MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
March 5, 1997

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INVESTMENT ADVISORY
COUNCIL MEETING
March 4, 1997

Governor Arne H. Carlson

State Auditor Judi Dutcher

State Treasurer Michael A. McGrath

Secretary of State Joan Anderson Growe

Attorney General Hubert H. Humphrey III

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday,March 5, 1997
8:30 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of December 12, 1996	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (October 1, 1996 - December 31, 1996)	**A**
B. Portfolio Statistics (December 31, 1996)	**B**
C. Administrative Report	**C**
1. Reports on budget and travel	
2. Results of FY96 audit	
3. Legislative update	
4. Reauthorization of Proxy Committee	
5. Update on tobacco information	
3. Report from Deferred Compensation Review Committee (P. Sausen)	**D**
A. Review of fixed and variable product offerings in the 457 Deferred Compensation Plan and the 401(a) MnSCU Plans	
B. Recommendation to replace two options offered by Great-West	
4. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	**E**
1. Review of manager performance	
2. Recommendation on re-interview of a domestic stock manager (GeoCapital)	
B. International Manager Committee	**F**
1. Review of manager performance	
2. Discussion of upcoming review of currency overlay program	
C. Alternative Investment Committee	**G**
1. Review of current strategy	
2. Approval of private equity investment for the Basic Retirement Funds (Contrarian Capital)	

Minutes
State Board of Investment
December 12, 1996

The State Board of Investment (SBI) met at 8:30 A.M. Thursday, December 12, 1996 in Room 112 State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson; State Auditor Judith H. Dutcher, State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe and Attorney General Hubert H. Humphrey III were present. The minutes of the September 4, 1996 Board meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending September 30, 1996 (Combined Funds 11.8% vs. Inflation 3.7%), trailed the median fund (Combined Funds 11.8% vs. Median 12.0%) and outperformed their composite index (Combined Funds 11.8% vs. Composite 11.6%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 11.9% vs. Composite 11.8%) over the last five years and reported that the Post Fund had outperformed its composite index for the period July 1, 1993 through September 30, 1996 (Post Fund 11.4% vs. Composite 11.3%).

Mr. Bicker reported that the Basic Funds' assets increased 1.9% for the quarter ending September 30, 1996 due to positive investment returns. He said that the asset mix is essentially on target and that the Funds' had matched its composite index for the quarter (Basics and Composite 2.4%) and outperformed it for the year (Basics 14.3% vs. Composite 14.2%).

Mr. Bicker reported that the Post Fund's assets increased 2.4% for the quarter ending September 30, 1996 due primarily to investment returns. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 2.2% vs. Composite 2.0%) and for the year (Post 13.0% vs. Composite 12.3%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 2.9% vs. Wilshire 5000 2.8%) but underperformed for the year (Domestic Stocks 18.7% vs. Wilshire 5000 18.9%). He said that the international stock manager group outperformed for the quarter (International Stocks 0.2% vs. Int'l Composite -0.4%) and for the year (International Stocks 11.3% vs. Int'l Composite 8.4%). He added that the bond segment also outperformed for the quarter (Bonds 2.2% vs. Lehman Aggregate 1.8%) and year (Bonds 5.4% vs. Lehman Aggregate 4.9%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had matched its composite for the quarter (ARP and Composite 2.1%) but had outperformed its composite index for the year

(ARP 8.8% vs. Composite 8.6%). He concluded his report with the comment that as of September 30, 1996 the SBI was responsible for over $31 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports.

Mr. Bicker reported that the Post Retirement Fund benefit increase for fiscal year 1996 is 8.0%. He added that the increase is payable beginning January 1, 1997.

Mr. Bicker stated that he is not recommending that the SBI propose an administrative bill for the 1997 Legislative Session. He added, however, that there are two initiatives being introduced by the retirement systems that will be of interest to the SBI. He explained that the first proposal would modify the formula by increasing initially promised benefit at the time of retirement and decreasing the size of the future post retirement benefit increases. In response to a question from Mr. Carlson, Mr. Bicker said that the proposal would lower the inflation component of the current post retirement increase formula by 1% and leave the investment component unchanged. He said that retirees would receive a higher initial benefit and then be less dependent on stock market returns for future benefits. He added that the proposed change would have a neutral effect on the Fund from an actuarial standpoint. Mr. Carlson asked who was proposing the formula change. Mr. Bicker clarified that the change is being initiated by Teachers Retirement Association (TRA), Public Employees Retirement Association (PERA), Minnesota State Retirement Systems (MSRS), along with teacher retirement systems from Minneapolis, St. Paul and Duluth. He noted that the proposal would also unify and streamline the benefit formulas for all the retirement systems listed above.

In response to questions from Mr. Carlson, Mr. Bicker said that the proposal will not effect the funding status of any of the plans and he noted that existing retirees would receive a one-time adjustment to equalize where they would have been if this new formula had been in place. He said that the Department of Finance had reviewed the proposal and he understood they were supportive.

Mr. Bicker stated that the second legislative proposal relates to the state's 457 Deferred Compensation Plan (DCP). He said that new federal legislation requires the establishment of a trust or custodial account to hold 457 plan assets and eliminates the federal tax provision that 457 plan assets stand in the name of the state or employer. He said that the proposal also includes language giving MSRS the authority to invest DCP assets directly in mutual funds. Mr. Bicker reiterated that while neither formula change with the 457 plan modification are being initiated by the SBI, that staff would support both of these proposals unless otherwise directed by the Board.

Mr. Bicker reviewed the tentative meeting dates for calendar year 1997, noting that all dates except those in December had been confirmed with Board members.

Mr. Bicker stated that at the September 1996 Board meeting, staff had presented a proposal to change the benchmark used for the Invested Treasurer's Cash Pool. He said that at that meeting, the Governor had requested that the Department of Finance also review the proposal. Mr. Bicker reported that the Department of Finance supports the proposal and he asked for the Board's approval of the new benchmark. Mr. McGrath moved approval of the recommendation, as stated in the Executive Director's Administrative Report, which reads: "The Executive Director recommends that the SBI adopt the attached position paper on the benchmarks for the internally managed Trust Fund Pool and ITC Pool." Ms. Growe seconded the motion. The motion passed.

Administrative Committee Report
Mr. McGrath referred members to Tab D of the meeting materials and noted that the results of the annual financial audit by the Office of the Legislative Auditor will be included in the 1996 Annual Report. He added that the draft of the 1996 Annual Report had been distributed to members for their review and comments.

Mr. McGrath stated that the Committee had discussed the SBI's use of directed commissions. He noted that the SBI's use of directed commissions is significantly below the national average and that background information and a summary of the SBI's use of this resource is included in the meeting materials.

Mr. McGrath stated that the Committee is recommending approval of the SBI's FY98-99 biennial budget request. Mr. Bicker stated that the request is a "same level" funding request. Mr. McGrath moved approval of the Committee's recommendation as stated in the Administrative Committee Report, which reads "The SBI Administrative Committee recommends that the SBI approve the FY98-99 budget request which begins on page 7 and authorize the Executive Director to seek its approval during the 1997 Legislative Session." Ms. Growe seconded the motion. The motion passed.

Deferred Compensation Review Committee
Mr. Sausen referred members to Tab E of the meeting materials and stated that the Committee had met to recommend a new consultant for the state's Deferred Compensation Programs. He reported that the Committee is recommending the firm of Watson Wyatt. In response to questions from Mr. Carlson, Mr. Sausen stated that the consultant will provide services to the SBI regarding all the deferred compensation programs. He noted that the SBI is required by statute to obtain consulting services for these programs. He clarified that the consultant will report directly to the staff of the SBI. Ms. Growe moved approval of the Committee's recommendation, as stated in the Committee Report, which reads "The Committee recommends that the Board authorize the executive director, with assistance from legal counsel, to negotiate and execute a contract for consulting services with Watson Wyatt." Ms. Dutcher seconded the motion. The motion passed.

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and stated that the Committee's recommendations affect five of the SBI's active domestic stock managers. She stated that the Committee had concurred with staff's recommendation to continue to retain Forstmann-Leff, Weiss Peck & Greer, and Investment Advisers. She noted that Forstmann and Weiss Peck & Greer had significantly outperformed their benchmarks during the past year and that staff had seen improvements at the organizations. She added that Investment Advisers have made some organizational changes which staff believe will result in better performance going forward.

In response to a question from Mr. Carlson regarding GeoCapital, Ms. Yeomans stated that the Committee is recommending that GeoCapital be re-interviewed as if they were being considered as a new manager. She said that the Committee would then decide on continuation or termination of the firm. She said that the recommendation regarding Waddell & Reed is that the SBI should terminate its relationship with the firm. In response to questions from Mr. Carlson, Ms. Yeomans said that the reasons for Waddell's termination are all related to the manager's under performance. Mr. Bicker noted that Waddell went through the re-interview process a year ago and that their performance has continued to lag. He added that the firm has also experienced some personnel changes. In response to a question from Mr. McGrath, Mr. Bicker said that the redeployment of assets from Waddell's portfolio will be determined at month end after staff has had an opportunity to review the Funds' actual asset mix versus the Board's long term targets. Mr. Humphrey moved approval of the Committee's recommendations concerning GeoCapital and Waddell & Reed, which reads: "In accordance with the SBI's Manager Continuation Policy, the Committee recommends that the SBI convene a special committee to re-interview GeoCapital Corporation. The special committee will make a recommendation to the Board concerning the continuation or termination of the firm. The special committee should be comprised of a designee of each Board member and at least two members of the Domestic Manager Committee. The Committee recommends that the SBI terminate its contractual relationship with Waddell & Reed." Mr. McGrath seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee had reviewed the Emerging Manager Program and has recommendations on the future structure of the program. She said the Committee is recommending that the SBI allow Kennedy Capital's contract to expire on March 31, 1997 because their investment style will not enable them to take a large amount of assets for the SBI in the future. She added that the Committee is recommending that the SBI should renew contracts with the remaining eight managers.

Mr. Carlson requested that Ms. Yeomans go through all the recommendations. In response to questions from Mr. Humphrey and Ms. Growe, Ms. Yeomans and Mr. Bicker clarified that the contracts do have an immediate termination clause and that the SBI has set a target of having up to 10 emerging managers in the program. In response to questions from Mr. Carlson, Mr. Bicker explained that the proposed funding level for future candidates has been increased from $50 million to $100 million because market levels have increased dramatically since the original managers were funded. He added that the SBI also does not want to be more than one-third of a firm's business and that the SBI should be able to find attractive candidates using the $100 million funding level. Mr. Bicker noted that Kennedy's assets would be transferred to Cohen, Klingenstein & Marks, another firm in the Emerging Manager Program. In response to a question from Mr. McGrath, Mr. Bicker stated that Cohen has performed well and that the goal of the program is to have successful managers grow and eventually be a candidate for a full allocation within the SBI's stock program. Ms. Growe moved approval of the Committee's recommendations, as stated in the Committee Report, which reads "The Committee recommends that 1) the Emerging Manager Program be continued as part of the SBI investment structure for the domestic equity program. Future candidates for the Emerging Manager Program should have at least $100 million under management and should be required to provide an acceptable benchmark prior to receipt of funding from the SBI 2) Kennedy Capital's contract be allowed to expire on March 31, 1997. The funds from Kennedy Capital be reallocated to Cohen, Klingenstein & Marks (CK&M). In addition, CK&M will be added to the Manager Monitoring Program and be considered as a candidate in future active equity manager searches and 3) the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute new contracts with the following eight firms for the Emerging Manager Program. All contracts will be for terms of five years and provide for immediate termination: CIC Asset Management, Los Angeles, CA; Cohen, Klingenstein & Marks, Inc., New York, NY; Compass Capital Management, Minneapolis, MN; New Amsterdam Partners, New York, NY; Valenzuela Capital Management, New York, NY; Wilke/Thompson Capital Management, Inc., Minneapolis, MN; Winslow Capital Management, Minneapolis, MN; Zevenbergen Capital, Inc., Seattle, WA." Mr. McGrath seconded the motion. The motion passed.

International Manager Committee Report
Ms. Yeomans referred members to Tab G of the meeting materials and stated that the international managers are all performing very well and that the emerging markets specialists have all been funded.

Alternative Investment Committee Report
Ms. Yeomans referred members to Tab H of the meeting materials and said that the Committee is recommending three alternative investments. She said the first is a private equity investment for the Basic Funds with IAI Ventures, Inc. She said the fund expects to invest in healthcare technology and communications and expects a portion of the investments to be made in the Midwest. In response to a question from Mr. Carlson, Mr. Bicker clarified that approval by the SBI is still subject to negotiation. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $15 million or 20%, whichever is less, in IAI U.S. Venture Fund II, L.P. 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 IAI Ventures Inc. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on IAI Ventures Inc. or reduction or termination of the commitment." Mr. McGrath seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee is also recommending a venture capital investment for the Basic Funds with Piper Jaffray Ventures, Inc. She noted that this is a healthcare fund. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report, which reads "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $11 million or 20%, whichever is less, in Piper Jaffray Healthcare Fund II, L.P. 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 Piper Jaffray Ventures, Inc. upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Piper Jaffray Ventures, Inc. or reduction or termination of the commitment." The motion passed.

Ms. Yeomans stated that the Committee is recommending an additional investment with Summit Partners, an existing private equity manager, for the Post Retirement Fund. In response to questions from Mr. Carlson, Mr. Bicker confirmed that the SBI has invested with Summit over the last ten years and that they have performed well. He confirmed that the Board's approval is not binding and that final authority rests with staff if all negotiations are finalized successfully. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $60 million or 20%, whichever is less, in Summit Subordinated Debt Fund II, L.P. This commitment will be allocated to the Post Retirement Fund. Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by Summit Partners upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Summit Partners or reduction or termination of the commitment." Ms. Growe seconded the motion. The motion passed.

Update on Tobacco Information
Mr. Bicker stated that at the September 1996 meeting, the Board requested that staff conduct some additional analysis and update the Board on tobacco issues at the December meeting. Mr. Bicker said that since the September 1996, meeting the number of lawsuits against tobacco companies has increased. He said that other new information included that the Denver Employees' Retirement Fund divested its tobacco stocks, that the Massachusetts Treasurer is requesting that legislation be introduced to divest of tobacco, while no action has been taken to date; and that TIAA-CREF beneficiaries rejected a shareholder proposal to sell all tobacco-related holdings. He referred members to the meeting materials for an update on the SBI's holdings in tobacco companies.

Mr. Bicker said that at the September 1996 meeting, Board members asked staff to gather additional information on the effect that litigation risk may have on investments in tobacco companies. He said that to address this request, staff asked the SBI's domestic stock managers to provide written responses to four issues: the impact of litigation, the impact of governmental regulations, analysis of companies on which the managers generate internal research and what events would need to occur for the manager to change his opinion on tobacco stocks. He summarized the managers' responses by stating that the managers believe that litigation has increased the volatility of tobacco stock prices and that governmental regulation has also increased volatility, though to a much lesser degree than litigation. He noted that some managers believe that labeling requirements have benefited the tobacco industry in litigation battles. He said that in general, the managers believe that most of the tobacco stocks have been sufficiently discounted in the market place to account for the litigation risks. Mr. Bicker stated that there has been little change in the SBI's tobacco holdings, and that the SBI held 9.5 million shares in tobacco companies as of September 30, 1996. He said that the major factor that would cause the managers to change their position on tobacco stocks is if there would be a substantial change in the uncertainty surrounding litigation risk and tobacco liabilities.

In response to questions from Mr. Carlson, Mr. Bicker reviewed specific portions of the information contained in the meeting materials regarding the percentage of revenue derived from tobacco. Mr. Carlson said he is nervous when he sees companies with more than half of their revenue being derived from tobacco and he asked why anyone would want to incur tobacco exposure that high in any particular company. Mr. Bicker noted that the index manager has tobacco holdings simply because it has to track the holdings included in the index. Mr. Carlson stated that he would like to see a more solid explanation regarding the tobacco companies that have major exposure to tobacco revenues.

Ms. Growe stated that the volatility issue relates directly to the resolution she proposed at the September 1996 meeting. She asked Ms. Posey to comment on the volatility of tobacco stocks and Ms. Posey briefly explained a chart which depicted the relationship between risk and return over the last five years. In response to questions from Mr. Carlson, Mr. Bicker stated that removal of firms with more than 50% of their revenue from tobacco would probably have little impact on the index fund. In response to a question from Ms. Growe, Mr. Carlson said that he is hesitant to put any restrictions on the funds via resolution but that he thought Mr. Bicker understood the Board's concerns. Mr. Bicker stated that staff could do the analysis on the companies with high revenues from tobacco, if the Board would find that helpful. Ms. Growe stated that preparing another report really would not change anything and she suggested that the Board give Mr. Bicker further direction. Mr. Carlson stated that he believes Mr. Bicker understands how he should proceed and that he does not want the Board to become involved in micromanagement of the investments but that he feels managers should have an overpowering economic argument for investing in a company with a 60-90% exposure to tobacco.

Mr. Bicker noted that from September 30, 1996 through the date of the meeting, tobacco stocks had been among the strongest performing stocks in the marketplace. Mr. Bicker confirmed that the SBI is monitoring the tobacco issues on an on-going basis. Mr. Humphrey noted that it is important to consider the tobacco components of corporations as well as whole companies. Mr. Humphrey stated that it is his understanding that RJR Nabisco's annual meeting is coming up and that there will be a proxy proposal regarding Joe Camel, the advertising character used by that company. He asked staff to find out the date of the meeting and what, if any, the SBI's participation will be.

The meeting adjourned at 9:20 A.M.

Respectfully submitted,

Howard Bicker

Howard J. Bicker
Executive Director

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, March 4, 1997
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

	TAB
1. Approval of Minutes of December 11, 1996	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (October 1, 1996 - December 31, 1996)	A
B. Portfolio Statistics (December 31, 1996)	B
C. Administrative Report	C
1. Reports on budget and travel	
2. Results of FY96 audit	
3. Legislative update	
4. Reauthorization of Proxy Committee	
5. Update on tobacco information	
3. Report from Deferred Compensation Review Committee (P. Sausen)	D
A. Review of fixed and variable product offerings in the 457 Deferred Compensation Plan and the 401(a) MnSCU Plans	
B. Recommendation to replace two options offered by Great-West	
4. Reports from the Investment Advisory Council	
A. Domestic Manager Committee (J. Bohan)	E
1. Review of manager performance	
2. Recommendation on re-interview of a domestic stock manager (GeoCapital)	
B. International Manager Committee (J. Mares)	F
1. Review of manager performance	
2. Discussion of upcoming review of currency overlay program	
C. Alternative Investment Committee (P. Sexton)	G
1. Review of current strategy	
2. Approval of private equity investment for the Basic Retirement Funds (Contrarian Capital)	

Minutes
Investment Advisory Council
December 11, 1996

The Investment Advisory Council met on Wednesday, December 11, 1996 at 2:00 p.m. in the State Board of Investment (SBI) Conference Room, 55 Sherburne Avenue, St. Paul.

MEMBERS PRESENT: Gary Austin; Dave Bergstrom; Roger Durbahn; Doug Gorence; Ken Gudorf; Peter Kiedrowski; Han Chin Liu; Judy Mares; Malcolm McDonald; Gary Norstrem; Patrick Sexton; Mike Stutzer; Mary Vanek and Jan Yeomans.

MEMBERS ABSENT: John Bohan; Wayne Simoneau and Daralyn Peifer.

SBI STAFF: Howard Bicker; Jim Heidelberg; Lois Buermann; Mark Regal; Karen Vnuk; Charlene Olson and Lin Nadeau.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Jake Manahan; Carey Moe; Peter Sausen; Michael Ravnitzky; Susan Mills, John Hagman, Lloyd Belford, REAM; Robert Tennessen, O'Connor & Hannan; Michael Anderson, Anderson Advisory Services; Dave DeYoung, PERA and Maria Douglas, St. Paul Pioneer Press.

The minutes of the September 3, 1996 meeting were approved. Mr. Bicker introduced members to Mary Vanek, the Acting Director for the Public Employees Retirement Association.

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, 1996 (Combined Funds 11.8% vs. Inflation 3.7%), trailed the median fund (Combined Funds 11.8% vs. Median 12.0%) and outperformed their composite index (Combined Funds 11.8% vs. Composite 11.6%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 11.9% vs. Composite 11.8%) over the last five years while the Post Fund had outperformed its composite index for the period July 1, 1993 through September 30, 1996 (Post Fund 11.4% vs. Composite 11.3%).

Mr. Bicker reported that the Basic Funds' assets increased 1.9% for the quarter ending September 30, 1996 due to positive investment returns. He said that the stock segment is slightly overweighted because it includes the uninvested portion of the allocation to alternative investments. He said that the Funds' had matched its composite index for the quarter (Basics and Composite 2.4%) and outperformed it for the year (Basics 14.3% vs. Composite 14.2%).

Mr. Bicker reported that the Post Fund's assets increased 2.4% for the quarter ending September 30, 1996 due primarily to investment returns. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 2.2% vs. Composite 2.0%) and for the year (Post 13.0% vs. Composite 12.3%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 2.9% vs. Wilshire 5000 2.8%) and that the international stock manager group outperformed for the quarter (International Stocks 0.2% vs. EAFE-Free -0.4%) and for the year (International Stocks 11.3% vs. Composite 8.4%). He added that the bond segment also outperformed for the quarter (Bonds 2.2% vs. Lehman Aggregate 1.8%) and year (Bonds 5.4% vs. Lehman Aggregate 4.9%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had matched its composite for the quarter (ARP and Composite 2.1%) but had outperformed its composite index for the year (ARP 8.8% vs. Composite 8.6%). He concluded his report with the comment that as of September 30, 1996 the SBI was responsible for over $31 billion in assets.

Executive Directors Administrative Report

Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports.

Mr. Bicker reported that the Post Retirement Fund benefit increase for fiscal year 1996 is 8.0%. He added that the increase is payable beginning January 1, 1997.

Mr. Bicker stated that the SBI does not intend to introduce any legislation in the 1997 Legislative session. He said that there are two initiatives being introduced by the various retirement systems that will have some impact on the SBI. He said that the first proposal is a request for more uniform benefit language for all the retirement systems. He explained that the proposal includes a modification to the benefit formula which would increase the amount of pension dollars initially paid to new retirees and decrease the size of future benefit increases.

Mr. Bicker stated that the second proposal will be introduced by the Minnesota State Retirement System (MSRS) to request new legislative authority that will bring the State's Deferred Compensation Plan (DCP) in compliance with recent Federal law changes. He noted that the proposal includes a request to allow the DCP to have the option of contracting directly with mutual funds to offer participants investment alternatives. Mr. Bicker stated that staff will be requesting the Board's approval to support these proposals.

Mr. Bicker reviewed the meeting dates for calendar year 1997, noting that the December date is tentative.

Mr. Bicker stated that the September 1996 Board meeting, staff had presented a proposal to change the benchmark used for the Invested Treasurer's Cash Pool. He said that the Governor had requested that the Department of Finance review the proposal. He reported that the review was completed during the quarter and that the Department of Finance supports the proposal. He said that the Board will vote on the proposal at their December 1996 meeting.

In response to a question from Mr. McDonald, Mr. Bicker confirmed that the January 1, 1997 benefit increase is the highest increase paid under the new formula. In response to questions from Mr. Gorence, Mr. Bicker stated that the current formula does have a smoothing effect which helps offset major market swings.

In response to a question from Ms. Yeomans, Mr. Bicker stated that staff is waiting to rebalance the asset mix of the Assigned Risk Plan until they receive updated actuarial data on the Plan.

Administrative Committee Report
Mr. Bicker referred members to Tab D of the meeting materials and noted that final audit results are not available yet and that members have received a draft copy of the 1996 Annual Report for their comments and review. He stated the Committee's Report includes updated information regarding the SBI's use of directed commissions and that the Committee is requesting that the Board approve the SBI's FY 98-99 Biennial Budget Request. He stated that no action is needed by the IAC on any of these items.

Domestic Manager Committee Report
Mr. Bergstrom referred members to Tab F of the meeting materials and reviewed the domestic stock and bond mangers' performance.

Mr. Bicker stated that staff has been working with each active stock manager to identify enhancements to their investment process that will increase the probability of producing value added returns, overtime. He said that staff believe it would be appropriate for several of the active managers to hold a more concentrated portfolio and make larger bets with their "best" stock ideas. He noted that Alliance Capital Management, IDS Advisory Group, Lincoln Capital Management and Oppenheimer Capital have the potential to implement changes that would provide a more concentrated portfolio for the SBI. In response to questions from Mr. Gorence, Mr. Bicker said that the proposed changes were discussed with the managers and that the goal is to have each manager make their best stock selection and give them heavier weightings in the portfolio while not worrying about the diversification of individual stock portfolios. He confirmed that the changes will be specific to each manager and that staff were not mandating a specific number of stocks. He said that the domestic stock segment as a whole will still remain diversified due to the managers' various styles of management.

In response to questions from Mr. Gudorf, Mr. Bicker said that few, if any, adjustments would be needed in the managers' benchmarks. In response to a question from Mr. Stutzer, Mr. Bicker clarified that there will be very little impact in the completeness fund since it does not compensate for active manager bets. In response to a question from Ms.

Mares, Mr. Bicker said that some slight adjustments may need to be made to a manager's benchmark if the only reason they invested in a particular sector was for diversification.

Mr. Bergstrom stated that during the quarter, the Committee reviewed information on five active stock managers whose rolling five year performance has been below their benchmark for one year. He said that the Committee is recommending that no action should be taken at this time with respect to Forstmann-Leff, Weiss Peck & Greer and Investment Advisers, Inc. He noted that Forstmann and Weiss Peck & Greer had significantly outperformed their benchmarks during the past year and that staff had seen improvements at those organizations. Mr. Bicker also noted that the performance numbers for Weiss Peck & Greer and Investment Advisers include portfolio data prior to the SBI's account and that their performance using only SBI portfolio returns was within acceptable parameters.

Mr. Bergstrom reported that GeoCapital will be re-interviewed to determine if the firm should continue as a manager or be terminated. He noted that staff continues to have a high level of confidence in the firm's ability to add value. Mr. Bergstrom said that staff had also originally recommended that Waddell & Reed be re-interviewed, but he said that the Committee recommended that the firm be terminated since Waddell had already gone through the re-interview process within the last year. Mr. Bicker said that redeployment of Waddell's assets will be determined at month end after staff has had an opportunity to review the Fund's actual asset mix versus the Boards' long term targets. Mr. Norstrem moved approval of the Committees' recommendations to re-interview GeoCapital and terminate Waddell & Reed, as stated in the Committee Report. Mr. McDonald seconded the motion. Mr. Norstrem noted that staff and the Committee had discussed Waddell's performance at length and that they had all come to the conclusion that the same outcome would be reached next quarter, so there was no reason to prolong the termination. The motion passed.

Mr. Bicker stated that the Committee had reviewed the Emerging Manager Program and he explained that the idea behind the program is to retain smaller, newer firms that could add some value and potentially be considered as an active manager during future manager searches. He said that the program as a whole has added significant value and that the Committee is recommending that the program be renewed with a couple of changes.

Mr. Bicker stated that the Committee is recommending that the SBI allow Kennedy Capital's contract to expire on March 31, 1997 because their investment style will not enable them to take a large amount of assets for the SBI in the future. He said that the Committee is also recommending that future candidates for the Emerging Manager Program should have a least $100 million under management and that the funds from Kennedy Capital be reallocated to another emerging manager, Cohen, Klingenstein & Marks. He added that the recommendations include renewing contracts for the eight remaining emerging managers in the program. Mr. Gudorf moved approval of the Committees' recommendations, as stated in the Committee Report. Mr. Gorence seconded the motion. In response to a question from Mr. Kiedrowski, Mr. Bicker said that staff will be looking for managers to add to the program in order to bring the number of managers back up to ten. The motion passed.

International Manager Committee Report
Ms. Mares referred members to Tab G of the meeting materials and said that she is pleased to report that the international segment outperformed its composite for the quarter, one year, three year and since inception time periods. She said that during the quarter the City of London was funded. Mr. Bicker said that Genesis also received the remainder of their funding, resulting in completed funding for all the emerging markets managers. In response to a question from Mr. Gudorf, Mr. Bicker stated that the funds from Templeton's portfolio were transferred to the passive international portfolio. Ms. Mares also noted that the currency overlay program had modestly added value since its inception in December 1995.

Alternative Investment Committee Report
Mr. Norstrem left the meeting prior to presentation of the report for this committee. Mr. Gudorf referred members to Tab H of the meeting materials and said that the Committee has three recommendations this quarter. He noted that the first recommendation involves an investment with IAI U.S. Venture Fund II and that he would not vote or participate in the discussion because the firm is an investor in his limited partnership. He asked Mr. McDonald to lead the discussion. Mr. McDonald stated that the Committee is recommending an investment for the Basic Funds with a new private equity manager, IAI Ventures Inc. in IAI U.S. Venture Fund II. He explained that the fund will focus on early stage healthcare and communications companies, many of which are in Minnesota and the midwest. Mr. Durbahn moved approval of the Committees' recommendation, as stated in the Committee Report. Mr. Austin seconded the motion. In response to a question from Ms. Mares, Mr. Bicker stated that the fund is essentially fully committed. The motion passed.

Mr. Gudorf stated that the Committee is recommending an investment for the Basic Funds with another new private equity manager, Piper Jaffray Ventures, Inc. in Piper Jaffray Healthcare Fund II. He said that the fund will specialize in healthcare companies in Minnesota and the surrounding area. Mr. McDonald moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Liu seconded the motion. In response to a question from Ms. Mares, Mr. Bicker confirmed that this fund is also fully committed. The motion passed.

Mr. Gudorf stated that the Committee is recommending an additional investment for the Post Retirement Fund with an existing private equity manager, Summit Partners, in Summit Subordinated Debt Fund II, L.P. He noted that the previous fund had performed very well. Mr. McDonald moved approval of the Committee's recommendations as stated in the Committee Report. Mr. Durbahn seconded the motion. Mr. Bicker noted that staff has been working with the Attorney General's office to avoid any unrelated business tax income (UBTI) that could arise. The motion passed.

In response to a question from Mr. Ravnitzky, Mr. Bicker and Ms. Yeomans clarified that the update on tobacco issues would occur at the Board meeting.

The meeting adjourned at 2:50 p.m.

Respectfully submitted,

Howard Bicker

Howard J. Bicker
Executive Director

Tab A

RETURN OBJECTIVES
Period Ending 12/31/96

COMBINED FUNDS: $27.0 Billion	Return	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over moving 10 year periods.	12.0% (1)	8.3 percentage points above target
Exceed Median Fund (5 yr.) Outperform the median fund from a universe of public and corporate funds with a balanced asset mix over moving 5 year periods.	11.6% (1)	0.2 percentage point below target Rank: 57th percentile (2)
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over moving 5 year periods.	11.6% (1)	0.2 percentage point above target

BASIC RETIREMENT FUNDS: $14.3 Billion	Return	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over moving 5 year periods.	11.8%	0.1 percentage point above target

POST RETIREMENT FUND: $12.7 Billion	Return	Compared to Objective
Exceed Composite Index Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Post Fund over moving 5 year periods.	12.2% (3)	0.3 percentage point above target (3)

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

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

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

ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1996

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

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

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

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

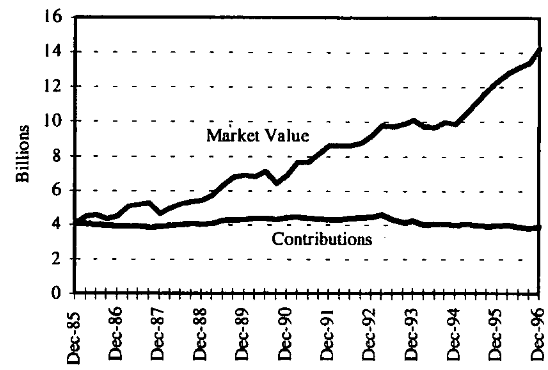
Actuarial Assumptions:

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

EXECUTIVE SUMMARY
Basic Retirement Funds

Asset Growth

The market value of the Basic Funds increased 6.5% during the fourth quarter of 1996. Positive investment returns accounted for most of the increase during the period.

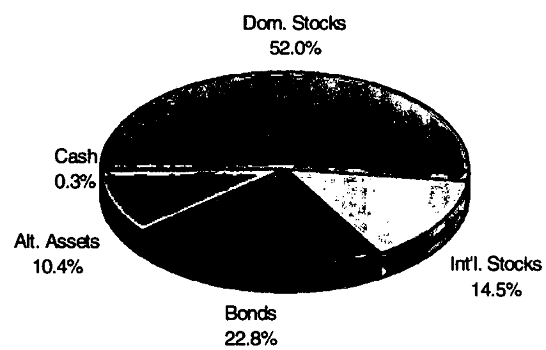


Asset Growth
During Fourth Quarter 1996
(Millions)

Beginning Value	$ 13,402
Net Contributions	72
Investment Return	801
Ending Value	$ 14,275

Asset Mix

During the quarter assets moved from domestic stocks to international stocks and to bonds to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing.



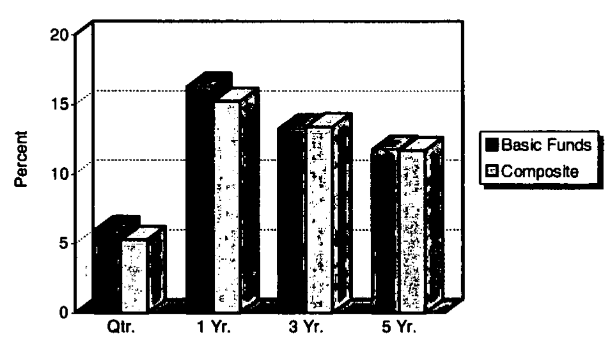
	Policy Targets	Actual Mix 12/31/96	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	52.0%	$7,416
Int'l. Stocks	**15.0**	14.5	2,076
Bonds	**24.0**	22.8	3,256
Alternative Assets*	**15.0**	10.4	1,486
Unallocated Cash	**1.0**	0.3	41
	100.0%	100.0%	$14,275

* Any uninvested allocation is held in domestic stocks

Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**6.0%**	**16.3%**	**13.3%**	**11.8%**
Composite	5.3	15.2	13.4	11.7



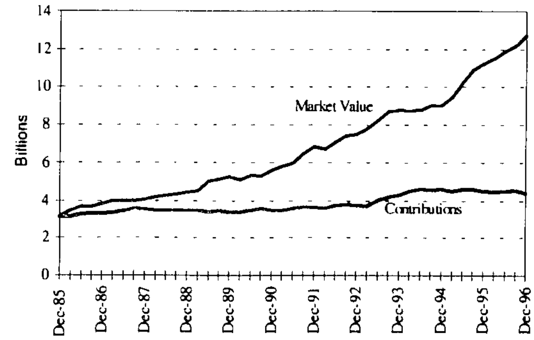
EXECUTIVE SUMMARY

Post Retirement Fund

Asset Growth

The market value of the Post Fund increased 4.4% during the fourth quarter of 1996. The increase resulted from positive investment returns.

	Asset Growth During Fourth Quarter 1996 (Millions)
Beginning Value	$12,164
Net Contributions	-118
Investment Return	659
Ending Value	12,705

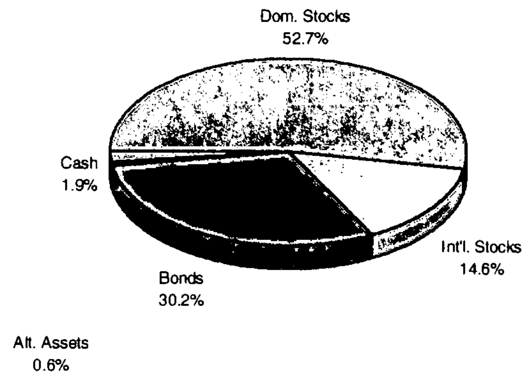


Asset Mix

During the quarter assets moved from domestic stocks to international stocks to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing.

	Policy Targets	Actual Mix 12/31/96	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	52.7 %	$6,699
Int'l. Stocks	**15.0**	14.6	1,856
Bonds	**27.0**	30.2	3,832
Alternative Assets*	**5.0**	0.6	76
Unallocated Cash	**3.0**	1.9	242
	100.0%	100.0%	$12,705

* Any uninvested allocation is held in bonds

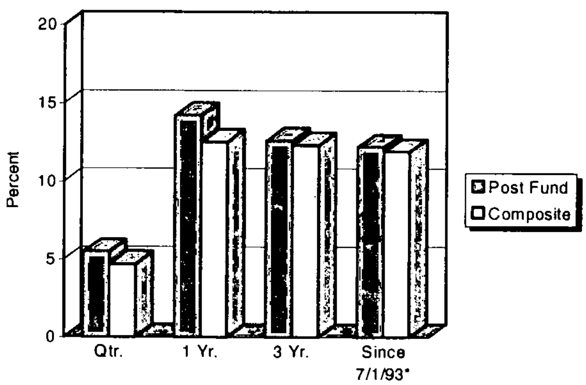


Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	Since 7/1/93*
Post	**5.5%**	**14.2%**	**12.6%**	**12.2%**
Composite	4.7	12.5	12.3	11.9

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	**7.5%**	**22.1%**	**17.8%**	**14.5%**
Wilshire 5000*	6.9	21.2	18.2	14.9

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

International Stocks

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

	Qtr.	1 Yr.	3 Yr.	Since 10/1/92*
Int'l. Stocks	**3.1%**	**10.4%**	**9.5%**	**13.2%**
Composite Index*	1.4	5.7	8.2	11.9

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

Bonds

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	**3.5%**	**4.6%**	**6.3%**	**7.6%**
Lehman Agg.*	3.0	3.6	6.1	7.1

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

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

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

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

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

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

EXECUTIVE SUMMARY
Assigned Risk Plan

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

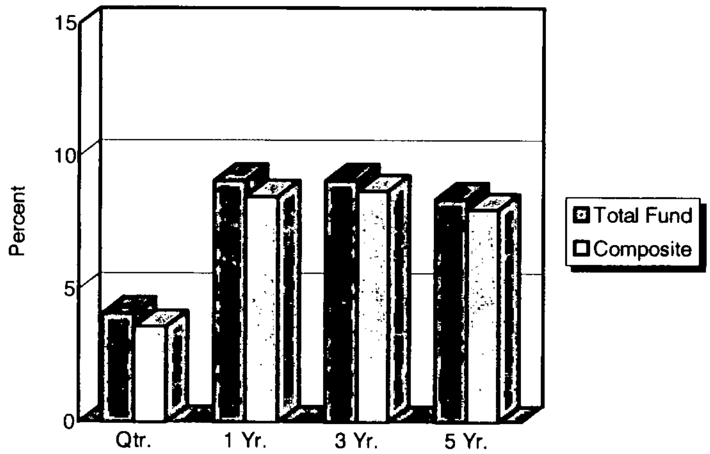
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	12/31/96 Target	12/31/96 Actual
Stocks	20.0%	28.3%
Bonds	80.0	71.7
Unallocated Cash	0.0	0.0
Total	100.0%	100.0%

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

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

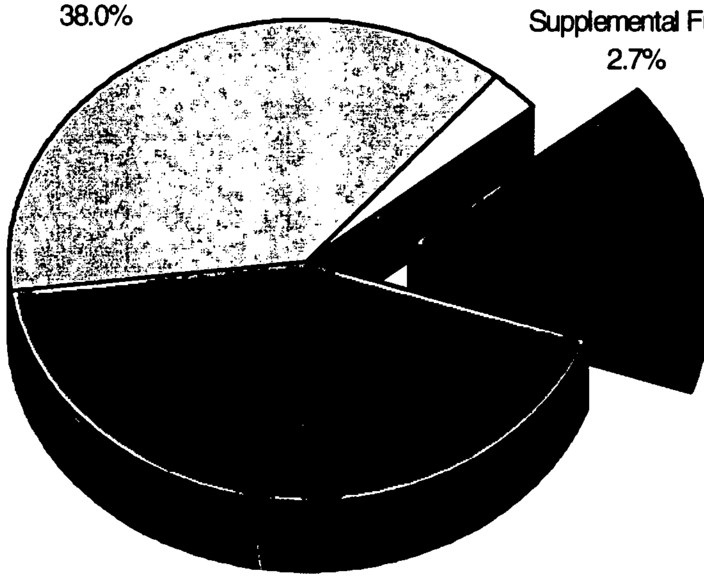
Market Value
On December 31, 1996 the market value of the Assigned Risk Plan was $561 million.



Period Ending 12/31/96

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund	**4.1%**	**9.1%**	**9.1%**	**8.4%**
Composite Index	3.6	8.5	8.7	8.0
Equity Segment	**8.7**	**22.9**	**18.4**	**12.8**
Benchmark	8.4	23.2	19.5	12.8
Bond Segment	**2.5**	**4.7**	**6.3**	**6.9**
Benchmark	2.4	5.0	6.1	6.7

EXECUTIVE SUMMARY
Funds Under Management



	12/31/96 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$14.3
Post Retirement Fund	12.7
Supplemental Investment Fund	0.9
Non Retirement Funds*	
Assigned Risk Plan	0.6
Permanent School Fund	0.4
Environmental Trust Fund	0.2
State Cash Accounts	4.4
Total	**$33.4**

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Fourth Quarter 1996
(October 1, 1996 - December 31, 1996)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/96				
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**	**10 Yr.**
Domestic Equity					
Wilshire 5000	6.9%	21.2%	18.2%	14.9%	14.7%
Dow Jones Industrials	10.7	29.5	23.0	18.5	16.7
S&P 500	8.4	23.2	19.8	15.3	15.3
Russell 2000	5.2	16.5	13.7	15.7	12.4
Domestic Fixed Income					
Lehman Aggregate*	3.0	3.6	6.0	7.0	8.5
Lehman Gov't./Corp.	3.1	2.9	5.8	7.2	8.4
90 Day U.S. Treasury Bills	1.3	5.3	5.1	4.4	5.8
International					
EAFE**	1.6	6.0	8.3	8.2	8.4
Emerging Markets Free***	-0.6	6.0	-2.3	12.7	N/A
Salomon Non U.S. Gov't. Bond	2.1	4.1	9.7	9.7	11.0
Inflation Measure					
Consumer Price Index****	0.5	3.3	2.8	2.8	3.7

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market generated positive returns for the fourth quarter. The positive market movement was driven by a narrow group of very large stocks. The better performing sectors within the market included finance, technology, energy, and utility. Weaker areas in the market were consumer retailing, services groups, and transportation.

The Wilshire 5000 provided a 6.9% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter is shown below:

Large Value	10.2%
Small Value	8.3
Large Growth	6.4
Small Growth	2.2

The Wilshire 5000 increased 21.2% during the latest year.

DOMESTIC BONDS

The bond market had positive returns with yields declining. Inflation remains at bay keeping interest rates low. Although interest rates were down for the quarter, rates were volatile as investors responded to each piece of reported economic news.

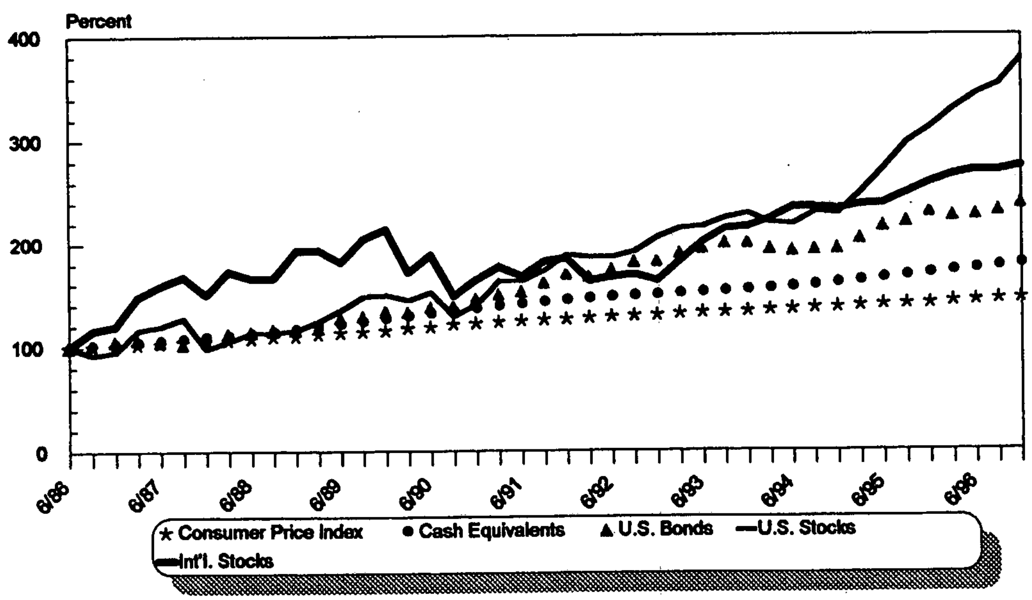
Overall, the Lehman Brothers Aggregate Bond Index increased 3.0% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	2.9%
Corporates	3.5
Mortgages	2.9

The Lehman Aggregate increased 3.6% for the latest year.

PERFORMANCE OF CAPITAL MARKETS

Cumulative Returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

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

Japan	-11.5%
United Kingdom	14.6
Germany	5.5
France	8.8

The EAFE index increased by 6.0% during the latest year.

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

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of -0.6% for the quarter. The performance of the five largest stock markets is shown below:

Malaysia	7.4%
South Africa	-6.1
Brazil	8.3
Thailand	-26.4
Mexico	0.1

The Emerging Markets Free index increased by 6.0% for the year.

The Emerging Markets Free index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 65% of the value of the index.

REAL ESTATE

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

PRIVATE EQUITY

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

RESOURCE FUNDS

Crude oil prices remain strong. Fourth quarter price of West Texas Intermediate crude oil averaged $24.56 per barrel compared to an average price of $22.82 per barrel over the last 52 weeks.

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.

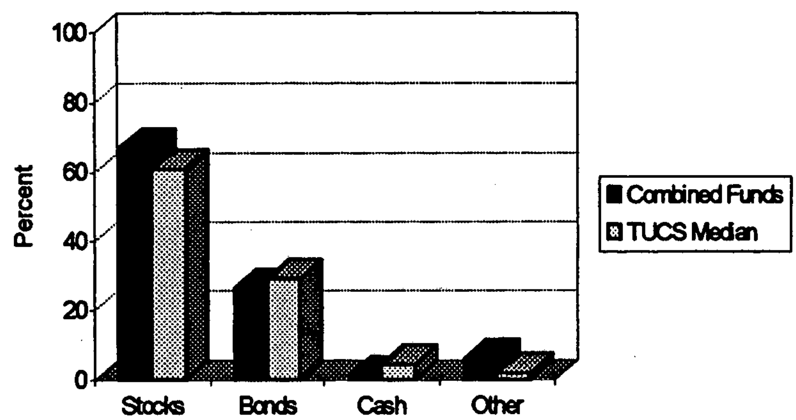
The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Asset Mix Compared to Other Pension Funds

On December 31, 1996, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$14,115	52.3%
International Stocks	3,931	14.6
Bonds	7,089	26.3
Alternative Assets	1,563	5.8
Unallocated Cash	282	1.0
Total	$26,980	100.0%

Comparisons of the Combined Funds' asset mix to the median allocation to stocks, bond and other assets of the public and corporate funds in TUCS on December 31, 1996 are shown below:



	Stocks*	Bonds*	Cash	Other
Combined Funds	**66.9%**	**26.3%**	**1.0%**	**5.8%**
Median Allocation in TUCS	60.8	29.1	4.3	1.8

* 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:

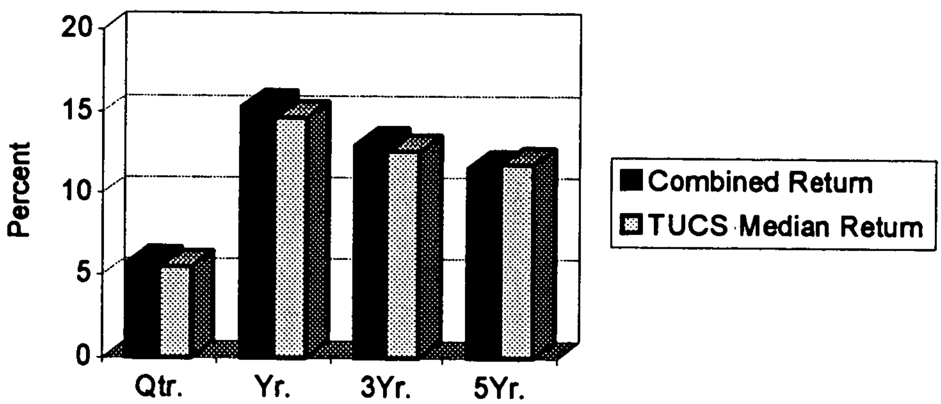
— **Differing Treatment of Fees.** All SBI returns in this report are shown *after* all management fees while TUCS data is reported *before* fees. If the SBI reported returns before fees, its returns and rankings would be *higher* than those shown in this report.

— **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 12/31/96

			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Combined Funds Return*	**5.7%**	**15.3%**	**13.0%**	**11.6%**
TUCS Median Fund Return**	5.5	14.6	12.6	11.8
Percentile Rank in TUCS	41st	42nd	41st	57th

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

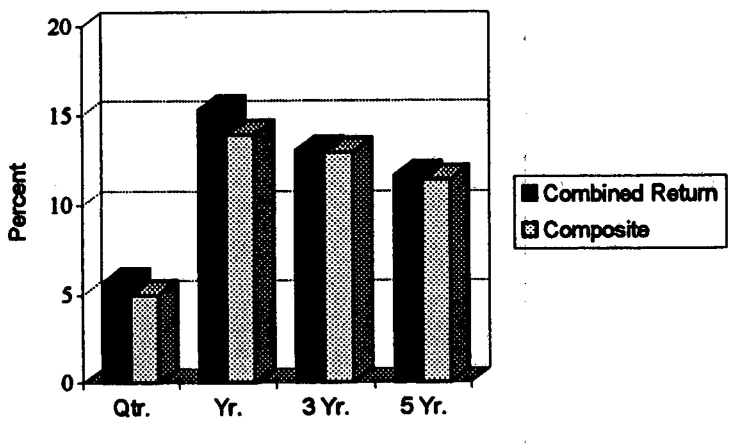
The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).

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 4Q96
Domestic Stocks	Wilshire 5000	49.7%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.6*
Alternative Assets	Wilshire Real Estate	2.2*
	Venture Capital Funds	3.0*
	Resource Funds	0.5*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

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



Period Ending 12/31/96

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	**5.7%**	**15.3%**	**13.0%**	**11.6%**
Composite Index***	5.0	13.9	12.9	11.4

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

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

BASIC RETIREMENT FUNDS

Investment Objectives

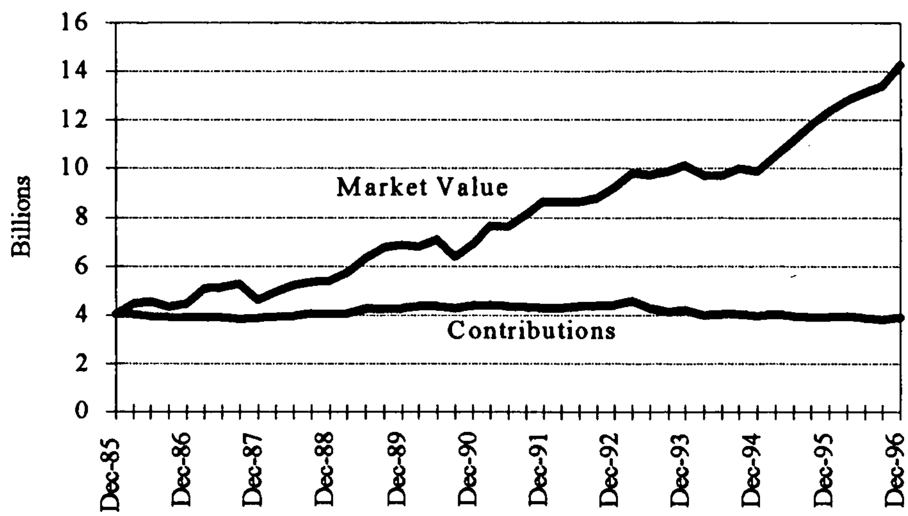
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 6.5% during the fourth quarter of 1996. Positive investment returns accounted for most of the increase.



Last Five Years
In Millions

	12/91	12/92	12/93	12/94	12/95	3/96	6/96	9/96	Latest Qtr. 12/96
Beginning Value	$6,919	$8,639	$9,191	$10,086	$9,890	$12,338	$12,797	$13,146	$13,402
Net Contributions	-92	-34	-239	-206	-29	35	-105	-61	72
Investment Return	1,812	586	1,134	-10	2,477	424	454	317	801
Ending Value	$8,639	$9,191	$10,086	$9,890	$12,338	$12,797	$13,146	$13,402	$14,275

BASIC RETIREMENT FUNDS
Asset Mix

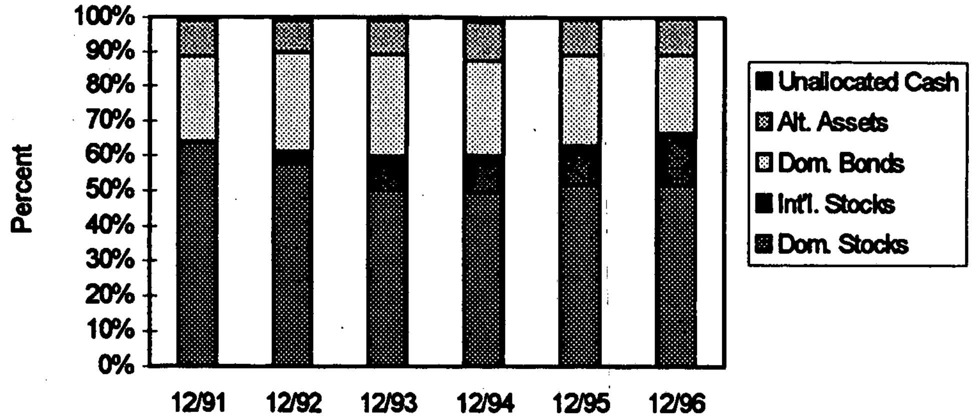
The long-term asset allocation of the Basic Funds is based on the superior performance of common stocks over the history of the capital markets. The asset allocation policy is designed to add value to the Basic Funds over their long-term investment time horizon.

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

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

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

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



	Last Five Years								Latest Qtr.
	12/91	12/92	12/93	12/94	12/95	3/96	6/96	9/96	12/96
Domestic Stocks	63.9%	57.9%	49.9%	49.7%	51.7%	52.3%	51.5%	51.2%	52.0%
Int'l. Stocks	0.0	3.2	10.0	10.3	11.3	13.2	14.4	14.4	14.5
Bonds	24.7	28.5	29.4	27.5	26.1	23.9	23.2	23.4	22.8
Real Estate	4.8	4.2	4.1	4.6	4.1	3.9	3.9	3.9	3.9
Private Equity	4.7	4.2	4.6	5.6	5.4	5.5	5.4	5.5	5.5
Resource Funds	1.1	1.2	1.1	0.9	0.7	0.7	0.8	1.0	1.0
Unallocated Cash	0.8	0.8	0.9	1.4	0.7	0.5	0.8	0.9	0.3
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

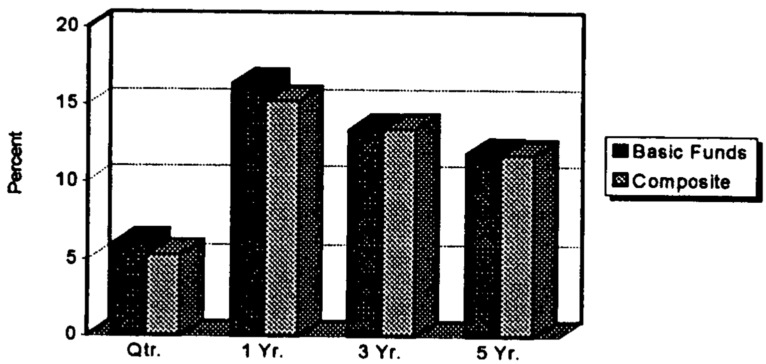
BASIC RETIREMENT FUNDS

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 4Q96
Domestic Stocks	45.0%	Wilshire 5000	49.5%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Wilshire Real Estate	4.0*
		Private Equity Funds	5.5*
		Resource Funds	1.0*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

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



	Period Ending 12/31/96			
			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Basic Funds	**6.0%**	**16.3%**	**13.3%**	**11.8%**
Composite Index**	5.3	15.2	13.4	11.7

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

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

POST RETIREMENT FUND

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

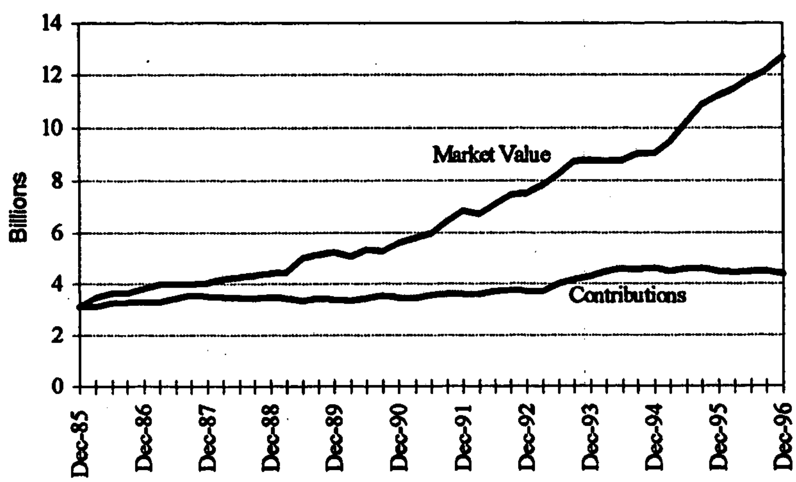
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 5% on its invested assets on an annualized basis. If the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

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

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

Asset Growth

The market value of the Post Retirement Fund increased by 4.4% during the fourth quarter of 1996. The increase was due to positive investment returns.



