STATE BOARD OF INVESTMENT
MEETING
Wednesday, March 3, 1999
9:00 A.M. -Room 125
State Capitol - Saint Paul

and

INVESTMENT ADVISORY
COUNCIL
MEETING
Tuesday, March 2, 1999
2:00 P.M. - SBI Conference Room
Room 105, MEA Building- Saint Paul

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, March 3, 1999
9:00 A.M. -Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of December 11, 1998	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (October 1, 1998 – December 31, 1998)	A
B. Administrative Report	B
1. Reports on budget and travel	
2. Results of FY98 audit	
3. Legislative update	
4. Litigation update	
5. Update on tobacco information	
3. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	C
1. Review of manager performance	
2. Recommended termination of Weiss Peck & Greer	
B. International Manager Committee	D
1. Review of manager performance	
2. Update of International Equity Program	
C. Alternative Investment Committee	E
1. Review of current strategy	
2. Approval of two new commitments for the Post Retirement Fund:	
• CB Richard Ellis Investors	
• GTCR Golder Rauner, L.L.C.	

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Minutes
State Board of Investment
December 11, 1998

The State Board of Investment (SBI) met at 9:00 A.M. Friday, December 11, 1998 in Room 125 State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson; State Auditor Judith H. Dutcher; State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe, and Attorney General Hubert H. Humphrey III were present. The minutes of the September 2, 1998 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, 1998 (Combined Funds 12.9% vs. Inflation 3.2%), exceeded the median fund (25th percentile) and outperformed its composite index (Combined Funds 12.8% vs. Composite 12.5%) for the most recent five year period. He stated that the Basic Funds has exceeded its composite index (Basic Funds 13.2% vs. Composite 13.1%) over the last five years and reported that the Post Fund had outperformed its composite index over the last five year period (Post Fund 12.4% vs. Composite 11.9%).

Mr. Bicker reported that the Basic Funds' assets decreased 8.9% for the quarter ending September 30, 1998 due to negative investment returns. He said that the asset mix is essentially on target and that the Basic Funds underperformed its composite index for the quarter (Basic Funds –7.8% vs. Composite –7.2%) but outperformed for the year (Basic Funds 4.8% vs. Composite 4.7%%).

Mr. Bicker reported that the Post Fund's assets decreased 7.3% for the quarter ending September 30, 1998 due to negative investment returns. He said that the Post Fund asset mix is also on target and that the Post Fund has underperformed its composite index for the quarter (Post Fund –7.5% vs. Composite –6.7% but outperformed for the year (Post Fund 3.8% vs. Composite 3.7%).

Mr. Bicker reported that the domestic stock manager group underperformed for the quarter (Domestic Stocks –12.2% vs. Wilshire 5000 –12.0%) but had outperformed for the year (Domestic Stocks 4.2% vs. Wilshire 5000 3.3%). He said that the International Stock manager group matched its composite index for the quarter (International Stocks –15.0% vs. Int'l. Composite –15.0%) and had outperformed for the year (International Stocks –14.1% vs. Int'l. Composite –14.3%).

Mr. Bicker stated that the bond segment underperformed its target for the quarter (Bonds 3.6% vs. Lehman Aggregate 4.2%) and for the year (Bonds 10.9% vs. Lehman Aggregate 11.5%) due to financial problems in Russia and in several emerging markets. He concluded his report with the comment that as of September 30, 1998 the SBI was responsible for over $42 billion in assets.

Executive Director's Administrative Report
Mr. Bicker referred members to Tab B for current budget and travel reports. Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation concerning Mercury Finance Corporation.

Ms. Eller stated that there will be a joint settlement conference since the case involves both bankruptcy court and district court proceedings. She noted that the state will likely receive a very minimal amount due to the amount of outstanding claims against the company.

Mr. Bicker updated members on activity regarding tobacco holdings. He stated that since the tobacco divestment resolution passed in September 1998, tobacco holdings the SBI's active stock portfolios were reduced by approximately 1.3 million shares.

Mr. Carlson asked Mr. Bicker to further explain the SBI's current asset mix policies and performance evaluation policies for the benefit of the new Constitutional Officers. Mr. Bicker referred members back to Tab A of the meeting materials and briefly reviewed the asset mix of the various funds under the SBI's management.

Deferred Compensation Review Committee
Mr. Sausen referred members to Tab C of the meeting materials and noted that the Board is required to approve investment providers and investment options for MnSCU's retirement plan. He stated that Minnesota Life (formerly Minnesota Mutual) is recommending that the PIMCO Low Duration Fund replace the Scudder Short Term Bond Fund and that the Domini Social Equity Fund replace The Parnassus Fund as an equity option. He said that the replacement fund's long term performance was better than the current funds and that the Committee is recommending the changes. Ms. Dutcher moved approval of the recommendations as stated in the Committee Report, which reads: "The Committee recommends that the SBI approve the following investment option changes requested by Minnesota Life for the MnSCU 401(a) Plans and forward the recommendation to the MnSCU Board: The PIMCO Low Duration Fund, Institutional Share Class should replace the Scudder Short Term Bond Fund as a bond option offered by Minnesota Life. The Domini Social Equity Fund should replace The Parnassus as an equity option offered by Minnesota Life." Ms. Growe seconded the motion. The motion passed.

Domestic Manager Committee Report
Ms. Yeomans referred members to Tab D of the meeting materials and briefly reviewed the performance of the quarter.

International Manager Committee Report
Ms. Yeomans referred members to Tab E of the meeting materials and briefly reviewed the performance of the International Stock managers and the currency overlay program for the quarter.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and stated that the Committee is recommending a new investment for the Basic Retirement Funds with a new private equity manager, Goldner Hawn Johnson and Morrison, in Marathon Fund Limited Partnership IV. Ms. Growe 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 $40 million or 20%, whichever is less, in Marathon Fund Limited Partnership IV. 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 Goldner Hawn Johnson and Morrison 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 Goldner Hawn Johnson and Morrison or reduction or termination of the commitment." Mr. Humphrey seconded the motion. The motion passed.

Ms. Yeomans thanked the outgoing Board members on behalf of the IAC for their support through the years.

Mr. McGrath introduced Ms. Carol Johnson, the Treasurer-Elect and he thanked the Executive Council, the SBI, IAC, staff and Richards & Tierney.

Ms. Growe expressed her thanks to the IAC and she presented Ms. Yeomans with a letter of thanks to be read at the March 1999 IAC meeting. She then introduced her successor Ms. Mary Kiffmeyer.

Mr. Humphrey also thanked the IAC and SBI staff and introduced Mr. Mike Hatch as the incoming Attorney General.

Mr. Carlson also expressed his gratitude and reminded the incoming Board members of the fiduciary responsibilities that they have to consider while serving on the Board. He noted some difficult times in years past for the SBI and he encouraged the incoming Board to be cautious in their decision-making. He complimented the SBI staff for a job well done.

Mr. Carlson announced that the Post Retirement Fund benefit increase for FY98 will be 9.8%. Mr. Bicker thanked the departing Board members and invited everyone to stay for refreshments following the meeting.

The meeting adjourned at 9:30 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, March 2, 1999
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

	TAB
1. Approval of Minutes of December 1, 1998	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (October 1, 1998 – December 31, 1998)	**A**
B. Administrative Report	**B**
1. Reports on budget and travel	
2. Results of FY98 audit	
3. Legislative update	
4. Litigation update	
5. Update on tobacco information	
3. Reports from the Investment Advisory Council	
A. Domestic Manager Committee (J. Bohan)	**C**
1. Review of manager performance	
2. Recommended termination of Weiss Peck & Greer	
B. International Manager Committee (J. Mares)	**D**
1. Review of manager performance	
2. Update of International Equity Program	
C. Alternative Investment Committee (K. Gudorf)	**E**
1. Review of current strategy	
2. Approval of two new commitments for the Post Retirement Fund:	
• CB Richard Ellis Investors	
• GTCR Golder Rauner, L.L.C.	

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Minutes
Investment Advisory Council
December 1, 1998

MEMBERS PRESENT: Gary Austin; Dave Bergstrom; John Bohan; Roger Durbahn; Doug Gorence; P. Jay Kiedrowski; Han Chin Liu; Judy Mares; Malcolm McDonald; Bob McFarlin; Gary Norstrem; Mike Troutman; Mary Vanek; and Jan Yeomans.

MEMBERS ABSENT: Ken Gudorf; Daralyn Peifer; and Wayne Simoneau

SBI STAFF: Howard Bicker; Mansco Perry; Jim Heidelberg; Lois Buermann; Tammy Brusehaver-Derby; Stephanie Gleeson; Steve Koessl; Jason Matz; Charlene Olson; and Carol Nelson.

OTHERS ATTENDING: Ann Posey, Tom Richards, Richards & Tierney; Dale Hanke, Bob Heimerl, Lloyd Belford, REAM; Michael Anderson, Anderson Advisory Services; Sheila Warness, University of Minnesota.

Ms. Yeomans called the meeting to order and the minutes of the September 1, 1998 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 has exceeded inflation over the ten year period ending September 30, 1998 (Combined Funds 12.9% vs. Inflation 2.3%), exceeded the median fund (25th percentile) and outperformed its composite index (Combined Funds 12.8% vs. Composite 12.5%) for the most recent five year period. He stated that the Basic Funds had exceeded its composite index (Basic Funds 13.2% vs. Composite 13.1%) over the last five years and reported that the Post Fund had outperformed its composite index fund for the five year period ending September 30, 1998 (Post Fund 12.4% vs. Composite 11.9%).

Mr. Bicker reported that the Basic Funds' assets decreased 8.9% for the quarter ending September 30, 1998 due to negative investment returns. He said that the Basic's asset mix is essentially on target and that the Funds underperformed its composite index for the quarter (Basic Funds –7.8% vs. Composite –7.2%) but outperformed for the year (Basic Funds 4.8% vs. Composite 4.7%).

Mr. Bicker reported that the Post Fund's assets decreased 7.3% for the quarter ending September 30, 1998 due to negative investment returns. He said that the Post Fund asset mix is essentially on target and that the Post Fund had underperformed its composite index for the quarter (Post Fund –7.5% vs. Composite –6.7%) but outperformed for the year (Post Fund 3.8% vs. Composite 3.7%).

Mr. Bicker reported that the domestic manager group underperformed for the quarter (Domestic Stocks –12.2% vs. Wilshire 5000 –12.0%) but outperformed for the year (Domestic Stocks 4.2% vs. Wilshire 5000 3.3%). He said that the International Stock manager group matched its target for the quarter (International Stocks –15.0% vs. International Composite –15.0%) and outperformed it for the year (International Stocks –14.1% vs. International Composite –14.3%). He added that the bond segment underperformed its target for the quarter (Bonds 3.6% vs. Lehman Aggregate 4.2%) and for the year (Bonds 10.9% vs. Lehman Aggregate 11.5%).

He concluded his report noting that as of September 30, 1998 the SBI was responsible for over $42 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the current budget and travel reports. He asked Ms. Eller for an update on the litigation involving Mercury Finance Corporation. Ms. Eller stated that negotiations are still in progress and that there was nothing new to report at this time. In response to a question from Mr. McDonald, Ms. Eller stated that she expects the state to be awarded only a minimal amount.

Mr. Bicker noted that Tab B contained an update on the tobacco activity during the last quarter since the Board had passed its tobacco divestiture resolution. He distributed to members a memo which was inadvertently omitted from the meeting materials that announced the Post Retirement Benefit Increase for FY98 (see **Attachment A**). He stated that the benefit increase is 9.8%, effective January 1, 1999. In response to a question from Mr. Kiedrowski, he stated that the 1997 increase was 10.1%, but he reminded members that the assumed rate of return increased from 5% to 6% during fiscal year 1998. Mr. Bicker also noted the tentative meeting dates from calendar year 1999 included in Attachment A.

Mr. Bohan asked if he could add an agenda item to the meeting after the stated agenda and Ms. Yeomans agreed.

Ms. Yeomans commented that she was pleased with the SBI's performance being in the 25^{th} percentile of the Trust Universe Comparison Service (TUCS) and other members agreed.

Deferred Compensation Committee Report

Mr. Sausen referred members to Tab C of the meeting materials and stated that the Board is required to approve investment products and providers for the MnSCU retirement plan. He said that Minnesota Life (formerly Minnesota Mutual) is recommending that the

PIMCO Low Duration Fund replace the Scudder Short Term Bond Fund and that the Domini Social Equity Fund replace the Parnassus Fund as an equity option. Mr. Troutman commented that he believes the changes will benefit the participants if Minnesota Life evaluates the funds on a long-term basis.

Domestic Manager Committee Report
Mr. Bohan referred members to Tab D of the meeting materials and reviewed the performance of the SBI's domestic stock managers. In response to a question from Mr. Kiedrowski, Mr. Bicker stated that the index manager likely outperformed the index because small capitalization companies had underperformed and because the manager utilizes stratified sampling. Mr. Bohan continued by reviewing the performance of the bond managers. In response to a question from Ms. Yeomans, Mr. Bohan clarified that the Committee continues to watch a couple of managers that are due for review on a set schedule.

International Manager Committee Report
Ms. Mares referred members to Tab E of the meeting materials and briefly reviewed the performance of the international managers. She noted that staff and the Committee is still working on a more appropriate benchmark for Marathon. She said that the SBI has begun a review of the international program and that the Committee has begun evaluating indices for the asset class target and individual manager benchmarks.

In response to a question from Mr. Gorence, Mr. Bicker explained that the currency overlay manager experienced a decrease of $23 million during the third quarter.

Alternative Investment Committee Report
Mr. McDonald referred members to Tab F of the meeting materials and explained that the Committee is recommending an investment for the Basic Retirement Funds with a new private equity manager, Goldner Hawn Johnson and Morrison. He briefly reviewed the fund's strategy and in response to questions from Mr. Bohan, he discussed their strong track record. Mr. Durbahn moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.

Mr. Bohan stated that he would like to bring the IAC's attention to several items regarding tobacco that had occurred subsequent to the Board's passing of a divestiture resolution at the September 1998 meeting. He stated that the Minnesota Retired State Employees Association had sent a letter to the Board asking the tobacco divestment resolution be rescinded. He said that the tobacco litigation brought by several states had also been settled, thereby removing another concern of the Board. He added that the new Board will also be convening and that he is troubled by having such a major decision being made by an outgoing Board that was based on various assumptions regarding the risks associated with the tobacco companies that has changed dramatically over recent weeks. Ms. Yeomans asked for discussion.

In response to a question from Mr. McFarlin, Mr. Bohan stated that he believes acquiescence suggests endorsement and that the burden will be on the IAC to prove to the new Board why the resolution should be rescinded. He said that approximately one-third of the tobacco holdings had already been sold and he noted the difficulties associated with market timing. He said he believes he has a fiduciary responsibility to, at the very least, raise the issue again with the IAC.

Mr. McDonald stated that the tobacco issue primarily involves one stock, Philip Morris. He noted that the State Auditor had sent a letter commending the IAC for their stand on tobacco.

In response to a question from Mr. McDonald, Mr. Bicker stated that his suggestion is to present the new facts to the new Board. In response to a question from Mr. Norstrem, Mr. Bicker stated that the SBI's managers must continue to follow the current Board directive regarding tobacco until such time that the Board takes further formal action. In response to a question from Ms. Yeomans, Mr. Bicker confirmed that tobacco will be an agenda item when he meets individually with the new Board members. Mr. McDonald asked that the minutes reflect the IAC's wish that the agenda for the March 1998 meeting include the tobacco issue. Mr. Bohan requested that the IAC's tobacco statement be included in the meeting materials and members of the IAC agreed.

The meeting adjourned at 2:40 P.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: November 24, 1998

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Post Retirement Benefit Increase for FY98

The post retirement benefit increase for FY97 will be 9.8254%. The increase will be payable to eligible retirees effective January 1, 1999.

This if the sixth increase granted under the revised formula that was enacted by the 1992 Legislature. For FY 1993-1997 the "inflation cap" in the benefit increase formula was 3.5%. Beginning in FY 1998, the "inflation cap" is 2.5%. Following are benefit increases since 1998:

1988	6.9%
1989	4.0%
1990	5.1%
1991	4.3%
1992	4.6%
1993*	6.0%
1994*	4.0%
1995*	6.4%
1996*	8.0%
1997*	10.1%
1998*	9.8%

* Benefit increase granted under new formula.

2. Tentative Meeting Dates for Calendar 1999

The quarterly meetings of the IAC/SBI are normally held on the first consecutive Tuesday and Wednesday of March, June, September and December. The dates for the calendar 1999 are:

IAC	SBI
Tuesday, March 2, 1999	Wednesday, March 3, 1999
Tuesday, June 1, 1999	Wednesday, June 2, 1999
Tuesday, September 7, 1999	Wednesday, September 8, 1999
Tuesday, December 7, 1999	Wednesday, December 8, 1999

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

Tab A

LONG TERM OBJECTIVES
Period Ending 12/31/98

COMBINED FUNDS: $37.0 Billion	Result	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.	**14.0%** (1)	10.9 percentage points above CPI
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.	**15.3%** (1)	0.3 percentage point above composite index
Exceed Median Fund (5 yr.) Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.	23rd percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: $19.2 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.	**15.6%**	0.2 percentage point above target

POST RETIREMENT FUND: $17.7 Billion	Result	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.	**14.9%**	0.4 percentage point above target

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

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

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
July 1, 1998

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

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

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

Actuarial Assumptions:

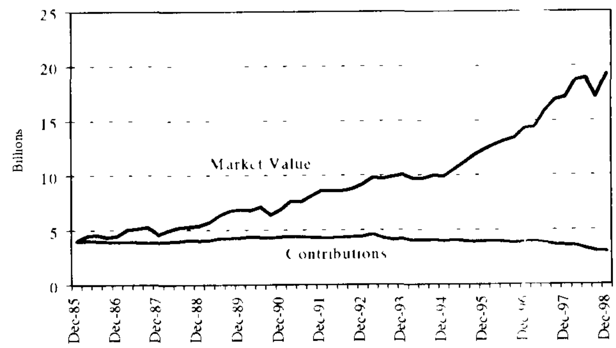
Salary Growth: 6.5%
Interest/Discount Rate: 8.5% Basics, 6.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY

Basic Retirement Funds (Net of Fees)

Asset Growth

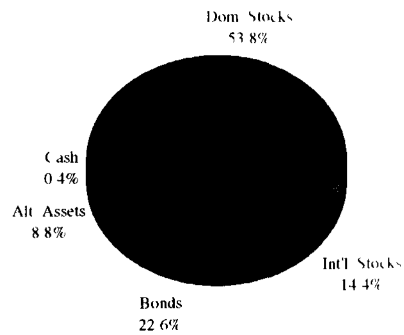
The market value of the Basic Funds increased 12 1% during the fourth quarter of 1998. Positive investment returns accounted for the increase. Net contributions were slightly negative



Asset Growth During Fourth Quarter 1998 (Millions)	
Beginning Value	$ 17,173
Net Contributions	-4
Investment Return	2,075
Ending Value	$ 19,244

Asset Mix

The positive returns in the stock market caused the allocation to domestic and international stocks to rise during the quarter, while the allocation to bonds decreased. Negative returns in alternative assets caused their allocation to fall during the quarter.

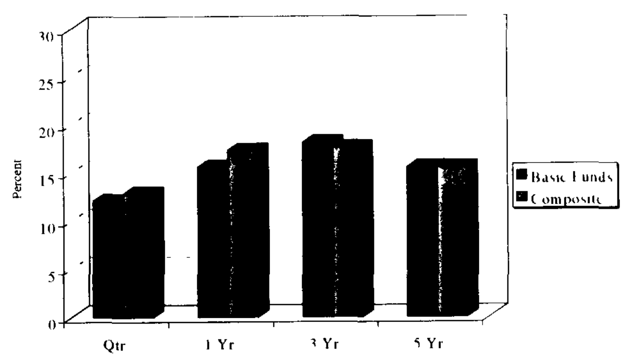


	Policy Targets	Actual Mix 12/31/98	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	53 8%	$10,363
Int'l. Stocks	**15.0**	14.4	2,774
Bonds	**24.0**	22.6	4,341
Alternative Assets*	**15.0**	8.8	1,693
Unallocated Cash	**1.0**	0.4	73
	100.0%	100.0%	$19,244

* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

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



	Period Ending **12/31/98**			
			Annualized	
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**12.1%**	**15.6%**	**18.1%**	**15.6%**
Composite	12.5	16.8	17.4	15.4

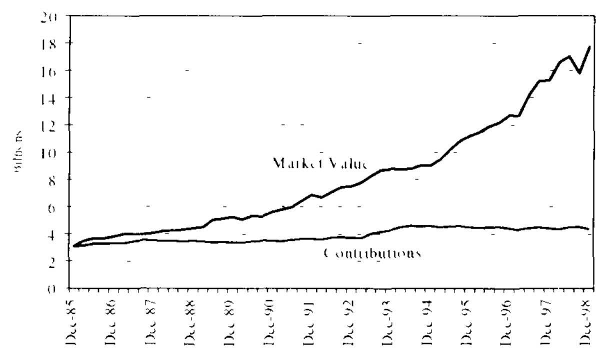
EXECUTIVE SUMMARY

Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 12.3% during the fourth quarter of 1998. Positive investment returns accounted for the increase. Net contributions were slightly negative.

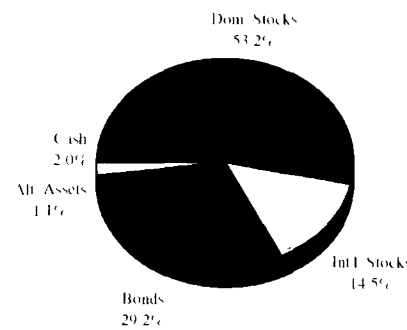
	Asset Growth During Fourth Quarter 1998 (Millions)
Beginning Value	$15,795
Net Contributions	-139
Investment Return	2,087
Ending Value	$17,743



Asset Mix

The positive returns in the stock market caused the allocation to domestic and international stocks to rise during the quarter while the allocation to bonds decreased.

	Policy Targets	Actual Mix 12/31/98	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	53.2 %	$9,445
Int'l Stocks	**15.0**	14.5	2,563
Bonds	**27.0**	29.2	5,188
Alternative Assets*	**5.0**	1.1	196
Unallocated Cash	**3.0**	2.0	350
	100.0%	100.0 %	$17,743



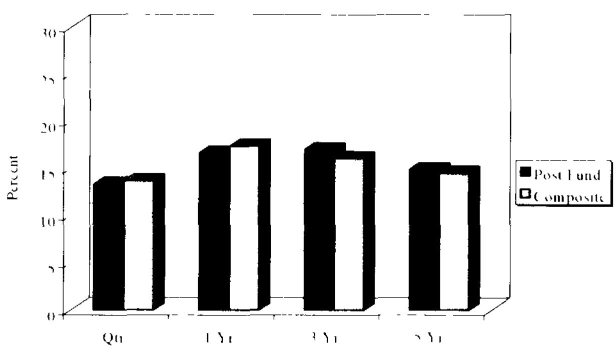
* Any uninvested allocation is held in bonds.

Fund Performance (Net of Fees)

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

Period Ending 12/31/98

	Qtr	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)
Post	**13.3%**	**16.7%**	**17.0%**	**14.9%**
Composite	13.7	17.4	16.1	14.5



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

Domestic Stocks

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

	Period Ending 12/31/98		Annualized	
	Qtr.	1 Yr	3 Yr	5 Yr
Dom. Stocks	**21.3%**	**23.5%**	**25.9%**	**21.7%**
Wilshire 5000	21.5	23.4	25.2	21.8

International Stocks

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

	Period Ending 12/31/98		Annualized	
	Qtr	1 Yr	3 Yr.	5 Yr
Int'l. Stocks	**18.0%**	**11.4%**	**8.6%**	**8.8%**
Composite Index*	20.4	13.6	6.2	7.5

* 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 underperformed for the year.

	Period Ending 12/31/98		Annualized	
	Qtr	1 Yr	3 Yr	5 Yr
Bonds	**0.4%**	**8.3%**	**7.7%**	**7.4%**
Lehman Agg.	0.3	8.7	7.3	7.3

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

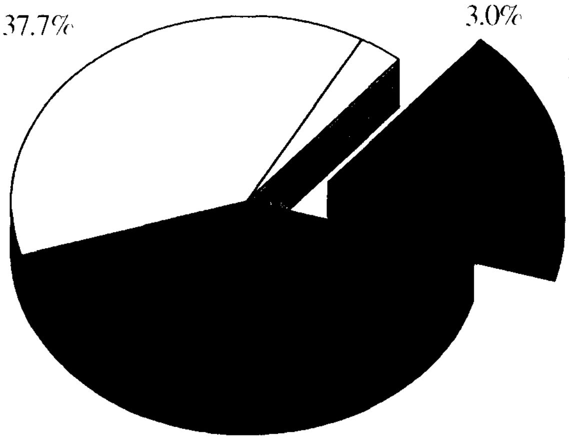
Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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

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

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

EXECUTIVE SUMMARY
Funds Under Management



	12/31/98 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$19.2
Post Retirement Fund	17.7
Supplemental Investment Fund	1.4
Non Retirement Funds*	
Assigned Risk Plan	0.7
Permanent School Fund	0.5
Environmental Trust Fund	0.3
State Cash Accounts	7.1
Total	$47.0

MINNESOTA
STATE BOARD
OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Fourth Quarter 1998
(October 1, 1998 - December 31, 1998)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 12/31/98				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	21.5%	23.4%	25.2%	21.8%	18.1%
Dow Jones Industrials	17.6	18.1	23.9	22.3	18.8
S&P 500	21.4	28.9	28.4	24.2	19.2
Russell 2000	16.3	-2.5	11.6	11.9	12.9
Domestic Fixed Income					
Lehman Aggregate*	0.3	8.7	7.3	7.3	9.3
Lehman Gov't./Corp.	0.1	9.5	7.3	7.3	9.3
90 Day U.S. Treasury Bills	1.1	5.0	5.2	5.1	5.5
International					
EAFE**	20.7	20.0	9.0	9.2	5.5
Emerging Markets Free***	18.0	-25.3	-11.2	-9.3	10.9
Salomon Non U.S. Gov't. Bond	5.3	17.8	5.5	8.3	8.8
Inflation Measure					
Consumer Price Index****	0.2	1.6	2.2	2.4	3.1

* 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 quarter. Interest rate cuts, a robust economy, and strength in European markets, contributed to the stock market's positive performance. During the quarter, technology and internet sectors were the biggest winners.

The Wilshire 5000 provided a +21.5% return for the quarter. Performance among the different Wilshire Style Indexes is shown below.

Large Value	+13.80%
Small Value	+9.75
Large Growth	+25.74
Small Growth	+20.90

For the year ending December 31, 1998, the Wilshire 5000 has increased +23.4%.

DOMESTIC BONDS

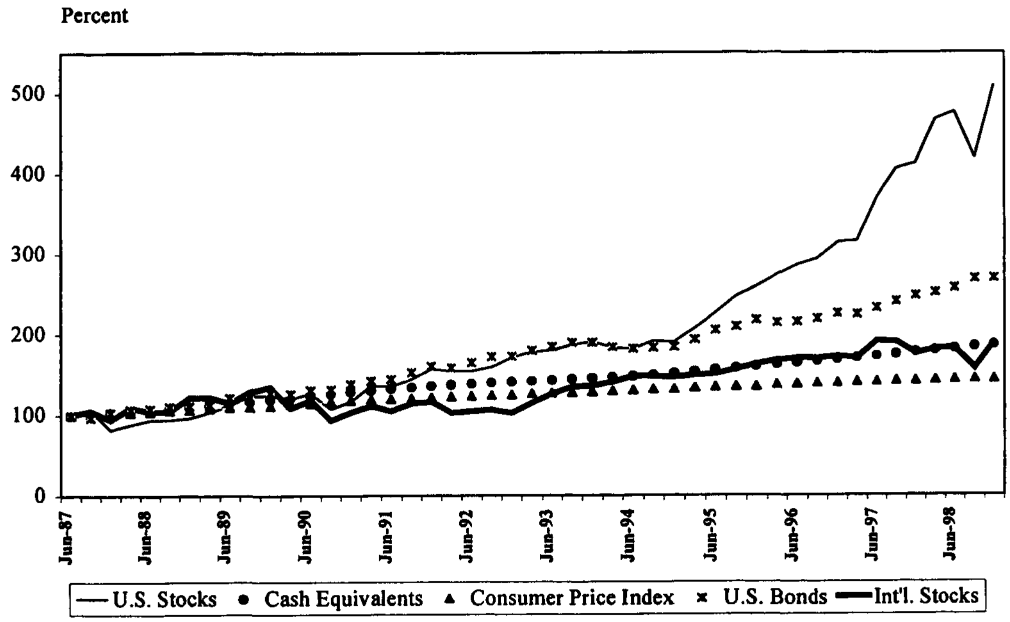
The bond market generated slightly positive returns for the quarter. Non-Treasury sectors of the market performed the best as the "flight to quality" experienced during the third and early part of the fourth quarter reversed itself and liquidity returned to the bond market. The global financial crisis experienced during the third quarter abated and markets began to stabilize, aided by three Federal Reserve interest rate cuts. Yield spreads relative to Treasuries narrowed somewhat during the quarter, but are much wider than their pre-crisis levels.

Overall, the Lehman Brothers Aggregate Bond Index increased 0.3% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	-0.1%
Corporates	0.6
Mortgages	0.8

The Lehman Aggregate increased 8.7% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE-Free index) provided a return of +20.7% for the quarter. As shown below, performance varied widely among the major markets:

United Kingdom	14.34%
Japan	26.90
Germany	11.69
France	21.47

The EAFE-Free index increased by 20.1% during the latest year.

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

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of +18.0% for the quarter. The performance of the five largest stock markets in the index is shown below:

Brazil	0.55%
Mexico	10.48
South Africa	4.81
Taiwan	7.20
India	-1.63

The Emerging Markets Free index had a return of -25.3% for the year.

The Emerging Markets Free index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 55% of the value of the index.

REAL ESTATE

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

PRIVATE EQUITY

U.S. private equity firms raised an unprecedented $85.3 billion for private equity limited partnerships of all types, from venture capital to buyouts in 1998. That represents a 52.9 percent increase from the upwardly revised 1997 total of $55.8 billion. It was the fifth consecutive record year for fund raising.

RESOURCE FUNDS

During the fourth quarter of 1998, West Texas Intermediate crude oil averaged $12.97 per barrel compared to an average price of $14.14 per barrel during the third quarter of 1998. With the low oil prices, oil companies are cautiously drilling for oil and gas.

