MINNESOTA STATE BOARD OF INVESTMENT MEETING
September 4, 1996
&
INVESTMENT ADVISORY COUNCIL MEETING
September 3, 1996

AGENDA
STATE BOARD OF INVESTMENT
MEETING
Wednesday, September 4, 1996
8:30 A.M. -Room 125
State Capitol - Saint Paul

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1. Approval of Minutes of June 5, 1996	
2. Report from the Executive Director (H. Bicker)	
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2. Recommendation concerning Board appointments to the IAC	
3. Recommendation to approve contract amendment for the Deferred Compensation Plan	
3. Report from SBI Administrative Committee (M. McGrath)	D
4. Status of Executive Director's FY96 Performance Evaluation (P. Sausen)	
5. Reports from the Investment Advisory Council (J. Yeomans)	
A. Domestic Manager Committee	E
1. Review of manager performance	
2. Recommendation to remove a domestic stock manager from probation (IAI Regional)	
3. Recommendation concerning cash in stock manager benchmarks	
4. Approval of benchmarks for internally managed short term cash portfolios	
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1. Review of manager performance	
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3. Update on funding for emerging markets	
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C. Alternative Investment Committee	G
1. Review of current strategy	
2. Approval of commitment to an existing real estate manager (TA Associates) for the Basic Funds	
3. Approval of commitment to an existing real estate manager (Westmark Commercial) for the Post Fund	
6. Update on Tobacco Issues	H

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Minutes
State Board of Investment
June 5, 1996

The State Board of Investment (SBI) met at 8:30 A.M. on Wednesday, June 5, 1996 in Room 125 State Capitol, St. Paul, Minnesota. State Auditor Judith H. Dutcher; State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe and Attorney General Hubert H. Humphrey III were present.

Ms. Growe, serving as chair for the meeting, called the meeting to order and the minutes of the March 19, 1996 meeting were approved.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending March 31, 1996 (Combined Funds 11.1% vs. Inflation 3.6%) and outperformed the median fund (Combined Funds 12.1% vs. Composite 12.0%) and their composite index (Combined Funds 12.1% vs. Composite 11.7%) for the most recent five year period He stated that the Basic Funds had exceeded their composite index (Basics 12.2% vs. Composite 11.8%) over the last five years while the Post Fund had matched its composite index for the period July 1, 1993 through March 31, 1996 (11.6%).

Mr. Bicker reported that the Basic Funds' assets increased 3.7% for the quarter ending March 31, 1996 due to positive investment returns. He said that the international stock allocation is now at 13.2% and that funding will continue to bring that asset class up to the 15% target allocation. In response to a question from Ms. Growe, Mr. Bicker said that he expects to reach that level by September 1996. He added that the Funds' had outperformed its composite index for the quarter (Basics 3.4% vs. Composite 3.2%) and year (Basics 22.4% vs. Composite 21.9%).

Mr. Bicker reported that the Post Fund's assets increased 2.5% for the quarter ending March 31, 1996 due to investment returns and that the international allocation will continue to be funded as for the Basics. He said that the Fund had outperformed its composite index for the quarter (Post 3.0% vs. Composite 2.6%) and for the year (Post 22.2% vs. Composite, 21.3%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 5.9% vs. Wilshire 5000 5.6%) and that the international stock manager group also outperformed for the quarter (International Stocks 3.6% vs. EAFE-Free 2.9%) along with bonds (Bonds -1.7% vs. Lehman Aggregate -1.8%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP 1.2% vs. Composite 0.9%) and year (ARP 14.9% vs. Composite 13.7%). He concluded his report with the comment that as of March 31, 1996 the SBI was responsible for over $29 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. He said that staff is recommending that the Board approve a search process for a deferred compensation consultant. He noted that the SBI's current consultant, PRIMCO Capital, is no longer doing this type of business. In response to a question from Ms. Growe, Mr. Bicker confirmed that the recommendation is to initiate the search process. Ms. Dutcher moved approval of the recommendation, as stated in the Executive Director's Report, which states, "I recommend that the SBI authorize the Deferred Compensation review Committee to conduct a search for a deferred compensation programs consultant through a request for proposal process. The Committee should report on the results of the RFP by December 1996." Mr. McGrath seconded the motion. The motion passed.

Mr. Bicker reported that during the 1996 Legislative session, the Historical Society had been granted the authority to participate in the Minnesota State Colleges and Universities (MnSCU) Retirement Plan and that they are allowed to choose up to two of the MnSCU product providers for their employees. He said that the Deferred Compensation Review Committee is recommending that the Board approve a contract with TIAA-CREF. He added that this contract is substantially the same as the MnSCU contracts previously approved by the Board and that the SBI's deferred compensation consultant had also approved the selection. Mr. McGrath moved approval of the recommendation, as stated in the Executive Director's report, which states, "The Deferred Compensation Review Committee recommends that the SBI approve a contract between TIAA-CREF and the Minnesota Historical Society provided it incorporates substantively the same terms and conditions as the existing contract between TIAA-CREF and the Minnesota State Colleges and Universities (MnSCU)." Mr. Humphrey seconded the motion. The motion passed.

Mr. Bicker stated that terms for four Board appointees to the Investment Advisory Council had expired and that Mr. Gudorf, Mr. Kiedrowski and Ms. Mares had applied for reappointment. He added that Ms. Veverka, who had been a member for many years, chose not to reapply at this time. He said that staff is recommending that the Board reappoint Mr. Gudorf, Mr. Kiedrowski and Ms. Mares and that staff and the Board Deputies should consider candidates for the remaining vacancy over the summer months. Mr. McGrath moved approval of the recommendation, as stated in the Executive Director's Report, which states, "I recommend that the SBI appoint the following individuals to new terms on the IAC: Kenneth Gudorf; P. Jay Kiedrowski; Judith Mares. Further, I recommend that the SBI Deputies/Designees be authorized to consider candidates for the remaining vacancy and to make a recommendation to the SBI at its meeting in September 1996." Ms. Dutcher seconded the motion. Ms. Growe commented that she was pleased that Mr. Bicker had publicly thanked Ms. Veverka for her many years of service at the IAC meeting, and she suggested that a more formal recognition would also be appropriate. Mr. Bicker agreed. The motion passed.

Administrative Committee Report

Mr. McGrath reported that the Committee took action on four items: the Executive Director's FY97 Workplan, the FY97 Administrative Budget Plan, the Fiduciary Education Plan, and the process to be used for the Executive Director's FY96 Evaluation. Mr. McGrath moved approval of the four recommendations, as stated in the Committee Report: "The Committee recommends that the SBI approve the FY97 Executive Director's Workplan. Further, the Committee recommends that the work plan serve as the basis for the Executive Director's performance evaluation for FY97; the Committee recommends that the SBI approve the FY97 Administrative Budget Plan and that the Executive Director have the flexibility to reallocate funds between budget categories in the event budgeting needs change during the year; the Committee recommends that the SBI adopt the attached Continuing Fiduciary Education Plan; the Committee recommends that the SBI adopt the following process for the Executive Director's FY96 performance evaluation: The evaluation will be completed prior to the September 1996 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY96; the SBI deputies/designees will develop an appropriate evaluation form for use by each member which will reflect the categories in the Executive Director's position description and workplan; as the chair of the Board, the Governor's representative (Department of Finance), will coordinate distribution and collection of the evaluation forms and will forward the completed forms to the Executive Director. Board Members are encouraged to meet individually with the Executive Director to review their own evaluation." Mr. Humphrey seconded the motion. The motion passed.

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab E of the meeting materials noting that the performance for the quarter had been good. She said that the Committee had prepared an update on candidates for the Manager Monitoring Program for the Board's information.

Ms. Yeomans reported that the Committee had also completed its annual review of the active manager benchmarks and the investment manager guidelines. She said that staff and the Committee had concurred that the current benchmarks were satisfactory and that the investment guidelines were complete and accurate for the passive stock manager, the semi-passive bond managers and the active bond managers. She added that the active and semi-passive stock manager guidelines required a minor change to add preferred stocks, equity options and warrants to the general authorization of eligible securities.

Ms. Yeomans stated that the Committee is recommending that the Board renew its contract with Voyageur Asset Management for the active bond management in the Assigned Risk Plan. She noted that the recommendation is for a five year contract with an immediate termination clause. Mr. Humphrey moved approval of the Committee's recommendation, as stated in the Committee Report, which reads, "The Committee recommends that SBI authorize the Executive Director, with assistance from SBI's legal counsel, to negotiate and execute a contract renewal for a five year period ending June 30, 2001 with Voyageur Asset Management for active bond management in the Assigned Risk Plan, subject to inclusion of a provision which provides for immediate termination." Ms. Dutcher seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee is also recommending that the Board terminate its contract with Jundt Associates. She said that funds from the termination will provide for asset allocation changes and total fund rebalancing. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads, "The Committee recommends that the SBI terminate its contractual relationship with Jundt Associates for active domestic stock management. The balance in the portfolio should be liquidated and used as a source of funds for asset allocation changes and rebalancing activity." Mr. McGrath seconded the motion. The motion passed.

International Manager Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and noted that the performance of the international segment was good for the quarter. She said that it is too early yet to know the effectiveness of the recently implemented currency overlay program, and she stated that the program will continue to be closely monitored. She also reminded members about the upcoming Emerging Markets Roundtable to be held on June 24, 1996.

Ms. Yeomans reported that the Committee is recommending that the Board approve five year contract renewals for the five international managers listed in the Committee Report. In response to a question from Mr. Humphrey, Mr. Bicker confirmed that the contract renewals would include the immediate termination clause. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads, "The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute contract renewals for five year periods ending September 30, 2001 with the following international stock managers, subject to inclusion of a provision which provides for immediate termination: State Street Global Advisors; Marathon Asset Management; Rowe Price-Fleming International; Scudder, Stevens & Clark; Templeton Investment Counsel." Mr. Humphrey seconded the motion. The motion passed.

Alternative Investment Committee Report

Ms. Yeomans referred members to Tab G of the meeting materials and stated that the Committee is recommending two follow-on private equity investments for the Basic Retirement Funds. She said that the first proposed investment is with Kohlberg, Kravis and Roberts (KKR) in the KKR 1996 Fund. She reported that the returns from previous funds have exceeded expectations and that the terms of the new partnership are more favorable to limited partners such as the SBI.

In response to questions from Ms. Growe, Mr. Bicker confirmed the return shown in the meeting materials for the most recent KKR fund is low because the fund is still in a "start up" phase. He added that it takes six to nine years before these types of funds reap the benefits of their investments. He also confirmed that it is typical for managers to raise new funds prior to spending all the money in earlier funds because raising capital takes a significant period of time.

In response to a question from Mr. Humphrey, Mr. Bicker clarified that staff expects all of the principal from previous KKR funds to be paid back to the SBI within the next three years, so that if the SBI wants to maintain its current private equity allocation it should re-invest at least that much back into the private equity area. He added that KKR probably won't be raising another fund in the near term. Ms. Dutcher moved approval of the Committee's recommendation, as stated in the Committee Report, which reads, "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $200 million or 20%, whichever is less, in KKR 1996 Fund. 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 KKR 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 KKR or reduction or termination of the commitment." Mr. McGrath seconded the motion. The motion passed.

Ms. Yeomans stated that the Committee's second recommendation is to approve an investment with Golder Thoma. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report, which reads, "The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate an execute a commitment of up to $32 million or 20%, whichever is less, in Golder, Thoma, Cressey, Rauner Fund V. 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 Golder Thoma 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 Golder Thoma or reduction or termination of the commitment." Mr. Humphrey seconded the motion. The motion passed.

Mr. Bicker confirmed for Ms. Growe that the recommendation for an investment with Starwood Capital for the Post Fund had been withdrawn.

Proxy Committee Report
Ms. Growe referred members to Tab H of the meeting materials and thanked staff for the report on the SBI's holdings in tobacco companies and related issues. She stated that she had been one of the supporters of removing the liquor and tobacco restrictions in 1993, however, she said that she is now rethinking her position. She said she is concerned about investing in companies that the state has legal proceedings against, but she noted that she also has questions based on the information presented by staff on the issue. She asked Mr. Bicker to place the tobacco issue on the agenda for the September 1996 Board meeting and she asked if any other Board members had questions or comments.

Mr. Humphrey thanked staff for the tobacco report and noted that there have been some very recent changes that staff should include in the report for the September 1996 meeting. He said that he approves of the issue being placed on the agenda for the Board to consider in September 1996. He said that, in his opinion, the riskiness and volatility of the tobacco holdings is not being accurately reflected in the stock values. He said that he believes the liabilities resulting from all the pending litigation is a very serious concern and he asked staff to continue monitoring the situation and updating the information.

Ms. Growe introduced Mr. Ravnitzky, a private citizen, who had asked to address the Board regarding the SBI's tobacco holdings. Before Mr. Ravnitzky began his presentation, Ms. Dutcher expressed her concern over the number of times Mr. Ravnitzky was addressing both the Board and the Proxy Committee on this issue. She suggested that Mr. Ravnitzky's written comments be included as part of the Board's record on the issue. Ms. Growe said that she believes it is important for any concerned citizen to have the opportunity to address the Board. She noted however, that often times the amount of time for a presentation may be limited. Mr. Humphrey acknowledged Ms. Dutcher's concerns, but noted that many parties have made presentations before the Board and he said that he is interested in hearing all comments on this issue. Ms. Dutcher clarified that her concern regarding Mr. Ravnitzky is only that his information is repetitious of what he had previously presented to both the Board and the Proxy Committee. Ms. Growe asked Mr. Ravnitzky to begin his presentation.

Mr. Ravnitzky introduced himself and stated that he believes the SBI should reconsider its sizable investment in tobacco stocks because of excessive risk, conflict of interest considerations and lack of fiduciary responsibility to stakeholders. He stated that, in his opinion, the risks and liabilities associated with pending litigation have not been accurately presented or taken into consideration by analysts and money managers. He continued to summarize his written comments which he had provided to the Board (see **Attachment A**). He asked the Board to reevaluate its position and to cease tobacco investments during the course of the State's tobacco lawsuit. He said tobacco stocks are not good investments over the long term, that tobacco companies are not providing a product which is appropriate, and that he thought it is not something the SBI should invest in. Ms. Growe thanked Mr. Ravnitzky and asked if there was any other business before the Board. Hearing none, the meeting was adjourned.

Respectfully submitted,

Howard J. Bicker

Howard J. Bicker
Executive Director

Information Provided to the State Board of Investment in Support of Divestment of the $250+ Million in Tobacco Stock Investments

Michael J. Ravnitzky, private citizen
at the State Board of Investment meeting on June 5, 1996, 8:30 a.m., State Capitol

The State of Minnesota should reconsider its sizable investments in the segment known as "tobacco stocks" for a number of reasons including excessive risk, fiduciary responsibility and conflict of interest.

The State Board of Investment had an informal policy against investments in tobacco stocks until a couple of years ago. This policy was overturned and the state now owns over $250 million in tobacco stocks. The reasons why the Board should act soon are:

1) **Conflict of Interest on the part of the State Board of Investment**

The State is suing the tobacco companies whose stock it has invested to recover hundreds of millions of dollars of health care costs expended due to smoking-derived illness. Other states have begun similar actions with a total outstanding liability of billions of dollars. Additional states have begun to file suits of this type. Actions occurring during this trial dramatically affect the price of the tobacco stocks. Thus, the State's actions in this case impinge directly upon the profitability of the investments. An example would be the release of the tobacco industry computerized document index that was recently allowed by the courts to the State and its attorneys. This action depressed the price of the tobacco stocks.

The State Board of Investment has thereby placed itself in a conflict of interest situation. As such, it should recuse itself from such investments at least until the conclusion of the case. Financial investment professionals and money managers know that they shouldn't place funds entrusted to them into investments in which they have a conflict of interest situation. The State Board of Investment, chaired by the Governor, has placed itself into such a conflict of interest situation, and should recuse itself from tobacco investments immediately.

2) **Impending Federal Regulation**

The Food & Drug Administration (FDA) will publish the final ruling on their tobacco regulations in late August. These rules will impose dramatic changes on the way tobacco is distributed, sold and advertised. Experts indicate that these rules will hold up against the expected court challenges because the agency is within its mandate to establish these rules and because there are clear societal reasons why the agency is required to promulgate these rules. These actions in August/September will likely depress the price of the tobacco stocks as soon as the regulations appear in the Federal Register, and then again when the court decisions are announced.

3) **Divestiture By Other Institutions**

On April 16, the Maryland State Pension Fund announced divestiture of tobacco stocks. Mr. Bicker has pointed out that this was an investment decision and not a policy change by the state (i.e. they have not said that they will not invest in tobacco stocks in the future). However, my argument is that the State should at least terminate existing tobacco investments while the lawsuit is proceeding. This would not be a permanent policy change.

The $50 Billion dollar New York State Teacher's Retirement System has begun to place limits on its tobacco stock investments. Other states are less publicly reducing tobacco stock investments. One reason for the lack of publicity over reduction of tobacco investments may be to limit potential damage to remaining holdings caused by divestment announcements.

The value of investments can be affected by divestment actions taken by other states and by other pension funds. Later decision makers could lose out due to a domino-type effect. If the State decides to divest after others have decided to divest, it may be difficult to lock in any gains which have already been made and the State may begin to lose part of the pension investments in those securities.

4) **Vulnerability of the "Dike" Defense**

According to the Wall Street Journal dated April 24, 1996, the Maryland Retirement and Pension System is careful to describe its April 16th decision as one based entirely on business, not public health. "We didn't do it for social reasons," Richard Dixon, State Treasurer and Vice Chairman of Maryland's Retirement's Board, told Dow Jones Money Management Alert. "We had substantial profit." Mr. Dixon says tobacco companies have been good at fighting legal battles over the years, but "sooner or later, they are going to lose."

Fund watcher a. Michael Lipper of Lipper Analytical Services, Inc. Says that "the biggest impact [on the tobacco stocks] will come when and if the tobacco companies lose major lawsuits" on their products' health risks. There are many lawsuits of different types and it doesn't take much imagination to see that the likelihood of a successful suit or series of suits is quite high. **It's not if it will happen, it's when.**"

5) **Unprecedented Serious Litigation Against the Tobacco Industry**

The Castano class action suit has split into what will be 50 separate class action suits, one in each state. Hundreds of other class action and product liability suits are proceeding, and are gaining steam from the release of damaging tobacco industry documentation indicating that the companies knew of the dangers in their products for decades. The first product liability case is expected to go to trial in Florida on July 8, 1996.

The first state reimbursement suit goes to trail in March of 1997. The Minnesota Case is expected to go to trial in 1998. The FDA regulations become final in August or September. The tobacco industry executives are being investigated by the Justice Department for perjury during congressional testimony last year.

6) **Improper Financial Disclosure by the Tobacco Companies**

The tobacco companies lied to financial analysts, the public, their customers and the government for many years. They covered up their knowledge of circumstances that affect the value of their company securities: that they illegally manipulated nicotine accessibility in their products to keep their customers hooked. Or should we continue to believe them, that smoking isn't killing lots of people, including nonsmokers who breathe in the smoke, or that smoking isn't addictive. Ask the Executive Director of SBI if he thinks that smoking is easy or tough to quit.

The recent releases of industry documents from various sources indicates widespread criminal activity on the part of the tobacco companies. Moreover, they have misused the attorney-client privilege by having their legal counsel handle masses of damaging financial and technical materials and thus placing otherwise accessible financial assessment tools under a fraudulent confidentiality arrangement.

7) **Allow For Re-evaluation of New State Policy**

The State Board of Investment should re-evaluate the recent change in state policy (allowing investments in tobacco stocks) because of the current circumstances and activity surrounding tobacco investments and the tobacco industry.

8) **Dutcher's Divestment Criteria**

State Auditor Dutcher published a letter in the Minneapolis Star-Tribune dated May 15, 1996, in which she said "Until I am presented with evidence that tobacco related securities are not sound investments, I will not support a move to divest the SBI's holdings."

The word "sound" is defined variously as: "free from defect; healthy, not impaired, stable, secure, safe and secure financially, based on truth, legally valid."

Investments built on a hollow foundation, as are the tobacco companies, are not secure. They are not free from defect. They are not healthy (selling a product which used as directed will kill you). They are impaired (by lawsuits and federal regulation). They are not stable (the high volatility of tobacco stocks).

As far as I can determine, the only way to further satisfy the State Auditor is to lose a sizable portion of the investment in tobacco stocks before she is satisfied that they are an unsound investment. What objective financial criteria does the Auditor want to see?

With hundreds of lawsuits by private parties, and with huge lawsuits underway by a dozen states, with federal regulation of the basic business practices of the industry, these investments are not "free from defect". They have quite a few defects. Is the only way to demonstrate fundamental unsoundness to lose a couple of hundred million dollars? Wouldn't it be much more prudent to say ahead of the divestment downturn. Does a sound investment have a Beta value of more than 1.60 as does Phillip Morris?

9) **Abrogation of State policy decision-making**

The State Board of Investment should assume its basic constitutional role and oversee the judgement of the money managers. Money managers should not be making fundamental State policy decisions by default. The SBI has the right and the responsibility to step in and ensure that state investments are sound in the long-term as well as speculative gambles in the short term.

10) **Tobacco Investment as an unwise long-term state investment**

According to the Minneapolis Star-Tribune on May 18, 1996: "Critics, outside of Wall Street's mainstream, predict that tobacco will be a butt-end investment in the future."

"One day, the plug is going to come out of the tub and nobody is going to want to own them," said John Schultz, a Minneapolis investment adviser and president of Ethical Investments. Once they lose one of these lawsuits, they're all in trouble."

The article goes on to say that the tobacco companies stand accused of covering up decades-old information they had about the hazards of smoking and the potency of nicotine, and lying to Congress. The FDA is about to regulate tobacco, and about 10 states and health care conglomerates such as Blue Cross and Blue Shield of Minnesota are seeking billions to help treat diseases they say are tobacco related.

According to Boston-based Peter Kinder, risking money in tobacco stocks now imperils fiduciary interest. "Carleson's argument seems to be nonsensical, even leaving aside the health issues," Kinder said. "You have a group of companies that have systematically lied to the world and shareholders. Is that the kind of stock you want in your portfolio? If you look at the law of trust, there is nothing that says you have to own morally reprehensible stocks."

The same article quotes Gary Campbell, chief investment officer of Commerce Bank's investment management group, which handles about $5 Billion in assets, who plans to sell all tobacco shares after taking a "serious look" at the litigation risk, reported Bloomberg News Service last week.

11) **Insurance Company Litigation - potential release of documentation**

Several insurance companies have been notified by tobacco companies of their implicit liability risks because the tobacco companies owned insurance, in some cases product liability insurance, during the 1950's and 1960's. According to the May 13, 1996 issue of Business Week Magazine, if the tobacco companies went after its insurers, the effort could backfire. The insurance industry is powerful and has access to more private industry documents and studies due to its unique policyholder-insurer relationship. "The insurance companies would hire 50 law firms and conduct years of discovery. They would make the plaintiff's lawyers look like novices," says experienced industry foe Matthew L. Jacobs, a partner at the Washington office of Kirkpatrick & Lockhart.... There are signs that tobacco companies other than Liggett are preparing to litigate the matter of insurance coverage for damage awards with the insurance industry.

12) **Reliance of tobacco companies on tobacco revenue**

The tobacco companies, including industry leaders Phillip Morris and RJR, rely on tobacco forthe bulk of their profits, all out of proportion to the relative sizes of the revenue streams. In other words, these companies are highly leveraged off of their tobacco business segments and very vulnerable to problems in those segments.

13) **Recent volitility in the tobacco stocks**

Tobacco stocks got hammered in March when the Liggett Group offered to settle a huge set of lawsuits. This can and will happen again when events take place that impact tobacco companies.

Therefore, I ask the State Board of Investment to act quickly in evaluating the risks of the State's current investments in tobacco stocks, to avoid significant losses on public actions expected to affect the price of these stocks this fall, and to protect the safety of the state pension fund stakeholders: employees, retirees and taxpayers. I also ask the Board to reevaluate its current conflict-of-interest situation and cease tobacco investments during the course of the state tobacco lawsuit.

AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING
Tuesday, September 3, 1996
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul

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4. Approval of benchmarks for internally managed short term cash portfolios	
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3. Update on funding for emerging markets	
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Minutes
Investment Advisory Council
June 4, 1996

The Investment Advisory Council met on Tuesday, June 4, 1996 at 2:00 P.M. in the State Board of Investment (SBI) Conference Room, 55 Sherburne Avenue, St. Paul.

MEMBERS PRESENT: Gary Austin; Dave Bergstrom; Roger Durbahn; Ken Gudorf; Laurie Fiori Hacking; Laura King; Peter Kiedrowski; Han Chin Liu; Judy Mares (via conference call); Malcolm McDonald; Daralyn Peifer; Patrick Sexton; Michael Stutzer; Debbie Veverka and Jan Yeomans.

MEMBERS ABSENT: John Bohan and Gary Norstrem.

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

OTHERS ATTENDING: The Honorable Joan Anderson Growe; Ann Posey, Tom Richards, Richards & Tierney; Christie Eller; Jake Manahan; Carey Moe; Peter Sausen; Elaine Voss; Ed Stuart, John Hagman and Lloyd Belford, REAM.

Executive Director's Report
Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending March 31, 1996 (Combined Funds 11.1% vs. Inflation 3.6%) and outperformed the median fund (Combined Funds 12.1% vs. Composite 12.0%) and their composite index (Combined Funds 12.1% vs. Composite 11.7%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 12.2% vs. Composite 11.8%) over the last five years while the Post Fund had matched its composite index for the period July 1, 1993 through March 31, 1996 (11.6%).

Mr. Bicker reported that the Basic Funds' assets increased 3.7% for the quarter ending March 31, 1996 due to positive investment returns. He said that the international stock allocation is now at 13.2% and that funding will continue to bring that asset class up to the 15% target allocation. He added that the Funds' had outperformed their composite index for the quarter (Basics 3.4% vs. Composite 3.2%).

Mr. Bicker reported that the Post Fund's assets increased 2.5% for the quarter ending March 31, 1996 due to investment returns and that the international allocation will continue to be funded as for the Basics. He said that the Fund had outperformed its composite index for the quarter (Post 3.0% vs. Composite 2.6%).

Mr. Bicker reported that the domestic stock manager group outperformed for the quarter (Domestic Stocks 5.9% vs. Wilshire 5000 5.6%) and that the international stock manager group also outperformed for the quarter (International Stocks 3.6% vs. EAFE-Free 2.9%) along with bonds (Bonds -1.7% vs. Lehman Aggregate -1.8%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite index for the quarter (ARP 1.2% vs. Composite 0.9%). He concluded his report with the comment that as of March 31, 1996 the SBI was responsible for over $29 billion in assets.

Executive Director's Administrative Report

Mr. Bicker referred members to Tab B for the Portfolio Statistics and Tab C of the meeting materials for the current budget and travel reports. He said that staff is recommending that the Board approve a search process for a deferred compensation consultant. He noted that the SBI's current consultant, PRIMCO Capital, is no longer doing this type of business.

