion	Benchmark	4.1%	11.3%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance for the year was well above the benchmark. This outperformance came from three sources: 1) an underweight position in Japan early in the year when the market there was weak, 2) currency gains resulting from a weaker Dollar vs. most major currencies, 3) overweight positions in strong performing Continental European markets.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

During the fourth quarter we increased the weighting in Japan from 23% to 28%. Since a further weakening of the yen is basic to our investment case, dollar-yen hedges remain in place for close to half of the Japanese exposure. In Europe, a further slowdown seems likely. Thus we hold stocks that are less exposed to the vagaries of the business cycle.

Scudder (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

A) Personnel Turnover for the third quarter of 1995:

Gained:

Vincent Houteville, France equity analyst

B) International Accounts Gained/Lost

Gained:

Two Trust accounts, \$22 Million

Lost:

None

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Sep. - Dec. 1995
Country selection*	-1.37
Stock selection*	-1.22
Currency effect	2.19
Hedging activity	-0.44
 Total Value Added to EAFE	 -0.74
 Source: State Street Analytics	 * in local currency

Manager Commentary
Templeton Investment Counsel, Inc.

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$53.5 Billion	Actual	2.2%	17.5%
Total Firm Assets Managed in this Discipline	\$16.8 Billion	Benchmark	4.1%	11.3%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio underperformed the MSCI EAFE index this quarter yet outperformed it for the one year period ending 12/31/95. Portfolio performance for the recent quarter was suppressed due to the portfolio's underweighting in Japan which earlier this year had enhanced performance. This year's performance was also negatively affected by maintaining holdings in the emerging markets. Alternatively, your investments in other developed markets proved to be lucrative. Currency has also had a limited effect because our investment style does not include currency speculation/overlays.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our investment strategy remains unchanged. We employ a value, stock-pricing approach that generally results in low turnover. The portfolio's bets therefore do not change significantly from quarter to quarter. The portfolio remains underweighted in Japan and overweighted in Europe. Additionally, the portfolio's emerging markets exposure should remain near current levels with some selective purchases in new markets, which include, for example, Eastern Europe.

Templeton (con't)

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

No ownership changes during the last quarter. We have added a total of eight global/international equity research analysts this year. There has been no significant personnel loss this quarter. There were no clients lost for the quarter ending December 31. New Non-U.S. business relationships showed a gain of 72 accounts and \$1,335.2 million in assets for 1995.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

No additional comments at this time.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Sep. - Dec. 1995
Country selection*	-3.62
Stock selection*	0.05
Currency effect	1.75
Hedging activity	0.01
Total Value Added to EAFE	-1.70
Source: State Street Analytics	* in local currency

Manager Commentary
State Street Global Advisors

Period Ending:	12/31/95	Returns	Qtr.	Year
Total Firm Assets Under Management	\$185 Billion	Actual	4.0%	11.1%
Total Firm Assets Managed in this Discipline	\$ 39 Billion	Benchmark	4.1%	11.3%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

In the fourth quarter, the portfolio underperformed the benchmark by 22 basis points. Approximately 16 basis points of the tracking error is attributed to transaction costs. In November and December, the portfolio received \$400 million in cash contributions. Twenty percent was invested through internal crossing, resulting in no transaction costs. The remaining 80% of the contribution was traded in the market at a cost of approximately \$2.4 million or 16 basis points. This estimate includes commissions, taxes and average bid/ask spread. The additional six basis points of tracking error was due to Morgan Stanley's index calculation method of dividend yield smoothing. For the year, the portfolio outperformed by 0.07%, due to SBI's lower dividend withholding tax rate used in the net return of the MSCI EAFE-Free Index, although this positive tracking error bias was partially offset by the negative impact of transactions costs.

2. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant ownership or personnel changes during the fourth quarter. At the end of 1995, we added 8 new non-U.S. equity indexed clients with total assets of over \$2 billion. The two largest wins were Ohio Teachers Retirement System and the State of Missouri. One EAFE account was lost with assets of \$35 million.

State Street (con't)

3. *Other comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

At the end of 1995, the International Structured Products Group opened two new commingled country funds: Israel and the Czech Republic. We now offer 48 fully funded, separate commingled funds for both ERISA and non-ERISA qualified participants.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Sep. - Dec. 1995
Country selection*	0.05
Stock selection*	-0.22
Currency effect	0.14
Hedging activity	0.00
Total Value Added to EAFE	-0.02

Source: State Street Analytics * in local currency

Manager Commentary
GE Investment Management, Inc.
Assigned Risk Plan - Stocks

Period Ending:	12/31/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$45.1 Billion	Actual	5.4%	36.1%
Total Firm Assets Managed in this Discipline	\$ 9.1 Billion	Benchmark	6.0%	37.6%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