COMBINED FUNDS

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

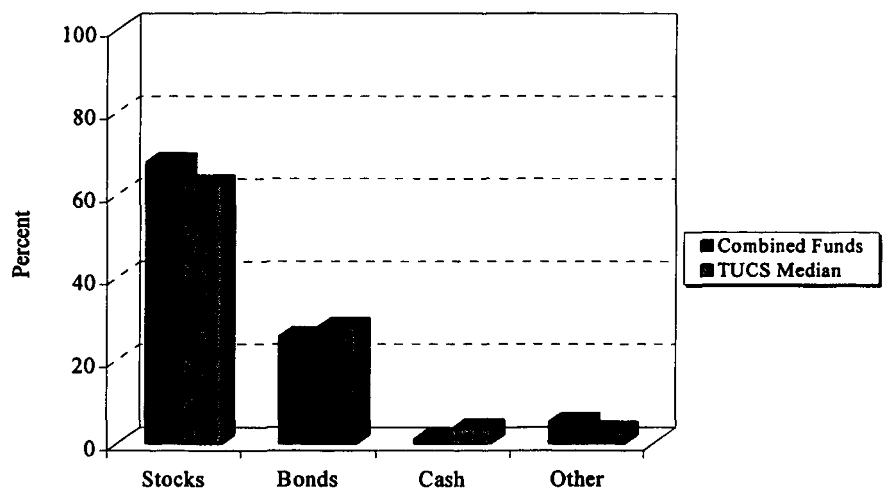
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over $1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

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

	$ Millions	%
Domestic Stocks	$19,808	53.6%
International Stocks	5,337	14.4
Bonds	9,529	25.8
Alternative Assets	1,889	5.1
Unallocated Cash	423	1.1
Total	$36,986	100.0%

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



	Stocks*	Bonds*	Cash	Other
Combined Funds	**68.0%**	**25.8%**	**1.1%**	**5.1%**
Median Allocation in TUCS**	62.6	28.1	3.6	3.1

* Both domestic and international.
** Public and corporate plans over $1 billion.

COMBINED FUNDS
Performance Compared to Other Pension Funds

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

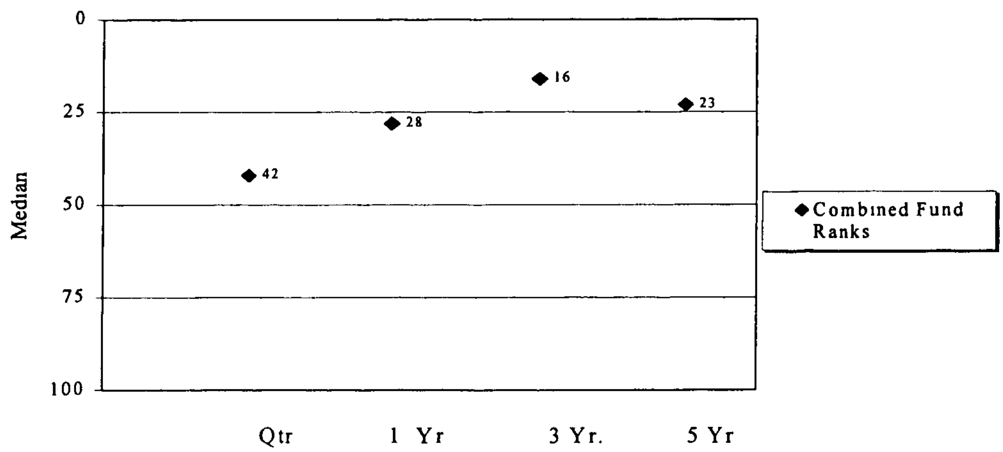
— **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports to TUCS. This further distorts comparisons among funds.

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

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

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

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



	Period Ending 12/31/98			
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Combined Funds Percentile Rank in TUCS*	42nd	28th	16th	23rd

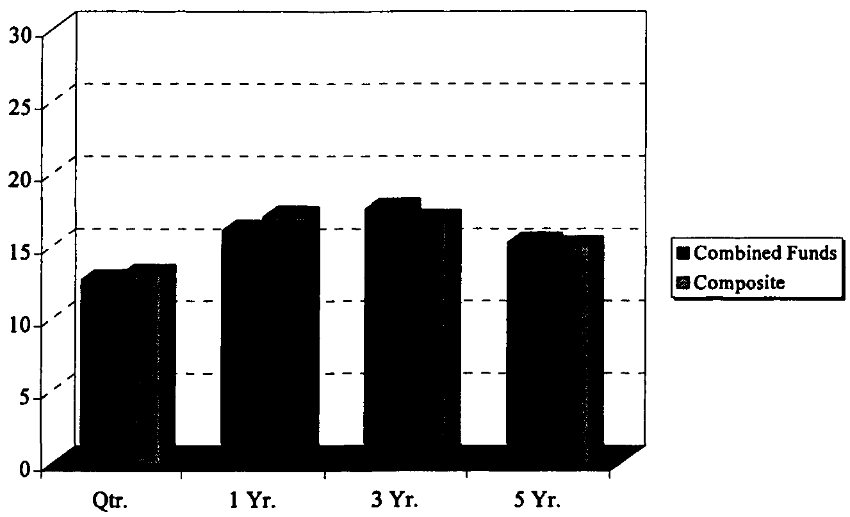
* Compared to public and corporate plans greater than $1 billion, gross of fees.

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Funds Composite* 4Q98
Domestic Stocks	Wilshire 5000	49.6%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.3*
Alternative Assets	Real Estate Funds	2.3*
	•Venture Capital Funds	3.3*
	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 month to reflect the amount of unfunded commitments in alternative asset classes. The above Combined Funds Composite weighting was as of the beginning of the quarter.



	Period Ending 12/31/98			
			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds**	12.7%	16.1%	17.6%	15.3%
Composite Index	13.1	17.1	16.8	15.0

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

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BASIC RETIREMENT FUNDS

Investment Objectives

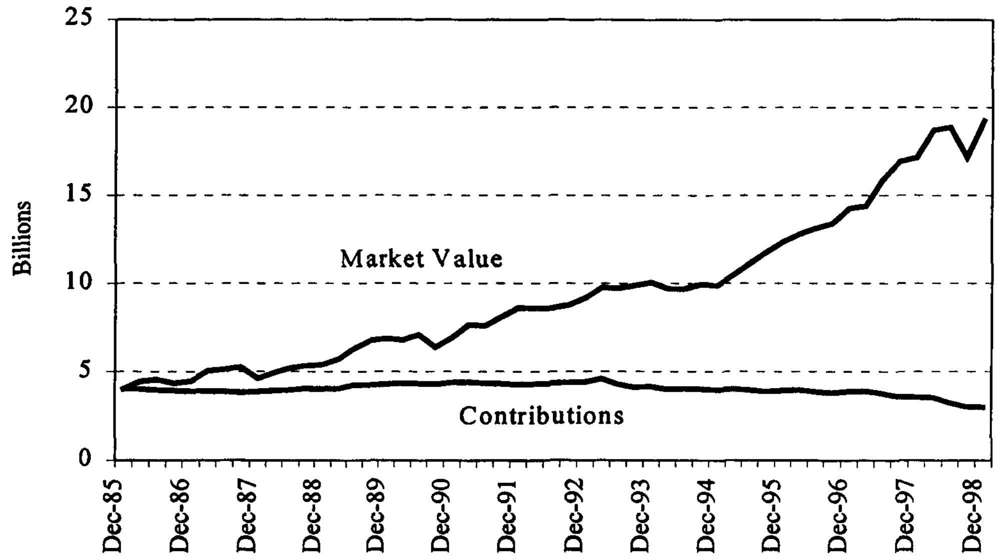
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately 300,000 public employees participate in the Basic Funds.

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

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 12.1% during the fourth quarter of 1998. Positive investment returns accounted for the increase during the quarter. Net contributions were slightly negative.



Last Five Years
In Millions

	12/93	12/94	12/95	12/96	12/97	3/98	6/98	9/98	Latest Qtr. 12/98
Beginning Value	$9,191	$10,086	$9,890	$12,338	$14,275	$17,146	$18,715	$18,859	$17,173
Net Contributions	-239	-206	-29	-59	-337	-21	-297	-217	-4
Investment Return	1,134	10	2,477	1,996	3,208	1,590	441	-1,469	2,075
Ending Value	$10,086	$9,890	$12,338	$14,275	$17,146	$18,715	$18,859	$17,173	$19,244

BASIC RETIREMENT FUNDS
Asset Mix

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

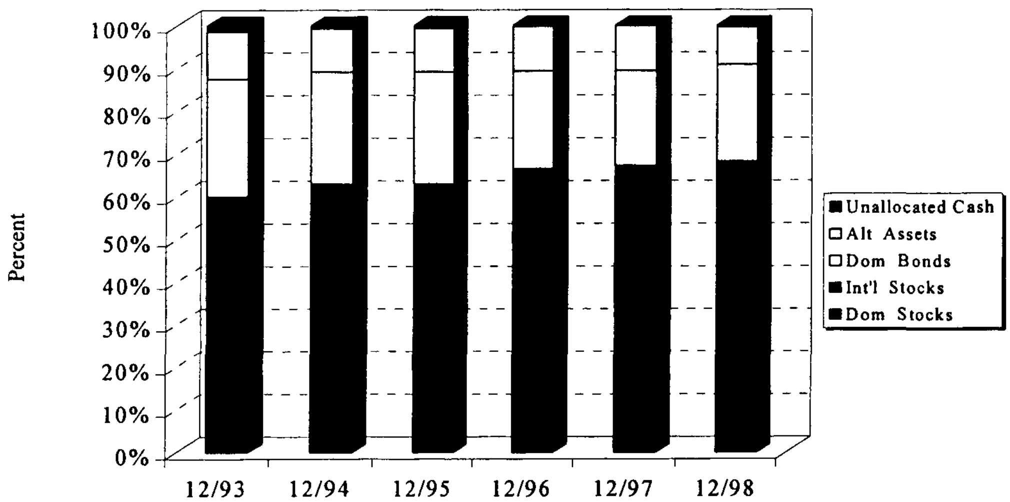
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

Over the last year, asset allocations have remained fairly constant.

During the last quarter, the positive returns in the stock market caused the allocation to domestic and international stocks to rise, while the allocation to bonds decreased.



	Last Five Years								Latest Qtr.
	12/93	12/94	12/95	12/96	12/97	3/98	6/98	9/98	12/98
Domestic Stocks	49.7%	51.7%	51.7%	52.0%	53.6%	53.9%	52.2%	49.0%	53.8%
Int'l. Stocks	10.3	11.3	11.3	14.5	13.6	14.6	14.6	13.8	14.4
Bonds	27.5	26.1	26.1	22.8	22.2	21.3	22.3	25.3	22.6
Real Estate	4.6	4.1	4.1	3.9	4.1	3.8	3.8	4.1	3.7
Private Equity	5.6	5.4	5.4	5.5	5.0	4.4	5.3	5.9	4.4
Resource Funds	0.9	0.7	0.7	1.0	1.4	1.0	0.9	0.8	0.7
Unallocated Cash	1.4	0.7	0.7	0.3	0.1	1.0	0.9	1.1	0.4
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

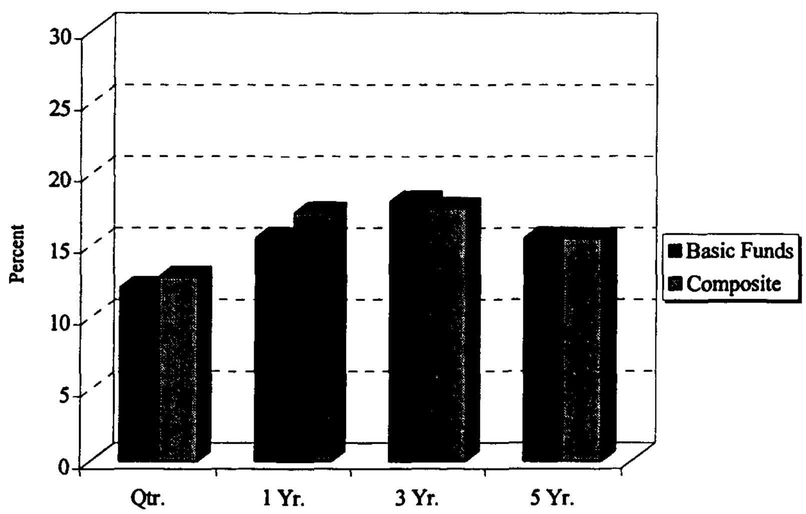
BASIC RETIREMENT FUNDS

Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite* 4Q98
Domestic Stocks	45.0%	Wilshire 5000	49.2%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Real Estate Funds	4.1*
		Private Equity Funds	5.9*
		Resource Funds	0.8*
Unallocated Cash	1.0	90 Day T-Bills	1.0
	100.0%		100.0%

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



Period Ending 12/31/98

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds**	**12.1%**	**15.6%**	**18.1%**	**15.6%**
Composite Index	12.5	16.8	17.4	15.4

**Returns are reported net of fees.

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

POST RETIREMENT FUND

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

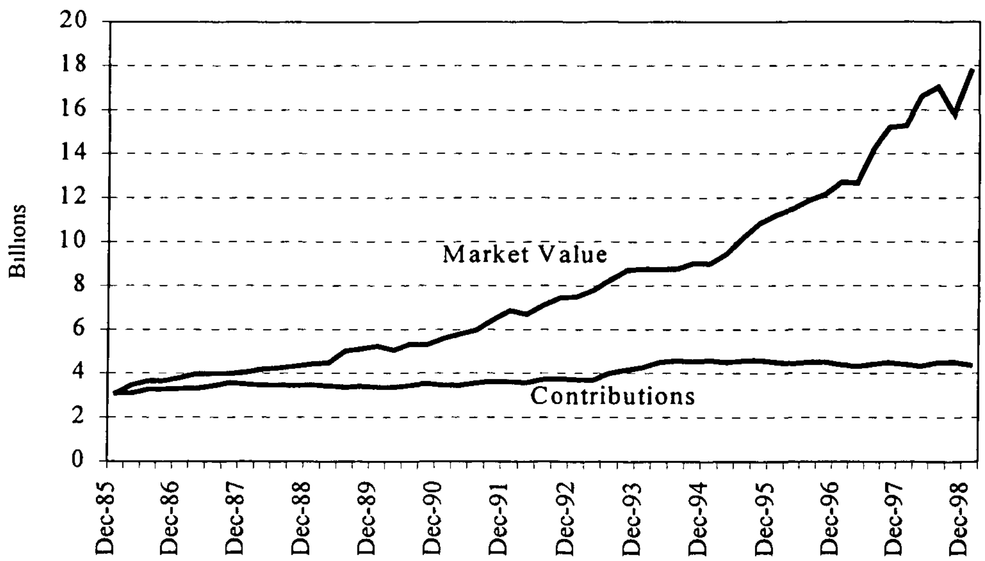
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 6% on its invested assets on an annualized basis. If the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

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

Asset Growth

The market value of the Post Retirement Fund increased by 12.3% during the fourth quarter of 1998.

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



Last Five Years
In Millions

	12/93	12/94	12/95	12/96	12/97	3/98	6/98	9/98	Latest Qtr. 12/98
Beginning Value	$7,500	$8,766	$9,001	$11,216	$12,705	$15,273	$16,610	$17,031	$15,795
Net Contributions	386	314	-102	-94	23	-96	156	34	-139
Investment Return	880	-79	2,317	1,583	2,545	1,433	265	-1,270	2,087
Ending Value	$8,766	$9,001	$11,216	$12,705	$15,273	$16,610	$17,031	$15,795	$17,743

POST RETIREMENT FUND
Asset Mix

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

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

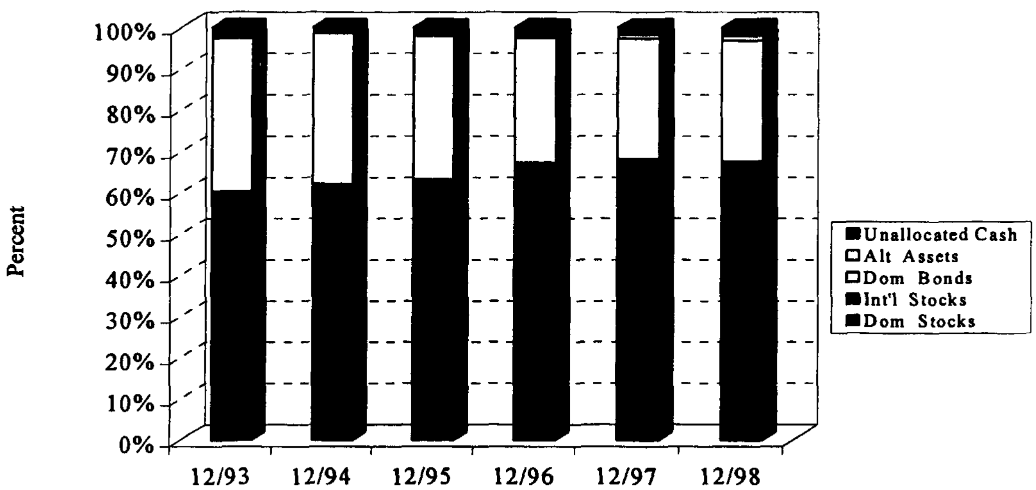
* Alternative assets include yield oriented investment vehicles. Any uninvested allocation is held in bonds.

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

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

Over the last year, asset allocations have remained fairly constant.

During the last quarter, the positive returns in the stock market caused the allocation to domestic and international stocks to rise, while the allocation to bonds decreased.



	Last Five years								Latest Qtr.
	12/93	12/94	12/95	12/96	12/97	3/98	6/98	9/98	12/98
Dom. Stocks	50.5%	51.2%	51.9	52.7%	54.7%	53.9	52.5%	50.1%	53.2%
Int'l. Stocks	10.0	11.0	11.4	14.6	13.6	14.7	14.8	13.6	14.5
Bonds	36.9	36.5	34.7	30.2	29.1	28.1	29.3	32.5	29.2
Alt. Assets	0.0	0.1	0.2	0.6	0.9	0.9	0.9	1.1	1.1
Unallocated Cash	2.6	1.2	1.8	1.9	1.7	2.4	2.5	2.7	2.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools
(Net of Fees)

Real Estate Pool (Basic Funds only)

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

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

	Period Ending 12/31/98			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	1.8%	3.5%	15.1%	10.7%
Inflation	0.2	1.6	2.2	2.4

Private Equity Pool (Basic Funds only)

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

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

	Period Ending 12/31/98			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	-17.3%	8.7%	24.5%	20.3%

Resource Pool (Basic Funds only)

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

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

	Period Ending 12/31/98			
			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	-11.5%	-37.3%	16.2%	13.5%

Yield Oriented Pool (Post Fund only)

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

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

	Period Ending 12/31/98			
			Annualized	
				Since
	Qtr.	Yr.	3 Yrs.	3/1/94
Yield Oriented	-0.7%	15.8%	10.4%	11.0%

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 and a deduction for asset based charges used to defray costs of the administering retirement organizations.

On December 31, 1998 the market value of the entire Fund was $1.4 billion.

Investment Options

	12/31/98 Market Value (In Millions)
Income Share Account – a balanced portfolio utilizing both common stocks and bonds.	$603
Growth Share Account – an actively managed, all common stock portfolio.	$297
Common Stock Index Account – a passively managed, all common stock portfolio designed to track the performance of the entire U.S. stock market.	$257
International Share Account – a portfolio of non U.S. stocks that incorporates both active and passive management.	$24
Bond Market Account – an actively managed, all bond portfolio.	$79
Money Market Account – a portfolio utilizing short-term, liquid debt securities.	$52
Fixed Interest Account – an option utilizing guaranteed investment contracts (GIC's), which offer a fixed rate of return for a specified period of time.	$80

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

INCOME SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

	Target	Actual
Stocks	60.0%	63.0%
Bonds	35.0	32.7
Unallocated Cash	5.0	4.3
	100.0%	100.0%

Period Ending 12/31/98		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**12.6%**	**17.4%**	**18.4%**	**16.2%**
Composite*	12.8	17.9	18.0	15.9

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

GROWTH SHARE ACCOUNT

Investment Objective

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

Asset Mix

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

Period Ending 12/31/98		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**21.3%**	**23.6%**	**26.0%**	**21.4%**
Composite*	21.5	23.4	25.0	21.4

* 95% Wilshire 5000/5% T-Bills Composite through October 1996. 100% Wilshire 5000 since November 1996.

COMMON STOCK INDEX ACCOUNT

Investment Objective and Asset Mix

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

The Account is invested 100% in common stock.

Period Ending 12/31/98		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**21.3%**	**23.4%**	**25.6%**	**21.9%**
Wilshire 5000	21.5	23.4	25.2	21.8

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.

Period Ending 12/31/98		Annualized		
	Qtr.	**1 Yr.**	**3 Yr.**	**Since 9/1/94**
Total Account	**18.0%**	**11.3%**	**8.6%**	**7.6%**
Composite*	20.4	13.6	6.2	5.8

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

SUPPLEMENTAL INVESTMENT FUND ACCOUNTS

BOND MARKET ACCOUNT

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

	Period Ending 12/31/98			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**0.4%**	**8.3%**	**7.7%**	**7.3%**
Lehman Agg.	0.3	8.7	7.3	7.3

MONEY MARKET ACCOUNT

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

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

	Period Ending 12/31/98			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Account	**1.3%**	**5.7%**	**5.6%**	**5.4%**
90 Day T-Bills	1.1	5.0	5.2	5.1

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

	Period Ending 12/31/98			
		Annualized		
	Qtr.	1 Yr.	3 Yr.	Since 11/1/94
GIC Pool	1.5%	6.3%	6.5%	6.7%

ASSIGNED RISK PLAN

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

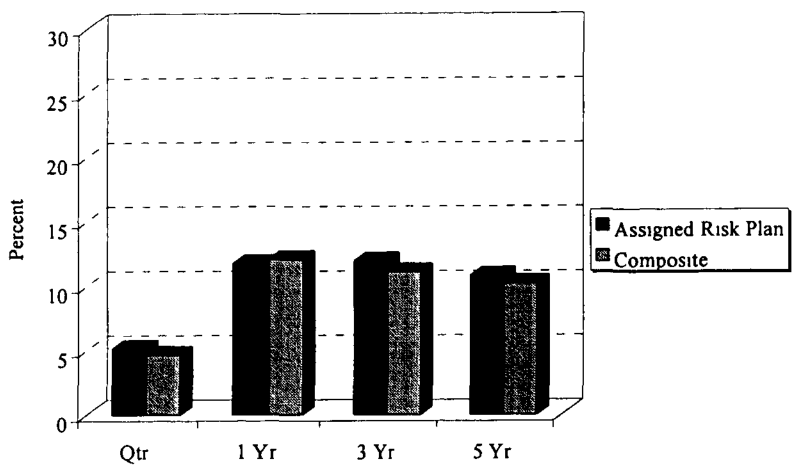
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	12/31/98 Target	12/31/98 Actual
Stocks	20.0%	27.9%
Bonds	80.0	72.1
Total	100.0%	100.0%

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

Performance Benchmarks
A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. 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, 1998 the market value of the Assigned Risk Plan was $716 million.



Period Ending 12/31/98

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Fund*	5.1%	11.7%	11.9%	10.8%
Composite	4.6	12.1	11.1	10.2
Equity Segment*	20.0	24.6	27.4	22.8
Benchmark	21.4	28.9	28.4	24.0
Bond Segment*	0.3	7.4	6.7	6.9
Benchmark	0.7	7.7	6.9	6.8

* Actual returns are calculated net of fees.

PERMANENT SCHOOL FUND

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

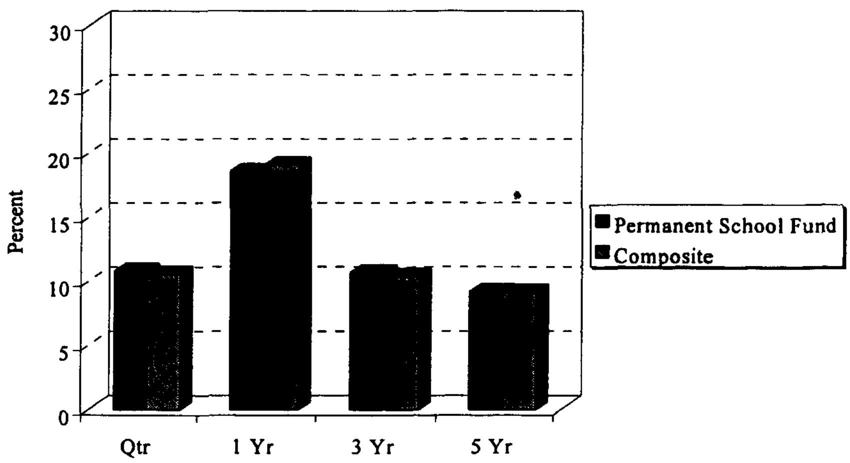
Asset Mix
Effective with FY98, the Permanent School Fund is invested in a balanced portfolio of common stocks and bonds. Common stocks provide the potential for significant capital appreciation, while bonds provide portfolio diversification and a more stable stream of current income.

	12/31/98 Target	12/31/98 Actual
Stocks	50.0%	54.4%
Bond	48.0	43.9
Unallocated Cash	2.0	1.7
	100.0%	100.0%

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

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

Market Value
On December 31, 1998 the market value of the Permanent School Fund was $525 million.



	Period Ending 12/31/98			
	Qtr.	1 Yr.	3 Yr.	5 Yr.
Total Fund (1) (2)	**10.8%**	**18.5%**	**10.6%**	**9.1%**
Composite	10.6	19.1	10.3	9.1
Equity Segment (1) (2)	**21.4**	**28.7**	**N/A**	**N/A**
S&P 500	21.4	28.9	N/A	N/A
Bond Segment (1)	**0.3**	**8.5**	**7.5**	**7.5**
Lehman Aggregate	0.3	8.7	7.3	7.3

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

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

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
BASIC RETIREMENT FUNDS:	34,074	-0-	1,813,096	-0-	4,331,534	1,158,656	707,249	8,044,609
Teachers Retirement Fund	0.42%		22.54%		53.84%	14.40%	8.80%	100%
Public Employees Retirement Fund	13,844	-0-	949,668	-0-	2,267,287	606,883	370,444	4,208,126
	0.33%		22.57%		53.88%	14.42%	8.80%	100%
State Employees Retirement Fund	15,106	-0-	905,450	-0-	2,161,719	578,627	353,196	4,014,098
	0.38%		22.56%		53.85%	14.41%	8.80%	100%
Public Employees Police & Fire Fund	7,505	-0-	449,741	-0-	1,073,735	287,406	175,433	1,993,820
	0.38%		22.56%		53.85%	14.41%	8.80%	100%
Highway Patrol Retirement Fund	973	-0-	58,304	-0-	139,198	37,259	22,743	258,477
	0.38%		22 56%		53.85%	14 41%	8.80%	100%
Judges Retirement Fund	82	-0-	4,926	-0-	11,760	3,148	1,921	21,837
	0.38%		22.56%		53.85%	14 41%	8.80%	100%
Public Employees P.F. Consolidated	297	226	107,659	16	254,114	68,800	41,996	473,108
	0.06%	0.05%	22.76%	-0-	53.71%	14 54%	8.88%	100%
Correctional Employees Retirement	861	-0-	51,581	-0-	123,146	32,963	20,120	228,671
	0.38%		22.56%		53.85%	14.41%	8.80%	100%
TOTAL BASIC FUNDS	72,742	226	4,340,425	16	10,362,493	2,773,742	1,693,102	19,242,746
	0.38%	-0-	22.60%	-0-	53.82%	14.41%	8.79%	100%
POST RETIREMENT FUND	350,221	-0-	5,188,131	-0-	9,444,637	2,563,315	195,665	17,741,969
	1.98%		29.24%		53.23%	14.45%	1.10%	100%
TOTAL BASIC & POST	422,963	226	9,528,556	16	19,807,130	5,337,057	1,888,767	36,984,715
	1.14%	-0-	25.78%	-0-	53.54%	14.43%	5.11%	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	26,244 4.35%	197,252 32.70%	-0-	-0-	379,669 62.95%	-0-	-0-	603,165 100%
Growth Share Account	-0-	-0-	-0-	-0-	296,748 100%	-0-	-0-	296,748 100%
Money Market Account	52,335 100%	-0-	-0-	-0-	-0-	-0-	-0-	52,335 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	256,553 100%	-0-	-0-	256,553 100%
Bond Market Account	-0-	-0-	79,193 100%	-0-	-0-	-0-	-0-	79,193 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	23,644 100%	-0-	23,644 100%
Fixed Interest Account	544 0.68%	-0-	79,924 99.32%	-0-	-0-	-0-	-0-	80,468 100%
TOTAL SUPPLEMENTAL FUNDS	79,123 5.68%	197,252 14.17%	159,117 11.43%	-0-	932,970 67.02%	23,644 1.70%	-0-	1,392,106 100%
TOTAL RETIREMENT FUNDS	502,086 1.31%	197,478 0.51%	9,687,673 25.26%	16 0.00	20,740,100 54.03%	5,360,701 13.97%	1,888,767 4.92%	38,376,821 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	34,203 4.78%	-0-	485,284 67.78%	-0-	196,474 27.44%	-0-	-0-	715,961 100%
ENVIRONMENTAL FUND	1,928 0.73%	122,579 46.53%	-0-	138,930 52.74%	-0-	-0-	-0-	263,437 100%
PERMANENT SCHOOL FUND	8,801 1.68%	230,509 43.90%	-0-	285,767 54.42%	-0-	-0-	-0-	525,077 100%
TREASURERS CASH	6,214,733 100%	-0-	-0-	-0-	-0-	-0-	-0-	6,214,733 100%
HOUSING FINANCE AGENCY	30,948 13.52%	197,907 86.48%	-0-	-0-	-0-	-0-	-0-	228,855 100%
MINNESOTA DEBT SERVICE FUND	75,706 36.99	128,954 63.01%	-0-	-0-	-0-	-0-	-0-	204,660 100%
MISCELLANEOUS ACCOUNTS	270,095 60.06%	149,143 33.16%	-0-	30,498 6.78%	-0-	-0-	-0-	449,736 100%
GRAND TOTAL	7,138,500 15.19%	1,026,570 2.19%	10,172,957 21.65%	455,211 0.97%	20,936,574 44.57%	5,360,701 11.41%	1,888,767 4.02%	46,979,280 100%

Tab B

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: February 23, 1999

TO: Members, State Board of Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

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

A report on travel for the period from November 16, 1998 – February 15, 1999 is included as **Attachment B.**

2. Results of FY98 Financial Audit

The Office of the Legislative Auditor has completed its audit of SBI operations for Fiscal Year 1998. I am please to report that the SBI received a "clean opinion" on its financial statements. See **Attachment C.**

3. Legislative Update

A summary of legislative activity of interest to the SBI is in **Attachment D.**

4. Litigation Update

The SBI has been designated lead plaintiff in a class action suit against Mercury Finance Corporation. SBI legal counsel will give the Board a verbal update on the status of the litigation at the Board meeting on March 3rd.

5. Update on Tobacco Information

The resolution adopted by the Board at its September 2, 1998 meeting required active managers to divest holdings in stock of companies that derive at least fifteen percent of revenues from tobacco products by September 2001. Staff notified in writing each of the SBI's active and passive equity managers.