Mr. Bicker stated that the SBI is now responsible for recommending vendors for the Historical Society's Individual Retirement Plan. He explained that they are allowed to choose up to two of the same product providers utilized by the Minnesota State Colleges and Universities (MnSCU) Retirement Plan. He said that the Historical Society has chosen TIAA-CREF and that the Board will be asked to approve that contract at the June 1996 meeting.

Mr. Bicker stated that the Board will also be taking action on the approval of the reappointment of the three IAC members: Mr. Gudorf, Mr. Kiedrowski and Ms. Mares. He noted that Ms. Veverka had chosen not to reapply.

Administrative Committee Report

Mr. Bicker referred members to Tab D of the meeting materials and reported that the Administrative Committee is recommending that the Board approve the Executive Director's FY97 Workplan, which focuses on evaluating the SBI's internal operations. He added that the Committee is also recommending that the Board approve the FY97 Administrative Budget Plan, the Board's Continuing Fiduciary Education Plan and the process for the Executive Director's FY96 Evaluation.

Domestic Manager Committee Report

Mr. Bergstrom referred members to Tab E of the meeting materials and briefly reviewed the equity managers' performance. He stated that staff and the Committee continue to closely monitor GeoCapital due to concerns regarding underperformance. He said that Brinson, Lincoln and Oppenheimer have performed well and that Forstmann-Leff has made a comeback. He added that the semi-passive equity managers have all outperformed their benchmarks since inception. He also reviewed the bond managers' performance, which he said continues to exceed their benchmarks.

Mr. Bergstrom reported that the Committee had reviewed the updated lists of manager candidates for the Manager Monitoring Program. He said that the Committee did not make any additions or deletions to the list at this time.

Mr. Bergstrom stated that staff and the Committee had reviewed the active stock manager benchmarks and had found them to be adequate. He noted a concern over higher than desired turnover rates but said that staff believes the affected managers are taking steps to correct the situation. He reported that the Committee will continue discussions regarding the appropriateness of having cash included in the benchmark.

Mr. Bergstrom said that the Committee had reviewed the investment manager guidelines and had concurred with a minor change to the active and semi-passive stock manager guidelines that would add preferred stocks, equity options and warrants to the general authorization of eligible securities.

Mr. Bergstrom reported that the Committee is recommending a five year contract renewal, with Voyageur Asset Management for active bond management in the Assigned Risk Plan. Mr. Durbahn moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion. The motion passed.

Mr. Bergstrom stated that the Committee is also recommending that the Board terminate its contract with an active stock manager, Jundt Associates, in order to provide funds for asset allocation changes and total fund rebalancing. He stated that Jundt has experienced significant underperformance, management turnover, and a loss of several accounts. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. McDonald seconded the motion. The motion passed.

International Manager Committee Report

Mr. Kiedrowski referred members to Tab F of the meeting materials and briefly reviewed the performance of the international segment. He said that all the international managers have outperformed for the quarter and the year and that the currency overlay program has had minimal impact on the performance of the international pool due to the small size of the hedge as of March, 1996.

Mr. Kiedrowski referred members to the Committee Report for details regarding modifications of the investment manager guidelines for active and emerging markets managers and the currency overlay manager. He stated that Genesis Asset Management and Montgomery Asset Management have received initial funding and that funding for the City of London will be determined after custody issues regarding the firm's proposed investments in Taiwan have been resolved. Mr. Kiedrowski reminded members of the upcoming "round table" with emerging markets managers.

Mr. Kiedrowski moved approval of the Committee's recommendation to approve five year contract renewals with five of the international stock managers as stated in the Committee Report. Ms. Hacking seconded the motion. The motion passed.

In response to a question from Ms. Mares, Ms. Lehman said that Genesis and Montgomery are proceeding to absorb their funding on schedule, with Montgomery being fully invested within the next month, and Genesis being fully invested within the next five months. She said City of London is expected to be funded during the latter part of the five month period. She added that if the City of London's custody issues are not resolved within that scheduled time frame, that the other two managers would be able to absorb the additional funds originally designated for the City of London. Mr. Bicker said that Montgomery was ahead of their original schedule which means that the SBI is nearly as fully invested in emerging markets as originally planned.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab G of the meeting materials and stated that during the quarter staff had conducted an annual review of one of its private equity managers, Coral Group. He noted that the manager will have several initial public offerings (IPO's) this year.

Mr. Gudorf stated that the Committee is recommending an additional investment for the Basic Retirement Funds with an existing private equity manager, KKR. He said that the SBI had been successful in negotiating some significant changes in the terms of the investment with KKR, including lower management and financing fees. He added that the Fund will also have investment restrictions on how much of the Fund may be invested in a single portfolio company. He reported that the Committee unanimously supports this recommendation and he added that he believes KKR's size and ability will enable them to add more value compared to some other private equity funds. Mr. Gudorf asked for questions before presenting the Committee's second recommendation.

Ms. Growe asked the IAC members for any comments or concerns they might have regarding the KKR investment. Mr. Gudorf restated that the support from the Committee is unanimous. Mr. Bicker said that the terms are more favorable than in earlier KKR funds. He said that the 80/20 split is now figured on the aggregate total rather than each individual investment and that management fees are also included in the cost of the investment. He noted that KKR's investment strategy has changed to more of a "build-up" strategy, rather than their previous strategy of buying large companies and breaking them apart.

Ms. Veverka stated that previously she had concerns regarding some organizational issues and the size of their funds. She added that she no longer has concerns in either of these areas. Mr. Gudorf added that the terms also include provisions which give investors greater flexibility if a principal partner leaves the firm.

Mr. Gudorf stated that the Committee is recommending an additional investment for the Basic Funds with an existing private equity manager, Golder, Thoma, Cressey, Rauner, Inc. Mr. Gudorf said that the firm's previous funds have been very successful and that this fund will focus on opportunities to create large businesses in previously fragmented industries. He added that the Committee's support of this recommendation was also unanimous. Mr. McDonald moved approval of the Committee's recommendations regarding the KKR and Golder Thoma investments, as stated in the Committee Report. Mr. Austin seconded the motion. The motion passed.

Mr. Gudorf stated that the recommendation from the Committee regarding an investment with Starwood Capital has been withdrawn due the manager's decision to change the structure of the Fund from a mezzanine fund to a real estate equity fund, which is not appropriate for the Post Fund at this time.

Mr. Bicker stated that no action was needed by the IAC on the Proxy Committee Report. He noted again that this is Ms. Veverka's last meeting and he said that he, the staff and the Board would like to thank her for all her years of service to the IAC.

The meeting adjourned.

Respectfully submitted,

Howard Bicker

Howard J. Bicker
Executive Director

Tab A

RETURN OBJECTIVES
Period Ending 6/30/96

COMBINED FUNDS: $25.0 Billion	Return	Compared to Objective
Provide Real Return (10 yr.) Provide returns that are 3-5 percentage points greater than inflation over moving 10 year periods.	11.1% (1)	7.4 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.	12.8% (1)	Equal to target Rank: 49th 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.	12.8% (1)	0.5 percentage point above target

BASIC RETIREMENT FUNDS: $13.1 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.	13.0%	0.4 percentage point above target

POST RETIREMENT FUND: $11.9 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.	11.6% (3)	0.1 percentage point above target (3)

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

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

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

ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1995

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

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

The funding ratio required by **Governmental Standard Accounting Board Statement No. 5** compares Cost Value of assets to the Current Benefit Obligation. This calculation provides funded ratios of **83%** for the Basics, **100%** for the Post and **91%** for the Total, respectively.

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

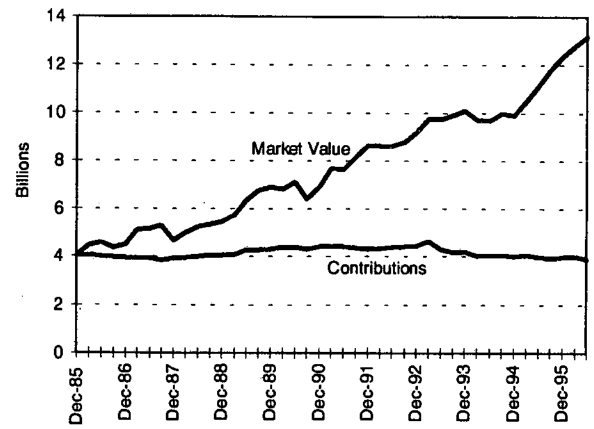
Actuarial Assumptions:

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

EXECUTIVE SUMMARY
Basic Retirement Funds

Asset Growth

The market value of the Basic Funds increased 2.7% during the second quarter of 1996. Positive investment returns accounted for the increase during the period.

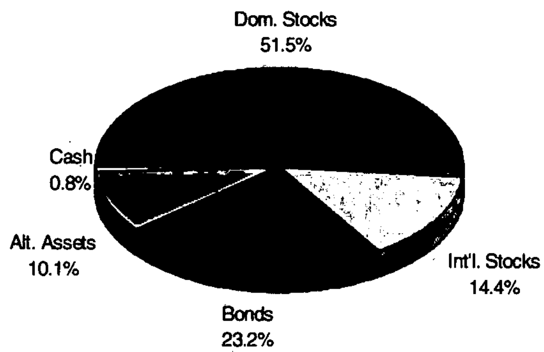


Asset Growth
During Second Quarter 1996
(Millions)

Beginning Value	$ 12,797
Net Contributions	-105
Investment Return	454
Ending Value	$ 13,146

Asset Mix

Assets are moving from domestic stocks to international stocks to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing.



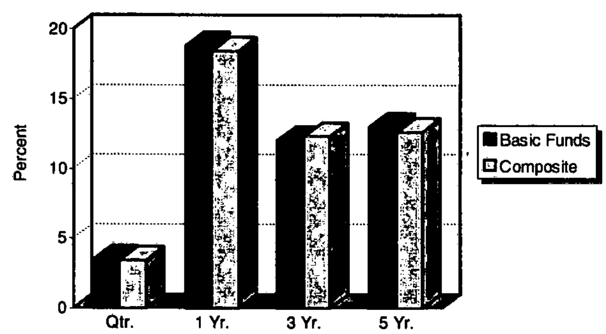
	Policy Targets	Actual Mix 6/30/96	Actual Market Value (Millions)
Domestic Stocks	**45.0%**	51.5%	$6,769
Int'l. Stocks	**15.0**	14.4	1,895
Bonds	**24.0**	23.2	3,049
Alternative Assets*	**15.0**	10.1	1,327
Unallocated Cash	**1.0**	0.8	106
	100.0%	100.0%	$13,146

* Any uninvested allocation is held in domestic stocks

Fund Performance

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	**3.5%**	**18.8%**	**12.0%**	**13.0%**
Composite	3.4	18.4	12.3	12.6

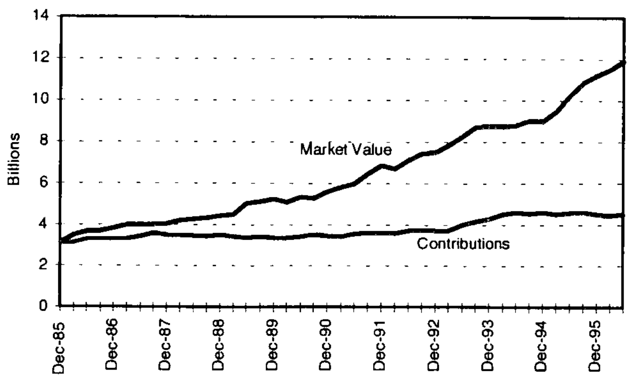


EXECUTIVE SUMMARY

Post Retirement Fund

Asset Growth

The market value of the Post Fund increased 3.4% during the second quarter of 1996. The increase resulted mostly from positive investment returns.

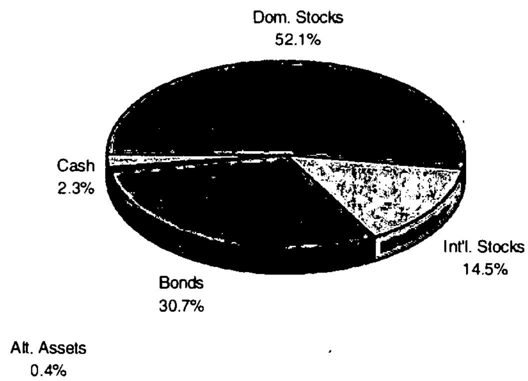


Asset Growth During Second Quarter 1996 (Millions)

Beginning Value	$ 11,496
Net Contributions	60
Investment Return	327
Ending Value	$ 11,883

Asset Mix

Assets are moving from bonds and domestic stocks to international stocks to reflect the Board's new asset allocation targets and to accommodate normal fund rebalancing.

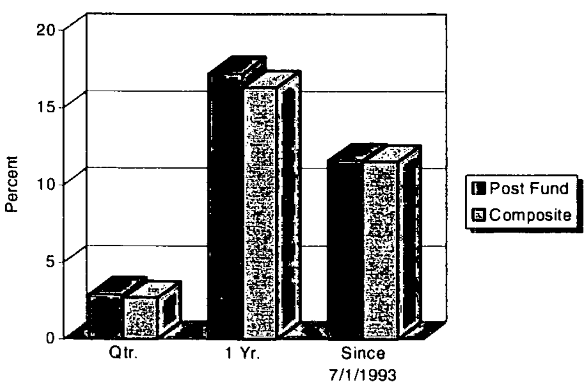


	Policy Targets	Actual Mix 6/30/96	Actual Market Value (Millions)
Domestic Stocks	**50.0%**	52.1 %	$6,193
Int'l. Stocks	**15.0**	14.5	1,720
Bonds	**27.0**	30.7	3,653
Alternative Assets*	**5.0**	0.4	46
Unallocated Cash	**3.0**	2.3	271
	100.0%	100.0%	$11,883

* Any uninvested allocation is held in bonds

Fund Performance

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



	Qtr.	1 Yr.	Since 7/1/93*
Post	**2.9%**	**17.2%**	**11.6%**
Composite	2.7	16.3	11.5

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

EXECUTIVE SUMMARY
Stock and Bond Manager Performance

Domestic Stocks

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	**4.2%**	**25.9%**	**16.0%**	**15.7%**
Wilshire 5000*	4.4	26.2	16.7	16.0

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

International Stocks

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

	Qtr.	1 Yr.	3 Yr.	Since Incept.*
Int'l. Stocks	**3.1%**	**16.9%**	**12.2%**	**14.2%**
Composite Index**	1.6	13.4	10.5	13.3

* Since 10/1/92.

** EAFE-Free through 4/31/96. Composite of EAFE-Free and Emerging Markets Free since 5/1/96.

Bonds

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	**0.6%**	**5.3%**	**5.4%**	**8.8%**
Lehman Agg.*	0.6	5.0	5.3	8.3

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

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

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

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

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

Emerging Markets Free: The Morgan Stanley Capital International index of 22 markets in developing countries throughout the world.

EXECUTIVE SUMMARY
Assigned Risk Plan

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

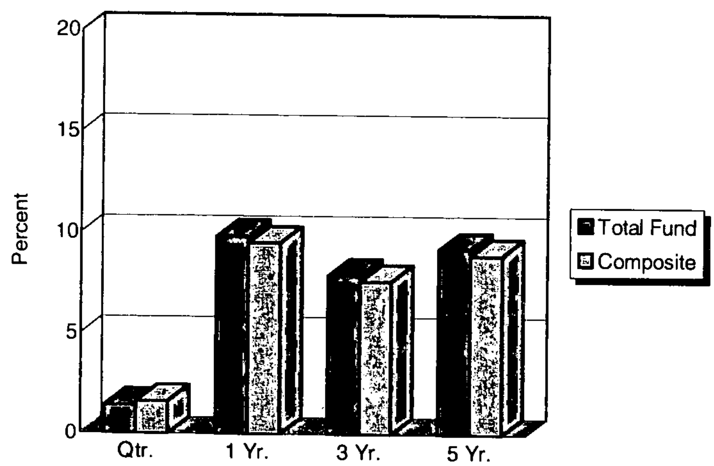
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/96 Target	6/30/96 Actual
Stocks	20.0%	26.2%
Bonds	80.0	73.6
Unallocated Cash	0.0	0.2
Total	100.0%	100.0%

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

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

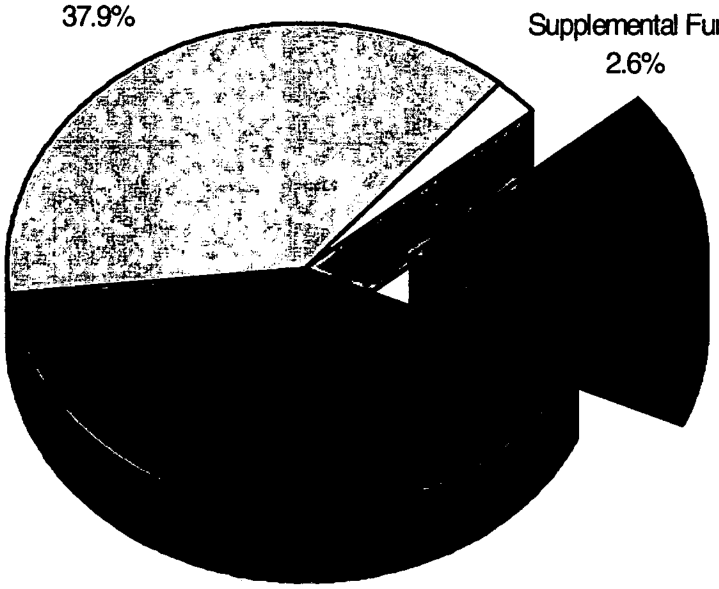
Market Value
On June 30, 1996 the market value of the Assigned Risk Plan was $542 million.



Period Ending 6/30/96

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund	**1.4%**	**9.8%**	**7.9%**	**9.2%**
Composite Index	1.6	9.5	7.6	8.9
Equity Segment	**3.7**	**25.2**	**15.9**	**13.1**
Benchmark	4.5	26.2	16.9	13.9
Bond Segment	**0.7**	**5.4**	**5.6**	**8.1**
Benchmark	0.8	5.6	5.5	7.6

EXECUTIVE SUMMARY
Funds Under Management



	6/30/96 Market Value (Billions)
Retirement Funds	
Basic Retirement Funds	$13.1
Post Retirement Fund	11.9
Supplemental Investment Fund	0.8
Non Retirement Funds*	
Assigned Risk Plan	0.6
Permanent School Fund	0.4
Environmental Trust Fund	0.1
State Cash Accounts	4.5
Total	**$31.4**

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 1996
(April 1, 1996 - June 30, 1996)

Table of Contents

VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/96				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	4.4%	26.2%	16.8%	16.1%	13.1%
Dow Jones Industrials	1.8	27.1	20.3	17.5	15.2
S&P 500	4.5	26.2	17.3	15.8	13.8
Russell 2000	5.0	23.9	15.8	17.5	10.4
Domestic Fixed Income					
Lehman Aggregate*	0.6	5.0	5.3	8.3	8.6
Lehman Gov't./Corp.	0.5	4.7	5.2	8.5	8.4
90 Day U.S. Treasury Bills	1.3	5.4	4.7	4.4	5.8
International					
EAFE**	1.6	13.3	10.4	10.0	10.3
Emerging Markets Free***	4.2	8.5	14.2	17.4	N/A
Salomon Non U.S. Gov't. Bond	0.4	-1.7	9.7	13.0	11.3
Inflation Measure					
Consumer Price Index****	0.6	2.8	2.8	2.9	3.7

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

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

For the quarter, the stock market generated positive returns. In April and May, the market moved up on positive first quarter earnings reports. In June, the market reacted negatively to the possibility of higher inflation and higher interest rates. For the quarter, all sectors of the market recorded positive returns with capital goods and consumer non-durables recording the highest return (6.7%) and the weakest sector was transportation (0.7%).

The Wilshire 5000 provided a 4.4% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter is shown below:

Large Value	0.5%
Small Value	1.4
Large Growth	7.5
Small Growth	5.6

The Wilshire 5000 increased 26.2% during the latest year.

DOMESTIC BONDS

The bond market performed poorly this quarter as interest rates increased. Economic data showed that the U.S. economy strengthened this year with employment and wage growth accelerating. As a result, interest rates rose across the yield curve as investors anticipated that the Federal Reserve would increase rates.

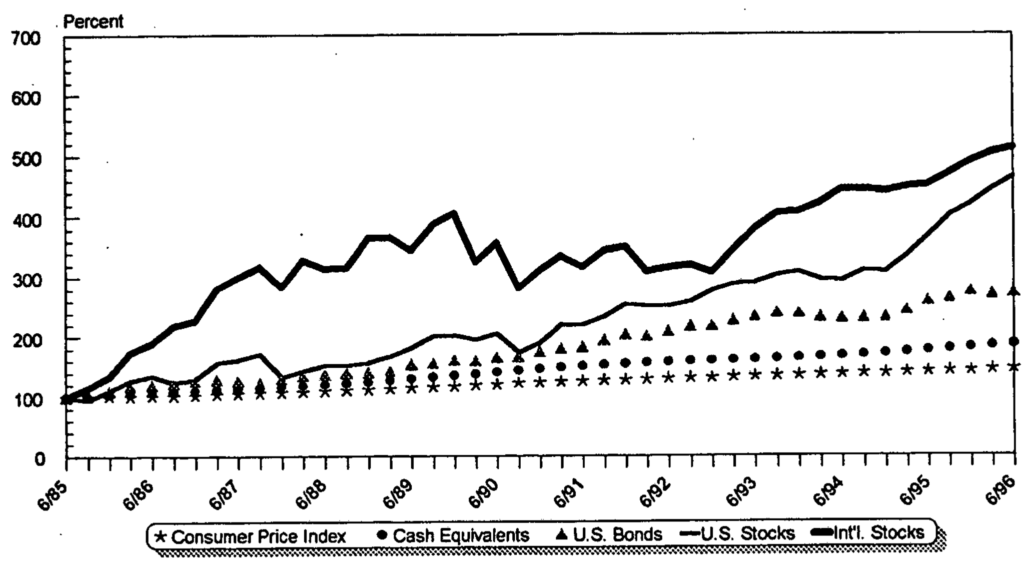
Overall, the Lehman Brothers Aggregate Bond Index increased 0.6% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	0.5%
Corporates	0.5
Mortgages	0.8

The Lehman Aggregate increased 5.0% for the latest year.

PERFORMANCE OF CAPITAL MARKETS

Cumulative Returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

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

Japan	0.8%
United Kingdom	2.6
Germany	-0.1
France	2.7

The EAFE index increased by 13.3% during the latest year. The index is compiled by Morgan Stanley Capital International (MSCI) and is a measure of 20 markets located in Europe, Australia and the Far East (EAFE). The major markets listed above comprise about 75% of the value of the international markets in the index.

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 4.2% for the quarter. The performance of the five largest stock markets is shown below:

Malaysia	1.5%
South Africa	-5.6
Brazil	14.6
Thailand	-2.0
Mexico	4.4

The Emerging Markets Free index increased by 8.5% for the year. The index is compiled by MSCI and measures performance of 22 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 65% of the value of the index.

REAL ESTATE

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

PRIVATE EQUITY

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

RESOURCE FUNDS

Crude oil prices performed well during the quarter. The posted price of West Texas Intermediate crude oil averaged $20.33 per barrel during the quarter compared to $18.25 per barrel a year earlier, an increase of 11%.

Natural gas prices at the Henry Hub continued strong and averaged $2.45 per thousand cubic feet (MCF), compared to $1.63 MCF in the year earlier quarter. Price firmness reflects a significant need to rebuild storage in anticipation of the winter heating season.

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.

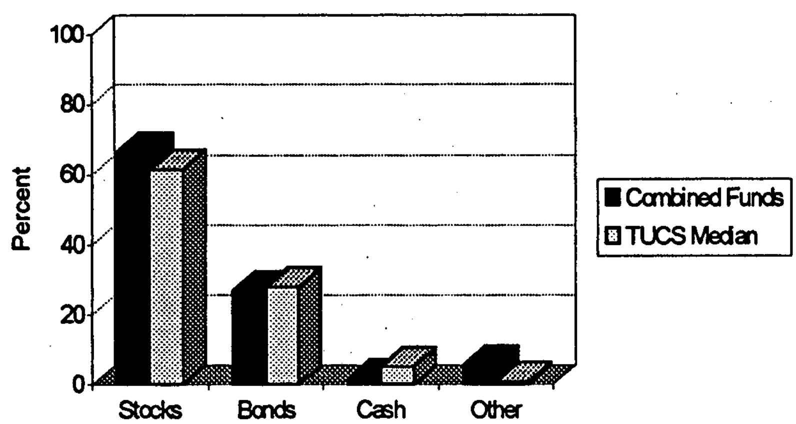
The comparison universe used by the SBI is the Master Trust portion of the Trust Universe Comparison Service (TUCS). This universe contains information on more than 200 public and corporate pension and trust funds with a balanced asset mix.

Asset Mix Compared to Other Pension Funds

On June 30, 1996, the actual asset mix of the Combined Funds was:

	$ Millions	%
Domestic Stocks	$12,962	51.8%
International Stocks	3,615	14.4
Bonds	6,702	26.8
Alternative Assets	1,373	5.5
Unallocated Cash	377	1.5
Total	$25,029	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, 1996 are shown below:



	Stocks*	Bonds*	Cash	Other
Combined Funds	**66.2%**	**26.8%**	**1.5%**	**5.5%**
Median Allocation in TUCS	61.4	27.9	5.1	0.8

* Both domestic and international.

COMBINED FUNDS
Performance Compared to Other Pension Funds

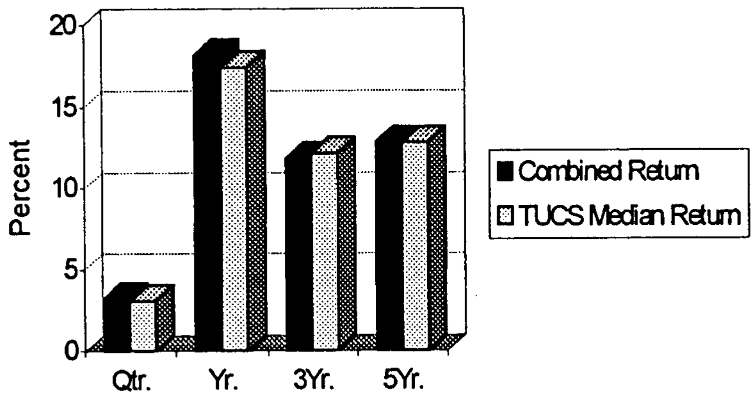
While the SBI is naturally concerned with how its returns compare to other pension investors, universe comparison data should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

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

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

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

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



Period Ending 6/30/96

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Combined Funds Return*	**3.2%**	**18.1%**	**11.8%**	**12.8%**
TUCS Median Fund Return**	3.1	17.4	12.1	12.8
Percentile Rank in TUCS	39th	42nd	57th	49th

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

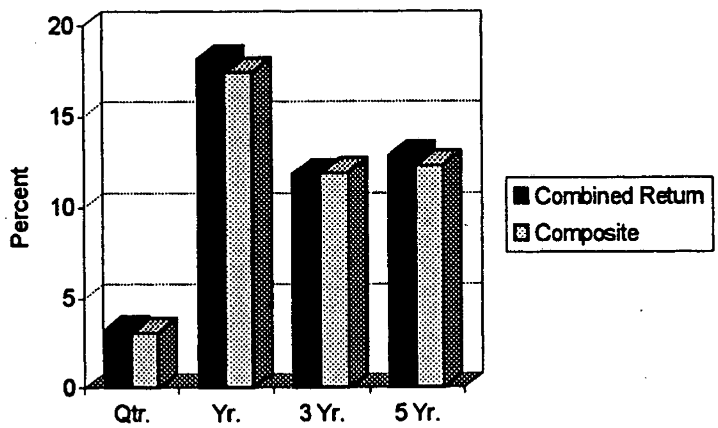
The SBI's stated performance objective is that the Combined Funds will rank in the top half of the universe (above the 50th percentile) over the most recent five year period. The SBI will strive to achieve performance which ranks in the top third (above the 33rd percentile).

