MINNESOTA STATE BOARD OF INVESTMENT MEETING

September 11, 1991

&

INVESTMENT ADVISORY COUNCIL MEETING

September 10, 1991

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, September 11, 1991
8:30 A.M. - Room 118
State Capitol
Saint Paul

	TAB
1. Approval of Minutes of June 11, 1991 Meeting	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1 - June 30, 1991)	A
B. Portfolio Statistics (June 30, 1991)	B
C. Administrative Report	C
1. Budget Reports	
2. Travel Report	
3. IAC Member Selection Committee	
4. South Africa Task Force Appointments	
5. Creation of Equity Manager Selection Committee	
3. Reports from Investment Advisory Council Committees (J. Yeomans)	
A. Asset Allocation Committee	D
1. Asset Allocation Proposal for the Basic Funds	
B. Equity Manager Committee	E
1. Review of Manager Performance	
2. Review of IDS Performance	
C. Fixed Income Manager Committee	F
1. Review of Manager Performance	
2. Change in Manager Benchmarks	
D. Alternative Investment Committee	G
1. Update on Current Strategy	
2. Report on Fund Manager Annual Reviews	
4. Report from the Proxy Voting Committee	

MINNESOTA
STATE
BOARD OF
INVESTMENT

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

MINUTES

STATE BOARD OF INVESTMENT

June 11, 1991

The State Board of Investment (SBI) met at 8:30 A.M. on Tuesday, June 11, 1991 in Room 118, State Capitol, Saint Paul, Minnesota. Governor Arne H. Carlson, Chair; Secretary of State Joan Anderson Growe; State Treasurer Michael A. McGrath, State Auditor Mark B. Dayton; and Attorney General Hubert H. Humphrey III were present.

The minutes of the March 22, 1990 meeting were approved.

<u>EXECUTIVE DIRECTOR'S INVESTMENT REPORT</u>

Mr. Bicker, Executive Director, referred Board members to the report on return objectives in the meeting material. He stated that the Basic Retirement Funds have exceeded the inflation objective, matched the median return of other comparable funds, and slightly underperformed the composite index. He stated the Post Retirement Fund has provided a 6.7 percent annualized benefit increase for retirees over the last five years. He then stated that the actuarial information is updated only annually and is the same as provided at the last Board meeting.

Mr. Bicker reported that the value of the Basic Funds increased by 10.6 percent during the first quarter and that the stock component increased significantly due to a strong stock market. He reported that during the quarter the Basic Funds provided a rate of return of 12.2 percent compared to 9.1 percent for the median balanced fund. He stated that for the quarter the stock managers in aggregate matched the Wilshire 5000 and the bond managers in aggregate outperformed the Salomon Index. He then reported that the value of the

Post Fund increased by 3.6 percent during the quarter due to the performance of the large bond component in the Fund, but that the Post Fund continues to experience negative cash flow. He stated that the stock component continues to shrink and represented only 9.0 percent of the Fund at the end of the quarter. He stated that the Post Fund generated increases of 6.7 percent a year over the past five years. He noted that the stock component provided a total return of 20.3 percent during the quarter which exceeded the benchmark by 1.6 percentage points.

He then reported that total assets under management by the State Board of Investment totalled $16.7 billion as of March 31, 1991.

EXECUTIVE DIRECTOR ADMINISTRATIVE REPORT

Mr. Bicker referred Board members to the budget and travel reports in the meeting materials. He next reported that there were a number of bills passed in the 1991 legislative session relating to the State Board of Investment, but that none affect operations significantly. He then reported that the Program Evaluation Division of the Legislative Auditor released its report on state investment practices in April 1991. He stated that staff believes the most significant issue in the report is the auditor's suggestion to review potential changes in the Post Fund's post retirement benefit increase formula. He stated that he will continue to discuss the issue with the retirement systems, retiree groups and others. He then highlighted three other recommendations in the report: to increase the equity component in the Permanent School Fund; to develop a more appropriate benchmark for the cash portfolio; and to add certain explanatory material to the annual report. He then stated that the Legislative Audit Commission will meet June 17, 1991 to discuss the Legislative Auditor's report, and that he will report on that meeting at the September Board meeting.

ADMINISTRATIVE COMMITTEE

Mr. McGrath reported that the Administrative Committee had seven recommendations for the Board to consider. He stated that the first item is a recommendation that the Board approve the Executive Director's 1992 work plan. He stated that the second item is the recommendation to approve the budget plan for fiscal year 1992. He stated the third item is the Fiduciary Education Plan. He stated that there are no changes recommended to the existing plan, and that the Committee therefore recommends that the Board approve the plan as presented. He stated that the fourth item is the board member travel policy which allocates up to $2000 from the SBI administrative budget to each Board member or their staff for travel related to SBI matters. He stated that the Committee recommends the Board renew this policy for 1992 and continues to recommend that this policy be reviewed on an annual basis.

He next reported that the SBI negotiated a zero net fee guarantee with State Street Bank for the three year period ending September 1991. He stated State Street, the SBI's master custodian, has offered to extend the guarantee for an additional two year period. He stated that because the fee guarantee is favorable to the Board and State Street continues to provide quality services, the Committee recommends the Board approve the fee guarantee for the period ending September 30, 1993. He stated the sixth item is the recommendation concerning the computerized accounting and portfolio management system. He stated the current contract with Financial Control Systems will expire June 30, 1992, but because the retirement systems are considering proposals which might alter the Post Retirement Fund's benefit increase mechanism, it is possible that changes to the accounting system may be needed in the near future. He stated the current vendor is willing to extend the contract under the current fee arrangement. He stated that the Committee therefore recommends that the Board authorize a one year contract extension with Financial Control Systems for the SBI's accounting and portfolio management.

He stated the last item is the process by which to evaluate the executive director. He stated the Committee recommends that the evaluation be based on the results of the executive director's work plan for fiscal year 1991, that the Board deputies develop an appropriate evaluation form for use by each Board member, and that as the Governor's designee, the Commissioner of Finance coordinate collection of the evaluation forms and meet with Mr. Bicker to review all evaluations prior to the September 1991 meeting of the Board. He added that this process is the procedure the Board followed in 1990.

Mr. McGrath then moved approval of the Committee's seven recommendations as stated in the Committee report. Mr. Humphrey seconded. The motion was approved.

INVESTMENT ADVISORY COUNCIL COMMITTEE REPORTS
ASSET ALLOCATION COMMITTEE

Ms. Yeomans reported that the Committee discussed two issues but had no items requiring Board action. She stated that the Committee considered a proposal to restructure the bond segment of the Basic Funds which would have set a constant duration and required a change in the benchmark for the portfolio. She stated that the Committee recommends no action at this time because the proposal would have required several administrative changes whose benefits were unclear at this time, but that the proposal may be considered in the future. She stated the second item considered was a proposed investment policy for the Environmental Trust Fund (ETF). She stated that the preliminary proposal has an aggressive allocation to stocks in order to increase the principal as rapidly as possible in the early years so that the Fund generates a greater amount of income for spending purposes in later years. In response to a question from Ms. Growe, Mr. Bicker stated that the SBI now has investment responsibility for the ETF. He stated the ETF currently has about $25 million in assets but is expected to receive about $25 million a year from lottery proceeds. He explained that the SBI currently invests the assets in short term securities but that it will soon grow to a size sufficient to require a separate investment program. He stated that staff believes an investment program should be in place in fiscal 1992 and that staff will request Board approval of a plan and review it with the Legislative Commission on Minnesota Resources.

EQUITY MANAGER COMMITTEE

Ms. Yeomans reported that the Committee reviewed the performance of the active managers and that the managers in aggregate slightly outperformed the benchmark and equalled the Wilshire 5000 for the quarter. She stated the Committee discussed IAI's continued underperformance relative to its benchmark. She stated staff is beginning a search for active managers and that the Committee and staff concur that IAI be included as one candidate in the search to determine whether the firm should remain an equity manager for the SBI. She stated staff has requested information from IDS about various portfolios under its management in order to review the return variations among IDS's equity portfolio managers. In response to questions from Ms. Growe, Mr. Bicker stated that staff continually meets with potential new managers and is well prepared to proceed with a new manager search. He explained that because of the difficulty of bringing people together during the summer months and with the September 1991 Board meeting devoted to a full review of the asset allocation for the Basic Funds and Post Fund, staff plans to bring new manager recommendations to the Board at its December 1991 meeting. In response to another question from Ms. Growe, Mr. Bicker stated that the SBI could select one or more managers to have available when needed, but that if there is a long delay between the search process and actual hiring many things could change within a firm altering its appeal as a manager.

Mr. Carlson then questioned the wisdom of renewing any manager contracts beyond the September 1991 Board review. Mr. Bicker noted that each contract contains a 30-day escape clause. Mr.

Dayton then distributed a discussion memorandum he had shared with the IAC at the IAC meeting the previous day. (See Exhibit A). He agreed with Mr. Carlson's observation and stated that the Board needs to review the SBI's strategy and its active managers. Ms. Growe stated she believed the Board's manager retention policy should be the focus of its September review. Mr. Humphrey then added that the Board must consider the impact of transaction costs of any changes in managers.

Mr. Humphrey moved the Committee recommendation to renew for one year the contracts of Alliance Capital, Forstmann-Leff, IDS, Investment Advisers, Inc., Lieber and Company and Waddell & Reed. Ms. Growe seconded the motion. The motion was approved.

FIXED INCOME MANAGER COMMITTEE

Ms. Yeomans reported that the Committee and staff conducted an in-depth review of Miller, Anderson & Sherrerd as part of the regular three year review cycle. In response to a question from Mr. Carlson, Mr. Bicker reported that the firm's recent performance has been stronger so that the firm has outperformed the market and its benchmark over the last year and five years. Mr. McGrath then moved approval of the Committee recommendations, including renewal of contracts with Fidelity, Investment Advisers, Inc., Lehman Ark, Lincoln Capital, Miller, Anderson & Sherrerd, and Western Asset.

The Board then discussed how to prepare for the scheduled September 1991 review session. Members concurred with the idea of having an information session in advance of the September discussion and asked Mr. Bicker to coordinate such a meeting.

ALTERNATIVE INVESTMENT COMMITTEE

Ms. Yeomans reported that the Committee had three items requiring Board action. She stated the Committee and staff conducted annual review sessions with all six real estate managers. She stated that Aldrich Eastman & Waltch (AEW) has a fund with a cash flow problem and has requested the limited partners to invest an additional $14 million in total in order to avoid selling properties at distressed prices. She stated the limited partners have been asked to invest the additional dollars on a pro rata basis and the Committee recommends that the Board approve a pro rata investment. Mr. Humphrey noted that the SBI's pro rata share as stated in the meeting materials was $2.4 million but that the recommendation was for $5 million. He suggested the Board cap the request at some amount such as $3 million. Ms. Yeomans explained that staff recommended the $5 million amount to allow for possible changes in the estimated cash needs of the fund. She stated that the IAC concurred with a suggestion to drop reference to a specific dollar amount and to recommend an investment "on a pro rata basis." In response to a question from Ms. Growe, Mr. Bicker stated that the SBI should consider the investment as a way to recover the initial investment in the fund plus its pro rata share of the new investment. Mr. Humphrey moved approval of the Committee recommendation concerning AEW up to a maximum of $3 million. Mr. Dayton seconded. The motion was approved.

Ms. Yeomans stated that the second action item is a $20 million proposed investment in a new $120 million oil and gas fund, L. E. Simmons, OFS Investments, L.P. In response to a question from Mr. Humphrey, Ms. Yeomans stated that the investment is in the oil field service and equipment industry and not in further oil exploration. Mr. Dayton moved approval of the Committee recommendation. Ms. Growe seconded. The motion was approved.

Ms. Yeomans reported that the third action item is an investment in an Irwin Jacobs fund. She stated that the fund will take positions in companies with under-valued or under-utilized assets that can be restructured. She stated that the recommendation to invest in the fund comes from staff and that the IAC had a split vote on the issue. In response to a request from Mr. Carlson, she discussed the reasons for and against the proposal. She stated that some members of the IAC believed that because the Board at its previous meeting approved a further investment with KKR, the SBI could be very selective in the future in choosing investments in this type of activity and that perhaps there may be better opportunities available. She stated staff believes the Jacobs organization to be strong and very successful in its activities, but that the proposed fund is somewhat of a change in that deals are to be friendly, not hostile takeovers. She stated that Mr. Jacobs is seeking investments from pension funds because insurance companies and banks no longer are able to provide funds for these investment activities. She stated that Jacobs and his organization is investing $50 million in the fund. In response to a question from Ms. Growe, Mr. Bicker stated that the recommendation is for an investment of $30 million subject to Mr. Jacobs raising $500 million, the minimum amount Jacobs reported his organization needed to operate the fund. Mr. Dayton moved approval of the staff recommendation shown in the Committee report with the condition that the investment by the general partners be confirmed in writing. Mr. Humphrey seconded. The motion was approved.

Mr. Dayton stated that he wished to inquire about the status of the additional investment with the firm KKR that the Board approved at its March 1991 meeting. He stated he had second thoughts about the magnitude of the SBI's commitment to one firm and had questions about the firm's operating style. In response, Mr. Bicker stated that SBI has received back most of its original investments from the first two KKR funds in which the SBI invested. He stated most of the SBI's commitment to the 1987 fund has now been invested and a small portion has been returned. He then stated that the commitment made by the Board in March 1991 to the new KKR fund likely will not be spent until 1993, so that the present commitment to KKR is not as great as the total of dollars committed over time may appear.

WORKERS COMPENSATION ASSIGNED RISK PLAN

Mr. Bicker stated that the Board at its March 1991 meeting considered a recommendation to retain IDS as the manager for the Assigned Risk Plan. He stated the Board requested additional interviews with four firms: Fidelity, Goldman Sachs, Voyageur, and IDS. He stated that the four firms also provided supplementary performance data for the Board members and then he briefly reviewed the data. In response to a question from Mr. McGrath, Mr. Bicker stated that because the Assigned Risk Plan is an insurance pool, staff concludes that a significant factor in managing the Plan is the ability to understand the actuarial requirements of the Plan and adjust the investment management accordingly. Mr. Bicker then briefly reviewed the actuarial capacities of each firm. In response to a question from Ms. Growe, Mr. Bicker stated that each firm brings various strengths to the task and that Board members must determine which factors in their own view are most important. In response to a question from Mr. Carlson, Mr. Bicker stated that he believed the intent of the 1990 legislation was to transfer the management of assets of the Assigned Risk Plan from the Department of Commerce to the State Board of Investment.

Mr. McGrath moved to retain Voyageur Asset Management with the conditions shown in the meeting materials. Ms. Growe seconded. Mr. Dayton then moved to amend the motion by substituting Goldman Sachs for Voyageur. Mr. Dayton stated that he believed the number of new employers and the amount of new moneys coming into the Assigned Risk Plan may level off in the near future suggesting that the operating side of the plan, i.e., matching revenues with liabilities, would then become much more important. He stated that in his judgment the SBI had two superior financial management firms from which to choose but that neither was based in Minnesota. There was no second for the amended motion. Mr. Dayton then moved to amend the motion by substituting Fidelity for Voyageur. Mr. Humphrey stated that he considered this a new motion and he seconded the motion for discussion purposes. In response to a request from Mr. Carlson, Mr. Bicker briefly discussed the size of the SBI portfolio currently managed by Fidelity. The motion to retain Fidelity was not approved. Mr. Carlson asked for a vote on the original motion to retain Voyageur. The motion was approved.

The meeting was adjourned at 9:30 A.M.

Respectfully submitted,

Howard J. Bicker
Executive Director

HJB:hb

Attachment

EXHIBIT A

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR
SUITE 400
525 PARK STREET
SAINT PAUL 55103

MARK B. DAYTON
STATE AUDITOR

296-2551

TO: The Honorable Arne H. Carlson
The Honorable Michael A. McGrath
The Honorable Joan Anderson Growe
The Honorable Hubert H. Humphrey III
Members, Investment Advisory Council
Mr. Howard J. Bicker

FR: Mark B. Dayton

DT: June 10, 1991

RE: PERFORMANCE OF EQUITY MANAGERS

I remain extremely concerned about the performance of the active Equity Managers of the State Board of Investment. While the focus upon their respective performances relative to their benchmarks is warranted, their evaluations consistently overlook the comparison of their performances relative to the market.

The Investment Performance Analysis for the First Quarter 1991 by State Street Analytics provides a basis for comparing the returns of our current Managers with other Managed Equity Portfolios. The percentile rankings of the current Managers are as follows:

Current Managers	Percentile Ranking YE 3/31/91	Percentile Ranking 5 Years Ending 3/1/91
Alliance	Top 25th	Top 25th
Forestmann	25th - 50th	75th - 95th
Franklin	50th - 75th	50th - 75th*
GeoCapital	Top 25th	Top 25th **
IDS	50th - 75th	50th - 75th
IAI	50th - 75th	75th - 95th
Lieber & Co.	50th - 75th	75th - 95th
Rosenberg	75th	50th - 75th*
Waddell & Reed	75th - 95th	75th - 95th

* Since 4-1-89
**Since 4/1/90

As you can see, with a couple of exceptions, the performance of our Equity Managers has been very poor relative to their competitors. In my own private investment experience, I hired Managers to add value relative to the market (i.e., to beat the market index), not every quarter or every year, but on a consistent, overall basis. While I understand the philosophy of adding value relative to benchmarks, I believe that the narrow focus on this comparison overlooks the larger and more significant issue, i.e., the consistent failure of most of our Managers to outperform the market index and to compare favorably with their competitors. These comparisons say to me that the equity investment strategies of most of our active Managers have been wrong during most, if not all, of the last five years.

So why do we stay with them?

These results underscore the critical need for us to review our equity strategy. I understand that such a review will take place during the next three months, leading to our September meeting. It could not be more timely. I believe that the investment strategy of each one of our Equity Managers should be carefully reviewed to determine whether we believe that each strategy is a competitive one for the future, offering the prospect of an attractive return relative to the market. I recognize that the past is not always an accurate indicator of the future. However, given these results, each of our Managers who is performing below the median should be required to provide a strong justification for its investment strategy. I personally see little merit in continuing to retain Managers who may even be performing at or slightly above their benchmarks, if their actual performance places them in the bottom half of Equity Managers.

In conclusion, I believe that our strategy for evaluating our results is seriously flawed. Our present tolerance for substandard performance will only assure us of continuing substandard results. While I personally favor the continued use of active Managers, I believe that we must improve our selection of them, our management of them, and their results for which we are ultimately responsible.

Attachment

	QTR ENDING MAR 91	2 QTRS ENDING MAR 91	3 QTRS ENDING MAR 91	YEAR ENDING MAR 91	2 YRS* ENDING MAR 91	3 YRS* ENDING MAR 91	4 YRS* ENDING MAR 91	5 YRS* ENDING MAR 91	DOWN* JUL 83 JUN 84	UP* JUL 84 MAR 91
5TH PERCENTILE	26.66	44.72	17.01	29.74	26.82	22.64	14.75	16.77	7.73	21.61
25TH PERCENTILE	19.52	30.61	10.13	17.29	18.49	17.66	11.55	13.75	-2.23	18.99
MEDIAN	15.49	25 47	7.00	12.90	14.45	15.18	9.64	12.15	-7.96	17.61
75TH PERCENTILE	12.61	21.54	3.78	8.12	9.99	12 46	7.92	10.17	-13.98	15.89
95TH PERCENTILE	2.98	9.00	-3.36	-0.20	3.52	7.80	4.41	7.07	-23.38	11.99
S&P 500 INDEX	14.56	24.81	7.61	14.38	16.74	17.20	10.26	13.25	-4.60	18.42
S&P 500 RANK	59	55	42	39	32	30	41	32	36	36
WIL5000 INDEX	16.46	26.63	7.36	13.24	14.62	15.51	8.87	11.56	-8.71	17.07
WIL5000 RANK	43	44	46	48	48	47	60	58	54	58

* ANNUALIZED

MANAGEMENT SUMMARY
MANAGED EQUITY PORTFOLIOS
TOTAL RETURNS

AGENDA
INVESTMENT ADVISORY COUNCIL MEETING

Tuesday, September 10, 1991
2:00 P.M. - Room 118
State Capitol
Saint Paul

	TAB
1. Approval of Minutes of June 10, 1991 Meeting	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1 - June 30, 1991)	A
B. Portfolio Statistics (June 30, 1991)	B
C. Administrative Report	C
1. Budget Reports	
2. Travel Report	
3. IAC Member Selection Committee	
4. South Africa Task Force Appointments	
5. Creation of Equity Manager Selection Committee	
3. Reports from Investment Advisory Council Committees	
A. Asset Allocation Committee (J. Yeomans)	D
1. Asset Allocation Proposal for the Basic Funds	
B. Equity Manager Committee (D. Veverka)	E
1. Review of Manager Performance	
2. Review of IDS Performance	
C. Fixed Income Manager Committee (L. Hacking)	F
1. Review of Manager Performance	
2. Change in Manager Benchmarks	
D. Alternative Investment Committee (M. McDonald)	G
1. Update on Current Strategy	
2. Report on Fund Manager Annual Reviews	

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

MINUTES

INVESTMENT ADVISORY COUNCIL

June 10, 1991

The Investment Advisory Council met on Monday, June 10, 1991 at 2:00 P.M. in the Room 118, State Capitol, Saint Paul, Minnesota.

<u>MEMBERS PRESENT</u>:

James Eckmann; Elton Erdahl; Paul Groschen; Ken Gudorf; John Gunyou; Laurie Fiori Hacking; David Jeffery; Keith Johnson; Han Chin Liu; Malcolm McDonald; Gary Norstrem; Barbara Schnoor; Debbie Veverka; and Jan Yeomans.

<u>MEMBERS ABSENT</u>:

John Bohan.

<u>SBI STAFF</u>:

Howard Bicker; Beth Lehman; Jim Heidelberg; Harriet Balian; and Charlene Olson.

<u>OTHERS ATTENDING</u>:

Gary Austin; Mark Dayton; Christie Eller; Katie Engler, Office of the Secretary of State; John Gardner; John Hagman, REAM; Al Layman; Michael A. McGrath; John Manahan; O. M. Ousdigian; Tom Richards, Richards & Tierney; Lisa Rotenberg; Peter Sausen; Eliot Seide, AFSCME Council 6; Ed Stuart, REAM; Robert Whitaker; and John Yunker.

The minutes of the March 20, 1991 meeting were approved. At the request of Ms. Yeomans, members of the Committee introduced themselves to the new members appointed by Governor Carlson, Han Chin Liu, Keith Johnson, and Barbara Schnoor.

EXECUTIVE DIRECTOR'S INVESTMENT REPORT

Mr. Bicker, Executive Director, referred Board members to the report on return objectives in the meeting material. He stated that the Basic Retirement Funds have exceeded the inflation objective, matched the median return of other comparable funds, and slightly underperformed the composite index. He stated the Post Retirement Fund has provided a 6.7 percent annualized benefit increase for retirees over the last five years. He then stated that the actuarial information is updated only annually and is the same as provided at the last Board meeting. Mr. Bicker reported that the value of the Basic Funds increased by 10.6 percent during the first quarter 1991 and that the stock component increased significantly due to a strong stock market. He reported that during the quarter the Basic Funds provided a rate of return of 12.2 percent compared to 9.1 percent for the median balanced fund. He stated that for the quarter the stock managers in aggregate matched the Wilshire 5000 and the bond managers in aggregate outperformed the Salomon Index. He then reported that the value of the Post Fund increased by 3.6 percent during the quarter due to the performance of the large bond component in the Fund, but that the Post Fund continues to experience negative cash flow. He stated that the stock component continues to shrink and represented only 9.0 percent of the fund at the end of the quarter. He stated that the Post Fund generated increases of 6.7 percent a year over the past five years. He noted that the stock component provided a total return of 20.3 percent during the quarter which exceeded the benchmark by 1.6 percentage points.

He then reported that total assets under management by the State Board of Investment totalled $16.7 billion as of March 31, 1991.

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

Mr. Bicker referred members to the budget and travel reports in the meeting materials. He next reported that there were a number of bills passed in the 1991 legislative session relating to the State Board of Investment, but that none affect the SBI significantly. He then reported that the Program Evaluation Division of the Legislative Auditor released its report on state investment practices in April 1991. He stated that staff believes the most significant issue in the report is the auditor's suggestion to review potential changes in the Post Fund's post retirement benefit increase formula. He stated that he will continue to discuss the issue with the retirement systems, retiree groups and others. He then reviewed the other major recommendations in the report: to increase the equity component in the Permanent School Fund; to develop a more appropriate benchmark for the cash portfolios; and to add certain explanatory material to the annual report. He then stated that the Legislative Audit Commission will meet June 17, 1991 to discuss the Legislative Auditor's report.