From September 30, 1998 to December 31, 1998 shares in SBI active stock portfolios were reduced by approximately 335,000 shares, dropping from approximately 4.2 million shares to approximately 3.8 million shares. However, the market value of these holdings increased from approximately $162 million to almost $174 million. Tables showing the holdings for the SBI active and semi-passive managers are in **Attachment E.**

STATE BOARD OF INVESTMENT

Travel Summary by Date
November 16, 1998 – February 15, 1999

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring Domestic Stock Mangers: Forstmann Leff Associates, GeoCapital Corporation, J. P. Morgan Investment Mgmt., Oppenheimer Capital, Weiss, Peck & Greer, **Manager Monitoring Domestic Fixed Income Managers:** BEA Associates BlackRock Financial Mgmt., Goldman Sachs Asset Mgmt.	L. Buermann S. Koessl J. Matz	New York, NY 10/13-10/15	$2,655.15
Manager Monitoring Deferred Compensation Manager: Principal Financial Group	J. Heidelberg S. Gleeson	Des Moines, IA 12/17	$145.16
Miscellaneous National Association State Investment Officers Committee Meeting	H. Bicker	Chicago, IL 12/30	$182.20
Staff Education Institutional Investor/ Corporate Issuer User Group Meeting	D. Griebenow	Chicago, IL 1/11-1/12	$514.34

STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Deanna Wiener, 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, 1998, as further explained in Chapter 1. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1998 financial statements. SBI's Annual Report for the year ended June 30, 1998, includes our qualified audit opinion, dated December 1, 1998, on the Supplemental Investment Fund and the Post Retirement Fund's financial statements. The financial statements were fairly presented. Our report was qualified, however, because of uncertainties about the potentially adverse affects the year 2000 computer issue may have on SBI's operations. Information technology experts believe that many computer applications in private business and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. SBI is currently addressing year 2000 issues relating to their custodial bank (State Street Bank) and accounting system vendor (Financial Control Systems). The custodial bank has provided assurances that their software has been tested, and the required remediation has been completed. The management of Financial Control Systems also has provided assurances that their software has been tested, and the required remediation has been completed. Auditing SBI's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that SBI is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which SBI does business will be year 2000 ready. The following Summary highlights the audit objectives and conclusions. We discuss these issues more fully in the individual chapters of this report.

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 over financial reporting to plan the audit and to determine the nature, timing, and extent of our audit tests. The standards also require that we design the audit to provide reasonable assurance of detecting noncompliance with provisions of laws, regulations, contracts, and grants that have a direct and material effect on the financial statements. The management of SBI is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

1ST FLOOR SOUTH, CENTENNIAL BUILDING • 658 CEDAR STREET • ST. PAUL, MN 55155
TELEPHONE 651/296-4708 • TDD RELAY 651/297-5353 • FAX 651/296-4712 • WEB SITE http://www.auditor.leg.state mn us

As part of obtaining reasonable assurance about whether SBI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

In planning and performing our audit, we considered SBI's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all financial reporting matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 29, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 1, 1998

Report Signed On: January 25, 1999

SUMMARY

State of Minnesota
Office of the Legislative Auditor
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Minnesota State Board of Investment

Financial Audit
Fiscal Year Ended June 30, 1998

Public Release Date: January 29, 1999 No. 99-6

Background Information

The Minnesota State Board of Investment (SBI) administers the investment of state funds, including retirement funds. State funds consist of invested treasurers cash, which is the idle cash of various state funds and other state agency cash, including Housing Finance and the Minnesota State Colleges and Universities Revenue Bond Fund. SBI also invests funds for the three major retirement associations -- Minnesota State Retirement System, Teachers Retirement Association, and the Public Employees Retirement Association. 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. SBI staff manage the other investments.

Audit Objectives and Scope

The primary objective of our audit was to render an opinion on the Supplemental Investment and Post Retirement Funds financial statements. These financial statements are included in SBI's Annual Report for fiscal year 1998. 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 and allocation, security lending income, and management fee payments. We also ascertained whether SBI complied with laws and regulations that may have had a material effect on its financial statements.

Conclusions

SBI's investment activities were fairly presented in the general purpose financial statements of the State of Minnesota's Comprehensive Annual Financial Report and SBI's Annual Report. SBI's Annual Report for the year ended June 30, 1998, included our qualified audit opinion, dated December 1, 1998, on the Supplemental Investment and Post Retirement Funds financial statements. We qualified our report because sufficient evidence did not exist to support the SBI's disclosures with respect to the year 2000. Auditing SBI's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that SBI is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which SBI does business will be year 2000 ready. We found that SBI designed internal controls to provide reasonable assurance that investments were adequately safeguarded, authorized, and properly recorded in accounting records and financial statements. For items tested, we also found SBI to be in compliance with material financial legal provisions.

State Board of Investment

Table of Contents

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jim Riebe, CPA	Audit Manager
Jack Hirschfeld, CPA	Audit Director
Keith Bispala	Auditor
Mike Byzewski	Auditor
Patrick Phillips, CPA	Auditor
Eric Roggeman	Intern

Exit Conference

We discussed this report and minor issues involving the internal control structure with the following State Board of Investment staff at an exit conference on January 22, 1999:

Howard Bicker	Executive Director
Mansco Perry	Assistant Executive Director
L. Michael Schmitt	Administrative Director

Chapter 1. Background Information

The Minnesota State Board of Investment (SBI) manages the investment of state funds and retirement funds. The board is comprised of the governor, state auditor, state treasurer, secretary of state, and attorney general. Howard J. Bicker is the executive director of the board.

Minn. Stat. Chapter 11A governs the investment activities of the board. Generally, authorized investments include common stocks, bonds, short-term securities, real estate, private equity, and resource funds. The statutes prescribe the maximum percentage of fund assets that may be invested in various asset classes and may contain investment restrictions for certain funds.

The Legislature also established a 17-member Investment Advisory Council to advise the board and its staff on investment matters. The full council reviews all proposed investment policies, including asset allocation and investment manager selection, 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 two active employee representatives and one retiree representative appointed by the governor.

The board uses both internal staff and external investment managers to fulfill its responsibilities. The external firms invest and manage the funds for the three retirement systems, including the Minnesota State Retirement System, Teachers Retirement Association, and the Public Employees Retirement Association. They also invest the Post Retirement Fund and the Supplemental Investment Fund. 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 deferred compensation plan, other supplemental retirement plans, various retirement funds for local police and firefighters, and the unclassified employees of the state. SBI staff manage the other investments including invested treasurers cash, Public Facilities and Housing Finance money, the Minnesota State Colleges and Universities Revenue Bond Fund, and other state cash.

Table 1-1 shows the total funds under the management of the State Board of Investment as of June 30, 1998.

Table 1-1
Market Value of Investments by Fund
At June 30, 1998
(in millions)

Fund	
Basic Retirement Funds	$18,860
Post Retirement Fund	17,040
State Cash Accounts	6,614
Supplemental Investment Fund	1,247
Assigned Risk Plan	694
Permanent School Fund	507
Environmental Trust Fund	236
Total	$45,198

Source. State Board of Investment Fiscal Year 1998 Annual Report.

SBI prepares its financial statements in accordance with pronouncements of the Governmental Accounting Standards Board (GASB). GASB Statement No. 31 became effective for financial statements for periods beginning after June 15, 1997. This statement established the accounting and financial reporting standards for all investments held by governmental external investment pools. This statement requires that government entities, including governmental external investment pools, report investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, are to be reported as revenue in the operating statement.

Audit Scope, Objectives, and Conclusions

The primary objective of our audit was to render an opinion on the financial statements of the Post Retirement and the Supplemental Investment Funds of the State of Minnesota. 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 1998. 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. We also ascertained whether SBI complied with laws and regulations that may have had a material effect on its financial statements.

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.

SBI's Annual Report and the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998, includes our qualified opinion, dated December 1, 1998, on the

Post Retirement Fund and Supplemental Investment Fund's financial statements. The financial statements were fairly presented. We qualified our opinion, however, because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on SBI's operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and calculations beyond December 31, 1999. Sufficient audit evidence did not exist to support SBI's disclosures with respect to the year 2000 computer issue. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Chapter 2. External Investment Cycle

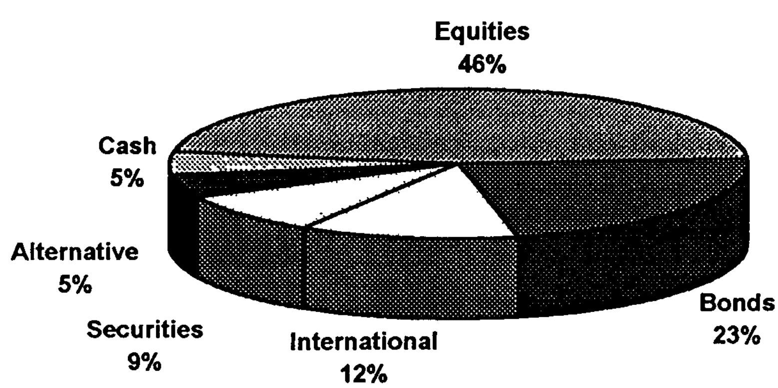
Chapter Conclusions

Investments and investment income for externally managed investments were fairly presented in the financial statements. The State Board of Investment designed internal 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. The State Board of Investment 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. SBI groups external managers into several investment pools which are segregated by asset class. The objectives of this investment management structure are greater operating efficiency within asset classes and lower management costs for all participants.

Figure 2-1 shows the main classes of investments by type. Alternative investments include real estate, resources (oil and gas), and venture capital.

Figure 2-1
External Investments by Type
June 30, 1998
(at Market)



Source. State Board of Investment's Fiscal Year 1998 Annual Report.

State Board of Investment

SBI contracts with approximately 90 external investment managers, of which approximately 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 alternate investment market.

SBI evaluates the investment managers' performance against preestablished benchmarks. If a manager fails to meet the expected rate-of-return, SBI may terminate the contract and reinvest funds with another manager. As a part of its ongoing monitoring function, SBI staff meet 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 investment transactions must clear through the state's custodial bank, State Street Bank and Trust of Boston, Massachusetts (the master custodial bank). The master custodial bank, in accordance with its contract, has the authority to authorize investment transactions on behalf of SBI. The asset managers do not have physical access to cash or investment securities. The master custodial bank maintains access to the cash accounts of the external investment managers. The custodial bank invests any uninvested cash from the managers accounts. In addition, the master custodial bank participates in securities lending programs in which securities are loaned to banks and security dealers for a daily fee. The loans are fully collateralized.

The custodial bank records and verifies all SBI 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. Financial Control Systems prepared reports that SBI used in the preparation of its financial statements. The Depository Trust Company in New York maintains records on ownership of stocks and securities.

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

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

- Did SBI design internal 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?

- 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, State Street Bank, and Financial Control Systems. 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 reviewed the workpapers supporting an independent auditor's report on the policies and procedures of custody function at State Street Bank. We also reviewed the workpapers supporting an internal audit of the controls over the processing of investment transactions. We verified that SBI reported assets and income associated with security lending transactions in compliance with Governmental Accounting Standards Board (GASB) Statement 28.

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 and assumption changes on the basic retirement funds participation in SBI's Post Retirement Fund.

We found that SBI fairly presented investments and investment income in the financial statements. SBI designed internal 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. We found that SBI complied with material financial legal provisions for the items tested.

Chapter 3. Internal Investment Cycle

Chapter Conclusions

Investments and investment income for internally managed investments were fairly presented in the financial statements. SBI designed internal controls to provide reasonable assurance that investments managed by its 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.

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 the Trust Fund Pool and Invested Treasurers Cash, represent the cash balances of internally managed retirement fund assets and assets of other state agencies. Table 3-1 shows the values of the internal investments managed by SBI.

Table 3-1
Internally Managed Investments
At June 30,1998
(in millions)

Fund:	
Invested Treasurers Cash	$5, 919
Permanent School Fund	507
Environmental Trust Fund	236
Trust Fund Pool	53
Other State Cash Accounts	642
Total	$7,357

Source: SBI 1998 Annual Report.

U.S. Bank, Saint Paul, Minnesota and State Street Bank and Trust of Boston, Massachusetts were the state's custodial and clearing banks during fiscal year 1998. These banks do not have independent authority to enter into investment transactions for funds that are managed by SBI staff. SBI must initiate and authorize all transactions processed by the custodial banks on behalf of the state. On July 1, 1997, SBI transferred the custodial duties for the Permanent School Fund and the Environmental Trust Fund to State Street Bank, Boston. The Permanent School Fund is a trust fund established for the benefit of Minnesota schools. The Environmental Trust Fund is a trust established for the protection and enhancement of Minnesota's environment.

State Board of Investment

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, banker's 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 daily determination of available cash. SBI then contacts U.S. Bank, Saint Paul, to process the investment transaction. Once the short-term investments have cleared U.S. Bank, SBI enters the transactions directly into the accounting system at Financial Control Systems. SBI also initiates investment transactions for the Permanent School Fund and Environmental Trust Fund with State Street Bank. SBI reconciles transactions and account balances with U.S. Bank, State Street Bank, 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 on the financial statements?

- Did SBI design internal 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?

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

Our audit methodology included confirming investment balances recorded at U.S. Bank and Financial Control Systems. We gained an understanding of the investment process through interviews with SBI staff. We also discussed investment operations and responsibilities with officials from the Department of Finance, the State Treasurer's Office, and U.S. Bank. We verified the valuation of a sample of securities to an independent pricing source. We also reviewed an independent accounting firm's most current audit report on the policies and procedures of the Institutional Trust Group of U.S. Bank.

We found that SBI fairly presented investments and investment income in the financial statements. SBI designed internal 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 provisions for investments.

Status of Prior Audit Issues
As of December 1,1998

Most Recent Audit

January 23, 1998, Legislative Audit Report 98-3 covered the fiscal year ended June 30,1997, and had no reportable issues. The audit scope included the Supplemental and Post Retirement Funds and the related external and internal investment cycles. We audit the State Board of Investment on an annual basis. There were no reportable issues.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the Metropolitan agencies or the State Agricultural Society, the state constitutional offices, or the judicial branch.

ATTACHMENT D

Bills of Interest to the Minnesota State Board of Investment
1999 Legislative Session
Includes Action Through 2/18/99

Description of Bill	HF/SF # and Author	Current Status
Endowment funds using tobacco settlement money - SBI would invest several new endowment funds	HF 203 (Greenfield) SF 217 (Moe) and HF 223 (Leppik) SF 253 (Moe)	Referred to Health Human Services Hearing 2/16 Health and Family Security Referred to Health and Human Security Hearing 2/16 Health and Family Security
Retirement Systems Building	HF 708 (Mares) SF 711 (D.H. Johnson)	Referred to Govt'l Operations Referred to Govt'l Operations
Expands vendors for 403(b) teacher annuity employer match opportunity - SBI is removed from selection process	HF 589 (Mares) SF 772 (Pogemiller)	Referred to Govt'l Operations Referred to Govt'l Operations
SBI Administrative Budget		Hearing to be scheduled in House State Government Finance Hearing 2/9 Senate Govt'l Operations Budget Division

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
September 30, 1998

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 9/30/98	SBI Cost Value 9/30/98	SBI Market Value 9/30/98
Imperial Tobacco Group	100	26,500	248,370	280,337
Philip Morris Cos., Inc.	46	3,279,847	91,043,998	151,077,952
RJR Nabisco Holdings	49	156,600	4,731,495	3,944,363
Schweitzer-Mauduit Int'l.	94	1,000	33,920	21,750
Universal Corp.	74*	99,800	3,248,381	3,567,850
Subtotal		**3,563,747**	**$99,306,163**	**$158,892,252**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 9/30/98	SBI Cost Value 9/30/98	SBI Market Value 9/30/98
Compagnie Financiere Richemont	68*	80,000	2,751,015	396,000
PT Gudang Garam	96	150,000	598,736	80,257
Rembrandt Group Ltd.	>50	385,000	3,376,822	2,324,398
Subtotal		**615,000**	**$6,726,573**	**$2,800,655**
Total SBI Holdings		**4,178,747**	**$106,032,736**	**$161,692,907**

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

*1998 data

SBI Active Stock Holdings
Tobacco Companies Identified by the IRRC
that derive at least fifteen percent of revenue from tobacco products
December 31, 1998

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

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/98	SBI Cost Value 12/31/98	SBI Market Value 12/31/98
Imperial Tobacco Group	100	26,500	248,370	277,771
Philip Morris Cos., Inc.	46	3,157,947	87,449,745	168,950,165
Universal Corp.	74*	45,000	1,464,700	1,580,625
Subtotal		**3,229,447**	**$89,162,815**	**$170,808,561**

International Stocks

Company	Percent Revenue from Tobacco in 1997	SBI Shares 12/31/98	SBI Cost Value 12/31/98	SBI Market Value 12/31/98
Compagnie Financiere Richemont	68*	80,000	2,751,015	476,000
PT Gudang Garam	96	150,000	598,736	219,818
Rembrandt Group Ltd.	>50	385,000	3,376,822	2,356,094
Subtotal		**615,000**	**$6,726,573**	**$3,051,912**
Total SBI Holdings		**3,844,447**	**$95,889,388**	**$173,860,473**

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

*1998 data

Tab C

COMMITTEE REPORT

DATE: February 23, 1999

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on February 17, 1999 to consider the following agenda items:

- Review of manager performance for the period ending December 31, 1998.
- Recommended termination of Weiss, Peck & Greer

Action is requested by the SBI / IAC on the second item.

INFORMATION ITEMS:

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

- ***Stock Managers***

For the period ending December 31, 1998, the **domestic stock manager program** under-performed the Wilshire 5000 for the quarter and for the latest five year period while outperforming the Wilshire 5000 for the one and three year periods. The **current managers** also under-performed the aggregate benchmark for the quarter and five-year period and outperformed the aggregate benchmark for the latest one and three year periods.

Time period	Total Program	Wilshire 5000*
Quarter	21.3%	21.5%
1 Year	23.5	23.4
3 Years	25.9	25.2
5 Years	21.7	21.8

Current Mgrs. Only	Aggregate Benchmark
21.3%	21.9%
23.8	23.7
26.3	25.5
22.1	22.2

* Adjusted for SBI's restrictions, as appropriate.

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

- ***Bond Managers***

For the period ending December 31, 1998, the **bond manager program** and **current managers** outperformed the Lehman Aggregate and the aggregate benchmark for the quarter and for the latest three and five year periods, and under-performed the Lehman Aggregate and the benchmark for the one year period.

Time period	Total Program	Lehman Aggregate*
Quarter	0.4%	0.3%
1 Year	8.3	8.7
3 Years	7.7	7.3
5 Years	7.4	7.3

* Reflects Salomon BIG index prior to 7/94.

Current Mgrs. Only	Aggregate Benchmark
0.4%	0.3%
8.3	8.7
7.7	7.3
7.5	7.3

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

ACTION ITEMS:

2. Recommended Termination of Weiss, Peck & Greer

Weiss, Peck & Greer (WP&G) is an investment management firm that is currently part of the domestic equity program. They were hired by the SBI in July 1993 to invest in the stock of small fast-growing companies.

Recent organizational changes at WP&G have raised concerns about the ability of their small cap team to provide good performance going forward. In recent weeks, WP&G informed Staff that they will terminate the current portfolio manager, Adam Starr, and replace him with Laurence Zuriff, one of the four analysts on the small cap team. This action was a result of performance that did not meet the firm's expectations over the past year. In addition, just over one year ago, Adam Starr was promoted from analyst to portfolio manager when Melville Strauss, the previous small cap portfolio manager, left WP&G. The significant portfolio manager turnover and changes to the team of analysts raises concerns about the strength of this small cap team and their ability to outperform the custom benchmark in the future.

The SBI follows a manager continuation policy that includes qualitative guidelines used to evaluate the skills of money managers. Some of the basic building blocks of sound investment management within a firm include:

- Experienced and talented staff
- Organizational stability
- Clear leadership
- Planned growth

The Committee concurred with staff's views that WP&G fails to meet these qualitative guidelines.

In addition, WP&G had significantly under-performed their custom benchmark during the past year, and had struggled to match their benchmark's returns for several years prior to that.

Due to these qualitative shortcomings and poor performance results, the Committee recommends that the SBI terminate this relationship with WP&G.

RECOMMENDATION:

The Committee recommends that the SBI terminate its contractual relationship with Weiss, Peck & Greer for equity investment management services.

STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Fourth Quarter, 1998

COMBINED RETIREMENT FUNDS
DOMESTIC STOCK MANAGERS
Periods Ending December, 1998

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market	Pool
	Actua %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Value (in millions)	%
Active Managers												
Alliance Capital	28.3	27.1	49.6	38.3	40.1	32.1	30.1	25.8	21.8	16.2	$1,556.77	7.5%
American Express AMG	23.1	25.9	18.9	30.9	20.0	29.4	19.0	24.8	16.2	17.6	$582.30	2.8%
Brinson Partners	15.9	21.0	17.3	18.8	23.0	23.6	21.5	20.5	20.5	19.7	$690.91	3.3%
Forstmann-Leff	29.7	23.7	30.3	9.7	32.2	17.9	23.3	16.9	16.4	13.5	$644.86	3.1%
Franklin Portfolio	18.1	19.9	10.7	18.3	24.0	22.2	20.4	19.7	17.2	16.4	$540 84	2.6%
GeoCapital	25.9	24.2	6.9	-1.3	14.8	7.4	13.4	13.1	15.5	15.0	$499 27	2.4%
IAI												
Lincoln	25.2	28.5	42.3	44.5	32.0	34.3	27.6	28.2	25.7	26.2	$852.43	4.1%
Oppenheimer	19.9	21.1	21.8	24.4	27.0	26.1	24.1	22.3	22 8	21.0	$766.64	3.7%
Weiss Peck & Greer	16.1	30.7	-15.0	6.7	4.0	10.2	7.8	12.9	8.3	13.6	$313.05	1.5%
Emerging Managers	23.4	25.8	24.9	21.8	25.1	23.5			22.7	21.9	$709 72	3.4%
Semi-Passive Managers (2)												
Franklin Portfolio	18.9	19.2	22.4	23.7	26.9	26.9			29.0	29.1	$2,146.65	10.3%
JP Morgan	19.3	19.2	24.6	23.7	26.9	26.9			29.3	29.1	$2,220.34	10.7%
Barclays Global Investors	19.2	19.2	21.4	23.7	26.3	26.9			29.5	29.1	$2,188.66	10.6%
Passive Manager (3)												
Barclays Global Investors	21.3	21.5	23.4	23.4	25.6	25.2			26.2	25.9	$7,029.03	33.9%
									Since 1/1/84			
Current Aggregate	21.3	21.9	23.8	23.7	26.3	25.5	22.1	22.2	17.9	15.9	$20,741.49	100.0%
Historical Aggregate (4)	**21.3**	**21.9**	**23.5**	**23.4**	**25.9**	**25.3**	**21.7**	**21.8**	**16.3**	**16.4**		
Wilshire Adjusted		21.5		23.4		25.2		21.8		16 4		
Wilshire 5000		21.5		23.4		25.2		21.8		16.7		

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

ALLIANCE CAPITAL MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Jack Koltes | **Assets Under Management: $1,556,772,508**

Investment Philosophy

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

Staff Comments

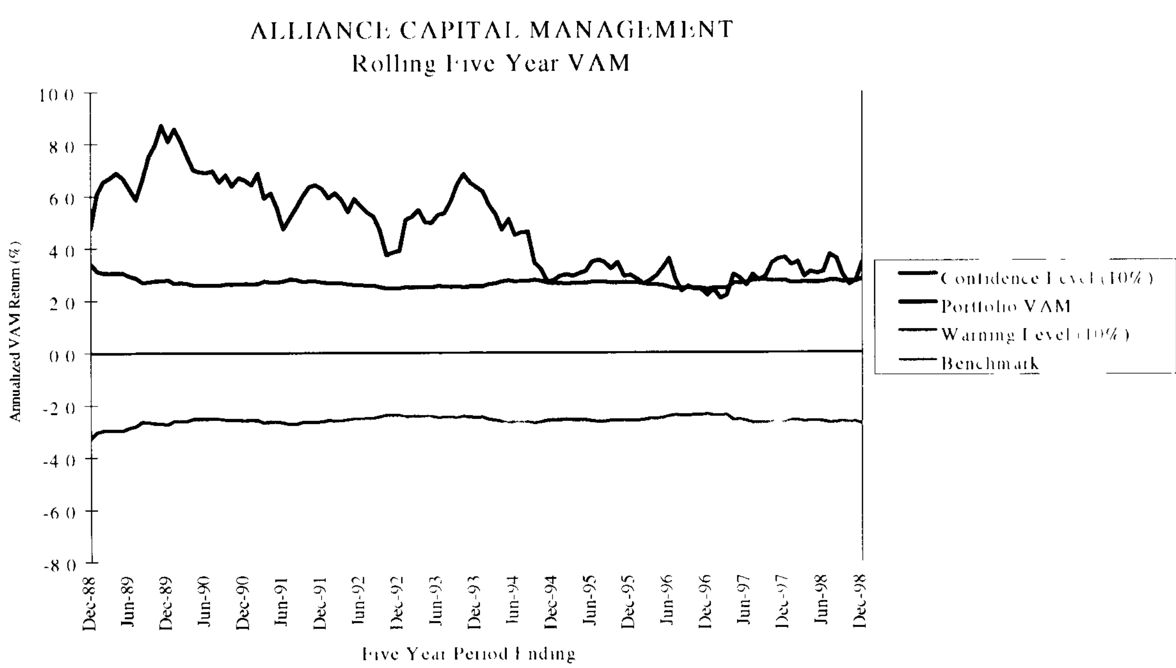
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	28 3%	27.1%
Last 1 year	49 6	38 3
Last 2 years	49 3	36 8
Last 3 years	40 1	32 1
Last 4 years	39 6	32 8
Last 5 years	30 1	25 8
Since Inception (1/84)	21.8	16 2

Recommendation

No action required



AMERICAN EXPRESS ASSET MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Jim Johnson **Assets Under Management: $582,297,876**

Investment Philosophy

American Express Asset Management Group (AMG) employs a concentrated style of management. The methodology by which the portfolio is managed is based on a fundamentally driven and quantitatively managed process. Using 30 to 40 of the top-rated stocks by American Express Financial research analysts, the portfolio seeks to maximize the greatest level of risk-adjusted return for a predetermined level of risk tolerance. Due to the level of concentration, the active risk versus the normal portfolio will be higher than that of the typical active manager. Trading within the portfolio is also analyst driven, which will lead to turnover between 80 and 120 percent per year. Because the focus of the methodology is concentrated stock selection, the portfolio will remain fully invested at all times.

Staff Comments

AMG underformed their benchmark for the quarter and year due to extreme volatility in the financial markets. While more than 70 percent of all stocks in the portfolio outperformed the benchmark in the fourth quarter, stock selection within the technology sector led to the underperformance.

The strategy of the concentrated portfolio continues to be driven by the research analysts' top stock picks. The portfolio's sector bets are structured to be consistent with analyst sentiment and to achieve diversification in the 30-40 name portfolio.

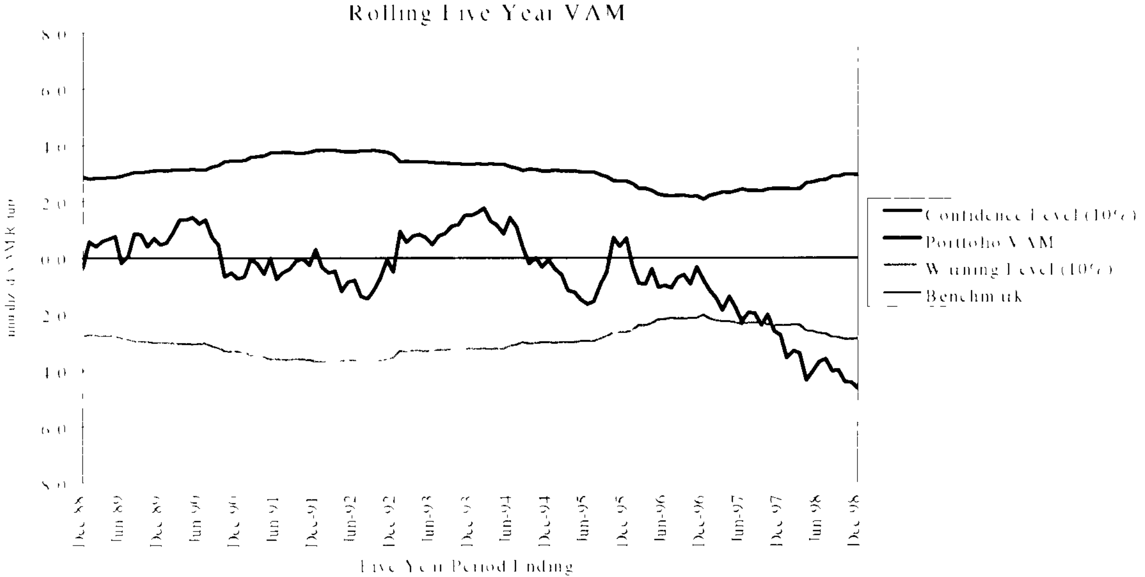
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	23.1%	25.9%
Last 1 year	18.9	30.9
Last 2 years	18.3	32.3
Last 3 years	20.0	29.4
Last 4 years	24.0	31.1
Last 5 years	19.0	24.8
Since Inception (1/84)	16.2	17.6

Recommendation

No action required

AMERICAN EXPRESS ASSET MANAGEMENT - Domestic Equity
Rolling Five Year VAM



BRINSON PARTNERS
Periods Ending December, 1998

Portfolio Manager: Jeff Diermeier — **Assets Under Management: $690,913,636**

Investment Philosophy

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

Staff Comments

No comments at this time

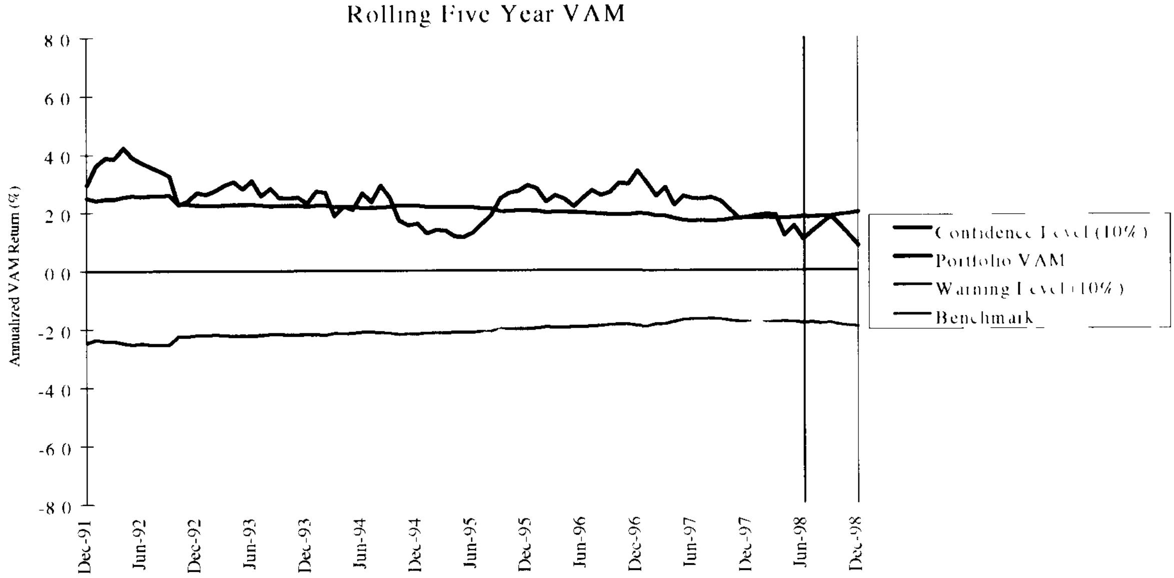
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.9%	21.0%
Last 1 year	17.3	18.8
Last 2 years	21.5	25.2
Last 3 years	23.0	23.6
Last 4 years	27.3	26.3
Last 5 years	21.5	20.5
Since Inception (7/93)	20.5	19.7

Recommendation

No action required.

