**MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 20, 1994
&
INVESTMENT ADVISORY
COUNCIL MEETING
September 19, 1994**

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Tuesday, September 20, 1994
8:30 A.M. - Room 125
State Capitol - Saint Paul

	TAB
1. Approval of Minutes of June 8, 1994	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1 - June 30, 1994)	**A**
B. Portfolio Statistics (June 30, 1994)	**B**
C. Administrative Report	**C**
1. Budget Reports	
2. Travel Report	
3. Report from the SBI Administrative Committee (M. McGrath)	**D**
1. Update on Disposition of Unclaimed Property	
2. Update on Certificate of Deposit Program	
3. Update on FY96-97 Budget Submission	
4. Update on Country Groupings under International Investing Guidelines	
5. Approval of Changes to Deferred Compensation Rules	
4. Report from the Deferred Compensation Review Committee	**E**
5. Reports from the Investment Advisory Council (J. Yeomans)	
A. Stock and Bond Manager Committee	**F**
1. Review of Manager Performance	
2. Review of Active Stock Manager Benchmarks	
3. Approval of Proposal to Add Semi-Passive Stock Management	
4. Approval of Finalists for Semi-Passive Manager Search	
B. Alternative Investment Committee	**G**
1. Results of Review Sessions	
2. Commitments to New Alternative Investment Managers (Colony Advisors, Warburg Pincus, Kleinwort Benson, Citicorp)	

Minutes
State Board of Investment
June 8, 1994

The State Board of Investment (SBI) met at 8:30 A.M. on Wednesday, June 8, 1994 in Room 125, State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson, Chair; State Auditor Mark B. Dayton; State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe and Attorney General Hubert H. Humphrey III were present.

Mr. Carlson called the meeting to order and the minutes of the March 2, 1994 meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds, Basic Funds and Post Fund had all outperformed their respective return objectives over the period ending March 31, 1994.

Mr. Bicker stated that the Basic Funds had decreased in value during the quarter, due to negative investment returns and net withdrawals. He said that the Basics' asset mix is on target with its long-term asset allocation policy and that the Basic Funds had underperformed for the quarter (Basics -2.1% vs. Composite -2.0%) but had outperformed for the three year (Basics 10.4% vs. Composite 9.6%) and five year periods (Basics 11.2% vs. Composite 10.7%).

Mr. Bicker reported that the Post Retirement Fund had also decreased in value due to negative investment returns and that the asset mix for the Fund is in-line with policy targets. He said that the total fund had matched its composite index at -2.6% for the quarter and had exceeded it since 7/1/93 (Post Fund 2.2% vs. Composite 1.9%).

Mr. Bicker reported that the domestic stock manager group had outperformed the Wilshire 5000 for the quarter (Domestic Stocks -3.5% vs. Wilshire 5000 -3.8%) and matched it for the year (both 2.5%). In response to a question from Mr. Carlson, Mr. Bicker stated that the domestic stock segment had slightly underperformed for the five year period (Domestic Stocks 11.6% vs. Wilshire 5000 11.8%). He stated that the international stock manager group had underperformed its target for the quarter (International Stocks 1.6% vs. EAFE 3.5%) and year (Int'l. Stocks 22.0% vs. EAFE 22.5%). He noted that the underperformance during the most recent quarter was due to an underweighting in Japan by the active managers. He reminded members that they can expect the international returns to have greater volatility than the domestic returns. Mr. Carlson commented on the high return from international stocks compared to that available from other assets. Mr. Bicker stated that the domestic bond manager group had met its target for the quarter (both -2.8%), and had outperformed for the year (Domestic Bonds 3.6% vs. Salomon BIG 2.6%), three year (Domestic Bonds 9.9% vs. Salomon BIG 9.1%) and five year periods (Domestic Bonds 10.8% vs. Salomon BIG 10.5%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP -1.7% vs. Composite -2.0%) and year (ARP 2.1% vs. Composite 1.6%). He stated that the equity segment had outperformed for the quarter (Equity Segment -3.9% vs. Benchmark -4.5%) but had underperformed for the year (Equity Segment -5.1% vs. Benchmark -4.1%). He noted that a recommendation regarding the equity segment of the Fund would follow later in the Stock and Bond Manager Committee Report. He stated that the bond segment had matched its target for the quarter (-1.3%) and outperformed the year (Bond Segment 3.4% vs. Benchmark 2.9%). He said that as of March 31, 1994 the SBI was responsible for $22.5 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab C of the meeting materials for the current budget and travel reports. He summarized the legislative provisions enacted as part of the SBI's Administrative Bill which are: to increase the asset based charge in the Supplemental Investment Fund (SIF) to 0.4%; to reestablish the Board's authority to invest in unrated and below investment grade debt with certain restrictions; to remove international securities from the 35% cap placed on alternative investments; to add an International Share Account to the Supplemental Investment Fund; and to clarify the Board's authority to invest in various types of mortgage and asset-backed securities.

Mr. Bicker stated that other legislation impacting the SBI involves reporting certain cash flow and investment performance information to the State Auditor's office on an on-going basis and a provision which allows the SBI to select up to five financial institutions to provide annuity products for the State University and Community College Systems' Individual Retirement Account Plan (IRAP).

Mr. Bicker noted the meeting dates for the SBI/IAC for the remainder of the calendar year, adding that the December 1994 meeting had been scheduled a week later than normal to accommodate scheduling conflicts.

Mr. Bicker stated that previously, the SBI has referred issues relating to various tax sheltered savings and supplemental retirement plans to the Deferred Compensation Review Committee for study and recommendations. Mr. Bicker said staff is recommending that this Committee also review and make recommendations on two additional issues. He said the first issue is the selection of a manager for the new guaranteed investment contract (GIC) pool for the Fixed Interest Account in the Supplemental Investment Fund. He noted that this change will allow participants greater flexibility while also diversifying the portfolio. He added that the Committee should make a recommendation on this search at the September 1994 meeting of the SBI. He said the second task for the Committee is to review the structure of the IRAP and College Supplemental Retirement Plans currently administered by the State University and Community College Systems. He added that this would involve issuing a request for proposal (RFP), evaluating responses and recommending specific vendors before the

December 1994 meeting of the SBI. Mr. Dayton moved approval of the recommendation to refer these issues to the Deferred Compensation Review Committee, as stated in the meeting materials. Ms. Growe seconded the motion. The motion passed.

Stock and Bond Manager Committee Report

Ms. Yeomans referred members to Tab D of the meeting materials and she reviewed the performance of the domestic stock managers and the bond managers, noting that the Committee had no concerns in these areas at this time. She discussed the performance of the international stock managers and the impact of the managers' decision to underweight Japan, adding that the Committee is satisfied with the managers' overall performance since the program began.

Ms. Yeomans updated members on the status of the Manager Monitoring Program and she referred members to the meeting materials for a listing of the candidate firms for each asset class. In response to a question from Ms. Growe, Mr. Bicker confirmed that the SBI would still need to conduct a formal manager search, but that these candidates could be interviewed during the search process. Ms. Yeomans agreed and stated that considerable time can be saved by having preliminary information collected on these firms.

Ms. Yeomans reported that the Committee had reviewed the investment manager guidelines for accuracy and completeness. She said that the guidelines are being modified to reflect Board policy changes which were made during this fiscal year. She listed the changes as: modifying the domestic stock manager guidelines to allow investment in American Depository Receipts' (ADR's) registered on the New York or American Stock Exchanges; updating asset class guidelines to reflect policy changes concerning South Africa and American Home Products; and updating changes approved in the SBI's Manager Continuation Policy and the Manager Commentaries.

Ms. Yeomans stated that a Passive Manager Review Committee had been established to address two issues; to evaluate the Wilshire 5000 and the Russell 3000 as the asset class target for the domestic equity program and to consider reaffirming the SBI's current passive manager (Wilshire Asset Management) or retaining a new passive manager. She said the two alternative candidates are Bankers Trust Company and Wells Fargo Nikko Investment Advisers. Ms. Yeomans said that the Board's consultant, Richards and Tierney, had provided extensive performance attribution data which assisted the Committee in determining that Wilshire's level of tracking error was reasonable, given the major changes that had occurred in the tilted index fund. She stated that the Committee is recommending that the SBI continue to use the Wilshire 5000 as its asset class target. She noted the similarity between the two indices and said the Committee could not identify a compelling reason to switch to the Russell 3000 at this time. She reported that the Committee is also recommending that the SBI continue to retain Wilshire Asset Management as its passive manager for the domestic equity program. She added that the Committee's recommendation includes a provision to update Wilshire's existing contract to reflect current SBI contracting procedures. Mr. Dayton moved approval of the

Committee's recommendation, as stated in the Committee Report. Mr. Humphrey seconded the motion. The motion passed.

Ms. Yeomans reported that the Committee is recommending that the SBI change its asset class target for the domestic bond program from the Salomon Broad Investment Grade (BIG) index to the Lehman Aggregate and she said that the change should improve the SBI's ability to analyze and monitor portfolio results. Ms. Growe moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Humphrey seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee's final recommendation involves modifying the management structure of the stock segment of the Assigned Risk Plan (ARP). She explained that staff and the Committee had concurred that the current active stock manager for the stock segment does not provide broad market coverage and therefore exposes the ARP to inappropriate levels of risk. She said that staff and the Committee were also in agreement that semi-passive management is appropriate for the stock segment of the ARP over the longer term and that a semi-passive manager could be selected for the ARP at the same time the SBI conducts the semi-passive manager search for the retirement funds. She added that until that search is completed, the Committee believes that the stock segment should be passively managed through an internally managed index pool designed to track the performance of the S&P 500. In response to a question from Mr. Dayton, Ms. Yeomans stated that the S&P 500 indexation structure was chosen because of ease of management and investment. Mr. Bicker added that the ARP stock segment is small and therefore it would be more cost efficient to manage against an index with a smaller number of issues. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Dayton seconded the motion. The motion passed.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials and stated that satisfactory annual review sessions had been held with one of the SBI's private equity managers, the Jacobs Group, and one of the SBI's real estate managers, Heitman Advisory. She noted that during the next quarter the Committee will be considering the possibility of cutting back the commitment with the Jacobs Group since the manager has been slow to invest the committed dollars. In response to a question from Mr. Carlson, Ms. Yeomans stated that the committed cash remains invested in other assets controlled by the SBI until the manager uses it.

Ms. Yeomans reported that the Committee is recommending an investment for the Post Retirement Fund with a new real estate manager, CB Commercial Advisors, in CB Commercial Mortgage Fund II. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McGrath seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee is also recommending an investment with a new private equity manager, Hellman & Friedman, in Hellman & Friedman Capital Partners III for the Basic Retirement Funds. In response to questions from Mr. Carlson about the size of the recommended commitment, Mr. Bicker stated that the IAC was very impressed with the quality of the individuals with the firm, and the returns of the manager's earlier funds. He noted that given the size of the Basic Funds, larger commitments are needed to avoid ending up with an excessive number of managers for the Funds. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Humphrey seconded the motion. The motion passed.

Administrative Committee Report

Mr. McGrath referred members to Tab F of the meeting materials. In response to a question from Mr. Carlson, Mr. Bicker confirmed that all the action items had been approved earlier by the Administrative Committee. Mr. McGrath stated that the Committee had approved the following items: the Executive Director's FY95 workplan; the FY95 Administrative Budget Plan; the Fiduciary Education Plan; the process for the Executive Director's FY94 Evaluation; and the approval of the preliminary FY96-97 Biennial Budget Request. Mr. Dayton requested the Board's support regarding funding for the additional staff position included as a contingency in the preliminary FY96-97 budget. He explained that the State Auditor's office has been taking an active roll in educating the volunteer fire relief associations throughout the state about the investment options available to them through the Supplemental Investment Fund. He thanked Mr. Bicker for his support in this effort and he said that he believes the cost of the additional staff person would be money well spent. Mr. McGrath moved approval of the five action items cited above, as stated in the Committee Report. The motion passed.

Mr. McGrath stated that the Committee was recommending a contract amendment with State Street Bank and Trust Company, the SBI's custodian bank, to provide one day pricing for assets custodied at State Street. He noted that the cost of this service is approximately $600,000, and that no direct payment of this cost would be required since the contract amendment does not impact the "zero net fee guarantee" of the existing contract. Mr. Dayton moved approval of the Committee's recommendation, as stated in the Committee Report. In response to questions from Mr. Carlson, Mr. Bicker said that the advantages of implementing next day pricing are: increased effectiveness of the SBI's rebalancing process; enhanced ability to provide timely information to the Board, IAC, and other constituents; and improved portability for the participants in the Supplemental Investment Fund, making the fund more responsive and flexible for its users. In response to a question from Mr. Carlson, Mr. Bicker and Ms. Yeomans confirmed that the IAC had quite a bit of discussion of this issue but was unanimous in its support of this recommendation. Mr. McGrath seconded the motion made previously by Mr. Dayton. The motion passed.

Mr. McGrath reported that the Committee is recommending that the SBI reauthorize and extend the International Investing Guidelines Task Force with its current membership for an additional two year period. He added that the recommendation includes shifting the responsibility for designating the country classifications to staff with the SBI Administrative Committee reviewing these changes and presenting the data to the Board as an information item from the Administrative Committee. Mr. Dayton moved approval of the Committee's recommendation, as stated in the Committee Report. Ms. Growe seconded the motion. The motion passed.

Mr. McGrath stated that the Committee is recommending that the SBI approve the contracts with Great-West Life, Minnesota Mutual Life, National Benefits, Inc. and Ochs Services Agency for the Deferred Compensation Plan, as contained in the meeting materials. In response to a request from Mr. Dayton, both Mr. Bergstrom and Mr. Bicker stated that they recommend these renegotiated contracts. Mr. Bicker said that significant improvements had been negotiated which are very advantageous to participants. In response to questions and comments from Mr. Dayton, Mr. Bergstrom confirmed total compensation to the service organizations has been reduced by approximately $1 million annually in the proposed contracts. In response to a question from Ms. Growe, Ms. McCarrel, the SBI's Deferred Compensation Consultant, said she enthusiastically supports the changes included in the proposed contracts. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Humphrey seconded. The motion passed.

The meeting adjourned at 9:15 A.M.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Monday, September 19, 1994
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

	TAB
1. Approval of Minutes of June 7, 1994	
2. Report from the Executive Director (H. Bicker)	
A. Quarterly Investment Review (April 1 - June 30, 1994)	**A**
B. Portfolio Statistics (June 30, 1994)	**B**
C. Administrative Report	**C**
1. Budget Reports	
2. Travel Report	
3. Report from the SBI Administrative Committee	**D**
1. Update on Disposition of Unclaimed Property	
2. Update on Certificate of Deposit Program	
3. Update on FY96-97 Budget Submission	
4. Update on Country Groupings under International Investing Guidelines	
5. Approval of Changes to Deferred Compensation Rules	
4. Report from the Deferred Compensation Review Committee	**E**
5. Reports from the Investment Advisory Council	
A. Stock and Bond Manager Committee (J. Bohan)	**F**
1. Review of Manager Performance	
2. Review of Active Stock Manager Benchmarks	
3. Approval of Proposal to Add Semi-Passive Stock Management	
4. Approval of Finalists for Semi-Passive Manager Search	
B. Alternative Investment Committee (D. Veverka)	**G**
1. Results of Review Sessions	
2. Commitments to New Alternative Investment Managers (Colony Advisors, Warburg Pincus, Kleinwort Benson, Citicorp)	

Minutes
Investment Advisory Council
June 7, 1994

The Investment Advisory Council met on Tuesday, June 7, 1994 at 2:00 P.M. in the State Board of Investment (SBI) Conference Room, 55 Sherburne Avenue, St. Paul.

MEMBERS PRESENT:	Gary Austin; Dave Bergstrom; John Bohan; Jim Eckmann; Ken Gudorf; Laurie Fiori Hacking; Keith Johnson; Peter J. Kiedrowski; Han Chin Liu; Malcolm McDonald: Mike Troutman; Debbie Veverka and Jan Yeomans.
MEMBERS ABSENT:	John Gunyou; David Jeffery; Gary Norstrem and Barbara Schnoor.
SBI STAFF:	Howard Bicker; Beth Lehman; Jim Heidelberg; Dan Egeland; Debbie Griebenow; Charlene Olson and Linda Nadeau.
OTHERS ATTENDING:	Ann Posey and Jeff Bailey, Richards & Tierney; Christie Eller; Jake Manahan; Susan VonMosch; Julie Bleyhl, AFSCME and Ed Stuart.

Ms. Yeomans called the meeting to order and the minutes of the March 1, 1994 meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds, Basic Funds and Post Fund had all outperformed their respective objectives over the period ending March 31, 1994.

Mr. Bicker stated that the Basic Funds had decreased in value during the quarter, due to negative investment returns and net withdrawals. He said that the Basics' asset mix is on target with its long-term asset allocation policy and that the Basic Funds had underperformed for the quarter (Basics -2.1% vs. Composite -2.0%) but had outperformed for the three year (Basics 10.4% vs. Composite 9.6%) and five year periods (Basics 11.2% vs. Composite 10.7%).

Mr. Bicker reported that the Post Retirement Fund also decreased in value due to negative investment returns and that the asset mix for the Fund is in-line with policy targets. He said that the total fund had matched its composite index at -2.6% for the quarter and had exceeded it since 7/1/93 (Post Fund 2.2% vs. Composite 1.9%).

Mr. Bicker reported that the domestic stock manager group had outperformed the Wilshire 5000 for the quarter (Domestic Stocks -3.5% vs. Wilshire 5000 -3.8%) and matched it for the year (both 2.5%). He stated that the international stock manager group had underperformed its target for the quarter (International Stocks 1.6% vs. EAFE 3.5%) and year (Int'l. Stocks 22.0% vs. EAFE 22.5%). He noted that the underperformance during the most recent quarter was due to an underweighting of Japan by the active managers. He said that given all the costs of moving into the international markets, he is pleased with the segment's performance since inception. Mr. Bicker stated that the domestic bond manager group had met its target for the quarter (both -2.8%), and had outperformed for the year (Domestic Bonds 3.6% vs. Salomon BIG 2.6%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP -1.7% vs. Composite -2.0%) and year (ARP 2.1% vs. Composite 1.6%). He stated the equity segment had outperformed for the quarter (Equity Segment -3.9% vs. Benchmark -4.5%) but had underperformed for the year (Equity Segment -5.1% vs. Benchmark -4.1%). He noted that a recommendation regarding the equity segment of the Fund would follow later in the Stock and Bond Manager Committee Report. Mr. Bicker stated that the bond segment had matched its target for the quarter (-1.3%) and outperformed the year (Bond Segment 3.4% vs. Benchmark 2.9%). In conclusion he reported, that as of March 31, 1994 the SBI was responsible for $22.5 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab C of the meeting materials for the current budget and travel reports. He summarized the statutory changes enacted as part of the SBI's Administrative Bill which are: to increase the asset based charge in the Supplemental Investment Fund (SIF) to 0.4%; to reestablish the Board's authority to invest in unrated and below investment grade debt with certain restrictions; to remove international securities from the 35% cap placed on alternative investments; to add an International Share Account to the Supplemental Investment Fund; and to clarify the Board's authority to invest in various types of mortgage and asset-backed securities.

Mr. Bicker stated that other legislation from the 1994 Session impacting the SBI involves reporting certain cash flow and investment performance information to the State Auditor's office on an on-going basis and a provision which allows the SBI to select up to five financial institutions to provide annuity products for the State University and Community College Systems' Individual Retirement Account Plan (IRAP).

Mr. Bicker noted the meeting dates for the SBI/IAC for the remainder of the calendar year, adding that the December 1994 meeting had been scheduled a week later than normal to accommodate scheduling conflicts.

Mr. Bicker stated that staff is recommending that two additional issues be assigned to the Deferred Compensation Review Committee. He said the first issue is the selection of a manager for the new guaranteed investment contract (GIC) pool for the Fixed Interest

Account. He noted that this change will allow participants greater flexibility while also diversifying the portfolio. He added that the Committee should make a recommendation by the September 1994 meeting of the SBI in order for a manager to be retained by November 1, 1994. He said the Committee's second task would be to review the structure of the Individual Retirement Account Plans (IRAP) and Supplemental Retirement Plans currently administered by the State University and Community College Systems. He added that this would involve issuing a request for proposal (RFP), evaluating responses and recommending specific vendors before the December 1994 meeting of the SBI.

Mr. Bicker stated that the IAC needs to take formal action to elect officers for the Council. Mr. Kiedrowski moved that Ms. Yeomans and Mr. McDonald be elected as Chair and Vice Chair, respectively. Mr. Gudorf seconded the motion. Mr. Bicker asked if there were any further nominations. Hearing none, members voted and the motion passed. Mr. Bicker informed members that two IAC members, David Jeffery and Michael Troutman, are resigning. He stated that filling those two vacancies and those of existing members whose terms will expire at year end will take place at the December 1994 meeting. In response to a question from Ms. Yeomans, Mr. Bicker confirmed that staff would welcome suggestions from the IAC of individuals who would be appropriate to fill these vacant positions.

Stock and Bond Committee Report

Mr. Eckmann referred members to Tab D of the meeting materials and he reviewed the performance of the domestic stock and bond managers. He discussed the performance of the international stock managers and the impact of the managers' decision to underweight Japan.

Mr. Eckmann updated members on the status of the Manager Monitoring Program and he referred members to the meeting materials for listings of the candidate firms. He said that the list is subject to change and that the Committee and staff would welcome additional suggestions. He noted the importance of having a list of firms on which staff has done some preliminary monitoring, ready prior to a manager search.

Mr. Eckmann reported that the Committee had reviewed the investment manager guidelines for accuracy and completeness. He said that the guidelines are being modified to reflect Board policy changes which were made during this fiscal year. He listed the changes as being: modifying the domestic stock manager guidelines to allow investment in American Depository Receipts' (ADR's) registered on the New York or American Stock Exchanges; updating asset class guidelines to reflect policy changes concerning South Africa and American Home Products; and updating changes approved in the SBI's Manager Continuation Policy and the Manager Commentaries.

Mr. Eckmann stated that a Passive Manager Review Committee had been established to evaluate the Wilshire 5000 and the Russell 3000 as the asset class target for the domestic equity program and to consider whether to reaffirm the SBI's current passive manager (Wilshire Asset Management) or retain a new passive manager. He said the two alternative candidates are Bankers Trust Company and Wells Fargo Nikko Investment Advisers. Mr. Eckmann said that the Board's consultant, Richards & Tierney, had provided extensive performance attribution data which assisted the Committee in determining that Wilshire's level of tracking error was reasonable, given the major changes that had occurred in the tilted index fund. He stated that the Committee is recommending that the SBI continue to use the Wilshire 5000 as its asset class target. He noted the similarity between the Russell 3000 and the Wilshire 5000 and said that the Committee could not identify a compelling reason to switch to the Russell 3000 at this time. He reported that the Committee is also recommending that the SBI continue to retain Wilshire Asset Management as its passive manager for the domestic equity program. He added that the Committee suggested that Wilshire, Richards & Tierney and staff should continue working together to understand the trade-off between tracking the completeness fund benchmark and incurring the trading costs necessary to do so.

Ms. Yeomans opened the floor up for discussion. In response to a question from Mr. Gudorf, Ms. Posey referred members to pages 64-67 of Tab D and summarized Richards & Tierney's analysis of the titled index fund. She said that their conclusion was that, given all the external cash flows and all the program changes made, the performance results and the negative tracking error were reasonable. She said they concluded that in order to improve performance and reduce trading costs, the SBI needs to minimize external cash flows and manager turnover. In addition, Wilshire, as the implementation manager, needs greater latitude to manage the trade off between minimizing tracking error and minimizing turnover. Mr. Bicker emphasized that the last year included significantly higher cash flows and manager turnover due to the restructuring the Post Fund. Mr. Bicker stated that the analysis had quantified the costs associated the restructuring and that the analysis helped educate everyone about the costs of trading. He said that the Committee's recommendation includes a provision to update Wilshire's existing contract to reflect current SBI contracting procedures.

In response to a question from Ms. Veverka, Mr. Bicker said that Wells Fargo, one of the alternative firms considered, may have more internal crossing capabilities than Wilshire. However, he noted the value of Wilshire's experience in managing the index fund for the SBI. He added that the situation will continue to be monitored and that staff and Wilshire will also continue to try to reduce turnover. Mr. Eckmann agreed with Mr. Bicker's statements and he said the Committee was also in agreement that there was not a compelling reason to change managers at this time. In response to another question from Ms. Veverka, Mr. Bicker noted that annual and interim changes made to the Russell 3000 index are not communicated clearly and this could lead to implementation problems for any user of this index. Ms. Posey added that it is really only the top 2500 stocks in the Wilshire 5000 that have a significant impact on performance, therefore, the Wilshire index is not dramatically different from the Russell 3000. She said they had looked at pros and cons of each index and did not see a compelling reason to choose one over the other if a plan was starting from a clean slate. Mr. McDonald moved approval of the Committee's recommendation to continue using the Wilshire 5000 as the asset class target and to reaffirm Wilshire Asset Management as the manager of the index fund, as stated in the Committee Report. Mr. Troutman seconded the motion. The motion passed.

Mr. Eckmann reported that the Committee is recommending that the SBI change its asset class target for the domestic bond program from the Salomon Broad Investment Grade (BIG) index to the Lehman Aggregate. He said that the change should improve the SBI's ability to analyze and monitor portfolio results. Mr. Kiedrowski moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.

Mr. Eckmann stated that the Committee's final recommendation involves modifying the management structure of the stock segment of the Assigned Risk Plan (ARP) and he asked Mr. Bicker to elaborate. Mr. Bicker explained that staff and the Committee had concurred that the current active stock manager for the stock segment (Voyageur Asset Management) does not provide broad market coverage and therefore exposes the ARP to inappropriate levels of active management risk. He said that staff and the Committee were also in agreement that semi-passive management is appropriate for the stock segment of the ARP over the longer term and that a semi-passive manager could be selected for the ARP at the same time the SBI conducts the semi-passive manager search for the retirement funds. He added that until that search is completed, the Committee believes that the stock segment should be passively managed through an internally managed index pool designed to track the performance of the S&P 500. In response to a question from Mr. Kiedrowski, Mr. Bicker explained that through a semi-passive approach, the SBI would look for managers who can add value while maintaining a low residual risk of one to two percent. In response to a question from Mr. Gudorf, Mr. Bicker stated that the S&P 500 index was chosen because of ease of management and investment. He reminded members that the ARP is a small, taxable entity which cannot be commingled with other tax-exempt assets. Ms. Veverka asked why the ARP assets couldn't be given to an existing manager, such as Franklin, who already manages semi-passive portfolios. Mr. Bicker said that he feels that all funds managed by the SBI, regardless of size, should receive the same time and attention with regard to the manager selection process and Ms. Veverka's suggestion would not allow that to occur. Ms. Veverka noted that members had just heard discussion on reducing transaction costs, and she questioned whether it is necessary to do a two-step transition for the ARP. Mr. Bicker acknowledged Ms. Veverka's point, however, he noted that since there are several key issues coming before the Board over the next 2-3 quarters, staff has tried to prioritize the issues. He said that in many respects, it is simply a matter of time and what issue(s) are addressed first. Mr. Troutman stated that the Committee agreed with Mr. Bicker's statements and said that the Committee felt the costs involved with moving to the S&P 500 index fund were justifiable in order to reduce the risk over the next six to twelve month period. Mr. Eckmann also stated that the second phase of the transaction from S&P 500 index to semi-passive management would be relatively minor in terms of trading costs. Mr. Bicker stated that if the Board does not approve the semi-passive manager search for the retirement funds, a recommendation would follow to conduct a manager search for the ARP. Mr. Troutman moved approval of the Committee's recommendation regarding the Assigned Risk Plan, as stated in the Committee Report. Mr. Kiedrowski seconded the motion. The motion passed.

Alternative Investment Committee Report

Ms. Veverka referred members to Tab E of the meeting materials and stated that satisfactory annual review sessions had been held with one of the SBI's private equity managers, the Jacobs Group, and one of the SBI's real estate managers, Heitman Advisory. She noted that staff will be developing criteria for the Committee to use as they consider the possibility of cutting back the commitment with the Jacobs Group since the manager has been slow to invest the committed dollars. She also noted that Heitman Group was purchased by United Asset Management and that the Committee and staff do not expect the ownership change to effect the manager in any significant way. She added that Heitman has done a good job in developing exit strategies well in advance of the termination dates of their funds.

Ms. Veverka reported that the Committee is recommending an investment for the Post Retirement Fund with a new real estate manager, CB Commercial Advisors, in CB Commercial Mortgage Fund II. She stated that the Fund is designed as a low risk strategy that is expected to net two to three percent above the yield on Treasury securities. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Ms. Veverka stated that the Committee is also recommending an investment with a new private equity manager, Hellman & Friedman, in Hellman & Friedman Capital Partners III for the Basic Retirement Funds. She stated that the IAC was very impressed with the quality of the individuals with the firm, and the returns of the manager's earlier funds. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

Administrative Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials In response to a question from Ms. Yeomans, Mr. Bicker stated that he would like to discuss the proposed contract amendment to the SBI's custody contract with State Street Bank which allows for one day pricing. He explained that the advantages of next day pricing are: increased effectiveness of the SBI's rebalancing process; improved ability to provide timely information and improved portability for the participants in the Supplemental Investment Fund (SIF). He noted that the cost of this service is approximately $600,000 and that no direct payment of this cost would be required because of the "zero net fee guarantee" of the existing contract. In response to a question from Mr. Troutman, Mr. Bicker said that the funds would be priced four times a month so that pricing problems can be identified and resolved prior to setting the month end unit value. Mr. Gudorf and Mr. Bohan commented that the cost of the service seemed high. Ms. Yeomans and Mr. Bicker explained the labor intensive process that is involved with the daily pricing process. Mr. Bicker also reminded members that since the SIF participates in almost all of the pools used by the other retirement funds, all assets custodied at State Street would require pricing. Mr. Bergstrom stated that he feels Deferred Compensation participants would benefit a great deal from this change as it would result in comparability among investment options for participants and also allow MSRS to issue withdrawal checks to participants earlier. Mr. Kiedrowski made a motion that the IAC formally support the Administrative Committee's recommendation to amend State Street's custody contract, as stated in the Committee's Report. Mr. McDonald seconded the motion. The motion passed.

Ms. Yeomans thanked Mr. Troutman for his years of participation on the IAC and said she wanted to publicly acknowledge his work and to wish him well on his new assignment. Mr. Troutman thanked everyone and said that he has been impressed with the level of commitment from everyone involved with the SBI and that it has been a pleasure to serve on the IAC.

The meeting adjourned at 3:15 p.m.

Respectfully submitted,

Howard Bicker

Howard J. Bicker
Executive Director

Tab A

RETURN OBJECTIVES
Period Ending 6/30/94

COMBINED FUNDS: $18.5 Billion	Return	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over moving 10 year periods.	**12.8%** (1)	9.2 percentage points above target
Exceed Median Fund (5 yr.) Outperform the median fund from a universe of public and corporate funds with a balanced asset mix over moving 5 year periods.	**9.5%** (1)	0.1 percentage points above target Rank: 45th percentile (2)
Exceed Composite Index (5 yr.) Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over moving 5 year periods.	**9.5%** (1)	0.5 percentage points above target

BASIC RETIREMENT FUNDS: $9.7 Billion	Return	Compared to Objective
Exceed Composite Index (5 Yr.) Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over moving 5 year periods.	**9.6%**	0.5 percentage points above target

POST RETIREMENT FUND: $8.8 Billion	Return	Compared to Objective
Exceed Composite Index Outperform a composite index weighted in a manner that reflects the long-term asset allocation of the Post Fund over moving 5 year periods.	**1.6%** (3)	0.0 percentage points above target (3)

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

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

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

ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1993

	Active (Basics)	Retired (Post)	Total (Basics & Post)
Liability Measures			
1. Current and Future Benefit Obligation	$15.8 billion	$6.4 billion	$22.2 billion
2. Accrued Liabilities	11.2	6.4	17.6
Asset Measures			
3. Current and Future Actuarial Value	$15.2 billion	$6.4 billion	$21.6 billion
4. Current Actuarial Value	7.9	6.4	14.3
Funding Ratios			
Future Obligations vs. Future Assets (3 ÷ 1)	96%	100%	97%
Accrued Liabilities vs. Current Actuarial Value (4 ÷ 2)	71%	100%	81%*

* 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 **78%** for the Basics, **100%** for the Post and **86%** for the Total, respectively.

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

Actuarial Assumptions:

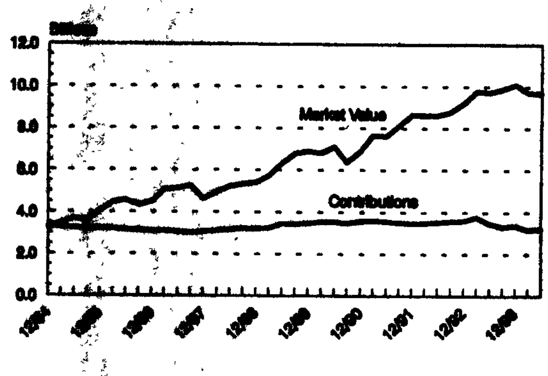
Salary Growth: 6.5%
Interest//Discount Rate: 8.5% Basics, 5.0% Post
Full Funding Target Date: 2020

EXECUTIVE SUMMARY
Basic Retirement Funds

Asset Growth

The market value of the Basic Funds decreased 0.1% during the second quarter of 1994. Negative investment returns accounted for the decrease during the period.

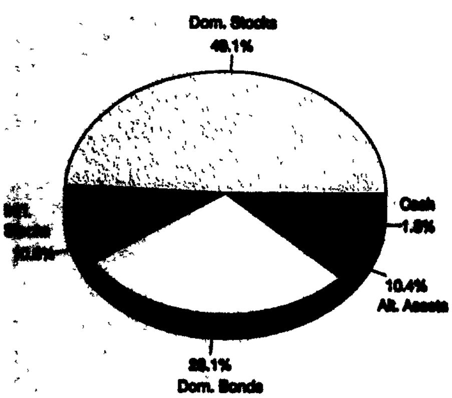
	Asset Growth During Second Quarter 1994 (Millions)
Beginning Value	$9,697
Net Contributions	51
Investment Return	-60
Ending Value	$9,688



Asset Mix

Domestic stocks are slightly under the policy target while cash and international stocks are slightly over. Bonds will exceed their target until alternative assets increase.

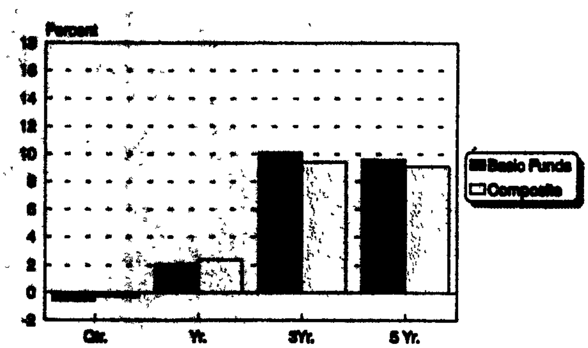
	Policy Asset Mix	Actual Mix 6/30/94	Actual Market Value (Millions)
Domestic Stocks	50.0%	49.1%	$4,758
Int'l. Stocks	10.0	10.6	1,029
Bonds	24.0	28.1	2,721
Alternative Assets	15.0	10.4	1,006
Unallocated Cash	1.0	1.8	174
	100.0%	100.0%	$9,688



Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	-0.6%	2.1%	10.1%	9.6%
Composite	-0.3	2.4	9.4	9.1



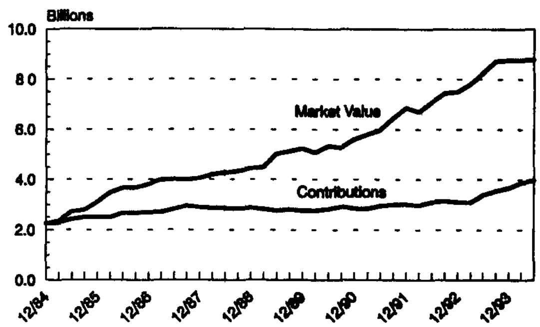
EXECUTIVE SUMMARY
Post Retirement Fund

Asset Growth

The market value of the Post Fund increased 0.3% during the second quarter of 1994. The increase resulted from net contributions.

Asset Growth During Second Quarter 1994 (Millions)

Beginning Value	$8,742
Net Contributions	86
Investment Return	-56
Ending Value	$8,772

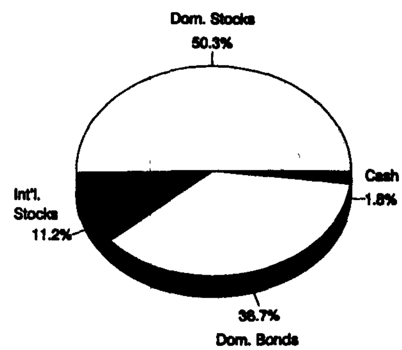


Asset Mix

International stocks are slightly over the policy target while cash is slightly under. Domestic bonds will exceed its target until alternative assets increase.

	Policy Asset Mix	Actual Mix 6/30/94	Actual Market Value (Millions)
Domestic Stocks	50.0%	50.3%	$4,409
Int'l. Stocks	10.0	11.2	985
Domestic Bonds	32.0	36.7	3,221
Alternative Assets	5.0	0.0*	3
Unallocated Cash	3.0	1.8	154
	100.0%	100.0%	$8,772

* less than 0.1%

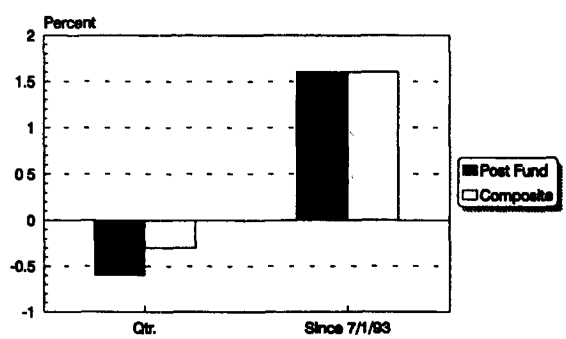


Fund Performance

The Post Fund trailed its composite market index for the quarter and matched the composite since 7/1/93.

	Qtr.	Since 7/1/93*
Post Fund	**-0.6%**	**1.6%**
Composite	-0.3	1.6

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



EXECUTIVE SUMMARY
Stock and Bond Manager Performance

Domestic Stocks

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	-1.1%	0.7%	10.2%	9.6%
Wilshire 5000*	-0.9	0.9	10.0	9.8

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

International Stocks

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

	Qtr.	1 Yr.	Since Incept.*
Int'l. Stocks	4.0%	17.3%	19.5%
EAFE	5.1	17.0	20.5

* since 10/1/92. The Wilshire 5000 returned 7.5% over the same period

Domestic Bonds

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	-1.5%	-1.1%	8.7%	8.9%
Salomon BIG	-1.0	-1.2	8.1	8.6

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

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

EAFE: The Morgan Stanley Capital International index of 20 stock markets in Europe, Australia and the Far East.

Salomon BIG: The Salomon Broad Investment Grade bond index reflects the performance of all investment grade (BAA or higher) bonds, U.S. treasury and agency securities and mortgage obligations with maturities greater than one year.

EXECUTIVE SUMMARY
Assigned Risk Plan

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

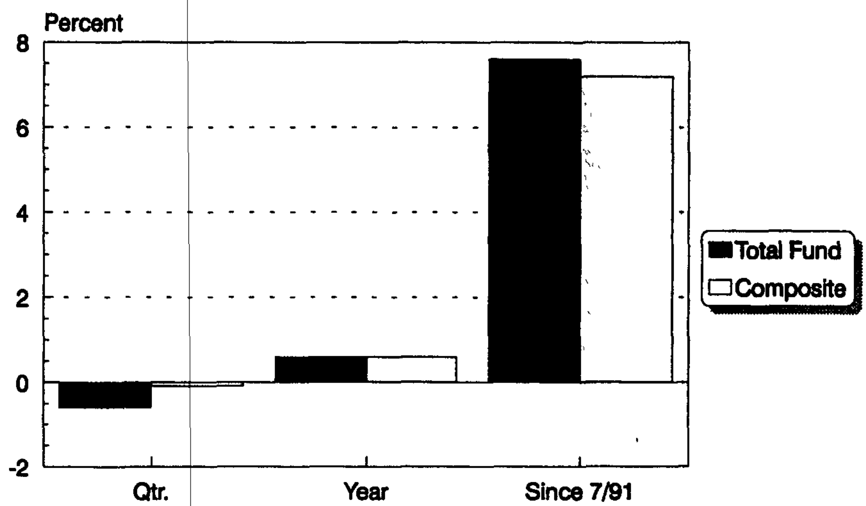
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/94 Target	6/30/94 Actual
Stocks	20.0%	20.0%
Bonds	80.0	79.4
Unallocated Cash	0.0	0.6
Total	100.0%	100.0%

Investment Management
Voyageur Asset Management managed the entire fund through June 30, 1994. The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991.

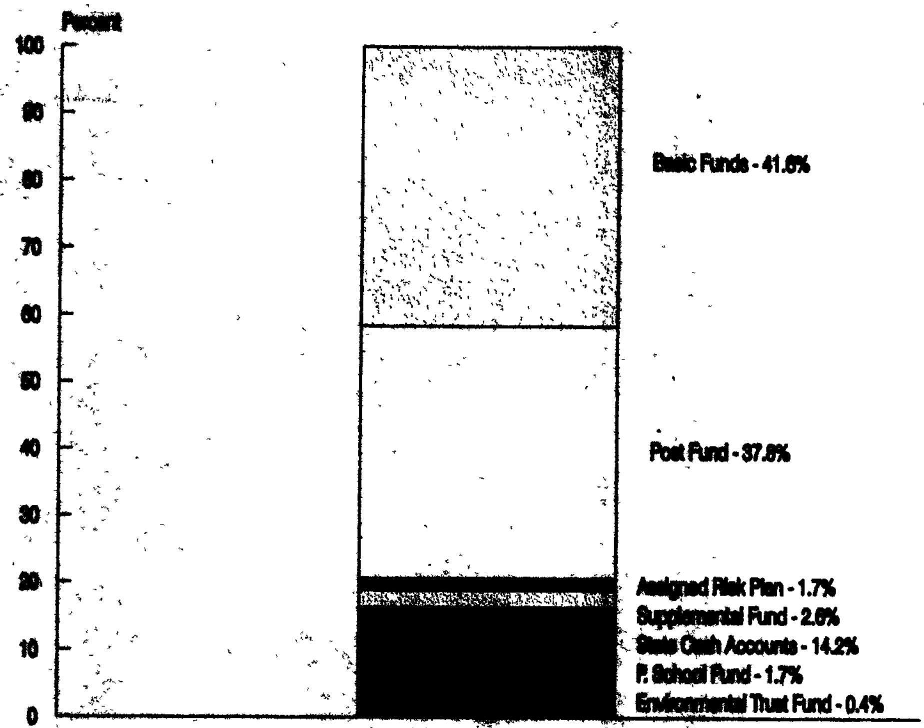
Performance Benchmarks
A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. The equity benchmark is a custom benchmark consisting of A or greater rated S&P 500 stocks less utilities. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the asset allocation target.

Market Value
On June 30, 1994 the market value of the Assigned Risk Plan was $ 445 million.



Period Ending 6/30/94	Qtr.	Yr.	Since 7/1/91
Total Fund	**-0.6%**	**0.6%**	**7.6%**
Composite Index	-0.1	0.6	7.2
Equity Segment	**-1.5**	**-1.2**	**5.4**
Benchmark	0.6	0.4	6.4
Bond Segment	**-0.4**	**0.9**	**8.1**
Benchmark	-0.3	0.8	7.4

EXECUTIVE SUMMARY
Funds Under Management



	6/30/94 Market Value (Billions)
Basic Retirement Funds	$9.7
Post Retirement Fund	8.8
Assigned Risk Plan	0.4
Supplemental Investment Fund	0.6
State Cash Accounts	3.3
Permanent School Fund	0.4
Environmental Trust Fund	0.1
Total	$23.3

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 1994

(April 1, 1994 — June 30, 1994)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/94				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	-0.8%	1.2%	10.2%	10.1%	14.5%
Dow Jones Industrials	0.4	5.9	10.8	11.8	16.5
S&P 500	0.5	1.5	9.4	10.3	15.0
Russell 2000	-3.9	4.4	14.6	9.5	11.3
Domestic Fixed Income					
Salomon BIG*	-1.0	-1.2	8.1	8.6	11.7
Shearson Gov't./Corp.	-1.2	-1.5	8.4	8.5	11.4
90 Day U.S. Treasury Bills	1.0	3.4	3.7	5.3	6.4
International					
EAFE**	5.1	17.0	11.8	5.0	18.3
Salomon Non U.S. Gov't. Bond	1.7	9.5	15.2	12.5	15.1
Inflation Measure					
Consumer Price Index***	0.5	2.5	2.9	3.6	3.6

* Salomon Broad Investment Grade bond index
** Morgan Stanley Capital International index of Europe, Australia and the Far East (EAFE)
*** Consumer Price Index (CPI) for all urban consumers, also known as CPI-U.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

For the quarter, the stock market generated negative returns. The decline was very broad producing negative returns in almost every segment of the market. As shown below, three out of the four Wilshire Style Indexes incurred negative returns with small cap growth producing the largest decrease. From a sector perspective, the energy and finance sectors produced positive returns while capital goods, consumer durables, and transportation incurred the largest negative returns. In general, the stock market decline was due to uncertainty about the direction of interest rates, economic growth and the dollar. During the quarter the Federal Reserve raised short term rates twice, causing disruptions in the bond market which negatively affected the stock market also.

The Wilshire 5000 provided a -0.9% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter are shown below:

Large Value	-0.2%
Small Value	0.7
Large Growth	-1.2
Small Growth	-8.0

The Wilshire 5000 increased 0.9% during the latest year.

DOMESTIC BONDS

Bond returns were poor as interest rates rose. As the economy strengthened, inflation fears rose and caused an increase in interest rates, including the Federal funds rate. Two year rates increased 0.99% while long rates increased 0.52%. Mortgage securities had a shorter duration and therefore outperformed corporate and Treasury securities.

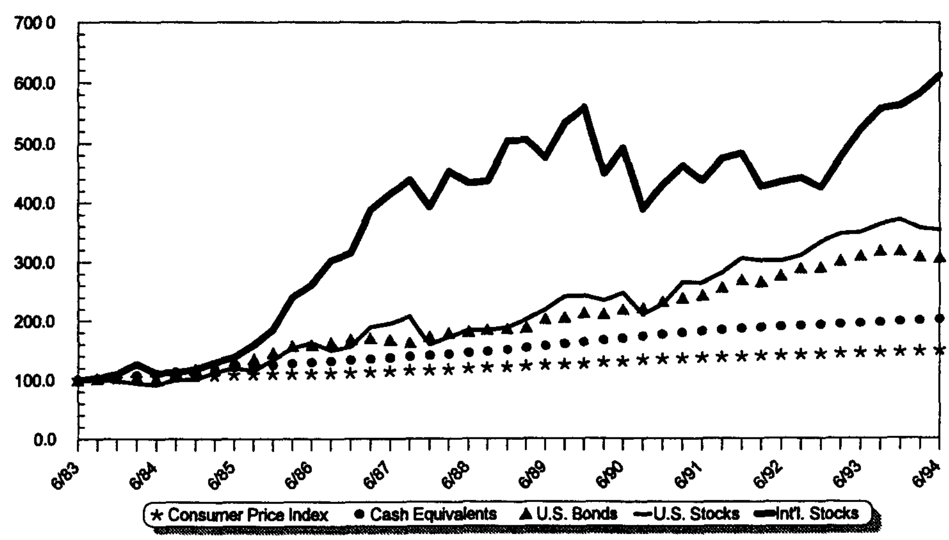
Overall, the Salomon Brothers Broad Investment Grade (BIG) Index decreased 1.0% for the quarter. The Salomon BIG sector returns for the quarter were:

Treasury/Agency	-1.1%
Corporates	-1.4
Mortgages	-0.5

The Salomon BIG declined -1.2% for the latest year.

PERFORMANCE OF CAPITAL MARKETS

Cumulative Returns



Indices used are: Morgan Stanley's Index of Europe, Australia and the Far East (EAFE); Wilshire 5000 Index; Salomon Broad Investment Grade (BIG) Bond Index; 91 Day Treasury Bills; and the Consumer Price Index.

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, the international stock markets (as measured by the EAFE index) provided a return of 5.1% for the quarter. As shown below, performance varied widely among the major markets:

Japan	11.8%
United Kingdom	-1.4
Germany	0.4
France	-4.0

The EAFE index increased by 17.0% during the latest year. The index is compiled by Morgan Stanley Capital International and is a measure of 20 markets located in Europe, Australia and the Far East (EAFE). The major markets listed above comprise about 75% of the value of international markets.

REAL ESTATE

Currently, real estate investing by institutions is picking up after a long dry spell. Longer term, high property income yields, low interest rates and the significant decline in construction activity are favorable developments for the real estate market.

PRIVATE EQUITY

According to the *Venture Capital Journal*, "venture capital fundraising in the first six months of 1994 surged to $1.879 billion, up nearly 45% from last year, with venture capitalists favoring seed/early stage rather than later-stage strategies."

RESOURCE FUNDS

Currently, spot prices of West Texas Intermediate oil are $19.30 per barrel. This compares to $17.52 per barrel a year ago.

COMBINED FUNDS

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

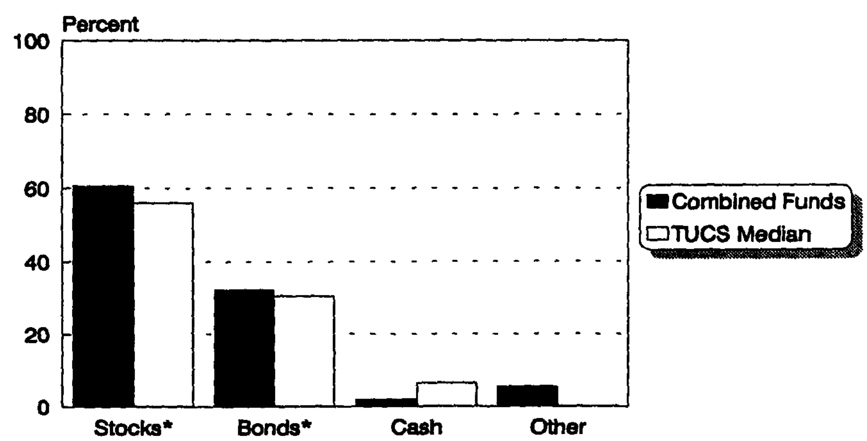
The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Asset Mix Compared to Other Pension Funds

On June 30, 1994, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$9,167	49.6%
International Stocks	2,014	10.9
Bonds	5,942	32.2
Alternative Assets	1,009	5.5
Unallocated Cash	328	1.8
Total	$18,460	100.0%

Comparisons of the Combined Funds' asset mix to the median allocation to stocks, bond and other assets of the public and corporate funds in TUCS on June 30, 1994 are shown below:



	Stocks*	Bonds*	Cash	Other
Combined Funds	**60.6%**	**32.2%**	**1.8%**	**5.5%**
Median Allocation in TUCS	56.0	30.5	6.5	0.1

* Both domestic and international.