ADMINISTRATIVE COMMITTEE

Mr. McGrath reported that the Administrative Committee had seven recommendations for the Board to consider and briefly reviewed each item in the Committee Report.

In response to a question from Ms. Veverka concerning the extension of the fee guarantee from State Street Bank, Mr. Bicker stated that State Street retains earnings from securities lending to offset fees and then shares additional earnings with the SBI.

INVESTMENT ADVISORY COUNCIL COMMITTEE REPORTS

ASSET ALLOCATION COMMITTEE

Ms. Yeomans reported that the Committee discussed two issues but had no items requiring action. She stated the first item was a proposal to restructure the bond segment of the Basic Funds to a constant duration strategy. She stated the proposal would limit changes managers could make in their portfolio durations and would adopt the Salomon Targeted Index Matrix to replace the Salomon Broad Investment Grade index as the asset class target. She reported that the Committee concluded the proposal had merit but determined it was not appropriate to adopt at this time due to the complexity of implementing it and the relatively few benefits to be realized from the change.

She then reported that the Committee discussed the preliminary investment guidelines prepared by staff for the Environmental Trust Fund. She stated the preliminary guidelines suggest the fund should be managed much like a college endowment fund with a heavy equity exposure. She stated the guidelines call for equities and bonds to be passively managed. In response to a question from Ms. Veverka, Mr. Bicker explained that the Environmental Trust Fund is funded from proceeds from the lottery. He stated the lottery proceeds are constitutionally dedicated for 10 years. He stated that state statutes allow the Legislative Commission on Minnesota Resources (LCMR) to spend a portion of fund principal during each of the next several years, but that after that period the LCMR may only spend income from the Fund and may not spend principal. He then stated staff's goal is to have the principal grow sufficiently so that the income will keep pace with inflation.

EQUITY MANAGER COMMITTEE

Ms. Yeomans reported that the Committee reviewed the performance of the active managers and concluded that in aggregate the managers' performance closely matched the performance of the Wilshire 5000 for the quarter. She then reported that the Committee discussed the status of two managers, IDS and IAI. She stated that staff is beginning a search for active managers and that staff and the Committee concur that IAI be included as one candidate in the search to determine whether the firm should remain an equity manager for the SBI. She reported that staff has requested performance data from IDS to review the return variations among IDS's portfolio managers.

Ms. Yeomans then reported that the Committee reviewed the investment manager guidelines and concluded that no changes were needed at this time. She then stated that the Committee and staff conducted an in-depth review of Alliance Capital and concluded that while its benchmark is a minor concern the firm's performance has been excellent.

Ms. Yeomans stated that the only item requiring action is the renewal of manager contracts that expire June 30. She reported that the Committee recommends that the IAC recommend that the Board renew the contracts of the six managers listed in the Committee Report for one year with a 30-day escape clause. Mr. Dayton then distributed some information to IAC members and requested that the members review the material that he believed should be the basis for making decisions about the Board's equity manager strategy. He stated he wished to discuss the material with them before the September 1991 Board meeting. He stated he believed with the exception of a couple managers the performance of the active managers has not been good. He stated he favors the use of active managers but that he believed the managers should be challenged to convince the SBI they can perform better than their benchmark and better than the market. He stated he believed the managers must explain whether they are properly positioned in the market for the next three to five years.

In response to a question from Mr. Gudorf, Mr. Bicker stated that staff identified a small stock risk exposure in 1986 in the equity portfolio and attempted to neutralize the risk. He stated the Board agreed to implement a tilted index fund in October 1990. He explained that the benchmarks of each manager considered together with the tilted index fund equal the risk of the asset class target and that when managers outperform their benchmarks the positive performance enhances the performance of the fund. He stated that the Board's current policy is to take a neutral position relative to the asset class target, which is the Wilshire 5000. He stated the Board could decide to take a position with an over exposure to large capitalization stocks, for example, but that the position itself, not individual manager performance, would determine whether the portfolio would exceed the market.

Mr. McDonald then moved approval of contract renewals for Alliance Capital, Forstmann-Leff, IDS, IAI, Lieber and Company, and Waddell & Reed as stated in the Committee report. Mr. Gudorf seconded. The motion was approved.

FIXED INCOME MANAGER COMMITTEE

Mr. Norstrem reported that the Committee and staff conducted an in-depth review of Miller, Anderson & Sherrerd. He stated the Committee concurred with staff's conclusion that Miller be retained until the fixed income segment of the Basic Funds is restructured. Mr. Norstrem next reported that the Committee reviewed the investment manager guidelines and concluded that the only change needed is to consolidate the guidelines for the semi-passive managers into a single format.

Mr. Norstrem then reported the Committee reviewed the performance of the managers. He stated the Committee concluded each active and semi-passive manager exceeded or equalled its benchmark for the quarter and that the current group of managers exceeded the aggregate benchmark and the market for the past year and the last five years. He added that Western Asset had been placed on probation but that the Committee and staff are comfortable with the new portfolio manager, and believes the personnel change that triggered the probation will not significantly affect the SBI's portfolio.

Mr. Norstrem then stated the Committee recommends Western Asset be removed from probation and recommends contracts be renewed with the six managers, Fidelity; IAI; Lehman Ark; Lincoln Capital; Miller, Andereson & Sherrerd; and Western Asset. Mr. McDonald moved approval of the Committee recommendations. Mr. Norstrem seconded. The motion was approved.

ALTERNATIVE INVESTMENT COMMITTEE

Mr. Gudorf reported that the Committee and staff conducted annual review sessions with the SBI's six real estate managers and then briefly reviewed the conclusions from those meetings. He stated that the Committee determined that the SBI's real estate portfolio performed better than expected but that there is very little optimism for the real estate market for the near future. He stated that it is difficult to have good appraisals performed on properties in the current real estate market and that staff determined that there is noticeable variance in the managers' approach to appraising the value of properties.

He reported that the Committee recommends an additional investment in Aldrich, Eastman, Waltch (AEW) Fund IV. He explained that AEW has requested an additional $14 million investment from the limited partners in order to avoid selling properties at distressed prices. He stated that SBI's pro rata share of the total is $2.4 million. He stated the Committee recommends a $5 million additional investment. In response to a question from Mr. Dayton, Mr. Bicker stated that staff and the Committee recommended $5 million rather than $2.4 million to provide flexibility if estimates of the fund's cash needs change. Ms. Yeomans suggested removing a dollar figure and recommending an investment "on a pro rata basis." As part of the discussion, Mr. Bicker explained the cash needs of the properties within the fund. Mr. Norstrem moved approval of the Committee recommendation with the amendment that the investment be "on a pro rata basis" rather than a specific dollar figure. Mr. McDonald seconded. The motion was approved.

Mr. Gudorf then reported the Committee recommends an oil and gas investment in the L. E. Simmons Oil Field Services Investments. He stated the Committee recommends investing up to $20 million in the new $120 million fund. He explained that the first Simmons fund has been successful and the new fund offers the SBI the opportunity to participate in the oil field services area, a segment of the oil and gas industry in which the SBI has not been involved. In response to a question from Ms. Veverka, Mr. Gudorf stated that the principals in the organization have been together for most of the 20 or more years the firm has specialized in the oil field services business. In response to a question from Mr. Han Chin Liu, Mr. Gudorf stated that the new fund has several commitments from large institutions including the University of Texas Foundation and Duke University. Mr. Bicker stated that the SBI's interest in the fund originated after the firm had raised the needed moneys and that Mr. L. E. Simmons received approval from all the principals in the firm to accept the additional $20 million commitment from the SBI. Mr. Norstrem moved approval of the Committee recommendation. Mr. McDonald seconded. The motion was approved.

Mr. Gudorf reported that the Committee has a staff recommendation to invest in Irwin Jacobs IMR Fund. He stated staff and the Committee has spent a great deal of time considering this investment opportunity. He stated Mr. Jacobs is seeking investors for a $500 million to $1 billion fund. He stated staff feels very strongly about the opportunity and stated that the question before the IAC is whether this fund is the best opportunity for the SBI in the venture capital or corporate buyout area. He stated the Committee suggested that because the Board at its previous meeting approved an additional investment with KKR, the SBI could be very selective in the future in choosing investments in this type of activity. Mr. Bicker then stated that staff has reviewed the investment in great detail. He stated the Jacobs organization has been intact for ten years and has been very successful in their previous investments. He stated that Jacobs is seeking institutional investors because banks and insurance companies are no longer able to provide funds for these investments. He stated Mr. Jacobs has committed $50 million from his organization to the fund. He stated that staff recommends a $30 million investment if Mr. Jacobs raises $500 million in contrast to the recent $150 million commitment to the new KKR fund. Mr. Bicker stated that staff believes the investment opportunity is sound because of the terms of the deal, Mr. Jacobs' commitment to the fund, the staffing and resources of the Jacobs' organization, and the results of the organization's previous investments. Mr. Gudorf then stated that some of Mr. Jacobs' previous investments were unfriendly transactions and that the new fund will pursue friendly buyout opportunities. He stated the Committee had some question whether the Jacobs organization would perform as well pursuing deals on a different basis. Mr. McDonald then moved approval of the staff recommendation. Mr. Norstrem seconded.

In response to a question from Mr. Han Chin Liu, Mr. Bicker stated that there are only a few organizations raising comparable funds. In response to a question from Ms. Veverka, Mr. Bicker stated that the SBI has a large part of its venture capital portfolio in corporate buyout funds. He stated that staff is studying the allocation to alternative investments and whether to remove specific allocations to real estate, oil and gas, and venture capital within the overall 15 percent allocation to the asset class. Mr. Gudorf then briefly discussed the commitment made to real estate, oil and gas, and venture capital.

Ms. Yeomans asked for a show of hands on the motion (6 aye, 6 nay). Ms. Yeomans stated that Mr. Bicker would present to the Board staff's recommendation for the fund and she would relate the IAC's discussion and that the Board would then make its decision.

Mr. Gudorf then reported he had one additional information item to relate. He stated that Mitch Dann, a venture capital principal for IAI, with which the SBI has made two venture investments, has left the firm. He stated staff is reviewing the situation but that it appears that the SBI need not be concerned about the manager change.

Mr. Han Chin Liu stated he had two items he wished to have the IAC discuss. He stated he believed pension plan members should have some form of input into the investment decisions. Mr. Bicker stated that six members of the 17 member IAC represent plan participants including the three retirement system directors and three members appointed by the Governor to represent active and retired employees. He stated that the Commissioner of Finance is also appointed by the Governor. He added that the remaining 10 members are appointed by the full Board who are all elected officials. Mr. Han Chin Liu then stated that he believed the IAC must establish guidelines for reviewing the equity portfolio. In response, Ms. Yeomans stated that the Board has policies but that they are subject to review and revision.

The meeting was adjourned at 3:45 P.M.

Respectfully submitted,

Howard Bicker

Howard J. Bicker
Executive Director

Tab A

RETURN OBJECTIVES

Basic Retirement Funds

$7.6 Billion Market Value

Total Return	**Period Ending 6/30/91 Actual**	**Compared to Objective**
Total Fund over 10 years	13.0%	8.9 percentage points above
■ Exceed inflation by 3-5 percentage points		
Total Fund over 5 years	9.3%	0.4 percentage points below
■ Exceed composite market index		
Stocks, Bonds, Cash over 5 years	9.7%	0.1 percentage points below
■ Exceed median fund		

Post Retirement Fund

$6.0 Billion Market Value

Realized Earnings	**Actual**	**Benefit Increase Provided**
Earnings over 1 year (Fiscal Year 1990)	10.1%	5.1% effective Jan. 1, 1991
Earnings over 5 years (Fiscal Years 1986-1990)	11.7%	6.7% annualized

ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans

June 30, 1990

	Active (Basics)	Retired (Post)	Total (Basics & Post)
Liability Measures			
1) Current and Future Benefit Obligation	$13.3 billion	$4.6 billion	$17.9 billion
2) Accrued Liabilities	9.3	4.6	13.9
Asset Measures			
3) Current and Future Actuarial Value	$12.9 billion	$4.6 billion	$17.5 billion
4) Current Actuarial Value	5.9	4.6	10.5
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	97%	100%	98%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)*	64	100	75*

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

The funding ratio required by Governmental Standard Accounting Board Statement No. 5 compares Cost Value of assets to the Current Benefit Obligation. This calculation provides funded ratios of 74% for the Basics, 100% for the Post and 84% for the Total, respectively.

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

Actuarial Assumptions:

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

The executive summary highlights the asset mix, performance standards and investment results for the Basic Retirement Funds and the Post Retirement Fund. Additional detail on these funds as well as information on other funds managed by the Board can be found in the body of the Quarterly Investment Report.

EXECUTIVE SUMMARY

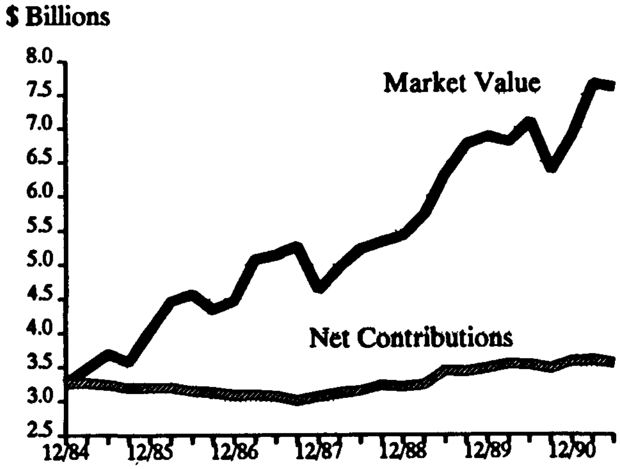
Basic Retirement Funds

Asset Growth

The market value of the Basic Funds decreased 0.6% during the second quarter of 1991. The decrease was due to cash outflow from the Basics to the Post Retirement Fund.

Asset Growth
During Second Quarter 1991
(Millions)

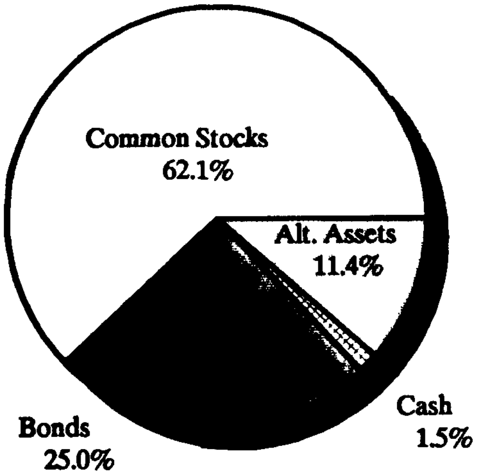
Beginning Value	$7,656
Net Contributions	-50
Investment Return	4
Ending Value	$7,610



Asset Mix

The asset mix of the Basic Funds is chosen to maximize long term rate of return. This requires a large commitment to common stocks. Other asset classes are used to limit short-run return volatility and to diversify portfolio holdings.

The asset mix for the Basic Retirement Funds essentially remained unchanged for the quarter.



Actual Asset Mix
6/30/91

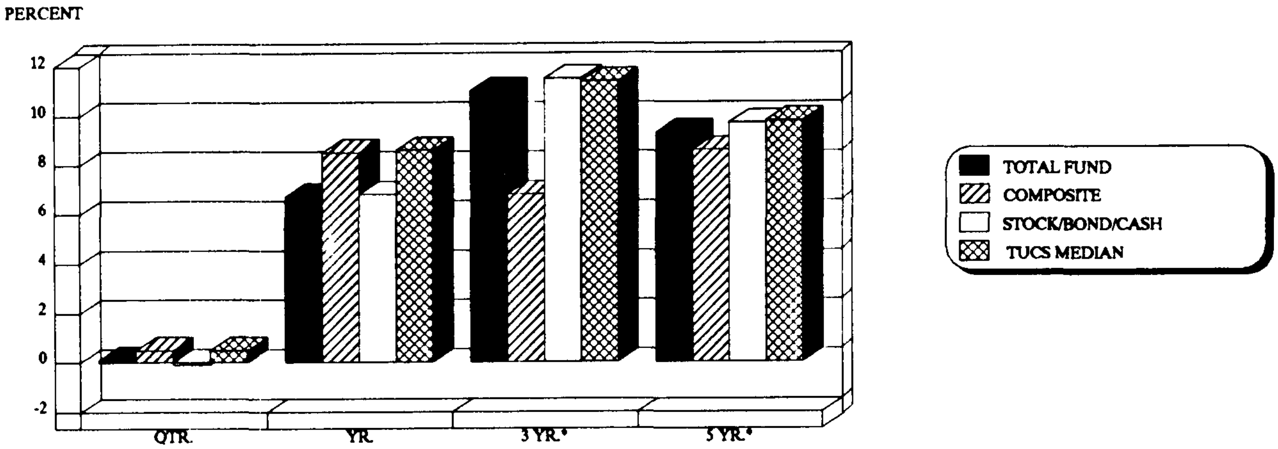
	Policy Asset Mix	Actual Mix 6/30/91	Actual Market Value (Millions)
Stocks	60.0%	62.1%	$4,726
Bonds	24.0	25.0	1,899
Alternative Assets	15.0	11.4	864
Unallocated Cash	1.0	1.5	121
	100.0%	100.0%	$7,610

Basic Funds (Con't.)

Total Fund Performance

For the quarter and latest year, the total fund with and without alternative assets trailed their respective benchmarks.

Given its large commitment to common stocks, the Basic Funds can be expected to outperform other balanced pension portfolios during periods of positive stock performance and underperform during periods of negative stock performance.



Period Ending 6/30/91

	Qtr.	Yr.	3 Yr. *(Annualized)	5 Yr.
Total Fund	**0.1%**	**6.7%**	**11.0%**	**9.3%**
Composite Index **	0.5	8.5	11.3	9.7
Stocks, Bonds and Cash Only	**-0.1**	**6.8**	**11.5**	**9.7**
TUCS Median Balanced Fund***	0.5	8.6	11.4	9.8

** Composite Index is weighted in a manner that reflects the policy asset mix of the Basic Funds.
*** Trust Universe Comparison Service (TUCS) includes returns of over 800 public and private tax-exempt investors

Stock Segment Performance

The Basic Funds' common stock segment trailed the performance of its target for the latest quarter and year.

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr.
Stock Segment	-0.8%	4.7%	11.8%	9.6%
Wilshire 5000	-0.3	7.0	13.0	10.2

Bond Segment Performance

The bond segment of the Basic Funds trailed the performance of its target for the latest quarter but exceeded the target for the latest year.

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr.
Bond Segment	1.7%	11.0%	10.2%	9.3%
Salomon Broad Index	1.8	10.8	10.2	8.9

EXECUTIVE SUMMARY

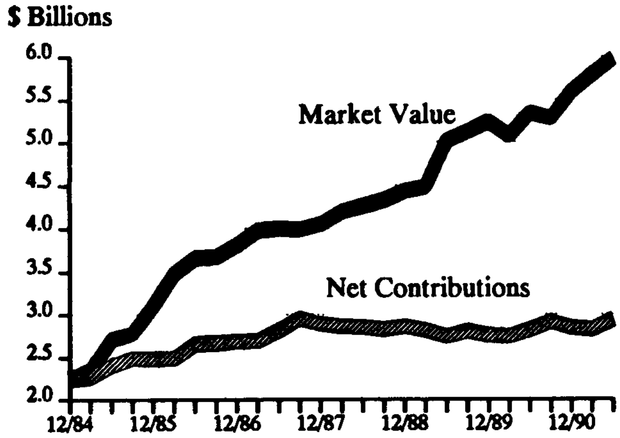
Post Retirement Fund

Asset Growth

The market value of the Post Fund increased by 3.2% during the second quarter of 1991. Assets increased primarily due to positive cash flow during the quarter.

Asset Growth During Second Quarter 1991 (Millions)

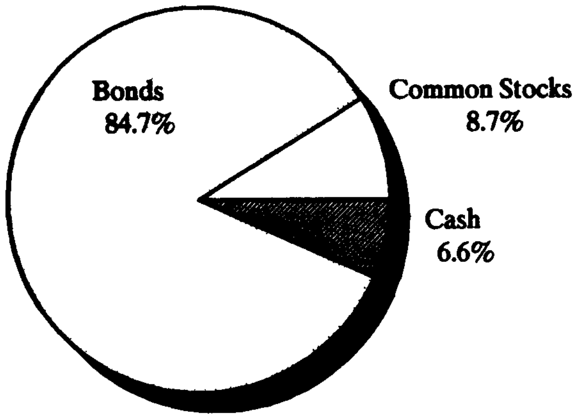
Beginning Value	$5,790
Net Contributions	119
Investment Return	67
Ending Value	$5,976



Asset Mix

The asset mix of the Post Retirement fund is chosen to create a sizable, steady stream of income sufficient to pay currently promised benefits. This income stream is created by a large commitment to bonds, primarily through a dedicated bond portfolio. Assets not committed to bonds are invested in cash equivalents or common stocks.

Cash increased while proportionally reducing the other asset class targets due to a large cash inflow from the Teachers Retirement Association at the end of the quarter.



Actual Asset Mix 6/30/91

	Actual Market Value (Millions)	Asset Mix 6/30/91
Common Stocks	$523	8.7%
Bonds	5,063	84.7
Unallocated Cash	390	6.6
	$5,976	100.0%

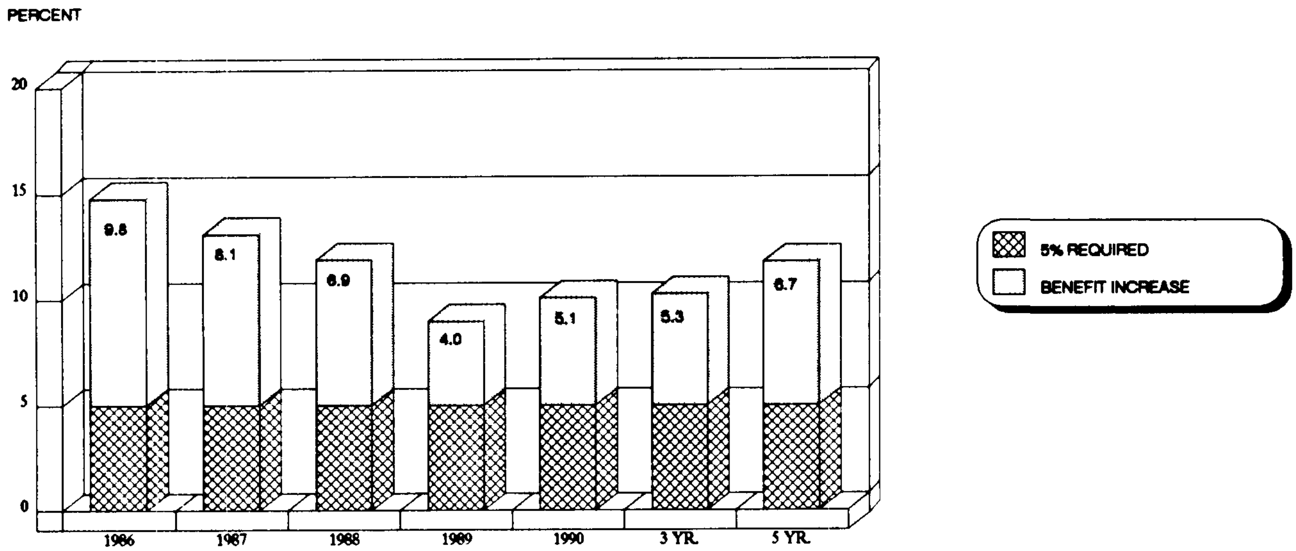
Post Fund (Con't.)

Total Fund Performance

Assets committed to the dedicated bond portfolio ensure that all existing promised benefits will be paid to current retirees. Excess investment earnings on Post Fund assets are used to finance permanent lifetime benefit increases for retirees.

Benefit increases are based upon earnings during a fiscal year and are effective at the start of the following calendar year. Benefit increases generated for the last five years are shown below.

Realized Earnings
Fiscal Years 1986 - 1990



	1986	1987	1988	1989	1990	(Annualized) 3 Yrs.	5 Yrs.
Realized Earnings*	14.8%	13.1%	11.9%	9.0%	10.1%	10.3%	11.7%
Benefit Increase**	**9.8**	**8.1**	**6.9**	**4.0**	**5.1**	**5.3**	**6.7**
Inflation	1.7	3.7	3.9	5.2	4.7	4.6	3.8

* Interest, dividends and net realized capital gains.
** Payable starting January 1 of the following calendar year.

Stock Segment Performance

The stock segment of the Post Fund trailed its benchmark for the latest quarter and year.

	Period Ending 6/30/91 Qtr.	(Annualized) Yr.	3 Yr.	5 Yr.
Stock Segment	0.4%	6.4%	10.4%	8.3%
Post Fund Benchmark	1.1	7.3	11.0	N.A.