BRINSON PARTNERS
Rolling Five Year VAM



Five Year Period Ending

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

FORSTMANN-LEFF ASSOCIATES
Periods Ending December, 1998

Portfolio Manager: Joel Leff **Assets Under Management: $644,857,130**

Investment Philosophy

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

Staff Comments

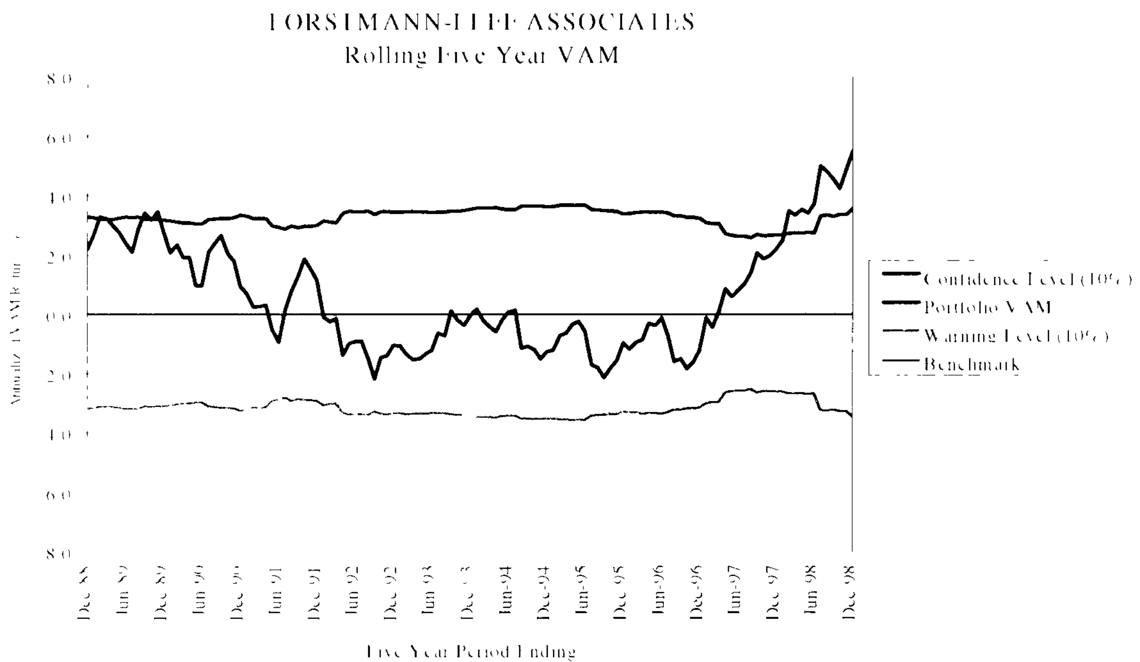
No comments at this time

Recommendation

No action required

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	29.7%	23.7%
Last 1 year	30.3	9.7
Last 2 years	34.0	16.5
Last 3 years	32.2	17.9
Last 4 years	32.2	21.3
Last 5 years	23.3	16.9
Since Inception (1/84)	16.4	13.5



FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 1998

Portfolio Manager: John Nagorniak **Assets Under Management: $540,844,935**

Investment Philosophy
Active

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system Franklin uses the BARRA E3 risk model to monitor the portfolio's systematic risk and industry weightings, relative to the selected benchmark, to achieve a residual risk of 4 0 to 4.5 percent for the active portfolio.

Staff Comments

Staff met with Franklin Portfolio in January 1999 Franklin remains confident in the strong predictive power of their models and their quantitative investment strategy over the long term However, during the past few quarters, unusual events (such as the tight credit markets and the collapse of hedge funds) influenced stock market returns These unusual events were not captured by Franklin's models, resulting in underperformance relative to their benchmark

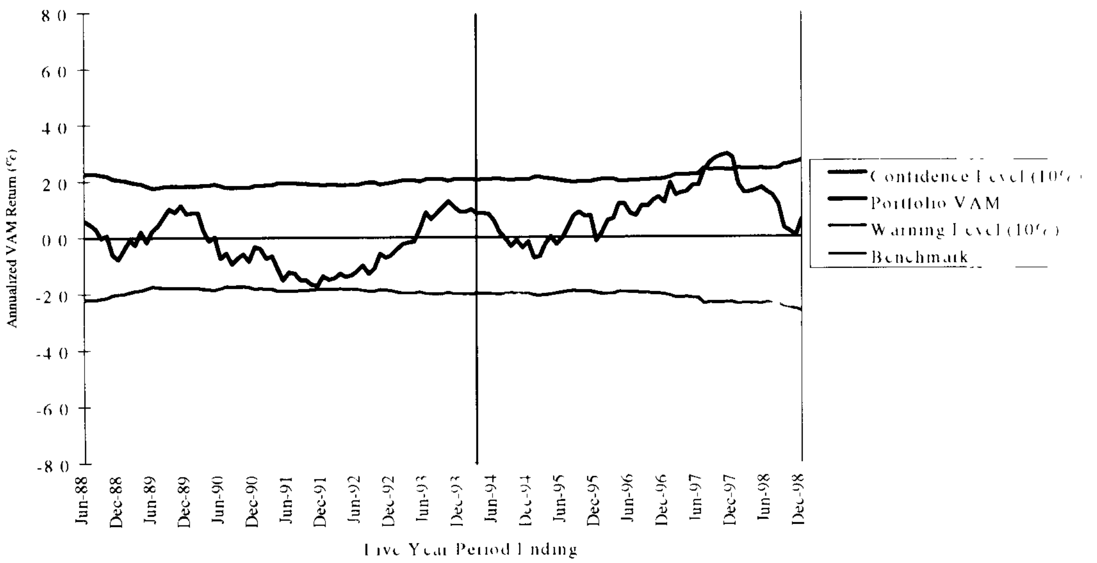
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18 1%	19 9%
Last 1 year	10.7	18 3
Last 2 years	23.6	23 7
Last 3 years	24.0	22 2
Last 4 years	26.0	25 2
Last 5 years	20 4	19 7
Since Inception (4/89)	17 2	16 4

Recommendation

No action required

FRANKLIN PORTFOLIO ASSOCIATES - Active
Rolling Five Year VAM



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

GEOCAPITAL CORP.
Periods Ending December, 1998

Portfolio Manager: Barry Fingerhut | **Assets Under Management: $499,272,539**

Investment Philosophy

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

Staff Comments

No comments at this time.

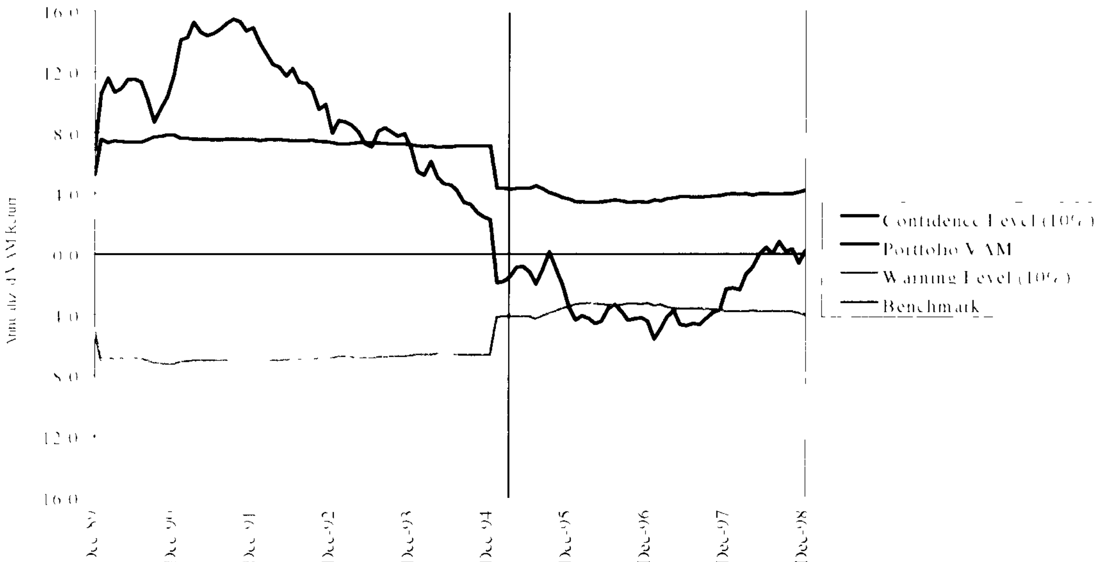
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	25.9%	24.2%
Last 1 year	6.9	-1.3
Last 2 years	12.7	6.4
Last 3 years	14.8	7.4
Last 4 years	18.4	15.5
Last 5 years	13.4	13.1
Since Inception (4/90)	15.5	15.0

Recommendation

No action required.

GEOCAPITAL CORP.
Rolling Five Year VAM



Five Year Period Ending

Note: Scale differs from other VAM graphs.
Area to the left of vertical line includes performance prior to retention by the SBI.

LINCOLN CAPITAL MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Parker Hall | **Assets Under Management: $852,431,346**

Investment Philosophy

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

Staff Comments

No comments at this time

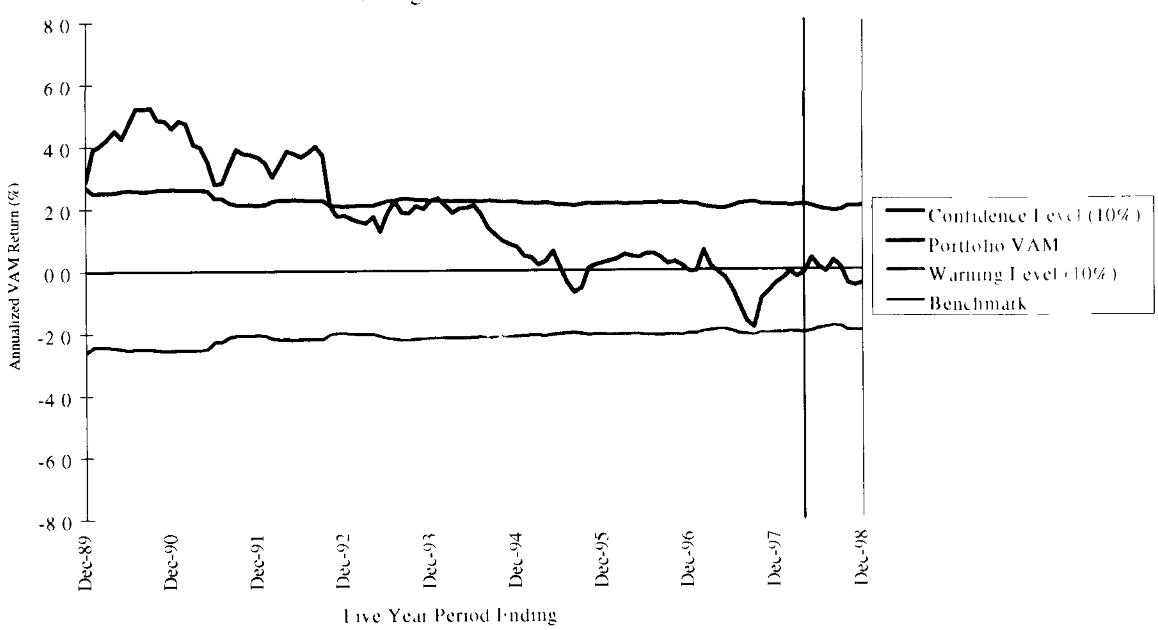
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	25.2%	28.5%
Last 1 year	42.3	44.5
Last 2 years	34.7	39.6
Last 3 years	32.0	34.3
Last 4 years	34.3	35.0
Last 5 years	27.6	28.2
Since Inception (7/93)	25.7	26.2

Recommendation

No action required

LINCOLN CAPITAL MANAGEMENT - Domestic Equity
Rolling Five Year VAM



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

OPPENHEIMER CAPITAL
Periods Ending December, 1998

Portfolio Manager: John Lindenthal | **Assets Under Management: $766,639,289**

Investment Philosophy

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

Staff Comments

No comments at this time

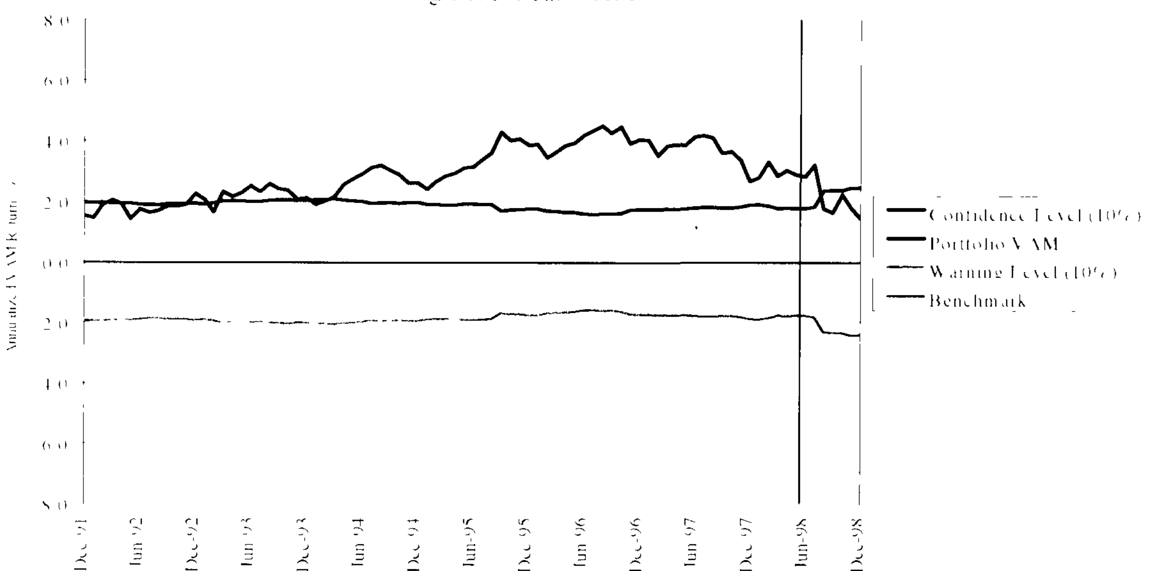
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	19.9%	21.1%
Last 1 year	21.8	24.4
Last 2 years	26.8	28.2
Last 3 years	27.0	26.1
Last 4 years	30.8	28.3
Last 5 years	24.1	22.3
Since Inception (7/93)	22.8	21.0

Recommendation

No action required

OPPENHEIMER CAPITAL
Rolling Five Year VAM



Five Year Period Ending

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

WEISS, PECK & GREER
Periods Ending December, 1998

Portfolio Manager: Adam Starr | **Assets Under Management: $313,045,616**

Investment Philosophy

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

Staff Comments

Staff met with WPG in January 1999 to discuss their performance and strategy. WPG attributed their underperformance for the quarter to stock selection, an overweight position in energy, and underweightings in health care and retail. For the year, underperformance was attributable to a restructuring of the portfolio following a portfolio manager change, in addition to stock selection in technology, financial, and health care areas.

Going forward, WPG continues to focus on investing in those companies that will lower the average P/E ratio of the portfolio, and be able to increase their earnings growth rate and return on equity. Staff is continuing to monitor WPG closely.

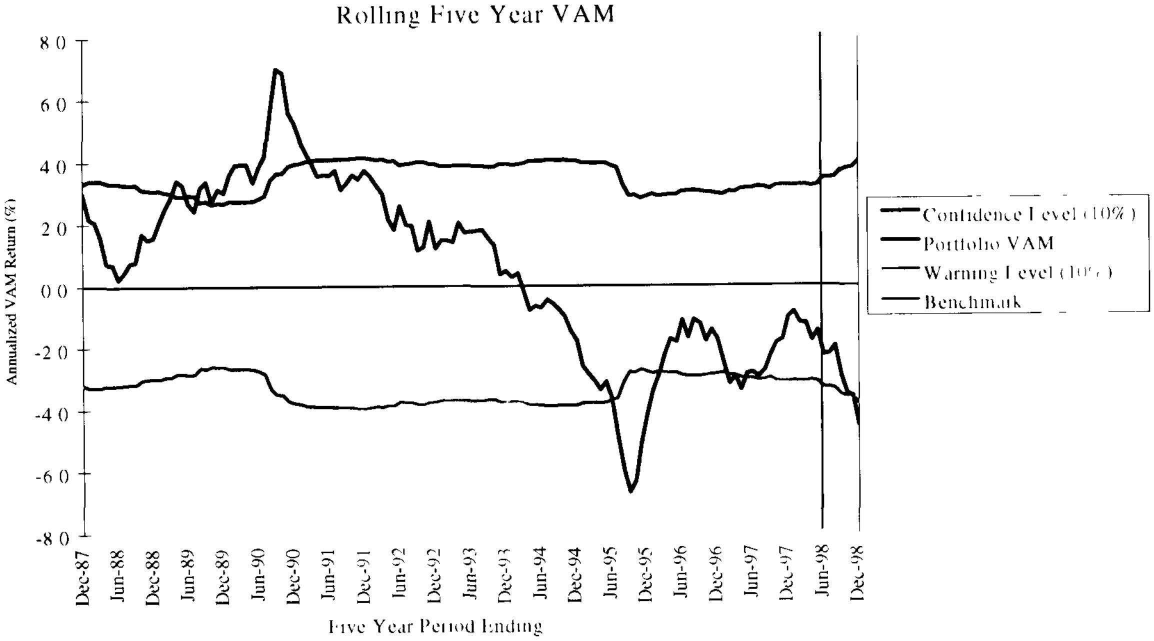
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.1%	30.7%
Last 1 year	-15.0	6.7
Last 2 years	-2.8	10.1
Last 3 years	4.0	10.2
Last 4 years	12.0	16.7
Last 5 years	7.8	12.9
Since Inception (7/93)	8.3	13.6

Recommendation

No action required

WEISS PECK & GREER
Rolling Five Year VAM



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

FRANKLIN PORTFOLIO ASSOCIATES
Periods Ending December, 1998

Portfolio Manager: John Nagorniak | **Assets Under Management: $2,146,654,409**

Investment Philosophy
Semi-Passive

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

Staff Comments

Staff met with Franklin Portfolio in January 1999. Franklin continues to implement their quantitative strategy to construct a portfolio benchmarked against the completeness benchmark. Franklin remains confident in the strong predictive power of their models as well as their quantitative investment strategy over the long term. However, over the past quarter and year, Franklin has underperformed their benchmark as a result of unusual market events such as the tight credit markets and the collapse of hedge funds that were not captured by their models.

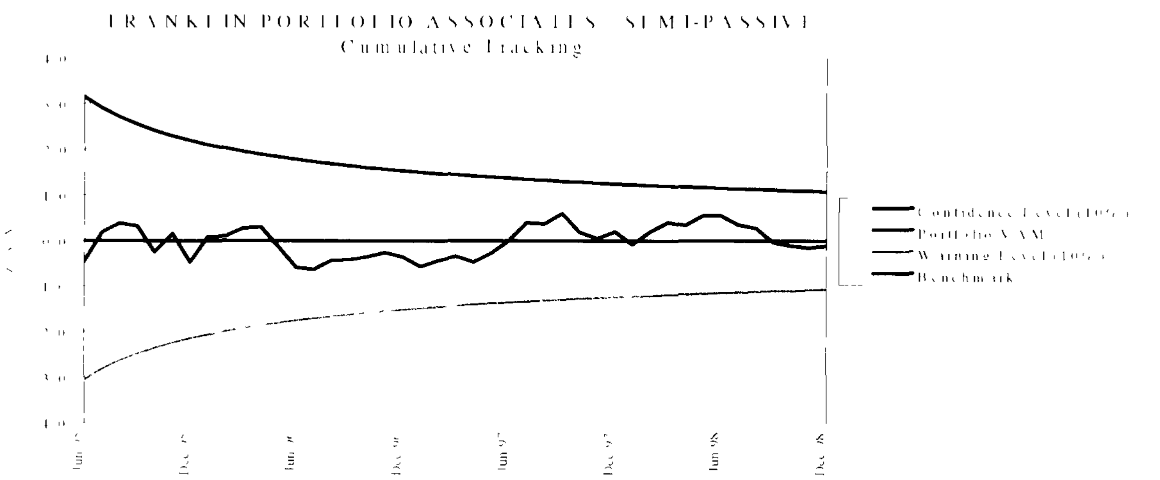
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	18.9%	19.2%
Last 1 year	22.4	23.7
Last 2 years	29.6	29.4
Last 3 years	26.9	26.9
Last 4 years	N.A	N.A
Last 5 years	N.A	N.A
Since Inception (1/95)	29.0	29.1

* Completeness Fund

Recommendation

No action required.



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

Portfolio Manager: Jim Wiess | **Assets Under Management: $2,220,342,137**

Investment Philosophy
Semi-Passive

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

Staff Comments

No comments at this time

Quantitative Evaluation

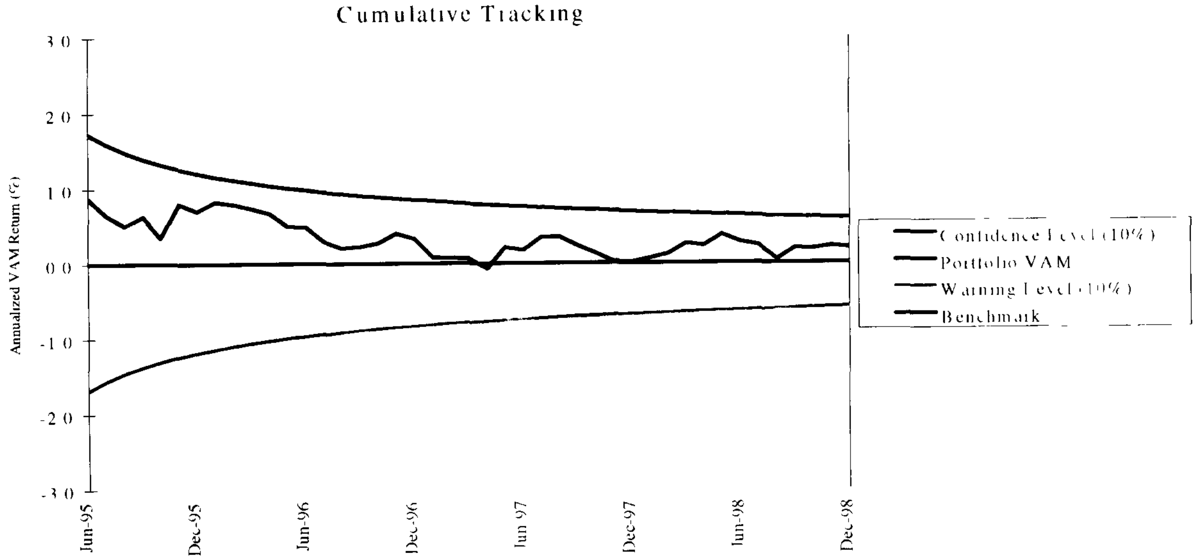
	Actual	Benchmark*
Last Quarter	19.3%	19.2%
Last 1 year	24 6	23 7
Last 2 years	29.5	29.4
Last 3 years	26.9	26 9
Last 4 years	N A.	N A.
Last 5 years	N.A.	N A
Since Inception (1/95)	29.3	29.1

* Completeness Fund

Recommendation

No action required

JP MORGAN - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending December, 1998

Portfolio Manager: Nancy Feldkircher | **Assets Under Management: $2,188,661,453**

Investment Philosophy
Semi-Passive

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

Staff Comments

No comments at this time.

Quantitative Evaluation

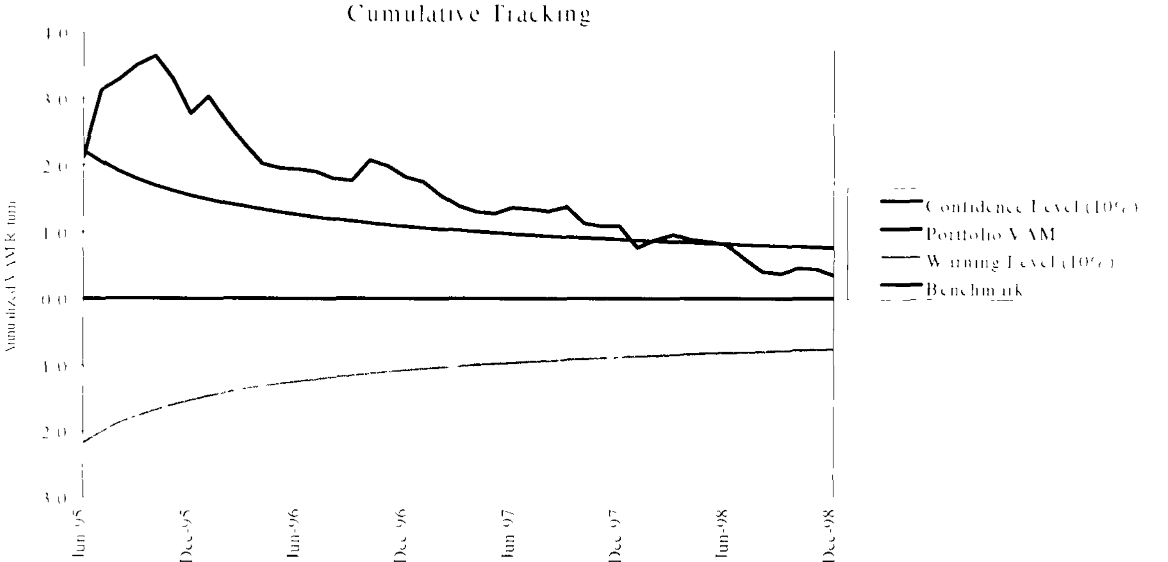
	Actual	Benchmark*
Last Quarter	19.2%	19.2%
Last 1 year	21.4	23.7
Last 2 years	28.0	29.4
Last 3 years	26.3	26.9
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (1/95)	29.5	29.1

* Completeness Fund

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - SEMI-PASSIVE
Cumulative Tracking



BARCLAYS GLOBAL INVESTORS
Periods Ending December, 1998

Portfolio Manager: Rich Johnson — **Assets Under Management: $7,029,030,964**

Investment Philosophy
Passive

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

Staff Comments

No comments at this time

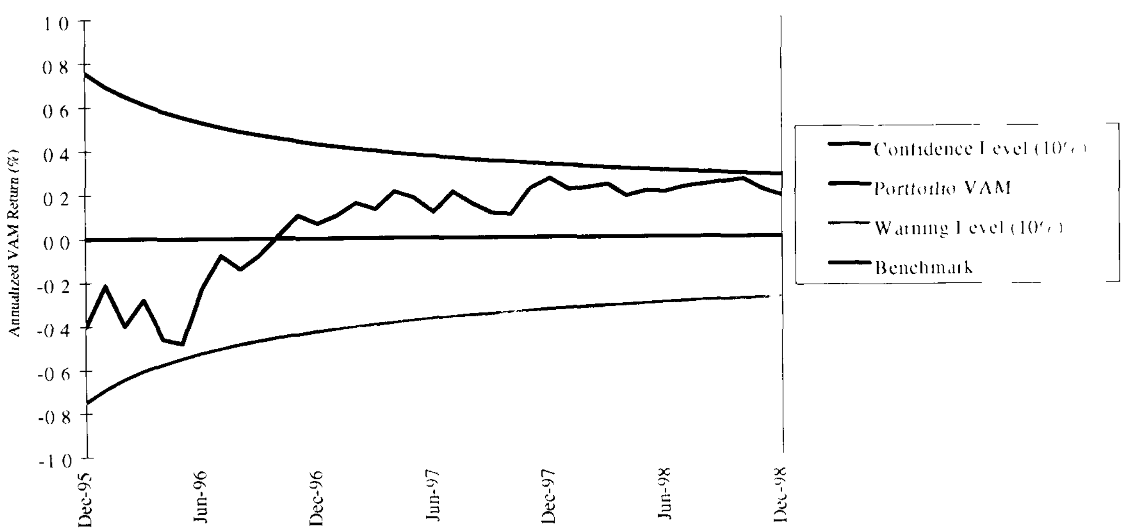
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	21.3%	21 5%
Last 1 year	23.4	23 4
Last 2 years	27.6	27 3
Last 3 years	25.6	25 2
Last 4 years	N.A.	N A.
Last 5 years	N.A	N A
Since Inception (7/95)	26 2	25 9

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS - PASSIVE
Cumulative Tracking



STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Fourth Quarter, 1998

COMBINED RETIREMENT FUNDS
EMERGING EQUITY MANAGERS
Periods Ending December, 1998

	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 %
Active Managers												
CIC Assets	13.3	18.1	3.5	14 2	19.0	23.7			19.7	23.1	$70.43	9.9%
Cohen, Klingenstein, & Marks	23.8	28.5	38.2	31.3	31.9	27.7			28.5	24.8	176.11	24.8%
Compass Capital	21.0	28.0	16.2	28.7	23.1	29.0			22 5	25.1	78.51	11.1%
New Amsterdam	23.3	23.2	26 2	18.5	28.6	22 0			23.4	21 0	81.38	11.5%
Valenzuela Capital	17.9	20.1	-0.2	2 6	22.3	16.9			20 2	17.4	71.90	10.1%
Wilke/Thompson	19.9	23.9	21.4	3 0	8.1	11.3			13.5	13 4	54.62	7.7%
Winslow Capital	28.7	31.4	31.1	34.3	25.7	27.8			22.8	24.7	79.50	11.2%
Zevenbergen Capital	36.3	30.4	54.5	30.7	34.6	27.0			28.1	24 3	97.27	13.7%
											$709.72	**100.0%**
									Since 4/1/94			
Current Aggregate	23.4	25.8 *	24.9	21.8 *	25.1	23.9 *			23.2	22 3 *		
Historical Aggregate	**23.4**	**25.8 ***	**24.9**	**21.8 ***	**25.1**	**23.5 ***			**22.7**	**21.9 ***		

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

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

CIC ASSET MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Jorge Castro | **Assets Under Management: $70,428,227**

Investment Philosophy

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

Staff Comments

Staff met with CIC in January 1999 in their Los Angeles office to review their organization, investment process, and recent performance. Portfolio performance during the quarter suffered from poor stock selection in the energy and REIT sectors as well as CIC's large overweight in consumer cyclical stocks, which performed poorly during the quarter. CIC continues to suffer from the less than favorable value style.