COMBINED FUNDS
Performance Compared to Other Pension Funds

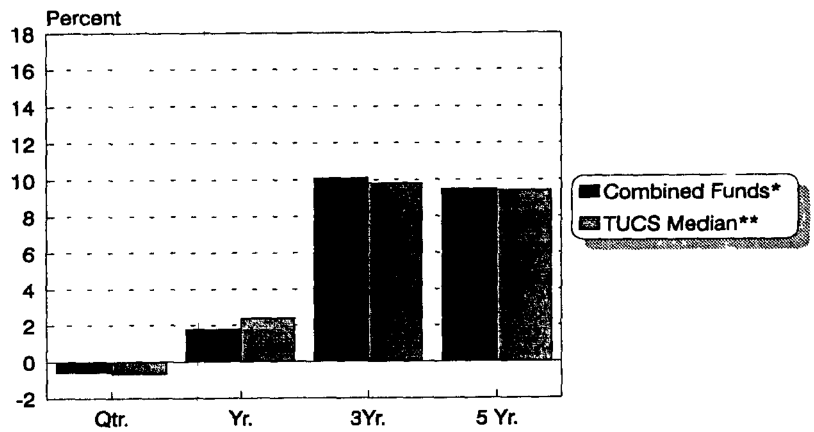
While the SBI is naturally concerned with how its returns compare to other pension investors, universe comparison data should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

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

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

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

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



Period Ending 6/30/94

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Combined Funds Return*	**-0.6%**	**1.8%**	**10.1%**	**9.5%**
TUCS Median Fund Return**	-0 7	2 4	9.8	9.4
Percentile Rank in TUCS	47th	56th	41st	45th

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

** Before fees

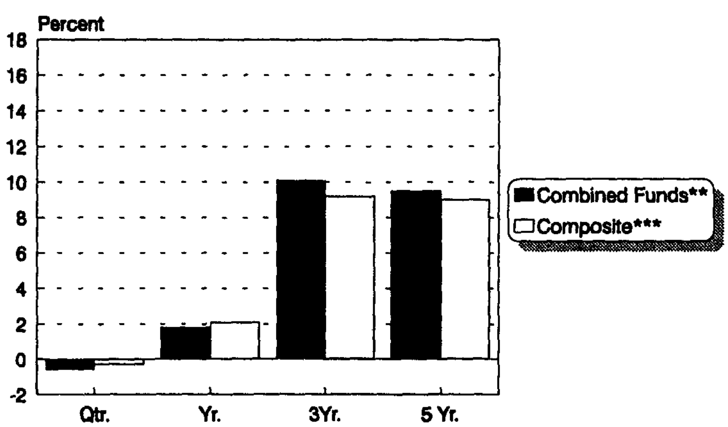
The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).

COMBINED FUNDS
Performance Compared to Composite Index

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

	Market Index	Combined Index Weights 4/1/94
Domestic Stocks	Wilshire 5000	50.0%
Int'l. Stocks	EAFE	10.0
Domestic Bonds	Salomon BIG	32.8*
Alternative Assets	Wilshire Real Estate	2.1*
	Venture Capital Funds	2.6*
	Resource Funds	0.5*
Unallocated Cash	91 Day T-Bills	2.0
		100.0%

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



Period Ending 6/30/94

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	**-0.6%**	**1.8%**	**10.1%**	**9.5%**
Composite Index***	-0.3	2.1	9.2	9.0

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

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

BASIC RETIREMENT FUNDS

Investment Objectives

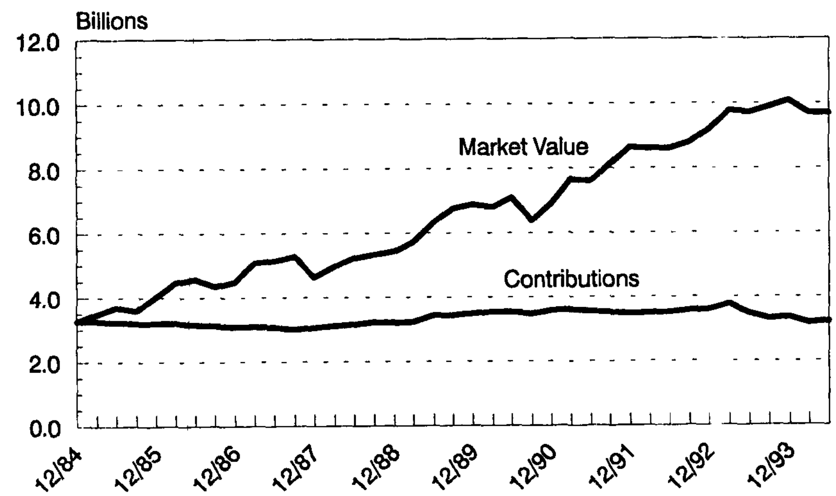
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Retirement Funds' assets decreased 0.1% during the second quarter of 1994. Negative investment returns accounted for the decrease.



Last Five Years
In Millions

	12/89	12/90	12/91	12/92	12/93	3/94	Latest Qtr. 6/94
Beginning Value	$5,420	$6,875	$6,919	$8,639	$9,191	$10,086	$9,697
Net Contributions	269	91	-92	-34	-239	-187	51
Investment Return	1,186	-47	1,812	586	1,134	-202	-60
Ending Value	$6,875	$6,919	$8,639	$9,191	$10,086	9,697	$9,688

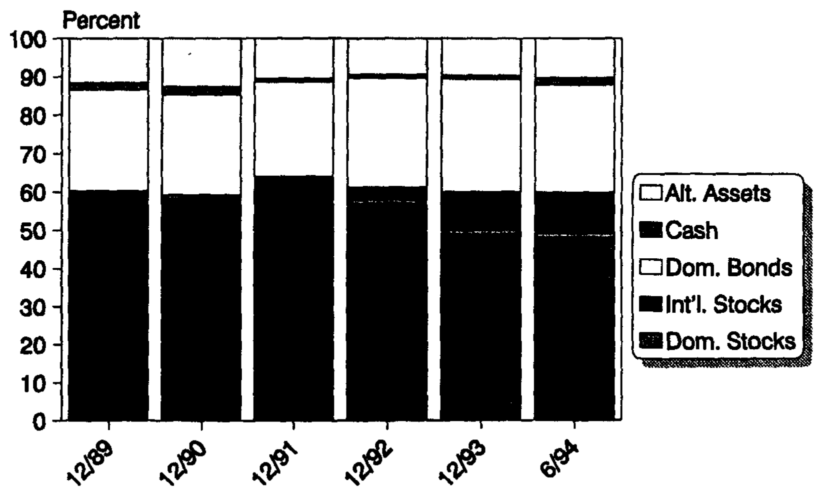
BASIC RETIREMENT FUNDS
Asset Mix

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

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

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

The actual asset mix changed only slightly from the prior quarter. This was due primarily to market movements.



	Last Five Years						Latest Qtr.
	12/89	12/90	12/91	12/92	12/93	3/94	6/94
Domestic Stocks	60.2%	59.1%	63.9%	57.9%	49.9%	49.0%	49.1%
Int'l. Stocks	0.0	0.0	0.0	3.2	10.0	10.3	10.6
Domestic Bonds	26.4	26.2	24.7	28.5	29.4	28.6	28.1
Real Estate	7.5	7.0	4.8	4.2	4.1	4.2	4.4
Private Equity	2.8	4.2	4.7	4.2	4.6	5.1	5.2
Resource Funds	1.4	1.5	1.1	1.2	1.1	1.0	0.8
Unallocated Cash	1.7	2.0	0.8	0.8	0.9	1.8	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

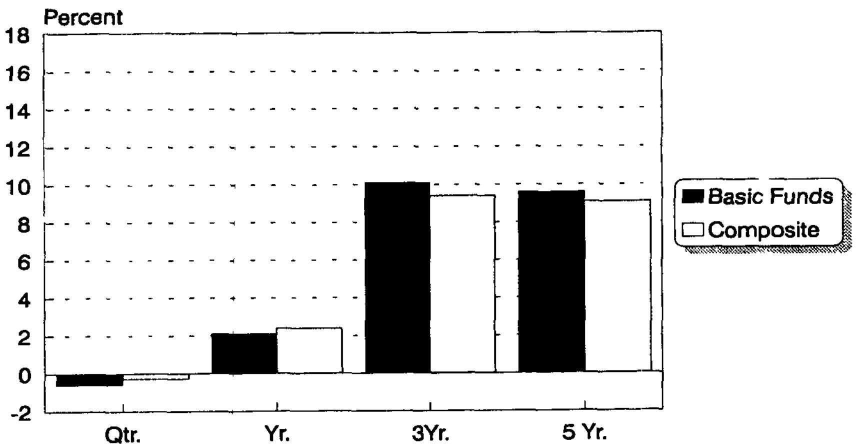
BASIC RETIREMENT FUNDS

Total Fund Performance

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

	Basics Target	Market Index	Basics Composite 4/1/94
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	10.0	EAFE	10.0
Domestic Bonds	24.0	Salomon BIG	29.0*
Alternative Assets	15.0	Wilshire Real Estate	4.0*
		Private Equity Funds	5.0*
		Resource Funds	1.0*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

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



Period Ending 6/30/94

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Basic Funds	**-0.6%**	**2.1%**	**10.1%**	**9.6%**
Composite Index**	-0.3	2.4	9.4	9.1

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

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

POST RETIREMENT FUND

The Post Retirement Investment Fund contains the pension assets of retired public employees covered by statewide retirement plans. Approximately 60,000 retirees receive monthly annuities from the assets of the Fund.

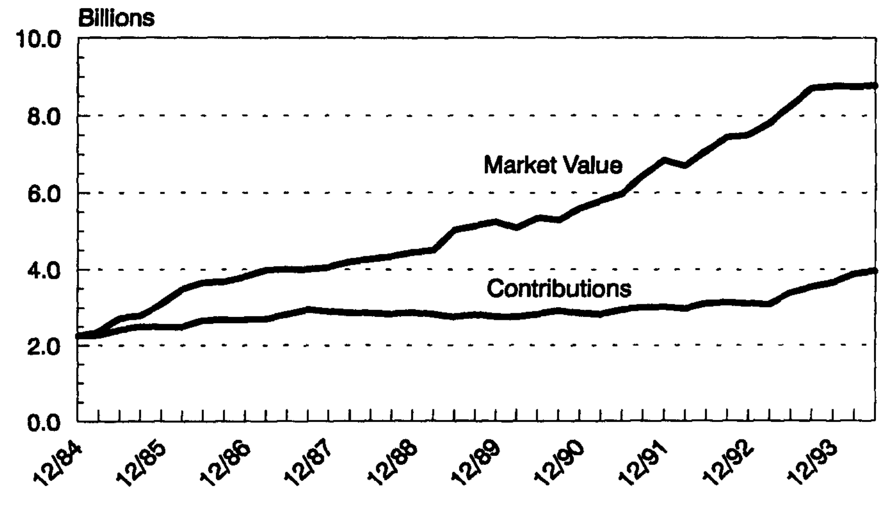
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 5% on its invested assets on an annualized basis. If the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

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

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

Asset Growth

The market value of the Post Retirement Fund increased by 0.3% during the second quarter of 1994. The increase was due to net contributions.



	In Millions						Latest Qtr.
	12/89	12/90	12/91	12/92	12/93	3/94	6/94
Beginning Value	$4,434	$5,238	$5,590	$6,855	$7,500	$8,766	$8,742
Net Contributions	25	88	162	95	386	211	86
Investment Return	779	264	1,103	550	880	-235	-56
Ending Value	$5,238	$5,590	$6,855	$7,500	$8,766	$8,742	$8,772

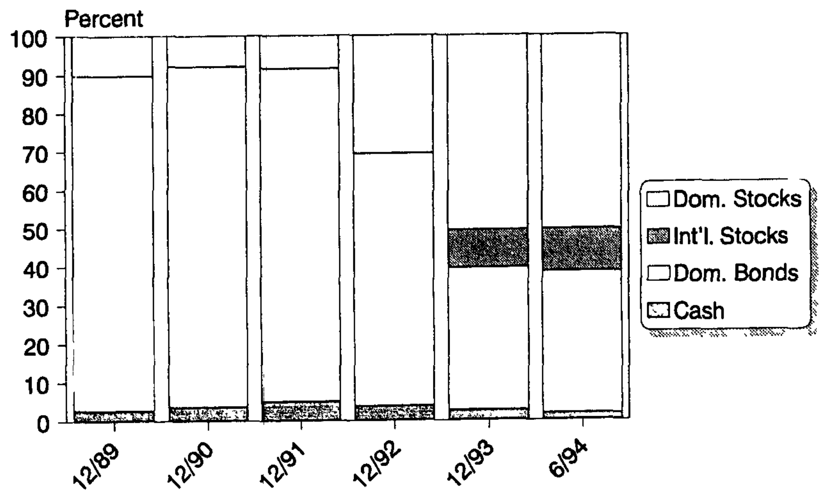
POST RETIREMENT FUND
Asset Mix

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

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

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

Funding for alternative assets began last quarter with a small private equity investment. International stocks are slightly above the target allocation due to market movements.



	Last Five years					Latest Qtr.	
	12/89	12/90	12/91	12/92	12/93	3/94	6/94
Dom. Stocks	10.2%	7.9%	8.5%	30.6%	50.5%	50.1%	50.3%
Int'l. Stocks	0.0	0.0	0.0	0.0	10.0	10.6	11.2
Dom. Bonds	87.1	88.5	80.0	65.6	36.9	36.8	36.7
Alt. Assets	0.0	0.0	0.0	0.0	0.0	0.0*	0.0*
Unallocated Cash	2.7	3.6	5.0	3.8	2.6	2.5	1.8
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

* less than 0.1%

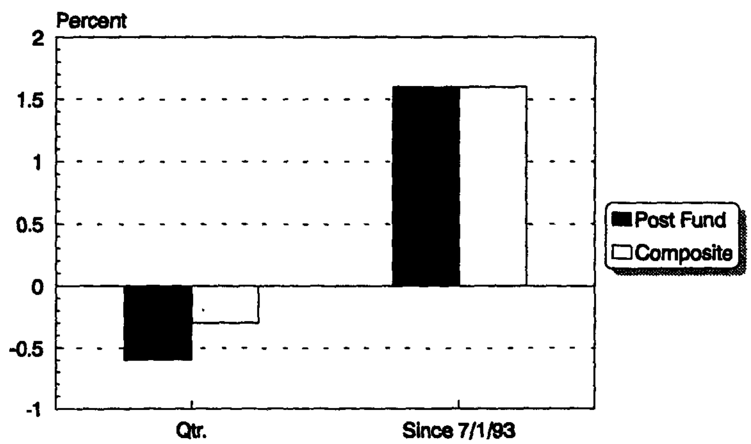
POST RETIREMENT FUND
Total Fund Performance

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

Asset Class	Post Target	Market Index	Post Composite 4/1/94
Domestic Stocks	50%	Wilshire 5000	50.0%
Int'l. Stocks	10	EAFE	10.0
Domestic Bonds	32	Salomon BIG	37.0*
Alternative Assets	5	---	0.0*
Unallocated Cash	3	91 Day T-Bills	3.0
	100%		100.0%

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

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



	Qtr.	Since 7/1/93
Post Fund	**-0.6%**	**1.6%**
Composite Index	-0.3	1.6

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

STOCK AND BOND MANAGERS

Performance of Asset Pools

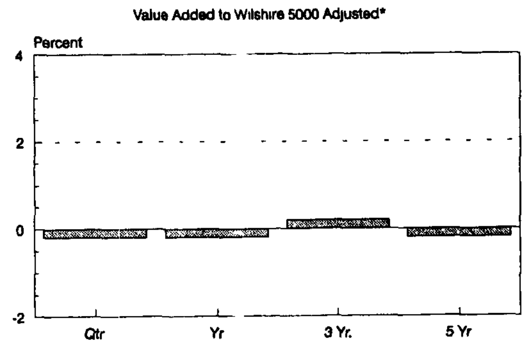
Domestic Stock Pool

Target: Wilshire 5000 Adjusted*

Expectation: If half of the pool is actively managed and half is passively managed, the entire pool is expected to exceed the target by +.20-.45% annualized, over time.

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Stock Pool	**-1.1%**	**0.7%**	**10.2%**	**9.6%**
Wilshire 5000*	-0.9	0.9	10.0	9.8

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

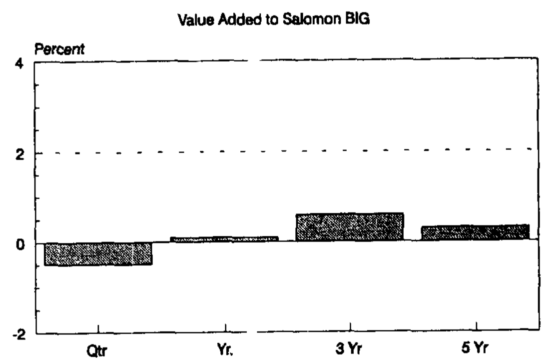


Domestic Bond Pool

Target: Salomon Broad Investment Grade (BIG) Index

Expectation: If half of the pool is actively managed and half is managed semi-passively, the entire pool is expected to exceed the target by +.20-.35% annualized, over time.

			Annualized	
	Qtr.	**Yr.**	**3 Yrs.**	**5 Yrs.**
Bond Pool	**-1.5%**	**-1.1%**	**8.7%**	**8.9%**
Salomon BIG	-1.0	-1.2	8.1	8.6

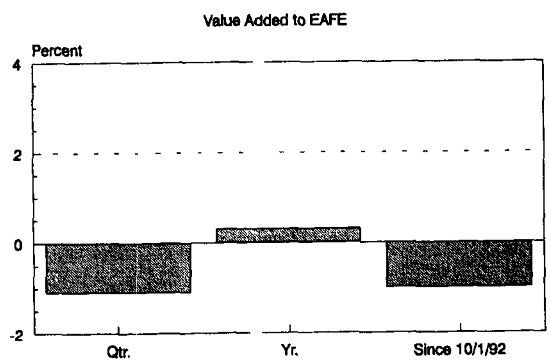


International Stock Pool

Target: EAFE

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

	Qtr.	**Yr.**	**Since 10/1/92**
Int'l. Pool	**4.0%**	**17.3%**	**19.5%**
EAFE	5.1	17.0	20.5



ALTERNATIVE ASSET MANAGERS
Performance of Asset Pools

Real Estate Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	**0.8%**	**-0.8%**	**-5.6%**	**-3.2%**
Real Estate Index	0.8	0.1	-6.1	-4.2
Inflation	0.5	2.5	2.9	3.6

Private Equity Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	**-2.6%**	**11.3%**	**19.5%**	**15.9%**

Resource Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Resource Funds	**3.7%**	**4.8%**	**6.3%**	**6.2%**

ASSIGNED RISK PLAN

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

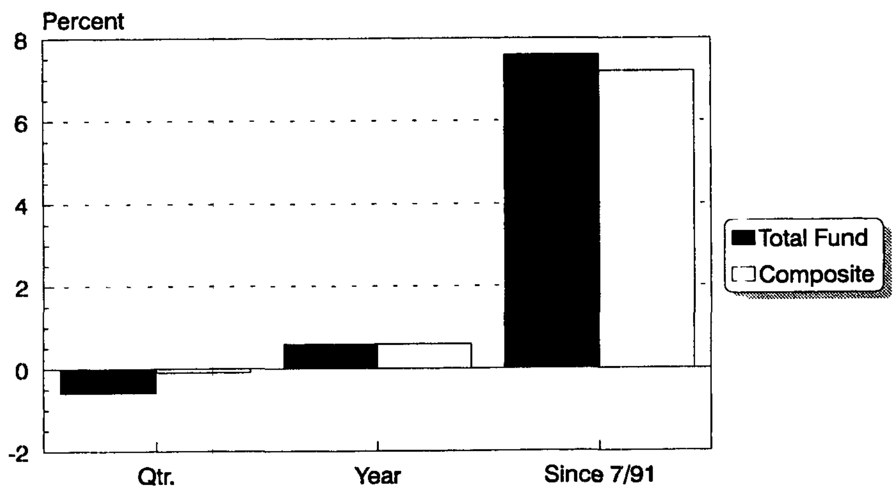
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/94 Target	6/30/94 Actual
Stocks	20.0%	20.0%
Bonds	80.0	79.4
Unallocated Cash	0.0	0.6
	100.0%	100.0%

Investment Management
Voyageur Asset Management managed the entire fund through June 30, 1994. The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991.

Performance Benchmarks
A custom benchmark has been established for the fixed income portfolio. It reflects the duration of the liability stream and the long-term sector allocation of Voyageur Asset Management. The equity benchmark is a custom benchmark consisting of A or greater rated S&P 500 stocks less utilities. The total fund benchmark is a combination of the fixed income and equity benchmarks, weighted according to the asset allocation target.

Market Value
On June 30, 1994 the market value of the Assigned Risk Plan was $445 million



Period Ending 6/30/94

	Qtr.	Yr.	Since 7/1/91
Total Account	**-0.6%**	**0.6%**	**7.6%**
Composite	-0.1	0.6	7.2
Equity Segment	**-1.5**	**-1.2**	**5.4**
Benchmark	0.6	0.4	6.4
Bond Segment	**-0.4**	**0.9**	**8.1**
Benchmark	-0.3	0.8	7.4

SUPPLEMENTAL INVESTMENT FUND

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

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

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

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

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

The investment returns shown in this report are calculated using a time-weighted rate of return formula. 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, 1994 the market value of the entire fund was $578 million.

Investment Options

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

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

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

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

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

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

SUPPLEMENTAL INVESTMENT FUND

Income Share Account

Investment Objective

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

Asset Mix

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

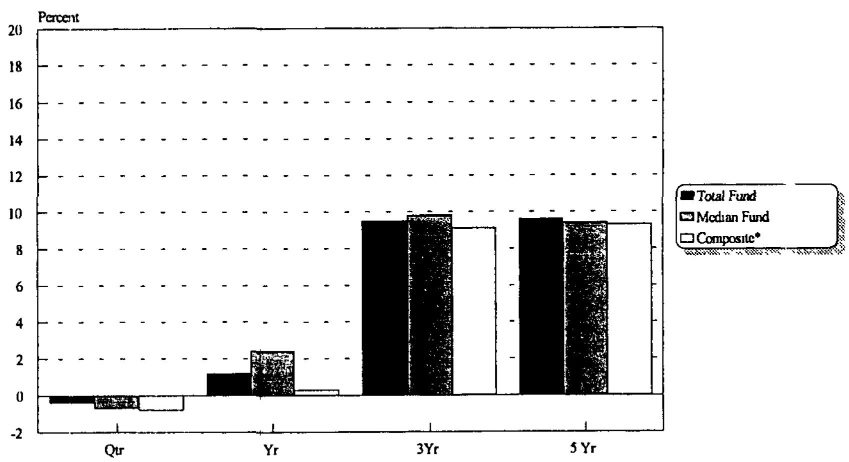
	Target	Actual
Stocks	60.0%	60.2%
Bonds	35.0	35.2
Unallocated Cash	5.0	4.6
	100.0%	100.0%

Investment Management

The Account combines internal and external management. Internal investment staff manage the entire fixed income segment. Throughout the period shown below, the entire stock segment has been 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, 1994 the market value of the Income Share Account was $280 million.



Period Ending 6/30/94

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Account	**-0.4%**	**1.2%**	**9.5%**	**9.6%**
Median Fund*	-0.7	2.4	9.8	9.4
Composite**	-0.8	0.3	9.1	9.3
Equity Segment	**-0.3**	**2.2**	**10.7**	**10.2**
Wilshire 5000***	-0.9	0.9	10.0	9.8
Bond Segment	**-0.9**	**-0.9**	**8.6**	**8.9**
Salomon Bond Index	-1.0	-1.2	8.1	8.6

*TUCS Median Master Trust

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

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

SUPPLEMENTAL INVESTMENT FUND
Growth Share Account

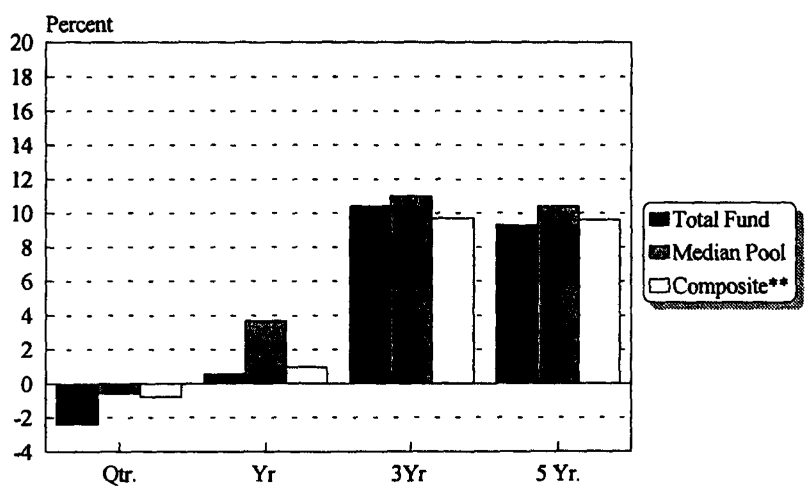
Investment Objective
The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

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

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

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

Market Value
On June 30, 1994 the market value of the Growth Share Account was $102 million.



Period Ending 6/30/94

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**-2.4%**	**0.6%**	**10.4%**	**9.3%**
Median Pool*	-0.6	3.7	11.0	10.4
Composite**	-0.8	1.0	9.7	9.6

* TUCS Median Equity Pool

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

SUPPLEMENTAL INVESTMENT FUND

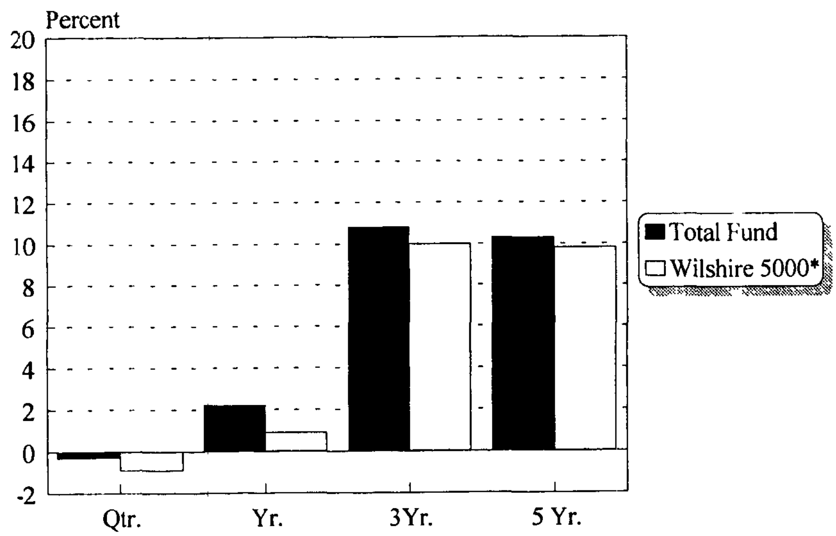
Common Stock Index Account

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

The Account is invested 100% in common stock.

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

Market Value
On June 30, 1994 the market value of the Common Stock Index Account was $47 million.



Period Ending 6/30/94

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Total Account	**-0.3%**	**2.2%**	**10.8%**	**10.3%**
Wilshire 5000*	-0.9	0.9	10.0	9.8

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

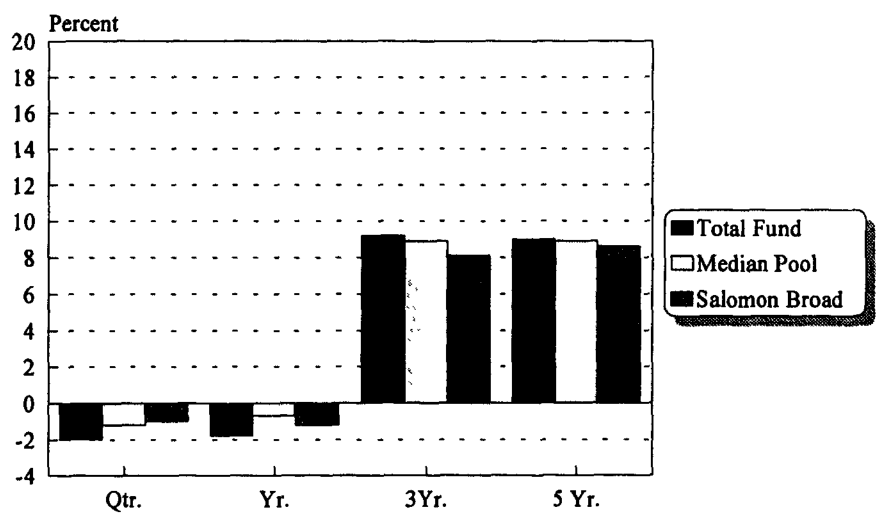
SUPPLEMENTAL FUND
Bond Market Account

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

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

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

Market Value
On June 30, 1994 the market value of the Bond Market Account was $21 million.



Period Ending 6/30/94

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Total Account	**-2.0%**	**-1.8%**	**9.2%**	**9.0%**
Median Pool*	-1.2	-0.7	8.9	8.9
Salomon BIG**	-1.0	-1.2	8.1	8.6

* TUCS Median Fixed Income Pool
** Salomon Broad Investment Grade Index

SUPPLEMENTAL INVESTMENT FUND

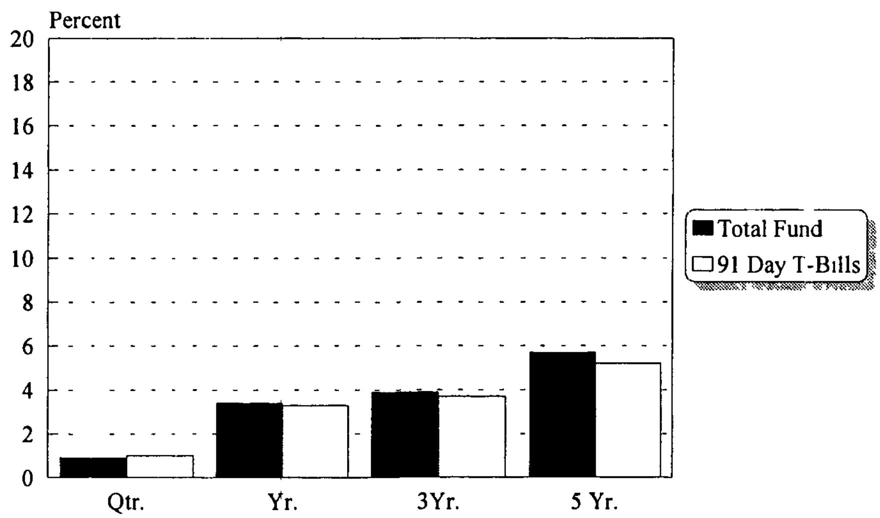
Money Market Account

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

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

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

Market Value
On June 30, 1994 the market value of the Money Market Account was $60 million.



	Period Ending 6/30/94	Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**0.9%**	**3.4%**	**3.9%**	**5.7%**
91 Day T-Bills	1.0	3.3	3.7	5.2

SUPPLEMENTAL INVESTMENT FUND
Fixed Interest Account

Investment Objectives
The investment objectives of the Fixed Interest 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 Fixed Interest 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 Fixed Interest Account over the following twelve months.

Market Value
On June 30, 1994 the market value of the Fixed Interest Account was $68 million.

Contract Period	Annual Effective Interest Rate	Manager
Nov. 1, 1991-Oct. 31, 1994	6.634%	Continental Assurance/Provident National (blended rate)
Nov. 1, 1992-Oct. 31, 1995	5.280%	Norwest Bank Minnesota
Nov. 1, 1993-Oct. 31, 1996	4.625%	Principal Mutual/Hartford Life (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 have been influenced by the legal provisions under which its investments must be managed. These provisions require that the Permanent School Fund's principal remain inviolate. Further, any net realized equity and fixed income capital gains must be added to principal. Moreover, if the Permanent School Fund realizes net capital losses, these losses must be offset against interest and dividend income before such income can be distributed. Finally, all interest and dividend income must be distributed in the year in which it is earned.

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

Asset Mix
The Permanent School Fund continues to hold only fixed income securities.

	Target	Actual
Bonds	95.0%	97.0%
Unallocated Cash	5.0	3.0
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 decreased 0.9% during the second quarter due to negative investment returns.

Asset Growth
During Second Quarter 1994
(Millions)

Beginning Value	$419.4
Net Contributions	3.0
Investment Return	-6.8
Ending Value	$415.6

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 7.89%, duration of 6.79 years, and a AAA quality rating. The portfolio remains concentrated in Treasury issues with the remainder primarily distributed among mortgages, industrials and utilities.

Bond Portfolio Statistics
6/30/94

Value at Market	$396,897,805
Value at Cost	386,481,922
Average Coupon	8.24%
Current Yield	7.89
Yield to Maturity	7.62
Current Yield at Cost	8.11
Average Time to Maturity	13.11
Duration	6.79
Average Quality Rating	AAA
Number of Issues	110
Treasury	55.6%
Agency	0.0
Corporate	18.8
Mortgages	25.6
Total	100.0%

STATE CASH ACCOUNTS

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

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

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

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

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

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

Investment Objectives
Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 6/30/94

	Market Value (Millions)	**Qtr.**	**Yr.**	**3 Yrs. Annualized**
Treasurer's Cash Pool	**$2,915**	**0.8%**	**3.0%**	**4.8%**
Trust Fund Cash Pool	**57**	**1.0**	**3.6**	**4.7**
Benchmark*		0.7	3.0	N.A.
91-Day T-Bills		1.0	3.3	3.7

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

Tab B

PORTFOLIO STATISTICS

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II.	Cash Flow Available for Investment 4/1/94 - 6/30/94	3
III.	Monthly Transactions and Asset Sumary - Retirement Funds	4

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value June 30, 1994
(in Millions)

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	$2,407 0.06%	$0	$1,179,858 28.23%	$0	$2,093,019 50.08%	$454,077 10.86%	$450,005 10.77%	$4,179,366 100%
Public Employees Retirement Fund	$57,257 2.74%	$0	$580,554 27.77%	$0	$1,016,763 48.63%	$222,446 10.64%	$213,792 10.22%	$2,090,812 100%
State Employees Retirement Fund	$50,602 2.64%	$0	$532,881 27.79%	$0	$933,271 48.68%	$204,180 10.65%	$196,333 10.24%	$1,917,267 100%
Public Employees Police & Fire Fund	$24,983 2.64%	$0	$262,806 27.79%	$0	$460,270 48.68%	$100,698 10.65%	$96,789 10.24%	$945,546 100%
Highway Patrol Retirement Fund	$3,850 2.64%	$0	$40,486 27.79%	$0	$70,906 48.68%	$15,513 10.65%	$14,910 10.24%	$145,665 100%
Judges Retirement Fund	$247 2.65%	$0	$2,588 27.80%	$0	$4,532 48.68%	$991 10.64%	$952 10.23%	$9,310 100%
Public Employees P.F. Consolidated	$32,233 10.88%	$259 0.09%	$92,656 31.27%	$2,589 0.87%	$128,570 43.40%	$19,923 6.72%	$20,044 6.77%	$296,274 100%
Correctional Employees Retirement	$2,750 2.64%	$0	$28,938 27.79%	$0	$50,681 48.68%	$11,088 10.65%	$10,659 10.24%	$104,116 100%
POST RETIREMENT FUND	$154,070 1.76%	$0	$3,220,900 36.72%	$0	$4,409,313 50.26%	$984,750 11.23%	$3,000 0.03%	$8,772,033 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l	Alternative Assets	Total
MINNESOTA SUPPLEMENTAL FUNDS:								
Income Share Account	$12,816 4.57%	$98,587 35.17%	$0	$0	$168,907 60.26%	$0	$0	**$280,310 100%**
Growth Share Account	$6,499 6.38%	$0	$0	$0	$95,294 93.62%	$0	$0	**$101,793 100%**
Money Market Account	$59,795 100%	$0	$0	$0	$0	$0	$0	**$59,795 100%**
Common Stock Index Account	$0	$0	$0	$0	$47,476 100%	$0	$0	**$47,476 100%**
Bond Market Account	$0	$0	$20,710 100%	$0	$0	$0	$0	**$20,710 100%**
Fixed Interest Account	$0	$0	$67,722 100%	$0	$0	$0	$0	**$67,722 100%**
TOTAL RETIREMENT FUNDS	**$407,509 2.14%**	**$98,846 0.52%**	**$6,030,099 31.67%**	**$2,589 0.01%**	**$9,479,002 49.79%**	**$2,013,666 10.58%**	**$1,006,484 5.29%**	**$19,038,195 100%**
ASSIGNED RISK PLAN	$2,640 0.59%	$0	$353,183 79.44%	$0	$88,789 19.97%	$0	$0	**$444,612 100%**
ENVIRONMENTAL	$0	$36,758 50.24%	$0	$36,407 49.76%	$0	$0	$0	**$73,165 100%**
PERMANENT SCHOOL FUND	$12,340 2.97%	$403,223 97.03%	$0	$0	$0	$0	$0	**$415,563 100%**
TREASURERS CASH	$2,930,030 100%	$0	$0	$0	$0	$0	$0	**$2,930,030 100%**
HOUSING FINANCE AGENCY	$35,052 17.79%	$161,983 82 21%	$0	$0	$0	$0	$0	**$197,035 100%**
MINNESOTA DEBT SERVICE FUND	$12,359 49.87%	$12,423 50.13%	$0	$0	$0	$0	$0	**$24,782 100%**
MISCELLANEOUS ACCOUNTS	$95,888 42.45%	$130,002 57.55%	$0	$0	$0	$0	$0	**$225,890 100%**
GRAND TOTAL	**$3,495,818 14.97%**	**$843,235 3.61%**	**$6,383,282 27.34%**	**$38,996 0.17%**	**$9,567,791 40.98%**	**$2,013,666 8.62%**	**$1,006,484 4.31%**	**$23,349,272 100%**

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

Net Cash Flow Available For Investment
April 1, 1994 - June 30, 1994

Teachers Retirement Fund	($67,200,000.00)
Public Employees Retirement Fund	23,000,000.00
State Employees Retirement Fund	8,000,000.00
Public Employees Police & Fire	2,500,000.00
Highway Patrol Retirement Fund	(468,000.00)
Judges Retirement Fund	637,000.00
Public Employees P&F Consolidated	84,551,023.14
Correctional Employees Retirement Fund	(368,000.00)
Post Retirement Fund	85,952,535.48
Supplemental Retirement Fund - Income	(34,016,327.47)
Supplemental Retirement Fund - Growth	2,175,694.56
Supplemental Retirement Fund - Money Market	(1,060,640.63)
Supplemental Retirement Fund - Index	2,940,128.31
Supplemental Retirement Fund - Bond Market	(593,460.80)
Supplemental Retirement Fund - Fixed Interest	(146,059.18)
Total Retirement Funds Net Cash Flow	**$105,903,893.41**
Assigned Risk Plan	36,713,090.69
Permanent School Fund	3,001,783.30
Total Net Cash Flow	**$145,618,767.40**

STATE OF MINNESOTA

STATE BOARD OF INVESTMENT

Transaction and Asset Summary

Retirement Funds

	Net Transactions			Asset Summary (at Market Value)				
	Bonds (Millions)	Stocks (Millions)	Total (Millions)	Cash Flow (Millions)	Short-Term % of Fund	Bonds % of Fund	Equity % of Fund	Total Mkt. Value (Millions)
January 1991	6	-2	4	47	3.6	52.3	44.1	13,356
February	-6	11	5	60	3 9	50 6	45.5	13,790
March	82	1	83	6	3.3	50 8	45.9	13,961
April	-24	-9	-33	9	3.6	50 9	45.5	14,045
May	33	1	34	66	3.8	49.8	46.4	14,308
June	25	2	27	115	4.4	50.5	45.1	14,106
July	124	0	124	48	3.8	50 4	45.8	14,527
August	85	21	106	55	3.3	50 8	45.9	14,891
September	22	1	23	5	3.1	51.4	45.5	15,105
October	21	1	22	14	3.1	51 2	45.7	15,285
November	81	-48	33	64	3.3	52.3	44.3	15,083
December	-4	9	5	25	3.2	51.2	45.6	16,065
January 1992	-42	-3	-45	11	3.6	50 3	46.1	15,878
February	-19	0	-19	57	4.1	49 4	46.5	16,086
March	292	-300	-8	2	4.2	51 6	44.2	15,870
April	-6	2	-4	4	4.2	51 5	44.3	15,905
May	-13	5	-8	72	4.7	51 3	44.0	16,127
June	-22	0	-22	150	5.7	51 5	42.8	16,264
July	389	152	541	123	3.0	53.3	43.7	16,726
August	-149	151	2	-11	3.0	53.1	43.9	16,627
September	-200	200	0	-10	2.9	52.0	45.1	16,809
October	-282	282	0	10	2.9	49 8	47.3	16,771
November	-248	270	22	-9	2.7	47 5	49.8	17,057
December	-500	518	18	4	2.6	44 7	52.7	17,305
January 1993	-138	158	20	40	2.6	44.0	53.4	17,617
February	-253	266	13	2	2.6	42.9	54.5	17,811
March	-272	335	63	70	2.6	40 7	56.7	18,180
April	-412	423	11	8	2.6	38 9	58.5	18,101
May	-206	200	-6	1	2.5	37 2	60.3	18,387
June	-250	210	-40	15	2.8	36.3	60.9	18,573
July	-17	-26	-43	20	3.1	36.4	60.5	18,649
August	0	10	10	-12	3.0	36.0	61.0	19,183
September	6	1	7	-15	2.8	36 2	61.0	19,216
October	-23	101	78	-21	2.3	35.8	61.9	19,433
November	-426	460	34	-22	2.0	34 0	64.0	19,032
December	-113	158	45	73	2.1	32 8	65.1	19,486
January 1994	-1	1	0	14	2.1	32.3	65.6	20,105
February	-26	-25	-51	10	2.5	32.1	65 4	19,735
March	-3	14	11	1	2.5	32 4	65.1	19,051
April	37	186	223	132	2.0	31.9	66.1	19,285
May	0	-24	-24	-11	2.1	31.8	66.1	19,349
June	-13	0	-13	-6	2.1	32.2	65.7	19,038

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: September 6, 1994

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

FROM: Howard Bicker

1. Budget Report

A final report on the SBI's administrative budget for the fiscal year ended June 30, 1994 is in **Attachment A**. The SBI ended the year approximately $38,000 under budget for the year.

2. Travel Report

A travel report for the period from May 16 - August 15, 1994 is included as **Attachment B**.

STATE BOARD OF INVESTMENT
FISCAL YEAR 1994 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TOTAL

ITEM	FISCAL YEAR 1994 BUDGET	FISCAL YEAR 1994 EXPENDITURES
PERSONAL SERVICES		
CLASSIFIED EMPLOYEES	$ 323,000	$ 326,422
UNCLASSIFIED EMPLOYEES	1,127,000	1,090,663
SEVERENCE PAYOFF	0	24,990
WORKERS COMPENSATION INSURANCE	0	0
MISCELLANEOUS PAYROLL	7,000	5,329
SUBTOTAL	**$ 1,457,000**	**$ 1,447,404**
EXPENSES & CONTRACTUAL SERVICES		
RENTS & LEASES	85,000	81,950
REPAIRS/ALTERATIONS/MAINTENANCE	9,000	11,086
BONDS AND INSURANCE	1,000	959
PRINTING & BINDING	18,000	13,628
PROFESSIONAL/TECHNICAL SERVICES	54,000	41,320
DATA PROCESSING & SYSTEM SERVICES	202,500	202,500
PURCHASED SERVICES	35,000	29,817
SUBTOTAL	**$ 404,500**	**$ 381,260**
MISCELLANEOUS OPERATING EXPENSES		
COMMUNICATIONS	27,000	25,192
TRAVEL, IN-STATE	2,000	729
TRAVEL, OUT-STATE	40,000	35,809
FEES & OTHER FIXED CHARGES	8,000	9,037
SUBTOTAL	**$ 77,000**	**$ 70,767**
SUPPLIES/MATERIALS/PARTS	**39,500**	**30,718**
CAPITAL EQUIPMENT	**35,000**	**45,091**
TOTAL GENERAL FUND	**$ 2,013,000**	**$ 1,975,240**

ATTACHMENT B

STATE BOARD OF INVESTMENT

Travel Summary by Date
May 16, 1994 - August 15, 1994

Purpose	Name(s)	Destination and Date	Total Cost
Staff Education State Street Bank Institute	T. Delmont	5/17-5/20 Boston MA	$386.20
Manager Monitoring **Private Equity** KKR Annual Meeting, Brinson Partners, Midwest Bank Funds, Golder Thoma, Zell Chilmark **Manager Monitoring** **Real Estate** Heitman, LaSalle Partners, Zell/Merrill Lynch	D. Egeland	5/22-5/26 Chicago IL	$671.54
Manager Monitoring **International Managers** Marathon, Rowe Price **Manager Search** **International Managers** Goldman Sachs, Govett, Draycott Partners, Schroeders, Genesis, Cursitor Eaton, Murray Johnstone, Dunedin, Baillie Gifford, Martin Currie	B. Lehman K. Vnuk	6/16-6/25 London England Glasgow Scotland Edinburgh Scotland	$5,108.93
Manager Monitoring **Bond Managers** Miller, Goldman, BEA, Fidelity, Standish **Emerging Managers** Valenzuela, Cohen Davis & Marks, New Amsterdam, First Capital **Manager Search** **Global Bond Managers/Brokers** Scudder, Neuberger Berman, Fiduciary Trust, Bankers Trust, Alliance, Morgan Stanley, Julius Baer, PanAgora, Mass. Financial, Salomon Brothers, Chase Securities, Bear Stearns	J. Lukens M. Perry	6/24-6/30 Boston MA New York NY	$3,255.26

Purpose	Name(s)	Destination and Date	Total Cost
Staff Conference "Market Makers" Sponsored by Institute for Fiduciary Education	H. Bicker	6/27-6/30 Santa Barbara CA	$1,777.50
Manager Search **Real Estate** Colony Capital	D. Egeland J. Griebenow	7/5-7/6 Los Angeles CA	$2,225.96
Manager Search **Private Equity** Citibank, Klienwort Benson, Warburg Pincus **Manager Monitoring** **Private Equity** Blackstone, KKR, Resource First Reserve	D. Egeland J. Griebenow	7/13-7/17 New York NY	$1,460.06
Manager Monitoring **Stock Managers** Lincoln, Brinson, Waddell, Wilshire **Meeting with Consultant** Richards & Tierney	L. Buermann M. Menssen	7/20-7/22 Chicago IL Kansas City KS	$1,943.00
Meeting with Consultant Richards & Tierney	H. Bicker	7/21-7/22 Chicago IL	$762.00

Tab D

STATE OF MINNESOTA
OFFICE OF THE STATE TREASURER

303 State Administration Building
50 Sherburne Avenue
Saint Paul, Minnesota 55155

MICHAEL A. MCGRATH
Treasurer

(612) 296-7091
Fax (612) 296-8615

DATE: September 6, 1994

TO: Members, State Board Investment

FROM: Michael A. McGrath, Chair

SUBJECT: SBI Administrative Committee Report

The SBI Administrative Committee met on August 30, 1994 to discuss the following agenda items:

- Update on disposition of Unclaimed Property
- Update on Certificate of Deposit Program
- Update on FY 96-97 budget submission
- Update on Country Groupings under the International Investing Guidelines
- Approval of changes of rules for the Deferred Compensation Plan

The last item requires action by the SBI.

INFORMATION ITEMS

1. Update on Unclaimed Property

Under Minnesota Statutes Chapter 345, property collected by the Commerce Department that remains unclaimed after 10 years is to be liquidated by the SBI and the proceeds deposited in the General Fund. The most recent sale of unclaimed property was completed in August 1994 and generated $1.02 million.

The disposition of the securities is summarized below:

	# of Issues	# Shares	Proceeds
Sold by Dain	228	36,253	$ 898,276.86
Sold by Instinet	1	13,322	126,383 11
Issues with no value	20	4,298	--
Total	**249**	**53,873**	**$1,024,659.97**

The Commerce list included shares in five (5) mutual funds which have not been liquidated at this time due to delays in re-registration. When the proper documentation is received, these shares will be redeemed at their net asset value and the proceeds will be deposited in the General Fund. The amount is estimated to be approximately $3,900.

A complete list of the securities sold is attached (see **Attachment A**).

2. Update on Certificate of Deposit Program

Since July 1980, the SBI has conducted a statewide program to purchase Certificates of Deposit (CD's) from all interested banks and savings institutions in Minnesota. To date, the SBI has purchased over $1.7 billion of CD's from more than 475 financial institutions around the state.

The most recent quarterly offering took place during July 1994. Both the number of financial institutions participating and the subscription amounts requested have increased significantly recently from past levels:

Offering	# Institutions	$ Total
January 1994	61	$26.8 million
April 1994	88	42.7
July 1994	114	55.8
Change from 1/94 to 7/94	+53	+$29.0 million

This increased participation appears to be due, in part, to increased loan demand at many of the rural banks as the agricultural community continues to recover from the 1993 floods.

The SBI will be sending a brochure on the CD program to over 500 financial institutions throughout Minnesota over the next several months These brochures are distributed every 3-5 years to inform and update banks about the program.

3. Update on Country Groupings

In September 1992, the SBI established an International Investing Guidelines Task Force. Its charge was to make recommendations to the Board concerning issues related to human rights, worker rights and environmental concerns with respect to the Board's international investment program. The report of the Task Force was adopted in December 1992 and the guidelines have been incorporated in the implementation of the international program since that date. This review updates the country groupings established by the Task Force and adopted by the Board in December 1992.

The Task Force focused on information available from country reports compiled annually by the US State Department. Based on that information, the Task Force recommended a policy framework which grouped countries into three broad categories. *It is important to note that the guidelines do not prohibit a manager from investing in the market of any country.* Rather, they require either written notification (for Group 2 markets) or personal presentation from the manager (for Group 3 markets):

When the Task Force made its report to the Board, the Task Force assumed that the country groupings would be updated periodically to reflect changes in the world markets. At its meeting on June 8, 1994 the SBI adopted the following review process:

- The Task Force was reauthorized and extended to review or propose any changes to the existing policy guidelines. Any recommended changes to the policy guidelines will be sent to the Board for action. (At this time, no change is contemplated.)

- Staff will review reports from the US State Department against the worker and human rights issues highlighted by the Task Force in its December 1992 report to the SBI. Staff will designate countries "Group 1, 2 or 3" using the existing policy guidelines adopted by the Board.

- Staff designations will be reviewed with SBI Administrative Committee. This would include any movement of countries between categories as well as categorizations of any new countries that need to be added to the list of available markets.

Staff reviewed country designations based on the most recent information published by the US State Department (*Country Reports on Human Rights Practices for 1993*, dated February 1994). All countries on the previous list as well as other markets suggested by the managers were included.

After discussion, the Committee adopted the revised country groupings in **Attachment B.**

The Committee also heard presentations from three of the SBI's international stock managers (Marathon Asset Management, Scudder Stevens & Clark and Templeton Investment Counsel) who have interest in investing in the following countries currently in Group 3: China, Indonesia and Peru.

Of the three countries, the market in Indonesia has the most immediate interest. The managers cited Indonesia's significant size (the world's 31st largest market) and position as a regional exporter as important reasons for their interest. They find banking and commodity based industries (e.g. oil and timber) particularly attractive at the present time. Longer term, Indonesia's position as one the world's most populous countries with a rapidly growing economy should provide other attractive investment opportunities.

Securities of companies domiciled in Peru and China may be potential candidates for the SBI's portfolios with one or more of these managers over the next year or so. They cited increased interest in Peru due to positive fiscal reforms of the government, to virtual elimination of terrorist disruptions and to the country's attractive position as a resource rich economy (e.g. copper, timber, oil). While China is a less likely candidate for investment in the near term, all the managers said that the potential size of that market and the commensurate potential for growth demands attention and consideration.

4. Update on the SBI's FY 96-97 Biennial Budget Submission

As a state agency, the SBI's administrative budget is part of the state's biennial budget process. All state agency budget requests for FY96-97 will be developed over the next two to three months using the guidelines issued by the Department of Finance. The resulting Governor's budget proposal will be presented to the Legislature in early 1995.

Preliminary budget narrative and number pages are in **Attachment C**. The request is based on a same level of funding request according to Department of Finance guidelines, and therefore will require the SBI to absorb all inflationary cost increases except salary and contractual office lease increases.

Staff plans to submit a budget contingency request for funding for one additional employee. This request will pay salary and related costs to handle anticipated additional work caused by increased local relief association participation in the Supplemental Investment Fund. This change was approved by the Board at its June 1994 meeting.

ACTION ITEM:

1. Approval of Changes to the Deferred Compensation Plan Rules

Minnesota Statutes Section 352.96 subdivision 4 requires the SBI to approve changes to the Deferred Compensation Rules promulgated by Minnesota State Retirement System (MSRS).

As detailed in the memo (see **Attachment D**) from Dave Bergstrom, MSRS Executive Director, recent changes to the Minnesota Mutual and Great-West contracts and other administrative modifications require that the existing rules be updated.

The MSRS Board approved the proposed changes at its meeting on July 22, 1994. Dave Bergstrom is asking the SBI to approve the changes at its meeting in September 1994 so MSRS can proceed with the formal rule-making process.

RECOMMENDATION:

The SBI Administrative Committee recommends that the SBI approve the proposed rule change for the Deferred Compensation Plan.