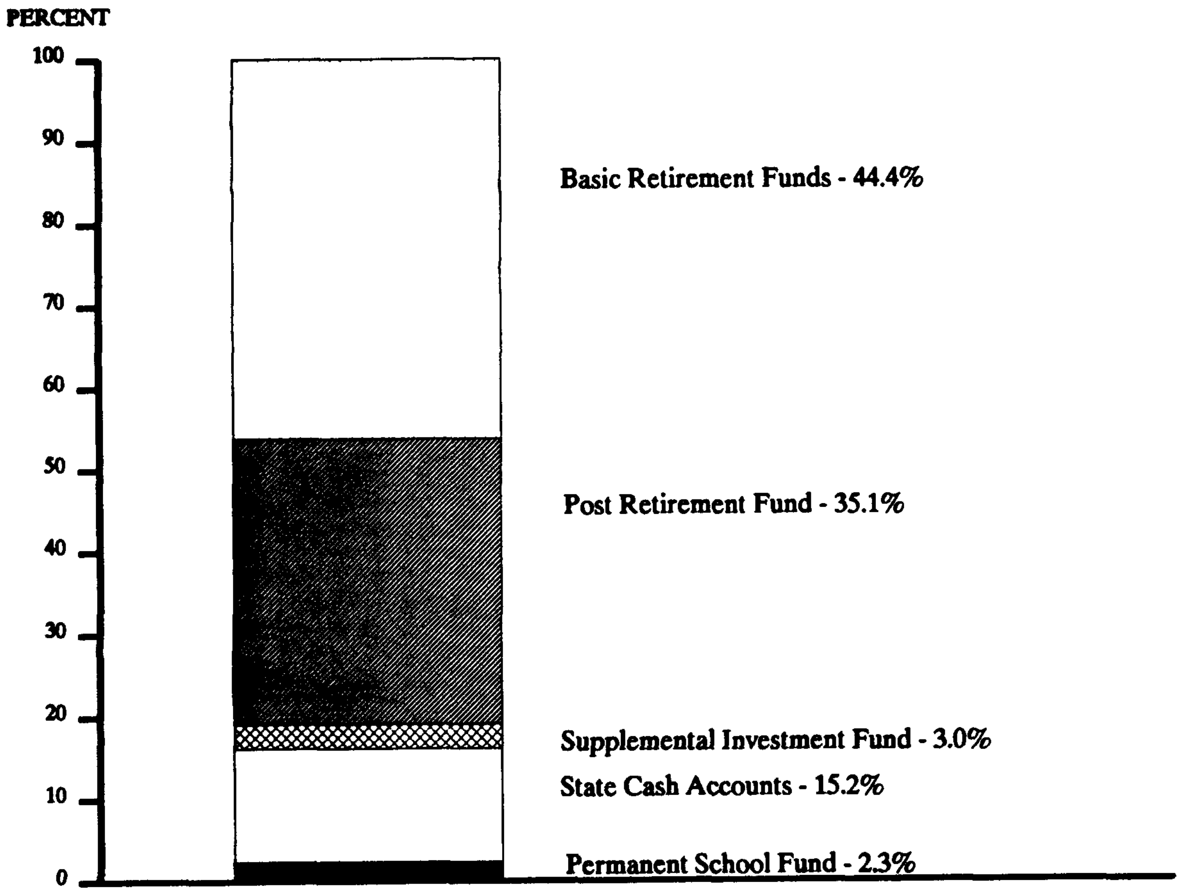
Bond Segment Performance

At the close of the quarter, the dedicated bond portfolio had a current yield of 7.66% and average duration of 7.57 years. The market value of the dedicated bond portfolio was $5.0 billion at the end of the quarter.

The dedicated bond portfolio is designed such that cash inflows from portfolio income and principal payments match required cash outflows to retirees. Thus, total return is not a relevant performance measure for the portfolio. Nevertheless, the bond segment provided a 1.2% return for the quarter and a 10.0% return for the year. This is consistent with the design of the dedicated bond portfolio.

EXECUTIVE SUMMARY

Funds Under Management



	6/30/91 Market Value (Billions)
Basic Retirement Funds	$7.6
Post Retirement Fund	6.0
Supplemental Investment Fund	0.5
State Cash Accounts	2.6
Permanent School Fund	0.4
Total	$17.1

MINNESOTA STATE BOARD

OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 1991

(April 1, 1991 - June 30, 1991)

Table of Contents

FINANCIAL MARKETS REVIEW

STOCK MARKET

Stock prices were essentially flat for the quarter. The market reacted favorably in May to positive news that the worst was over in the U.S. economy and that a recovery was imminent. In June the Federal Reserve also concluded that the recession was ending. The announcement caused the market to drop due to perceptions that the Federal Reserve would not lower interest rates further, thereby slowing down the economic recovery.

The Wilshire 5000 decreased 0.3% for the quarter. Performance among the different Wilshire Style Indexes for the quarter varied widely and are shown below:

• Large Value	0.6%
• Small Value	6.8
• Large Growth	-0.3
• Small Growth	-2.0

Lastly, the Wilshire 5000 increased 7.0% during the latest year.

BOND MARKET

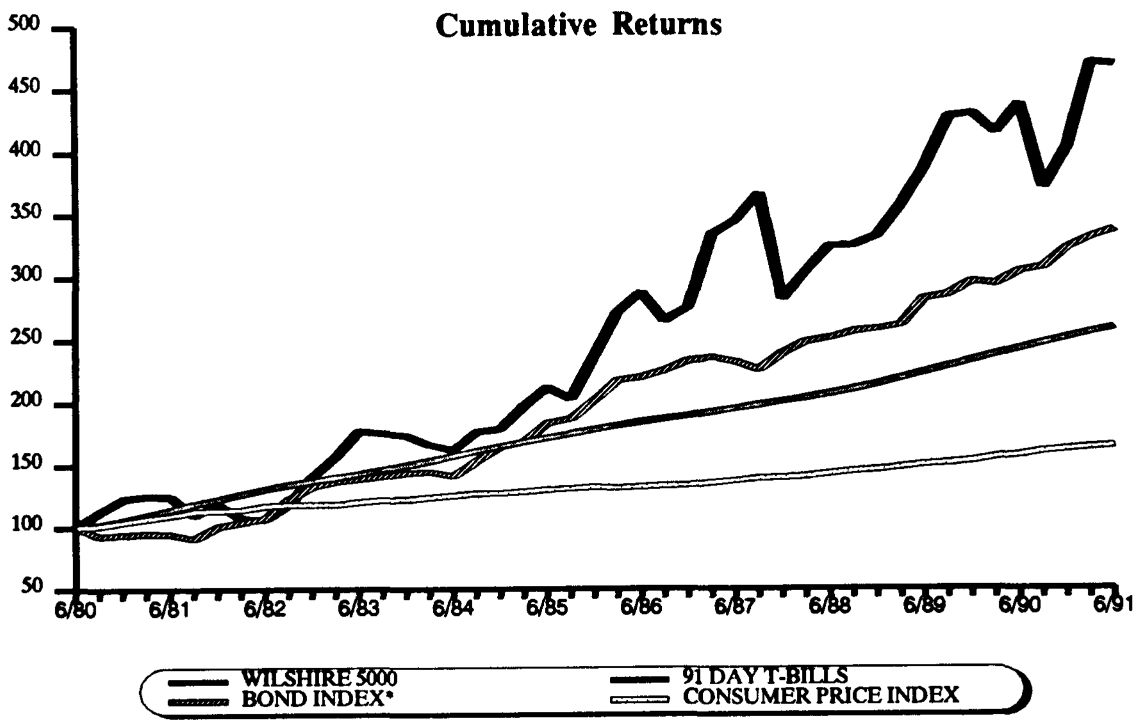
The bond market recorded a positive rate of return for the quarter. However, the increase was solely due to interest payments as bond prices actually dropped during the quarter. The majority of the decrease occurred in June when the market perceived that the Federal Reserve would not continue to lower interest rates after they announced a more optimistic assessment of the economy.

Overall, the Salomon Brothers Broad Investment Grade (BIG) Index increased 1.8% for the quarter. The Salomon BIG sector returns for the quarter were:

• Treasury/Agency	1.6%
• Corporates	2.2
• Mortgages	2.7

Lastly, the Salomon BIG increased 10.8% for the latest year.

PERFORMANCE OF CAPITAL MARKETS



* Salomon Broad Investment Grade Bond (BIG) Index

FINANCIAL MARKETS REVIEW

REAL ESTATE

The real estate market still faces capital shortages, oversupply and slow demand. Regional malls, industrials and apartments are faring the best. Office (especially suburban), smaller retail, hotel and land are not doing well. Reflecting the weak real estate markets, many real estate portfolios have experienced significant writedowns over the last year.

VENTURE CAPITAL

According to the *Venture Capital Journal*, a look at venture capital disbursements for 1990 indicates that net new capital commitments made to independent private venture capital funds declined 43% to $1.9 billion in 1990 from $3.4 billion in 1989. The 1990 total was the third consecutive year-to-year decline in new venture capital commitments. It marks the lowest level of new capital raised since 1982, when the industry raised $1.4 billion.

RESOURCE FUNDS

Over the past year spot prices of West Texas Intermediate oil jumped to as high as $41.15 per barrel in October 1990 compared to a low of $15.06 in June 1990. Currently, spot prices of oil are at $22 per barrel.

Spot prices of natural gas reached in October 1990 a high of approximately $2.00 per MCF (thousand cubic feet) compared to a recent price of $1.43 per MCF.

BASIC RETIREMENT FUNDS

Investment Objectives

The Basic Retirement Funds are composed of the retirement assets for currently working participants in the statewide retirement funds.

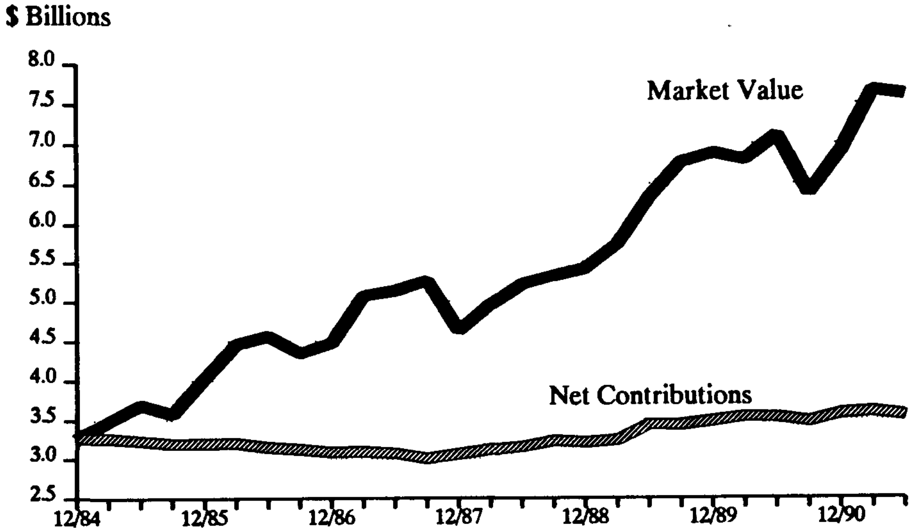
Based upon the Basic Funds' adequate funding levels and participant demographics, its investment time horizon is quite long. This extended time horizon permits the Board to take an aggressive, high expected return investment policy which incorporates a sizable equity component.

The Board has established three return objectives for the Basic Funds:

- The total fund should provide real rates of return that are 3-5 percentage points greater than the rate of inflation over moving 10 year periods.
- Stocks, bonds and cash should outperform the median fund from a universe of public and private funds with a balanced asset mix over moving 5 year periods.
- The total fund should outperform a composite index weighted in a manner that reflects the long term asset allocation of the Basic Funds over moving 5 year periods.

Asset Growth

The market value of the Basic Retirement Funds' assets decreased 0.6% during the second quarter of 1991. The decrease was due to cash outflow from the Basics to the Post Retirement Fund.



In Millions

	12/86	12/87	12/88	12/89	12/90	3/91	6/91
Beginning Value	$4,030	$4,474	$4,628	$5,420	$6,382	$6,919	$7,656
Net Contributions	-113	-26	146	269	97	29	-50
Investment Return	557	180	646	1,186	440	708	4
Ending Value	$4,474	$4,628	$5,420	$6,875	$6,919	$7,656	$7,610

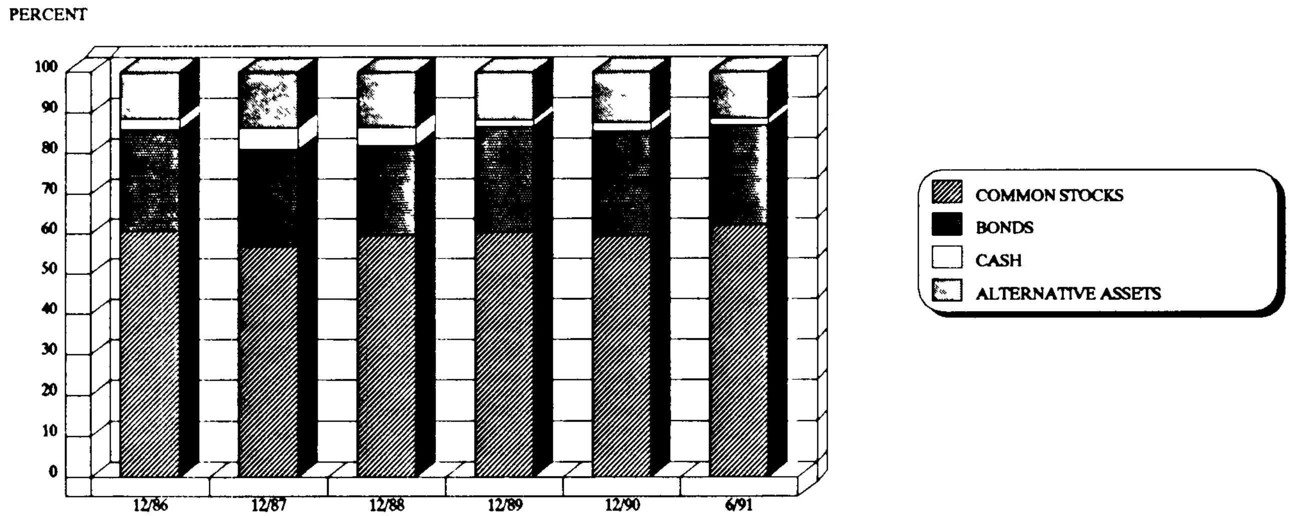
BASIC RETIREMENT FUNDS

Asset Mix

Based on the Basic Funds' investment objectives and the expected long-run performance of the capital markets, the Board has adopted the following long term policy asset allocation for the Basic Funds:

Common Stocks	60.0%
Bonds	24.0
Real Estate	10.0
Venture Capital	2.5
Resource Funds	2.5
Unallocated Cash	1.0

The asset mix for the Basic Retirement Funds essentially remained unchanged for the quarter.



	Last Five Years					Latest Qtrs.	
	12/86	12/87	12/88	12/89	12/90	3/91	6/91
Stocks	60.6%	56.7%	59.5%	60.2%	59.1%	62.4%	62.1%
Bonds	25.3	24.2	22.4	26.4	26.2	24.4	25.0
Real Estate	8.3	9.5	9.0	7.5	7.0	5.9	6.0
Venture Capital	1.8	2.8	3.1	2.8	4.2	3.8	3.9
Resource Funds	1.4	1.4	1.5	1.4	1.5	1.4	1.5
Unallocated Cash	2.6	5.4	4.5	1.7	2.0	2.1	1.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS

Total Fund Performance vs. Standards

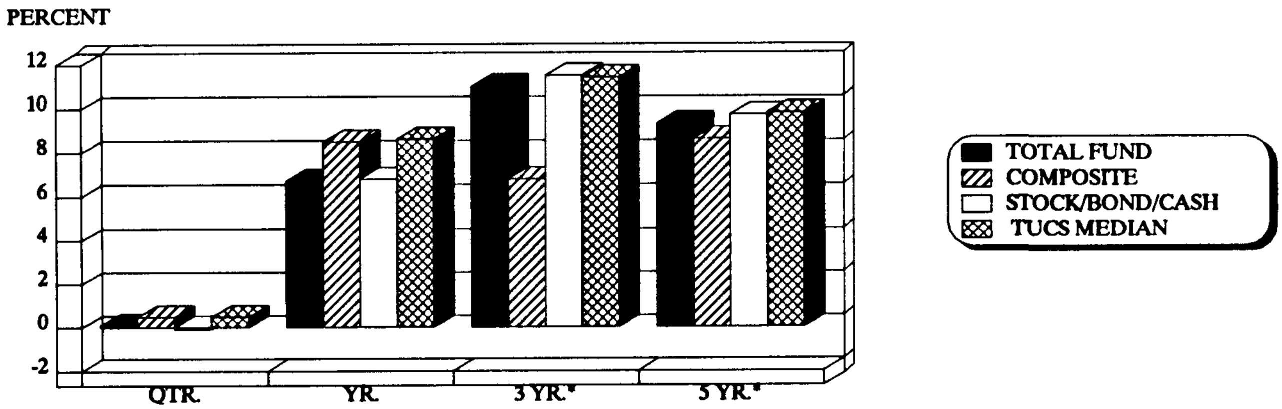
The Basic Funds' long-term rate of return performance is evaluated relative to two specific benchmarks:

- **Composite Index.** The returns provided by the total portfolio are expected to exceed those derived from a composite of market indices, weighted in the same proportion as the Basic Funds' policy asset allocation. As of 7/1/89, the composite index is weighted: 60% Wilshire 5000 Stock Index, 24% Salomon Broad Bond Index, 10% Wilshire Real Estate Fund, 2.5% Venture Capital Funds, 2.5% Resource Funds, and 1% 91 Day T-Bills.

- **Median Tax-Exempt Fund.** Stock, bond and cash assets are expected to outperform the median return produced by a representative sample of other public and private tax-exempt balanced funds. The sample universe used by the Board is the Wilshire Associates Trust Universe Comparison Service (TUCS).

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 mix is designed to add value to the Basic Funds' over their long-term investment time horizon. In the short-run, the Basic Funds can be expected to outperform the median balanced portfolio during periods of positive relative stock performance and underperform during periods of negative stock performance.

The Basic Funds total portfolio trailed its composite index for the latest quarter and year. Because of the Basic Funds sizable stock allocation and performance of the stock market, the Basic Funds' trailed the median balanced fund for the latest quarter and year. Excluding alternative assets, the Basic Funds ranked in the third quartile (61st percentile) of the TUCS universe for the quarter. In addition, it ranked in the third quartile (71st percentile) for the latest year and the middle third (56th percentile) for the last five years.



Period Ending 6/30/91

*(Annualized)

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund	**0.1%**	**6.7%**	**11.0%**	**9.3%**
Composite Index	0.5	8.5	11.3	9.7
Stocks, Bonds and Cash Only	**-0.1**	**6.8**	**11.5**	**9.7**
TUCS Median Balanced Fund	0.5	8.6	11.4	9.8

BASIC RETIREMENT FUNDS

Segment Performance vs. Standards

Stock Segment

The Basic Funds' common stock segment trailed its performance target for the latest quarter and year.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Stock Segment	-0.8%	4.7%	11.8%	9.6%
Wilshire 5000	-0.3	7.0	13.0	10.2

Bond Segment

The bond segment of the Basic Funds trailed the performance of its target for the latest quarter but exceeded it for the latest year.

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Bond Segment	1.7%	11.0%	10.2%	9.3%
Salomon Bond Index	1.8	10.8	10.2	8.9

Real Estate Segment

The real estate segment of the Basic Funds trailed its target for the latest quarter and year.

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate Segment	0.2%	-4.4%	3.1%	4.6%
Real Estate Index	0.4	-3.8	2.2	4.5
Inflation	0.7	4.7	4.8	4.4

Venture Capital and Resource Funds

Comprehensive data on returns provided by the resource and venture capital markets are not available at this time. Actual returns from these assets are shown in the table.

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Venture Capital Segment	1.9%	20.5%	15.0%	11.1%
Resource Fund Segment	4.1	30.4	5.4	6.7

POST RETIREMENT FUND

Investment Objectives

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans.

Upon the employees' retirement, sums of money sufficient to finance fixed monthly annuities are transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 5% on its invested assets each year. If the Post Fund exceeds this earnings rate, excess earnings are used to finance permanent benefit increases for eligible retirees.

Unrealized capital gains (or losses) are excluded from the statutory definition of earnings. For this reason the Post Fund is not designed to maximize long-term total rates of return.

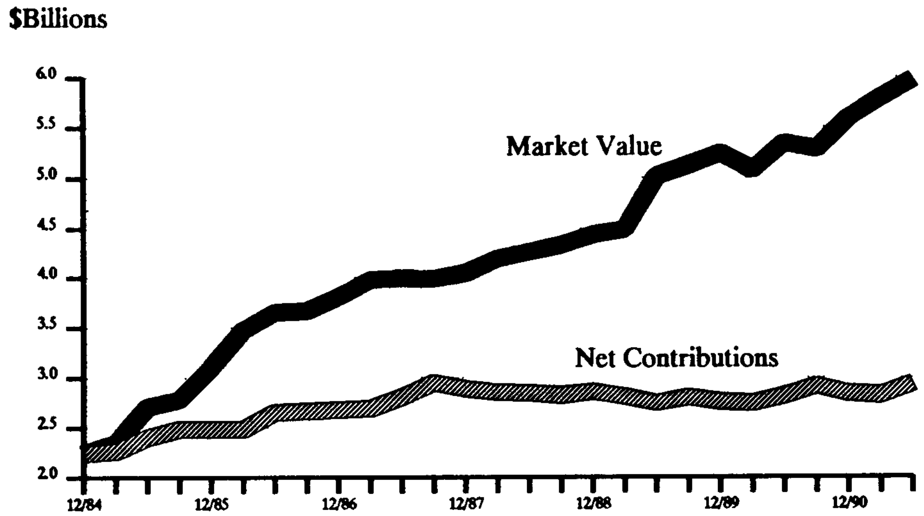
The Board has established two earnings objectives for the Post Fund:

- generate 5% realized earnings to maintain current benefits.
- generate at least 3% additional realized earnings to provide benefit increases.

The Post Fund is not oriented toward maximizing long-term total rate of return. Rather, the SBI attempts to generate a high, consistent stream of earnings for the Post Fund that will maintain current benefits, as well as produce benefit increases over time.

Asset Growth

The market value of the Post Retirement Fund increased by 3.2% during the second quarter of 1991. Asset growth increased primarily due to positive cash flow during the quarter.



In Millions

	12/86	12/87	12/88	12/89	12/90	3/91	6/91
Beginning Value	$3,107	$3,808	$4,047	$4,434	$5,278	$5,590	$5,790
Net Contributions	199	207	-27	25	-72	-20	119
Investment Return	502	32	414	779	384	220	67
Ending Value	$3,808	$4,047	$4,434	$5,238	$5,590	$5,790	$5,976

POST RETIREMENT FUND

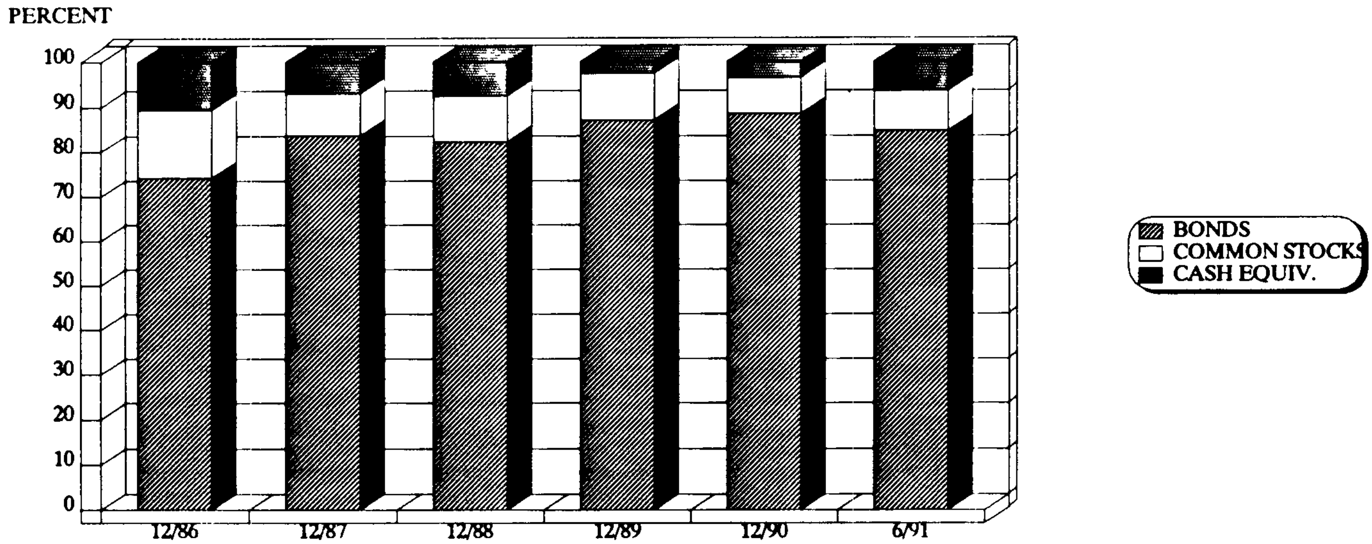
Asset Mix

The Board has designed the asset mix of the Post Fund to generate the sizable stable earnings stream necessary to finance monthly payments to retirees.