	In Millions								Latest Qtr.
	12/91	12/92	12/93	12/94	12/95	3/96	6/96	9/96	12/96
Beginning Value	$5,590	$6,855	$7,500	$8,766	$9,001	$11,216	$11,496	$11,883	$12,164
Net Contributions	162	95	386	314	-102	-55	60	19	-118
Investment Return	1,103	550	880	-79	2,317	335	327	262	659
Ending Value	$6,855	$7,500	$8,766	$9,001	$11,216	$11,496	$11,883	$12,164	$12,705

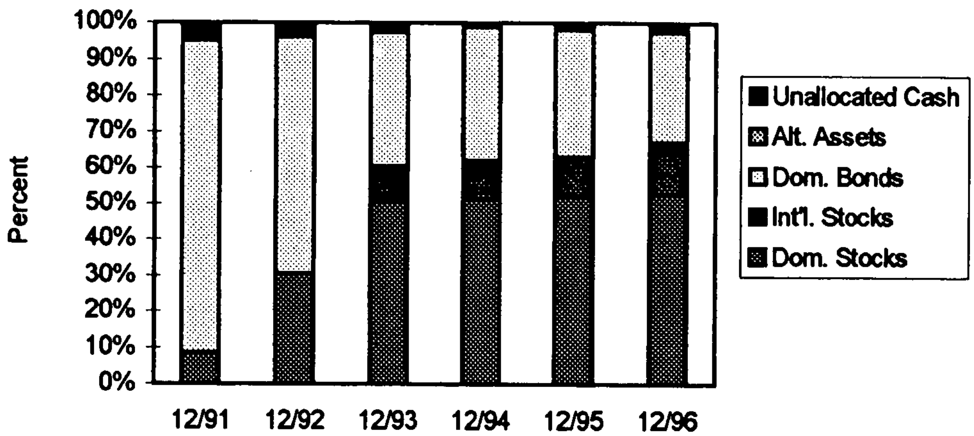
POST RETIREMENT FUND
Asset Mix

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

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

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

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



	Last Five years								Latest Qtr.
	12/91	12/92	12/93	12/94	12/95	3/96	6/96	9/96	12/96
Dom. Stocks	8.5%	30.6%	50.5%	51.2%	51.9%	52.9%	52.1%	51.6%	52.7%
Int'l. Stocks	0.0	0.0	10.0	11.0	11.4	13.3	14.5	14.3	14.6
Bonds	86.5	65.6	36.9	36.5	34.7	31.7	30.7	30.6	30.2
Alt. Assets	0.0	0.0	0.0	0.1	0.2	0.3	0.4	0.6	0.6
Unallocated Cash	5.0	3.8	2.6	1.2	1.8	1.8	2.3	2.9	1.9
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND

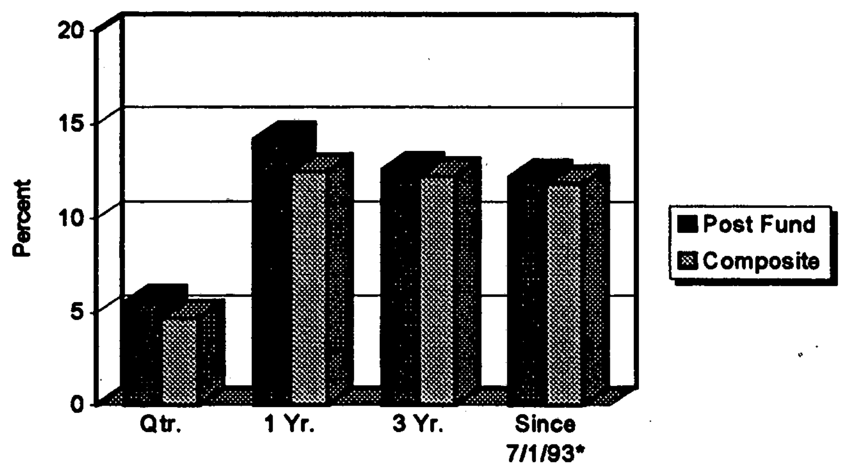
Total Fund Performance

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 4Q96*
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	31.5*
Alternative Assets	5.0	Wilshire Real Estate	0.2*
Unallocated Cash	3.0	Private Equity Funds	0.3*
		91 Day T-Bills	3.0
	100%		100.0%

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

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



	Qtr.	1 Yr.	3 Yr.	Since 7/1/93
		Annualized		
Post Fund	5.5%	14.2%	12.6%	12.2%
Composite Index	4.7	12.5	12.3	11.9

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

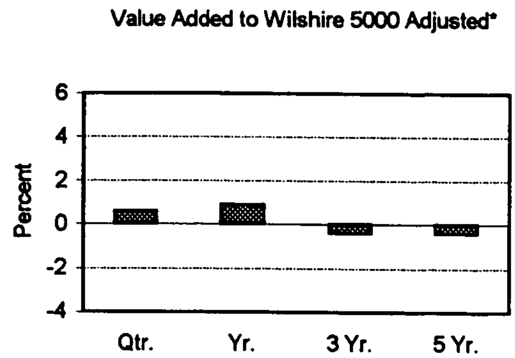
STOCK AND BOND MANAGERS
Performance of Asset Pools

Domestic Stock Pool

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

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Stock Pool	**7.5%**	**22.1%**	**17.8%**	**14.5%**
Wilshire 5000*	6.9	21.2	18.2	14.9

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

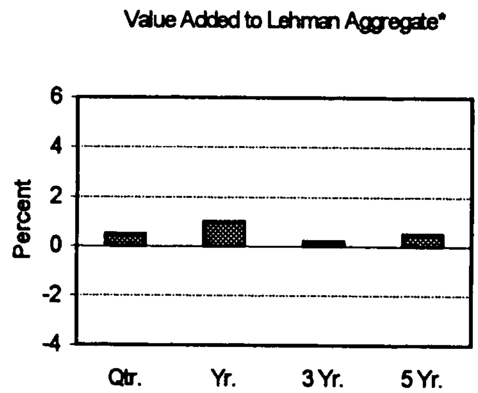


Bond Pool

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.

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Bond Pool	**3.5%**	**4.6%**	**6.3%**	**7.6%**
Lehman Agg.*	3.0	3.6	6.1	7.1

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

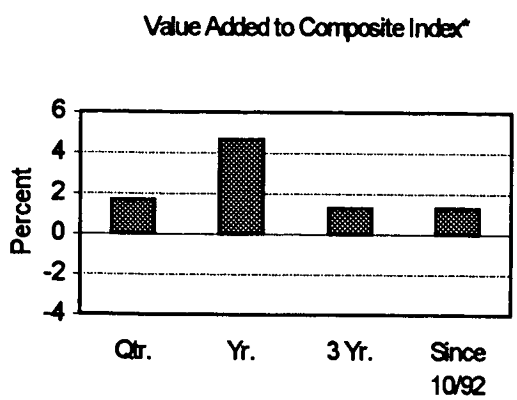


International Stock Pool

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

			Annualized	
				Since
	Qtr.	**Yr.**	**3 Yr.**	**10/1/92**
Int'l. Pool	**3.1%**	**10.4%**	**9.5%**	**13.2%**
Composite Index*	1.4	5.7	8.2	11.9

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



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools

Real Estate Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	2.1%	4.6%	4.5%	-0.1%
Real Estate Index		7.3	4.3	0.1
Inflation	0.5	3.3	2.8	2.8

Private Equity Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	12.9%	44.9%	23.6%	16.8%

Resource Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	12.7%	30.1%	16.1%	13.3%

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.

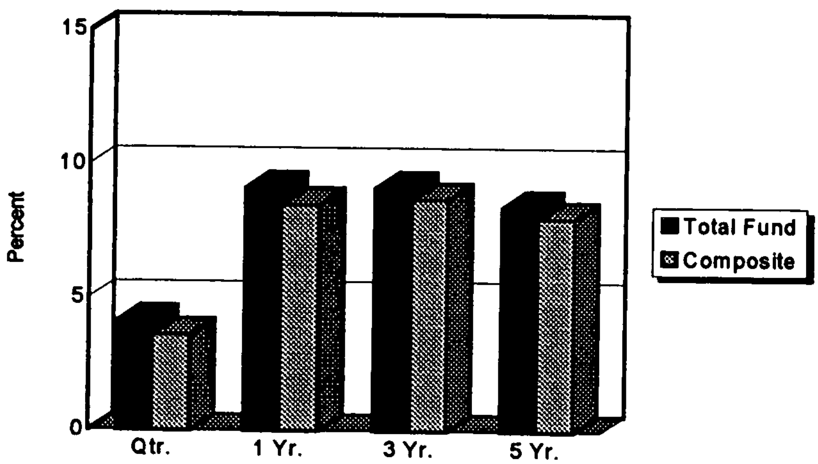
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	12/31/96 Target	12/31/96 Actual
Stocks	20.0%	28.3%
Bonds	80.0	71.7
Unallocated Cash	0.0	0.0
	100.0%	100.0%

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

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

Market Value
On December 31, 1996 the market value of the Assigned Risk Plan was $561 million.



	Qtr.	Yr.	3 Yr.	5 Yr.
		Period Ending 12/31/96	Annualized	
Total Account	**4.1%**	**9.1%**	**9.1%**	**8.4%**
Composite	3.6	8.5	8.7	8.0
Equity Segment	**8.7**	**22.9**	**18.4**	**12.8**
Benchmark	8.4	23.2	19.5	12.8
Bond Segment	**2.5**	**4.7**	**6.3**	**6.9**
Benchmark	2.4	5.0	6.1	6.7

SUPPLEMENTAL INVESTMENT FUND

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

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

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

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

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

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

On December 31, 1996 the market value of the entire fund was $871 million.

Investment Options

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

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

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

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

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

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

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

SUPPLEMENTAL INVESTMENT FUND

Income Share Account

Investment Objective

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

Asset Mix

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

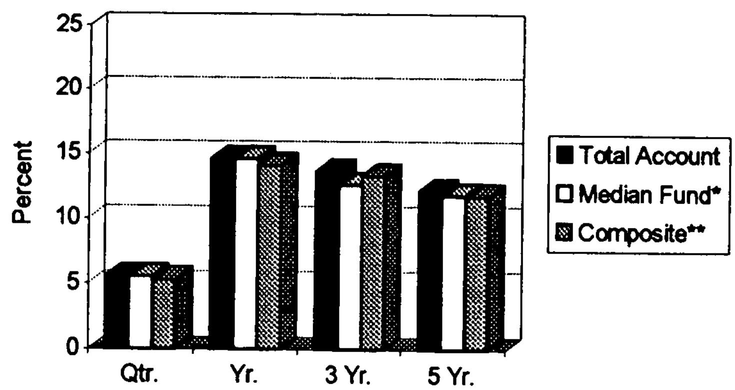
Investment Management

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

Market Value

On December 31, 1996 the market value of the Income Share Account was $421 million.

	Target	Actual
Stocks	60.0%	60.7%
Bonds	35.0	34.1
Unallocated Cash	5.0	5.2
	100.0%	100.0%



Period Ending 12/31/96

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Account	**5.5%**	**14.6%**	**13.6%**	**12.1%**
Median Fund*	5.5	14.6	12.6	11.8
Composite**	5.3	14.1	13.3	11.7
Equity Segment	**7.1**	**21.6**	**18.3**	**15.1**
Wilshire 5000***	6.9	21.2	18.2	14.9
Bond Segment	**3.1**	**4.2**	**6.3**	**7.7**
Lehman Agg.****	3.0	3.6	6.1	7.1

*TUCS Median Master Trust

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

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

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

SUPPLEMENTAL INVESTMENT FUND

Growth Share Account

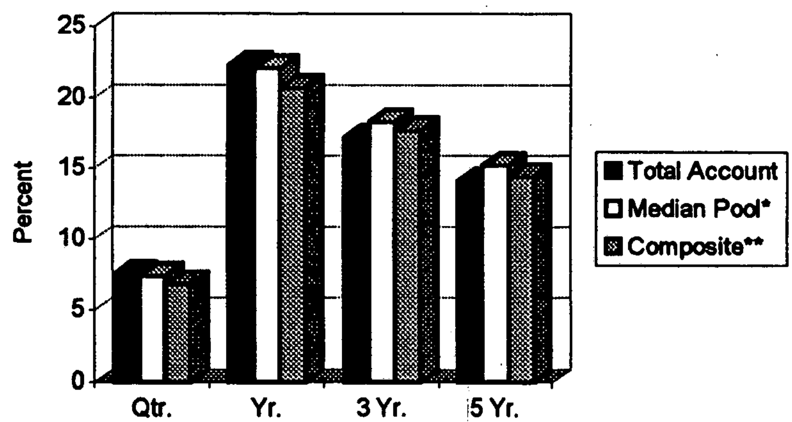
Investment Objective
The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

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

The Account is invested 100% in common stock.

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

Market Value
On December 31, 1996 the market value of the Growth Share Account was $176 million.



Period Ending 12/31/96

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**7.5%**	**22.3%**	**17.2%**	**14.1%**
Median Pool*	7.4	22.1	18.3	15.2
Composite**	6.8	20.7	17.7	14.4

* TUCS Median Equity Pool

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

SUPPLEMENTAL INVESTMENT FUND

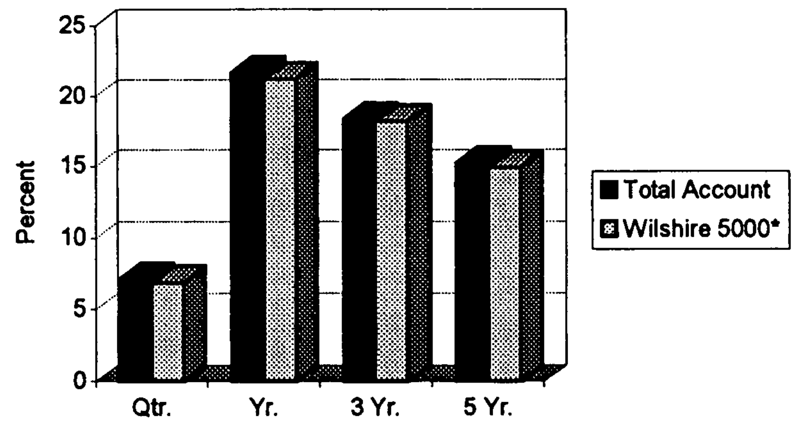
Common Stock Index Account

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

The Account is invested 100% in common stock.

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

Market Value
On December 31, 1996 the market value of the Common Stock Index Account was $115 million.



	Period Ending 12/31/96			
		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**7.1%**	**21.6%**	**18.3%**	**15.2%**
Wilshire 5000*	6.9	21.2	18.2	14.9

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

SUPPLEMENTAL INVESTMENT FUND

International Share Account

Investment Objective and Asset Mix

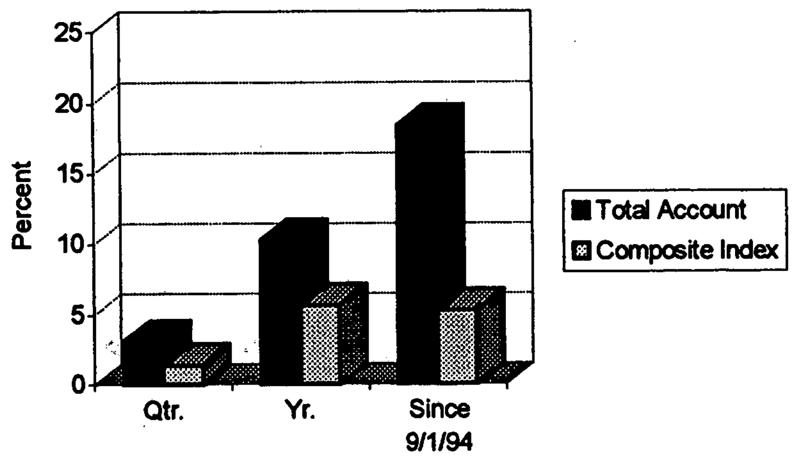
The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International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

Investment Management

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

Market Value

On December 31, 1996 the market value of the International Share Account was $16 million.



Period Ending 12/31/96

	Qtr.	Yr.	Annualized Since 9/1/94
Total Account	**3.1%**	**10.3%**	**18.4%**
Composite Index*	1.4	5.7	5.3

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

SUPPLEMENTAL INVESTMENT FUND

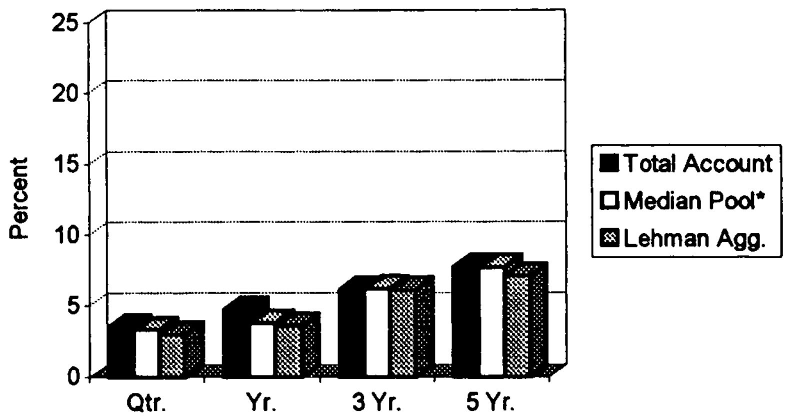
Bond Market Account

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

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

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

Market Value
On December 31, 1996 the market value of the Bond Market Account was $25 million.



	Period Ending 12/31/96			
			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	**3.5%**	**4.7%**	**6.1%**	**7.7%**
Median Pool*	3.3	3.8	6.2	7.7
Lehman Aggregate**	3.0	3.6	6.1	7.1

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

SUPPLEMENTAL INVESTMENT FUND

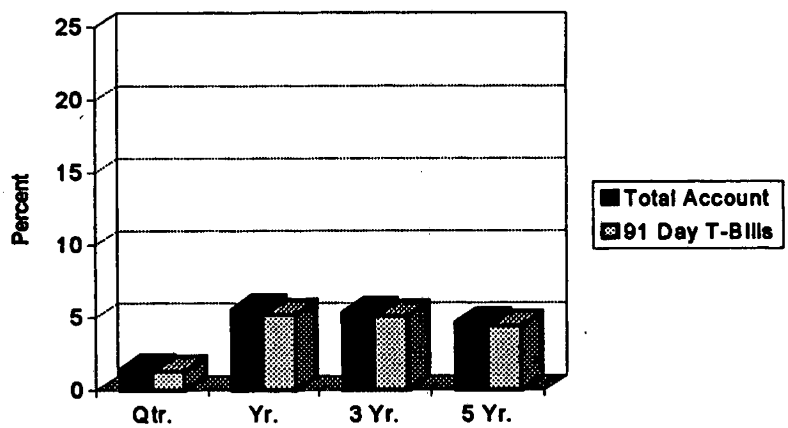
Money Market Account

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

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

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

Market Value
On December 31, 1996 the market value of the Money Market Account was $51 million.



	Period Ending 12/31/96			
		Annualized		
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	1.4%	5.5%	5.3%	4.6%
91 Day T-Bills	1.3	5.2	5.1	4.4

SUPPLEMENTAL INVESTMENT FUND
Fixed Interest Account

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

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

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

Market Value
On December 31, 1996 the market value of the Fixed Interest Account was $68 million.

	Period Ending 12/31/96		
	Qtr.	Yr.	Annualized Since 11/1/94
GIC Pool	1.7%	6.8%	6.9%

PERMANENT SCHOOL FUND

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

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

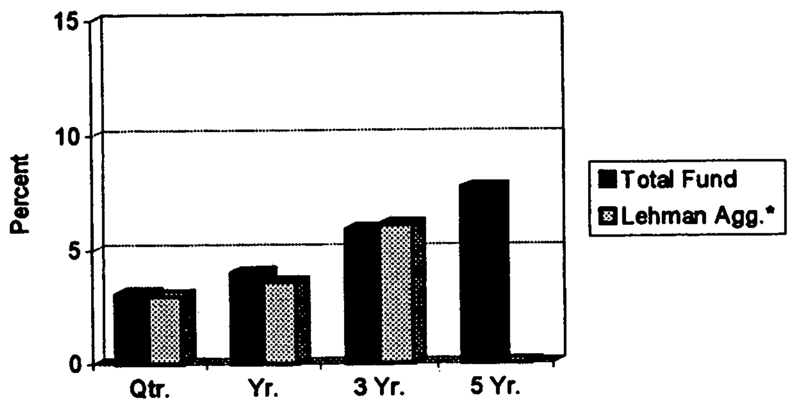
These legal provisions have limited the investment time horizon over which the Permanent School Fund is managed. Long-run growth in its assets is difficult to achieve without seriously reducing current spendable income and exposing the spendable income stream to unacceptable volatility. The SBI, therefore,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

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

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

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

Market Value
On December 31, 1996 the market value of the Permanent School Fund was $437 million.



Period Ending 12/31/96

			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Fund	**3.1%**	**4.0%**	**5.9%**	**7.7%**
Lehman Agg.	3.0	3.6	6.1	NA

ENVIRONMENTAL TRUST FUND

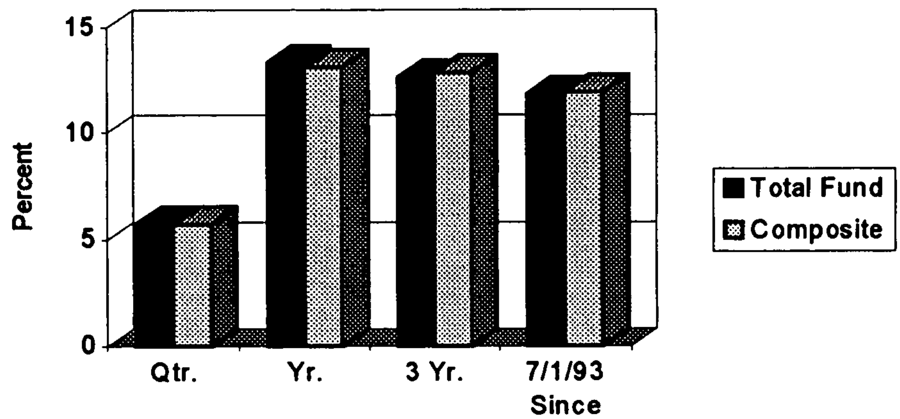
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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

	Target	Actual
Stocks	50.0%	50.0%
Bonds	48.0	47.6
Unallocated Cash	2.0	2.4
	100.0%	100.0%

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

Market Value
On December 31, 1996 the market value of the Environmental Trust Fund was $154 million.



Period Ending 12/31/96

	Qtr.	1 Yr.	3 Yr.	Annualized Since 7/1/93
Total Fund	**5.7%**	**13.3%**	**12.6%**	**11.8%**
Composite	5.7	13.1	12.8	11.9
Equity Segment	**8.3**	**23.0**	**19.7**	18.3
S&P 500	8.4	23.2	19.8	18.4
Bond Segment	**3.2**	**4.1**	**6.5**	6.5
Lehman Agg.	3.0	3.6	6.1	6.0

STATE CASH ACCOUNTS

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

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 12/31/96

	Market Value (Millions)	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Treasurer's Cash Pool	**$3,807**	**1.6%**	**5.6%**	**5.3%**	**5.1%**
Trust Fund Cash Pool	**55**	**1.3**	**5.5**	**5.4**	**5.0**
Benchmark*		1.5	5.5	5.4	NA
91-Day T-Bills		1.3	5.2	5.1	4.4

* 75% State Street Short Term Investment Fund/25% 1-3 Year Treasuries. This benchmark was established in April 1993.

Tab B

PORTFOLIO STATISTICS

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value December 31, 1996 (in Thousands)

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	$20,741 0.34%	-0-	$1,387,536 22.76%	-0-	$3,167,161 51.94%	$886,444 14.54%	$635,213 10.42%	$6,097,095 100%
Public Employees Retirement Fund	$9,655 0.32%	-0-	$692,920 22.76%	-0-	$1,581,443 51.96%	$442,688 14.54%	$317,053 10.42%	$3,043,759 100%
State Employees Retirement Fund	$4,449 0.15%	-0-	$662,374 22.80%	-0-	$1,511,729 52.04%	$423,173 14.57%	$303,077 10.44%	$2,904,802 100%
Public Employees Police & Fire Fund	$5,206 0.36%	-0-	$328,107 22.76%	-0-	$748,836 51.93%	$209,619 14.54%	$150,127 10.41%	$1,441,895 100%
Highway Patrol Retirement Fund	$316 0.15%	-0-	$47,112 22.80%	-0-	$107,522 52.04%	$30,098 14.57%	$21,557 10.44%	$206,605 100%
Judges Retirement Fund	$26 0.15%	-0-	$3,886 22.80%	-0-	$8,868 52.04%	$2,482 14.57%	$1,778 10.44%	$17,040 100%
Public Employees P.F. Consolidated	$8 0.00%	$7,779 1.91%	$90,837 22.36%	$1,905 0.47%	$206,434 50.82%	$58,053 14.29%	$41,214 10.15%	$406,230 100%
Correctional Employees Retirement	$241 0.15%	-0-	$35,887 22.80%	-0-	$81,904 52.04%	$22,927 14.57%	$16,421 10.44%	$157,380 100%
POST RETIREMENT FUND	$241,765 1.90%	-0-	$3,832,323 30.16%	-0-	$6,698,921 52.73%	$1,855,840 14.61%	$76,457 0.60%	$12,705,306 100%
TOTAL BASIC & POST	$282,407 1.05%	$7,779 0.03%	$7,080,982 26.24%	$1,905 0.01%	$14,112,818 52.31%	$3,931,324 14.57%	$1,562,897 5.79%	$26,980,112 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	$21,819 5.18%	$143,527 34.07%	-0-	-0-	$255,973 60.75%	-0-	-0-	$421,319 100%
Growth Share Account	-0-	-0-	-0-	-0-	$175,889 100%	-0-	-0-	$175,889 100%
Money Market Account	$50,971 100%	-0-	-0-	-0-	-0-	-0-	-0-	$50,971 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	$114,816 100%	-0-	-0-	$114,816 100%
Bond Market Account	-0-	-0-	$25,250 100%	-0-	-0-	-0-	-0-	$25,250 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	$16,448 100%	-0-	$16,448 100%
Fixed Interest Account	-0-	-0-	$66,715 100%	-0-	-0-	-0-	-0-	$66,715 100%
TOTAL SUPPLEMENTAL FUNDS	$72,790 8.35%	$143,527 16.47%	$91,965 10.55%	-0-	$546,678 62.74%	$16,448 1.89%	-0-	$871,408 100%
TOTAL RETIREMENT FUNDS	$355,197 1.28%	$151,306 0.54%	$7,172,947 25.75%	$1,905 0.01%	$14,659,496 52.64%	$3,947,772 14.17%	$1,562,897 5.61%	$27,851,520 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	$9,139 1.63%	-0-	$397,949 70.99%	-0-	$153,490 27.38%	-0-	-0-	$560,578 100%
ENVIRONMENTAL FUND	$3,607 2.34%	$73,525 47.64%	-0-	$77,194 50.02%	-0-	-0-	-0-	$154,326 100%
PERMANENT SCHOOL FUND	$10,652 2.44%	$426,732 97.56%	-0-	-0-	-0-	-0-	-0-	$437,384 100%
TREASURERS CASH	$3,805,327 100%	-0-	-0-	-0-	-0-	-0-	-0-	$3,805,327 100%
HOUSING FINANCE AGENCY	$20,528 9.76%	$189,842 90.24%	-0-	-0-	-0-	-0-	-0-	$210,370 100%
MINNESOTA DEBT SERVICE FUND	$7,948 9.17%	$78,751 90.83%	-0-	-0-	-0-	-0-	-0-	$86,699 100%
MISCELLANEOUS ACCOUNTS	$206,106 66.43%	$102,807 33.13%	-0-	$1,361 0.44%	-0-	-0-	-0-	$310,274 100%
GRAND TOTAL	$4,418,504 13.22%	$1,022,963 3.06%	$7,570,896 22.66%	$80,460 0.24%	$14,812,986 44.33%	$3,947,772 11.81%	$1,562,897 4.68%	$33,416,478 100%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

Net Cash Flow Available For Investment
October 1, 1996 - December 31, 1996

Teachers Retirement Fund	$56,400,000.00
Public Employees Retirement Fund	11,500,000.00
State Employees Retirement Fund	0.00
Public Employees Police & Fire	8,000,000.00
Highway Patrol Retirement Fund	0.00
Judges Retirement Fund	0.00
Public Employees P&F Consolidated	(4,127,647.48)
Correctional Employees Retirement Fund	0.00
Post Retirement Fund	(123,363,438.73)
Supplemental Retirement Fund - Income	1,376,974.87
Supplemental Retirement Fund - Growth	2,048,500.41
Supplemental Retirement Fund - Money Market	275,642.06
Supplemental Retirement Fund - Index	4,897,519.18
Supplemental Retirement Fund - Bond Market	(736,217.35)
Supplemental Retirement Fund - Fixed Interest,	(5,153,875.53)
Supplemental Retirement Fund - International	1,622,886.22
Total Retirement Funds Net Cash Flow	**(47,259,656.35)**
Assigned Risk Plan	(2,725,000.00)
Permanent School Fund	2,706,609.19
Total Net Cash Flow	**$47,278,047.16**

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
Transaction and Asset Summary

Retirement Funds

	Net Transactions				Asset Summary (at Market Value)			
	Bonds (Millions)	Stocks (Millions)	Total (Millions)	Cash Flow (Millions)	Short-Term % of Fund	Bonds % of Fund	Equity % of Fund	Total Mkt. Value (Millions)
January 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
January 1996	0	12	12	-4	1.4	29.9	68.7	24,721
February	-301	303	2	4	1.4	28.0	70.6	24,859
March	0	-14	-14	-15	1.4	27.6	71.0	25,070
April	-42	-31	-73	-18	1.6	26.9	71.5	25,493
May	-1	-20	-21	-3	1.6	26.5	71.9	25,823
June	0	-52	-52	-20	1.8	26.8	71.4	25,829
July	-25	0	-25	16	2.0	27.7	70.3	25,076
August	0	-156	-156	39	2.4	27.3	70.3	25,453
September	3	51	54	-9	2.1	26.8	71.1	26,388
October	-19	30	11	-9	2.0	26.8	71.2	26,871
November	14	67	81	10	1.5	26.2	72.3	28,054
December	9	46	55	5	1.3	26.3	72.4	27,851

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 25, 1997

TO: Members, State Board Investment

FROM: Howard Bicker

1. Budget and Travel Reports

A report on the SBI's administrative budget for the period ending January 31, 1997 is included as **Attachment A**.

A travel report for the period from November 16, 1996-February 15, 1997 is included as **Attachment B.**

2. Results of FY96 Financial Audit

The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 1996. I am pleased to report that the SBI received a "clean opinion" on its financial statements.

The Auditor's letter is included in the SBI's FY 96 Annual Report. A copy of the complete audit report is included as **Attachment C**.

3. Legislative Update

As you know, the SBI is not proposing an administrative bill for the 1997 Legislative Session. A summary of legislation of interest to the SBI is in **Attachment D**.

A similar summary will be sent to the SBI Designees on a weekly basis throughout the Session.

4. Reauthorization of the Proxy Voting Committee

In March 1982, the Board established the Proxy Voting Committee to carry out the SBI's voting responsibilities. Each Board member has one designee on the Committee. The current membership is:

Peter Sausen , Chair	Governor's designee
John Manahan	State Treasurer's designee
Carey Moe	State Auditor's designee
Scott Strand	Attorney General's designee
Elaine Voss	Secretary of State's designee

According to statute, advisory committees of this nature must be re-authorized every two years (the last reauthorization was in March 1995). A resolution to accomplish this is in **Attachment E**. Please note that the SBI's proxy voting guidelines are incorporated by reference in the resolution. The guidelines have not changed since they were adopted in March 1995.

RECOMMENDATION:

The Executive Director recommends that the SBI adopt the resolution in *Attachment E* which reauthorizes the Proxy Voting Committee and delegates proxy voting responsibilities according to established guidelines.

5. Update on Tobacco Information

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

a) Tobacco-Related Holdings

As of December 31, 1996, the SBI held approximately 9.425 million shares in tobacco related companies identified by the Investor Responsibility Research Center (IRRC). This is approximately 85,000 fewer shares than held as of September 30, 1996.

The market value of the SBI's holdings in these companies was approximately $363 million on December 31, 1996. This in an increase of approximately $82 million over the market value on September 30, 1996.

A summary of holdings as of September 30 and December 31 are included in **Attachment F.**

b) Directive to SBI Stock Managers

At its meeting in December 1996, Board members expressed concern about investments in companies which obtain a large majority of their revenues from the sale of tobacco.

To address this concern, I have directed the SBI's stock managers to provide written justification to SBI staff if a manager chooses to make new or additional purchases of stock in companies which obtain more than 50% of their revenues from the sale of tobacco. A copy of the letter is in **Attachment G**.

After the directive was issued in late December 1996, staff received notification from one semi-passive domestic stock manager that the firm had purchased additional shares in one company. A copy of the firm's letter explaining the purchase is in **Attachment H**.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1997 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH JANUARY 31, 1997

ITEM	FISCAL YEAR 1997 BUDGET	FISCAL YEAR 1997 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,505,000	$ 865,010
SEVERENCE PAYOFF	20,000	34,562
WORKERS COMPENSATION INSURANCE	1,000	373
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,527,000**	**$ 899,945**
STATE OPERATIONS		
RENTS & LEASES	90,500	52,790
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	5,169
BONDS AND INSURANCE	1,000	0
PRINTING & BINDING	16,000	11,597
PROFESSIONAL/TECHNICAL SERVICES	50,000	0
COMPUTER SYSTEMS SERVICES	202,500	101,685
COMMUNICATIONS	27,000	11,700
TRAVEL, IN-STATE	3,000	259
TRAVEL, OUT-STATE	55,000	21,307
SUPPLIES	48,000	21,857
EQUIPMENT	37,000	5,744
EMPLOYEE DEVELOPMENT	18,000	4,099
OTHER OPERATING COSTS	40,000	13,816
SUBTOTAL	**$ 601,000**	**$ 250,023**
TOTAL GENERAL FUND	**$ 2,128,000**	**$ 1,149,968**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
November 16, 1996 - February 15, 1997

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring Alternative Investments: Public Funds Private Equity Study	J. Griebenow	Chicago, IL 11/11/96	$685.00
Consultant Search Deferred Compensation Programs: William Mercer, Foster Higgins	J. Heidelberg	Baltimore, MD Newark, NJ 11/18 - 11/19	$1,300.06
Staff Conference National Association of State Treasurers	H. Bicker	New York, NY 11/24 - 11/25	$1,403.39
Manager Monitoring Alternative Investments: KKR, Blackstone Group **Manager Search Alternative Investments:** Congress Financial Corp., Contrarian Capital	M. Regal	New York, NY 1/25 - 1/28	$1,431.73

ATTACHMENT C

State Board of Investment

Statewide Financial Audit
For the Fiscal Year Ended June 30, 1996

January 1997

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 296-1727.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

97-5

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL BUILDING, 658 CEDAR STREET • ST. PAUL, MN 55155 • 612/296-4708 • TDD RELAY 612/297-5353
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Members of the Minnesota State Board of Investment

Howard J. Bicker, Executive Director
Minnesota State Board of Investment

We have audited the financial statements of the Minnesota State Board of Investment (SBI) as of and for the fiscal year ended June 30, 1996, as further explained in the Background Information section of this report. The work conducted in the department is part of our Statewide Audit of the state of Minnesota's fiscal year 1996 financial statements. SBI's Annual Report for the year ended June 30, 1996, includes our unqualified audit opinion, dated December 2, 1996, on the Supplemental Investment Fund and the Post Retirement Fund financial statements. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards also require that we design the audit to provide reasonable assurance that SBI complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. The management of SBI is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of SBI. This restriction is not intended to limit the distribution of this report, which was released as a public document on January 24, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 2, 1996

Report Signed On: January 17, 1997

SUMMARY

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State Board of Investment

Statewide Financial Audit For the Fiscal Year Ended June 30, 1996

Public Release Date: January 24, 1997 No. 97-5

Background Information

The Minnesota State Board of Investment (SBI) administers and directs the investment of state funds, primarily retirement funds. Minn. Stat. Chapter 11A governs the investment activities of the board. Howard J. Bicker is the executive director of the board.

The board uses both internal staff and external investment managers to fulfill its responsibilities. The external firms invest and manage the assets of the Post Retirement Fund and Supplemental Investment Fund, as well as the assets of the basic retirement funds and the assigned risk plan. The basic retirement funds contain the pension assets of the active participants in the following eight statewide retirement plans: Teachers Retirement Fund, Public Employees Retirement Fund, State Employees Retirement Fund, Public Employees Police and Fire Fund, Police and Fire Consolidation Fund, Highway Patrol Retirement Fund, Correctional Employees Fund, and Judges Retirement Fund. SBI staff manage the other investments.

Audit Objectives

The primary objective of our audit was to render an opinion on the Investment Trust Fund financial statements. These financial statements are included both in SBI's Annual Report and in the state of Minnesota's Comprehensive Annual Financial Report for fiscal year 1996. Our objective included determining whether SBI's financial statements presented fairly the financial position, results of operations, and changes in net assets in conformity with generally accepted accounting principles.

As part of our work, we gained an understanding of the internal control structure over investment purchases and sales, investment custody and valuation, investment income collection and allocation, and management fee payments and reimbursement cycles. We also ascertained whether SBI complied with laws and regulations that may have had a material effect on its financial statements.

Conclusions

SBI's Annual Report for the year ended June 30, 1996, includes our unqualified audit opinion, dated December 2, 1996, on the Investment Trust Fund's financial statements. The SBI financial statements are also included in the state of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1996, which includes our audit opinion dated December 2, 1996. We found that SBI designed and implemented a system of management controls to provide reasonable assurance that investments were adequately safeguarded, authorized, and properly recorded in accounting records and financial statements. For the items tested, SBI complied with material financial legal provisions.

Table of Contents

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Michael Hassing	Audit Director
Karen Dewald	Auditor
Beaujon Guerin	Auditor
Matthew Hoffer	Auditor
Neal Huhnerkoch	Intern

Exit Conference

We discussed this report and minor issues involving the internal control structure with the following SBI staff at an exit conference on January 14, 1997:

Howard Bicker	Executive Director
Beth Lehman	Assistant Executive Director
L. Michael Schmitt	Administrative Director

Chapter 1. Background Information

The Minnesota State Board of Investment (SBI) administers and directs the investment of state funds, primarily retirement funds. Article XI, Section 8, of the Constitution of the state of Minnesota created the State Board of Investment. The board is comprised of the governor, state auditor, state treasurer, secretary of state, and attorney general. Minn. Stat. Chapter 11A governs the investment activities of the board. Howard J. Bicker is the executive director of the board.

The Legislature has also established a 17 member Investment Advisory Council to advise the board and its staff on investment related matters. All proposed investment policies, including asset allocation and investment manager selection, are reviewed by the full council before they are presented to the board for official action. The council is comprised of ten members from the corporate investment community, the state commissioner of Finance, the executive directors of the three statewide retirement systems, and three employee plan participants.

The board uses both internal staff and external investment managers to fulfill its responsibilities. The external firms invest and manage the Post Retirement Fund and Supplemental Investment Fund, as well as the assets of the basic retirement funds and the assigned risk plan. SBI staff manage the other investments. The Post Retirement Fund is composed of the reserves or retirement benefits to be paid to retired employees. The Supplemental Investment Fund includes assets of the state employee deferred compensation plan, the unclassified employee retirement plan, and various other supplemental retirement programs.

The basic retirement funds contain the pension assets of the active participants in eight statewide retirement plans:

- Teachers Retirement Fund
- State Employees Retirement Fund
- Police and Fire Consolidation Fund
- Correctional Employees Fund
- Public Employees Retirement Fund
- Public Employees Police and Fire Fund
- Highway Patrol Retirement Fund
- Judges Retirement Fund.

Table 1-1 shows the total funds under the management of the SBI as of June 30, 1996.

Table 1-1
Market Value of Investments by Fund
At June 30, 1996
(in millions)

Fund	Amount
Basic Retirement Funds	$13,147
Post Retirement Fund	11,916
State Cash Accounts	4,503
Supplemental Investment Fund	799
Assigned Risk Plan	538
Permanent School Fund	417
Environmental Trust Fund	138
Total	$31,458

Source: State Board of Investment fiscal year 1996 annual report.

The primary objective of our audit was to render an opinion on the Investment Trust Fund financial statements. The Investment Trust Fund is comprised of the Post Retirement Fund and the Supplemental Investment Fund. These financial statements are included both in SBI's Annual Report and in the state of Minnesota's Comprehensive Annual Financial Report for fiscal year 1996. Our objective included determining whether the financial statements presented fairly the financial position, results of operations, and changes in net assets in conformity with generally accepted accounting principles.

As part of our work, we gained an understanding of the following internal control cycles:

- investment purchases and sales,
- investment custody and valuation,
- investment income collection and allocation, and
- management fee payments and reimbursements.

We also ascertained whether SBI complied with laws and regulations that may have had a material effect on its financial statements. In addition, we also considered the annual actuarial valuation performed by the Legislative Commission on Pension and Retirement's actuary. We used the actuarial information to determine the impact of mortality gains and losses on the basic retirement funds participation in SBI's Post Retirement Fund.

SBI's Annual Report for the year ended June 30, 1996, includes our unqualified audit opinion, dated December 2, 1996, on the Investment Trust Fund's financial statements. The SBI financial statements are also included in the state of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1996, which also includes our audit opinion dated December 2, 1996.

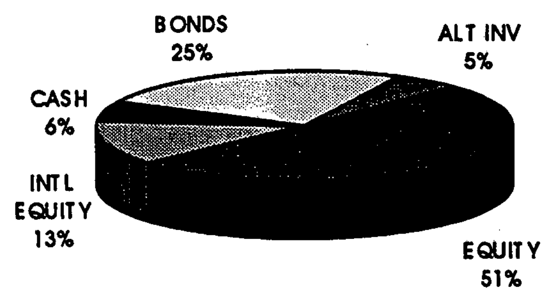
Chapter 2. External Investment Cycle

Chapter Conclusions

Investments and investment income for externally managed investments were fairly presented in the financial statements. SBI designed and implemented management controls to provide reasonable assurance that investments managed by private investment firms were adequately safeguarded, and that investments were authorized and properly recorded in the accounting records and financial statements. SBI also complied with material financial legal provisions relating to investments for those items tested.

SBI contracts with outside investment management firms to invest the majority of retirement assets under its control. To gain greater operating efficiency, the external managers are grouped into several investment pools which are segregated by asset class. This investment management structure allows SBI to gain greater operating efficiency within asset classes and keeps management costs as low as possible for all participants. Figure 2-1 shows the main classes of assets by type. Alternative investments include real estate, resources (oil and gas), and venture capital accounts.

Figure 2-1
External Investments by Type
June 30, 1996
(at Market)



Legend: INTL EQUITY - International Equity
ALT INV - Alternative Investments

Source: Analysis of SBI Investments as of June 30. 1996 (Market).

State Board of Investment

SBI has contracts with approximately 85 external investment managers, of which nearly one-half are retained as alternative investment pool managers. The board has the authority to invest up to 15 percent of the assets in the alternative investment market, but has not yet fully funded this pool.

SBI evaluates the investment managers based on performance against preestablished benchmarks. If a manager fails to meet the expected rate-of-return, the manager's contract may be terminated and funds reinvested with another manager. SBI meets with all of the external managers at least once a year.

The investing and recording of investment transactions is a complicated, multidimensional process. All external manager trades and investment transactions must clear through the state's custodial bank, State Street Bank and Trust of Boston, Massachusetts. The custodial bank has the authority to process investment transactions on behalf of SBI. The asset managers do not have physical access to cash or investment securities. The custodial bank maintains access to the cash accounts of the external investment managers. Any uninvested cash from the managers' accounts is invested by the custodial bank.

The custodial bank has a group of employees dedicated exclusively to the Minnesota SBI account. This group records and verifies all investment transactions. The custodial bank provides monthly reports to SBI for all investment transactions and balances. As an additional control, SBI contracts with Financial Control Systems, an accounting service in Philadelphia, Pennsylvania, that receives data directly from State Street Bank for all investment transactions. This service produces detailed asset listings and transaction reports with independent pricing verification which are forwarded to SBI. The physical custody of stocks and securities is maintained by the Depository Trust Company in New York.

We focused our audit of external investments on the following questions:

- Were the investment balances and associated investment income fairly presented in the financial statements?

- Did SBI design and implement management controls to provide reasonable assurance that investments were adequately safeguarded, and that transactions were authorized and properly reported in the accounting records and financial statements? Our objective in reviewing management controls over investments was not to provide an opinion on the effectiveness of the controls.

- Did SBI comply with material financial legal provisions related to the investment of assets?

Our audit methodology included confirming investment balances with all external managers. We then verified the confirmed balances with State Street Bank and Financial Control Systems' investment records. We also reconciled the accounts for timing and transaction differences to verify the accuracy of accounting reports, which are used for financial statement preparation. We verified the valuation of a sample of securities to an independent pricing source. We also reviewed an independent auditor's report on the internal control policies and procedures of custody functions at State Street Bank.

We found that SBI fairly presented investments and investment income in the financial statements. SBI designed and implemented management controls to provide reasonable assurance that investments were adequately safeguarded, and that investments were authorized and properly recorded in the accounting records and financial statements. For the items tested, we found that SBI complied with material financial legal provisions.

Chapter 3. Internal Investment Cycle

Chapter Conclusions

Investments and investment income for internally managed investments were fairly presented in the financial statements. SBI designed and implemented management controls to provide reasonable assurance that investments managed by its own staff were adequately safeguarded, and that investments were authorized and properly recorded in the accounting records and financial statements. SBI also complied with material financial legal provisions relating to investments for those items tested. In addition, SBI ensured the complete and accurate transfer of internally invested assets to the state's new depository bank, First Trust Saint Paul.

SBI is directly responsible for investing the assets of the Permanent School Fund, the Environmental Trust Fund, and the state's cash accounts. The cash accounts, referred to as Trust Fund Pool and Invested Treasurers Cash, represent the cash balances of internally managed retirement fund assets and other state agencies. Table 3-1 shows the values of the internal investments managed by SBI.

Table 3-1
Internally Managed Investments
At June 30, 1996
(in millions)

Fund	Amount
Invested Treasurer Cash	$3,710
Trust Fund Pool	119
Other State Accounts	674
Permanent School Fund	417
Environmental Trust Fund	138
Total	$5,058

Source: State Board of Investment fiscal year 1996 annual report.

The state of Minnesota changed custodian banks for internally managed funds and other state accounts in January 1996 to First Trust National Association, Saint Paul, Minnesota. First Trust is the state's custodial and clearing bank for all state accounts. The state transferred cash and investments to First Trust from the predecessor bank in January 1996. First Trust does not have independent authority to enter into investment transactions. SBI must initiate, authorize, and approve all transactions processed by First Trust on behalf of the state.

State Board of Investment

SBI established an equity pool and a fixed income pool as investment vehicles for the Permanent School Fund and Environmental Trust Fund. The Permanent School Fund is a trust established for the benefit of Minnesota public schools. Due to statutory limitations, the Permanent School Fund is invested only in fixed income securities. The Environmental Trust Fund is a trust established for the protection and enhancement of Minnesota's environment. State law allows it to be invested in both equity and fixed income securities.

SBI invests the internal cash funds in short-term, liquid, high quality debt securities. These investments include U.S. Treasury and Agency issues, repurchase agreements, bankers acceptances, and commercial paper. The Department of Finance is responsible for allocating the short-term income to the appropriate state accounts and agencies.

SBI initiates investment transactions based on the State Treasurer's determination of available cash on a daily basis. SBI then contacts First Trust Saint Paul to process the investment transaction and to move the cash. Once the short-term investments have cleared at First Trust, SBI enters the transactions directly into the accounting system at Financial Control Systems. SBI reconciles transactions and account balances with both First Trust and Financial Control Systems on a regular basis.

As part of our audit of the internal investment cycle, we focused on the following questions:

- Were the investment balances and associated investment income fairly presented in the financial statements?

- Did SBI design and implement management controls to provide reasonable assurance that investments were adequately safeguarded, and that transactions were authorized and properly reported in the accounting records and financial statements? Our objective in reviewing management controls over investments was not to provide an opinion on the effectiveness of the controls.

- Did SBI comply with material financial legal provisions related to the investment of assets?

- Was the transfer of assets to First Trust completed accurately?

Our audit methodology included confirming investment balances with First Trust Bank and verifying investment balances to Financial Control Systems records. We gained an understanding of the investment process through interviews with SBI staff. We also met with officials from the Department of Finance, State Treasurer's Office, and First Trust Saint Paul to review their responsibilities related to the investment, allocation, and reporting of investment transactions and related income. We verified the valuation of a sample of securities to an independent pricing source. We also reviewed an independent accounting firm's audit report on the internal control policies and procedures of the Institutional Trust Group of First Trust Saint Paul.

State Board of Investment

We found that SBI fairly presented investments and investment income in the financial statements. We found that the SBI designed and implemented management controls to provide reasonable assurance that investments were adequately safeguarded, and that transactions were authorized and properly reported in the accounting records. For the items tested, we found that SBI complied with material financial legal provisions for investments. We also found that the transfer of assets to the new custodian bank was completed accurately.

ATTACHMENT D

Bills of Interest to the Minnesota State Board of Investment
1997 Legislative Session
Includes Action Through 2/21/97

Description of Bill	HF/SF # and Author	Current Status
Deferred Compensation Bill -Adds flexibility for SBI in choosing investment options	HF 796 (Delmont) SF 717 (Metzen)	Referred to House Gov Op Referred to Senate Gov Op
Pension Reform Bill -Provision increases assumed interest rate in Post Fund; keeps Post Fund actuarially whole	HF 647 (Jefferson) SF 637 (Morse)	Referred to House Gov Op Referred to Senate Gov Op
Abolish Office of State Treasurer	HF 103 (Greiling) SF 161 (Wiener)	Referred to House Gov Op Referred to Senate Gov Op
Budget initiative -Add stocks to Permanent School Fund portfolio	No bill required	In K-12 Education Finance In K-12 Education Finance

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ATTACHMENT E

RESOLUTION OF THE MINNESOTA STATE BOARD OF INVESTMENT CONCERNING PROXY VOTING

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

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

WHEREAS, the SBI has previously adopted proxy voting guidelines:

NOW THEREFORE, BE IT RESOLVED THAT:

1. The SBI hereby reaffirms the Proxy Voting Guidelines previously adopted in March 1995 attached hereto and incorporated by reference herein (the Guidelines).

2. To advise and assist the SBI in the implementation of these proxy voting guidelines, the SBI hereby authorizes and reaffirms the establishment of the SBI Proxy Committee composed of a representative selected by each member of the SBI to be chaired by the designee of the Governor and convened as necessary in accord with the Guidelines.

3. The SBI further authorizes the SBI Proxy Committee to review the Guidelines periodically and report to the SBI as necessary.

4. The SBI further directs its staff to advise and assist the Proxy Committee in the implementation of this resolution and directs its Executive Director to obtain such consulting and reporting services as may be necessary.

5. This resolution shall take effect immediately.

Adopted this ___ day
of March, 1997

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

Proxy Voting Guidelines

The Minnesota State Board of Investment (SBI) has formulated proxy voting guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues.

As a stockholder, the Board is entitled to participate in corporate annual meetings by casting its votes by proxy or through direct attendance at the meetings. The following guidelines constitute an effort by the SBI to manage and control its proxy voting.

Overview of the SBI

By the Minnesota Constitution, the Board is composed of the Governor, the State Auditor, the State Treasurer, the Secretary of State, and the Attorney General. The Board employs a professional staff to carry out its policies. The Board and staff are assisted by a seventeen member Investment Advisory Council.

The SBI invests the pension assets of the three statewide public employee retirement systems with approximately 320,000 members:

- Public Employees Retirement Association (PERA)
- Teachers Retirement Association (TRA)
- Minnesota State Retirement System (MSRS)

The SBI also invests the cash balances of state government funds and assets of several trust funds.

Statutory Purpose

According to statute , state assets are to be responsibly invested by the SBI to maximize the total rate of return without incurring undue risk.[1] Only a small portion of the SBI's equity holdings are in non-pension accounts. The focus, therefore, of the SBI's proxy voting activities is the extensive domestic and international equity holdings within the pension asset portfolios.

Fiduciary Responsibility

As fiduciaries of pension assets, members of the Board and the executive director owe a fiduciary duty to the members of the plans, to the taxpayers of the state and political subdivisions who help to finance the plans, and to the State of Minnesota.[2]

In addition to the general standard of fiduciary conduct, members of the Board, the executive director, the members of the Investment Advisory Council, staff, and members of Board committees must carry out their duties in accordance with the prudent person standard as articulated in statute.[3]

Voting Process

The Board recognizes its fiduciary responsibility to cast votes on proxy issues. The Board delegates proxy voting responsibilities to its Proxy Committee. Each Board member appoints one member to the Proxy Committee. The five member Committee meets only if it has a quorum and casts votes on proxy issues based on a majority vote of those present. In the unusual event that it reaches a tie vote or a quorum is not present, the Committee will cast a vote to abstain.

The Committee has formulated guidelines by which it casts votes on a wide range of corporate governance and social responsibility issues. These guidelines encompass both domestic and international proxy issues. Each year the Committee reviews existing guidelines and determines which issues it will review on a case-by-case basis. The Proxy Committee also reviews certain corporate governance issues pertaining to companies headquartered in Minnesota.

Domestic voting: The SBI directly votes shares held in non-pension accounts and shares held in domestic equity manager portfolios.

International voting: The SBI directly votes shares held in passive international equity manager portfolios. The SBI delegates to active international equity managers the voting of shares held in the managers' portfolios. The SBI believes that several factors affecting the voting of international proxies, including time constraints and lack of company specific information, support the conclusion that the SBI's active international equity managers can more efficiently and effectively vote the proxies in their portfolios.

Corporate Governance Issues

Routine Matters

In general, the SBI supports management on routine matters of corporate governance. These issues include:

- uncontested election of directors.
- selection of auditors and approval of financial statements.
- management proposals on non-executive compensation issues including savings plans and stock options.
- limits on director and officer liability or increases in director and officer indemnification permitted under the laws of the state of incorporation.

Shareholder Rights

In general, the SBI **opposes** proposals that would restrict shareholder ability to effect change. Such proposals include:

- instituting supermajority requirements to ratify certain or events.
- creating classified boards.
- barring shareholders from participating in the determination of the rules governing the board's actions, such as quorum requirements and the duties of directors.
- prohibiting or limiting shareholder action by written consent.
- granting certain stockholders superior voting rights over other stockholders.

In general, the SBI **supports** proposals that preserve shareholder rights to effect change. Such proposals include:

- having boards of directors comprised of a majority of independent directors.
- having compensation committees comprised entirely of independent directors.
- requiring shareholder approval of poison pill plans.
- repealing classified boards.
- adopting secret ballot of proxy votes.
- reinstating cumulative voting.
- adopting anti-greenmail provisions.

Executive Compensation

In general, the SBI **supports** efforts to have executive compensation linked to a company's long-term performance and to encourage full disclosure of compensation packages for principal executives. Accordingly, the SBI evaluates compensation packages on a case-by-case basis, including compensation agreements that are contingent upon corporate change in control.

Buyouts

In general, the SBI **supports** friendly takeovers and management buyouts.

Special Cases

The SBI evaluates the following proposals on a case-by-case basis:

- hostile takeovers.
- recapitalization plans.
- contested election of directors.

Notwithstanding the above, in general, the SBI casts its votes to preserve existing management's discretion concerning corporate governance issues if the company is incorporated or is headquartered in Minnesota.