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 2Q96
Domestic Stocks	Wilshire 5000	50.4%*
Int'l. Stocks	Custom Int'l.	14.3
Bonds	Lehman Aggregate	28.0*
Alternative Assets	Wilshire Real Estate	2.0*
	Venture Capital Funds	3.0*
	Resource Funds	0.4*
Unallocated Cash	91 Day T-Bills	1.9
		100.0%

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



Period Ending 6/30/96

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Combined Funds**	**3.2%**	**18.1%**	**11.8%**	**12.8%**
Composite Index***	3.1	17.4	11.9	12.3

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

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

BASIC RETIREMENT FUNDS

Investment Objectives

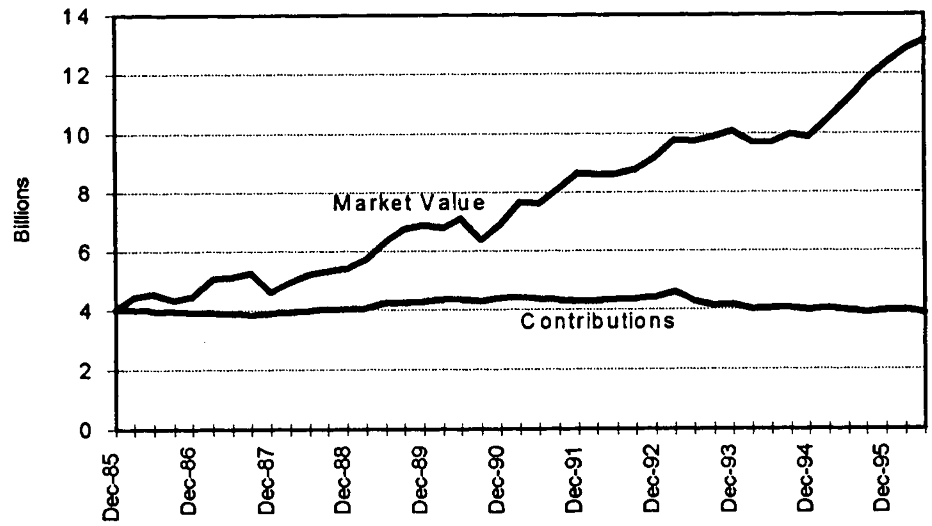
The Basic Retirement Funds are composed of the retirement assets for currently working participants in eight statewide retirement funds. The Funds serve as accumulation pools for the pension contributions of public employees and their employers during the employees' years of active service. Approximately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

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

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 2.7% during the second quarter of 1996. Positive investment returns accounted for the increase.



Last Five Years
In Millions

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

BASIC RETIREMENT FUNDS

Asset Mix

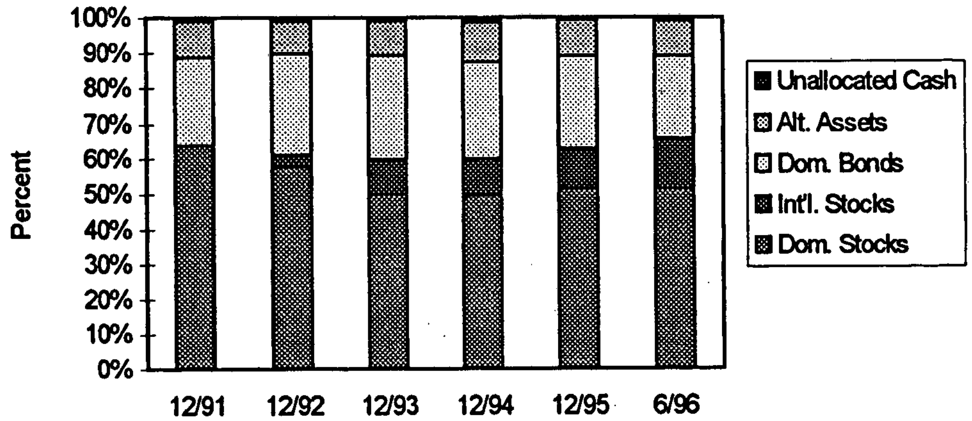
The long-term asset allocation of the Basic Funds is based on the superior performance of common stocks over the history of the capital markets. The asset allocation policy is designed to add value to the Basic Funds over their long-term investment time horizon.

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

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

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

In October 1995, the Board revised its long term asset allocation targets for the Basic Funds, increasing international stocks from 10% to 15% and decreasing domestic stocks from 50% to 45%. The change will be implemented over several quarters. Strong performance of the domestic stock market during recent quarters has also contributed to the overweighting in that category.



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

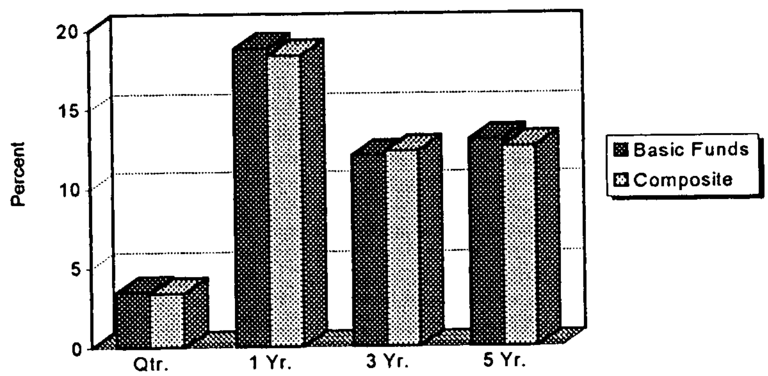
BASIC RETIREMENT FUNDS

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 2Q96
Domestic Stocks	45.0%	Wilshire 5000	50.7%*
Int'l. Stocks	15.0	Composite Index	14.3
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Wilshire Real Estate	3.8*
		Private Equity Funds	5.5*
		Resource Funds	0.7*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

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



Period Ending 6/30/96

	Qtr.	Yr.	3 Yr. (Annualized)	5 Yr. (Annualized)
Basic Funds	**3.5%**	**18.8%**	**12.0%**	**13.0%**
Composite Index**	3.4	18.4	12.3	12.6

**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.

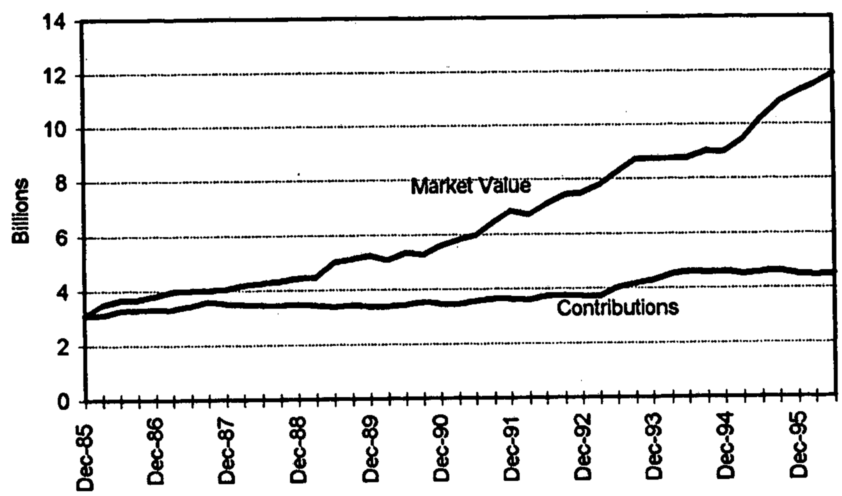
Upon an employee's retirement, a sum of money sufficient to finance the fixed monthly annuity is transferred from accumulation pools in the Basic Funds to the Post Fund. In order to support promised benefits, the Post Fund must "earn" at least 5% on its invested assets on an annualized basis. If the 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.

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

Asset Growth

The market value of the Post Retirement Fund increased by 3.4% during the second quarter of 1996. The increase was mostly due to positive investment returns.



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

POST RETIREMENT FUND

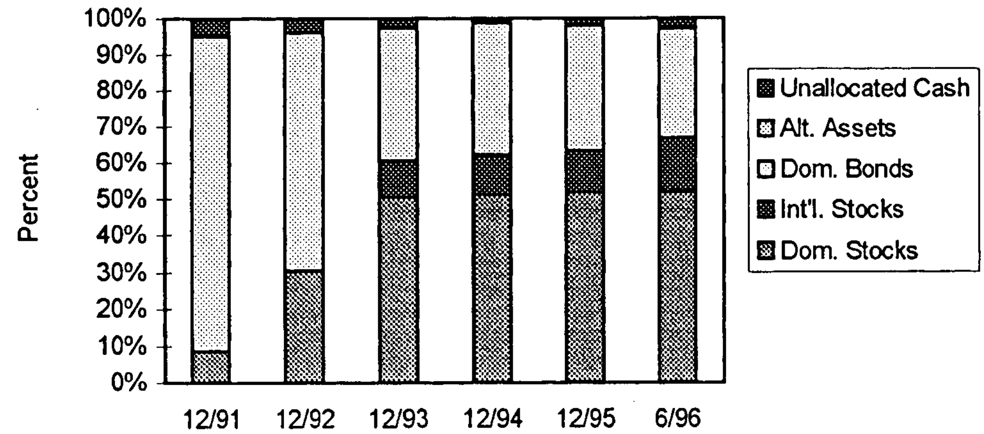
Asset Mix

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	15.0
Bonds	27.0
Alternative Assets	5.0
Unallocated Cash	3.0
Total	100.0%

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

In October 1995, the Board revised its long term asset allocation targets for the Post Fund, increasing international stocks from 10% to 15% and decreasing bonds from 32% to 27%. The change will be implemented over several quarters. Strong performance of the domestic stock market during recent quarters has also contributed to the overweighting in that category.



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

POST RETIREMENT FUND

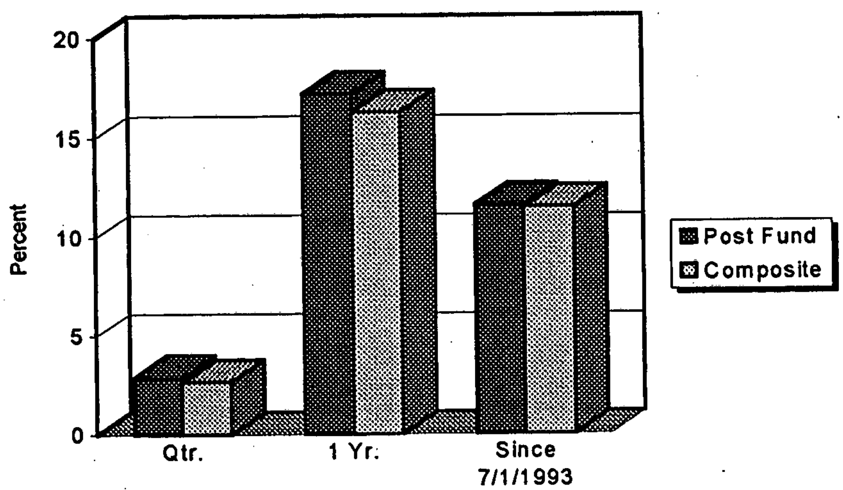
Total Fund Performance

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

Asset Class	Post Target	Market Index	Post Composite 2Q96*
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Composite Index	14.3
Bonds	27.0	Lehman Aggregate	32.5*
Alternative Assets	5.0	Private Equity Funds	0.2*
Unallocated Cash	3.0	91 Day T-Bills	3.0
	100%		100.0%

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

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



	Qtr.	1 Yr.	Since 7/1/93
Post Fund	2.9%	17.2%	11.6%
Composite Index	2.7	16.3	11.5

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

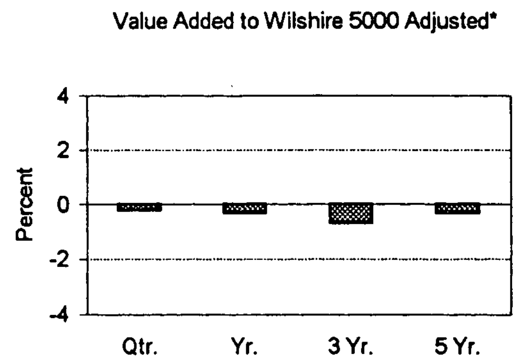
Domestic Stock Pool

Target: Wilshire 5000 Adjusted*

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

	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Stock Pool	**4.2%**	**25.9%**	**16.0%**	**15.7%**
Wilshire 5000*	4.4	26.2	16.7	16.0

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



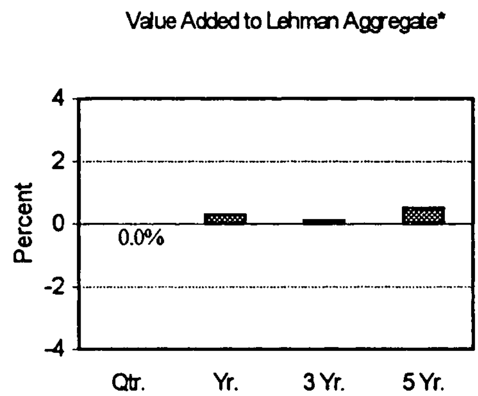
Bond Pool

Target: Lehman Brothers Aggregate Bond Index

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

	Qtr.	Yr.	Annualized 3 Yrs.	5 Yrs.
Bond Pool	**0.6%**	**5.3%**	**5.4%**	**8.8%**
Lehman Agg.*	0.6	5.0	5.3	8.3

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



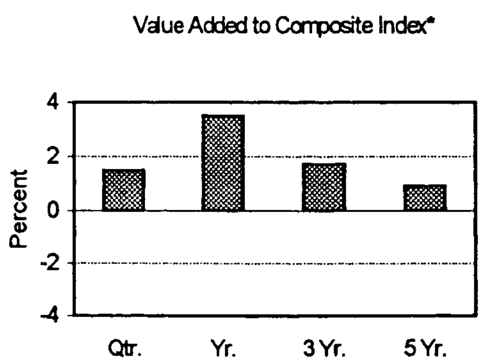
International Stock Pool

Target: EAFE-Free/Emerging Markets Free*

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

	Qtr.	Yr.	3 Yr.	Since 10/1/92
Int'l. Pool	**3.1%**	**16.9%**	**12.2%**	**14.2%**
Composite Index*	1.6	13.4	10.5	13.3

* With the addition of emerging markets to the SBI international portfolio, the benchmark is moving toward a target of 85% EAFE-Free and 15% Emerging Markets Free. Prior to May 1996, the target was 100% EAFE-Free.



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools

Real Estate Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Real Estate	**2.2%**	**3.6%**	**3.0%**	**-1.5%**
Real Estate Index	2.2	3.8	2.6	-2.2
Inflation	0.6	2.8	2.8	2.9

Private Equity Pool (Basic Funds only)

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

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

			Annualized	
	Qtr.	Yr.	3 Yrs.	5 Yrs.
Private Equity	**12.0%**	**40.3%**	**18.4%**	**20.6%**

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	**9.1%**	**12.4%**	**10.4%**	**9.1%**

ASSIGNED RISK PLAN

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

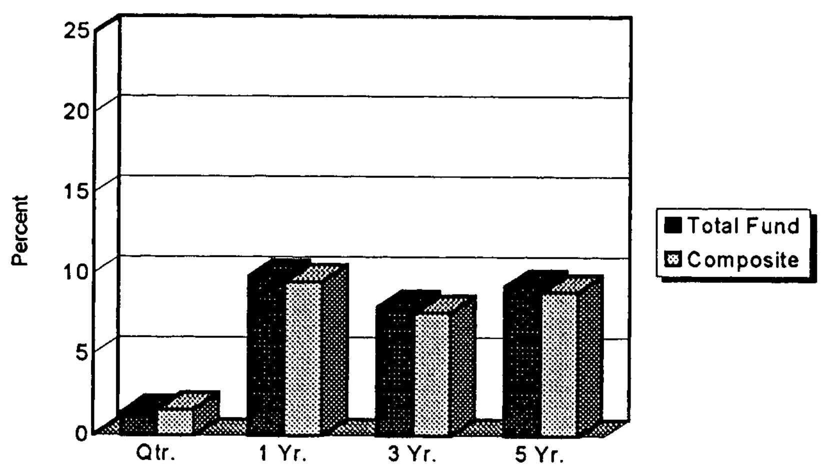
Asset Mix
The Assigned Risk Plan is invested in a balanced portfolio of common stocks and bonds. The actual asset mix will fluctuate in response to changes in the Plan's liability stream.

	6/30/96 Target	6/30/96 Actual
Stocks	20.0%	26.2%
Bonds	80.0	73.6
Unallocated Cash	0.0	0.2
	100.0%	100.0%

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

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

Market Value
On June 30, 1996 the market value of the Assigned Risk Plan was $542 million.



Period Ending 6/30/96

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	1.4%	9.8%	7.9%	9.2%
Composite	1.6	9.5	7.6	8.9
Equity Segment	3.7	25.2	15.9	13.1
Benchmark	4.5	26.2	16.9	13.9
Bond Segment	0.7	5.4	5.6	8.1
Benchmark	0.8	5.6	5.5	7.6

SUPPLEMENTAL INVESTMENT FUND

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

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

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

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

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

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

On June 30, 1996 the market value of the entire fund was $799 million.

Investment Options

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

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

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

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

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

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

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

SUPPLEMENTAL INVESTMENT FUND

Income Share Account

Investment Objective

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

Asset Mix

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

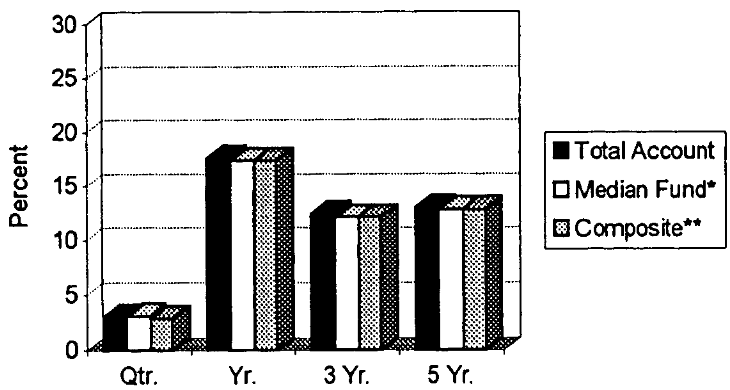
	Target	Actual
Stocks	60.0%	62.0%
Bonds	35.0	32.7
Unallocated Cash	5.0	5.3
	100.0%	100.0%

Investment Management

The Account combines internal and external management. SBI staff manage the entire fixed income segment. Throughout the period shown below, the entire stock segment has been managed as part of a passively managed index fund designed to track the Wilshire 5000. The current manager for these assets is BZW Barclays Global Investors. Prior to April 1988, a significant portion of the stock segment was actively managed.

Market Value

On June 30, 1996 the market value of the Income Share Account was $389 million.



Period Ending 6/30/96

			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**3.0%**	**17.6%**	**12.4%**	**13.0%**
Median Fund*	3.1	17.4	12.1	12.8
Composite**	2.9	17.4	12.1	12.8
Equity Segment	**4.4**	**25.5**	**16.8**	**16.1**
Wilshire 5000***	4.4	26.2	16.7	16.0
Bond Segment	**0.8**	**5.7**	**5.6**	**8.7**
Lehman Agg.****	0.6	5.0	5.3	8.3

*TUCS Median Master Trust

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

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

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

SUPPLEMENTAL INVESTMENT FUND
Growth Share Account

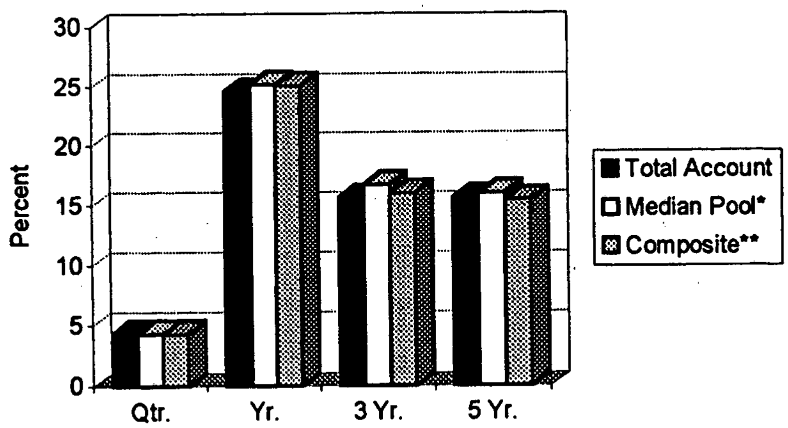
Investment Objective
The Growth Share Account's investment objective is to generate above-average returns from capital appreciation on common stocks.

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

	Target	Actual
Stocks	95.0%	95.1%
Unallocated Cash	5.0	4.9
	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, 1996 the market value of the Growth Share Account was $157 million.



Period Ending 6/30/96

	Qtr.	Yr.	Annualized 3 Yr.	5 Yr.
Total Account	**4.3%**	**24.6%**	**15.6%**	**15.6%**
Median Pool*	4.3	25.2	16.7	16.0
Composite**	4.3	25.1	16.0	15.4

* TUCS Median Equity Pool

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

SUPPLEMENTAL INVESTMENT FUND

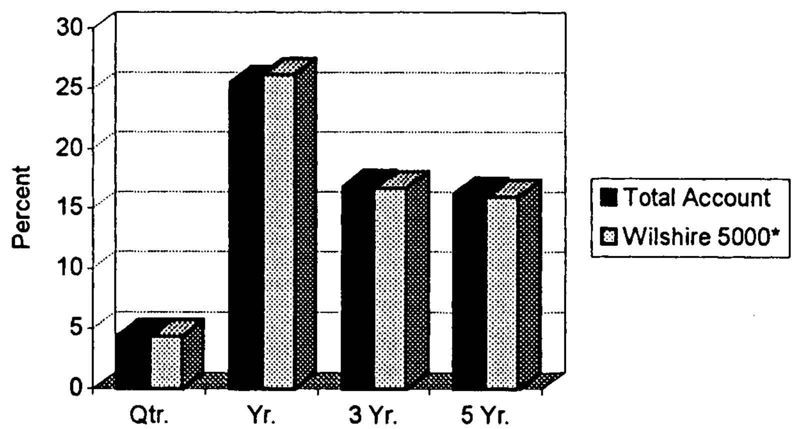
Common Stock Index Account

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

The Account is invested 100% in common stock.

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

Market Value
On June 30, 1996 the market value of the Common Stock Index Account was $96 million.



Period Ending 6/30/96

	Qtr.	Yr.	Annualized 3 Yr.	Annualized 5 Yr.
Total Account	**4.4%**	**25.5%**	**16.8%**	**16.2%**
Wilshire 5000*	4.4	26.2	16.7	16.0

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

SUPPLEMENTAL INVESTMENT FUND

International Share Account

Investment Objective and Asset Mix

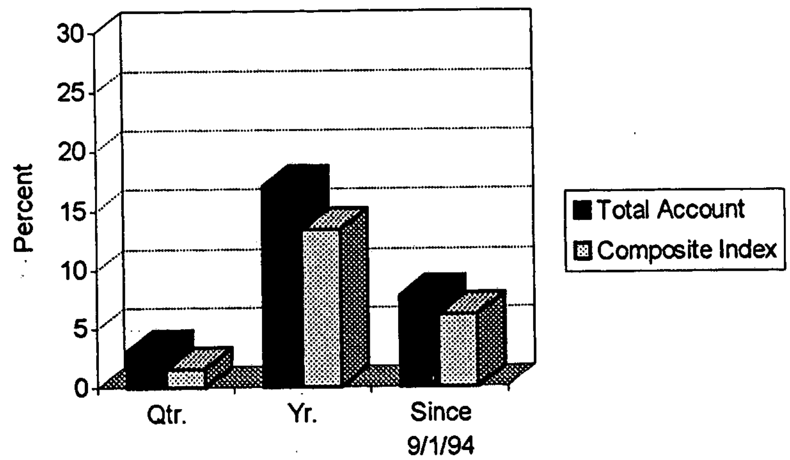
The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International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

Investment Management

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

Market Value

On June 30, 1996 the market value of the International Share Account was $14 million.



Period Ending 6/30/96

	Qtr.	Yr.	Since 9/1/94
Total Account	3.1%	17.0%	7.7%
Composite Int'l. Index*	1.6	13.4	6.2

* With the addition of emerging markets to the SBI international portfolio, the benchmark is moving toward a target of 85% EAFE-Free and 15% Emerging Markets Free. Prior to May 1996, the target was weighted 100% EAFE-Free.

SUPPLEMENTAL INVESTMENT FUND

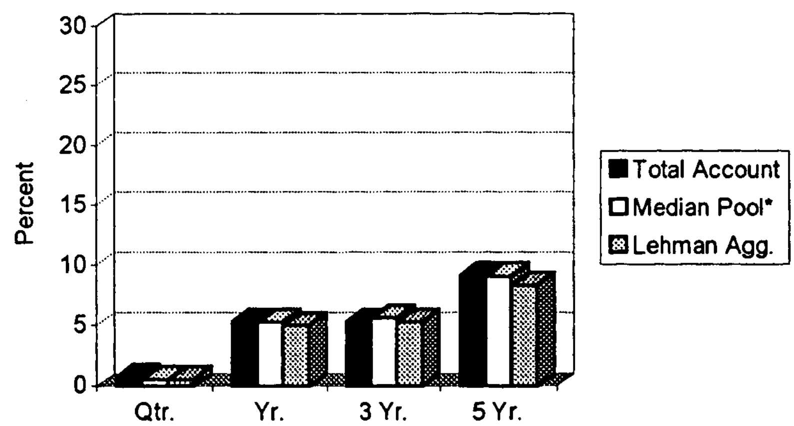
Bond Market Account

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

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

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

Market Value
On June 30, 1996 the market value of the Bond Market Account was $24 million.