The SBI invests the majority of the Post Fund's assets in a dedicated bond portfolio. A dedicated bond portfolio is a collection of various maturity, high-quality bonds which generate cash flows from income and principal payments that match a specific stream of liabilities.

Assets not committed to the dedicated bond portfolio generally are invested in common stocks and cash equivalents.

Cash increased while proportionally reducing the other asset class targets due to a large cash inflow from the Teachers Retirement Association in June.



	Last Five Years					Latest Qtrs.	
	12/86	**12/87**	**12/88**	**12/89**	**12/90**	**3/91**	**6/91**
Bonds	74.2%	83.7%	82.3%	87.1%	88.5%	87.6%	84.7%
Stocks	15.1	9.3	10.1	10.2	7.9	9.0	8.7
Unallocated Cash	10.7	7.0	7.6	2.7	3.6	3.4	6.6
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

POST RETIREMENT FUND

Total Fund Performance

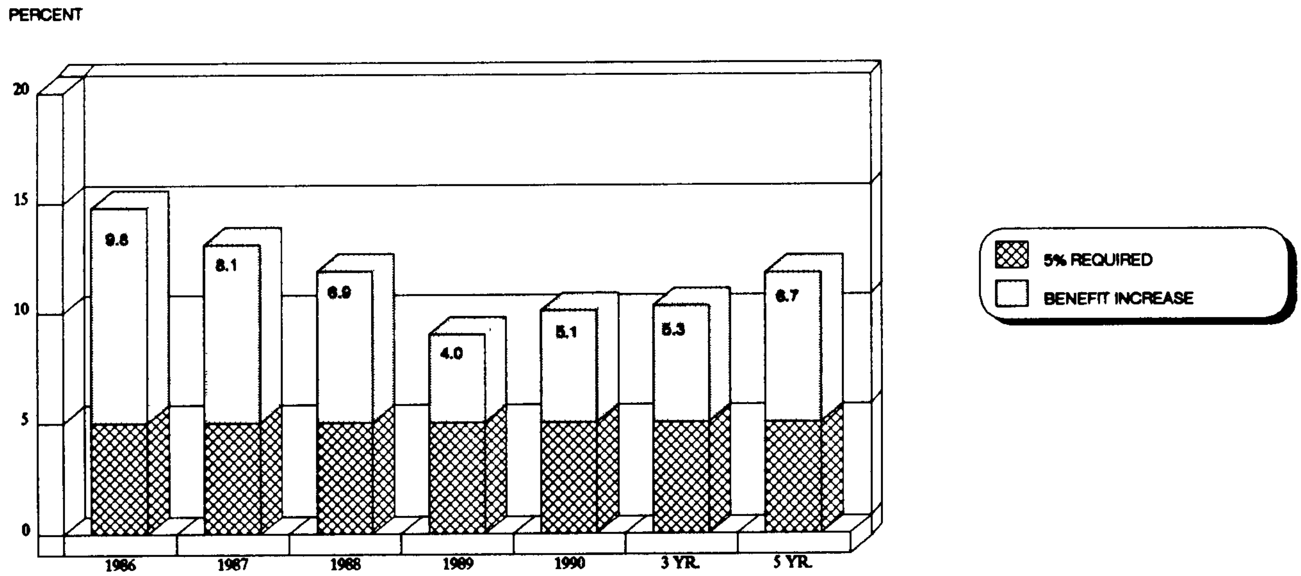
The ability of the Post Fund to maintain current benefit levels and provide future benefit increases depends upon its earnings. State statutes define earnings for the Post Fund as interest and dividend income as well as realized equity and fixed income capital gains (or losses). Unrealized capital gains (or losses) have no direct impact on the benefits paid out to retirees. Unrealized capital gains (or losses) are excluded from defined earnings in order to make benefit payments largely insensitive to near-term fluctuations in the capital markets.

Assets committed to the dedicated bond portfolio ensure that all existing promised benefits will be paid to current retirees. Excess investment earnings on the Post Fund assets are used to finance permanent lifetime benefit increases for retirees.

Benefit increases are based upon earnings during a fiscal year and are effective at the start of the following calendar year. Benefit increases generated over the last five years are shown below.

Realized Earnings

Fiscal Years 1986 - 1990



	1986	1987	1988	1989	1990	(Annualized) 3 Yrs.	5 Yrs.
Realized Earnings*	14.8%	13.1%	11.9%	9.0%	10.1%	10.3%	11.7%
Benefit Increase**	**9.8**	**8.1**	**6.9**	**4.0**	**5.1**	**5.3**	**6.7**
Inflation	1.7	3.7	3.9	5.2	4.7	4.6	3.8

* Interest, dividends and net realized capital gains.

** Payable starting January 1 of the following calendar year.

POST RETIREMENT FUND

Segment Performance

Stock Segment Performance

The stock segment of the Post Fund trailed its benchmark for the latest quarter and year.

	Period Ending 6/30/91 (Annualized)			
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Stock Segment	0.4%	6.4%	10.4%	8.3%
Post Fund Benchmark	1.1	7.3	11.0	N.A.

Bond Segment Performance

The composition of the Post Retirement Investment Fund's dedicated bond portfolio remained essentially unchanged during the second quarter.

The Post Fund's bond portfolio provided a 1.2% total rate of return for the quarter and a 10.0% return for the year. This performance is consistent with the bond portfolio's design. The Post Fund's dedicated bond portfolio is structured so that portfolio income and maturities match the Fund's liability stream. As a result, the duration of the dedicated bond portfolio exceeds that of the bond market. Consequently, on a total return basis, the portfolio can be expected to underperform the bond market in down periods and outperform the market in up periods.

Dedicated Bond Portfolio Statistics
6/30/91

Value at Market	$ 4,968,567,551
Value at Cost	4,567,934,400
Average Coupon	8.61%
Current Yield	7.66
Yield to Maturity	8.57
Current Yield at Cost	8.33
Time to Maturity	15.38 Years
Average Duration	7.57 Years
Average Quality Rating	AAA
Number of Issues	425

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:

- It functions as the investment manager for all assets of the Unclassified Employees Retirement Plan and the Public Employees Defined Contribution Plan.
- It acts as the investment manager for all assets of the supplemental retirement programs for state university and community college teachers and for Hennepin County Employees.
- It is one investment vehicle offered to public employees as part of the state's Deferred Compensation Plan.
- 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. These returns may differ slightly from calculations based on share values, due to the movement of cash flows in and out of the accounts.

On June 30, 1991 the market value of the entire fund was $520 million.

Investment Options

Income Share Account - an actively managed, balanced portfolio utilizing both common stocks and bonds.

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

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

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

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

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

SUPPLEMENTAL INVESTMENT FUND

Income Share Account

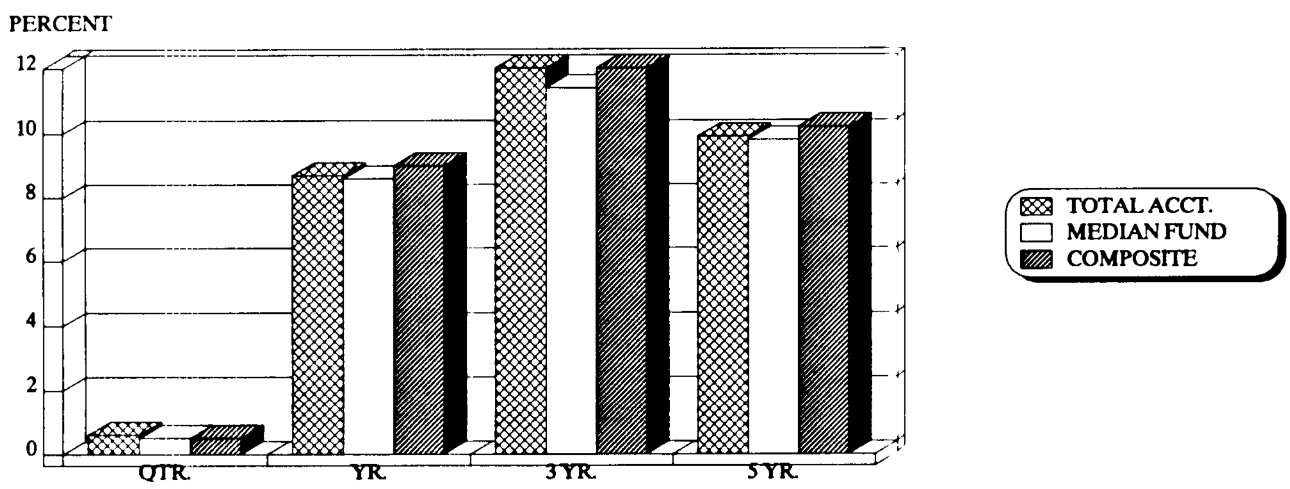
Investment Objective
The primary investment objective of the Income Share Account is similar to that of the Basic Retirement Funds. The Account seeks to maximize long-term real rates of return, while limiting short-run portfolio return volatility.

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

	Target	Actual
Stocks	60.0%	61.4%
Bonds	35.0	29.9
Unallocated Cash	5.0	8.7
	100.0%	100.0%

Investment Management
The Account combines internal and external management. Internal investment staff manage the entire fixed income segment. Currently, the entire stock segment is managed by Wilshire Associates as part of a passively managed index fund designed to track the Wilshire 5000. Prior to April 1988, a significant portion of the stock segment was actively managed.

Market Value
On June 30, 1991 the market value of the Income Share Account was $269 million.



Period Ending 6/30/91

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Total Account	0.6%	8.7%	12.0%	9.9%
Median Fund*	0.5	8.6	11.4	9.8
Composite**	0.5	8.7	12.0	10.1
Equity Segment	-0.1	6.7	12.7	9.8
Wilshire 5000	-0.3	7.0	13.0	10.2
Bond Segment	1.8	10.8	10.4	9.4
Salomon Bond Index	1.8	10.8	10.2	8.9

* TUCS Median Balanced Portfolio

** 60/35/5 Wilshire 5000/Salomon Broad Bond Index/T-Bills Composite

SUPPLEMENTAL INVESTMENT FUND

Growth Share Account

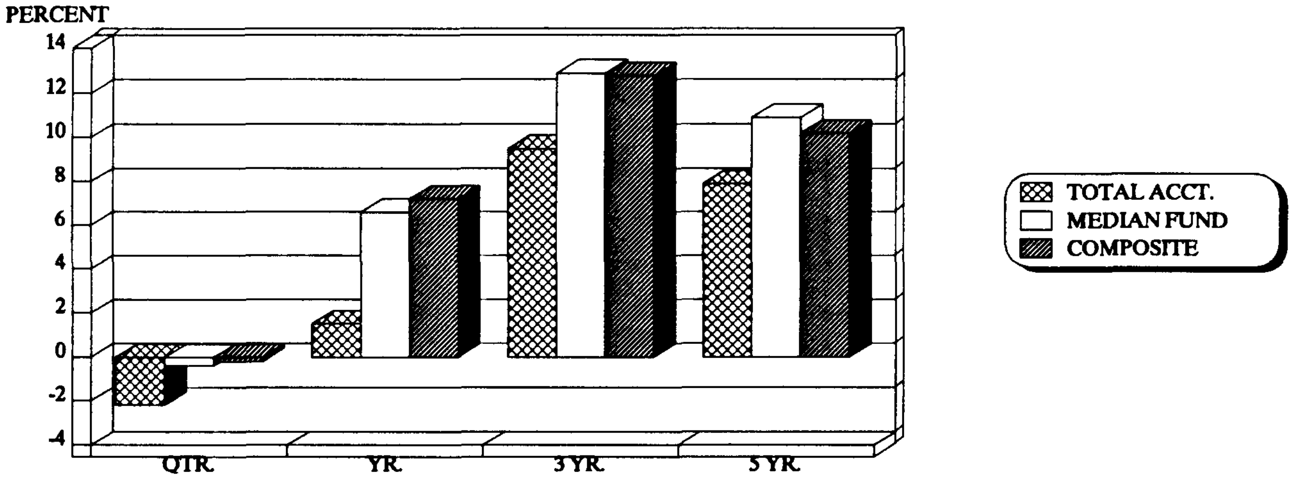
Investment Objective
The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

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

	Target	Actual
Stocks	95.0%	93.6%
Unallocated Cash	5.0	6.4
	100.0%	100.0%

Investment Management
Currently, the entire Account is managed by the same group of active external stock managers utilized by the Basic Retirement Funds. Prior to April 1988, other active managers controlled a substantial portion of the account.

Market Value
On June 30, 1991 the market value of the Growth Share Account was $76 million.



Period Ending 6/30/91

			Annualized	
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	-2.2%	1.5%	9.5%	7.9%
Median Fund*	-0.4	6.6	12.9	10.9
Composite**	-0.2	7.1	12.8	10.2
Equity Segment	-2.4	2.2	9.7	8.1
Wilshire 5000	-0.3	7.0	13.0	10.2

* TUCS Median Managed Equity Portfolio

** 95/5 Wilshire 5000/T-Bills Composite

SUPPLEMENTAL INVESTMENT FUND

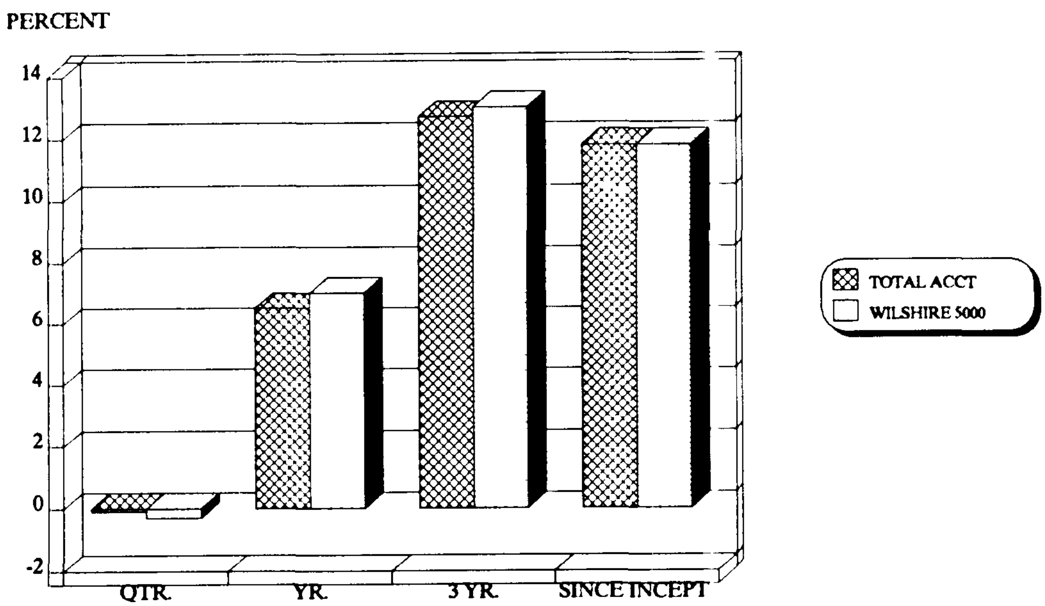
Common Stock Index Account

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

The Account is invested 100% in common stocks.

Investment Management
The entire Account is managed by Wilshire Associates as part of a passively managed index fund.

Market Value
On June 30, 1991 the market value of the Common Stock Index Account was $15 million.



Period Ending 6/30/91

	Qtr.	Yr.	3 Yrs. Annualized	Since Inception Annualized*
Total Account	-0.1%	6.5%	12.7%	11.8%
Wilshire 5000	-0.3	7.0	13.0	11.8

* The Common Stock Index Account was added to the Supplemental Fund in July 1986.

SUPPLEMENTAL INVESTMENT FUND

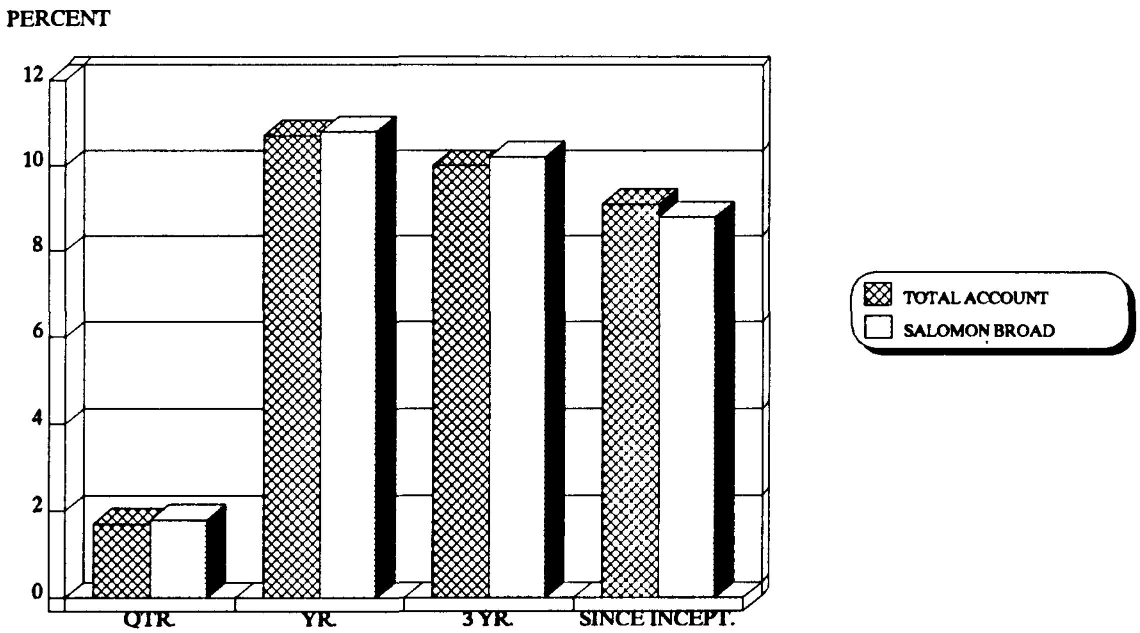
Bond Market Account

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

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

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

Market Value
On June 30, 1991 the market value of the Bond Market Account was $8 million.



Period Ending 6/30/91

	Qtr.	Yr.	3 Yrs. Annualized	Since Inception Annualized*
Total Account	1.7%	10.7%	10.0%	9.1%
Salomon Broad	1.8	10.8	10.2	8.8

* The Bond Market Account was added to the Supplemental Fund in July 1986.

SUPPLEMENTAL INVESTMENT FUND

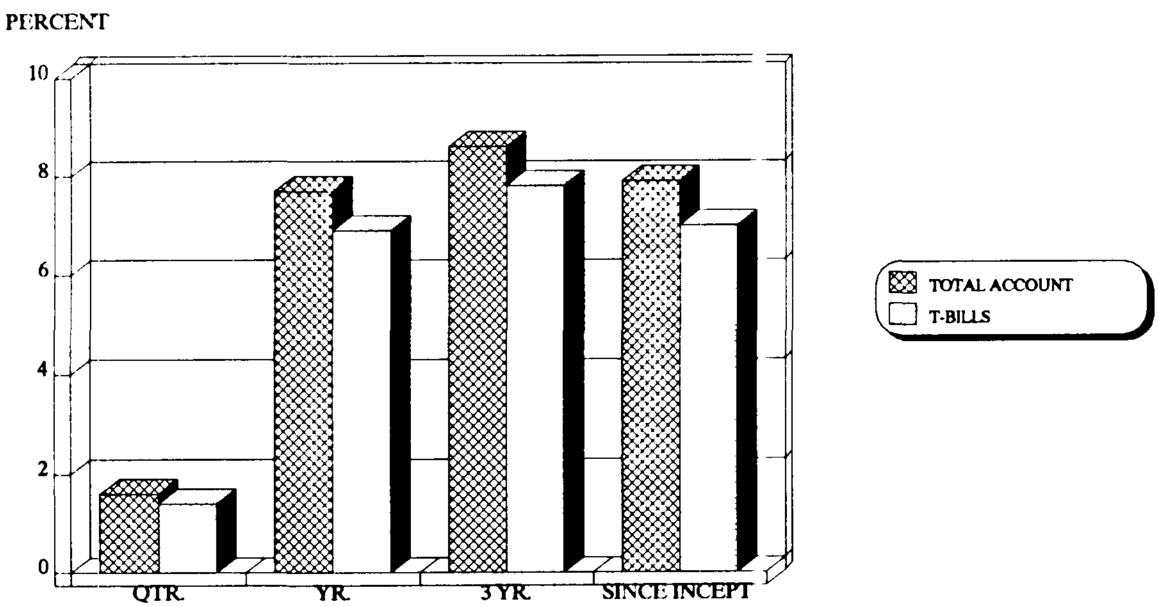
Money Market Account

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

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

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

Market Value
On June 30, 1991 the market value of the Money Market Account was $86 million.



Period Ending 6/30/91

	Qtr.	Yr.	3 Yrs. Annualized	Since Inception Annualized*
Total Account	1.6%	7.7%	8.6%	7.9%
91 Day T-Bills	1.4	6.9	7.8	7.0

* The Money Market Account was added to the Supplemental Fund in July 1986.

SUPPLEMENTAL INVESTMENT FUND

Guaranteed Return Account

Investment Objectives
The investment objectives of the Guaranteed Return Account are to protect investors from any loss of their original investment and to provide a fixed rate of return over a three year period.

Asset Mix
The Guaranteed Return Account is invested in guaranteed investment contracts (GIC's) offered by major U.S. insurance companies and banks.

Investment Management
Annually, the Board accepts bids from banks and insurance companies that meet the financial quality criteria defined by State statute. Generally, the insurance company or bank offering the highest three year GIC interest rate is awarded the contract. That interest rate is then offered to participants who make contributions to the Guaranteed Return Account over the following twelve months.

Market Value
On June 30, 1991 the market value of the Guaranteed Return Account was $65 million.

Contract Period	Annual Effective Interest Rate	Manager
Nov. 1, 1988 - Oct. 31, 1991	9.010%	Mutual of America
Nov. 1, 1989 - Oct. 31, 1992	8.400%	John Hancock
Nov. 1, 1990 - Oct. 31, 1993	8.765%	Mutual of America/ Provident National (blended rate)

PERMANENT SCHOOL FUND

Investment Objectives
The SBI invests the Permanent School Fund to produce a high, consistent level of income that will assist in offsetting state expenditures on school aids.

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

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

Asset Mix
The asset mix of the Permanent School Fund was essentially unchanged during the second quarter. The Permanent School fund continues to hold only fixed income securities. Under current legal limitations, common stocks are not appropriate vehicles for the Fund.

	Target	Actual
Bonds	95.0%	95.8%
Unallocated Cash	5.0	4.2
Total	100.0%	100.0%

Investment Management
The entire fund is managed by the SBI investment staff.

Asset Growth
The market value of the Permanent School Fund's assets increased 0.2% during the second quarter. Investment income and contributions contributed to the increase in assets.

Asset Growth During Second Quarter 1991 (Millions)

Beginning Value	$384.6
Net Contributions	2.0
Investment Return	5.3
Ending Value	$391.9

Bond Segment Performance
The composition of the Permanent School Fund's bond portfolio was essentially unchanged during the quarter. The bond portfolio is structured with a laddered distribution of maturities to minimize the Fund's exposure to re-investment rate risk. At the quarter's-end, the portfolio had a current yield of 8.87%, an average life of 7.18 years, and a AAA quality rating. The portfolio remains concentrated in Treasury and Agency issues with the remainder primarily distributed among mortgages, industrials and utilities.

Bond Portfolio Statistics 6/30/91

Value at Market	$368,248,287
Value at Cost	355,333,402
Average Coupon	9.14%
Current Yield	8.87
Yield to Maturity	8.68
Current Yield at Cost	9.19
Time to Maturity	15.27 Years
Average Duration	7.18 Years
Average Quality Rating	AAA
Number of Issues	132

STATE CASH ACCOUNTS

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

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

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

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

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

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

Investment Objectives
- **Safety of Principal.** To preserve capital.

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

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

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

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

Performance
Both the Trust Fund Pool and the Treasurer's Cash Pool outperformed their target for the latest quarter and year.