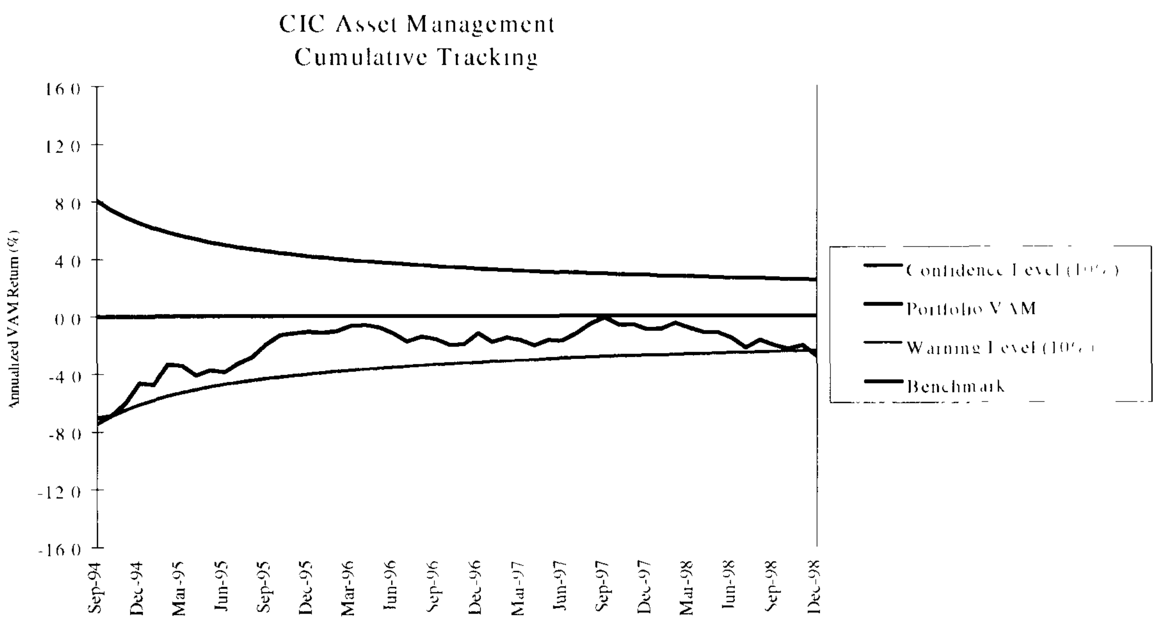
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	13.3%	18.1%
Last 1 Year	3.5	14.2
Last 2 Years	17.6	23.7
Last 3 Years	19.0	23.7
Last 4 Years	23.4	26.5
Since Inception (4/94)	19.7	23.1

* Custom benchmark since inception date

Recommendation

No action required



COHEN KLINGENSTEIN & MARKS INCORPORATED
Periods Ending December, 1998

Portfolio Manager: George Cohen | **Assets Under Management: $176,110,249**

Investment Philosophy

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

Staff Comments

The CKM portfolio outperformed the benchmark for the year as a result of good sector allocation with an overweighting in financial services and by emphasizing growth stocks rather than defensive and cyclical stocks

Quantitative Evaluation

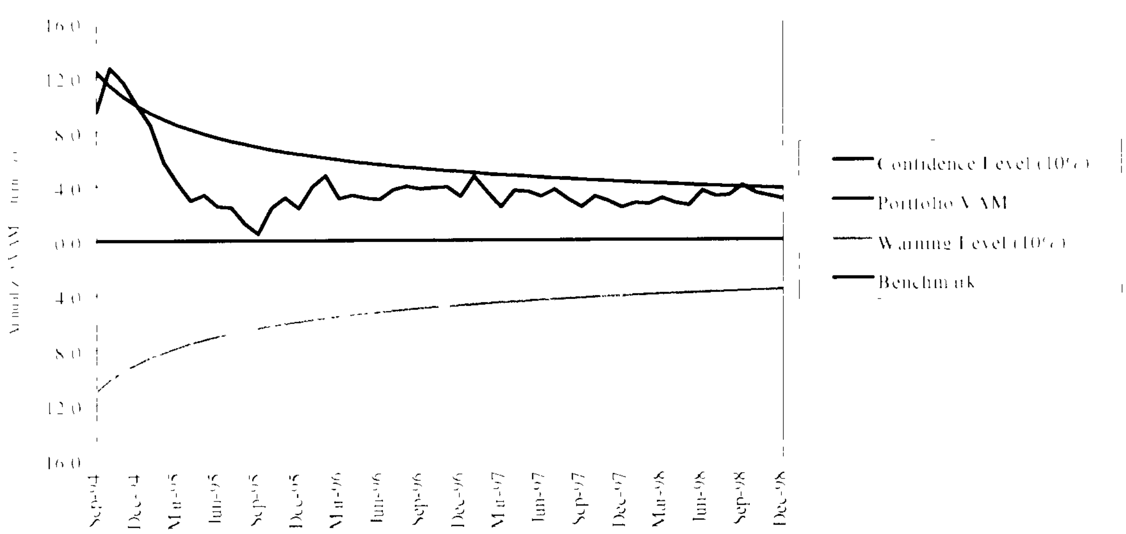
	Actual	Benchmark*
Last Quarter	23 8%	28 5%
Last 1 Year	38 2	31 3
Last 2 Years	34 1	30 6
Last 3 Years	31 9	27 7
Last 4 Years	31 3	29 1
Since Inception (4/94)	28 5	24 8

*Custom benchmark since inception date

Recommendation

No action required

Cohen Klingenstein & Marks
Cumulative Tracking



COMPASS CAPITAL MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Charles Kelley **Assets Under Management: $78,510,709**

Investment Philosophy

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

Staff Comments

Portfolio performance in the fourth quarter suffered from poor sector selection, primarily from Compass' underweighting in the technology sector. Overweights in the capital goods and basic industries sectors also hurt performance.

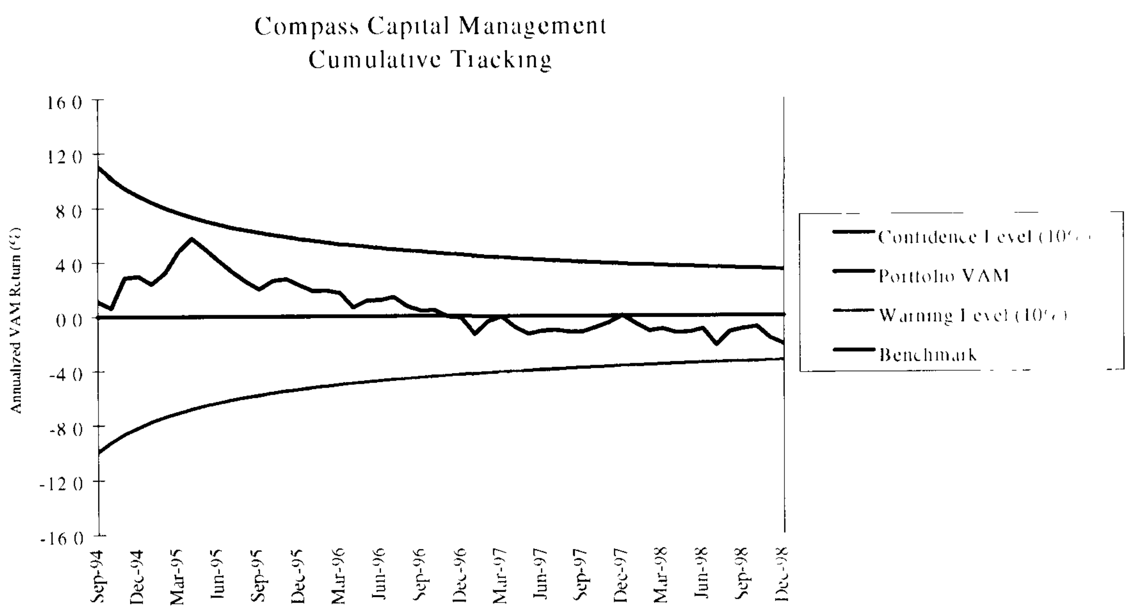
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	21.0%	28.0%
Last 1 Year	16.2	28.7
Last 2 Years	24.9	31.1
Last 3 Years	23.1	29.0
Last 4 Years	25.5	29.4
Since Inception (4/94)	22.5	25.1

* Custom benchmark since inception date

Recommendation

No action required



NEW AMSTERDAM PARTNERS
Periods Ending December, 1998

Portfolio Manager: Michelle Clayman | **Assets Under Management: $81,381,456**

Investment Philosophy

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

Staff Comments

No comments at this time.

Quantitative Evaluation

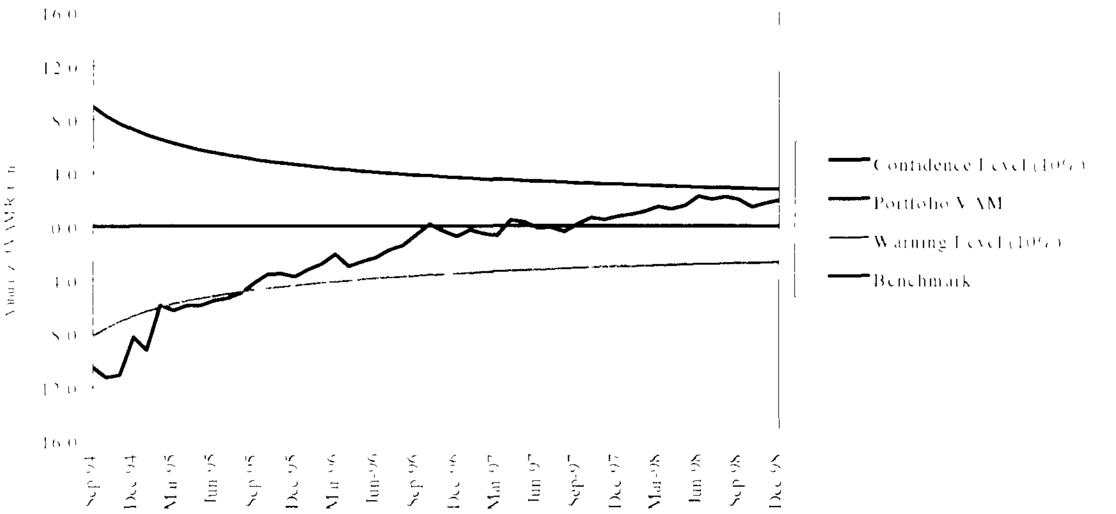
	Actual	Benchmark*
Last Quarter	23.3%	23.2%
Last 1 Year	26.2	18.5
Last 2 Years	31.1	23.9
Last 3 Years	28.6	22.0
Last 4 Years	29.0	24.1
Since Inception (4/94)	23.4	21.0

*Custom benchmark since inception date

Recommendation

No action required.

New Amsterdam Capital Partners
Cumulative Tracking



VALENZUELA CAPITAL MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Tom Valenzuela — **Assets Under Management: $71,896,251**

Investment Philosophy

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

Staff Comments

No comments at this time

Quantitative Evaluation

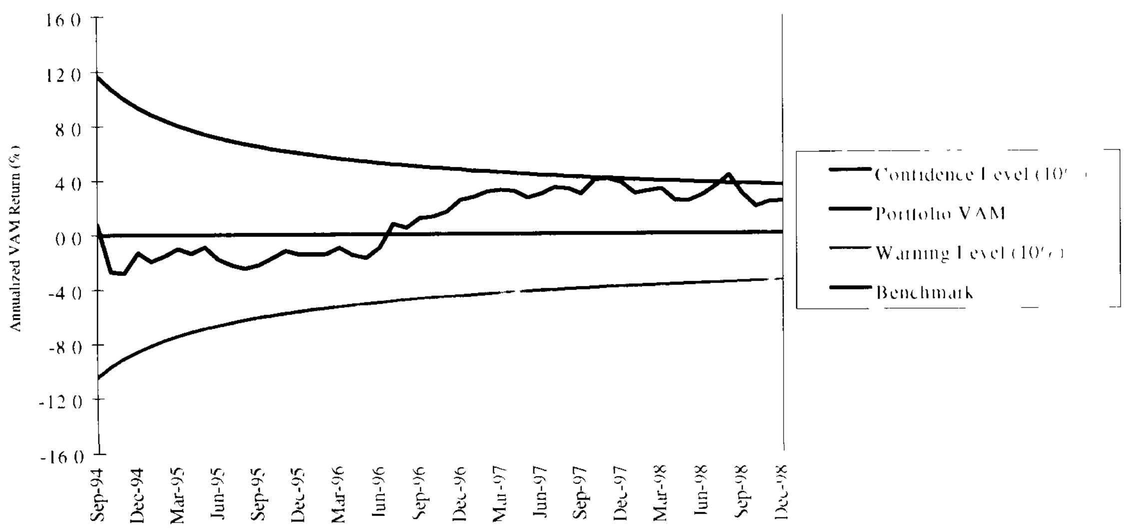
	Actual	Benchmark*
Last Quarter	17.9%	20 1%
Last 1 Year	-0 2	2 6
Last 2 Years	17 7	15 2
Last 3 Years	22 3	16 9
Last 4 Years	24 0	20 3
Since Inception (4/94)	20 2	17 4

* Custom benchmark since inception date

Recommendation

No action required

Valenzuela Capital Partners
Cumulative Tracking



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

Portfolio Manager: Mark Thompson | **Assets Under Management: $54,623,835**

Investment Philosophy

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

Staff Comments

Staff met briefly with Wilke/Thompson during the quarter to review recent performance. The portfolio underperformed during the fourth quarter but good sector and stock selection, particularly in computer software and services, enabled the portfolio to significantly outperform the benchmark for the year.

Quantitative Evaluation

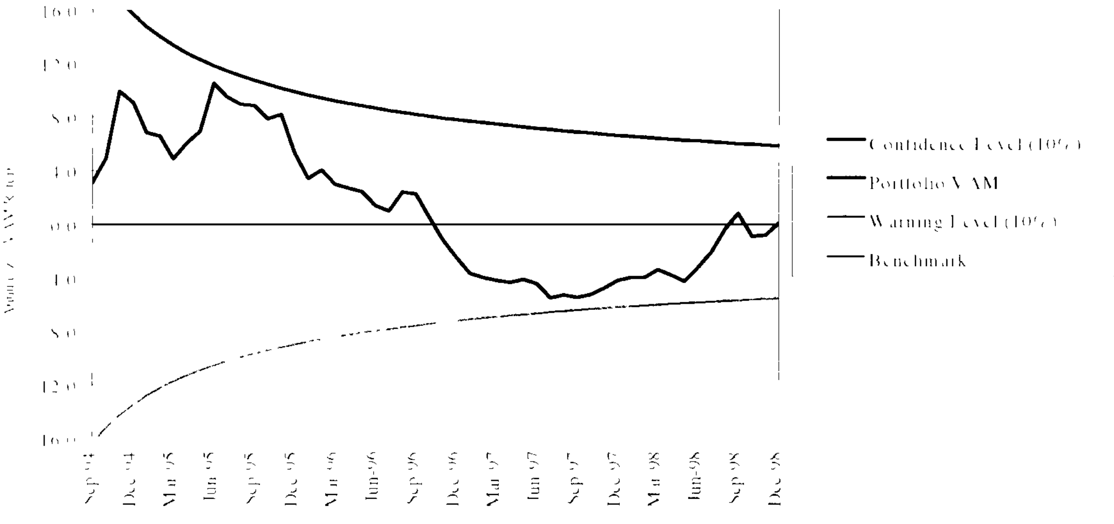
	Actual	Benchmark*
Last Quarter	19.9%	23.9%
Last 1 Year	21.4	3.0
Last 2 Years	14.2	10.2
Last 3 Years	8.1	11.3
Last 4 Years	13.7	15.4
Since Inception (4/94)	13.5	13.4

* Custom benchmark since inception date

Recommendation

No action required

Wilke/Thompson Capital Management
Cumulative Tracking



WINSLOW CAPITAL MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Clark Winslow **Assets Under Management: $79,497,410**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	28 7%	31 4%
Last 1 Year	31 1	34 3
Last 2 Years	29 9	31.0
Last 3 Years	25.7	27.8
Last 4 Years	25.0	28 7
Since Inception (4/94)	22 8	24 7

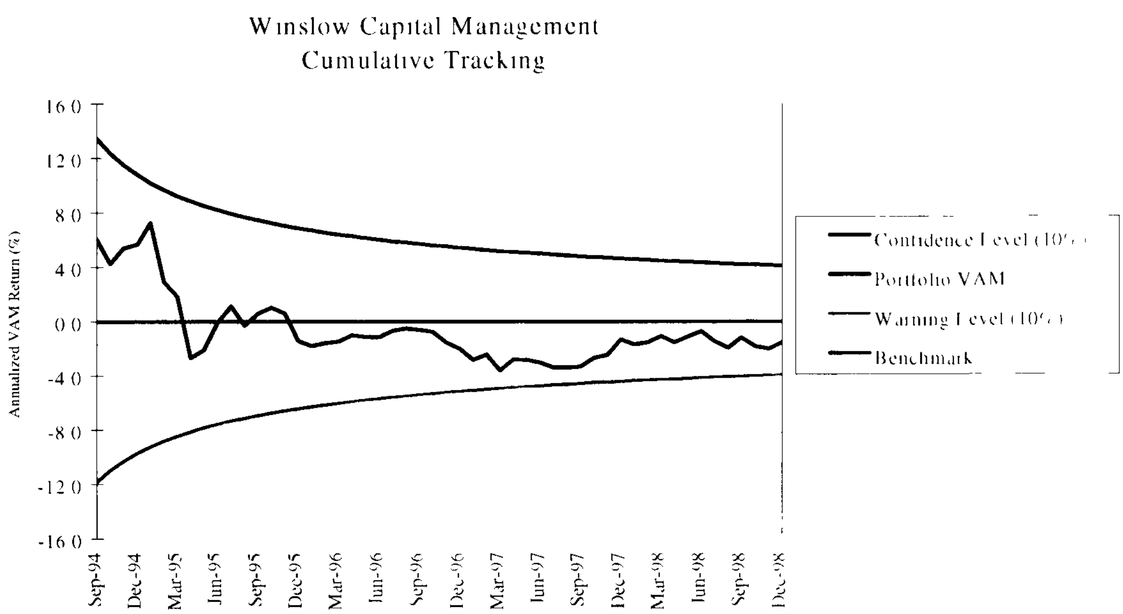
* Custom benchmark since inception date

Staff Comments

Staff met briefly with Winslow during the quarter to review recent portfolio performance The Winslow portfolio slightly underperformed the benchmark for the quarter and the year, primarily as a result of a slight underweight in the technology and healthcare sectors as well as poor stock selection within these two sectors

Recommendation

No action required



ZEVENBERGEN CAPITAL INC
Periods Ending December, 1998

Portfolio Manager: **Nancy Zevenbergen** **Assets Under Management: $97,273,921**

Investment Philosophy

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

Staff Comments

Strong stock selection combined with overweight positions in high growth sectors such as technology, telecommunications, and pharmaceuticals resulted in significant outperformance for Zevenbergen's portfolio for the fourth quarter and past year.

Quantitative Evaluation

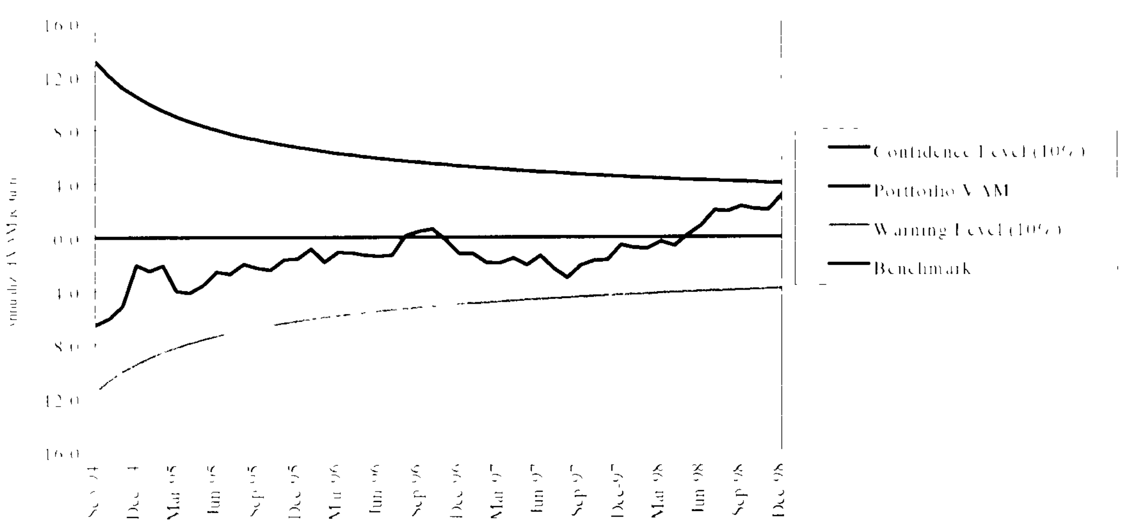
	Actual	Benchmark*
Last Quarter	36.3%	30.4%
Last 1 Year	54.5	30.7
Last 2 Years	41.4	29.3
Last 3 Years	34.6	27.0
Last 4 Years	33.2	27.9
Since Inception (4/94)	28.1	24.3

* Custom benchmark since inception date

Recommendation

No action required

Zevenbergen Capital Management
Cumulative Tracking



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Fourth Quarter, 1998

COMBINED RETIREMENT FUNDS
BOND MANAGERS
Periods Ending December, 1998

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Active Managers												
American Express (AMG)	0.4	0.3	9.2	8.7	7.0	7.3	7.4	7.3	7.3	7.2	$600.65	6.3%
BEA	1.7	0.3	8.1	8.7	8.3	7.3	7.7	7.3	7.6	7.1	621.60	6.5%
IAI	0.4	0.3	8.8	8.7	7.0	7.3	6.5	7.3	10.9	10.8	663.64	6.9%
Morgan Stanley	1.0	0.3	7.5	8.7	8.0	7.3	7.5	7.3	11.1	10.8	872.38	9.1%
Standish	0.0	0.3	6.6	8.7	7.3	7.3	6.9	7.3	6.9	7.1	720.68	7.5%
Western	0.3	0.3	8.0	8.7	8.6	7.3	8.2	7.3	12.1	10.8	1,314.80	13.7%
Semi-Passive Managers												
BlackRock	0.4	0.3	9.0	8.7					9.0	8.7	1,622.11	16.9%
Goldman	0.0	0.3	8.1	8.7	7.4	7.3	7.5	7.3	7.4	7.1	1,605.69	16.7%
Lincoln	0.4	0.3	8.8	8.7	7.4	7.3	7.4	7.3	9.2	9.1	1,586.61	16.5%
											$9,608.16	**100.0%**
									Since 7/1/84			
Current Aggregate	0.4	0.3	8.3	8.7	7.7	7.3	7.5	7.3	11.2	10.8		
Historical Aggregate (2)	**0.4**	**0.3**	**8.3**	**8.7**	**7.7**	**7.3**	**7.4**	**7.3**	**10.6**	**10.7**		
Lehman Aggregate (3)		0.3		8.7		7.3		7.3		10.3		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Includes performance of terminated managers.
(3) Prior to July 1994, this index reflects the Salomon BIG.

AMERCIAN EXPRESS ASSET MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Jim Snyder | **Assets Under Management: $600,648,086**

Investment Philosophy

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

Staff Comments

No comments at this time

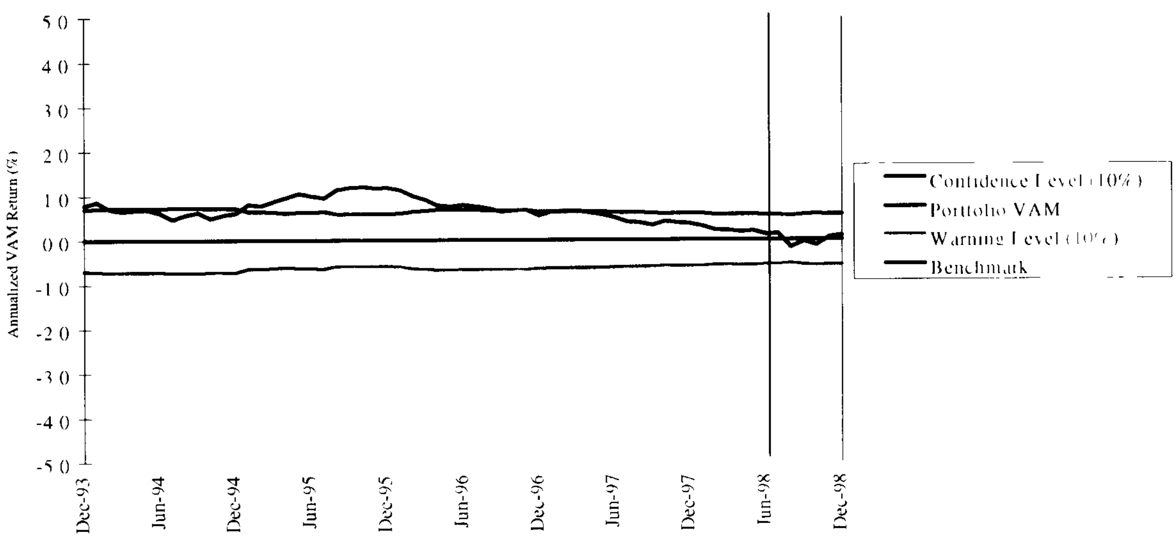
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.3%
Last 1 year	9.2	8.7
Last 2 years	9.6	9.2
Last 3 years	7.0	7.3
Last 4 years	10.3	10.1
Last 5 years	7.4	7.3
Since Inception (7/93)	7.3	7.2

Recommendations

No action required

AMERICAN EXPRESS ASSET MANAGEMENT - Fixed Income
Rolling Five Year VAM



Five Year Period Ending

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

BEA ASSOCIATES
Periods Ending December, 1998

Portfolio Manager: Bob Moore | **Assets Under Management: $621,600,500**

Investment Philosophy

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

Staff Comments

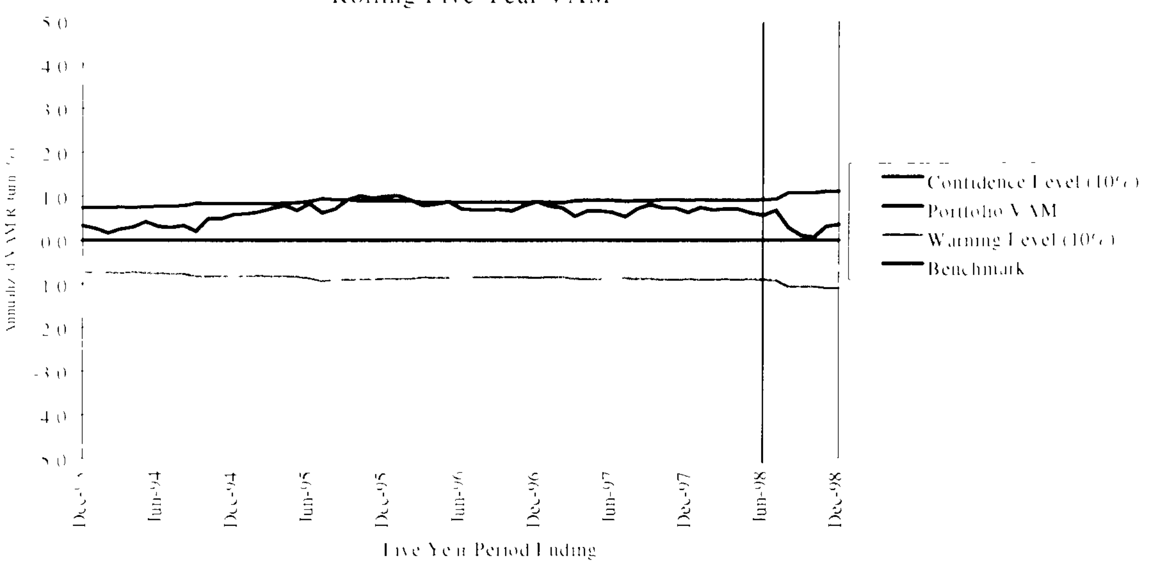
BEA Associates changed their name to Credit Suisse Asset Management early in the first quarter of 1999. Credit Suisse has been a part owner of BEA since 1990 and in 1996 acquired the remainder of the firm. BEA's strong relative performance during the quarter is primarily attributable to narrowing spreads in the corporate, high yield and dollar-denominated emerging market debt sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.7%	0.3%
Last 1 year	8.1	8.7
Last 2 years	9.4	9.2
Last 3 years	8.3	7.3
Last 4 years	10.6	10.0
Last 5 years	7.7	7.3
Since Inception (7/93)	7.6	7.1

Recommendations

No action required.



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

INVESTMENT ADVISERS
Periods Ending December, 1998

Portfolio Manager: Larry Hill | **Assets Under Management: $663,641,028**

Investment Philosophy

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

Staff Comments

Roy Gillson, IAI's Chief Executive Officer and Chief Investment Officer, resigned in January 1999. John Alexander, Chief Operating Officer, will assume overall responsibility of the firm and Larry Hill will assume the role of Chief Investment Officer for US investments, until a replacement is named. Staff does not believe this will affect the management of the SBI's portfolio.

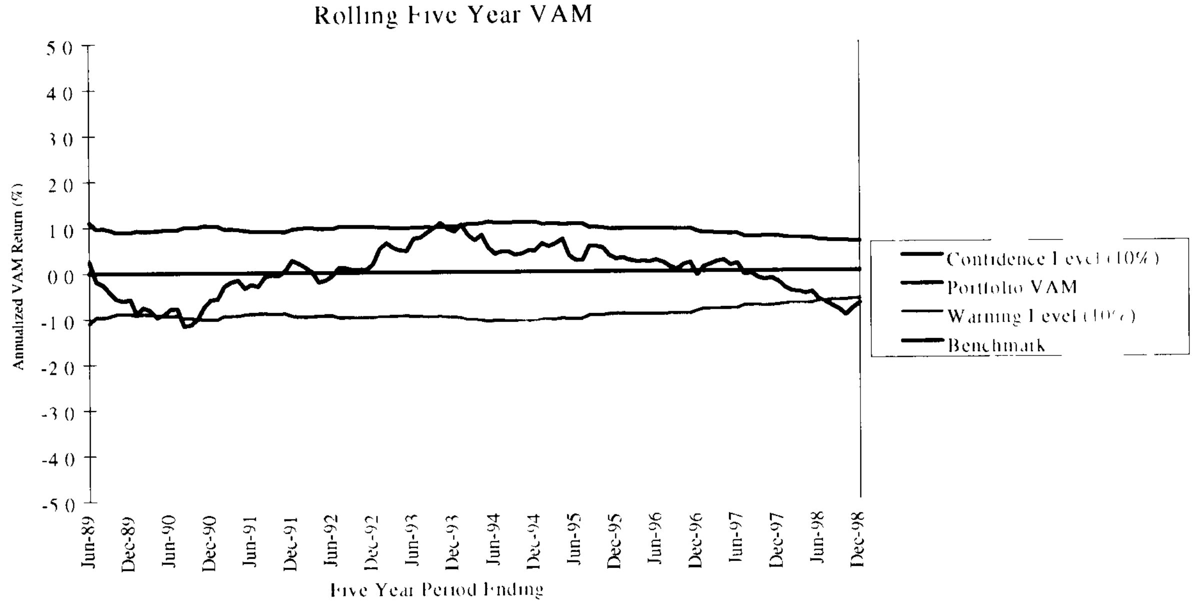
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.3%
Last 1 year	8.8	8.7
Last 2 years	8.9	9.2
Last 3 years	7.0	7.3
Last 4 years	9.2	10.0
Last 5 years	6.5	7.3
Since Inception (7/84)	10.9	10.8

Recommendations

No action required.