GE Multi-Style lagged the S&P 500 by 58 basis points in the fourth quarter and by 123 basis points for all of 1995. The primary reason for this under performance was our cash position that averaged approximately 4% during the year. Normally our managers will carry small amounts of friction cash, but in 1995, as the market moved up, they were a little slower than normal in redeploying this cash after taking profits. We also were hurt by our underweighting in consumer stable stocks in the second half of the year when the market began to fear a recession and looked for safe haven stocks. On the other hand we underweighted consumer cyclical stocks and this helped us significantly. For the most part our overweighting of capital goods stocks was a plus, but we were hurt by not owning GE when the stock had a significant move in the second half of the year. As is typical, stock selection was once again our strength and without our cash position would have given us a positive return vs. the S&P 500.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We currently are overweighted in the financial and capital goods sectors. These sectors are where we are currently finding the most attractive stocks on a valuation basis using our bottom-up stock selection disciplines. The financial stocks we own have good historical growth rates and strong managements. Because they are often in complicated businesses that are not easily understood, they have attractive valuation levels considering their past and future projected growth rates. The long term secular decline in interest rates has also helped these companies do well. The capital goods stocks we own also have shown superior growth and have lower valuations than seem warranted based on future growth prospects. These companies are globally diversified and very competitive world wide. They have instituted cost cutting and productivity initiatives and are generating strong cash flow. They will benefit from worldwide infrastructure building and are not dependent on debt-laden consumers to achieve their forecasted growth rates.

GE Investment Management (con't)

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

We added Mark Mitchell as a new analyst. He is a GE Financial Management Program graduate and has worked in various support rolls for several years. He will follow a number of cyclical industries including autos, paper, retail and textiles.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

Buy-in costs in January of 1995 had a negative impact of approximately 21 basis points.

In December we restructured Multi-Style, adding Chris Brown, a 10 year GEI veteran, as a large cap growth manager, and shifted Elaine Harris to serve as a full time mid-cap manager. Chris, a product of our research department, has been successfully managing large cap growth portfolios for other GE-related entities for the past several years. We made this move because it became clear that Elaine's style more closely tracks the S&P 400 mid-cap index than the S&P 500. This move should result in lower volatility around the index with the same target of 150-200 basis points in added value over time.

We also reduced the targeted cash balance for each manager to one percent or less. Individual managers will still be allowed to go up to 5% in cash for short periods of time, but will be expected to average one percent or less over the long term. At year end the cash level was approximately 2%.

Staff Comments

No comments at this time.

Manager Commentary
Voyageur Asset Management
Assigned Risk Plan - Bonds

Period Ending:	12/31/95	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$ 6.9 Billion	Actual	3.4%	15.7%
Total Firm Assets Managed in this Discipline	\$ 0.5 Billion	Benchmark	3.2%	14.4%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

The Assigned Risk Plan portfolio outperformed its benchmark during 1995 for the following reasons:

- 1) We kept the portfolio fully invested during the year and slightly long (+.25 modified duration).
- 2) We opportunistically increased the portfolio's exposure to asset-backed securities and mortgages when the relative value merited. Unlike other years there was no clear screaming "buy" in the sector area. Value was added primarily through the incremental allocation shifts and through security selection. The increase in allocation to asset-backed securities was due to an increased participation in securitized home equity loans. They were particularly cheap mid-year when we had 13% of the portfolio committed to them. Net on the year we have continued to decrease the portfolio's allocation to corporate bonds as it is our view the additional spread earned on corporates does not compensate us for the embedded credit risk. In addition, we are keeping most of our exposure within 5 years. At year end, 65% of our corporate bond holdings had maturities inside of 5 years.

We have maintained a higher than normal allocation to mortgage-backed securities throughout the year because of our belief that spreads were pricing in a 1993 type prepayment scenario. Simply said, we believe investors were being well paid for prepayment risk. Our generally constructive outlook for interest rates kept the allocation from expanding further.

<u>Sector Exposure</u>	<u>12/94</u>	<u>3/95</u>	<u>6/95</u>	<u>9/95</u>	<u>12/95</u>
Asset-backed	3%	9%	13%	10%	7%
Corporate Bonds	35%	35%	36%	35%	31%
Mortgages	28%	23%	31%	29%	30%
Treasury	28%	28%	15%	23%	27%
Agency	5%	4%	4%	2%	3%
Cash	<1%	<1%	<1%	<1%	2%
Yield of 5-year Treasury Note	7.83%	7.07%	5.97%	6.02%	5.38%