Period Ending 6/30/91

	Market Value (Millions)	Qtr.	Yr.	3 Yrs. Annualized
Treasurer's Cash Pool	$2,324	2.0%	8.6%	8.8%
Trust Fund Cash Pool	214	1.7	8.0	8.5
91-Day T-Bills		1.4	6.9	7.8

Tab B

PORTFOLIO STATISTICS

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
COMPOSITION OF STATE INVESTMENT PORTFOLIOS BY TYPE OF INVESTMENT
MARKET VALUE JUNE 30, 1991
(in 000's)

	CASH AND SHORT TERM SECURITIES	BONDS		STOCKS		ALTERNATIVE ASSETS	TOTAL
		INTERNAL	EXTERNAL	INTERNAL	EXTERNAL		
BASIC RETIREMENT FUNDS:							
TEACHERS RETIREMENT FUND	$ 30,599	$ -0-	$ 871,897	$ -0-	$2,168,165	$396,027	$ 3,466,688
	0.88%		25.15%		62.54%	11.43%	100%
PUBLIC EMPLOYEES RETIRE. FUND	38,289	-0-	428,460	-0-	1,065,373	194,615	1,726,737
	2.22%		24.81%		61.70%	11.27%	100%
STATE EMPLOYEES RETIRE. FUND	33,008	-0-	369,312	-0-	918,303	167,750	1,488,373
	2.22%		24.81%		61.70%	11.27%	100%
PUBLIC EMP. POLICE & FIRE FUND	14,668	-0-	164,098	-0-	408,035	74,537	661,338
	2.22%		24.81%		61.70%	11.27%	100%
HIGHWAY PATROL RETIRE. FUND	2,414	-0-	27,233	-0-	67,768	12,387	109,802
	2.20%		24.80%		61.72%	11.28%	100%
JUDGES RETIREMENT FUND	1	-0-	1,675	-0-	3,860	762	6,298
	0.01%		26.60%		61.29%	12.10%	100%
PUBLIC EMP. P.F. CONSOLIDATED	30	-0-	18,090	-0-	48,958	9,393	76,471
	0.04%		23.66%		64.02%	12.28%	100%
CORRECTIONAL EMPLOYEES RETIREMENT	1,699	-0-	18,461	-0-	45,939	8,397	74,496
	2.28%		24.78%		61.67%	11.27%	100%
POST RETIREMENT FUND	389,550	5,063,675	-0-	522,908	-0-	-0-	5,976,133
	6.52%	84.73%		8.75%			100%
MINNESOTA SUPPLEMENTAL FUNDS:							
INCOME SHARE ACCOUNT	23,296	80,664	-0-	-0-	165,654	-0-	269,614
	8.64%	29.92%			61.44%		100%
GROWTH SHARE ACCOUNT	4,821	-0-	-0-	-0-	70,705	-0-	75,526
	6.38%				93.62%		100%
MONEY MARKET ACCOUNT	86,043	-0-	-0-	-0-	-0-	-0-	86,043
	100%						100%
COMMON STOCK INDEX ACCOUNT	-0-	-0-	-0-	-0-	15,424	-0-	15,424
					100%		100%
BOND MARKET ACCOUNT	-0-	-0-	8,556	-0-	-0-	-0-	8,556
			100%				100%
GUARANTEED RETURN ACCOUNT	-0-	-0-	65,216	-0-	-0-	-0-	65,216
			100%				100%

	CASH AND SHORT TERM SECURITIES	BONDS INTERNAL	BONDS EXTERNAL	STOCKS INTERNAL	STOCKS EXTERNAL	ALTERNATIVE ASSETS	TOTAL
TOTAL RETIREMENT FUNDS	$ 624,418	$5,144,339	$1,972,998	$522,908	$ 4,978,184	$863,868	$14,106,715
	4.43%	36.47%	13.99%	3.70%	35.29%	6.12%	100%
PERMANENT SCHOOL FUND	16,441	375,503	-0-	-0-	-0-	-0-	391,944
	4.20%	95.80%					100%
TREASURERS CASH	2,323,868	-0-	-0-	-0-	-0-	-0-	2,323,868
	100%						100%
HOUSING FINANCE AGENCY	135,185	-0-	-0-	-0-	-0-	-0-	135,185
	100%						100%
MINNESOTA DEBT SERVICE FUND	20,792	-0-	-0-	-0-	-0-	-0-	20,792
	100%						100%
MISCELLANEOUS ACCOUNTS	116,891	-0-	-0-	-0-	-0-	-0-	116,891
	100%						100%
GRAND TOTAL	$3,237,595	$5,519,842	$1,972,998	$522,908	$4,978,184	$863,868	$17,095,395
	18.94%	32.29%	11.54	3.06%	29.12%	5.05%	100%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
NET CASH FLOW AVAILABLE FOR INVESTMENT

For period of
April 1, 1991 - June 30, 1991

Teachers Retirement Fund	$(47,000,000.00)
Public Employees Retirement Fund	-0-
State Employees Retirement Fund	3,563,000.00
Public Employees Police & Fire	-0-
Highway Patrol Retirement Fund	139,000.00
Judges Retirement Fund	(675,000.00)
Public Emp. P & F Consolidated	(6,469.922.85)
Correctional Employees Retirement Fund	34,000.00
Post Retirement Fund	118,623,313.40
Supplemental Retirement Fund - Income	925,270.59
Supplemental Retirement Fund - Growth	270,099.68
Supplemental Retirement Fund - Money Market	(1,203,734.01)
Supplemental Retirement Fund - Index	1,392,345.93
Supplemental Retirement Fund - Bond Mkt.	253,153.67
Supplemental Retirement Fund - Guaranteed	(115,323.28)
Total Retirement Funds Net Cash Flow	$ 69,736,203.13
Permanent School Fund	2,047,005.60
Total Net Cash Flow	$ 71,783,208.73

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

TRANSACTION AND ASSET SUMMARY
RETIREMENT FUNDS

	Net Transactions				Asset Summary (at market)			
	Bonds (000,000)	Stocks (000,000)	Total	Cash Flow	Short-term % of Fund	Bonds % of Fund	Equity % of Fund	Total (000,000) (at market)
January 1989	88	(10)	78	3	5.6	47.7	46.7	10760
February	60	18	78	38	5.3	47.9	46.8	10633
March	150	5	155	12	3.9	48.8	47.3	10783
April	(16)	188	172	16	2.3	48.1	49.6	11113
May	(2)	4	2	43	2.6	47.6	49.8	11461
June	119	10	129	119	2.5	49.2	48.3	11768
July	121	(100)	21	44	2.6	49.0	48.4	12287
August	275	(205)	70	51	2.4	49.8	47.8	12311
September	47	11	58	32	2.2	50.2	47.6	12344
October	113	(154)	(41)	8	2.6	52.5	44.9	12342
November	45	0	45	78	2.8	52.1	45.1	12494
December	14	6	20	24	2.8	51.8	45.4	12581
January 1990	(37)	6	(31)	85	3.9	52.0	44.1	12126
February	(12)	115	103	48	3.4	51.1	45.5	12232
March	(3)	7	4	8	3.4	50.5	46.1	12334
April	105	3	108	8	2.7	51.4	45.9	12070
May	(6)	27	21	52	2.8	50.0	47.2	12721
June	23	(22)	1	122	3.7	50.3	46.0	12916
July	130	3	133	65	3.1	51.6	45.3	12962
August	98	(38)	60	53	3.2	53.3	43.5	12293
September	61	(42)	19	13	3.2	55.1	41.7	12098
October	35	8	43	11	3.0	56.0	41.0	12103
November	(58)	61	3	106	3.7	54.2	42.1	12652
December	(59)	115	56	33	3.4	53.3	43.3	12967
January 1991	6	(2)	4	47	3.6	52.3	44.1	13356
February	(6)	11	5	60	3.9	50.6	45.5	13790
March	82	1	83	6	3.3	50.8	45.9	13961
April	(24)	(9)	(33)	9	3.6	50.9	45.5	14045
May	33	1	34	66	3.8	49.8	46.4	14308
June	25	2	27	115	4.4	50.5	45.1	14106

Tab C

DATE: September 3, 1991

TO: Members, State Board of Investment

FROM: Howard J. Bicker

1) Budget Reports

A final budget report for FY91 is included as Attachment A. A report for FY92 for the period ending July 31, 1991 is included as Attachment B.

2) Travel Reports

A travel report for the period from May 16, 1991 - August 15, 1991 is included as Attachment C.

3) IAC Member Selection Committee

The IAC Member Selection Committee will be making recommendations on the two current vacancies among the Board appointees to the IAC at the SBI meeting on September 11, 1991.

4) South Africa Task Force Appointments

There are two vacancies on the South Africa Task Force. At a previous SBI meeting, you directed me to solicit candidates and make recommendations on both appointments. I will make those recommendations at your meeting on September 11, 1991.

5) Equity Manager Selection Committee

Staff intends to bring recommendations for one or more active equity managers to the Board at its next meeting. Accordingly, an Equity Manager Search Committee should be formed to make recommendations to the Board.

<u>RECOMMENDATION</u>:

I recommend that the SBI create an Equity Manager Selection Committee with the following membership:

- o One (1) designee of each Board member to be appointed by the respective Board members.
- o Two (2) or more members of the Investment Advisory Council to be appointed by the Chair of the IAC.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1991 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR ENDED JUNE 30,1991

ITEM	FISCAL YEAR 1991 BUDGET	FISCAL YEAR 1991 EXPENDITURES
PERSONAL SERVICES		
CLASSIFIED EMPLOYEES	$ 243,500	$ 252,875
UNCLASSIFIED EMPLOYEES	1,138,910	1,136,215
PART-TIME EMPLOYEES	0	0
WORKERS COMPENSATION INSURANCE	0	606
MISCELLANEOUS PAYROLL	0	-87
SUBTOTAL	**$ 1,382,410**	**$ 1,389,609**
EXPENSES & CONTRACTUAL SERVICES		
RENTS & LEASES	97,000	88,815
REPAIRS/ALTERATIONS/MAINTENANCE	9,000	7,401
PRINTING & BINDING	18,000	14,806
PROFESSIONAL/TECHNICAL SERVICES	5,000	6,984
DATA PROCESSING & SYSTEM SERVICES	162,000	162,000
PURCHASED SERVICES	20,000	24,726
SUBTOTAL	**$ 311,000**	**$ 304,732**
MISCELLANEOUS OPERATING EXPENSES		
COMMUNICATIONS	20,000	20,339
TRAVEL, IN-STATE	3,000	857
TRAVEL, OUT-STATE	40,000	25,719
FEES & OTHER FIXED CHARGES	7,000	4,485
SUBTOTAL	**$ 70,000**	**$ 51,400**
SUPPLIES/MATERIALS/PARTS	**15,000**	**32,186**
CAPITAL EQUIPMENT	**19,100**	**14,582**
TOTAL GENERAL FUND	**$ 1,797,510**	**$ 1,792,509**

STATE BOARD OF INVESTMENT
FISCAL YEAR 1992 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO-DATE THROUGH JULY 31,1991

ITEM	FISCAL YEAR 1992 BUDGET	FISCAL YEAR 1992 EXPENDITURES
PERSONAL SERVICES		
CLASSIFIED EMPLOYEES	$ 260,000	$ 11,870
UNCLASSIFIED EMPLOYEES	1,224,000	50,588
SEVERENCE PAYOFF	0	3,983
WORKERS COMPENSATION INSURANCE	0	0
MISCELLANEOUS PAYROLL	0	0
SUBTOTAL	**$ 1,484,000**	**$ 66,441**
EXPENSES & CONTRACTUAL SERVICES		
RENTS & LEASES	92,000	0
REPAIRS/ALTERATIONS/MAINTENANCE	9,000	75
PRINTING & BINDING	18,000	40
PROFESSIONAL/TECHNICAL SERVICES	5,000	239
DATA PROCESSING & SYSTEM SERVICES	162,000	0
PURCHASED SERVICES	20,000	3,556
SUBTOTAL	**$ 306,000**	**$ 3,910**
MISCELLANEOUS OPERATING EXPENSES		
COMMUNICATIONS	20,000	1,228
TRAVEL, IN-STATE	3,000	0
TRAVEL, OUT-STATE	40,000	5,273
FEES & OTHER FIXED CHARGES	7,000	1,225
SUBTOTAL	**$ 70,000**	**$ 7,726**
SUPPLIES/MATERIALS/PARTS	**15,000**	**2,306**
CAPITAL EQUIPMENT	**19,000**	**0**
TOTAL GENERAL FUND	**$ 1,894,000**	**$ 80,383**

ATTACHMENT C

STATE BOARD OF INVESTMENT

Travel Summary by Date
May 16, 1991 - August 15, 1991

Purpose	Name(s)	Destination and Date	Total Cost
Board Member Travel Richards & Tierney Annual Client Conference	L. Rotenberg	Chicago 5/15-16	$ 502.85
Staff Education Richards & Tierney Annual Client Conference	B. Lehman	Chicago 5/15-16	$ 477.99
Manager Monitoring KKR Annual Meeting	M. Perry	New York 5/18-20	$ 593.11
Board Member Travel "Investment Strategies for Public Funds" sponsored by Inst. for Int'l Research	L. Rotenberg	New Orleans 6/2-4	$1,209.34
Board Member Travel "Clean & Green" sponsored by MN Social Investment Forum	M. McGrath E. Voss	Minneapolis 6/3	$ 130.00
Staff Education "Clean & Green" sponsored by MN Social Investment Forum	A. Blauzda J. Heidelberg	Minneapolis 6/3	$ 130.00
Staff Education "1991 Proxy Reform Conference" sponsored by United Shareholder Association	J. Heidelberg	Washington D.C. 6/6-7	$ 939.23
Board Member Travel National Association of Public Pension Attorneys Annual Conference	C. Eller	Santa Fe 6/18-21	$1,766.96

Travel Summary by Date (con't)

Purpose	Name(s)	Destination and Date	Total Cost
Consultant Meeting Richards & Tierney	H. Bicker B. Lehman	Chicago 6/20	$1,124.75
Staff Conference "Market Makers" sponsored by Institute for Fiduciary Education	H. Bicker	Albany NY 6/24-27	$1,097.68

Tab D

COMMITTEE REPORT

DATE: September 3, 1991

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

FROM: Asset Allocation Committee

The Asset Allocation Committee met on August 7, 1991 to review staff's proposal concerning asset allocation in the Basic Retirement Funds.

ACTION ITEMS:

1) Staff proposal on Basic Funds Asset Allocation and Structure

At a previous SBI meeting, the Board asked that the Executive Director prepare a review of the Basic Funds policies and strategies for the September 1991 meeting.

In preparation for the review, SBI members participated/will participate in two informal seminars to discuss a variety of issues related to the Basic Funds. Those meetings were scheduled for July 15th and September 5th.

At the July 15th meeting, Board members asked staff to prepare a specific asset allocation proposal and requested that the IAC and the consultant provide comment and recommendation for the Board's consideration. During August, staff circulated its proposal and reviewed it with the Asset Allocation Committee along with the Equity Manager, Fixed Income Manager and Alternative Investment Committees. The proposal will be discussed at the September 5th seminar as well.

Materials outlining the staff proposal are attached. Comments from the consultant and the IAC will be discussed at the September IAC/SBI meetings.

RECOMMENDATION:

Recommendations for action will be presented at the SBI meeting on September 11, 1991.

Strategy Framework

SBI determines the strategy for each fund through its long-term asset allocation decision.

Rationale: Asset allocation is the single largest determinant of return.

Asset allocation overwhelms all other policy and implementation decisions.

Process: Staff reviews implications of alternatives and makes specific proposal.

Consultant provides analytical assistance during the review phase.

IAC reviews staff proposal and makes advisory recommendation to the Board.

Board approves or modifies the proposal.

Staff implements the Board's decision, monitors and evaluates results, with assistance from consultant and IAC.

Classification of Assets

Current

Domestic Stocks

Alternative Assets
- Real Estate
- Venture Capital
- Resource Funds

Domestic Bonds

Cash

Proposed

Public Equity
- Domestic Stocks
- International Stocks

Private Equity
- Venture Capital
- LBO, Turnaround
- Other Special Situations

Real Assets
- Real Estate
- Oil, Gas
- Timber, Land
- Other Hard Assets

Fixed Income
- Domestic Bonds
- Cash

Basic Retirement Funds Asset Allocation

	Current Target	6/30/91 Actual	Proposed Target
Public Equity	**60.0%**	**62.1%**	**60.0%**
Domestic Stocks	60.0	62.1	50.0
International Stocks	0.0	0.0	10.0
Private Equity	**2.5%**	**3.9%**	**up to 10.0%***
Venture Capital			*Unused allocation would be placed in domestic stocks
LBO, Turnaround			
Other Special Situations			
Real Assets	**12.5%**	**7.5%**	**up to 10.0%****
Real Estate	10.0	6.0	**Unused allocation would be placed in domestic bonds
Oil, Gas	2.5	1.5	
Timber, Land			
Other Hard Assets			
Fixed Income	**25.0%**	**26.5%**	**20.0%**
Domestic Bonds	24.0	24.9	19.0
Cash	1.0	1.6	1.0

Asset Mix Simulation Results

		Current	Proposed
Domestic Stock		60.0%	50.0%
Int'l. Stock		0.0	10.0
Private Equity		2.5	10.0
Real Assets		12.5	10.0
Domestic Bonds		24.0	19.0
Cash		1.0	1.0
Total		100.0%	100.0%
Median Return		10.0%	10.5%
Standard Deviation		12.3	12.1
1 Year Periods	Min.	-8.3%	-7.6%
	Max.	31.9	32.0
5 Year Periods	Min.	1.6%	2.1%
	Max.	19.1	19.5

Public Equity
Staff Proposal

Domestic Stocks

Asset Class Target: Wilshire 5000

		Return Expectation*	Structure
Active	Max. 50%	+50 to +100 b.p.	specialized managers
Passive	Min. 50%	-10 b.p.	custom tilted index
		+20 to +45 b.p.	

*relative to benchmark, net of all fees

International Stocks

Plan to be developed and presented to IAC/SBI.

Alternatives presently being considered:

Plan A	Plan B
50% Active Country Allocation	50% Regional Specialists
50% Passive	50% Passive

Fixed Income
Staff Proposal

Domestic Bonds

Asset Class Target: Salomon BIG

		Return Expectation*	Structure
Active	Max. 50%	+25 to +50 b.p.	broad based managers
Semi-Passive	Min. 50%	~~+15 to +25 b.p.~~	
		+20 to +35 b.p.	

* relative to benchmark, net of all fees

Cash

Asset Class Target: 91 Day Treasury Bills

Structure: Actively managed through custodian bank

Private Equity and Real Assets
Staff Proposal

Private Equity

Asset Class Target:	**SBI Aggregate**
Return Expectation:	**+300 b.p. over historical public equity returns to compensate for lack of liquidity. Measured over life of the investment.**
Structure:	**Primarily limited partnerships and commingled funds.**

Real Assets

Asset Class Target:	**SBI Aggregate, including Wilshire Real Estate Index**
Return Expectation:	**+300-500 b.p. over inflation rate. Measured over the life of the investment.**
Structure:	**Primarily limited partnerships and commingled funds.**

Tab E

COMMITTEE REPORT

DATE: September 3, 1991

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

FROM: Equity Manager Committee

The IAC Equity Manager Committee met on August 16, 1991, to review the following items:

- o Review of Manager Performance
- o Review of IDS's analysis of the performance variation among their portfolio managers

Neither item requires action by the Board at this time.

INFORMATION ITEMS:

1) Review of Manager Performance

For the quarter ending June 30, 1991, the Basic Fund's domestic equity program underperformed its aggregate benchmark and the Wilshire 5000 (Equity Program -0.9% vs. Aggregate Benchmark 0.0% vs. Wilshire 5000 -0.3%). For the latest five year period, the current equity managers in the Basic Funds have outperformed its aggregate benchmark but underperformed the Wilshire 5000.

The evaluation reports for each manager are attached at the end of this tab section.

2) Review of IDS's Performance Variation Among its Portfolio Managers

At the request of staff and the Committee, IDS conducted an analysis comparing the performance variation between the portfolio manager responsible for the SBI account and the composite of all IDS accounts. IDS presented the results to staff who then reviewed the findings with the Committee. The following summarizes the results of the analysis and the conclusions arrived at by staff and the Committee:

- o IDS's analysis showed that the investment restrictions imposed by the SBI (South Africa, liquor, tobacco) did not contribute materially to the underperformance of the SBI account relative to other IDS accounts.

- o The investment decisions made for the SBI account and all the other IDS accounts were within the investment guidelines established by the IDS Common Stock Committee.
- o The main contributor to the relative underperformance was that the active bets made by the portfolio manager responsible for the SBI account. These specific buy/sell decisions did not do as well relative to investment decisions made by the other IDS portfolio managers.

The Committee considered a staff suggestion to direct IDS to re-assign the SBI account to another portfolio manager within IDS. The Committee feels that this action is similar to hiring a new manager. As a result, they recommend that IDS be included in the equity manager search that staff will conduct during the remainder of calendar 1991. The Committee does not recommend any change in the IDS account at this time, pending the outcome of the manager search process.

EQUITY MANAGERS

Second Quarter 1991

Common stock manager returns are evaluated against the performance of customized indices constructed to represent the managers' specific investment approaches. These custom indices are commonly referred to as "benchmark portfolios." The benchmark portfolios take into account the equity market forces that at times favorably or unfavorably impact certain investment styles. Thus, benchmark portfolios are the appropriate standards against which to judge the managers' performance.

Manager performance relative to benchmarks is evaluated on a quarterly basis by the Equity Manager Committee of the Investment Advisory Council.

Staff Recommendations:
Staff recommends the following actions concerning manager status:

- Conduct in-depth review of Rosenberg Institutional.

Current Managers	Total Market Value 6/30/91 (Thousands)	Quarter Ending 6/30/91 Actual	Quarter Ending 6/30/91 Bmrk	Year Ending 6/30/91 Actual	Year Ending 6/30/91 Bmrk	Annualized Five Years Ending 6/30/91 Actual	Annualized Five Years Ending 6/30/91 Bmrk	Percent of Stock Segment 6/30/91 Basic Funds
Alliance	$ 460,646	-4.3%	-0.8%	3.0%	4.9%	13.2%	8.1%	9.4%
Forstmann	225,133	-1.1	0.2	10.7	6.4	7.8	8.8	4.6
Franklin	146,709	-2.4	0.1	3.9	7.8			3.0
GeoCapital	124,611	-3.9	-2.1	10.2	5.0			2.5
IDS	193,596	-1.4	-0.3	-0.4	4.0	8.7	9.5	3.9
IAI	99,576	-2.0	-0.6	0.6	5.6	8.5	10.4	2.0
Lieber & Co.	151,867	0.1	1.3	5.5	5.6	5.6	5.2	3.1
Rosenberg	305,837	-2.8	-0.5	1.3	5.7			6.3
Waddell & Reed	186,887	-1.2	0.2	-1.5	4.9	8.6	8.8	3.8
Wilshire Assoc.*	2,902,025	0.2	0.2	6.4	6.9	10.1	10.2	61.4
Aggregate **		-0.9	0.0	4.8	6.4	9.8	9.7	100.0
Wilshire 5000		-0.3%		7.0%		10.2%		

* Passive Manager/Custom Tilt Index only
** Historical performance reflects composite of current managers only.

Notes: GeoCapital retained 4/90. Franklin, Rosenberg, retained 4/89.
Wilshire Assoc. began custom tilt phase-in in October 1990.