INVESTMENT ADVISERS - Fixed Income
Rolling Five Year VAM



MORGAN STANLEY DEAN WITTER INVESTMENT MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Tom Bennett — **Assets Under Management: $872,375,326**

Investment Philosophy

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

Staff Comments

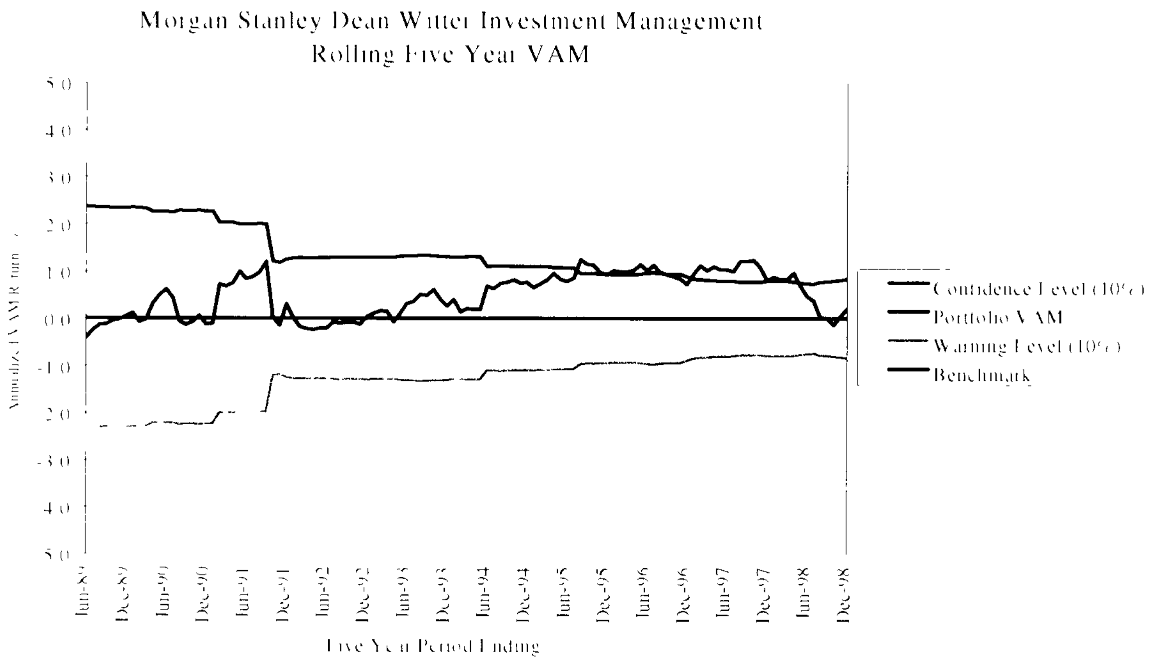
Formerly known as Miller Anderson & Sherrerd, Morgan Stanley Dean Witter Investment Management changed their name during the fourth quarter. The firm merged with Morgan Stanley Group in 1996 and this is a change in name only. Morgan Stanley Dean Witter's strong relative performance during the quarter was the result of narrowing spreads in the corporate and mortgage sectors.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.0%	0.3%
Last 1 year	7.5	8.7
Last 2 years	8.7	9.2
Last 3 years	8.0	7.3
Last 4 years	10.7	10.0
Last 5 years	7.5	7.3
Since Inception (7/84)	11.1	10.8

Recommendations

No action required



STANDISH, AYER & WOOD
Periods Ending December, 1998

Portfolio Manager: Austin Smith **Assets Under Management: $720,681,607**

Investment Philosophy

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

Staff Comments

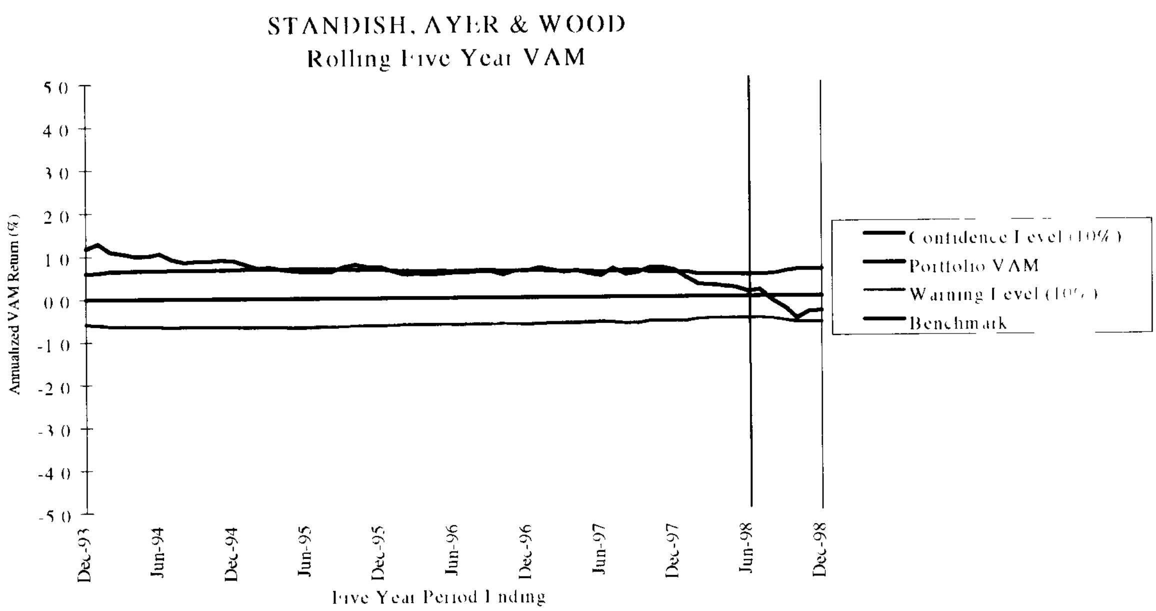
Staff met briefly with Standish in the SBI office, during January 1999, to review our portfolio Standish's portfolio performance suffered during the quarter due to duration strategies and exposure to financial companies and REITs, two poorly performing corporate subsectors

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	0.3%
Last 1 year	6.6	8.7
Last 2 years	8.1	9.2
Last 3 years	7.3	7.3
Last 4 years	9.8	10.0
Last 5 years	6.9	7.3
Since Inception (7/93)	6.9	7.1

Recommendations

No action required



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

WESTERN ASSET MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Ken Leech **Assets Under Management: $1,314,800,655**

Investment Philosophy

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

Staff Comments

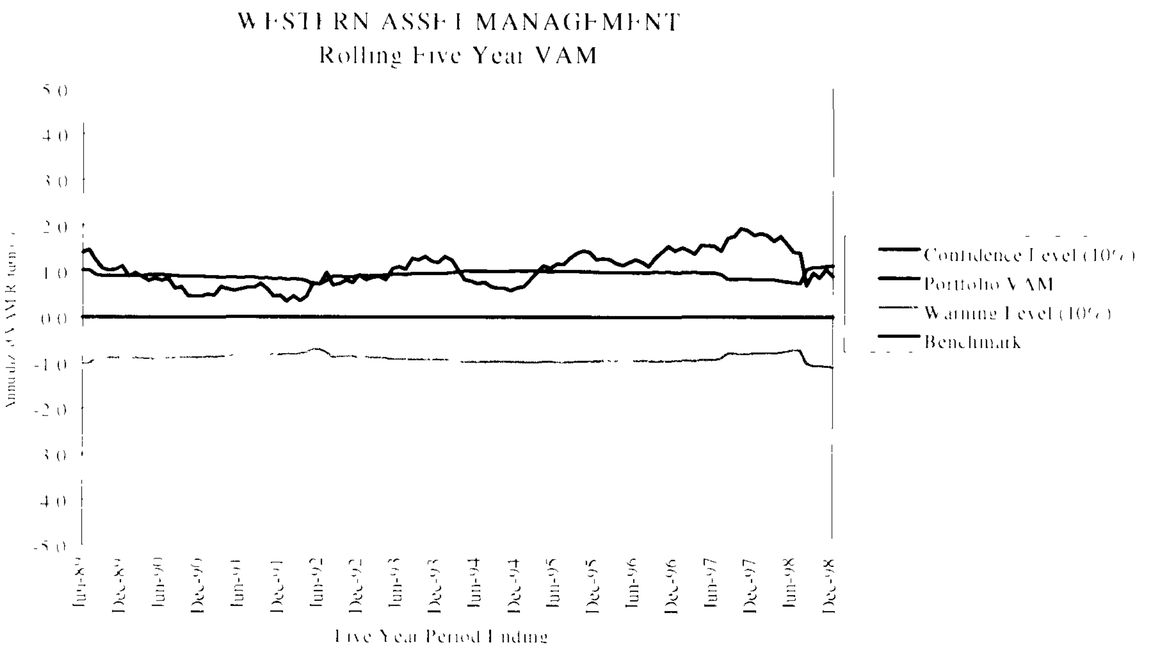
Staff met with Western in January 1999 in their Pasadena office to review the organization, investment process, recent performance and their outlook for the domestic fixed income market. Western also updated staff on their global/international fixed income investment approach and presented their opinions on the Euro and the new currency's implications for the European fixed income market.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	0.3%
Last 1 year	8.0	8.7
Last 2 years	10.1	9.2
Last 3 years	8.6	7.3
Last 4 years	11.6	10.0
Last 5 years	8.2	7.3
Since Inception (7/84)	12.1	10.8

Recommendations

No action required



BLACKROCK FINANCIAL MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Keith Anderson **Assets Under Management: $1,622,111,287**

Investment Philosophy

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

Staff Comments

No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0 3%
Last 1 year	9.0	8 7
Last 2 years	9.4	9.2
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)	9 0	8 7

Recommendation

No action required

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

GOLDMAN SACHS
Periods Ending December, 1998

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,605,689,124**

Investment Philosophy

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

Staff Comments

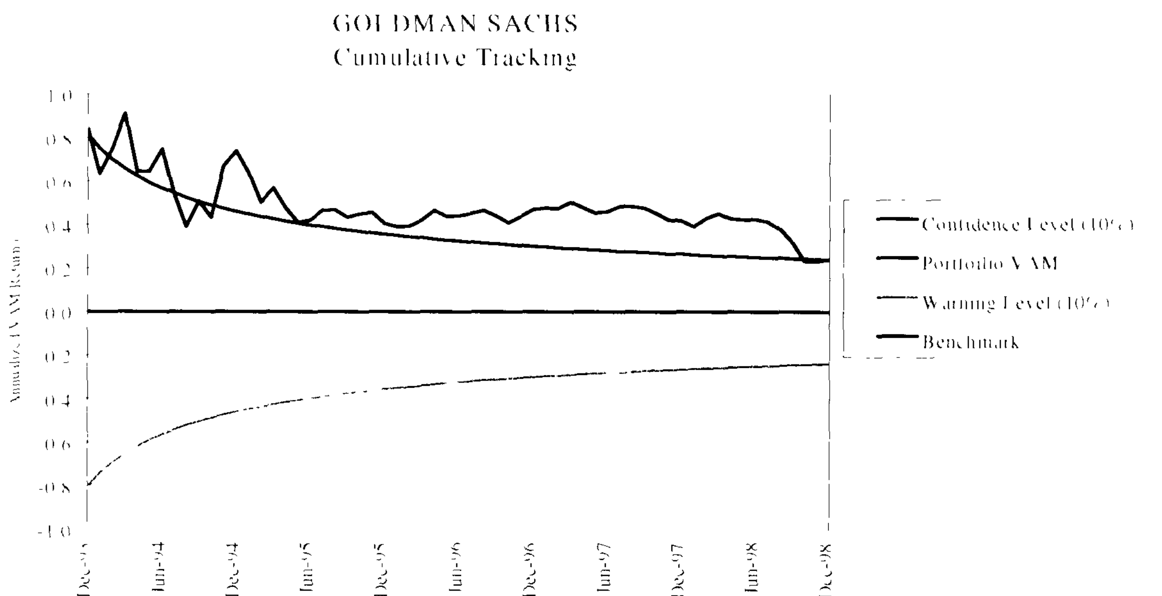
Goldman's relative underperformance during the quarter was mostly due to poor security selection in the industrial and financial subsectors of the corporate market.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.0%	0.3%
Last 1 year	8.1	8.7
Last 2 years	9.0	9.2
Last 3 years	7.4	7.3
Last 4 years	10.0	10.0
Last 5 years	7.5	7.3
Since Inception (7/93)	7.4	7.1

Recommendations

No action required



LINCOLN CAPITAL MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,586,614,162**

Investment Philosophy

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

Staff Comments

No comments at this time

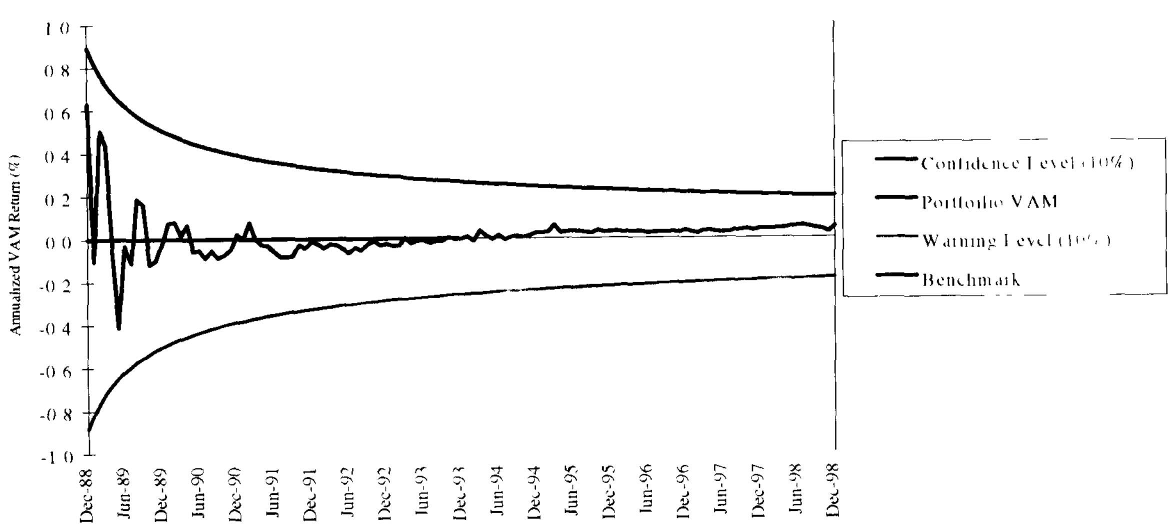
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0 4%	0 3%
Last 1 year	8.8	8 7
Last 2 years	9.3	9.2
Last 3 years	7.4	7 3
Last 4 years	10.1	10.0
Last 5 years	7.4	7 3
Since Inception (7/88)	9 2	9 1

Recommendations

No action required

LINCOLN CAPITAL MANAGEMENT - Fixed income
Cumulative Tracking



STATE BOARD OF INVESTMENT

Non-Retirement Manager Evaluation Reports

Fourth Quarter, 1998

COMBINED RETIREMENT FUNDS
NON - RETIREMENT MANAGERS
Periods Ending December, 1998

	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)
GE Investment Management (1)	20.0	21.4	24.6	28 9	27.4	28.4			29.5	30.6	$199.90
Voyageur Asset Management (2)	0.3	0.7	7.4	7.7	6.7	6.9	6.9	6.8	8 1	7 7	516.09
Internal Stock Pool (3)	21.4	21 4	28.7	28.9	28.4	28 4	24.2	24.2	22.8	22.8	455.19
Internal Bond Pool - Income Share (4)	0.2	0 3	8.9	8 7	7.8	7.3	7.6	7.3	9.2	8.8	197.24
Internal Bond Pool - Trust (5)	0.3	0.3	8 6	8.7	7.5	7.3			9.5	9.1	378.82

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

GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Periods Ending December, 1998

Portfolio Manager: Gene Bolton — **Assets Under Management: $199,899,959**

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 a team of analysts 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 perspective

Staff Comments

While the performance of GE has trailed its benchmark for the quarter and the year, the organization remains stable and has a clearly articulated investment strategy. The most recent underperformance can be attributed to an underweighting in the technology sector (particularly Microsoft, Lucent and Dell) and poor performance in the energy sector At the end of 1998, GE restructured the Multi-Style portfolio Staff visited with GE at their Stamford offices in January 1999

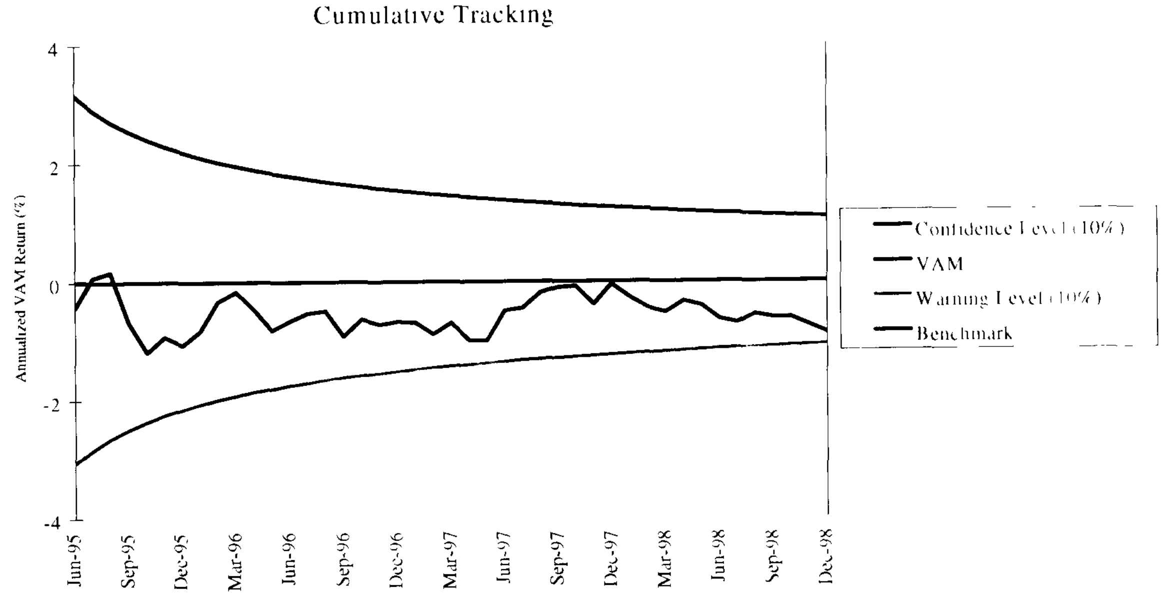
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	20.0%	21.4%
Last 1 year	24.6	28.9
Last 2 years	29.7	31.1
Last 3 years	27.4	28.4
Last 4 years	29.5	30.6
Last 5 years	N A	N A
Since Inception (1/95)	29.5	30.6

Recommendation

No action required

GE INVESTMENT MANAGEMENT
Cumulative Tracking



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

Portfolio Manager: Melissa A. Uppgren | **Assets Under Management: $516,092,527**

Investment Philosophy
Assigned Risk Plan

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

Staff Comments

Portfolio performance for the quarter and the year was hurt by an overweighting in non-Treasury sectors. Staff met with Voyageur at SBI offices to review the organization and investment process which continue to be sound.

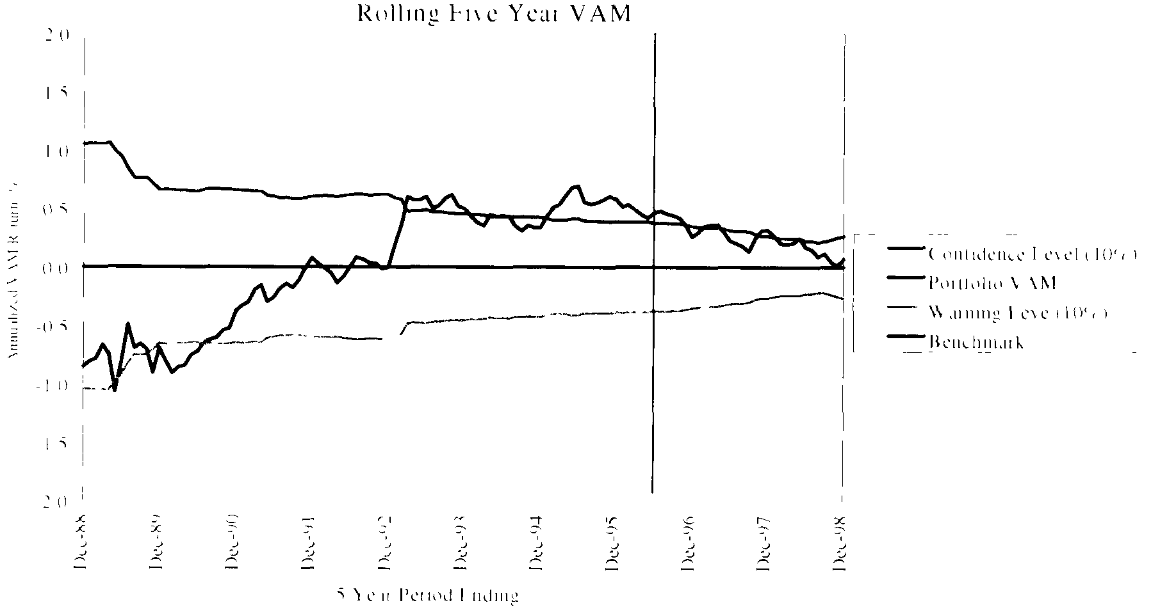
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	0.7%
Last 1 year	7.4	7.7
Last 2 years	7.8	7.8
Last 3 years	6.7	6.9
Last 4 years	8.9	8.7
Last 5 years	6.9	6.8
Since Inception (7/91)	8.1	7.7

Recommendation

No action required.

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year VAM



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

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

Portfolio Manager: Mike Menssen **Assets Under Management: $455,193,994**

Investment Philosophy
Environmental Trust Fund
Permanent School Fund

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

Staff Comments

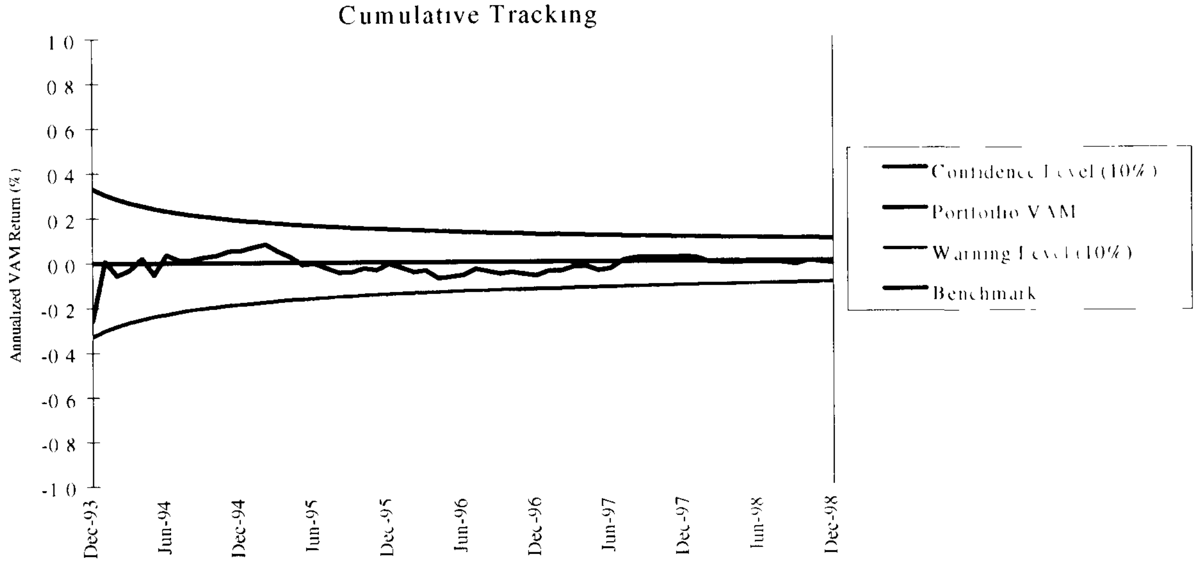
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	21 4%	21 4%
Last 1 year	28.7	28 9
Last 2 years	31.2	31 1
Last 3 years	28 4	28 4
Last 4 years	30 6	30 6
Last 5 years	24 2	24 2
Since Inception (7/93)	22.8	22 8

Recommendation

No action required



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

Portfolio Manager: Mike Menssen | **Assets Under Management: $197,243,501**

Investment Philosophy
Income Share Account

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

Staff Comments

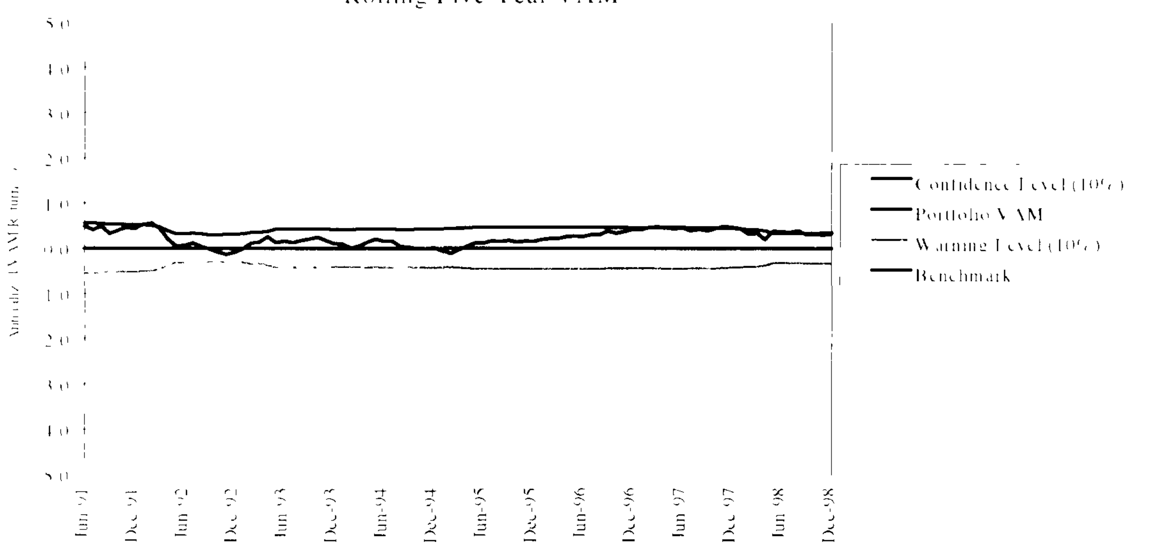
No comments at this time

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.2%	0.3%
Last 1 year	8.9	8.7
Last 2 years	9.6	9.2
Last 3 years	7.8	7.3
Last 4 years	10.6	10.0
Last 5 years	7.6	7.3
Since Inception (7/86)	9.2	8.8

Recommendation

No action required



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

Portfolio Manager: Mike Menssen | **Assets Under Management: $378,819,987**

Investment Philosophy Environmental Trust Fund and Permanent School Trust Fund

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

Staff Comments

No comments at this time

Quantitative Evaluation

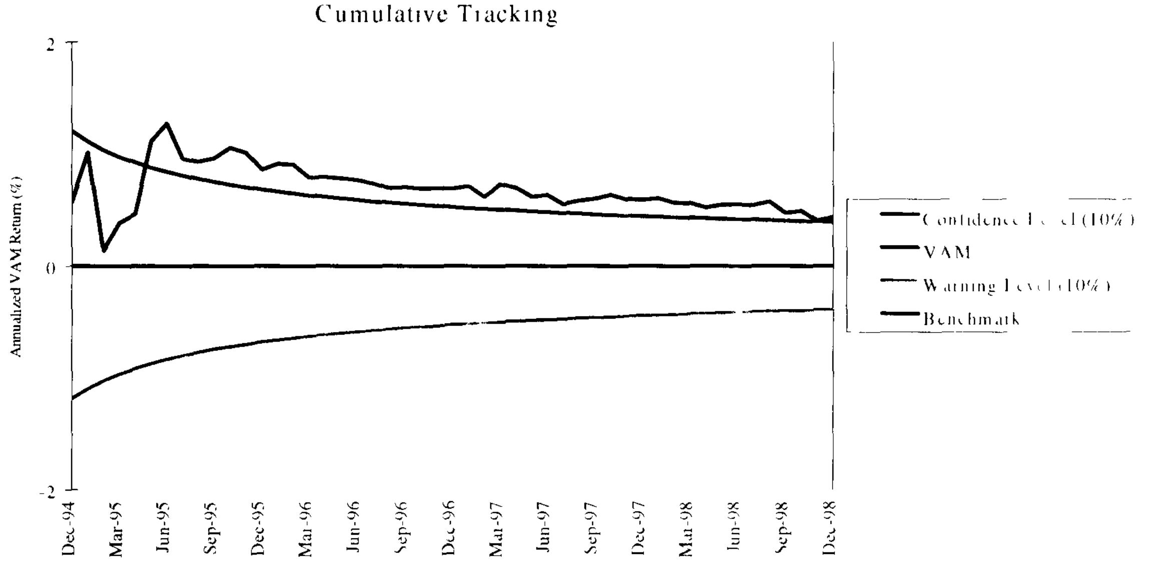
	Actual	Benchmark
Last Quarter	0.3%	0.3%
Last 1 year	8.6	8.7
Last 2 years	9.3	9.2
Last 3 years	7.5	7.3
Last 4 years	10.4	10.0
Last 5 years	N.A	N.A
Since Inception (7/94)*	9.5	9.1

Recommendation

No action required

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

INTERNAL BOND POOL - TRUST/NON-RETIREMENT ASSETS
Cumulative Tracking



Tab D

COMMITTEE REPORT

DATE: February 23, 1999

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

FROM: **International Manager Committee**

The International Manager Committee met on February 11, 1999 to consider the following agenda items:

- Review of manager performance for the period ending December 31, 1998
- Update on the international project

No action is required of the Board.

INFORMATION ITEMS:

1. Review of manager performance

The **international stock program** underperformed its composite index by 2.4 percentage points for the quarter ending December 31, 1998 and by 2.2 percentage points over the last year. The program outperformed by 2.4 percentage points annualized for the last three years and by 1.3 percentage points annualized for the last five years. Performance of the **equity managers** (without the currency overlay) underperformed the target for the quarter and the year, but outperformed the target for all other periods:

Time Period	Total Program	Composite Index*
Quarter	18.0%	20.4%
1 Year	11.4	13.6
3 Year	8.6	6.2
5 Year	8.8	7.5

Equity Mgrs. Only
18.5%
11.7
7.5
8.1

*The composite index has been weighted 87% EAFE Free/13% Emerging Markets Free since 12/31/96. 100% EAFE Free prior to 5/1/96.

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

2. **Update on the international project**

In June 1998, staff proposed a review of the International program including the following areas:

- Evaluate **indices** for the asset class target and individual manager benchmarks.
- Explore the potential use of **global and/or regional managers**.
- Examine the mix of **active versus passive management**.
- Examine the multiple **manager structure**.
- Re-examine **currency management** and the impact of the **Euro** currency.

At its December 1998 meeting, the committee reviewed information regarding alternative approaches to international equity indices. The Committee concurred with staff's recommendation to consider the MSCI's All Country World Index (ACWI) as a potential international equity asset class target.

This quarter, the committee reviewed additional research presented by staff. The major points, to which the committee concurred, are as follows:

Indices

- **MSCI's All Country World Index (ACWI) Free ex-U.S.** is the preferred International *asset class target* with implementation planned for July 1, 1999. The asset class target should be re-examined if any country makes up more than 35% of the target.
- **MSCI's EAFE Free Index** continues to be the most appropriate benchmark for the *SBI's developed market managers* at this time.
- **MSCI's Emerging Markets Free Index** continues to be the most appropriate benchmark for *emerging managers*.