	Period Ending 6/30/96			
			Annualized	
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	**0.7%**	**5.3%**	**5.3%**	**9.1%**
Median Pool*	0.6	5.3	5.6	9.1
Lehman Aggregate**	0.6	5.0	5.3	8.3

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

SUPPLEMENTAL INVESTMENT FUND

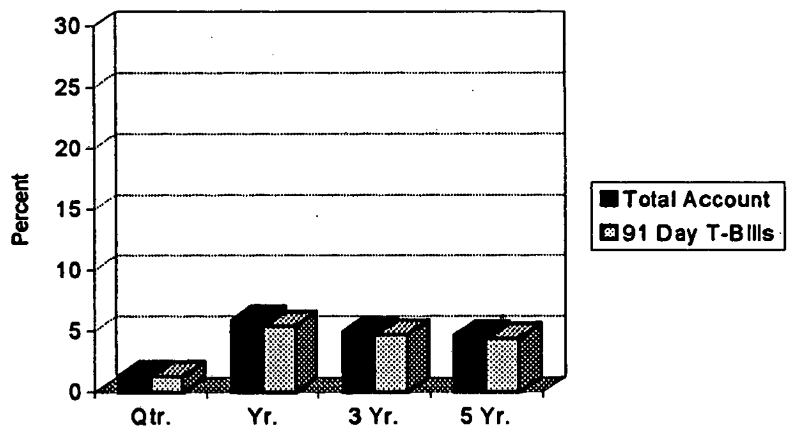
Money Market Account

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

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

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

Market Value
On June 30, 1996 the market value of the Money Market Account was $50 million.



Period Ending 6/30/96

		Annualized		
	Qtr.	**Yr.**	**3 Yr.**	**5 Yr.**
Total Account	1.3%	5.8%	4.9%	4.6%
91 Day T-Bills	1.3	5.4	4.7	4.4

SUPPLEMENTAL INVESTMENT FUND
Fixed Interest Account

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

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

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

Market Value
On June 30, 1996 the market value of the Fixed Interest Account was $69 million.

Existing 3 Year Contract

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

GIC Pool

Period Ending 6/30/96

	Qtr.	Yr.	Since 11/1/94
Total Pool	1.6%	6.7%	6.8%

PERMANENT SCHOOL FUND

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

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

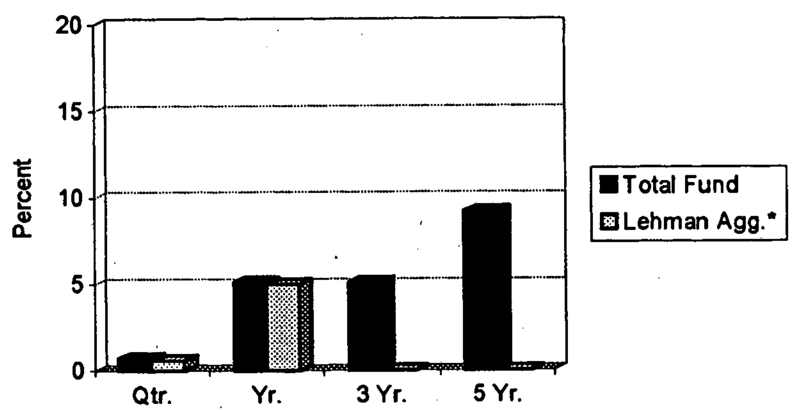
These legal provisions have limited the investment time horizon over which the Permanent School Fund is managed. Long-run growth in its assets is difficult to achieve without seriously reducing current spendable income and exposing the spendable income stream to unacceptable volatility. The SBI, therefore,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

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

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

Performance Benchmarks
Since July 1994 the Lehman Aggregate Index has been the benchmark for the Permanent School Fund. Prior to that date, an acceptable benchmark for the laddered portfolio was not available.

Market Value
On June 30, 1996 the market value of the Permanent School Fund was $419 million.



Period Ending 6/30/96

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund	0.7%	5.1%	5.1%	9.2%
Lehman Agg.	0.6	5.0	NA	NA

ENVIRONMENTAL TRUST FUND

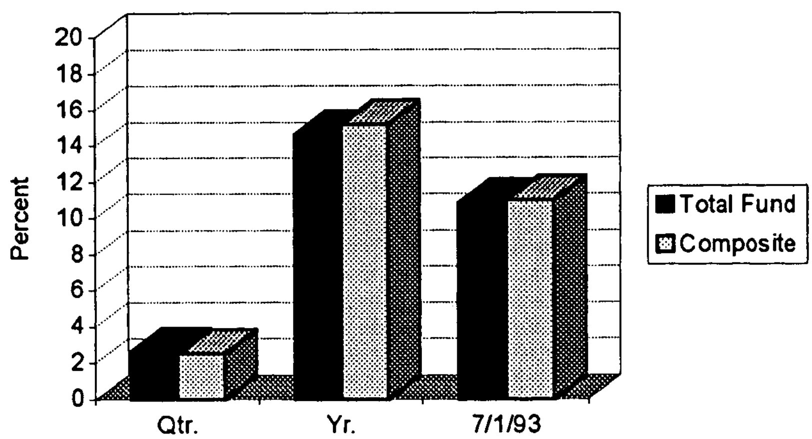
Investment Objective
The Environmental Trust Fund's objective is to produce a growing level of spendable income, within the constraints of maintaining adequate portfolio quality and liquidity.

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

	Target	Actual
Stocks	50.0%	48.3%
Bonds	50.0	44.5
Unallocated Cash	0.0	7.2
	100.0%	100.0%

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

Market Value
On June 30, 1996 the market value of the Environmental Trust Fund was $140 million.



	Period Ending 6/30/96		
	Qtr.	1 Yr.	Since 7/1/93
Total Fund	**2.6%**	**14.6%**	**10.8%**
Composite	2.5	15.2	11.0
Equity Segment	**4.4**	**26.0**	**17.2**
S&P 500	4.5	26.2	17.3
Bond Segment	**0.7**	**4.6**	**5.8**
Lehman Agg.	0.6	5.0	5.3

STATE CASH ACCOUNTS

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

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

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

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

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

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

Investment Objectives

Safety of Principal. To preserve capital.

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

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

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

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

Period Ending 6/30/96

	Market Value (Millions)	Qtr.	Yr.	3 Yrs. Annualized
Treasurer's Cash Pool	$3,704	1.3%	5.7%	4.8%
Trust Fund Cash Pool	131	1.4	5.9	5.0
Benchmark*		1.3	5.8	5.0
91-Day T-Bills		1.3	5.4	4.7

* 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 believes that the pools should continue to be monitored against 91-Day T-Bills.

Tab B

PORTFOLIO STATISTICS

MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value June 30, 1996 (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	$44,196	-0-	$1,296,139	-0-	$2,880,089	$807,568	$575,816	$5,603,808
	0.79%		23.13%		51.39%	14.41%	10.28%	100%
Public Employees Retirement Fund	$23,123	-0-	$650,592	-0-	$1,447,367	$404,915	$279,375	$2,805,372
	0.83%		23.19%		51.59%	14.43%	9.96%	100%
State Employees Retirement Fund	$22,004	-0-	$620,554	-0-	$1,380,615	$386,194	$266,482	$2,675,849
	0.82%		23.19%		51.60%	14.43%	9.96%	100%
Public Employees Police & Fire Fund	$12,864	-0-	$306,068	-0-	$680,884	$190,528	$131,429	$1,321,773
	0.97%		23.16%		51.51%	14.41%	9.95%	100%
Highway Patrol Retirement Fund	$1,567	-0-	$44,137	-0-	$98,190	$27,474	$18,953	$190,321
	0.82%		23.19%		51.59%	14.44%	9.96%	100%
Judges Retirement Fund	$126	-0-	$3,640	-0-	$8,110	$2,257	$1,564	$15,697
	0.80%		23.19%		51.67%	14.38%	9.96%	100%
Public Employees P.F. Consolidated	$1,096	$5,488	$89,303	$25	$198,635	$55,590	$38,516	$388,653
	0.28%	1.41%	22.98%	0.01%	51.11%	14.30%	9.91%	100%
Correctional Employees Retirement	$1,188	-0-	$33,621	-0-	$74,811	$20,916	$14,439	$144,975
	0.82%		23.19%		51.60%	14.43%	9.96%	100%
POST RETIREMENT FUND	$271,331	-0-	$3,653,107	$46,384	$6,192,466	$1,720,005	-0-	$11,883,293
	2.28%		30.74%	0.39%	52.11%	14.48%		100%
TOTAL BASIC & POST	$377,495	$5,488	$6,697,161	$46,409	$12,961,167	$3,615,447	$1,326,574	$25,029,741
	1.51%	0.02%	26.76%	0.19%	51.78%	14.44%	5.30%	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	$20,426 5.26%	$127,138 32.71%	-0-	-0-	$241,082 62.03%	-0-	-0-	$388,646 100%
Growth Share Account	$7,708 4.92%	-0-	-0-	-0-	$149,109 95.08%	-0-	-0-	$156,817 100%
Money Market Account	$50,276 100%	-0-	-0-	-0-	-0-	-0-	-0-	$50,276 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	$95,883 100%	-0-	-0-	$95,883 100%
Bond Market Account	-0-	-0-	$24,475 100%	-0-	-0-	-0-	-0-	$24,475 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	$13,758 100%	-0-	$13,758 100%
Fixed Interest Account	-0-	-0-	$69,645 100%	-0-	-0-	-0-	-0-	$69,645 100%
TOTAL SUPPLEMENTAL FUNDS	$78,410 9.81%	$127,138 15.90%	$94,120 11.77%	-0-	$486,074 60.80%	$13,758 1.72%	-0-	$799,500 100%
TOTAL RETIREMENT FUNDS	$455,905 1.77%	$132,626 0.51%	$6,791,281 26.29%	$46,409 0.18%	$13,447,241 52.06%	$3,629,205 14.05%	$1,326,574 5.14%	$25,829,241 100%

	Cash And Short Term Securities	Bonds Internal	Bonds External	Stocks Internal	Stocks External	External Int'l.	Alternative Assets	Total
ASSIGNED RISK PLAN	$18,097 3.34%	-0-	$388,246 71.64%	-0-	$135,597 25.02%	-0-	-0-	$541,940 100%
ENVIRONMENTAL FUND	$10,110 7.21%	$62,337 44.46%	-0-	$67,760 48.33%	-0-	-0-	-0-	$140,207 100%
PERMANENT SCHOOL FUND	$6,503 1.55%	$412,828 98.45%	-0-	-0-	-0-	-0-	-0-	$419,331 100%
TREASURERS CASH	$3,709,918 100%	-0-	-0-	-0-	-0-	-0-	-0-	$3,709,918 100%
HOUSING FINANCE AGENCY	$46,332 21.09%	$173,363 78.91%	-0-	-0-	-0-	-0-	-0-	$219,695 100%
MINNESOTA DEBT SERVICE FUND	$8,240 29.86%	$19,353 70.14%	-0-	-0-	-0-	-0-	-0-	$27,593 100%
MISCELLANEOUS ACCOUNTS	$246,520 49.61%	$250,385 50.39%	-0-	-0-	-0-	-0-	-0-	$496,905 100%
GRAND TOTAL	$4,501,625 14.34%	$1,050,892 3.35%	$7,179,527 22.88%	$114,169 0.36%	$13,582,838 43.28%	$3,629,205 11.56%	$1,326,574 4.23%	$31,384,830 100%

STATE OF MINNESOTA
STATE BOARD OF INVESTMENT

Net Cash Flow Available For Investment
April 1, 1996 - June 30, 1996

Teachers Retirement Fund	($130,200,000.00)
Public Employees Retirement Fund	9,000,000.00
State Employees Retirement Fund	13,000,000.00
Public Employees Police & Fire	(2,000,000.00)
Highway Patrol Retirement Fund	0.00
Judges Retirement Fund	1,500,000.00
Public Employees P&F Consolidated	(481,666.82)
Correctional Employees Retirement Fund	2,000,000.00
Post Retirement Fund	60,022,685.61
Supplemental Retirement Fund - Income	(3,328,955.50)
Supplemental Retirement Fund - Growth	(353,162.81)
Supplemental Retirement Fund - Money Market	(1,661,741.51)
Supplemental Retirement Fund - Index	2,466,247.12
Supplemental Retirement Fund - Bond Market	(20,733.19)
Supplemental Retirement Fund - Fixed Interest,	316,547.25
Supplemental Retirement Fund - International	795,873.87
Total Retirement Funds Net Cash Flow	**(48,944,905.98)**
Assigned Risk Plan	(7,685,386.16)
Permanent School Fund	(4,284,481.26)
Total Net Cash Flow	**($60,914,773.40)**

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 1994	-1	1	0	14	2.1	32.3	65.6	20,105
February	-26	-25	-51	10	2.5	32.1	65.4	19,735
March	-3	14	11	1	2.5	32.4	65.1	19,051
April	37	186	223	132	2.0	31.9	66.1	19,285
May	0	-24	-24	-11	2.1	31.8	66.1	19,349
June	-13	0	-13	-6	2.1	32.2	65.7	19,038
July	0	4	4	25	2.2	32.0	65.8	19,507
August	0	-1	-1	-18	2.1	31.3	66.6	19,982
September	0	25	25	-30	1.8	31.5	66.7	19,581
October	0	2	2	22	1.9	30.9	67.2	19,824
November	0	0	0	-41	1.7	31.8	66.5	19,324
December	2	14	16	7	1.7	31.7	66.6	19,493
January 1995	1	10	11	-11	1.5	32.0	66.5	19,681
February	1	0	1	-1	1.5	31.8	66.7	20,249
March	2	18	20	-18	1.3	31.5	67.2	20,607
April	1	-305	-304	-6	2.7	31.2	66.1	21,049
May	0	13	13	14	2.6	31.5	65.9	21,681
June	8	-12	-4	-3	2.6	31.3	66.1	22,028
July	1	13	14	19	2.5	30.4	67.1	22,646
August	(1)	14	13	(25)	2.3	30.5	67.2	22,814
September	0	13	13	(21)	2.1	30.1	67.8	23,369
October	1	(3)	(2)	(20)	2.1	30.6	67.3	23,294
November	(5)	87	82	(20)	1.6	30.1	68.3	23,975
December	11	(6)	5	(6)	1.5	30.2	68.3	24,304
January 1996	0	12	12	-4	1.4	29.9	68.7	24,721
February	-301	303	2	4	1.4	28.0	70.6	24,859
March	0	-14	-14	-15	1.4	27.6	71.0	25,070
April	-42	-31	-73	-18	1.6	26.9	71.5	25,493
May	-1	-20	-21	-3	1.6	26.5	71.9	25,823
June	0	-52	-52	-20	1.8	26.8	71.4	25,829

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 27, 1996

TO: Members, State Board Investment

FROM: Howard Bicker

1. Reports on Budget and Travel

A final report on the SBI's administrative budget for FY96 is in **Attachment A**. Actual expenditures were $34,568 under the budget for the year ending June 30, 1996. The first report for FY97 covers the period ending July 31, 1996 and is included as **Attachment B.**

A report on travel for the period from May 16-August 15, 1996 is included as **Attachment C.**

2. Appointment to IAC Vacancy

At the SBI meeting in June 1996, the Board authorized the SBI Deputies to consider candidates for the current vacancy on the Investment Advisory Council (IAC) and make a recommendation for the September 1996 meeting.

The vacancy was announced through the Open Appointments Process.

The SBI Deputies recommend that the Board appoint Doug Gorence to the Council. Mr. Gorence currently serves as Director, Pension Fund Investments at Honeywell.

RECOMMENDATION:

The SBI Deputies recommend that the SBI appoint Douglas Gorence to the Investment Advisory Council for a term ending January 2000.

3. Contract Amendment for the Deferred Compensation Plan

Minnesota Mutual, one of the product providers in the Deferred Compensation Plan, has proposed a change to its contract with the State of Minnesota. If approved, the change will provide more favorable portability terms for participants who wish to transfer assets from Minnesota Mutual (MM) to other investment options in the Plan.

The Minnesota State Retirement System, administrator for the Plan, approved the change at their meeting on June 19, 1996. Statute requires the SBI to approve all contract amendments as well.

The draft amendment is included as **Attachment D.**

Currently, the MM contract allows a participant to transfer up to 20% or $1000, whichever is greater, of fixed account balances to other Plan options each calendar year. MM is proposing to allow participants to transfer their entire balance from the MM fixed account within a five year period. The difference in the two provisions can be illustrated using an initial account balance of $10,000:

Current Provision: ***20% of balance or $1000, whichever is greater***

Year	Starting Balance	Amount Transferred	Remaining Balance
1	$10000	$2000	$8000
2	8000	1600	6400
3	6400	1280	5210
4	4800	1024	4096
5	4096	1000	3096
6	3096	1000	2096
7	2096	1000	1096
8	1096	1000	96
9	96	96	0

Proposed Provision:

Yr. 0	*20%*	*of balance*
Yr. 1	*20%*	"
Yr. 2	*25%*	"
Yr. 3	*33%*	"
Yr. 4	*50%*	"
Yr. 5	*100%*	"

Year	Starting Balance	Amount Transferred	Remaining Balance
0	$10000	$2000	$8000
1	8000	1600	6400
2	6400	1600	4800
3	4800	1600	3200
4	3200	1600	1600
5	1600	1600	0

I intend to review this proposal with the Deferred Compensation Review Committee on August 28, 1996 and will make a verbal report on their recommendation at the SBI meeting on September 4, 1996.

RECOMMENDATION:

Pending concurrence by the Deferred Compensation Review Committee, the Executive Director recommends that the SBI approve an amendment to the agreement with Minnesota Mutual Life Insurance Company for the Deferred Compensation Plan which will allow participants to transfer their entire general account balance to other product providers in the Plan over a five year period. Further, the SBI should authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute the amendment on behalf of the SBI.

ATTACHMENT A

STATE BOARD OF INVESTMENT
FISCAL YEAR 1996 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR ENDING JUNE 30, 1996

ITEM	FISCAL YEAR 1996 BUDGET	FISCAL YEAR 1996 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,519,000	$ 1,496,086
SEVERENCE PAYOFF	0	3,008
WORKERS COMPENSATION INSURANCE	0	730
MISCELLANEOUS PAYROLL	0	1,042
SUBTOTAL	**$ 1,519,000**	**$ 1,500,866**
STATE OPERATIONS		
RENTS & LEASES	88,550	88,550
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	12,662
BONDS AND INSURANCE	0	673
PRINTING & BINDING	15,950	15,080
PROFESSIONAL/TECHNICAL SERVICES	50,000	14,031
COMPUTER SYSTEMS SERVICES	202,500	202,619
COMMUNICATIONS	27,000	22,548
TRAVEL, IN-STATE	3,000	2,728
TRAVEL, OUT-STATE	50,000	38,949
SUPPLIES	48,000	42,027
EQUIPMENT	30,000	75,298
EMPLOYEE DEVELOPMENT	5,000	11,063
OTHER OPERATING COSTS	40,000	30,338
SUBTOTAL	**$ 573,000**	**$ 556,566**
TOTAL GENERAL FUND	**$ 2,092,000**	**$ 2,057,432**

ATTACHMENT B

STATE BOARD OF INVESTMENT
FISCAL YEAR 1997 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TO DATE THROUGH AUGUST 23, 1996

ITEM	FISCAL YEAR 1997 BUDGET	FISCAL YEAR 1997 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	$ 1,505,000	$ 160,265
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	**$ 1,527,000**	**$ 160,265**
STATE OPERATIONS		
RENTS & LEASES	90,500	15,083
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	0
BONDS AND INSURANCE	1,000	0
PRINTING & BINDING	16,000	0
PROFESSIONAL/TECHNICAL SERVICES	50,000	0
COMPUTER SYSTEMS SERVICES	202,500	16,875
COMMUNICATIONS	27,000	1,552
TRAVEL, IN-STATE	3,000	0
TRAVEL, OUT-STATE	55,000	943
SUPPLIES	48,000	2,848
EQUIPMENT	37,000	0
EMPLOYEE DEVELOPMENT	18,000	870
OTHER OPERATING COSTS	40,000	172
SUBTOTAL	**$ 601,000**	**$ 38,343**
TOTAL GENERAL FUND	**$ 2,128,000**	**$ 198,608**

ATTACHMENT C

STATE BOARD OF INVESTMENT

Travel Summary by Date
May 16, 1996 - August 15, 1996

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring **Alternative Investments:** T.A. Associates Realty **Manager Search** **Alternative Investments:** HLM Management Company, PRISM Venture Partners **Staff Education** "Private Equity Conference" sponsored by Institute for International Research	M. Regal	Boston, MA 5/12-5/15	$764.80*
Board Member Travel "Investment Manager Evaluation, Search & Selection" sponsored by Institute for International Research	E. Voss	New York, NY 5/20-5/21	$1,870.32
Manager Monitoring **International Manager:** Templeton Investment Counsel, Inc.	B. Lehman K. Vnuk	Ft. Lauderdale, FL 6/9-6/10	$2,093.91
Manager Monitoring **Fixed Income:** BEA, Goldman Sachs, Miller Anderson **Manager Search:** J.P. Morgan	J. Lukens	New York, NY Philadelphia, PA 6/18-6/20	$1,515.94
Board Member Travel National Association of Public Pension Attorneys Annual Conference	C. Eller	Charleston, SC 6/25-6/28	$1,693.50

* Cost figure has been revised from prior report.

Purpose	Name(s)	Destination and Date	Total Cost
Manager Monitoring Fixed Income: Goldman Sachs **Consultant Meeting:** Richards & Tierney	H. Bicker	Chicago, IL 7/15-7/17	$999.49
Staff Education "1996 Financial Analysts Seminar" sponsored by Association for Investment Management and Research (AIMR)	K. Vnuk	Chicago, IL 7/22-7/26	$2,349.50
Manager Monitoring Alternative Investments: Public funds private equity study	J. Griebenow	Chicago, IL 8/1/96	$222.00

DRAFT

AMENDMENT NO.2 TO THE DEFERRED COMPENSATION PLAN BUSINESS PLAN AGREEMENT

WHEREAS, Minnesota Mutual Life Insurance Company (hereinafter called the "Minnesota Mutual"), and the State Board of Investment (hereinafter called "SBI") and the Minnesota State Retirement System (hereinafter called "MSRS"), entered into a letter agreement M-8639 to amend and supplement Group Deferred Variable Annuity Contract, Number 0844049; and

WHEREAS, the parties have agreed to amend Paragraph C of Section IV of the Agreement.

NOW, THEREFORE IT IS AGREED BY AND BETWEEN THE PARTIES THERETO:

That Paragraph C of Section IV shall be amended to read as follows:

Plan participants may annually, each calendar year, transfer:

a) up to 20% of accumulation values held in the general account or $1,000.00 whichever is greater, or

b) accumulation values held in the general account according to the following schedule:

Period (in years)	Portion of General Account
0	20%
1	20%
2	25%
3	33%
4	50%
5	100%

Plan participants may not exercise a) and b) concurrently. Plan participants may elect to stop transfer of accumulation values in b) at any time during the 5 years, but any subsequent election to transfer accumulation values in b) starts the transfer process at the beginning of the schedule.

APPROVED: Except as herein amended, the terms and conditions of the original Letter Agreement remain in full force and effect.

MINNESOTA STATE BOARD OF INVESTMENT

By: ____________________

Title: ____________________

Date: ____________________

STATE OF MINNESOTA
THE OFFICE OF THE ATTORNEY GENERAL

By: ____________________

Date: ____________________

MINNESOTA STATE RETIREMENT SYSTEM

By: ____________________

Date: ____________________

STATE OF MINNESOTA
DEPARTMENT OF ADMINISTRATION

By: ____________________

Title: ____________________

Date: ____________________

THE MINNESOTA MUTUAL LIFE INSURANCE COMPANY

By: ____________________

Title: ____________________

Date: ____________________

By: ____________________

Title: ____________________

Date: ____________________

STATE OF MINNESOTA
DEPARTMENT OF FINANCE

By: ____________________

Title: ____________________

Date: ____________________

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: August 27, 1996

TO: Members, State Board Investment

FROM: **SBI Administrative Committee Report**

The SBI Administrative Committee met on June 24, 1996 to update the country groupings in the SBI's international investing guidelines. The Committee adopted the updated groupings as presented by staff and heard presentations from the SBI's emerging markets managers on their interest in investing in countries included in Group 3.

No action is required by the SBI at this time.

Background

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 SBI's international investment program. The guidelines recommended by the Task Force were adopted by the Board in December 1992 and have been used in the implementation of the international program since that date.

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 based on human and worker rights laws and practices. *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).

The policy guidelines are outlined in **Attachment A**.

Review Process

The SBI has delegated periodic review of the country groupings to the SBI Administrative Committee. The last review took place in August 1994 when the list was expanded to include several markets that the existing international managers expected to consider at that time. *With the recent addition of emerging markets specialists to the SBI's international program, the country groupings needed to be expanded once again to address all of the markets that these new managers may consider.*

The emerging markets specialists are considering investment in twenty five (25) markets that were not included on the August 1994 list. Staff reviewed each additional country based upon the most recent country reports published by the US State Department.

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

The Committee also heard presentations from the SBI's emerging markets managers (*City of London, Genesis Asset Managers, Montgomery Asset Management*) concerning their interest in Group 3 markets:

- One or more of the managers are investing in companies domiciled in the following countries for the SBI account at the present time: *China, Croatia, Indonesia, Jordan, Morocco, Peru.*

- In addition to the above, one or more of the managers anticipate investing in companies domiciled in the following countries for the SBI account with the next 1-3 years: *Burma (also known as Myanmar), Kuwait, Lebanon, Nigeria, Pakistan, United Arab Emirates, Vietnam.*

ATTACHMENT A

INTERNATIONAL INVESTING GUIDELINES TASK FORCE POLICY GUIDELINES

The International Investing Guidelines 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 underscore that the guidelines do not prohibit a manager from investing in the market of any country.* Rather, they require either written notification or personal presentation from the manager in certain cases:

Group 1: According to the US State Department reports, these countries have legal protections or practices that generally respect internationally recognized worker and human rights. As a result, there is little concern that economic and social disruptions may occur which would have an adverse effect on financial markets. *No additional notification or presentation is required* regarding a manager's decision to invest in the market of any of these countries.

Group 2: These countries have legal protections for worker and human rights but violations of these rights have been cited in the US State Department reports. Because violations of legally protected rights continue to occur in these countries, there is some concern that economic and social disruptions may occur which may have an adverse effect on their financial markets. If a manager chooses to invest in one of more of these markets, the manager *must notify SBI staff in writing of the decision* to do so.

Group 3: According to US State Department reports, these countries appear to lack basic protections for worker and human rights and do not appear to be making adequate progress in establishing a legal structure to address these issues. As a result, the potential for economic, social and political unrest exists which could adversely affect the stability of the financial markets within these countries. If a manager chooses to invest in one or more of these markets, the manager *must appear at a meeting of the SBI Administrative Committee to present its reasons for the decision* to do so.