Social Responsibility Issues

Northern Ireland

The SBI supports resolutions that call for the adoption of the MacBride Principles as a means to encourage equal employment opportunities in Northern Ireland.

The SBI supports resolutions that request companies to submit reports to shareholders concerning their labor practices or their subcontractors' labor practices in Northern Ireland.

In addition to casting proxy votes, the SBI sponsors and cosponsors Northern Ireland resolutions as required by *Minnesota Statutes*, Section 11A.241.

Environmental Protection/Awareness

In general, the SBI supports resolutions that require a corporation to report or disclose to shareholders company efforts in the environmental arena.

In general, the SBI supports resolutions that request a corporation to report on progress toward achieving the objectives of the CERES Principles, an environmental code of conduct for corporations.

South Africa

In general, the SBI supports resolutions that promote the welfare of black employees and improve the quality of black life outside the work environment.

Other Issues

In general, the SBI **supports** proposals that require a company to report or disclose to shareholders company efforts concerning a variety of social responsibility issues. In the past, these reporting resolutions have included issues such as affirmative action programs, animal testing procedures, nuclear plan safety procedures and criteria used to evaluate military contract proposals.

In general, the SBI **opposes** proposals that require a company to institute a specific business action in response to such issues. As an example, the SBI voted against a shareholder proposal which would have required a utility to phase out operations of a nuclear power plant.

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1 *Minnesota Statutes* 1994, Section 11A.01.

2 *Minnesota Statute* 1994, Section 356A.04, subdivision 1.

3 *Minnesota Statutes* 1994, Section 11A.09, and Section 356A.04, subdivision 2.

ATTACHMENT F

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

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

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

SBI Stock Holdings
in Tobacco Companies Identified by the IRRC
September 30, 1996

Company	Percent Revenue from Tobacco in 1995	SBI Shares 9/30/96	SBI Cost Value 9/30/96	SBI Market Value 9/30/96
Amer Group	7.7%	113,725	$ 2,116,740	$ 2,562,495
American Brands	56.6	197,600	8,330,238	8,348,600
American Maize	n/a	0	0	0
BAT	69.1	1,298,363	9,879,577	8,646,947
Brooke Group	98.8	10,200	67,137	54,825
Compagnie Fin..	66.2	57,000	2,054,115	1,539,000
Culbro	56.4	10,600	356,900	588,300
Dimon	80.1	30,699	523,895	587,118
Empresas	55.6	282,500	1,312,098	1,352,274
Glatfelter	<25	118,300	2,230,883	1,996,312
Hanson PLC	31.9	2,697,924	9,107,734	6,619,183
Imasco Ltd.	16.3	0	0	0
Japan Tobacco	n/a	0	0	0
Loews	11.0	306,200	18,258,543	23,692,225
Philip Morris	48.9	1,856,660	128,164,027	166,635,235
Rembrandt	n/a	156,028	1,352,446	1,410,151
RJR Nabisco	48.2	862,198	13,070,006	11,401,335
Sara Lee	<2	562,405	15,323,078	20,105,979
Schweitzer-Maud.	94.0	16,210	314,388	543,035
SEITA	80.3	19,600	595,254	823,386
Standard Comm'l	62.3	15,040	189,197	187,987
Tabacalera SA	81.9	74,400	2,633,151	3,173,350
Universal Corp.	70.5	256,000	6,562,937	6,528,000
UST	86.9	260,900	7,465,167	7,729,162
Volvo AB	4.3	307,000	5,367,413	6,605,739
Total		**9,509,552**	**$235,274,925**	**$281,130,639**

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

ATTACHMENT G

MINNESOTA STATE BOARD OF INVESTMENT

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

December 30, 1996

At its meeting on December 12, 1996, Members of the State Board of Investment (SBI) expressed their concerns with the risk and volatility of tobacco related investments in the SBI portfolio due to litigation risk. The Members are most concerned with investment in companies where tobacco generates more than 50% of the company's revenue. Companies that fall into this category, according to the Investor Responsibility Research Center (IRRC) in its report "The Tobacco Industry, 1996 Edition", include:

American Brands Inc.	Mafco Consolidated Group
BAT Industries	Schweitzer-Mauduit Int.
Brooke Group LTD	SEITA
Compagnie Financiere	Standard Commercial Corp.
Culbro	Tabacalera SA
Dimon Inc.	Universal Corp VA
Empresas La Modern	UST Inc.
Japan Tobacco	

In response to that concern, we are asking that you implement the following changes immediately with respect to the management of SBI's portfolio:

1. Every purchase of new or additional shares of stock in the companies listed above must be followed by a written justification in accordance with your fiduciary responsibility as a manager for the SBI, for that purchase. That justification must be faxed to **Lois Buermann, Manager, Domestic Equity Investments at 612-296-9572**, upon purchase. A subsequent purchase of the same stock also requires submission of written justification.

2. Shares of the above listed companies already held in the SBI's portfolio may remain in the portfolio, or they may be sold at any time without notification to staff.

These instructions shall remain in effect until further notice. Thank you for your cooperation in this matter.

Sincerely,

Howard Bicker

Howard Bicker
Executive Director

HB:cao

ATTACHMENT H

Barclays Global Investors
45 Fremont Street, San Francisco, CA 94105
P.O. Box 7101, San Francisco, CA 94120-7101
Tel 415 597 2125
Fax 415 597 2198
Net steve.cusimano@bglobal.com

Steve Cusimano
Strategist
Alpha Strategies Group

February 4, 1997

Ms. Lois Buermann
Manager, Domestic Equity Investments
55 Sherburne Avenue
St. Paul, MN 55155

Dear Lois:

I am writing to inform you of two trades in tobacco related companies that were executed in the Minnesota SBI Semi-Passive portfolio in the month of January. Please accept our apologies for failing to report these trades in a more timely manner, and in accordance with your request for same day notification. The trade details are listed on the following attachment.

We have instituted an internal automated compliance check that will screen the trade lists for the semi-passive fund each day for trades in those tobacco related issues for which you requested notification of activity. This will prevent potential oversights in the future, and ensure that BGI is fulfilling the reporting requirements set forth by the SBI.

Please contact me if you have any questions or require any additional information.

Sincerely,

Steve Cusimano

Steve Cusimano

Barclays Global Investors
45 Fremont Street, San Francisco, CA 94105
P.O. Box 7101, San Francisco, CA 94120-7101
Tel 415 597 2125
Fax 415 597 2198
Net steve.cusimano@bglobal.com

Fax

Fax to Lois Buermann, Minnesota SBI

Fax number 612-296-9572

From Steve Cusimano, Alpha Strategies

Date 2/4/97

Total pages 1

Subject **MN Semi-Passive Fund - Purchase of Tobacco Related Company**

In accordance with the Minnesota State Board of Investment reporting requirement concerning the addition to the MSBI Semi-Passive Alpha Tilts portfolio of shares of stock in companies whose tobacco related operations generate more than 50% of the company's revenue, the following purchase(s) occurred today:

Company	Shares	
AMERICAN BRANDS	6,600 ✓	1/22/97

Reason For Purchase

✓ **Improvement in expected return forecast by the BGI Core Alpha Model. This model incorporates analysts earnings expectations, valuation characteristics, and signals by market and corporate management decisions.**

___ **Risk Control or Increased Weight of tobacco securities in Benchmark.**

Please feel free to contact us if you require any additional information regarding the above purchase(s).

Barclays Global Investors
45 Fremont Street, San Francisco, CA 94105
P.O. Box 7101, San Francisco, CA 94120-7101
Tel 415 597 2125
Fax 415 597 2198
Net steve.cusimano@bglobal.com

Fax

Fax to	Lois Buermann, Minnesota SBI
Fax number	612-296-9572
From	Steve Cusimano, Alpha Strategies
Date	1/29/97
Total pages	1
Subject	**MN Semi-Passive Fund - Purchase of Tobacco Related Company**

In accordance with the Minnesota State Board of Investment reporting requirement concerning the addition to the MSBI Semi-Passive Alpha Tilts portfolio of shares of stock in companies whose tobacco related operations generate more than 50% of the company's revenue, the following purchase(s) occurred today:

Company	Shares
AMERICAN BRANDS	55,900

Reason For Purchase

✓ **Improvement in expected return forecast by the BGI Core Alpha Model. This model incorporates analysts earnings expectations, valuation characteristics, and signals by market and corporate management decisions.**

___ **Risk Control or Increased Weight of tobacco securities in Benchmark.**

Please feel free to contact us if you require any additional information regarding these purchase(s).

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Fax to	Lois Buermann, Minnesota SBI
Fax number	612-296-9572
From	Steve Cusimano, Alpha Strategies
Date	2/5/97
Total pages	1
Subject	**MN Semi-Passive Fund - Purchase of Tobacco Related Company**

In accordance with the Minnesota State Board of Investment reporting requirement concerning the addition to the MSBI Semi-Passive Alpha Tilts portfolio of shares of stock in companies whose tobacco related operations generate more than 50% of the company's revenue, the following purchase(s) occurred today:

Company	Shares
AMERICAN BRANDS	48,300

Reason For Purchase

✓ **Improvement in expected return forecast by the BGI Core Alpha Model. This model incorporates analysts earnings expectations, valuation characteristics, and signals by market and corporate management decisions.**

___ **Risk Control or Increased Weight of tobacco securities in Benchmark.**

Please feel free to contact us if you require any additional information regarding the above purchase(s).

Tab D

COMMITTEE REPORT

DATE: February 25, 1997

TO: Members, State Board of Investment

FROM: **Deferred Compensation Review Committee**

The Deferred Compensation Review Committee met February 12, 1997 to consider the following agenda items:

- Review of the 457 State Deferred Compensation Plan and the 401(a) Minnesota State Colleges and Universities (MnSCU) Plans
- Recommendation from Great-West to replace two investment options.

Board action is requested on the second item.

INFORMATION ITEM:

1. **Review of the 457 State Deferred Compensation Plan and the 401(a) Minnesota State Colleges and Universities (MnSCU) Plans**

   The Committee discussed background information on the Deferred Compensation Plan and the MnSCU Plans that was prepared by staff. The information summarizes plan structure and participation levels as well as return information on each of the investment options in the plans. The memo on the 457 Plan begins on **page 5.** The memo on the MnSCU Plans begins on **page 19.**

   The staff analysis indicates that the financial strength of the two insurance companies in the 457 Plan (Great-West, Minnesota Mutual) and of the four insurance companies in the MnSCU Plans (Great-West, Minnesota Mutual, TIAA-CREF, VALIC) remains very high. This means that the assets backing the fixed investment options in the plans are also strong.

   The analysis shows mixed results from the stock, bond and money market (variable options) in the Plans; a few options have exceeded comparative market indices but many of the variable options have underperformed. In some cases the fees charged by the insurance companies have been a factor in the underperformance.

ACTION ITEM:

1. Recommendation from Great-West to replace two investment options

   Great-West has recommended that two investment options in the 457 Deferred Compensation Plan be replaced. Staff has reviewed the request and concurred. The Committee also concurs. The affected investment options are:

   - Great-West Fidelity Advisors Income & Growth (to be replaced by Great-West Maxim Balanced Portfolio managed by INVESCO)

   - Great-West Voyageur U.S. Government Securities (to be replaced by Great-West Maxim Corporate Bond Portfolio managed by Loomis Sayles)

   A staff memo which reviews the current options begins on **page 37.** This memo also includes analysis from Great-West concerning both the existing and replacement options.

   Fidelity Advisors Income & Growth
   Staff has cited both qualitative and quantitative concerns about continued use of this balanced fund in the 457 Plan:

   - Personnel turnover at Fidelity has resulted in the fund having its third portfolio management team in eight months.

   - The option has significantly underperformed the composite market index for the one year, three year and five year periods.

Annualized Total Return, Deferred Compensation Plan
Net of all Direct Fees and Charges
As of December 31, 1996

	1 Year	3 Year	5 Year	Annual Expenses
GW Fidelity Advisors Inc. & Growth	7.38	4.65	7.99	2.22
60% Wil/35% Leh Agg/5% Tbill	*14.10*	*13.26*	*11.68*	

   Voyageur U.S. Government Securities
   Staff cited both qualitative and quantitative concerns regarding this bond fund in the 457 Plan:

   - Voyageur Companies has agreed to sell its mutual fund business to Lincoln National Corporation of Fort Wayne, Indiana.

- The fund has underperformed its market index for the one, three and five year periods. The most significant underperformance occurred in the past year.

Annualized Total Return, Deferred Compensation Plan
Net of all Direct Fees and Charges
As of December 31, 1996

	1 Year	3 Year	5 Year	Annual Expenses
GW Voyageur US Govt Securities	1.32	3.97	5.51	1.92
Lehman Government	*4.42*	*4.40*	*7.38*	

Committee discussion and recommendation.
After discussing the staff memo, the Committee concurred with the recommendation from Great-West. The Committee also discussed the actions that will be necessary to implement the changes in the 457 Plan. They are:

- The current contract with Great-West must be amended to eliminate the existing options and authorize their replacement with the two new funds. This contract amendment must be authorized by the SBI.

- If the SBI authorizes the contract amendment, SBI staff will work with MSRS and Great-West to communicate the change to participants in the 457 Plan. Participants will have the choice of transferring their assets to the replacement funds or to a different variable option offered by Great West within the Plan. If the participant fails to make an explicit choice, the assets will move to the replacement option by default.

Great-West also provides the same two options in the MnSCU Plans. The SBI does not have direct contractual responsibilities for the MnSCU plans. As a result, the Committee determined that any action taken by the SBI with respect to the 457 Plan should be forwarded to the MnSCU Board for its review and consideration.

RECOMMENDATION:

The Committee recommends that:

- **the SBI accept Great-West's recommendation to replace two investment options in the 457 Plan. These options are: 1) Great-West Fidelity Advisors Income & Growth which will be replaced by the Great-West Maxim Balanced Portfolio managed by INVESCO and 2) Great-West Voyageur U.S. Government Securities which will be replaced by the Great-West Maxim Corporate Bond Portfolio managed by Loomis Sayles.**

- **the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute the necessary contract amendments to implement these changes.**

- **the Executive Director forward the action taken by the SBI on this matter to the MnSCU Board for its review and consideration.**

MINNESOTA STATE BOARD OF INVESTMENT

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

DATE: February 7, 1997

TO: Members, Deferred Compensation Review Committee

FROM: Jim Heidelberg, Bob Barman

SUBJECT: Review of the 457 State Deferred Compensation Plan

This memo provides a review of the 457 State Deferred Compensation Plan. A brief description of the plan is followed by a review of the investment options.

<u>Responsibilities</u>
The SBI shares responsibility for the State Deferred Compensation Plan with the Minnesota State Retirement System (MSRS). MSRS administers the plan under the provisions of *Minnesota Statutes*, section 352.96, handling the recordkeeping, enrollment and participant communication functions of the plan. The SBI is responsible for the investment options offered by the plan.

The Plan is an Internal Revenue Code (IRC) 457 plan which, by state statute, is open to all public employees in the state. Voluntary contribution amounts are determined by individual participants within the contribution limits set forth in the IRC. Currently, the limit is $7,500 or 25 percent of pay with a catch-up provision which allows for higher contributions in the last three years before retirement up to a maximum of $15,000 a year. Employer matching contributions are allowed in *M.S.*, section 356.24 up to a maximum of $2,000 a year.

<u>Service Organizations</u>
The MSRS contracts with two service organizations to help employees enroll in the program, explain investment and payout options, provide payout estimates and answer questions that may arise. MSRS is responsible for hiring, firing, directing and compensating these firms. Currently, these firms are National Benefits and Ochs Services. The service organizations are compensated equally for products of each of the three product providers. Contracts with these firms expire June 30, 1999.

<u>Product Providers and Investment Options</u>
The SBI contracts with two outside product providers, Great-West Life (GW) and Minnesota Mutual Life (MM). Contracts with these firms expire June 30, 1999. The SBI also offers investment options through the Supplemental Investment Fund (SIF). The investment options available to every participant are on the following page.

State Deferred Compensation Plan
Investment Options By Asset Class

Option Type	Great West	Minnesota Mutual	SIF
Fixed Interest	36 Month Certificate. 84 Month Certificate.	MM Fixed Annuity	Fixed Interest
Money Market	GW Money Market	MM Money Market	Money Market
Bond	Voyageur US Govt Securities	Vanguard Long Term Corporate	Bond Market
Balanced	Fidelity Adv. Inc. & Growth	Vanguard Wellington	Income Share
Equity	Vista Growth & Income 20th Century (TCI) Ultra Growth Fund I (Janus)	MM Index 500 Fidelity Contrafund Janus Twenty	Comm. Stock Index Growth Share
International	Int'l Equity Fund (Templeton)	Scudder International	International Share

Investment option return information, including all direct fees and charges, is gathered by MSRS from each product provider, including the SBI, for use in a quarterly communication piece for participants. The rates of return are calculated as if the program had been in place for the specified time period with the current investment option and administrative fees.

Participant Plan Activity
The following information about plan participation is provided by MSRS.

About half of plan assets are invested with Great-West and about a quarter are invested with Minnesota Mutual and with the SIF. Contributions in 1996 were invested with the three product providers in roughly the same proportion; Great-West received approximately double the contributions directed to either Minnesota Mutual or the SIF.

Plan Assets By Product Provider
As Of December 31, 1996

	Supplemental Investment Fund	Minnesota Mutual	Great-West	Total
Regular	$ 372,857,203	$ 305,423,766	$ 630,939,288	$ 1,309,220,257
Annuitized	0	44,750,059	75,343,008	120,093,067
Total	$ 372,857,203	$ 350,173,825	$ 706,282,296	$ 1,429,313,324

Plan Participants
As Of December 31, 1996

	Supplemental Investment Fund	Minnesota Mutual	Great-West	Total
Active	13,749	20,930	31,608	66,287
Inactive	6,116	3,076	7,742	16,934
Pay out Status	962	1,176	2,154	4,292
Total	20,827	25,182	41,504	87,513

Plan Contributions
For Calendar 1996

Supplemental Investment Fund	Minnesota Mutual	Great-West	Total
$ 30,185,106	$ 35,610,593	$ 61,173,010	$ 126,968,709

Plan Assets by Investment Option

Almost one third of the assets in the SIF are in the Income Share Account, which is a balanced option. About two thirds of the assets with Minnesota Mutual are in the fixed account option. Over 55 percent of the assets with Great-West are in long term certificates, which are also fixed products. The most popular variable annuity option, in terms of the total dollars invested, is GW Growth Fund I, managed by Janus.

Supplemental Investment Fund
As Of December 31, 1996

Fixed Interest	$53,745,965
Money Market	30,999,670
Bond Market	14,474,203
Income Share	116,782,517
Comm. Stock Index	76,740,554
Growth Share	70,576,051
International Share	9,538,243
Total	$372,857,203

Minnesota Mutual
As Of December 31, 1996

MM Fixed Annuity	$231,333,170
MM Money Market	1,832,262
Vanguard Long Term Corporate	2,656,331
Vanguard Wellington	13,541,299
MM Index 500	5,397,222
Fidelity Contrafund	28,542,515
Janus Twenty	3,967,492
Scudder International	5,403,599
Closed Funds*	12,749,876
Retired Reserves	44,750,059
Total	$350,173,825

*Under terms of the current contract, Minnesota Mutual allowed participants to leave assets in options that were closed to new money when the new plan was implemented.

Great-West
Plan Assets for Active Participants Only
As Of December 31, 1996

36 & 84 Month Certificates	$257,915,823
GW Money Market	5,939,009
Voyageur US Govt Securities	7,563,817
Fidelity Adv. Income & Growth	19,478,318
Vista Growth & Income	10,335,806
20th Century (TCI) Ultra	22,227,124
Growth Fund I (Janus)	117,214,121
Int'l Equity Fund (Templeton)	24,910,343
Total*	$465,584,361

*Figures are for active participants only and are therefore not comparable to the figures provided for the SIF and MM.

Review of Investment Options

Summary information on the **financial strength** of the two insurance company providers is in **Attachment A.**

Comparative information on the **variable options** (money market, stock, bond) offered by each product provider is in **Attachment B.**

Comparative information on **fixed options** offered by each product provider is in **Attachment C.**

ATTACHMENT A

457 State Deferred Compensation Plan

Minnesota Mutual Life Insurance Company (MM)
Great-West Life & Annuity Insurance Company (GW)

Financial Strength/Claims Paying Ability Ratings

In previous selection processes the SBI has required that insurance company providers be rated in the top two ratings categories by nationally recognized rating companies.

MM is a highly rated company, being rated in the top two ratings categories by three national rating agencies, even after Moody's slightly lowered its rating to Aa2 from Aa1. The current ratings compared to the ratings when the Deferred Compensation Plan was restructured effective September 1, 1994 are:

Company	Current Rating	Prior Rating
Standard & Poor's	AA+, claims paying ability	AA+
Moody's	Aa2, financial strength	Aa1
Duff & Phelps	AAA, financial strength	NA

GW also remains in the top two rating categories after Moody's and Standard & Poor's lowered their ratings of the company from Aa1 and AAA to Aa2 and AA+ respectively. The current ratings compared to the ratings when the Deferred Compensation Plan was restructured effective September 1, 1994 are:

Company	Current Rating	Prior Rating
Standard & Poor's	AA+, claims paying ability	AAA
Moody's	Aa2, financial strength	Aa1
Duff & Phelps	AAA, financial strength	NA

ATTACHMENT B

457 State Deferred Compensation Plan

Minnesota Mutual Life Insurance Company (MM)
Great-West Life & Annuity Insurance Company (GW)

Variable Options Performance

Variable options include money market accounts and options investing in stock and bonds. The SBI evaluates the performance of the variable products against benchmark indices appropriate to each option. The following observations relate to the December 31, 1996 return data in the tables below. Please note that performance is evaluated net of all direct fees and charges, including the 40 basis point a year administrative charge imposed by MSRS on all options.

When the Plan was restructured effective September 1, 1994, a new array of investment options was introduced, including mutual funds. Each stock, bond, balanced and international option offered by GW and MM, with the exception of the MM Index 500 stock option, has been available only since September 1994. The SIF International Share Account was first made available to participants at the same time. The return history that follows has been calculated to display option performance as if the option had been available in the Plan for longer periods of time with the current investment and administrative fees. Return information is not available in those cases in which the mutual fund did not exist for the longer time period.

Money Market Options:

The three money market options underperformed the 90 day treasury bill benchmark for the one, three and five year periods. The two insurance company offerings underperformed by a significant amount due to their higher annual expenses.

Asset Class and Option	Annualized Total Return			Annual
	1 Year	3 Year	5 Year	Expenses
Money Market				
MM Money Market	3.91%	3.63%	2.93%	1.64%
GW Money Market	4.08%	3.88%	3.18%	1.41%
SIF Money Market	5.15%	4.89%	4.20%	0.41%
90 Day Treasury Bills	*5.29%*	*5.10%*	*4.40%*	

Bond Options:

The MM and GW bond options greatly underperformed their respective benchmarks for the one, three and five year periods. The SIF bond fund outperformed its Lehman

Aggregate benchmark for the one and five year time frames but underperformed for the three year period. Annual expenses for the insurance company provider funds were noticeably higher than for the SIF fund, contributing to lower total returns.

Asset Class and Option	Annualized Total Return			Annual
	1 Year	3 Year	5 Year	Expenses
Bond				
MM Vanguard Corporate Portfolio*	0.67%	5.53%	7.69%	1.31%
Lehman Corporate Index	*3.28%*	*6.65%*	*9.14%*	
GW Voyageur U.S. Government Sec*	1.32%	3.97%	5.51%	1.92%
Lehman Government Index	*4.42%*	*4.40%*	*7.38%*	
SIF Bond Market	4.30%	5.65%	7.30%	0.55%
Lehman Aggregate Index	*3.63%*	*6.03%*	*7.04%*	

*available only since September 1994

Balanced Options:

The MM Vanguard Wellington option performed well, exceeding its benchmark for all three time periods. The SIF Income Share Account slightly outperformed the benchmark for the one year period and nearly matched the benchmark for the three and five year periods.

The GW Fidelity Advisor Income & Growth fund exhibited very disappointing results. The fund significantly underperformed the benchmark for all three time periods.

Asset Class and Option	Annualized Total Return			Annual
	1 Year	3 Year	5 Year	Expenses
Balanced				
MM Vanguard Wellington*	14.95%	14.16%	12.32%	1.33%
GW Fidelity Adv. Income & Growth*	7.38%	4.65%	7.99%	2.22%
SIF Income Share	14.14%	13.16%	11.65%	0.42%
60% Wil/35% Leh Agg/ 5% TBill	*14.10%*	*13.26%*	*11.68%*	

*available only since September 1994

Domestic Equity Options:

Passively Managed Products

Passively managed (index) options can be expected to underperform their target index by approximately the same amount as the expense charge imposed. This is the result seen with the SIF option, which underperformed the Wilshire 5000 over the three year period by 40 basis points, an amount about equal to the expense charge. The MM option would be expected to underperform the S&P 500 by about 150 basis points, an amount equal to its expense charge. Actual results were 210 basis points below the index over the three year period.

Actively Managed Products
Generally, the performance of the actively managed equity options has been disappointing.

The SIF Growth Share Account outperformed the Wilshire 5000 for the one year period, but underperformed for the three and five year periods.

The two MM actively managed funds exhibited mixed performance. The MM Fidelity Contrafund outperformed the S&P 500 by 178 basis points over the five year period, but underperformed for the one and three year periods. The MM Janus Twenty equity fund outperformed the S&P 500 index by a wide margin for the one year period, but underperformed for the three and five year periods.

In general, the three actively managed GW equity options have underperformed their benchmarks by significant amounts. The GW Janus Growth Fund underperformed the S&P 500 for each time period, with its poor one year performance dragging down the three and five year figures. The GW Vista Growth & Income fund underperformed the S&P 900 index for all three time periods. The GW Twentieth Century Ultra fund essentially matched the Russell 2000 index for the three year period, but underperformed the index for the one and five year periods.

Asset Class and Option	**Annualized Total Return**			**Annual**
	1 Year	**3 Year**	**5 Year**	**Expenses**
Passive Equity				
SIF Common Stock Index	21.14%	17.83%	14.79%	0.42%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	
MM Index 500	20.43%	17.68%	13.42%	1.47%
S&P 500 Index	*23.23%*	*19.78%*	*15.29%*	
Active Equity				
MM Fidelity Contrafund*	20.98%	16.82%	17.07%	1.98%
MM Janus Twenty*	26.29%	16.38%	10.26%	2.00%
GW Growth Fund I (Janus)*	4.95%	13.04%	14.43%	2.05%
S&P 500 Index	*23.23%*	*19.78%*	*15.29%*	
GW Vista Growth & Income*	18.55%	12.90%	13.02%	1.95%
S&P 900 (S&P 500 / Midcap 400)	*22.73%*	*19.12%*	*15.09%*	
GW Twentieth Century Ultra*	12.77%	13.67%	12.19%	1.95%
Russell 2000 Index	*16.49%*	*13.68%*	*15.65%*	
SIF Growth Share	21.78%	16.77%	13.62%	0.68%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	

*available only since September 1994

International Options:

The GW Templeton option exhibited very strong performance. The SIF option outperformed the benchmark for each time period as well. The MM Scudder option significantly outperformed the benchmark for the one and five year periods, but underperformed for the three year period.

Asset Class and Option	**Annualized Total Return**			**Annual**
	1 Year	**3 Year**	**5 Year**	**Expenses**
International				
MM Scudder International*	13.37%	6.57%	9.53%	2.14%
GW Templeton International Equity*	18.45%	10.32%	13.51%	2.45%
SIF International Share*	9.93%	9.05%	10.21%	0.56%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

*available only since September 1994

The following pages display the variable options offered by each vendor across all asset classes.

Minnesota Mutual Variable Annuity Options
457 Deferred Compensation Plan
Total Returns As Of December 31, 1996

Asset Class and Option	Annualized Total Return*			Annual
	1 Year	3 Year	5 Year	Expenses
Money Market				
MM Money Market	3.91%	3.63%	2.93%	1.64%
90 Day Treasury Bills	*5.29%*	*5.10%*	*4.40%*	
Bond				
MM Vanguard Corporate Portfolio	0.67%	5.53%	7.69%	1.31%
Lehman Corporate Index	*3.28%*	*6.65%*	*9.14%*	
Balanced				
MM Vanguard Wellington	14.95%	14.16%	12.32%	1.33%
60% Wil/35% Leh Agg/ 5% TBill	*14.10%*	*13.26%*	*11.68%*	
Equity				
MM Janus Twenty	26.29%	16.38%	10.26%	2.00%
MM Fidelity Contrafund	20.98%	16.82%	17.07%	1.98%
MM Index 500	20.43%	17.68%	13.42%	1.47%
S&P 500 Index	*23.23%*	*19.78%*	*15.29%*	
International				
MM Scudder International	13.37%	6.57%	9.53%	2.14%
EAFE-Free Index	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges

Great West Variable Annuity Options
457 Deferred Compensation Plan
Total Returns As Of December 31, 1996

Asset Class and Option	Annualized Total Return* 1 Year	3 Year	5 Year	Annual Expenses
Money Market				
GW Money Market	4.08%	3.88%	3.18%	1.41%
90 Day Treasury Bills	*5.29%*	*5.10%*	*4.40%*	
Bond				
GW Voyageur U.S. Government Sec	1.32%	3.97%	5.51%	1.92%
Lehman Government	*4.42%*	*4.40%*	*7.38%*	
Balanced				
GW Fidelity Adv. Income & Growth	7.38%	4.65%	7.99%	2.22%
60% Wil/35% Leh Agg/5% TBill	*14.10%*	*13.26%*	*11.68%*	
Equity				
GW Janus Growth Fund I	4.95%	13.04%	14.43%	2.05%
S&P 500	*23.23%*	*19.78%*	*15.29%*	
GW Vista Growth & Income	18.55%	12.90%	13.02%	1.95%
S&P 900 (S&P 500 / Midcap 400)	*22.73%*	*19.12%*	*15.09%*	
GW Twentieth Century Ultra	12.77%	13.67%	12.19%	1.95%
Russell 2000	*16.49%*	*13.68%*	*15.65%*	
International				
GW Templeton International Equity	18.45%	10.32%	13.51%	2.45%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges

Supplemental Investment Fund Variable Product Options
457 Deferred Compensation Plan
Total Returns As Of December 31, 1996

Asset Class and Option	Annualized Total Return* 1 Year	3 Year	5 Year	Annual Expenses
Money Market				
SIF Money Market	5.15%	4.89%	4.20%	0.41%
90 Day Treasury Bills	*5.29%*	*5.10%*	*4.40%*	
Bond				
SIF Bond Market	4.30%	5.65%	7.30%	0.55%
Lehman Aggregate Index	*3.63%*	*6.03%*	*7.04%*	
Balanced				
SIF Income Share	14.14%	13.16%	11.65%	0.42%
60% Wil/35% Leh Agg/ 5% TBill	*14.10%*	*13.26%*	*11.68%*	
Equity				
SIF Common Stock Index	21.14%	17.83%	14.79%	0.42%
SIF Growth Share	21.78%	16.77%	13.62%	0.68%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	
International				
SIF International Share	9.93%	9.05%	10.21%	0.56%
EAFE-Free Index	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges

Summary Of All Variable Options
457 Deferred Compensation Plan
Total Returns As Of 12/31/96

Asset Class and Option	Annualized Total Return* 1 Year	3 Year	5 Year	Annual Expenses
Money Market				
MM Money Market	3.91%	3.63%	2.93%	1.64%
GW Money Market	4.08%	3.88%	3.18%	1.41%
SIF Money Market	5.15%	4.89%	4.20%	0.41%
90 Day Treasury Bills	*5.29%*	*5.10%*	*4.40%*	
Bond				
MM Vanguard Corporate Portfolio	0.67%	5.53%	7.69%	1.31%
Lehman Corporate Index	*3.28%*	*6.65%*	*9.14%*	
GW Voyageur U.S. Government Sec	1.32%	3.97%	5.51%	1.92%
Lehman Government Index	*4.42%*	*4.40%*	*7.38%*	
SIF Bond Market	4.30%	5.65%	7.30%	0.55%
Lehman Aggregate Index	*3.63%*	*6.03%*	*7.04%*	
Balanced				
MM Vanguard Wellington	14.95%	14.16%	12.32%	1.33%
GW Fidelity Adv. Income & Growth	7.38%	4.65%	7.99%	2.22%
SIF Income Share	14.14%	13.16%	11.65%	0.42%
60% Wil/35% Leh Agg/ 5% TBill	*14.10%*	*13.26%*	*11.68%*	
Equity				
MM Janus Twenty	26.29%	16.38%	10.26%	2.00%
MM Fidelity Contrafund	20.98%	16.82%	17.07%	1.98%
MM Index 500	20.43%	17.68%	13.42%	1.47%
GW Janus Growth Fund I	4.95%	13.04%	14.43%	2.05%
S&P 500 Index	*23.23%*	*19.78%*	*15.29%*	
GW Vista Growth & Income	18.55%	12.90%	13.02%	1.95%
S&P 900 (S&P 500 / Midcap 400)	*22.73%*	*19.12%*	*15.09%*	
GW Twentieth Century Ultra	12.77%	13.67%	12.19%	1.95%
Russell 2000 Index	*16.49%*	*13.68%*	*15.65%*	
SIF Common Stock Index	21.14%	17.83%	14.79%	0.42%
SIF Growth Share	21.78%	16.77%	13.62%	0.68%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	
International				
MM Scudder International	13.37%	6.57%	9.53%	2.14%
GW Templeton International Equity	18.45%	10.32%	13.51%	2.45%
SIF International Share	9.93%	9.05%	10.21%	0.56%
EAFE-Free Index	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges

ATTACHMENT C

457 State Deferred Compensation Plan

Minnesota Mutual Life Insurance Company (MM)
Great-West Life & Annuity Insurance Company (GW)

Fixed Options

Fixed options are lower risk products intended to protect the principal of the investment and provide a stable return for the participant. Participants in the Plan may choose among three distinct fixed products:

- The Minnesota Mutual fixed option is a portfolio product in which assets are invested in the general account of the company and earn a rate that reflects the investment performance of this large pool of assets.

- The Great-West fixed option is a choice of two certificates that have a stated rate for the length of each certificate. The assets also are invested in the general account of the company.

- The SIF Fixed Interest Account is a pool of assets invested in guaranteed investment contracts (GIC's) and GIC-type investments from which participants earn monthly interest that changes somewhat from month to month depending upon the mix of the investments in the Account.

Minnesota Mutual:

- MM's current new money rate is 6.15%. The renewal money rate is 6.25%.
- Comparable US Treasury yields are 6.01% (3 yr.) and 6.21% (5 yr.).

Great West

- GW's current rate for the 36 month certificate is 4.55%. Comparable three year US Treasuries are 6.01%.
- GW's current rate for the 84 month certificate is 5.30%. Comparable seven year US Treasuries are 6.36%.

Supplemental Investment Fund

- The annualized return of the SIF Fixed Interest Account as 5.98% for the period ending December 31, 1996.
- Comparable US Treasury yield is 6.01% (3 yr.)

MINNESOTA STATE BOARD OF INVESTMENT

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DATE: February 7, 1997

TO: Members, Deferred Compensation Review Committee

FROM: Jim Heidelberg, Bob Barman

SUBJECT: Review of the 401(a) Minnesota State Colleges and Universities (MnSCU) Plans

This memo provides a review of the 401(a) Minnesota State Colleges and Universities (MnSCU) plans. A brief description of the Plans is followed by a review of the investment options.

<u>The Plans</u>

The MnSCU Plans are the Individual Retirement Account Plan, the primary retirement plan for faculty and administrators, and the Supplemental Retirement Plan, a supplemental plan for faculty and administrators who must participate upon completion of necessary service time with MnSCU. Both plans have required employee and employer contributions.

The Plans are 401(a) qualified plans under the provisions of the Internal Revenue Code. For administrative purposes, MnSCU merges the Plans under the title, "MnSCU Defined Contribution Retirement Plan." For discussion purposes, this memo refers to "the Plans."

<u>Plan Administration</u>

The Plans are administered by MnSCU under the provisions of *Minnesota Statutes*, Chapter 354B. MnSCU has contracted with four insurance companies (Great-West, Minnesota Mutual, TIAA-CREF, and VALIC) to provide investment options. These contracts expire June 30, 2000. (The Supplemental Investment Fund is also available to participants.) MnSCU also contracts with Norwest Bank as administrative services agent (ASA) for the day to day administrative functions. The ASA keeps account records, trains campus personnel, prepares communication materials for distribution, communicates SIF product information to participants and coordinates the product providers' efforts in communicating with participants.

MnSCU pays for administrative expenses, including compensation paid to the ASA, from two sources of expense charges it collects in accordance with the language of section 354B.25, subdivision 5. These are a two percent front end load on all contributions to insurance company product options and a 40 basis point a year asset based charge on Plan balances in the SIF.

SBI Responsibilities
Under the provisions of section 354B.25, the SBI must select "financial institutions to provide annuity products" and must periodically review the product providers "at least every three years." The Board is required to approve MnSCU contracts with the selected providers before execution.

In fiscal year 1995, the SBI undertook a complete review of the product providers and recommended to MnSCU that it retain four firms. At the same time, the Board approved provisions for product provider contracts. MnSCU entered into contracts with these four firms.

Product Providers and Investment Options
The four outside product providers are:

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

By statute, the SIF accounts are also available to participants of the Plans.

The investment options available to participants are:

MnSCU Retirement Plans
Investment Options

	Great West	Minn Mutual	TIAA-CREF	VALIC	SIF
Fixed	Guaranteed Account	Fixed Fund	Traditional Annuity	Fixed Plus	Fixed Interest
Money Mrkt	Maxim Money Mkt	MM Money Market	CREF Money Mkt	VAL Money Mkt	Money Mkt
Bond	Voyageur US Govt Sec	Scudder Short Term	CREF Bond Acct	VAL Int'l Govt Bd VAL CapitalConservat'n	Bond Market
Balanced	Fidelity Advr Inc&Growth	MM Managed I Acct	CREF Social Choice	Templeton Asset Alloc	Income Share
Equity	Vista Growth & Income Fidelity Adv Growth Opp GW Growth Fund 1 Janus 20th Century Ultra	Fid Growth & Income Fidelity Contrafund MM Growth II The Parnassus Fund Janus Twenty	CREF Stock Acct CREF Index Acct CREF Growth Acct	VAL Stock Index VAL MidCap Index Dreyfus Small Cap VAL Science&Technol	Com Stock Index Growth Share
International	GW Int'l Eq Templeton Fidelity Advisor Overseas	Scudder International	Global Eq's Acct	Templeton Internat'l	Internat'l Share

Investment option return information is gathered by Norwest from each product provider, including the SBI, for use in a quarterly communication piece for participants The rates of return are calculated as if the program had been in place for the specified time period with the current investment option fees. Because the two percent front end load is an administrative charge and is deducted before contributions are transmitted to the product providers, the front end load is not included in rate of return calculations. The front end load is noted clearly in the Norwest communication piece. The 40 basis point a year charge assessed against SIF options is included in SIF rates of return.

<u>Review of Investment Options</u>

Summary information on the **financial strength** of the two insurance company providers is in **Attachment A.**

Comparative information on the **variable options** (money market, stock, bond) offered by each product provider is in **Attachment B.**

Comparative information on **fixed options** offered by each product provider is in **Attachment C.**

ATTACHMENT A

401(a) Minnesota State Colleges & Universities Plans (MnSCU)

Minnesota Mutual Life Insurance Company (MM)
Great-West Life & Annuity Insurance Company (GW)
Teachers Ins. & Annuity Assoc.-College Equity Retirement Fund (TIAA-CREF)
Variable Annuity Life Insurance Company (VALIC)

Financial Strength/Claims Paying Ability Ratings

In previous selection processes the SBI has required that insurance company providers be rated in the top two ratings categories by nationally recognized rating companies.

MM is a highly rated company, being rated in the top two ratings categories by three national rating agencies, even after Moody's slightly lowered MM's rating to Aa2 from Aa1. The current ratings compared to the ratings when the SBI selected MM in June 1995 for the MnSCU plans are:

Company	Current Rating	Prior Rating
Standard & Poor's	AA+, claims paying ability	AA+
Moody's	Aa2, financial strength	Aa1
Duff & Phelps	AAA, financial strength	NA

GW is a highly rated company, being rated in the top two ratings categories by three national rating agencies, even after Moody's and Standard & Poor's lowered their ratings of the company from Aa1 and AAA to Aa2 and AA+ respectively. The current ratings compared to the ratings when GW was selected for the MnSCU plans are:

Company	Current Rating	Prior Rating
Standard & Poor's	AA+, claims paying ability	AAA
Moody's	Aa2, financial strength	Aa1
Duff & Phelps	AAA, financial strength	NA

TIAA, the insurance company unit of TIAA-CREF, is one of a handful of insurance companies with the highest rating from each of the major rating agencies. (The ratings do not apply to CREF.) TIAA-CREF was retained for the MnSCU Plan effective July 1, 1995 and for the Minnesota Historical Society in the summer of 1996. Its ratings from that time have remained the same.

Company	Current Rating	Prior Rating
Standard & Poor's	AAA, claims paying ability	AAA
Moody's	Aaa, financial strength	Aaa
Duff & Phelps	AAA, financial strength	AAA

VALIC also is a highly rated company, as shown in the following table. Its ratings have not changed since the SBI selected it for the MnSCU plans.

Company	Current Rating	Prior Rating
Standard & Poor's	AAA, claims paying ability	AAA
Moody's	Aa2, financial strength	Aa2
Duff & Phelps	AAA, financial strength	AAA

ATTACHMENT B

401(a) Minnesota State Colleges & Universities Plans (MnSCU)

Minnesota Mutual Life Insurance Company (MM)
Great-West Life & Annuity Insurance Company (GW)
Teachers Ins. & Annuity Assoc.-College Equity Retirement Fund (TIAA-CREF)
Variable Annuity Life Insurance Company (VALIC)

Variable Options Performance

Variable options include money market accounts and options investing in stock and bonds. The SBI evaluates the performance of the insurance company variable products against benchmarks appropriate to each option. The following observations relate to the December 31, 1996 return data in the tables below. Please note that performance is evaluated net of all direct fees and charges. Because the two percent front end load on contributions to insurance company products is an administrative charge and is deducted before contributions are transmitted to the product providers, the front end load is not included in rate of return calculations. The front end load is noted clearly in communication pieces to participants. The 40 basis point a year charge assessed against SIF options is included in SIF rates of return.

When the Plan was restructured effective July 1, 1995, additional product providers and a new array of options were made available to participants. Options offered by TIAA-CREF and VALIC, therefore, have been available only since July 1995. Minnesota Mutual and Great-West expanded their offerings at the same time, and the SIF International Share Account was added. The return history that follows has been calculated to display option performance as if the option had been available in the Plan for longer periods of time with the current investment and administrative fees. Return information is not available in those cases in which the mutual fund did not exist for the longer time period.

Money Market Options:

TIAA-CREF essentially matched the 90 day treasury bill benchmark in each time period. The SIF account slightly underperformed the benchmark. The other three money market funds significantly underperformed the benchmark for the one, three and five year periods. These insurance company offerings underperformed by a significant amount due to their higher annual expenses.

Asset Class	Annualized Total Return 1 Year	3 Year	5 Year	Annual Expenses
Money Market Fund				
MM Money Market	4.08%	3.82%	3.12%	1.45%
GW Money Market	4.29%	4.05%	3.38%	1.21%
TIAA-CREF Money Market	5.28%	5.07%	4.40%	0.29%
VALIC Money Market	3.97%	3.75%	3.02%	1.57%
SIF Money Market	5.15%	4.89%	4.20%	0.41%
90 Day U.S. Treasury Bill	*5.29%*	*5.10%*	*4.40%*	

Bond Options:

The two providers with the lowest fees had the best performance. The SIF bond fund outperformed its Lehman Aggregate benchmark for the one and five year time frames but underperformed for the three year period. TIAA-CREF exceeded the Lehman Government/Corporate bond index for the one year period, but underperformed for the three and five year periods.

The MM Scudder fund significantly underperformed its benchmark for the three and five year periods. The underperformance of the GW Voyageur fund and the VALIC Capital Conservation fund can be largely explained by the higher expenses of those options. The VALIC International Government bond fund also underperformed its benchmark in each period.

Asset Class	Annualized Total Return 1 Year	3 Year	5 Year	Annual Expenses
Bond Fund				
MM Scudder Bond	2.86%	2.72%	3.98%	1.73%
VALIC Capital Conservation	0.75%	3.85%	5.96%	1.57%
TIAA-CREF Bond Market	3.08%	5.26%	6.83%	0.29%
Lehman Gov/Corp	*2.90%*	*5.79%*	*7.18%*	
GW Voyageur U.S. Government Sec	1.61%	4.24%	5.76%	1.72%
Lehman Government	*2.77%*	*5.53%*	*6.88%*	
VALIC International Govt Bond	3.36%	7.93%	7.73%	1.56%
Salomon Non-US$ Govt Bond	*4.10%*	*9.67%*	*9.73%*	
SIF Bond Market	4.30%	5.65%	7.30%	0.55%
Lehman Aggregate	*3.63%*	*6.03%*	*7.04%*	

Balanced Options:

The balanced options are evaluated against a composite benchmark equal to the asset allocation targets of the SIF Income Share Account.

The TIAA-CREF Social Choice Account outperformed the composite stock/bond/cash benchmark for all three time periods as well as having the lowest annual expenses of the five balanced options. Note, however, that the Account is more of a stock account that screens for various social concerns than a balanced option with a mix of stocks, bonds and cash. An all stock benchmark may be appropriate for the Account. It remains as a balanced option within TIAA-CREF's offerings.

The VALIC Templeton option outperformed for the one and five year periods. The SIF Income Share Account essentially matched the benchmark in each time period.

The MM option underperformed by at least 250 basis points in each time period. The GW Fidelity Advisor fund displayed very disappointing results.

Asset Class	Annualized Total Return			Annual
	1 Year	3 Year	5 Year	Expenses
Balanced Fund				
MM Managed I	11.56%	10.61%	8.61%	1.45%
GW Fidelity Adv. Income & Growth	7.56%	4.57%	8.03%	2.02%
TIAA-CREF Social Choice Account	15.53%	13.87%	12.41%	0.31%
VALIC Templeton Asset Allocation	17.40%	10.81%	12.59%	1.91%
SIF Income Share	14.14%	13.16%	11.65%	0.42%
60% Wil/35% Leh Agg /5% TBills	*14.10%*	*13.26%*	*11.68%*	

Domestic Equity Options:

Passive Equity Options:

Passively managed (index) options can be expected to underperform their target index by approximately the same amount as the expense charge imposed. This is the result seen with the SIF option which underperformed the Wilshire 5000 over the three year period by 40 basis points, an amount about equal to the expense charge. The VALIC Midcap Index and VALIC Stock Index funds underperformed their respective benchmarks largely due to their higher expenses. However, the TIAA-CREF Equity Index Account underperformed the S&P 500 for the one year period in which it was available by an amount that exceeded its expense charge.

Active Equity Options:

Active equity option performance was disappointing. Only one of the thirteen options available for at least three years exceeded its benchmark. Only four of the thirteen exceeded their benchmarks for the five year period.

Asset Class	Annualized Total Return 1 Year	3 Year	5 Year	Annual Expenses
Passive Equity				
TIAA-CREF Equity Index	21.58%	NA	NA	0.30%
VALIC Stock Index	21.53%	18.10%	13.60%	1.35%
Standard & Poor's 500	*23.23%*	*19.78%*	*15.29%*	
VALIC Midcap Index	17.61%	13.14%	11.99%	1.41%
S&P Midcap 400	*18.72%*	*14.30%*	*13.68%*	
SIF Common Stock Index	21.14%	17.83%	14.79%	0.42%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	
Active Equity				
MM Janus Twenty Fund	26.87%	16.61%	10.42%	1.75%
MM Fidelity Contrafund	20.73%	16.82%	17.04%	1.98%
MM Fidelity Growth & Income	18.79%	17.19%	15.94%	1.77%
MM Advantus Growth II	4.98%	13.51%	12.08%	1.55%
MM Parnassus Fund	10.60%	7.65%	14.44%	1.99%
GW Fidelity Adv Growth Opportunity	17.12%	16.41%	16.91%	2.19%
GW Growth Fund I (Janus)	5.16%	13.26%	14.66%	1.85%
TIAA-CREF Stock Account	19.42%	16.02%	13.58%	0.32%
TIAA-CREF Growth Account	25.50%	NA	NA	0.37%
VALIC T.Rowe Price Science & Tech.	12.68%	NA	NA	1.94%
Standard & Poor's 500	*23.23%*	*19.78%*	*15.29%*	
GW Vista Growth & Income	18.92%	13.31%	13.27%	1.75%
S&P 900 (S&P 500/S&P 400)	*22.73%*	*19.12%*	*15.09%*	
GW Twentieth Century Ultra	13.00%	13.92%	12.43%	1.75%
VALIC Dreyfus Small Cap	15.14%	16.08%	34.51%	2.08%
Russell 2000	*16.49%*	*13.68%*	*15.65%*	
SIF Growth Share	21.78%	16.77%	13.62%	0.68%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	

International Options:

Each of the international options performed reasonably well, exceeding the EAFE-free index for the one year and five year periods. The TIAA-CREF and VALIC options outperformed the index for the three year period, the longest time for which they were available.

Asset Class and Option	Annualized Total Return 1 Year	3 Year	5 Year	Annual Expenses
International				
MM Scudder International	13.39%	6.49%	9.24%	2.19%
GW Templeton International Equity	18.69%	10.55%	13.74%	2.25%
GW Fidelity Advisors Overseas	10.88%	6.49%	9.93%	2.50%
TIAA-CREF Global Equities Account	17.98%	12.14%	NA	0.40%
VALIC Templeton International	22.50%	10.57%	NA	1.96%
SIF International Share	9.93%	9.05%	10.21%	0.56%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

The following pages display the variable options offered by each vendor across all asset classes.

Minnesota Mutual Life Insurance Company
401(a) Minnesota State Colleges & Universities Plans
Total Return As Of December 31, 1996

Asset Class	Annualized Total Return* 1 Year	3 Year	5 Year	Annual Expenses
Money Market				
MM Money Market	4.08%	3.82%	3.12%	1.45%
90 Day U.S. Treasury Bill	*5.29%*	*5.10%*	*4.40%*	
Bond				
MM Scudder Bond	2.86%	2.72%	3.98%	1.73%
Lehman Gov/Corp	*2.90%*	*5.79%*	*7.18%*	
Balanced				
MM Managed I	11.56%	10.61%	8.61%	1.45%
60% Wil/35% Leh Agg /5% TBills	*14.10%*	*13.26%*	*11.68%*	
Domestic Equity				
MM Janus Twenty Fund	26.87%	16.61%	10.42%	1.75%
MM Fidelity Contrafund	20.73%	16.82%	17.04%	1.98%
MM Fidelity Growth & Income	18.79%	17.19%	15.94%	1.77%
MM Advantus Growth II	4.98%	13.51%	12.08%	1.55%
MM Parnassus Fund	10.60%	7.65%	14.44%	1.99%
Standard & Poor's 500	*23.23%*	*19.78%*	*15.29%*	
International				
MM Scudder International	13.39%	6.49%	9.24%	2.19%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges.

Great-West Life & Annuity Insurance Company
401(a) Minnesota State Colleges & Universities Plans
Total Return As Of December 31, 1996

Asset Class	Annualized Total Return*			Annual
	1 Year	3 Year	5 Year	Expenses
Money Market				
GW Money Market	4.29%	4.05%	3.38%	1.21%
90 Day U.S. Treasury Bill	*5.29%*	*5.10%*	*4.40%*	
Bond				
GW Voyageur U.S. Government Sec	1.61%	4.24%	5.76%	1.72%
Lehman Government	*2.77%*	*5.53%*	*6.88%*	
Balanced				
GW Fidelity Adv. Income & Growth	7.56%	4.57%	8.03%	2.02%
60% Wil/35% Leh Agg /5% TBills	*14.10%*	*13.26%*	*11.68%*	
Domestic Equity				
GW Fid. Adv Growth Opportunity	17.12%	16.41%	16.91%	2.19%
GW Growth Fund I (Janus)	5.16%	13.26%	14.66%	1.85%
Standard & Poor's 500	*23.23%*	*19.78%*	*15.29%*	
GW Vista Growth & Income	18.92%	13.31%	13.27%	1.75%
S&P 900 (S&P 500/S&P 400)	*22.73%*	*19.12%*	*15.09%*	
GW Twentieth Century Ultra	13.00%	13.92%	12.43%	1.75%
Russell 2000	*16.49%*	*13.68%*	*15.65%*	
International				
GW Templeton International Equity	18.69%	10.55%	13.74%	2.25%
GW Fidelity Advisors Overseas	10.88%	6.49%	9.93%	2.50%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges.

Teachers Insurance & Annuity Assoc.College Equity Retirement Fund
401(a) Minnesota State Colleges & Universities Plans
Total Return As Of December 31, 1996

Asset Class	**Annualized Total Return***			**Annual**
	1 Year	**3 Year**	**5 Year**	**Expenses**
Money Market				
TIAA-CREF Money Market	5.28%	5.07%	4.40%	0.29%
90 Day U.S. Treasury Bill	*5.29%*	*5.10%*	*4.40%*	
Bond				
TIAA-CREF Bond Market	3.08%	5.26%	6.83%	0.29%
Lehman Gov/Corp	*2.90%*	*5.79%*	*7.18%*	
Balanced				
TIAA-CREF Social Choice Account	15.53%	13.87%	12.41%	0.31%
60% Wil/35% Leh Agg /5% TBills	*14.10%*	*13.26%*	*11.68%*	
Domestic Equity				
TIAA-CREF Equity Index	21.58%	NA	NA	0.30%
TIAA-CREF Stock Account	19.42%	16.02%	13.58%	0.32%
TIAA-CREF Growth Account	25.50%	NA	NA	0.37%
Standard & Poor's 500	*23.23%*	*19.78%*	*15.29%*	
International				
TIAA-CREF Global Equities Account	17.98%	12.14%	NA	0.40%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges.

Variable Annuity Life Insurance Company
401(a) Minnesota State Colleges & Universities Plans
Total Return As Of December 31, 1996

Asset Class	Annualized Total Return* 1 Year	3 Year	5 Year	Annual Expenses
Money Market				
VALIC Money Market	3.97%	3.75%	3.02%	1.57%
90 Day U.S. Treasury Bill	*5.29%*	*5.10%*	*4.40%*	
Bond				
VALIC Capital Conservation	0.75%	3.85%	5.96%	1.57%
Lehman Gov/Corp	*2.90%*	*5.79%*	*7.18%*	
VALIC International Govt Bond	3.36%	7.93%	7.73%	1.56%
Salomon Non-US$ Govt Bond	*4.10%*	*9.67%*	*9.73%*	
Balanced				
VALIC Templeton Asset Allocation	17.40%	10.81%	12.59%	1.91%
60% Wil/35% Leh Agg /5% TBills	*14.10%*	*13.26%*	*11.68%*	
Domestic Equity				
VALIC Stock Index	21.53%	18.10%	13.60%	1.35%
VALIC T.Rowe Price Science & Tech.	12.68%	NA	NA	1.94%
Standard & Poor's 500	*23.23%*	*19.78%*	*15.29%*	
VALIC Midcap Index	17.61%	13.14%	11.99%	1.41%
S&P Midcap 400	*18.72%*	*14.30%*	*13.68%*	
VALIC Dreyfus Small Cap	15.14%	16.08%	34.51%	2.08%
Russell 2000	*16.49%*	*13.68%*	*15.65%*	
International				
VALIC Templeton International	22.50%	10.57%	NA	1.96%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges.

Supplemental Investment Fund
401(a) Minnesota State Colleges & Universities Plans
Total Return As Of December 31, 1996

Asset Class	Annualized Total Return* 1 Year	3 Year	5 Year	Annual Expenses
Money Market				
SIF Money Market	5.15%	4.89%	4.20%	0.41%
90 Day U.S. Treasury Bill	*5.29%*	*5.10%*	*4.40%*	
Bond				
SIF Bond Market	4.30%	5.65%	7.30%	0.55%
Lehman Aggregate	*3.63%*	*6.03%*	*7.04%*	
Balanced				
SIF Income Share	14.14%	13.16%	11.65%	0.42%
60% Wil/35% Leh Agg /5% TBills	*14.10%*	*13.26%*	*11.68%*	
Domestic Equity				
SIF Common Stock Index	21.14%	17.83%	14.79%	0.42%
SIF Growth Share	21.78%	16.77%	13.62%	0.68%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	
International				
SIF International Share	9.93%	9.05%	10.21%	0.56%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges.