ATTACHMENT A

COMPANY	SHARES	PRICE	TOTAL VALUE
ACTAVA GROUP INC COM	112	10.6250	1183.24
ADAMS EXPRESS CO	22	17.2500	378.16
ADVANCED CIRCUITS	13322	9.5000	126383.11
ADVANCED MICRO DEVICES INC	96	28.2500	2706.14
ALCO STD CORP	22	61.5000	1351.63
ALDEN ELECTRONICS INC CL	50	2.7500	134.50
ALEXANDER & ALEXANDER	13	19.7500	255.96
AMERADA HESS CORP	17	51.8750	880.83
AMERICAN BRANDS	224	34.3750	7686.30
AMERICAN CYANAMID	2	93.3750	186.62
AMERICAN EXPRESS	42	27.0000	1131.44
AMERICAN MEDICAL HOLDINGS	20	23.8750	476.28
AMERITECH CORP	73	41.8750	3052.39
AMR CORP	16	56.6250	905.00
ANALYSTS INTL CORP	110	14.5000	1588.40
ANGELICA CORP	75	26.5000	1982.93
ANGLO AMERICAN GOLD INVT LT	100	9.8125	975.25
AON CORP	22	33.6250	738.40
APACHE CORP	132	24.2500	3192.97
APOGEE ENTERPRISES	9	15.2500	137.25
ARCHER DANIELS MIDLAND CO	97	24.8750	2406.97
ARMCO INC	384	6.0000	2280.88
ARX INC COM	641	3.8750	2445.33
AT & T CORP	244	53.5000	13038.92
ATLANTIC ENERGY	1	18.1250	18.06
ATLANTIC RICHFIELD	321	107.0000	34326.59
AVON PRODUCTS	7	57.6250	402.94
BAKER HUGHES	23	19.2500	441.35
BANC ONE CORP	1	33.3750	33.31
BANKAMERICA CORP	43	48.3750	2077.48
BAXTER INTL	54	26.2500	1414.21
BECTON DICKINSON	14	43.8750	613.38
BELL ATLANTIC CORP	72	56.8750	4090.54
BELL ATLANTIC CORP	3	17.6250	52.69
BELLSOUTH CORP	88	62.2500	5472.53
BETHLEHEM STL	7	22.1250	154.45
BLACK & DECKER	100	21.2500	2118.92
BOEING	51	44.8750	2285.49
BOLT BERANEK & NEWMAN	4	14.3750	57.25
BROCK EXPL CORP	18	3.2500	57.41
BURLINGTON NORTHN	294	51.0000	14975.86
BURLINGTON RES	343	38.3750	13141.61
BUTLER MFG CO	7	29.0000	202.58
CENTRAL & SOUTHWEST	12	21.6250	258.77
CHAMPION INTL	1052	34.3750	36098.17
CHEVRON CORP	7	42.3750	296.20
CHRIS CRAFT INDS	3	36.7500	110.06
CHRYSLER CORP	2	46.0000	91.87
CLOROX CO	12	50.1250	600.75
COLONIAL GAS	10	20.7500	206.90
COMPUTER ASSOC INTL	138	41.2500	5684.03
COMPUTER DATA SYS	248	12.0000	2961.12
COMPUTER SCIENCES CORP	10	41.8750	418.13

COMPANY	SHARES	PRICE	TOTAL VALUE
CONSOLIDATED FREIGHTWAYS IN	7	22.8750	159.70
CONTINENTAL CORP	40	17.5000	697.57
CONTINUUM INC	60	20.7500	1241.35
CORE INDS INC	20	11.2500	223.79
CPC INTL	16	50.7500	811.01
CSS INDS INC	7	15.6250	108.95
CSX CORP	87	76.8750	6682.68
DANA CORP	4	27.1250	108.25
DATASCOPE	111	14.2500	1575.09
DAVIDSON OPTRONICS	56	0.2500	10.64
DELTA AIR LINES	1	48.2500	48.18
DELUXE CORP	32	29.2500	934.04
DEXTER CORP	16	24.1250	385.02
DIAL CORP ARIZ	127	22.3750	2833.91
DISNEY WALT	4	43.8750	175.25
DONALDSON CO INC	224	23.7500	5306.38
DOUBLE EAGLE PETE & MINING	20	1.0000	18.80
DU PONT	9	59.0000	530.44
DYNAMICS CORP AM	73	16.7500	1218.32
EATON CORP	33	48.1250	1586.09
EG & G	111	15.0000	1658.28
EMC CORP	22	9.0000	198.00
ENNIS BUSINESS FORMS	4	14.0000	55.75
ENRON	80	31.3750	2505.11
EXXON CORP	388	60.2500	23352.94
FEDDERS CORP	50	7.7500	384.48
FIBREBOARD CORP	1	29.1250	29.06
FIRST BANK SYSTEM	132	37.6250	4958.41
FIRST INTST BANCORP	45	75.1250	3377.81
FIRST TENN NATL CORP	15	45.5000	681.60
FOOTE CONE & BELDING	44	44.0000	1933.29
FOSTER WHEELER CORP	68	38.7500	2630.83
FULLER H B	75	36.2500	2718.75
GENCORP	30	13.1250	391.93
GENERAL DYNAMICS	8	39.0000	311.50
GENERAL ELECTRIC CO	285	47.7500	13591.19
GENERAL MOTORS	210	49.8750	10460.80
GENERAL MOTORS CORP CL E	12	35.6250	426.76
GEORGIA PACIFIC	3	68.1250	204.19
GILLETTE CO	8	68.6250	548.50
GOLDFIELD CORP	58	0.3750	18.26
GOODYEAR TIRE & RUBR	81	34.1250	2759.17
GRACO INC	337	18.0000	6045.57
GREAT AMERICAN MGMT & INVT	8	33.0000	263.52
GREEN ISLE ENVIRONMENTAL SV	1666	0.1875	212.42
GREIF BROS CORP CL A	2666	41.8350	111372.15
GROW GROUP INC	16	14.6250	233.03
GTE CORP	42	32.7500	1372.93
HALLIBURTON	72	30.6250	2200.60
HANCOCK FABRICS	1	7.3750	7.31
HARCOURT GEN INC	8	35.0000	279.51
HAWKEYE BANCORPORATION	2	19.3750	38.75
HECLA MINING	437	9.6250	4179.76

COMPANY	SHARES	PRICE	TOTAL VALUE
HILTON HOTELS	16	62.0000	991.00
HOUGHTON MIFFLIN	20	38.8750	776.27
HUNTER RES	291	0.5000	128.04
INSTRUMENT SYS CORP	5	7.1250	35.32
INTEL CORP	4	60.2500	241.00
INTERNATIONAL BUSINESS MACH	82	64.7500	5304.40
INTERNATIONAL FLAVORS & FRA	10	42.2500	421.88
INTERSTATE PWR CO	92	23.7500	2179.40
INTERTAN INC	138	5.6250	767.94
IONICS	15	49.5000	741.57
ITT CORP	101	84.6250	8540.78
JOHNSON & JOHNSON	6	47.7500	286.13
KEY PRODUCTION CO INC	16	4.2500	67.04
LOUISIANA PAC CORP	2	31.5000	62.87
M A COM INC	3	8.0000	23.81
MATTEL INC	225	26.5000	5948.80
MCGRAW HILL	11	68.7500	755.56
MEAD CORP	14	46.5000	650.13
MEDICAL DEVICES INC	700	1.6250	1137.50
MEDTRONIC INC	220	86.8750	19098.66
MELVILLE CORP	4	36.5000	145.75
MENTOR CORP MN	300	14.7500	4407.00
MERCK & CO	60	31.8750	1908.83
MERRILL LYNCH & CO INC	55	36.1250	1983.51
MINNESOTA MNG & MFG CO	963	55.2500	53146.19
MODERN CTLS INC	3450	6.7500	23287.50
MORTON INTL INC	16	84.0000	1342.99
MOTOROLA INC	2	53.5000	106.87
MTS SYS CORP	79	23.5000	1856.50
MURPHY OIL CORP	27	44.6250	1203.21
NATIONAL CITY BANCORPORATIO	18	14.7500	265.50
NEIMAN MARCUS	13	14.8750	192.59
NEWELL CO	36	45.3750	1631.28
NORTH CANADIAN OILS LTD	150	7.8750	1172.21
NORTHERN STS PWR CO MN	2302	42.2500	97118.12
NOVA NAT RES	24	0.0625	0.06
NYNEX CORP	36	39.3750	1415.29
OCCIDENTAL PETE CORP	293	21.1250	6171.84
ORYX ENERGY CO	27	14.7500	396.61
OSMONICS INC	8	14.7500	117.51
OUTBOARD MARINE CORP	10	22.5000	224.39
PACIFIC GAS & ELEC	289	24.3750	7026.80
PACIFIC TELESIS GROUP	72	33.2500	2389.60
PACIFICORP	50	17.3750	865.72
PAINE WEBBER GROUP	13	16.0000	207.21
PENNZOIL CO	18	50.3750	905.63
PENTAIR INC	151	40.0000	6040.00
PENWEST LTD	9	22.2500	200.25
PEPSICO	1560	31.0000	48264.79
PERINI CORP	10	10.0000	99.39
PERMIAN BASIN RTY TR	200	4.5000	887.97
PETRIE STORES	1	23.5000	23.43
PHILIP MORRIS COS	104	55.2500	5739.56

COMPANY	SHARES	PRICE	TOTAL VALUE
PHILLIPS PETE CO	62	31.7500	1964.71
PLENUM PUBL CORP	420	25.7500	10789.80
POGO PRODUCING CO	300	21.2500	6356.78
PROMUS COS	8	32.5000	259.51
PROVIDIAN CORP	220	30.7500	6751.57
PS GROUP INC	4	10.5000	41.75
PUBLIC SVC ENTERPRISE GROUP	57	27.5000	1564.02
PURECYCLE CORP	200	0.0900	6.00
RALSTON PURINA	6	37.3750	223.88
RAYTHEON CO	192	65.5000	12564.06
REGENCY AFFILIATES	13	0.3750	4.10
REYNOLDS METALS	16	49.7500	795.01
RUBBERMAID INC	128	28.0000	3576.20
SAN JUAN BASIN RTY TR	200	7.8750	1562.94
SANTOS LTD SPONSORED ADR	254	11.6250	2937.51
SCHLUMBERGER LTD	247	58.2500	14372.45
SEARCH CAP GROUP INC	20	4.0000	78.80
SEARS ROEBUCK & CO	158	46.7500	7376.77
SOUTHERN CO	103	18.8750	1937.88
SOUTHWESTERN BELL CORP	69	42.7500	2945.51
SPRINT CORP	2	36.6250	73.12
ST PAUL COS INC	42	44.5000	1866.41
STANDARD COML CORP	204	14.7500	2996.65
STANDEX INTL	12	26.8750	321.76
STANHOME INC	60	35.0000	2096.33
SUN COMPANY	27	26.8750	723.98
SUNSHINE MNG & REFINING CO	666	1.6250	1042.25
TALLEY INDS	7	6.7500	46.82
TECHHNALYSIS CORP	1378	10.7500	14730.82
TELLUS INDS INC	100	0.2500	19.00
TENNANT CO	63	43.7500	2756.25
TENNECO INC	22	46.8750	1029.89
TEXACO INC	12	61.6250	738.75
THERMO ELECTRON CORP	98	43.3750	4244.72
TIME WARNER INC	3	36.6250	109.69
TRANSCO ENERGY	23	14.8750	340.73
TRIARC COS INC CL A	47	13.0000	608.15
TSI INC MINN	1045	13.2500	13783.55
U S WEST INC	52	40.5000	2102.80
UNC INC	4	5.3750	21.25
UNION PAC CORP	50	57.8750	2890.65
UNITED STATES SHOE CORP	17	22.6250	383.59
UNITED TELEVISION INC	1	51.7500	51.69
UNIVERSAL FOODS CORP	252	32.6250	8206.10
UNOCAL CORP	96	27.6250	2646.15
USLICO CORP	19	20.0000	378.84
USMX INC	60	2.3750	138.90
UST INC	8	29.6250	236.51
USX-MARATHON GROUP	18	17.5000	313.90
VARIAN ASSSOC INC	42	37.6250	1577.67
VAUGHNS INC	2	5.0000	9.88
VIACOM INC 1997 WT PUR CL B	100	2.0625	200.24
VIACOM INC 1999 WT PUR CL B	60	3.9375	232.64

COMPANY	SHARES	PRICE	TOTAL VALUE
VIACOM INC COM CL B	186	36.2500	6731.11
VIACOM INC CONTINGENT VALUE	186	4.1250	756.05
VWR CORP	6	7.5000	44.64
WEATHERFORD INTL INC	189	12.6250	2374.71
WESTINGHOUSE ELEC CORP	24	11.7500	280.55
WESTVACO CORP	1	36.2500	36.18
WILLLAMETTE INDS INC	5	47.2500	235.95
WINN DIXIE STORES INC	22	49.1250	1079.39
WINNEBAGO INS INC	50	9.7500	484.48
WYOMING OIL & MINERALS INC	2400	0.0100	24.00
XEROX CORP	29	104.3750	3025.03
MORTGAGE REALTY TR	1	0.2812	0.21
TRI CONTL CORP WT	29	153.0000	4435.26
HARCOURT GEN INC SER A CONV	8	38.3750	306.50
ATLANTIC RICHFIELD CO PFD	1	256.2500	256.18
UNISYS CORP PFD SER A CONV	25	34.0000	848.47
IOWA ELEC LT & PWR CO PFD	3	27.7500	83.07
AMERICAN BRANDS INC PFD CON	98	138.7500	13591.16
TOTAL	49575		1024743.04

ATTACHMENT B

INTERNATIONAL INVESTING GUIDELINES
UPDATED COUNTRY GROUPINGS ADOPTED BY SBI ADMINISTRATIVE COMMITTEE
August 1994

Group 1	Group 2	Group 3
Australia	Argentina	China
Austria	Brazil	Croatia
Belgium	Chile	Indonesia
Canada	Colombia	Jordan
~~Czechoslovakia~~	Ecuador	Kuwait
Czech Republic	Egypt	Morocco
Denmark	Estonia	Nigeria
Finland	India	Peru
France	Israel	Pakistan
Germany	Jamaica	Vietnam
Greece	Republic of Korea	~~South Africa~~
Hong Kong	Malaysia	~~USSR/former Soviet Union~~
Hungary	Mauritius	~~Yugoslavia~~
Italy	Mexico	
Ireland	Philippines	
Japan	Russia	
Luxembourg	South Africa	
Netherlands	Sri Lanka	
New Zealand	Taiwan	
Norway	Thailand	
Poland	Trinidad & Tobago	
Portugal	Turkey	
Singapore	Venezuela	
Slovak Republic	Zimbabwe	
Slovenia		
Spain		
Sweden		
Switzerland		
United Kingdom		
Uruguay		

~~deleted~~ from December 1992 list

added to December 1992 list

AGENCY: STATE BOARD OF INVESTMENT

AGENCY DESCRIPTION

MISSION STATEMENT:

The State Board of Investment (SBI) develops and implements investment policies and strategies for the state's retirement funds, trust funds and cash accounts. The statutory goal of the SBI is "to establish standards which will insure that state and pension assets...will be responsibly invested to maximize the total rate of return without incurring undue risk." (Minnesota Statutes Section 11A.01).

The SBI, composed of 5 constitutional officers, provides investment management for the Basic Retirement Funds, the Post Retirement Fund, the Permanent School Fund, Environmental Trust Fund, Assigned Risk Plan, and the Supplemental Investment Fund. In addition, the SBI manages Invested Treasurer's Cash and approximately 50 other state cash accounts. On June 30, 1994, assets managed by the board totaled 22.8 billion.

The board retains an executive director, an internal investment management staff, and external investment managers to execute its policies. In performing its duties, the board is assisted by the Investment Advisory Council which is composed of 17 persons with investment and retirement fund expertise.

The SBI staff recommends strategic planning alternatives to the board and council and executes the board's decisions. The staff also provides internal management for the Permanent School Fund and the Environmental Trust Fund, closely monitors the performance of all external managers retained by the board, and reviews prospective investment vehicles for legislative consideration. The majority of the board's activity relates to investment of retirement funds (roughly 85%). Primary clients are the current and retired members of the three statewide retirement systems (PERA, TRA, MSRS). For cash accounts, the board's largest clients are the State Treasurer and the Department of Finance.

CLIMATE:

All activities of the board are governed by M.S. Chapter 11A and Chapter 356A. To meet the goals established therein, the SBI must:

- o Establish and periodically update the investment objectives, asset allocation and investment management structure for each of the funds.
- o Seek and retain superior money managers to manage the assets of each fund.
- o Monitor and evaluate investment performance to insure investment objectives are met.
- o Assess developments in the broad financial markets and evaluate their potential impact on SBI operations and policies.
- o Communicate its investment policies to clients and constituents.

Investment activity is divided into 2 major areas; externally managed and internally managed funds. Each concentration requires different strategies and investment vehicles.

External managed funds. Assets of the Basic Retirement Funds, Post Retirement Fund and the Supplemental Investment Fund (approximately 85% of the total) are under external management.

The Basic Retirement Funds invest the contributions of public employees and employers during the employees' years of public service. Approximately 312,000 public employees in eight statewide retirement funds participate in the Basic Funds. The purpose is to function in a fiduciary capacity, investing pension contributions to provide sufficient funds to finance promised benefits at retirement.

The Post Retirement Fund contains the assets of approximately 59,000 retired public employees covered by the nine statewide retirement plans. Upon retirement, money sufficient to finance fixed monthly annuities for the life of the retiree are transferred from the Basic Funds to the Post Fund. The Post Fund's main purpose is to ensure that each retiree's initially promised benefit is paid. The SBI must insure that assets transferred to the Post Retirement Fund generate sufficient returns to maintain promised benefits and to generate additional returns that will provide benefit increases to retired public employees.

For Fiscal Years 1980 to 1992 benefit increases were granted if investment realized earnings exceeded the statutory 5% required income. This formula, with its emphasis on current income, caused the asset allocation of the fund to be highly concentrated in fixed income securities. Starting with Fiscal Year 1993 benefit increases have been paid using a formula tied to the total rate of return of the fund. This change in formula will enable the asset allocation of the Post Retirement Fund to be more balanced and include a larger percentage of equities.

The Supplemental Investment Fund is a multi-purpose investment program that offers a range of investment options to state and local employees. It serves a wide range of participants and investment goals, and is, therefore, structured much like a family of mutual funds.

Internally managed funds. The SBI directly invests about 15% of the assets with which it is entrusted. This includes the assets of the Permanent School Fund, Environmental Trust Fund and all money in state cash accounts.

The Permanent School Fund is a trust fund created by the Minnesota State Constitution and designated as a long-term source of revenue for public schools. Income generated by the Permanent School Fund's assets is used to offset state school aid payments. The Fund's investment objectives have been influenced by the restrictive legal provisions under which its investments have been managed. Long run growth in Fund assets have been difficult to achieve without seriously reducing current spendable income and exposing the spendable income stream to unacceptable volatility. Currently the SBI maximizes current income by investing all the Fund's assets in fixed income securities. The buy and hold structure is not compatible with most active management styles. As a result, internal staff provide the most cost effective management of the fund.

The Environmental Trust Fund was designed to be a long-term source of revenue for funding environmental projects. The Fund's investment objectives are driven by the requirement that only fund income may be spent. Currently the Environmental Trust Fund maximizes current income by investing the Fund's assets in a blend of fixed income securities and a common staock index account. As a result, internal staff provide the most cost effective management of the fund.

State Cash Accounts represent the cash balances in more than 400 separate accounts that flow through the Minnesota State Treasury. These accounts range in size from $5,000 to over $400 million, and are invested by SBI staff through two commingled short-term investment pools. The objectives of these pooled funds are to preserve capital, to provide a high level of current income and to meet the cash needs of state government without the forced sale of securities at a loss. The pools are expected to generate investment income equal to or greater than other money market-type funds.

AGENCY BUDGET PLAN:

In past biennium the SBI absorbed the inflation cost increases in all areas except salaries. By re-prioritizing expenditures, SBI should be able to absorb 1996-97 non-salary inflationary costs without impacting programs dramatically.The SBI cannot absorb projected salary increases.

By Statute, the SBI bills the statewide retirement funds and non-general fund cash accounts for approximately 90% of its General Fund appropriation. These receipts are deposited in the General Fund as non-dedicated revenue. The General Fund appropriation not recovered by the bill-back provision (approximately 10%) represents the portion of the SBI's budget that is associated with the investment of the General Fund portion of the Invested Treasurer's Cash Fund. Any reduction in spending will result in a matching reduction in revenue to the General Fund, and reduced billings to non-general fund accounts.

PERFORMANCE INDICATORS:

Statutes establish investment goals for the Basic and Post Retirement funds. In addition, the board has set more exacting standards for investment returns. The following pages demonstrate that long-term performance has generally exceeded both statutory requirements and the board's investment performance targets. Returns shown on the following pages are presented net of management fees and investment expenses.

SUMMARY OF INVESTMENT RESULTS

	6/30/94 Millions	Period Ending 6/30/94 1Year (%)	Annualized 3Years (%)	Annualized 5Years (%)
Basic Funds:	$9,688	2.1	10.1	9.6
Market composite		2.4	9.4	9.1
Median Fund		2.4	9.8	9.4
Inflation (CPI)		2.5	2.9	3.6
Actuarial assumption		8.5	8.5	8.5
Post Fund:	$8,772	1.6	NA	NA
Market composite		1.6	NA	NA
Actuarial assumption		5.0	5.0	5.0
Benefit increase		3.3*	4.6	4.6
Inflation (CPI)		2.5	2.9	3.6
Supplemental Fund:				
Income Share	$ 280	1.2	9.5	9.6
Median fund		2.4	9.8	9.4
Growth Share	$ 102	.6	10.4	9.3
Median manager		3.7	11.0	10.4
Common Stock Index	$ 47	2.2	10.8	10.3
Wilshire 5000		.9	10.0	9.8
Bond Market	$ 21	-1.8	9.2	9.0
Salomon BIG		-1.2	8.1	8.6
Money Market	$ 58	3.4	4.0	5.7
91 Day T-Bills		3.3	3.7	5.2
Fixed Interest	$ 68	6.6	NA	NA
Contract period		91-94 GIC		
Assigned Risk Plan	$ 445	.6	7.6	NA
Market composite		.6	7.2	NA
State Cash Accounts				
Treasurer's Pool	$ 29.5	3.0	4.8	NA
Trust Pool	$ 57	3.6	4.7	NA
91 day T-bill		3.3	3.7	NA

* Estimate

		FY95 Earnings Est.	FY94 Earnings	FY93 Earnings
Permanent School	$ 416	$ 35.0 M	$ 33.3 M	$ 32.0 M
Environmental Trust	$ 73	$ 2.9 M	$ 1.4 M	$ 1.2 M

BASIC RETIREMENT FUNDS
Market Value 6/30/94: $9.688 Billion

	Period Ending 6/30/94 1 Year	Annualized 3 Years	Annualized 5 Years
Basic Funds	2.1%	10.1%	9.6%
Comparisons:			
Market Composite	2.4%	9.4%	9.1%
TUCS Median Fund	2.4%	9.8%	9.4%
Inflation (CPI)	2.5%	2.9%	3.6%
Actuarial Assumption	8.5%	8.5%	8.5%

The Basic Retirement Funds contain the assets of active employees in the three statewide retirement systems: MSRS, PERA, and TRA. the asset mix of the portfolio on 6/30/94 was 60% stocks, 24% bonds, 1% cash and 15% alternative assets (real estate, venture capital and resource funds).

For fiscal year 1994, the Basic Funds trailed their market composite index and the median fund in the Trust Universe Comparison Service (TUCS) by .3 percentage points. Below market performance by both the stock and bond managers contributed to the unfavorable returns.

Generally, performance over the longer term has been favorable. Over the latest 3 and 5 year periods, the Basic Funds have exceeded their market index composite by nearly 0.5 % annualized, and the median fund by approximately 0.2%. The Basic Funds continue to keep well ahead of the inflation rate and have surpassed the actuarially assumed rate of return as well over the long term.

POST RETIREMENT INVESTMENT FUND

Market Value on 6/30/94: $8.772 Billion

	Period Ending 6/30/94 1 Year	Annualized 3 Years	Annualized 5 Years
Post Fund	1.6%	NA	NA
Actuarial Assumption	5.0%	5.0%	5.0%
Benefit Increase Granted	3.3% *	4.6%	4.6%
Inflation (CPI)	2.5%	2.9%	3.6%

* Estimated

The Post Retirement investment Funds contain the assets of retired employees in the three statewide retirement plans: MSRS, PERA, TRA. The asset mix of the portfolio on 6/30/94 was 60% stocks, 37% bonds and 3% cash.

Through fiscal year 1992, the statutory retirement benefit increase formula required the fund to generate realized earnings (dividends, interest, and net gain or loss from the sale of securities) in order to provide benefit increases to retirees. In fact, the benefit increases granted were among the highest in the nation. However, as interest rates fell during the 1980's, the Fund was forced to invest an increasing percentage of the portfolio in fixed income securities in order to maintain high levels of realized income. This diminished the prospect for future benefit increases and reduced the long term earning power of the Fund.

Beginning in fiscal year 1993, the statutory formula is based on total return and actual market value of the portfolio. The new formula has two components:

- An inflation adjustment which will provide 100% of the CPI, capped at 3.5%. This will be provided regardless of investment performance.

- An investment adjustment which will be based on Post Fund returns over a 5-year period. This will be provided only if the Fund generates returns above the actuarial assumed rate of 5% and the cumulative value of all inflation based adjustments previously granted.

The new formula, which was sought by the retirement systems and enacted by the 1992 Legislature, has allowed the Post Fund to increase its exposure to stocks and should increase the long term growth potential of its assets.

SUPPLEMENTAL INVESTMENT FUND

	Market Value 6/30/94	Period Ending 6/30/94 1 Year	Annualized 3 Years	Annualized 5 Years
Income Share Account	$ 280 M	1.2%	9.5%	9.6%
TUCS Median Fund		2.4%	9.8%	9.4%
Growth Share Account	$ 102 M	.6%	10.4%	9.3%
TUCS Median Stock Mgr.		3.7%	11.0%	10.4%
Common Stock Index Account	$ 47 M	2.2%	10.8%	10.3%
Wilshire 5000 Stock Index		.9%	10.0%	9.8%
Bond Market Account	$ 21 M	-1.8%	9.2%	9.0%
Salomon Broad Bond Index		-1.2%	8.1%	8.6%
Money Market Account	$ 58 M	3.4%	4.0%	5.7%
91 Day Treasury Bills		3.3%	3.7%	5.2%
Fixed Interest Account	$ 68 M	91-94 GIC	92-95 GIC	93-96 GIC
Interest Rate Obtained		6.634%	5.280%	4.625%

The Supplemental Investment Fund is an investment vehicle available to a wide range of state and local public employee groups for retirement related purposes. The largest participants in the Fund are the Deferred Compensation Plan and the Unclassified Employees Retirement Plan.

Overall, fiscal year 1994 was a weak year for the Fund. The Growth Share, Income Share and Bond Market Accounts all trailed their performance targets for the year, while the Common Stock Index and Money Market Accounts slightly exceeded their performance objective.

Over the last 3 and 5 year periods, the Common Stock Index, Bond Market and Money Market Accounts have met or exceeded their targets. The small to medium capitalization stock bias in the Growth Share Account hurt performance over the same periods relative to the median stock manager.

The Fixed Interest Account provides a series of 3-year, fixed interest rate investments in guaranteed investment contracts (GIC's) available through insurance companies and banks. While the fixed rate has fallen over time along with the decline in overall interest rates, the Account has consistently obtained rates that surpass the yields on other 3-year instruments.

Permanent School Trust Fund
Market Value on 6/30/94: $ 415.6 Million

The Permanent School Trust fund is a trust established for the benefit of Minnesota public schools. Income from the Trust is used to offset state expenditures for school aid payments. due to the State's need for a high, consistent level of current income as well as restrictive statutory accounting provisions, the Trust has been invested entirely in fixed income securities. While this investment strategy maximizes current income, it will reduce the long term growth of the Trust.

The 1992 Legislature approved statutory changes, suggested by the SBI, which make common stocks a more attractive investment vehicle for the Trust. Stocks will help the Trust grow over the long term because they are a higher returning asset class. Adding common stocks to the portfolio will, however, reduce spendable income over the short-run because socks produce lower current income than bonds. Converting to an asset mix of 50% stock/50% bonds at this time would reduce spendable income fiscal years 1996-97.

Time Period	Income Generated
FY 1994	$ 36.0 million
FY 1993	$ 33.5 million
FY 1992	$ 33.3 million
FY 1991	$ 32.3 million
FY 1990	$ 30.4 million

Environmental Trust Fund
Market Value on 6/30/94: $ 77.5 Million

The Environmental Trust Fund is to be used to supplement traditional sources of funding for environmental and natural resource activity. The Trust will receive a portion of the net lottery proceeds until 2001.

The SBI added stocks to the portfolio during fiscal year 1994. Currently, the asset mix of the Trust is targeted at 50% common stocks and 50% fixed income to provide for long term growth.

Time Period	Income Generated
FY 1995 Est.	$ 4,006,000
FY 1994	$ 3,936,000
FY 1993	$ 3,321,000

Assigned Risk Plan
Market Value on 6/30/94: $ 444.6 Million

The Minnesota Assigned Risk Plan is the insurer of last resort for Minnesota companies seeking to obtain workers compensation insurance. The Plan is administered by the Dept. of Commerce. Investment management responsibility for the assets of the plan was transferred to the SBI by the Legislature in 1991.

The investment goals of the Plan are to match the projected liability/payment stream and to provide sufficient liquidity/cash for payment of claims and operating expenses. Due to the relatively short duration of the liability stream, the asset mix of the plan was 15% stocks and 85% bonds during fiscal year 1994. This allocation is reviewed annually upon receipt of new actuarial valuations and will be changed to reflect changes in plan liabilities.

Period Ending 6/30/94

	1 Year	3 Year
Actual Return	.6%	7.6%
Comparison:		
Market Composite	.6%	7.2%

State Cash Accounts

The SBI invests the cash balances in more than 400 separate accounts in the Minnesota State Treasury. These accounts range in size from $5,000 to over $400 million. Most of these accounts are invested through two pooled funds.

The Trust Fund Pool holds cash balances for retirement related accounts and trust funds that are not managed by external money managers. The Treasurer's Cash Pool holds the balances in the Invested Treasurer's Cash as well as special or dedicated accounts.

Period Ending 6/30/94

	Market Value 6/30/94	1 Year	Annualized 3 Years
Treasurers Cash Pool	$ 2,915 M	3.0%	4.8%
Trust Fund Cash Pool	$ 57 M	3.6%	4.7%
Comparison:			
3 Month T-Bill		3.3%	3.7%

MINNESOTA STATE BOARD OF INVESTMENT

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

DATE: September 13, 1994

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

FROM: Howard Bicker Howard Bicker

SUBJECT: SBI Administrative Committee Report for the September 20, 1994 Meeting of the SBI

Advance meeting materials (Board folder) for the State Board of Investment (SBI) meeting on September 20, 1994 were distributed last week.

The last attachment referenced in the report from the SBI Administrative Committee (see Tab D) was inadvertently omitted during the copying process. The enclosed material should be added behind Tab D, page 19.

We regret the oversight. Please contact me if you have any questions.

cc: Board folder distribution list

ATTACHMENT D

OFFICE MEMORANDUM

MINNESOTA STATE RETIREMENT SYSTEM
175 W. Lafayette Frontage Road
St. Paul, MN 55107-1425

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DATE: August 16, 1994

FROM: Dave Bergstrom

SUBJECT: Proposed Deferred Compensation Rule Changes

TO: Howard Bicker

At their July 22, 1994 meeting, the MSRS Board approved the enclosed State of Minnesota Deferred Compensation Plan rule changes. It is my understanding that the rule changes need approval by the SBI, and I request approval before submitting them through the rulemaking process.

The State of Minnesota Deferred Compensation Plan (DCP) is primarily governed by Minnesota Statutes §352.96 and Section 457 of the Internal Revenue Code (IRC). In addition, there are rules governing the DCP. Recent changes to the Minnesota Mutual and Great-West contracts and administrative modifications made over the last few years require us to update the rules.

In many places, the rules are simply repetition of Section 457 of the Internal Revenue Code. In certain instances, I have deleted language and replaced it with a general reference to the 457 Codes, which will eliminate the need to modify the rules if the federal law changes. Several federal law changes to Section 457 are currently under consideration.

Below is a summary of the proposed changes.

7905.0100

Subpart 12. Removes specific definition of "includable compensation" and references IRC Section 457.

Subpart 22. Removes the specific definition of "Unforeseeable emergency" and replaces with reference to IRC Section 457.

Subpart 23 Adds "Board of Directors" as definition to mean Minnesota State Retirement System Board of Directors.

Subpart 24 Adds "Product Providers" as definition to mean Great-West, Minnesota Mutual, and the Supplemental Investment Fund.

7905.0200

Clarifies that the Plan is established according to Section 457 of the IRC.

7905.0300

Changes references from "Director" which is MSRS Executive Director to "Board of Directors". This puts into rules the changes made in Minnesota Statutes §352.96 giving the MSRS Board official authority over the DCP.

7905.0400

Adds reference to IRC Section 457 as applicable law.

7905.0600

Grants overall administrative authority to the MSRS Board of Directors.

7905.0700

Adds language granting authority to the MSRS Board of Directors.

7905.0800

Adds language to codify current practice of mailing participant statements at least semiannually.

7905.1000

Adds language referring to IRC Section 457, and striking specific language regarding the timing of transactions that does not always apply.

7905.1100

Requires contributions of at least $10 per product provider. This is the same as current practice.

7905.1200

Removes specific language on maximum deferrals and replaces with reference to maximums under IRC Section 457.

7905.1300

Current rules allow participants to change deferral amounts only twice in a calendar year. We are proposing that this restriction be removed to allow more frequent changes. This restriction has been loosely administered and is difficult to monitor.

7905.1400

Removes language regarding the timing required to stop deferrals. We are more flexible than current language, allowing us to stop deductions more quickly than allowed under the existing rule.

7905.1700

Subpart 1. Removes obsolete language referring to the front-end charge which was eliminated in July 1992.

Subpart 4 Removes obsolete language defining the front-end fees that are no longer charged.

7905.1900

Subpart 2 Removes the specific references to the various funds offered through the Supplemental Fund administered by the State Board of Investment. By referencing the statutes establishing the funds, changes can be made without having to modify the rules. For example, this year we will be adding an international fund.

Also removes restriction that a participant can only contribute to one insurance company at a time. Under the terms of the new contract, money can be invested with Great West, Minnesota Mutual, and the Supplemental Fund.

Subpart 3. Removes language regarding the timing of transactions which does not represent current, more flexible administration.

Subpart 4. Removes restriction that assets cannot be transferred from the two insurance companies. Transfers are now allowed under the new contracts.

7905.2100

Subpart 1 Removes language that is governed by already referenced Section 457 of the IRC.

Subpart 2 Changes the name "guaranteed return" account to "fixed interest" account to coincide with the name change in Minnesota Statutes §11A.17. Also, removes language regarding the timing of transactions which does not represent current, more flexible administration.

Requires MSRS to pay interest if processing of a lump sum payment is delayed by ten or more working days because of MSRS error.

Subpart 3 Removes language regarding the timing of transactions which does not represent current, more flexible administration. Also, replaces "monthly" with "periodic" to allow for both monthly and annual payments as allowed under current practice, and allows systematic withdrawals rather than requiring participants to purchase an annuity.

7905.2200

Subpart 1 Removes language regarding the timing of transactions which does not represent current, more flexible administration.

Subpart 2 Removes specific language governing distributions and replaces with reference to same requirements in IRC Section 457.

Subpart 6 Removes specific language and replaces with IRC Section 457 requirements.

7905.2300

Subpart 2 Adds reference to IRC Section 457.

Subpart 3 Allows for more timely processing of emergency withdrawals.

7905.2400

Current rules only allow a participant to name a single beneficiary. We are proposing that this restriction be dropped to allow the naming of multiple beneficiaries. Several participants have expressed displeasure about the current restriction.

7905.2900

Clarifies that the MSRS Board of Directors has the authority to amend the DCP. Also strikes language that could present a legal barrier to making future changes to the Plan.

7905.3000

Specifies the effective date of these changes.

7905.0100 DEFINITIONS.

Subpart 1. Scope. When used in the plan, the following terms have the meanings given unless otherwise provided.

Subp. 2. Accounting date. "Accounting date" means the date on which an investment fund is valued and earnings or losses are allocated to participants' deferred compensation accounts. There shall be an accounting date at least once a month on the last business day of the month and if practical more frequent accounting dates to reflect as closely as possible the earnings or losses with respect to a deferred compensation account from the time compensation is deferred and invested in various investment funds until it is eventually distributed according to the plan.

Subp. 3. Beneficiary. "Beneficiary" means the person or legal entity provided for by the plan or designated by the participant to receive any undistributed deferred compensation that becomes payable in the event of the participant's death.

Subp. 4. Board. "Board" means the Minnesota State Board of Investment.

Subp. 5. Compensation. "Compensation" means any remuneration payable to an individual who performs service for the employer which is reportable as federal gross income.

Subp. 6. Deferred compensation. "Deferred compensation" means the part of the participant's compensation that the participant and employer mutually agree to defer under the plan.

Subp. 7. Deferred compensation account. "Deferred compensation account" means the account established for the investment of deferred compensation. It includes the supplemental investment account and the fixed and variable annuity account.

Subp. 8. Director. "Director" means the executive director of the Minnesota State Retirement System.

Subp. 9. Employee. "Employee" means:

A. an individual receiving compensation for services from the state of Minnesota including any elected official, appointed official, or employee of the state of Minnesota, including employees of departments, agencies, and instrumentalities, wherein the state legislature has specifically held the employees to be "state employees" for any one or more specific purposes such as, but not limited to, membership in the Minnesota State Retirement System, employee group insurance program, or unemployment compensation plan for state employees; or

B. an individual receiving compensation for services performed for a political subdivision of the state including any elected official, appointed official, or employee of a political subdivision of the state, including any employee of the political subdivision or other employing unit entitled to membership in a public retirement plan listed in Minnesota Statutes, section 356.20, subdivision 2.

Subp. 10. Employer. "Employer" means the state of Minnesota, or a political subdivision of the state of Minnesota, or an agency or instrumentality of the state of Minnesota or its political subdivisions.

Subp. 11. Fixed or variable annuity account. "Fixed or variable annuity account" means the investment accounts of the companies approved by the board under Minnesota Statutes, section 352.96, subdivision 2.

Subp. 12. Includable compensation. "Includable compensation" ~~means the compensation remaining after any deferrals through the plan and any amount of compensation excluded from federal gross income as a result of contributions made for the benefit of an employee under a tax-sheltered annuity under section 403(b), expense account authorized under section 125, employee contributions to a retirement plan excluded under section 414(h)(2), or employee deferrals as defined under section 401(k) or 408(k)(6) of the Internal Revenue Code of 1986~~ as defined in section 457 of the Internal Revenue Code.

Subp. 13. Normal retirement age. "Normal retirement age" means:

A. an age not earlier than that for attainment of eligibility by the participant to begin receiving normal, or unreduced, retirement benefits from one of the retirement systems listed in Minnesota Statutes, section 356.20, subdivision 2, or other Minnesota public employee pension plan of which the participant is a member, nor later than age 70-1/2; or

B. if the participant is not a member of one of the retirement systems, not later than age 70-1/2.

Subp. 14. Participant. "Participant" means an individual who has enrolled in the plan as provided in parts 7905.0900 to 7905.1600 and has not had a complete distribution of the deferred compensation account.

Subp. 15. Pay period. "Pay period" means a regular accounting period established by the employer for measuring and paying compensation earned by employees.

Subp. 16. Pay date. "Pay date" means the date the participant receives payment of compensation.

Subp. 17. Plan. "Plan" means the Minnesota ~~public employee's~~ <u>State</u> deferred compensation plan as set forth in this chapter and as it may be amended from time to time.

Subp. 18. Prior plan. "Prior plan" means the Minnesota deferred compensation plan approved by the attorney general and filed with the secretary of state and the commissioner of administration November 24, 1975, and any plans established under authority of the plan by political subdivisions of the state of Minnesota.

Subp. 19. Supplemental investment account. "Supplemental investment account" means the Minnesota supplemental investment fund as established by Minnesota Statutes, section 11A.17, and managed by the board.

Subp. 20. Separation from service. "Separation from service" means the permanent severance of the participant's employment relationship with the employer by means of: retirement; discharge, provided all appellate processes have been exhausted or tolled; resignation, provided seniority or continuous service is interrupted; permanent layoff; expiration or nonrenewal of appointment or term of office; nonreelection; death; or other form of permanent severance as may be provided by appropriate law, contract, or rules. For purposes of this definition, a break in employment for less than 30 days shall not be considered a separation from service.

Subp. 21. Taxable year. "Taxable year" means the calendar year beginning January 1 and ending December 31.

Subp. 22. Unforeseeable emergency. "Unforeseeable emergency" means a severe financial hardship to the participant ~~resulting from a sudden and unexpected illness or accident of the participant or of a dependent of the participant, loss of the participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the participant.~~ as defined in section 457 of the Internal Revenue Code. The circumstances that will constitute an unforeseeable emergency will depend upon the facts of each case, but in any case payment will not be made to the extent that the hardship is, or may be relieved, through reimbursement or compensation by insurance or otherwise by liquidation of the participant's assets to the extent the liquidation of the assets would not itself cause severe financial hardship or by cessation of deferrals under the plan.

Subp. 23. Board of Directors. "Board of Directors" means the Minnesota State Retirement System Board of Directors.

Subp. 24. Product Providers. "Product Providers" means any company that has a contract with the State Board of Investment to offer an investment product under the plan or the supplemental investment fund.

7905.0200 ESTABLISHMENT OF PLAN.

The plan shall be known as the "Minnesota ~~public employees'~~ State deferred compensation plan" ("plan") and is created according to Minnesota Statutes, section 352.96 and section 457 of the Internal Revenue Code. The plan shall constitute a continuation of the Minnesota deferred compensation plan, approved by the attorney general and filed with the secretary of state and the commissioner of administration, November 24, 1975.

7905.0300 PURPOSE OF PLAN.

The purpose of the plan is to allow employees to designate a portion of their compensation to be withheld each pay period by the employer and invested at the discretion of and in a manner approved by the ~~director~~ Board of Directors for the employer until separation from service, financial hardship, or death of the employee. Any compensation deferred by employees may be invested by the ~~director~~ Board of Directors, but there is no requirement for the ~~director~~ Board of Directors or employer to do so. Participation in the plan shall not be construed to establish or create an employment contract between the employee and the ;
employer.

7905.0400 APPLICABLE LAW.

The plan shall be construed, administered, and governed in all respects under and by the laws of the state of Minnesota, Minnesota Statutes, section 352.96 and section 457 of the Internal Revenue Code.

7905.0500 TERMS: GENDER AND NUMBER.

Except when otherwise indicated by the context, any masculine terminology herein shall also include the feminine and neuter and vice versa, and the definition of any terms in part 7905.0400 in the singular may also include the plural.

7905.0600 ADMINISTRATION OF PLAN.

The ~~director~~ Board of Directors has the full power and authority to administer the plan and promulgate, adopt, amend, or revoke internal management procedures which are consistent with, and necessary to implement and maintain, the plan.

7905.0700 WRITTEN AGREEMENT.

The employer or the director on behalf of the Board of Directors and the employer shall enter into a written agreement with each participant The written agreement and other application forms shall be in a form and manner as prescribed by the director and shall set forth the obligations contained in the plan, the amounts of compensation to be deferred, and other information the director considers necessary to administer the plan.

7905.0800 COPIES OF PLAN, PAMPHLETS, AND ACCOUNT STATEMENTS.

Pamphlets describing the plan and outlining the options and opportunities available shall be prepared under the direction of the director and made available to eligible employees. Copies of the plan will be made available upon request. Individual account statements shall be made available to each participant at least semiannually.

7905.0900 ELIGIBILITY.

All employees who are receiving compensation who have not received a distribution based on an unforeseeable emergency as provided in part 7905.2300 within the last 12 months shall be eligible to become participants in accordance with part 7905.1000. If an employee received a distribution based on an unforeseeable emergency in the last 12 months and is eligible for an employer matching contribution under Minnesota Statutes, section 356.24, employee contributions can be made only up to the amount matched by employer contributions.

7905.1000 ENROLLMENT.

Any employee eligible to participate according to part 7905.0900 may become a participant by agreeing with the employer in writing, on a form approved by the director, to a deferment of the participant's compensation according to parts 7905.1100 and 7905.1200. The deferment ~~will begin with the first pay date following 30 days from the date the application is properly completed by the employee and accepted by the employer or director acting for the employer~~ <u>shall be made in compliance with section 457 of the Internal Revenue Code</u>. The application shall also specify an investment preference for the deferred compensation.

7905.1100 MINIMUM DEFERRAL.

The minimum amount which may be deferred is $10 per pay period <u>per product provider</u>. The amounts to be deferred must be stated in whole dollars. If the application indicates an amount including cents, the cents will be disregarded.

7905.1200 MAXIMUM DEFERRAL.

The total amount of deferred compensation during any taxable year shall not exceed the limits ~~provided in items A and B~~ <u>established under section 457 of the Internal Revenue Code</u>.

~~A. 33-1/3 percent of includable compensation or $7,500, whichever is less; or~~

~~B. for each of three taxable years preceding the year in which the participant will attain normal retirement age, the participant may defer an amount equal to the limits in item A plus an additional amount equal to the difference between the amount of compensation that could have been deferred under the plan, and the amount that was deferred for years after December 31, 1978. In no event, however, can the deferral exceed $15,000 for any taxable year.~~

~~The participant may designate and use this catch up provision only once whether or not it is used in less than all of the three taxable years ending before attaining normal retirement age and whether or not the participant or former participant rejoins the plan. The participant may not use this catch up provision in another eligible plan.~~

~~If a participant also participates in or has amounts contributed by the employer for the purchase of a tax-sheltered annuity, a section 401(k) plan, or a salary reduction simplified employee pension plan, and part or all of the contributions are excludable from taxable income under section 403(b), 402(a)(8), or 402(h)(1)(B) of the Internal Revenue Code, the contributions reduce the maximums established in items A and B.~~

~~In no event can deferrals exceed an employee's compensation less deductions for FICA, any other taxes, pension contributions, and other mandatory deductions.~~

7905.1300 MODIFICATIONS TO AMOUNT DEFERRED.

The employer shall adjust the participant's total annual compensation, on a pay period basis, by the deferred compensation amount indicated on the participant's application. That amount, subject to the limits of part 7905.1200, may be increased or decreased only by proper application to the employer or to the director acting for the employer. ~~The change shall take effect the first pay date following 30 days from receipt and approval of the application. Only two modifications, other than a revocation of participation as provided in part 7905.1400, may be made each taxable year.~~

7905.1400 REVOCATION OF DEFERRAL.

A participant may revoke an election to have compensation deferred by notifying the employer or the director acting for the employer ~~in writing~~ on a form prescribed by the director. ~~The participant's full compensation on a nondeferred basis will then be restored beginning with the first pay date following 30 days from the date notification was received; however, the participant's deferred compensation account shall be paid only as provided in parts 7905.1700 to 7905.2400.~~

7905.1500 DURATION OF ELECTION TO DEFER COMPENSATION.

Once an election to have compensation deferred has been made by the participant, the election shall continue in effect until the participant's separation from service, unless the participant modifies the amount according to part 7905.1300, or revokes the deferred compensation according to part 7905.1400 or receives a distribution under part 7905.2300.

7905.1600 DEFERRAL ADJUSTMENTS.

Subpart 1. Deduction exceeds pay period salary. If for any reason the deferred compensation deduction for any pay period exceeds the amount remaining after provision is made for retirement deductions, social security tax contributions, state and federal income taxes, and any other deductions required by law, then no deduction for the plan will be made for the participant for that pay period.

Subp. 2. Missed deductions; overdeductions. If a deferred compensation deduction is missed for any reason, no adjustment shall be made on any future pay period for the missed deduction. However, if for any reason an amount is deducted from a pay period greater than that indicated by the participant on the application, the amount overdeducted will be refunded.

Subp. 3. Change in pay period length. In the employee's application for participation in the plan, the employee must state the amount the employee wishes withheld each pay period. If for any reason the length of the period for which the employee is paid is changed from that in effect as of the date of the application, the employer or the director acting for the employer shall compute and have withheld from the employee's salary an equivalent whole dollar amount to be withheld corresponding to the new pay period length that will result in approximately the same annual amount being withheld.

Subp. 4. Maximum deduction. The employer shall attempt to ensure compliance with the maximum deferment in part 7905.1200. If the amount deducted exceeds the maximum deferment in part 7905.1200, the amount of subsequent deductions for the remainder of the taxable year shall be adjusted to conform to the maximum deferment allowed for the year. If it is not possible to correct the total deduction by year end, the overage shall be refunded. A participant is responsible for any tax consequences to the participant that may arise as a result of the participant's deferrals under the plan that exceed the maximum amounts allowable.

7905.1700 DEFERRED COMPENSATION ACCOUNTS AND VALUATION.

Subpart 1. Participants' accounts. An investment account shall be established for each participant which shall be the basis for any distributions payable to the participants under parts 7905.2000 to 7905.2400. Each participant's account shall be credited with the amount of any compensation deferred and received, ~~less the administrative charge in subpart 4,~~ and shall be further credited or debited, as applicable, with any increase or decrease resulting from investments under part 7905.1900, credited or debited with any investment expenses, if applicable, debited for the amount of any distribution, and credited initially with the value, on December 19, 1983, of any bookkeeping account maintained under the prior plan.

Subp. 2. Financial responsibility of employer. The funds and assets paid into the deferred compensation account may be invested in approved investments as provided by Minnesota Statutes, section 352.96, subdivision 2, until distributed according to parts 7905.2000 to 7905.2400.

The employer shall not be responsible for any loss due to the investment or failure of investment of funds and assets in the deferred compensation account, nor shall the employer be required to replace any loss which may result from the investments.

Subp. 3. Account and fund valuation. The supplemental investment account is to be valued by the board as of each accounting date according to Minnesota Statutes, section 11A.17. Any withdrawals or distributions shall be based upon the account's value as of the accounting date.

The fixed and variable annuity account is to be valued at current market value as of each accounting date on a reasonable and consistent basis and according to the terms of the contract as approved by the board under Minnesota Statutes, section 352.96.

Subp. 4. Administrative expense. The administrative expenses of the plan will be paid under Minnesota Statutes, section 11A.17. ~~If amounts generated by Minnesota Statutes, section 11A.17, are insufficient to pay all necessary administrative expenses, up to one-half percent shall be deducted each pay period from the first $3,000 deferred compensation invested in the supplemental investment account each calendar year to pay administrative costs. The director shall review the charge levied annually and if the levy proves to be excessive or insufficient to pay all necessary costs of administration, the director shall adjust the charges accordingly after review of the necessity for the charge by the legislative auditor.~~

Administrative costs for the fixed and variable annuity account shall be established by the contract as approved by the board under Minnesota Statutes, section 352.96.

7905.1800 UNSECURED GENERAL CREDITOR

Title to and beneficial ownership of any assets, whether in cash or investment which the employer may earmark to pay or measure any deferred compensation under this chapter, shall at all times remain as a part of the general assets of the employer.

The participant and the participant's beneficiary shall not have any property interest in any specific asset of the employer on account of the participant's election to defer any compensation under the plan. To the extent that any person acquires a right to receive payments from the employer under the terms of the plan, the right shall be no greater than the right of any unsecured general creditor of the employer.

7905.1900 INVESTMENT OF FUNDS.

Subpart 1. Investment allowed. Any compensation deferred by employees may be invested by the director for the employer, but there is no requirement to do so.

Subp. 2. Investment options. The participant may select an investment preference from among the options provided in the deferred compensation account.

The supplemental investment account shall provide the options ~~of the income share account, growth share account, or, common stock index account, money market account, bond market account, or fixed interest account~~ available under Minnesota Statutes, section 11A.

The fixed or variable annuity account shall provide the options of a fixed annuity or a variable annuity as provided in the contract approved by the board under Minnesota Statutes, section 352.96.

A participant may select a combination of these ~~five~~ investment account preferences by specifying on the application the amount to be deferred under each investment preference. ~~A participant may select the account options of only one of the companies approved by the board at any one time.~~ The amount to be deferred cannot be less than $10 per pay period per ~~account selected~~ product provider.

Subp. 3. Investment preference requests for future compensation. A participant shall, at the time of enrollment, make an investment preference request on an application provided for that purpose. Once made, an investment request shall continue for any deferments unless later changed by the participant.