ATTACHMENT B

INTERNATIONAL INVESTING GUIDELINES
EXPANDED COUNTRY GROUPINGS ADOPTED
BY SBI ADMINISTRATIVE COMMITTEE
as of June 1996

Group 1	Group 2	Group 3
Australia	Argentina	Burma/Myanmar
Austria	Bangladesh	China, Peoples Republic of
Barbados	Bolivia	Croatia
Belgium	Botswana	Indonesia
Canada	Brazil	Jordan
Costa Rica	Chile	Kuwait
Czech Republic	Cote d'Ivorie	Lebanon
Denmark	Colombia	Morocco
Finland	Ecuador	Nigeria
France	Egypt	Peru
Germany	Estonia	Pakistan
Greece	Ghana	Swaziland
Hong Kong	India	United Arab Emirates (UAE)
Hungary	Israel	Vietnam
Italy	Jamaica	
Ireland	Kazakhstan	
Japan	Kenya	
Luxembourg	Korea, Republic of	
Netherlands	Latvia	
New Zealand	Lithuania	
Norway	Malawi	
Poland	Malaysia	
Portugal	Mauritius	
Singapore	Mexico	
Slovak Republic	Mongolia	
Slovenia	Namibia	
Spain	Nepal	
Sweden	Panama	
Switzerland	Papua New Guinea	
United Kingdom	Philippines	
Uruguay	Romania	
	Russia	
	South Africa	
	Sri Lanka	
	Taiwan	
	Thailand	
	Trinidad & Tobago	
	Tunisia	
	Turkey	
	Venezuela	
	Ukraine	
	Zambia	added to August 1994 list
	Zimbabwe	

Tab E

COMMITTEE REPORT

DATE: August 27, 1996

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on August 14, 1996 to consider the following agenda items:

- Review of manager performance for the period ending June 30, 1996.
- Staff recommendation regarding probation of IAI Regional Fund.
- Review of active stock manager cash allocation to benchmarks.
- Review of benchmark for internally managed short term cash pools.

Board action is requested on the final three (3) items.

INFORMATION ITEMS:

1. Review of manager performance

- ***Stock Managers***

  For the quarter ending June 30, 1996, the domestic stock manager program matched its aggregate benchmark but underperformed the Wilshire 5000. For the latest year, the **current** managers outperformed the benchmark and matched the Wilshire 5000. For the latest three years, the **current** managers underperformed the benchmark but outperformed the Wilshire 5000. For the latest five years, the **current** managers outperformed the benchmarks and the Wilshire 5000

Time Period	Total Program	Wilshire 5000*	Current Mgrs. Only	Aggregate Benchmark
Quarter	4.2%	4.4%	4.2%	4.2%
1 Year	25.9	26.2	26.2	25.5
3 Years	16.0	16.7	16.8	17.4
5 Years	15.7	16.0	17.4	16.3

* Adjusted for SBI's restrictions, as appropriate.

Performance was generally positive among the active manager group for the quarter; ten of the managers outperformed or matched and three underperformed their benchmarks. Stock selection in consumer non-durables and technology contributed the majority of the active manager outperformance for the quarter.

Staff noted that for the quarter the semi-passive managers underperformed their benchmark. However, as a group, the semi-passive managers have added value to their completeness fund benchmark and exceeded performance expectations since inception, January 1995.

Staff also noted that the passive manager has matched its benchmark for the quarter and year.

The performance evaluation reports for the stock managers start on **page 19** of this Tab. Manager Commentaries are in **Tab I.**

- ***Bond Managers***

For the period ending June 30, 1996, the total bond program and current managers outperformed or matched the Lehman Aggregate and the aggregate benchmark for the quarter and the latest one year, three year, and five year periods.

Time Period	Total Program	Lehman Aggregate*	Current Mgrs. Only	Aggregate Benchmark
Quarter	0.6%	0.6%	0.6%	0.6%
1 Year	5.3	5.0	5.3	5.0
3 Years	5.4	5.3	5.5	5.3
5 Years	8.8	8.3	8.9	8.4

* Reflects Salomon BIG index prior to 7/94.

The performance evaluation reports for the bond managers start on **Page 53** of this Tab. Manager Commentaries are in **Tab I.**

ACTION ITEMS:

1. Recommendation to remove IAI from probationary status.

IAI was placed on probation in march 1996 due to a change in portfolio manager and the purchase of IAI's parent company, TSB, by Lloyds Bank. Recently, staff met with the SBI's current portfolio manager, Mark Hoonsbeen, to discuss the Regional Fund's investment process and personnel. Staff recommends that IAI be removed from probationary status for the following reasons:

a) The investment process had changed slightly to better match the strengths of the investment team that Mark has assembled. Mark emphasizes bottom-up fundamental research with greater focus on stock selection and less reliance on sector bets than in the past. The portfolio will remain fully invested whereas Mark's predecessor utilized cash in the past.

b) Mark plans to hire one additional analyst by year end. The Regional Fund Team would then consist of four investment professionals. Mark believes this would provide sufficient resources to cover their universe.

c) The TSB/Lloyds Bank merger has been completed and the current organizational structure does not affect IAI's internal investment or management structure.

RECOMMENDATION:

Staff believes that the TSB/Lloyds Bank merger and change in portfolio manager has not negatively impacted the management of the SBI portfolio. The Committee concurred and recommends that IAI be removed from probation.

2. Domestic Equity Benchmark Cash

In May 1996, staff informed the Committee that each domestic equity manager's benchmark cash level would be lowered from an average of 5% to a new level of 1% or less beginning July 1996. The Committee questioned the need to have any cash in manager benchmarks and asked that the issue be readdressed at the August 1996 meeting.

Since a customized benchmark is an evaluation tool to measure the manager's unique investment style, staff believe it should be a realistic representation of the manager's operating constraints. They maintain that even a manager who seeks to be a "fully invested" manager has some residual cash in the portfolio due to unsettled trades and dividend payments. The 1% cash level is a pragmatic way to recognize this "real world" operating constraint. Staff also noted that eliminating cash from the benchmark does not guarantee the elimination of cash in the manager's portfolio; an active manager still has the discretion to raise cash in a defensive move if they wish. Staff suggested that the Committee monitor actual cash levels for a period of time before considering additional reductions.

The Committee believes that since the asset class target (i.e., the Wilshire 5000) has no cash, cash should be eliminated from all manager benchmarks. The Committee also noted that since cash has a lower expected return that equities, any level of benchmark cash will be a drag on performance, over the long term.

RECOMMENDATION:

The Committee recommends that the SBI eliminate all cash from domestic equity manager benchmarks.

3. **Review of benchmarks for internally managed short term cash pools.**

   SBI staff manage cash in state agency accounts in two pooled vehicles: the Trust Fund Pool and the Invested Treasurer's Cash (ITC) Pool. Both pools have been managed against a benchmark that was weighted 75% cash equivalent / 25% 1 to 3 year debt since January 1993. The State Street Bank short term investment fund (STIF)return was used as the benchmark for cash equivalents and the Merrill Lynch 1 to 3 Year Government Index was used as the benchmark for the long portion of the benchmark.

   Trust Fund Pool Benchmark
   Since this blended benchmark was adopted, the cash flows and maturity structure of the Trust Fund Pool have changed significantly. The cash flows are held in the Pool for only a short time before they are allocated to long term investment vehicles within the Basic Fund, the Post Fund, the Permanent School Fund or the Environmental Trust Fund. The maturity structure of the Trust Fund Pool is now focused entirely on cash equivalents; maturities beyond 6 months are rarely used.

   ITC Pool Benchmark
   A blended benchmark continues to be appropriate for the ITC Pool since its maturity structure will continue to include longer term securities. However, a benchmark based on set percentages has been problematic due to significant volatility in cash flows. As a result, the dollar value attributable to 25% of the portfolio can vary significantly over very short periods of time.

   Staff recommended that the 1 to 3 year portion of the blended benchmark should be based on a fixed dollar amount rather than the current fixed percentage. The fixed dollar amount selected would represent an amount that is never expected to be liquidated and should be determined in conjunction with the cashflow projections made by the Department of Finance. The fixed dollar amount used in the benchmark would need to be updated at least annually to reflect changing Minnesota economic conditions and changes in cash flows caused by legislative action. The balance of the portfolio, whatever the dollar value, would be measured against a cash equivalents measure.

After discussion, the Committee endorsed the staff proposals. More information on the current and proposed benchmarks is in the staff position paper which begins on page 7.

RECOMMENDATION:

The Committee recommends that the following benchmarks be used to measure the performance of the internally managed cash pools:

- **The Trust Fund Pool should be measured against a cash equivalents benchmark rather than a blended benchmark. The IBC All Taxable Money Fund Index is recommended as the performance standard for this pool.**

- **The ITC Pool should continue to use a blended benchmark but convert the long end of the benchmark from a fixed percentage to a fixed dollar amount. The fixed dollar portion of the benchmark should be measured against the Lehman Brother's 1 to 3 year Government Index. The remainder of the benchmark should use the IBC Index. For the 12 month period beginning October 1996, the fixed dollar portion of the benchmark should be $600 million.**

- **91 Day T-Bills should continue to be reported as an alternative measure for the internally managed cash pools as it continues to be a widely recognized performance standard for short term cash.**

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Benchmark For
Internally Managed
Short Term Cash Accounts

August 1996

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BENCHMARK FOR
INTERNALLY MANAGED
SHORT TERM CASH POOLS

In January 1993, the State Board of Investment (SBI) adopted a new performance benchmark for the internally managed cash pools. At the time, the Investment Advisory Council (IAC) recommended that this decision be reviewed after staff had gained some experience with the new benchmark. This paper provides that review and proposes modifications to the benchmark.

Background

The State Board of Investment (SBI) manages the cash balances in more than 400 state agency accounts with the objectives of preserving capital and providing competitive money market returns. Staff invest the majority of these accounts through two pooled vehicles:

- **Invested Treasurer's Cash (ITC) Pool.** This pool contains cash balances from ITC and other accounts necessary for the operation of state agencies. Its average daily balance in FY96 was $2.92 billion.

- **Trust Fund Pool**. This pool contains cash balances of trust fund and retirement related accounts that are managed internally. The Trust Fund Pool had an average daily balance of $0.14 billion in FY96.

Historically, 91 Day Treasury Bills (T-bills) were used as the benchmark for all cash accounts. In 1991, the Program Evaluation Division of the Office of the Legislative Auditor criticized this benchmark and recommended that the SBI develop a customized benchmark for cash management that would better reflect the mix of securities actually being used.

After evaluating alternatives, staff recommended a benchmark for both pools that was weighted 75% cash equivalents / 25% 1-3 year debt. The State Street short term investment fund (STIF) return was recommended as the bogey for cash equivalents and the Merrill Lynch 1-3 Year Government Index was recommended as the bogey for the long portion of the benchmark.

The IAC endorsed this blended benchmark with reservations. Since the maturity structure of the pools fluctuates according to cash flow demands, it could be significantly different from the 75/25 split in the benchmark. Also, measuring the cash portion of the fund against State Street's actively managed STIF makes the benchmark a more difficult bogey than a passive index. As a result, the IAC felt the blended benchmark was very aggressive and recommended that it be reviewed within two years. They also recommended that 91 Day T-Bills continue to be reported as an alternative benchmark.

As a result of these recommendations, ITC and Trust Fund Pool performance have been reported against both 91 Day T-bills and the blended benchmark since January 1993. Results against both benchmarks are shown in **Appendix I.**

Benchmark Weights for the Trust Fund Pool

Since the blended benchmark was adopted, the cash flows and maturity structure of the Trust Fund Pool changed significantly. After the Post Fund moved to external management, the balance in the Trust Fund Pool dropped. It is now comprised of retirement fund contributions before they are invested in the Basic or the Post Funds and cashflows to the Permanent School Fund or Environmental Trust Fund before they are invested in stocks or bonds. Since these cash flows are held in the Pool for only a short time before they are allocated to long term investment vehicles, the maturity structure of the Trust Pool is now focused entirely on cash equivalents; maturities beyond 6 months are rarely used.

A blended benchmark is no longer representative of the maturity structure of the Trust Fund Pool. Therefore, staff recommend that the benchmark for the Trust Fund Pool drop the 1-3 year portion from its benchmark and be measured against a standard that is more representative of cash equivalents.

Benchmark Weights for the ITC Pool

Staff continue to believe that a blended benchmark is appropriate for the ITC Pool since its maturity structure will continue to include longer term securities. However, a benchmark based on set percentages has proved to be somewhat problematic.

The Invested Treasurer's Cash Pool continues to experience significant volatility in cash flows (see **Appendix II and Appendix III**). As a result, the dollar value attributable to 25% of the portfolio can vary significantly over very short periods of time as well. During the last three years, the amount has fluctuated by as much as $245 million in a single month (see **Appendix IV**). This means the internal manager may be induced to buy or sell 5-10% of the entire ITC Pool in any month simply to match the benchmark weightings. Staff believe that this type of turnover is counterproductive and is incompatible with the objective of preserving capital.

Instead of a blended benchmark based on a **fixed percentage**, staff suggest that the benchmark be based on a **fixed dollar amount** for the 1-3 year portion of the benchmark. The fixed dollar amount selected would represent an amount that is never expected to be liquidated and should be determined in conjunction with the cashflow projections made by the Department of Finance. The balance of the portfolio, whatever its dollar value, would be measured against a cash equivalents measure.

Staff suggest that the fixed dollar portion of the benchmark be set at 20-25% of the projected minimum balance in the ITC for the coming year. For the twelve month period beginning October 1996, staff recommend a fixed dollar amount of $600 million. The fixed dollar amount used in the benchmark would need to be updated at least annually to reflect changing Minnesota economic conditions and changes in cash flow caused by legislative action.

Benchmark for Cash Equivalents

As noted earlier, the State Street STIF was selected as the bogey for cash equivalents. This was based, in large part, on the fact that both State Street and internal staff are bound by the same statutory constraints and should therefore be selecting securities from the same investment universe. After further review, staff recommend using IBC All Taxable Money Fund Average Index rather than the State Street STIF.

Neither the State Street STIF nor the IBC Index (formerly known as IBC Donoghue) are ideal benchmarks since neither meet key components of an "investable" performance standard i.e., neither is a passive representation of an investment universe and the securities that make up the benchmark are not known before the start of the measurement period. The IBC Index is more representative, however, because it reflects the results achieved by a broader group of managers. All funds included in the IBC Index average follow SEC Rule 2(a)7 which is roughly comparable to the types of securities available to the internal manager (Treasury, Agency, Commercial Paper and Short Term Corporate Obligations).

Benchmark for 1-3 Year Securities

Currently, the Merrill Lynch 1-3 Year Government Index is used to represent the long end of the maturities used in the benchmark. This index is updated daily as new issues are settled, old issues come within 3 years of maturity, or old issues become less than 1 year to maturity. In practice, this means the benchmark is changed on the last day of every month and on the 15th of every auction month (February, May, August, November). These frequent changes make managing against the benchmark more difficult.

As an alternative, staff recommend the Lehman 1 - 3 Year Government Index. This index is comprised of the same securities as the Merrill Lynch Index, however, it is updated only on the first of the month to reflect the previous months maturity changes and new issuance.

Summary of Recommendations

Staff recommend that the SBI discontinue measuring the performance of the ITC Pool and the Trust Fund Pool against the current 75/25 blended benchmark. The following benchmarks are recommended:

- **Trust Fund Pool.** The Trust Fund Pool should be measured against a cash equivalents benchmark rather than a blended benchmark. The IBC All Taxable Money Fund Index is recommended as the performance standard for this pool.

- **ITC Pool**. The ITC Pool should continue to use a blended benchmark but convert the long end of the benchmark from a fixed percentage to a fixed dollar amount. The fixed dollar portion of the benchmark should be measured against the Lehman Brother's 1 to 3 year Government Index. The remainder of the benchmark should use the IBC Index. For the 12 month period beginning October 1996, the fixed dollar portion of the benchmark should be $600 million.

- **91 Day Treasury Bills**. 91 Day T-Bills should continue to be reported as an alternative measure for the internally managed cash pools as it continues to be a widely recognized performance standard for short term cash portfolios.

APPENDIX I

Actual Returns vs. Benchmarks

ITC Pool

	ITC	Benchmark*	T-Bills**	ITC vs. Benchmark	ITC vs. T-Bills
1Q93	1.1	1.1	0.8	0.0	0.3
2Q	1.1	0.9	0.7	0.2	0.4
3Q	1.0	1.0	0.8	0.0	0.2
4Q	0.7	0.8	0.8	-0.1	-0.1
1993	**4.0**	**3.9**	**3.1**	**0.1**	**0.8**
1Q94	0.5	0.5	0.8	0.0	-0.3
2Q	0.8	0.7	1.0	0.1	-0.2
3Q	1.1	1.1	1.1	0.0	0.0
4Q	1.1	1.0	1.3	0.1	-0.2
1994	**3.5**	**3.3**	**4.3**	**0.2**	**-0.7**
1Q95	1.8	2.0	1.4	-0.2	0.4
2Q	1.7	2.0	1.4	-0.3	0.3
3Q	1.5	1.5	1.4	0.0	0.1
4Q	1.6	1.8	1.4	-0.2	0.2
1995	**6.8**	**7.5**	**5.7**	**-0.7**	**1.0**
1Q96	1.2	1.1	1.3	0.1	-0.1
2Q	1.3	1.3	1.3	0.0	0.0
1Q93-2Q96 Annualized	**4.8**	**4.9**	**4.5**	**-0.1**	**0.3**

Trust Fund Pool

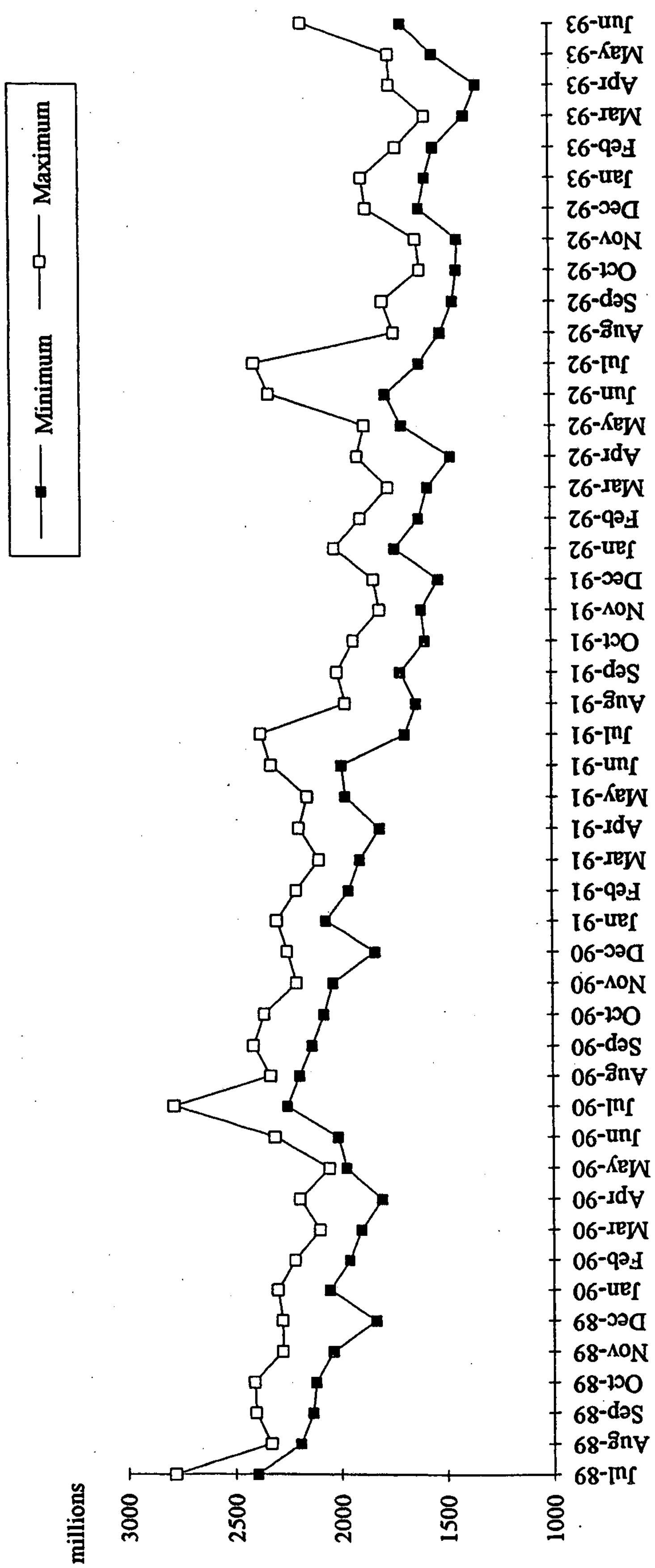
	Trust Pool	Benchmark*	T-Bills**	Trust vs. Benchmark	Trust vs. T-Bills
1Q93	1.4	1.1	0.8	0.3	0.6
2Q	0.9	0.9	0.7	0.0	0.2
3Q	0.8	1.0	0.8	-0.2	0.0
4Q	0.9	0.8	0.8	0.1	0.1
1993	**4.1**	**3.9**	**3.1**	**0.2**	**0.9**
1Q94	0.8	0.5	0.8	0.3	0.0
2Q	1.0	0.7	1.0	0.3	0.0
3Q	1.2	1.1	1.1	0.1	0.1
4Q	1.3	1.0	1.3	0.3	0.0
1994	**4.4**	**3.3**	**4.3**	**1.0**	**0.1**
1Q95	1.5	2.0	1.4	-0.5	0.1
2Q	1.5	2.0	1.4	-0.5	0.1
3Q	1.5	1.5	1.4	0.0	0.1
4Q	1.5	1.8	1.4	-0.3	0.1
1995	**6.1**	**7.5**	**5.7**	**-1.4**	**0.4**
1Q96	1.4	1.1	1.3	0.3	0.1
2Q	1.4	1.3	1.3	0.1	0.0
1Q93-2Q96 Annualized	**5.0**	**4.9**	**4.5**	**0.1**	**0.5**

* Blended Benchmark Weighted 75%, State Street STIF/25%, Merrill Lynch 1-3 Year Government

** 91 Day U.S. Treasury Bills

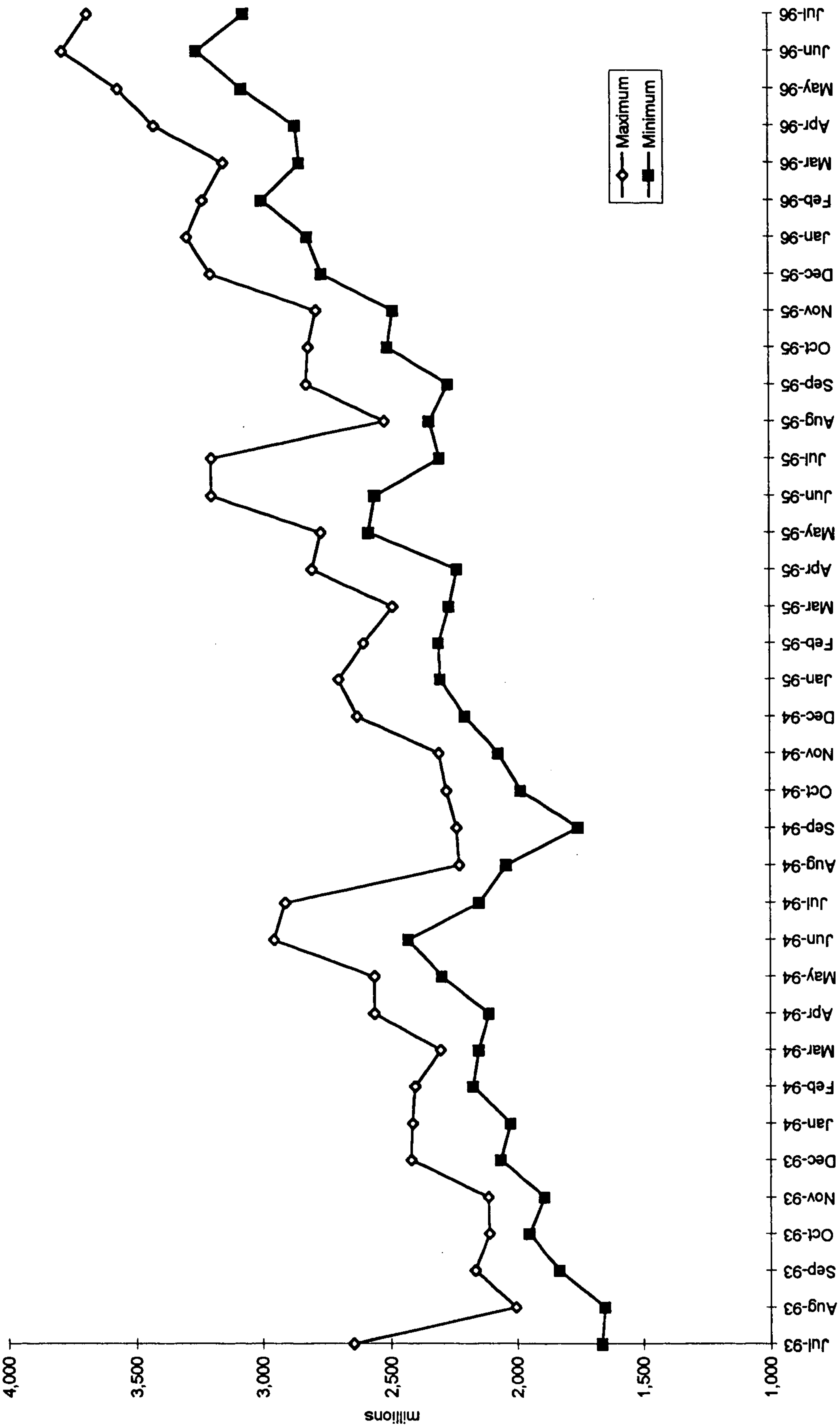
Treasurer's Cash Pool Monthly Maximum and Minimum Balances

JULY, 1989 – JUNE, 1993



APPENDIX III

Treasurer's Cash Pool Monthly Maximum and Minimum Balances
July, 1993 - July, 1996