Summary Of All Variable Options
401(a) Minnesota State Colleges & Universities Plans
Total Return As Of December 31, 1996

Asset Class	Annualized Total Return* 1 Year	3 Year	5 Year	Annual Expenses
Money Market				
MM Money Market	4.08%	3.82%	3.12%	1.45%
GW Money Market	4.29%	4.05%	3.38%	1.21%
TIAA-CREF Money Market	5.28%	5.07%	4.40%	0.29%
VALIC Money Market	3.97%	3.75%	3.02%	1.57%
SIF Money Market	5.15%	4.89%	4.20%	0.41%
90 Day U.S. Treasury Bill	*5.29%*	*5.10%*	*4.40%*	
Bond				
MM Scudder Bond	2.86%	2.72%	3.98%	1.73%
VALIC Capital Conservation	0.75%	3.85%	5.96%	1.57%
TIAA-CREF Bond Market	3.08%	5.26%	6.83%	0.29%
Lehman Gov/Corp	*2.90%*	*5.79%*	*7.18%*	
GW Voyageur U.S. Government Sec	1.61%	4.24%	5.76%	1.72%
Lehman Government	*2.77%*	*5.53%*	*6.88%*	
VALIC International Govt Bond	3.36%	7.93%	7.73%	1.56%
Salomon Non-US$ Govt Bond	*4.10%*	*9.67%*	*9.73%*	
SIF Bond Market	4.30%	5.65%	7.30%	0.55%
Lehman Aggregate	*3.63%*	*6.03%*	*7.04%*	
Balanced				
MM Managed I	11.56%	10.61%	8.61%	1.45%
GW Fidelity Adv. Income & Growth	7.56%	4.57%	8.03%	2.02%
TIAA-CREF Social Choice Account	15.53%	13.87%	12.41%	0.31%
VALIC Templeton Asset Allocation	17.40%	10.81%	12.59%	1.91%
SIF Income Share	14.14%	13.16%	11.65%	0.42%
60% Wil/35% Leh Agg /5% TBills	*14.10%*	*13.26%*	*11.68%*	

continued on next page

Asset Class	Annualized Total Return*			Annual
	1 Year	3 Year	5 Year	Expenses
Domestic Equity				
MM Janus Twenty Fund	26.87%	16.61%	10.42%	1.75%
MM Fidelity Contrafund	20.73%	16.82%	17.04%	1.98%
MM Fidelity Growth & Income	18.79%	17.19%	15.94%	1.77%
MM Advantus Growth II	4.98%	13.51%	12.08%	1.55%
MM Parnassus Fund	10.60%	7.65%	14.44%	1.99%
GW Fidelity Adv Growth Opportunity	17.12%	16.41%	16.91%	2.19%
GW Growth Fund I (Janus)	5.16%	13.26%	14.66%	1.85%
TIAA-CREF Equity Index	21.58%	NA	NA	0.30%
TIAA-CREF Stock Account	19.42%	16.02%	13.58%	0.32%
TIAA-CREF Growth Account	25.50%	NA	NA	0.37%
VALIC Stock Index	21.53%	18.10%	13.60%	1.35%
VALIC T.Rowe Price Science & Tech.	12.68%	NA	NA	1.94%
Standard & Poor's 500	*23.23%*	*19.78%*	*15.29%*	
GW Vista Growth & Income	18.92%	13.31%	13.27%	1.75%
S&P 900 (S&P 500/S&P 400)	*22.73%*	*19.12%*	*15.09%*	
VALIC Midcap Index	17.61%	13.14%	11.99%	1.41%
S&P Midcap 400	*18.72%*	*14.30%*	*13.68%*	
GW Twentieth Century Ultra	13.00%	13.92%	12.43%	1.75%
VALIC Dreyfus Small Cap	15.14%	16.08%	34.51	2.08%
Russell 2000	*16.49%*	*13.68%*	*15.65%*	
SIF Common Stock Index	21.14%	17.83%	14.79%	0.42%
SIF Growth Share	21.78%	16.77%	13.62%	0.68%
Wilshire 5000 Index	*21.21%*	*18.23%*	*14.92%*	
International				
MM Scudder International	13.39%	6.49%	9.24%	2.19%
GW Templeton International Equity	18.69%	10.55%	13.74%	2.25%
GW Fidelity Advisors Overseas	10.88%	6.49%	9.93%	2.50%
TIAA-CREF Global Equities Account	17.98%	12.14%	NA	0.40%
VALIC Templeton International	22.50%	10.57%	NA	1.96%
SIF International Share	9.93%	9.05%	10.21%	0.56%
EAFE-Free	*6.14%*	*8.37%*	*8.19%*	

* Returns are net of all direct fees and charges.

ATTACHMENT C

401(a) Minnesota State Colleges and Universities Plans (MnSCU)

Minnesota Mutual Life Insurance Company (MM)
Great-West Life & Annuity Insurance Company (GW)
Teachers Ins. & Annuity Assoc.-College Equity Retirement Fund (TIAA-CREF)
Variable Annuity Life Insurance Company (VALIC)

Fixed Options

Fixed options are lower risk products intended to protect the principal of the investment and provide a stable return for the participant. Participants in the Plans may choose different fixed products:

- The fixed options of the insurance companies are portfolio products in which assets are invested in the general account of the company and earn a rate that reflects the investment performance of the respective company's large pool of general account assets. In general, the fixed products have stated interest rates for specific time periods as determined by the companies.

- The SIF Fixed Interest Account is a pool of assets invested in guaranteed investment contracts (GIC's) and GIC-type investments from which participants earn monthly interest that changes somewhat from month to month depending upon the mix of the investments in the Account.

Note that the SIF option has the 40 basis point a year administrative charge deducted from its return, while the insurance company options do not.

Minnesota Mutual
- The current new money rate is 5.45%.

Great-West
- The current new money rate is 5.75%.

TIAA-CREF
- The current new money rate is 6.67%.

VALIC

- The current new money rate is 6.55%.

SIF

- Annualized return for December 1996 was 5.98%.

Comparable Treasury Yields

- 1 Year: 5.23%
- 3 year: 6.01%
- 5 year: 6.21%

MINNESOTA
STATE
BOARD OF
INVESTMENT

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

DATE: February 12, 1997

TO: Members, Deferred Compensation Review Committee

FROM: Jim Heidelberg
Bob Barman

SUBJECT: Replacement of Two Great-West Options in Deferred Compensation Plan

Great-West has recommended that two options be replaced in the 457 Plan. These options are:

- Fidelity Advisors Income & Growth (to be replaced by INVESCO Balanced Portfolio)
- Voyageur U.S. Government Securities (to be replaced by Loomis Sayles Corporate Bond Portfolio)

This memo provides information on performance and management of these options.

Staff is recommending that the SBI accept Great West's recommendations.

Fidelity Advisors Income & Growth
The fund is a balanced mutual fund offered by Fidelity Management & Research, Boston. The mutual fund is followed by industry observers such as Morningstar. Two issues raise concern about the continued use of the fund in the Plan:

- Continued manager turnover at Fidelity has resulted in the fund having its third portfolio management team in eight months.
- Performance has been subpar for several years.

<u>Great-West Evaluation</u>
GW recommends that Fidelity Advisors Income & Growth be removed as an option. GW reports that the fund continues to lag GW performance indicators. GW also reports that it put Fidelity Management & Research on notice that it may

drop the fund. GW has worked with plan sponsors to replace the fund with another balanced fund in other plans in which GW is a product provider. **Exhibit A** is the current GW evaluation of the fund.

Staff Comments

As reported in Morningstar in fall 1996, "Risky bets have savaged the fund's total returns for the past three years. Its poor showing this year (1996) is due largely to an ill-timed gamble on the bond market." Manager Bettina Doulton, who took over in March 1996, adopted "a rather fixed asset allocation" of 60% stocks, 30% bonds, 5% junk bonds, and 5% cash, eliminating large allocation changes and large duration bets in the bond portfolio.

However, in December 1996 Doulton was named to replace the departing manager of the larger Fidelity Equity-Income II fund. According to a Wall Street Journal account, Ms. Doulton will continue to manage "her three other funds," which include Fidelity Advisor Income & Growth. Also, Robert Bertelson was named portfolio assistant to Doulton on her funds. It remains to be seen whether the new team keeps in place the portfolio changes instituted in 1996.

Staff compares the performance of the Fidelity Advisors Income & Growth fund, a balanced option, to a composite index containing a mix of stocks, bonds and cash. The Fidelity fund has significantly underperformed the composite for the one year, three year and five year periods ending December 31, 1996.

Annualized Total Return, Net of all Direct Fees and Charges
As of December 31, 1996

	1 Year	3 Year	5 Year	Annual Expenses
GW Fidelity Advisors Inc. & Growth	7.38	4.65	7.99	2.22
60% Wil/35% Leh Agg/5% TBill	*14.10*	*13.26*	*11.68*	

Voyageur U.S. Government Securities Fund

The fund is a mutual fund offered by Voyageur Companies, which is based in Minneapolis. It is the only bond fund offered by GW in the Plan. Two issues raise concern about the continued use of the fund in the Plan:

- Voyageur Companies agreed to sell its mutual funds business to an entity owned by Lincoln National Corporation of Fort Wayne, Indiana.

- Recent performance has been weak.

Great-West Evaluation
GW recommends that the Voyageur fund be dropped. GW has expressed concern about the performance of the fund and the impact of the sale on fund investment management. The current GW evaluation of the fund appears in **Exhibit A**.

Staff Comments
In mid-January 1997, Voyageur Companies has agreed to sell its mutual funds business to Delaware Management Holdings, a Philadelphia-based money management firm owned by Lincoln National Corporation. Delaware Management plans to purchase Voyageur Fund Managers, a tax-free bond fund company. One of the mutual funds involved in the transaction is the Voyageur U.S. Government Securities fund.

News reports state that two of the three Voyageur municipal bond fund portfolio managers will be retained by Lincoln. GW reports that Voyageur told GW that Jane Wyatt, Chief Investment Officer for Voyageur and the current fund manager, will remain as subadvisor to the fund, and that the fund will be renamed a Delaware fund upon final sale.

Staff compares the performance of the Voyageur U.S. Government Securities fund to the Lehman Government Bond Index. The fund has underperformed the index for the one, three and five year periods ending December 31, 1996, with significant underperformance occurring in the past year.

Annualized Total Return, Net of all Direct Fees and Charges
As of December 31, 1996

	1 Year	3 Year	5 Year	Annual Expenses
GW Voyageur US Govt Securities	1.32	3.97	5.51	1.92
Lehman Government	*4.42*	*4.40*	*7.38*	

Selection of Replacement Funds
Great-West presents an INVESCO Balanced Portfolio as a replacement for the Fidelity option and a GW Corporate Bond Portfolio managed by Loomis Sayles as a replacement for the Voyageur option. Descriptive information about these options is in **Exhibit B**. Return information is in **Exhibit A**.

Contract Issues
According to Section 6 of the contract between GW and the SBI, the SBI may add additional GW options with 30 day written notice to GW. The contract is silent on the issue of eliminating an option and replacing it. Presumably, if the Fidelity or Voyageur fund option were eliminated, a new GW fund could be added.

Another issue is the future status of dollars in a fund if it is eliminated from the Plan. Under terms of the current contract with GW, certain investment options offered prior to September 1, 1994 by GW were eliminated. Balances in those accounts were transferred to new investment options by direction of the participant or, if the participant did not make a decision, to default options designated in the contract. A similar arrangement would be needed if a current investment option is eliminated. Great-West is willing to work with the SBI in a similar manner to replace an option.

Staff Recommendations

Staff recommends that the Committee accept the recommendations of Great West. This would eliminate the Fidelity Advisors Income & Growth option and replace it with the INVESCO Balanced Portfolio fund, and eliminate the Voyageur U.S. Government Securities option and replace it with GW Corporate Bond Portfolio managed by Loomis Sayles.

This recommendation should be forwarded to the SBI at its meeting on March 5, 1996. In addition, the SBI would need to direct staff to negotiate and execute appropriate contract amendments to implement the changes.

Great West also provides the Fidelity Advisors Income and Growth and the Voyageur U.S. Government Securities options in the MnSCU Plan. The SBI's responsibility related tot he MnSCU Plan is only advisory. Therefore, staff recommends that whatever action is taken by the SBI be forwarded to the MnSCU Board for its review.

Attachments

Great-West
LIFE & ANNUITY INSURANCE COMPANY

8515 East Orchard Road
Englewood, CO 80111 Tel. (303) 689-3000
Address mail to: P.O. Box 1700, Denver, CO 80201

February 10, 1997

Mr. Jim Heidelberg
Manager, Public Programs
Room 105 MEA Building
55 Sherburne Avenue
St. Paul, MN 55155

RE: 1996 Fund Performance Review

Dear Jim:

Based on the criteria outlined in the 1996 Fund Performance Review, two funds (Fidelity Advisor Income and Growth and Voyager U.S. Government Securities) should be reviewed for continued inclusion in your program.

To maintain strong investment options in the asset classes involved, we suggest the replacement of those funds with the MAXIM Invesco Balanced Portfolio and the MAXIM Corporate Bond Portfolio (managed by Loomis Sayles).

Upon hearing of your final decision, we would also need to discuss default options and dates, timing, and communication.

If you need any further information, please do not hesitate to contact me.

Sincerely,

John A. Brown
Senior Vice President
Sales, Financial Services

JABJH:kam

cc: Dave Bergstrom, Executive Director, Minnesota State Retirement System

Fund Performance Review Summary

as of 12/31/1996

Risk	Asset Class	Equity Style	Rank	Fund Name	Overall Fund Status[3]	# Qtrs at Curr Status[2]	Performance vs. Benchmark[1]: Sharpe Measure Analysis	Fund Return Analysis	Morning-star Rating	Comments
High	Int'l	Value	1st	Maxim Int'l Equity (Templeton)	All Above	1	Above	Above	Above	4 star rating as of 4Q96
	Mid Cap	Growth	1st	American Cent-20thC UltraInv	>=1 Above	8	Below	Above	Above	
		Growth	2nd	Maxim MidCap (Growth Fund I)	Below	1	Below	Below	Neutral	
	Lg Cap	Blend	1st	Maxim Vista Growth & Income	>=1 Above	2	Above	Below	Neutral	
	Balanced	Blend	1st	Maxim INVESCO Balanced	All Above	1	Above	Above	Above	
		Value	2nd	Fidelity Adv Income & Grth T	Below	4	Below	Below	Below	4th Quartile, 2 star rating as of 4Q96
	Bond	NA	1st	Maxim Corporate Bond	All Above	8	Above	Above	Above	
Low		NA	2nd	Voyageur U.S. Govt Secs A	Below	3	Below	Below	Below	3rd Quartile

[1] Benchmark = 50th Percentile, or 3 star rating

[2] Since Fund Evaluation Inception 1/1/95

[3] Overall Fund Status Ranking Criteria

- **All Above** - fund has all 3 performance measures rated "above"
- **>=1 Above** - fund has 1 or more of the performance measures rated "above"
- **Below** - fund has 0 performance measures rated "above"
- **N/A** - fund has less than 3 years of historical performance

MAXIM CORPORATE BOND PORTFOLIO, MANAGED BY LOOMIS SAYLES

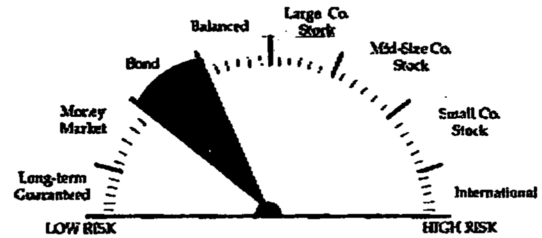
For period ending December 31, 1995

Inception Date: November 1994 *Fund Manager:* Daniel J. Fuss

[illegible] OBJECTIVE

The Maxim Corporate Bond Portfolio seeks high total investment return by investing in debt securities (including convertibles) -- although up to 20% of its assets may be invested in preferred stocks. In pursuit of high total investment returns through a combination of current income and capital appreciation, the portfolio will normally invest at least 65% of its assets in bonds. A limited portion of its assets also may be invested in securities of foreign issuers and up to 35% of its assets in securities of below investment grade quality.

Who is most likely to choose this type of investment?
Someone whose priorities lie more with investment security than with growth. This person may be approaching retirement or may simply prefer to take less risk than other people. For this added security, this person is willing to accept a lower potential return on investments.

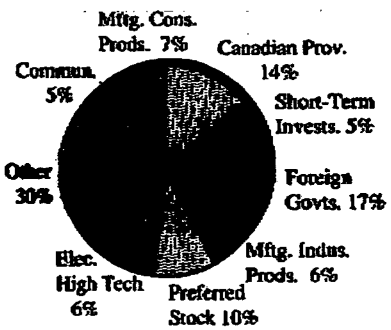


FOR ILLUSTRATION PURPOSES ONLY.

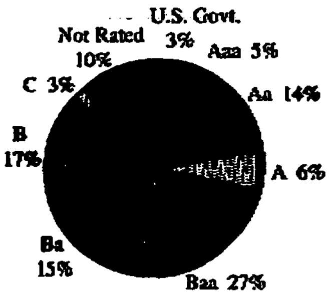
[illegible] ASSETS BOND QUALITY

The following reflects the position of the Maxim Corporate Bond Portfolio, managed by Loomis Sayles, as of December 31, 1995.

Portfolio Blend



Bond Ratings



Fund Operating Expenses:	0.90%**
Total Assets:	$45,530,190
Three-year Beta:	1.31*
(1/1/93 - 12/31/95)	

[illegible]

Canadian Imperial Bank of Commerce	RJR Nabisco, Inc.
Republic of Brazil	Ontario
New Zealand	Saskatchewan
Time Warner, Inc.	Argentina
Quebec	Ireland

* Beta is a measure of a fund's volatility and variability compared to the market. It is not a complete measure of risk.

The actual inception date of the underlying fund, the Corporate Bond Fund, was May 1991.
***As of most current prospectus.*

Great-West
LIFE & ANNUITY INSURANCE COMPANY

G1536-18 (2/96)

Registration with the Securities and Exchange Commission is not required for the FutureFunds II Series Account.

EXHIBIT B

MAXIM INVESCO BALANCED PORTFOLIO

For period ending October 15, 1996

Inception Date: October 1996 *Fund Managers:* Donovan J. (Jerry) Paul and Charles P. Mayer

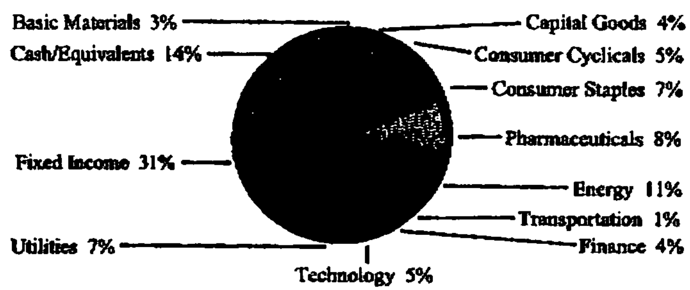
INVESTMENT OBJECTIVE

The Maxim INVESCO Balanced Portfolio seeks to achieve a high total return on investment through capital appreciation and current income. The Portfolio pursues this objective by normally investing 50% to 70% of its total assets in common stocks, and the remainder in fixed-income securities, including cash reserves. At least 25% of the Portfolio's assets normally will be invested in fixed-income securities issued by the U.S. government, its agencies and instrumentalities, or in investment grade corporate bonds. The capital appreciation component of total return includes both realized and unrealized appreciation.

ALLOCATION OF ASSETS

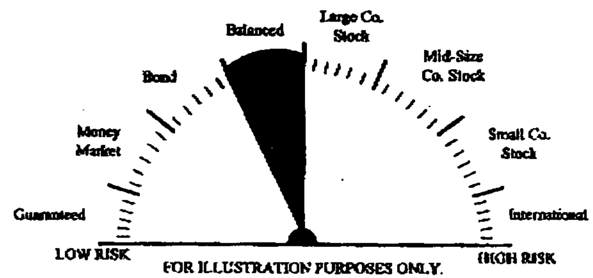
The following reflects the position of the Maxim INVESCO Balanced Portfolio, as of October 15, 1996.

Portfolio Blend



Who is most likely to choose this type of investment?

Someone who seeks a balance between growth and income. This person is willing to take on some short-term risk in anticipation of potential long-term rewards -- yet feels more comfortable with a good portion of savings in stable, lower-risk investments.



Fund Operating Expenses:	1.00**
Total Assets:	$2,622,472
Three-year Beta: (1/1/95 - 12/31/95)	N/A*

TOP TEN HOLDINGS AS OF 10/15/96

Idaho Power	W.R. Berkley
Sonat Inc.	Smithkline Beecham
Premark International	Anheuser Busch
Bristol Myers Squibb	Oklahoma Gas & Electric
Scottish TV	Astra AB, ADR

* Beta is a measure of a fund's volatility and variability compared to the market. It is not a complete measure of risk.
** *As of 10/1/96 prospectus.*

Great-West
LIFE & ANNUITY INSURANCE COMPANY

G1536 - 28

Registration with the Securities and Exchange Commission is not required for the FutureFunds II Series Account.

Tab E

COMMITTEE REPORT

DATE: February 25, 1997

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on February 18, 1997 to consider the following agenda items:

- Review of manager performance for the period ending December 31, 1997.

- Re-Interview GeoCapital as required by the Manager Continuation Policy.

Board action is requested on the last item.

INFORMATION ITEMS:

1. Review of Manager Performance

- ***Stock Managers***

For the quarter ended December 31, 1996, the domestic stock manager program exceeded its aggregate benchmark and outperformed the Wilshire 5000 by 0.6 percentage points. For the latest year, the **current** managers outperformed the benchmark and the Wilshire 5000. For the last three years, the **current** managers underperformed the benchmark and the Wilshire 5000. For the five year period, the **current** manager group outperformed the benchmark and matched the Wilshire 5000:

Time period	Total Program	Wilshire 5000*
Quarter	7.5%	6.9%
1 Year	22.1	21.2
3 Years	17.8	18.2
5 Years	14.5	14.9

Current Mgrs. Only	Aggregate Benchmark
7.5%	6.9%
22.1	20.9
17.9	18.2
14.9	14.8

* Adjusted for SBI's restrictions, as appropriate.

The domestic equity program outperformed the Wilshire 5000 for the quarter as a result of the value added by the active, semi-passive, and passive components. Positive performance results were achieved through active bets held in technology finance, and consumer non-durables.

The performance evaluation reports for the stock managers start on **page 7** of this Tab. Manager Commentaries are in **Tab H.**

- *Bond Managers*

For the period ended December 31, 1996, the bond manager program and current managers outperformed the Lehman Aggregate and the aggregate benchmark for the quarter, latest one year, three year, and five year periods.

Time period	Actual	Lehman Aggregate*
Quarter	3.5%	3.0%
1 Year	4.6	3.6
3 Years	6.3	6.1
5 Years	7.6	7.1

Current Mgrs. Only	Aggregate Benchmark
3.5%	3.0%
4.6	3.6
6.3	6.1
7.6	7.1

*** 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.**

ACTION ITEMS:

2. Re-Interview of GeoCapital Corporation

Last quarter, the committee concurred with staff's recommendation that GeoCapital be formally re-interviewed in accordance with the SBI's Manager Continuation Policy. GeoCapital's performance on a five year rolling basis has plotted below the VAM graph warning line which necessitated the re-interview. The re-interview took place as part of the Domestic Manager Committee meeting on February 18, 1997. Staff's comments and analysis begin on **page 5.**

Staff believes GeoCapital is the same firm the SBI hired in April 1990. They have continued to operate under the same investment philosophy and with the same people and investment process that were in place at that time. Staff noted that, as expected, GeoCapital is a volatile manager with periods of underperformance and periods of significant outperformance. Staff believes GeoCapital can outperform their benchmark over the long term.

After discussion, the Committee concurred with staff recommendations that GeoCapital be retained as an active portfolio manager, and that staff continue to closely monitor the firm. Committee members are concerned that GeoCapital lacks depth in their analytical staff, particularly in the technology area. The Committee also expressed concerns about the portfolio manager succession plan outlined by GeoCapital.

RECOMMENDATION:

The Committee recommends that the SBI continue to retain GeoCapital Corporation for active domestic stock management.

(Blank)

GEOCAPITAL CORPORATION

GeoCapital invests in small capitalization stocks with a turnaround story or the potential for fast growth. They look at the company's management for past successes, and strive to own companies in which management's goals are aligned with the investors' objectives. Staff believes that the portfolio managers at GeoCapital intimately know the stocks they own, and that they work with company managements on an on-going basis to improve shareholder value.

GeoCapital currently manages approximately $2.0 billion in assets. They believe their investment style, long-term holding periods, and low turnover would allow them to handle $2.25 to $2.5 billion without liquidity concerns, but they are not actively marketing. They have lost one account over the past year due to a change in asset allocation out of small cap stocks, and have gained an institutional account and several small individual accounts through referrals. Over the next year, growth in assets is expected to remain flat with inflows from new individual accounts offsetting regular cash withdrawals from current clients.

GeoCapital has had a custom benchmark since their inception with SBI in 1990. However, that benchmark has at times contained names that may not have been relevant to GeoCapital's investment universe. More recently, GeoCapital has taken an active roll in the benchmark's construction. While benchmarks are never perfect, it is important that GeoCapital continues to closely monitor their benchmark to ensure that they will be evaluated against a benchmark that represents their investment universe.

GeoCapital is SBI's most volatile domestic equity manager. Their volatility results from the very concentrated industry bets they make. As a long term investor, their bets on specific industries may be in place for several years before they are rewarded. In the meantime, there will be periods of underperformance.

GeoCapital's performance since inception is 16.4% annualized vs. a benchmark return of 17.7%. The underperformance of 1.3% annualized was primarily due to stock selection in drugs/medicine and retail. For the past year, GeoCapital has outperformed their benchmark by 9.7% (19.2% actual return vs. 9.5% for the benchmark). Much of this outperformance was due to good stock selection in the media, hospital management, computer services, and business equipment industries.

GeoCapital is one of SBI's few small cap managers. Staff believes that they are still the same organization that was hired by SBI over six years ago with the same investment and decision making processes. Their performance has been volatile, as was expected, but staff believes that they can provide positive returns over the long term.

At this time, staff recommends that the Domestic Manager Committee retain the investment management services of GeoCapital Corporation.

Investment Manager: GeoCapital
Benchmark: Custom

		PORTFOLIO Qrtly Return	PORTFOLIO Annual Return	BENCHMARK Qrtly Return	BENCHMARK Annual Return	VAM Qrtly Return	VAM Annual Return
90	Q1						
	Q2	6.03%		6.09%		-0.06%	
	Q3	-30.07%		-22.30%		-10.00%	
	Q4	25.81%	* -6.72%	10.77%	* -8.69%	13.58%	* 2.15%
91	Q1	30.34%		24.65%		4.56%	
	Q2	-3.94%		-2.14%		-1.84%	
	Q3	17.88%		10.24%		6.92%	
	Q4	16.72%	72.26%	12.04%	50.68%	4.17%	14.32%
92	Q1	-2.97%		-0.94%		-2.04%	
	Q2	-9.37%		-9.71%		0.37%	
	Q3	-0.37%		2.97%		-3.24%	
	Q4	16.04%	1.68%	18.82%	9.43%	-2.34%	-7.09%
93	Q1	-0.55%		1.21%		-1.74%	
	Q2	0.56%		6.16%		-5.28%	
	Q3	10.76%		9.37%		1.27%	
	Q4	4.54%	15.79%	3.45%	21.57%	1.05%	-4.75%
94	Q1	-2.90%		-4.16%		1.31%	
	Q2	-6.91%		-4.59%		-2.43%	
	Q3	7.99%		14.04%		-5.30%	
	Q4	-2.20%	-4.54%	-0.10%	4.18%	-2.11%	-8.37%
95	Q1	8.53%		10.94%		-2.17%	
	Q2	6.62%		4.91%		1.62%	
	Q3	12.18%		16.79%		-3.94%	
	Q4	-0.15%	29.62%	5.63%	43.59%	-5.48%	-9.73%
96	Q1	5.43%		4.77%		0.63%	
	Q2	7.24%		5.74%		1.42%	
	Q3	1.21%		-1.54%		2.79%	
	Q4	4.18%	19.22%	0.41%	9.53%	3.75%	8.85%
Latest:							
1 yr			19.22%		9.53%		8.85%
3 yr			13.84%		17.89%		-3.44%
5 yr			11.67%		16.86%		-4.45%
Cum 90Q2-96Q3			17.35%		18.45%		-0.92%
Std Dev			19.07%		17.53%		7.06%

**9 Month Period: 4/1/90-12/31/90*

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Fourth Quarter, 1996

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DOMESTIC STOCK MANAGERS
Period Ending 12/31/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Alliance	8.6	6.2	23.4	23.1	18.7	18.9	15.6	13.1	18.0	13.3	$890.87	6.1%
Brinson	9.5	6.9	26.1	20.3	21.6	17.5			19.8	16.7	$467.81	3.2%
Forstmann-Leff	6.5	5.0	28.5	20.6	16.7	17.2	12.7	14.1	13.9	13.1	$483.90	3.3%
Franklin Portfolio	8.2	6.3	24.6	19.2	18.3	17.1	16.8	15.4	15.5	14.6	$613.15	4.2%
GeoCapital	4.2	0.4	19.2	9.5	13.8	17.9	11.7	16.9	16.4	17.7	$393.03	2.7%
IAI	5.9	6.3	14.4	18.4	15.4	17.9			16.0	17.3	$175.47	1.2%
IDS	8.3	6.5	23.5	23.7	19.4	20.0	16.3	17.2	15.9	15.5	$629.93	4.3%
Independence	7.6	8.3	19.8	23.5	17.8	19.9			15.8	16.5	$600.93	4.1%
Lincoln	6.0	5.6	26.7	24.3	23.1	21.2			20.9	19.2	$469.53	3.2%
Oppenheimer	8.3	7.2	27.5	22.0	22.4	18.6			20.6	17.1	$478.07	3.3%
Waddell & Reed	2.9	5.8	12.6	19.0	13.3	16.8	13.7	16.0	12.5	13.1	$452.38	3.1%
Weiss Peck & Greer	0.0	0.9	19.1	10.3	15.4	14.8			15.2	15.7	$331.36	2.3%
Emerging Managers (2)	3.3	4.9	20.5	19.0					19.4	21.2	$440.00	3.0%
Semi-Passive (3)												
Franklin Portfolio	9.1	9.1	21.6	21.9					28.3	28.8	$1,278.15	8.7%
JP Morgan	9.4	9.1	21.9	21.9					29.2	28.8	$1,324.51	9.0%
Barclays Global Investors	9.7	9.1	23.0	21.9					31.1	28.8	$1,336.81	9.1%
Passive (4)												
Barclays Global Investors	7.1	6.9	21.6	21.2					24.2	23.9	$4,293.60	29.3%
									Since 1/1/84			
Current Aggregate	7.5	6.9	22.1	20.9	17.8	18.2	15.0	14.9	16.1	14.1	$14,659.50	100.0%
Historical Aggregate (5)	**7.5**	**6.9**	**22.1**	**21.1**	**17.8**	**18.2**	**14.5**	**15.1**	**14.6**	**14.8**		
Wilshire Adjusted		6.9		21.2		18.2		14.9		15.6		
Wilshire 5000		6.9		21.2		18.2		14.9		15.1		

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

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ALLIANCE CAPITAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Jack Koltes | **Assets Under Management: $890,874,722**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

—Well-acquainted with needs of large clients.

—Investment style consistently and successfully applied over a variety of market environments.

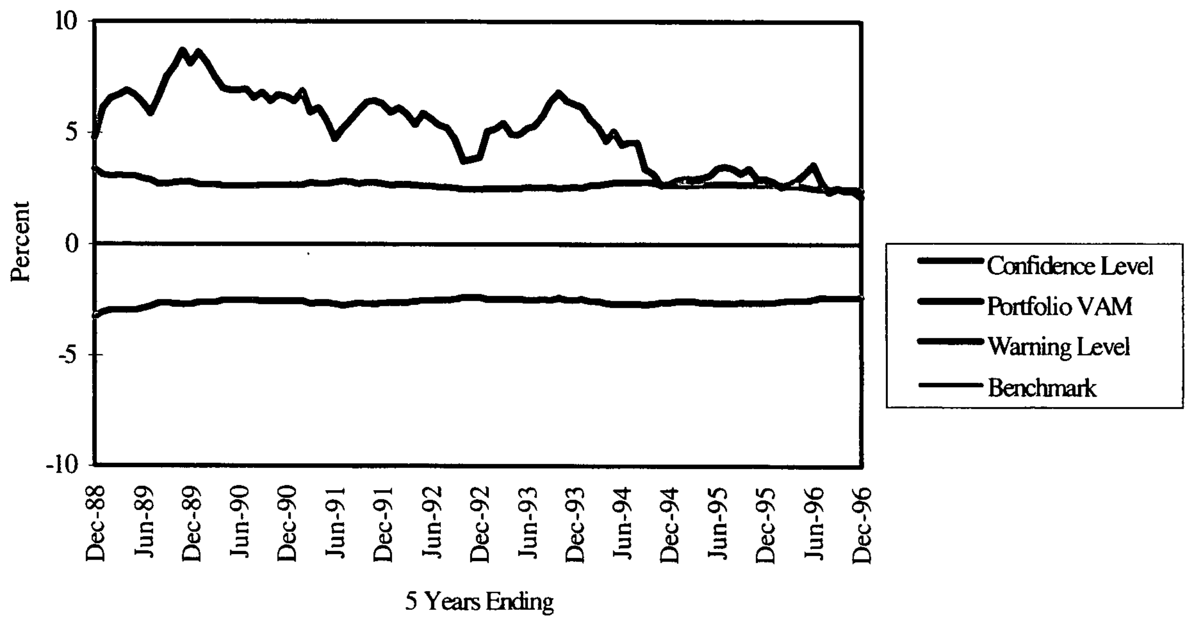
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.6%	6.2%
Last 1 year	23.4	23.1
Last 2 years	30.6	29.0
Last 3 years	18.7	18.9
Last 4 years	16.7	14.3
Last 5 years	15.6	13.1
Since Inception (1/84)	18.0	13.3

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 12/31/96

Portfolio Manager: Jeff Diermeier | **Assets Under Management: $467,808,170**

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:

—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.

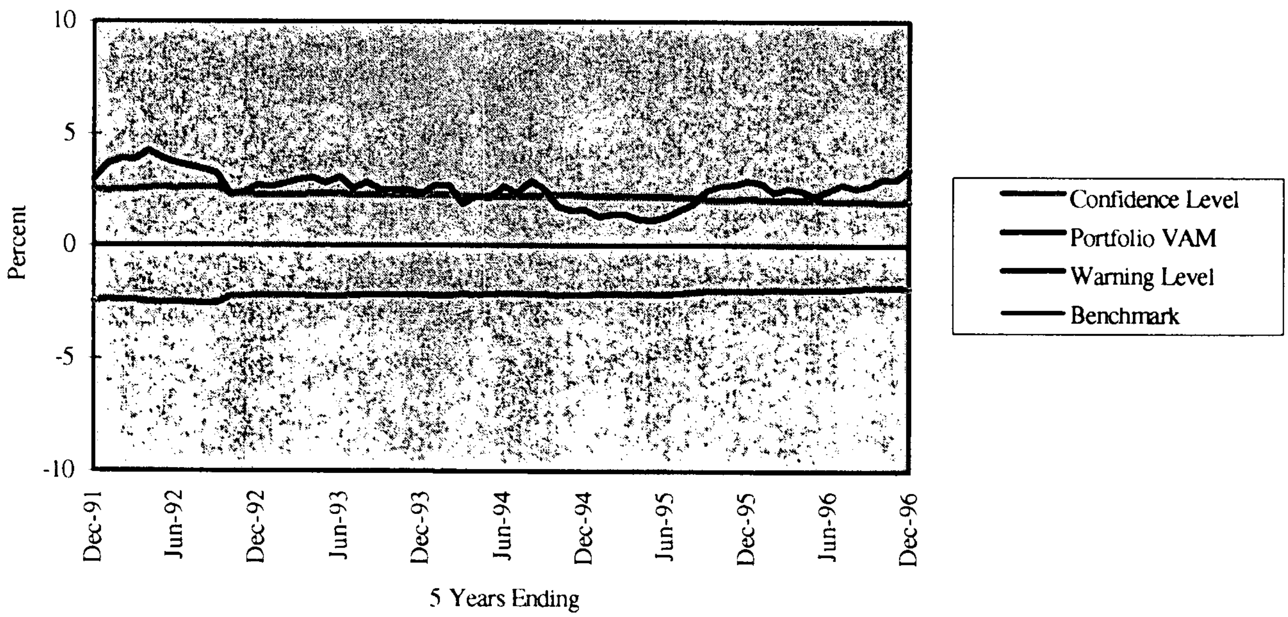
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.5%	6.9%
Last 1 year	26.1	20.3
Last 2 years	33.3	27.3
Last 3 years	21.6	17.5
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	19.8	16.7

Recommendation

No action required.

BRINSON PARTNERS
Rolling Five Year Time Periods



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

FORSTMANN LEFF ASSOCIATES
Period Ending 12/31/96

Portfolio Manager: Joel Leff | **Assets Under Management: $483,898,364**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Highly successful and experienced leadership.

—Well acquainted with needs of large clients.

Concerns:

—Portfolio VAM appears to have diminished, over time.

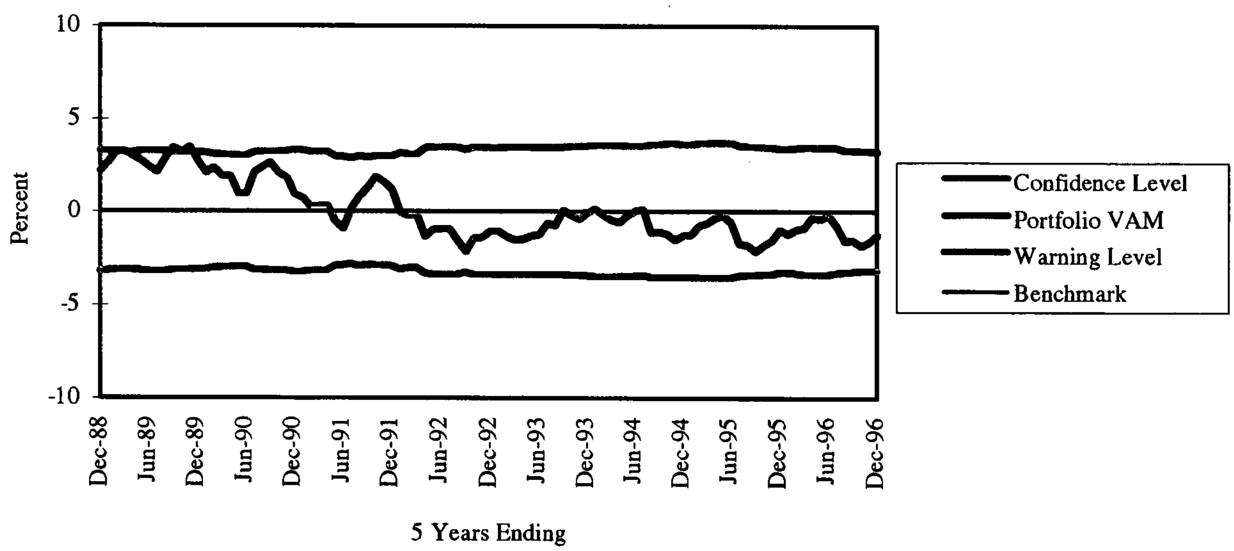
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.5%	5.0%
Last 1 year	28.5	20.6
Last 2 years	30.3	26.4
Last 3 years	16.7	17.2
Last 4 years	15.0	15.0
Last 5 years	12.7	14.1
Since Inception (1/84)	13.9	13.1

Recommendation

No action at this time. Last quarter, Forstmann Leff was reviewed by staff and the Domestic Manager Committee because their rolling 5 year VAM line has been below the benchmark line for twelve months. The Committee recommended no action be taken.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 12/31/96

Portfolio Manager: John Nagorniak **Assets Under Management: $613,154,986**

Investment Philosophy

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. Franklin uses the BARRA 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 3.5 percent for the active portfolio.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Firm's investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

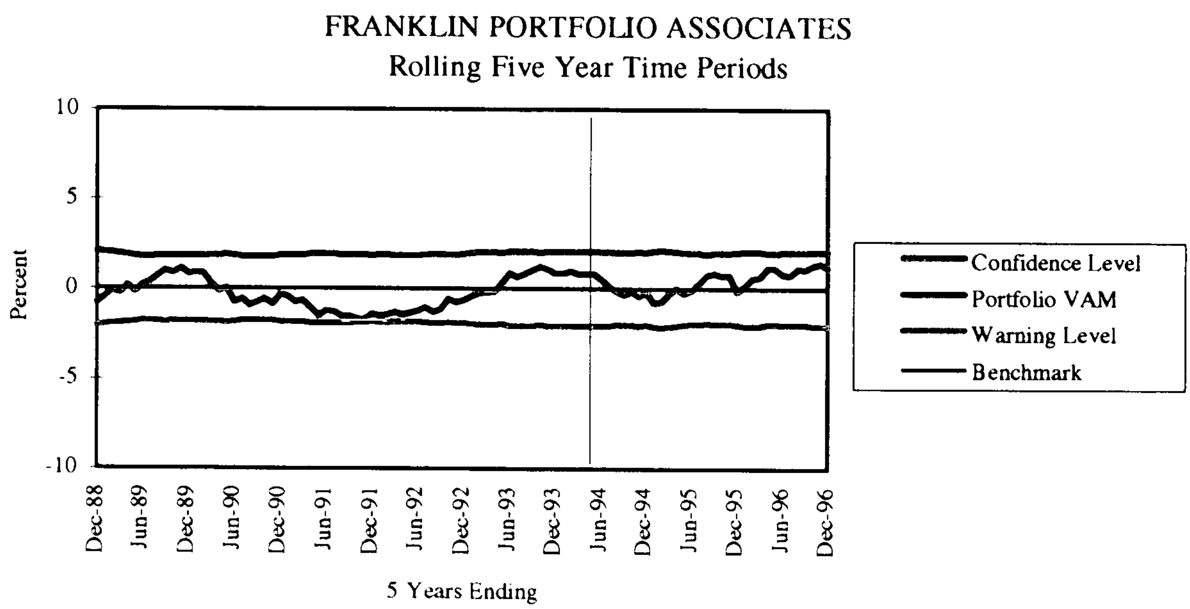
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.2%	6.3%
Last 1 year	24.6	19.2
Last 2 years	28.4	26.6
Last 3 years	18.3	17.1
Last 4 years	18.0	15.9
Last 5 years	16.8	15.4
Since Inception (4/89)	15.5	14.6

Recommendation

No action required.



Note: Area to the left of the vertical line includes performance prior to retention by the SBI.
Graph uses 80/20 confidence interval.

GEOCAPITAL CORP.
Period Ending 12/31/96

Portfolio Manager: Barry Fingerhut **Assets Under Management: $393,030,601**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Investment style consistently and successfully applied over a variety of market environments.

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

Concerns:

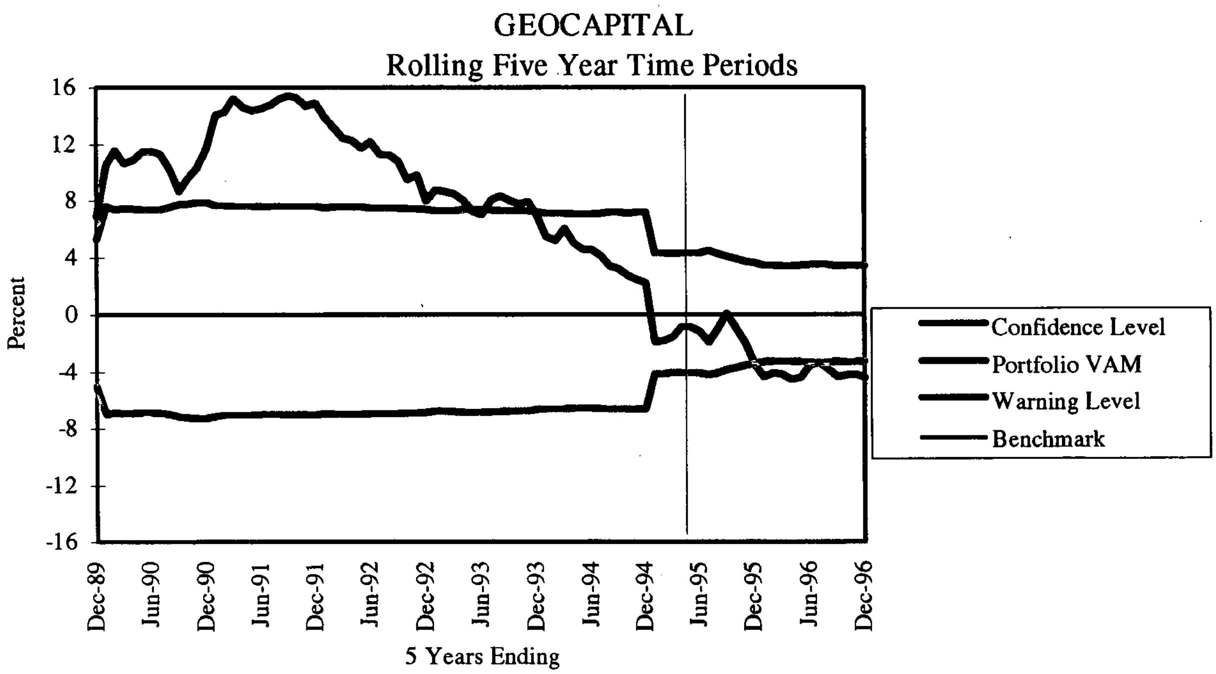
—Performance for the past year has been good, however, the 5 year rolling VAM continues to lag expectations.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.2%	0.4%
Last 1 year	19.2	9.5
Last 2 years	24.3	25.4
Last 3 years	13.8	17.9
Last 4 years	14.3	18.8
Last 5 years	11.7	16.9
Since Inception (4/90)	16.4	17.7

Recommendation

In accordance with SBI's Manager Continuation Policy, GeoCapital is currently being re-interviewed by staff and the Domestic Manager Committee because their rolling 5 year VAM line has been at or below the warning level for twelve months.



Note: Scale differs from other manager VAM graphs. Graph uses 80/20 confidence interval.
Area to the left of vertical line includes performance prior to retention by the SBI.

INVESTMENT ADVISERS INC.
Period Ending 12/31/96

Portfolio Manager: Mark Hoonsbeen **Assets Under Management: $175,467,684**

Investment Philosophy

IAI's investment philosophy is to own the highest quality companies which demonstrate sustainable growth. IAI tries to achieve this objective by investing at least 80% of the portfolio in companies which have their headquarters in Minnesota, Wisconsin, Illinois, Iowa, Nebraska, Montana, North Dakota, or South Dakota. If IAI cannot find enough investment opportunities in the region, up to twenty percent of the portfolio can be used to purchase stocks that display the same quality and growth characteristics but have headquarters outside this region.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Attractive, unique investment approach.

—Investment style successfully applied over a number of market cycles.

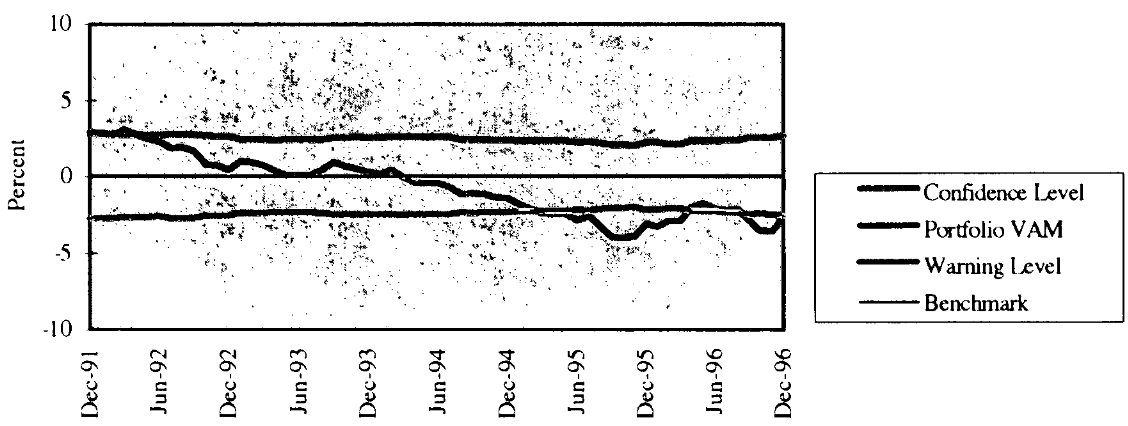
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.9%	6.3%
Last 1 year	14.4	18.4
Last 2 years	23.4	26.0
Last 3 years	15.4	17.9
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	16.0	17.3

Recommendation

No action at this time. Last quarter, IAI was reviewed by staff and the Domestic Manager Committee because their rolling 5 year VAM line has been below the benchmark line for the last twelve months.

INVESTMENT ADVISERS INC.
Rolling Five Year Time Periods



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

IDS ADVISORY
Period Ending 12/31/96

Portfolio Manager: Pete Anderson | **Assets Under Management: $629,932,284**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Investment style consistently and successfully applied over a variety of market environments.

—Familiar with the needs of large institutional clients.

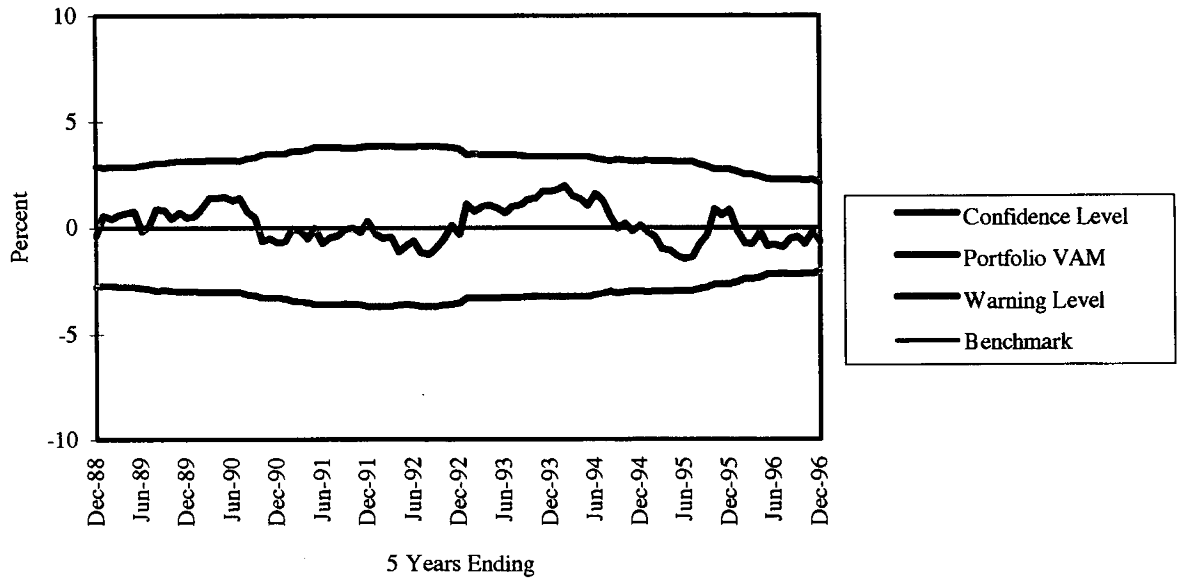
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.3%	6.5%
Last 1 year	23.5	23.7
Last 2 years	29.9	30.0
Last 3 years	19.4	20.0
Last 4 years	17.5	17.9
Last 5 years	16.3	17.2
Since Inception (1/84)	15.9	15.5

Recommendation

No action required.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

INDEPENDENCE INVESTMENT ASSOCIATES
Period Ending 12/31/96

Portfolio Manager: Bill Fletcher | **Assets Under Management: $600,926,257**

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 restricts their portfolio to the top 60% of their ranked universe. The portfolio is optimized relative to the benchmark selected by the client to minimize market and industry risks. Independence maintains a fully invested portfolio and rarely holds more than a 1% cash position.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

Concerns:

—Portfolio VAM appears to have diminished over time.

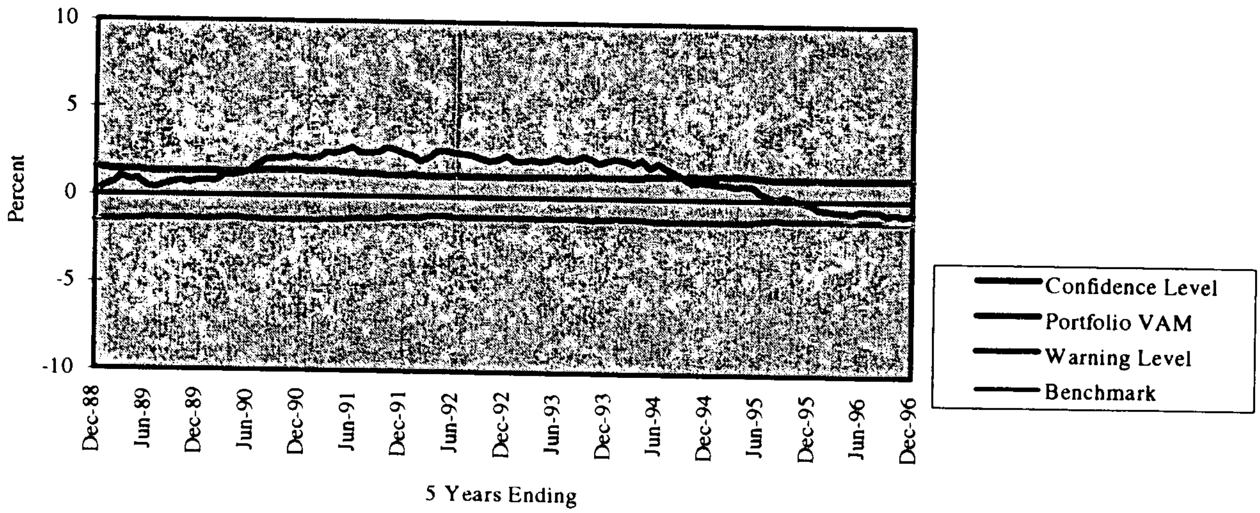
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.6%	8.3%
Last 1 year	19.8	23.5
Last 2 years	28.5	30.4
Last 3 years	17.8	19.9
Last 4 years	16.3	17.4
Last 5 years	N.A.	N.A.
Since Inception (2/92)	15.8	16.5

Recommendation

No action required.

INDEPENDENCE INVESTMENT ASSOCIATES
Rolling Five Year Time Periods



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

LINCOLN CAPITAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Parker Hall | **Assets Under Management: $469,533,263**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Organizational continuity and strong leadership.

—Familiar with the needs of large clients.

—Investment style has been consistently applied over a number of market cycles.

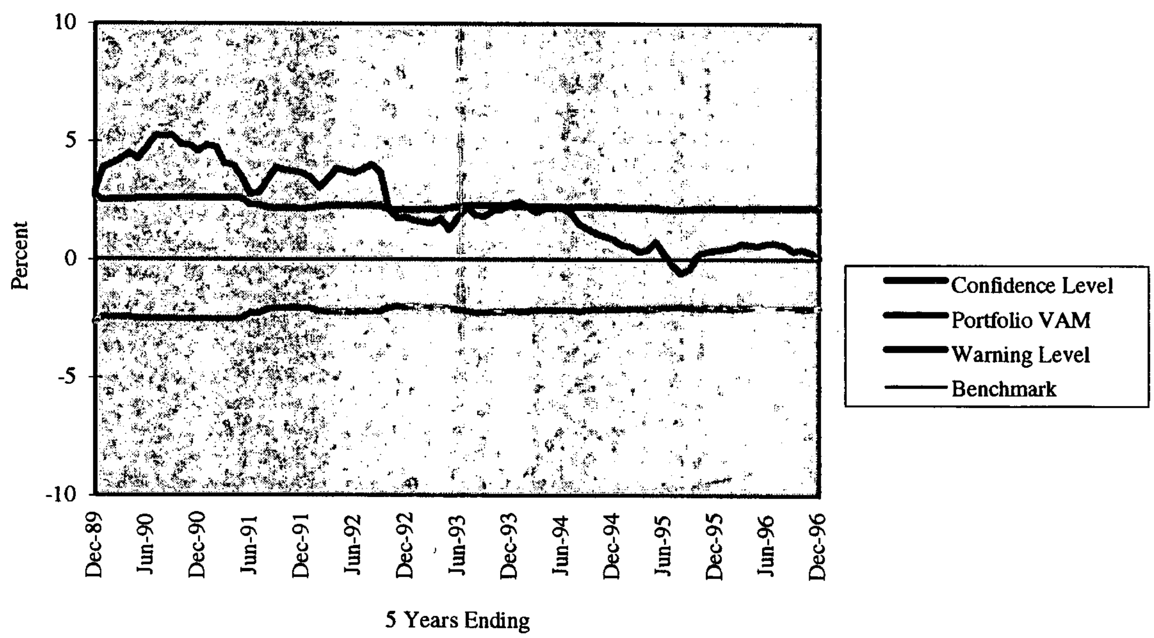
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	6.0%	5.6%
Last 1 year	26.7	24.3
Last 2 years	33.9	30.5
Last 3 years	23.1	21.2
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	20.9	19.2

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT
Rolling Five Year Time Periods



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

OPPENHEIMER CAPITAL
Period Ending 12/31/96

Portfolio Manager: John Lindenthal **Assets Under Management: $478,067,737**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

—Investment style has been consistently applied over a number of market cycles.