A participant may change an investment preference request for future amounts of deferred compensation. ~~A change in investment request shall be effective with respect to compensation to be deferred for the first pay date following 30 days from receipt of the request.~~

Subp. 4. Investment preference requests for past deferred compensation. A participant may also change an investment preference request with respect to all or part of previously deferred compensation. Changes are limited to a change within the fixed or variable annuity account according to the terms of the annuity contracts or within the supplemental investment account. ~~but not between the annuity accounts and the supplemental investment account, nor between companies approved by the board~~. Changes are also permitted between the fixed or variable annuity accounts according to the terms of the contract and the supplemental investment account. These changes in investment preference shall be effected as soon as practical as cash flow to an account permits, but not later than six months after the requested change.

7905.2000 DISTRIBUTION EVENTS.

A participant's deferred compensation account may begin to be distributed according to part 7905.2100 following the occurrence of one of the following events:

separation from service; death; unforeseeable emergency; distribution date as provided in part 7905.2200; or attainment of age 70-1/2.

7905.2100 METHODS OF DISTRIBUTION.

Subpart 1. Election in general. Distribution of a participant's deferred compensation account shall be made in one of the following ways, with the date of distribution determined according to part 7905.2200. Benefits shall be paid ~~at least annually and in nonincreasing amounts~~ as provided in section 457~~(d)(2)(C)~~ of the Internal Revenue Code. Elections by a participant as authorized in this chapter shall be made on forms approved by the director.

Subp. 2. Supplemental investment account. A participant in the supplemental investment account will have deferred compensation distributed over a period of 60 months, unless ~~at least 30 days before distribution~~ the participant elects to have distribution made in one of the following methods:

A. in a lump sum;

B. in a lump sum purchase by the director of a fixed or variable annuity contract with one of the companies approved by the board under Minnesota Statutes, section 352.96, subdivision 2, including the availability of the options in subpart 3; or

C. for distribution beginning before the death of the participant, in monthly installments over a period of months specified by the participant; provided, however, that the amounts payable to the participant will be paid at times that are not later than the time determined under section 401(a)(9)(G) of the Internal Revenue Code relating to incidental death benefits as prescribed by the federal tax regulations. Any amount not distributed to the participant during the participant's lifetime will continue to the beneficiary at least as rapidly as was made to the participant before death.

The monthly installment payment from the supplemental investment account shall be determined by dividing the number of shares held by the months to be paid according to the withdrawal period selected. If the computation results in a monthly payment of less than $100, the number of shares that equal approximately $100 shall be determined and shall be redeemed and distributed to the employee or beneficiary each month until the deferred compensation is depleted in its entirety. If the deferred compensation has been invested in shares of more than one investment account, shares will be redeemed in whole units proportionately to the extent possible. Money market and ~~guaranteed return~~ fixed interest account investment payments shall also include payment of annual interest on the invested balance. If the value of the participant's account is $1,000 or less, distribution shall be made in a lump sum.

If an acceptable application for a lump sum withdrawal and the information necessary to process the withdrawal is received in the office of the System prior to month end, the lump sum payment should be processed within the first ten working days of the following month. If not processed within ten working days, the participant will be eligible for interest at the rate set by the Commissioner of Revenue in accordance with M. S. §270.75, subd. 5. Interest will be calculated from the day after the tenth working day to the date payment is processed.

Subp. 3. Fixed or variable annuity account. A participant in the fixed or variable annuity account will have deferred compensation distributed in the form of ~~monthly~~ an annuity <u>or systematic withdrawal</u> payments unless, before distribution, the participant elects a lump sum distribution. The annuity <u>or systematic withdrawal</u> payments shall be based on one of the following methods, as selected by the participant ~~at least 30 days before distribution begins~~:

A. the life of the participant;

B. the joint lifetime of the participant and spouse; or

C. a period certain in which the amounts payable to the participant will be paid at times not later than the time determined under section 401(a)(9)(G) of the Internal Revenue Code relating to incidental death benefits as prescribed by the federal tax regulations. Any amount not distributed to the participant during the participant's lifetime will continue to the beneficiary at least as rapidly as was made to the participant before death.

If no election is made, the participant's deferred compensation will be paid on the basis of a five-year period certain annuity.

Notwithstanding any other rule to the contrary, if a fixed or variable annuity account is equal to or less than $1,000, the account shall be distributed in a lump sum within 60 days following the close of the taxable year during which the distribution event occurs.

Once payments have begun on an annuity <u>or systematic withdrawal</u> basis, any future payments to a beneficiary will depend on the terms of the annuity <u>or systematic withdrawal</u> payments agreed to by the participant and the employer. If a participant dies before the end of a period certain, any remaining distributions will be paid to the beneficiary determined under part 7905.2500. If annuity payments have begun on a joint and last survivor basis, any payments due after the death of the participant will be due only to the other person on which the annuity payments have been based and not any other beneficiary.

If, in fact, an annuity contract is purchased, the owner and named beneficiary shall be the employer. Any rights of participants or beneficiaries are derived solely from the plan.

7905.2200 DATE OF DISTRIBUTION.

Subpart 1. Election in general. A participant may irrevocably elect, on a form approved by the director ~~at least 30 days before the time any amounts become payable,~~ to defer payment of some or all of the amounts to a fixed or determinable future time, subject to subparts 2 to 6.

Subp. 2. Electing distribution date. ~~At any time prior to 30 days following the close of the taxable year in which separation from service occurs, a~~ A participant may designate a distribution date ~~not later than the latest of:~~ in accordance with section 457 of the Internal Revenue Code.

~~A. April 1 after the close of the taxable year in which the participant attains age 70-1/2; or~~

~~B. 60 days after the close of the taxable year in which the participant separates from service.~~

~~Election of a date of distribution may be made only once and, once made, is irrevocable.~~

Subp. 3. Death of participant. If a participant dies before the distribution date or date of separation from service, the death will be treated as an event of distribution. If the beneficiary is the participant's surviving spouse, the beneficiary shall have the right to elect the method and time of distribution as if the beneficiary was the participant. The distribution to the surviving spouse cannot exceed the life expectancy of the surviving spouse. If the beneficiary is other than the surviving spouse, payments to the beneficiary must be distributed over a period not to exceed 180 months from the date of death.

Subp. 4. After payment starts. Once payment has begun, the method of distribution may not be changed, except in the event of an unforeseeable emergency, subject to the restrictions of the payment option the participant or beneficiary has selected. If the participant dies before all benefits have been paid, payments must continue to a beneficiary under a schedule that is at least as rapid as the schedule under which the participant was being paid.

Subp. 5. When distribution begins. Distribution may not begin before separation from service or death, except for unforeseeable emergency distributions as provided in part 7905.2300.

Subp. 6. No election. If no distribution date is elected, payment shall begin ~~60 days after the close of the taxable year in which separation from service occurs~~ in accordance with section 457 of the Internal Revenue Code.

7905.2300 UNFORESEEABLE EMERGENCY.

Subpart 1. Conditions permitting distribution. A distribution of all or a part of a participant's deferred compensation account or a change in method of distribution to a participant notwithstanding the fact that distribution has begun, unless the distribution is in the form of an annuity, shall be permitted if the participant is faced with an unforeseeable emergency. Deferrals under the plan shall cease as soon as possible for one year for any participant granted a distribution because of an unforeseeable emergency except for the minimum employee deferral to allow an employer match as specified under part 7905.0900.

Subp. 2. Showing of an emergency. Any participant desiring a distribution by reason of an unforeseeable emergency must demonstrate that the circumstances being experienced were not under the participant's control and constitute a real emergency that is likely to cause the participant great financial hardship <u>and qualifies under section 457 of the Internal Revenue Code</u>. The employer or director acting for the employer shall have the authority to require medical or other evidence as may be needed to determine the necessity for the participant's withdrawal request.

Subp. 3. Amount and method of distribution The distribution shall be limited to an amount sufficient only to meet the emergency and shall not exceed the amount of the deferred compensation account.

The allowed distribution shall be payable by a method determined by the employer or the director acting for the employer and begin as soon as possible after notice to the participant of approval. <u>An approved unforeseeable emergency payment</u>

from the supplemental investment account may be based on the values determined on the prior month's accounting date if the application is received by the 20th of the month.

7905.2400 DESIGNATION OF BENEFICIARY.

A participant may designate a beneficiary or beneficiaries to receive payment of the participant's deferred compensation in the event of the participant's death. ~~With respect to deferred compensation in the supplemental investment account, only a singular beneficiary may be designated.~~ If the designated beneficiary predeceases the employee and a new beneficiary has not been named or the designated beneficiary dies before receiving payment, a lump sum payment shall be made to the participant's estate. The beneficiary designation shall be in writing and must be filed with the director or company approved by the board under Minnesota Statutes, section 352.96, subdivision 2, as the case may be, before the death of the participant. If no designation of beneficiary is filed with the director, the beneficiary shall be the surviving spouse, or if none, a lump sum payment shall be made to the participant's estate.

7905.2500 LEAVE OF ABSENCE.

A participant who is granted a leave of absence by the employer may continue to be a participant in the plan as long as the leave of absence is approved by the employer. If an approved leave of absence is terminated by the employer or employee without the resumption of the employment relationship, the participant shall be treated as having a separation from service under the plan.

7905.2600 NONASSIGNABILITY OF CONTRACT.

The contract entered into between the employer and a participant through the plan and the benefits, proceeds, or payments under the plan cannot be sold, assigned, pledged, commuted, transferred, or otherwise conveyed by an employee, participant, or beneficiary. An attempt to assign or transfer shall not be recognized and shall impose no liability on the employer.

Except as otherwise required by law, deferred compensation money withheld under the plan shall not be subject to attachment, garnishment, or execution, or to transfer by operation of law in the event of bankruptcy or insolvency of the participant or otherwise.

7905.2700 HEADINGS AND SUBHEADINGS.

The headings and subheadings in the plan are inserted for convenience of reference only and are to be ignored in any construction of the provisions of this chapter.

7905.2800 CONFLICTS.

If any form or other document used in administering the plan conflicts with the terms of the plan, the terms of the plan shall prevail.

7905.2900 AMENDMENT OF PLAN.

The ~~director~~ Board of Directors acting for the employer shall have the authority to propose amendments to the plan consistent with Minnesota Statutes, section 352.96. ~~No amendment or modification shall adversely affect the rights of participants or their beneficiaries to the receipt of compensation deferred before the amendment or~~

~~modification unless required by state or federal law to maintain the tax status of the plan and any compensation previously deferred.~~

7905.3000 PRIOR PLAN.

The plan constitutes a continuation of the Minnesota deferred compensation plan approved by the attorney general and filed with the secretary of state and the commissioner of administration, November 24, 1975. All participants and any compensation deferred under the prior plan are, after January 1, 1981, governed by the terms of the plan subject to items A to D.

A. All deferrals elected under the prior plan shall continue without further action as long as they do not exceed the limits in part 7905.1200.

B. Any investment requests made under the prior plan shall continue to apply to any deferrals made under the plan according to part 7905.1900.

C. Any election of the method of distribution of benefits made under the prior plan shall be void, and a participant or beneficiary may elect the form of distribution according to parts 7905.2100 and 7905.2200.

D. The revised plan is effective ~~July 1, 1991~~ <u>September 1, 1994</u>.

Tab E

COMMITTEE REPORT

DATE: September 6, 1994

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

FROM: Deferred Compensation Review Committee

During the last quarter, the Deferred Compensation Review Committee conducted a search for a stable asset manager to manage a portfolio of guaranteed investment contracts (GIC's) for the Fixed Interest Account of the Supplemental Investment Fund (SIF). The members of the Committee were:

Name	**Title**	**Representing**
Peter Sausen, Chair	Deputy Commissioner of Finance	Governor Carlson
Christie Eller	Deputy Attorney General	Attorney General Humphrey
Jake Manahan	Deputy State Treasurer	State Treasurer McGrath
Susan VonMosch	Deputy State Auditor	State Auditor Dayton
Gary Austin	Executive Director, TRA	Advisory Council
David Bergstrom	Executive Director, MSRS	Advisory Council
Laurie Fiori Hacking	Executive Director, PERA	Advisory Council

BACKGROUND:

The Fixed Interest Account is the stable asset investment option in the SIF. Essentially, the SIF serves much like a family of mutual funds for several different groups of state and local public employees. Participants direct the investment of their retirement assets among the seven Fund options.

Currently, the Fixed Interest Account is invested in discrete, three year GIC's with a commencement date of November 1 each year. Under the current structure, no transfers into or out of a GIC are allowed. (Withdrawals for termination, retirement, disability or death are allowed. Lump sum transfers from other SIF options have been allowed by a commitment made by participants before the new GIC is bid.)

In recent years the GIC market has changed significantly. Fewer insurance companies offer the type of contract the SBI has used in the past. The failures of several prominent life insurance companies (Executive Life, Mutual Benefit Life, Confederation Life) have heightened awareness of the risk of having an entire portfolio tied to the financial health of insurance companies. Alternative or synthetic GIC products have been developed in recent years to diversify away from this type of specific company or industry risk. However, evaluating the financial and legal aspects of these instruments requires resources and expertise beyond those available to SBI staff.

Accordingly, staff recommended that the SBI hire a stable asset manager to manage a portfolio of GIC's and synthetic GIC's. Use of a portfolio approach will allow regular participant transfers into and out of the Account, and allow an external manager to enhance Account returns and minimize risk by diversifying portfolio holdings.

At its meeting in June 1994, the Board referred this manager selection issue to the Deferred Compensation Review Committee.

SELECTION PROCESS:

With the assistance of the SBI's Deferred Compensation Program Consultant, PRIMCO Capital Management, the following stable asset manager candidates were identified. As shown below, the universe of potential candidates is quite small:

Bankers Trust Company
Becker and Rooney, Inc.
Certus Financial Corporation
John K. Dwight Asset Management Co., Inc.
Fidelity Management & Research Co.
Fiduciary Capital Management
IDS Advisory Group, Inc.
Morley Capital Management
Norwest Investment Management
State Street Bank & Trust Co.
T. Rowe Price Stable Asset Management
The Vanguard Group

The Committee reviewed the list of twelve firms considering several characteristics:

- amount of stable value assets under management
- capability and willingness to manage the SBI portfolio as a separate account
- experience and approach with synthetic or alternative GIC's

The Committee selected 4 firms for interviews:

IDS Institutional Retirement Services
Norwest Investment Management
State Street Bank and Trust Company
T. Rowe Price Associates, Inc.

Interviews with the four firms were held on August 17, 1994.

Based on the interviews, questionnaire responses and supporting information gathered by staff and the SBI's consultant, the Committee is recommending that the SBI retain Norwest Investment Management as its or stable asset manager for the Fixed Interest Account in the Supplemental Investment Fund.

RECOMMENDATION:

The Committee recommends that the SBI authorize the executive director, with assistance from SBI legal counsel, to negotiate and execute a contract with Norwest Investment Management for stable asset management services. The Committee recommends that the firm be retained with a three year contract, subject to the standard 30 day termination provision.

STABLE ASSET MANAGER
NORWEST INVESTMENT MANAGEMENT (NIM)

Investment Philosophy

Norwest's investment style is designed to construct and manage investment portfolios which maintain safety of principal while obtaining a consistent, low volatility return superior to other high-quality alternatives.

Norwest's stable asset investment philosophy is based upon four principles:

- Diversification and high-quality investments reduce risk.
- Fundamental economic, credit and market analysis produce above market returns.
- Appropriate asset allocation controls volatility, maximizes returns and improves portfolio flexibility.
- Disciplined fixed income management techniques enhance portfolio performance.

Portfolio Management

NIM's stable asset management group is part of Norwest's fixed income management group, not a separate investment area. Norwest believes that employment of traditional fixed income management techniques, combined with avoidance of both credit risk and industry concentrations, provides an optimum portfolio risk/return profile.

Broad policy formulation and approval of investment guidelines are set for each product area of the fixed income management group by NIM's Fixed Income Committee, comprised of the Chief Investment Officer, Chairman of the Regional Investment Committee, heads of the fixed income product groups, representatives of the Norwest audit department, and other key personnel. The Committee meets weekly to review credit, market exposures, investment policy and market issues.

Norwest identifies stable asset client needs in terms of client risk/return preferences, plan requirements, liquidity needs, and client investment guidelines and objectives. From these broad client characteristics Norwest creates a stable asset portfolio comprised of three components:

- liquidity buffer, to facilitate transfers by plan participants among plan options and to protect portfolio GIC's from withdrawals

- stable value component, to provide stable principal value and to control volatility of portfolio yield

- enhanced return component, to enhance yield and provide back-up liquidity

For the liquidity buffer, Norwest will place a portion of the portfolio in cash and, initially, in Norwest's Stable Return Fund, a $1.2 billion Guaranteed Investment Contract (GIC) pool that is priced daily allowing immediate withdrawal if necessary. For the stable value component and to enhance portfolio returns, Norwest will use GIC's and alternative GIC's.

Norwest uses an extensive credit research process to evaluate GIC issuers and a detailed analytic process to review alternative GIC's. The alternative GIC review includes a legal and contract structure review; an investment analysis that involves stress testing of the fixed income securities underlying the alternative GIC; and a credit review of the "wrap" provider, which is typically an insurance company that guarantees the book value of the alternative GIC. Norwest's fixed income expertise is applied in the investment analysis of alternative GIC products. Norwest analyzes the underlying securities in terms of credit quality, maturity, cash flow variability, volatility, and responses to significant changes in interest rate environment and market conditions.

Ownership

Norwest Investment Management is a unit of Norwest Corporation, a publicly owned corporation whose stock is traded on the New York Stock Exchange.

Total stable assets managed:	$1.186 billion
Total fixed income assets (excluding stable assets)	$8.129 billion
Total number of accounts in stable asset pool:	1,509
Total number of stable asset separate accounts	3

Five largest stable asset clients:

Nash Finch Company*	$62 million
Dayton Hudson	42 million
The 7th Farm Credit Dist.	32 million
Land O'Lakes	28 million
Schneider National	26 million

* Separate Account Client

Tab F

COMMITTEE REPORT

DATE: September 6, 1994

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

FROM: Stock and Bond Manager Committee

The Stock and Bond Manager Committee met on August 19, 1994 to discuss the following agenda:

- Review of manager performance for the quarter ending June 30, 1994
- Review of active stock manager benchmarks
- Approval of proposal to add semi-passive management to the domestic stock program
- Approval of finalists for a semi-passive stock manager search
- Action by the SBI/IAC is requested on the last two items.

INFORMATION ITEMS:

1. Review of Manager Performance

- Domestic Stock Managers

For the quarter ended June 30, 1994, the domestic stock manager program under performed the aggregate benchmark by 0.3 percentage points and underperformed the aggregate benchmark by 0.2 percentage points. For the latest year the **current** managers under performed the benchmark and matched the Wilshire 5000. For the latest three and five year periods, the **current** manager group outperformed both the benchmark and the Wilshire 5000.

Time period	Actual	Benchmark	Wilshire 5000*
Quarter	-1.1%	-0.8%	-0.9%
1 Year	0.9	1.5	0.9
3 Years	10.6	10.2	10.0
5 years	10.3	9.9	9.8

* Adjusted for SBI's restrictions, as appropriate

The active managers' decisions to hold interest rate sensitive stocks in the consumer durables, technology, and banking industries accounts for the under performance for the current quarter.

The performance evaluation reports for the domestic stock managers start on page 43 of this Tab. Manager Commentaries are in Tab H.

- Bond Managers

For the quarter ended June 30, 1994, the bond manager program under performed the aggregate benchmark and Salomon BIG by 0.5 percentage point. For the latest one, three and five year periods, the **current** manager group generally outperformed both the aggregate benchmark and in index.

Time period	Actual	Benchmark	Salomon BIG
Quarter	-1.5%	-1.0%	-1.0%
1 Year	-1.1	-1.1	-1.2
3 Years	8.8	8.1	8.1
5 years	9.0	8.6	8.6

The active managers' decision to hold a longer than market duration as interest rates rose accounts for the under performance during the current quarter.

The performance evaluation reports for the bond managers start on page 67 of this Tab. Manager Commentaries are in Tab H.

- International Stock Managers

For the quarter ended June 30, 1994, the international stock manager program under performed the EAFE index by 1.1 percentage points. For the latest year the managers outperformed the index by 0.3 percentage point. Since inception in October 1992, the program has under performed the index by 1.0 percentage point.

Time period	Actual	EAFE
Quarter	4.0%	5.1%
1 Year	17.3	17.0
Since inception	19.5	20.5

The active managers' decisions to underweight Japan relative to the EAFE index accounts for the under performance in the current quarter.

The performance evaluation reports for the international stock managers start on page 81 of this Tab. Manager Commentaries are in Tab H.

2. Review of Active Stock Manager Benchmarks

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

The summary of the first of these annual reviews is in **Attachment A**. With the exceptions noted below, staff believes that the current benchmarks are satisfactory.

- Waddell is working with a consultant to resolve staff's concerns about benchmark turnover and correlation and revisions should be in place for 4Q 94.

- IAI has not made satisfactory progress in building a valid benchmark since the firm was retained in July 1993. Staff has re-iterated its concerns with the firm and is hopeful that IAI will have an appropriate benchmark in place for 1Q 95.

ACTION ITEMS:

1. Proposal to Add Semi-Passive Stock Management to the Domestic Stock Program

Staff has been studying the potential applications of semi-passive stock management over the last year. Based on the favorable risk/reward potential of semi-passive management, staff has recommended that the SBI use semi-passive management for up to 25% of its current domestic stock management program.

The expectations for the current and proposed management structure are shown below:

Current Structure

	Allocation	*Long Term Return Expectation**	*Year-to-Year Likely Range of Returns***
Active	Max. 50%	+0.50 to +1.00%	±3.0%
Passive	Min. 50%	-0.10%	±0.6%
Total		**+0.20 to +0.45%**	**±1.5%**

* annualized over time, relative to benchmark, net of fees

** for all managers in aggregate relative to the aggregate benchmark for that segment

Proposed Structure

	Allocation	Long Term Return Expectation*	Year-to-Year Likely Range of Returns**
Active	Max. 50%	+0.50 to +1.00%	±3.0%
Semi-Passive	Max. 25%	+0.15 to +0.30%	±1.5
Passive	Min. 25%	-0.10%	±0.6%
Total		**+0.25 to +0.55%**	**±1.6%**

* annualized over time, relative to benchmark, net of fees

** for all managers in aggregate relative to the aggregate benchmark for that segment

Staff recommends that the SBI retain 2-4 semi-passive managers with initial allocations of approximately $500-600 million to each manager. At this level, each semi-passive manager would be 5-6% of the total domestic stock program and the semi-passive segment would be up to 15% of the stock program. As the SBI gains more experience with the capabilities of semi-passive managers, staff believes that the individual manager allocations could be increased up to approximately $1 billion per manager. The higher allocation would bring the semi-passive component up to the targeted 25%.

Staff recommends that each semi-passive manager use the same benchmark used by tilted index fund manager. Expectations regarding long term return and year-to-year tracking variability/tracking error are reflected in the table above.

After discussion, the Committee concurred with the staff recommendation. Committee members cited several reasons for their support:

- adding semi-passive management with a commensurate reduction in passive management offers the potential to increase returns with only a marginal increase in risk

- semi-passive management offers the opportunity to recoup fees and transactions costs through low-risk value added strategies that are not available through passive management

- the lower fee structures of semi-passive managers relative to active managers increases the likelihood that semi-passive managers will be able to provide the expected value added, net of fees, to the fund

More information on the differences between active, passive and semi-passive management as well as more complete description of the staff proposal are in the attached staff position paper which begins on page 11.

RECOMMENDATION

The Committee recommends that the SBI add a semi-passive component to the domestic stock program as described in the attached staff position paper.

2. Approval of Finalists for a Semi-Passive Manager Search

In conjunction with its research into semi-passive stock management, staff reviewed the capabilities of available semi-passive domestic stock managers.

With the assistance of the SBI's general consultant, Richards & Tierney, staff identified 16 firms as potential candidates for the SBI. Firms were eliminated from further consideration for two primary reasons:

- the firm would be unable to manage against a benchmark based on a broad market index such as the Wilshire 5000
- the firm had insufficient capacity to take on an account in the range of $500 million to $1 billion

Staff suggested that the following firms be considered finalists for the SBI's semi-passive manager search:

Fidelity Management Trust
Franklin Portfolio Associates
GE Capital Management
Goldman Sachs Asset Management
J.P. Morgan
Parametric Portfolio Associates
Martingale Asset Management
T. Rowe Price
Wells Fargo Nikko Investment Advisors

While the primary purpose of a semi-passive manager search would be to select managers for the retirement funds, many of the same managers would be appropriate for the stock segment of the Assigned Risk Plan. As a result, the search should seek to select semi-passive managers for both the retirement funds and the Assigned Risk Plan. Staff identified one manager, GE Capital Management, who it recommends be considered only for the Assigned Risk Plan. GE has an attractive low-risk active/semi-passive management style but only manages against the S&P 500. As a result, it is an appropriate manager for the Assigned Risk Plan but not the retirement funds. All of the other recommended finalists could manage portfolios against a benchmark based either on the Wilshire 5000 or the S&P 500.

Manager Fact Sheets on each of the nine (9) recommended firms begin on page 23.

RECOMMENDATION:

The Committee recommends that the Manager Search Committee be convened to select semi-passive domestic stock managers for both the retirement funds and the Assigned Risk Plan. The Search Committee should consider the nine (9) firms cited above as finalists for the search.

ATTACHMENT A

Benchmark Analysis
Summary Grid

	Alliance	Brinson	Forstmann	Franklin	GeoCapital
Coverage	improve	good	good	good	adequate
Active Positions	good	good	good	good	good
Turnover	adequate	good	good	good	adequate
Active Risk	good	N/A	good	good	good
IR t- Stat	good	N/A	inconclusive	inconclusive	inconclusive
Correlation Anal.					
EXM/MFT	good	N/A	good	good	good
MFT/VAM	good	N/A	good	good	good
Relative Style Plot	good	adequate	good	good	adequate

Key:

good	exceeds standard
adequate	meets standard
improve	needs improvement
N/A	insufficient data available at this time to make assessment
inconclusive	available data does not provide statistically significant results

Overall Assessment of Benchmark Quality:

Alliance: Satisfactory. Alliance is working to improve concerns about the coverage ratio.

Brinson: Satisfactory, but insufficient data available for full analysis.

Forstmann: Satisfactory.

Franklin: Satisfactory.

GeoCapital: Satisfactory.

Summary Grid (con't)

	IAI	IDS	Independence	Jundt	Lincoln
Coverage	improve	good	good	good	good
Active Positions	good	good	good	good	good
Turnover	N/A	good	good	adequate	good
Active Risk	N/A	adequate	adequate	good	good
IR t- Stat	N/A	inconclusive	inconclusive	inconclusive	inconclusive
Correlation Anal.					
EXM/MFT	N/A	adequate	adequate	adequate	adequate
MFT/VAM	N/A	adequate	good	good	adequate
Relative Style Plot	improve	adequate	good	adequate	adequate

Key:

good	exceeds standard
adequate	meets standard
improve	needs improvement
N/A	insufficient data available at this time to make assessment
inconclusive	available data does not provide statistically significant results

Overall Assessment of Benchmark Quality:

IAI: Needs improvement. Initial benchmark was not satisfactory. IAI is building a new benchmark with the assistance of a consultant. It is expected to be in place for 4Q 1994.

IDS: Satisfactory. IDS revised their benchmark effective 6/93. Staff believes the new benchmark resolves past concerns but sufficient data is not available to make a complete assessment.

Independence: Satisfactory.

Jundt: Satisfactory.

Lincoln: Satisfactory.

Summary Grid (con't)

	Lynch & Mayer	Oppenheimer	Waddell	Weiss Peck
Coverage	adequate	good	adequate	good
Active Positions	good	good	good	good
Turnover	good	good	good	improve
Active Risk	adequate	good	adequate	good
IR t- Stat	inconclusive	good	inconclusive	inconclusive
Correlation Anal.				
EXM/MFT	adequate	good	adequate	good
MFT/VAM	good	good	improve	improve
Relative Style Plot	good	adequate	improve	good

Key:

good	exceeds standard
adequate	meets standard
improve	needs improvement
N/A	insufficient data available at this time to make assessment
inconclusive	available data does not provide statistically significant results

Overall Assessment of Benchmark Quality:

Lynch & Mayer: Satisfactory.

Oppenheimer: Satisfactory.

Waddell: Needs improvement. Waddell & Reed is working with a consultant to resolve current concerns. The new benchmark will be complete for 1Q 1995.

Weiss Peck: Satisfactory, since the firm has taken action to resolve concerns about turnover and correlation. Revisions will be implemented for 4Q 1994.

Benchmark Analysis

Discussion of Terms

Benchmark coverage measures the percentage of securities held in the actual portfolio which also are contained in the benchmark portfolio. If a benchmark truly captures the securities on which the manager has an investment opinion, it will have a high coverage ratio. Coverage ratios vary according to the level of discipline exhibited in a manager's definition and implementation of the investment process. A valid benchmark should produce a coverage ratio of 80% or greater.

An **active position** is the difference between the actual portfolio weight of a security less the corresponding benchmark weight of the same security. A good benchmark will generate positive active positions with very rare exceptions. The weighting of each holding in the active portfolio should exceed the corresponding weights assigned to the same securities in the benchmark because if a manager finds a particular stock attractive, he will hold more than the benchmark position. Conversely, if a manager feels a security is unattractive, he will not hold the security at all.

Benchmark turnover measures the proportion of the benchmark's market value allocated to purchases and reinvestment of income during a periodic rebalancing. A valid and investable benchmark should experience reasonable levels of turnover. Semi-annual turnover in the 20 to 30% range is consistent with a passive investment in the benchmark.

Active Risk analysis is a useful measure in determining explanatory power of a customized benchmark. It is the variability (standard deviation) of the manager's active return (active portfolio return less benchmark return). Since a customized benchmark is constructed to capture a manager's investment style, a good benchmark should produce lower active risk than using a market index as the benchmark. This indicates that the benchmark more effectively screens out random noise associated with factors unrelated to a manager's investment style. To indicate the amount of return the manager generates relative to the risk they take, an information ratio (IR) can be calculated. An IR is calculated by dividing the Value of Active Management (VAM or active return) by the active risk. The lower active risk resulting from the benchmark will produce a higher information ratio (IR) than a market index. In general, the higher the information ratio the shorter the time frame needed to determine whether the manager can or cannot add value at a statistically significant level.

Correlation analysis: The explanatory power of a manager's benchmark can also be evaluated by looking at the correlation between three residual return series: the manager's actual returns versus those of the market (EXM), the benchmark returns versus those of the market (MFT), and the actual portfolio returns versus those of the benchmark (VAM).

A good benchmark should exhibit significantly positive correlation between EXM and MFT because when the manager's benchmark, or investment style, performs well relative to the market, the actual portfolio should also do well relative to the market. A good benchmark will have an EXM/MFT correlation greater than 0.60.

If a manager's investment style is accurately reflected in the benchmark, the manager's ability to add value relative to the benchmark should not be affected by the performance of its investment style relative to the market. Therefore, the correlation between MFT and VAM should be essentially zero over time.

ACTIVE, PASSIVE AND SEMI-PASSIVE MANAGEMENT IN THE DOMESTIC STOCK PROGRAM

Position Paper
July 1994

ACTIVE, PASSIVE AND SEMI-PASSIVE MANAGEMENT IN THE DOMESTIC STOCK PROGRAM

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INTRODUCTION

This paper presents a discussion of active, passive and semi-passive equity management structures. Currently, approximately 50% of the SBI's domestic stock program is actively managed and 50% is passively managed. Based on the potential for enhanced returns, staff recommends that the SBI introduce semi-passive management for a portion of its domestic stock program.

DEFINITIONS AND BACKGROUND

Since 1984, the SBI's domestic stock management structure has had two components: passive management and active management.

Passive management involves buying and holding securities that will closely follow the returns of a specified benchmark. A passive approach does not try to add value relative to its assigned benchmark. In theory, a passive strategy should neither outperform nor underperform its specified benchmark, over time. Typically, however, passive management will slightly under perform over the long term due to management fees and transaction costs. Since the passive benchmark is a hypothetical portfolio, any trading and transactions costs to maintain the index (e.g., dividend reinvestment, additions or deletions of stocks) are ignored. On the other hand, an actual portfolio will incur transaction costs to buy and sell the securities that are needed to properly track the selected index. The index manager's primary job is to manage the trade off between transaction costs and tracking error. As turnover occurs in the benchmark, the index manager must decide which trades must be done to maintain the tracking error expected by the plan sponsor and achieve the lowest transaction costs. In addition, someone must be paid for their management services. Transaction costs and management fees will act as a permanent "drag" on the actual return that the plan sponsor will obtain relative to the benchmark rate of return.

Active management entails buying and selling stocks with the intention of outperforming a specified benchmark. To outperform the benchmark, the securities held in an active portfolio may differ substantially from the composition of its benchmark. The differences occur because active managers generally try to invest in stocks that they perceive to be undervalued and to avoid overvalued stocks. Active management offers the potential to outperform the specified benchmark but the plan sponsor also assumes the risk that an active manager may under perform the benchmark. This risk of underperformance is considerably greater for active portfolios than passive portfolios.

Traditionally, active management was the only investment management structure typically used by plan sponsors. Passive management was not widely employed until the early to mid 1980's.

Semi-passive management is a hybrid approach that incorporates characteristics from both the passive and active strategies. Today, with the advent of more sophisticated risk control methodologies, semi-passive management is gaining greater consideration as a feasible management option for plan sponsors. A semi-passive approach will make active bets relative to a specified benchmark but will constrain those bets so that the risk assumed by the plan sponsor is considerably less than under an active strategy. A semi-passive approach provides potential to outperform the benchmark, but also incorporates procedures that constrain the level of risk, or volatility of returns, relative to the benchmark.

To implement a semi-passive investment strategy, the investment manager needs to have two investment capabilities in place:

- **A risk control model that allows them to manage the portfolio risk at the level desired by the plan sponsor.** To accomplish the objectives of a semi-passive program, the investment manager needs a risk control model that will maximize the potential value added from the manager's valuation process while meeting the plan sponsor's risk tolerance. Like the valuation process, the risk model can take many different forms and can vary significantly depending upon the criteria that the manager believes are the primary determinants to effectively control portfolio risk relative to the selected benchmark. Some managers develop their own risk control model while others use one developed by an outside source.

- **A valuation process that can add value to a portfolio over a specified benchmark.** Just like active managers, semi-passive managers must have a valuation process that evaluates and ranks stocks. The valuation process implemented by a manager can use one or a combination of different investment strategies. For example, it could be a value or growth strategy based on fundamental and/or quantitative research. Some strategies have higher return volatility than others, but all semi-passive approaches will display lower levels of risk than fully active approaches using the same valuation tools.

In recent years, more managers have developed the above capabilities and are offering semi-passive products. In most cases, the investment manager will use their investment process and manage a portfolio relative to whatever benchmark the plan sponsor desires. However, a number of managers have a valuation process that concentrates on large cap stocks. These managers are not appropriate for a plan sponsor who, like the SBI, uses a broad stock universe as the benchmark. Staff expects that the number of semi-passive managers will continue to grow because of the increased attention given to semi-passive management within the plan sponsor community. In the future, staff believes that it is likely that more managers will apply their investment philosophy to both active and semi-passive products and offer both approaches to plan sponsors.

CURRENT STRUCTURE

Since 1984, the SBI's domestic equity program has used both active and passive management. The program structure incorporates a flexible approach where the active portion will comprise no more than 50% of the total domestic equity assets. Conversely, the passive component will be at least 50% of the total.

At the present time, the SBI has retained fourteen (14) active domestic equity managers. In addition, the SBI recently hired a group of ten (10) managers for its new Emerging Manager Program. The active manager group includes a wide array of specialized managers, each with its own unique investment style and benchmark. Currently, the active manager group comprises 47% of the domestic stock program ($4.5 billion).

The SBI has allocated all passively managed domestic stock assets to a single manager. This passive manager is responsible for implementing the tilted index fund. The benchmark for the tilted index fund is specifically designed to offset any biases that the aggregate of the active manager benchmarks have relative to the domestic equity asset class target (Wilshire 5000). Therefore, the combination of the tilted index fund benchmark and the combined benchmarks of all the active managers should track the asset class target quite closely. This structure allows the SBI to retain active managers who it believes will generate the most value added to their individual benchmarks without particular concern for the mix of investment styles those benchmarks represent.

ALLOCATION TO ACTIVE MANAGEMENT

A plan sponsor's allocation to active management will depend on several factors:

- **Confidence that value added returns are attainable.** The more confidence a plan sponsor has that active management can provide excess returns, the larger the allocation to active management should be.

- **Ability to identify successful active managers.** The more confidence a plan sponsor has in its manager selection and retention policies, the larger the allocation to active management should be.

- **Tolerance for volatility of returns.** Active management will produce wider variation in returns, both positive and negative, relative to the asset class target than passive management. The greater the plan sponsor's tolerance for this volatility, the larger the active management allocation should be.

- **Size of assets under management.** There are practical limitations on how many successful active managers the plan sponsor can identify and the amount of assets that can be allocated to each. In general, the larger the total assets, the greater the allocation to passive management. For example, a 1992 survey by Greenwich Associates shows that 70% of the corporate funds over a billion dollars had some portion of their domestic stocks passively managed. On the other hand, no more than 35% of the corporate funds below $250 million had a portion of their domestic stocks passively managed.

As noted earlier, it is SBI's current policy to allocate no more than 50% of the domestic stock program to active management. Given the above factors, staff believes that this 50% policy allocation limit represents a reasonable balance between the potential rewards of active management, the risk inherent in the volatility of active manager returns and the size of the SBI's domestic stock program.

ALLOCATIONS TO PASSIVE AND SEMI-PASSIVE MANAGEMENT

In order to increase the domestic equity program's potential value added, staff believes it is appropriate to add a semi-passive management component with a commensurate reduction in passive management. Specifically, staff recommends an allocation of up to 50% active management, up to 25% semi-passive management and the balance (at least 25%) in passive management.

The return expectations for the current and proposed management structure are shown below.

Expectations with Current Structure

Structure	*Allocation*	*Long Term Return Expectation**	*Year-to-Year Likely Range of Returns***
Active Group	Maximum 50%	**+0.50 to +1.00%**	± 3.0%
Passive Group	Minimum 50%	**-0.10%**	± 0.6%
Total Program		**+0.20 to +0.45%**	± 1.5%

* annualized over time, relative to benchmark, net of fees
** for all managers in aggregate relative to the aggregate benchmark

Expectations with Proposed Structure

Structure	*Allocation*	*Long Term Return Expectation**	*Year-to-Year Likely Range of Returns***
Active Group	Maximum 50%	**+0.50 to +1.00%**	± 3.0%
Semi-passive Group	Maximum 25%	**+0.15 to +0.30%**	± 1.5%
Passive Group	Minimum 25%	**-0.10%**	± 0.6%
Total Program		**+0.25 to +0.55%**	± 1.6%

* annualized over time, relative to benchmark, net of fees
** for all managers in aggregate relative to the aggregate benchmark

The likely range of returns represent the annualized standard deviation for each portion of the program listed above. The range for the total active or semi-passive management structure and will be lower than those of individual managers due to diversification between the individual manager's excess returns. Most active managers will have a range of ±4.0% to ±6.0% Staff recommends that semi-passive managers be restricted to an annualized standard deviation between ±1.50% to ±1.75%.

As referenced above, the primary reason for initiating a semi-passive strategy is that the expected return generated by the entire domestic stock program will increase without significantly increasing the program's risk. The potential for increased expected returns is created by reducing the passive strategy (which is expected to slightly under perform its benchmark, over time) and replacing it with a semi-passive strategy (which is expected to provide modest value added, over time).

In order to achieve this increase in expected returns, the SBI must recognize that it would assume a higher level of risk. "Higher risk" means greater volatility of returns on a year-to-year basis. With the current 50% active/50% passive mix, returns can be expected to fluctuate above and below the asset class target by 1.5 percentage points or more on a year-to-year basis. With a 50% active/25% semi-passive/25% passive mix, the range widens to $\pm$1.6 percentage points or more on a year-to-year basis.

It should be noted that all of the above "likely ranges" are expressed in terms of annual standard deviation. Sixty seven percent (67%) of the time, actual returns should fall within a range of $\pm$1 standard deviation. To encompass 95% of all possible outcomes, the "likely ranges" discussed above would need to be doubled. For example, 95% of the possible excess returns for the proposed domestic equity program with a semi-passive segment will be within a range of $\pm$ 3.2% (1.6 x 2 = 3.2).

Staff believes that semi-passive management offers advantages in implementing the SBI's tilted index fund over using a passive or active strategy The semi-passive strategy will incur less turnover than a passive strategy due to changes in the benchmark because the larger allowable tracking error gives them more flexibility in their trading decisions. In addition, there is the potential to add value while controlling the risk at the level desired by the plan sponsor. Active management also has the potential to add value but the plan sponsor ability to dictate the level of risk diminishes significantly.

RECOMMENDED STRUCTURE FOR SEMI-PASSIVE MANAGEMENT

Staff recommends that the SBI retain 2-4 semi-passive managers with initial allocations of approximately $500 - 600 million to each manager. At this level, each semi-passive manager would be 5-6% of the total stock allocation and the semi-passive segment would be approximately 15-25% of the stock program. As the SBI gains more experience with the capabilities of semi-passive managers, staff believes the individual manager allocations could be increased up to 10% of the total domestic equity program (approximately $1 billion per manager).

Staff recommends that each semi-passive manager use the same benchmark employed by the passive manager for the tilted index fund. A semi-passive manager should be expected to add 0.15-0.30% annualized to its benchmark, net of fees, over time. On a year-to-year basis, returns should be expected to range from ±3.0 to 3.5% around the benchmark 95% of the time. Currently, our active managers returns are expected to be ±8.0% or more around their benchmark 95% of the time.

If this proposal is adopted by the Board, staff would expect to conduct a formal semi-passive manager search as part of the FY95 work plan. The manager search committee could be convened to interview finalists and make a recommendation to the Board at its December 1994 meeting. The new managers would be funded in early calendar 1995.

MANAGER FACT SHEET

Manager: Fidelity Management Trust Company

Investment Philosophy and Process
Fidelity's investment philosophy is to maintain a fully invested portfolio through a bottom-up security selection process based on fundamental security specific analysis. The investment process constructs portfolios that have fundamental risk characteristics (market cap, P/E, yield, etc.) and industry weights consistent with the benchmark selected by the plan sponsor. The investment process limits its residual risk within a range of 1.5 to 2.0%. In addition, 80 to 90% of the residual risk comes from stock specific bets and only 10 to 20% from fundamental risk characteristics and industry bets.

Fidelity's portfolio construction process begins by analysts assessing a stock's potential investment return based on dividend and earning's outlook and the company's valuation. The stocks selected by the analyst become part of one of Fidelity's 36 industry mutual funds. The top 25 stocks in each of the 36 industry mutual funds (900 stocks) are candidates for the semi-passive portfolio. They then use an optimization process that constructs portfolios with similar risk profiles, industry weights, and financial characteristics as the benchmark specified by the client while emphasizing the most heavily weighted stocks in the industry mutual funds as much as possible.

Research
Fidelity's research capabilities involve a worldwide research organization that follows over 7,000 companies. Their analysts specialize in specific industries. Each analyst examines individual stocks for earnings and growth momentum and meets with the company's management before a stock becomes a potential buy for its particular industry mutual fund. Fidelity analysts and portfolio managers have access to a wide array of systems and databases to enhance operations and information flow. Fidelity maintains a business library staffed by 21 professionals with extensive references on foreign and domestic corporations. Over 80% of their research is generated internally.

Trading
Fidelity uses a paperless trading system to complete the execution and accounting of trades through on-line systems. Trading costs are minimized by controlling the size of the portfolio holding relative to the security's trading activity. In addition, they use crossing networks, discount brokers, and DOT system for lower commission rates. Lastly, they use internal traders to work on the less-liquid orders.

Fidelity (con't)

Ownership

Fidelity Management Trust Company (FMTC) is a wholly owned subsidiary of Fidelity Management and Research Corporation (FMR Corp.). Fidelity is a 100% employee-owned company.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 58

Total Number of Semi-Passive Equity Traders: 26

Total Tax-exempt Equity Assets Managed: $ 17,203 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $ 4,025MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 30

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

North American Security Life
NYNEX
N.Y. Teachers

MANAGER FACT SHEET

Manager: Franklin Portfolio Associates

Investment Philosophy and Process

Franklin believes the financial community creates an overabundance of information, and that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. They use the BARRA E.2 risk model to maintain the portfolio's systematic risk and industry weightings close to the selected benchmark resulting in a residual risk of 1.5% to 2.0% for semi-passive portfolios. The composition of the residual risk is monitored to insure that it is 70% to 80% stock specific risk. This is a "quality" check that keeps the residual risk focused on the stock picking strength of the valuation system.

Franklin builds a portfolio with the use of a series of more than 30 integrated computer models that value a universe of 3500 stocks. Each model is based on fundamental, financial, or behavioral principles. The value-added derives from the proprietary manner in which the models are integrated to provide one list of securities. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models. The individual models rank each security, and then a composite ranking provides one ranked list of securities reflecting the relative attractiveness compared to other stocks. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. Franklin believes this sell discipline is one of the strengths of their process, since it does not allow emotions to interfere with a properly executed sell decision.

Research

Franklin Portfolio's research focuses on quantitative technology to search out new inputs that will provide incremental information in the valuation process. Franklin back-tests their models monthly. Non-performing or inaccurate models are diminished in weight and occasionally eliminated.

Trading

Franklin uses traditional trading methods as well as Instinet, Posit, and Arizona electronic matching networks. They sometimes use package trades, and occasionally, these are structured to utilize quaranteed prices through a blind-bidding process. Franklin employs Plexus to monitor trading costs. They also examine execution based on intraday market impact, ex-post performance of traded stocks, and ex-post of non-traded stocks.

Franklin (con't)

Ownership

Franklin Portfolio is an independently managed wholly owned subsidiary of Mellon Bank Investor Corporation.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 4

Total Number of Semi-Passive Equity Traders: 2

Total Tax-exempt Equity Assets Managed: $ 4,147 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $ 3,383 MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 28

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

Corporate Pension	$558 MM
Corporate Pension	$362 MM
Corporate Pension	$276 MM

MANAGER FACT SHEET

Manager: GE Investment Management Inc.

Investment Philosophy and Process

The investment philosophy for GE's Multi-Style Equity program is to outperform the benchmark consistently while controlling overall portfolio risk through use of a unique investment process. This is accomplished by combining the expertise of an Executive Vice President and five experienced portfolio managers, encompassing different styles ranging from value to growth, supported by a staff of ten industry analysts. The five portfolios are combined to create a well diversified equity portfolio while maintaining low relative volatility and a style-neutral position between value and growth.

GE encourages teamwork in order to develop an environment where professionals openly compare views and debate the future prospects of a given stock. Weekly meetings involve vigorous debate, but their "committee without consensus" approach means that managers are free to make their own investment decisions. Portfolio managers are empowered to move quickly, but usually engage in careful analysis and discussion with peers before major decisions are made.

GE focuses on stock selection from a bottom-up perspective. They monitor GE's economic forecasts along with selected Wall Street forecasts, but tend to pay more attention to GE's short-cycle order patterns to get a sense for trends in the economy. GE runs a broadly diversified portfolio investing in seventy-eight of the eighty-seven S&P 500 industry categories. They also have a large number of stocks in the portfolio which tends to dampen volatility. GE follows approximately 700 companies. This includes all S&P 500 companies with a market capitalization greater than $300MM, as well as several hundred companies not in the S&P 500. The average number of companies represented in the aggregate portfolio is approximately 350. Finally, by using five portfolio managers with differing styles, they carefully balance the portfolio between value and growth. GE monitors the value/growth mix, and time their rebalancing through use of various analytics. The result is a portfolio with low residual risk to the benchmark and a high Information Ratio.

GE's five portfolio managers have different investment styles, so their buy/sell disciplines also tend to be somewhat different. The growth-oriented managers look to buy stocks with above average growth rates at reasonable P/E ratios and tend to hold them until their growth prospects diminish or they become overvalued versus alternatives. The value-oriented managers look for stocks that have low P/E's, high yields, sell for less than intrinsic value or appear attractive on a dividend discount model. They generally sell when prices approach targeted levels and tend to have a somewhat higher turnover rate than the growth managers.

Research

GE has extensive research capabilities, generating approximately 70% of research internally. A team of ten global analysts works together to provide analytical coverage across the full spectrum of industries. Each analyst is responsible for one or more industries and coverage includes major non-US companies in those industries that compete globally.

GE Investment Management (con't)

GE Investments feels a unique strength is access to the entire GE Company which buys from or sells to almost the entire economic spectrum worldwide. They have access to top management as well as analysts and participants throughout the system. They also have an Investment Advisory Board, a non-fiduciary group that meets quarterly to share insights and review trends in business and the economy.

The investment staff uses a state-of-the-art information center that uses optical imaging system for efficiently storing and retrieving brokerage reports. Up-to-the-minute information can be retrieved from over 2,500 global databases providing news coverage, current events, and company financials.

Another critical research avenue is the face-to-face meeting with company management. During the past year, GE analysts and portfolio managers attended numerous conferences and company-sponsored analyst meetings. About 60 company meetings took place in Stamford, and they visited about 140 companies at their headquarters. These visits include companies GE owns in their portfolio as well as those under consideration.

Trading
GE has three full time traders. Portfolio managers and traders discuss the portfolio manager's objective and the trader's view of the market when an order is placed on the trading desk. The trader determines the best way to execute the trade and keeps the portfolio manager informed as the order is completed.

GE traders use sophisticated electronic equipment such as Bridge, Autex, Insync, Instinet, and Merrin. They implemented the Merrin Financial Trading System which has allowed them to monitor, on a real time basis, actual costs (commissions and market impact) by broker, portfolio manager and trader.

Ownership
GE Investments is a wholly-owned, direct subsidiary of General Electric Company.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 16

Total Number of Semi-Passive Equity Traders: 3

Total Tax-exempt Equity Assets Managed: $ 7,821 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $ 5,771MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 13

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

General Electric Pension Trust	$4,811MM
U S West	159MM
Province of Alberta Treasury	100MM

MANAGER FACT SHEET

Manager: Goldman Sachs Asset Management

Investment Philosophy and Process

Goldman Sachs' investment philosophy is to maintain a fully invested portfolio with industry weights and fundamental risk characteristics similar to the benchmark selected by the plan sponsor and to add value through superior stock selection. Their investment strategy controls risk by using 1) a macro-economic (APT) factor model, 2) the BARRA E.2 model, 3) limited sector exposure, and 4) controls to limit purchases of any one stock to a day's trading volume.

Goldman Sacks investment process involves both in-house fundamental research and quantitative analysis that uses a multifactor model to analyze securities for attractiveness in value, potential growth and earnings, timeliness, volatility of earnings and price, and liquidity. The net result of the fundamental research and quantitative analysis is a single expected return forecast for each security. Using this forecast for each security's expected return, Goldman Sachs builds a portfolio with the use of portfolio optimization techniques to evaluate risk/reward profiles of potential portfolios. The portfolio selected is that which best fits a client's investment objectives and risk tolerance.

Research

Research for the Goldman Sach's semi-passive strategy is generated completely internally through the resources of Goldman Sachs' Equity Investment Research Department. Over 100 professionals are on staff to cover more than 1,200 companies in over 60 industries.

Trading

Goldman Sachs believes that cost effective trading strategies are especially important for a semi-passive product. They employ a variety of trading strategies including cross trades, incentive agency trades, blind strike bids (packaged trades), market orders, and limit orders. Goldman Sachs evaluates the relationship between commission, market impact, and missed opportunities before deciding the trading strategy to implement.

Goldman (con't)

Ownership

Goldman Sachs Asset Management is a division of Goldman, Sachs & Co., a partnership.

Total Number of Semi-Passive Equity Portfolio Managers/Analysts: 4

Total Number of Semi-Passive Equity Traders: 2

Total Tax-exempt Equity Assets Managed: $ 8,029MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $ 1,753MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 18

Three Largest Tax-exempt Passive Domestic Equity Accounts:

Western Conference of Teamsters Pension Trust	$379 MM
New York City Teachers	$257 MM
GTE Services Corp.	$228 MM

MANAGER FACT SHEET

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

Investment Philosophy and Process

J.P. Morgan believes that superior stock selection is necessary to achieve excellent investment results and that market timing, industry, and factor bets can and should be eliminated as much as possible. They also believe security prices do not always reflect the long term earnings and dividend potential. J.P. Morgan therefore uses a proprietary fundamental research and a systematic valuation model to rank the attractiveness of the individual securities in their research universe. Portfolio managers then use these rankings to construct their portfolios.