Appendix IV
Volatility of Invested Treasurers Cash
July 1993 - June 1996

	Balance During the Month			Dollar Value of 1-3 Year Portion			$500 million	$750 million
				25%	25%		as a % of	as a % of
	Max	Min	Diff.	Max	Min	Diff.	Min.	Min.
Jul-93	$2,647	$1,663	$984	$662	$416	$246	30%	45%
Aug-93	$2,005	$1,650	$355	$501	$413	$89	30%	45%
Sep-93	$2,167	$1,832	$335	$542	$458	$84	27%	41%
Oct-93	$2,110	$1,950	$160	$528	$488	$40	26%	38%
Nov-93	$2,114	$1,891	$223	$529	$473	$56	26%	40%
Dec-93	$2,421	$2,063	$358	$605	$516	$90	24%	36%
Jan-94	$2,414	$2,026	$388	$604	$507	$97	25%	37%
Feb-94	$2,404	$2,172	$232	$601	$543	$58	23%	35%
Mar-94	$2,304	$2,151	$153	$576	$538	$38	23%	35%
Apr-94	$2,564	$2,110	$454	$641	$528	$114	24%	36%
May-94	$2,564	$2,297	$267	$641	$574	$67	22%	33%
Jun-94	$2,955	$2,431	$524	$739	$608	$131	21%	31%
Jul-94	$2,910	$2,148	$762	$728	$537	$191	23%	35%
Aug-94	$2,226	$2,039	$187	$557	$510	$47	25%	37%
Sep-94	$2,237	$1,753	$484	$559	$438	$121	29%	43%
Oct-94	$2,277	$1,981	$296	$569	$495	$74	25%	38%
Nov-94	$2,307	$2,070	$237	$577	$518	$59	24%	36%
Dec-94	$2,628	$2,202	$426	$657	$551	$107	23%	34%
Jan-95	$2,699	$2,302	$397	$675	$576	$99	22%	33%
Feb-95	$2,601	$2,307	$294	$650	$577	$74	22%	33%
Mar-95	$2,488	$2,265	$223	$622	$566	$56	22%	33%
Apr-95	$2,801	$2,233	$568	$700	$558	$142	22%	34%
May-95	$2,766	$2,579	$187	$692	$645	$47	19%	29%
Jun-95	$3,198	$2,555	$643	$800	$639	$161	20%	29%
Jul-95	$3,199	$2,302	$897	$800	$576	$224	22%	33%
Aug-95	$2,520	$2,342	$178	$630	$586	$45	21%	32%
Sep-95	$2,822	$2,268	$554	$706	$567	$139	22%	33%
Oct-95	$2,813	$2,506	$307	$703	$627	$77	20%	30%
Nov-95	$2,783	$2,483	$300	$696	$621	$75	20%	30%
Dec-95	$3,200	$2,760	$440	$800	$690	$110	18%	27%
Jan-96	$3,292	$2,815	$477	$823	$704	$119	18%	27%
Feb-96	$3,230	$2,994	$236	$808	$749	$59	17%	25%
Mar-96	$3,148	$2,845	$303	$787	$711	$76	18%	26%
Apr-96	$3,419	$2,862	$557	$855	$716	$139	17%	26%
May-96	$3,563	$3,074	$489	$891	$769	$122	16%	24%
Jun-96	$3,782	$3,251	$531	$946	$813	$133	15%	23%
Jul-96	$3,683	$3,065	$618	$921	$766	$155	16%	24%

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STATE BOARD
OF INVESTMENT

Stock
Manager
Evaluation
Reports

Second Quarter, 1996

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DOMESTIC STOCK MANAGERS
Period Ending 6/30/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
Alliance	4.3	4.0	23.0	24.4	17.2	17.1	18.4	14.4	17.7	12.9	$796.14	5.9%
Brinson	3.3	3.1	30.8	22.9	18.5	15.8			18.5	15.8	$412.67	3.1%
Forstmann-Leff	5.5	3.0	32.1	24.3	16.7	15.6	14.5	14.7	13.7	12.8	$443.18	3.3%
Franklin Portfolio	1.2	2.9	23.8	23.1	15.3	15.9	17.4	16.4	14.9	14.3	$546.47	4.1%
GeoCapital	7.2	5.7	26.7	36.7	17.4	23.3	17.8	22.2	16.8	19.4	$372.73	2.8%
IAI	5.5	3.0	26.3	23.1	17.4	16.9			17.4	16.9	$168.84	1.3%
IDS	3.3	4.7	24.5	25.7	15.9	17.9	16.5	17.7	15.2	15.1	$542.67	4.0%
Independence	4.5	4.5	26.1	26.6	16.6	17.3			15.4	15.6	$551.04	4.1%
Jundt Associates	9.3	6.2	22.4	20.5	13.4	17.6			13.4	17.6	$194.47	1.4%
Lincoln	7.1	6.7	32.3	28.1	20.6	18.6			20.6	18.6	$424.10	3.2%
Oppenheimer	3.1	3.1	28.0	25.2	19.0	16.0			19.0	16.0	$417.67	3.1%
Waddell & Reed	0.9	1.7	16.4	20.8	12.8	17.4	14.9	16.4	12.4	12.8	$424.38	3.2%
Weiss Peck & Greer	8.6	4.1	41.9	23.4	17.7	17.9			17.7	17.9	$328.82	2.4%
Emerging Managers (2)	4.2	4.7	23.9	26.9					20.0	22.3	$407.27	3.0%
Semi-Passive (3)												
Franklin Portfolio	2.7	4.0	25.2	26.1					29.5	30.3	$1,144.02	8.5%
JP Morgan	3.8	4.0	26.4	26.1					30.9	30.3	$1,188.64	8.8%
BZW Barclays	4.0	4.0	28.4	26.1					32.8	30.3	$1,189.91	8.8%
Passive												
BZW Barclays (4)	4.4	4.4	25.5	25.5					25.5	25.5	$3,894.24	29.0%
									Since 1/1/84			
Current Aggregate	**4.2**	4.2	26.2	25.5	16.8	17.4	17.4	16.3	15.9	13.9	$13,447.24	100.0%
Historical Aggregate (5)	**4.2**	**4.2**	**25.9**	**25.7**	**16.0**	**16.8**	**15.7**	**16.0**	**14.3**	**14.6**		
Wilshire Adjusted		4.4		26.2		16.7		16.0		14.6		
Wilshire 5000		4.4		26.2		16.8		16.1		14.9		

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

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ALLIANCE CAPITAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Jack Koltes — **Assets Under Management: $796,137,956**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

—Well-acquainted with needs of large clients.

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

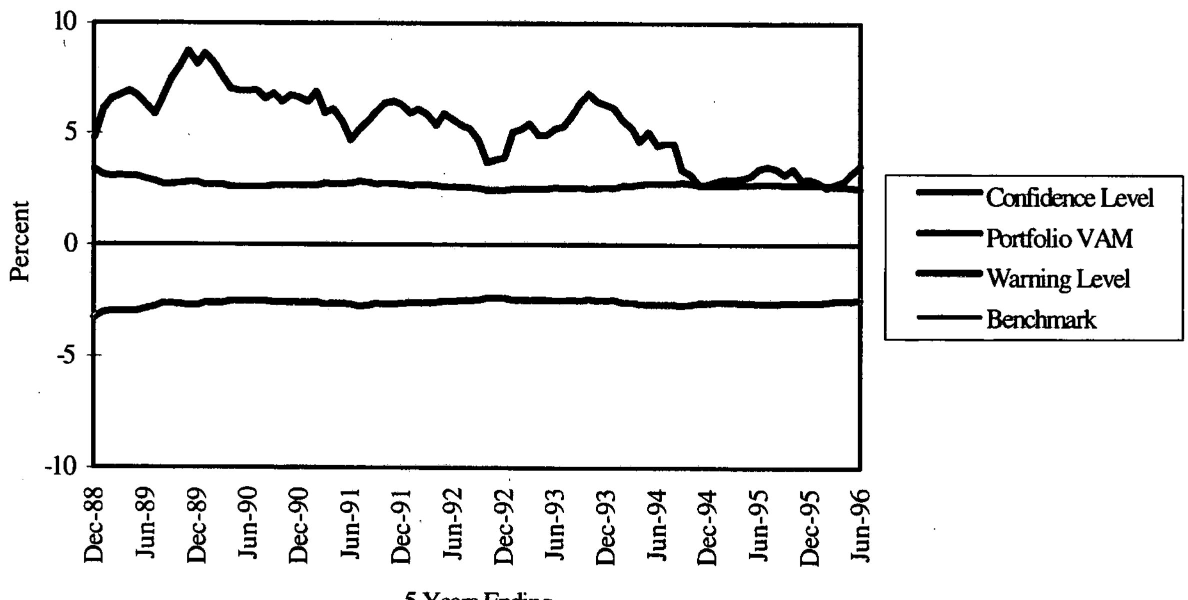
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	4.0%
Last 1 year	23.0	24.4
Last 2 years	26.5	25.7
Last 3 years	17.2	17.1
Last 4 years	17.3	15.1
Last 5 years	18.4	14.4
Since Inception (1/84)	17.7	12.9

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 6/30/96

Portfolio Manager: Jeff Diermeier | **Assets Under Management: $412,667,947**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

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

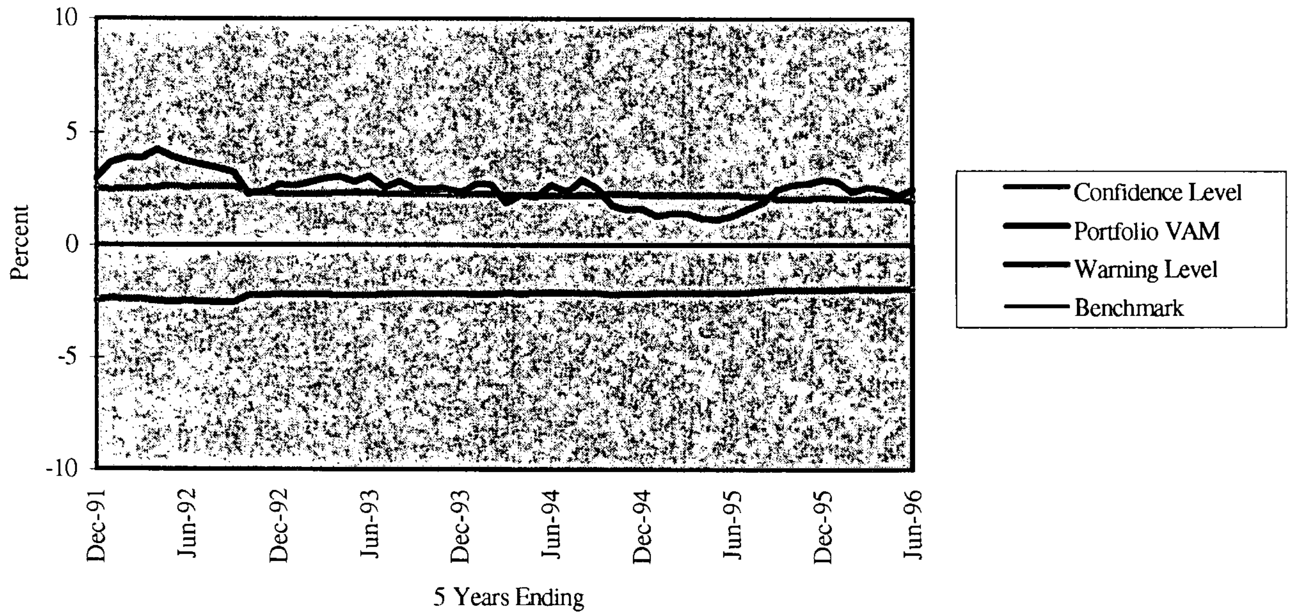
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	3.1%
Last 1 year	30.8	22.9
Last 2 years	26.3	23.8
Last 3 years	18.5	15.8
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	18.5	15.8

Recommendation

No action required.

BRINSON PARTNERS
Rolling Five Year Time Periods



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

FORSTMANN LEFF ASSOCIATES
Period Ending 6/30/96

Portfolio Manager: Joel Leff — **Assets Under Management: $443,177,275**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Highly successful and experienced leadership.

—Well acquainted with needs of large clients.

Concerns:

—Portfolio VAM appears to have diminished, over time.

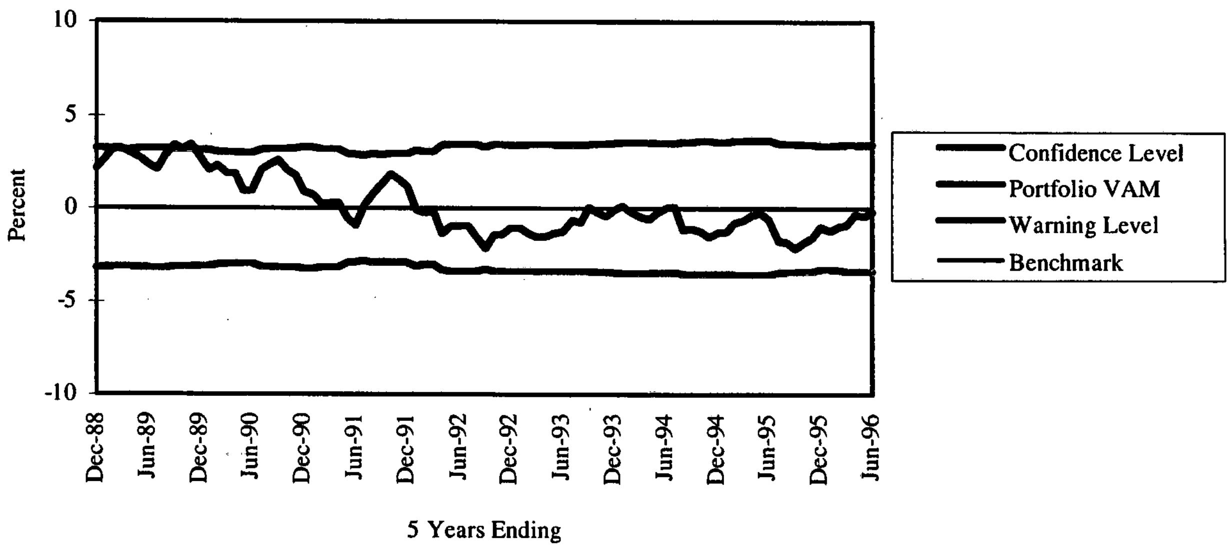
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.5%	3.0%
Last 1 year	32.1	24.8
Last 2 years	25.4	25.4
Last 3 years	16.7	15.6
Last 4 years	15.7	15.3
Last 5 years	14.5	14.7
Since Inception (1/84)	13.7	12.8

Recommendation

No action required at this time. The firm was formerly re-interviewed in August 1995 and recommended for continuation.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods



Note: Graph uses 80\20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 6/30/96

Portfolio Manager: John Nagorniak | **Assets Under Management: $546,465,967**

Investment Philosophy

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. They use the BARRA E.2 risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark to acheive a residual risk of 3.0% to 4.0 for the active portfolio.

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

—Firms investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

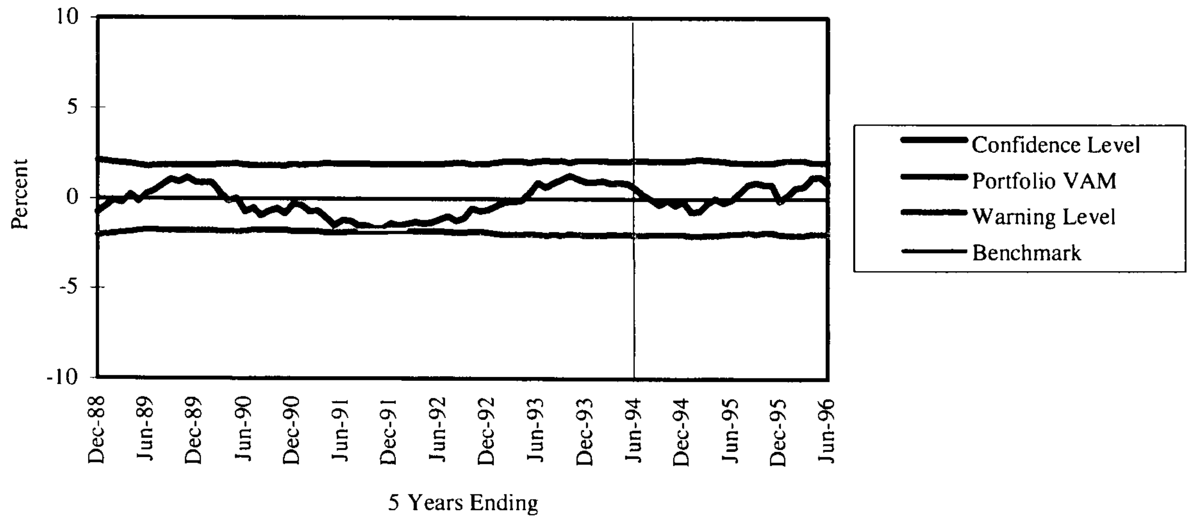
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	1.2%	2.9%
Last 1 year	23.8	23.1
Last 2 years	23.7	23.9
Last 3 years	15.3	15.9
Last 4 years	18.4	16.9
Last 5 years	17.4	16.4
Since Inception (4/89)	14.9	14.3

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES
Rolling Five Year Time Periods



Note: Area through 6/94 includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Area to the left of the vertical line includes performance prior to retention by the SBI.

GEOCAPITAL CORP.
Period Ending 6/30/96

Portfolio Manager: Barry Fingerhut — **Assets Under Management: $372,733,328**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

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

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

Concerns:

—Performance continues to lag expectations.

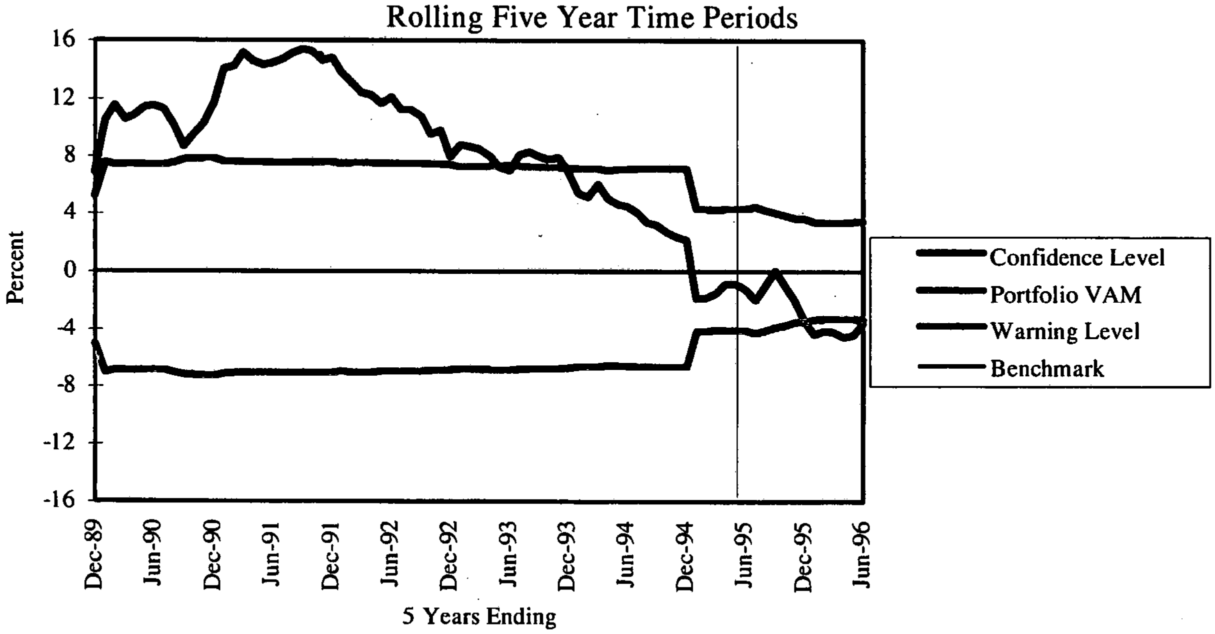
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.2%	5.7%
Last 1 year	26.7	36.7
Last 2 years	24.4	34.6
Last 3 years	17.4	23.3
Last 4 years	17.0	25.3
Last 5 years	17.8	22.2
Since Inception (4/90)	16.8	19.4

Recommendation

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

GEOCAPITAL
Rolling Five Year Time Periods



Note: Area through 6/95 includes performance prior to managing SBI account. Scale differs from other manager VAM graphs. Graph uses 80/20 confidence interval. Area to the left of vertical line includes performance prior to retention by the SBI.

INVESTMENT ADVISERS INC.
Period Ending 6/30/96

Portfolio Manager: Mark Hoonsbeen **Assets Under Management: $168,835,583**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

—Attractive, unique investment approach.

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

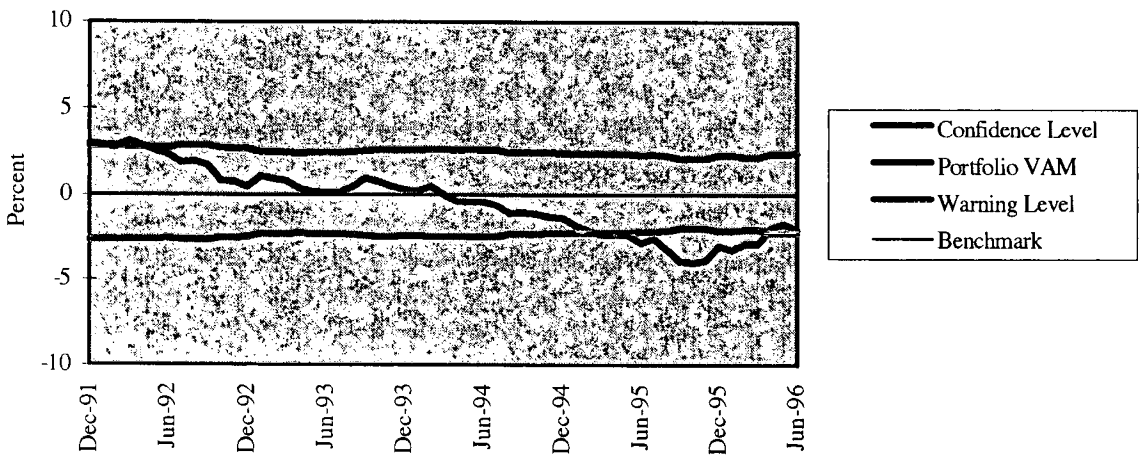
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.5%	3.0%
Last 1 year	26.3	23.1
Last 2 years	25.5	24.3
Last 3 years	17.4	16.9
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	17.4	16.9

Recommendation

In accordance with the SBI's Manager Continuation Policy, IAI was placed on probation in March 1996 due to a change in ownership of the firm and a change in portfolio managers. Staff recommends that IAI be removed from probation at this time. Staff does not believe the account will be adversely affected by the TSB/Lloyds Bank merger or the transition from Bing Carlin to Mark Hoonsbeen as the SBI portfolio manager.

INVESTMENT ADVISERS INC.
Rolling Five Year Time Periods



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

IDS ADVISORY
Period Ending 6/30/96

Portfolio Manager: Pete Anderson | **Assets Under Management: $542,674,176**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths:

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

—Familiar with the needs of large institutional clients.

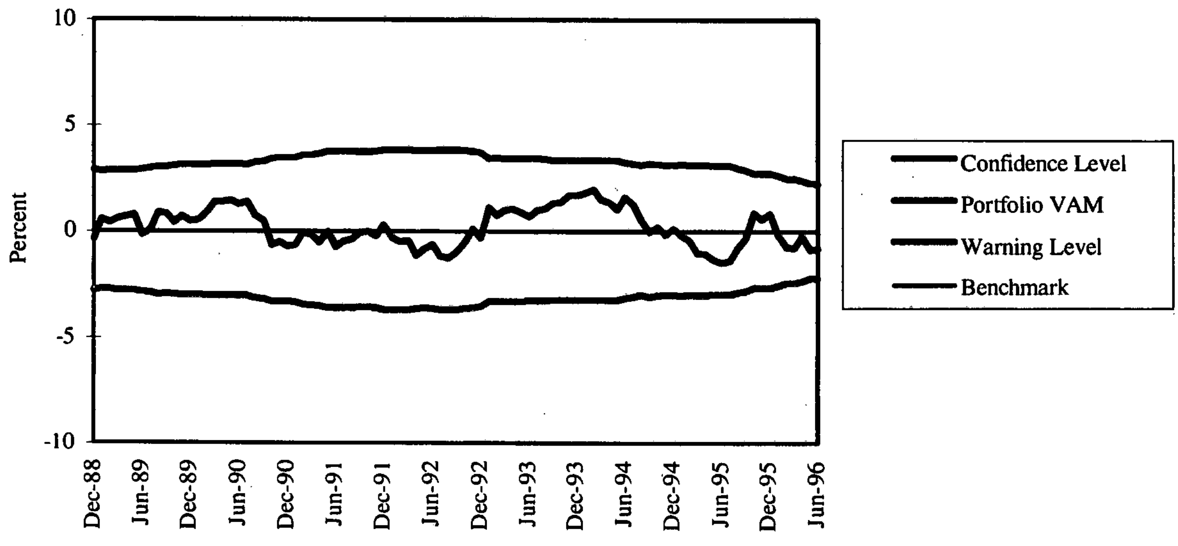
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.3%	4.7%
Last 1 year	24.5	25.7
Last 2 years	22.9	26.2
Last 3 years	15.9	17.9
Last 4 years	16.6	17.9
Last 5 years	16.5	17.7
Since Inception (1/84)	15.2	15.1

Recommendation

No action required.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80\20 confidence interval.

INDEPENDENCE INVESTMENT ASSOCIATES
Period Ending 6/30/96

Portfolio Manager: Bill Fletcher **Assets Under Management: $551,038,354**

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:

—Attractive, unique investment approach.

—Highly successful and experienced professionals.

—Attractive, unique investment approach.

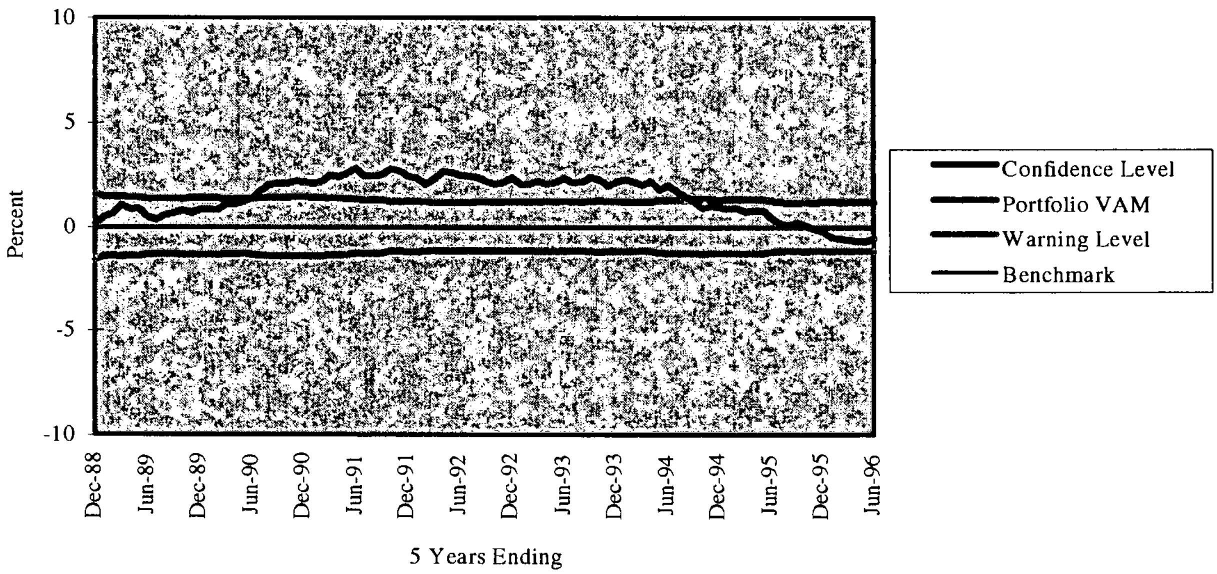
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.5%	4.5%
Last 1 year	26.1	26.6
Last 2 years	24.3	26.4
Last 3 years	16.6	17.3
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (2/92)	15.4	15.6

Recommendation

No action required.