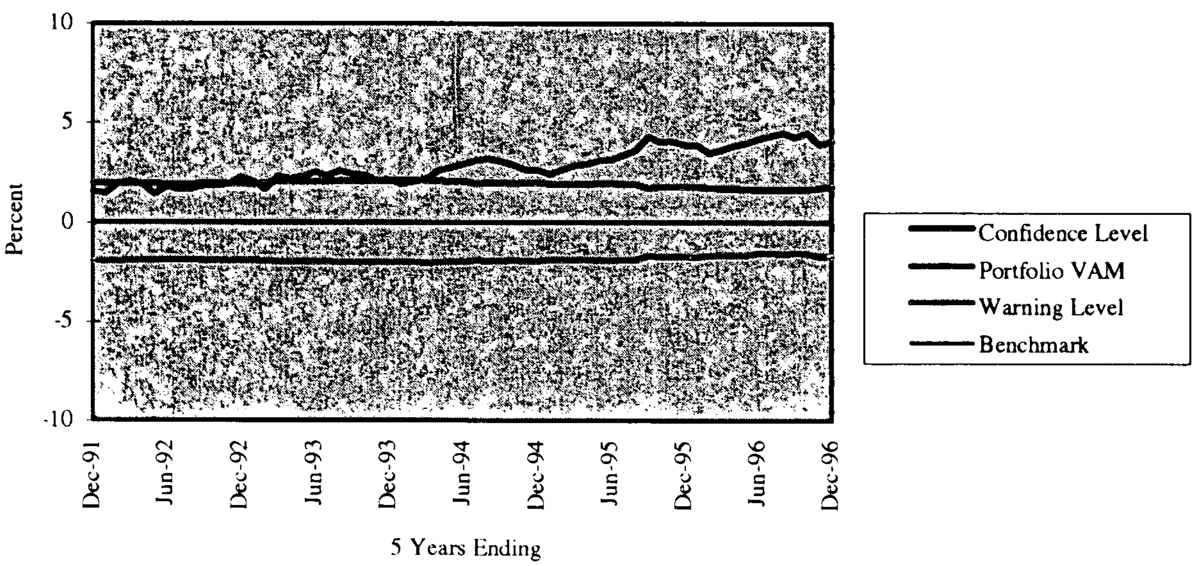
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.3%	7.2%
Last 1 year	27.5	22.0
Last 2 years	35.0	28.5
Last 3 years	22.4	18.6
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	20.6	17.1

Recommendation

No action required.

OPPENHEIMER CAPITAL
Rolling Five Year Time Periods



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

WADDELL & REED ASSET MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Henry Herrmann | **Assets Under Management: $452,381,634**

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:

—Highly successful and experienced professionals.

Concerns:

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

—Performance continues to lag expectations.

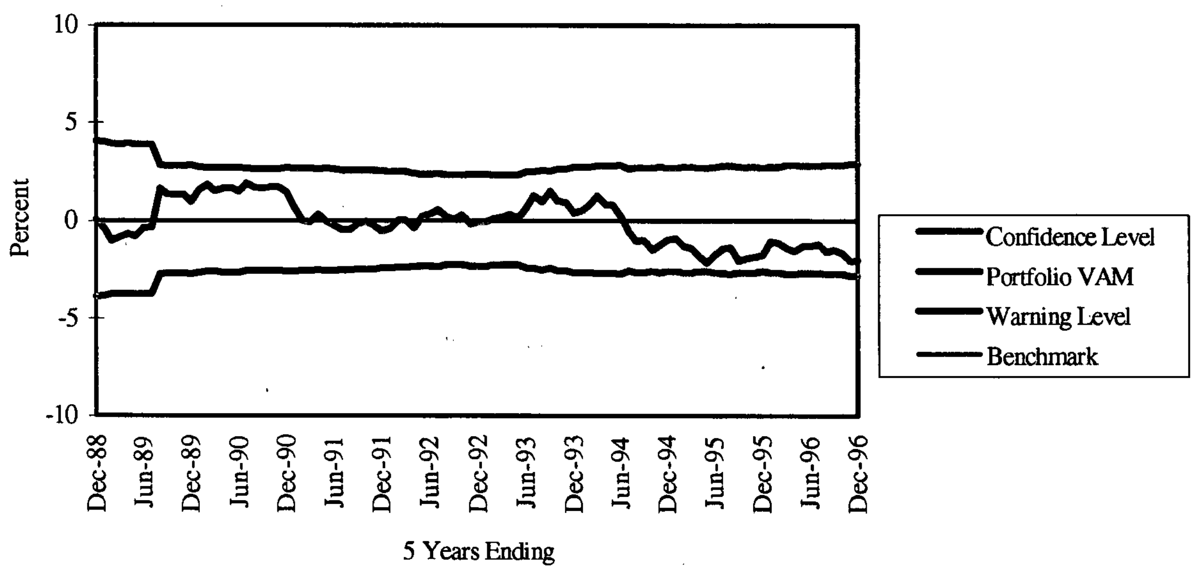
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	5.8%
Last 1 year	12.6	19.0
Last 2 years	20.0	25.4
Last 3 years	13.3	16.8
Last 4 years	13.4	16.9
Last 5 years	13.7	16.0
Since Inception (1/84)	12.5	13.1

Recommendation

Waddell & Reed was terminated at the December 12, 1996 Board meeting.

WADDELL & REED ASSET MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

WEISS, PECK & GREER
Period Ending 12/31/96

Portfolio Manager: Melville Straus | **Assets Under Management: $331,355,470**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Investment style has been consistently applied over a number of market cycles.

Concerns:

—Performance pattern has been very volatile, over time.

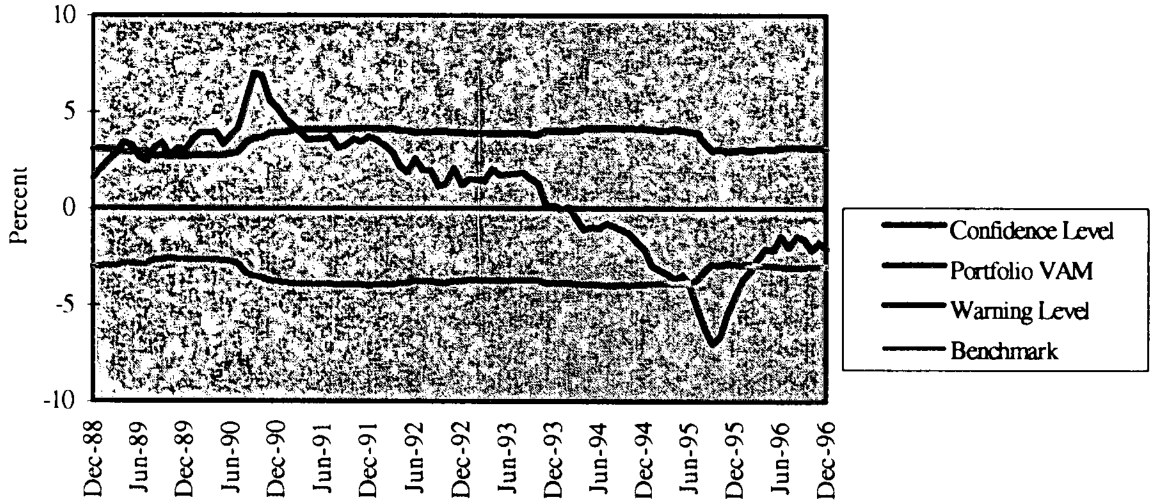
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	0.9%
Last 1 year	19.1	10.3
Last 2 years	29.0	23.6
Last 3 years	15.4	14.8
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	15.2	15.7

Recommendation

No action at this time. Last quarter, Weiss, Peck & Greer was reviewed by staff and the Domestic Manager Committee because their rolling 5 year VAM line has been below the benchmark line for the past twelve months. The Committee recommended that no action be taken.

WEISS, PECK & GREER
Rolling Five Year Periods



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

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 12/31/96

Portfolio Manager: John Nagorniak **Assets Under Management: $1,278,148,687**

Investment Philosophy
Semi-Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firm's investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Quantitative Evaluation

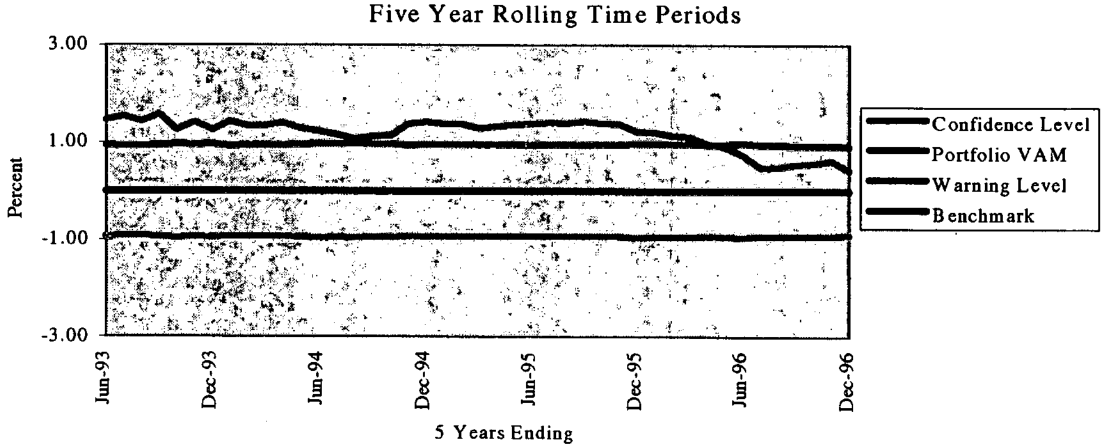
	Actual	Benchmark*
Last Quarter	9.1%	9.1%
Last 1 year	21.6	21.9
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	28.3	28.8

* Completeness Fund

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES - SEMI-PASSIVE
Five Year Rolling Time Periods



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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.

Period Ending 12/31/96

Portfolio Manager: Rick Nelson **Assets Under Management: $1,324,507,491**

Investment Philosophy
Semi-Passive

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	9.4%	9.1%
Last 1 year	21.9	21.9
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	29.2	28.8

* Completeness Fund

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

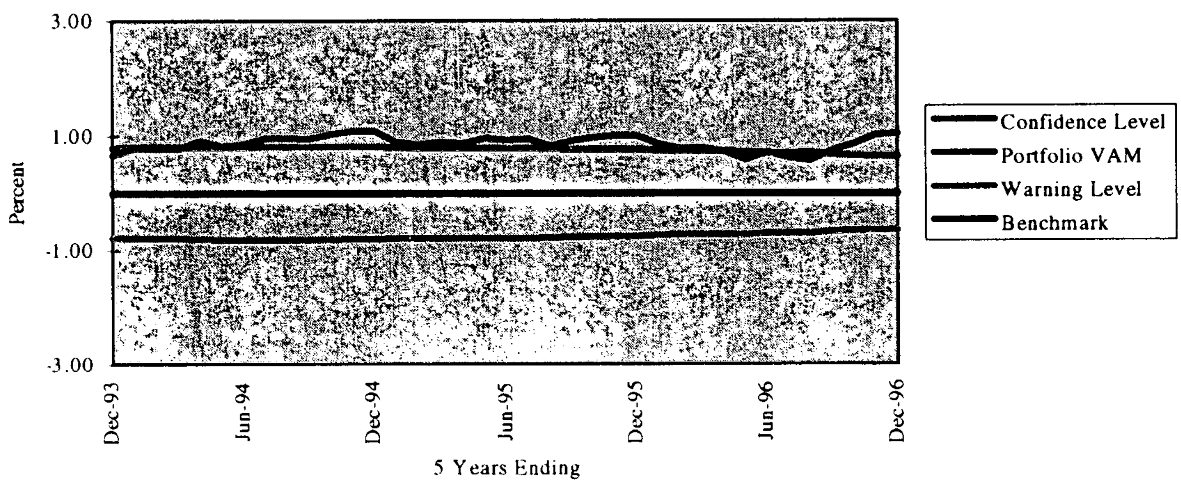
—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Recommendation

No action required.

J.P. MORGAN INVESTMENT MANAGEMENT - SEMI-PASSIVE
Five Year Rolling Time Periods



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

BARCLAYS GLOBAL INVESTORS
Period Ending 12/31/96

Portfolio Manager: Nancy Feldkircher | **Assets Under Management: $1,336,807,373**

Investment Philosophy
Semi-Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Attractive, unique investment approach.

Quantitative Evaluation

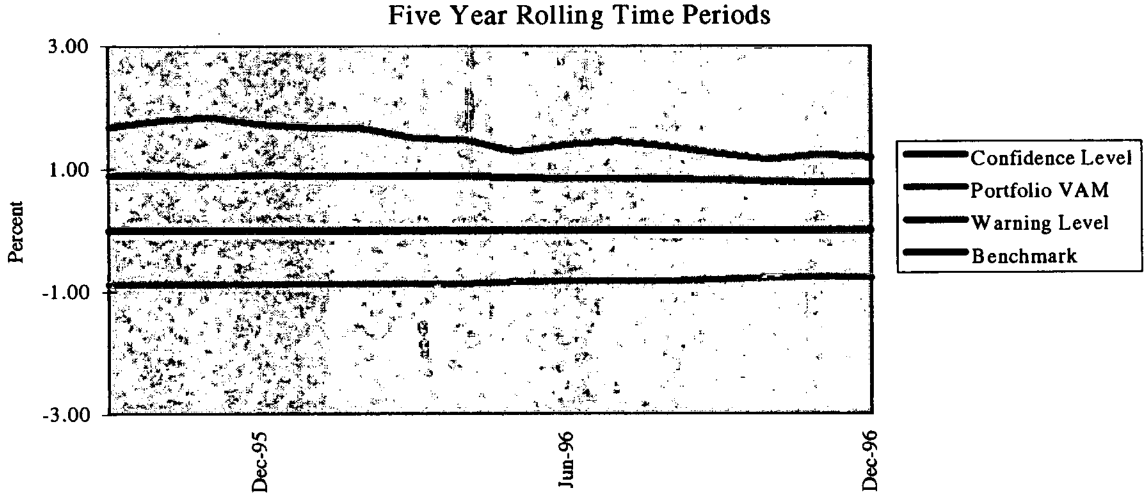
	Actual	Benchmark*
Last Quarter	9.7%	9.1%
Last 1 year	23.0	21.9
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	31.1	28.8

* Completeness Fund

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Five Year Rolling Time Periods



5 Years Ending

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

BARCLAYS GLOBAL INVESTORS
Period Ending 12/31/96

Portfolio Manager: Andrew R. Olma | **Assets Under Management: $4,293,598,953**

Investment Philosophy
Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.1%	6.9%
Last 1 year	21.6	21.2
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)	24.2	23.9

Recommendation

No action required.

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

GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Period Ending 12/31/96

Portfolio Manager: Gene Bolton **Assets Under Management: $158,395,999**

Investment Philosophy
Assigned Risk Plan

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Investment approach has been consistently applied over a number of market cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

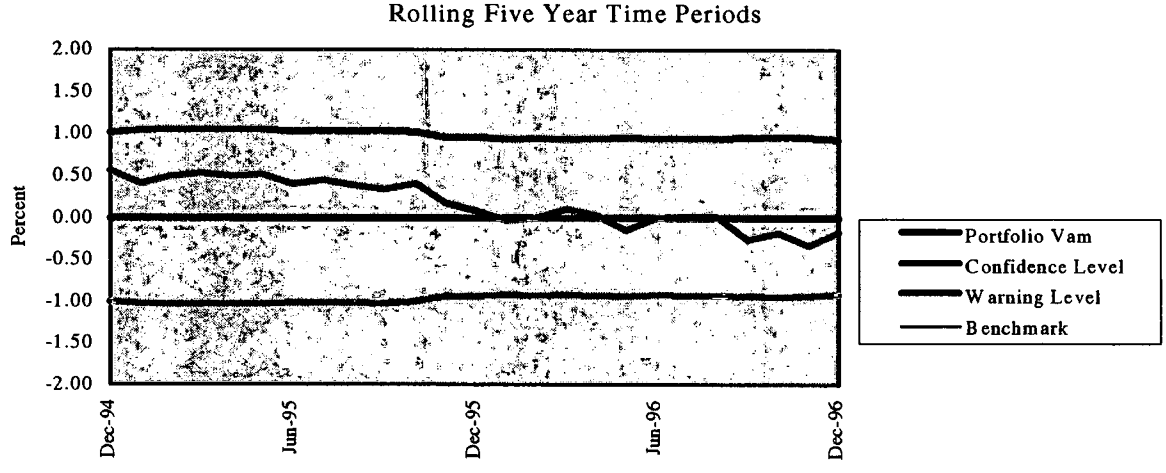
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.7%	8.4%
Last 1 year	22.9	23.2
Last 2 years	29.3	30.2
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)	29.3	30.2

Recommendation

No action required.

GE INVESTMENTS
Rolling Five Year Time Periods



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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Period Ending 12/31/96

Portfolio Manager: Lois Buermann | **Assets Under Management: $78,555,240**

Investment Philosophy
Environmental Trust Fund

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

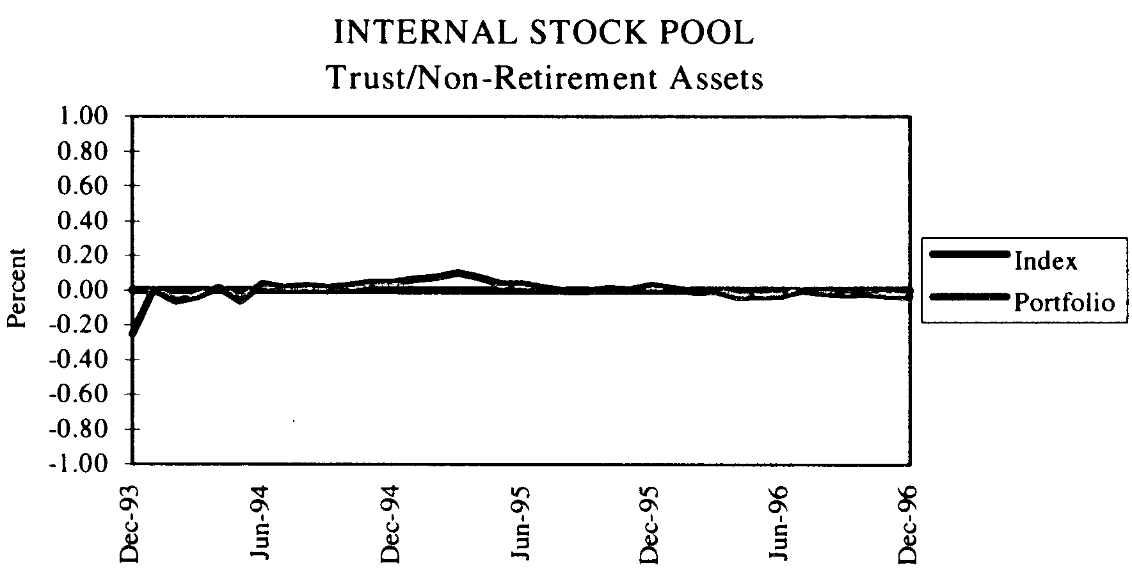
Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.3%	8.4%
Last 1 year	23.0	23.2
Last 2 years	30.1	30.2
Last 3 years	19.8	19.8
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	18.3	18.4

Recommendation

No action required.



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Fourth Quarter, 1996

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EMERGING EQUITY MANAGERS
Period Ending 12/31/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
CIC Assets	9.4	8.6	21.9	23.5					21.3	22.7	$50.96	11.6%
Cohen, Klingenstein, & Marks	6.0	6.6	27.6	21.9					24.5	20.6	54.82	12.5%
Compass Capital	2.6	3.9	19.6	24.8					20.7	20.8	50.32	11.4%
Kennedy Capital	5.7	2.6	25.4	17.0					17.8	14.8	47.04	10.7%
New Amsterdam	6.1	6.6	23.9	18.3					18.1	19.0	47.37	10.8%
Valenzuela Capital	10.7	6.5	32	20.2					22.1	19.1	51.88	11.8%
Wilke/Thompson	-11.9	-0.2	-3.3	13.5					12.9	15.7	41.85	9.5%
Winslow Capital	0.5	4.7	17.9	21.5					17.9	20.3	47.14	10.7%
Zevenbergen Capital	0.5	5.1	21.8	22.6					19.2	20.7	48.62	11.1%
											$440.00	**100.0%**
Current Aggregate	3.3	4.9 *	20.5	20.4 *					19.6	19.4 *		
Historical Aggregate	**3.3**	**4.9 ***	**20.5**	**20.4 ***					**19.4**	**19.6 ***		

Note:
Inception date for all managers is 4/1/94.
* Weighted average of above benchmarks.

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CIC ASSET MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Jorge Castro | **Assets Under Management: $50,955,561.97**

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	9.4%	8.6%
Last 1 Year	21.9	23.5
Last 2 Years	29.6	29.4
Since Inception (4/94)	21.3	22.7

* Custom benchmark since inception date.

COHEN KLINGENSTEIN & MARKS INCORPORATED
Period Ending 12/31/96

Portfolio Manager: George Cohen | **Assets Under Management: $54,816,144.62**

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	6.0%	6.6%
Last 1 Year	27.6	21.9
Last 2 Years	28.5	27.5
Since Inception (4/94)	24.5	20.6

* Custom benchmark since inception date.

COMPASS CAPITAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Charles Kelley **Assets Under Management: $50,319,504.38**

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	2.6%	3.9%
Last 1 Year	19.6	24.8
Last 2 Years	26.2	27.7
Since Inception (4/94)	20.7	20.8

* Custom benchmark since inception date.

KENNEDY CAPITAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Richard Sinise **Assets Under Management: $47,038,222.74**

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	5.7%	2.6%
Last 1 Year	25.4	17.0
Last 2 Years	25.6	21.0
Since Inception (4/94)	17.8	14.8

* Custom benchmark since inception date.

NEW AMSTERDAM PARTNERS
Period Ending 12/31/96

Portfolio Manager: Michelle Clayman — **Assets Under Management: $47,374,662.34**

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	6.1%	6.6%
Last 1 Year	23.9	18.3
Last 2 Years	27.0	24.3
Since Inception (4/94)	18.1	19.0

* Custom benchmark since inception date.

VALENZUELA CAPITAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Tom Valenzuela — **Assets Under Management: $51,882,444.95**

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	10.7%	6.5%
Last 1 Year	32.0	20.2
Last 2 Years	30.6	25.6
Since Inception (4/94)	22.1	19.1

* Custom benchmark since inception date.

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 12/31/96

Portfolio Manager: Mark Thompson **Assets Under Management: $41,854,457.77**

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	-11.9%	-0.2%
Last 1 Year	-3.3	13.5
Last 2 Years	13.1	20.9
Since Inception (4/94)	12.9	15.7

* Custom benchmark since inception date.

WINSLOW CAPITAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Clark Winslow **Assets Under Management: $47,136,478.58**

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	0.5%	4.7%
Last 1 Year	17.9	21.5
Last 2 Years	20.4	26.4
Since Inception (4/94)	17.9	20.3

* Custom benchmark since inception date.

ZEVENBERGEN CAPITAL INC
Period Ending 12/31/96

Portfolio Manager: Nancy Zevenbergen | **Assets Under Management: $48,624,815.04**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	0.5%	5.1%
Last 1 Year	21.8	22.6
Last 2 Years	25.4	26.6
Since Inception (4/94)	19.2	20.7

* Custom benchmark since inception date.

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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 1996

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BOND MANAGERS
Period Ending 12/31/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
BEA	4.0	3.0	6.0	3.6	6.5	6.1			6.5	6.0	$347.94	4.9%
IAI	3.3	3.0	3.3	3.6	5.0	6.1	7.0	7.1	11.2	11.1	550.58	7.7%
IDS	3.3	3.0	1.9	3.6	5.9	6.0			6.1	6.1	293.16	4.1%
Miller	4.1	3.0	6.8	3.6	6.8	6.1	7.9	7.1	11.5	11.1	638.80	9.0%
Standish	3.6	3.0	5.6	3.6	6.1	6.1			6.1	6.0	566.54	8.0%
Western	4.1	3.0	5.7	3.6	7.0	6.1	8.7	7.1	12.4	11.0	1,084.08	15.3%
Semi-Passive												
BlackRock (2)	3.2	3.0							7.7	7.4	1,151.56	16.2%
Goldman (2)	3.2	3.0	4.3	3.6	6.5	6.1			6.5	6.0	1,248.54	17.6%
Lincoln (2)	3.1	3.0	3.7	3.6	6.2	6.1	7.2	7.1	9.1	9.1	1,225.03	17.2%
											$7,106.23	**100.0%**
									Since 7/1/84			
Current Aggregate	3.5	3.0	4.6	3.6	6.3	6.1	7.6	7.1	11.6	11.1		
Historical Aggregate (3)	**3.5**	**3.0**	**4.6**	**3.6**	**6.3**	**6.1**	**7.6**	**7.1**	**11.0**	**10.9**		
Lehman Aggregate (4)		3.0		3.6		6.1		7.1		10.5		

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

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BEA ASSOCIATES
Period Ending 12/31/96

Portfolio Manager: Bob Moore **Assets Under Management: $347,943,249.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

— Highly successful and experienced professionals.

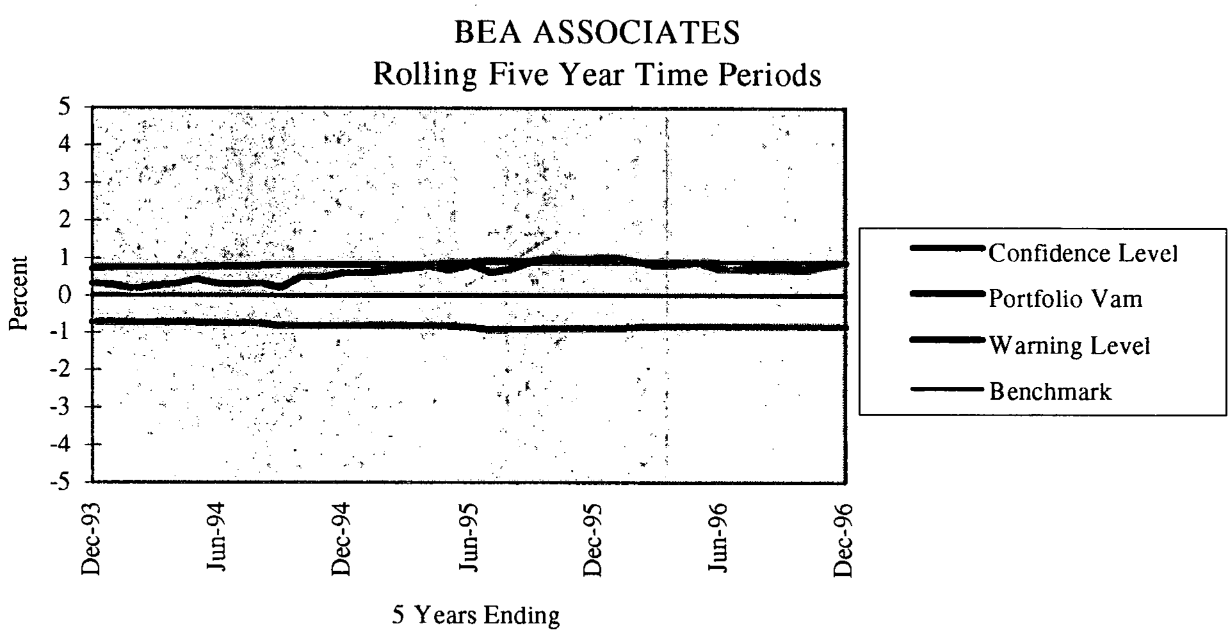
— Extensive option analysis capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	3.0%
Last 1 year	6.0	3.6
Last 2 years	11.8	10.8
Last 3 years	6.5	6.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.5	6.0

Recommendations

No action required.



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

INVESTMENT ADVISERS
Period Ending 12/31/96

Portfolio Manager: Larry Hill **Assets Under Management: $550,575,973.00**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Current concerns:

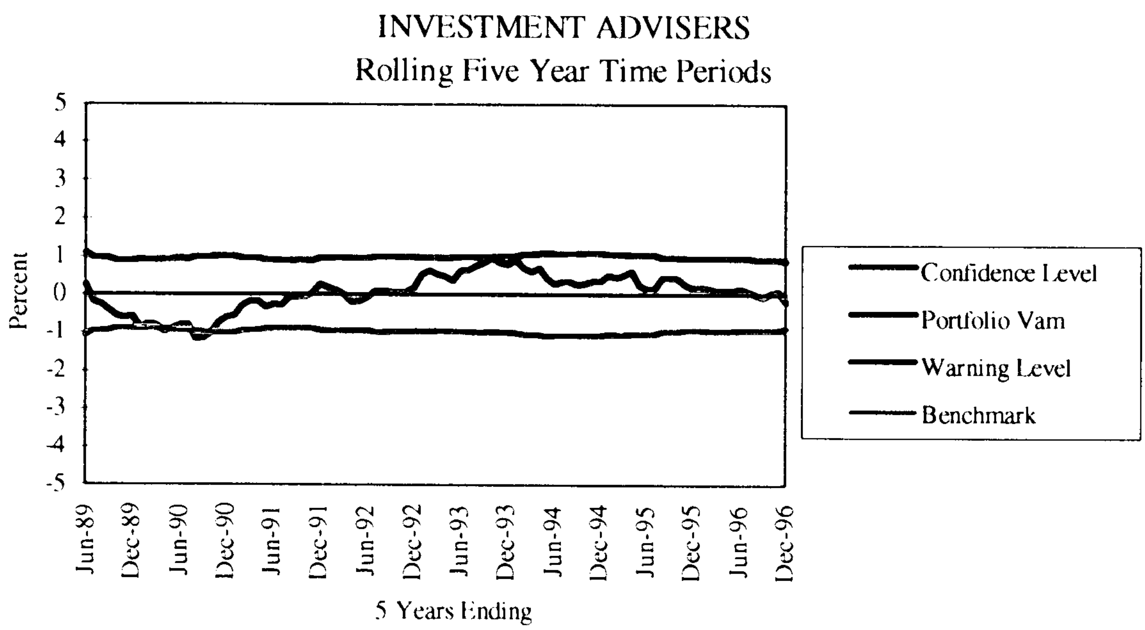
—The manager's duration decisions have added value over the long term. Recently, this strategy has not been as successful.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.0%
Last 1 year	3.3	3.6
Last 2 years	9.5	10.8
Last 3 years	5.0	6.1
Last 4 years	6.9	7.0
Last 5 years	7.0	7.1
Since Inception (7/84)	11.2	11.1

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

IDS ADVISORY GROUP
Period Ending 12/31/96

Portfolio Manager: Ed Labenski **Assets Under Management: $293,158,984.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

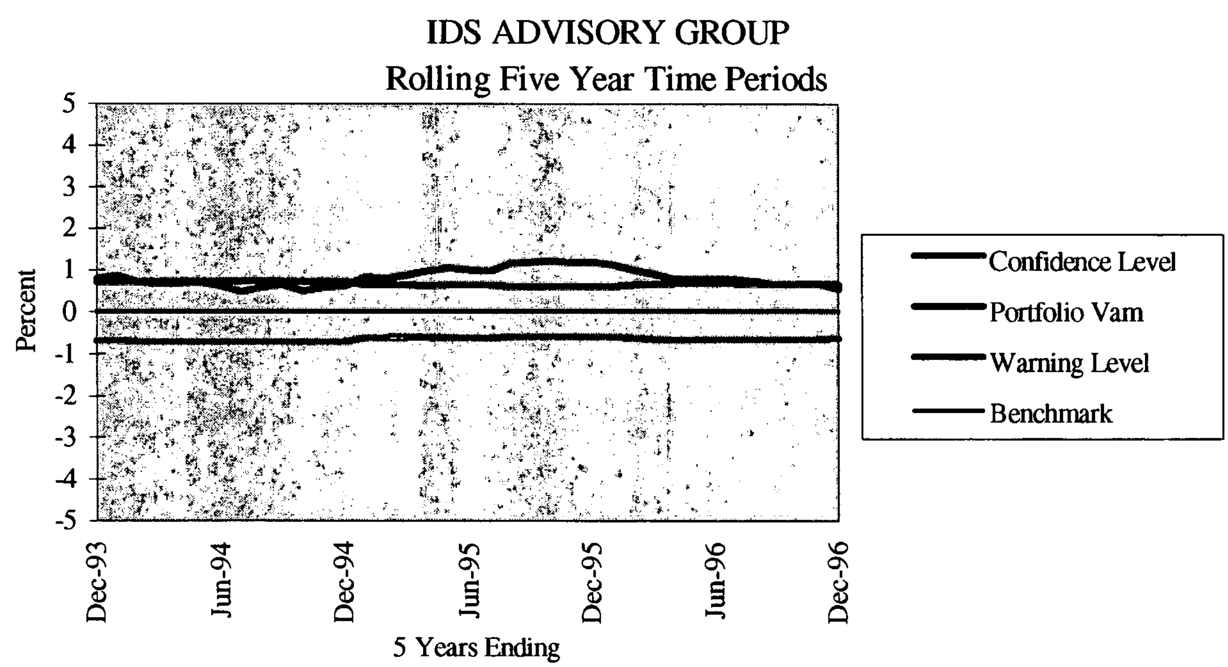
—Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.0%
Last 1 year	1.9	3.6
Last 2 years	10.9	11.1
Last 3 years	5.9	6.0
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.1	6.1

Recommendations

No action required.



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

MILLER ANDERSON & SHERRERD
Period Ending 12/31/96

Portfolio Manager: Tom Bennett **Assets Under Management: $638,802,326.00**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

The firms strengths continue to be:

—Highly successful and experienced professionals.

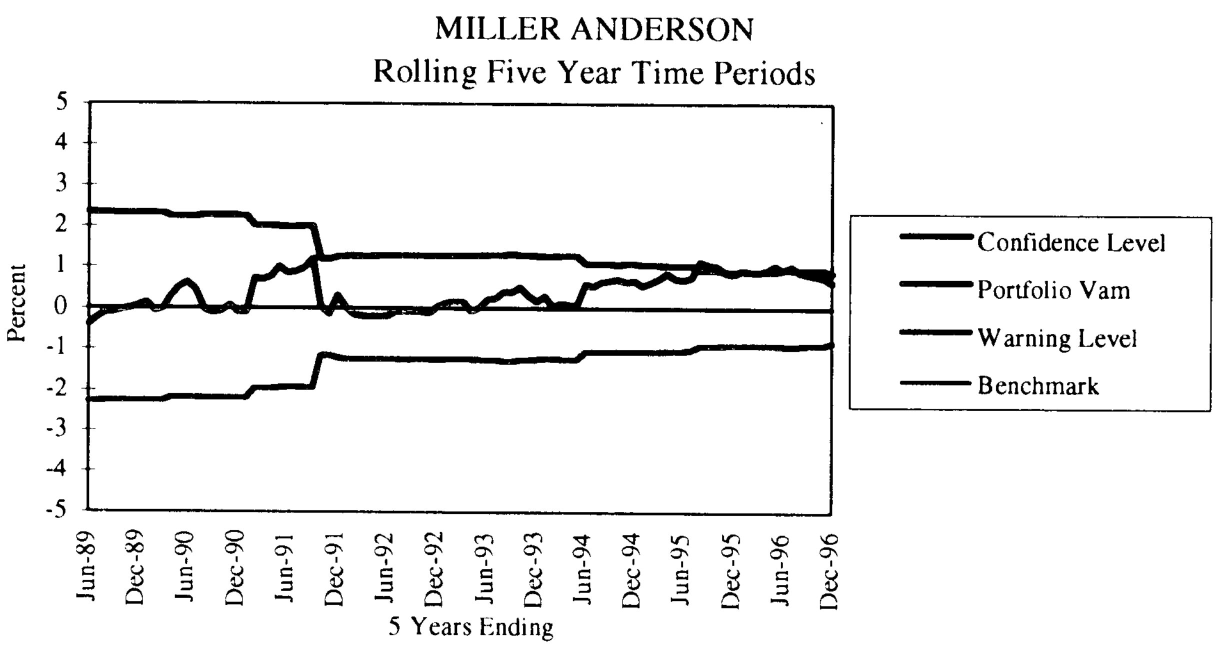
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	3.0%
Last 1 year	6.8	3.6
Last 2 years	12.8	10.8
Last 3 years	6.8	6.1
Last 4 years	8.1	7.0
Last 5 years	7.9	7.1
Since Inception (7/84)	11.5	11.1

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

STANDISH, AYER & WOOD
Period Ending 12/31/96

Portfolio Manager: Austin Smith **Assets Under Management: $566,535,787.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals

—Extensive corporate research capabilities.

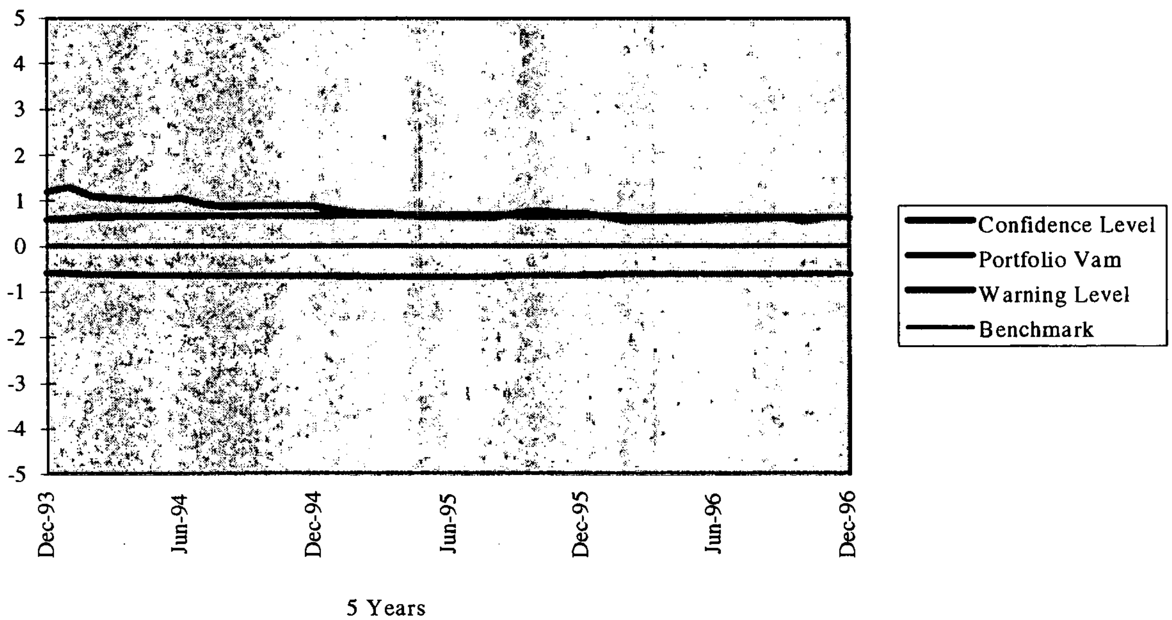
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.6%	3.0%
Last 1 year	5.6	3.6
Last 2 years	11.6	10.8
Last 3 years	6.1	6.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.1	6.0

Recommendations

No action required.

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 12/31/96

Portfolio Manager: Kent Engel — **Assets Under Management: $1,084,080,368.00**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

The firm's exceptional strengths continue to be:

—Highly successful and experienced professionals.

—Extensive securities research process.

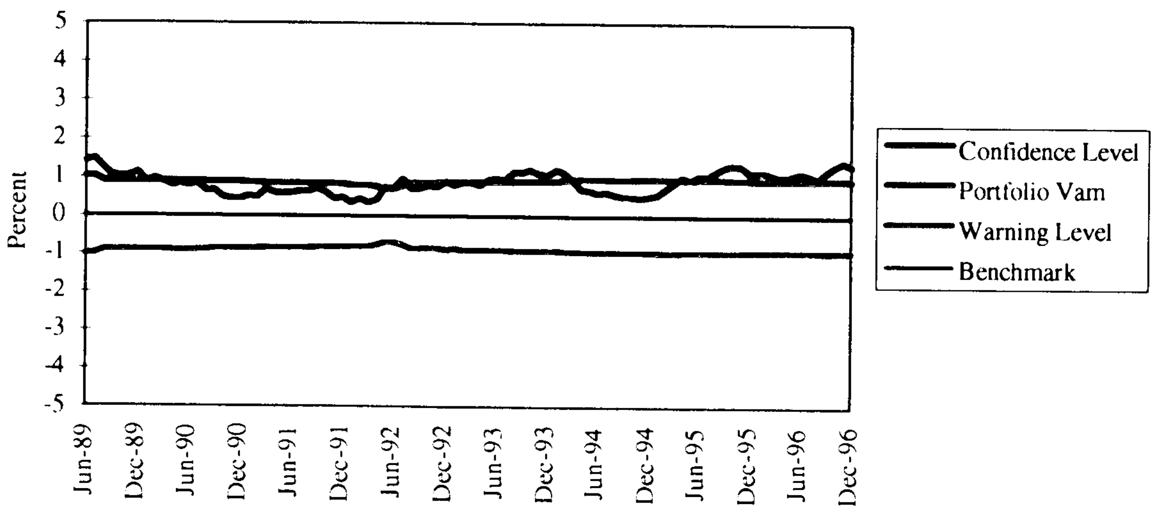
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.1%	3.0%
Last 1 year	5.7	3.6
Last 2 years	13.0	10.8
Last 3 years	7.0	6.1
Last 4 years	8.8	7.0
Last 5 years	8.7	7.1
Since Inception (7/84)	12.4	11.0

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval

BLACKROCK FINANCIAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Keith Anderson **Assets Under Management: $1,151,561,938.00**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Strong quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	3.0%
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 (4/96)	7.7	7.4

Recommendation

No action required.

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

GOLDMAN SACHS
Period Ending 12/31/96

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,248,540,501.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

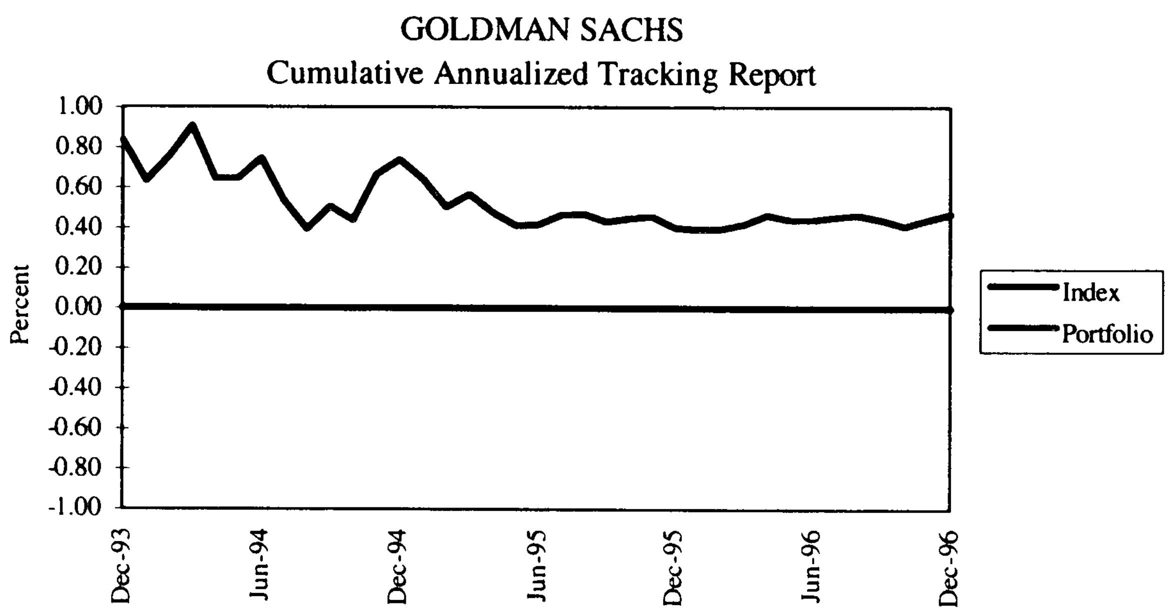
—Quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.2%	3.0%
Last 1 year	4.3	3.6
Last 2 years	11.1	10.8
Last 3 years	6.5	6.1
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.5	6.0

Recommendations

No action required.



LINCOLN CAPITAL MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Andrew Johnson **Assets Under Management: $1,225,032,719.00**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The firm's strengths are:

—Highly successful and experienced professionals.

—Extensive quantitative capabilities.

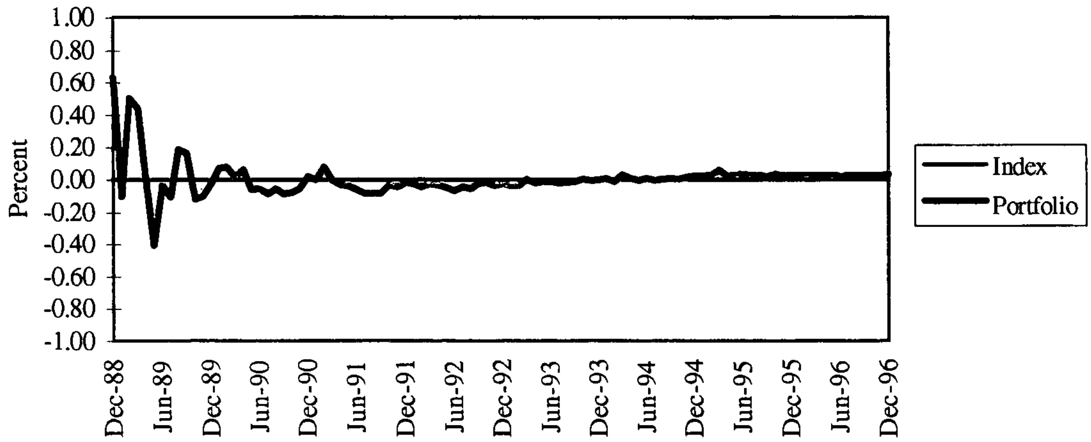
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	3.0%
Last 1 year	3.7	3.6
Last 2 years	10.9	10.8
Last 3 years	6.2	6.1
Last 4 years	7.1	7.0
Last 5 years	7.2	7.1
Since Inception (7/88)	9.1	9.1

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Period Ending 12/31/96

Portfolio Manager: Jane Wyatt **Assets Under Management: $402,181,949**

Investment Philosophy
Assigned Risk Plan

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firms investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

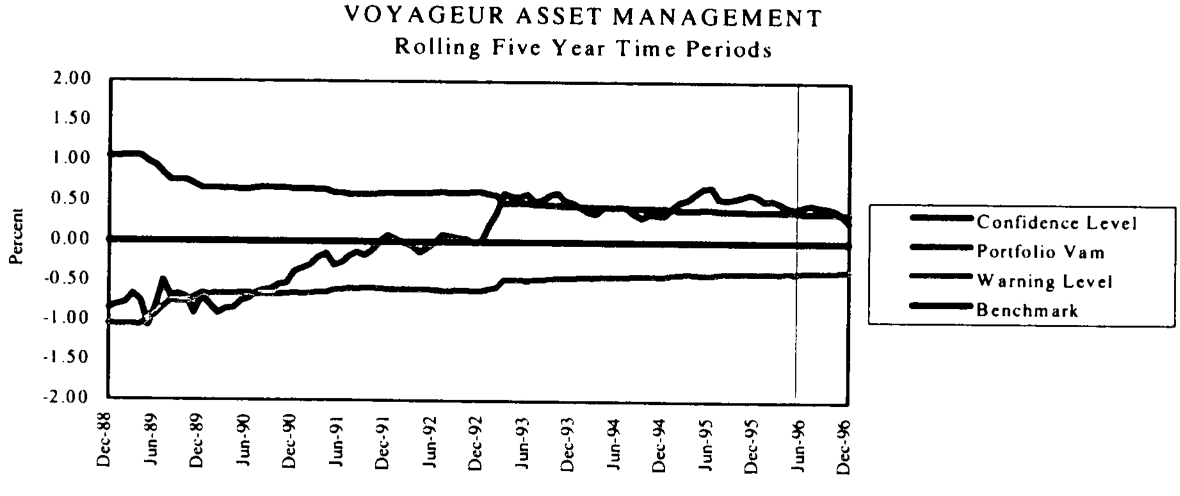
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.5%	2.4%
Last 1 year	4.7	5.0
Last 2 years	10.0	9.6
Last 3 years	6.3	6.1
Last 4 years	6.9	6.5
Last 5 years	6.9	6.7
Since Inception (7/91)	8.2	7.7

Recommendation

No action required.



Notes: Area through 6/96 includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Area to the left of the vertical line includes performance prior to retention by the SBI.

INTERNAL BOND POOL - Income Share Account
Period Ending 12/31/96

Portfolio Manager: Mike Menssen **Assets Under Management: $143,926,719**

Investment Philosophy
Income Share Account

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

Qualitative Evaluation
(reported by exception)

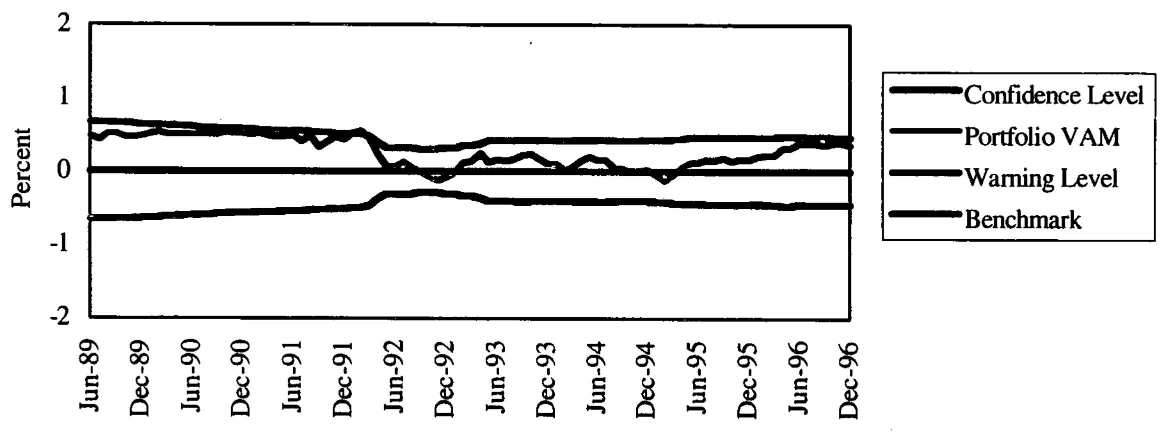
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	3.0%
Last 1 year	4.2	3.6
Last 2 years	11.6	10.8
Last 3 years	6.3	6.1
Last 4 years	7.6	7.0
Last 5 years	7.7	7.1

Recommendation

No action required.

INTERNAL BOND POOL - Income Share
Rolling Five Year Time Periods



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Period Ending 12/31/96

Portfolio Manager: Mike Menssen | **Assets Under Management: $500,863,555**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

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

Qualitative Evaluation
(reported by exception)

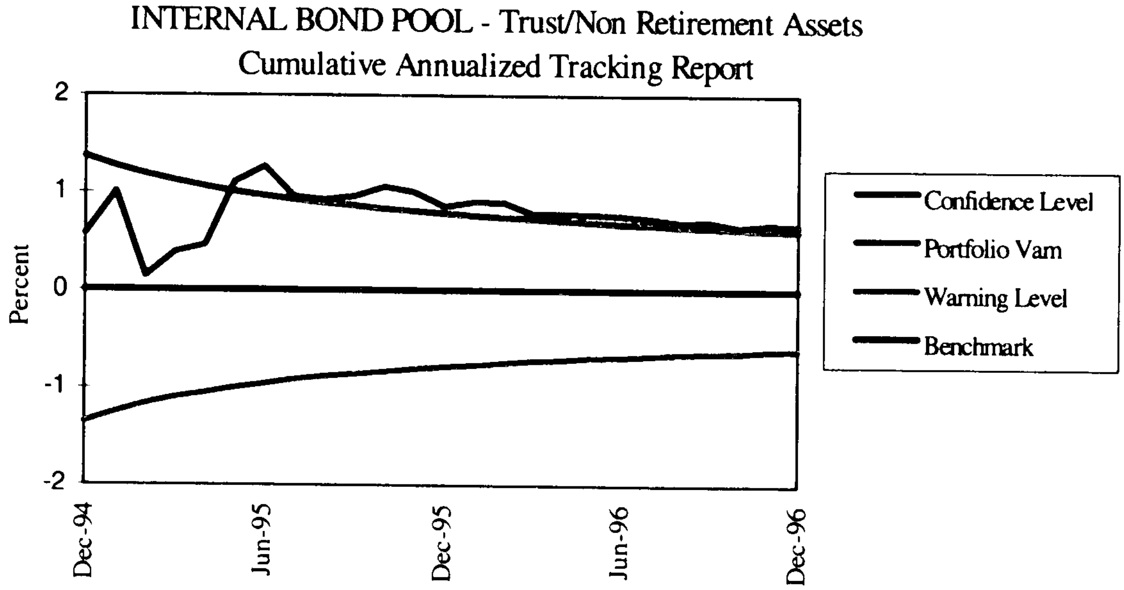
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	3.0%
Last 1 year	4.0	3.6
Last 2 years	11.6	10.8
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/94)*	9.7	8.9

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

Recommendation

No action required.



Tab F

COMMITTEE REPORT

DATE: February 25, 1997

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

FROM: **International Manager Committee**

The International Manager Committee met on February 13, 1997 to review the following agenda items:

- Review of manager performance for the period ending December 31, 1996
- Discussion of upcoming review of the currency overlay program

No action by the Board is necessary at this time.

INFORMATION ITEMS:

1. **Review of manager performance**

The international stock program outperformed its composite index by 1.7 percentage points for the quarter ending December 31, 1996. The program outperformed by 4.7 percentage points over the last year and by 1.2 percentage points annualized for the last three years. The program has outperformed by 1.3 percentage points annualized since inception (4.25 years).

Time Period	Actual	Composite Index*
Quarter	3.1%	1.4%
1 Year	10.4	5.7
3 Years	9.5	8.2
Since Inception (10/92)	13.2	11.9

* The composite was weighted 87% EAFE Free/13% Emerging Markets Free as of 12/31/96. 100% EAFE Free prior to 5/1/96.

The passive manager matched the performance of the EAFE-Free index during the quarter. All five of the active EAFE managers outperformed the index. As in third quarter 1996, the dominant factor in the returns was a manager's decision regarding the Japanese market which continued to perform poorly. A manager's decision to explicitly hedge yen exposure was also beneficial as the dollar appreciated significantly against the yen during fourth quarter 1996.

All three of the emerging markets specialists outperformed the Emerging Markets Free index for the quarter.

The currency overlay program added considerable value to the EAFE index fund during the quarter (index fund *with* overlay +3.2%; index fund *without* overlay +1.6%). Over the last year, the overlay program has added 2.3 percentage points to the return of the EAFE index fund.

Performance evaluation (VAM) reports begin on **page 3.** Manager Commentaries are in **Tab H**.

2. **Discussion of upcoming review of the currency overlay program**

The SBI's contract with its currency overlay manager will expire in December 1997. This event will prompt a review of the SBI's approach to currency management in the international program. The Committee discussed how to proceed and concluded that the review should occur in two stages:

- **Stage 1.** The Committee and staff will review the rationale imbedded in the existing approach to currency management within the SBI's international program. The result should be a written statement of philosophy which can be reaffirmed or modified by the full Council and forwarded to the Board.

- **Stage 2.** The Committee and staff will review styles of currency management which are consistent with the stated rationale. This will include a review of the current manager as well as other approaches compatible with the statement.

The Committee hopes to discuss the statement with the full IAC in June 1997. Assuming the IAC endorses the statement at that time, the second stage would begin during the summer months. Recommendations concerning specific currency managers (both the current manager and any alternative approaches) could be reported to the IAC/SBI as early as September 1997.