To begin the stock selection process for their investment strategy, analysts at J.P. Morgan forecast the earnings and dividends for the 650 stocks in their universe. The earnings and dividend forecast and the stock's price are entered into a stock valuation model to calculate an expected return for each security. The stocks are ranked according to their attractiveness within their economic sector based on their expected return. Stocks most undervalued are placed in the first quintile and are most attractive. The portfolio includes stocks from the first four quintiles always favoring the highest ranked stocks whenever possible and sells those in the fifth quintile. In addition, the portfolio will closely approximate the sector, style, and security weightings of the index chosen by the plan sponsor.

Research

J.P. Morgan generates about 90% of its research internally. They employ 21 analysts to follow 650 securities performing original research and projecting earnings and dividend growth rates. J.P. Morgan also has an in-house economist who works closely with their portfolio managers and research analysts to provide a common macroeconomic framework from which to work.

Trading

J.P. Morgan uses Instinet to cross as many trades as possible, historically 15 - 20%. They cross an additional 50% at the previous night's closing price. Eight internal traders handle the remaining trades.

J.P. Morgan (con't)

Ownership

J.P. Morgan Investment Management, Inc. is a wholly owned subsidiary of J.P. Morgan & Co. Incorporated whose other holdings include J.P. Morgan Securities Inc., J.P. Morgan Futures Inc., and Morgan Guaranty Trust Company.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 24

Total Number of Semi-Passive Equity Traders: 7

Total Tax-exempt Equity Assets Managed: $ 22,093 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $ 4,131 MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 21

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

Corporate	$1,284 MM
Corporate pension	$346 MM
Sovereign	$343 MM

MANAGER FACT SHEET

Manager: Martingale Asset Management

Investment Philosophy and Process

Martingale's philosophy is to buy stocks that are cheap relative to their peers based on a multifactor valuation model. They feel the systematic application of stock valuation judgment and rigorous control of portfolio exposure to industry and investment characteristics relative to the selected benchmark results in investment success.

Martingale's investable universe of approximately 1400 stocks is determined by the intersection of coverage by Value Line, Compustat, and IBES. The raw data for the investable universe is used as an input to the Martingale Valuation Model. The model analyzes various factors including long term growth rate, current and future earnings and dividends, and dispersion of analyst earnings estimates. The model analyzes the individual stocks and relative to their peers calculates a potential alpha for each stock. To construct the portfolio, Martingale uses an optimizer that builds a portfolio to obtain the highest positive alpha while closely matching the industry and common factor risk of the selected benchmark.

Research

Martingale uses external information sources including IBES, Value Line, Horizon Investment Research, Compustat, BARRA, and Factset. All internal research is directed at improving the valuation model so that it more accurately defines the most undervalued stocks in its universe.

Trading

Martingale uses crossing networks, packaged trades with and without guaranteed prices, and brokers to execute individual trades. Martingale evaluates each trade to measure the cost of that trade, and they measure the opportunity cost of the trades that they have not made yet.

Martingale (con't)

Ownership
Martingale Asset Management is an independent Investment Advisor which is 78% owned 100% controlled by employees of the firm. BARRA, a financial consulting firm located in Berkeley, California is a 20% limited partner.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 5

Total Number of Semi-Passive Equity Traders: 1

Total Tax-exempt Equity Assets Managed: $ 469 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $ 234 MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 4

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

Saint-Gobain Corporation	$40.0 MM
State of Connecticut	$130.0 MM
The Investment Fund for Foundations	$38.6MM

MANAGER FACT SHEET

Manager: Parametric Portfolio Associates, Inc.

Investment Philosophy and Process

Parametric's investment philosophy focuses on a long term approach that emphasizes securities that have been consistent, steady winners over time as opposed to benefiting from mispricing or disequilibrium. Parametric's philosophy begins with the assertion that investors do not price all stocks the same. Some stocks are priced to deliver higher long-term rates of returns than others. Parametric identifies stocks that have consistently rewarded investors with higher returns. They also believe that the portfolio should be broadly diversified while closely reflecting the industry weights and risk characteristics of the benchmark to achieve a higher than average long-term expected return. They feel turnover should average less than 12% per year to preserve wealth.

In building a portfolio, Parametric's first step is to have the plan sponsor select the benchmark or index. They then use an optimization model that selects stocks with modestly higher long term returns and consistent company fundamentals, avoiding stocks with volatile and erratic returns. Securities owned have above average earnings and dividend growth rates, higher return on equity, low variability in earnings and dividends, and higher than average long term returns on an ongoing basis. Parametric rebalances the portfolio quarterly back to a target portfolio. Parametric controls risk by measuring the portfolio's sensitivity to market direction, interest rate, cap size, and style. In addition, they constrain the industry weight and fundamental risk characteristics active exposures relative to the benchmark.

Research

Parametric maintains large databases of historical pricing information and fundamental characteristics on over 8000 stocks. They have access to IBES, Interactive Data Corporation, Vestek, Reuters, and Extel for fundamentals, pricing, corporate actions, and descriptive data. Parametric management tools developed internally include a proprietary optimizer, risk model, long term risk analysis, and trade report generator.

Trading

Parametric's management style requires only 10-15% turnover per year, so orders are pooled when sent to brokers. They monitor execution price for the basket of stocks and compare this price to prices achieved during the day. Parametric has access to Instinet, POSIT, and all available matching systems.

Parametric (con't)

Ownership

Parametric is owned by Pacific Financial Asset Management Corporation, a subsidiary of Pacific Mutual Life Insurance of Newport Beach, California. The ownership agreement provides a 33% ownership in the company by Parametric's founders and selected employees.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 6

Total Number of Semi-Passive Equity Traders: 1

Total Tax-exempt Equity Assets Managed: $ 1,637 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $ 1,637 MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 24

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

Washington State Investment Board	$250MM
City of Philadelphia Retirement System	$136 MM
General Public Utilities	$110 MM

MANAGER FACT SHEET

Manager: T. Rowe Price Associates, Inc.

Investment Philosophy and Process

T. Rowe Price's investment philosophy emphasizes stock selection and low turnover based on solid fundamental research. They use quantitative tools and fundamental company information to build and maintain portfolios that meet the client's needs. In addition, they believe that risk control is a crucial element to generate consistent return enhancement.

T. Rowe Price's systematic investment process is a structured active approach that permits the replication of any investment style. They have developed universes for large cap growth, mid cap growth, small cap growth, large cap value, and small cap value. These style universes may be appropriate portfolios in certain cases. However, the universes can serve as the building blocks for constructing portfolios based on custom benchmarks that meet a specific client need.

In constructing a portfolio, they first develop a universe from which to select stocks. They identify the desired characteristics for the particular style(s) that they need to mimic and then establish decision rules to identify companies that fit that profile. Using the decision rules and their database of 3000 stocks, they construct a universe of candidates from which the portfolio will be built.

The final portfolio construction process uses an optimizer to achieve the client's desired level of risk. In addition, they overlay in-house quantitative and fundamental analysis to add value to the portfolio.

On an ongoing basis, T. Rowe Price uses a disciplined approach to managing the portfolio. The portfolio is fully invested with cash positions being temporary and due to timing differences between sales and purchases. When the portfolio is reoptimized, trades are made only when they will enhance risk/return characteristics net of prospective real transaction costs. Resulting turnover is about 15 to 25% annually.

Research

T. Rowe Price maintains an in-house team of research analysts, assistant analysts, and a financial economist that generate 90% of the required research. Analysts conduct fundamental research on specific companies in the industry assigned to them, and also periodically visit these companies. Outside research is used to supplement and challenge in-house conclusions. T. Rowe Price maintains an extensive research library to store relevant information. They also use internal distribution systems, on-line message screens and meetings to exchange investment ideas.

T. Rowe Price (con't)

Trading

T. Rowe Price's trading department uses the following systems: Dow Jones and Reuters News Services, the Autex Block Information System, NASDAQ Level II Quotation System, Bridge Data System, PR News Wire, and Instinet. To keep transaction costs low, they make extensive use of electronic trading networks. Trades that cannot be made through electronic trading networks are made through brokers and dealers. T. Rowe Price has experience in large blocks and packaged trades, and they have the technology to execute package trades in-house.

Ownership

T. Rowe Price is an independent investment advisor with 25% of outstanding shares held by active employees. T. Rowe Price Associates, Inc. has entered into a joint venture with Robert Fleming Holdings to form Rowe Price-Fleming International, Inc. They also are affiliated with T. Rowe Price Investment Services, Inc., T. Row Price Retirement Plan Services, Inc., and T. Rowe Price Stable Asset Management, Inc. that are each wholly owned subsidiaries of T. Rowe Price Associates.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 6

Total Number of Semi-Passive Equity Traders: 1

Total Tax-exempt Equity Assets Managed: $18,200 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $1,016 MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 6

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

Honeywell, Inc.	$245 MM
State of Alaska (Acct 1)	$208 MM
United Mine Workers of America Health and Retirement Funds	$164 MM

MANAGER FACT SHEET

Manager: Wells Fargo Nikko Investment Advisors (WFNIA)

Investment Philosophy and Process

WFNIA's philosophy in the management of enhanced equity portfolios encompasses three key objectives: the delivery of consistent, superior performance; the maximum control of all investment and operational risks; and the minimization of trading costs.

WFNIA proposes the Alpha Tilts Strategy, a semi-passive enhanced equity index strategy that tightly controls the actual portfolio relative to the selected benchmark. In managing the fund, the optimization objective is to maximize the overall alpha (after trading costs) of the portfolio subject to the level of residual risk selected by the plan sponsor. A variety of portfolio constraints are used in the optimization process to control the portfolio's tracking error. These risk controls include: 1) matching the benchmark weightings across 55 industries; 2) limiting the active position in any individual security; 3) constraining the predicted beta of the portfolio to be close to 1.0; and 4) achieving an overall predicted active risk level that is within client guidelines. The result is a portfolio that closely matches the benchmark in terms of systematic risk characteristics and industry/sector diversification, and is also very diversified at the individual security level.

The Alpha Tilts Fund uses a quantitative model, the Core Alpha Model, that desegregates equity returns into their important components. This model allows them to understand and quantify complex pricing relationships across the equity market, and to identify which sources or factors of equity returns are slightly mispriced by the market. The factors most influential in predicting active returns include the Fundamental, Expectational and Technical attributes of each company.

The Fundamental factors include measures of underlying company value including earnings, book value, cash flow, and sales. These factors help identify securities that may be trading at attractive prices relative to their true economic value. The fundamental factors work by capturing small misvaluations caused by the average investor. By evaluating a broad universe of companies on a consistent, rigorous basis, the Alpha Tilts Fund is able to identify and capture these misvaluations.

The Expectational factors incorporate future earnings and growth rate information for each company. The Core Alpha Model is able to monitor and evaluate the individual earnings forecasts made by over 2500 security analysts. The model is able to track virtually all sell-side analysts, and evaluate the true information content of their forecasts and thereby obtain a superior measure of the future growth rates for each company.

Wells Fargo Nikko (con't)

The Technical factors provide a measure of recent changes in company fundamentals, consensus expectations, and performance. These factors include measures of relative returns, earnings momentum, short-term alpha, and liquidity measures. These factors play a role by helping to determine the optimal timing for rebalancing trades which are driven by the Expectational and Fundamental factors.

The investment process starts with a universe of the largest 3500 U.S. equities. The Expectational data is updated daily, while the Fundamental and Technical factors are updated as necessary on each of these securities. An alpha or estimated mispricing, is then calculated based on a systematic assessment of the company's measures on the Fundamental, Expectational and Technical characteristics. The estimated alphas are then used in an advanced portfolio optimization algorithm, which also incorporates other essential inputs, such as estimated trading costs and a variety of risk constraints, to identify the optimal portfolio. The optimization objective is to maximize the expected alpha after trading costs.

Research
WFNIA's Advanced Strategies and Research Group has 12 professionals and extensive computing, database and academic/technical resources. Data sources that are used in the ongoing management of the strategy include a number of firms, including Compustat, CRSP (University of Chicago), IBES, First Call, BARRA, Zacks, and Reuters. As part of ongoing research commitment to this strategy, WFNIA is currently exploring ideas that may be incorporated as enhancements to the strategy in the future. These ideas include incorporating variables to capture the connection between size and style effects and the factors currently used in the strategy.

Trading
The main objective of WFNIA's trading approach is to provide their clients with excellent execution at low total trading costs. Their strategies include crossing within their "internal marketplace" of index funds and separate accounts; "private" crossing between their funds and other institutions; "public" crossing through networks such as POSIT and Instinet; and open market trades. They believe that their large trading volume has created important advantages in the marketplace for its clients.

Wells Fargo Nikko (con't)

Ownership

Wells Fargo Nikko Investment Advisors is a global joint venture partnership owned by Wells Fargo & Company and the Nikko Securities Co., Ltd. Prior to the formation of the joint venture in April of 1990, Wells Fargo Investment Advisors was a wholly-owned subsidiary of Wells Fargo & Company. WFIA became a subsidiary in January, 1985. Previously WFIA was a division of Wells Fargo Bank, N.A.

Total Number of Semi-Passive Equity Portfolio Managers / Analysts: 4

Total Number of Semi-Passive Equity Traders: 5 (all equity classes)

Total Tax-exempt Equity Assets Managed: $86,570 MM

Total tax-exempt Domestic Semi-Passive Equity Assets Managed: $1,804 MM

Total number of tax-exempt Domestic Semi-Passive Equity Accounts: 19

Three Largest Tax-exempt Semi-Passive Domestic Equity Accounts:

Southwestern Bell
Exxon Corporation
The Pension Fund of the Christian Church

STATE BOARD
OF INVESTMENT

Stock
Manager
Evaluation
Reports

Second Quarter, 1994

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DOMESTIC STOCK MANAGERS
Period Ending 6/30/94

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) 1/1/92 Actual %	Since (1) 1/1/92 Bmk %	Since (2) Inception Actual %	Since (2) Inception Bmk %	Market Value (in millions)	Pool %
Alliance	-2.2	-1.5	0.5	1.5	13.3	7.3	13.1	8.3	5.8	2.2	16.1	10.6	$669.32	7.2%
Brinson	2.8	-0.8	4.2	1.4							4.2	1.4	$258.61	2.8%
Forstmann-Leff	-4.6	-3.3	0.9	-1.6	7.8	8.1	8.3	8.2	2.3	5.0	11.6	10.6	$335.23	3.6%
Franklin Portfolio	-1.3	-1.0	0.2	1.6	13.4	11.7	10.3	9.6	9.9	8.2	11.7	10.9	$357.34	3.9%
GeoCapital	-6.9	-4.6	4.6	3.5	13.5	14.5			2.5	8.1	13.4	12.9	$240.83	2.6%
IAI	-4.3	-0.2	2.6	3.3							2.6	3.3	$107.21	1.2%
IDS	-0.3	0.1	3.2	2.8	12.4	12.3	12.0	10.4	8.1	9.1	13.8	13.1	$359.19	3.9%
Independence	0.9	0.4	2.6	1.1							8.5	7.4	$356.51	3.8%
Jundt Associates	-8.2	-2.7	-5.7	1.6							-5.7	1.6	$192.36	2.1%
Lincoln	0.5	-0.2	1.3	0.6							1.3	0.6	$245.25	2.6%
Lynch & Mayer	-4.1	-2.4	-2.7	3.0							3.8	6.9	$297.30	3.2%
Oppenheimer	0.6	0.4	2.9	1.9							2.9	1.9	$255.13	2.8%
Waddell & Reed	-4.4	-3.5	2.2	5.9	12.5	11.8	10.1	9.8	10.0	9.6	11.3	10.8	$372.85	4.0%
Weiss Peck & Greer	-10.8	-7.1	-9.0	-1.2							-9.0	-1.2	$183.68	2.0%
Emerging Managers (3)	-2.1	1.0									-2.1	1.0	293.65	3.2%
Wilshire Associates (4)	0.3	0.3	0.8	1.1	9.8	10.2	9.6	10.0	6.1	6.5	12.7	12.9	$4,738.16	51.2%
													$9,262.62	100.0%
											Since 1/1/84			
Current Aggregate	-1.1	-0.8	0.9	1.5	10.6	10.2	10.3	9.9	6.1	6.4	13.1	12.7		
Historical Aggregate (5	**-1.1**	**-0.8**	**0.8**	**1.4**	**10.2**	**10.1**	**9.6**	**9.7**	**5.8**	**6.4**	**12.5**	**12.7**		
Wilshire Adjusted (6)		-0.9		0.9		10.0		9.8		6.0		12.6		
Wilshire 5000		-0.9		1.0		10.2		10.1		6.0		13.0		

(1) Since tilted index fund was fully implemented.
(2) Since retention by the SBI. Time period varies for each manager.
(3) Aggregate of emerging manager group.
(4) Passive manager. Tilted index fund began 10/90. Fully implemented 1/92.
(5) Includes performance of terminated managers.
(6) Buy hold index adjusted for liquor and tobacco restrictions through 3/31/93 and AHP restriction through 10/31/93.

EMERGING EQUITY MANAGERS
Period Ending 6/30/94

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
CIC Assets (1)	-0.1	0.5							-0.1	0.5	$29.97	10.2%
Cohen, Davis & Marks (1)	2.0	0.5							2.0	0.5	30.60	10.4%
Compass Capital (2)	-1.7	-0.5							-1.7	-0.5	29.50	10.0%
First Capital (1)	-0.5	0.5							-0.5	0.5	29.85	10.2%
Kennedy Capital (3)	-3.1	-3.9							-3.1	-3.9	29.06	9.9%
New Amsterdam (4)	-4.6	-0.2							-4 6	-0.2	28.63	9.7%
Valenzuela Capital (1)	1.3	0.5							1.3	0.5	30.40	10.4%
Wilke/Thompson (5)	-6.6	-3.5							-6.6	-3.5	28.03	9.5%
Winslow Capital (6)	-2.8	-1 0							-2.8	-1.0	29.16	9.9%
Zevenberger Capital (6)	-5.1	-1.0							-5.1	-1.0	$28.46	9.7%
Current Aggregate	**-2.1**	**-0.8** *							**-2.1**	**-0.8** *	**$293.65**	**100.0%**
		1 0 **								1.0 **		

Benchmarks currently used are:

(1) S&P500
(2) S&P500 (Equal-Weight)
(3) Russell 2000
(4) Russell 1000
(5) Russell 2500
(6) Russell 1000 Growth

* weighted aggregate of above benchmarks
** benchmark used for tilted index fund

Inception date for all managers is 4/1/94

ALLIANCE CAPITAL MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Jack Koltes **Assets Under Management: $669,320,253**

Investment Philosophy

Alliance searches for companies likely to experience high rates of earnings growth, on either a cyclical or secular basis. Alliance invests in a 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.

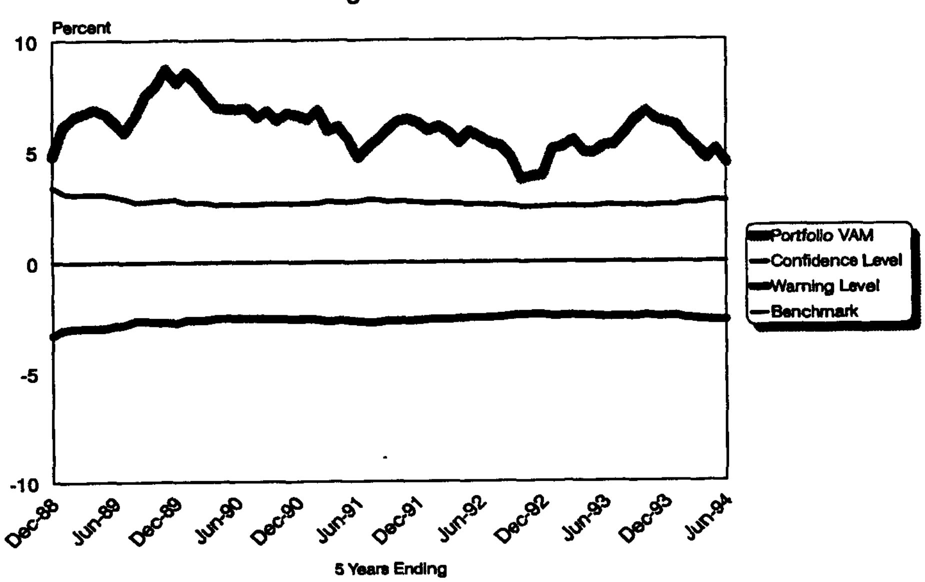
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.2%	-1.5%
Last 1 year	0.5	1.5
Last 2 years	8.8	5.3
Last 3 years	13.3	7.3
Last 4 years	10.7	6.7
Last 5 years	13.1	8.3
Since Inception (1/84)	16.1	10.6

Recommendations

No action recommended.

Alliance Capital Management
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 6/30/94

Portfolio Manager: Jeff Diermeier — **Assets Under Management: $258,606,184**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.8%	-0.8%
Last 1 year	4.2	1.4
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	4.2	1.4

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

FORSTMANN LEFF ASSOCIATES
Period Ending 6/30/94

Portfolio Manager: Joel Leff **Assets Under Management: $335,229,474**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.6%	-3.3%
Last 1 year	0.9	-1.6
Last 2 years	6.7	6.0
Last 3 years	7.8	8.1
Last 4 years	8.5	7.7
Last 5 years	8.3	8.2
Since Inception (1/84)	11.6	10.6

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 leadership.

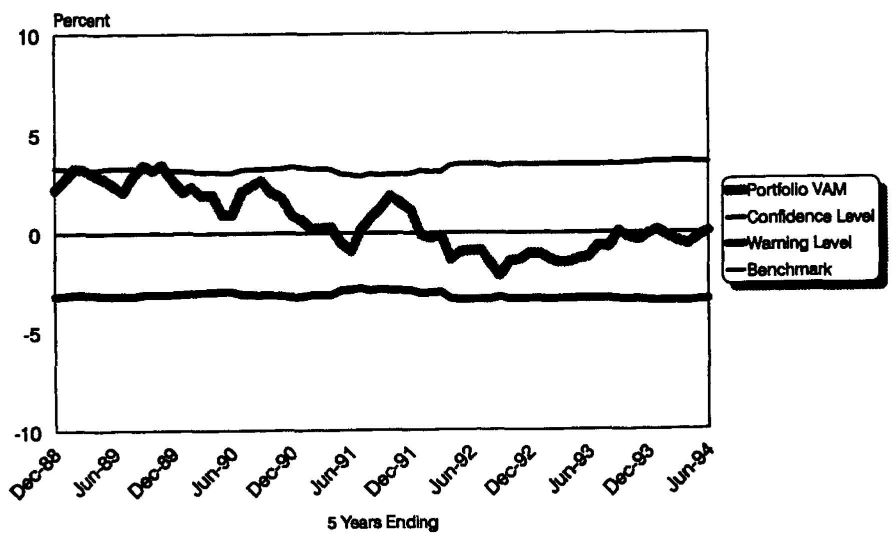
—Investment style consistently and successfully applied over a variety of market environments.

—Well acquainted with needs of large clients.

Recommendations

No action recommended.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 6/30/94

Portfolio Manager: John Nagorniak **Assets Under Management: $357,340,050**

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 to 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.

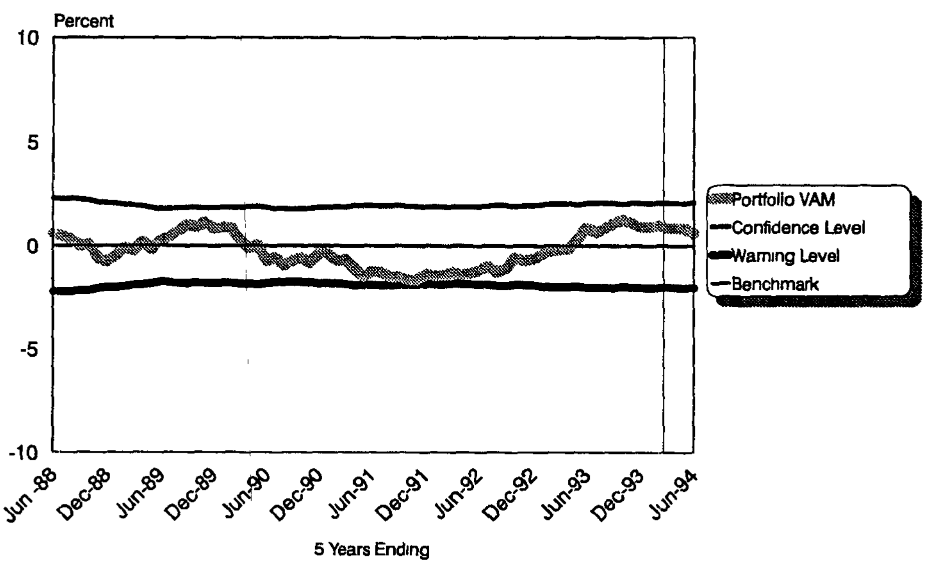
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.3%	-1.0%
Last 1 year	0.2	1.6
Last 2 years	13.3	10.3
Last 3 years	13 4	11.7
Last 4 years	10.9	10.7
Last 5 years	10.3	9.6
Since Inception (4/89)	11.7	10.9

Recommendations

No action recommended.

FRANKLIN PORTFOLIO
Rolling Five Year Time Periods



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

GEOCAPITAL CORP.
Period Ending 6/30/94

Portfolio Manager: Barry Fingerhut | **Assets Under Management: $240,833,296**

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 corporate assets, free cash flow, and a catalyst that will cause a positive change in the company. The firm generally stays fully invested, with any cash positions due to the lack of attractive investment opportunities.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

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

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

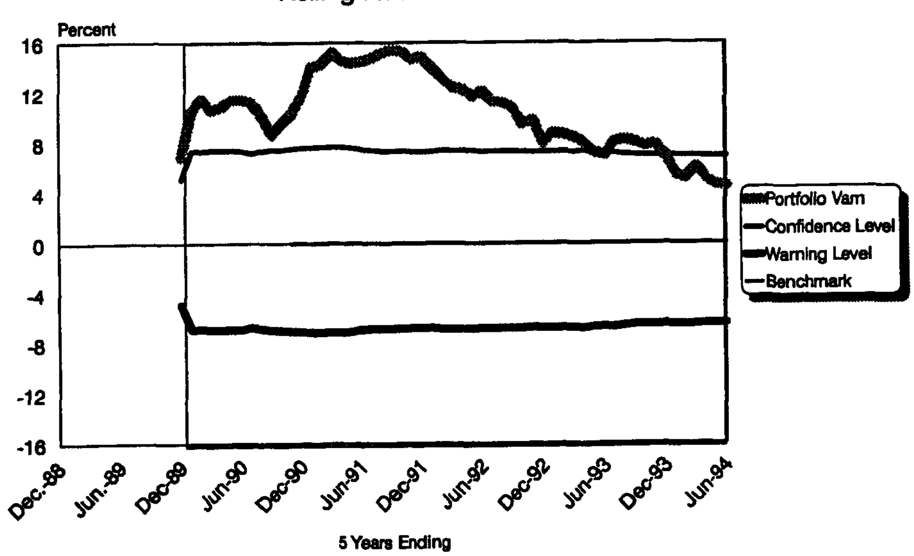
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6.9%	-4.6%
Last 1 year	4.6	3.5
Last 2 years	10.0	16.6
Last 3 years	13.5	14.5
Last 4 years	12.7	12.1
Last 5 years	N/A	N/A
Since Inception (4/90)	13.4	12.9

Recommendations

No action recommended.

GEOCAPITAL
Rolling Five Year Time Periods



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

INVESTMENT ADVISERS INC.
Period Ending 6/30/94

Portfolio Manager: Julian (Bing) Carlin **Assets Under Management: $107,206,758**

Investment Philosophy

IAI's investment philosophy is to own the highest quality companies which demonstrate sustainable growth and the objective of this discipline is capital appreciation. IAI tries to achieve this objective by investing at least 80% of the portfolio in companies which have their headquarters in Minnesota, Wisconsin, Illinois, Iowa, Nebraska, Montana, North Dakota and South Dakota. Twenty percent of the portfolio can be used to purchase large capitalization stocks that display the same quality and growth characteristics but have headquarters outside this region.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

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

Current concerns are:

—Current benchmark does not meet benchmark quality tests. IAI has been working with a consultant on the issue since 1Q94.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.3%	-0.2%
Last 1 year	2 6	3.3
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	2 6	3.3

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

IDS ADVISORY
Period Ending 6/30/94

Portfolio Manager: Pete Anderson **Assets Under Management: $359,192,662**

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)

Exceptional strengths are:

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

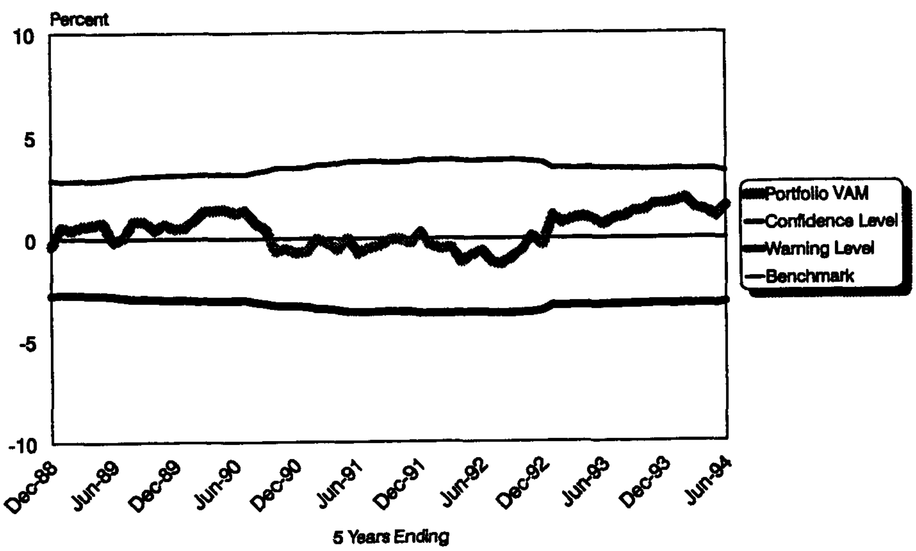
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.3%	0.1%
Last 1 year	3.2	2.8
Last 2 years	10.6	10.1
Last 3 years	12.4	12.3
Last 4 years	9.1	10.2
Last 5 years	12.0	10.4
Since Inception (1/84)	13.8	13.1

Recommendations

No action recommended.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

INDEPENDENCE INVESTMENT ASSOCIATES
Period Ending 6/30/94

Portfolio Manager: Bill Fletcher **Assets Under Management: $356,509,721**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

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

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

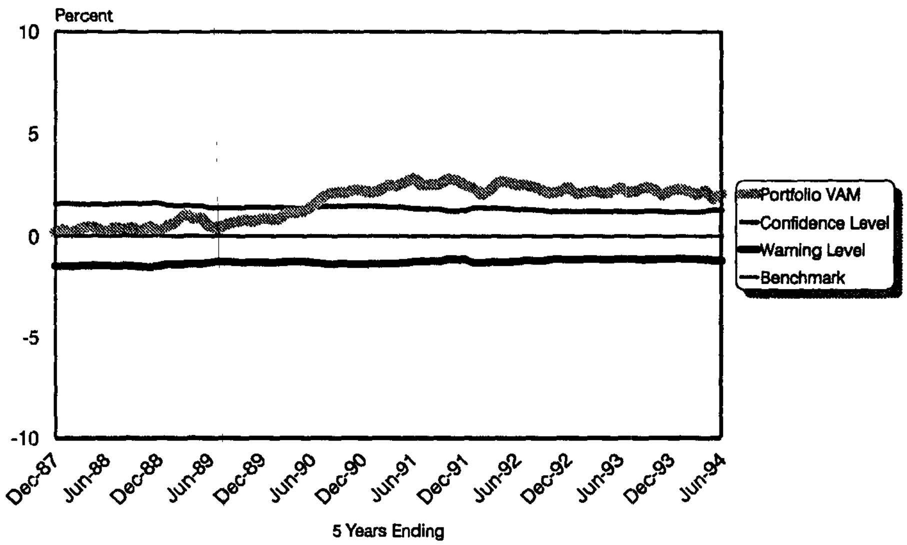
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.4%
Last 1 year	2.6	1.1
Last 2 years	9.1	7.9
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/92)	8.5	7.4

Recommendations

No action recommended.

INDEPENDENCE INVESTMENT ASSOCIATES
Rolling Five Year Time Periods



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

JUNDT ASSOCIATES
Period Ending 6/30/94

Portfolio Manager: James Jundt — **Assets Under Management: $192,362,748**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-8.2%	-2.7%
Last 1 year	-5.7	1.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	-5.7	1.6

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

LINCOLN CAPITAL MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Parker Hall **Assets Under Management: $245,251,598**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Organizational continuity and strong leadership.

—Familiar with the needs of large clients.

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	-0.2%
Last 1 year	1.3	0.6
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	1.3	0.6

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

LYNCH & MAYER
Period Ending 6/30/94

Portfolio Manager: Eldon Mayer — **Assets Under Management: $297,302,230**

Investment Philosophy

Lynch & Mayer invest primarily in high-quality, large capitalization growth stocks. They believe that outstanding investments are a function of corporate earnings growth that is considerably above historical trends or consensus expectations. Lynch & Mayer are bottom up stock pickers and rely on very little economic analysis in their selection process. The firm screens out stocks below a certain market capitalization and liquidity level and then eliminates additional stocks based on various fundamental criteria. After the screening process they look for at least one of the following four factors: 1) acceleration of growth; 2) improving industry environment; 3) corporate restructuring; or 4) turnaround. The firm generally stays fully invested, with any cash due to lack of attractive investment opportunities.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Organizational continuity and strong leadership.

—Highly successful and experienced professionals.

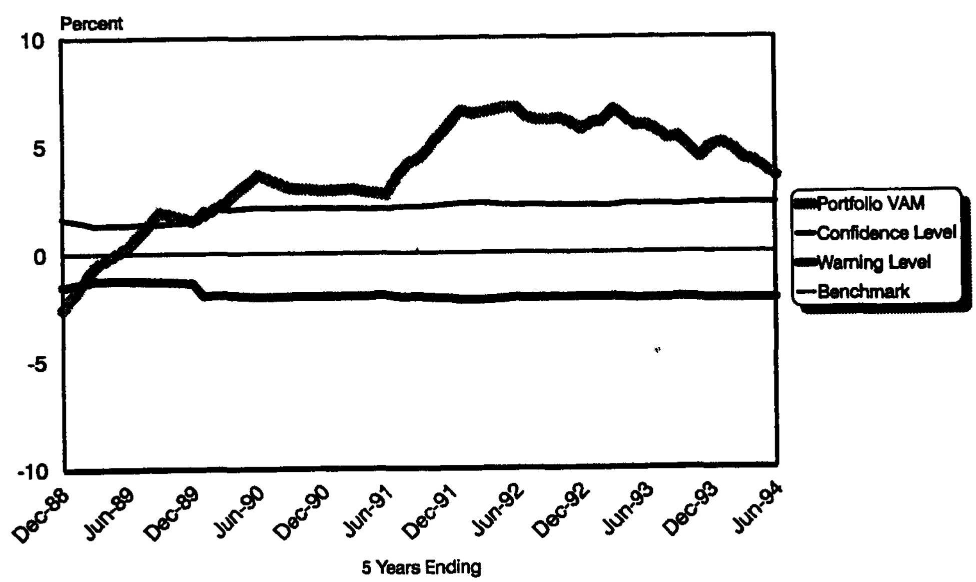
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.1%	-2.4%
Last 1 year	-2.7	3.0
Last 2 years	5.4	10.5
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (2/92)	3.8	6.9

Recommendations

No action recommended.

LYNCH & MAYER
Rolling Five Year Time Periods



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

OPPENHEIMER CAPITAL
Period Ending 6/30/94

Portfolio Manager: John Lindenthal **Assets Under Management: $255,129,853**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.4%
Last 1 year	2.9	1.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	2.9	1.9

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

WADDELL & REED ASSET MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Henry Herrmann | **Assets Under Management: $372,848,176**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

Current concerns are:

—Staff has some concerns about Wadddell & Reed's benchmark. The firm is analyzing their benchmark and will have all enhancements implemented by the end of 1994.

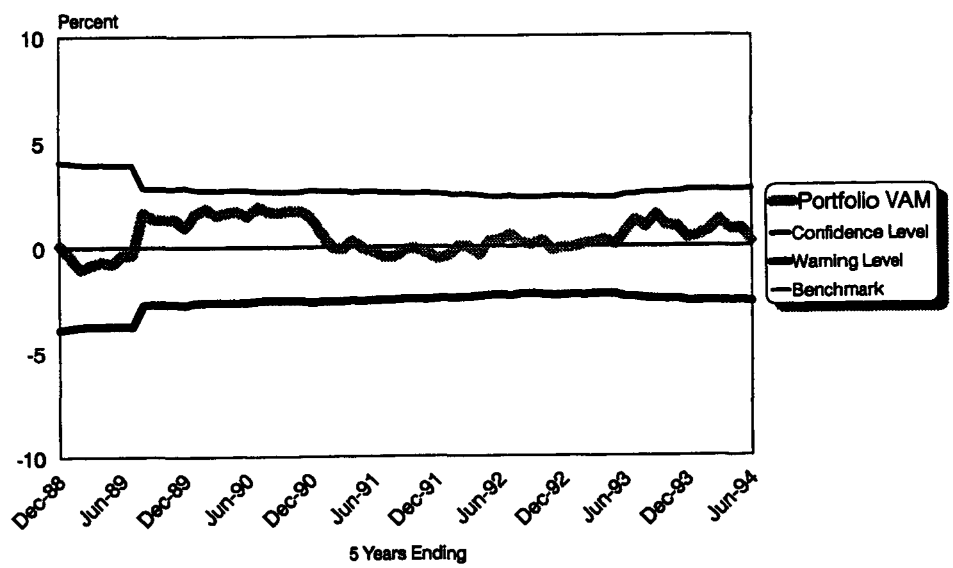
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.4%	-3.5%
Last 1 year	2.2	5.9
Last 2 years	12.6	12.1
Last 3 years	12.5	11.8
Last 4 years	8.8	10.0
Last 5 years	10.1	9.8
Since Inception (1/84)	11.3	10.8

Recommendations

No action recommended.

WADDELL & REED
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

WEISS, PECK & GREER
Period Ending 6/30/94

Portfolio Manager: Melville Straus **Assets Under Management: $183,675,488**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-10.8%	-7.1%
Last 1 year	-9.0	-1.2
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	-9.0	-1.2

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

CIC ASSET MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Jorge Castro | **Assets Under Management: $29,970,049**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	0.5%
Since Inception (4/94)	-0.1	0.5

COHEN DAVIS & MARKS INCORPORATED
Period Ending 6/30/94

Portfolio Manager: George Cohen | **Assets Under Management: $30,595,765**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.0%	0.5%
Since Inception (4/94)	2.0	0.5

COMPASS CAPITAL MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Charles Kelley | **Assets Under Management: $29,495,986**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.7%	-0.5%
Since Inception (4/94)	-1.7	-0.5

FIRST CAPITAL ADVISORS, INC.
Period Ending 6/30/94

Portfolio Manager: Phil Orlando | **Assets Under Management: $29,849,395**

Investment Philosophy

First Capital Advisers believes that cash flow, "true" earnings, tangible asset values, and inherent growth are measures of potential relative performance that are often superior to measures based simply on "reported earnings". First Capital Advisors bases its valuations primarily on these "value-related" factors. They employ a sector-rotational equity strategy, which combines elements of both top-down and bottom-up analysis. Their primary investment focus is on large capitalization companies with strong balance sheets and are highly liquid. First Capital combines fundamental and technical analyses to identify superior longer-term investment opportunities and to endeavor to maximize short-term trading strategies.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.5%	0.5%
Since Inception (4/94)	-0.5	0.5

KENNEDY CAPITAL MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Richard Sinise | **Assets Under Management: $29,057,273**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-3.1%	-3.9%
Since Inception (4/94)	-3.1	-3.9

NEW AMSTERDAM PARTNERS
Period Ending 6/30/94

Portfolio Manager: Michelle Clayman | **Assets Under Management: $28,627,552**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-4.6%	-0.2%
Since Inception (4/94)	-4.6	-0.2

VALENZUELA CAPITAL MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Mariko Gordon | **Assets Under Management: $30,399,258**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.3%	0.5%
Since Inception (4/94)	1.3	0.5

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 6/30/94

Portfolio Manager: Mark Thompson | **Assets Under Management: $28,032,472**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-6 6%	-3.5%
Since Inception (4/94)	-6.6	-3.5

WINSLOW CAPITAL MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Clark Winslow | **Assets Under Management:** $29,160,902

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.8%	-1.0%
Since Inception (4/94)	-2.8	-1.0

ZEVENBERGEN CAPITAL INC
Period Ending 6/30/94

Portfolio Manager: Nancy Zevenbergen | **Assets Under Management:** $28,463,729

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.1%	-1.0%
Since Inception (4/94)	-5.1	-1.0

STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 1994

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DOMESTIC BOND MANAGERS
Period Ending 6/30/94

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
BEA	-1.4	-1.0	-1.2	-1.2					-1.2	-1.2	$275.75	4.6%
IAI	-1.7	-1.0	-2.2	-1.2	9.3	8.2	8.8	8.5	12.0	11.6	453.75	7.6%
Miller	-2.0	-1.0	-1.7	-1.2	9.6	8.1	9.3	8.6	11.8	11.7	500.33	8.4%
Standish	-1.2	-1.0	-1.5	-1.2					-1.5	-1.2	452.97	7.6%
Western	-2.1	-1.0	-1.2	-1.2	9.5	8.1	9.5	8.7	12.7	11.6	837.94	14.1%
IDS (2)	-1.1	-1.2	-1.2	-1.3					-1.2	-1.3	235.70	4.0%
TCW (3)	-5.7	-0.5	-4.6	-0.9					-4.6	-0.9	227.45	3.8%
Goldman (4)	-0.9	-1.0	-0.4	-1.2					-0.4	-1.2	998.03	16.7%
Fidelity (4)	-0.8	-1.0	-0.1	-1.2	8.6	8.1	9.1	8.6	9.6	9.2	994.60	16.7%
Lincoln (4)	-1.1	-1.0	-1.1	-1.2	8.2	8.1	8.6	8.6	9.2	9.2	985.86	16.5%
											$5,962.38	100.0%
									Since 7/1/84			
Current Aggregate	-1.5	-1.0	-1.1	-1.1	8.8	8.1	9.0	8.6	12.1	11.6		
Historical Aggregate (5)	**-1.5**	**-1.0**	**-1.1**	**-1.1**	**8.7**	**8.1**	**8.9**	**8.6**	**11.5**	**11.4**		
Salomon BIG		-1.0		-1.2		8.1		8.6		11.6		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Govt./Corp. only.
(3) Mortgages only.
(4) Semi- passive manager.
(5) Includes performance of terminated managers.

BEA ASSOCIATES
Period Ending 6/30/94

Portfolio Manager: Bob Moore **Assets Under Management: $275,744,574**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive option analysis capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.4%	-1.0%
Last 1 year	-1.2	-1.2
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	-1.2	-1.2

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95.

IDS ADVISORY GROUP
Period Ending 6/30/94

Portfolio Manager: Ed Labenski **Assets Under Management: $235,703,819**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.1%	-1.2%
Last 1 year	-1.2	-1.3
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	-1.2	-1.3

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95.

INVESTMENT ADVISERS
Period Ending 6/30/94

Portfolio Manager: Larry Hill | **Assets Under Management: $453,748,259**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

The current evaluation notes the following:

— The manager's duration decisions have added value recently.

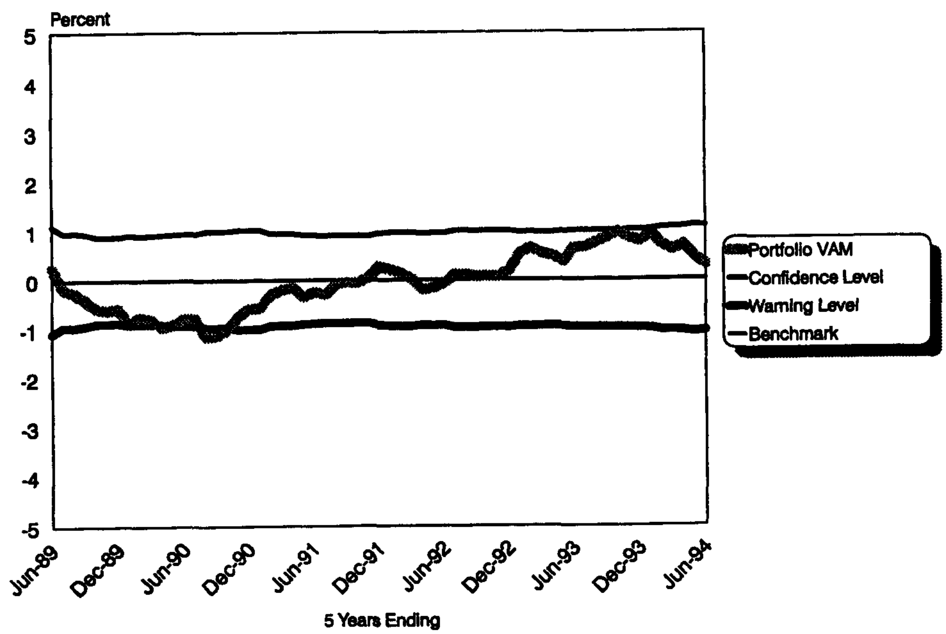
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.7%	-1.0%
Last 1 year	-2.2	-1.2
Last 2 years	6.5	5.2
Last 3 years	9.3	8.2
Last 4 years	9.5	8.8
Last 5 years	8.8	8.5
Since Inception (7/84)	12.0	11.6

Recommendations

No action recommended.

Investment Advisers
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

MILLER ANDERSON & SHERRERD
Period Ending 6/30/94

Portfolio Manager: Tom Bennett **Assets Under Management: $500,329,905**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The firms strengths continue to be:

—Highly successful and experienced professionals.

—Extensive securities research process.

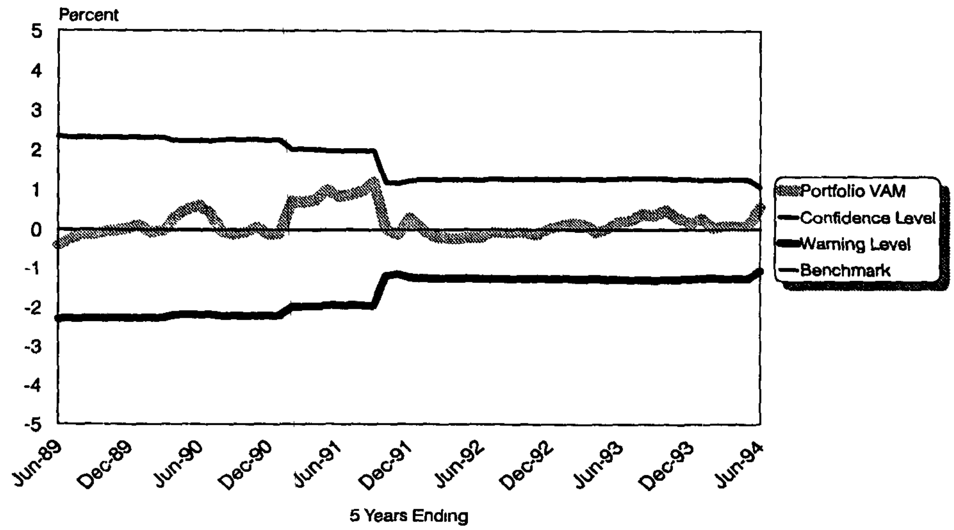
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.0%	-1.0%
Last 1 year	-1.7	-1.2
Last 2 years	6.1	5.2
Last 3 years	9.6	8.1
Last 4 years	9.9	8.8
Last 5 years	9.3	8.6
Since Inception (7/84)	11.8	11.7

Recommendations

No action recommended.

MILLER ANDERSON
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

STANDISH, AYER & WOOD
Period Ending 6/30/94

Portfolio Manager: Austin Smith | **Assets Under Management: $452,964,585**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals

—Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.2%	-1.0%
Last 1 year	-1.5	-1.2
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	-1.5	-1.2

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95

TCW
Period Ending 6/30/94

Portfolio Manager: Philip Barach | **Assets Under Management: $227,451,660**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive CMO investment experience.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-5.7%	-0.5 %
Last 1 year	-4.6	-0.9
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	-4.6	-0.9

Recommendations

No action recommended.

VAM graph will be drawn for period ending 9/30/95.

WESTERN ASSET MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Kent Engel **Assets Under Management: $837,938,348**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The firm's exceptional strengths continue to be:

—Highly successful and experienced professionals.

—Extensive securities research process.

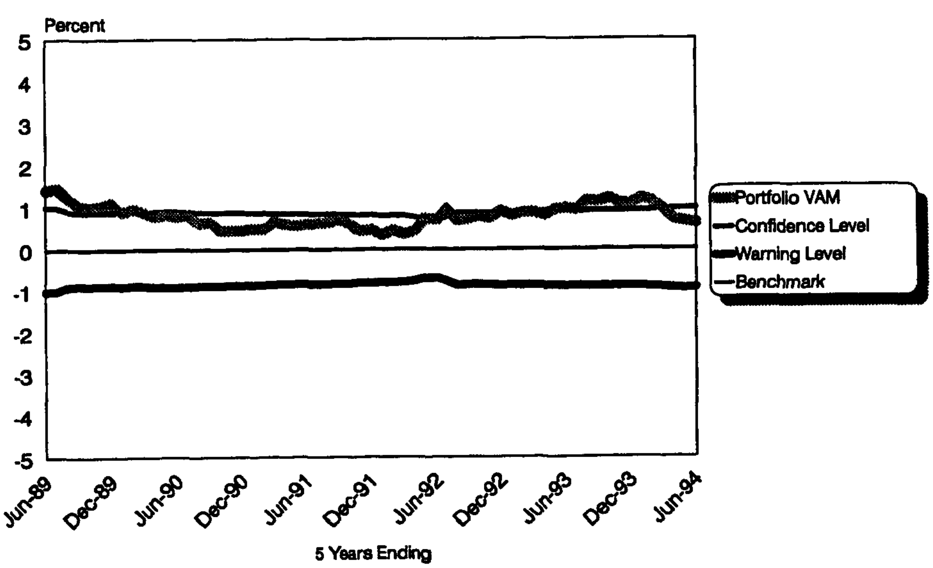
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-2.1%	-1.0%
Last 1 year	-1.2	-1.2
Last 2 years	6.5	5.2
Last 3 years	9.5	8.1
Last 4 years	9.9	8.8
Last 5 years	9.5	8.7
Since Inception (7/84)	12.7	11.6

Recommendations

No action recommended.

Western Asset Management
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

FIDELITY MANAGEMENT TRUST
Period Ending 6/30/94

Portfolio Manager: Tom Steffanci | **Assets Under Management: $994,601,627**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Extensive securities research process.

—Quantitative capabilities.

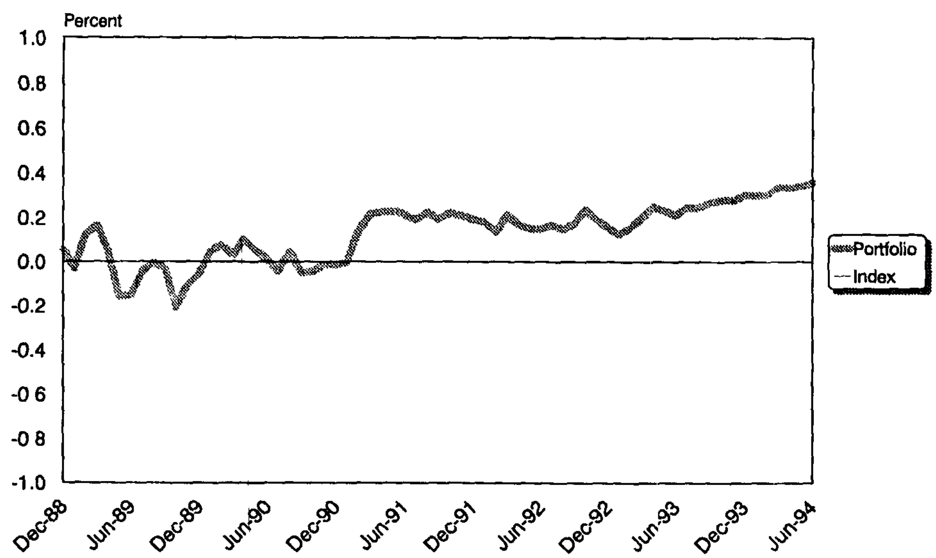
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.8%	-1.0%
Last 1 year	-0.1	-1.2
Last 2 years	6.0	5.2
Last 3 years	8.6	8.1
Last 4 years	9.4	8.8
Last 5 years	9.1	8.6
Since Inception (7/88)	9.6	9.2

Recommendations

No action recommended.