2. **Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

We enter the year with interest rates nearing 1993 levels. Corporate bonds are expensive and mortgages remain fair to cheap. Although we are optimistic about the trend in rates, there is no question that the vast majority of the secular decline in interest rates is behind us. The curve is inverted out to 10 years and we are running somewhat more of a barbelled portfolio rather than a bulleted portfolio. We will continue to be opportunistic in security and sector

Voyageur (con't)

swaps. Given the fact that this is an election year, we expect that volatility will provide ample opportunities.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel changes during fourth quarter, 1995, are as follows:

Additions:

None

Losses:

11/95 Richard L. Vandenberg, Senior Vice President, Taxable Fixed Income Portfolio Manager

Accounts Gained in this discipline:

None

Accounts Lost in this discipline:

Allied Group Insurance decided not to renew their investment agreement with Voyageur effective 10/1/95, a decision which was widely anticipated by us. Their decision was not performance related, but, rather, part of their effort to increase visibility with institutional investors and to retain insurance industry-specific investment banking/mergers and acquisitions expertise. Voyageur was owned by Allied in partnership with Marquette Bancshares for four years. Allied's investment advisory agreement with Voyageur was signed with a two-year term as part of our buy-back of DFG, Voyageur's parent company, in 1993. As part of the agreement, Allied agreed to leave their assets with Voyageur to support our transition to employee-owned status.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

There were no other issues or events which occurred at Voyageur which would be pertinent to the management of the SBI account.

Staff Comments

No comments at this time.

**Manager Commentary
Internal Stock Pool
Trust/Non-Retirement Assets**

Period Ending:	12/31/95	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$59.6 Million	Actual	6.1%	37.6%
Total Firm Assets Managed in this Discipline	\$59.6 Million	Benchmark	6.0%	37.6%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

For the quarter, the index fund incurred a positive tracking error of 9 basis points but matched the benchmark for the year. The quarterly positive tracking error was due to small weighting differences between the actual holdings and the benchmark. These small differences will cause positive or negative tracking error over short time frames but will cancel each other out over longer periods of time as reflected in the one year returns.

2. **Future Strategy.** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectation.*

Staff established futures agreements in the fourth quarter of 1995 to assist in managing future cash flows. So far futures contracts have not been purchased because of low cash values in the index fund (less than \$100,000). The low cash levels are due to a higher than average level of corporate merger activity. Most of the mergers have been financed using the acquiring companies stock. Therefore, to acquire the new additions to the benchmark, the index has used its cashflows to make the purchases.

Internal Equity Index Pool (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No other comments.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

**Manager Commentary
Internal Bond Portfolios**

Period Ending:	12/31/95	Returns	Qtr.	Year
		Actual	4.3%	19.6%
Assets Managed in this Discipline	\$0.62 billion	Benchmark	4.3%	18.5%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance, Fourth Quarter '95

The above returns reflect the combined portfolios of the Environmental Trust Fund, the Income Share Account, and the Permanent School Fund. Collectively, the funds matched the index returns.

- A shorter duration than the market decreased returns as interest rates fell.
- A barbelled portfolio decreased returns as the yield curve steepened slightly during the quarter.
- An underweighted Treasury position and overweighted mortgage position decreased returns since mortgage securities did not perform well during the quarter.
- A neutral to underweighted corporate position detracted from performance since corporate securities performed well as spreads tightened.
- An underweighted mortgage pass-through position and overweighted CMO position within the mortgage sector enhanced performance since the more positively convex CMOs performed well as interest rates fell.

Performance for the Year

Collectively, the funds outperformed the index.

- A longer duration than the benchmark during the first and second quarters added to performance as interest rates declined.
- A barbelled structure decreased returns since the yield curve steepened.
- An overweighted position in positively convex CMO securities increased returns as interest rates fell.
- An underweighted position in negatively convex pass-through mortgages enhanced returns as interest rates fell.

Internal Bond Portfolios (con't)

- A neutral to underweighted Corporate position decreased returns since the corporate sector performed well.
2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Yield Curve Strategy

With the substantial decline in interest rates, real U.S. interest rates are much lower than they were one year ago. If you assume that inflation will be 2.5% for next year, the real yield on the ten year Treasury is around 3%. At this level, bonds are less attractive investments and therefore the portfolio duration will remain neutral to slightly less than the market.

We will maintain a slightly barbelled portfolio because we think the two to five year sector of the curve has priced in a number of Fed easings that may not happen. If the Fed does not ease as much as priced into the market, we think the yield curve will flatten.

Corporate Strategy

Corporate spreads are still tight and we will remain neutral to underweighted in them. We will look to selectively add corporates to the portfolio throughout the quarter if spreads widen.

Mortgage Strategy

Mortgage spreads have widened and therefore we will remain overweighted in them. Mortgages could be the best investment going forward because we think rates may not move significantly in either direction making less convex securities more attractive investments.