Members of the Council who have a particular interest in currency issues are encouraged to attend future meetings of the International Manager Committee and participate in the discussion.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 1996

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INTERNATIONAL STOCK MANAGERS
Period Ending 12/31/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
Baring (1)	2.2	1.6	8.2	6.1	6.9	8.4			12.5	11.6	$224.87	5.7%
Brinson (1)	3.5	1.6	11.6	6.1	10.6	8.4			11.3	11.6	328.90	8.3%
Marathon (2)	1.9	1.6	9.6	6.1	10.8	8.4			10.1	7.2	311.29	7.9%
Rowe Price (2)	5.0	1.6	15.4	6.1	9.0	8.4			11.0	7.2	320.90	8.1%
Scudder (2)	4.7	1.6	16.7	6.1	10.1	8.4			11.2	7.2	214.68	5.4%
City of London (3)	N/A	N/A							3.6	2.1	102.86	2.6%
Genesis (4)	0.5	-0.6							1.6	-4.0	203.07	5.1%
Montgomery (4)	1.9	-0.6							2.0	-4.0	203.64	5.2%
State Street (5)	1.6	1.6	6.7	6.1	8.7	8.4			12.3	12.1	2,004.18	50.8%
Current Aggregate*	3.1	1.4	10.1	5.7	9.4	8.2			13.2	11.9	**$3,947.77**	**100.0%**
Historical Aggregate*	**3.1**	**1.4**	**10.4**	**5.7**	**9.5**	**8.2**			**13.2**	**11.9**		

* Includes impact of currency overlay unrealized gain/loss (see below).
Aggregate benchmark weighted 90.25% EAFE Free/9.75% Emerging Markets Free as of 9/30/96.
100% EAFE Free prior to 5/1/96.

(1) Active country/passive stock. Retained April 1, 1993.
(2) Fully active. Retained November 1, 1993.
(3) Emerging Markets specialist. Retained November 1, 1996.
(4) Emerging markets specialist. Retained May 1, 1996.
(5) Index. Retained October 1, 1992.

Impact of Currency Overlay Program

	Qtr.	Yr.	Since Dec. 95
Index Fund**	1.6	6.7	10.0
Index + Overlay***	3.2	9.0	12.2

** EAFE index fund managed by State Street Global Advisers.
*** Index fund with currency overlay program implemented by Record Treasury Management.
Program was phased-in from Dec. 95 - Nov. 96.

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BARING INTERNATIONAL INVESTMENT LTD.
Period Ending 12/31/96

Portfolio Manager: Philip Bullen | **Assets Under Management: $224,867,100**

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:

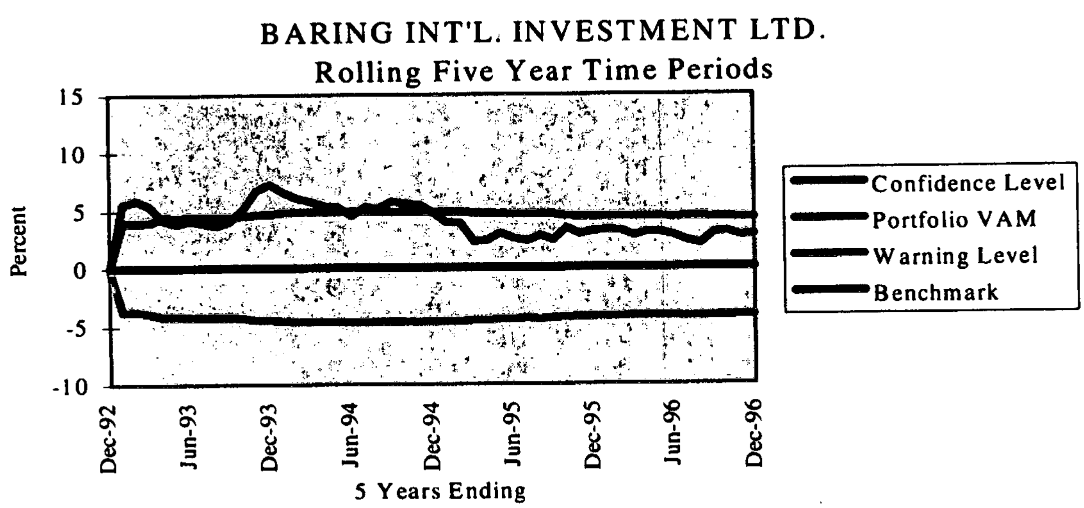
—New ownership by ING effective February 1995.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.2%	1.6%
Last 1 year	8.2	6.1
Last 2 years	10.0	8.7
Last 3 years	6.9	8.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	12.5%	11.6%

Recommendations

No action required.



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

BRINSON PARTNERS
Period Ending 12/31/96

Portfolio Manager: Richard Carr **Assets Under Management: $328,896,316**

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.

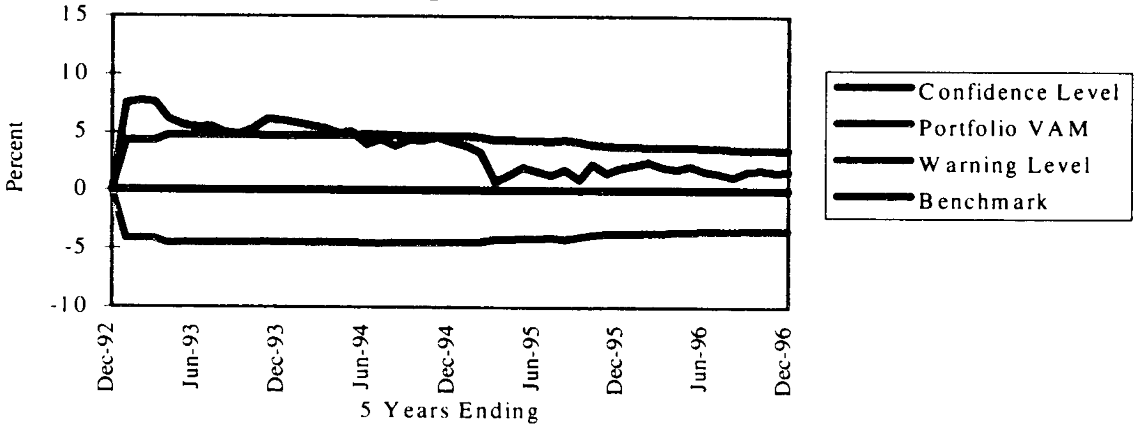
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.5%	1.6%
Last 1 year	11.6	6.1
Last 2 years	14.4	8.7
Last 3 years	10.6	8.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	11.3%	11.6%

Recommendations

No action required.

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



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

MARATHON ASSET MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: William Arah **Assets Under Management: $311,286,391**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

Current concerns are:

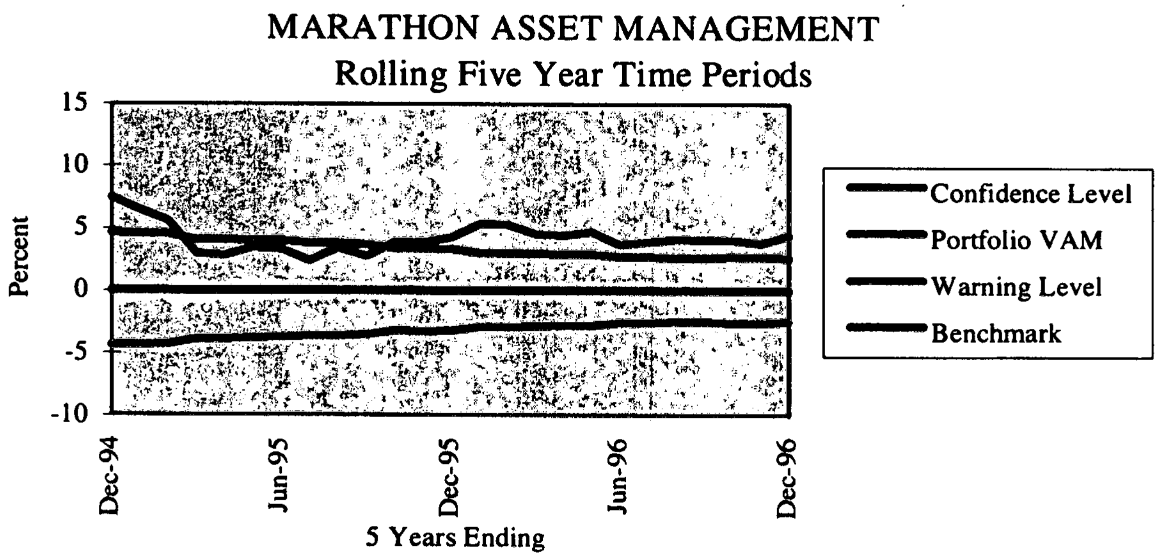
—The firm has experienced significant client growth over the last three years.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.9%	1.6%
Last 1 year	9.6	6.1
Last 2 years	7.8	8.7
Last 3 years	10.8	8.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	10.1%	7.2%

Recommendations

No action required.



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

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 12/31/96

Portfolio Manager: Martin Wade — **Assets Under Management: $320,900,239**

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:

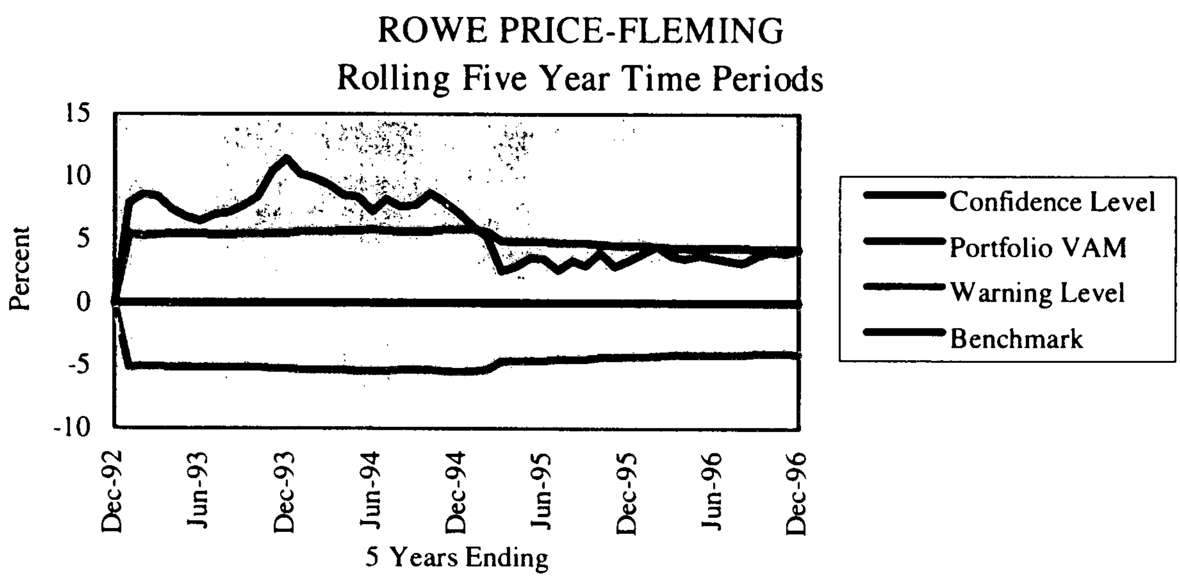
- Extensive securities research process.
- Successful investment approach which has been consistently applied over a number of market cycles.
- Familiarity with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.0%	1.6%
Last 1 year	15.4	6.1
Last 2 years	13.9	8.7
Last 3 years	9.0	8.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	11.0%	7.2%

Recommendations

No action required.



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

SCUDDER, STEVENS & CLARK
Period Ending 12/31/96

Portfolio Manager: Irene Cheng | **Assets Under Management: $214,683,729**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Strong leadership.

—Extensive securities research capabilities.

—Successful investment approach which has been consistently applied over a number of market cycles.

Current concerns are:

—Growth plan appears aggressive.

—Staffing and organizational changes are being made in response to growth.

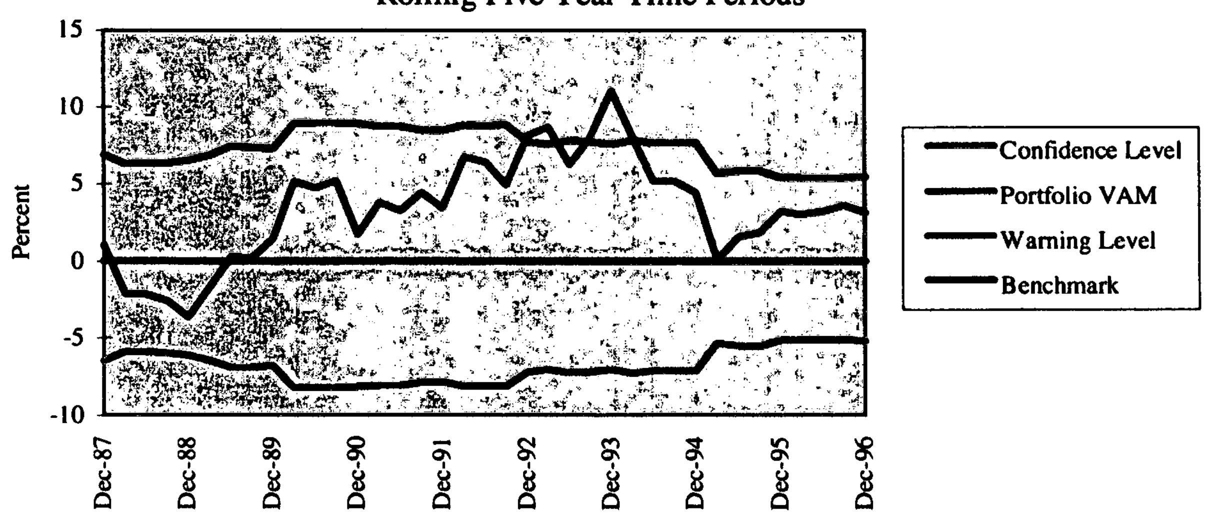
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.7%	1.6%
Last 1 year	16.7	6.1
Last 2 years	16.8	8.7
Last 3 years	10.1	8.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	11.2%	7.2%

Recommendations

No action required.

SCUDDER, STEVENS & CLARK
Rolling Five Year Time Periods



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Uses quarterly returns. Monthly composite returns prior to the inception of the SBI account are unavailable.

CITY OF LONDON
Period Ending 12/31/96

Portfolio Manager: Barry Olliff | **Assets Under Management: $102,855,650**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

— Attractive, unique investment approach.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/96)	3.6%	2.1%

Recommendations

No action recommended at this time.

VAM Graph will be drawn for period ending 6/30/98.

GENESIS ASSET MANAGERS, LTD.
Period Ending 12/31/96

Portfolio Manager: Paul Greatbatch | **Assets Under Management: $203,074,291**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Investment approach has been successfully applied to emerging markets for nearly a decade.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5	-0.6
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	1.6%	-4.0%

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

MONTGOMERY ASSET MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Josephine Jimenez | **Assets Under Management: $203,640,379**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.9	-0.6
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	2.0%	-4.0%

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

STATE STREET GLOBAL ADVISORS
Period Ending 12/31/96

Portfolio Manager: Lynn Blake **Assets Under Management: $2,004,072,346**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

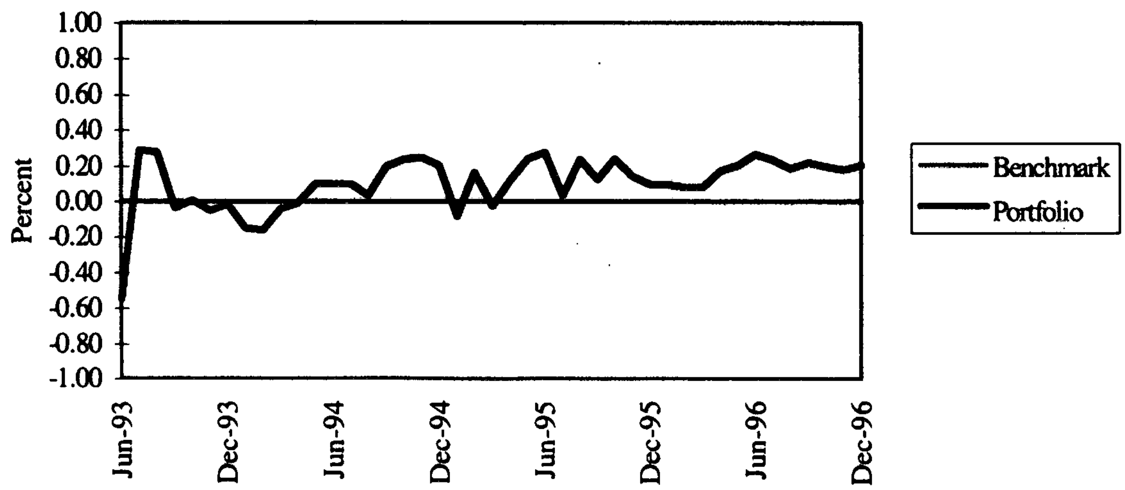
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	1.6%
Last 1 year	6.7	6.1
Last 2 years	8.9	8.7
Last 3 years	8.7	8.4
Last 4 years	14.2	14.0
Last 5 years	N/A	N/A
Since Inception (10/92)	12.3	12.1

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Cumulative Annualized Tracking Report



RECORD TREASURY MANAGEMENT
Period Ending 12/31/96

Portfolio Manager: Les Halpin **Exposure Included in Overlay:** $1,382,945,357

Investment Philosophy

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

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Methodology has been consistently applied for more than a decade.

Quantitative Evaluation

	Qtr.	1 Yr.	Annualized Since 12/95
EAFE Index Fund (1)	1.6%	6.7	10.0%
Index Fund + Record	3.2	9.0	12.2
Five Markets (2)	-3.1	-3.5	0.5
Five Markets + Record	-0.5	-0.4	4.1
Currency only (3)	-0.7	-6.4	-6.6
Record	1.9	-3.1	-3.2

Recommendations

No action required.

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

(2) Unhedged return of the five markets included in the overlay program using EAFE weights. Includes return of underlying stocks in the five markets. (As reported by Record Treasury)

(3) Currency only return of the five markets included in the overlay program. (As reported by Record Treasury)

Tab G

COMMITTEE REPORT

DATE: February 25, 1997

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met during the quarter to review the following information and action items:

- Review of current strategy.
- Investment for the Basic Retirement Fund with a new private equity manager, Contrarian Capital.

Board action is requested on the investment with Contrarian Capital.

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 $656 million to twenty-two (22) commingled real estate funds.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. To date, the SBI has committed $1.1 billion to thirty- three (33) commingled private equity funds.

- 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 $178 million to nine (9) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employee's pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. Since 1994, the SBI has committed $264 million to nine (9) yield oriented funds for the Post Fund: Three (3) are in real estate, five (5) are in private equity and one (1) is in oil and gas.

ACTION ITEMS:

1) Investment for the Basic Retirement Fund with a new private equity manager, Contrarian Capital, in Contrarian Capital Fund II, L.P.

Contrarian Capital is seeking investors in a new $200 million private equity fund, Contrarian Capital Fund II, L.P. This Fund is the sixth fund managed by Contrarian Capital. Contrarian Capital Fund II, L.P. will focus, like prior funds, on a diverse portfolio of distressed securities of predominately U.S. corporate debt, and to a lesser extent, U.S. real estate debt and non-U.S. corporate restructurings.

More information on the Contrarian Capital Fund II, L.P. is included as **Attachment C**.

Please note that a quorum was not present for the meeting. The two members attending the meeting ask that the full Investment Advisory Council (IAC) approve the recommendation shown below and forward that recommendation to the Board.

RECOMMENDATION (to be acted upon by the full IAC):

The IAC recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $40 million or 20%, whichever is less, in Contrarian Capital Fund II, L.P. This commitment will be allocated to the Basic Retirement Fund.

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

(Blank)

ATTACHMENT A

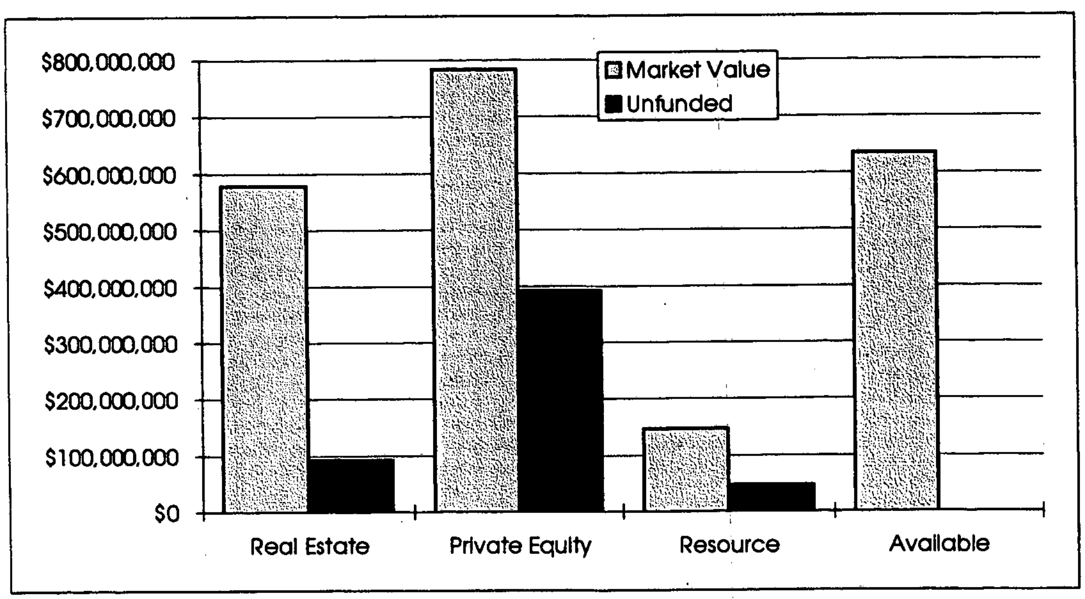
Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
December 31, 1996

Market Value of Basic Retirement Funds	$14,274,806,987
Amount Available For Investment	$634,510,762

	Current Level	*Target Level*	*Difference*
Market Value	$1,506,710,287	$2,141,221,048	$634,510,762
MV + Unfunded	$2,037,617,445	$2,854,961,397	$817,343,952

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$578,365,394 *4.1%*	$92,929,999 *0.7%*	$671,295,393 *4.7%*
Private Equity	$782,406,704 *5.5%*	$391,489,116 *2.7%*	$1,173,895,820 *8.2%*
Resource	$145,938,188 *1.0%*	$46,488,044 *0.3%*	$192,426,232 *1.3%*
Total	**$1,506,710,287** ***10.6%***	**$530,907,159** ***3.7%***	**$2,037,617,445** ***14.3%***



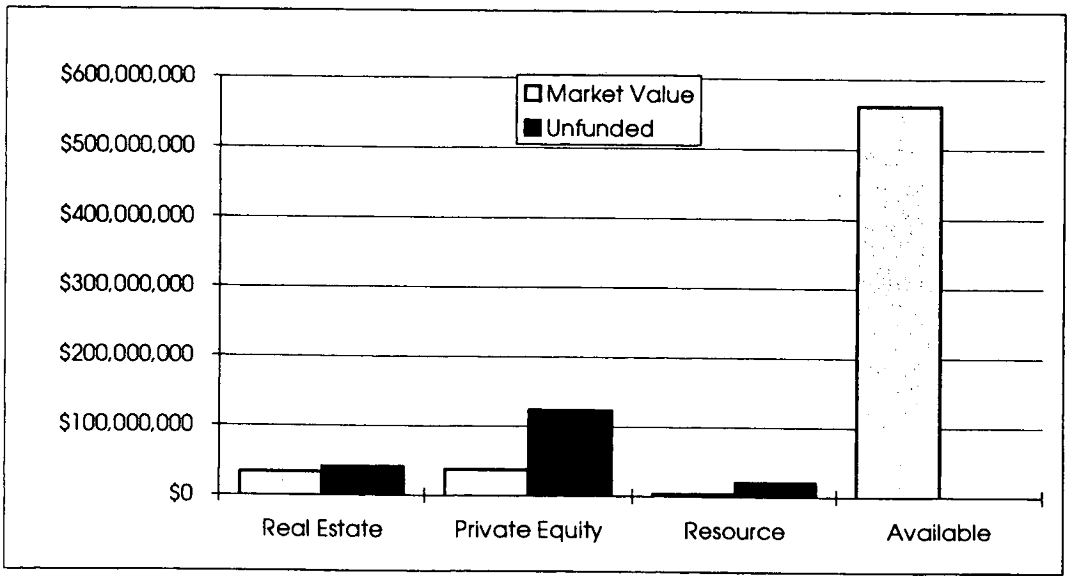
Minnesota State Board of Investment

Alternative Investments
Post Retirement Fund
December 31, 1996

Market Value of Post Retirement Fund	$12,705,305,449
Amount Available For Investment	$561,046,813

	Current Level	*Target Level*	*Difference*
Market Value	$74,218,459	$635,265,272	$561,046,813
MV + Unfunded	$258,630,599	$1,270,530,545	$1,011,899,946

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$33,414,961 *0.3%*	$40,620,900 *0.3%*	$74,035,861 *0.6%*
Private Equity	$36,792,069 *0.3%*	$123,117,290 *1.0%*	$159,909,359 *1.3%*
Resource	$4,011,429 *0.0%*	$20,673,950 *0.2%*	$24,685,379 *0.2%*
Total	**$74,218,459** ***0.6%***	**$184,412,140** ***1.5%***	**$258,630,599** ***2.0%***



ATTACHMENT B

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - REAL ESTATE
December 31, 1996

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
AETNA	42,376,529	42,376,529	82,807,683	0	0	5.25	14.7
AEW							
Fund III	20,000,000	20,000,000	2,762,351	11,593,512	0	-3.20	11.3
Fund IV	17,400,000	15,000,000	3,156,306	1,041,292	2,400,000	-12.01	10.3
Fund V	15,000,000	15,000,000	7,833,469	3,134,826	0	-3.69	9.1
AMERICAN REPUBLIC	1	1	1	0	0	0.00	6.9
COLONY INVESTORS II	40,000,000	19,575,600	18,232,600	230,170	20,424,400	-8.61	1.8
EQUITABLE	40,000,000	40,000,000	78,025,597	0	0	4.84	15.2
FIRST ASSET REALTY	916,185	916,185	409,177	568,020	0	2.78	2.7
HEITMAN							
Fund I	20,000,000	20,000,000	7,850,533	12,761,910	0	0.44	12.4
Fund II	30,000,000	30,000,000	19,503,022	17,117,818	0	2.52	11.1
Fund III	20,000,000	20,000,000	10,777,772	9,417,725	0	0.14	10.0
Fund V	20,000,000	20,000,000	22,028,115	4,176,587	0	6.77	5.1
LASALLE	15,000,000	14,644,401	14,937,841	2,592,517	355,599	6.82	5.3
REALTY ASSOCIATES III	40,000,000	36,000,000	39,508,714	11,450,557	4,000,000	9.32	2.6
REALTY ASSOCIATES IV	50,000,000	0	0	0	50,000,000	0.00	0.1
RREEF USA FUND III	75,000,000	75,000,000	66,356,375	37,814,512	0	3.65	12.7
TCW							
Fund III	40,000,000	40,000,000	27,164,323	17,051,041	0	1.12	11.4
Fund IV	30,000,000	30,000,000	18,263,122	7,435,733	0	-1.79	10.2
ZELL/MERRILL LYNCH							
Fund II	40,388,854	40,388,854	60,396,900	2,585,484	0	12.91	5.1
Fund III	50,000,000	50,000,000	64,076,400	755,163	0	18.41	2.9
Fund IV	50,000,000	34,250,000	34,275,094	11,371	15,750,000	0.56	0.8
TOTAL REAL ESTATE (BASICS)	*656,081,569*	*563,151,570*	*578,365,394*	*139,738,237*	*92,929,999*		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
COLONY INVESTORS II	40,000,000	19,575,600	18,232,600	230,170	20,424,400	-8.61%	2.1
WESTMARK COMM. MTG. FUND II	13,500,000	12,292,000	13,170,861	1,044,898	1,208,000	8.86%	1.5
WESTMARK COMM. MTG. FUND III	21,000,000	2,011,500	2,011,500	0	18,988,500	0.00%	0.1
TOTAL REAL ESTATE (POST)	*74,500,000*	*33,879,100*	*33,414,961*	*1,275,068*	*40,620,900*		

TOTAL REAL ESTATE	*730,581,569*	*597,030,670*	*611,780,355*	*141,013,305*	*133,550,899*

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - PRIVATE EQUITY
December 31, 1996

BASIC FUNDS	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
ALLIED	5,000,000	5,000,000	1,668,653	4,176,640	0	2.65	11.3
BANK FUND							
Fund III	20,000,000	20,000,000	25,988,195	2,873,342	0	15.79	4.2
Fund IV	25,000,000	8,750,000	8,825,120	10,691	16,250,000	2.26	0.9
BLACKSTONE PARTNERS II	50,000,000	21,226,102	24,890,827	22,933,264	28,773,898	59.36	3.1
BRINSON PARTNERS							
VPAF I	5,000,000	5,000,000	1,484,049	6,834,437	0	11.24	8.6
VPAF II	20,000,000	17,979,998	8,317,243	21,100,687	2,020,002	23.50	6.1
CHURCHILL CAPITAL PARTNERS II	20,000,000	20,000,000	15,719,851	9,564,426	0	14.70	4.2
CORAL PARTNERS							
IAI Ventures I	1,146,890	1,146,890	215,853	1,328,510	0	15.18	5.8
Fund I (Superior)	7,011,923	7,011,923	2,527,583	4,685,814	0	0.53	10.5
Fund II	10,000,000	9,000,000	32,612,377	1,579,857	1,000,000	33.46	6.4
Fund IV	15,000,000	6,000,000	7,546,320	392,447	9,000,000	18.87	2.4
DSV	10,000,000	10,000,000	7,127,147	10,109,058	0	5.49	11.7
FIRST CENTURY	10,000,000	10,000,000	4,253,282	11,397,158	0	8.52	12.1
GOLDER THOMA CRESSEY RAUNER							
Fund III	14,000,000	14,000,000	15,246,370	39,587,601	0	31.06	9.2
Fund IV	20,000,000	18,600,000	19,825,774	7,455,551	1,400,000	28.26	2.9
Fund V	30,000,000	0	0	0	30,000,000	0.00	0.5
HELLMAN & FRIEDMAN III	40,000,000	19,664,974	18,868,099	0	20,335,026	-5.10	2.3
IAI U.S. VENTURE FUND II	15,000,000	0	0	0	15,000,000	0.00	0.0
IMR PARTNERSHIP	15,000,000	1,524,900	403,058	1,148,997	13,475,100	0.67	4.4
INMAN BOWMAN	7,500,000	7,500,000	2,976,111	6,991,610	0	3.91	11.6
KOHLBERG KRAVIS ROBERTS							
1984 Fund	25,000,000	25,000,000	15,604,127	109,655,822	0	28.71	12.6
1986 Fund	18,365,339	18,365,339	116,259,956	57,997,789	0	28.42	10.7
1987 Fund	145,950,000	145,950,000	200,145,651	215,194,337	0	12.72	9.1
1993 Fund	150,000,000	122,264,910	149,931,338	42,606,915	27,735,090	14.93	3.0
1996 Fund	200,000,000	0	0	0	200,000,000	0.00	0.3
MATRIX							
Fund II	10,000,000	10,000,000	1,910,044	18,980,606	0	13.54	11.4
Fund III	10,000,000	10,000,000	491,198	60,910,404	0	71.85	6.7
NORWEST VENTURE CAPITAL	10,000,000	10,000,000	1,256,286	14,154,594	0	5.66	13.0
SUMMIT PARTNERS							
Fund I	10,000,000	10,000,000	425,343	19,716,354	0	13.08	12.0
Fund II	30,000,000	28,500,000	4,622,215	61,981,526	1,500,000	28.34	8.6
T. ROWE PRICE	123,959,827	123,959,827	31,052,834	135,647,486	0	16.29	9.1
WARBURG PINCUS	50,000,000	25,000,000	24,172,400	223,300	25,000,000	-2.30	2.0
ZELL/CHILMARK	30,000,000	30,000,000	38,039,400	11,809,822	0	10.35	6.5
TOTAL PRIVATE EQUITY (BASICS)	*1,152,933,979*	*761,444,863*	*782,406,704*	*901,049,045*	*391,489,116*		

POST FUND	*TOTAL COMMITMENT*	*FUNDED COMMITMENT*	*MARKET VALUE*	*DISTRIBUTIONS*	*UNFUNDED COMMITMENT*	*IRR (%)*	*PERIOD (YEARS)*
CITICORP MEZZANINE	40,000,000	10,539,968	10,625,234	4,239,598	29,460,032	11.37%	2.0
KLEINWORT BENSON	25,000,000	5,549,888	5,480,896	71,515	19,450,112	0.10%	1.5
SUMMIT SUB-DEBT FUND	20,000,000	15,000,000	12,628,671	7,214,700	5,000,000	27.20%	2.8
SUMMIT SUB-DEBT FUND II	40,000,000	0	0	0	40,000,000	0.00%	0.1
TCW/CRESCENT MEZZANINE	40,000,000	10,792,854	8,057,268	2,612,613	29,207,146	-3.22%	0.7
TOTAL PRIVATE EQUITY (POST)	*165,000,000*	*41,882,710*	*36,792,069*	*14,138,426*	*123,117,290*		

TOTAL PRIVATE EQUITY	*1,317,933,979*	*803,327,574*	*819,198,774*	*915,187,470*	*514,606,405*

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - RESOURCE
December 31, 1996

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
FIRST RESERVE CORP.							
AMGO I	15,000,000	15,000,000	8,552,298	3,614,536	0	-1.74	15.3
AMGO II	7,000,000	7,000,000	10,144,990	2,325,453	0	5.50	13.9
AMGO IV	12,300,000	12,300,000	16,903,875	8,114,674	0	11.10	8.6
AMGO V	16,800,000	16,800,000	32,547,071	9,182,365	0	17.84	6.7
AMGO VII	40,000,000	11,886,668	11,074,539	673,787	28,113,332	-11.04	0.5
APACHE III	30,000,000	30,000,000	4,000,000	40,212,933	0	10.56	10.0
MORGAN OIL & GAS	15,000,000	15,000,000	16,563,992	1,788,312	0	3.34	8.4
SIMMONS							
OFS II	17,000,000	14,547,829	29,671,479	838,169	2,452,171	22.27	5.4
OFS III	25,000,000	9,077,459	16,479,944	0	15,922,541	47.88	1.5
TOTAL RESOURCE (BASICS)	*178,100,000*	*131,611,956*	*145,938,188*	*66,750,228*	*46,488,044*		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
MERIT ENERGY	24,000,000	3,326,050	4,011,429	0	20,673,950	64.39%	0.5
TOTAL RESOURCE (POST)	*24,000,000*	*3,326,050*	*4,011,429*	*0*	*20,673,950*		

TOTAL RESOURCE	*202,100,000*	*134,938,006*	*149,949,617*	*66,750,228*	*67,161,994*

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ATTACHMENT C

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Contrarian Capital Fund II, L.P.
Type of Fund:	Distressed Securities Limited Partnership
Total Fund Size:	$200 million
Interview Date:	January 27, 1997
Fund Manager:	Contrarian Capital Management, LLC 411 West Putnam Avenue Suite 225 Greenwich, CT 06830 Phone: (203) 862-8201 Fax: (203) 629-1977
Manager Contact:	Jon R. Bauer David E. Jackson

II. Organization and Staff

Contrarian Capital Management (CCM) is a registered investment advisor specializing in distressed debt securities. The investment team is comprised of the former distressed debt group at Oppenheimer & Co. CCM was founded in May 1995 after its investment team spun out from Oppenheimer. It has 12 professionals, including eight partners who worked together at Oppenheimer.

CCM's managing partners are Jon Bauer and Dave Jackson. Prior to forming CCM, both Mr. Bauer and Mr. Jackson were managing directors of Oppenheimer's distressed securities team.

Oppenheimer owns a 22.5% non-voting share of the General Partner. Messrs. Bauer and Jackson own the majority of the remaining General Partner and other key CCM employees own the balance.

III. Investment Strategy

CCM seeks to maximize total return through investment in a broad based distressed securities portfolio of predominantly U.S. corporate debt, and to a lesser extent, U.S. real estate debt and non-U.S. corporate restructurings. CCM follows a value-based approach to investing and seeks favorable risk/reward characteristics with excellent downside protection. Its primary goal is preserve capital, so CCM tends to make investments in companies that have positive cash flow. Target securities will usually have a senior and/or secured position in the capital structure. The typical holding period for an investment is one to three years. Opportunities in both the public and private markets will be pursued. The Fund may also purchase and write covered and uncovered put and call options on individual securities or securities indices.

CCM seeks to understand (a) the underlying asset value and purchase securities at a significant discount to that value, (b) the contractual rights of the investment, and c) event dynamics in order to formulate an exit strategy and to more accurately predict timing. CCM takes an active role in a restructuring if it feels that it can positively influence the process and its returns.

The Fund will not invest more than:

- 10% of committed capital in any single security
- 25% of committed capital in any one industry.
- 10% of committed capital in short positions and option strategies.
- 20% of committed capital in foreign securities,
- 20% of committed capital in real estate and real estate-related securities,

Leverage will only be utilized in respect to real estate investments. Recourse leverage will be limited to 50% of the cost basis of an investment.

IV. *Investment Performance*

The Contrarian investment team assumed management responsibilities for the Oppenheimer series of open-ended funds in September 1990. Previous performance from this date to December 31, 1996 is shown below:

Fund Name	Date	Fund Capital	Net IRR
Oppenheimer Horizon Partners	9/90	$ 131.2 million	20.2%
Oppenheimer Institutional Horizon Partners	9/90	$ 157.9 million	20.7%
Oppenheimer International Horizon Fund I [1]	9/90	$ 15.7 million	24.2%
Oppenheimer International Horizon Fund II	7/94	$ 36.7 million	11.4%
Contrarian Capital Fund I	4/96	$125.5 million	N/M

1 Fund terminated in May 1995 and was rolled into Oppenheimer Institutional Horizon Fund II.

V. *Investment Allocation Between Different Funds/Accounts*

In addition to this Fund, CCM actively manages other funds and separate accounts which may be allocated a portion of an investment that is also designated for this Fund. Such investments will be allocated to the different funds pro rata based on available capital on a *pari passu* cost basis.

VI. *General Partners Investment*

The General Partner will contribute at least $2.5 million to the Fund.

VII. *Takedown Schedule*

10% of committed capital will be taken down at closing. Thereafter, capital will be called as needed with not less than 10 business days' written notice.

VIII. *Management Fee*

During the Investment Period (defined under "Term"), the General Partner shall be paid an annual management fee of 1% of aggregate Limited Partner capital commitments. Following the Investment Period, the 1% management fee will be based on aggregate Limited Partner capital commitments less any amounts distributed to the Limited Partners which represents a return of contributed capital.

The management fee will be reduced by 100% of any transaction, directors, and advisory fees from portfolio companies.

The Fund will pay organizational expenses, not to exceed the lesser 0.15% of aggregate commitments or $300,000.

IX. *Term*

The Fund will have a term of seven years, with an option to extend for an two additional periods of one year each at the General Partner's discretion. The first three years of the fund will devoted toward investing capital (the "Investment Period") with the last four years of the fund geared toward liquidating positions.

The Limited Partners can extend the Investment Period for an additional year (i.e. from three to four years) through a majority vote with at least 180 days' notice.

X. *Distributions*

No distributions will be made during the Investment Period except for distributions from the temporary investment of cash, which shall be distributed at least annually pro rata among the Partners in accordance with their unreturned commitment.

Following the Investment Period, income or cash proceeds arising from any partnership investment will promptly be distributed as follows:

a) First, 100% among all partners pro rata in accordance with their unreturned capital until the unreturned capital of all partners is zero;

b) Second, 100% to each Limited Partner until the Limited Partner has received a compounded return of 6% per annum on contributed capital;

c) Third, 100% to the General Partner until it has received 20% of the amount distributed pursuant to clause b) and this clause c).

d) Thereafter, 80% to the Limited Partners and 20% to the General Partners.

Tab H

STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending December 31, 1996

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	12/31/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$183 Billion	Actual	8.6%	23.4%
Total Firm Assets Managed in this Discipline	$ 20 Billion	Benchmark	6.2%	23.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

We outperformed the benchmark this quarter, +8.6% for the portfolio versus +6.2% for the benchmark. In addition to positive stock selection, overweightings of the technology and financial sectors contributed to the outperformance. Looking at the relative sector performance for the entire market, the technology sector (+12.6%) and the financial sector (+13.4%) outperformed the S&P 500 (+8.3%) and the benchmark (+6.2%). For the portfolio, the greatest contribution was made by Intel (+37%) which surpassed Philip Morris as our largest holding. Other technology holdings such as Applied Materials (+30%) recovered in the quarter, while Microsoft (+25%) and Compaq (+16%) continued to outperform the benchmark. Hewlett Packard (+3%), Cisco (+3%) and Oracle (-2%) lagged the benchmark while a small holding, EDS (-30%), significantly underperformed. Positive contributions in the financial sector were led by Merrill Lynch (+24%), Dean Witter (+20%), MBNA Corp. (+20%) and Citicorp (+14%). Despite the persistence of higher fuel prices, the airlines rebounded in the quarter with UAL (+32%) and Northwest (+11%). Patience was also rewarded with Philip Morris up (+26%). Underperforming stocks for the quarter were concentrated in the consumer services sector, particularly Wal Mart (-14%), Home Depot (-2%), McDonalds (-4%) and Nike (-1%).

We outperformed the benchmark for the year, +23.4% for the portfolio versus +23.1% for the benchmark. As with the quarter, overweightings of the technology and financial sectors contributed positively to performance. For the market as a whole, the technology sector (+41.7%) and the financial sector (+35.8%) outperformed the S&P 500 (+23%) and the benchmark (+23.1%). Intel (+131%), Microsoft (+88%), Cisco (+71%), Compaq (+55%) and Oracle (+48%) propelled the positive contribution of the technology sector. MBNA Corp. (+69%), Merrill Lynch (+60%), Citibank (+53%) and Dean Witter (+41%) led the portfolio's financial sector holdings. The portfolio's healthcare holdings did not contribute positively to performance as Abbott Labs, Medtronics and Merck basically matched the benchmark while Schering Plough (+18%), Johnson and Johnson (+16%), Amgen (-8%) and United Healthcare (-31%) lagged it. Cable and cellular telephone companies such as Tele Communications, Liberty, Time Warner and Airtouch underperformed for the year as they reacted to increased competition in their markets. The impact of overweighting the airlines was neutralized by UAL (+40%) outperforming the benchmark but Northwest (-23%) underperforming it.

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.*

   Entering 1997, the fundamentals that have been behind our persistent bullishness are still very much in place. These include good corporate health, moderate economic growth, moderate inflation, U.S. technology leadership, continued attention to cost cutting and strong money flows into equities. Despite the second year of outperformance, our continued overweight of the finance sector is still based on the reasonable valuations that exist for double-digit earnings growth, improving balance sheets and high rates of return on equity. Likewise, our continued overweight of the technology sector remains based on the premise that strong personal computer demand will propel dominant hardware and software companies.

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
Campbell Soup	None
Newport News Shipbuilding	
Oregon Public Employees Retirement	
Retirement Plan for Hospital Employees	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

In late December, staff asked Alliance to implement a change in their portfolio construction process to provide an enhanced value added portfolio relative to their current benchmark. Alliance will comply by more heavily weighting the portfolio in their "favored 25 process" (top 25 stock ideas). In the past, 66% of the portfolio was from the favored 25; going forward, 70-85% will be in the favored 25 names. They are likely to hold fairly equal weights in each of those names, and add smaller weightings of names from the next level in their ranking process.

Staff met with Alliance on January 16, 1997 in their Minneapolis office. At that time, they were moving toward a more concentrated portfolio. They expect to hold 35 names, or less, in the portfolio when fully implemented.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$60.5 Billion	Actual	9.5%	26.1%
Total Firm Assets Managed in this Discipline	$15.5 Billion	Benchmark	6.9%	20.3%

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?*

   Active factor exposures contributed meaningfully to portfolio performance during the fourth quarter of 1996 and were a modest positive for the twelve months ending December 31, 1996. During the fourth quarter of 1996, the portfolio was helped by overweights in earnings-to-price and book-to-price and an underweight in price volatility. These same exposures helped during the twelve months ending in December, but were somewhat offset by overweights in stocks that had a high degree of liquidity and earnings variability.

   Industry weightings had a largely neutral effect on portfolio performance during the fourth quarter and were a modest positive for the year ending in December. During the fourth quarter, positive returns from overweights in the banks, insurance and tobacco sectors and from an underweight in electric utilities and telephones roughly offset negative contributions from our underweight in energy and overweights in paper, tires and railroads. For the twelve months ending in December, portfolio performance benefited from overweights in aerospace, banks and tobacco and from underweights in telephone and electric utilities. Positive returns to these exposures more than offset negative returns to underweights in energy and technology along with overweights in railroads, pollution control, tires, leisure and railroads. Stock selection made a meaningful positive contribution to portfolio performance both during the fourth quarter and for the year ending in December. Holdings which contributed during the fourth quarter included Allstate, Corning, EMC Corp., Boston Technology and Tyson Foods. Holdings which contributed to performance during the year ending in December were Cigna, Citicorp, Corning, Melville and Sprint.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our process remains focused on identifying those stocks that are most attractive in price/value terms through intensive individual company analysis, which incorporates strategic themes and industry research. The portfolio remains relatively market-like in regard to factor characteristics at this time. We find stocks with high price-to-book, price-to-earnings and financial leverage modestly attractive. We are also underweighted regarding foreign earnings exposure due to our expectations of a stronger U.S. dollar.

   From an industry perspective, we continue to overweight both banks and property casualty insurance. We believe that restructuring and consolidation will raise efficiency and market share. A common thread in our insurance holdings is a trend toward improved management focus, along with our belief that uncertainty surrounding environmental liabilities for casualty insurance companies may diminish and estimated liabilities may decline. The portfolio remains underweighted in electric utilities and traditional telephones, positions that have added meaningfully to portfolio performance during the past two years. We continue to see evidence that the eventual deregulation of power generation is accelerating competitive pressure from low cost utility and non-utility generators. Utilities will also suffer from the inability to earn an adequate return on stranded assets. Competition will also intensify in the telecommunications and cable industries as regulatory barriers between traditional business lines are blurred and the traditional regional telephone companies are pushed toward "cost of service" pricing. The portfolio remains overweighted in health care and drug stocks due to the aging of the population and major technological advances. However, the industry faces a longer-term intensification of competition. Consequently, all of our health care selections are companies with a strong capability for providing cost effective new products. We are modestly overweighted in the non-health consumer sector including retail/apparel, durables and discretionary spending stocks as we find a number of individual stocks appearing attractive on a stock specific basis. We are overweighted in railroads because we believe that secular improvement in railroad industry profitability will continue as regulatory barriers continue to fall. We are underweighted in the energy sector. Our petroleum outlook calls for steady increases in world demand for oil which will increase the call on OPEC oil, but at a rate well within the production capabilities of these countries. We believe that the current $25.00/bbl West Texas Intermediate price of oil is unsustainable. The portfolio is overweight in paper stocks and underweight in chemicals. Market prices for many commodities are below beginning-of-1996 levels, as a result of slowing economic growth and capacity additions. Finally, the portfolio is overweight with respect to aerospace and pollution control and underweight in technology.

Key holdings include Burlington Northern Santa Fe, Chase Manhattan, CMS Energy, Corning, Philip Morris, Tyson Foods and Xerox.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   By the end of December, Brinson Partners had completed the integration of Swiss Bank Company investment and support personnel into its investment structure. Headquartered in Chicago, Brinson Partners now has 594 employees located in 12 countries around the world.

   During the fourth quarter, we gained four new equity assignments totaling $140 million and lost none.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$3.4 Billion	Actual	6.5%	28.5%
Total Firm Assets Managed in this Discipline	$1.4 Billion	Benchmark	5.0%	20.6%

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?*

   Performance for the fourth quarter was strong, helping us to finish the year well ahead of the benchmark. Our technology holdings, overweighted in portfolios since the July correction, outperformed the broader sector within the index. The energy area added value through an overweight in the better performing equipment and services group, while the consumer services names surged ahead within the hotel/motel area. The one area of weakness within portfolios was the consumer retail group, specifically the office products names and book retailers. However, Price/Costco Inc. was up nearly 23% in the quarter, posting new highs.

   Performance for the year was boosted by an overweight and superior performance in the technology area, discussed above. In addition, stock selection in the medical area was very productive, as well as in the consumer services area, where we were overweighted to the benchmark. The names in this area which added the most value were the hotel/motel holdings, including the Marriott positions.

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.*

   For the months ahead, we continue to look for gains in selected consumer names, except in the durable goods segment. The full service hotel/motel play, mentioned above, is far from exhausted, with several years of favorable pricing strength remaining. Within the retailers, we have taken accumulated gains in several key positions, including Borders Group and Staples, Inc. Price/Costco, Inc., now the nation's fifth largest retailer, continues to outperform analyst expectations, with comparable store gains among the best in the industry. Barnes & Noble, Inc. and OfficeMax, Inc. have yet to produce anticipated results, but in both cases we expect the market to reward strong fundamentals in 1997.

   Within the technology sector we have taken partial gains on profitable third quarter purchases. Some of these assets have been redeployed into Micron Technology, Inc., which should begin to outpace leaders such as Intel Corp., on improving DRAM pricing. Should the market retrench, Micron should prove more liquid than earlier holdings within the sector. We have also added to the telecommunications equipment area, which has rewarded our expectations for recovery.

   The healthcare sector has continued to produce strong returns. Healthsouth Corp., on track with strong earnings growth and an effective acquisition strategy, was recently added to the S&P 500 Index, affording additional demand for the stock among index funds. Vivus, Inc., a strong performer in 1996, was recently featured in the New England Journal of Medicine, underscoring the company's prospects for growth and enhanced visibility within the investing community.

Having increased our holdings within the interest sensitive area in recent months, we have again trimmed exposure by taking gains which surged during the fourth quarter bond market rally. The utilities, which we generally avoid, are providing attractive prospects within the electric power groups as the industry deregulates. We continue to favor the equipment and services groups within the energy sector, while adding to exposure in the refining and marketing area. Finally, with the prospect of favorable economic conditions, we may increase holdings within the industrial groups. We have already established positions among the forest products names, which appear to have established a bottom, as well as the farm equipment area.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes at the firm over the quarter. No accounts were gained or lost in this discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No issues to report at this time.

Staff Comments

In late December, Forstmann-Leff was asked to review their portfolio construction process and to make minor adjustments where possible to enhance the value added relative to their benchmark.

Forstmann's process will not allow for a significant concentration in a short list of stocks as they hold a broadly diversified portfolio of large to mid-cap stocks. However, they may more heavily weight the stocks that are their best ideas.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	12/31/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$10.7 Billion	Actual	8.2%	24.6%
Total Firm Assets Managed in this Discipline	$ 613 Million	Benchmark	6.3%	19.2%

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?*

Last Quarter's Performance:
The fourth quarter was another strong one for domestic equity markets. For the period, the account outperformed its benchmark with a total return of 8.2% compared to 6.3%. For the same period, the S&P 500 produced a return of 8.36%. According to the performance attribution analysis, stock selection, industry bets and risk index bets contributed to active return.

Some of the portfolio issues which were strong performers for the period were America Online (46%), Dell Computer Corp. (37%), UAL Corp. (32%), Travelers Inc. (23%), and Price/Costco Inc. (23%). Account holdings that performed poorly in the period were Staples Inc. (-19%), CSX Corp. (-16%), Sun Microsystems (-14%), Dole Food Company (-13%), and Mirage Resorts (-10%).

The risk factor bet which helped performance was a positive tilt on Earnings-to-Price. Other risk factor tilts had no significant impact in the period. Industries contributing to active return were positive bets on Miscellaneous Finance, Producer Goods, Air Transport, and Gas Utilities. Industry bets that hurt performance were negative bets on Publishing, Media, Chemicals, Banks, and Other Insurance.. As we have stated in the past, our investment process does not specifically target industry groups for over and underweighting. These bets arise out of our selection of individual issues.

Twelve Month Performance:
The twelve month portfolio return was strong in absolute and relative terms. Our performance attribution analysis indicates that stock selection bets, risk-index bets, and industry bets contributed to active return. Issues in the portfolio which were strong contributors to performance were Dell Computer (68%), Safeway Inc. (66%), Compaq Computer (55%), BankAmerica Corp. (52%), and Bear Stearns (47%). Holdings in the account which hurt performance were KLA Instruments (-31%), Ivax Corp. (-30%), Humana Inc. (-25%), Unicom Corp. (-22%), and Digital Equipment (-21%).

A positive bet on the Earnings-to-Price risk factor contributed to active return. Other risk factor effects were not significant. Positive industry bets that helped performance were Miscellaneous Finance, Thrifts, Gas Utilities, and Oil Service. Underweighting of Services, Drugs, Aerospace, and Other Insurance hurt performance. Overweighting in Retail also hurt 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, 1996, the following active bets existed in the account relative to the benchmark:

   A. Risk factor bets (standard deviations from benchmark = or > .1):

Success = 0.30	Earnings/Price = 0.37	Trading = 0.20
Earnings Variability = 0.13	Yield = 0.13	Variability in Markets = 0.18

   B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Producer Goods	6.37%	Banks	-5.96%
Misc. Finance	5.84	Electric Utilities	-3.04
Retail	4.64	Drugs	-3.03
Consumer Durables	2.85	Chemicals	-2.97
Food Stores	2.75	Media	-2.45

   C. Stock bets (bets stated as percentage deviation from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Travelers Inc.	2.51%	Intel Corp.	-0.56%
Safeway	2.18	IBM Corp.	-0.51
Dell Computer	2.15	Microsoft Corp.	-0.46
Dayton Hudson	2.06	BankAmerica Corp.	-0.46
Ingersoll Rand	2.05	Chase Manhattan	-0.44

   Active portfolio bets are a function of: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   In the fourth quarter, we brought on Richard Bartels as a Senior Vice President, Investments. Richard will be heading up our growing international investment management effort. There were no account gains or losses in this discipline during the period. On a firm-wide basis we lost one account and gained one account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   In conformance with your recent instructions, we are now managing the portfolio more aggressively with the objective of obtaining higher relative returns.

Staff Comments

No comments at this time.

Manager Commentary
GeoCapital Corporation

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$2.0 Billion	Actual	4.2%	19.2%
Total Firm Assets Managed in this Discipline	$2.0 Billion	Benchmark	0.4%	9.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The following chart highlights our functional bets in the actual portfolio relative to the benchmark along with the performance of each. A new benchmark portfolio was established in early 1996 which we believe more accurately reflects our equity universe in both total liquidity and turnover. The current benchmark portfolio established for the fourth quarter 1996 adds to higher security coverage (now over 80%). The portfolio numbers in both periods were helped by our increased relative weightings and performance in the technology, financial, and consumer non-durable sectors.

	Quarter Ending 12/31/96	**Year Ending 12/31/96**
Consumer non-durable	Positive Same weightings/ higher returns 44.03% Geo/44.03% benchmark	Positive Higher weightings/ higher returns 43.35% Geo/41.53% benchmark
Technology	Positive Higher weightings/ higher returns 33.03% Geo/31.74% benchmark	Very Positive Under weightings/ higher returns 31.08% Geo/32.54% benchmark
Financial	Very Positive Higher weightings/ higher returns 11.82% Geo/8.98% benchmark	Negative Higher weightings/ lower returns 14.17% Geo/10.74% benchmark

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our strategy continues unchanged from the last quarter's commentary; within the technology sector, we are holding a greater position in both educational and application software combined with more concentration in data networking. Healthcare continues to decline relative to active positions in the last few years with increases in other consumer non-durable/services areas more than making up the difference (deathcare, retail, lodging). Active financial bets continue above benchmark levels.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No change in personnel.
Gained: Service Corp. (Add'l Trusts) **Lost:** Heinz (out of U.S. Small Caps)

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Fourth Quarter & Year-End 1996 Comments
We would like to address the following questions in these year-end comments:

1. Why do we continue to like the equity market after the last two strong years?
2. Why do we view small capitalization stocks as particularly attractive?
3. Why do we favor technology stocks considering the high level of volatility exhibited by this group?

1. We continue to believe that 1997 will be another positive year for equity investing because of (a) another year of economic expansion, (b) modest inflation, (c) stable interest rates and (d) ongoing profit growth. While many investors may believe that stocks are highly valued, the direct relationship between market valuations and the trend in inflation show that a continuing low inflation environment will be positive for equity market valuations.

2. Small capitalization stocks had a difficult year relative to large capitalization stocks. We believe that a significant factor for this performance was the high level of small company initial public offerings (IPO's). These new companies absorbed capital that might otherwise have gone into existing small capitalization companies. Despite this seeming trend, recent data from the Federal Reserve indicate that share repurchases and merger and acquisition activity have outpaced the level of new stock offerings. The resulting significant valuation gap between large and small capitalization companies is too large, and we believe that the valuation divergence represents a good long term opportunity for the purchase of smaller stocks.