Fidelity Management Trust
Cumulative Annualized Tracking Report



GOLDMAN SACHS
Period Ending 6/30/94

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $998,034,057**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.9%	-1.0%
Last 1 year	-0.4	-1.2
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception	-0.4	-1.2

Recommendations

No action recommended.

Tracking graph will be drawn for the period ending 9/30/95.

LINCOLN CAPITAL MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: Brian Johnson | **Assets Under Management: $985,860,152**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The firm's strengths are:

—Highly successful and experienced professionals.

—Extensive quantitative capabilities.

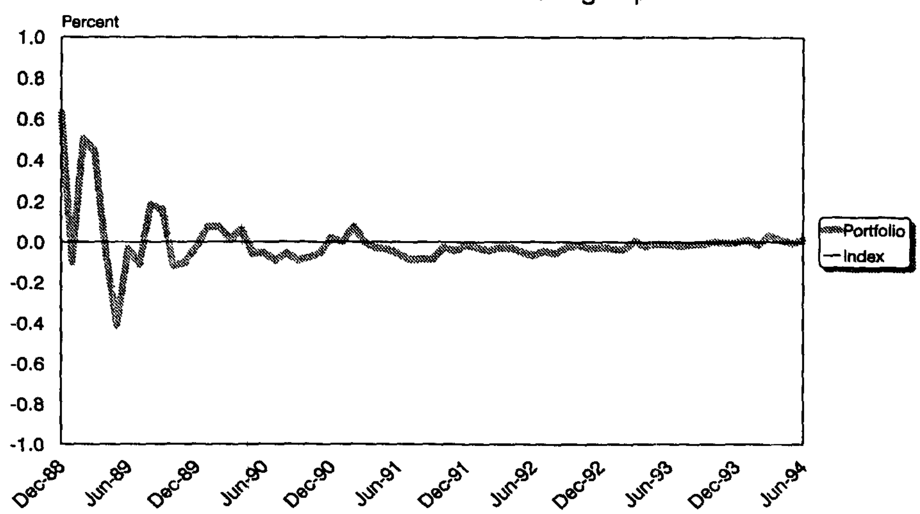
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-1.1%	-1.0%
Last 1 year	-1.1	-1.2
Last 2 years	5.4	5.2
Last 3 years	8.2	8.1
Last 4 years	8.8	8.8
Last 5 years	8.6	8.6
Since Inception (7/88)	9.2	9.2

Recommendations

No action recommended.

LINCOLN CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 1994

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INTERNATIONAL STOCK MANAGERS
Period Ending 6/30/94

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
Baring (1)	3.7	5.1	21.1	17.0					21.2	22.4	$183.97	9.1%
Brinson (1)	2.9	5.1	10.4	17.0					10.6	22.4	166.19	8.3%
Marathon (2)	5.4	5.1							15.4	6.4	173.04	8.6%
Rowe Price (2)	0.9	5.1							5.7	6.4	158.31	7.9%
Scudder (2)	1.6	5.1							3.1	6.4	157.93	7.8%
Templeton (2)	0.3	5.1							3.2	6.4	157.89	7.8%
State Street (3)	5.4	5.1	17.7	17.0					20.6	20.5	1,016.33	50.5%
Current Aggregate	**4.0**	**5.1**	**17.3**	**17.0**					**19.5**	**20.5**	**$2,013.66**	**100.0%**

(1) Active country/passive stock. Retained April 1, 1993
(2) Fully active. Retained November 1, 1993
(3) Index. Retained October 1, 1992

BARING INTERNATIONAL INVESTMENT LTD.
Period Ending 6/30/94

Portfolio Manager: Philip Bullen **Assets Under Management: $183,969,582**

Investment Philosophy

Barings manages an active country/passive stock portfolio for the SBI. Barings' strategic policy team is responsible for the country and currency decisions. Country allocation decisions are made using a macroeconomic framework which seeks to identify growing economies as evidenced by positive changes in GDP and interest rates. The team uses multiple inputs including regional specialists, local market valuations and a computer model that functions as an audit of the qualitative valuation process. Currency specialists within Barings provide assessments on flow of funds, currency rates, monetary policy, inflation and interest rates. Barings uses country index funds managed by State Street Global Advisors to implement their country allocations. At Barings' direction, State Street also implements currency/hedging strategies for the portfolio.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	5.1%
Last 1 year	21.1	17.0
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	21.2%	22.4%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 6/30/95.

BRINSON PARTNERS
Period Ending 6/30/94

Portfolio Manager: Richard Carr **Assets Under Management: $166,194,270**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

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

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.9%	5.1%
Last 1 year	10.4	17.0
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	10.6%	22.4%

Recommendations

No action recommended.

VAM graph will be created for period ending 6/30/95.

MARATHON ASSET MANAGEMENT
Period Ending 6/30/94

Portfolio Manager: William Arah **Assets Under Management: $173,035,721**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

Current concerns are:

—The firm has experienced a fair amount of client growth over the last year.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.4%	5.1%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	15.4%	6.4%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 6/30/94

Portfolio Manager: Martin Wade | **Assets Under Management: $158,312,168**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

The firms strengths continue to be:

— Extensive securities research process.

— Successful investment approach which has been consistently applied over a number of market cycles.

— Familiarity with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	5.1%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	5.7%	6.4%

Recommendations

No action recommended.

VAM graph will be created for period ending 3/31/96.

SCUDDER, STEVEN & CLARK
Period Ending 6/30/94

Portfolio Manager: Nicholas Bratt **Assets Under Management: $157,926,071**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Strong leadership.

—Extensive securities research capabilities.

—Successful investment approach which has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.6%	5.1%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	3.1%	6.4%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

TEMPLETON INVESTMENT COUNSEL, INC.
Period Ending 6/30/94

Portfolio Manager: Harry Ehrlich **Assets Under Management: $157,894,885**

Investment Philosophy

Templeton's goal is to identify those companies selling at the greatest discount to future intrinsic value. The firm takes a long-term approach to investing and believes that, over time, markets are efficient and patience will reward those who have identified undervalued stocks Stock selection dominates Templeton's investment approach; country, sector and industry weightings are a residual of the stock selection process. Stock ideas are obtained from a worldwide network of research sources and screens of their own global database. From this preliminary list, analysts conduct fundamental analysis to distinguish a "cheap' stock from a "bargain." Templeton seeks stocks that are cheap relative to their own price history, their global industry and their domestic market. Each stock on the resulting "bargain list" has established buy and sell price targets and is purchased and sold accordingly.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Extensive securities research process.

—Successful investment approach which has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	5.1%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	3.2%	6.4%

Recommendations

No action recommended.

VAM graph will be drawn for period ending 3/31/96.

Tab G

COMMITTEE REPORT

DATE: September 6, 1994

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

FROM: **Alternative Investment Committee**

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

- Review of current strategy.
- Results of review sessions with private equity manager, Zell/Chilmark; a real estate manager, Zell/Merrill Lynch; and a resource manager, L.E. Simmons.
- Investment for the Post Retirement Fund and the Basic Retirement Funds with a new real estate manager, **Colony Advisors**.
- Investment for the Basic Retirement Funds with a new private equity manager, **Warburg Pincus**.
- Investment for the Post Retirement Fund with two new private equity managers, **Kleinwort Benson** and **Citicorp**.

Board action is requested on the investments with the four (4) managers listed above.

INFORMATION ITEMS:

1) **Review of Current Strategy.**

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

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 $536 million to twenty-one (21) commingled real estate funds.

The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. To date, the SBI has committed to twenty-eight (28) commingled private equity funds for a total commitment of $725 million.

The strategy for resource investment requires that investment be made in resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has committed $113 million to seven (7) commingled oil and gas funds.

The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employee's pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments.

2) Results of Review Sessions with Existing Managers.

During the quarter, the Alternative Investment Committee and staff attended review sessions with one of the SBI's private equity managers, Zell/Chilmark, one of the SBI's real estate managers, Zell/Merrill Lynch, and one of the SBI's resource managers, L.E. Simmons. Overall, the meeting went well and produced no major surprises.

A summary of the review sessions are included as **Attachment C, D** and **E** of this Committee Report.

ACTION ITEMS:

1) Investment with a new real estate manager, Colony Advisors, in Colony Investors II.

Colony Advisors, Inc. is seeking investors in a new $500 million real estate fund, Colony Investors II. The fund will be a follow-on-fund to Colony Investors I. Fund I, consisting of several separate limited partnerships, was formed in 1991 through 1994 with total investor equity commitments of $167.3 million. Like Fund I, Fund II will invest in undervalued equity and debt real estate-related assets.

More information on Colony Investors II is included as **Attachment F**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $80 million or 20%, whichever is less, in Colony Investors II. This commitment will be allocated 50% to the Post Retirement Fund and 50% to the Basic Retirement Funds.

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

2) **Investment with a new private equity manager, Kleinwort Benson, in Kleinwort Benson Mezzanine Fund II.**

Kleinwort Benson is seeking investors in a new $150 million private equity Limited Partnership, Kleinwort Benson Mezzanine Fund II. The fund will be a follow-on fund to Kleinwort Benson Mezzanine Fund I. Kleinwort Benson Mezzanine Fund I was formed in 1988 with $120 million in investor capital committed. Like Fund I, Fund II will invest in a broad range of transactions utilizing subordinated debt and equity securities.

More information on Kleinwort Benson Mezzanine Fund II is included as **Attachment G.**

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $25 million or 20%, whichever is less, in Kleinwort Benson Mezzanine Fund II. This commitment will be allocated to the Post Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota,

the State Board of Investment or its Executive Director have any liability for reliance by Kleinwort Benson upon this approval. Until a formal agreement is executed by the Executive Director on behalf of the SBI, further due diligence and negotiations may result in the imposition of additional terms and conditions on Kleinwort Benson Mezzanine Fund II or reduction or termination of the commitment.

3) **Investment with a new private equity manager, Citicorp, in Citicorp Mezzanine Partners, L.P. Fund II.**

Citicorp is seeking investors in a new $400 million private equity Limited Partnership, Citicorp Mezzanine Partners, L.P. Fund II. The fund will be a follow-on fund to Citicorp Mezzanine Partners, L.P. Fund I. Citicorp Mezzanine Partners, L.P. Fund I was formed in 1989 with $533 million in investor capital committed. Like Fund I, Fund II will invest in a broad range of transactions utilizing subordinated debt and equity securities.

More information on Citicorp Mezzanine Partners, L.P. Fund II is included as **Attachment H**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $40 million or 20%, whichever is less, in Citicorp Mezzanine Partners, L.P. Fund II. This commitment will be allocated to the Post Retirement Fund.

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

4) **Investment with a new private equity manager, E.M. Warburg Pincus & Co., in Warburg Pincus Ventures, L.P.**

E.M. Warburg Pincus & Co., Inc. is seeking investors in a new $2 billion private equity Limited Partnership, Warburg Pincus Ventures, L.P. The fund will be a follow-on fund to five other Warburg Pincus venture fund's formed between 1971 and 1989 with over $3.4 billion in total capitalization. Like the other Warburg Pincus Fund's, this Fund will invest in a wide variety of businesses located domestically and abroad.

More information on Warburg Pincus Ventures, L.P. is included as **Attachment I**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in Warburg Pincus Ventures, L.P. This commitment will be allocated to the Basic Retirement Funds.

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

ATTACHMENT A

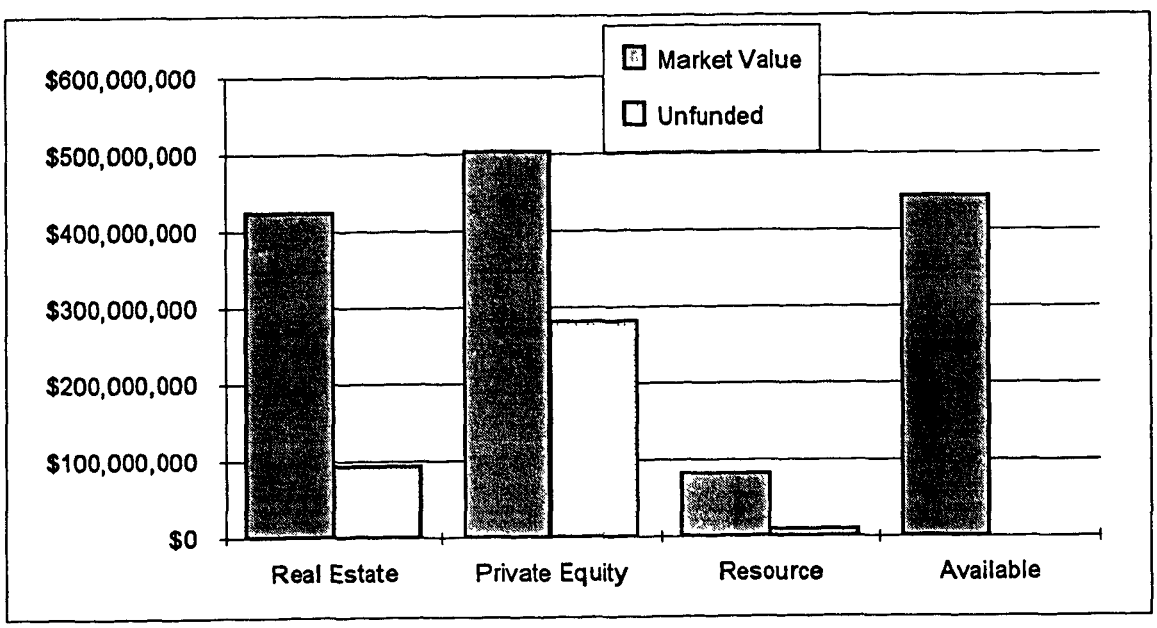
Minnesota State Board of Investment

Alternative Investments Basic Retirement Fund
June 30, 1994

Market Value of Basic Retirement Fund (Basic)	$9,688,354,582
Amount Available For Investment	$443,842,268

	Current Level	*Target Level*	*Difference*
Market Value	$1,009,410,920	$1,453,253,187	$443,842,268
MV + Unfunded	$1,393,070,278	$1,937,670,916	$544,600,638

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	$424,566,415 *4.4%*	$92,762,993 *1.0%*	$517,329,408 *5.3%*
Private Equity	$503,053,368 *5.2%*	$281,590,983 *2.9%*	$784,644,351 *8.1%*
Resource	$81,791,137 *0.8%*	$9,305,383 *0.1%*	$91,096,520 *0.9%*
Total	$1,009,410,920 *10.4%*	$383,659,359 *4.0%*	$1,393,070,278 *14.4%*



ATTACHMENT A (con't)

STATE OF MINNESOTA
ALTERNATIVE EQUITY INVESTMENTS
June 30, 1994

	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
AETNA 13354 *	Jun-93	2,376,529	2,376,529	2,527,107	0	0	6 33	1 1
AETNA	Apr-82	40,000,000	40,000,000	56,783,837	0	0	3.23	12.3
AEW III	Sep-85	20,000,000	20,000,000	17,317,221	3,141,264	0	-1 02	8 8
AEW IV	Sep-86	17,400,000	15,000,000	4,383,567	829	2,400,000	-15 03	7 8
AEW V	Dec-87	15,000,000	15,000,000	10,594,172	157,901	0	-5 38	6 6
AMERICAN REPUBLIC *	Jan-90	1	1	1	0	0	0.00	4.5
ARCH STREET CORP. **	Jul-93	10,000,000	10,000,000	4,300,000	0	0	-57 10	1 0
EQUITABLE	Oct-81	40,000,000	40,000,000	70,057,387	0	0	4 93	12 8
FIRST ASSET REALTY *	Apr-94	907,097	907,097	907,097	0	0	0 00	0 2
HEITMAN I	Aug-84	20,000,000	20,000,000	11,721,844	11,842,633	0	2 70	9 9
HEITMAN II	Nov-85	30,000,000	30,000,000	26,375,408	12,502,477	0	3 85	8 7
HEITMAN III	Feb-87	20,000,000	20,000,000	14,164,071	5,800,613	0	-0 09	7 4
HEITMAN V	Dec-91	20,000,000	20,000,000	21,640,188	1,373,226	0	7 02	2 6
LASALLE	Sep-91	15,000,000	6,554,461	6,861,391	446,040	8,445,539	5 49	2 8
PAINE WEBBER *	Feb-90	500,000	500,000	313,665	94,202	0	-4 94	4 4
REALTY ASSOCIATES FUND III	Jun-94	40,000,000	11,800,000	11,800,000	0	28,200,000	0 00	0 1
RREEF	May-84	75,000,000	75,000,000	67,606,165	21,960,712	0	2 44	10 2
TCW III	Aug-85	40,000,000	40,000,000	28,230,106	10,900,073	0	-0 31	8 9
TCW IV	Nov-86	30,000,000	30,000,000	20,970,788	2,399,405	0	-3 87	7 7
ZELL/MERRILL LYNCH II	Nov-91	50,000,000	37,482,546	39,142,400	260,134	12,517,454	3 81	2 7
ZELL/MERRILL LYNCH III	Jan-94	50,000,000	8,800,000	8,870,000	0	41,200,000	N/M	0 5
TOTAL REAL ESTATE		***536,183,627***	***443,420,634***	***424,566,415***	***70,879,509***	***92,762,993***		
PRIVATE EQUITY								
ALLIED	Sep-85	5,000,000	5,000,000	2,569,720	3,544,838	0	3 93	8 8
BANK FUND III	Oct-92	20,000,000	11,000,000	11,570,812	8,372	9,000,000	3 24	1 7
BLACKSTONE II	Nov-93	50,000,000	3,521,089	3,036,411	169,993	46,478,911	N/M	0 7
BRINSON	May-88	5,000,000	5,000,000	3,304,813	3,774,443	0	9 53	6 2
BRINSON II	Nov-90	20,000,000	14,000,000	10,795,560	10,636,891	6,000,000	26 49	3 7
CHURHILL II	Oct-92	20,000,000	8,200,000	7,172,478	1,479,607	11,800,000	8 63	1.7
CORAL I (FORMERLY SUPERIOR)	Jun-86	6,645,000	6,645,000	6,191,609	2,707,667	0	7.11	8.1
CORAL PARTNERS I *	Apr-94	515,972	515,972	515,972	0	0	0 00	0 2
CORAL II (FORMERLY IAI II)	Jul-90	10,000,000	7,000,000	7,608,170	1,443,401	3,000,000	9 29	4 0
DSV	Apr-85	10,000,000	10,000,000	10,005,929	2,528,197	0	2 76	9 3
FIRST CENTURY	Dec-84	10,000,000	10,000,000	7,975,666	5,808,419	0	7 90	9 6
GOLDER THOMA III	Oct-87	14,000,000	12,605,000	12,258,043	7,956,491	1,395,000	16 19	6.8
GOLDER THOMA IV	Apr-93	20,000,000	2,600,000	2,501,275	0	17,400,000	N/M	1 2
IAI I *	Mar-91	500,000	500,000	335,967	284,080	0	7 55	3 3
IAI VENTURES I *	Apr-94	722,828	722,828	722,828	0	0	0 00	0 2
IMR PARTNERSHIP	Aug-92	30,000,000	1,176,900	1,390,612	0	28,823,100	37 88	1 9
INMAN BOWMAN	Jun-85	7,500,000	7,500,000	7,978,325	0	0	1 03	9 1
KKR I	Jun-84	25,000,000	25,000,000	44,040,000	70,809,719	0	29 67	10 1
KKR II	Apr-86	18,365,339	18,365,339	40,870,000	44,292,338	0	22 42	8 3
KKR III	Nov-87	145,950,000	145,950,000	225,190,000	104,276,433	0	11 66	6 7
KKR IV	May-91	150,000,000	2,534,000	2,530,000	0	147,466,000	N/M	3 2
MATRIX II	Aug-85	10,000,000	10,000,000	3,785,938	14,928,031	0	12.53	8 9
MATRIX III	May-90	10,000,000	8,750,000	11,710,009	497,220	1,250,000	18 88	4 2
NORTHWEST	Jan-84	10,000,000	10,000,000	1,678,465	10,411,651	0	2 77	10 5
SUMMIT I	Dec-84	10,000,000	10,000,000	2,534,686	15,792,219	0	11 22	9 6
SUMMIT II	May-88	30,000,000	28,865,455	14,586,741	31,747,991	1,134,545	21 61	6 2
T ROWE PRICE	Nov-87	55,993,313	55,993,313	32,270,930	23,104,933	0	-11 12	6 7
ZELL/CHILMARK	Jul-90	30,000,000	22,156,573	27,922,408	2,757,024	7,843,427	7 68	4 0
TOTAL VENTURE CAPITAL		***725,192,452***	***443,601,469***	***503,053,368***	***358,959,958***	***281,590,983***		
RESOURCES								
AMGO I	Sep-81	15,000,000	15,000,000	6,469,773	3,614,536	0	-3 98	12 8
AMGO II	Feb-83	7,000,000	7,000,000	7,190,202	2,325,453	0	3 64	11 4
AMGO IV	May-88	12,300,000	12,300,000	13,024,775	1,508,552	0	3 61	6 2
AMGO V	May-90	16,800,000	15,925,203	18,213,249	3,403,869	874,797	12 07	4 2
APACHE III	Dec-86	30,000,000	30,000,000	8,572,260	35,642,904	0	11 11	7 6
MORGAN OIL&GAS	Aug-88	15,000,000	13,799,697	18,716,169	1,423,867	1,200,303	9 00	5 9
SIMMONS OFS	Aug-91	17,000,000	9,769,717	9,604,709	450,897	7,230,283	2 56	2 9
TOTAL RESOURCES		***113,100,000***	***103,794,617***	***81,791,137***	***48,370,078***	***9,305,383***		
TOTAL PORTFOLIO		**1,374,476,079**	**990,816,720**	**1,009,410,920**	**478,209,545**	**383,659,359**		

- Acquired in local police and fire fund consolidation with PERA
***** - Acquired from Post Retirement Fund as part of asset allocation transition during FY93***

ATTACHMENT B

Minnesota State Board of Investment

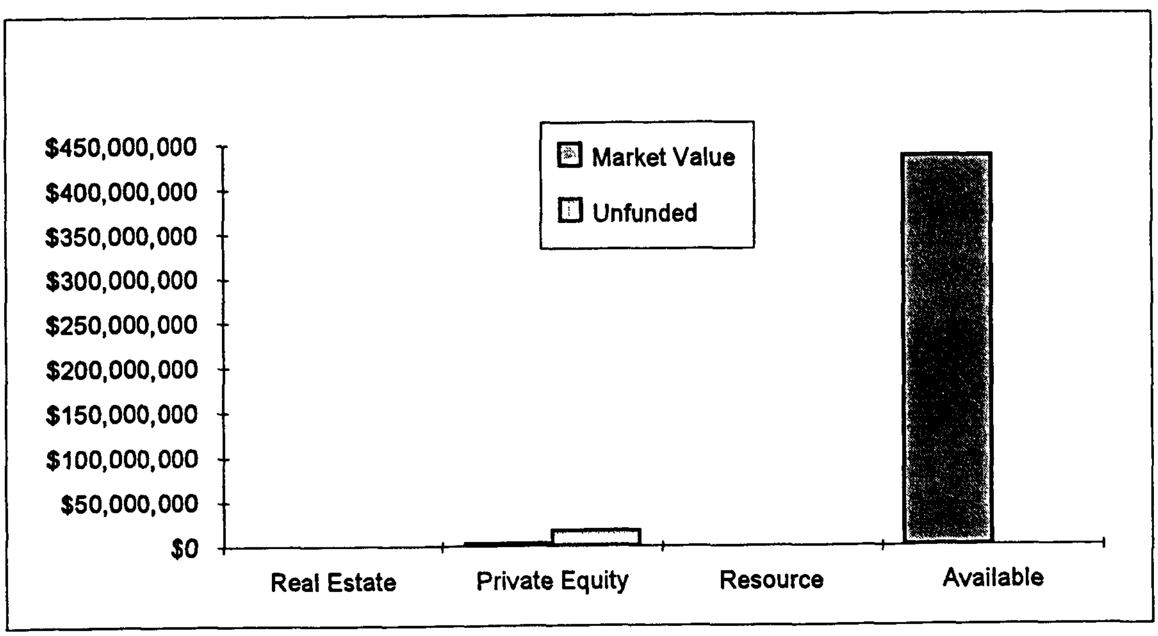
Alternative Investments Post Retirement Fund

June 30, 1994

Market Value of Post Retirement Fund (Post)	$8,772,032,917
Amount Available For Investment	$435,601,646

	Current Level	*Target Level*	*Difference*
Market Value	$3,000,000	$438,601,646	$435,601,646
MV + Unfunded	$20,000,000	$877,203,292	$857,203,292

Asset Class	Market Value	Unfunded Commitment	Total
Real estate	$0 *0.0%*	$0 *0.0%*	$0 *0.0%*
Private Equity	$3,000,000 *0.0%*	$17,000,000 *0.2%*	$20,000,000 *0.2%*
Resource	$0 *0.0%*	$0 *0.0%*	$0 *0.0%*
Total	$3,000,000 *0.0%*	$17,000,000 *0.2%*	$20,000,000 *0.2%*



ATTACHMENT B (con't)

STATE OF MINNESOTA
ALTERNATIVE EQUITY INVESTMENTS
June 30, 1994

	INCEPTION DATE	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
REAL ESTATE								
TOTAL REAL ESTATE		***0***	***0***	***0***	***0***	***0***		
PRIVATE EQUITY								
SUMMIT SUBORDINATED DEBT	Feb-94	20,000,000	3,000,000	3,000,000	0	17,000,000	0.00	
TOTAL VENTURE CAPITAL		***20,000,000***	***3,000,000***	***3,000,000***	***0***	***17,000,000***		
RESOURCES								
TOTAL RESOURCES		***0***	***0***	***0***	***0***	***0***		
TOTAL PORTFOLIO		**20,000,000**	**3,000,000**	**3,000,000**	**0**	**17,000,000**		

ATTACHMENT C

ANNUAL REVIEW SUMMARY
ZELL/CHILMARK
July 28, 1994

MANAGER REPRESENTATIVES: Steve Quazzo, Don Phillips, Scott Whitney

SBI ASSETS UNDER MANAGEMENT: $27,922,408 (6/30/94)

BACKGROUND AND DESCRIPTION:

The Zell/Chilmark Fund was formed in July 1990 with $1.0 billion in total investor commitments by Sam Zell and David Schulte. Sam Zell is Chairman of the Board of Equity Financial and Management Company, a Chicago-based 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 specializing in corporate turnarounds, in June 1984. The SBI's investment commitment to the Zell/Chilmark Fund is $30 million and, at this time, is more than two-thirds funded. The Fund has a 10 year term.

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:

Broadway (formerly Carter Hawley Hale), the Fund's largest investment, has made significant operating progress over the last year despite the weak California economy. Broadway has 83 stores with 90% of them in California. Since the Fund's initial investment, Broadway has identified and implemented significant cost savings measures, hired a new senior management team and eliminated a significant amount of debt.

Other fund investments (Revco Drug Stores, Jacor Communications, Sante Fe Energy, Scott/Schwinn and Sealy) are performing as expected and have also made significant operational progress over the last year.

The Fund's newest investment, to be funded in August 1994, is in Midway Airlines. The Fund will provide second stage primary capital for a start-up airline with brand new planes at inexpensive lease rates and attractive routes. The Fund will own 90% of Midway Airlines.

Overall, the fund manager feels that a 20% annualized internal rate of return is achievable over the life of the fund.

ZELL/CHILMARK QUANTITATIVE EVALUATION
(6/30/94)

COMMITMENT:	$30,000,000
FUNDED COMMITMENT:	$22,156,573
MARKET VALUE OF FUNDED COMMITMENT:	$27,922,408
CASH DISTRIBUTIONS:	$2,757,024
INCEPTION DATE(S):	July 1990
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	7.68%

DIVERSIFICATION PROFILE

Carter Hawley Hale	33%
Revco, D.S., Inc.	10%
Jacor Communications, Inc.	10%
Sante Fe Energy	6%
Scott/Schwinn	7%
Sealy	31%
Midway Airlines	3%
	100%

ATTACHMENT D

ANNUAL REVIEW SUMMARY
ZELL/MERRILL LYNCH
July 28, 1994

MANAGER REPRESENTATIVES: Steve Quazzo, Don Phillips, Scott Whitney

SBI ASSETS UNDER MANAGEMENT: $48,012,400 (6/30/94)

BACKGROUND AND DESCRIPTION:

The Zell/Merrill Lynch Real Estate Opportunity partnership Funds II and III were formed in November 1991 and January 1994, with $430 million and $682 million of investor commitments, respectively. Fund II and III terminate in the years 2010 and 2015, respectively. Sam Zell and his affiliate, Equity Financial and Management Company (Zell/Equity), have primary investment responsibility for the funds. Merrill Lynch has an oversight role. The SBI's investment commitment is $50 million to each of Funds II and III. At this time, Fund II is essentially fully invested and Fund III is beginning its investment cycle. The investment strategy of Zell/Merrill Lynch II and III is to make investments in opportunistic real estate situations, generally at prices below replacement cost.

QUALITATIVE EVALUATION:

Fund II was fully invested in December 1993. Fund II currently has investments in 24 office buildings acquired at an average cost estimated at 47% of replacement cost, three apartments, acquired at an estimated 76% of replacement cost and one shopping center which is currently under redevelopment. Overall, Fund II is operating as originally expected and ultimate annualized internal rates of return are expected to be in excess of 15%. Currently, however, fund properties are being valued approximately at cost until 12/31/94 when the Funds first appraisals will be conducted.

Fund III, in its initial property acquisition stage, has already acquired four office properties at an estimated 51% of replacement cost. Deal flow for Fund III is excellent and more large acquisitions are expected for the Fund's before year end 1994. Currently, all properties are being valued at cost.

ZELL/MERRILL LYNCH QUANTITATIVE EVALUATION
(6/30/94)

	FUND II	FUND III
COMMITMENT:	$50,000,000	$50,000,000
FUNDED COMMITMENT:	$37,482,546	$8,800,000
MARKET VALUE OF FUNDED COMMITMENT:	$39,142,400	$8,870,000
CASH DISTRIBUTIONS:	$260,134	$ - 0 -
INCEPTION DATE(S):	November 1991	January 1994
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	3.81%	N/M

FUND II DIVERSIFICATION PROFILE

	Fund II	
Office	82%	(24 properties)
Retail	5%	(1 property)
Apartment	13%	(4 properties)
	100%	

Note: Fund III is only beginning its investment cycle. While it has invested in four properties to date, a diversification profile is not meaningful.

ATTACHMENT E

ANNUAL REVIEW SUMMARY
SIMMONS/OFS INVESTMENTS
July 25, 1994

MANAGER REPRESENTATIVES: Anthony DeLuca, L.E. Simmons

SBI ASSETS UNDER MANAGEMENT: $9,604,709 (6/30/94)

BACKGROUND AND DESCRIPTION:

The OFS Investments, L.P., with total investor commitments of $100 million, was formed in July 1991. Each investment has a ten year term. OFS is the second resource investment fund managed by L.E. Simmons and other professional members of the General partner. Simmons & Company, a Houston-based oil field services investment banking firm will be retained when needed. The OFS Investments, L.P. was formed to serve as a vehicle for investment in the oil field service (OFS) and equipment industry. The SBI has committed $17 million to OFS Investments L.P. and, at this time, over one half of the SBI's commitment has been funded.

QUALITATIVE EVALUATION:

To date, OFS Investments has made five oil field services related investments. To complete the Funds investment cycle, one more new investment is expected to be made within the next six months.

The investment climate for the Fund has been characterized by volatile oil and gas prices, emphasis on new technologies and natural gas, and a depressed international and strong U.S. market.

The sectors covered by fund investments include coiled tubing, horizontal and directional drilling, measurement while drilling, international and transportation.

Going forward, in addition to looking for an additional new investment, the fund manager will concentrate on building, consolidating and recapitalizing, where needed, existing investments. Also, a prime focus for the fund in 1994-1995 will be to implement exit/sale strategies for several of the funds' investments.

Overall, the fund manager feels that achievement of a 20% internal rate of return to fund investors is likely over the life of the fund.

SIMMONS/OFS QUANTITATIVE EVALUATION
(6/30/94)

COMMITMENT:	$17,000,000
FUNDED COMMITMENT:	$9,769,717
MARKET VALUE OF FUNDED COMMITMENT:	$9,604,709
CASH DISTRIBUTIONS:	$450,897
INCEPTION DATE(S):	July 1991
INTERNAL RATE OF RETURN (IRR): (annualized, since inception)	2.56%

DIVERSIFICATION PROFILE

Drexel Oil field Services Group	26%
Grupo EPN	21%
Computalog Ltd.	5%
Drilex Systems, Inc.	22%
Coastal Towing	26%
Total	100%

ATTACHMENT F

REAL ESTATE MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Colony Investors II, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$500 million
Fund Manager:	Colony Advisors, Inc. 1999 Avenue of the Stars, #1200 Los Angeles, CA 90067 Phone (310) 282-8820 Fax (310) 282-8813
Manager Contact:	Tom Barrack

II. Organization & Staff

Colony Investors II L.P. is being established by Colony Capital Inc. (Colony) to continue its real estate investment activities. Colony is a 66 person firm which is a dedicated principal investment organization and a captive asset management team. The firm is led by Thomas Barrack, Jr., Kelvin Davis, David Bonderman, and James Coulter and includes eight other investment professionals. The firm was founded in 1991 and has its headquarters in Los Angeles with satellite offices in New York and Fort Worth.

Since 1991, Colony has invested $1.3 billion in 775 real estate assets through the purchase of 8 bulk pools of discounted mortgages and underperforming commercial properties. As of March 31, 1994, Colony has disposed of 416 of these assets.

III. Investment Strategy

Colony will focus its efforts on acquiring undervalued real estate-related assets. Specifically, areas of investment focus will include: the purchase of mortgage and property portfolios owned by banks, insurance companies, and governmental agencies; the acquisition or restructuring of operating companies with significant real estate assets; the acquisition of complex single assets from motivated sellers, including foreign financial institutions; and, investments in residential land and select development projects.

On a transaction-by-transaction basis, the general partner intends to employ leverage, if appropriate, and may if desirable, refinance one or more of the partnership's investments. Additionally, the partnership may enter into a credit facility from time-to-time in order to enable the partnership to pay expenses and make deposits thorough borrowings in lieu of, or in advance of, capital contributions.

IV. Investment Performance

Colony I is a set of six bulk asset acquisitions which occurred from September 1992 through March 1994. These transactions were structured as separate limited partnerships with total partner equity of $167.3 million. As of June 30, 1994, Colony has distributed $56.0 million and has a residual value of $151.4 million. The net IRR to investors is 27.7%.

V. General Partners Investment

The General Partner, together with the principals and their affiliates, will commit at least 4% of the total commitments, up to $20 million, which will be invested pro rata with the limited partners in all transactions.

VI. Takedown Schedule

Commitments will be drawn down pro rata on an as-needed basis, with a minimum of ten business days prior notice to the limited partners.

VII. Management Fees

The partnership will pay to the general partner semi-annually in advance an annual management fee equal to 1.5% of commitments. During any overlap between commitment periods of Colony I and the partnership, the investment management fee will be reduced by an amount equal to 0.75%, on an annualized basis, of the then total commitments of Colony I.

In connection with the disposition of investments, a fee of 1% of the gross disposition price will be charged to the transaction and payable to the general partner. All other financing, break-up, and other fees payable to the partnership, the general partner, or any of its affiliates in respect of consummated and unconsummated transactions will be for the benefit of the partnership.

The general partner will be responsible for all expenses incurred for its own activities in connection with identifying and consummating investments and all other day-to-day expenses of the general partner, including compensation of its employees. Fees and expenses of third parties, partnership operational expenses, organizational/offering expenses up to $1.25 million will be borne by the partnership.

In connection with an investment, the partnership may retain Colony Advisors, Inc., and affiliate of the general partner, as asset/property manager. Advisors will be paid asset management fees not exceeding third-party market rates for such services.

VIII. Term

The partnership will terminate eight years from the initial closing, but may be extended at the discretion of the general partner for up to two consecutive additional one-year periods.

IX. Distributions

Net proceeds from operation, sales, or refinancings attributable to a particular acquisition, whether a company, portfolio of assets, or an individual asset, will first be divided among the partners participating in such investment pro rata according to their relative capital contributions to such investment and then distributed as between a partner and the general partner in the following order of priority:

(a) First, 100% to such partner until distributions to such partner from such investment equal the aggregate of the following:

(i) Such partner's capital contributions to such investment;
(ii) Such partner's capital contributions to all other fully realized investments;
(iii) Such partner's share of any write downs of other investments;
(iv) That portion of such partner's capital contributions to fund organizational expenses, the investment management fee, and unconsummated deal expenses.
(v) A preferred return equal to 10% cumulative internal rate of return, compounded annually, on the amounts referred to in items (i) through (iv) above;

(b) Second, 50% to such partner and 50% to the general partner until such time as the general partner has received 20% of the sum of the distributions made under paragraph (a)(v) and under this paragraph (b);

(c) Thereafter, 80% to such partner and 20% to the general partner.

X. *Re-Use of Capital*

During the commitment period the partnership may: recall for reinvestment the cost basis of any investment previously returned to the partners; recall for reinvestment any distribution in respect of capital contributions utilized to fund the investment management fee; and, retain or distribute and recall any deposits returned to the partnership in connection with unsuccessful bids related to potential investments.

ATTACHMENT G

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	KB Mezzanine Fund II
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$150 million
Fund Manager:	Kleinwort Benson 200 Park Avenue New York, NY 10166 Phone (212) 351-5500 Fax (212) 687-7613
Manager Contact:	Bob Wickey

II. Organization & Staff

The fund's General Partner will be KB Capital Partners which is an indirect wholly owned subsidiary of the Kleinwort Benson (KB) Group, a leading London-based merchant banking firm with consolidated assets in excess of $16.5 billion and offices in over 15 countries. The day-to-day operations of the fund will be directed by Christopher Wright, Michael Khougaz, Caroline Merison, Robert Wickey, Jonathan Stearns, Mary Ochsner, and Nicholas Heptinstall. The team is principally located in New York and has a representative in Chicago.

In November 1988 Kleinwort Benson raised KB Mezzanine Fund I (KBMF I) with total committed capital of $120 million provided by 12 institution investors. Affiliates of the KB Group provided $12 million in that first fund. Through March 1994, KBMF I has invested substantially all of its capital in 14 investments.

III. Investment Strategy

The fund will invest in a broad range of transactions including leveraged buyouts, recapitalizations and restructurings, privatizations, corporate joint ventures and expansion financings in support of internal development and growth as well as acquisitions of complementary businesses or product lines. The portfolio investments are expected to be between $3 and $15 million in U.S. denominated equity and/or subordinated debt securities. The emphasis will be to provide a current return on capital invested in businesses headquartered in North America with annual revenues between $15 and $150 million.

The General Partner will seek superior current and total returns while minimizing portfolio risk through diversification as to industry, financial instrument and transaction type. Kleinwort Benson has a preference for companies with products and management teams which are or have the potential to be international in scope.

The fund will typically structure and act as the sole or lead investor in the tranche(s) of securities in which it invests. While the fund will generally avoid becoming the only provider of junior capital in any transaction, it may act as lead equity investor or sponsor of transactions.

IV. Investment Performance

Kleinwort Benson Mezzanine Fund I was formed in 1988 with $120 million in equity capital committed. As of March 31, 1994, KBMF I was fully invested, carried a value of $64.9 million, and had distributed $102.3 million. The net IRR to investors was 20.5%.

V. General Partners Investment

The General Partner will commit 1% of the total capital commitments of the fund. The KB Group or its affiliates will provide a minimum of $15 million and a maximum of $20 million.

VI. Takedown Schedule

Capital will be contributed from time to time when called by the General Partner. Up to 10% of capital commitments may be drawn at the conclusion of the commitment period (five years) to fund future investments and provide follow-on capital to existing portfolio companies.

VII. Management Fees

Annual management fee of 1% of all undrawn capital commitments and 2% of the net book value of the funds investments excluding any asset write-ups.

VIII. Term

Eight years from final date of closing with up to three one-year extensions at the discretion of the General Partner.

IX. Distributions

All current income and capital gains, with respect to any fund investment, net of fees and expenses, will generally be allocated to the partners capital accounts as follows:

- First, to the partners in proportion to their investment percentages with respect to such investment until the partners have received a cumulative 7% p.a. return on paid in capital commitments
- Second, 80% to the General Partner and 20% to all partners in proportion to their investment percentages with respect to such investment until the General Partner has received 20% of aggregate current income and net capital gains allocated to that date; and
- Third, 80% to all partners in proportion to their investment percentages with respect to such investment and 20% to the General Partner.

Losses will generally be allocated as follows:

- First, to the General Partner to the extent of any previous gain allocation to it pursuant to its 20% allocation; and
- Second, to the partners in proportion to their investment percentage with respect to such investment.

X. Re-Use of Capital

Paid-in capital contributions that are returned to partners in the form of distributions arising form the disposition of portfolio investments within three years of their initial drawdown date may be called again during the commitment period.

ATTACHMENT H

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Citicorp Mezzanine Partners, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$400 million
Fund Manager:	Citicorp Capital Investors, Ltd. 399 Park Avenue New York, NY 10043 Phone (212) 559-2565 Fax (212) 888-2940
Manager Contact:	Byron Knief

II. Organization & Staff

Citicorp Capital Investors, Ltd., (CCIL), a wholly owned subsidiary of Citicorp will act as the general partner for the partnership. CCIL operates in conjunction with the Citicorp entities which sponsor and make equity and related investments through three wholly owned subsidiaries: Citicorp Venture Capital, 399 Venture Partners, and Court Square Capital.

The day-to-day operations of the partnership will be directed by certain investment professionals of the General Partner who will devote substantially all of their time to managing the partnership's activities. Initially, these officers will be Byron Knief, Richard Mayberry, Jr., and Noelle Cournoyer. Besides these professionals, the partnership will be able to draw the resources of Citicorp Venture Capital as required. This provides 15 additional investment professionals available if needed.

In 1989 Citicorp raised their first mezzanine fund which has invested $333 million in 13 separate transactions.

III. Investment Strategy

Generally, partnership investments will be in companies considered by the general partner to exhibit many of the following characteristics: a strong, defensible, and sustainable market share position; a product line serving a diversified base of customers in growing markets; a stable and predictable cash flow stream; a talented, incentivised, and committed management team; and, evidence of significant financial undervaluation.

These investments will consist primarily of subordinated debt and, from time to time, senior debt. Generally, such debt will be structured to pay interest at prevailing market rates and include equity participation. The equity participation generally results from the exercise of warrants for the purchase of common stock.

IV. Investment Performance

Citicorp mezzanine investment fund was formed in 1989 and has invested $532.5 million to date. As of December 31, 1993, the fund had invested $291 million, distributed $53 million, and had a residual value of $84.1 million. The net IRR to investors is 10.77%.

V. General Partners Investment

CCIL will commit 25% of the L.P. interests, up to $100 million.

VI. Takedown Schedule

Each partner will contribute a pro rata portion of each partnership investment at the time of such investment based on each such partner's capital commitment. Partners will receive at least ten days written notice prior to takedown of funds.

VII. Management Fees

There will be no management, monitoring, organizational or other fees to be paid by, or on behalf of, the limited partners or the general partner to the partnership or the general partner.

CCIL will fund all out of pocket expenses incurred in connections with locating and seeking to consummate suitable investments. With respect to completed investments, portfolio companies typically will reimburse CCIL for all transaction expenses related to such investment. In the case of unconsummated transactions, CCIL will be entitled to reimbursement of transaction expenses from customary commitment, financing, or breakup fees from portfolio companies. All such fees shall be first applied first to reimburse CCIL for any unreimbursed transaction expenses. Any remaining amount of financing fees shall be retained by CCIL, in which case any subsequent capital gain allocation to CCIL as part of its carried interest will be reduced by an amount equal to such amount of remaining financing fees.

VIII. Term

The partners' unused capital commitments will be available for investment during a period of five years. Ten years from closing or upon liquidation of the partnership, whichever is earlier, the fund will terminate. In order to provide for orderly liquidation, the general partner may extend the term of the partnership for up to three additional one year periods.

IX. Distributions

All partnership income will be allocated to partners pro rata according to capital contributions until all partners have received a preferential return on invested capital equal to 500 basis points over the blended portfolio treasury rate. This rate is the weighted average ten year treasury rate prevailing on the funding date of each investment.

All cumulative income net of prior losses in excess of the preferential return will be allocated 80% to the partners pro rata according to capital contributions and 20% to CCIL. There is no catch-up allocation to Citicorp Capital Investors and net financing fees are credited against carried interest.

Cumulative losses net of prior gains of the partnership will be allocated first to CCIL in an aggregate amount not to exceed 10% of the fund. Thereafter, to all partners pro rata according to capital accounts.

X. Re-Use of Capital

Partners unused capital commitments will be restored to the extent partners receive a return of capital pursuant to a liquidation of an investment within one year of its funding.

ATTACHMENT I

PRIVATE EQUITY MANAGER SUMMARY PROFILE

I. Background Data

Name of Fund:	Warburg, Pincus Ventures, L.P.
Type of Fund:	Private Equity Limited Partnership
Total Fund Size:	$2 billion
Fund Manager:	E.M. Warburg, Pincus & Co., Inc. 466 Lexington Avenue New York, NY 10017 Phone (212) 878-0600
Manager Contact:	Lionel Pincus

II. Organization & Staff

Warburg, Pincus Ventures L.P. will be managed by E.M. Warburg, Pincus & Company as General Partner. The staff of the General Partner includes approximately 100 people, including 46 investment professionals and 20 managing directors.

Warburg Pincus has managed five previous venture banking funds:

- ***EMW Ventures Inc.*** formed in 1971 a total capitalization of $41.5 million which was totally invested and merged into a public company in 1981. This fund completed 34 investments.

- ***Warburg Pincus Associates L.P.*** formed in 1980 with a total capitalization of $101 million. This fund completed 44 investments and was essentially liquidated in December 1992.

- ***Warburg Pincus Capital Partners*** formed in 1983 with a total capitalization of $341 million. The fund is fully invested in 43 investments, 11 of which remain.

- ***Warburg Pincus Capital Company*** was formed in 1986 with a total capitalization of $1.175 billion. The fund is fully invested in 58 investments, 30 of which remain.

- ***Warburg Pincus Investors*** was formed in 1989 with a total capitalization of $1.775 billion. The fund is substantially invested in 57 investments, 52 of which remain.

III. Investment Strategy

Like the five prior Warburg, Pincus funds, the partnership will invest in businesses which the manager believes have one or more of the following characteristics: unusually talented management; unique products or services; technological superiority; evidence of significant financial undervaluation.

Warburg, Pincus has made successful investments in a variety of businesses including: banking, biotechnology, broadcasting and cable television, computers and computer software, consumer products, electronics, energy, entertainment, environmental services, health care, manufacturing, mining, publishing, retailing, and telecommunications. Since 1987, a fully staffed London office has been operational to accelerate investments outside the United States. Currently Warburg, Pincus has $600 million of such investments and expects to establish an office in Hong Kong during 1994.

IV. Investment Performance

EMW Ventures Inc formed in 1971 with a total capitalization of $41.5 million. The fund returned $114.8 million and produced a net IRR to investors of 12.20%.

Warburg Pincus Associates L.P. formed in 1980 with a total capitalization of $101 million. The fund returned $325 million and produced a net IRR to investors of 18.92%.

Warburg Pincus Capital Partners formed in 1983 with a total capitalization of $341 million. The fund has returned $793 million and has a remaining value of $374.1 million as of March 31, 1994. The net IRR to investors is 14.47%

Warburg Pincus Capital Company formed in 1986 with a total capitalization of $1.175 billion. The fund has returned $2.6 billion and has a remaining value of $2.1 billion as of March 31, 1994. The net IRR to investors is 14.28%.

Warburg Pincus Investors formed in 1989 with a total capitalization of $1.775 billion. The fund has Distributed $1.9 billion and has a remaining value of $1.7 billion as of March 31, 1994. The net IRR to investors is currently 3.54% with most investments held at cost.

V. General Partners Investment

Warburg, Pincus will purchase $25 million in L.P. interests in the partnership.

VI. Takedown Schedule

Limited Partners will make 10% of their capital contributions at the partnership's closing or such later date as the partnership makes its first venture capital investment, and will make the balance of their capital contributions on 30 days notice in tranches of $200 million or more. The General Partner estimates funding will be drawn relatively equally over six years.

VII. Management Fees

An annual management fee of 1.5% of the net assets of the partnership will be paid to the manager on a quarterly basis. Net assets will not include committed but unpaid capital contributions.

VIII. Term

The term of the partnership shall continue for twelve years, but may be extended by up to an additional two years if, in the General Partner's and the Advisory Committee's judgment, such an extension would serve to maximize the value of the partnership's portfolio

IX. Distributions

In general, profits will be allocated in such a manner that the limited partners will receive 85% and the General Partner will receive 15% of the profits. Upon liquidation of the partnership, if the total distributions received by the General Partner exceed 15% of the profits of the partnership over the life thereof, the General Partner shall contribute such excess to the partnership for distribution to the L.P.'s

Tab H

STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending June 30, 1994

Domestic Stock Managers	1
Emerging Stock Managers	33
Domestic Bond Managers	53
International Stock Managers	73

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$115 billion	Actual	-2.2%	0.5%
Total Firm Assets Managed in this Discipline	$ 8 billion	Benchmark	-1.5%	1.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

During the year and quarter we slightly underperformed the benchmark. In regard to the year, our overweight in cable stocks was a negative as holdings in Telecommunications A and Time Warner declined in the face of a tougher regulatory environment. The Cable Act of 1992 and a newly appointed FCC Chairman implemented two rate rollbacks during the past year. Offsetting this somewhat was an overweight in cellular, i.e. Lin Broadcasting which has been a very strong performer because of the likely buyout of the company by McCaw Cellular.

While we were underweighted in the consumer area, stocks such as McDonalds and Gillette were good performers. The portfolio was also underweighted in healthcare, however Amgen and United Healthcare were particularly strong performers. The overweight in financials was mixed. The brokerage stocks, i.e. Merrill Lynch and Morgan Stanley declined as concerns about earnings sustainability arose. Sallie Mae was also weak with the implementation of the Administration's direct lending program. On the other hand some financial stocks such as Nations Bank and Fannie Mae were good performing stocks. Likewise in technology while we were overweighted versus the benchmark, the positive performance of Microsoft and Intel was offset somewhat by the decline in Cisco.

During the quarter our cyclical overweight in autos was a primary reason for the underperformance. As the Fed raised interest rates a concern arose that sales would be negatively impacted and the auto cycle would not be an extended one. Our retail overweight was neutral in that our largest position, Home Depot, was +5%, but WalMart and Toys R Us declined slightly. In the healthcare area, Amgen and United Healthcare continued to be good performers. In the quarter our bank overweight was particularly helpful. Norwest Bank, one of the largest positions in the portfolio, was +10%. In technology the positive performance of Microsoft was offset by declines in Intel and Motorola.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We continue to overweight the portfolio in several cyclical areas such as autos and airlines. We believe the auto stocks are still reasonably early in their cycle and we expect that their valuations will generally move higher in a more rational stock market environment. The overweight in UAL is a special situation. First and foremost UAL is widely acknowledged to have an excellent global route structure. It has a strong domestic presence in hubs such as Chicago, Denver, and San Francisco, and enormous potential in the Pacific as well as growth opportunities in South America and Europe. It has strong underlying assets, its fleet is reasonable modern, and it is a part owner of a large computer reservation system. With the recent employee buy-out of the airline we believe that the company is now better suited to capitalize on these strengths.