ALLIANCE CAPITAL MANAGEMENT

PORTFOLIO MANAGER: Jack Koltes **ASSETS UNDER MANAGEMENT: $460,645,851**

INVESTMENT PHILOSOPHY

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

QUALITATIVE EVALUATION (Reported By Exception)

Exceptional strengths are:

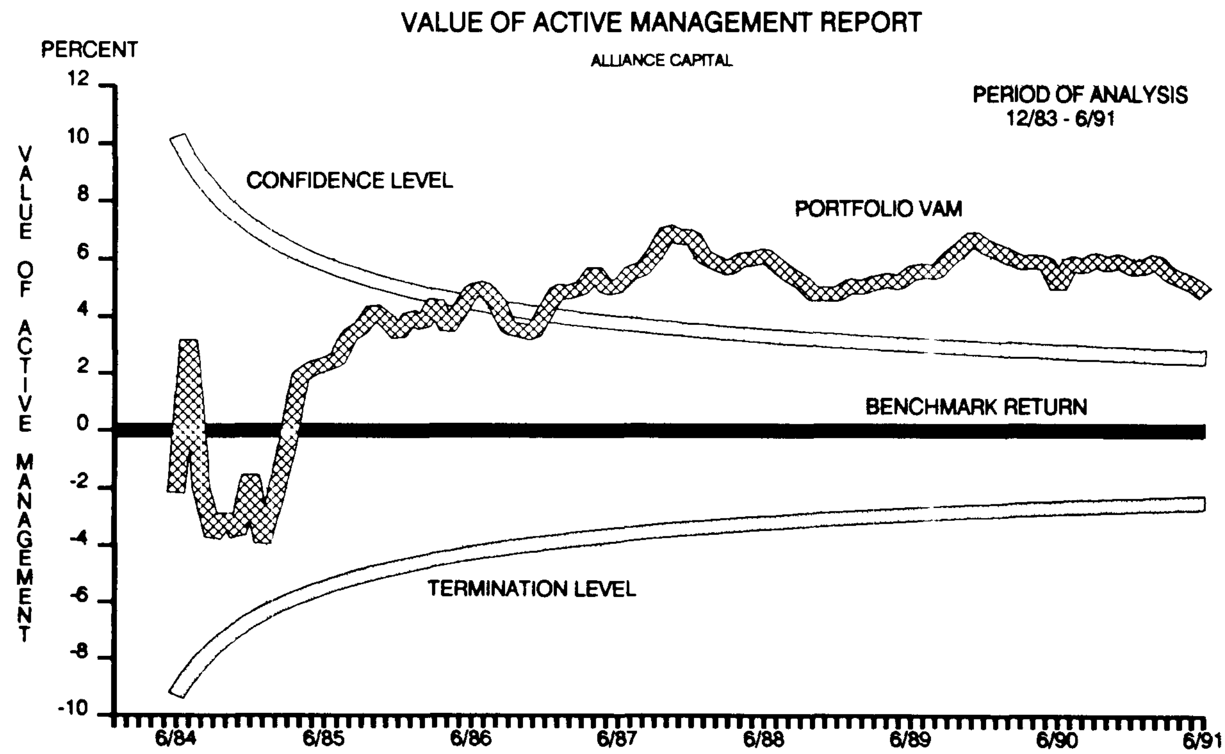
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.
- Well-acquainted with needs of large clients.
- Investment style consistently and successfully applied over a variety of market environments.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 1/1/84
Actual Return	-4.3%	3.0%	13.2%	17.3%
Benchmark	-0.8	4.9	8.1	11.9

STAFF RECOMMENDATIONS

No action required.



FORSTMANN LEFF ASSOCIATES

PORTFOLIO MANAGER: Joel Leff **ASSETS UNDER MANAGEMENT: $225,133,402**

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 asset classes and equity sectors over the course of a market cycle. The firm tends to purchase liquid, large capitalization stocks. Forstmann Leff will make sizable market timing moves at any point during a market cycle.

QUALITATIVE EVALUATION
(Reported By Exception)

Current concerns are:

- Relatively high turnover among firm's professionals. This issue, while not serious, remains outstanding.

Exceptional strengths are:

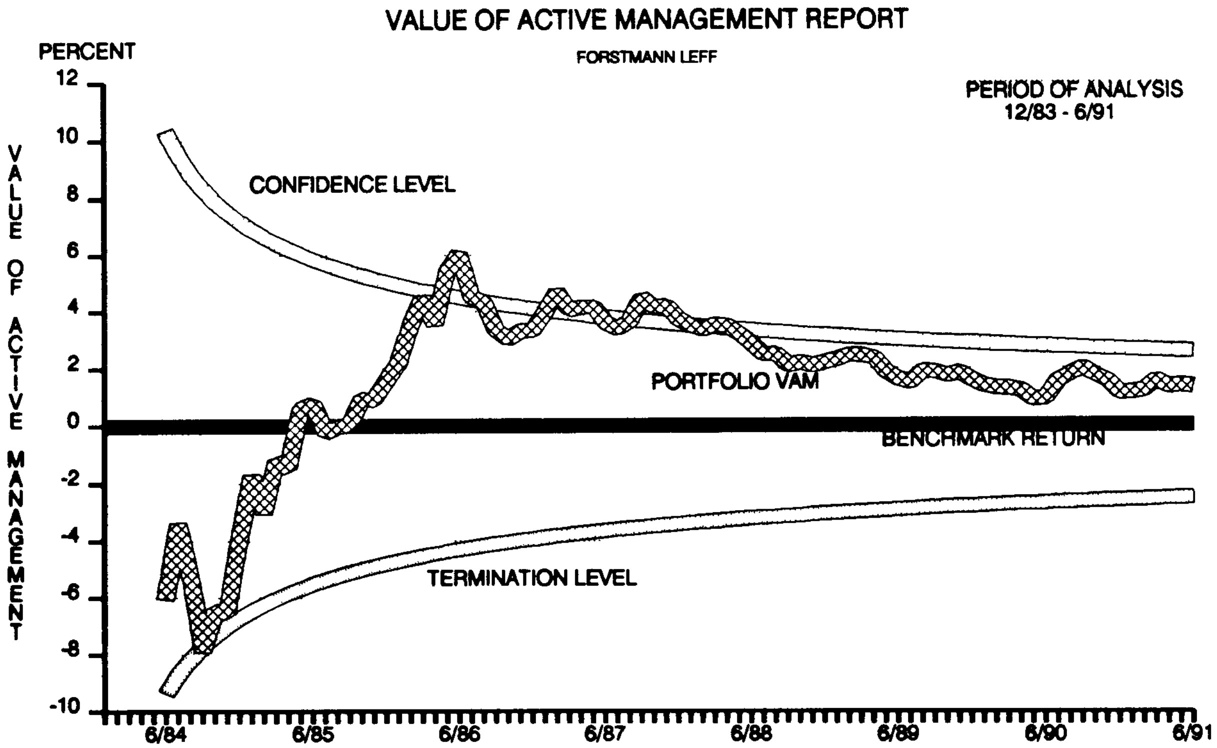
- Highly successful and experienced professionals.
- Investment style consistently and successfully applied over a variety of market environments.
- Well-acquainted with needs of large clients.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 1/1/84
Actual Return	-1.1%	10.7%	7.8%	13.1%
Benchmark	0.2	6.4	8.8	11.6

STAFF RECOMMENDATIONS

Latest five year period is below benchmark. In-depth review was completed for December 1990 Board meeting.



FRANKLIN PORTFOLIO ASSOCIATES

PORTFOLIO MANAGER: John Nagorniak **ASSETS UNDER MANAGEMENT: $146,708,555**

INVESTMENT PHILOSOPHY

Franklin's investment decisions are quantitatively driven and controlled. The firm's stock selection model uses 30 valuation measures covering the following factors: fundamental momentum, relative value, future cash flow, and economic cycle analysis. The firm believes that a multi-dimensional approach to stock selection provides greater consistency than reliance on a limited number of valuation criteria. Franklin's portfolio management process focuses on buying and selling the right stock rather than attempting to time the market or pick the right sector or industry groups. The firm remains fully invested at all times.

QUALITATIVE EVALUATION
(Reported by Exception)

Exceptional strengths are:

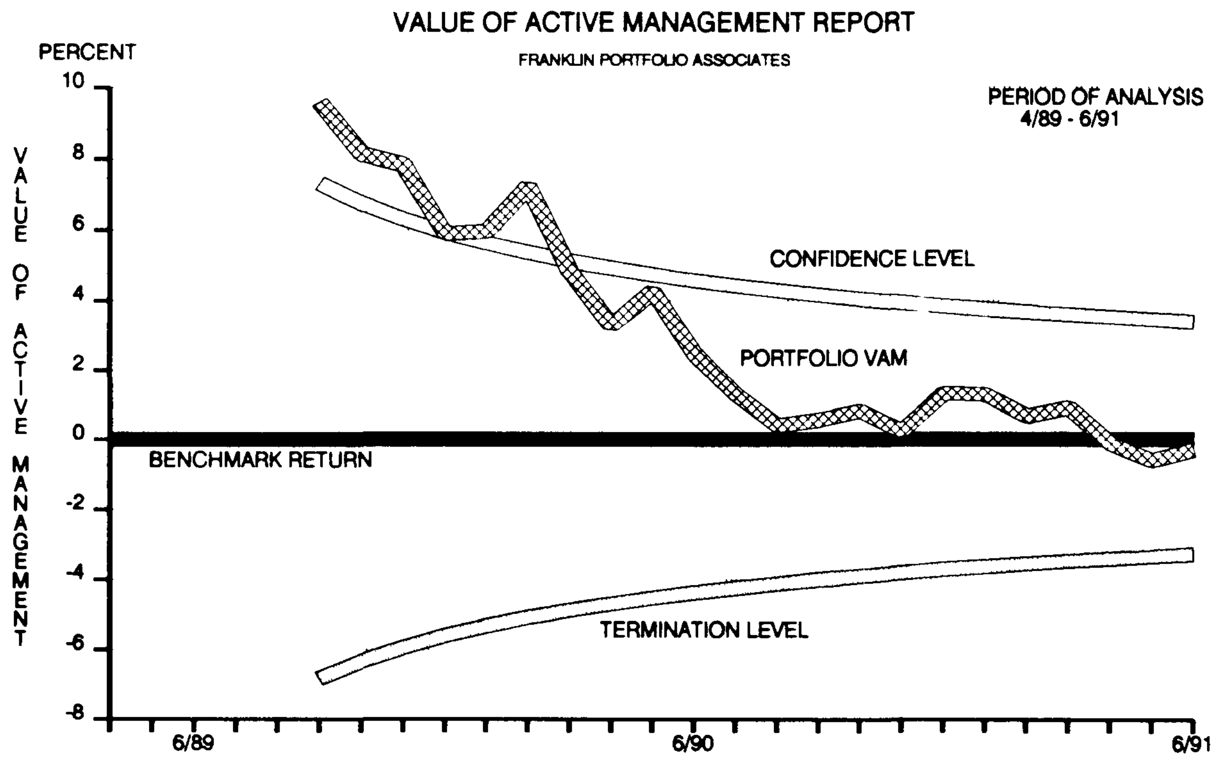
- Familiar with the needs of large institutional clients.
- Firm's investment approach has been consistently applied over a number of market cycles.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 4/1/89
Actual Return	-2.4%	3.9%	N.A.	9.4%
Benchmark	0.1	7.8	N.A.	9.7

STAFF RECOMMENDATIONS

No action required.



GEOCAPITAL CORP.

PORTFOLIO MANAGER: Barry Fingerhut **ASSETS UNDER MANAGEMENT: $124,611,366**

INVESTMENT PHILOSOPHY

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

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 4/1/90
Actual Return	-3.9%	10.2%	N.A.	13.2%
Benchmark	-2.1	5.0	N.A.	9.0

QUALITATIVE EVALUATION
(Reported by Exception)

Exceptional strengths are:

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

STAFF RECOMMENDATIONS

No action required.

(Vam graph will be provided for period ending 9/30/91.)

Performance Report **Second Quarter 1991**

IDS ADVISORY

PORTFOLIO MANAGER: Mitzi Malevich **ASSETS UNDER MANAGEMENT: $193,595,649**

INVESTMENT PHILOSOPHY

IDS employs a "rotational" style of management, shifting among industry sectors based upon its outlook for the economy and the financial markets. The firm emphasizes primarily sector weighting decisions. Moderate market timing is also used. Over a market cycle IDS will invest in a wide range of industries. It tends to buy liquid, large capitalization stocks. While IDS will make occasional significant asset mix shifts over a market cycle, the firm is a less aggressive market timer than most rotational managers.

QUALITATIVE EVALUATION
(Reported By Exception)

Current concerns are:

- Benchmark does not adequately reflect the growth bias that IDS incorporates into their investment process.

Exceptional strengths are:

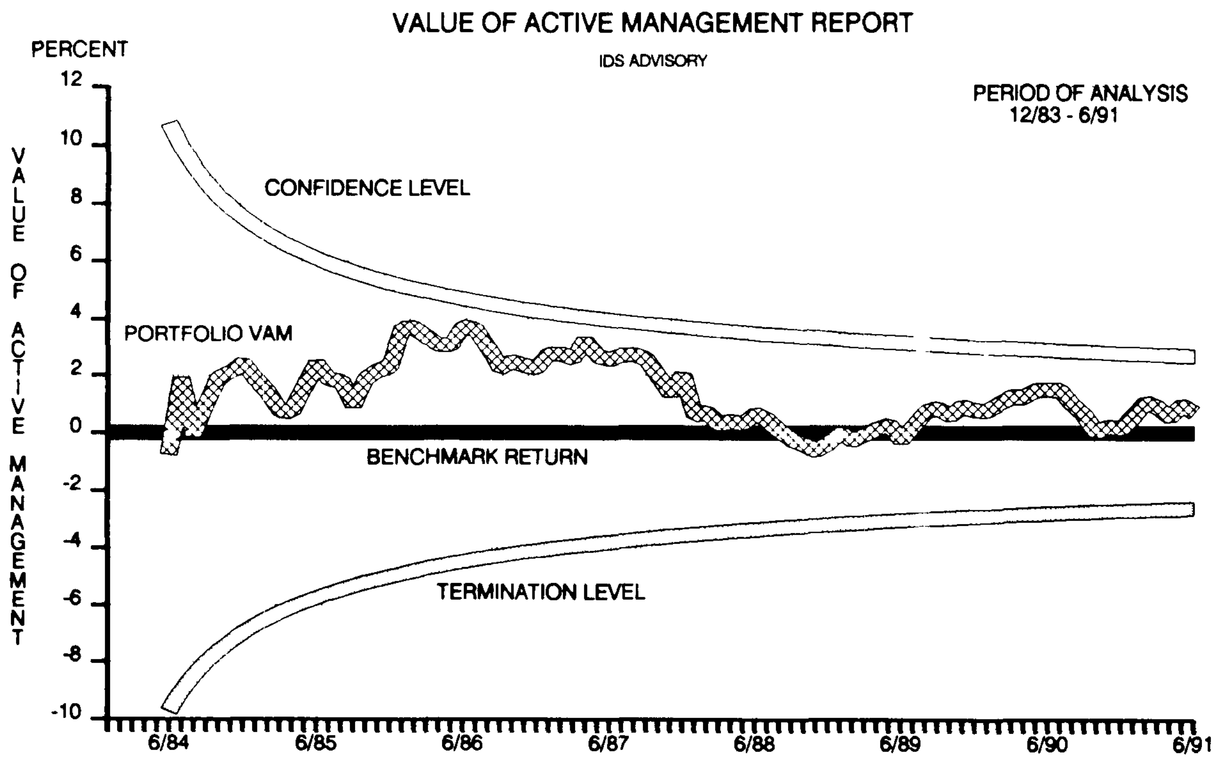
- Investment style consistently and successfully applied over a variety of market environments.

STAFF RECOMMENDATIONS

Latest five year period is below benchmark. In-depth review was conducted for March 1991 Board meeting.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 1/1/84
Actual Return	-1.4%	-0.4%	8.7%	14.3%
Benchmark	-0.3	4.0	9.5	13.5



INVESTMENT ADVISERS

PORTFOLIO MANAGER: Charles Webster **ASSETS UNDER MANAGEMENT: $99,576,132**

INVESTMENT PHILOSOPHY

Investment Advisers is a "rotational" manager. Its macroeconomic forecasts drive its investment decision-making. The firm emphasizes market timing and sector weighting decisions. Investment Advisers will invest in a wide range of industries over a market cycle. It tends to hold liquid, medium to large capitalization stocks. The firm is an active market timer, willing to make gradual but significant asset mix shifts over a market cycle.

QUALITATIVE EVALUATION
(Reported By Exception)

Current concerns are:

- Growth plan not in place.
- Slow response to administrative information requests from SBI staff

The items, while not serious, should continue to be monitored.

Exceptional strengths are:

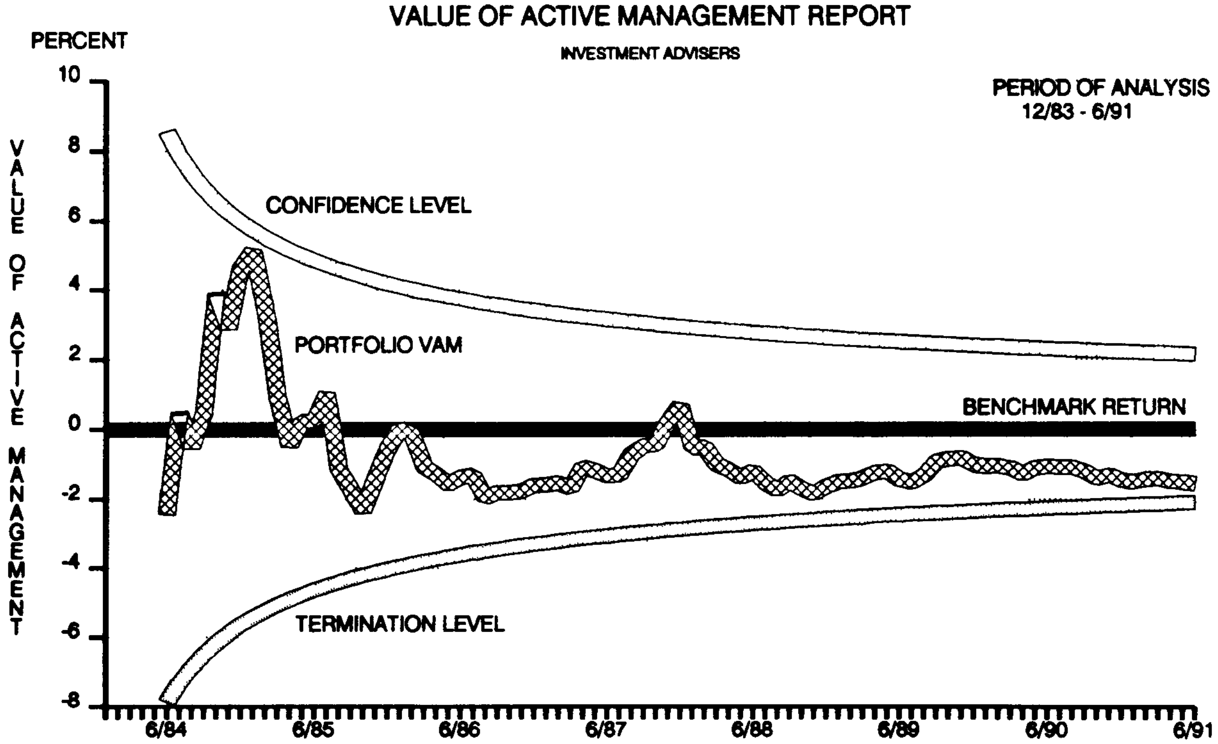
- Investment style consistently applied over a variety of market environments.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 1/1/84
Actual Return	-2.0%	0.6%	8.5%	12.3%
Benchmark	-0.6	5.6	10.4	14.1

STAFF RECOMMENDATIONS

Latest five year period is below benchmark. In-depth review was conducted for September 1990 Board meeting.



LIEBER & COMPANY

PORTFOLIO MANAGER: Stephen Lieber, Nola Falcone **ASSETS UNDER MANAGEMENT: $151,867,311**

INVESTMENT PHILOSOPHY

Lieber and Co. seeks to identify investment concepts that are either currently profitable, or likely to become so in the near future, yet whose prospects are not reflected in the stock prices of the companies associated with the concepts. The firm focuses on macroeconomic trends and specific product developments within particular industries or companies. Stock selection concentrates on well-managed, small-to-medium sized companies with high growth and high return on equity. Particularly attractive to Lieber are takeover candidates or successful turn around situations. The firm generally is fully invested, with any cash positions the result of a lack of attractive investment concepts.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 1/1/84
Actual Return	0.1%	5.5%	5.6%	11.3%
Benchmark	1.3	5.6	5.2	9.8

QUALITATIVE EVALUATION
(Reported by Exception)

Current concerns are:

- Firm is unfamiliar with needs of large clients.

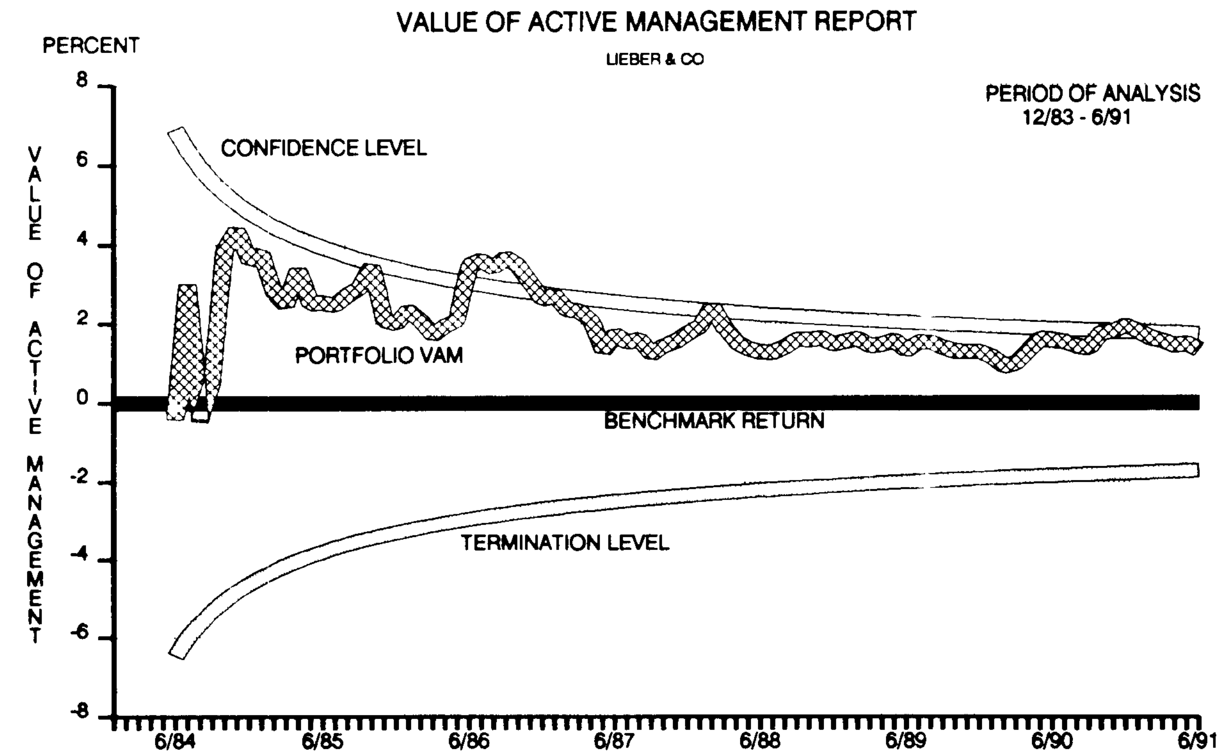
This item, while not serious, warrants additional monitoring.

Exceptional strengths are:

- Organizational continuity and strong leadership.
- Attractive, unique investment approach.
- Investment style consistently and successfully applied over a variety of market environments.
- Extensive securities research process.

STAFF RECOMMENDATIONS

No action required.



ROSENBERG INSTITUTIONAL EQUITY MANAGEMENT

PORTFOLIO MANAGER: Ken Reid **ASSETS UNDER MANAGEMENT: $305,837,291**

INVESTMENT PHILOSOPHY

Rosenberg uses quantitative techniques to identify stocks that are undervalued relative to other similar companies. The firm's computerized valuation system analyzes accounting data on over 3,500 companies. Each company's separate business segments are compared to similar business operations of other companies. These separate valuations are then integrated into a single valuation for the total company. Stocks with valuations that are significantly below their current market price are candidates for purchase. The firm remains fully invested at all times.