INDEPENDENCE INVESTMENT ASSOCIATES
Rolling Five Year Time Periods



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

JUNDT ASSOCIATES
Period Ending 6/30/96

Portfolio Manager: James Jundt | **Assets Under Management: $194,465,649**

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:

—Attractive, unique investment approach.

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

Concerns:

—Significant underperformance since inception of the SBI account.

—Loss of several accounts over the last year.

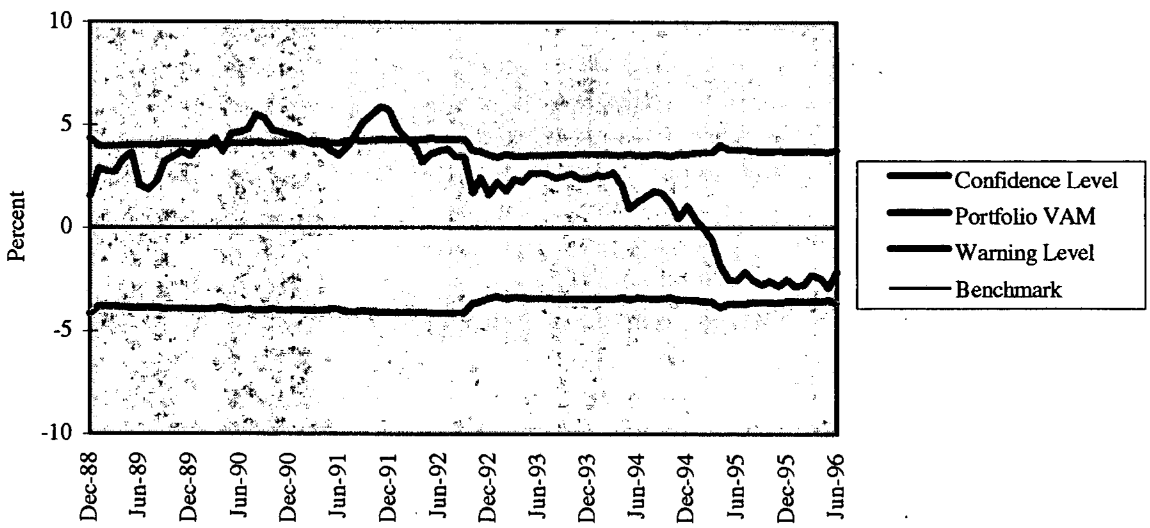
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.3%	6.2%
Last 1 year	22.4	20.5
Last 2 years	24.3	26.5
Last 3 years	13.4	17.6
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	13.4	17.6

Recommendation

Jundt Associates was terminated at the June 4, 1996 Board meeting.

JUNDT ASSOCIATES
Rolling Five Year Time Periods



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

LINCOLN CAPITAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Parker Hall **Assets Under Management: $424,096,500**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Organizational continuity and strong leadership.

—Familiar with the needs of large clients.

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

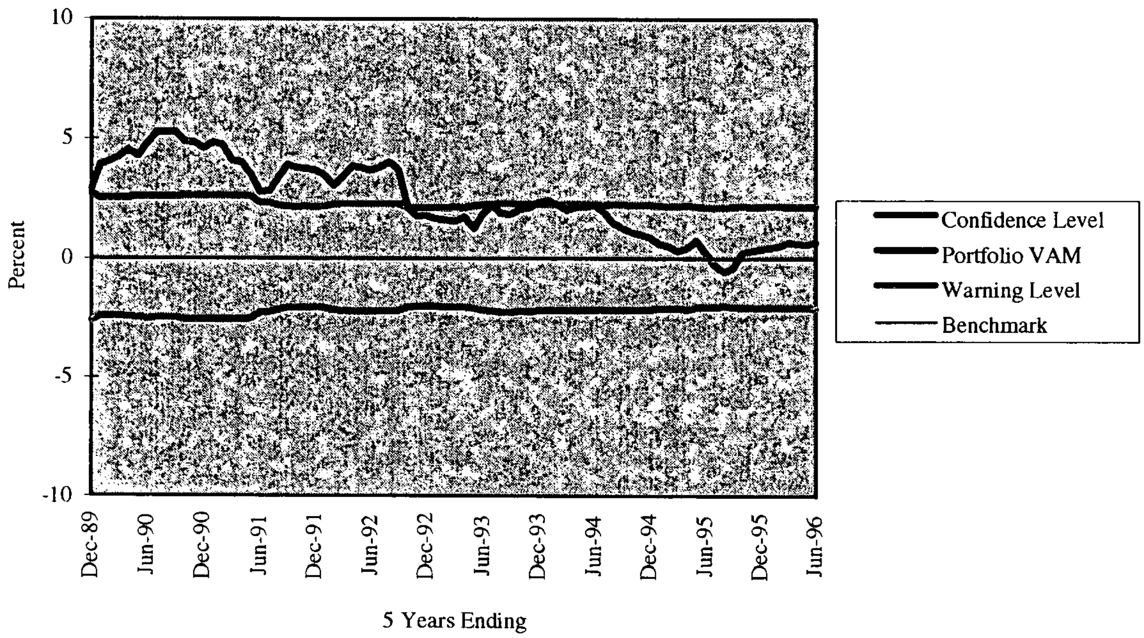
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	7.1%	6.7%
Last 1 year	32.3	28.1
Last 2 years	31.5	28.8
Last 3 years	20.6	18.6
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	20.6	18.6

Recommendation

No action required.

LINCOLN CAPITAL MANAGEMENT
Rolling Five Year Time Periods



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

OPPENHEIMER CAPITAL
Period Ending 6/30/96

Portfolio Manager: John Lindenthal | **Assets Under Management: $417,672,681**

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.

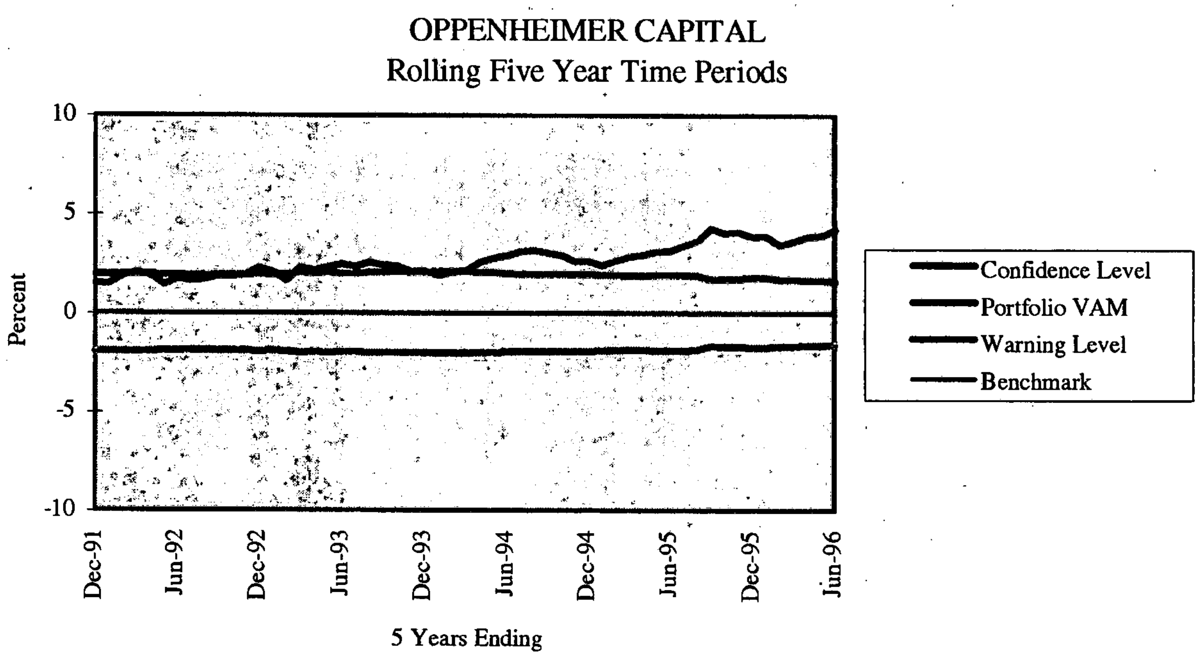
—Investment style has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.1%	3.1%
Last 1 year	28.0	25.2
Last 2 years	28.0	23.8
Last 3 years	19.0	16.0
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	19.0	16.0

Recommendation

No action required.



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

WADDELL & REED ASSET MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Henry Herrmann **Assets Under Management: $424,382,757**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

Current concerns are:

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

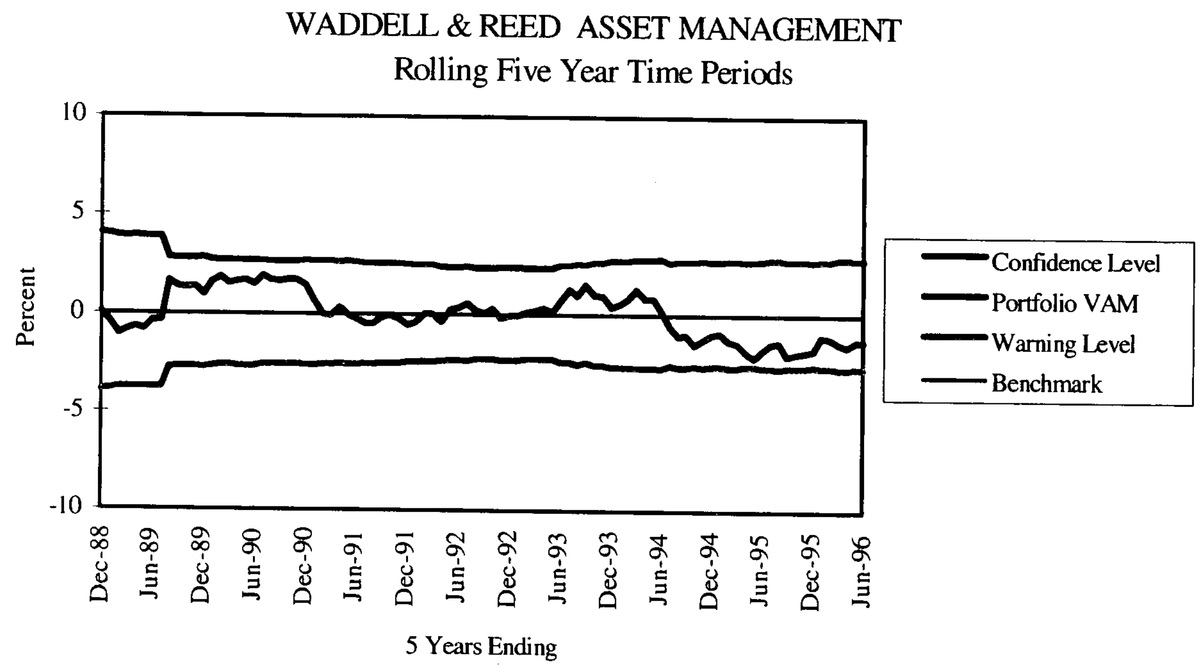
—Performance continues to lag expectations.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	1.7%
Last 1 year	16.4	20.8
Last 2 years	18.5	23.6
Last 3 years	12.8	17.4
Last 4 years	15.5	17.7
Last 5 years	14.9	16.4
Since Inception (1/84) (1/84)	12.4	12.8

Recommendation

No action recommended at this time. Staff continues to monitor the firm closely due to performance concerns. The firm was formerly re-interviewed in August 1995 and recommended for continuation.



Note: Graph uses 80/20 confidence interval.

WEISS, PECK & GREER
Period Ending 6/30/96

Portfolio Manager: Melville Straus | **Assets Under Management: $328,815,086**

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.

Concerns:

—Performance pattern has been very volatile, over time.

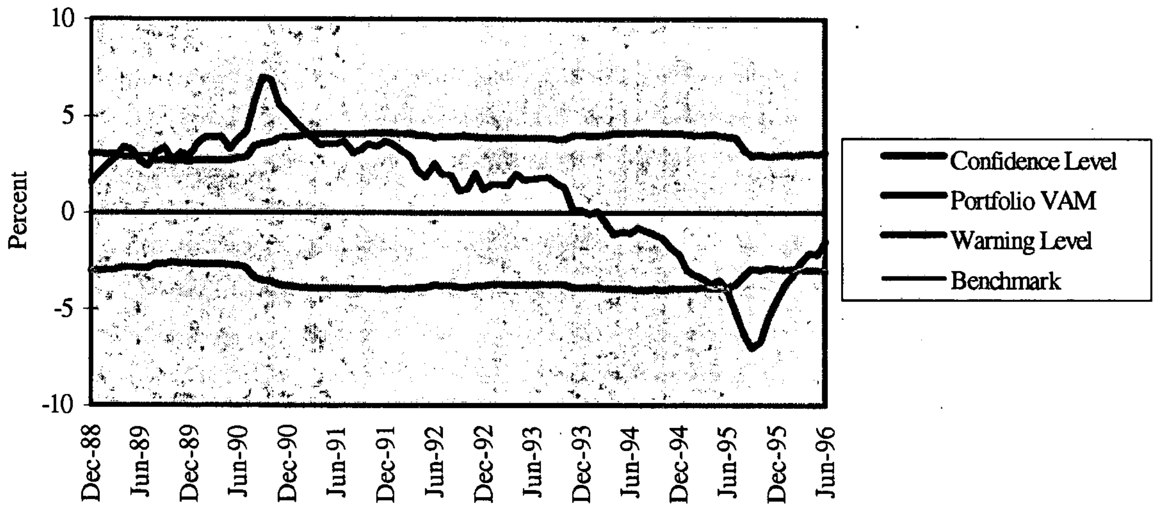
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	8.6%	4.1%
Last 1 year	41.9	23.4
Last 2 years	33.8	28.7
Last 3 years	17.7	17.9
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	17.7	17.9

Recommendation

No action recommended at this time.

WEISS, PECK & GREER
Rolling Five Year Periods



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

FRANKLIN PORTFOLIO ASSOCIATES

Period Ending 6/30/96

Portfolio Manager: John Nagorniak **Assets Under Management: $1,144,019,873**

Investment Philosophy
Semi-Passive

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. They use the BARRA E.2 risk model to monitor the portfolio's systematic risk and industry weightings relative to the selected benchmark. For this semi-passive mandate, they seek to acheive a residual risk of 1.5% or less. The firm remains fully invested at all times.

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

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

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	2.7%	4.0%
Last 1 year	25.2	26.1
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	29.5	30.3

* Completeness Fund

Recommendation

No action required.

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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.

Period Ending 6/30/96

Portfolio Manager: Rick Nelson | **Assets Under Management: $1,188,644,332**

Investment Philosophy
Semi-Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.8%	4.0%
Last 1 year	26.4	26.1
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	30.9	30.3

* Completeness Fund

Recommendation

No action required.

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

BZW BARCLAYS GLOBAL INVESTORS

Period Ending 6/30/96

Portfolio Manager: Nancy Feldkircher **Assets Under Management: $1,189,907,074**

Investment Philosophy
Semi-Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

—Attractive, unique investment approach.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	4.0%	4.0%
Last 1 year	28.4	26.1
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	32.8	30.3

* Completeness Fund

Recommendation

No action required.

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

BZW BARCLAYS GLOBAL INVESTORS
Period Ending 6/30/96

Portfolio Manager: Andrew R. Olma **Assets Under Management: $3,894,238,069**

Investment Philosophy
Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Highly successful and experienced professionals.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4%	4.4%
Last 1 year	25.5	25.5
Last 2 years	N.A.	N.A.
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/95)	25.5	25.5

Recommendation

No action required.

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

GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Period Ending 6/30/96

Portfolio Manager: Gene Bolton | **Assets Under Management: $142,293,718**

Investment Philosophy
Assigned Risk Plan

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firms investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	4.5%
Last 1 year	25.2	26.2
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 (1/95)	31.2	32.0

Recommendation

No action required.

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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Period Ending 6/30/96

Portfolio Manager: Mike Menssen | **Assets Under Management: $67,759,830**

Investment Philosophy
Environmental Trust Fund

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

Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.4%	4.5%
Last 1 year	26.0	26.2
Last 2 years	26.1	26.2
Last 3 years	17.3	17.3
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (7/93)	17.3	17.3

Recommendation

No action required.

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

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STATE BOARD
OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Second Quarter, 1996

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EMERGING EQUITY MANAGERS
Period Ending 6/30/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
CIC Assets	1.4	2.7	27.6	24.8					20.4	21.8	$45.52	11.2%
Cohen, Klingenstein, & Marks	3.4	2.8	25.0	20.7					23.5	19.9	48.22	11.8%
Compass Capital	4.4	5.2	24.2	27.2					22.3	20.9	47.22	11.6%
Kennedy Capital	11.2	8.6	35.5	26.3					20.6	18.0	45.72	11.2%
New Amsterdam	1.2	2.3	21.4	19.2					15.9	18.7	41.83	10.3%
Valenzuela Capital	2.8	3.0	23.7	23.6					17.9	19.0	43.42	10.7%
Wilke/Thompson	3.4	6.3	16.3	27.7					21.2	19.6	46.25	11.4%
Winslow Capital	5.0	4.7	19.2	22.2					19.2	20.6	44.51	10.9%
Zevenbergen Capital	5.5	6.5	23.6	23.6					19.3	21.0	44.58	10.9%
											$407.27	**100.0%**
Current Aggregate	4.2	4.7	23.9	24.1					20.2	20.1		
Historical Aggregate	**4.2**	**4.7**	**23.9**	**24.1**					**20.0**	**20.3**		

Note:
Inception date for all managers is 4/1/94.
All benchmarks are customized since inception date.

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CIC ASSET MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Jorge Castro — **Assets Under Management: $45,519,571.79**

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	1.4%	2.7%
Last 1 Year	27.6	24.8
Last 2 Years	23.3	24.6
Since Inception (4/94)	20.4	21.8

* Custom benchmark since inception date.

COHEN KLINGENSTEIN & MARKS INCORPORATED
Period Ending 6/30/96

Portfolio Manager: George Cohen — **Assets Under Management: $48,218,258.25**

Investment Philosophy

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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	3.4%	2.8%
Last 1 Year	25.0	20.7
Last 2 Years	25.5	23.7
Since Inception (4/94)	23.5	19.9

* Custom benchmark since inception date.

COMPASS CAPITAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Charles Kelley — Assets Under Management: $47,223,739.53

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	4.4%	5.2%
Last 1 Year	24.2	27.2
Last 2 Years	26.5	25.0
Since Inception (4/94)	22.3	20.9

* Custom benchmark since inception date.

KENNEDY CAPITAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Richard Sinise — Assets Under Management: $45,720,642.01

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	11.2%	8.6%
Last 1 Year	35.5	26.3
Last 2 Years	25.5	21.6
Since Inception (4/94)	20.6	18.0

* Custom benchmark since inception date.

NEW AMSTERDAM PARTNERS
Period Ending 6/30/96

Portfolio Manager: Michelle Clayman — **Assets Under Management: $41,826,186.26**

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	1.2%	2.3%
Last 1 Year	21.4	19.2
Last 2 Years	20.9	21.8
Since Inception (4/94)	15.9	18.7

* Custom benchmark since inception date.

VALENZUELA CAPITAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Peter McCarthy — **Assets Under Management: $43,415,561.84**

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	2.8%	3.0%
Last 1 Year	23.7	23.6
Last 2 Years	19.5	22.3
Since Inception (4/94)	17.9	19.0

* Custom benchmark since inception date.

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 6/30/96

Portfolio Manager: Mark Thompson — Assets Under Management: $46,251,036.15

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	3.4%	6.3%
Last 1 Year	16.3	27.7
Last 2 Years	28.5	26.4
Since Inception (4/94)	21.2	19.6

* Custom benchmark since inception date.

WINSLOW CAPITAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Clark Winslow — Assets Under Management: $44,507,952.47

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	5.0%	4.7%
Last 1 Year	19.2	22.2
Last 2 Years	23.6	24.5
Since Inception (4/94)	19.2	20.6

* Custom benchmark since inception date.

ZEVENBERGEN CAPITAL INC
Period Ending 6/30/96

Portfolio Manager: Nancy Zevenbergen — **Assets Under Management:** $44,584,458.29

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	5.5%	6.5%
Last 1 Year	23.6	23.6
Last 2 Years	25.2	25.6
Since Inception (4/94)	19.3	21.0

* Custom benchmark since inception date.

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STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 1996

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BOND MANAGERS
Period Ending 6/30/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since (1) Inception Actual %	Since (1) Inception Bmk %	Market Value (in millions)	Pool %
BEA	0.9	0.6	4.5	5.0	5.4	5.3			5.4	5.3	$327.11	4.9%
IAI	0.3	0.6	4.7	5.0	4.3	5.3	8.7	8.4	11.2	11.1	524.39	7.8%
IDS (2)	-0.1	0.6	4.0	5.3	5.2	5.4			5.2	5.4	278.05	4.1%
Miller	0.6	0.6	6.1	5.0	5.4	5.3	9.5	8.3	11.4	11.2	596.17	8.9%
Standish	0.9	0.6	5.8	5.0	5.1	5.3			5.1	5.3	533.36	7.9%
Western	0.9	0.6	5.7	5.0	6.2	5.3	9.7	8.4	12.3	11.1	1,016.14	15.1%
Semi-Passive												
BlackRock (3)	0.4	0.6							0.4	0.6	1,093.53	16.3%
Goldman (3)	0.7	0.6	5.5	5.0	5.8	5.3			5.8	5.3	1,186.42	17.7%
Lincoln (3)	0.5	0.6	5.0	5.0	5.4	5.3	8.4	8.3	9.1	9.1	1,166.48	17.4%
											$6,721.64	**100.0%**
									Since 7/1/84			
Current Aggregate	0.6	0.6	5.3	5.0	5.5	5.3	8.9	8.4	11.6	11.1		
Historical Aggregate (4)	**0.6**	**0.6**	**5.3**	**5.0**	**5.4**	**5.3**	**8.8**	**8.4**	**11.0**	**11.0**		
Lehman Aggregate (5)		0.6		5.0		5.3		8.3		10.5		

(1) Since retention by the SBI. Time period varies for each manager.
(2) Prior to January 1996, this manager had a government/corporate mandate only.
(3) Semi-passive manager.
(4) Includes performance of terminated managers.
(5) Prior to July 1994, this index reflects the Salomon BIG.

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BEA ASSOCIATES
Period Ending 6/30/96

Portfolio Manager: Bob Moore | **Assets Under Management: $327,106,889**

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.

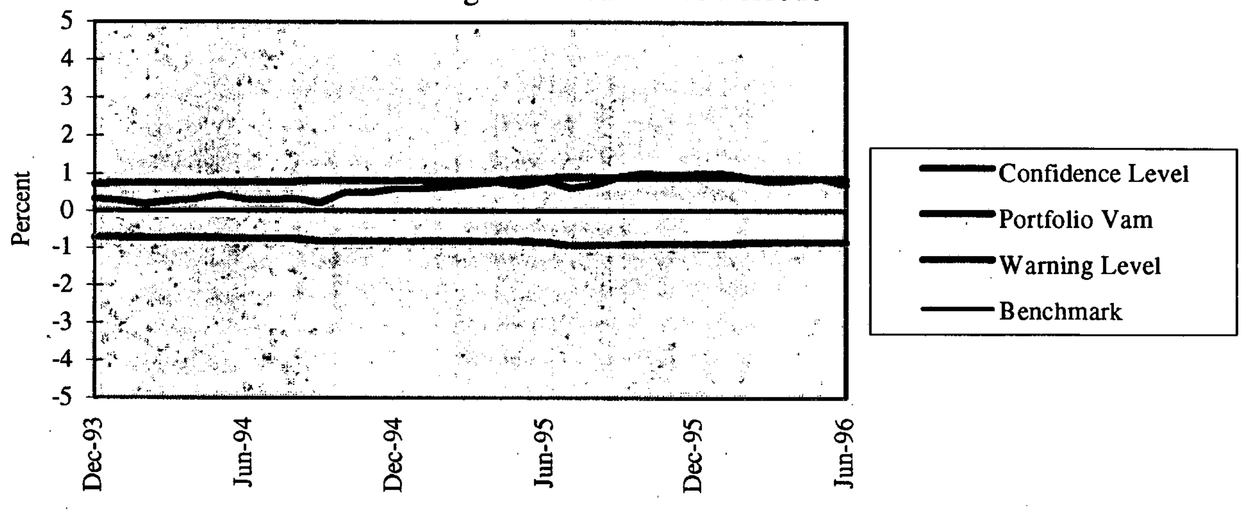
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.6%
Last 1 year	4.5	5.0
Last 2 years	8.9	8.7
Last 3 years	5.4	5.3
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.4	5.3

Recommendations

No action required.

BEA ASSOCIATES
Rolling Five Year Time Periods



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

INVESTMENT ADVISERS
Period Ending 6/30/96

Portfolio Manager: Larry Hill **Assets Under Management: $524,386,298**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Current concerns::

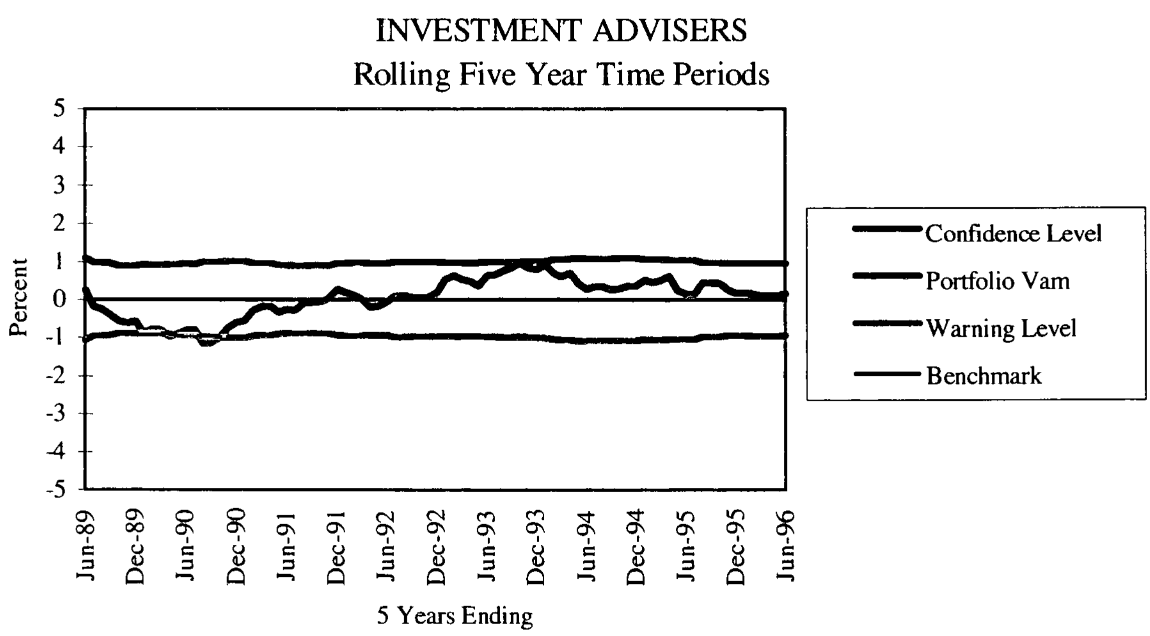
—The manager's duration decisions have added value over the long term. Recently, this strategy has not been as successful.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.3%	0.6%
Last 1 year	4.7	5.0
Last 2 years	7.5	8.7
Last 3 years	4.3	5.3
Last 4 years	7.1	6.9
Last 5 years	8.7	8.4
Since Inception (7/84)	11.2	11.1

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

IDS ADVISORY GROUP
Period Ending 6/30/96

Portfolio Manager: Ed Labenski | **Assets Under Management: $278,052,573**

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.