Alliance (Con't)

Our underweight in the consumer staple area continues as we believe the competitive environment does not allow any pricing power for these companies and many private label companies are gaining market share. Our holdings will continue to emphasize international unit volume growth, i.e. Coca Cola and Gillette. McDonalds also has exceptional international growth opportunities and thus our overweight in the restaurant category. The healthcare underweighting continues as we believe only special situations will benefit in the dramatic changes occurring in the industry. In my last report I mentioned that we will continue to overweight cable stocks as valuation levels are low and we believe that alliances will be formed once the regulatory environment stabilizes. This is now beginning to happen as in recent weeks both Cox Cable and U.S. West began acquiring cable systems. We continue to believe our financial overweight will prove rewarding and that many financial growth companies are the cheapest part of the market.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Accounts Gained:	Pacific Telesis
	College of Wooster
	GDE Systems
Accounts Lost:	St. Paul Police

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No additional comments.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$35.7 Billion	Actual	2.8%	4.2%
Total Firm Assets Managed in this Discipline	$ 5.3 Billion	Benchmark	-0.8%	1.4%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The principal events which affected performance during the second quarter included further tightening of the federal funds rate as the Federal reserve moved toward a position of neutrality in short-term interest rates, heightened investor attention to possible inflationary pressures and an upswing in observed market volatility. Stocks with a high level of economic sensitivity contributed meaningfully to performance throughout 1993, however, their contribution to second quarter and year-to-date performance has been modest. The portfolio is also overweight with respect to stocks that are more financially levered than the market. Consistent with the continuing rise in interest rates, stocks that ranked high with respect to financial leverage contributed to portfolio total return during both the second quarter and year-to-date.

Industry weightings added meaningfully to portfolio performance during the second quarter of 1994. Positive returns from relative overweights in the oil service, drug, bank and insurance sectors plus an underweight in electric utilities more than offset small negative contributions to performance from our relative underweights in domestic petroleum, media and traditional telephone stocks. Strong contributions from stock selection during the second quarter resulted in a meaningful contribution to performance from stock selection for the first six months of the year.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our process remains focused on identifying those stocks that are most attractive in price/value terms through intensive individual company analysis, which incorporates strategic themes and industry research. The portfolio remains overweighted in stocks that possess a high degree of economic sensitivity, although recent portfolio changes have resulted in a measured shift away from economically sensitive stocks in favor of some stable non-drug consumer oriented stocks. The portfolio also remains overweighted in stocks that rank high with respect to financial leverage, consonant with our belief that a portfolio of debtors will perform better than creditors in a rising interest rate environment.

From an industry perspective we remain overweighted in financial/interest sensitive stocks. Despite repeated increases in the interest rate environment, both money center and regional banks have maintained their net interest margins at levels that are relatively high by historical standards. Banks and thrifts should also continue to benefit from restructuring activities, improving credit quality and rationalization of excess industry capacity. The portfolio overweight in insurance stocks, reflects our belief that property casualty companies earnings will improve as a moderate pricing cycle develops in that industry and loss costs continue to be adequately controlled.

The portfolio is underweighted in utilities, including both electric utilities and the traditional telephones. We continue to believe that deregulation of electric utilities and the advent of retail wheeling of power is accelerating competitive pressure from lower cost utility and non-utility generators and will increase the purchasing power of larger power users.

We are underweight in the traditionally defensive consumer sector including retail/apparel and discretionary spending stocks, although recent additions to the portfolio have diminished this underweight. The portfolio also remains overweighted in selected health care and drug stocks. Despite the potentially negative effects of proposed health care reforms, this position is supported by the demographics of an aging population and technological advances in previously underserved areas of health care. A prior overweight in tobacco stocks has been reduced to near market levels based on our concern over the increased level of potentially damaging legislative, legal and regulatory actions being directed at the tobacco industry. Finally, we continue to be overweighted in some of the basic industries, including aluminum and paper stocks.

Key holdings include Citicorp, Honeywell, Kimberly Clark, Pfizer, Schering-Plough, Schlumberger and Sprint.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

As noted in our March 1994 update, we increased our employee ownership to over 76% effective February 1, 1994

Gained:	5 accounts	$282 million
Lost:	0 accounts	$0 million

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None of significance this quarter.

Staff Comments

Staff met with Brinson Partners in mid-July at their office. Staff discussed a number of topics with them including organization changes and portfolio strategy.

Organizational Changes:
Brinson Partners indicated that partner ownership had recently gone from 60% to 76%. The remaining minority interest is held by the venture capital firm. Also, they are launching several mutual funds to participate in the international market.

Portfolio Strategy:
Brinson Partner's provided information at the meeting that coincides with their commentary above. They favor banks, thrifts, insurance, and basic industries. They will continue to underweight utilities, retails/apparel, and the tobacco industries.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$2.8 billion	Actual	-4.6%	0.9%
Total Firm Assets Managed in this Discipline	$1.1 billion	Benchmark	-3.3%	-1.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Over the last quarter we were once again hurt by an overweight in the consumer durables, particularly the autos. The group suffered losses as the market has essentially (and in our view prematurely) repriced the autos for an abrupt end to the recovery. However, an underweighted position relative to the benchmark in the medicals helped us, as well as overweights in the energy and cycle sensitive areas. Stock selection in the technology sector was better than the benchmark. Within the S&P 500 Index the technology sector was flat, while the over-the-counter technology issues suffered big declines, reflected in the benchmark's losses in the technology segment overall. Stock picking in the consumer non-durables hurt us, related to the decline in Price/Costco. The stock declined as investors perceived that the cost savings on the combination would be delayed. However, the July decision to spin off real estate assets into NEWCO is seen as a positive move, and one which will allow the former Price and Costco management teams to pursue separate objectives for the two companies. Several Wall Street firms have upgraded Price/Costco to a buy. In the medical area, investors took huge accumulated gains in HEALTHSOUTH Rehabilitation, which produced losses in our medical sector stock selection for the quarter.

For the year ending June 30th, we produced an attractive premium to the benchmark. The portfolio's overweight to the energy sector added value, as did the overweight in technology stocks and the underweight in the utilities. Though for the year our overweight in the durables hurt us, stock selection within the group was actually positive, versus a loss of almost 18% in the benchmark's holdings. Stock picking in the consumer services was also very good, particularly within the lodging area, where we had large gains. Stock selection within the energy sector added value, as did selection within the medical group, with the full year gain in HEALTHSOUTH Rehabilitation helping to produce a threefold premium to the benchmark's medical performance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As for sector orientations, we are overweighted in the energy area, which we believe holds promise, as noted in our last letter. At current prices oil may have gotten ahead of itself, although any near term declines would most likely constitute buying opportunities. The service group looks interesting at this point, particularly the drillers, as activity levels and day rates in the offshore area appear to be turning. In the consumer area we are overweighted in the durables, as we believe that the autos will see continued strong earnings as they reap the rewards of cost improvements and a weak dollar. In the lodging group, we have adjusted portfolios to take accumulated gains in selected positions, while increasing exposure in those names where we perceive greater remaining potential. As for the interest sensitive sector, you will recall that we had previously liquidated bank holdings and we maintain our underweighted position as we believe that the bank cycle is essentially over. We have made some purchases in the insurance area, as suggested in our last letter, in anticipation that an easing in long rates will benefit this group. Though we are underweighted in the cyclical area, we may see opportunities in the commodities, where price increases are beginning to stick. The metals in particular will benefit from recovering industrialized economies as well as growth in the emerging markets, and will only be helped by a weak dollar.

We are maintaining an underweighted and very selective approach to the technology sector, where we expect continuing volatility. Multiples in this area reflect market skepticism concerning an earnings boom, while first quarter disasters in the OTC area provide ample evidence of the risk in these names. In the medical area, though we are underweighted, we are intrigued by some of the values at current prices. We lightened up on the HEALTHSOUTH Rehabilitation position, which has seen phenomenal gains. We still see good value in the holding, but anticipate that performance will be choppy as market euphoria gives way to more restrained evaluation. Though long rates should ease, the utilities do not look attractive to us due to the advent of real competition from the independent power suppliers. In addition, the possibility of dividend cuts has begun to cast a shadow over the group.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   The firm added a marketing professional.

   No accounts were gained or lost in this discipline over the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No issues of any significance to report at this time.

Staff Comments

No additional comments.

Manager Commentary
Franklin Portfolio Associates Trust

Period Ending:	6/30/94	Returns	Qtr.	Year
Total Firm Assets Under Management	$5.3 billion	Actual	-1.3%	0.2%
Total Firm Assets Managed in this Discipline	$357 million	Benchmark	-1.0%	1.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Second Quarter Performance:

The equity and bond markets continue to encounter problems during the second quarter. The portfolio and benchmark experienced further declines during the period. As indicated in the data above, the account lagged the benchmark slightly in the quarter. The account generated a total return of negative 1.3% compared to a return of -1.0% for the account's benchmark. Industry exposure differences and risk index deviations accounted for the shortfall. Stock selection was a strong positive. Strong positive contributors to performance were: Syntex (a takeover play), Computer Associates, Union Carbide, and Johnson & Johnson. Stocks in the account that hurt performance were Continental Corp., Int'l Game Technology, Parametric Technology, and EMC Corp. Stock specific return is the active return contribution after removing the effects of factor and industry returns. Factor and Industry contributions represent the combination of the bets made relative to the benchmark and the performance of these factors/industries during the period. The top five and bottom five risk factor and/or industry bets are detailed in the table below:

Top 5 and Bottom 5 industry or
Risk Factor Contributors to Active Return

	Factor	Qtr 2 Active Bets	Qtr 2 Return Contrib.
Top 5:			
	Banks	3.35	0.32
	Size	0.07	0.10
	Cosmetics	0.83	0.07
	Retail	-0.85	0.07
	B/P	0.10	0.06
Bottom 5:			
	Trading	0.08	-0.12
	Bus Mach	1.48	-0.14
	Telephones	-2.98	-0.18
	Success	0.16	-0.19
	Cons. Durables	2.38	-0.22

The positive factor bets which helped performance were Book-to-price and a small size bet. Positive industry bets in Banks and Cosmetics also helped performance. A negative bet in Retail also helped performance as the group had a negative return during the period.

Risk factors which hurt performance were positive bets on Success and Trading. Both factors resulted in a negative contribution to active return. Industry bets that hurt performance included positive bets in Business Machines and Consumer Durables. These industries did not perform well during the second quarter. We also had a negative bet in Telephones, an industry that had good relative performance - resulting in a negative performance contribution to active return in the portfolio.

Twelve Month Performance:
Account performance over the past twelve months lagged the benchmark. The account return was 0.2% compared to 1.6% for the benchmark. Positive contributions to active returns came from risk factor bets. Negative contributions came from stock selection and industry bets. Active performance from risk factor bets was an estimated 50 basis points. Estimated contributions from stock selection bets and industry bets were -90 and -120 basis points. Below is a table detailing the top five and bottom five factor and/or industry contributors to active return over the past twelve months.

Top 5 and Bottom 5 Industry or Risk factor Contributors to Active Return

	Factor	12 Month Factor Bets	12 Month Return Contr.
Top 5:			
	E/P	0.38	0.83
	B/P	0.12	0.32
	Drugs	-0.47	0.29
	Pollution	-0.34	0.28
	Banks	2.64	0.22
Bottom 5:			
	Dom. Oil Reserves	0.38	-0.26
	Leverage	-0.10	-0.27
	Air Transportation	0.55	-0.31
	Publishing	-1.11	-0 34
	Telephone	-2.99	-0 36

The factor bets that contributed to return were Earnings-price and Book-to-Price. Both earnings-to-price and Book-to-price are functions of our value process. Our negative bet in Drugs and Pollution Control and our positive bet in Banks helped performance. Overweighting in Domestic Oils and Air Transport and underweightings in Publishing, Telephones and the leverage factor hurt performance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As of 6/30/94, the following significant active bets existed in the account relative to the benchmark:

A. Factor bets (bets stated as a standard deviation from benchmark):

Success	0.15%
Earnings/Price	0.31%
Book/Price	0.15%

Franklin (con't)

B. Industry bets (bets stated as percentage deviation from benchmark weight):

5 Most Positive Bets:		**5 Most Negative Bets:**	
Drugs	2.70%	Telephones	-2.44%
Banks	2.57	Retail	-2.41
Consumer Durables	2.03	Chemicals	-1.52
Business Machines	1.63	Health Non-Drugs	-1.37
Precious Metals	1.53	Paper	-1.32

C. Ten largest issue bets (bets stated as percentage deviation from benchmark weight):

Abbot Labs	1.95%	American Greetings	2.26%
Archer Daniels	2.17	Colgate Palmolive	2.13
Compaq Computer	2.38	Federal Express	2.23
Johnson & Johnson	2.48	Lockheed Corp.	1.99
Merck & Co.	2.22	Mobil Corp.	2.34

All active bets in the portfolio are based on two considerations. These are the rank of individual issues and the overall tracking error or risk of the total portfolio relative to the benchmark. The portfolio construction objective is to obtain as high a rank as possible consistent with the tracking objective. We seek to maintain a total tracking error of approximately 3% relative to the benchmark with approximately 70% to 80% of the tracking error resulting from stock bets. As a result of the stock selection bets, the portfolio will acquire the factor and industry bets as described above.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There have been no significant ownership or personnel changes at our firm since the last quarter.

There were no account gains or losses during the second quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No additional comments.

Manager Commentary
GeoCapital Corporation

Period Ending:	6/30/94	Returns	Qtr.	Year
Total Firm Assets Under Management	$1.6 billion	Actual	-6.9%	4.6%
Total Firm Assets Managed in this Discipline	$1.6 billion	Benchmark	-4.6%	3.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Performance in the last quarter trailed the benchmark portfolio. Our continuing active bet in non durables, technology and financial were negative in the quarter. Stocks that helped our performance included Analog Devices, Avid Technology, Legent, and Oracle in the technology sector. Only American medical Holdings performed well in the medical area due to takeover rumors. Greyhound, Sotheby's, Shoney's, and SEI Corp. performed poorly as earnings expectations were diminished. BMC Software and Progress Software also did not perform well due to lower earnings expectations. Media stocks including Viacom, Vanguard Cellular, and Contel Cellular were positive performers during the period. Our smaller positions in consumer durables and capital goods were the major positives in the quarter.

   Performance for the twelve month period ending June 30, 1994 exceeded the benchmark by 1.1%. Our active bets in non-durables, technology and financial added significant value in the second half of 1993. Over the last twelve months the outstanding portfolio holdings were: American Medical Holdings (AMI), Credit Acceptance Corp. (CACC), Foote Cone & Belding (FCB), La Quinta Motor Inns (LQI), Medical Care America (MRX), Marriott Corp. (MHS), Oracle Systems Corp. (ORCL), Parametric Technology (PMTC), Service Corp. (SRV), United Health Care (UNII) and John Wiley & Sons (WILLA).

   Poor Performance over the period occurred in Greyhound (BUS), Sotheby Holdings (BID), Chiron Corp. (CHIR), Structural Dynamics Research (SDRC) and Progress Software Corp. (PRGS). As stated in the quarterly performance discussion, most of the underperformers had earnings problems within the period.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our active bets are in the same sector going forward specifically in the financial, technology, and consumer non-durables. We continue to believe that valuations are attractive in these segments. In addition a consolidation trend continues to occur in these investment areas.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

<u>Gained</u>	<u>Lost</u>
Harkness Foundations for Dance	Knight Ridder, Inc., Master Retirement Trust

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Although small capitalization stocks have outperformed over time, this sector has undergone fairly sharp corrections. The NASDAQ index has had eight corrections of 15% or more since the 1974 low. The average correction has lasted seven months with a 24% decline (including one in 1992 of about -14%). From March 1994 to June 1994 the index has declined 14%. We think we are presently in one of these correction periods.

Staff Comments

No additional comments.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$13.2 Billion	Actual	-4.3%	2.6%
Total Firm Assets Managed in this Discipline	$718 Million	Benchmark	-0.2%	3.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The Minnesota State Board of Investment account managed by IAI underperformed the benchmark portfolio -4.3% versus -0.2%. The reason for the underperformance was active bets made during the quarter in the following sectors and negative performance by growth stocks in general:

a) Growth represents 22.4% of the portfolio versus a 9.2% weighting in the S&P 500 and had a negative return of -4.2% versus a -1.2% decline in the S&P 500. Stocks impacting the portfolio were Buffets Inc. (-28.6%), Computer Network Technology Corp. (-34.9%), and Grow Biz International Inc. (-36.6%).

b) Cyclical Growth represents 8% of the portfolio versus a 17.9% weighting in the S&P 500. Although we were underweighted, our individual issues were down -4.2% versus -1.6% S&P 500. Negatively impacting the portfolio were several small holdings, but collectively adding up: Tricord Systems (-59.4%), Appliance Recycling (-36.4%), Discovery Zone Inc. (-38.2%), and Racotek Inc. (-32.1%).

c) The positive bet was Financials: a weighting of 20.3% versus 11.1% in the S&P 500. This sector was up +5.1% versus +1.7% S&P 500. Positive impact: Emphesys Financial Group (+31%), Winthrop Corp (+20.4%), and Anchor Bancorp (+14.0%).

Financials and Energy were the only two sectors that had positive returns in the portfolio and the S&P 500.

The year showed a negative comparison against the benchmark; 2.6% versus 3.3%. All of this underperformance developed in the last quarter ending June 30; -4.3% versus the benchmark of -0.2%. Growth and cyclical growth sectors of the market were especially hard hit and pure growth stocks underperformed value investing during the year. The State did show a positive return against the S&P 500; +3.0% versus +1.4%. Strategy did not change much during the year as we stressed production over consumption. There were some sector shifts for valuation reasons.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The overall investment environment remains hostile. Both fiscal and monetary policy are restrictive. We continue to favor the production segment of the economy over the consumption side. Downsizing in the financial sector continues, and the one visible activity near term appears to be mergers and acquisitions for strategic reasons. We do not see any major shifts in portfolio strategy in the next quarter.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the second quarter, IAI recruited two Equity portfolio managers, namely, John Twele and Mark Hoonsbeen. John will be working in the large cap growth equity area and Mark will be working in the regional area with Bing Carlin. There have been no accounts gained or lost in this discipline over the time period discussed.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No changes have occurred that would impact the management of the SBI portfolio.

Staff Comments

The SBI uses a custom benchmark to evaluate Investment Advisers performance rather than to the S&P 500 or some other general market index. Please note that the information in a), b) and c) on the previous page provides data relative to the S&P 500 rather than the benchmark. Staff has requested that IAI provide attribution relative to the benchmark in the future.

Manager Commentary
IDS Advisory Group, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$19.0 billion	Actual	-0.3%	3.2%
Total Firm Assets Managed in this Discipline	$ 4.9 billion	Benchmark	0.1%	2.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

As indicated above, IDS Advisory underperformed the normal portfolio by 40 basis points during the most recent quarter but outperformed the normal portfolio by 40 basis points over the latest 12 months.

Our sector weights have evolved as follows:

	6/30/93	**6/30/94**	**Normal Portfolio 6/30/94**
Technology	6.4	13.4	11.95
Consumer Stable	3.2	6.0	22.72
Consumer Cyclical	22.6	24.8	18.73
Utilities (non Electric)	1.1	1.5	8.78
Financial Services	15.9	16.4	8.63
Energy	8.8	7.2	5.42
Industrial Basic	11.0	15.1	4.96
Industrial Growth	6.5	4.3	4.11
Industrial Cyclical	10.0	11.2	9.70
Equity Cash	14.5	0.1	5.00
	100.0	100.0	100.0

As you will note, we are overweighted relative to the normal portfolio in technology, consumer cyclical, financial services, industrial basic, and industrial cyclical sectors. You will note that all sectors are characterized by considerable cyclicality. This reflects our belief that the market is earnings driven and that one should favor the cyclical sector of the market given the relatively robust economic framework that we believe will exist over the next 18 months. Thus far this year, the consumer cyclical sector has modestly underperformed the market. While our heavy weighting in the retail area has generated satisfactory rates of return, both the auto and airline industries have meaningfully underperformed. The financial sector has outperformed by 109 basis points year to date. Virtually every industry within the financial sector has outperformed the S&P 500 with particularly strong leadership coming from the banks and financial intermediaries. Basic industrials have outperformed by 113 basis points year to date. While the forest products area has lagged the S&P 500, virtually every other basic industrial industry has outperformed. Steels, coppers, and chemicals have been particularly stellar performers. The industrial cyclical area has underperformed by 95 basis points relative to the benchmark.

This portfolio is particularly heavy in the rail area and this industry has underperformed by 93 basis points thus far this year. Clearly, this has been somewhat disappointing to us but we continue to believe that the rails and the sector in general will perform well in the second half of the year. Despite numerous earnings disappointments within the sector, technology has still outperformed by 102 basis points year to date. While Cisco has been a disappointment within the sector, Motorola and Microsoft have acted as an offset. In sectors where we have been under represented, our energy underweighting has been a mild negative. The energy sector has underperformed 109 basis points year to date. Other underweightings including consumer stable and utilities have been the correct decisions. In summary, our emphasis on earnings momentum and sectors, industries, and stocks likely to benefit from this phenomenon has added value to the portfolio over the last six and 12 months. Unfortunately, during the quarter that has not been the case.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Over the next three to six months, we do not anticipate any significant changes in our current sector weightings. We are optimistic on the market and believe that a total rate of return of 10% or more is obtainable in 1994. Given this view, our cash positions are zero. We continue to believe that this is an earnings driven market and have deployed your assets in sectors, industries and stocks likely to benefit from strong earnings growth. We see absolutely no reason to abandon this posture.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no ownership or personnel changes at IDS Equity Advisors in the last quarter.

IDS ADVISORY GROUP
Second Quarter 1994

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	0	0	0	0
Fixed Income	0	0	0	0
Balanced	3	45.7	1	41.5
International	2	149.2	1	24.8
Small Cap Equities	0	0	0	0
Mid Cap Equities	0	0	1	5.8
Research Core	0	0	0	0
Research Aggressive	1	249.5	0	0
Global Bonds	2	46.7	0	0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None at this time.

Staff Comments

No additional comments.

Manager Commentary
Independence Investment Associates

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$14 billion	Actual	0.9%	2.6%
Total Firm Assets Managed in this Discipline	$ 7 billion	Benchmark	0.4%	1.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   During the most recent 12 month period, your portfolio performed well, exceeding the benchmark by 150 basis points. Your portfolio outperformed during the last half of 1993, by 152 basis points and by 47 basis points during the first half of 1994. The Cybercode valuation model worked extremely well, in the later half of 1993 with 100% of its forecasting skill attributable to stock selection. This is above Cybercode's historical average of 75%. Cybercode's skill will vary from quarter to quarter and for the first quarter of 1994, it did not perform as well, with most of its skill showing in the month of March. In the most recent quarter, our Cybercode composite model was again skilled in differentiating between the attractive and unattractive securities. The model worked best in April and June, with little skill in May. In analyzing the model's skill over the quarter as a whole, we found that 71% of the skill was attributable to stock selection, in line with our strategy.

   1994 has been a volatile year for both stock and bond investors. Stocks have battled higher short term interest rates and concerns that companies cannot pass on higher resource costs to consumers because of the competitive price environment. Our job is to produce excess returns regardless of the current market environment. Your portfolio outperformed the S&P 500 during the second quarter despite the market volatility and sharp underperformance of some sectors. The trend continues from the beginning of the year where value component models such as dividend discount model performed better than the earnings momentum components.

   Investments in Chase Manhattan, Equifax, and Phillips Petroleum were the best performing stocks for the second quarter while Great lakes Chemical and Morton International lagged. Industry and style bets did not play a major factor in relative performance. However, banks, energy and healthcare were the most rewarding industries while autos were the least.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to manage your portfolio in the NIXDEX diversified core strategy. It is well diversified to control risk and minimize industry and style bets. With 127 stocks, the portfolio has a beta of 1.01 relative to the S&P 500. The dividend yield of 2.98% compares with the S&P 500's 2.9% yield. Thus, your portfolio exhibits and will continue exhibit benchmark like characteristics.

   Our philosophy of investing in stocks that combine cheapness and improving fundamentals will continue and is demonstrated by a 12.4x P/E ratio compared to the S&P 500 P/E of 16.2x and a long term expected growth rate of 9.1% relative to the S&P's 7.0%.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Larry Pohlman, Ph.D., previously of Goldman Sachs and Blackrock Financial, joined Independence in April. As Director of Fixed Income Research, Larry broadens and deepens our fixed income valuation analysis. In May, Anne Waklin joined Independence as our twelfth Research Analyst. Anne joins us from the Boston Federal Reserve and will make an immediate contribution to our Banking Industry research.

   During the second quarter of 1994, we had a net gain of 8 accounts bringing our total account to 188, with 131 clients. Of the new accounts, 4 were in the NIXDEX diversified core strategy. During this period, no accounts were lost in this strategy.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No additional comments.

Manager Commentary
Jundt Associates, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$3.0 billion	Actual	-8.2%	-5.7%
Total Firm Assets Managed in this Discipline	$2.1 billion	Benchmark	-2.7%	1.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Quarter: Under-performance of the actual portfolio versus the benchmark portfolio was primarily due to stocks classified as consumer non-durables, having disappointing earnings announcements during the quarter. While this area was approximately equal-weighted relative to the benchmark, it nonetheless caused the largest amount of under-performance. Technology was a very large over-weighted position relative to the benchmark, but the actual returns were comparable to the benchmark. The lack of energy stocks (which currently do not meet our selection criteria) also hurt our relative returns.

   Year: Under-performance versus the benchmark for the 12 months ending June, 1994 was in large measure again due to the consumer non-durables area and earnings disappointments of several companies. Technology, strongly over-weighted, also hurt our relative returns. The technology companies making up the benchmark had a strong semi-conductor component. These companies tend to be very cyclical, and at this stage of the business cycle we do not feel they are appropriate. Trading costs during the year also hurt performance due to the initial "loading" of the account where cash received was invested into common stocks.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to emphasize areas showing very strong sales and earnings growth on a secular basis. On a micro basis, these areas include computer software and technology, wireless communications and power retailers. Relative to our benchmark, we are about equal-weighted in consumer stocks, strongly over-weighted in technology and under-weighted in capital goods, energy, transportation and financials. Cash levels are about equal.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no changes in the firm's ownership since the last report. A new trader was added to further implement our trading activities. That individual has over 30 years of experience in the brokerage industry.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   It is our belief that over the next 12 to 18 months positive relative returns will be generated from growth stocks as opposed to value or cyclical companies. The relative sales and earnings momentum of the latter areas will begin to fade while those companies (such that are in the SBI portfolio) that are showing continued annual growth rates of at least 15% in revenues will again look superior.

Staff Comments

Staff met with Jundt Associates in late July at their office. Staff discussed a number of topics with them including economic outlook and portfolio strategy.

Economic Outlook:
Jundt expects inflation rates will be moderate and that the long interest rates will not increase much farther. They feel this environment will be positive for growth stocks.

Portfolio Strategy:
Information that staff collected in the meeting coincides with Jundt's comments above. They feel that consumer non-durables will not do well in the future. They expect causal dining, managed care, networking, and wireless communications to be among the fastest growing industries.

Historically, Jundt has experienced volatile returns. Staff is not overly concerned with Jundt's short-term performance, but continues to monitor the firm closely. Jundt was retained by the SBI only one year ago (7/93).

Manager Commentary
Lincoln Capital Management Company

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$25.1 billion	Actual	0.5%	1.3
Total Firm Assets Managed in this Discipline	$ 8.4 billion	Benchmark	-0.2%	0.6

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio return was moderately ahead of the Benchmark for the June quarter and 0.7% ahead for one year. During the quarter, materially divergent returns for top 15 holdings were PepsiCo -16% (earnings shortfall), Pfizer +17% (rebound) and Freddie Mac +19% (strong stock in good sector).

The same divergent pattern exists in the one year returns. The selection in consumer stocks was on balance good with major winners in McDonald's (+18%), Gillette (+18%), and Duracell (+26%). A major bet in computer outsourcing companies was also productive: General Motors "E" (+19%), Automatic Data (+11%) and First Financial Management (+32%). Our selectivity in retailers was less than optimum: Wal-Mart (-8%) and Toys "R" Us (-11%) were large holdings for the full twelve month period. And health care, though effectively underweighted, produced two very poor selections, Merck (-16%) and Baxter (-8%).

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Relative sector bets include being long financials (+6%) (a bet on about four individual stocks) and cash (+5%) and short Health Care (-7%) and Media (-5%). The health care stocks seem cheap but fundamentals are deteriorating; media looks expensive.

Lincoln Capital's major active bets are in the top ten holdings (45% of the portfolio weight). The relative performance of the portfolio will be heavily linked to the success of these investments. Within the top ten there are three financial issues (Fannie Mae, Freddie Mac, and American Int'l. Group), four global franchise companies (McDonald's, Coca-Cola, Gillette and Procter & Gamble), a major outsourcing company (Automatic Data), a power retailer (Wal-Mart), and the leading capital goods company (GE). All are deemed to have superior longer term growth prospects and attractive valuations.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   We are delighted that Gretchen Lash and Alan Sebulsky have joined us. Gretchen will be replacing Bill Goldsborough, who is retiring as our retail analyst and will work with Jay Freedman on other consumer non-durable industries. Alan will be working mostly as our analyst in the healthcare area.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Lincoln Capital in mid-July at their office. Staff discussed several topics including organizational issues, and portfolio strategy.

Organizational Issues:
Lincoln is in the preliminary business planning stage of starting a small capitalization or international investment product.

Portfolio Strategy:
Information staff gathered at the meeting coincides with Lincoln's comments above. They are interested in financials, consumer stocks with a strong global position, and in the electrical equipment/industrial area. They want to see prices go down in the healthcare area before adding to the portfolio and look for unique positions in the technology area.

Manager Commentary
Lynch & Mayer, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$5.0 billion	Actual	-4.1%	-2.7%
Total Firm Assets Managed in this Discipline	$4.4 billion	Benchmark	-2.4%	3.0%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance is summarized above. Significant over and underweighted average sector results for the quarter and year were:

Sector		**Portfolio Weighting**	**Portfolio Results**	**Benchmark Weighting**	**Benchmark Results**
Technology	**2 Qtr**	30.9%	-4.7%	26.3%	-4.2%
	Year	30.9	5.3	24.3	12.4
Consumer Non-Durables	**2 Qtr**	18.4%	-3.7%	31.2%	-3.3%
	Year	19.6	-2.8	31.5	-1.2
Capital Goods	**2 Qtr**	16.2%	-6.9%	6.6%	-12.3%
	Year	8.2	9.8%	4.0	6.2%
Energy	**2 Qtr**	0.8%	3.4%	3.0%	7.1%
	Year	4.2	-13.6	2.7	-0.7
Transportation	**2 Qtr**	1.0%	-15.0%	3.8%	1.4%
	Year	0.9	-3.1	4.1	12.4
Total	**2 Qtr**		-4.0%		-2.4%
	Year		-2.3		3.0

Both sector allocation and stock selection relative to the benchmark produced negative returns for the quarter and year ended June 30, 1994. For the second quarter, the consumer non-durables sector produced the greatest value added relative to the benchmark. This was mainly due to a significant sector under weighting relative to the benchmark rather than stock selection. For the year ended June 30, 1994 the capital goods sector produced the greatest value added relative to the benchmark. This was due to sector overweighting relative to the benchmark and stock selection. Unfortunately, the sector that has produced the best relative performance for the year had the worst performance in this quarter. This was primarily due to an upturn in interest rates, fears of inflation and a weakening dollar. The sector that contributed the least value added for the year was technology. Although we were properly overweighted in the sector, stock selection relative to the benchmark did not add value. We believe this is due to smaller capitalization technology issues weighted heavily in the benchmark.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We are reducing our portfolio exposure to technology stocks due to a slowdown in the demand for personal computers. We are increasing our financial holdings with recent purchases of federal Home Loan Mortgage Corp. and Federal National Mortgage Association. These companies should benefit from the continued growth of their mortgage business.

The top ten holdings as of June 30, 1994 relative to the benchmark are:

Rationale for Investment	Company	Portfolio Weight	Benchmark Weight
Acceleration of Growth	McDonald's Corp.	5.0	1.2
Acceleration of Growth	Procter & Gamble	4.9	0.4
Acceleration of Growth	Hewlett-Packard	4.8	0.7
Corporate Restructuring	General Motors	4.6	2.0
Acceleration of Growth	Deere & Co.	4.3	0.1
Acceleration of Growth	Wells Fargo	4.3	0.4
Acceleration of Growth	Gillette	3.5	1.1
Turnaround	Citicorp	3.5	1.7
Corporate Restructuring	United Technologies	3.4	0.1
Acceleration of Growth	Microsoft	3.4	2.0

Our investment philosophy hinges on the premise that earnings growth significantly above historical trend or consensus expectation invariably is preceded by a critical positive fundamental change. We search intensively for early indications of such change and group purchase candidates into four categories by source of earnings increase The categories are: acceleration of growth; improved industry environment; corporate restructuring; and "turnaround" situations

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No significant personnel or ownership changes occurred.

Accounts gained (tax-exempt): Columbia Gas Systems and J.C. Penney & Co.

Accounts lost (tax-exempt): None

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

We continue to evaluate the weighting scheme used in the benchmark constructed by Richards & Tierney.

Staff Comments

Staff met with Lynch & Mayer in late July. Staff discussed a number of topics with Lynch & Mayer including organizational issues and portfolio strategy.

Organizational Issues:
Lynch & Mayer is involved in setting up two closed-end funds with a Taiwan firm to invest in China and Southeast Asia. It will be run as a separate subsidiary.

Portfolio Strategy:
Information that staff gathered at the meeting coincides with Lynch & Mayer's comments above. They are looking at growth stocks in the basic materials and capital goods industries where they expect increased growth due to international opportunities. They are reducing their holdings slightly in technology and financial industries.

Historically, Lynch & Mayer has gone through one to two years of negative returns and then recover strongly over the next year or two. Staff is continuing to monitor them closely but believes that Lynch & Mayer can make a positive contribution to SBI's portfolio over the long term.

Manager Commentary
Oppenheimer Capital

Period Ending:	6/30/94	Returns	Qtr.	Year
Total Firm Assets Under Management	$29.6 Billion	Actual	0.6%%	2.9%
Total Firm Assets Managed in this Discipline	$13.2 Billion	Benchmark	0.4%	1.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

QUARTER ENDED JUNE 30, 1994

The key factors contributing to performance during the quarter was good stock selection within the following economic sectors: consumer nondurables, insurance, energy and capital goods.

Significant commitments to banks, financial services and insurance added value. Further, our reduced exposure to technology and transportation was rewarded. The top contributing stocks for the quarter within the sectors that impacted relative performance are as follows:

Energy	Insurance
Atlantic Richfield	Progressive
	Aflac

Banks	Financial Services
BankAmerica	Federal Home Loan
First Interstate	Transamerica

TWELVE MONTHS ENDED JUNE 30, 1994

The key factor contributing to performance during the year was excellent security selection within basic industry, banks, insurance and utilities sectors. Higher exposure to capital goods and banks, and lower commitments to energy and utility were rewarded. Several top contributors for the one year period are as follows:

Hercules:	40.9%
Monsanto:	32.5
First Interstate Bancorp:	26.7
Salomon:	26.5
Capital Cities:	23.3

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets*

Relative to the benchmark the portfolio continues to be overweighted in financial stocks, with the most significant position in banks followed by financial services and insurance. We believe that a superior company is most often defined by company specific not industry specific attributes. The overweighting in this sector results from bottom-up analysis and is not the result of top down industry analysis. These companies are quality businesses that can sustain a high level of profitability and are run by astute managements who have the interest of the shareholder in mind.

Oppenheimer (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no changes in the staff directly involved with the Minnesota SBI portfolio. However, there have been other staff additions/departures as follows:

   PERSONNEL CHANGES
   Anne Russell joined Oppenheimer Capital's Marketing Department as a Vice President and Sales Associates responsible for corporate and public retirement systems. Anne was formerly with Baring Advisors, where she was responsible for institutional marketing and client service for the New York office of Baring Asset Management. Prior to Baring, Anne held positions with JMB Institutional Realty Advisors, Flanagan & Webster, Inc. and Hewitt Associates.

   Joseph Scarella joined Oppenheimer Capital International as a Vice President and a portfolio manager responsible for international equity investments. Prior to joining our firm, Joe held senior positions as marketing manager with I/B/E/S and investment consultant with The Wyatt Company. Earlier, he was with C.J. Lawrence as a portfolio strategist and member of the Investment Policy Committee, and from 1974 to 1986 he was with J.P. Morgan Investment Management. At Morgan he was responsible for the development and implementation of equity and fixed income investment products.

   Hideki Shigenobu joined Oppenheimer Capital International as a Vice President and portfolio manager/analyst, specializing in Japanese investments. Hideki was formerly with J.P. Morgan, where he managed portfolios in both the New York and Tokyo/offices. Hideki is a graduate of Waseda & University in Toyko where he majored in business administration and holds a Master's degree in finance from Keio University.

   Jennifer Horne, Vice President and portfolio Manager/Analyst, has left Oppenheimer Capital for personal reasons.

   EQUITY ACCOUNTS GAINED/LOST
   Gained: 7 accounts with $142.9 million in assets.
   Lost: 1 account with $8.8 million in assets (client liquidated holdings due to concerns with the market).

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The first in a series of commingled funds to be offered by the Oppenheimer Capital Trust Company was launched this quarter. The International Equity Fund applies the Oppenheimer Capital approach of value investing to all investment markets worldwide.

Staff Comments

No additional comments.

Manager Commentary
Waddell & Reed

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$2.6 billion	Actual	-4.4%	2.2%
Total Firm Assets Managed in this Discipline	$4.4 billion	Benchmark	-3.5%	5.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Our relatively heavy investments in computer software companies such as Microsoft and Computer Associates as well as those in Mattell and Blockbuster helped our quarterly and past year performance results.

   Strong demand for cable television equipment and cable programming helped pump up stock prices of General Instrument and Viacom. On the other hand, a continued rise in interest rates dampened brokerage industry volume and trading profitability, but we expect continuing merger, acquisition, and divestiture (restructuring) advisory fees to play a more important role in profitability for Merrill Lynch and Morgan Stanley. We believe they remain excellent values in the cyclical growth sector.

   We reduced our exposure in banks, seeking better opportunities elsewhere (Wells Fargo, First Interstate, Chase).

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to favor Blockbuster in its effort to diversify into a broad-based entertainment company, as well as Mattell in toys. Moreover, we see improved growth prospects in cable television and related equipment and favor General Instrument and Viacom. In addition, we like prospects for Microsoft and Computer Associates in the computer software field. In airlines we like Delta, American, and Southwest as strong cost cutting efforts are likely to improve profitability coincident with marginally higher leisure travel.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Four persons were added to staff in our institutional marketing department, including Senior Vice President James H. McCroy, and two persons were added to back office staff. One fixed income portfolio manager was added, while one investment analyst resigned. There were no accounts gained or lost in this discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Waddell & Reed in mid-July at their office. Staff discussed a number of topics with them including economic outlook portfolio strategy, and benchmark analysis.

Economic Outlook:
Waddell & Reed believes growth is moderating and they don't see significant inflation pressures on the horizon. As slowing economic activity becomes an accepted notion, the markets should behave more favorably.

Portfolio Strategy:
Waddell & Reed feel the portfolio will benefit from strong corporate profit growth and attractive relative valuation levels. They believe technology will have strong unit volume growth causing appreciation in share prices. They see the industrial side, metals, construction equipment, etc. as a growing segment in the near term. In the health care area, they feel HMO's have growth potential.

Benchmark Analysis:
Staff expressed some concern to Waddell & Reed about their benchmark's coverage and correlation characteristics. Staff believes the problem may be in the defensive positions sometimes held in the portfolio, such as utilities, which are not part of the benchmark at all. Waddell & Reed will have a third party review their benchmark and make recommendations by year-end.

Staff uses a long-term outlook on performance. Waddell & Reed have had volatile returns historically. Therefore, staff is monitoring, but is not overly concerned with Waddell & Reed's short-term performance.

Manager Commentary
Weiss Peck and Greer

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$13.0 billion	Actual	-10.8%	-9.0
Total Firm Assets Managed in this Discipline	$ 1.5 billion	Benchmark	-7.1%	-1.2

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Quarter:

   Positive Financial: Weighting and stock selection in small insurance and specialty financial companies were a significant contributor. Positive 0.64 to benchmark.

   Negative: Consumer Non-Durables -1.54 to benchmark; Healthcare -1.24 to benchmark; and Technology -1.36 to benchmark.

   All stock selection. There were 14 securities which caused it.

   Year:

   Technology was negative -3.69 to benchmark, 50% of our underperformance. The other significant underperformer was healthcare, negative -1.06 to the benchmark.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The active bets have remained throughout this year of management and they will continue into the future.

   Consumer Non-Durables is slightly overweighted and if individual stock prices were to go up we would be trimming positions to deploy to capital goods.

   Healthcare is underweighted and likely to remain so.

   Technology is overweighted and if anything likely to go up slightly.

   We believe the one overall theme that is dominant, is capital goods over consumer.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no accounts gained or lost within the growth discipline during this quarter.

   Richard Papetti, a Partner within the Fixed Income area resigned to start his own firm.

   There were no other partnership changes within the firm.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Weiss, Peck & Greer in early August. Staff discussed a number of topics with them including economic outlook and portfolio strategy.

Economic Outlook:
Weiss, Peck & Greer feels the economy has slowed somewhat. They expect long-term interest rates to fall to around 7%, while short-term interest rates rise 0.25% to 0 5%. Inflation will be in check for the next 12 to 18 months. Weiss, Peck & Greer see the market continuing to rise as foreign economies pickup and U.S. firms continue to show improved profitability.

Portfolio Strategy:
Weiss, Peck & Greer indicated during our meeting, which corresponds to their comments above, that they will continue to invest heavier in technology and capital goods. Weiss, Peck & Greer believes in holding a large number of stocks in these areas to minimize risk through diversification.

Historically, Weiss, Peck & Greer has experienced volatile returns due to their style. So, over short periods of time underperformance will be likely to occur. Staff continues to believe Weiss, Peck & Greer can make a positive contribution to SBI's portfolio over the long-term.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$200 Million	Actual	-0.1%	N/A
Total Firm Assets Managed in this Discipline	$200 Million	Benchmark	0.5%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

During the quarter, CIC modestly underperformed the S&P 500, -0.41% vs. 0.35%.

Relative to the S&P 500, the active bets were on consumer durables, financial services, capital goods, and basic industries. We also underweighted significantly the utilities, technology, consumer non-durables, and energy.

Two sectors where active bets worked were; Technology, which added 20 bp on the strength of AMP and Xerox; and Financial, which we had overweighted and contributed 81 bp to performance, led by Freddie Mac and Household International.

Bets that did not work were: Basic Industries cost us 74 bp of performance. Of 16 stocks in the group, only three added to performance. The principal stocks that gave up performance were Masco (-27 bp), Morrison Knudsen (-11 bp), and ConRail (-10 bp). Capital Goods cost us 46 bp. General Electric with a large weighting (-22 bp) and Paccar (-14 bp) were the principal sources of underperformance. Since the end of the quarter, Paccar has recovered nicely, while GB continues to be hurt by Kidder woes. Consumer durables, likewise overweighted, cost us 25 bp, as both Whirlpool (-19 bp) and Goodyear Tire (-19 bp) suffered declines. Dana did add 18 bp.

Utilities, consumer non-durables and energy, which we underweighted, cost us 11, 3 and 3 bp each, respectively. In consumer non-durables, gains in Sears, Nike, Gerber, Becton Dickinson, and Federal Express were more than offset by declines in Pepsico, K Mart, Walgreen, Dun & Bradstreet, and Hershey. In energy, Exxon's minus 24 bp impact erased gains in ARCO, Amoco, and Baker Hughes.

As we were investing the portfolio in April, we also sold stocks that approached or reached sell targets. In particular, during April, we sold (in order of dollar value contribution to performance), BellSouth (+5.1%), Dayton Hudson (+7.7%), Xerox (partial) (+6.6%), First Chicago (+10.8%), Amoco (partial) (+7.5%), and Dana (partial) (+7.9%), all during a month when the S&P was up 1.37%. These April sales equaled 7.3% of the portfolio and partially explain the relatively high cash levels (9.3% in April, 8.5% in May) that carried forward into the second month of our management of the account. Putting more cash to work in June, in order to attain compliance with a fully invested portfolio objective, momentarily hurt performance because of the June -2.45% slide in the market. The ten stocks purchased in

June, however, were at prices we considered to be attractive. As of the date of this writing seven of the ten are at higher prices than our costs.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   As of this writing, we continue to be overweighted consumer durables, financial services, capital goods and basic industries. We also are underweighting significantly the utilities, technology, consumer non-durables, and energy. For this quarter we do not foresee any significant changes in active sector bets other than a probable increase in technology that is dictated by specific stock selection. We have gravitated at the margin to slightly more value characteristics for the Minnesota SBI account (lower P/E, higher yield) Looking ahead, we expect continued investor interest in selected economically sensitive companies, even as fewer have favorable valuations.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the second quarter there were no significant ownership or personnel changes at the firm. In July, we hired one administrative staff member, adding to our capacity in anticipation of long-term growth. During the quarter, CIC did not lose any accounts. In May we added the Chrysler Corporation. This represented our first corporate account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

No additional comments at this time.

Manager Commentary
Cohen, Davis & Marks Incorporated

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$105 Million	Actual	2.0%	N/A
Total Firm Assets Managed in this Discipline	$105 Million	Benchmark	0.5%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The account increased by 1.8% during the second quarter which compares to a .4% gain for the benchmark (S&P 500). Broadly speaking, the account was moderately overweighted in Cyclical stocks (particularly Consumer Cyclicals), Growth Stocks and Interest Rate Sensitive Stocks (particularly Financials). The account is under weighted somewhat in the Energy sector. The performance impact of this positioning was mixed. Consumer cyclicals generally under performed the benchmark (as did the particular stocks we held). Growth stocks generally under performed though the particular growth stocks that we held outperformed; we benefited from not owning any Electronics stocks (which did very poorly) while the Health stocks (of which we own our share) generally did well. In the Interest Rate Cyclical Sector we benefited both by owning Financials and not owning Home Building or related stocks. Under weighting in the Energy sector detracted from performance. One particular stock of note was Gerber, which we sold shortly after it announced that it was being acquired and after the stock had gained about 50% in value. This contributed meaningfully to second quarter results.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to make the same bets as described in the answer to the first question. Our economic outlook calls for moderate growth, lower interest rates, continued strong corporate profits and market volatility. As a result of expected volatility we are placing above-average emphasis on diversification and high quality companies. The portfolio is moderately cyclical, moderately growth oriented with increasing emphasis on interest-rate sensitive stocks.

Cohen, Davis & Marks (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes last quarter.

Accounts Gained	**Accounts Lost**
2 Individual Accounts	1 Corporate Retirement Plan

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   There were no other pertinent issues/events.

Staff Comments

Staff had an introductory meeting with the firm during the quarter.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$139 Million	Actual	-1.7%	N/A
Total Firm Assets Managed in this Discipline	$ 76 Million	Benchmark	-0.5%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   During the quarter, we slightly underperformed our benchmark due to our equity holdings and sector weightings.

Active Bets Relative to Benchmark		**Worked Did Not Work**	**Why**
Overweighted Consumer Cyclicals	26.9% vs. Bmk. 10.2%	did not	Consumer cyclicals out of favor
Overweighted Consumer Staples	32.5% vs. Bmk. 19.5%	did	Stock selection good
Underweighted Utilities	0% vs. Bmk. 12.2%	did	Rising interest rates hurt utilities
Underweighted Financial	0% vs. Bmk. 12.0%	did not	Generally, never own
Underweighted Energy	0% vs. Bmk. 10.9%	did not	Generally, never own

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our portfolio equity holdings and active bets have not changed from the second quarter. The portfolio remains overweighted vs. its benchmark in consumer cyclicals and consumer staples sectors and underweighted vs. benchmark in utilities, financial and energy sectors. (Generally, most individual stocks in these last three sectors are not growth stocks).

Compass Capital Management (con't)

Growth stocks have been out of favor thus far in 1994. Earnings have continued to rise but a multiple contraction has occurred in the general market. Valuations of growth stocks look even better today than at the beginning of the year. These high quality securities represent excellent value for the longer term.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

Staff had an introductory meeting with the firm during the quarter.

Manager Commentary
First Capital Advisers, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$123 Million	Actual	-0.5%	N/A
Total Firm Assets Managed in this Discipline	$ 66 Million	Benchmark	0.5%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The second calendar quarter of 1994 was our initial investment period with the Minnesota State board of Investment, and we produced a positive return of +0.71%, versus a total return for the S&P 500 of +0.42%. Although this performance represents a modest positive return of 29 basis points better than our benchmark, the stock market environment was extremely volatile during the second quarter, and most large-cap managers in our style category underperformed their benchmark by an average of about 300 basis points, according to a study by Lipper Analytical Services that was published in **The Wall Street Journal** on July 7, 1994.

   Our investment focus during the second quarter was on consumer growth, consumer cyclical, financial and transportation stocks. While some individual securities performed well for company-specific, valuation-based reasons, many of our stocks in these sectors remained under pressure during the quarter. Because of widespread fears relating to an accelerating economy and rising inflation, combined with extreme volatility in the currency and commodity markets, Federal Reserve Chairman Alan Greespan increased interest rates four times during the February-through-May period, which hurt our stocks as a group.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to believe that our current economic environment is marked by moderate levels of both growth and inflation and that the federal Reserve has no present need to increase interest rates yet again. We believe that the long bond was deeply oversold at about the 7.70% level and will retrace to the 7.00% level or lower in the absence of any bad news on inflation. In conjunction with solid second-quarter corporate earnings, we are forecasting a summer rally from about the 3,600 level at the beginning of the third quarter to about the 3,900 to 4,000 level by Labor day. Although we may experience some consolidation from that level during September and October, we expect a year-end rally that will carry the DJIA to about the 4,150 level.

   Within that framework, our active bets involve overweighting the following stock groups: autos, housing, metals, papers, transports, retailers, gaming, machinery and financials, with select opportunities among consumer non-durables, consumer growth, capital goods, technology and energy stocks.

First Capital Advisers, Inc. (con't)

As always, our individual stock selections are driven by attractive valuation levels and superior growth prospects for the market's Blue Chip leaders.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   We gained three new accounts during the second quarter of 1994:

   1. Minnesota State Board of Investment; April 4, 1994 - $30 million.
   2. San Diego City Employees' retirement System; May 16, 1994 - $5 million.
   3. Evaluation Associates' Americas Funds; June 1, 1994 - $5 million.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Our second-quarter performance for the Minnesota State account is skewed, based on the starting date selected, as it relates to our internal computerized performance calculation software.

   Using April 4, 1994 as our starting point, which is the day that we began to work with the account, our computer system calculates a quarterly performance of +0.71%. However, by backing up to the last day of the prior quarter and assuming a starting date of March 31, 1994, our computer system calculates a quarterly return of -0.50%, which is 121 basis points lower.

   It appears that the volatility surrounding the broad market at that time accounts for the skewing. On March 31, 1994, the S&P 500 was at 445.76. April 1, 1994 was Good Friday, and the market was closed. On April 4, 1994, the S&P 500 closed at 438.92, 1.53% lower. The S&P 500 then rebounded 2.13% to 448.29 on April 5, 1994.

Staff Comments

First Capital's belief that their performance in the second quarter was +0.71% is erroneous since it assumes the start of the performance period was the end of business on April 4, 1994. The firm had legal authority over assets as of April 1, 1994.

Staff had an introductory meeting with the firm during the quarter.

Manager Commentary
Kennedy Capital Management

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$799 Million	Actual	-3.1%	N/A
Total Firm Assets Managed in this Discipline	$498 Million	Benchmark	-3.9%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Kennedy Capital invests in stock issues that are underfollowed by the investment community and underowned by institutions. The investing process typically requires us to obtain most of our equities from the retail market through the use of market makers. The bid-ask spreads on these issues are somewhat larger than most OTC stocks. Therefore, our cost of entry into these issues is larger than the average stock trade. Occasionally, if index funds are liquidating issues, we may have a unique opportunity to invest. This did occur during the last week of March, and again during the last week of June, both incidences reducing our overall cost of entry to the market. However, the overall cost during this first quarter still averaged approximately 2% of the funds invested.

Kennedy Capital is a bottoms up manager and invests in stocks based on that particular company's performance compared to other stocks. We try to be very diversified in the market by industry group to avoid any sector bets. The small cap market that we invest in ($50-300 million market cap) did underperform the S&P 500 and the Russell 2000 Index due to its reduced liquidity. With the first round of interest rate increases, the market has placed a premium on "tradable" stocks.