3. We favor technology stocks over the next 3-5 years based on our belief that the United States and overseas economies will continue to undergo a fundamental restructuring, with significant positive implication for information technology companies in general. In this regard, business investment in computers and communications soared 24% during 1996. We believe small software and networking companies are positioned to benefit from the trend of information technology being employed on a large scale by all types of businesses on a global basis.

We also continue to be very positive on many of our special situations, where value is being created or freed-up on a company-specific level. Consistent with our long-term investment approach, this strategy may include scenarios such as turnarounds, restructurings, and consolidation stories. Examples of the industries we have recently focused on include funeral homes, lodging, education, and selected restaurant companies.

Staff Comments

While GeoCapital's performance for the quarter and year are quite good, GeoCapital is being reinterviewed this quarter by the Domestic Manager Committee, due to lagging longer term performance relative to their benchmark.

Manager Commentary
Investment Advisers, Inc.
(Domestic Equity)

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$ 16 Billion	Actual	5.9%	14.4%
Total Firm Assets Managed in this Discipline	$820 Million	Benchmark	6.3%	18.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the quarter ended December 31, 1996, the Portfolio returned 5.9% versus a benchmark return of 6.3%. In our last quarterly commentary, we discussed a shift in the drivers of the stock market's performance. Beginning in September, the overall strength in the market averages was driven by a small group of the larger capitalization stocks. That phenomenon continued to hold during October and through the November post-election rally. Our Portfolio holds a smaller than benchmark average market capitalization. We did own many of the stronger performing larger capitalization companies such as Motorola (up 18.93% for quarter), Amoco (up 14.36%), Allstate (up 17.51%), Dayton Hudson (up 18.94%), and Pioneer Hi Bred (up 15.70%). However, to keep up with the benchmark in October and November, there was almost no room for any skewing away from a large cap weighting. Hence, over those two months our relative performance slipped 3.63%.

All of that changed in December as we picked up 3.22% relative to the benchmark. As we have stated in the past, so long as the market's performance is not centered in a sector or with a particular size of company, we should perform well. In December, as the market's performance broadened out, we saw the Portfolio stage a strong comeback.

Our strongest sector in the quarter was life insurance. Falling interest rates continued to aid the financial group. Trucking was the next best relative group led by U.S. Freightways. Our active bet in the agriculture sector continued to benefit the Portfolio as Case Equipment, Pioneer Hi Bred, and Lindsay Manufacturing continued to perform well.

Sector bets that worked against us were our underweighted position in telephone communications which performed well largely due to Ameritech's recovery (which we would contend was part of the large cap effect in the quarter), and the continued strength of banks (our financial weightings are in specialty finance).

For the year, the Portfolio returned 14.4% versus a 18.4% return for the benchmark. This performance is a complete reversal of the 1.75% year-to-date outperformance we had as of June 30, 1996. We find the large swing in relative performance a surprise given the quality of companies we own. Large swings in relative performance are most often associated with portfolios that contain stocks with significant relative business or financial risk; we do not believe either risk is unusually high in the Portfolio.

The slippage in the year's relative performance is entirely due to the large cap effect we have already discussed. The portfolio rose from year-to-date performance in June of 10.02% to 14.45% in December. The benchmark rose from 8.26% to 18.44% over the same period, largely on the back of the largest companies.

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 have been no material shifts in our sector weighting over the past quarter. We continue to focus on a mix of companies with improving returns on capital and ones that we believe can sustain above average profitability. Our approach is bottom-up whereby we are focused on finding the best individual investments in this region.

   Our overweighted position in agriculture has undergone some modification. We have trimmed our holdings in John Deere & Co. and Case Corporation, eliminated our position in Pioneer Hi Bred and have been building our position in the fertilizer area (IMC Global). These shifts are made only to reflect our view of the relative valuations within this sector and do not diminish our positive view of the future for U.S. agriculture.

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.*

   Brian Donahue joined IAI as an Associate Vice President and a member of the Regional Fund team. He will be working on the SBI Portfolio with the rest of the team. Prior to coming to IAI, Brian worked as an analyst for Cleary, Gull, and Reiland (a research and investment banking firm in Milwaukee). At Cleary, Brian had responsibility for a product called the "Big Ten", which focused on companies in the Big Ten Conference states (overlapping most of the Regional Fund's territory). Brian holds an MS in Finance from the University of Wisconsin at Madison.

   Subsequent to the end of the quarter, Rick Leggott, a member of the Small Cap team, resigned effective January 8, 1997.

   No accounts gained/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 Equity Advisors)

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$32.0 Billion	Actual	8.3%	23.5%
Total Firm Assets Managed in this Discipline	$ 8.2 Billion	Benchmark	6.5%	23.7%

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?*

   During the latest three months, the State of Minnesota account outperformed the Normal Portfolio by approximately 180 basis points. Year-to-date performance was in line with the Normal Portfolio and slightly ahead of the S&P 500. Value added came primarily from sector weightings. Heavy weightings in technology, financials, and consumer staples proved fortuitous. Underweightings in utilities and consumer cyclicals also proved helpful. Our underweighting in energy proved mixed in terms of its impact. Integrated oil companies underperformed the general market while oil service companies outperformed. Unfortunately, we were weighted to the integrateds rather than the service companies. Finally, while overall stock selection for the year was unsatisfactory, individual security selection during the last several quarters of the year was helpful.

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:

Sector Exposure	**Concentrated Portfolio**	**MNSBI Normal**	**Active Bet**
Basic Materials	3.65	4.69	-1.04
Consumer Cyclical	15.48	12.90	2.58
Consumer Non-Cyclical	29.91	21.94	7.98
Energy	0.00	4.73	-4.73
Finance	12.91	16.43	-3.52
Industrial	7.77	5.68	2.09
Technology	25.60	26.44	-0.84
Transportation	0.00	1.76	-1.76
Utilities	4.68	5.43	-0.75
Cash	0.00	0.00	0.00

Going forward, the strategy we will employ involves concentrating the portfolio in terms of the number of stocks held, thereby increasing the total risk and active risk of the portfolio. As we have discussed, the portfolio will be concentrated under a methodology we call Risk-Adjusted Optimal. Using only our analysts' best ideas (one-rated stocks), we will quantitatively manage the concentrated portfolio to maximize utility while keeping active risk between 6 and 8 percent versus the MNSBI Normal portfolio. Because this is a bottom-up process, all industry and sector bets will be residual to the maximum utility goal. We will seek to structure the portfolio such that the contributions to active risk and utility are spread amongst all sectors and fundamental factors, provided there are an adequate number of stocks in the opportunity set which enable us to do so. As the analysts' ideas are driven by a number of macro factors, the portfolio style may drift from time to time (value/growth, defensive/aggressive, high quality/low quality, large cap/mid cap). Any changes in style will not affect the goal of maximizing utility, nor will they affect the characteristics of the Normal portfolio. In addition, this strategy will not set out to time the stock market. The cash levels of the portfolio will be kept to a minimum at all times. Any cash temporarily in the portfolio will be immediately equitized using S&P 500 Index futures, provided there is an acceptable level of fair value to the index.

The current opportunity set of one-rated stocks is characterized by companies which are generally smaller, more volatile, and higher in earnings growth than the MNSBI Normal portfolio. Using this opportunity set, we have invested in an optimal portfolio of 25 stocks. The portfolio's largest active bets are overweightings in the Consumer Non-Cyclical and Consumer Cyclical sectors, and underweightings in the Energy and Financial sectors. Again, these bets are residuals of the bottom-up process. The overweightings are primarily due to the larger size of the underlying companies. These overweightings effectively narrow the size differential between the opportunity set and the Normal portfolio, serving to reduce active risk. The underweightings are primarily due to the few one-rated stocks in these sectors. The Energy sector weighting is zero, as there are presently no one-rated companies in this sector. The portfolio remains slightly tilted toward relatively smaller, more volatile and higher earnings growth companies with a forecasted active risk versus the Normal portfolio of around 6 percent. Although the forecasted beta of the portfolio versus the Normal is 1.05, it is our belief that this diversified portfolio will outperform the Normal under any probable market conditions over the next 6 to 12 months.

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.*

Laura Ostrander has left the company to pursue opportunities with Colonial Funds.
David Factor has joined the company as an Asset Liability/Quantitative Analyst.

Fourth Quarter 1996

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	0	0.0	1	41.7
Fixed Income	1	18.9	0	0.0
Regional - Specialized	1	31.7	0	0.0
Small Cap Equities	1	11.6	0	0.0
Research Aggressive	2	40.0	0	0.0
Total	**5**	**102.2**	**1**	**41.7**

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

In late December, staff asked IDS to implement a change in their portfolio construction process to provide an enhanced value added portfolio relative to their current benchmark. In January, IDS will implement the changes as described above.

Manager Commentary
Independence Investment Associates

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$25.9 Billion	Actual	7.6%	19.8%
Total Firm Assets Managed in this Discipline	$12.4 Billion	Benchmark	8.3%	23.5%

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?*

After advancing 37.6% in 1995, few investors expected last year's stunning 22.9% market return. 1995 and 1996 together mark a two-year period of the best stock market performance in 40 years. The extreme narrowness of the market made it extremely difficult to beat; the 50 best performing stocks of the S&P 500 accounted for 70% of the return. The median manager underperformed by an estimated 5.7 percentage points. Your 1996 performance lagged the S&P 500 with the majority of the shortfall occurring in the second half of the year. Our composite valuation model (Cybercode) was skillful at identifying which stocks to avoid (those at the bottom of our ranked list). However, the composite model was not successful at indicating which stocks to pursue or own (those at the top of our list where the majority of your holdings are concentrated). In contrast to the third quarter shortfall caused by a handful of specific holdings with disappointing returns, the fourth quarter underperformance was more evenly distributed. Our on-going analysis identifies three factors contributing to the way in which our valuation models have been working in the recent past. All are cyclical phenomena which have occurred before and are typical of a late-cycle market environment. First, while the composite model's initial predictive ability remained normal in the very short term, its incremental value added over longer holding periods deteriorated much more quickly. Next, our valuation models worked less well in recent periods in the mega-cap universe of super large companies. We believe this is related to the extreme concentration of S&P 500 performance in this handful of big companies. Last, the most attractively ranked issues, where many of our transactions are concentrated, have experienced more erratic results than the overall universe of positively ranked securities. The highest ranked securities are by definition those which have the best combination of cheapness and improving fundamentals, so they are even more subject to the same influences outlined above. While all three of these phenomena have occurred simultaneously this time, we once again emphasize that these factors are cyclical, that they have occurred before, and that they are very much related to the type of market environment which we've recently experienced.

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 will continue to construct a diversified, benchmark-like portfolio of stocks that are "cheap" and have improving fundamentals with confidence that it will meet your performance goal of adding value over your benchmark. We monitor your investment policy guidelines closely and will continue to maintain your portfolio's characteristics precisely in line with those guidelines. At the end of 1996, your portfolio held 104 positions and was fully invested with a cash position of 0.3%. Your account had a beta (a measure of volatility) of 1.00, an R^2 (a measure of diversification) of 0.98, and a tracking error (a measure of non-market risk) of 2.0%.

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.*

   There has been no change in our investment staff, our philosophy or our daily implementation. Our quantitative analysts continue to pursue additional avenues of research. For example, we're studying whether information embodied in prior months' valuation models can increase long-term model performance, and we're analyzing potential different model combinations for different capitalization subsets of our working list. These and other research projects are carried out with an unwavering conviction in our investment philosophy of "cheapness and improving fundamentals" and the disciplined implementation of our investment process.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Independence on January 22, 1997 to discuss their lagging performance. Comments made by Independence during that meeting are reflective of those summarized above.

Manager Commentary
Lincoln Capital Management Company
(Domestic Equity)

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$42.3 Billion	Actual	6.0%	26.7%
Total Firm Assets Managed in this Discipline	$16.1 Billion	Benchmark	5.6%	24.3%

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?*

   Quarter - The portfolio outperformed the benchmark by roughly 40 basis points net of fees, of which -90 is attributable to sector (industry) allocation and 150 to stock selection within our industries. The large negative sector weighting variance is due to our underweighting the very strong technology area during the fourth calendar quarter. Issue selection was very good in consumer non-durables, retailing, specialty chemicals, and communications.

   Last 12 Months - The portfolio outperformed the benchmark by 240 basis points, of which -110 is attributable to sector (industry allocation) and 370 to stock selection within our industries. As was the case for the fourth quarter, the negative sector weighting variance was due to our underweighting in technology. Issue selection was very good in media/entertainment, health care, retailing, and financial services.

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 Lincoln transitions to a 30 stock portfolio, the top 10 issues will represent nearly 50% of the weight in the portfolio. Sector weights (bets) are not greatly changed by this move. The portfolio is still overweighted in consumer non-durables, health care, and other (mostly specialty chemicals - Monsanto and Grace) while underweighted in technology (less underweighted now than in prior periods), communications, and media.

   The rationale for these active bets is Lincoln's bottom-up analysis (both fundamental and valuation) of the individual stocks in these industries.

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.*

   John Croghan moved from active oversight of specific equities in the benchmark to a more consultative role.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

In late December, staff asked Lincoln to implement a change to their portfolio construction process to provide an enhanced value added portfolio relative to their current benchmark. Lincoln will make modest changes to the portfolio by increasing the weighting in the top ten names in the portfolio and removing names that had smaller weightings in the portfolio. They expect the result to be a portfolio of 30 stocks as mentioned above.

Manager Commentary
Oppenheimer Capital

Period Ending:	12/31/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$48.3 Billion	Actual	8.3%	27.5%
Total Firm Assets Managed in this Discipline	$29.3 Billion	Benchmark	7.2%	22.0%

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, the portfolio outperformed the benchmark by 110 basis points. From a sector perspective, technology made the greatest contribution to outperformance, led by Intel, which rose 37%, and Nokia, which was up 30%. Intel is in an unusually strong position due to its high market share, manufacturing scale and intellectual property. These advantages enable Intel to design, manufacture and deliver low cost products which the market desires. Additionally, the portfolio benefited from several restructuring announcements which will improve the value creating potential of the affected companies. Particularly, McDonnell Douglas, the largest position and the source of the largest single contribution to the portfolio's outperformance, is in the process of being acquired by Boeing. Hercules, which detracted most from performance during the quarter, was down due to the market's reaction to below-expectation operating results. We believe this company has extremely strong franchises in its major businesses and that this is a temporary lull in earnings growth.

The five largest contributors to and detractors from performance were as follows:

Five Largest Contributors		Five Largest Detractors	
Intel Corp.	37.3%	Hercules	(20.6)%
Nokia	30.2	Dole Food	(19.1)
McDonnell Douglas	25.0	Shaw Industries	(10.6)
Travelers	23.5	Champion	(5.6)
Citicorp	14.2	Freeport McMoRan	(3.7)

For the year ended December 31, 1996, the portfolio outpaced the benchmark by 550 basis points. Financial stocks continued to make the largest contribution to the portfolio's outperformance. As in previous periods, both stock selection within the group and overweighting relative to the benchmark had significant positive impact on the portfolio performance. As we have previously commented, we own these stocks because of their industrial positions, high return on capital and shareholder oriented managements, not as a result of an interest rate forecast.

The five largest contributors to and detractors from performance were as follows:

Five Largest Contributors		Five Largest Detractors	
Intel	131.3%	Hercules	(22.0)%
Monsanto	61.6	Shaw Industries	(17.6)
Citicorp	56.6	Freeport McMoRan	(12.3)
Travelers	46.9	Motorola	(2.3)
McDonnell Douglas	44.1	Dole Food	(2.2)

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 most significant active bet continues to be the overweighting in financial stocks, with approximately 38% of the portfolio in this sector as of year-end versus a benchmark weighting of 20%. Our investment style is to be long term relationship investors. We know the companies we own extremely well and have an ongoing dialog with the managements of our portfolio companies. Although we do pay attention to the overall investment climate, we do not let it dominate our investment process. We want to make sure the companies we own are creating value for shareholders.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no changes which impacted the management of the Minnesota State Board of Investment portfolio. However, there have been the following changes in investment professional staff:

   Additions:
   Joseph M. Rusbarsky - Director, Client Relations and Marketing
   Timothy J. Curro - Small Cap Equity Portfolio Manager/Analyst

   Departures:
   Theresa L. Snyder, Marketing Manager - Joined Bear Stearns Asset Management
   Noreen E. Clarke, Client Service Manager - Relocated for personal reasons

   CORE EQUITY ACCOUNTS GAINED/LOST:

Accounts Gained:	12 accounts with $243.4 million in assets
Accounts Lost:	2 accounts with $50.3 million in assets

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

In late December, staff asked Oppenheimer to review their portfolio construction process and to make minor adjustments to it where possible to enhance the value added relative to their benchmark. While Oppenheimer already runs a concentrated portfolio of 35-40 names, they may add to the holdings of their best stock ideas and eliminate a few lighter-weighted names.

Manager Commentary
Weiss Peck and Greer

Period Ending:	12/31/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$12.9 Billion	Actual	0.0%	19.1%
Total Firm Assets Managed in this Discipline	$ 1.2 Billion	Benchmark	0.9%	10.3%

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?*

Past Performance
The final quarter of 1996 was a volatile period in the equities markets. Performance in the Minnesota portfolio was flat for the quarter, underperforming the benchmark by 90 basis points. During the quarter we posted better than benchmark returns in several sectors, one of which was technology. Some of the better performing stocks in this sector were Seagate Technology, a manufacturer of computer hard drives, which took advantage of consumers' need for larger storage devices in desktop computing, and Hyperion Software, a developer of client/server financial software, which benefited from the continued downsizing of corporate mainframe computing to network computing.

We were disappointed by the performance of Just for Feet, an athletic apparel and footwear retailer. The stock was adversely affected by fears that sales comparisons in the quarter would be poor. These fears were ultimately unjustified. Another poor performer was Arterial Vascular Engineering, a manufacturer of cardiology medical devices. The company announced a shortfall in its 2Q earnings due to pricing pressures in its European markets as well as an increase in legal expenses resulting from litigation brought in connection with an acquired company.

Performance of the account over the full year has been very strong as we outperformed the benchmark by over 800 basis points. Our strategy during 1996 was to stay neutrally weighted relative to the benchmark's sectors. The outperformance has come primarily from excellent stock selection. The account had exceptional performance in several sectors. Consumer non-durables and energy are two prime examples of sector performance that was better than the benchmark's. Several holdings within these two sectors standout particularly well as examples of superior stock selection. Williams-Sonoma, a specialty retailer of housewares and culinary equipment, performed very well during the year as new stores and new concepts helped drive earnings growth. Among the energy related stocks, Noble Drilling and BJ Services performed exceptionally well as drawdowns in supplier inventories created upward pressure on oil prices.

Several areas within the portfolio continued to show disappointing progress during the year. The transportation sector was very weak as airlines, hurt by several factors including accidents, rising energy prices and increased price competition, continued to underperform. In particular, one holding that saw a significant reversal of fortunes this year was ValueJet, which was hobbled by a controversial accident over the Florida Everglades. Another group that has disappointed this year is the relational database software vendors within the technology sector. These companies were affected by several issues, including product transitions, slowing corporate orders and pricing pressures.

Nonetheless, our strong overall performance is gratifying and indicative of the merit of our bottom up approach to stock 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.*

   Going forward, we continue to envision moderate inflation and a stable interest rate environment. There continues to be good support for the stock market as corporate earnings reports remain strong and substantial cash inflows continue. Small stocks traditionally assume a leadership role in late stage bull markets and we expect that trend to manifest itself in the coming year.

   Our emphasis will continue to be on those companies that are showing strong secular growth, high-quality earnings and strong, seasoned management. The sectors that are of most interest continue to be technology, healthcare and business services. Energy and retail are also of particular interest as they continue their upward cycle.

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.*

   One account was lost at the end of November. Weiss Peck and Greer resigned the account we were managing for Lloyds because of additional investment restrictions the client placed on the portfolio. We felt that the restrictions impaired our ability to employ our investment strategy and achieve the expected returns for this asset class.

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
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$10.7 Billion	Actual	9.1%	21.6%
Total Firm Assets Managed in this Discipline	$ 1.3 Billion	Benchmark	9.1%	21.9%

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?*

Last Quarter's Performance:

For the period, the account matched its benchmark at 9.1%. According to our performance attribution analysis, stock specific bets and industry bets were negative contributors and risk index bets were positive contributors. Some issues in the portfolio that were strong performers during the period were America Online (44%), Ensco International (43%), Owens Illinois Inc. (41%), PHH Group Inc. (38%), and Lexmark Intl. (36%). Issues which detracted from performance in the quarter were Olsten Corp. (-23%), Black & Decker (-20%), CSX Corp. (-16%), Texas Inds. (-15%), and Dole Food Co. (-14%).

Twelve Month Performance:

The return for the account was slightly behind its benchmark return for the past twelve months. Our performance attribution analysis indicates that risk factor bets and industry bets helped performance for the past year. Stock specific bets were a negative contributor to active return. Issues which were strong contributors were Vons Companies (89%), Lexmark Intl. (68%), Helmerich & Payne (66%), Safeway Inc. (62%), and Interstate Bakeries (52%). Issues which were weak during the period were Oak Technology (-74%), Northeast Utilities (-52%), Applied Materials Inc. (-37%), Premier Bancorp Inc. (-37%), and Bay Networks Inc. (32%).

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, 1996, the following active bets existed in the account relative to the benchmark:

A. Risk factor bets (standard deviations from benchmark = or > .1):

Earnings/Price = 0.31 **Book/Price = 0.10**

Franklin (con't)

B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		**5 Most Negative Bets:**	
Misc. Finance	1.84%	Services	-1.61%
Food	1.38	Banks	-1.54
Consumer Durables	1.24	Cosmetics	-1.09
Food Stores	1.00	Beverages	-1.02
Gas Utilities	0.88	Business Machines	-0.91

C. Stock bets (bets stated as percentage deviation from benchmark weight):

5 Most Positive Bets:		**5 Most Negative Bets:**	
Travelers Group	0.76%	IBM	-1.22%
Pacificorp	0.73	Microsoft Corp.	-1.05
Genetics Inst. Inc.	0.63	3M Company	-0.81
Archer Daniels	0.60	Wal Mart Stores	-0.75
Southtrust Corp.	0.60	Chevron Corp.	-0.68

Active portfolio bets are a function of: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

In the fourth quarter we brought on Richard Bartels as a Senior Vice President, Investments. Richard will be heading up our growing international investment management effort.

There were no account gains or losses in this discipline during the period. On a firm-wide basis we lost one account and gained one account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

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

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$209 Billion	Actual	9.4%	21.9%
Total Firm Assets Managed in this Discipline	$ 7.0 Billion	Benchmark	9.1%	21.9%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?***

   The Research Enhanced Index (REI) strategy surpassed its benchmark in the fourth quarter with strong relative performance in the utility and service sectors and weakness in the drug sector. Because portfolio sector weights are equal to the benchmark sector weights, the relative performance is due to stock selection within each sector rather than from sector over/underweighting. Further, the large number of stocks in the portfolio reduces the potential relative return impact of a small number of stocks. In other words, many small, active, individual stock positions drive performance.

   Among the stocks which had the largest positive impact were Philip Morris, Electronic Data Systems and Union Pacific. Continued strong earnings growth enabled Philip Morris to rebound in the fourth quarter from adverse tobacco litigation rulings in the prior quarter. Electronic Data Systems (underweight) dropped sharply after they announced that fourth quarter growth was likely to continue slowing and Union Pacific benefited from synergies related to their merger this year with Southern Pacific.

   Stocks that negatively impacted performance included Microsoft (underweight) and First Data Corp. The success of Microsoft's Windows NT software has strengthened their already dominant market position. First Data's Moneygram unit, which the FTC has ordered them to sell (they own Western Union as well), has been a drag on the parent company's earnings prospects as it has become apparent they will not receive as favorable a price as anticipated.

   For the year ending December 30, 1996, the portfolio performed in-line with its benchmark. Performance was mixed with the transportation, services and finance sectors adding the most to return while the technology and consumer staple sectors detracted the most from return.

   Most of the relative weakness can be attributed to underweighted positions in Large Cap "Nifty Fifty" stocks such as Coca Cola, Intel, General Electric and Microsoft. The relative strength stemmed from individual stock selection decisions such as Service Corporation, Portland General, Warner Lambert and Nynex.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our stock selection process overweights those stocks within each sector that have the highest expected return or DDR (the discount rate that equates projected earnings/dividends to the current price) and underweights those with low DDR's. Since the portfolio is fully invested, sector neutral, and factor neutral, the only active bets are individual stock over-and-underweightings. As prices and earnings estimates change, so do DDR's. Monthly portfolio rebalancing redistributes the portfolio weights such that within each sector, stocks with the lowest DDR's are sold and stocks with the highest DDR's are purchased, within specified limits. Regular rebalancing and constant oversight ensures that our analysts' latest estimates are reflected in the portfolio. As of December 31, the largest positive bets in the SBI portfolio are Philip Morris, Exxon and Panenergy, while the largest negative bets are Microsoft, Johnson and Johnson and General Electric.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the fourth quarter, three new accounts were added, and three accounts were lost due to asset allocation decisions.

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
Barclays Global Investors
Semi-Passive Account

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$344 Billion	Actual	9.7%	23.0%
Total Firm Assets Managed in this Discipline	$ 12 Billion	Benchmark	9.1%	21.9%

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?***

   BGI Global Investors' Alpha Tilts Strategy, customized for the Minnesota SBI, outperformed the Minnesota Custom Benchmark by 0.6% in the fourth quarter of 1996, and outperformed by 1.10% over the last 12 months. This strategy systematically evaluates companies according to a broad set of investment characteristics in order to construct a risk-controlled, index-like portfolio with expected returns in excess of the benchmark. The active risk level of the portfolio is generally maintained at 1.0 - 1.5%; from inception and over the past year the realized active risk was well within this range.

   The attribution of added returns in the fourth quarter is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.61% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value added 0.43% in the fourth quarter. The use of signaling measures, which include corporate financing activity and informed insider trading, contributed 0.00% to active return in the fourth quarter. As expected, industry weighting differences made only a small contribution to the portfolio's active return (-0.04%), due to the tight risk controls we use in this area. Finally, the portfolio experienced negative 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 800 stocks) and by limiting the active positions taken in individual companies.

Active Return Attribution:

	Quarter	**Past Year**
Analyst inputs:	0.61%	1.93%
Fundamental value:	0.43	0.43
Signaling inputs:	0.00	-0.03
Other common factors:	-0.23	-0.42
Industry weights:	-0.04	-0.01
Stock-specific	-0.08	-0.75
Total active return:	**0.68%**	**1.15%**

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 third quarter 1996 portfolio. Our investment process seeks to identify companies for which consensus expectations will be improving, by carefully modeling the linkage between changes in analysts' forecasts and future expectations and returns. 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.*

   No significant ownership or personnel changes took place in the past quarter. Our name was changed from BZW Barclays Global Investors to Barclays Global Investors. BGI added 5 new clients in our US Alpha Tilts Strategies during the fourth quarter, with a total funding of approximately $900 million. There were no lost clients in the US Alpha Tilts Strategies during fourth quarter 1996.

   New Alpha Tilts Clients, Fourth Quarter 1996:

   City of Richmond
   Campbell Soup Co.
   Syntex
   Western Conference of Teamsters
   Masonic Homes

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
Barclays Global Investors
Passive Account

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$396 Billion	Actual	7.1%	21.6%
Total Firm Assets Managed in this Discipline	$ 13 Billion	Benchmark	6.9%	21.2%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.***

   Barclays Global Investors' (BGI) Wilshire 5000 Strategy outperformed the Wilshire 5000 by 20 basis points (bps) during the fourth quarter of 1996. 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 15 bps.

   Tracking error, due to security specific misweights, for the last twelve months has also been positive (41 basis points).

2. ***Future Strategy. Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations.***

   We continue to look for opportunities to rebalance the portfolio and use cash flows to minimize the portfolio's expected tracking error. We seek to rebalance on a cross only basis over time to minimize tracking error.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No significant personnel or ownership changes took place during the last quarter, apart from the change discussed in the last quarterly commentary.

   There was one account gained and one account 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.*

   During the third quarter, BGI traded approximately $55.9 million (based on December 31, 1996 prices) in the Wilshire 5000 portfolio. Trades were done to facilitate rebalancing, index changes, and dividend reinvestment. Of the $55.9 million traded, $0.6 million was crossed either with other BGI clients/funds, through Instinet/Posit, or with brokers. The remainder was actively traded through Instinet or traded open market. Assuming that the cross transactions saved Minnesota just one half of the bid/offer spread, the amount saved was $2,000 dollars (est. 37 bps times the amount crossed). Much of the trading done in the open market involved new stocks added to the index.

Staff Comments

No comments at this time.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	12/31/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$198 Million	Actual	9.4%	21.9%
Total Firm Assets Managed in this Discipline	$198 Million	Benchmark	8.6%	23.5%

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 9.4% versus 8.6% for the benchmark return. For the year, CIC returned 21.9% versus 23.5% for the benchmark. Relative to the Russell 1000 Value Index, CIC returned 9.4% vs. 9.98% for the quarter and 21.9% vs. 21.6% for the year. We had particularly strong performance in the quarter from Universal Corp. (+27.23%), Rohm & Haas (+25.37%), IBM (+22.01%), GTE Corp. (+19.11%), and Kerr-McGee Corp. (+18.97%). For the year, our performance was helped by strong stock selection and our overweight in technology and energy. We were hurt relative to the benchmark by our overweight in basic industries and our underweight in consumer nondurables.

   Portfolio Construction Table: Industry exposures and cash holdings changed as follows:

Sector	Normal Portfolio Benchmark 12/31/96	Portfolio 9/30/96	Portfolio 12/31/96
Consumer Cyclicals	16.72%	6.25%	7.78%
Consumer Non-Durables	16.33	12.65	5.52
Technology	8.37	7.95	9.38
Energy	7.84	10.88	13.35
Basic Materials	10.36	21.29	19.30
Capital Goods	10.07	5.66	7.46
Utilities	9.26	12.62	13.06
Financials	21.06	21.38	22.14
Cash	0.00	1.32	2.03
TOTAL	**100.00%**	100.00%	100.00%

CIC Asset Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   During the quarter we further increased our exposure to energy stocks from 139% of the normal portfolio benchmark to 170% as rising oil prices continued to support upward earnings revisions and valuations for energy stocks. We increased our capital goods exposure by adding Caterpillar, with our exposure increasing from 56% to 74%. We also increased our consumer cyclical weight from 34% to 47% by adding Dillard Department Stores and Snap-On Tools and by eliminating Dana Corporation. We decreased our exposure to consumer nondurables from 77% to 34% by selling portions of our positions in Bristol Myers, Universal Corp., and Foundation Health.

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 were hired by Ameritech Corporation to manage a large cap value portfolio.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   In our recent visit with staff members we indicated that there was a problem in the construction of the normal portfolio which resulted in sector weights which are not representative of our current investment process. We have worked closely with BARRA and Richards & Tierney and have now corrected this problem.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Cohen, Klingenstein & Marks Incorporated

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$570 Million	Actual	6.0%	27.6%
Total Firm Assets Managed in this Discipline	$570 Million	Benchmark	6.6%	21.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The account increased by 6.0% (net) during the fourth quarter of 1996 which compares to a 6.6% gain for the benchmark. For the full year, the account rose 27.6% (versus 21.9%). Broadly speaking, the account remained aggressive (in the context of the generally conservative large capitalization stocks that we purchase). Relative to the benchmark, the account has been overweighted in Interest-Rate Sensitive (reflecting a belief that rates would decline) and Growth (reflecting optimism about long-term economic growth) stocks, and underweighted in Cyclicals stocks (believing it is no longer time for stocks of this type). Less significantly, the account is underweighted in the Energy and Stable sectors (reflecting a commitment to low inflation and growth). On balance, this positioning was a mixed bag last quarter. The account's under-exposure to the Stable and Energy sectors detracted from performance while its relative exposure in the other sectors helped. For the past 12 months, the account's outperformance is explained mostly by its relative overweighting in Financial stocks (and superior stock selection) as well as its overweighting in Technology stocks (and also better-than benchmark stock selection). The account was also aided by under-representation in the Cyclical sector which continues to perform relatively poorly. We sold and purchased a number of stocks last quarter, mostly for a variety of company-specific reasons (less attractive valuations, weaker earnings prospects, etc.). That said, these transactions produced a small "structural" impact; exposure to Cyclicals was reduced by a tad and our historical overweighting in the Health-care sector was re-established, thereby slightly increasing exposure to Growth.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We believe that the market is fairly valued, based on consensus profit and interest rate expectations. On the other hand, we believe that the consensus remains a bit too cautious on rates (which we expect to fall) and profits. This, along with <u>expected</u> increases in profits, can propel the market higher, though it cannot continue at the current rate. The rate of increase must slow. This reflects no significant change in outlook.

Cohen, Klingenstein & Marks (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Accounts Gained	Accounts Lost
9 ($21.2 million)	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 has no comments at this time.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$255 Million	Actual	2.6%	19.6%
Total Firm Assets Managed in this Discipline	$140 Million	Benchmark	3.9%	24.8%

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, being fully invested was the primary driver of investment performance during the past three and twelve month periods. Since the inception of the relationship, a very small cash position has been held. This has added to investment performance greatly.

	QUARTER		**YEAR**	
Sectors	**Active Bets**	**Value Added**	**Active Bets**	**Value Added**
Technology	Underweighted	Did Not Work	Underweighted	Did Not Work
Consumer Non-Durables	Underweighted	Worked	Underweighted	Worked
Consumer Durables	Overweighted	Did Not Work	Overweighted	Did Not Work
Capital Goods	Overweighted	Did Not Work	Overweighted	Worked
Financial	Overweighted	Worked	Equal	Worked
Basic Industries	Overweighted	Did Not Work	Overweighted	Did Not Work
Transportation	Underweighted	Worked	Underweighted	Worked
Miscellaneous	Underweighted	Worked	Underweighted	Did Not Work
Energy	No Position	No Bnmk. Position	No Position	No Bnmk. Position
Utilities	No Position	No Bnmk. Position	No Position	No Bnmk Position

Quarter

Equity leadership in the fourth quarter was very narrow, with large capitalized stocks moving to new highs. Valuations on these stocks are extremely high, relative to their past five-year historical norms. Compass' portfolio is constructed with twenty-five equally weighted stocks. This portfolio has a mean capitalization of $18.5 billion and a median capitalization of $9.0 billion.

A portion of Compass' underperformance during the quarter is attributable to our median capitalization of $9 billion, while the market rewarded stocks with larger capitalizations. Additionally, the technology underweighting had a detrimental effect on the portfolio; under Compass' valuation techniques, this sector looks overvalued.

Year

The underweighting in the technology sector throughout the year was the primary reason for underperformance in 1996. Stock valuations within this sector have kept Compass underweighted. With Intel and Microsoft trading at or near all time high valuations, this sector looks unattractive. However, the move to overweight the financial sector with the addition of one name in May proved to be beneficial to the portfolio. It is interesting to note, of the four new equities purchased in 1996, all of them have a market capitalization under $5 billion. Compass is finding growth at a reasonable valuation in the smaller capitalized names.

Compass Capital 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.*

   Compass continues to underweight the technology sector based upon the high relative valuations. However, the portfolio has a major overweighting in the capital goods sector. The last two equities purchased in the portfolio were in this sector.. These two stocks demonstrated the growth characteristics we seek and were priced at an attractive valuation.

   Compass makes active bets both by sectors and by market capitalization. Roughly one-third of the portfolio has a market capitalization under $5 billion. We have been finding good growth stocks at the right price in this mid-cap area.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No ownership or personnel changes.

   No accounts lost.

   One new institutional account at $7 million.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Kennedy Capital Management

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$ 1.7 Billion	Actual	5.7%	25.4%
Total Firm Assets Managed in this Discipline	$508 Million	Benchmark	2.6%	17.0%

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?*

KCM's fundamental process is to invest in underfollowed and "misunderstood" companies. After investing, we try to help those companies become more visible to other institutional investors. Because KCM invests in these types of firms, no single stock is permitted to become a large percentage of the portfolio. On December 31, for example, Minnesota's largest position was only about three percent of its holdings. In addition, KCM never makes sector bets per se. As investors abandon a sector, it is more likely that we will be buying in that arena. However, because KCM purchases high growth companies and investors tend to favor high growth areas, our sector allocations are never radical. In September, the largest deviation of Minnesota's portfolio from the benchmark portfolio was in capital goods which constituted 13.7% of your portfolio compared with 6.9% in the benchmark.

That the account significantly outpaced the Russell 2000 (751 b.p.) in 1996 and even the S&P 500 (104 b.p.), is testimony, we believe, to KCM's process of investing in these underfollowed and undervalued companies. That the account beat its custom benchmark (840 b.p.), would seem to support the extra step in our process of working with these small companies to make them visible to other institutional investors.

Most of KCM's products did well this year. The weighted return of all KCM portfolios exceeded the Russell 2000 by almost 300 b.p. However, because Minnesota is a large account with a plan to potentially add significant funds, the account is centered at the larger end of the KCM universe. (With a weighted market cap of $229 million, the account is still very definitely small-cap). Frankly, after the market declined in June and July, this positioning was a plus. With investors continuing to be skittish it has been extremely difficult to bring their attention to the smallest "KCM 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 account and the firm have done well, but we have produced these results while sailing into a head-wind of large-cap dominance. We are expecting that sometime in the near future, small-cap stocks will once again assume their historic position of providing higher returns than large stocks. This may occur for any number of reasons. The most obvious trigger would be a pick up in economic activity that eases investor concerns and broadens market participation. Or, large companies which are selling at high multiples may choose to sustain their growth through acquisition. Specifically, we may see a pick up in the purchase of smaller, faster growing companies by larger firms. As we await the turn, KCM's process remains unchanged.

Last quarter we noted that cash was high in anticipation of late fall and January buying. Those purchases have largely occurred and cash is now at 3 percent.

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 organizational changes. Ownership of the firm was broadened to include three more employees. The firm has hired an additional analyst, an experienced CFA. We continue to opportunistically seek additional qualified analysts.

   One $6 million account closed.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

At the December, 1996 State Board of Investment meeting, the Board approved the recommendation to allow the Kennedy Capital contract to expire on March 31, 1997.

The recommendation to not renew Kennedy Capital's contract was based on staff's belief that Kennedy could not effectively manage a large portfolio for the SBI. Staff notes that Kennedy Capital continues to have excellent performance.

Manager Commentary
New Amsterdam Partners LLC

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$348 Million	Actual	6.1%	23.9%
Total Firm Assets Managed in this Discipline	$325 Million	Benchmark	6.6%	18.3%

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?*

In the quarter ended December 31, 1996 the return on your portfolio was 6.1%. This compares with 6.6% for our customized benchmark, 8.3% for the S&P 500 Index, 6.1% for the S&P MidCap, 7.4% for the Russell 1000 and 5.2% for the NASDAQ index. For the entire year of 1996, your portfolio returned 23.9%. By comparison, the benchmark was up 18.3%, the S&P 500 returned 23.0%, the S&P MidCap was up 19.2%, the Russell 1000 rose 19.7% and the NASDAQ gained 22.7%

Our core strategy remains the same: we use a valuation model to identify stocks with better than average forecasted long-term growth and profitability, selling at market or below-market multiples.

This quarter both our sector selection skill and stock picking ability were mediocre. Among the best performing sectors, we were overweighted in the Financials, the sector that did by far the best, but we were underweighted in two of the other strongly performing sectors - Energy/Minerals and Technology (although some of our Technology picks did exceptionally well). Among the quarter's poorer performing sectors, we were underweighted in Consumer Services but overweighted in Retail Trade and Health Technology. For the year, however, our sector selection ability was strong, adding about 1% in value, aided by our relative overweighting in financial stocks and clothing stocks and our underweighting in cyclical stocks.

Our stock picking ability was only slightly positive for the quarter but was strong for the year, adding over 5% in value above the benchmark in 1996. In the quarter, our stock selections outperformed their peers in eight of seventeen economic sectors and underperformed in the remaining nine sectors. Cyclical stocks were again a problem: Zebra Technologies, in the Producer Manufacturing area, was down -8.8%. Great Lakes Chemical, in the Process Industries sector, was down -17.7%. Other disappointing stocks this quarter included Amgen (-13.9%), Callaway Golf (-15.6%), and Wal Mart Stores Inc. (-13.6%). We are watching all these stocks closely but believe them still to be sound long-term investments.

Our star performer this quarter was Cheyenne Software (+39.9%), followed by MCI (+24.4%), both of which were taken over this quarter. Other strong performers included Arrow Electronics (+20.2%), Microsoft (+25.3%), Lands' End (+23.3%), Student Loan Marketing (+23.6%) and Travelers Group (+23.5%).

New Amsterdam Partners (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to maintain an overweighting in consumer, health, and finance stocks but are underweighted in energy, utilities, and cyclical stocks. We remain fully invested in the account and continue to stick to our investment discipline which looks for companies with superior profitability and forecasted growth, selling at reasonable multiples.

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 organizational or personnel changes at the firm over the quarter. No accounts were gained or lost. One account gave us an additional allocation of $10 million.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   New Amsterdam Partners continues to remain cautiously bullish on both the stock and bond markets for 1997. We expect the stock market to rise 5 to 10%, and for the interest rate on the long bond to average 6.3% for the year, ending 1997 at around 6.0%.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$1.0 Billion	Actual	10.7%	32.0%
Total Firm Assets Managed in this Discipline	$1.0 Billion	Benchmark	6.5%	20.2%

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*

Under our "bottom up" style, each stock pick is an active bet. For the quarter, gains were made throughout the portfolio, with the largest contribution to performance stemming from Tosco (adding 1.14%), experiencing accelerating earnings following the purchase of Unocal's West Coast refineries; Eckerd (0.83%), benefiting from the announcement of its acquisition by JC Penney; and Valassis (0.80%), where increased revenues were generated from a turnaround in consumer companies' usage of coupons. Performance was adversely affected by BF Goodrich and Pall (costing 0.24% and 0.20%, respectively), due to disappointing earnings reports, and Pep Boys (0.23%), facing downward earnings revisions following a decline in same-store sales. For the twelve months, the most significant gains came from TJX (contributing 2.14%), as the integration of Marshall's Stores exceeded original expectations of sales growth, Eckerd (1.96%), where continued drug store industry fundamentals resulted in strong sales growth and ultimate acquisition by Penney, and Tosco (1.91%). The poorest performers for the period were H&R Block (costing 0.46%), due to a disappointing valuation following the spin-off of its CompuServe Business; Foundation Health (0.37%), facing price pressures in the HMO industry; and Manpower (0.24%), from a deterioration of the European earnings outlook earlier in 1996.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to our benchmark? Summarize the rationale for making these active bets.*

Valenzuela Capital applies fundamental value-oriented research to selecting equities. We believe that 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 AVX, Ahmanson, Footstar (spun-off from CVS), Owens & Minor, and Sunbeam. Realized gains were taken in Everest, Federal National Mortgage Association, Harcourt, and WR Grace along with Fresenius Medical Care which had been spun off by the company. The position in Foundation Health was also sold due to the pressures facing the HMO industry.

Valenzuela Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Peter J. McCarthy, client service officer and research analyst, resigned from the firm to pursue a career change that is more fully related to client service. The firm was awarded a new account from Ameritech. The Illinois State Board of Investment terminated its account with VCM in a restructuring of its overall equity portfolio. All of these issues were discussed with staff.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The economy is showing signs that it is in the latter stage of the economic cycle. Recent data released by government and industry sources seem to indicate that the robust economic growth rates of past quarters are behind us. Anecdotal company evidence also suggests a slowing. Inflation seems to remain under control, although labor markets are currently tight. Moreover, some have described the strength in the financial markets as inflationary. Consequently, we are vigilantly watching both government and anecdotal evidence about the rise of inflation. If we are correct in our assumptions, then market pundits are likely to steadily reduce their earnings forecasts during the year. Even in the absence of inflationary pressures, decelerating earnings are likely to pressure the equity markets. And, if the markets sense inflationary pressures on the economy, the bond markets will be significantly pressured -- negative for the capital markets in general, including equities. On the heels of two strong equity markets during the last two years, we are somewhat more cautious about the outlook for 1997. Stock selection will be important, and we will continue to focus our efforts on companies that will be able to deliver superior earnings in a less robust environment.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$ 1.4 Billion	Actual	-11.9%	-3.3%
Total Firm Assets Managed in this Discipline	$695 Million	Benchmark	-0.2%	13.5%

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?*

   During the fourth quarter, and for the year 1996, some of our core holdings have been in "resting periods". A couple of examples would be Idexx Labs and Fastenal. Despite continued strong fundamental results, these large core holdings were flat or down for the year. In the case of Idexx, year-over-year revenues and earnings are up over 40%, yet the stock price was down 25% in 1996. In similar fashion, Fastenal's revenues and earnings are up almost 25% with the stock price basically flat for the year. Many of our other stock holdings were down in the fourth quarter. In some cases there are issues surrounding the companies, causing the declines, and in those cases we have been in contact with managements and believe that they are taking the proper steps to ensure a return to long-term growth. In other cases, stock prices are down with no apparent reason for the decline.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We have experienced periods of absolute and relative underperformance before. We are confident that our investment process is sound and produces excellent long-term results. We know that if we continue to focus on investing in solid growing businesses and stick with our disciplines, that our portfolio will at some point sprint ahead and be as far ahead of the indices as it is behind now. As always, we will continue to remain fully invested in high-quality growth stocks and will not deviate from our investment style and disciplines that have produced superior long-term results.

Wilke/Thompson Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Wilke/Thompson Capital Management had no ownership or professional personnel changes last quarter.

   Wilke/Thompson Capital Management is presently closed to new account relationships in our Small Cap Growth product and is only accepting additional contributions from existing clients. We did not lose any clients 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.*

   Wilke/Thompson looks forward to continuing to serve the Minnesota State Board of Investment as its money manager.

Staff Comments

Staff met recently with Wilke/Thompson Capital to review fourth quarter performance. Staff believes that Wilke/Thompson has not deviated from its investment approach.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$ 1.4 Billion	Actual	0.5%	17.9%
Total Firm Assets Managed in this Discipline	$589 Million	Benchmark	4.7%	21.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the quarter ending December 31, 1996 the Minnesota State Board of Investment account appreciated 0.5% net of fees. The Russell 1000 Growth experienced a return of 6.04% during the fourth quarter while the S&P 500 appreciated 8.34%. The benchmark "normal" portfolio constructed by BARRA for Winslow Capital returned 4.7% for the fourth quarter and 21.5% over the most recent twelve months. This compares with the performance of the SBI account over the last twelve months of 17.9% net of fees, versus 23.12% for the Russell 1000 Growth and 22.97% for the S&P 500.

In the fourth quarter of 1996, Winslow Capital underperformed the "normal" portfolio by 4.2% net of fees. This can be attributed to the portfolio's underweighted exposure to the financial service and energy sectors, as well as our overweighted position in telecommunications relative to the "normal" portfolio. In the telecommunications sector, we exercised our Contrarian Tactic, adding to the position size of Paging Network and LCI International when the stocks were under price pressure. The increased position size had a negative impact during the fourth quarter as their value declined 25% and 33% respectively. Upon reviewing the fundamentals and maintaining our long-term investment strategy, we believe both companies will appreciate in the years to come.

In retrospect, the 1996 market had three distinct phases. There was a strong rally for the first five months which was very broad. Then a sharp correction in July eliminated much of the earlier increase in price/earnings ratios. The third phase was a rally which set record highs on most indices, but was dramatically narrow in its breadth, particularly in the fourth quarter. Rarely has market capitalization size been so important a determinant of performance for the year. In our view, the dramatic strength in the very largest growth companies has created a major disparity in relative valuation. During the fourth quarter, Coca-Cola was given a P/E of 33x, 50% higher than Home Depot, while Home Depot has achieved faster earnings growth over the last 5 years and likely will over the next 3-5 years. Since Winslow Capital is sensitive to a security valuation, we sold Coca-Cola in the fourth quarter and added new names that exhibit faster earnings growth. Examples of stocks that were new additions to the SBI's portfolio in the quarter include Nike, U.S.A. Waste, and PetSmart.

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.*

   As 1997 begins, the SBI's Large Cap growth portfolio continues to be overweighted in healthcare and consumer services/specialty retail. During the fourth quarter, Winslow Capital increased the portfolio's exposure to technology and decreased the telecommunications overweighted position. These sectors make up a majority of your portfolio because on fundamental, "bottom-up" analysis we have identified specific companies within the aforementioned sectors that are poised to achieve strong future earnings growth. We continue to be underweighted in the financial service, energy and industrial sectors relative to our "normal" portfolio. The investment process we follow is a fundamental "bottom-up" approach that leads us to companies that exhibit above-average earnings growth. In the most recent quarter, the average reported earnings gain for the companies in your portfolio was 31%. We continue to believe these companies have outstanding potential because they meet our strict criteria of high earnings growth at attractive valuations.

   Notwithstanding the portfolio gain in the last year and its relative performance versus the market indices, we believe that the valuation and opportunity in your portfolio is attractive. The portfolio is currently forecasted to achieve earnings growth of 26% through 1997, while selling at only 21 times our 1997 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.*

   Winslow Capital has been retained by one new client during the most recent quarter. Cargill, Inc. hired our firm to manage a $25 million Small Company Growth portfolio. In addition to Cargill's inclusion on our list of clients, a current client, ConAgra, added $25 million divided between Large Cap Growth and Small Company Growth.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$416 Million	Actual	0.5%	21.8%
Total Firm Assets Managed in this Discipline	$416 Million	Benchmark	5.1%	22.6%

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?*

	MSBI	**Custom Benchmark**
Fourth Quarter 1996	0.5%	5.1%
Sector Outperformance		
Consumer Staples	10.8%	9.4%
Energy	44.1%	7.2%
Utilities/Telecommunications	15.9%	5.4%
Sector Underperformance		
Technology	1.4%	6.8%
Consumer Discretionary	-12.9%	-2.64%

The consumer staples sector helped buoy ZCI's performance with Avon Products, Inc. and Estee Lauder Companies, each experiencing a 14% gain for the quarter. The utilities/telecomm sector benefited from Worldcom, Inc's. purchase of MFS Communications, Inc. Worldcom, Inc. was also added to the S&P 500 index on the last day of the year, further adding to the stock's appreciation.

The custom benchmark's exposure to technology-hardware issues helped propel that segment ahead of ZCI's technology returns for the quarter. As technology-hardware returns are somewhat cyclical in nature, we do not typically overweight these issues relative to the S&P 500. Increasing competition and capacity to manufacture these non-proprietary products makes it difficult to invest for the long-term. Commonly, only those companies which have high barriers to entry, (efficiencies in manufacturing and distributing) are selected as portfolio investments.

	MSBI	**Custom Benchmark**
12/31/95 to 12/31/96	21.8%	22.6%
Sector Outperformance		
Financial Services	42.0%	31.2%
Utilities/Telecommunications	22.6%	1.6%
Sector Underperformance		
Consumer Discretionary	8.1%	15.3%
Producer Durables	15.3%	25.8%

ZCI exhibited pace-keeping returns for 1996, aided by year-round strength in the finance sector, merger and acquisition activity in the utilities/telecommunications area, and a slight overweighting in the more defensive, consumer staples sector. While the technology sector (+30.1%) lagged the custom benchmark returns (+34.7%) for the group, the sector produced over one-third of the portfolio's total return for the year.

Zevenbergen Capital (con't)

Performance strength for the custom benchmark was extremely selective throughout 1996. Just as 1995 reaped most of its gains from the top-capitalization-weighted securities, 1996 saw even narrower leadership, with only four stocks accounting for a large percentage of the benchmark's 23% gain. A divergence of investor interest occurred during the fourth quarter, primarily among the largest-cap issues and their small-to-mid-cap brethren. Zevenbergen Capital's healthcare and producer durable sectors felt the "flight-to-safety" profit taking, which was exacerbated by the less liquid, holiday trading volume.

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 are staying the course and investing in quality companies with long-term track records of superior performance in good as well as challenging times. As the "Goldilocks economy" continues, (presuming that the economy will not be too hot to ignite inflation and interest rate problems nor too cold to cause severe earnings disappointments), we remain optimistic about the equity market and the prospects for fully-invested growth portfolios (like ZCI's).

At the risk of sounding redundant, the technology, finance and producer durables sector are providing long-term investment opportunities as technology provides America's ever-increasing productivity, cashless transactions proceed to grow, and corporate America continues to outsource.

Those companies which contributed significantly to earnings through extended share buy-back programs also helped fuel the markets' return in 1996. Many of the companies which we hold in our portfolio have plans to continue purchasing outstanding shares through 1997 and beyond, continuing support for earnings per share growth.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no accounts lost or gained during fourth quarter 1996. Valerie Kampe left the firm in October 1996 to be a portfolio manager. It is Zevenbergen Capital's policy to require extensive experience in portfolio management before an individual is given the responsibility to manage client funds.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
BEA Associates

Period Ending:	12/31/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$31.3 Billion	Actual	4.0%	6.0%
Total Firm Assets Managed in this Discipline	$ 4.1 Billion	Benchmark	3.0%	3.6%

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 performance of the Lehman Aggregate index for the fourth quarter of 1996 was 3.00%. After declining approximately 60 basis points in the first two months of the quarter, interest rates rose 20 basis points in the month of December. Consistent with the previous three quarters, yields on non-treasury securities continued to compress to U.S. Treasuries. The State of Minnesota portfolio returned a net return of 4.0% for the quarter, generating outperformance of 100 basis points.

At quarter end, the government and agency bond portion of the State of Minnesota portfolio was 23%, representing an underweight of approximately 28%. The decision to underweight was based on our desire to run the portfolio more aggressively than the index, as it related to spread risk. There were no meaningful yield curve strategies as of year end.

The investment grade corporate bond weighting of 24.5% represented a 6.5% overweight. This decision enhanced returns as corporate bonds continued to experience spread compression. Even though corporate bonds are historically rich as a sector, there are still some specific securities within the corporate bond market that represent value, such as: money center banks (Citicorp & Chase), putable bonds (6%) and Yankee/Euro bonds (5.2%).

The mortgage (MBS) portion of the portfolio had a modest impact on performance. Our decision to own higher coupon MBS caused us to lag in a rallying market. Offsetting this was our decision in the latter part of November to increase our exposure to 38.5% versus a market weight of 29%. As the year ended, MBS spreads were contracting, hopefully beginning a trend which should continue in 1997.

For the quarter, volatility arbitrage positions added 0.19%. Most of the impact from the volatility arbitrage positions was attributable to having a long volatility option spread position on the Yen. In addition, value was added through an option strategy that has benefited from the Russell 2000 outperforming the S&P 500 index. Finally, options strategies structured around events surrounding Europe Monetary Union positively impacted performance.

The below investment grade portion (10%) added value for the quarter as the corporate bonds and emerging market debt (EMD) registered relative gains. The below investment grade corporate bond success is attributable to our decision to own approximately 6% in double B corporate bonds. As we expected, traditional high grade investors reached for yield and moved into "crossover" credits which compressed spreads. The EMD component, 2.0% of the portfolio, benefited as that market substantially outperformed in the quarter.

BEA Associates (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.*

   1996 was a year when the most important decision was the degree to which fixed income managers overweighted non-treasury securities. Throughout the year there was little consensus on the direction of interest rates. This uncertainty caused investors who have traditionally added value via market timing to look at spread product as a source of alpha. The result was a contraction of spreads that has us feeling that we are in the latter stages of a bull market in spread product. Our theme as we enter 1997 is to continue to be overweighted in spread product, but to maintain a high degree of agility (liquidity) should we see signs of weakness in the non-treasury sectors. We believe 1997 will be a year when a larger portion of our outperformance will come from security selection as opposed to sector rotation.

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 has no comments at this time.

Manager Commentary
IDS Advisory (IDS Fixed-Income Advisors)

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$32.0 Billion	Actual	3.3%	1.9%
Total Firm Assets Managed in this Discipline	$4.4 Billion	Benchmark	3.0%	3.6%

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?*

   In the quarter ended December 31, 1996, the total return on your portfolio was 3.3% compared with a +3.0% return on the Lehman Brothers Aggregate Bond Index. For the twelve months ended December 31, 1996 your account returned +1.9% compared to the +3.6% return of the benchmark. High yield securities added value in the fourth quarter. The total return on high yield securities was +4.62% in the quarter and contributed a positive return on the total portfolios of +0.41%.

   The underperformance for the past twelve months is the result of duration levels which were higher than the benchmark during a period of rising interest rates. In late May, portfolio duration was reduced to a level closer to that of the benchmark in order to reduce portfolio volatility.

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.*

   High yield securities are being maintained close to the 10% permitted in investment guidelines because we believe that the stable economy we are expecting over the next twelve months will cause little change in credit risk. Also, mortgage pass-through holdings were increased again during the quarter to about 20% of assets managed. This increase in mortgages is largely caused by the narrow spreads of corporate bonds. Going forward, small incremental increases in mortgages are planned.