QUALITATIVE EVALUATION (Reported by Exception)

Exceptional strengths are:

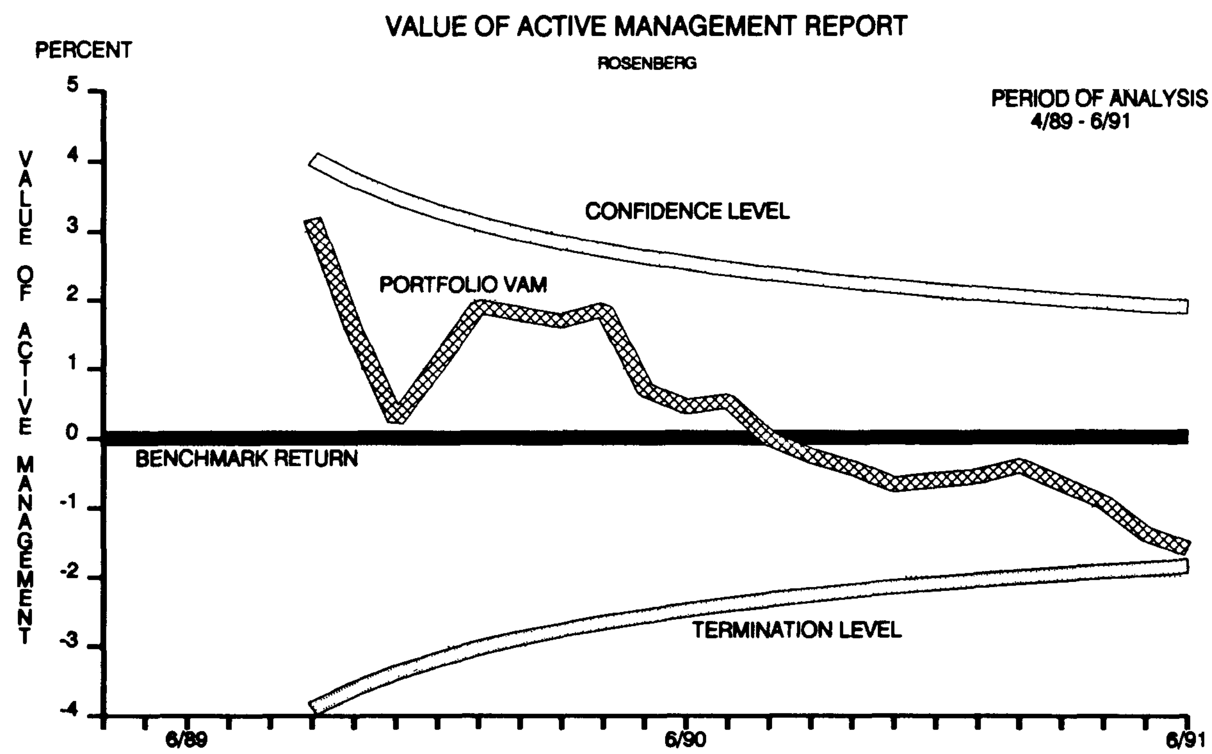
- Attractive, unique investment approach.
- Highly successful and strong leadership.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 4/1/89
Actual Return	-2.8%	1.3%	N.A.	9.5%
Benchmark	-0.5	5.7	N.A.	11.3

STAFF RECOMMENDATIONS

Conduct an in-depth review of Rosenberg.



WADDELL & REED

PORTFOLIO MANAGER: Henry Herrman **ASSETS UNDER MANAGEMENT: $186,886,880**

INVESTMENT PHILOSOPHY

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

QUALITATIVE EVALUATION
(Reported By Exception)

Exceptional strengths are:

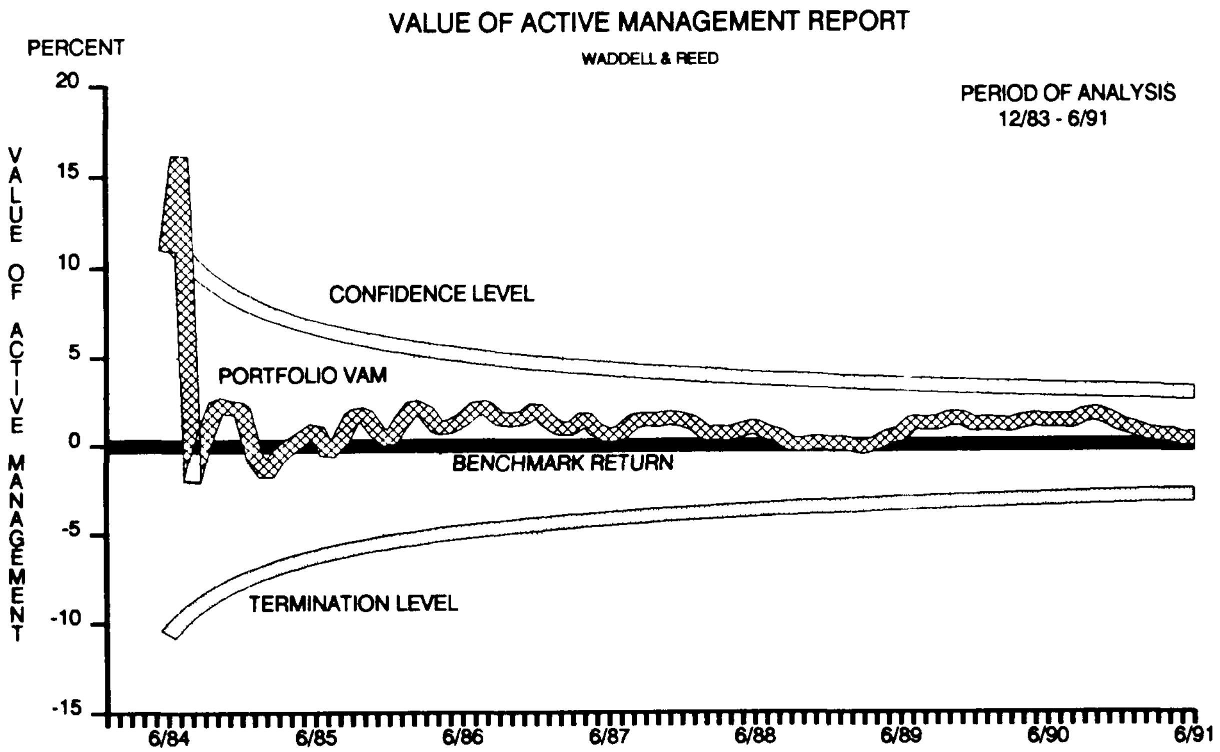
- Highly successful and experienced professionals.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 1/1/84
Actual Return	-1.2%	-1.5%	8.6%	10.8%
Benchmark	0.2	4.9	8.8	10.5

STAFF RECOMMENDATIONS

Latest five year period is below benchmark. In-depth review was conducted for December 1989 Board meeting.



POST FUND STOCK SEGMENT

PORTFOLIO MANAGER: SBI Staff **ASSETS UNDER MANAGEMENT: $521,346,280**

INVESTMENT PHILOSOPHY

The Post Fund Stock Segment utilizes a disciplined portfolio management process which relies on quantitative measures of investment characteristics to screen for investment opportunities. Two distinct methodologies are employed to moderate portfolio return volatility and provide diversification. Both methodologies emphasize traditional value criteria. One methodology, Abel Noser, emphasizes low price/earnings and low price/book ratios. The other, R.F. Fargo, focuses on high relative yield. Historically, these value characteristics have provided superior relative returns in down and early cycle markets. The portfolio maintains a fully invested position at all times.

QUALITATIVE EVALUATION
(Reported By Exception)

Current concerns are:

- The fund is using a relatively new benchmark.

This item, while not serious, should continue to be monitored.

Exceptional strengths are:

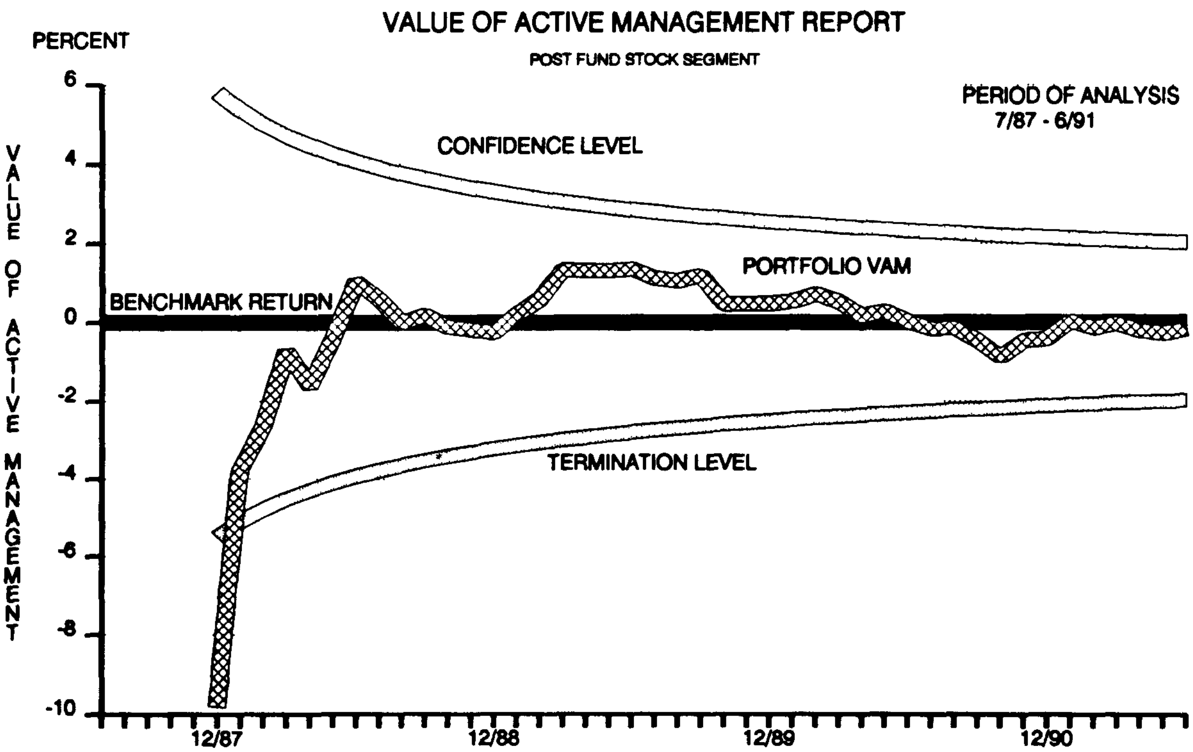
- The investment methodologies used in the portfolio have been applied successfully over various market environments.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 7/1/87
Actual Return	0.1%	6.2%	8.2%	6.4%
Benchmark	1.1	7.3	N.A.	6.7

STAFF RECOMMENDATIONS

No action required.



Tab F

COMMITTEE REPORT

DATE: September 3, 1991

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

FROM: Fixed Income Manager Committee

The IAC Fixed Income Manager Committee met on August 16, 1991 to review the following items:

- o Review of Manager Performance
- o Manager Benchmarks

Neither item requires action by the Board at this time.

INFORMATION ITEMS:

1) Review of Manager Performance

In aggregate, the fixed income managers have outperformed their benchmark for the past year (Managers 11.0% vs. Aggregate Benchmark 10.8%) and the last five years (Managers 9.4% vs. Aggregate 8.8%) In aggregate, the managers slightly underperformed the market for the quarter. The underperformance occurred because the managers, in aggregate, had longer durations than their benchmarks during a period when interest rates rose. The performance numbers and VAM charts are at the end of this tab section. The managers outperformed the market for the latest year and five years.

2) Active Manager Benchmarks

Currently, three of the SBI's active managers (IAI, Lehman, Western) have customized benchmarks that differ slightly from the Salomon BIG. The remaining active manager (Miller) has always used the Salomon BIG as its benchmark.

Staff recommends the Salomon Broad Investment Grade Index as the benchmark for each current active manager. Since the number and kinds of fixed income securities are always changing, experience over the last three to five years has shown that it is very difficult to develop an appropriate customized benchmark for bond managers. Additionally, the current managers are broad based managers that invest in each sector of the market. As noted above, the current customized benchmarks differ little from the broad market index. Staff concluded and the Committee agreed that the Salomon BIG is therefore an appropriate benchmark for all of the SBI's current active managers. Accordingly, the Salomon BIG will be used as a benchmark for each manager beginning July 1, 1991.

BOND MANAGERS

Second Quarter 1991

Fixed income manager returns are evaluated against the performance of customized indices constructed to represent the managers' specific investment approaches. These custom indices are commonly referred to as "benchmark portfolios." The benchmark portfolios factor in bond market influences that at times favorably or unfavorably impact certain investment styles. Thus, benchmark portfolios are the appropriate standards against which to judge the managers' performance.

Manager performance relative to benchmarks is evaluated on a quarterly basis by the Fixed Income Manager Committee of the Investment Advisory Council.

Staff Recommendations:
Staff recommends the following actions concerning manager status:

- No action required.

Current Managers	Total Market Value 6/30/91 (Thousands)	Quarter Ending 6/30/91 Actual	Bmrk	Year Ending 6/30/91 Actual	Bmrk	Annualized Five Years Ending 6/30/91 Actual	Bmrk	Percent of Bond Segment 6/30/91 Basic Funds
IAI	$ 125,732	1.2%	1.6%	10.2%	10.5%	8.5%	8.7%	6.6%
Lehman Ark	112,115	1.7	1.6	10.2	10.3	8.5	8.5	5.9
Miller Anderson	201,817	1.7	1.8	10.7	10.8	9.8	8.9	10.6
Western Asset	401,519	1.8	2.0	11.2	11.0	9.7	9.1	21.0
Fidelity*	546,641	1.8	1.8	11.5	10.8			28.6
Lincoln*	519,959	1.6	1.8	10.8	10.8			27.3
Aggregate **		1.7	1.8	11.0	10.8	9.4	8.8	100.0%
Salomon Broad Investment Grade Index		1.8%		10.8%		8.9%		

* Semi-passive manager
** Historical performance reflects composite of current managers only.

INVESTMENT ADVISERS

PORTFOLIO MANAGER: Larry Hill **ASSETS UNDER MANAGEMENT: $125,732,476**

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, sector and issue selection are secondary decisions. Quality and sector choices are made through yield spread analyses consistent with the interest rate forecasts. Individual security selection receives very limited emphasis and focuses largely on specific bond characteristics such as call provisions.

QUALITATIVE EVALUATION
(Reported By Exception)

The current evaluation notes the following:

- The manager's duration decisions have not added significant value.

QUANTITATIVE EVALUATION

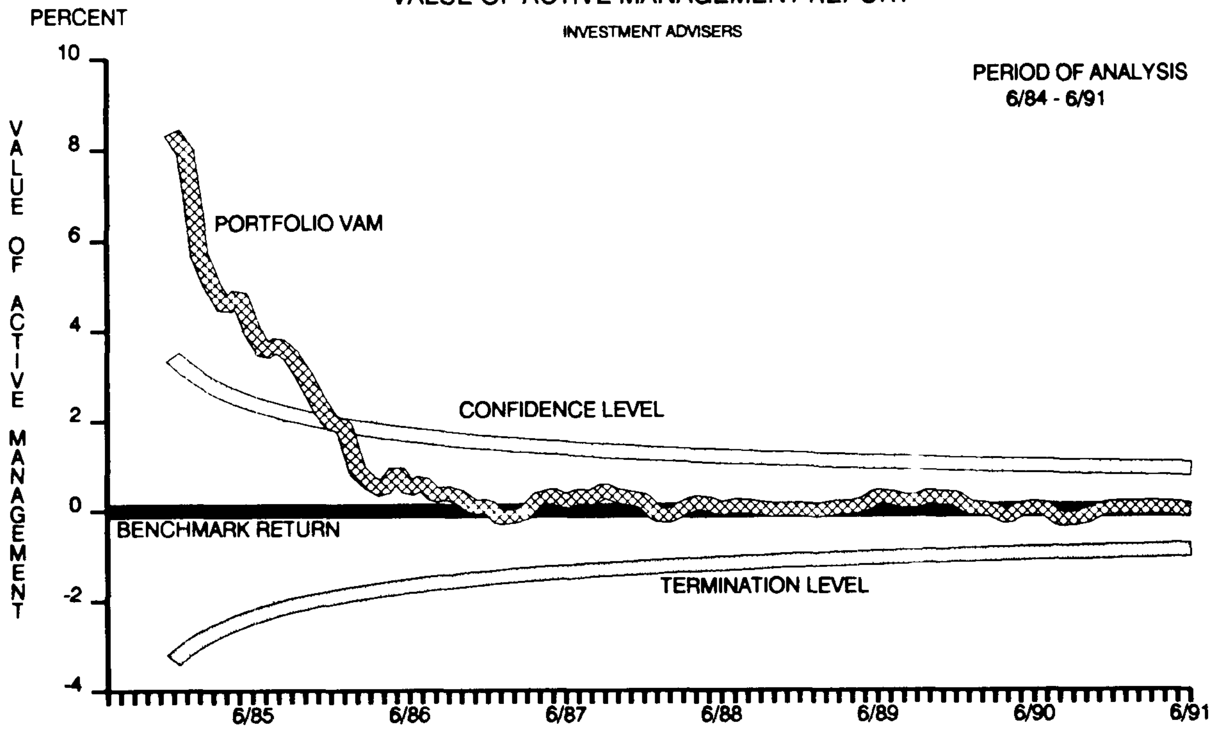
	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 7/1/84
Actual Return	1.2%	10.2%	8.5%	13.1%
Benchmark	1.6	10.5	8.7	13.1

STAFF RECOMMENDATIONS

Latest five year period is below benchmark. In-depth review was conducted for March 1991 Board meeting.

VALUE OF ACTIVE MANAGEMENT REPORT

INVESTMENT ADVISERS



Performance Report **Second Quarter 1991**

LEHMAN ARK MANAGEMENT

PORTFOLIO MANAGER: Kevin Hurley **ASSETS UNDER MANAGEMENT: $112,114,776**

INVESTMENT PHILOSOPHY

Lehman's primary emphasis is on forecasting cyclical interest rate trends and positioning its portfolios in terms of maturity, quality and sectors, in response to its interest rate forecast. The firm avoids significant, rapidly changing interest rate bets. Instead, it prefers to shift portfolio interest rate sensitivity gradually over a market cycle, avoiding extreme positions in either long or short maturities. Individual bond selection is based on a quantitative valuation approach and the firm's internally-conducted credit analysis. High quality (A or better) undervalued issues are selected consistent with the desired maturity, quality and sector composition of the portfolios.

QUALITATIVE EVALUATION
(Reported By Exception)

The current evaluation notes the following:

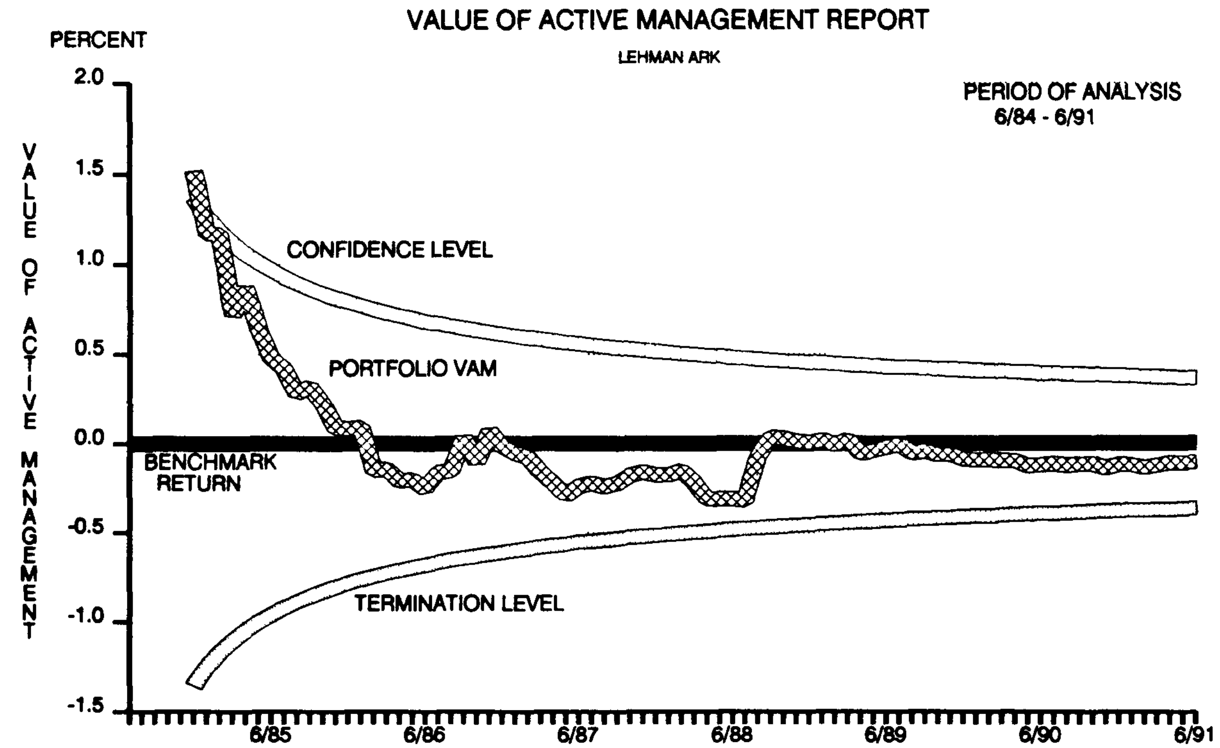
- The firm has used an index-like approach in its management of the portfolio and has made relatively few active bets.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 7/1/84
Actual Return	1.7%	10.2%	8.5%	12.2%
Benchmark	1.6	10.3	8.5	12.3

STAFF RECOMMENDATIONS

No action required.



MILLER ANDERSON

PORTFOLIO MANAGER: Tom Bennet **ASSETS UNDER MANAGEMENT: $201,817,242**

INVESTMENT PHILOSOPHY

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

QUALITATIVE EVALUATION
(Reported By Exception)

The firm's strengths continue to be:

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

Current concern is:

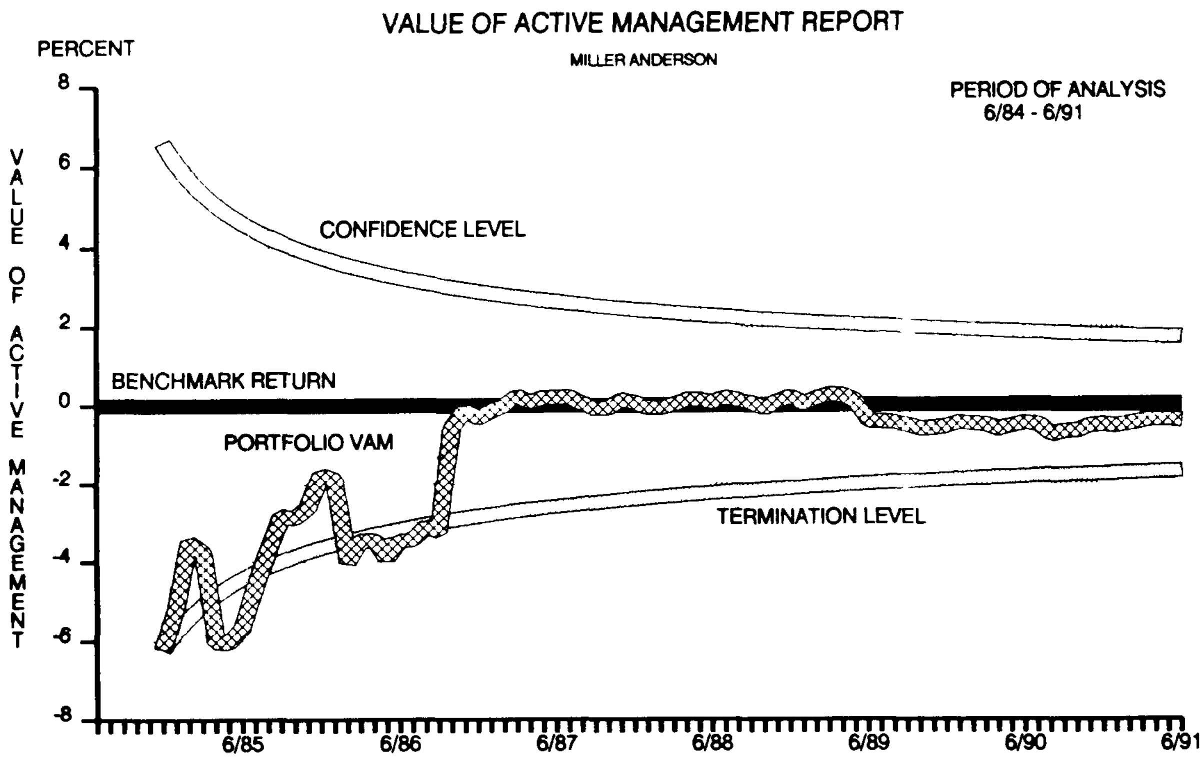
- Pricing difficulties with certain securities held by Miller may distort reported returns.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 7/1/84
Actual Return	1.7%	10.7%	9.8%	12.7%
Benchmark	1.8	10.8	8.9	13.2

STAFF RECOMMENDATIONS

No action required.