Global Management

Global management is not appropriate for the SBI's International program, at this time, for the reasons stated below. However, global management will be examined, periodically, as asset management of global investment markets evolves.

- At this time, there is a *limited group of global managers* from which institutional plan sponsors of SBI's size can select. Only five firms manage more than $2.5 billion in a global mandate with the largest firm managing just under $10 billion.
- Data collected indicates *mediocre performance* by the global managers as a group over the last four years.
- The global managers' *country bets would not exceed SBI's normal rebalancing tolerance.*

Regional Management

Regional management is not appropriate as the primary structure for the SBI's International program, at this time, due to the reasons stated below. However, the use of regional managers might be suitable to fill under-weighted regions within the program, if necessary.

- Currently, there are a *too few regional managers* capable of handling a sizeable SBI allocation, particularly for Asian markets.
- The use of a regional management structure would require *more frequent rebalancing.*

Staff will continue to research the following issues for evaluation by the Committee:

- active versus passive management
- feasibility of investing in Canada
- manager structure
- currency management

A policy position paper regarding these issues will be presented to the Board following the Committee's evaluation of the remaining issues.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Fourth Quarter, 1998

COMBINED RETIREMENT FUNDS
INTERNATIONAL STOCK MANAGERS
Periods Ending December, 1998

	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Equity Pool %
Active EAFE												
Brinson (1)	19.7	20.7	19.4	20.1	11.8	9.0	11.1	9.2	11.5	11.2	$556.04	10.3%
Marathon (2)	15.5	20.7	9.0	20.1	4.6	9.0	7.3	9.2	7.0	8.4	367.37	6.8%
Rowe Price (2)	17.9	20.7	15.3	20.1	11.2	9.0	9.0	9.2	10.3	8.4	586.47	10.9%
Scudder (2)	14.0	20.7	10.9	20.1	11.6	9.0	9.7	9.2	10.4	8.4	422.51	7.9%
Active Emerging Markets												
City of London (3)	15.9	18.0	-23.4	-25.3					-10.9	-16.6	194.82	3.6%
Genesis (4)	9.9	18.0	-29.3	-25.3					-12.7	-15.7	184.64	3.4%
Montgomery (4)	10.2	18.0	-36.6	-25.3					-15.7	-15.7	171.07	3.2%
Passive EAFE												
State Street (5)	20.6	20.7	20.4	20.1	9.4	9.0	9.5	9.2	11.8	11.5	2,897.53	53.9%
									Since 10/1/92			
Equity Only*	18.5	20.4	11.7	13.6	7.5	6.2	8.1	7.5	10.9	10.2	5,380.45	100.0%
Total Program**	**18.0**	**20.4**	**11.4**	**13.6**	**8.6**	**6.2**	**8.8**	**7.5**	**11.5**	**10.2**	**$5,360.70**	

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

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

(1) Active country/passive stock. Retained April 1, 1993.
(2) Fully active. Retained November 1, 1993. Marathon's performance against custom benchmark returns can be seen on page 6.
(3) Retained November 1, 1996.
(4) Retained May 1, 1996.
(5) Retained October 1, 1992.

Impact of Currency Overlay Program

Cumulative Dollar Value Added $131,346,829
(Since inception, December 1, 1995)

BRINSON PARTNERS
Periods Ending December, 1998

Portfolio Manager: Richard Carr **Assets Under Management: $556,038,137**

Investment Philosophy

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

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

Staff Comments

No comments at this time

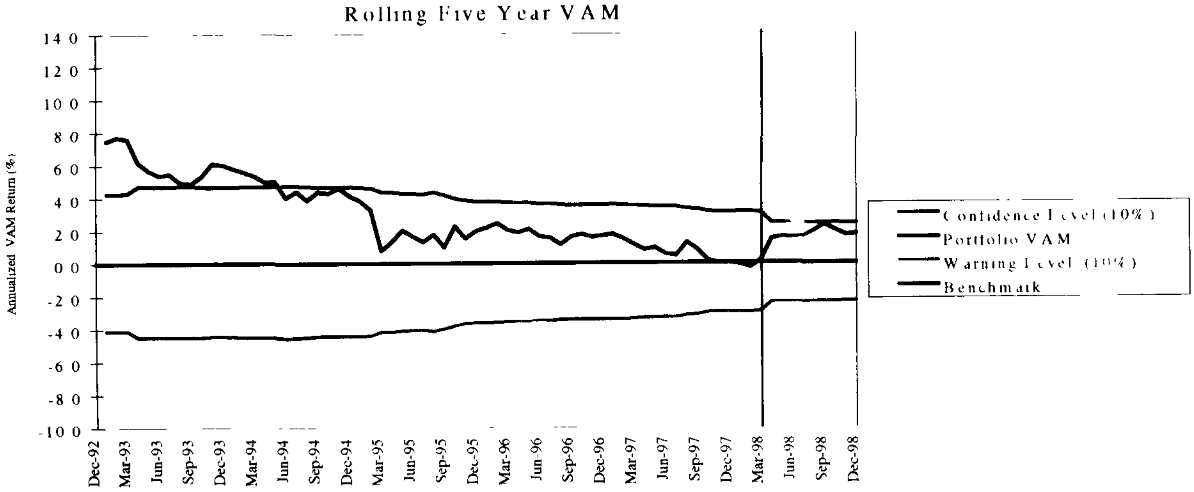
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	19.7%	20 7%
Last 1 year	19.4	20.1
Last 2 years	11.8	10.4
Last 3 years	11.8	9.0
Last 4 years	13.1	9.5
Last 5 years	11.1	9.2
Since Inception (4/93)	11.5	11 2

Recommendations

No action required.

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



5 Year Period Ending

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

MARATHON ASSET MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: William Arah **Assets Under Management: $367,372,290**

Investment Philosophy

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

Staff Comments

Three main factors contributed to Marathon's underperformance for the quarter. The largest component was stock selection in Europe as mid-caps and value holdings lagged the sharp rise in indices following concerted global monetary easing. The net result of this was –316 bp of underperformance. Cash in the account averaged 5% and this liquidity factor accounted for over 1% of underperformance. The final factor was the negative impact of the yen currency hedge. Underperformance was somewhat offset by positive returns in Japan where they have an overweighting and the country returns for Pacific ex-Japan. The portfolio remains focused on European mid-caps and economically sensitive issues, and on Asia.

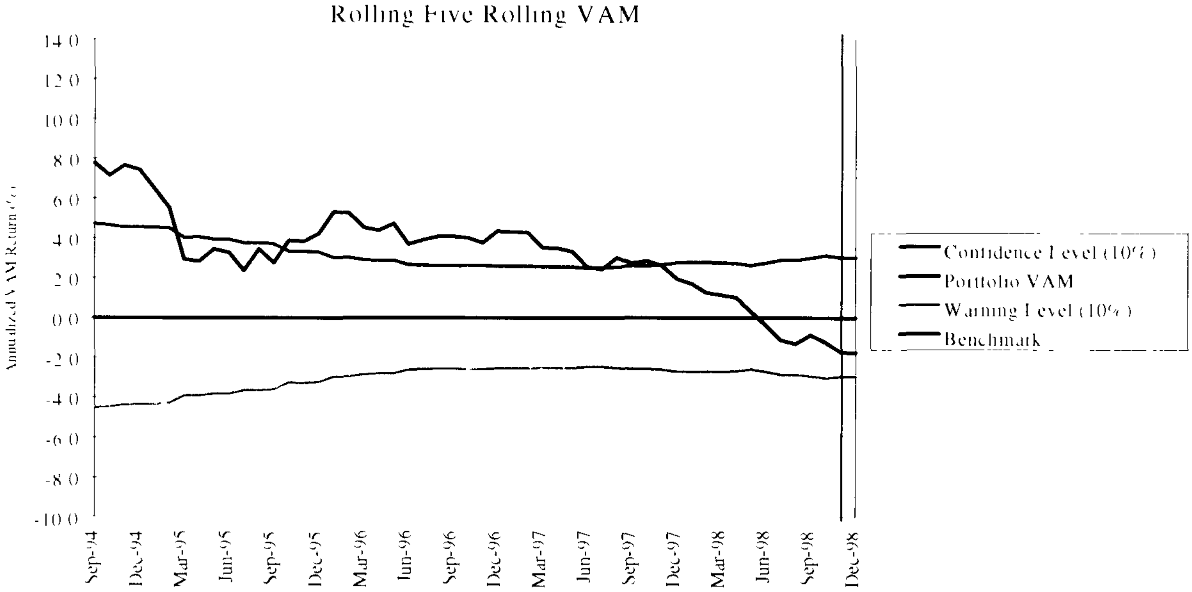
Quantitative Evaluation

	Actual	EAFE Benchmark	Custom Benchmark
Last Quarter	15.5%	20.7%	16.6%
Last 1 year	9.0	20.1	14.6
Last 2 years	2.2	10.4	5.2
Last 3 years	4.6	9.0	5.9
Last 4 years	5.0	9.5	6.4
Last 5 years	7.3	9.2	6.7
Since Inception (11/93)	7.0	8.4	6.2

Recommendations

No action required

MARATHON ASSET MANAGEMENT
Rolling Five Rolling VAM



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

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

Portfolio Manager: David Warren **Assets Under Management: $586,473,617**

Investment Philosophy

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

Staff Comments

No comment at this time

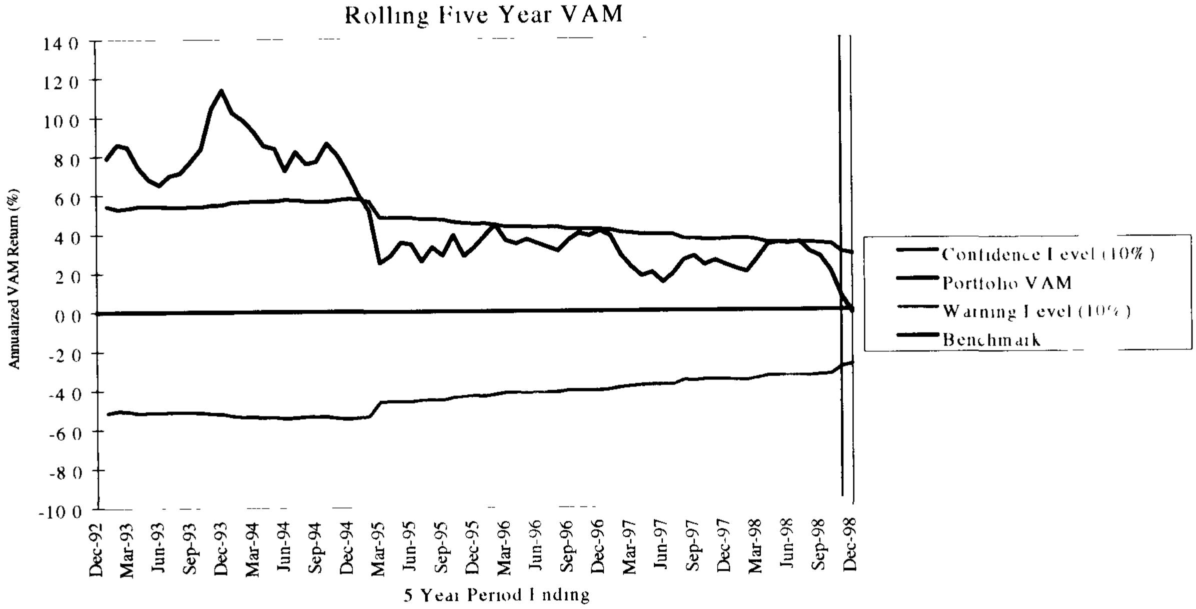
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17 9%	20.7%
Last 1 year	15.3	20.1
Last 2 years	9.2	10.4
Last 3 years	11.2	9.0
Last 4 years	11.5	9.5
Last 5 years	9.0	9.2
Since Inception (11/93)	10.3	8.4

Recommendations

No action required

ROWE PRICE-FLEMING
Rolling Five Year VAM



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

SCUDDER, STEVENS & CLARK
Periods Ending December, 1998

Portfolio Manager: Sheridan Reilly | **Assets Under Management: $422,508,930**

Investment Philosophy

Scudder believes that successful international investing requires knowledge of each country's economy, political environment and financial market obtained through continuous and thorough research of individual markets and securities. The investment process focuses on three areas: country analysis, global themes and unique situations. Ideas from all three areas are integrated into Scudder's research universe. Using their own internal research, the firm seeks companies with potential for earnings and dividend growth, strong or improving balance sheets, superior management, conservative accounting practices and dominant position in growing industries.

Staff Comments

Scudder's stock selection in Europe contributed to their quarterly underperformance. Their underweight to Japan, combined with a partial yen hedge, also resulted in underperformance.

For the full year, underperformance was concentrated in Asia and Latin America, where an overweight in Hong Kong and exposure to the Latin American emerging markets, particularly Brazil, offset some of the gains in Europe. An underweight in Japan, combined with the decision not to own Japanese banks, contributed positively to Scudder's annual performance.

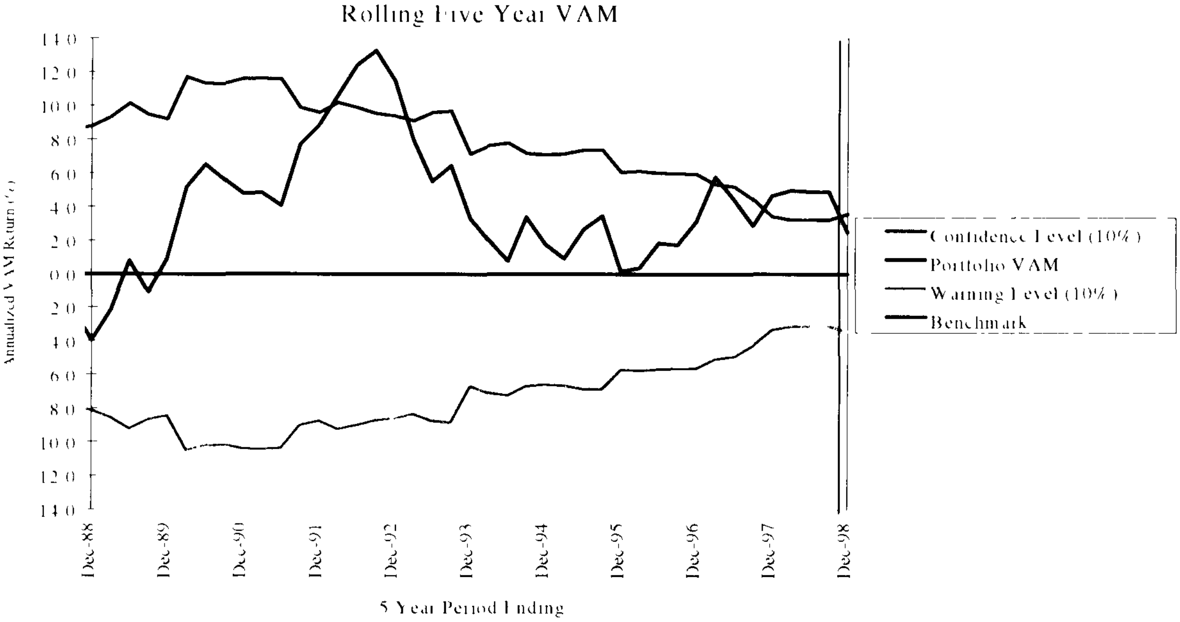
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.0%	20.7%
Last 1 year	10.9	20.1
Last 2 years	9.1	10.4
Last 3 years	11.6	9.0
Last 4 years	12.9	9.5
Last 5 years	9.7	9.2
Since Inception (11/93)	10.4	8.4

Recommendations

No action required.

SCUDDER, STEVENS & CLARK
Rolling Five Year VAM



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

CITY OF LONDON
Periods Ending December, 1998

Portfolio Manager: Barry Olliff — **Assets Under Management: $194,823,350**

Investment Philosophy

City of London is an emerging markets specialist. The firm invests in closed-end country and regional funds to enhance performance when discounts to net asset value (NAV) narrow and to assure broad diversification within markets. They perform two levels of analysis. The first level is to compile macro-economic data for each country in their universe. Countries are ranked nominally according to the relative strength of their fundamentals and the expected upward potential of their stock markets. The second level is research on closed-end country and regional funds which use analyzed funds for corporate activity, liquidation dates, liquidity and discounts to NAV. They also analyze the quality and expertise of the closed-end fund managers. Countries are then re-ranked according to the relative pricing and discounts to NAV of country specific funds.

Staff Comments

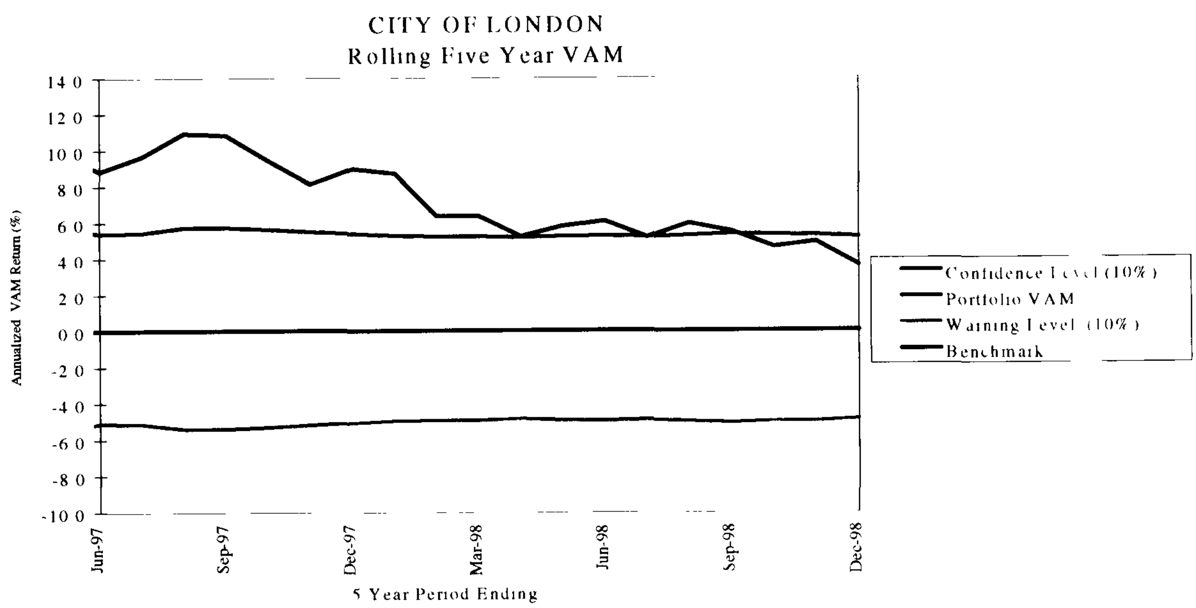
The Fund's underperformance over the quarter was due to the combined negative effects of country allocation compared to the Index and local currency movements against the US dollar. Some country allocation underperformance was due to the Fund's underweight positions in Chile, Korea and Greece The underperformance was partially offset by the Fund's overweight exposure to Thailand and relative gains in currency movements realized from the overweight position in Thailand.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.9%	18.0%
Last 1 year	-23.4	-25.3
Last 2 years	-13.3	-18.8
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)	-10.9	-16 6

Recommendations

No action required.



Note Shaded area includes performance prior to managing SBI account

GENESIS ASSET MANAGERS, LTD.
Periods Ending December, 1998

Portfolio Manager: Paul Greatbatch | **Assets Under Management: $184,638,291**

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

Staff Comments

Genesis' principal source of underperformance for the quarter was the portfolio's underweighting of the Asian region Genesis believed stocks in Asia did not seem particularly attractive, whereas those in Latin America offered reasonable risk-return characteristics Performance was also harmed by underweighting Greece and Russia Overweighting South America was also a negative contributor The average cash position of 11% was a major drag on performance

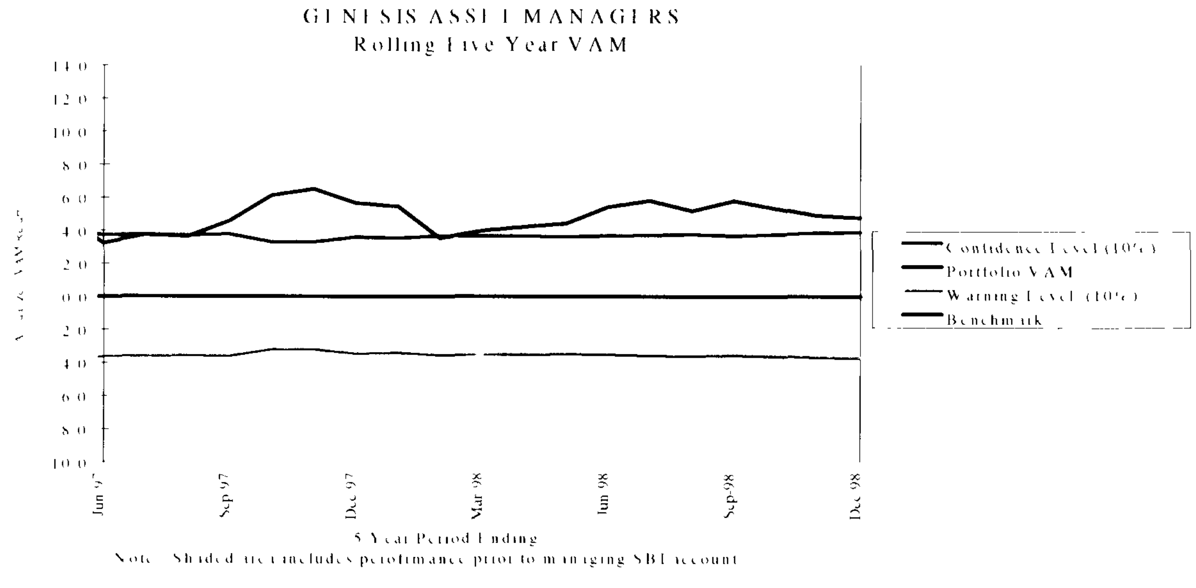
Value was added against the index by the underweighting in South Africa, Mexico and India The continued overweighting of Hungary also helped

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9 9%	18 0%
Last 1 year	-29 3	-25 3
Last 2 years	-17 2	-18 8
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)	-12 7	-15 7

Recommendations

No action required



MONTGOMERY ASSET MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Josephine Jimenez **Assets Under Management: $171,069,014**

Investment Philosophy

Montgomery is an emerging markets specialist. The firm combines quantitative investment techniques and fundamental stock selection to take advantage of market inefficiencies and low correlations within the emerging markets. Their top-down analysis begins with a quantitative approach which evaluates historical volatility and correlations between markets. The model identifies attractive countries which are then qualitatively analyzed for "event risk" which the model cannot take into account. Fundamental analysis is used to evaluate the financial condition, quality of management, and competitive position of each stock. Stocks will come from two tiers. Tier 1 will be 60-100 blue chip stocks. Tier 2 will be 100-150 smaller cap stocks with substantial growth potential. Characteristics of selected stocks may include low PE's to internal growth rates, above average earnings growth potential or undervalued/hidden assets.

Staff Comments

Underperformance for the quarter was due to underweighting Korea and Indonesia. The overweight to Brazil proved to be the other main drag on performance

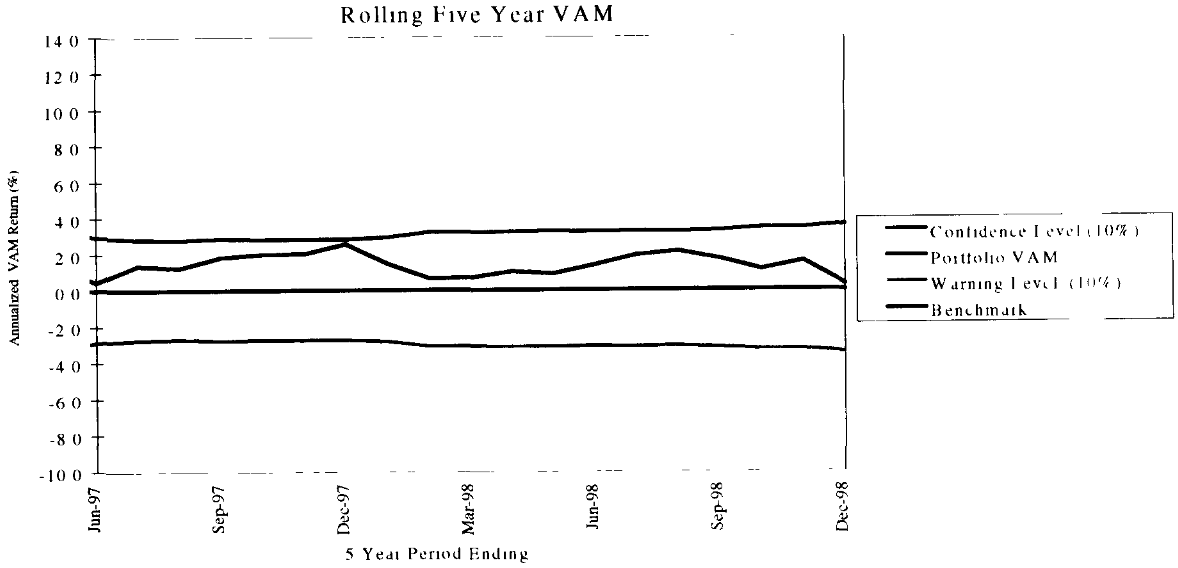
Some of the portfolio's best performing stocks were in Europe where the portfolio remains overweight

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.2%	18.0%
Last 1 year	-36.6	-25.3
Last 2 years	-21 2	-18.8
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)	-15.7	-15 7

Recommendations

No action required



Note Shaded area includes perofrmance prior to managing SBI account

STATE STREET GLOBAL ADVISORS
Periods Ending December, 1998

Portfolio Manager: Lynn Blake **Assets Under Management: $2,897,525,564**

Investment Philosophy

State Street Global Advisors passively manages the portfolio against the Morgan Stanley Capital International (MSCI) index of 20 markets located in Europe, Australia and the Far East (EAFE) They buy only securities which are eligible for purchase by foreign investors, therefore they are benchmarked against the MSCI EAFE-Free index SSgA fully replicates the index whenever possible because it results in lower turnover, higher tracking accuracy and lower market impact costs The MSCI EAFE-Free reinvests dividends at the Belgian tax rate The portfolio reinvests dividends at the lower U S tax rate, which should result in modest positive tracking error, over time

Staff Comments

No comment at this time

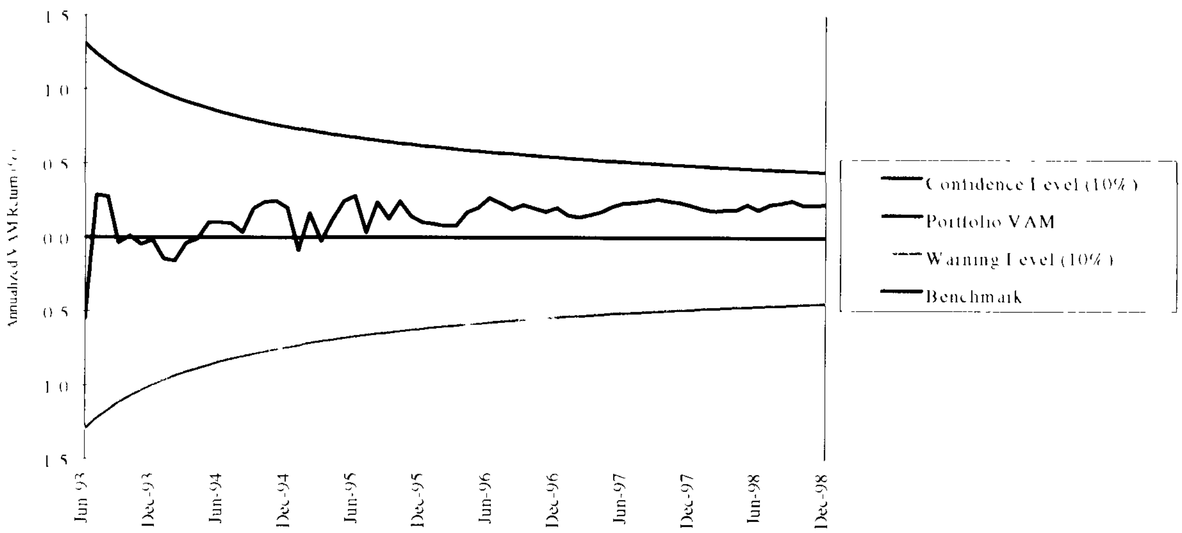
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	20 6%	20 7%
Last 1 year	20 4	20 1
Last 2 years	10 7	10 4
Last 3 years	9 4	9 0
Last 4 years	9 8	9 5
Last 5 years	9 5	9 2
Since Inception (10/92)	11 8	11 5

Recommendation

No action required

STATE STREET GLOBAL ADVISORS
Cumulative Tracking



RECORD TREASURY MANAGEMENT
Periods Ending December, 1998

Portfolio Manager: Neil Record **Exposure Included in Overlay: 1,045,281,149**

Investment Philosophy

Record Treasury avoids all forms of forecasting in its approach to currency overlay. Rather, the firm employs a systematic model which uses a form of dynamic hedging The firm creates a portfolio of synthetic currency options using forward contracts. Like traditional options, Record's "in-house options" allow the client to participate in gains associated with foreign currency appreciation and avoid losses associated with foreign currency depreciation. As with all dynamic hedging programs, Record will tend to sell foreign currency as it weakens and buy as it strengthens.

The SBI has chosen to limit the overlay program to currencies that comprise 5% or more of the EAFE index: Japanese Yen, British Pound Sterling, German Mark, French Franc, Swiss Franc, Dutch Guilder One twelfth of the exposures in the SBI's EAFE index fund were added to the overlay program each month from December 1995 to November 1996. Each currency is split into equal tranches that are monitored and managed independently. The strike rate for each tranche is set at 2% out-of-the money at the start date of each tranche. This requires a 2% strengthening of the US dollar to trigger a hedge for that tranche.

Staff Comments

No comment at this time

Quantitative Evaluation

	Index Fund + Record	Index Fund(1)
Last Quarter	19 6%	20.6%
Last 1 Year	19.5	20.4
Last 2 Years	12.9	10.7
Last 3 Years	N/A	N/A
Last 4 Years	N/A	N/A
Last 5 Years	N/A	N/A
Since Inception (12/95)	12.6	10.4

Recommendations

No action required.

(1) Actual unhedged return of the entire EAFE-Free index fund managed by State Street Global Advisers Includes return of underlying stock exposure. (As reported by State Street Bank)

Tab E

COMMITTEE REPORT

DATE: February 23, 1999

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

FROM: **Alternative Investment Committee**

The Alternative Investment Committee met on February 12, 1999 to review the following information and action items:

- Review of current strategy.
- Investment for the Post Retirement Fund with an existing real estate manager, CB Richard Ellis Investors.
- Investment for the Post Retirement Fund with an existing private equity manager, GTCR Golder Rauner, L.L.C.

The Board/IAC action is required on the last two items.

INFORMATION ITEMS:

1) Review of Current Strategy.

To increase overall portfolio diversification, 15% of the Basic Retirement Funds and 5% of the Post Retirement Fund are allocated to alternative investments. Alternative investments include real estate, private equity and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. Charts summarizing the Board's current commitments are attached (see **Attachments A and B**).