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.*

Laura Ostrander has left the company to pursue opportunities with Colonial Funds.

David Factor has joined the company as an Asset Liability/Quantitative Analyst.

Fourth Quarter 1996

	Gains		**Losses**	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	0	0.0	1	41.7
Fixed Income	1	18.9	0	0.0
Balanced	0	0.0	0	0.0
International	0	0.0	0	0.0
Regional - Specialized	1	31.7	0	0.0
Global Ex-Australia	0	0.0	0	0.0
Latin America	0	0.0	0	0.0
Small Cap Equities	1	11.6	0	0.0
Mid Cap Equities	0	0.0	0	0.0
Research Core	0	0.0	0	0.0
Research Aggressive	2	40.0	0	0.0
Global Bonds *	1	0.0	0	0.0
Structured Fixed Income	0	0.0	0	0.0

* Assets transferred from an existing portfolio invested in another product, no new assets.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Investment Advisers, Inc.
(Fixed Income)

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$16.0 Billion	Actual	3.3%	3.3%
Total Firm Assets Managed in this Discipline	$ 4.4 Billion	Benchmark	3.0%	3.6%

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 portfolio outperformed its benchmark during the fourth quarter. Our incremental yield, issue selection, and slightly longer-than-benchmark duration all contributed to the superior performance.

   The portfolio has slightly lagged the benchmark for the trailing 12-month period due to an overweighting in intermediate-maturity issues and due to a more convex, barbell-coupon MBS structure.

   During the fourth quarter, we adjusted our holdings of MBS to take advantage of fluctuations in mortgage spreads. We ended the quarter with a neutral weighting in the MBS sector. In the second half of the quarter, we added 8-year U.S. Treasury STRIPS to the portfolio to take advantage of a relative cheapening in the intermediate sector. We expect the yield curve to steepen.

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's duration is close to the duration of the benchmark (1/2 year longer). Structurally, the portfolio has a modest bias for a steepening yield curve. Issue selection continues to be critical along the U.S. Treasury yield curve. With regard to sector weightings, the portfolio is overweighted in ABS, underweighted in Treasuries and agencies, and neutrally weighted in MBS and corporates (modestly overweighted on a duration dollar basis). The portfolio has a seasoned coupon-barbell bias in its MBS positions. The corporate holdings de-emphasize utilities and telecommunication issues.

   Our rationale for making these active bets is based on several factors. First, we are positioned late in the second phase of the credit cycle. Second, cyclical inflation pressures are likely to re-emerge during the second half of 1997. Third, corporate profitability remains solid and there is no recession imminent. Fourth, the Fed is in a reactive, "wait-and-see" policy mode.

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 organizational or personnel changes during the fourth quarter of 1996.

   IAI lost four accounts in this discipline in the fourth quarter of 1996.

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

Staff has no comments at this time.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$40.8 Billion	Actual	4.1%	6.8%
Total Firm Assets Managed in this Discipline	$24.4 Billion	Benchmark	3.0%	3.6%

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?*

Over the last quarter, your portfolio provided a return of 4.1% versus a benchmark return of 3.0%. Over the last twelve months, your investment results were 6.8% versus 3.6% for the benchmark.

During the fourth quarter, interest rates fell modestly as the yield curve flattened. We began the quarter with a duration about a half year greater than your benchmark and reduced the duration to 5.0 years late in the quarter. Our strategy included overweighting corporates, a significant overweight in mortgages and a 5% allocation to foreign securities. We maintained a modest barbell in the portfolio throughout the quarter.

During the quarter, our allocation of corporate and mortgage securities added significantly to our relative performance. As foreign rates fell relative to U.S. rates, the foreign holdings resulted in a modest positive contribution, as did our yield curve and duration strategy.

Over the last year, our active bets with regard to duration, yield curve, corporate, mortgage and foreign securities all added to investment results. Yield spreads, particularly for medium to lower quality securities, narrowed throughout the year. Your exposure to these securities, as well as our allocation to foreign, added value.

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 find the fixed income marketplace attractive. The level of real interest rates and the steepness of the yield curve suggest that a neutral to slightly above average exposure to the market is warranted. We began the year with a duration of 5.0 years, about 0.3 years greater than your benchmark. Yields and expected returns on foreign securities continue to fall relative to the U.S. market. Foreign fixed income securities represent about 5% of the portfolio and we expect to reduce these securities over the next several months. Corporate bonds, on an option-adjusted, credit adjusted yield spread and expected return basis, remain attractive. We have added bank capital securities and increased our allocation to asset-backed securities within the portfolio. Corporates now make up 23% of the portfolio, which represents a modest overweighting. Mortgage securities remain attractive on an option-adjusted yield basis, and at 60% represent our most significant overweighting relative to the benchmark. Approximately half of these mortgage holdings are in current coupon securities, which are fairly valued and represent a tactical holding within the portfolio.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant additions to personnel over the past quarter. One equity portfolio manager retired on 12/31/96.

   During the third quarter, we gained sixteen accounts with a total of $1.4 billion in new assets. We lost two accounts (one equity and one balanced) for a total of $92 million in assets.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Standish, Ayer & Wood

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$30.6 Billion	Actual	3.6%	5.6%
Total Firm Assets Managed in this Discipline	$13.2 Billion	Benchmark	3.0%	3.6%

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?*

Third Quarter and Year Attribution (Rel. to Lehman Aggregate)

	4TH QUARTER	**LAST 12 MONTHS**
Duration	0.18	-0.24
Yield Curve	-0.01	0.14
Domestic Sectors	0.28	1.81
Non-Dollar	0.10	0.52
Fees	-0.01	-0.17

- Corporates strong; below investment grade outstanding. (Year and Quarter).
- Overweighting in mortgages positive in 96. (Best 1st half, OK second).
- Non dollar continues very strong
- (J.P. Morgan Non-U.S. (Hedged) over Lehman Aggregate by 8.55% for the year).

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Sector	**Weighting Strategy**	**Rationale**
Mortgages	Slightly Underweight	Spreads have tightened, continuing to reduce weighting.
Corporates	Reduced overweight	High grade industrial spreads very narrow. Reducing some more cyclical credits. Limiting duration in corporates. Selling some below investment grade.
International	Average weighting	U.S. has been worst performing market. Foreign markets remain reasonably attractive in spite of superior performance.
Treasuries	Less underweight	Spread sectors have tightened so much that Treasuries appear to be better values.

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:	Barbara McKenna	Short-term trader
	Mary Elizabeth Drake	Insurance Liaison with trading
Accounts:	Gained	Pension $10 million
	Lost	Foundation $84 million

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

Staff has no comments at this time.

Manager Commentary
Western Asset Management

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$27.5 Billion	Actual	4.1%	5.7%
Total Firm Assets Managed in this Discipline	$14.4 Billion	Benchmark	3.0%	3.6%

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 portfolio recorded strong performance gains in the fourth quarter, as most major strategies were rewarded. The portfolio's overweight duration exposure had the most significant impact on performance, since interest rates fell across the board. The portfolio's yield curve exposure also contributed to returns: a bullet exposure to maturities benefited from a modest steepening of the yield curve during the first half of the quarter, and these gains were locked in by moving to a more neutral posture in the second half, when the curve flattened somewhat. Overweight exposure to both the corporate and mortgage sectors also contributed to performance as spreads narrowed on balance for the quarter. Selected corporate issues turned in above-average performance as well. The portfolio's exposure to emerging market debt securities made an important contribution to performance as well, as spreads continued to narrow.

   Performance over the past year remains well ahead of the benchmark, despite mixed results for major strategies. The portfolio's long duration posture throughout the year has been a drag on performance, since interest rates have risen substantially over the course of the past twelve months. Regardless, the success of other major strategies has more than offset the negative impact of rising rates. Yield curve positioning has contributed to overall results, since the portfolio held a barbell exposure for the first half of the past year as the yield curve flattened; more recently, the portfolio's shift to a bulleted yield curve exposure also helped, since the curve steepened. Mortgage overweighting throughout the past year was a positive, as mortgages outperformed all other sectors. Corporate overexposure throughout the past year has added importantly to returns, particularly the emphasis on the lower end of the investment quality scale, as these issues turned in very strong performances. Emerging market debt exposure has also contributed handsomely to returns.

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 rate of economic growth is about average, primarily because this business cycle expansion has not been driven by stimulus measures. Instead, the drivers have been the virtuous forces of disinflation restructuring and productivity. In our view, today's growth is the by-product of low-inflation fundamentals and is thus consistent with a secular decline in interest rates, which is why we remain long our duration benchmark.

   Going forward, we believe that the fundamentals will remain favorable for the bond market. Monetary policy appears reasonably tight, as suggested by the strong dollar, falling gold price and stable industrial commodity prices. The political climate in Washington is likely to remain conservative, and the chances of meaningful entitlement reform, budget cutting, and tax reform are significant and growing. Recently, we have moved to increase the portfolio's barbell exposure to maturities, with the aim of protecting against further signs of unexpected economic strength, since this would likely cause the yield curve to flatten.

Despite our bullish outlook for interest rates, the mortgage sector still looks moderately attractive, so we are maintaining a modest overweighting to the sector. Spreads are not particularly generous, but declining volatility and an emphasis on discount coupons, seasoned issues and commercial mortgages should help offset any rise in prepayment risk. The corporate sector remains marginally attractive, so we are targeting a neutral exposure to the sector as spreads hover near relatively low levels. However, we still find value in longer-dated issues, as well as in the lower range of credit quality, and think the new trust-preferred issues from the banking sector are generally attractive.

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 has no comments at this time.

Manager Commentary
BlackRock Financial Management

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$43.5 Billion	Actual	3.2%	N/A
Total Firm Assets Managed in this Discipline	$ 2.0 Billion	Benchmark	3.0%	N/A

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, the MSBI Enhanced Index Core Bond Portfolio posted a return of 3.21%, versus 3.00% for the Lehman Aggregate Index. Since its April 1, 1996 inception, the Portfolio has returned 5.78%, net of fees, versus 5.50% for the Lehman Aggregate Index. Following is month-by-month breakdown of performance:

	MSBI	**LEHM**	**DIFFERENCE**
April	-0.45%	-0.56%	0.11%
May	-0.23%	-0.20%	-0.03%
June*	1.22%	1.34%	-0.12%
July	0.37%	0.27%	0.10%
August	-0.17%	-0.17%	0.00%
September*	1.73%	1.74%	-0.01%
October	2.27%	2.22%	0.05%
November	1.75%	1.71%	0.04%
December*	-0.80%	-0.93%	0.13%

*Quarter-End fees deducted from last month of quarter.

During the fourth quarter, as volatility declined, we increased our mortgage holdings as we added more seasoned product and COFI-indexed ARMs. We also reduced our allocation to Treasuries substantially, in favor of spread product.

As the Portfolio outperformed the Lehman Aggregate Index during October, November, and December, total outperformance for the fourth quarter was 21 basis points, net of fees, versus the index. During the quarter, significant contributions to performance have included a slightly longer duration than the benchmark, an emphasis on asset-backed securities, and the outperformance of bank capital notes. Since April 1, the Portfolio has outperformed the index by 28 basis points on a net of fees basis. Much of this added value was due to the outperformance of spread product versus Treasuries.

BlackRock Financial Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Currently, our primary strategies are as follows:

   - Maintain overweight in spread product by accepting lower liquidity without sacrificing convexity or credit quality.
   - Maintain a bulleted yield curve structure in the portfolio by favoring 5-year and 10-year maturity issues.
   - Maintain a significant overweighting in asset-backeds as a corporate alternative and look to add Yankee issues on opportunity.
   - Maintain a cautious approach towards corporate bonds as overall spreads are not likely to tighten much further. Our focus will be on specific sub-sectors, especially among the Yankee issues. We will also look for opportunity within the utility sub-sectors that may arise from re-regulation of the electric utility industry.

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 November, BlackRock gained a $31 million enhanced index core bond account. BlackRock was also hired by a large European pension fund to manage a $150-$200 million enhanced index mortgage portfolio, beginning April 1997.

   As BlackRock uses a controlled duration approach across all portfolios under management, and our enhanced index products are just more tightly constrained strategies, we feel it is also relevant to mention the following additions to our client base over the past quarter:

   - Los Angeles County Employees' Retirement Association hired BlackRock to manage a $750 million core bond portfolio.
   - A large ERISA pension plan hired BlackRock to manage a $700 million mortgage portfolio and a $600 million core bond portfolio.
   - Equitas (Lloyd's of London) hired BlackRock to manage a $1.25 billion portfolio using a custom designed benchmark.

   During December, Glenn Henricksen, a principal and portfolio manager at BlackRock who specialized in corporates, left the firm to pursue other career opportunities. Glenn's departure does not affect the management of MSBI's Portfolio.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$95.1 Billion	Actual	3.2%	4.3%
Total Firm Assets Managed in this Discipline	$18.5 Billion	Benchmark	3.0%	3.6%

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?*

In the fourth quarter, the portfolio outperformed the Lehman Aggregate by 19 bps (gross of fees). This outperformance is due primarily to the asset-backed, corporate and emerging market sectors.

For the past 12 months, the mortgage sector added about 20 bps to incremental return primarily due to superior security selection.

For the past 12 months, term structure and the portfolio's Treasury securities added approximately 4 bps. Agencies added about 1 bp primarily due to security selection.

For the past 12 months, the corporate sector added about 27 bps to incremental return primarily due to the outperformance of the portfolio's industrial and financial holdings.

For the past 12 months, the emerging market sector added about 17 bps. The sector's contribution to incremental return was attributable to both yield advantage and substantial OAS compression.

The municipal sector added about 1 bp to the portfolio's performance during the months of November and December, as a result of a cross-over trade (from Treasuries into Municipals) during the final months of the year.

4Q96

Duration/Term Structure/Convexity	1.5	Emerging Markets	4.9
Treasury	3.8	Mortgage	0.3
Agency	-0.6	Municipal	1.2
Asset-Backed	3.2	Index Price Mismatch	-4.3
Corporate	5.5	Residual	3.5
		Total	**19.0**

*The index pricing mismatch is the difference between GSAM's pricing at 5:00 p.m. and that of an Index pricing at 3:00 p.m. Most indexes, except for those of Salomon Brothers, price at 3:00 p.m.

Goldman (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

35% allocation to the mortgage sector (5% overweighting). Convexity in the mortgage market has improved markedly since the end of November when 30-year Treasury rates bottomed at 6.35%. Yields have risen substantially and volatility has subsided. As a result, retail demand has begun to re-emerge. Despite the improved environment, option-adjusted spreads on many collateral issues remain near their two- and four-year averages. The combination of average spreads and strong demand makes us optimistic about mortgage spreads for the near term. **27% allocation to the corporate sector** (9% overweighting). Our outlook for the corporate sector is moderately optimistic. Although spreads remain near historically tight levels, we believe there is room for further compression during the coming quarter. Both technical and fundamental factors should contribute to performance. Demand remains strong and 1996's favorable fundamentals - moderate growth and low inflation - are likely to persist. **13% allocation to asset-backed sector** (12% overweighting). We remain positive on the asset-backed security (ABS) market. The technical environment is likely to remain supportive as both traditional and non-traditional buyers (i.e., European and Asian investors) continue to favor the sector. Fundamentals should also remain strong. **5% allocation to the emerging market sector** (5% overweighting). Our outlook for the emerging market debt sector is moderately optimistic for the first half of 1997. In general, for the emerging markets sector, we expect GDP growth in Latin America and in Eastern Europe in 1997 to exceed 1996 levels. In emerging market Asia we expect that GDP growth will slow slightly in 1997. We expect net capital flows to emerging markets to be strong in 1997.

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 was one significant ownership change in the 4Q96: We acquired Liberty Investment Management a Florida-based investment advisory firm with over $5 billion in assets under management. This expands our active equity capabilities to include a Growth at a Reasonable Price strategy.

U.S. Fixed Income Accounts Gained:		**U.S. Fixed Income Accounts Lost*:**	
U.S. Clients	4	U.S. Clients	1
Non-U.S. Clients	2	Non-U.S. Clients	0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Lincoln Capital Management Company
(Fixed Income)

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$42.3 Billion	Actual	3.1%	3.7%
Total Firm Assets Managed in this Discipline	$13.6 Billion	Benchmark	3.0%	3.6%

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?*

	4th Quarter 1996		**12 Months Ended 12/31/96**	
	Active Strategy	**Value Added**	**Active Strategy**	**Value Added**
Mortgages	Overweighted	-0.01%	Overweighted	+0.02%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Neutral	0.00
Asset-Backeds	Overweighted	0.00	Overweighted	+0.01
Agencies	Neutral	0.00	Neutral	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.05	N/A	+0.16
Less Fees		-0.01		-0.04
Total		**+0.02%**		**+0.11%**

On a net-of-fee basis, your portfolio outperformed the Lehman Brothers Aggregate Index by 2 basis points for the fourth quarter 1996 and 11 basis points for the calendar year ending December 31, 1996.

Although your portfolio's mortgage overweighting cost the portfolio 1 b.p. of return in the fourth quarter, that strategy added 2 b.p. for the year. The overweighting in asset-backed securities contributed 1 b.p. of value added for the year. The remaining value added for the year is attributable to security selection.

High quality, AAA-rated asset-backed securities are overweighted relative to comparable maturity Treasuries; they offer an attractive yield advantage with minimal event or issuer risk. Spread risk is also reduced through the use of short maturity issues. The balance of the corporate sector is market-weighted relative to the index.

Discount mortgage securities continue to be overweighted in your portfolio, resulting in an active exposure of 0.11%. On an OAS basis, these securities are attractive relative to recent historical levels, and given that their price is significantly below par, prepayment risk is much less of an issue than it is for the mortgage market as a whole.

Lincoln (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	Strategy	Rationale
Asset-Backed Securities	Overweighted vs Treasuries	1. High Quality 2. Attractive Yield 3. Low Event Risk 4. Low Prepayment Risk
Discount 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.*

Accounts lost: 2 accounts $205 million

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

There are no issues or developments that would impact the SBI account.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Baring Investment Services

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$12.1 Billion	Actual	2.2%	8.2%
Total Firm Assets Managed in this Discipline	$ 3.2 Billion	Benchmark	1.6%	6.1%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?***

The following figures show a breakdown of the returns for the last quarter:

	Total Return %	**Currency %**	**Market Weighting %**	**Tracking Error %**
Minnesota State Board	2.2	0.6	1.4	0.0
MSCI EAFE-Free Index	1.6	-0.4	2.0	—
Relative Return	0.6	1.0	-0.6	0.0

Currency (Relative return 1.0%): Underweighting the Japanese yen was the single most important factor during this period. The hedged position into the US dollar benefited the portfolio, as the yen depreciated by 4% during the quarter. The underweighting of Swiss francs and Dutch guilders also made a small positive contribution. Slightly off-setting these factors was the underweighting of sterling.

Market Weighting (Relative return -0.6%): The positive contribution from overweighting Hong Kong, Spain and France, all strongly performing markets, was more than off-set by our exposure to South Korea, Thailand and our underweighting of The Netherlands. Although the positions in South Korea and Thailand were small in absolute terms, the sharp decline in the markets had a noticeable negative impact upon the contribution to return.

Tracking Error (Relative return 0.0%) Negative tracking error from Thailand exposure was offset by positive contribution from Japan and Singapore.

2. ***Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.***

The main features and changes to your portfolio during the quarter were:

- Reduced Japan significantly from an overweight to an underweight position.
- Increased the exposure to the European stock markets.
- Reduced the overweight position in Hong Kong.
- Introduced a new position in Australia.

We increased your portfolio's overweighting in the UK, Germany, France and Italy during the quarter. The Continental European markets are set to benefit from a slow recovery in economic activity, falling and converging bond yields and a strong recovery in corporate profits due to corporate restructuring. In the UK, interest rates were raised unexpectedly which we believe will give comfort to the financial markets that the government is committed to its low inflation process.

This move into Europe was funded mainly by reducing the Japanese weighting. Although the Japanese economy is recovering from a deep recession, the weak banking system remains a drain on the system and financial markets.

The Hong Kong position was reduced as the strong market performance has taken valuations into the high end of the 15 year historical range. The proceeds were invested in Australia where we are forecasting good corporate profits growth and a market selling at an attractive calculation.

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.*

- New active/passive client: $135 million
- New active/passive account from an existing Active/Passive client: $250 million
- Our existing active/passive client base contributed $121 million to their accounts during the 4th quarter.

The two new accounts invested in our new active/passive mandates as follows: Core Active/Passive Commingled Fund and Regional Index Tilt Commingled Fund. We now have four different active/passive products to offer our clients.

4. ***Other Comments.***

None.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

Oct. - Dec. 1996

Local Returns		**Currency Returns**	
Country selection	-0.4	Currency effect	0.4
Stock selection	-0.6	Hedging activity	1.1
Timing	0.1	Timing	-0.2

Total Value Added to EAFE 0.6

Source: State Street Analytics

Manager Commentary
Brinson Partners, Inc.

Period Ending:	12/31/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$60.5 Billion	Actual	3.5%	11.6%
Total Firm Assets Managed in this Discipline	$15.3 Billion	Benchmark	1.6%	6.1%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio outperformed the benchmark in the quarter, gaining 3.5% in dollar-adjusted terms versus a return of 1.6% for the unhedged EAFE Index, and also significantly outperformed during the one-year period, with an increase of 11.6% against an unhedged benchmark return of 6.1%. Market allocation was positive for the fourth quarter and negative for the full year. The portfolio was helped in the quarter by overweights of Spain, the Netherlands, Finland, France, New Zealand, Australia and Belgium and by the underweight in Japan. Detracting from quarterly performance were the underweights of Hong Kong, Switzerland and Sweden. Strategic cash also detracted somewhat. For the full year, the fund was helped by overweights of the Netherlands, Belgium and Spain, as well as the underweights of Japan and Singapore. The primary detractors for the year were holding strategic cash and underweighting Switzerland, Sweden and Hong Kong.

   Currency strategies have had a major positive impact on relative performance, both during the quarter and for the full year, where it played a dominate role in the portfolio's outperformance. The portfolio continued to gain in both time periods from the strategy of being overweight the U.S. dollar, while underweight the yen and core DM-bloc currencies. The combination of yen weakness and short-term interest rate differential caused a negative 5.35% currency effect in the fourth quarter and almost a 16% decline for the full year. Thus the strategy of holding only a small yen position was highly beneficial. Other important gains for the quarter and the year have come from overweighting the currencies of Australia, New Zealand and Italy, while being underweight exposure to the Swiss franc.

2. ***Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The portfolio maintains a strategic cash allocation of 5%. This is based on our view that most non-U.S. equity markets are overvalued. Japan continues to be the largest market underweight, at 6.5% below the benchmark. This market remains overvalued, despite the recent recovery in Japanese profits. We attribute the recovery to a number of non-recurring factors like the weak yen, very low interest rates, and restructuring that has occurred over the past few years. Additionally, a significant level of bad loan problems continue to belie the banking sector, while urgent regulatory reform is moving at a snail's pace. The market weight in Germany was increased by 1.5% in the fourth quarter, bringing it to neutral. This change was funded by a decrease in Canada. In Germany, there are increasing signs of a more serious approach to restructuring and maximizing shareholder value at the corporate level, while a weakening of the DM should increase the earnings prospects of exporters. Canada has done quite well and no longer appears as attractively priced. Current market overweights are in the Netherlands, France, Belgium, Spain, New Zealand and Australia. Underweights are held in Japan, Malaysia, Hong Kong, Canada and Switzerland.

No currency strategy changes were made in the fourth quarter. The portfolio continues to maintain an important yen underweight and a limited exposure to the DM bloc currencies. Even with the recent weakness in the yen, there is still an advantage to holding U.S. cash as opposed to yen cash. This is due to the very low short-term cash rates in Japan compared with the U.S. We continue to believe that the U.S. dollar offers the most attractive return potential, while the yen and DM-bloc currencies, the portfolio's major underweights, remain least attractive.

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.*

   By the end of December, Brinson Partners had completed the integration of Swiss Bank Company investment and support personnel into its investment structure. Headquartered in Chicago, Brinson Partners now has 594 employees located in 12 countries around the world.

   Two new accounts funded $150 million. One departure of $250 million

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:

Oct. - Dec. 1996

Local Returns		**Currency Returns**	
Country selection	1.3	Currency effect	0.2
Stock selection	-0.6	Hedging activity	0.4
Timing	0.0	Timing	0.7

Total Value Added to EAFE **2.0**

Source: State Street Analytics

Manager Commentary
Marathon Asset Management

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$6.5 Billion	Actual	1.9%	9.6%
Total Firm Assets Managed in this Discipline	$4.2 Billion	Benchmark	1.6%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The Fund marginally outperformed in the fourth quarter of 1996, rising 1.9% versus a 1.6% gain in the MSCI EAFE Index. Positive returns in the U.K. (driven by the 62% surge in Manchester United) and Germany were largely offset by the Fund's underweighting of Hong Kong and difficult stock environment in France, Spain and Japan. Shifts in the market exposure were largely driven by relative market movements, with Japan declining from 34.7% to 30.1% of the Fund.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Although 1996 was a reasonable year for the Fund, the overall operating environment has remained relatively unfavourable. Marathon's two major biases (economically sensitive versus interest rate sensitive; mid-small cap) have with few exceptions remained in a correction phase, with slowing global growth and falling real interest rates favouring selective growth issues and interest rate sensitives. Signs are growing, however, that the next 12-18 months may see the pendulum swing firmly back towards real economic activity and the global growth camp. Emerging market equity (a lead indicator) performed well in 1996 and commodity prices have started rising in the face of relentless inventory run down. Asia, the main area of slowdown in 1996, should benefit from the re-emergence of China, a bottoming-out of economic activity in Japan and micro-reforms aimed at enhancing market efficiencies, capital allocation and shareholder value. Developments in Russia and much of Central/Eastern Europe are reinforcing a more growth orientated stance in Europe as a whole. The outlook for returns in 1997 for the Fund is then reasonably positive even if broad indices may struggle.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Personnel Lost: 1

   Accounts Gained: 4
   Accounts 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 for the quarter relative to EAFE is shown below:

Oct. - Dec. 1996

Local Returns		**Currency Returns**	
Country selection	0.7	Currency effect	0.2
Stock selection	-1.1	Hedging activity	0.0
Timing	0.1	Timing	0.4

Total Value Added to EAFE 0.4

Source: State Street Analytics

They lost one analyst, who they will try to replace. Two of the accounts they gained are for separately managed Europe mandates, for $89M and $59M.

The third account is a separately managed EAFE account for $200M. The last account is a commingled Global account for $12M. Staff will continue to monitor their growth.

Manager Commentary
Rowe Price-Fleming International

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$29.1 Billion	Actual	5.0%	15.4%
Total Firm Assets Managed in this Discipline	$22.5 Billion	Benchmark	1.6%	6.1%

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?*

   Country allocation was positive over both the quarter and the full calendar year. At the country level, the largest source of value added was your portfolio's substantial underweighting in Japan. The European contribution was positive over both periods with successful overweightings in the Netherlands, France and Norway more than offsetting the negative impact of an underweight position in the U.K. Value was also added in Latin America primarily through your portfolio's exposure to Brazil--although it was subtracted in the Pacific with the negative impact of positions in Korea and Thailand more than outweighting the positive impact of an overweight position in Hong Kong.

   Our **Stock selection** relative to the index was also positive over both periods. Most value was added in the Pacific with Malaysia, Hong Kong, Singapore and Japan exhibiting particularly strong results for the final quarter and the year. Although having any money invested in the declining Japanese market was not helpful to the portfolio in absolute terms, our significant underweighting of this market relative to the benchmark and our focus on internationally-oriented stocks (that have benefited from yen weakness) and away from the fragile banking sector has provided a significant assist to relative returns.

   Stock selection in Latin America and Europe was a small negative over the quarter although both were positive over the full year. In particular, recent months have seen a consolidation from European growth stocks of the strong gains that they had tallied earlier in the year. Although the inclusion of medium-and smaller-sized companies in the portfolio held back performance over both the quarter and the year, these stocks did provide better returns than we have seen from them in recent years and, in that light, we are hopeful that this trend will accelerate as economic cycles mature.

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

   1996 was generally a reasonable year for international markets despite the disappointing performance of Japan. Looking into 1997, we are optimistic that international markets as a group can make further progress over the next twelve months and should finally be able to outpace the aging U.S. juggernaut. The economic outlook world-wide remains supportive with steady if unexciting growth being seen in both Europe and Japan. On the back of this, corporate earnings growth remains reasonable and has the potential to surprise positively in a number of equity markets. Recent bond market strength has helped to provide support for equity market valuations which, while not cheap, remain generally acceptable. Japan, which as a market still looks expensive, continues to be the principal exception here. Selectively, investment opportunities look attractive in both Europe and Japan as we enter the New Year while the smaller markets of Asia and Latin America have the potential to rise further in 1997.

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.

   Two separate accounts were gained during the fourth quarter of 1996 in the fully international equity discipline.

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:

Oct. - Dec.. 1996

Local Returns		**Currency Returns**	
Country selection	2.4	Currency effect	0.2
Stock selection	0.5	Hedging activity	0.0
Timing	0.1	Timing	0.3

Total Value Added to EAFE **3.5**

Source: State Street Analytics

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	12/31/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$112.0 Billion*	Actual	4.7%	16.7%
Total Firm Assets Managed in this Discipline	$ 10.5 Billion*	Benchmark	1.6%	6.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The Minnesota State Board of Investment portfolio gained 4.7% during the fourth quarter of 1996, compared to 1.6% by the EAFE Index. With the sole exception of Japan, major world markets ended the year in a flourish. Some of these gains US investors gave back, as major foreign currencies (except the pound) softened more against the dollar. For the full year, your portfolio was up 16.7%, outpacing EAFE's 6.1% increase.

   Your portfolio outperformed EAFE during the quarter primarily because of its underexposure to Japan and the yen. Tokyo was the weakest major market for the second quarter in a row (Topix -9.6%), and the yen was among the weakest of currencies (-4.1%). Your portfolio had no currency hedges in place.

   The year ended the way it began for the major economies--Japan and Europe wobbled in a tight band between modest growth and stagnation, while the US delivered another year of expansion. Global capital flows dominated markets, as low inflation and easy money boosted financial assets everywhere but Japan.

   During the quarter, we continued to reduce positions in Japan that were strongly premised on domestic growth. In Europe, we took some profits in several more highly-valued situations, or where the stock market had discontinued the benefits of corporate restructuring well ahead of reality. We reinvested the proceeds into less-highly-rated, newer European restructuring situations.

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 basic investment strategies for your portfolio have not changed. Our emphasis in Europe is on structural change at the industry and corporate level. In the Japan portion of your portfolio, we have reduced the exposure to domestic growth and focus more on current or emerging global blue chips. We have limited expectations for any sustained growth resurgence in either Europe or Japan, and shy from investments that are dependent on near-term cyclicality.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   International Equity Product Group Personnel Turnover: None.

Organizational Structure Changes:

PEG HADZIMA HEADS UP THE NEWLY ESTABLISHED SCUDDER INSTITUTIONAL GROUP

The Scudder International Group was recently established to oversee the marketing, sales and client service functions of the firm's U.S. institutional accounts. As part of a strategic reorganization of the firm, the Institutional Group has been formed to develop, expand and profitably manage the firm's U.S. institutional tax-exempt business. This includes responsibility for the marketing, sales and client service functions and, with the Global Bond Group and Global Equity Group, analysis of the suitability of our products to meet the needs of the marketplace. Margaret (Peg) Hadzima, Managing Director was named Director of this new group. Peg joined Scudder in 1973 and has been involved in both the investment and client service functions of the firm, mostly recently serving as Director of Global Bond Research.

International Equity Accounts over $25 million gained/lost (in discipline) - fourth quarter, 1996:

Gained: 1 account, $40 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.

* *Data in heading on previous page is for 3rd quarter 1996.*

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

Oct. - Dec. 1996

Local Returns		**Currency Returns**	
Country selection	2.5	Currency effect	0.2
Stock selection	1.0	Hedging activity	0.0
Timing	0.2	Timing	-0.7

Total Value Added to EAFE **3.2**

Source: State Street Analytics

Manager Commentary
City of London

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Since Inception**
Total Firm Assets Under Management	$0.7 Billion	Actual	N/A	3.6%
Total Firm Assets Managed in this Discipline	$0.7 Billion	Benchmark	N/A	2.1%

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?*

   Significant overweight positions were in Hong Kong which the managers use as a proxy for investment in China, where the IFCI index recorded gains of around 15% in December. Another route into Greater China, where direct investment is difficult for investors, is through Taiwan. The Fund had an overweight position there during December while the market rose marginally. A strong US stock market and falling cetes rate helped to push the IFCI index in Mexico higher, where the Fund was overweight. In South Africa the Fund was underweight while the market fell due to currency and political worries; we were able to benefit from strong performances in North African countries which the Fund has exposure to through the Morgan Stanley Africa Fund.

   The overweighting in Thailand did not work our for the Fund as the IFCI index fell over 10 percent during the month. Bad news on the current account deficit and poor investor sentiment continued to affect the market. A rally in India, caused by Government promises to reduce tax, had little effect on the Fund which had an underweight exposure to India. City of London feels the rally was due to the Government boosting the market rather than through improved fundamentals.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   On a country basis City of London has five active bets relative to the benchmark.

   - The first is our country exposure to Korea of 2.6 per cent against the index weighting of 5 per cent. We remain underweight as the macroeconomic fundamentals continue to look poor. Despite a reduction in interest rates the Korean Won remains strong against the Yen restricting any recovery in exports. Failure to push through labour reforms indicates a lack of support for liberalization in a protected economy.

   - The second underweight country exposure is in India where high interest rates have restricted earnings growth and the uncertain political environment will, we expect, contribute to the lack of economic reforms.

City of London (con't)

- Thailand's performance in 1996 was dismal. Its underperformance has led analysts to expect it to recover from its low. At City of London we consider that with inflation falling and with a Government re-emphasis on the current account deficit, investor sentiment should switch to bullish over a short time period leading to a sustained market rally.

- The fourth active difference between our weightings and the benchmark was in the Greater China region (Hong Kong, China). An expansionary Chinese monetary policy and political calm prior to the handover in 1997 combine to provide a benign investment environment.

- Finally, we are overweight in Mexico as both fundamentals and closed end fund valuations look attractive for 1997.

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 was no change in personnel or ownership. 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.*

   No related issues/events occurred.

Staff Comments

City of London received an initial funding of $60 million on November 1, and an additional funding of $40 million on December 1, which brought them to their total funding of $100 million.

The SBI is making the investment through a commingled trust specifically designed to meet the SBI's administrative constraints. The trust has two participants, the SBI and the City of Philadelphia.

Manager Commentary
Genesis Asset Management Limited

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Since Inception**
Total Firm Assets Under Management	$5.2 Billion	Actual	0.5%	1.6%
Total Firm Assets Managed in this Discipline	$4.6 Billion	Benchmark	-0.6%	-4.0%

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?***

Even though the return on the MSCI EMF benchmark was negative in the period, Emerging Markets in general had a somewhat more solid feel with 15 of the 26 index components in positive territory. While Asia contained some of the better performing markets, (China up 27%; Indonesia up 11%; Malaysia up 7%), it was still the case, as in the third quarter, that the worse performing markets were to be found in this region. The Korean component fell by as much as 20% but this fall was substantially better than the performance of Thailand which dropped 27%.

While the tone in Latin America was generally firm, it did contain two poorly performing markets (Chile and Peru). Returns in Europe as measured by MSCI, were mixed, and yet again South Africa performed poorly.

The additional funding received in the quarter ($50 million) was used to broaden the exposure across countries (33 versus 30) and importantly to increase the number of stocks held (90 positions versus 74). Exposure to Portugal, which the World Bank no longer classifies as an Emerging Market was reduced as prices rose.

In Latin America, where an overweight position continued, the portfolio gained from its relatively heavy exposure to the Brazilian and Venezuelan markets, but was conversely hurt by heavier than index weightings in Chile and Peru. Performance in Mexico was penalized by being underweight there and in under-performing stock.

In Asia, the portfolio was strongly underweight in Malaysia, which reduced returns, although stock selection here added value. An underweighting in Thailand meant that relative performance here was helped, aided also by good relative stock performance. The position in Korea was built up through the quarter as the market declined, and continued to be a drag on performance. Samsung Electronics, which participates in the highly cyclical semiconductor memory market, was a notably poor performer. The portfolio benefited from its high exposure to European markets: the weightings in Croatia and Hungary proved particularly profitable. The low South African weighting was also a benefit.

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 first quarter of 1997, it is anticipated that the portfolio's remaining liquidity will be used to add additional names to the portfolio. There is no reason to expect the broad weightings (overweight Latin America/underweight Asia) will change although a recent visit to Brazil highlighted a number of attractively priced companies there. In addition, the values offered by the Korean and Thai markets are beginning to appear compelling, and as new companies are identified it is likely they will be added. Valuations in Central Europe no longer appear so attractive and weightings may be reduced here.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no personnel and ownership changes during the period.

4. ***Other Comments.***

   No other pertinent matters arose.

Staff Comments

Performance attribution relative to EMF for the quarter is shown below:

Oct. - Dec. 1996

Local Returns		**Currency Returns**	
Country selection	2.9	Currency effect	-0.3
Stock selection	-2.2	Hedging activity	0.0
Timing	0.1	Timing	0.7

Total Value Added to EMF **1.3**

Source: State Street Analytics

Manager Commentary
Montgomery Asset Management

				Since
Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Inception**
Total Firm Assets Under Management	$7.4 Billion	Actual	1.9%	2.0
Total Firm Assets Managed in this Discipline	$2.1 Billion	Benchmark	-0.6%	-4.0

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?*

   Since inception, the Portfolio advanced 2.0% compared to the Morgan Stanley Emerging Free Index (MSEF) return of -4.0%. For the fourth quarter, the Portfolio advanced 1.9% compared to the MSEF Index of -0.6%.

   During the fourth quarter, the main contributors to performance were our investments in Hong Kong, our underweight in Korea, our overweight in Brazil and our investments in Russia. Telemig, the state-owned Brazilian telecom system, performed well during the quarter and is undergoing tremendous growth. As Brazil continues to deregulate and privatize its economy (and the telecommunications sector in particular), this stock should appreciate closer to global valuation levels. The decision to invest outside the benchmark, the MSEF, paid off in Hong Kong and Russia. The main detractors from performance in the fourth quarter were our underweight positions in China and Taiwan, and our slight overweight in Thailand.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   In Latin America, we remain positive on Brazil, especially because 1997 is the year Brazil is to deliver on macro-economic reform. In particular, Brazil expects to raise $10 billion from privatizations in 1997. This is a substantial amount of capital for a country with $57 billion in total foreign reserves. In addition, we expect real interest rates to drop in Brazil due to this expected capital inflow, and we also expect Brazil's currency, the Real, to strengthen.

   We are very enthusiastic about the unification of China and Hong on July 1, 1997. While Hong Kong is not in the benchmark, we have included it in the Portfolio because it will become a Special Administrative Region of China on July 1, 1997. We believe that this merger will be positive, and that Hong Kong will continue to benefit from China's efforts at ensuring a smooth transition.

   In Emerging Europe, we are expecting to see increased growth economically in 1997. In particular, we believe that Russia will have a successful 1997. The rally in oil prices and the IMF backing, should help Russia perform well. Also, China's demand for energy will benefit Russia as it will be supplying that energy to China.

Montgomery (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Negotiations are underway with a foreign entity regarding ownership of Montgomery Asset Management. We will keep you informed of the situation as details are known.

   In November, Tom Haslett, Senior Portfolio Manager, resigned to relocate back to his hometown of Boston. Angeline Ee, Portfolio Manager, was promoted to Head of Research for the Emerging Markets team, taking on Mr. Haslett's responsibilities. Ms. Ee has been at Montgomery Asset Management for over two years and began her investment career in Asian securities in 1983. Prior to joining Montgomery Asset Management, Ms. Ee was an Associate Director at AIG Investment Corp. (Hong Kong), responsible for U.S. $110 million invested in Singapore, Malaysia and Thailand.

   During the quarter, we lost one account in our offshore commingled emerging markets fund, and gained one account in our institutional series emerging markets fund.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   As of December 31 1996, the SBI account was successfully invested in 95.36% equities, with total assets being $203,825,202 The portfolio is well diversified in 27 countries, 40 industries and 154 companies.

Staff Comments

Staff will monitor the impact of personnel changes noted in #3 in the coming quarters. At present, staff believes two more senior portfolio managers, Josephine Jimenez and Bryan Sudweeks, provide adequate stability to the portfolio team.

Performance attribution relative to EMF for the quarter is shown below:

Oct. - Dec. 1996

Local Returns		**Currency Returns**	
Country selection	0.9	Currency effect	-0.2
Stock selection	1.2	Hedging activity	0.0
Timing	0.2	Timing	0.6

Total Value Added to EMF **2.7**

Source: State Street Analytics

Manager Commentary
State Street Global Advisors

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$260.0 Billion	Actual	1.6%	6.7%
Total Firm Assets Managed in this Discipline	$ 62.0 Billion	Benchmark	1.6%	6.1%

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 -0.18% due to the portfolio receiving a lower dividend yield than the benchmark over that period. For the last twelve months, the portfolio outperformed by 0.31% primarily because of two factors: 1) the portfolio gained approximately 8 basis points due to index changes and our trading methodology and 2) the lower dividend withholding tax rate paid by the portfolio versus the withholding tax rate included in the net benchmark calculation added an additional 0.24% for the year.

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 to SSgA over the fourth quarter. We gained 6 new accounts and lost 2, with total net assets of $400 million.

3. ***Other comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No changes have been made.

Staff Comments

The discussion of value added in #1 does not correspond to the returns shown in the heading. This is due to currency pricing differences between SSgA and the custodian.

Performance attribution relative to EAFE for the quarter is shown below:

Oct. - Dec. 1996

Local Returns		**Currency Returns**	
Country selection	0.0	Currency effect	0.2
Stock selection	-0.2	Hedging activity	0.0
Timing	0.0	Timing	0.0

Total Value Added to EAFE 0.0

Source: State Street Analytics

Manager Commentary
Record Treasury Management

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**Year**
Total Assets Under Mgmt.	$ 5.2 billion	Index + Record	3.2%	9.0%
Total Currency Overlay	$ 3.4 billion	Index Fund Only	1.6%	6.7%

1. ***Performance/Strategy.*** *Summarize your currency positions and profit/loss. Highlight performance over the most recent quarter and year.*

	Currency Exposure* 12/31/96	**Actual Hedge** as of 12/31/96**	
Yen (JPY)	$624.0 million	$596.8 million	95.64%
Sterling (GBP)	364.0 million	0.0 million	0.0
Mark (DEM)	155.0 million	121.7 million	78.53
Fr. Franc (FRF)	132.2 million	93.9 million	71.04
Sw. Franc (CHF)	107.8 million	98.3 million	91.18
Total	**$1,382.9 million**	**$910.7 million**	**65.85%**

Profit (Loss) During Latest Quarter **$36,391,266**
Profit (Loss) During Latest Year **$47,567,732**

* *Based on currency exposure of the SBI's EAFE index fund for these five currencies.*
** *In-house options are placed 2% out-of-the-money for each monthly/semi-monthly tranche. This requires a 2% strengthening of the USD to trigger a hedge for that tranche.*

Market/Performance Comments:

Currency	**JPY/USD**	**USD/GBP**	**DEM/USD**	**FRF/USD**	**CHF/USD**
Spot Rate on 9/30/96	111.38	1.5635	1.5253	5.1613	1.2536
Spot Rate on 12/31/96	116.07	1.7112	1.5411	5.1988	1.3428
Change vs. USD	(4.21%)	9.45%	(1.04%)	(0.73%)	(7.12%)

This quarter the Dollar strengthened against all currencies except for the Sterling. The Dollar steadily weakened versus Sterling throughout the quarter to finish the quarter at its weakest level since early October 1992. The Yen continued to weaken against the Dollar except for a small retreat in early November; it finished the quarter 4.21% weaker and at its lowest level since March 1983. The Sw. Franc also weakened against the Dollar to finish 7.12% weaker and at its lowest level since August 1994. Over the quarter the Mark and the Fr. Franc weakened slightly versus the Dollar. In general the Dollar versus Sterling and Yen has followed a trend during the quarter. Against the Sw. Franc the Dollar experienced a volatile period in November and early December with a volatile period against the Mark and Fr. Franc in early December. There was $8.3 million of realized profit in December as the initial tranches put in place in December 1995 matured.

The EAFE index weakened during October to a low of 1158.11 on November 1. This was followed by a sharp rise in the index to a quarter high of 1212.85 on November 25, 1996. In December, the index weakened sharply to reach 1159.99 on December 16 before finishing the month at 1178.06. The sharp movements in the index resulted in Record making a number of adjustments to the size of the hedges. During the quarter the proportion of the index in hedgeable currencies fell from 74.43% to 71.50% with the Yen percentage falling from 37.57% to 32.26%. Again, this resulted in Record adjusting the size of the hedges.

2. ***Current Market Values.*** *Show the value of each tranche in US dollars as of the end of the quarter.*

Tranche Date	JPY*	GBP*	DEM*	FRF*	CHF*
Jan 8, 1997	2,434,909	(649,665)	398,317	(216,555)	966,909
Jan 24	2,641,464	--	--	--	--
Feb 10	2,140,563	(140,000)	245,496	(47,807)	742,146
Feb 26	2,592,802	--	--	--	--
Mar 11	2,122,970	0	195,070	(111,454)	746,424
Mar 26	1,494,878	--	--	--	--
Apr 10	1,249,690	0	236,057	(303,172)	533,255
Apr 24	1,159,962	--	--	--	--
May 9	2,407,400	0	124,376	(57,484)	57,504
May 27	1,556,164	--	--	--	--
Jun 10	1,142,091	0	118,032	(374,172)	466,695
Jun 25	1,622,679	--	--	--	--
Jul 9	1,353,895	0	(135,313)	(333,300)	401,428
Jul 24	1,668,416	--	--	--	--
Aug 11	1,859,056	0	219,084	49,111	721,975
Aug 27	1,626,997	--	--	--	--
Sep 10	1,531,069	0	52,117	51,565	674,015
Sep 24	1,220,493	--	--	--	--
Oct 9	298,990	0	(401,540)	(240,296)	392,952
Oct 24	594,551	--	--	--	--
Nov 2	371,665	0	102,715	(80,989)	393,918
Nov 26	560,294	--	--	--	--
Dec 10	520,948	0	0	0	16,610
Dec 24	5,601	--	--	--	--
Total (Not discounted)	**34,477,545**	**(789,665)**	**1,154,412**	**(1,664,553)**	**6,113,832**

* *Mark to market at actual cost of close out; i.e., using the forward rate to the position's value date.*

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List currency overlay accounts gained or lost over the same time period.*

   There have been no personnel gains or losses.
   There have been no client gains or losses. The change in funds under management relates to increases in funds from existing overlay programs.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None to report.

Staff Comments

No substantive comments at this time. The EAFE index values in #1 are references to Record's own system for tracking changes in the index.

Manager Commentary
GE Investment Management, Inc.
Assigned Risk Plan - Stocks

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$58.0 Billion	Actual	8.7%	22.9%
Total Firm Assets Managed in this Discipline	$10.8 Billion	Benchmark	8.4%	23.2%

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?*

   During the quarter we were helped by our significant overweighting in insurance and miscellaneous financial stocks. Among the outperformers were Travelers, Loews, Provident Companies, American Express and Dean Witter, Discover. We also benefited from our overweighting in Energy, particularly Schlumberger in oil service and Burlington Resources in the exploration and product area. Air Products helped us outperform in the chemical industry, and we were also aided by our continued underweighting in Consumer Cyclicals. We were hurt in Capital Goods by GE's strong performance before it was added to the portfolio, and also by our large overweight in Allied Signal, which lagged in the fourth quarter, but significantly outperformed for all of 1996. We were also hurt by our continued underweighting in Microsoft. While Microsoft continues to have impressive performance, the common stock valuation appears expensive to our portfolio managers. One action taken to partially remedy this situation was to purchase some of the new convertible preferred stock Microsoft issued during the quarter. This issue offers some upside participation, a dividend yield greater than the market and virtually no downside risk. During 1996 we were helped by our overweighting in Energy and by our underweighting in Basic Materials and Utilities. We were hurt by our underweighting in Technology and by an underweighting in banks in the Financial sector and by not owning GE for most of the year in the Capital Goods 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.*

   During the fourth quarter we added to our holdings of steady growers and reduced our positions in cyclical stocks. We added to a number of "soft" technology companies such as First Data Corp., Airtouch, Reuters, EDS and Equifax, and to steadily growing capital goods companies such as Dover and Morton International, as well as to financials such as Loews and General Reinsurance. We reduced positions in AT&T, Motorola, General Motors, Ford and Goodyear, and eliminated Dominion Resources and Southern Company in the electric utility industry. In summary, we continued to stick with the stock selection disciplines that have worked well for us over the years and believe the portfolio is well positioned for what could be a volatile market in 1997.

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 significant changes took place in the GE Multi-Style fund in the fourth quarter. We offered to include an S&P 500 weighting of GE stock to our clients portfolios in late October and most clients accepted this option. Not owning GE negatively impacted Multi-Style performance by about 50 basis points in 1996 and about 25 basis points per annum over the past three and five years. We also restructured Multi-style at year end to adjust for the retirement of one of our senior portfolio managers. The portfolio management team now consists of two growth managers and two core-value managers, while the aggregate portfolio remains style-neutral.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

As noted in #3, GE stock was added to our portfolio. Prior to October 1996, GE did not include its own stock in any portfolios due to the perception of a possible insider trading conflict.

The retirement of John Kohlhepp, a senior portfolio manager, generated some additional portfolio changes. The number of stocks was reduced by approximately 15% and a value overweight was eliminated.

GE has also created a new position of Senior Vice President, Equity Research. Formerly, research analysts were assigned to the portfolio managers. These analysts will now report to the new Senior Vice President and three new research assistants will provide help for the portfolio managers.

Staff does not anticipate any negative impact from these changes, but will continue to monitor the portfolio.

Manager Commentary
Voyageur Asset Management
Assigned Risk Plan - Bonds

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$ 8.7 Billion	Actual	2.5%	4.7%
Total Firm Assets Managed in this Discipline	$ 3.1 Billion	Benchmark	2.4%	5.0%

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 final quarter of the year, the portfolio captured a total return of 2.5%, marginally outpacing its custom benchmark (2.4%). For the full calendar year, income from the holdings helped offset the negative impact of declining price levels, resulting in a total return of 4.7%. The benchmark return was 5.0%.

   No significant "bets" were made relative to the benchmark. We began the quarter already overweighted in corporate and mortgage-backed securities, areas that are currently trading at historically tight spreads. With no apparent sector opportunities, we instead sought to add value by swapping securities for like securities, being more aggressive in our approach towards the yield curve, prepayment assumptions and pricing dynamics. Highlights of the transactions include consolidating corporate positions, minor extensions to capture both the steepness in the yield and credit curves, swapping out of premium asset-backeds for discount bonds, and mortgage swaps from one coupon to another and from 15-year to 30-year paper. Finally, Treasuries were used to maintain the desired duration profile (the portfolio remained slightly long to its benchmark; 3.2 years v. 3.04 years, or at 105%).

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 anticipate maintaining the basic portfolio structure that is currently in place with an emphasis on "spread" product. As of quarter end, corporates and asset-backeds combined represented 56% of the portfolio versus the benchmark's weighting of 42%, mortgages were 30% of the portfolio versus a 25% weighting in the benchmark and Governments were 14% versus the benchmark's weighting of 33%. We also anticipate maintaining a duration for the portfolio at slightly longer than that of the benchmark. Again, it is important to note that it is our intent to add the greatest value through sector rotation and specific security choices rather than by any significant interest rate bet. This portfolio construct is consistent with our economic and interest rate outlook for 1997. Growth is expected to remain moderate with GDP coming in between 2.5% and 3% for the year. Inflation should also remain at subdued levels, with CPI in the bearable 3% to 3.5% range (wage pressures pose the largest threat to rising inflation). In regards to the Fed, we anticipate no immediate change, although we don't rule out a bias for tightening. With this view, we feel that corporate fundamentals should remain positive, and as interest rates trend lower, there should be no major disruptions in the mortgage market.

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 the fourth quarter, 1996, are as follows:

Additions:
Doug Nelson, Fixed Income Credit Analyst (10/1/96)

Losses:
None.

Accounts Gained in this discipline:
Tax-Exempt Clients and Assets Gained in 4th Quarter: 8 clients/$57.4 million

Accounts Lost in this discipline:
Tax-Exempt Clients: 1 Public operating fund
[Client decided to hire local (Chicago) investment manager]

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Voyageur's parent, Dougherty Financial Group, Inc., has just entered into an agreement to sell its retail mutual fund and unit investment trust businesses to Delaware Management Holdings, a subsidiary of Lincoln National Corporation. This transaction is expected to close in late April, subject to approval of Voyageur fund shareholders. Voyageur's institutional investment management business remains unaffected by this pending transaction, and Voyageur remains committed to the institutional investment management business. The retail mutual fund family being sold represents $2.2 billion of assets. Voyageur Asset Management and its affiliated investment management companies will continue to manage $11 billion in total institutional assets.

This change will not affect the management of the SBI account. Jane Wyatt, Melissa Uppgren and Dorrie Marks will continue to be involved with the account, as well Ed Kohler and Jean Daleki.

Staff Comments

Voyageur expects this sale will allow them to focus their resources on meeting the needs of their institutional clients. Staff will monitor Voyageur to ensure no personnel changes are made on the SBI's portfolio and that no other adverse affects occur.

Manager Commentary
Internal Stock Pool
Trust/Non-Retirement Assets

Period Ending:	**12/31/96**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$78.6 Million	Actual	8.3%	23.0%
Total Firm Assets Managed in this Discipline	$78.6 Million	Benchmark	8.4%	23.2%

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 trailed the benchmark by 0.1%. For the year, it had negative tracking error of 0.2%. The tracking error was due to trading costs for the quarter and to residual cash and trading costs for the year. In general, trading activity induced by cash flows, dividends or corporate actions will contribute to tracking error. Over time, this activity will generate a small negative bias due to transaction costs.

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectation.*

   In the fourth quarter, staff implemented a change that requires the monthly withdrawal of all dividends generated by the portfolio. In the past, that income was transferred out of the account annually which caused some tracking error in the portfolio relative to the S&P 500. Transferring all dividends out of the portfolio monthly will minimize the cash drag that can pull returns down. However, transferring those dividends out of the portfolio monthly also reduces the flexibility cash provides to trade in the portfolio as names are added to or deleted from the S&P 500 index. In general, small companies are deleted from the index, while larger companies are added. Therefore, the funds raised by selling a small weighting in a small company do not cover the cost of buying a heavier weighting of a large company. In the future, staff will carefully examine the trade-offs between the tracking error caused by not holding a fully replicated portfolio and the trading costs to implement all index changes without the cashflow from dividends.

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 November, Mike Menssen was transferred to Fixed Income. Lois Buermann has taken over management of the Internal Stock Pool. Art Kaese remains the stock analyst on the Internal Stock Pool.

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:	12/31/96	Returns	Qtr.	Year
Total Firm Assets Under Management		Actual	3.1%	4.1%
Assets Managed in this Discipline	$0.6 billion	Benchmark	3.0%	3.6%

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?*

<u>Performance, Fourth Quarter '96</u>

The above returns reflect the combined portfolios of the Environmental Trust Fund, the Income Share Account, and the Permanent School Fund. Collectively, the funds outperformed the index returns.

- A slightly barbelled portfolio during October and November increased returns as the yield curve flattened during the first two months. The barbell was removed in early December just before the yield curve started to steepen again.
- A neutral to underweighted corporate position detracted slightly from performance since corporate securities were the best performing sector for the quarter.
- A slightly longer duration increased performance as interest rates decreased.

<u>Performance for the Year</u>

Collectively, the funds outperformed the index.

- An underweighted Treasury position and overweighted mortgage position enhanced returns since mortgage securities performed well during the year.
- A slightly longer duration than the benchmark decreased performance as interest rates increased during the year.
- A barbelled structure decreased performance as the yield curve steepened.
- A neutral to underweighted Corporate position slightly decreased returns since the corporate sector marginally outperformed treasuries.

Internal Bond Pool (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Yield Curve Strategy

   Currently, real US interest rates are somewhat high. If you assume that inflation will be 3% next year, the real yield on the ten year Treasury is around 3.7 %. At these levels, the portfolio duration will be slightly longer than the market.

   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 if spreads widen or potential credit rating upgrades are found.

   Mortgage Strategy

   We will remain overweighted in mortgages. With the increase in rates, mortgages have become more positively convex and should perform well if interest rates move in either direction.

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 November, Jim Lukens left the SBI. Mike Menssen was transferred over from the Domestic Equity Program to run the external and internal Fixed Income Program.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

None at this time.