WESTERN ASSET MANAGEMENT

PORTFOLIO MANAGER: Kent Engel **ASSETS UNDER MANAGEMENT: $401,519,123**

INVESTMENT PHILOSOPHY

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

QUALITATIVE EVALUATION
(Reported By Exception)

The firm's exceptional strengths continue to be:

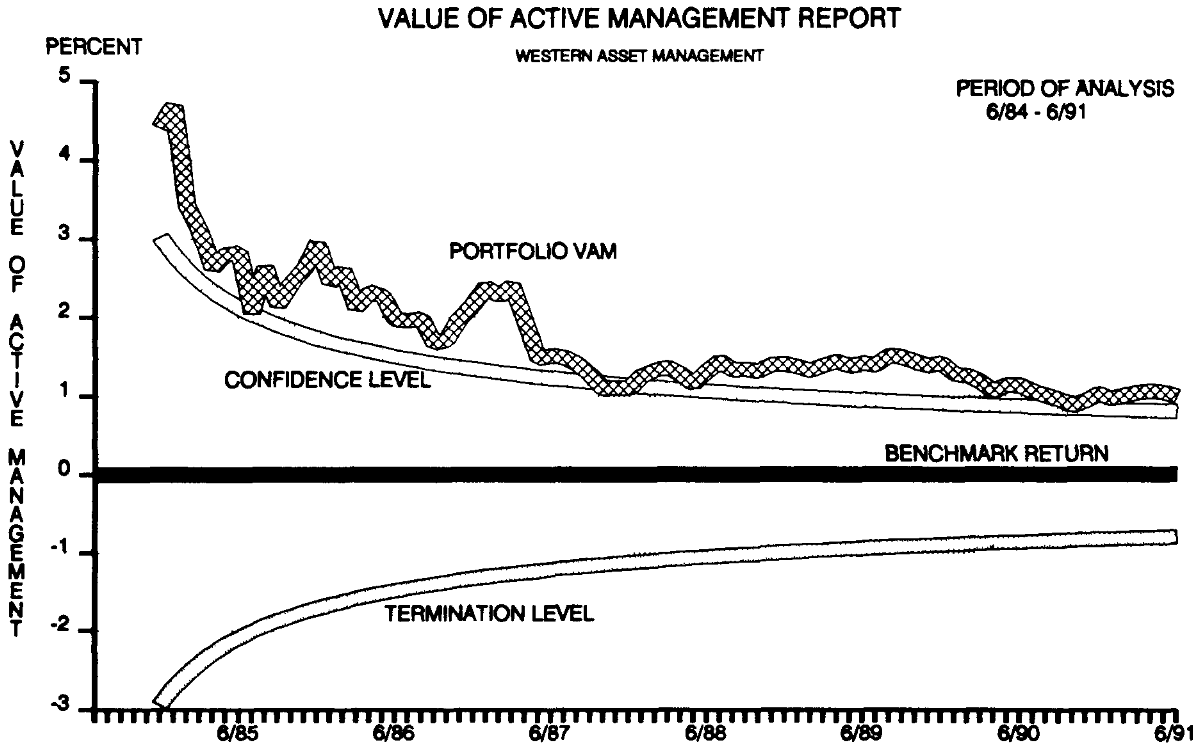
- Highly successful and experienced professionals.
- Extensive research and understanding in the application of normal portfolios to bond management.

QUANTITATIVE EVALUATION

	Latest Qtr.	Latest 1 Yr.	Latest 5 Yrs.	Since 7/1/84
Actual Return	1.8%	11.2%	9.7%	14.2%
Benchmark	2.0	11.0	9.1	13.1

STAFF RECOMMENDATIONS

No action required.



Tab G

COMMITTEE REPORT

DATE: September 3, 1991

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

FROM: Alternative Investment Committee

The Alternative Investment Committee met during the quarter to review the following information items:

- o Review of current strategy.

- o Results of annual review sessions with existing managers.

Neither item requires action by the Board at this time.

INFORMATION ITEMS:

1) Review of Current Strategy

To increase overall portfolio diversification, 15% of the Basic Retirement Funds is allocated to alternative investments. Alternative investments include real estate, venture capital and resource investments where Minnesota State Board of Investment (SBI) participation is limited to commingled funds or other pooled vehicles. A chart summarizing the Board's current commitments is attached (see Attachment A).

The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds. Currently, the SBI has committed $430 million to fifteen commingled real estate funds.

The venture capital investment strategy is to establish and maintain a broadly diversified venture capital portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. To date, the SBI has committed to twenty commingled venture capital funds for a total commitment of $534 million. In addition, at its June 1991 meeting, the SBI authorized an investment of up to $30 million in the Irwin Jacobs IMR Fund, L.P. The $30 million Jacobs Fund commitment is contingent upon the Fund achieving at least $500 million in total investor commitments. The Jacobs investment is expected to be finalized in the fourth quarter of 1991.

The strategy for resource investment requires that investment be made in resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has committed $143 million to nine commingled oil and gas funds.

2) Results of Annual Review Sessions with Existing Managers

During July and August the Alternative Investment Committee and staff conducted annual review sessions with four of the SBI's venture capital managers (Brinson, Golder Thoma, KKR and Zell/Chilmark) and one of the SBI's resource managers, Apache.

Summaries of the review sessions are included as Attachments B,C,D,E and F to this Committee report.

Overall, the meetings went well and produced no major surprises. Generally, all of the managers are following their originally stated investment and management strategies.

In sum, the Alternative Investment Committee and staff have been satisfied with the performance and operation of these managers to date. Additional investments with these managers will be considered, if appropriate.

Summary of Alternative Investments

	Inception Date	Commit. (Millions)	Funded Commit. (Millions)	Mkt. Value Of Funded Commit. (Millions)	Cash Distr. (Millions)	Unfunded Commit. (Millions)	IRR	Measurement Period
Real Estate								
Aetna	4/82	$40.0	$40.0	$60.6	$0.0	$0.0	5.7%	8.7 Yrs.
AEW III	9/85	20.0	20.0	23.4	0.0	0.0	3.1	5.3
AEW IV	9/86	15.0	15.0	5.7	0.0	0.0	-21.2	4.3
AEW V	12/87	15.0	15.0	17.1	0.0	0.0	5.1	3.0
Equitable	10/81	40.0	40.0	76.7	0.0	0.0	8.3	9.2
Heitman I	8/84	20.0	20.0	20.6	10.9	0.0	9.9	6.4
Heitman II	11/85	30.0	30.0	33.5	9.1	0.0	8.6	5.1
Heitman III	1/87	20.0	20.0	19.0	3.7	0.0	4.3	3.9
Heitman V	7/91	20.0	0.0	0.0	0.0	20.0	0.0	0.0
LaSalle	7/91	15.0	0.0	0.0	0.0	15.0	0.0	0.0
Paine Webber*	2/90	0.5	0.5	0.5	0.0	0.0	0.0	1.2
RREEF	9/84	75.0	75.0	80.3	15.2	0.0	5.4	6.6
TCW III	8/85	40.0	40.0	47.9	10.1	0.0	8.2	5.4
TCW IV	11/86	30.0	30.0	34.5	2.1	0.0	6.3	4.2
Zell	7/91	50.0	0.0	0.0	0.0	50.0	0.0	0.0
Real Estate Totals		**$430.5**	**$345.5**	**$419.7**	**$51.1**	**$85.0**		
Resource (Oil & Gas)								
AMGO I	9/81	$15.0	$15.0	$6.0	$3.2	$0.0	-6.3%	9.5 Yrs.
AMGO II	2/83	7.0	7.0	7.8	1.9	0.0	5.4	8.2
AMGO IV	7/88	12.3	12.3	15.1	1.1	0.0	16.4	2.7
AMGO V	5/90	16.8	9.8	12.0	0.0	7.1	26.4	0.9
Apache I	5/84	2.0	2.0	0.0	2.9	0.0	16.0	7.1
Apache III	12/86	30.0	30.0	16.3	26.4	0.0	12.9	4.5
British Pet.	2/89	25.0	25.0	30.9	8.6	0.0	23.6	2.4
Morgan O&G	8/88	15.0	10.8	11.7	0.0	4.2	4.0	2.9
Simmons OFS	7/91	20.0	0.0	0.0	0.0	20.0	0.0	0.0
Resource Totals		**$143.1**	**$111.8**	**$99.9**	**$44.1**	**$31.3**		

(Continued on next page)

* Received from Police & Fire Fund Consolidation

Notes: Figures are updated after each manager's annual review session.
IRR indicates internal rate of return.
Totals may not add due to rounding.

8/91

Summary of Alternative Investments Con't.

	Inception Date	Commit. (Millions)	Funded Commit. (Millions)	Mkt. Value Of Funded Commit. (Millions)	Cash Distr. (Millions)	Unfunded Commit. (Millions)	IRR	Measurement Period
Venture Capital								
Allied	9/85	$5.0	$5.0	$4.9	$1.3	$0.0	7.7%	4.8 Yrs.
DSV	4/85	10.0	10.0	11.5	0.0	0.0	2.5	6.2
First Century	12/84	10.0	8.5	7.5	3.3	1.5	8.3	6.7
First Chicago	5/88	5.0	4.8	4.1	1.2	0.2	6.0	3.1
First Chicago II	7/90	20.0	4.0	4.3	0.0	16.0	22.6	0.7
Golder Thoma	10/87	14.0	7.0	8.9	0.0	7.0	11.7	3.7
IAI Ventures I*	3/91	0.5	0.5	0.0	0.0	0.0	0.0	0.1
IAI Ventures II	7/90	10.0	1.8	2.0	0.0	8.2	16.4	0.9
Inman/Bowman	6/85	7.5	5.3	4.5	0.0	2.3	-4.5	5.1
KKR 1984 Fund	3/84	25.0	25.0	31.5	53.3	0.0	30.2	7.3
KKR 1986 Fund	12/85	18.4	18.4	40.8	14.7	0.0	28.2	5.5
KKR 1987 Fund	10/87	146.6	127.2	208.1	16.2	19.5	27.3	3.7
KKR 1991 Fund	5/91	150.0	0.0	0.0	0.0	150.0	0.0	0.2
Matrix	8/85	10.0	10.0	9.5	4.4	0.0	8.5	5.9
Matrix II	5/90	10.0	2.1	2.1	0.0	7.9	-5.0	1.1
Norwest	1/84	10.0	10.0	6.4	3.8	0.0	0.5	7.5
Summit I	12/84	10.0	10.0	6.5	9.4	0.0	11.2	6.5
Summit II	5/88	30.0	19.5	18.3	2.3	10.5	3.8	3.1
Superior	6/86	6.6	4.7	5.6	0.0	2.0	5.7	5.0
T. Rowe Price	11/87	5.8	5.8	1.6	4.8	0.0	37.0	3.6
Zell/Chilmark	7/90	30.0	0.0	0.0	0.0	30.0	0.0	1.0
Venture Capital Totals		**$534.4**	**$279.3**	**$378.5**	**$114.8**	**$255.1**		

SUMMARY

Real Estate Totals	$ 430.5	$ 345.5	$ 419.7	$ 51.1	$ 85.0
Resource Totals	143.1	111.8	99.9	44.1	31.3
Venture Capital Totals	534.4	279.3	378.5	114.8	255.1
GRAND TOTALS	**$1,108.0**	**$736.7**	**$898.1**	**$210.0**	**$371.3**

* Received from Police & Fire Fund Consolidation

Notes: Figures are updated after each manager's annual review session.
IRR indicates internal rate of return.
Totals may not add due to rounding.

8/91

ATTACHMENT B

ANNUAL REVIEW SUMMARY
BRINSON PARTNERS
July 31, 1991

MANAGER REPRESENTATIVES: Marianne Woodward, Bonn French

MARKET VALUE OF SBI ASSETS: $8,370,464

BACKGROUND AND DESCRIPTION: The Brinson Partners Venture Partnership I and II are managed by Brinson Partners, an investment advisory spin-off from the First Chicago Corporation. The Funds started in May 1988 and July 1990, respectively, with ten-year terms and optional extensions.

The Venture Partnership Acquisition Funds (VPAF) invest exclusively in secondary venture capital limited partnership interests with the objective of earning rates of return superior to that of traditional venture capital investing. Brinson Partners (and its predecessor, First Chicago) has been making venture capital investments, primarily for institutional clients, since 1972.

QUALITATIVE EVALUATION:

VPAF Fund I, incepted in May 1988, is a $47 million fund to which the SBI has committed $5.0 million. Through June 30, 1991, 94% of the commitment has been drawn down and investments have been made in 21 partnerships. The SBI has realized $1.2 million in cash distributions from Fund I. The average investment in the portfolio is $2.2 million, was 46 months old at time of purchase, and was acquired at an average 17% discount to its carrying value. Although it is too early to draw firm conclusions, the general partner has indicated that more than two-thirds of the investments are performing at or above expectations.

VPAF Fund II, incepted in July 1990, is a $111.1 million fund, of which the SBI has committed $20 million. The fund has invested in 8 partnerships at an average discount to carrying value of 21% during the first year of existence. The average age of each partnership investment, at purchase, was 50 months and was acquired at an average cost of $3.5 million. While it is very early in the fund's life, Brinson is optimistic regarding the partnership investments.

Since 1986, the general partner has reviewed 607 partnerships for potential investment.

QUANTITATIVE EVALUATION

	FUND I	FUND II
COMMITMENT:	$5,000,000	$20,000,000
FUNDED COMMITMENT:	$4,787,202	$ 4,000,000
MARKET VALUE OF FUNDED COMMITMENT:	$4,111,422	$ 4,259,042
CASH DISTRIBUTIONS:	$1,154,101	$ 0
INCEPTION DATE(S):	May 88	July 90
INTERNAL RATES OF RETURN (IRR)*: (annualized, since inception)	6.0%	22.6%*

* Reflects only a seven month holding period.

DIVERSIFICATION PROFILE (% OF COST)

YEAR PARTNERSHIPS IN THE FUND WERE INCEPTED	FUND I	FUND II
1978	1.60%	0.00%
1979	0.00	0.00
1980	0.00	0.00
1981	3.83	0.00
1982	0.00	0.00
1983	14.06	2.47
1984	33.66	1.77
1985	2.48	2.12
1986	10.00	33.57
1987	9.48	60.07
1988	10.00	0.00
1989	14.89	0.00
TOTAL	100.00%	100.00%

STAFF COMMENTS AND RECOMMENDATIONS:

The Alternative Investment Committee and staff have been satisfied with Brinson Partner's operation and performance to date. Additional investments with Brinson Partner's will be considered, when appropriate.

ATTACHMENT C

ANNUAL REVIEW SUMMARY
GOLDER, THOMA & CRESSEY
August 6, 1991

MANAGER REPRESENTATIVES: Bryan Cressey, Carl Thoma

MARKET VALUE OF SBI ASSETS: $8,938,794

BACKGROUND AND DESCRIPTION: Golder, Thoma, & Cressey Fund III was formed by the managing general partners of Golder, Thoma, & Cressey (GTC). The three founding general partners , Stan Golder, Carl Thoma and Bryan Cressey, have worked together since the inception of GTC in 1980. Prior to the formation of GTC, the three founding partners worked together in First Chicago's private equity group. Bruce Rauner, the fourth general partner, has seven years of experience at GTC.

GTC focuses on industry consolidations and targets fragmented industries. GTC buys an existing company that can grow through a series of acquisitions. If they cannot find an existing company that meets their criteria, GTC forms its own management team to do consolidations in the selected industry. The industry consolidations combine the traits of leveraged buyouts and growth equity investments.

QUALITATIVE EVALUATION:

GTC currently has a portfolio of thirteen investments, which total $98 million of the $225 million fund. The general partner plans to reserve another $30 million for additional investments in these companies leaving $97 million available for new investments.

GTC experienced significant valuation increases in several of its portfolio companies during the prior year. The most noteworthy of these were a life insurance company and a lawn care company, which GTC believes have excellent outlooks.

At the present time, GTC is reviewing a substantial number of industries for potential investment including nursing homes, specialty distribution, packaging, publishing and outdoor advertising.

GTC will continue to focus on industry consolidation investment opportunities. No change in strategy is contemplated.

ATTACHMENT C (con't)

QUANTITATIVE EVALUATION

COMMITMENT:	$14,000,000
FUNDED COMMITMENT:	$ 7,000,000
MARKET VALUE OF FUNDED COMMITMENT:	$ 8,938,794
CASH DISTRIBUTIONS:	$0
INCEPTION DATE(S):	October 1987
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	11.7%

DIVERSIFICATION PROFILE (% OF COST AND SINCE INCEPTION)

COMPANY	DESCRIPTION	
American Income	Life insurance company	17.60%
Barefoot Grass	Lawn care company	5.09%
Crellin/Injecto	Manufacturer of molded plastic prod.	8.06%
Ero Industries	Manufacturers and markets leisure prod.	6.61%
Golf Enterprises	Golf course ownership and management	6.10%
RMS Services	Restaurant ownership and management	7.63%
Heritage Propane	Propane distribution	7.89%
M-C Industries	Manufacturer of fluid power prod.	10.79%
Nicholstone/Haddon	Prints and binds books	12.18%
Northern Invest.	Small specialized LBO fund	1.57%
Sullivan Graphics	Printer of comics & retail inserts; prepress	15.98%
Other	Unsuccessful Industry Consolidation efforts	0.50%
		100.00%

STAFF COMMENTS AND RECOMMENDATIONS:

The Alternative Investment Committee and staff have been satisfied with Golder Thoma's operation and performance to date. Additional investments with GTC will be considered, when appropriate.

ATTACHMENT D

ANNUAL REVIEW SUMMARY
KKR 1984, 1986, 1987 FUNDS
July 31, 1991

MANAGER REPRESENTATIVES: Perry Golkin, James Greene

MARKET VALUE OF SBI ASSETS: $280,463,551

BACKGROUND AND DESCRIPTION: The KKR 1984, 1986, 1987 and 1991 Funds are managed by Kohlberg, Kravis, Roberts and Company and started in March 1984, December 1986, September 1987 and July 1991, respectively. In total, the SBI has committed $340 million to the four Funds. As of June 1991, $170.5 million of the SBI's total commitment had been funded. Each fund has a twelve year term. The investment focus of KKR is on large management leveraged buyouts. KKR operates out of offices in San Francisco and New York.

QUALITATIVE EVALUATION:

Since 1984, KKR has made 20 investments. Eight have been sold or partially liquidated. The market value of investments and cash distributions are 2.1 times the SBI's original investment.

So far, 1991 appears to be an excellent year for the SBI's KKR investments. Duracell, Autozone, Safeway, and RJR Nabisco had successful common stock offerings and currently trade significantly above their December 31, 1990 valuation.

KKR has considered investments in other countries and in regulated industries such as banking. Earlier this year, KKR acquired the Bank of New England in a joint venture with the Fleet/Norstar Financial Group. This investment experienced a 46% increase in value during its first three month holding period.

KKR's investment in RJR Nabisco continues to make significant progress. Its recent recapitalization program has resulted in decreasing leverage from 20 times debt to equity in 1989 to less than 3 times at mid-year 1991. The SBI investment in RJR Nabisco has increased 85% in value since the original investment.

ATTACHMENT D (con't)

QUANTITATIVE EVALUATION

	FUNDS ($Million)			
	1984	1986	1987	1991
COMMITMENT:	$25.00	$18.37	$146.63	$150.00
FUNDED COMMITMENT:	$25.00	18.37	127.16	0.00
MARKET VALUE OF FUNDED COMMITMENT:	$31.54	40.81	208.11	0.00
CASH DISTRIBUTIONS:	$53.30	14.70	16.23	0.00
INCEPTION DATE(S):	Mar '84	Dec. '85	Oct. '87	May '91
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	30.2%	28.2%	27.3%	0%

DIVERSIFICATION PROFILE (% OF COST)

COMPANIES

AUTOZONE	0.74%
COLE NATIONAL	1.17
MALONE & HYDE	0.74
M&T	0.38
MOTEL 6	1.75
PACE	2.66
STORER	3.08
UNION TEXAS	3.50
BEATRICE	3.66
SAFEWAY	1.95
OWEN-ILLINOIS	2.69
HILLSBOROUGH	2.13
SEAMAN FURNITURE	0.98
STOP & SHOP	1.43
DURACELL	5.03
RJR NABISCO	45.82
K-III	1.92
FIELD PUBLICATIONS	0.88
MAGAZINE ASSOCIATES	3.61
FLEET/BANK OF NEW ENGLAND	4.11
OTHER	11.77
	100.00%

STAFF COMMENTS AND RECOMMENDATIONS:

The Alternative Investment Committee and staff have been satisfied with KKR's performance and operation to date. Additional investments with KKR would be considered, if appropriate.

ATTACHMENT E

ANNUAL REVIEW SUMMARY
ZELL/CHILMARK
August 6, 1991

MANAGER REPRESENTATIVES: Dave Schulte, Don Phillips

MARKET VALUE OF SBI ASSETS: $0

BACKGROUND AND DESCRIPTION: The Zell/Chilmark Fund was formed in July 1990 by Sam Zell and David Schulte. Sam Zell is Chairman of the Board of Equity Financial and Management Company, an entity founded in 1968, which is involved in corporate and real estate investments typically in countercyclical, financially distressed and undervalued situations. David Schulte formed Chilmark Partners, a merchant banking partnership, in June 1984. Chilmark has advised companies on the restructuring of their businesses in conjunction with recapitalizations or on investments in rejuvenation situations.

The investment strategy of Zell/Chilmark is to invest in corporate restructurings and rejuvenation situations. The partnership will invest primarily in the assets, debt and/or common and preferred stock of companies with a fair market value of at least $100 million.

QUALITATIVE EVALUATION:

During the first year of the Fund's existence, the general partner has reviewed numerous potential investments, made offers for seven investments, but as of June 1991, the Fund had made no investments. The general partner has indicated that the partnership continues to have a very strong deal flow.

In July 1991, the Fund made a tender offer to acquire a significant amount of the outstanding debt and trade claims of Carter Hawley Hale Stores, Inc., a national retailing chain. Carter Hawley Hale is currently operating under the protections of the bankruptcy court. The general partner believes that this investment has significant long-term potential. If the tender is successfully completed, the Fund will provide financial support to the chain's store modernization plan which is viewed as critical to its turnaround.

QUANTITATIVE EVALUATION

COMMITMENT:	$30 Million
FUNDED COMMITMENT:	$0
MARKET VALUE OF FUNDED COMMITMENT:	$0
CASH DISTRIBUTIONS:	$0
INCEPTION DATE(S):	July 1990
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	0%

DIVERSIFICATION PROFILE (% OF COST)*

* As of June 30, 1991, the Fund had made no investments.

STAFF COMMENTS AND RECOMMENDATIONS:

The Alternative Investment Committee and staff have been satisfied with Zell/Chilmark's operation to date. Additional investments with Zell/Chilmark will be considered, when appropriate.

ATTACHMENT F

ANNUAL REVIEW SUMMARY
APACHE CORPORATION
August 6, 1991

MANAGER REPRESENTATIVES: Clyde McKensie, Dan Hawk

MARKET VALUE OF SBI ASSETS: $16,332,002

BACKGROUND AND DESCRIPTION: Currently, the SBI has two oil and gas investments with Apache. The SBI has invested $31.98 million with Apache Corporation.

The first investment, the Apache Equipment Loan, began in May, 1984. The SBI's original commitment of $30 million has been reduced to $1.98 million and has been fully funded. The notes were intended to fund Apache's share of production equipment in a joint venture with Shell Oil Company to develop offshore leases in the Gulf of Mexico. Noteholders have received all of their principal back and have a residual royalty interest in the gross revenues.

The second investment, the Apache 1986 Acquisition Net Profits Interest, began in December 1986. The SBI committed and funded $30 million of the $190 million private placement. The money was used to acquire non-operating interests in oil and gas properties acquired from Occidental Petroleum. Investors receive up to ninety percent of the net profits from the properties.

QUALITATIVE EVALUATION:

The weakness in oil and gas prices has caused the Equipment Loan to be funded more slowly than originally anticipated, culminating in a total of $1.98 million being utilized of the original $30 million commitment. The entire principal has been repaid and the SBI will continue to receive additional interest payments based upon the gross revenues of the subject properties.

The 1986 Acquisition Net Profits Interest is proceeding as expected. Through June 30, 1991, the fully drawn $30 million commitment has generated $26.43 million in cash distributions with an additional distribution of $2.68 million paid on July 31, 1991. An additional $25.97 million is expected to be paid out through the year 2006.

AGGREGATED QUANTITATIVE EVALUATION FOR THE TWO APACHE FUNDS

	EQUIPMENT LOAN	NET PROFITS
COMMITMENT:	$1.98 Million	$30.00 Million
FUNDED COMMITMENT:	$1.98	$30.00
MARKET VALUE OF FUNDED COMMITMENT:	$0.00	$16.33
CASH DISTRIBUTIONS:	$2.91	$26.43
INCEPTION DATE(S):	May 84	December 86
INTERNAL RATES OF RETURN (IRR): (annualized, since inception)	16.0%	12.9%

DIVERSIFICATION PROFILE (% OF CURRENT VALUE)

LOCATION	
Louisiana	35%
Oklahoma	30%
Texas	7%
Wyoming	6%
Other	22%

INVESTMENT TYPE	
Gas	60%
Oil	40%

STAFF COMMENTS AND RECOMMENDATIONS:

The Alternative Investment Committee and staff are satisfied with Apache's operation and performance to date.