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified Real Estate Investment Trusts (REITs), open-end commingled funds and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds and REITs. Currently, the SBI has an investment at market value of $655 million in twenty (20) commingled real estate funds and REITs.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. Currently, the SBI has an investment at market value of $829 million in forty-six (46) commingled private equity funds.

- The strategy for resource investment is to establish and maintain a portfolio of resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has an investment at market value of $132 million in eleven (11) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employees' pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. The SBI has an investment at market value of $196 million in twelve (13) yield oriented funds for the Post Fund: Four (4) are in real estate, seven (7) are in private equity and two (2) are in resource funds.

ACTION ITEMS:

1) **Investment for the Post Retirement Fund with an existing real estate manager, CB Richard Ellis Investors, in CB Richard Ellis Investors Commercial Mortgage Fund V.**

   CB Richard Ellis Investors is seeking investors for a new $200 million real estate fund, CB Richard Ellis Investors Commercial Mortgage Fund V. This Fund is the fifth real estate fund managed by CB Richard Ellis Investors. CB Richard Ellis Investors Commercial Mortgage Fund V will focus, like prior funds, on assembling a diverse portfolio of mortgage real estate investments.

   More information on CB Richard Ellis Investors Commercial Mortgage Fund V is included as **Attachment C**.

   RECOMMENDATION:

   The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $40 million or 20%, whichever is less, in CB Richard Ellis Investors Commercial Mortgage Fund V. 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 CB Richard Ellis Investors 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 CB Richard Ellis Investors or reduction or termination of the commitment.

2) **Investment for the Post Retirement Fund with an existing private equity manager, GTCR Golder Rauner, L.L.C., in GTCR Capital Partners, L.P.**

GTCR Golder Rauner, L.L.C. is seeking investors for a new $400 million mezzanine investment private equity fund, GTCR Capital Partners, L.P. This Fund is the seventh in a series of private equity funds managed by GTCR Golder Rauner, L.L.C. GTCR Capital Partners, L.P. will focus on providing mezzanine and subordinated debt with equity financing to companies within the other GTCR funds.

More information on GTCR Capital Partners, L.P. is included as **Attachment D.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $80 million or 20%, whichever is less, in GTCR Capital Partners, L.P. This commitment will be allocated to the Post Retirement Fund.

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

ATTACHMENT A

Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
December 31, 1998

Market Value of Basic Retirement Funds	$19,243,636,478
Amount Available for Investment	**$1,240,453,158**

	Current Level	Target Level	Difference
Market Value	$1,646,092,314	$2,886,545,472	$1,240,453,158
MV +Unfunded	$2,513,996,084	$3,848,727,296	$1,334,731,212

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$655,718,183	$68,878,973	$724,597,156
Private Equity	$858,231,610	$649,186,567	$1,507,418,177
Resource	$132,142,521	$149,838,230	$281,980,751
Total	$1,646,092,314	$867,903,770	$2,513,996,084

Minnesota State Board of Investment

Alternative Investments

Post Retirement Funds

December 31, 1998

Market Value of Post Retirement Funds	$17,742,832,863
Amount Available for Investment	**$695,621,908**

	Current Level	Target Level	Difference
Market Value	$191,519,735	$887,141,643	$695,621,908
MV +Unfunded	$398,472,232	$1,774,283,286	$1,375,811,054

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$73,136,765	$10,143,441	$83,280,206
Private Equity	$96,037,707	$145,127,691	$241,165,398
Resource	$22,345,263	$51,681,365	$74,026,628
Total	$191,519,735	$206,952,497	$398,472,232

ATTACHMENT B

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 1998

	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Real Estate-Basic							
Aetna	42,376,529	42,376,529	114,083,765	0	0	6 77	16.67
AEW							
AEW III	20,000,000	20,000,000	69,895	24,073,070	0	1.75	13.32
AEW IV	15,000,000	15,000,000	20,707	4,410,656	0	-10 85	12.25
AEW V	15,000,000	15,000,000	1,503,163	10,467,749	0	-2.41	11.04
American Republic	1	1	1	0	0	0 00	8.91
Colony Capital							
Colony Investors II	40,000,000	36,986,764	32,262,696	12,510,376	3,013,236	11.39	3.75
Colony Investors III	100,000,000	38,789,862	38,473,182	0	61,210,138	-1.81	1.00
Equitable	40,000,000	40,000,000	101,948,261	277,669	0	5.96	17.22
Equity Office Properties Trust	140,388,854	140,388,854	177,608,138	35,276,584	0	12 69	7.10
First Asset Realty	916,185	916,185	203,191	824,994	0	3 83	4.67
Heitman							
Heitman Advisory Fund I	20,000,000	20,000,000	2,926,630	19,480,161	0	1.49	14.39
Heitman Advisory Fund II	30,000,000	30,000,000	8,820,792	34,559,953	0	4.04	13.11
Heitman Advisory Fund III	20,000,000	20,000,000	591,640	21,764,261	0	1.37	11.94
Heitman Advisory Fund V	20,000,000	20,000,000	20,556,562	10,190,048	0	7 97	7.07
Lasalle Income Parking Fund	15,000,000	14,644,401	13,185,413	5,983,784	355,599	6.48	7.28
RREEF USA Fund III	75,000,000	75,000,000	38,565,194	75,679,462	0	4.24	14.64
T.A. Associates Realty							
Realty Associates Fund III	40,000,000	39,200,000	49,198,156	10,902,165	800,000	12.94	4.58
Realty Associates Fund IV	50,000,000	46,500,000	47,395,091	3,556,981	3,500,000	7.88	1.91
TCW							
TCW Realty Fund III	40,000,000	40,000,000	5,737,449	42,332,449	0	1.92	13.42
TCW Realty Fund IV	30,000,000	30,000,000	2,568,257	26,262,533	0	-0.43	12.16
Real Estate-Basic Totals	753,681,569	684,802,596	655,718,183	338,552,896	68,878,973		
Real Estate-Post							
Colony Investors II	40,000,000	36,986,764	32,262,696	12,510,376	3,013,236	11.39	3.75
Westmark Realty Advisors							
Westmark Coml MTG Fund II	13,500,000	13,397,500	11,943,411	5,130,887	102,500	10.67	3.40
Westmark Coml MTG Fund III	21,500,000	21,275,052	21,455,150	2,573,877	224,948	9.83	2.08
Westmark Coml MTG Fund IV	14,300,000	7,497,243	7,475,508	267,319	6,802,757	9.15	1.00
Real Estate-Post Totals	89,300,000	79,156,559	73,136,765	20,482,459	10,143,441		
Real Estate-Totals	842,981,569	763,959,155	728,854,948	359,035,355	79,022,414		

Minnesota State Board of Investment

- Alternative Investments -

As of December 31, 1998

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Basic							
Allied	5,000,000	5,000,000	414,781	5,913,368	0	3 73	13 29
Bank Fund							
Banc Fund III	20,000,000	20,000,000	29,889,540	10,981,063	0	18 60	6 18
Banc Fund IV	25,000,000	25,000,000	26,660,875	2,044,280	0	9.36	2 87
Banc Fund V	48,000,000	4,800,000	4,655,410	15,419	43,200,000	-3 97	0 46
Blackstone Partners II	50,000,000	45,928,033	35,176,014	41,191,091	4,071,967	46 24	5.11
Brinson Partners							
Brinson Partners I	5,000,000	5,000,000	919,684	7,618,467	0	9 73	10 64
Brinson Partners II	20,000,000	18,779,998	5,580,800	29,999,275	1,220,002	25.45	8 09
Churchill Capital Partners II	20,000,000	20,000,000	10,245,491	18,558,579	0	14 51	6.18
Contrarian Capital II	37,000,000	29,612,357	27,074,358	12,446	7,387,643	-9 01	1.59
Coral Partners							
Coral Partners Fund I	7,011,923	7,011,923	1,350,101	5,130,811	0	-1 38	12 53
Coral Partners Fund II	10,000,000	8,069,315	8,803,535	24,566,065	1,930,685	25.23	8 43
Coral Partners Fund IV	15,000,000	10,500,000	8,684,536	2,268,657	4,500,000	1 68	4.45
Coral Partners Fund V	15,000,000	2,285,815	2,095,919	0	12,714,185	-10 11	0 54
IAI Venture Partners I	1,146,890	1,146,890	0	1,536,770	0	14.70	7 84
Crescendo							
Crescendo II	15,000,000	9,444,773	7,663,366	2,286,019	5,555,227	4.68	2 00
Crescendo III	25,000,000	3,375,000	3,375,000	0	21,625,000	0 00	N/A
DSV	10,000,000	10,000,000	3,488,466	20,244,324	0	8.25	13 72
First Century	10,000,000	10,000,000	2,408,385	14,024,709	0	8.79	14 05
Fox Paine and Company	40,000,000	893,020	893,020	0	39,106,980	-46.88	0 69
Golder Thoma Cressey Rauner							
Golder Thoma Cressey Rauner Fund III	14,000,000	14,000,000	8,968,241	51,021,716	0	30.96	11.17
Golder Thoma Cressey Rauner Fund IV	20,000,000	19,450,000	21,812,566	25,014,138	550,000	36 33	4 91
Golder Thoma Cressey Rauner Fund V	30,000,000	24,150,000	28,629,082	673,223	5,850,000	17.53	2.50
GTCR Fund VI	90,000,000	9,900,000	9,900,000	0	80,100,000	0.00	0.50
Hellman & Friedman III	40,000,000	25,242,969	19,248,580	22,978,849	14,757,031	32 27	4 28
IMR Partnership	15,000,000	1,524,900	0	1,148,997	13,475,100	-11.13	6.41
Inman Bowman	7,500,000	7,500,000	0	10,207,139	0	4 04	13.55
Kohlberg Kravis Roberts							
KKR 1984 Fund	25,000,000	25,000,000	49,568	128,309,634	0	28.59	14 55
KKR 1986 Fund	18,365,339	18,365,339	33,279,922	186,003,280	0	28 59	12.71
KKR 1987 Fund	145,950,000	145,950,000	192,108,059	250,347,368	0	11.95	11 10
KKR 1993 Fund	150,000,000	150,000,000	125,410,740	111,304,061	0	10 81	5.03
KKR 1996 Fund	200,000,000	96,460,675	81,998,000	11,401,196	103,539,325	-3 63	2.33
Matrix							
Matrix Partners II	10,000,000	10,000,000	1,153,455	21,055,966	0	13 94	13 37
Matrix Partners III LP	10,000,000	10,000,000	2,704,539	70,242,885	0	74 83	8 65
Northwest	10,000,000	10,000,000	0	15,545,326	0	5 72	14.97
Piper Jaffrey Healthcare							
Piper Jaffery Healthcare Fund II	10,000,000	6,400,000	5,599,548	415,800	3,600,000	-6.49	1.83
Piper Jaffray Healthcare Fund III	20,000,000	0	0	0	20,000,000	N/A	N/A
RCBA Strategic Partners, L.P	50,000,000	10,321,578	10,321,578	0	39,678,422	0.00	N/A
Summit Partners							
Summit Venture I L P	10,000,000	10,000,000	19,114	20,369,277	0	13.17	14.04
Summit Venture II L P	30,000,000	28,500,000	6,270,499	65,496,333	1,500,000	28.92	10 64
Summit Venture V L P	25,000,000	5,625,000	5,565,488	421	19,375,000	-1.71	0 75
T. Rowe Price	202,827,472	202,827,472	13,594,132	201,996,875	0	10.36	N/A
Thomas Cressey	35,000,000	2,800,000	2,800,000	0	32,200,000	0 00	0 36
Warburg Pincus							
Warburg Pincus Equity Partners	100,000,000	12,000,000	11,637,384	0	88,000,000	-6 21	0 51
Warburg Pincus Ventures	50,000,000	48,750,000	64,289,525	9,008,438	1,250,000	21.45	4.00
Welsh, Carson, Anderson & Stowe	100,000,000	16,000,000	15,721,744	0	84,000,000	-4 61	0 44
Zell/ Chilmark	30,000,000	30,000,000	17,770,564	51,172,195	0	15 89	8 47
Venture Capital-Basic Totals	1,826,801,624	1,177,615,057	858,231,610	1,440,104,459	649,186,567		

Minnesota State Board of Investment

- Alternative Investments -
As of December 31, 1998

Investment	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Venture Capital-Post							
Citicorp Mezzanine	40,000,000	29,025,951	20,062,770	14,460,693	10,974,049	13.17	4.00
Kleinwort Benson	25,000,000	18,420,501	19,217,691	3,198,540	6,579,499	15.61	3.25
Summit Partners							
Summit Sub Debt Fund I	20,000,000	18,000,000	4,427,581	22,753,242	2,000,000	27.43	4 75
Summit Sub. Debt Fund II	45,000,000	18,000,000	15,608,583	4,028,216	27,000,000	9 47	1.42
T. Rowe Price	3,940,301	3,940,301	1,422,714	1,612,657	0	-48 56	N/A
TCW/Crescent Mezzanine							
TCW Crescent Mezzanine Partner	40,000,000	36,155,110	30,027,621	10,161,571	3,844,890	8.85	2.75
TCW Crescent Mezzanine Partner II	100,000,000	5,270,747	5,270,747	0	94,729,253	0.00	N/A
Venture Capital-Post Totals	273,940,301	128,812,609	96,037,707	56,214,920	145,127,691		
Venture Capital-Totals	2,100,741,925	1,306,427,667	954,269,317	1,496,319,379	794,314,258		

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- Alternative Investments -

As of December 31, 1998

	Total Commitment	Funded Commitment	Market Value	Distributions	Unfunded Commitment	IRR %	Period Years
Resource-Basic							
Apache	30,000,000	30,000,000	3,395,670	42,525,861	0	10 90	12 00
First Reserve							
First Reserve I	15,000,000	15,000,000	6,965,000	6,664,976	0	-0 72	17 25
First Reserve II	7,000,000	7,000,000	8,487,006	5,482,744	0	5.81	15 90
First Reserve IV	12,300,000	12,300,000	0	31,030,962	0	13 15	10 62
First Reserve V	16,800,000	16,800,000	25,799,000	24,519,754	0	17.48	8 67
First Reserve VII	40,000,000	34,114,481	24,473,953	10,049,880	5,885,519	1 19	2 50
First Reserve VIII	100,000,000	7,171,020	7,264,577	0	92,828,980	-9 49	0 67
Morgan Oil & Gas	15,000,000	15,000,000	3,515,964	20,906,987	0	6.91	10.35
Simmons							
Simmons - SCF Fund II	17,000,000	14,847,529	20,025,928	6,283,253	2,152,471	10 46	7.40
Simmons - SCF Fund III	25,000,000	18,653,740	24,819,470	8,245,755	6,346,260	25.44	3 50
Simmons - SCF Fund IV	50,000,000	7,375,000	7,395,953	0	42,625,000	-10 03	0.75
Resource-Basic Totals	328,100,000	178,261,770	132,142,521	155,710,172	149,838,230		
Resource-Post							
Merit Energy Partners							
Merit Energy Partners B L P	24,000,000	16,442,976	16,469,604	1,197,382	7,557,024	6 63	2.50
Merit Energy Partners C	50,000,000	5,875,659	5,875,659	0	44,124,341	0 00	0.18
Resource-Post Totals	74,000,000	22,318,635	22,345,263	1,197,382	51,681,365		
Resource-Totals	402,100,000	200,580,405	154,487,784	156,907,554	201,519,595		

ATTACHMENT C

REAL ESTATE MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND:	CB Richard Ellis Investors Commercial Mortgage Fund V
FUND MANAGER:	CB Richard Ellis Investors
TYPE OF FUND:	Real Estate Mortgage Group Trust
TOTAL FUND SIZE:	\$50 - \$200 Million
MANAGER CONTACT:	Tim Stevens 865 South Figueroa Street Los Angeles, California 90017 Phone: (213) 683-4366

II. ORGANIZATION AND STAFF

The Investment Manager for the Trust ("Investment Manager") is CB Richard Ellis Investors, LLC, a wholly owned, but separately managed, subsidiary of CB Richard Ellis Inc., the largest real estate firm in the world, which is headquartered in Los Angeles, CA.

CB Richard Ellis Investors was formed in 1972 and known then as Coldwell Banker. A firm called Westmark was purchased in 1995, a firm called Kohl Investment Management was purchased in 1997, and a firm called Hillier-Parker(London) was purchased in 1998 to form what is today an investment manager with approximately $7 billion in assets under management. CB Richard Ellis Inc. is a broadly diversified real estate firm with over 9,000 employees, in over 200 offices, in 29 countries. CB Richard Ellis Investors Commercial Mortgage Fund V is the fifth in a series of commercial mortgage funds which began in 1993. The SBI is an investor in Fund II, Fund III, and Fund IV. Going forward, CB Richard Ellis Investors plans to offer a new mortgage fund every year.

The Investment Manager will appoint L.J. Melody & Company, a wholly owned subsidiary of CB Richard Ellis Inc., to originate loans and perform selected servicing activities. L.J. Melody & Company, established in 1939, provides mortgage origination, loan underwriting, and loan administration services to institutional real estate lenders throughout the United States. L.J. Melody & Company employs approximately 200 employees located in twenty-six major metropolitan areas throughout the United States. For the last five years L.J. Melody & Company placed on behalf of institutional investors an average of approximately $5 billion in mortgage loans annually. L.J. Melody & Company currently provides collection and loan administration services for a loan portfolio of approximately $11 billion originated by L.J. Melody & Company.

III. INVESTMENT STRATEGY

The investment objective of the Trust is to make loans of $1 million to $10 million secured by first mortgages on commercial real property, including office, industrial, retail, mobile home and apartment properties. The terms of such loans will be not less than five, nor more than ten, years. Interest will accrue on the Mortgage Loans at a fixed rate of interest agreed by the Investment Manager and the borrower. The Investment Manager believes that it will be able to place Mortgage Loans carrying rates of interest of approximately 1.5% to 2.5% per annum over the market yield for United States Treasury obligations of similar maturities. In addition, L.J. Melody & Company will not recommend a mortgage loan unless, based on financial information provided, (a) the "debt service coverage ratio" initially equals or exceeds 1.20, and (b) the "loan to value ratio" equals or is less than 0.75. To the extent permitted by applicable laws, the loan agreement for each Mortgage Loan will contain provisions that would require the borrower to pay a prepayment premium of one percent of the amount prepaid or an amount determined under a "yield maintenance provision," whichever is greater, in the event such borrower elects to prepay such Mortgage Loan, or portion thereof, more than 90 days prior to maturity. The Mortgage Loans will be non-recourse to the borrowers, except as to fraud, willful misconduct, and liability under environmental laws.

IV. INVESTMENT PERFORMANCE

The SBI invested in CB Richard Ellis's second mortgage fund, Westmark Commercial Mortgage Fund II that was established in June 1995. Since inception of the Fund, Westmark closed twenty loans. Property location and type diversify the loans and each loan is under $10 million in size. Rates vary from 8.75% to 9.5%, which represent spreads over comparable treasury securities between 225 and 340 basis points. Loan to property value ratios vary from 34% to 73%.

The SBI also invested in CB Richard Ellis's third mortgage fund, Westmark Commercial Mortgage Fund III that was established in December 1996. Since inception of the Fund, Westmark has closed twenty-seven loans. Property location and type diversify the loans and each loan is under $10 million in size. Rates vary from 7.25% to 9.5%, which represent spreads over comparable treasury securities at time of funding of between 180 and 307 basis points. Loan to property value ratios vary from 42% to 75%.

The SBI also invested in CB Richard Ellis's fourth mortgage fund, Westmark Commercial Mortgage Fund IV that was established in December 1997. Since inception of the Fund, CB Richard Ellis has closed thirteen loans, and committed to three more loans. The thirteen loans together represent $32.6 million or 50% of the fund. Property location and type diversify the loans and each loan is under $10 million in size. Rates vary from 7.5% to 8.25%, which represent spreads over comparable treasury securities at the time of funding between 180 and 343 basis points. Loan to property value ratios vary from 42% to 75%.

Previous fund performance as of December 31, 1998 for the SBI's investments with previous CB Richard Ellis funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Fund II	1995	$67.5 million	$13.5 million	10.7%
Fund III	1996	$107.5 million	$21.5 million	9.8%
Fund IV	1997	$72 million	$14.3 million	9.2%

V. TAKEDOWN SCHEDULE

The Investment Manager will have the discretion to call any subscriptions at any time it deems appropriate. Payment for a Participant's Units will generally be required two weeks after it receives a notice to that effect from the Investment Manager.

VI. MANAGEMENT FEE

Upon receipt by the Trust of the proceeds of the initial call for payment of subscriptions for Units, the Trust will pay the Trustee an initial fee of $7,500, and will reimburse the Trustee for its direct expenses incurred in the organization of the Trust (including legal fees and expenses). In addition, the Trust will pay the Investment Manager an amount equal to 2.0% of the aggregate amount of subscriptions (the "Subscription Fee"). The Subscription Fee will be used by the Investment Manager to pay the fees and expenses of an affiliate for loan origination and loan application review services and to compensate the Investment Manager for reviewing, approving, and placing the loans. Prospective borrowers from the Trust will be required to pay certain fees to the Trust, which the Investment Manager believes will total approximately 1.5% of the aggregate amount of subscriptions. For example, if the Trust is fully subscribed at $200 million, $4 million of the proceeds from such subscriptions received by the Trust will be paid by the Trust to the Investment Manager. If the Trust is fully invested in Mortgage Loans, the aggregate amount invested should be approximately $199 million (i.e., $196 million net proceeds from subscriptions plus approximately $3.0 million from fees paid to the Trust by borrowers), less the Trustee's initial fee and reimbursement of expenses.

The Trustee will also receive a quarterly administration fee from the Trust of one-fourth of (a) 0.0175% of the first $50 million of assets held by the Trust at the beginning of such quarter, (b) 0.0075% of the assets held by the Trust on such date in excess of $50 million and less than or equal to $100 million, and (c) 0.0050% of the assets held by the Trust on such date in excess of $100 million.

The annual management and loan-servicing fee shall be .35% (35 basis points) of the total capital invested in mortgages. The management fee will pay for portfolio management, loan servicing, investor reporting, relations, management and disposition of foreclosed assets, if any.

The Investment Manager will be paid a Performance Fee, upon liquidation of the Fund, of .50% of the aggregate capital invested in mortgage loans. The Performance Fee will be reduced by any losses from the expected returns to Investors. The Performance Fee is completely at risk until the Investors have received all their agreed upon principal and interest payments.

Returns from Fund investments will be distributed monthly.

VII. TERM

The Fund is a closed end investment vehicle. The individual mortgages will have terms of 5 to 10 years. Therefore, when the last loan matures, the Fund will cease to exist.

ATTACHMENT D

PRIVATE EQUITY MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND:	GTCR Capital Partners, L.P.
FUND MANAGER:	GTCR Golder Rauner, L.L.C.
TYPE OF FUND:	Private Equity Limited Partnership
TOTAL FUND SIZE:	$400 million
MANAGER CONTACT:	Bruce Rauner 6100 Sears Tower Chicago, IL 60606 Phone: (312) 382-2200 Fax: (312) 382-2201

II. ORGANIZATION & STAFF

GTCR Golder Rauner, L.L.C. ("GTCR Golder Rauner") is forming GTCR Capital Partners, L.P. (the "Mezzanine Fund" or the "Partnership") to make mezzanine investments in private companies, primarily in the form of subordinated debt with equity participations. GTCR Golder Rauner and related management companies (the "GTCR Companies", and collectively with GTCR Golder Rauner, "GTCR") have managed six private equity funds over the last nineteen years. From 1980 to the present, GTCR has invested over $1.2 billion.

In April of 1998, GTCR Golder Rauner raised GTCR Fund VI, L.P., a private equity fund and Delaware limited partnership, ("GTCR Equity Fund VI") with commitments totaling $870 million. GTCR Equity Fund VI will continue to pursue GTCR's long-standing focus on investment in consolidating, fragmented industries by teaming with top executives to build companies through acquisition and internal growth. GTCR has executed over 50 such industry consolidations.

GTCR Equity Fund VI represented the first private equity fund raised by GTCR Golder Rauner. Earlier in 1998, the GTCR Companies' principals made a mutual decision to create two separate firms and raise two independent funds. Bruce Rauner along with six of the nine principals (the "GTCR Principals" or the "Principals") and all of the professional and support personnel of the GTCR Companies formed GTCR Golder Rauner. Carl Thoma, the other co-head of the GTCR Companies, also formed a new firm at that time.

The Mezzanine Fund is being formed to realize high current income plus substantial capital appreciation through investments, primarily in companies in which GTCR Equity Fund VI, the GTCR Companies' first five private equity funds (the "Prior Funds" or "Funds I-V"), or any future equity fund sponsored by GTCR (collectively, the "GTCR Equity Funds") invests or has invested. Because of the industry consolidation strategy pursued by the GTCR Principals in Funds I-V, GTCR has been a significant user of mezzanine financing to date. The GTCR Principals anticipate that as they continue to pursue this strategy in the future, the companies in which they invest will continue to generate significant demand for mezzanine financing. The Partnership will typically invest in subordinated debt and related equity securities, typically warrants, profit participations, or other similar equity rights. In addition, The Partnership may provide interim financing ("Bridge Financing") and guaranties in order to facilitate a portfolio investment. The Mezzanine Fund is seeking capital commitments of $400 million.

GTCR Golder Rauner, L.L.C. will initially have one Managing Principal (Bruce Rauner), six Principals, two vice presidents, a director, and ten other investment professionals investing in the Mezzanine Fund. A Chief Financial Officer and an administrative staff of fifteen will support these professionals from an office located in Chicago.

III. INVESTMENT STRATEGY

The Mezzanine Fund will invest primarily in companies in which a GTCR Equity Fund invests or has invested, but may also invest in transactions originated by GTCR but in which a GTCR Equity Fund does not participate. GTCR invests in consolidating, fragmented industries by teaming with top executives to build companies through acquisition and internal growth. Such investments usually take the form of management start-ups, where GTCR recruits a management team to start a new company, or platform acquisitions, where GTCR invests in an existing company to fuel its growth. In either case, the GTCR Principals strive to "make the whole greater than the sum of its parts" and thus create significant equity value, particularly when an equity investment is leveraged.

Industry consolidation investments are characterized by staged investments occurring over an extended period of time. As such, incremental mezzanine investments will provide the Principals the opportunity to re-evaluate an investment over time, thereby reducing risk. In addition, since the mezzanine financing can often be refinanced or redeemed at attractive levels after a relatively short investment horizon, the GTCR strategy of mezzanine investing has the potential to provide enhanced returns to its investors.

IV. INVESTMENT PERFORMANCE

Previous fund performance as of December 31, 1998 for the SBI's investments with previous GTCR funds is shown below:

Fund	Inception Date	Total Equity Commitments	SBI Investment	Net IRR from Inception
Fund III	1987	$235 million	$14 million	31%
Fund IV	1994	$312 million	$20 million	36%
Fund V	1996	$521 million	$30 million	18%
Fund VI	1998	$870 million	$90 million	NM

V. GENERAL PARTNER'S INVESTMENT

The Principals will make a cash contribution of at least $10 million.

VI. TAKEDOWN SCHEDULE

Capital contributions will be drawn down as needed, with not less than 10 days' prior written notice.

VII. FEES

The Partnership will, commencing on the first drawdown of capital, pay the General Partner an annual management fee, payable quarterly in advance, equal to:

The Partnership will, commencing on the Effective Date, pay the General Partner an annual management fee, (the "Management Fee") payable quarterly in advance equal to (i) 1.0% of aggregate Commitments during the Commitment Period and (ii) 1.0% of the aggregate amount of the Partnership's capital invested in Portfolio Companies thereafter.

The Management Fee will be offset by management services fees, break-up fees, investment banking fees, directors fees and commitment fees, if any, paid to the General Partner, GTCR, or their employees to which the Mezzanine Fund is contractually entitled.

The Partnership will reimburse the General Partner for up to $750,000 of the partnership's organizational and startup expenses.

VIII. CLAWBACK

After termination of the Partnership, the General Partner will be required to restore funds to the Partnership to the extent that it may have received cumulative distributions in excess of amounts otherwise distributable to the General Partner pursuant to the distribution formula set forth above, applied on an aggregate basis covering all transactions of the Partnership, but in no event more than the cumulative distributions received by the General Partner with respect to its 20% carried interest, less income taxes thereon.

IX. TERM

The term of the Partnership will be ten years, but may be extended for up to a maximum of three consecutive one-year periods at the discretion of the General Partner.

X. DISTRIBUTIONS

Distributions will be made in the following order of priority:

(a) first, 100% to all Partners in proportion to funded Commitments until the cumulative amount distributed in respect of investments then and previously disposed of equals the aggregate of the following:

- (i) the funded Commitments attributable to all realized investments plus the amount of write-downs, if any, with respect to each unrealized investment written down as of that time; and
- (ii) the funded Commitments attributable to all organizational expenses, management fees and other expenses paid to date and allocated to realized investments and unrealized investments written down as of that time; and
- (iii) a preferred return on amounts included in (i) and (ii) above at a simple rate of 8% per annum (the "Preferred Return");

(b) second, 100% to the General Partner until the General Partner has received 20% of the sum of the distributed Preferred Return and distributions made pursuant to this paragraph (b); and

(c) thereafter, 80% to all Partners in proportion to funded Commitments and 20% to the General Partner.

XI. LIMITED PARTNER GIVEBACK

If the Partnership incurs any liability which it has insufficient funds to pay, (i) it may (notwithstanding the six year expiration of the Partners' Commitments) call such previously uncalled Commitments and (ii) after all Commitments have been called or terminated, it may call for such additional amount as is necessary to satisfy such liability, in which case each Partner shall contribute to the Partnership its pro rata share of the amount called by the General Partner based on relative Commitments, but in no event shall any Partner be required to contribute amounts pursuant to this clause (ii) which in the aggregate exceeds (A) the lesser of (x) the aggregate amount of distributions received by such Partner from the Partnership on account of such Commitment, and (y) 20% of such Partner's commitment, minus (B) any distributions recalled by the General Partner to fund additional investments (as described in the immediately following paragraph); provided that in no event shall any Partner be required to contribute amounts pursuant to clause (ii) above after the second anniversary of the Partnership's termination except to fund a liability or liabilities that the General Partner or the Partnership is in the process of litigating, arbitrating or otherwise distributing or settling as of such second anniversary date.

After such time as all Commitments have been called, the General Partner, in its sole discretion, may recall from the Partners any amounts previously distributed to them in order to fund any investment in companies (including then existing commitments, follow-on investments in Portfolio Companies and new investments in companies), provided that the General Partner may not recall distribution for such purposes in amounts greater than 15% of the Partners' aggregate Commitments.

XII. DIVERSIFICATION

The Partnership will not invest (a) more than 25% of aggregate Commitments (plus any realized investment gains from prior investments in a Portfolio Company) in any single Portfolio Company (including through Bridge Financings and guaranties of Portfolio Company indebtedness) or (b) more than 25% of aggregate Commitments in Portfolio Companies in which a GTCR Equity Fund has not invested. To the extent a guaranty is not drawn upon or a Bridge Financing is repaid within twelve months, such guaranty or Bridge Financing shall not count against the diversification limit discussed above or as an investment of Commitments.