The equities that performed the best were the issues with the highest current yield because retail accounts were not selling them as actively as those without the yield. The issues that performed the worst were those that had the largest future earnings growth component.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Kennedy Capital will continue to follow the investment style we described to your committee. This style places an emphasis on the current or future ability of companies to pay dividends. The market is still in a down trend and we suspect there will be another wave of block selling by institutions near the end of the third quarter. We will participate in these sell programs by bidding for stocks that are being sold by the index funds with below-market buy orders. These index funds are used predominately by overseas investors. As the dollar continues to weaken against other currencies, its effect on relative performance continues to increase pressure to dump these stocks through block sells.

Kennedy Capital Management (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Kennedy Capital, as promised in the presentation, has officially closed its doors to additional dollars in its Small Cap Value and Emerging Growth Products. We have hired one more professional to bring our staff to 16 people and are searching for an additional analyst. Thirteen of the sixteen people are college graduates and seven hold advanced degrees.

   Accounts added were those we had made presentations prior to January 1st but did not fund until the second quarter.

   State of Missouri
   R.R. Donnelley & Sons
   Inter-Regional Financial Group

   No accounts were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   At our first discussions with the Minnesota State Board, the timing of additional dollar placements to the Kennedy Capital Program were discussed. If these placements are to be made, the end of the third quarter this year will be a good period due to the index funds having to sell block orders to the market.

Staff Comments

Staff does not contemplate additional contribution to Kennedy at this time (see #4 above).

Manager Commentary
New Amsterdam Partners L.P.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$141 Million	Actual	-4.6%	N/A
Total Firm Assets Managed in this Discipline	$141 Million	Benchmark	-0.2%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The second quarter was one in which large cap stocks significantly outperformed medium and smaller cap stocks. There was also negative return associated with growth. Our returns were mainly affected by the size effect (our weighted average market cap is much closer to the S&P MidCap than the S&P 500), and secondly by the growth element in our approach (since we look for companies with better than average forecast growth and profitability selling at reasonable valuation multiples).

   This quarter our Process Industries holdings did well (+34.2%), as did Non-Energy Minerals (Allegheny Ludlum: +6.6%) and Finance holdings (+2.8%). The main cause of our underperformance were our Retail and Consumer stocks. Our Retail positions were down -22.5%, Consumer Non-Durables -10.7% and Consumer Services (Caesars World) down -20.4%. Our Retail Trade holdings are primarily specialty mall retailers which did badly despite decent growth and profitability and relatively low multiples. The stocks, with the exception of CML Group, have reported earnings in excess of analysts' estimates which normally results in positive share price movement. Instead, concerns about the economy, consumer spending and mall traffic have continued to depress these stocks. In the Consumer Non-Durables area our holdings (basically brand name apparel and food stocks) have very reasonable P/E ratios (15.4x compared to the MidCap's 18.5x), high profitability ratios and high forecast growth. Ultimately, fundamentals bear out and we believe both groups will rebound.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our portfolio has a higher expected return, higher forecast growth and return on equity but a lower P/E and Price to book ratio than the benchmark. This should allow the portfolio to substantially outperform over time. We continue to be relatively overweighted in Consumer, Retail and Technology stocks since we believe that prices in those areas have overreacted and currently represent exceptional values.

New Amsterdam Partners (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Clayton Johnston, Marketing Associate, left the firm in June to take a permanent position in his hometown of Dallas.

   One account, totaling $5.8 million was gained in this discipline this quarter. None were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We have a July 13, 1994 appointment with Jeff Bailey at Richards and Tierney to initiate our custom benchmark. We believe that a custom benchmark will more accurately characterize our value added than broader market indices. As requested, we will provide you with feedback on the experience of developing the benchmark.

Staff Comments

Staff had an introductory meeting with the firm during the quarter.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$600 Million	Actual	1.3%	N/A
Total Firm Assets Managed in this Discipline	$600 Million	Benchmark	0.5%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the second quarter of 1994, the Minnesota State Board of Investment portfolio appreciated 1.29% as compared to a gain of 0.38% for the S&P 500. During this initial investment phase of the portfolio, the account was gradually structured in securities we felt still represented good value. The largest contribution to performance during the period stemmed from Newell Corp., and Manpower. Newell has delivered solid earnings gains, and investors have been rewarded for this. Unocal's earnings are benefiting from higher oil prices and internal restructuring. Manpower is currently getting a strong lift to earnings from recovering operations in France. Performance was adversely affected by TJX Companies, Pitney Bowes and Consolidated Freightways. TJX experienced slower than expected sales, but we continue to maintain our position in this premier discount apparel retailer, which is superbly managed. Pitney Bowes will see an earnings pick-up later this year. Consolidated Freightways quarterly operations were impacted by a strike. Business was actually stronger than expected after the strike, and the fundamentals remain strong. Realized gains were taken in Morrison Restaurants as we believe the growth rate is not sustainable. Aviall was sold because we expected earnings would be below expectations and the stock would be affected by reduced estimates, which did ultimately occur after our sale. Finally, the position in W.W. Grainger was eliminated because gross margins are eroding, causing us to question future earnings growth.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our investment philosophy is one of "risk-averse growth." We believe that growth in earnings and cash flow fuel price appreciation. We also believe that high price-to-earnings ratios cause volatility and risk. Hence, we try to sell higher P/E stocks and buy stocks in companies whose earnings will grow but whose P/E's are at or below the market. Under our "bottom up" style, each stock pick is an active bet. New investment positions initiated during the quarter include Echlin Inc. and Mellon Bank Corp. Echlin is a manufacturer of electrical and brake replacement parts for automobiles. Earnings growth is accelerating due to expansion into European markets.

Mellon, a growing commercial bank in the East, is expanding its fee-based business to offset the cyclicality of corporate loan operations.

Valenzuela Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   In May, Sandra A. Jerro joined our firm in the role of Client Service and will assist the portfolio managers with administration and performance measurement for the SBI account. She was previously with BMI Capital Corp. for eleven years, where she had similar responsibilities. There were no ownership changes at the firm over the last quarter. New accounts during the second quarter include the Major League Baseball Pension Trust and the General Board of Pensions of the United Methodist Church. No accounts were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   The strong economic growth evident at the end of 1993 continued through the first half of 1994. Employment and incomes are rising and corporate profits are strong. Inflation continues to be moderate, but the sustainability of economic recovery must be considered given higher interest rates and still fitful growth in Europe and Japan. Even though valuations have become a bit more attractive, the penalty for being wrong on earnings estimates continues to be severe. In this environment, we are concentrating on finding companies that will deliver solid and consistent earnings.

Staff Comments

Staff had an introductory meeting with the firm during the quarter.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	6/30/94	Returns	Qtr.	Year
Total Firm Assets Under Management	$340 Million	Actual	-6.6	N/A
Total Firm Assets Managed in this Discipline	$226 Million	Benchmark	-3.5	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The Minnesota State Board of Investment's portfolio under performed its index, the Russell 2500 for the second quarter. This under performance is attributed to the State's portfolio not being fully invested for the entire period due to its initial start-up. The Wilke/Thompson Small Cap Growth portfolio, however, has outperformed the Russell 2500 on a year-to-date basis. The second quarter needed to constantly contend with the prospect of interest rate hikes attributed to a devaluing dollar and a robust economic recovery. Looking forward, we believe that the portfolio is very well positioned to take advantage of the investment opportunities that exist in the marketplace today.

   Early in the year, the Fed implemented a proactive approach by raising interest rates in an effort to control potential inflation caused by a robust economy. The multiple Fed rate hikes prompted the markets to sell-off lingered into the second quarter as more rate hikes appeared imminent, this time to provide support to a weak dollar. This sell-off has provided the portfolio with numerous opportunities to purchase high quality growth companies at relatively low historical prices. To illustrate this occurrence, the portfolio's 1995 P/E ratio is currently at 16.1x compared with a projected growth rate of 22%. The future for small cap growth stocks remains extremely attractive as they are experiencing a normal correction within an upward trend.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   While we do not make any active bets versus a benchmark, we are very excited about the opportunities that lie ahead for the companies that comprise the Minnesota State Board of Investment's portfolio. In this economic environment, high quality growth stocks tend to excel. Market corrections provide investors with opportunities to buy America's best growth companies at discounted prices. We continue to invest in companies with good unit growth, that provide proprietary products/services or dominate their market, and that in turn have the ability to control their pricing. This strategy is particularly important in the current environment as we remain confident in the portfolio holdings' ability to generate above average long-term earnings growth.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have not been any ownership or personnel changes at Wilke/Thompson in the second quarter. There have been no lost accounts in this style over the past quarter and the sole gained account was the Minnesota State Board of Investment.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   One issue that deserves highlighting is the tremendous opportunity existing to invest in high-quality growth stocks. Historically, growth stocks have thrived in environments similar to the one we are facing today which features slow economic expansion with occasional interest rate hikes.

Staff Comments

Staff had an introductory meeting with the firm during the quarter.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$375 Million	Actual	-2.8	N/A
Total Firm Assets Managed in this Discipline	$375 Million	Benchmark	-1.0	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Management of the SBI account by Winslow Capital began on April 1, 1994. In the quarter ended June 30, the SBI portfolio declined 2.9% on a total return basis versus the benchmark Russell 1000 Growth decrease of 1.0%. Over the past 12 months our comparable accounts rose 1.7% compared with a decline of 0.2% in the benchmark. Returns of our accounts exceeded the benchmark in each of the previous 7 quarters.

The principal cause of the general decline in stock prices in the second quarter was the increase in interest rates precipitated by the Federal Reserve raising Fed funds rates. That action caused a contraction in price/earnings ratios. High growth stocks generally have high P/E ratios. The SBI account is a high growth account and the P/E on the portfolio contracted more than average causing the decline in the second quarter. The one year forward earnings growth rate of the portfolio is 25%, compared to 17% for the benchmark.

The portfolio is considerably overweighted in technology, telecommunications and specialty retail/consumer services. It is moderately overweighted in healthcare and underweighted in other sectors. Our financial stocks did well but we were underweighted. The overweighting in telecommunications and healthcare was additive while that in technology and consumer services was considerably more negative, generating a net decline both absolutely and relatively. Telecommunication stocks had underperformed in the first quarter, we took advantage of the price weakness to add to the sector where we see the strongest growth - cellular, equipment and long distance. In healthcare we concentrated in the "managed care" companies which did well, continuing to avoid the pharmaceutical companies which have fared poorly. Although strong earnings growth was reported by our technology companies, investors became fearful of growth continuing at a high rate and sold the stocks heavily.

Winslow Capital (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The current portfolio continues to stress companies with strong future earnings growth with attractive share valuations relative to those growth prospects. We find strong unit growth and attractive valuations in technology and consumer services where we have the highest relative bets. We also find high unit growth and more recently attractive valuations in the telecommunications sector. Also of interest is the reinstatement to the portfolio of some long-time strong unit growers which have returned to more reasonable valuations such as Coca Cola and Wal-Mart. We are finding faster growth at a more reasonable valuation today compared to a year ago due to the depressing impact of rising interest rates on P/E ratios. The portfolio has always been and will always be an earnings driven one. Throughout market cycles, P/E ratios will rise and fall with falling and rising interest rates but companies with an increasing future earnings stream will see their relative share price move up over time. We expect economic growth will moderate to a sustainable level without a worrisome increase in inflation. This should lead to stabilizing interest rates and P/Es which should permit more favorable returns from your high growth portfolio. The actual increase in reported earnings in the latest quarter compared with a year ago averaged 42%.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Jon R. Foust joined the firm in June as a Managing Director for Marketing/Client Service. Previously, he was Vice President of Investment Advisers, Inc. in Marketing/Client Service. Jon is a graduate of St. Olaf with a B.A. in Economics and Psychology. He has an ownership share of the firm's Earnings Pool.

   Sargent Management and HealthSpan Corporation are two new accounts gained during the quarter. The total assets under management are nearly $400 million for 11 clients.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff had an introductory meeting with the firm during the quarter.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$248 Million	Actual	-5.1%	N/A
Total Firm Assets Managed in this Discipline	$248 Million	Benchmark	-1.0%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The past quarter exhibited negative returns for every sector of our portfolio, similar to our benchmark, the Russell 1000 Growth Index. Although returns were only slightly off for the Telecommunications, Content and Basic Industries sectors, Technology, Finance and Consumer underperformed significantly the last month of the quarter, which were overweighted compared to the Russell 1000 Growth Index. This underperformance was attributable to inflation fears and rising interest rates. Higher multiple stocks were penalized for their perceived volatility of earnings.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Zevenbergen Capital's investment theme incorporates a belief in the continued outperformance of capital investments. Our portfolio is structured to take advantage of this long-term, secular investment trend which is driven by earnings developed through competitive advantages. These advantages can be described as demographic trends, outsourcing, information management and unit growth resulting from the continuing globalization of economies and markets.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant changes in ownership or personnel for the quarter. Accounts gained for the period included Chrysler Corporation and Artemis Partners, L.P. One account was lost during the quarter, TVI Incorporated, due to a change in investment strategy.

Zevenbergen Capital (con't)

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Two equity issues that have significantly outperformed during the last quarter that were not included in the SBI portfolio were News Corp. Ltd., ADR and Vodafone Group PLC., ADR.

Staff Comments

No additional comments at this time.

Manager Commentary
BEA Associates

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$20.2 billion	Actual	-1.4%	-1.2%
Total Firm Assets Managed in this Discipline	$3.6 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Unaudited performance for the period dated 4/1/94 to 6/30/94 was -1.16% versus a return of -0.97% for the Salomon BIG Index. On a positive note, the derivative related strategy enhanced returns by approximately 25 basis points due primarily to a meaningful decline in Yen volatility. The weakness in the International Bank Perpetual Floating Rate Note market continued into the second quarter and negatively affected returns by about 30 basis points for the period. The decision to have 5% of the portfolio exposed to an assortment of global interest rates hurt returns by approximately 20 basis points. Individual security selections and pricing discrepancies accounted for another 30 basis points of underperformance.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The strategies that were in place at the end of last quarter continue to be in place at this time. BEA continues to see good value in the International Perpetual Floating rate Note market, select BBB issues, and government bonds of securities outside of the United States. As interest rates stabilize, all of the above sectors should provide superior relative returns as investors refocus their energies on relative value.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No change in personnel or ownership. No new stand alone fixed income assignments in excess of $50 million.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

Staff met with the manager to review the portfolio and investment strategy during the quarter. Staff believes there are no concerns at this time.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$13.5 billion	Actual	-1.7%	-2.2%
Total Firm Assets Managed in this Discipline	$4.5 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio underperformed its benchmark for the quarter and for the past year. Our overweighting in long duration assets reduced relative returns during the quarter by about 45 basis points. Our barbelled yield curve strategy added 10 basis points of relative return while our underweightings in corporates and MBS reduced relative returns by 10 basis points.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Duration remains at 5.8 years, exceeding the market benchmark by about one year. This additional duration is due to an overweighting of long-maturity Treasuries and STRIPS. Intermediate maturities (3-5 years) are underweighted and short maturities (0-3 years) are overweighted. These strategies give the portfolio a barbell structure with greater-than-market duration. We expect the yield curve to flatten with short-term interest rates rising and long-term interest rates falling. Asset-backed securities are overweighted; the MBS sector and corporate sectors are underweighted. We plan to add MBS as volatility subsides and market technicals improve. We will add corporate bonds on an issue-by-issue basis since much of the corporate sector is overvalued. During the third quarter, we expect long-term Treasury rates to fall to 7% while short-term Treasury bill rates rise further.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Jon Foust, Vice President, Marketing is no longer with the firm.

   Mark Hoonsbeen has joined IAI as a Vice President/Portfolio Manager in large cap equities.

   There were two accounts gained and 1 account lost in this discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No additional comments.

Staff Comments

The Hill Samuel Group (the London, England based parent company of Investment Advisors, Inc.), has increased the responsibility of IAI to include the development and management of its investment products distributed in the western hemisphere. IAI is now responsible for all the global investment activity of Hill Samuel in North and South America.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$29.3 billion	Actual	-2.0%	-1.7%
Total Firm Assets Managed in this Discipline	$17.5 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The total return of your portfolio for the second quarter of 1994 was -2.06% versus -0.98% for the Salomon Broad Index and -1.03% for the Lehman Aggregate Index.

   The active bets within your portfolio include a duration or interest rate sensitivity greater than that of your benchmark, an overweighting in mortgage securities, and a 5.1% commitment to the non-dollar fixed income area.

   During the quarter, interest rates rose sharply and the yield curve flattened. The upward movement in interest rates, given the duration position of the portfolio, held back the performance of the portfolio. Interest rates in foreign markets rose sharply and the portfolio's exposure to the non-dollar area reduced investment results during the quarter. The exposure to mortgage securities added to returns.

   Over the last year, the sharp increase in interest rates had held back investment results while mortgage holdings and the barbell position embedded within the portfolio contributed significantly to relative returns.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Real interest rates have risen, both here and abroad, and prospectively, long duration, high quality fixed income securities represent significant value. The duration of your portfolio is greater than the benchmark duration. As these higher interest rates slow global economic expansions, we would anticipate increasing further the interest rate exposure within your portfolio and anticipate that the remaining barbell structure within the portfolio will be replaced by call-free, high quality fixed income substitutes.

   Based on the relative values that prevail within the market, we would anticipate reducing mortgage and corporate holdings modestly but will remain overweight versus the benchmark.

Foreign fixed income market offer opportunities to diversify your portfolio and enhance returns. We anticipate increasing your foreign holdings.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

During the quarter, we hired one new investment professional. None of our investment professionals left the firm during the quarter.

During the quarter, we had an increase of 7 new fixed income relationships and no losses.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

Staff met with the manager to review the portfolio and investment strategy during the quarter. Staff believes there are no concerns at this time.

Manager Commentary
Standish, Ayer & Wood

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$22.8 billion	Actual	-1.2%	-1.5%
Total Firm Assets Managed in this Discipline	$7.9 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the second quarter the MSBI Account underperformed the Lehman Aggregate by 57 basis points.

The underperformance was caused by the following:

- International: Rising yields overseas
- Corporate Bonds: Medium quality spreads widen on event risk rumors (Time Warner, TCI, RJR Nabisco) and mutual fund redemptions
- Yield Curve Positioning: Intermediate portion of the yield curve impacted the most as yields rose during the second quarter

Mortgages outperformed

2nd Quarter Bets vs. Benchmark

International (overweight)
Did not work in the second quarter as interest rates continued to increase in spite of mediocre (at best) economic fundamentals.

Corporate (overweight)
Despite underlying credit quality improvement, market volatility driven by mutual fund redemptions and event risk rumors caused wider spreads.

Yield Curve
See second quarter commentary.

Mortgages (overweight)
Lower supply helps promote tighter spreads.

Standish (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Sector	Weighting Strategy	Rationale
Corporates	Overweight Prefer medium quality versus investment grade.	Economy improving. Spreads in medium quality attractive versus investment grade especially in light of improving medium quality credit fundamentals.
Mortgages	Neutral	Reduced supply has narrowed spreads. Potential for another wave of derivative based selling is rising (E G. Glaxo).
International	Overweight Continue to maintain hedged position	International bond markets have over-reacted relative to underlying economic fundamentals. Selling wave appears to be over. Outlook positive.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No significant ownership changes to report

   Personnel changes: <u>New employees:</u> Armin Lang - International equity

   <u>Departing Employee:</u> Punita Kumar - International equity

   <u>Accounts gained/lost:</u> See attached

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

Staff met with the manager to review the portfolio and investment strategy during the quarter. Staff believes there are no concerns at this time.

Manager Commentary
Western Asset Management

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$12.2 billion	Actual	-2.1%	-1.2%
Total Firm Assets Managed in this Discipline	$6.8 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio underperformed its benchmark index last quarter by about 125 basis points. This was primarily due to the portfolio's long duration posture during a period of sharply rising interest rates. The negative impact of higher rates was offset to some degree by the portfolio's barbell maturity exposure, which benefited from the flattening of the yield curve which occurred as short-and intermediate-term interest rates rose more than long-term rates. The portfolio's modest overweighting to mortgage-backed securities added somewhat to relative returns, as mortgages outperformed other major sectors by a substantial margin. The portfolio's overexposure to corporate securities was a minor negative, as higher rates and inordinately high volatility caused corporate spreads to widen.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our interest rate strategy is based on the view that the economy is not in danger of overheating, that inflation fundamentals remain very positive, and that intermediate and long-term interest rates represent good value. Consequently we are keeping duration around 120% of the benchmark index.

   The economy has decelerated significantly from the pace of late last year, and appears to be growing at 3% or less currently. Consequently, we think the Fed is unlikely to raise short-term interest rates as much as the market already anticipates. A continuation of moderate economic growth should calm fears of future inflation, allowing interest rates to decline. As fears of further Fed tightening and higher inflation dissipate, short- and intermediate-term interest rates should decline more than long-term rates. In this belief, we have shifted portfolio maturities to concentrate more in the intermediate area, to benefit from a steepening of the yield curve.

   We are maintaining an overweighting to the mortgage sector, emphasizing low-coupon mortgage collateral and high-quality, non-agency mortgage-backed securities. Excessive market volatility, the forced liquidation of mortgage derivatives and the flattening of the yield curve all combined to drive mortgage spreads to fairly attractive levels; as these pressures dissipate or tend to reverse, mortgage spreads should continue to narrow. We are also maintaining an overweighting to the corporate sector, in the belief that moderate economic growth and lower interest rates will support improving credit fundamentals and greater demand for yield.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   The only significant ownership/personnel change was the hiring of Carl L. Eichstaedt as a portfolio manager.

   Western Asset added two new accounts. No accounts were lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

No comment at this time.

Manager Commentary
IDS Advisory (IDS Fixed-Income Advisors)

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$19.0 billion	Actual	-1.1%	-1.2%
Total Firm Assets Managed in this Discipline	$4.6 billion	Benchmark	-1.2%	-1.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The most significant decision made by IDS thus far in calendar 1994 was to reduce portfolio duration from near the high end permitted by investment guidelines (7 years) to the area of 5.5 years. This change resulted in investment performance essentially equal to that of the index during a period of rising interest rates. Had we not made this duration shift, investment performance in the quarter would have underperformed the benchmark by 0.3 of one percent. Unfortunately, this occurred during a rising interest rate environment resulting in negative total returns for both your account and the benchmark.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   In the most recent quarter, the Federal Reserve Board increased the Fed Funds rate 0.25% in April, and 0.50% in May as they continued to nervously watch the economy improve. The Fed's continuing to increase short term interest rates was not in all probability a presumptive strike against inflation (there has been little deviation in the CPI) but has been viewed by many as a shift from a stimulative to a more neutral stance. We expect the current economic expansion to continue leading to further increases in the Fed Funds Rate. We are projecting Fed Funds rates in the area of 5-5 1/2% in late 1994 or early 1995. Under this scenario long term interest rates will gradually rise and provide an opportunity to advantageously redeploy the cash raised in the account.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There have been no significant ownership or personnel changes for IDS Fixed-Income Advisors over the last quarter.

	Second Quarter 1994			
	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	0	0	0	0
Fixed Income	0	0	0	0
Balanced	3	45.7	1	41.5
International	2	149.2	1	24.8
Small Cap Equities	0	0	0	0
Mid Cap Equities	0	0	1	5.8
Research Core	0	0	0	0
Research Aggressive	1	249.5	0	0
Global Bonds	2	46.7	0	0

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

No comment at this time.

Manager Commentary
TCW Asset Management

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$49.3 billion	Actual	-5.7%	-4.6%
Total Firm Assets Managed in this Discipline	$8.2 billion	Benchmark	-0.5%	-0.9%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The problems that the fixed income markets have recently encountered have been well publicized. Strong economic growth, inflationary fears, and a weakening dollar played havoc with the market throughout the second quarter. The performance of the mortgage sector was impeded by a steady stream of mutual fund redemptions and widespread selling. Tremendous dislocation within the CMO sector pushed prices even lower. Furthermore, the value of call-protected securities declined as the market adopted an outlook for declining prepayments. The TCW strategy emphasizes CMOs and call-protected securities, both of which underperformed during this past quarter.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We continue to emphasize various types of CMO securities that are misvalued by the market. Once the market adjusts to the recent increase in interest rates and adopts a more rational view of prepayment rates, we believe this sector will resume its performance record. Your portfolio yields considerably more than treasuries and the income being generated is much greater to cover any potential price decline due to rising interest rates.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes at the firm in the last quarter. The firm gained two accounts and lost none in this discipline in the last quarter.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Our current outlook for the mortgage-backed securities sector is favorable, and a number of technicals point to improving performance potential. The supply of new issue mortgages and CMOs has declined and buyers have emerged. Prepayments on discount securities are coming in above Wall Street forecasts, creating sizable opportunities in discount securities that have been priced to very slow assumptions.

Staff Comments

In response to a request from staff, TCW provided the following summary of their use of derivative securities in the SBI's portfolio:

> "TCW is not using futures, options, swaps, caps, floors, structured notes, or any other counterparty oriented instruments which broadly define financial derivatives. We do use collateralized mortgage obligations (CMOs) extensively. Our use of CMOs in general is to add characteristics to the portfolio that are superior and/or less expensive than those offered by mortgage pass-through securities. CMOs often have superior principal payment schedules, more average life stability, higher yield, and greater call protection.
>
> When your portfolio was originally funded in July of 1993, the average price of the mortgage pass-through sector was well above par and portfolios were highly exposed to the erosive effects of prepayments. The premium nature of the generic mortgage market brought with it a very low duration and high negative convexity, which are undesirable for a long term investment program. Some types of CMOs, such as inverse floaters, were priced as low as 75 cents on the dollar, and functioned to offset these negatives. The inverse floaters in your portfolio were purchased primarily for yield and call protection purposes. Over the past two quarters, as interest rates have risen, and prepayment outlooks for mortgages have declined, the value of call protection and longer duration declined. However, interest rates do fluctuate over time, and the purpose for which these securities were purchased will be served."

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$44.7 billion	Actual	-0.9%	-0.4%
Total Firm Assets Managed in this Discipline	$13.1 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the second quarter, the portfolio outperformed the Salomon Brothers BIG Index by 15 basis points. Several factors contributed to the portfolio's incremental return:

Duration/Term Structure Exposure	-5.0	Asset-backed	-0.4
Treasury/Agency	+2.6	Mortgage	+5.8
Corporate	+8.0	Incremental Yield (OAS)	+9.3
		Residual	-5.2
		Total	+15.1

The primary source of the portfolio's outperformance over the quarter was the corporate sector, where security selection accounted for 5 of the total 8 basis points added. In particular, in the cable/media subsector, our securities tightened as much as 20 basis points (e.g., News America). In the finance subsector, spreads on our securities tightened an average of 2.5 basis points, while average spreads in the sector widened about 1 basis points. The portfolio's performance also benefited from its lack of exposure to utility credits, a sector that widened 15 basis points because of increasing competition. Finally, the portfolio benefited from the improved performance of triple-B credits in general this quarter.

The mortgage sector contributed nearly 6 basis points, primarily because we were overweighted and spreads tightened about 15 basis points. Most of this tightening (11 basis points) occurred in May, when we were overweighted by 6% on a market value basis and had our largest overweighting of the quarter on a contribution to duration basis. The portfolio's only derivative security, an inverse floater, added 4 basis points to its performance.

Our duration/term structure exposure was the only factor detracting from performance this quarter. Most of the loss occurred in May, when we overweighted the 1-year part of the curve while underweighting the 7-year part of the curve. Combined with a slightly shorter portfolio duration relative to the benchmark, this strategy cost the portfolio 5 basis points.

Finally, we gained about 9 basis points this quarter due to the higher yield of our portfolio compared with the Index.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Duration/Term Structure: Economic growth should moderate in the second half of the year, with DGP in the 1.5-3% range. We also expect inflation to remain at about 2.5-3%. Mounting evidence of this benign environment should allay fears of an overheating economy, resulting in lower long-term yields by year-end. In the near term, however, we expect volatility to continue as the market trades on factors unrelated to solid fundamentals. We are therefore maintaining a neutral yield curve exposure and targeting the duration of the benchmark.

Corporates: We have a constructive outlook on corporate spreads based on strong fundamentals and positive technicals (low supply, renewed investor demand). As a result, we are targeting a 35% allocation to the corporate sector. Our largest industry allocation is to industrials (21%), with particular emphasis on cable/media credits (stable cash flows, stable or slightly improving ratings, sound strategic position). The portfolio also has substantial positions in the U.S. automobile subsector (stronger sales, cost cutting, improved competitiveness) and is overweighted in financials (improved asset quality, record capital levels, solid loan growth). In the Yankee subsector, we have reduced our position in Korea, as we expect political uncertainty to put further pressure on spreads. We have also decreased our exposure to Canadian paper, as spread volatility may increase as the Quebec election approaches.

Mortgages: Going forward, we have a neutral outlook on mortgage spreads, although we may lower our allocation to the sector slightly if spreads tighten further. Longer term, we expect mortgages to benefit from positive technicals and more stable prepayments. We are currently overweighting lower coupon GNMAs versus conventional mortgages. The price spread between GNMA and FNMA discounts is at historically wide levels, and we believe that deep discount GNMAs are being priced at slower speeds than are justified. We are also continuing to barbell the portfolio (combining low coupons and high coupons), as the other significant overweightings are in FNMA 8.5s and FNMA 9.0s. These shorter duration securities should benefit from their high coupons as prepayments continue to decline. In June we added a position in the 15-year sector with FNMA 8s.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no changes in the ownership of Goldman Sachs Asset Management.
GSAM had two additions to our U.S. fixed income portfolio management staff:

> Christopher Testa; Vice President; Credit Research Analyst
> Mark Van Wyk; Associate; Fixed Income Portfolio Management

U.S. Fixed Income Accounts Gained	**U.S. Fixed Income Accounts Lost:**
U.S. Clients - 3; Non-U.S. Clients - 0	U.S. Clients - 2, Non U.S. Clients - 1

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

Staff met with the manager to review the portfolio and investment strategy during the quarter. Staff believes there are no concerns at this time.

Manager Commentary
Fidelity Management Trust Company

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$20.7 billion	Actual	-0.8%	-0.1%
Total Firm Assets Managed in this Discipline	$7.9 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio outperformed the Salomon Broad Investment-Grade Index during the quarter. Corporate allocation and yield curve strategy were the primary contributors to relative performance.

   Corporate subsector allocation added to the portfolio's relative returns. Emphasis in the bank sector benefited from improving financial performance and asset quality. Asset-backed holdings benefited from their relatively high quality in an uncertain market environment. De-emphasis in utilities also helped the portfolio as this sector has been experiencing adverse regulatory changes.

   Municipal supply decreased following the end of the tax season and as interest rates rose. Municipal spreads, therefore, tightened relative to Treasuries. We sold the portfolio's municipal holdings at favorable levels which also helped performance.

   The portfolio's Collateralized Mortgage Obligations performed strongly as a result of the expectation of slower prepayments.

   Mexican debt securities continued to suffer from economic growth and currency stability concerns. The particular Mexican issues held in the portfolio, however, performed in line with U.S. Treasuries. We continue to monitor the situation closely and remain optimistic with respect to the Mexican Yankee holdings.

   During the quarter we implemented a barbelled yield curve strategy which helped the portfolio as the yield curve flattened.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   <u>Corporates</u>

   We remain defensive on the corporate market due primarily to valuation. Fundamentals and technicals remain positive.

Fidelity Management Trust (con't)

Primary focus is on building Mexican Yankee positions, special situations, and implementing the "upgrade trade" where appropriate.

Mortgages

We are neutral on mortgage pass-throughs which are currently at fair value.

We continue to overweight seasoned pass-throughs when possible. They have superior convexity to newer issue pass-throughs.

Yield Curve

Have recently moved from having a bulleted term structure exposure to a more neutral one. Will look for opportunities to reestablish the bullet bet.

Some of the factors that influenced this trade were supply in the front end of the yield curve, defeasance demand in the long end and heightened market fears of further Fed tightening.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No change.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

Staff met with the manager to review the portfolio and investment strategy during the quarter. Staff believes there are no concerns at this time.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$25.1 billion	Actual	-1.1%	-1.1%
Total Firm Assets Managed in this Discipline	$8.5 billion	Benchmark	-1.0%	-1.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	2nd Quarter 1994		**12 Months Ended 6/30/94**	
	Active Strategy	**Value Added**	**Active Strategy**	**Value Added**
Mortgages	Overweighted	+0.01%	Overweighted	+0.05%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Underweighted	-0.01
Asset-Backeds	Overweighted	+0.01	Overweighted	+0.04
Agencies	Overweighted	0.00	Overweighted	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Contribution Transaction Cost	N/A	0.00	N/A	-0.07
Security Selection	N/A	+0.05	N/A	+0.21
Total		+0.06%		+0.18%

Security selection continues to be the dominant source of value added as high levels of volatility increased the number and magnitude of arbitrage opportunities. The modest overweighting in discount 15 year mortgages and asset-backeds had little impact on value added during the quarter as spreads remained relatively stable. For the year, the largest drag on returns was due to the one time transaction costs associated with the 7/01/93 contribution of $330 million.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	Strategy	Rationale
Government Trust Certificates	Overweighted vs Treasuries	1. Government Guarantee 2. Attractive Yield 3. Certain Cash Flow
Asset-Backed	Overweighted vs Treasuries and Corporates	1. High Quality 2 Attractive Yield 3 Low Event Risk 4. Low Prepayment Risk
Discount 15 year Mortgages	Overweighted vs Treasuries	1. Agency Quality 2. Low Prepayment Risk 3. Wide Nominal Spreads 4. Deferred Settlement

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

	Number	Market Value ($ millions)
Accounts Gained	0	N/A
Accounts Lost	1	116

Bill Goldsborough, our equity retail analyst, retired effective 6/30/94. He was replaced by Gretchen Lash. There is one additional equity analyst, Alan Sebulsky, who has an emphasis in health care.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

There are no issues or developments that would impact the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Baring Investment Services

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$10.8 Billion	Actual	3.7%	21.0%
Total Firm Assets Managed in this Discipline	$ 1.1 Billion	Benchmark	5.1%	17.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The following figures give a breakdown of this quarter's performance:

	Total Return %	**Currency %**	**Market Weighting %**	**Tracking Error %**
Minnesota State Board	3.7	2.7	0.5	0.5
Benchmark	5.2	4.1	1.1	---
Relative Return	-1.4	-1.3	-0.6	0.5

The relative contributions to return from currency and market weighting were negative during the quarter, however, tracking error was positive. Over the quarter, with the US Dollar weak, the absolute currency effect was positive. Within your portfolio the relative underperformance was due mainly to overweighting the US Dollar and Dollar related currencies. Our hedge from Swiss Francs and the Yen, the former being closed out during the quarter, detracted from performance.

Local market returns ranged from +10.6% for Korea to -8.4% for France, with the MSCI EAFE returning 1.1%. The major contributor to the underperformance was Japan, where the average weighting of your portfolio was 28.7%, compared to the average weighting in the benchmark of 46.3%. The Japanese market rose 7.3% in local currency terms. This underweighting produced a relative contribution of -1.1%. Our positions in Canada and Mexico, both non-index countries, detracted 0.4% and 0.2% respectively. In spite of our overweight in Hong Kong, which underperformed during the quarter, our overall position in S.E. Asia made a positive relative contribution return. Tracking error was attributable mainly to Singapore.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The main features in your portfolio are:

Overweight position in Hong Kong and Singapore;
Overweight position in Australia;
Underweight in Japan;
Underweight in Continental Europe;
Overweight in the United Kingdom;
12.2% exposure to the non-index markets of Thailand, Mexico, and Korea;
7.5% of your portfolio hedged back into the US Dollar from the Japanese Yen.

Baring (con't)

Your portfolio's exposure to core Europe has been reduced from 22.9% to 19.8%. Italy, having been introduced to your portfolio in February during the run up to the March election, was reduced to a zero weighting. The enthusiasm with which equity investors greeted the new Berlusconi Government pushed the market to valuation levels that more than fully discounted the potential for structural change. Our stay was short but rewarding. Outside of core Europe we moved to increase your portfolio's weighting in the United Kingdom overweight position. Whilst the potential for a strong earnings recovery became more evident over the course of the quarter, the market fell some 15.0% from its first quarter high. We took advantage of this opportunity to increase your portfolio's weighting, which rose from 14.1% to 18.9%, compared to the 14.5% of the index. The absolute case for Japan has improved little. The mild economic recovery has been well discounted, whilst the structural negatives remain. It is the relative case that has improved. It was easy to underweight Japan as long as there were numerous attractive alternatives. Today, with the developed economies approaching synchronized growth, it is appropriate to increase our exposure to an economy which could be showing better relative performance than others within a twelve to twenty-four month time horizon.

Hong Kong, having experienced a correction as the Government moved to dampen property prices, continues to offer both economic growth and earnings growth at attractive valuations. Elsewhere in the region intra regional trade and infrastructure development continue to drive economic growth, the high savings ratios in the private sector and cash generation in the corporate sector are positive and will, in part, off-set further tightening in the United States. After the recent strength in the Yen we remain fully committed to our hedge back into the US Dollar. In recent months the flow of funds out of Japan has been building, this is forecast to continue, and will be an important factor in the rally of the Dollar.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Philip Bullen, the manager of Minnesota State Board's portfolio, has relocated to our Boston office. From an investment and client service perspective we believe it is becoming more efficient to have portfolio managers responsible for North American clients located in our Boston office where we now have five international portfolio managers, one global fixed income manager, and teams dedicated to US equities, high yield bonds and Latin American equity markets. Philip's investment and client responsibilities remain unchanged.

Accounts Gained	**Accounts Lost**
New York State & Local Retirement System	None

4. ***Other Comments.*** None.

Staff Comments

Performance attribution from State Street Analytics confirm the data in #1. State Street shows that hedging activity contributed -0.2 of the -1.3 relative currency return.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$35.7 billion	Actual	2.9%	10.8%
Total Firm Assets Managed in this Discipline	$ 7.2 billion	Benchmark	5.1%	17.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Market allocation was unfavorable in the second quarter due to the 12% underweight in Japan, which rose 7.4% in local terms during the second quarter and 7.6% for the past 12 months. The underweights in Singapore and Malaysia, which rose 10.0% and 5.1%, also detracted from returns. Both markets were also strong during the 12 month period, rising more than 30%. For the quarter, underweights in Germany, which declined 4.5%, and in Switzerland, which fell 5.3%, helped but were unsuccessful for the year when both markets were strong. Currency allocation was hurt by the rise of the yen, which gained over 4% in the quarter and 7% for the year. Over the past year, the yen position has been substantially reduced and is now a very significant 32% underweight. The weakness in both the Canadian and U.S. dollars during the quarter and over the past year were also negative factors.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   At the end of June, the allocation to Japan was 12% below the benchmark weight. Although the valuations for Japan have improved, the market has risen strongly and prices have gotten ahead of value. While there are signs that the economy has bottomed, the problems of excess capacity, asset overhang and looming problem loans in the banking sector should continue to exert downward pressure on the economy.

   Within the All Other Markets segment, the Portfolio has been overweighted in several of the Anglo-Saxon markets that have been experiencing a moderate recovery. These markets include Australia, Canada Belgium, New Zealand and the Netherlands, which display more attractive price/value relationships than many other equity markets. In Australia and Canada, the economies have shown moderate growth, while structural reforms in New Zealand have improved its economic outlook. The large underweight in Germany is based on both the overvaluation of this market and concerns about the outlook for corporate earnings. Loss of competitiveness is still a problem for many Germany companies, as their cost base remains high against some of their European competitors, although the strong yen has enabled them to gain some market share against some Japanese competitors. Although the portfolio's exposure to Hong Kong was recently increased, it remains a moderation underweight. On a relative basis, the valuations for this market remain unattractive in view of the market's exceptional performance in 1993 and ongoing risks of an overheated Chinese economy and an uncertain political situation. A neutral weight is Italy reflects the improvement in corporate profitability that should result from the economic and political reforms currently underway, as well as the surge in exports resulting from the sharp depreciation of the lira.

Brinson (con't)

The portfolio continues to maintain a strategic cash position of 10%, which represents the maximum of the normal range of 0-10%. This reflects the fact that most non-U.S. equity markets are overvalued, albeit to varying degrees. Although markets have come down somewhat in 1994, the strong rise in 1993 has taken most markets to levels that are still overvalued.

The significant underweight of the yen (-32%) is based on our view that the yen is an extremely overvalued currency. There is a substantial risk that it will return to a more sustainable value and cause a loss in capital. There is also a minimal exposure to the overvalued ERM currencies, which have recently become even more expensive. To offset these underweights, the portfolio maintains a 20% allocation to the Canadian dollar and a 26% position in the U.S. dollar, both overweight positions. The Canadian dollar is trading below fair value and also offers to a U.S. based investor a positive short-term cash differential.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   As noted in our March 1994 update, we increased our employee ownership to over 76% effective February 1, 1994.

Gained:	0 accounts	$0 million
Lost:	0 accounts	0 million

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None of significance in this quarter.

Staff Comments

None at this time. Performance attribution relative to EAFE for the quarter is shown below:

	Apr. -Jun. 1994
Country selection*	-1.23
Stock selection*	0.74
Currency effect	-0.24
Hedging activity	-1.64
Total Value Added to EAFE	-2.39

Source: State Street Analytics * in local currency

Manager Commentary
Marathon Asset Management

Period Ending:	6/30/94	Returns	Qtr.	Year
Total Firm Assets Under Management	$1.7 Billion	Actual	5.4%	N/A
Total Firm Assets Managed in this Discipline	$0.6 Billion	Benchmark	5.1%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The portfolio rose 5.4% during the second quarter of 1994 versus a 5.3% gain in the MSCI EAFE "Free" Index. Index returns are dominated by the strength of the Japanese market, with markets elsewhere consolidating in the wake of bond market weakness. Stock returns in Japan and South East Asia were positive, largely offsetting the underweighting of Japan (44.6% versus benchmark 48.4% at end-June) and consolidation in the U.K. Changes in the Fund's geographical distribution were due to relative market movements with the exception of the 0.9% exposure in South Africa. Following the end of the quarter 25% of the Fund's yen exposure has been hedged.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   In the wake of steep rises in global interest rates since January it is necessary to focus on two related issues: what are the underlying causes of the collapse in bond markets; and are current interest rate levels now reflected in equity valuations. Firstly, we are not inflationary bears. Whilst the emergence of capacity constraints and signs of asset price inflation can selectively support the case that long-term inflationary expectations went too low (particularly in G10) the uniform nature of recent bond market weakness suggests that a greater influence has been the "normalization" of the demand-supply balance for capital. Longer term the implication must be that at higher interest rates demand for capital will slacken (particularly, one hopes, from the public sector) suggesting that once the current "shock" has been digested the medium-term trend in rates should be back down. Such a view appears to have been adopted by equity markets, which have held up surprisingly well over the last six months, but suggests that until clear evidence of an improvement in valuations occurs, markets will struggle to make material progress. In the meantime the main areas of risk lie in those borrowers that took the greatest advantage of low rates over the last three years - corporations in the "emerging" world and governments in Europe.

   Such a background supports Marathon's current country allocation. We remain underweight Europe and have continued to reduce the soft currency bloc bias, shifting towards those markets (particularly Germany) that have maintained higher real interest rates and where the public balance sheet remains sound. We have reduced (or remained out of) exposure to the most leveraged areas to changes in longer-term cost of capital assumptions, particularly real estate (the prime property-driven market being Hong Kong) and speculatives (aggressive growth, readily identifiable in the emerging markets). The weighting in Japan (which is on an interest-rate cycle of its own) has been maintained and exposure to commodity markets (Australia, South Africa) that will benefit from higher overall levels of global economic activity has been raised. What however of the micro level? A higher return on capital and its more efficient employment is clearly not a bad thing for the owners of capital, but it does suggest that sectoral and stock differentiation (particularly with reference to the quality of management) will continue to rise. If markets need (and, thanks to the bond markets, will probably get) a period of digestion prior to the next growth cycle becoming apparent then stock returns appear likely to become increasingly important. Marathon stock and sectoral bias has hence continued to rise, focusing on medium-long term recovery or growth prospects rather than cyclical momentum or static value criteria.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No personnel changes.
   No separate account EAFE mandate clients gained or lost during second quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   During the third quarter of 1994 a new software system will be selected for implementation by the beginning of the fourth quarter 1994.

Staff Comments

Staff met with Bill Arah, Jeremy Hosking and Neill Osterer in their offices on June 20, 1994. The discussion on portfolio strategy largely confirmed the above commentary.

Staff discussed Marathon's overall client/account growth at some length. While staff would prefer that the firm "close its doors" to new accounts for a period of time, Marathon has declined to do so. They have, however, raised their minimum separate account size from $40 million to $75 million which they believe will effectively slow down new client growth. Marathon believes that their growth to date is manageable and consistent with their stated business plan.

Marathon has benefited from a higher weighting in Japan relative to most other active managers and has shown strong selection gains in nearly all markets. Performance attribution for the quarter relative to EAFE is shown below:

	Apr. -Jun. 1994
Country selection*	-0.17
Stock selection*	0.77
Currency effect	-0.21
Hedging activity	0.00
Total Value Added to EAFE	0.41

Source: State Street Analytics * in local currency

Manager Commentary
Rowe Price-Fleming International

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$17.0 billion	Actual	0.9%	N/A
Total Firm Assets Managed in this Discipline	$11.4 billion	Benchmark	5.1%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Country allocation was responsible for most of the underperformance relative to the EAFE index over the quarter. The most important reasons were:

- Underweight in Japan (23% of your portfolio as against 48% of the index); as in the first quarter, this accounted for about half of the value subtracted.

- Overweight in Latin America (7% of your portfolio); a quarter of the value subtracted was the result of exposure to the relatively weak markets of Mexico and Brazil, neither of which are in the index.

- Small overweightings in the Netherlands, Italy and Norway (11% of your portfolio) subtracted value although this was largely offset by the positive impact of underweighting the UK.

Stock selection subtracted about 1% from performance over the quarter. Performance was mixed in the UK and Japan with non-cyclical growth stocks continuing to be out of favour. Medium-sized and smaller companies in South East Asia and Continental Europe also underperformed.

Currency hedging had a neutral impact over the quarter. We closed the remaining hedge out of sterling into the dollar in May leaving a small cross hedge out of European currencies into the yen (3% of your portfolio).

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Countries - The gloom that overtook equity markets in the first quarter, with the notable exception of Japan, has spread further in the last three months. Our analysis suggests that this pessimism has been overdone and that good value is emerging. The recovery in corporate earnings world-wide should be confirmed as we go through the second half of the year and may well surprise positively in 1995. Interest rates have risen sharply and, even against our worst case expectations for inflation, real yields now look historically high in many cases. Valuations have now corrected from the levels seen at the end of 1993 and, particularly against bonds, generally look reasonable.

In the light of the above, we continue to emphasize areas where we believe growth will be strongest and valuations are most acceptable. In particular, we like the markets of Continental Europe, with the exception of Germany, and the smaller markets of the Pacific and Latin

America. Importantly, while we believe that profits in Japan will rebound from present depressed levels over the next two years, we continue to find Japanese valuations relatively attractive.

Stocks - The sectoral tilt of your portfolio towards the consumer and capital goods areas is likely to increase over the next quarter funded by a further reduction in exposure to the financial and utility sectors in which you are already underweight. Given our optimism on world-wide economic growth, we are also likely to continue to increase your portfolio's exposure to medium-sized and smaller companies in established accounts.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no changes in either ownership or personnel in the second quarter.

   During the second quarter, RPFI gained one new account in this fully international discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Staff met with Martin Wade and David Warren in their offices on June 22, 1994.

These were no issues of note regarding the current organization. Staff reviewed RFPI's "Augment" approach which incorporates greater exposure to smaller stocks and smaller countries than currently used in the SBI's "Mainstream" portfolio. The "Augment" approach is implemented through participation in a series of commingled trusts constructed and managed by RFPI.

The discussion on portfolio strategy largely confirmed the above commentary. Performance attribution relative to EAFE for the quarter is shown below:

	Apr. -Jun. 1994
Country selection*	-1.65
Stock selection*	-1.22
Currency effect	-1.01
Hedging activity	-0.21
Total Value Added to EAFE	-4.18

Source: State Street Analytics * in local currency

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$90 Billion	Actual	1.6%	N/A
Total Firm Assets Managed in this Discipline	$ 6 Billion	Benchmark	5.1%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The value of your portfolio rose 1.6% during the second quarter for a year-to-date gain of 1.2%. By contrast, our benchmark, the MSCI EAFE index rose 5.1% during the quarter for a year-to-date gain of 8.8%.

   The primary reason for our under-performance was the fact that we were not as heavily weighted in Japan as the EAFE index.

   Japan carries an inordinately high weighting in the EAFE index (roughly 44%). Over the course of the last year, Scudder has been increasing its Japanese weighting. (In fact, as of June 30, 1994, Japanese equities accounted for over 30% of your portfolio - one of the highest it has ever been.) Despite the increase, however, we remained underweight relative to EAFE. As optimistic as we were about Japan, we felt that bringing our exposure up to the same level as EAFE would raise the risk of the portfolio to an unacceptable degree. Unfortunately for us, Japan turned out to be the top performing market in the world during the first half.

   Other countries offered few opportunities to make up for lost ground. Despite the dramatic rise of the EAFE index during the first half, equity market conditions throughout most of the world were generally very poor.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We are looking at the possibility of "top-slicing" in Japan. Though we hold to the belief that the economy will improve and that the current social/political turbulence will ultimately result in a more open and competitive Japanese economy, we think some of this is already reflected in the stock market. Given the recent strength of Japanese stock prices and the political/economic risks still inherent in the country, we feel it may be a good time to re-evaluate the country's risk/reward profile.

   As for the rest of the world, Scudder believes that we are entering a period of synchronous global growth. The U.S. and the U.K. are well into the recovery phase and, though some declaration is expected in the case of the U.S., our economy should continue to grow. At the same time, we are seeing clear signs of recovery in Continental Europe, we expect Japan to follow before long and, of course, the emerging market of Asia will continue to expand at breakneck pace. In light of this scenario, we are putting more emphasis on cyclical companies-those that deal in such things as metals, oil, autos and industrial equipment.

Scudder (con't)

Our biggest worry at the moment, however, is global liquidity. The turnaround in U.S. interest rates and the impact it has had on the bond markets, coupled with the flood of privatization-related offerings is draining a lot of money out of the financial markets. As a result, we could see financial assets perform poorly despite favorable global economic conditions and healthy profit figures.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Changes in Personnel:
   Left: Rob Reiner (UK Analyst)

   A list of accounts gained and lost during the 2nd quarter is not yet available at this time. We will forward this information to you as soon as it become available.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

None at this time.

Performance attribution relative to EAFE for the quarter is shown below:

	Apr. -Jun. 1994
Country selection*	-1.66
Stock selection*	-0.88
Currency effect	-0.27
Hedging activity	-0.57
Total Value Added to EAFE	-3.46

Source: State Street Analytics * in local currency

Manager Commentary
Templeton Investment Counsel, Inc.

Period Ending:	**6/30/94**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$ 36.9 Billion	Actual	0.3%	N/A
Total Firm Assets Managed in this Discipline	$ 9.8 Billion	Benchmark	5.1%	N/A

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Your account gained 0.3% for the quarter ended June 30, 1994 vs. the MSCI EAFE index which gained 5.1% during this time period. The under performance of your account relative to the MSCI EAFE index was primarily a function of our relative underweight of the Japanese market. The Japanese market, in dollar terms has been one of the single best performing markets in the world. Our value orientation has made it extremely difficult to find opportunities in this market. As was the case in the first quarter, currency was additive in all markets, except Japan where it compounded the impact of our underweight. On a year to date basis your account has gained 2% vs. the MSCI EAFE index of 8.9%. It is interesting to note that MSCI EAFE ex-Japan has declined by 5.1% YTD.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The Templeton organization will continue with its bottom up stock selection orientation. Thus changes in your portfolio will be driven by company specific issues and will tend to be gradual over time. We continue in our belief that the Japanese market is overvalued and highlighted this issue in our most recent letter to you. As other Asian and Latin American markets "sell off" we will utilize this as an opportunity to purchase "bargains" should they avail themselves to our longer term valuation criteria, consistent with your requirements.

Templeton (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   None.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We gained 1 Non-US Equity separate account with an inception value of $55 million. We gained 25 new clients in our Templeton Institutional Funds, Inc. (TIFI)-Foreign Equity Series totaling $73.5 MM.

   We have lost 0 Non-US Equity accounts.

Staff Comments

None at this time.

Performance attribution relative to EAFE for the quarter is shown below:

	Apr. -Jun. 1994
Country selection*	-4.34
Stock selection*	0.96
Currency effect	-1.22
Hedging activity	0.00
Total Value Added to EAFE	-4.70

Source: State Street Analytics * in local currency