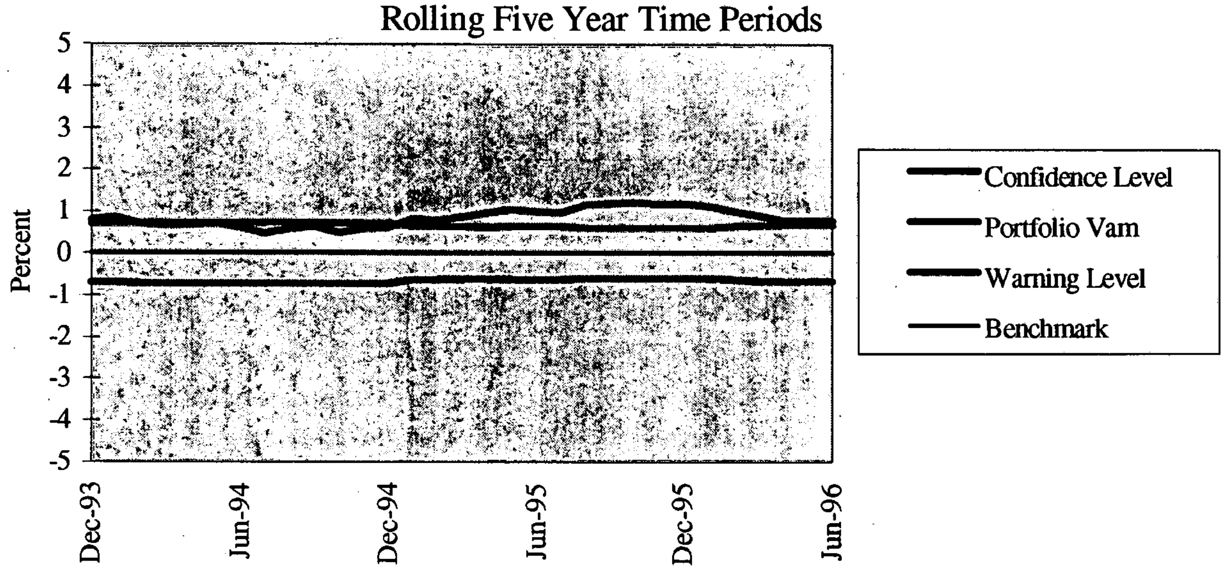
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	-0.1%	0.6%
Last 1 year	4.0	5.3
Last 2 years	8.6	9.0
Last 3 years	5.2	5.4
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.2	5.4

Recommendations

No action required.

IDS ADVISORY GROUP
Rolling Five Year Time Periods



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

MILLER ANDERSON & SHERRERD
Period Ending 6/30/96

Portfolio Manager: Tom Bennett | **Assets Under Management: $596,165,883**

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.

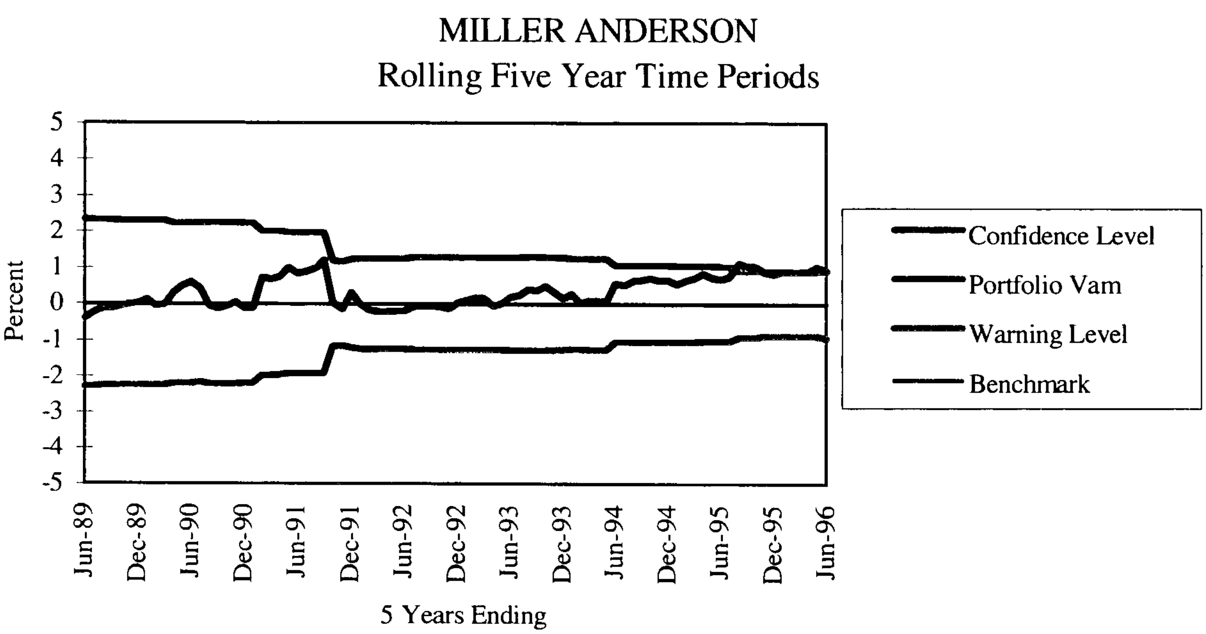
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.6%	0.6%
Last 1 year	6.1	5.0
Last 2 years	9.2	8.7
Last 3 years	5.4	5.3
Last 4 years	7.6	6.9
Last 5 years	9.5	8.3
Since Inception (7/84)	11.4	11.2

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

STANDISH, AYER & WOOD
Period Ending 6/30/96

Portfolio Manager: Austin Smith **Assets Under Management: $533,356,293**

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.

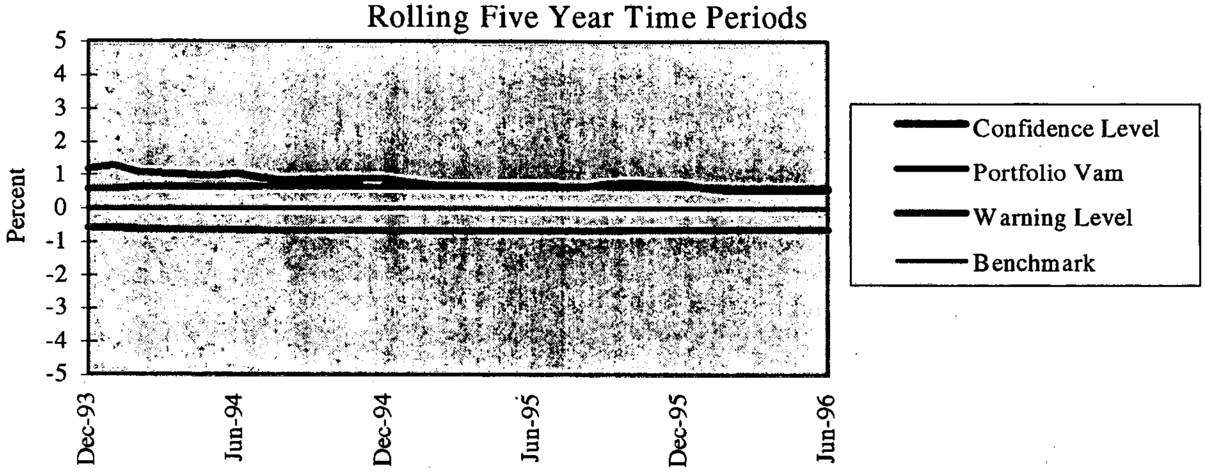
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.6%
Last 1 year	5.8	5.0
Last 2 years	8.5	8.7
Last 3 years	5.1	5.3
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.1	5.3

Recommendations

No action required.

STANDISH, AYER & WOOD
Rolling Five Year Time Periods



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

WESTERN ASSET MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Kent Engel **Assets Under Management: $1,016,142,797**

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.

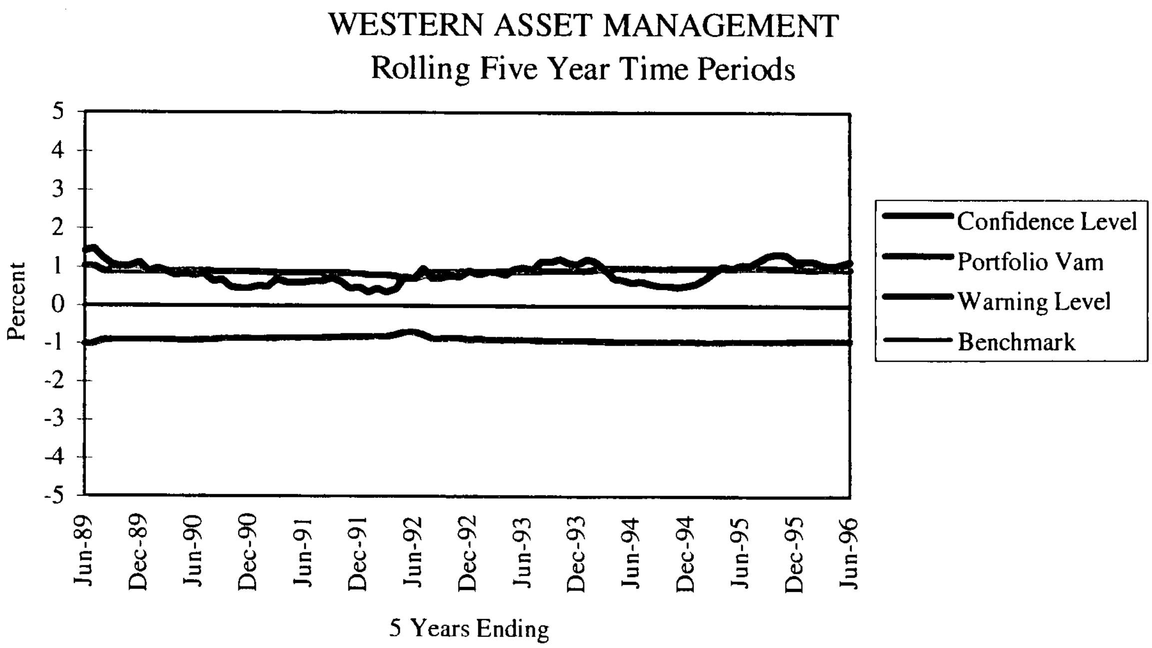
—Extensive securities research process.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.9%	0.6%
Last 1 year	5.7	5.0
Last 2 years	10.1	8.7
Last 3 years	6.2	5.3
Last 4 years	8.3	6.9
Last 5 years	9.7	8.4
Since Inception (7/84)	12.3	11.1

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

BLACKROCK FINANCIAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Keith Anderson | **Assets Under Management: $1,093,525,621**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Strong quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.4%	0.6%
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/96)	0.4	0.6

Recommendation

No action required.

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

GOLDMAN SACHS
Period Ending 6/30/96

Portfolio Manager: Sharmin Mossavar Rahmani **Assets Under Management: $1,186,424,155**

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.

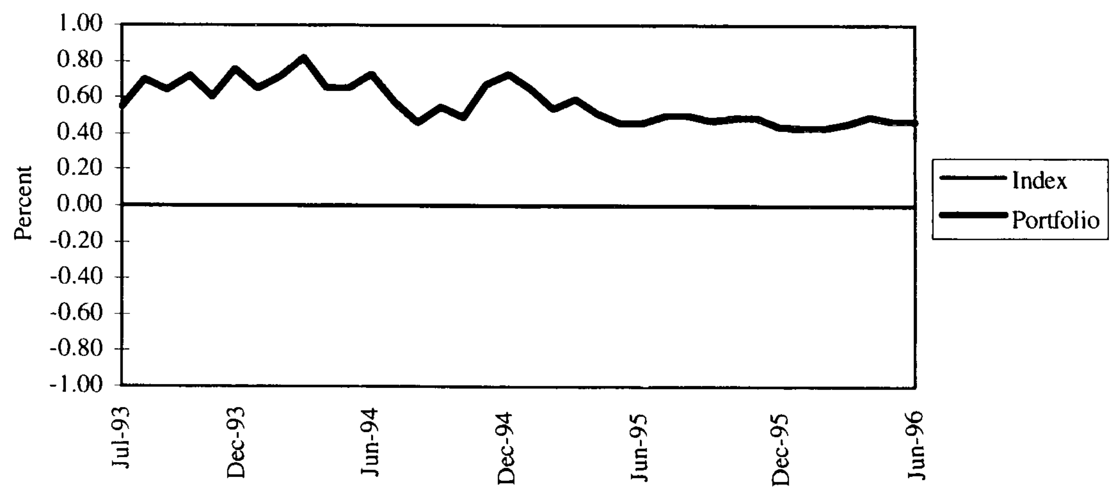
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.7%	0.6%
Last 1 year	5.5	5.0
Last 2 years	9.0	8.7
Last 3 years	5.8	5.3
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	5.8	5.3

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Annualized Tracking Report



LINCOLN CAPITAL MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Andrew Johnson | **Assets Under Management: $1,166,475,558**

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.

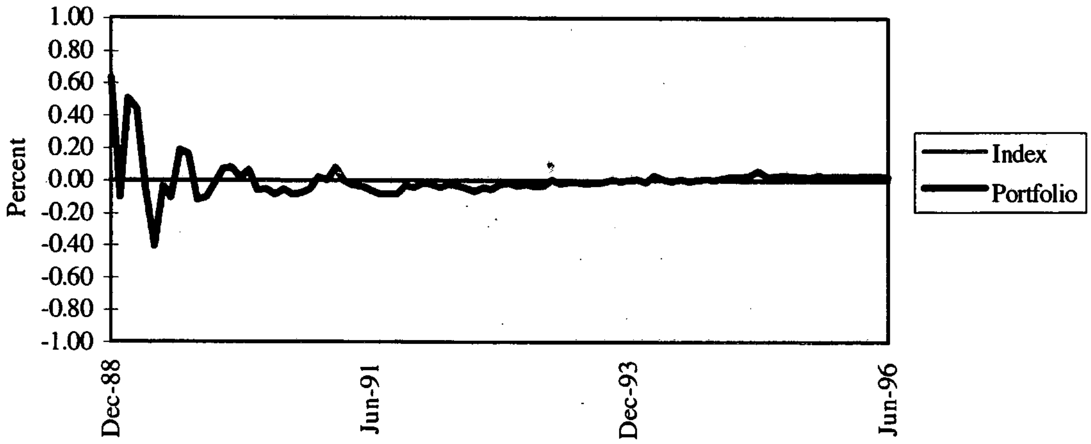
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.5%	0.6%
Last 1 year	5.0	5.0
Last 2 years	8.8	8.7
Last 3 years	5.4	5.3
Last 4 years	7.1	6.9
Last 5 years	8.4	8.3
Since Inception (7/88)	9.1	9.1

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Period Ending 6/30/96

Portfolio Manager: Jane Wyatt **Assets Under Management: $398,695,184**

Investment Philosophy
Assigned Risk Plan

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Familiar with the needs of large institutional clients.

—Firms investment approach has been consistently applied over a number of markets cycles.

—Highly successful and experienced professionals.

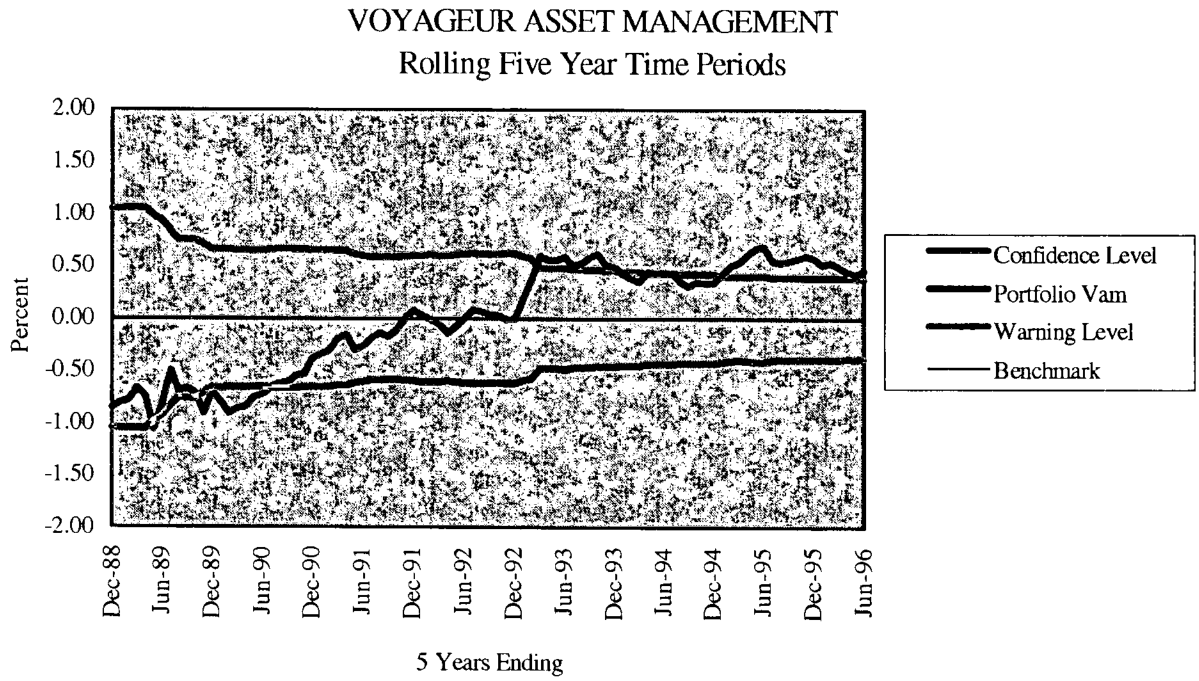
—Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.7%	0.8%
Last 1 year	5.4	5.6
Last 2 years	8.1	7.9
Last 3 years	5.6	5.5
Last 4 years	6.6	6.3
Last 5 years	5.9	5.5
Since Inception (5/91)	8.1	7.6

Recommendation

No action required.



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

INTERNAL BOND POOL - Income Share Account
Period Ending 6/30/96

Portfolio Manager: Jim Lukens **Assets Under Management: $127,137,940**

Investment Philosophy
Income Share Account

The current manager assumed responsibility for this portfolio in November 1993. The investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be somewhat shorter or longer depending on the economic outlook.

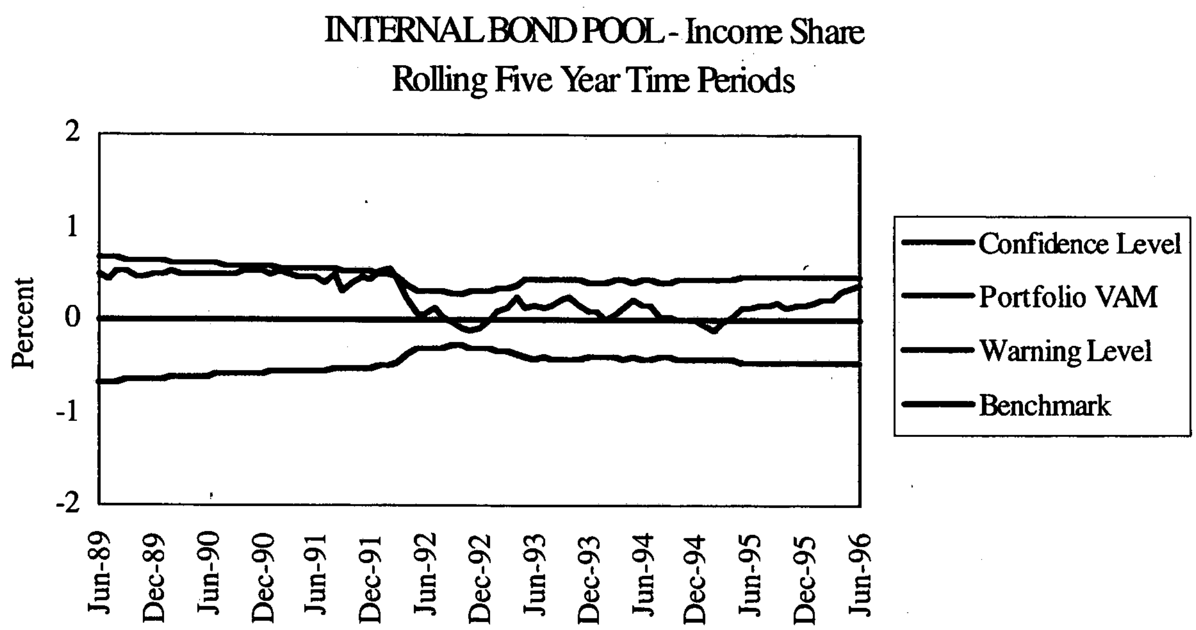
Qualitative Evaluation
(reported by exception)

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.8%	0.6%
Last 1 year	5.7	5.0
Last 2 years	9.0	8.7
Last 3 years	5.6	5.3
Last 4 years	7.5	6.9
Last 5 years	8.8	8.3

Recommendation

No action required.



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Period Ending 6/30/96

Portfolio Manager: Jim Lukens | **Assets Under Management: $475,164,717**

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

The internal bond portfolio's investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. The portfolio duration remains close to the benchmark duration but may be somewhat shorter or longer depending on the economic outlook.

Qualitative Evaluation
(reported by exception)

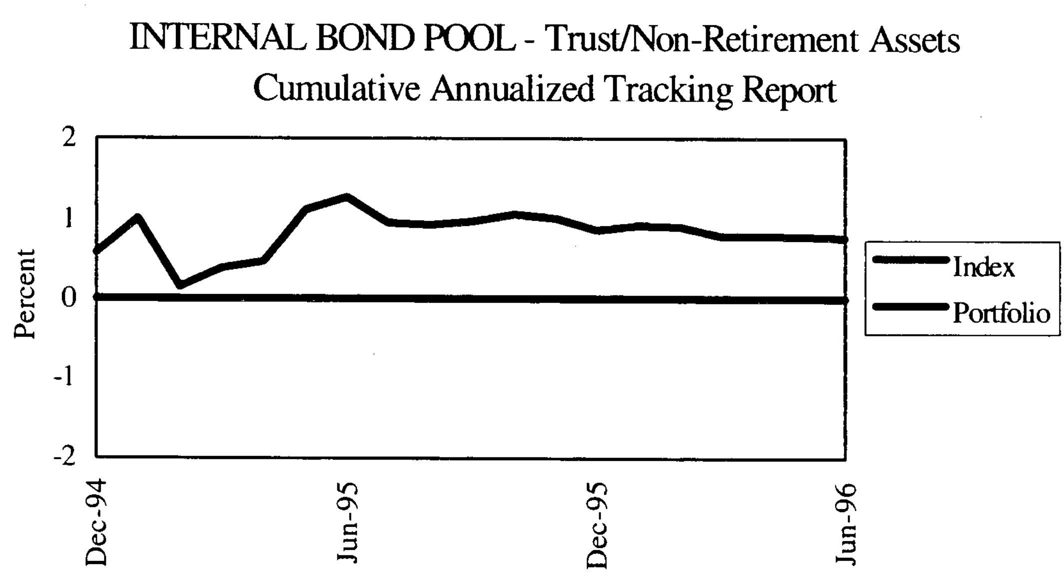
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	0.7%	0.6%
Last 1 year	5.3	5.0
Last 2 years	9.5	8.7
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/94)*	9.5	8.7

Recommendation

No action required.

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



Tab F

COMMITTEE REPORT

DATE: August 27, 1996

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

FROM: International Manager Committee

The International Manager Committee met on August 21, 1996 to discuss the following agenda items:

- Review of manager performance for the period ending June 30, 1996
- Update on currency overlay report formats
- Update on funding for emerging markets specialists
- Recommendation to terminate a contract with Templeton Investment Counsel

Board action is requested on the last item.

INFORMATION ITEMS:

1. Review of manager performance

The international stock program exceeded its target for all time periods ending June 30, 1996. The program outperformed by 1.5 percentage points for the quarter, 3.5 percentage points for the year and 1.7 percentage points annualized over the last three years. The program has outperformed the target by 0.9 percentage point annualized since inception (3.75 years).

Time Period	Actual	Target*
Quarter	3.1%	1.6%
1 Year	16.9	13.4
3 Years	12.2	10.5
Since Inception (10/92)	14.2	13.3

* The target is moving toward a composite index that is weighted 85% EAFE-Free and 15% Emerging Markets Free. Prior to May 1996, the target was weighted 100% EAFE-Free.

All of the managers outperformed their benchmarks for both the quarter and year. Performance evaluation reports begin on **page 21** and Manager Commentaries are in **Tab I**.

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

	Actual	EAFE	Value Added	
Local Currency	**4.38**	**3.19**	**+1.19**	
Country Selection				+0.33
Security Selection				+0.86
Currency Impact	**-1.11**	**-1.56**	**+0.45**	
Currency Effect				+0.31
Hedging Activity				+0.14
US Dollar Return	**3.22**	**1.58**	**+1.64**	

Source: State Street Analytics

2. Update on report formats for currency overlay

During the last quarter, staff modified and expanded the report formats related to the currency overlay program:

- *International Stock Manager Summary Report.* Staff added a section to the manager summary page which highlights the impact of the currency overlay program. The Committee concurs that comparing the performance of the EAFE index fund with and without currency overlay is the simplest way to measure the value added/lost by the program.

- *Evaluation (VAM) Report.* Staff developed a one page evaluation report that attempts to parallel the VAM reports prepared for other managers. The "Quantitative Evaluation" section provides a series of benchmarks which can be used to monitor performance on an ongoing basis. The Committee and staff may consider alternate or additional measures in the future.

3. Update on funding for emerging markets specialists

Montgomery Asset Management was fully funded in May and June 1996. At the present time, Genesis Asset Managers has received approximately half of its allocation and a schedule for the remaining contribution has been agreed upon.

Funding for City of London has been delayed, pending completion of legal documents for a new commingled fund. Staff expects that the documents will be executed within the next 4-6 weeks. The Committee encouraged staff to set a firm deadline in order to expedite the process.

ACTION ITEM:

1. **Recommendation to terminate contract with Templeton Investment Counsel**

   In late June 1996, the SBI's portfolio manager and three other professionals left Templeton Investment Counsel to join a new investment management firm which was established by another former Templeton professional. This event raised serious concerns about the firm and has prompted staff to recommend that the SBI terminate its relationship with Templeton. After reviewing staff's analysis, the Committee concurred with the recommendation.

   Two issues surfaced as the primary concerns:

   - *Staff Turnover*. Approximately half of the international investment professionals that were with Templeton when the firm was retained in November 1993 have left the organization over the last three years. Two thirds of the current 30+ member team have been with the organization for less than three years. This raises questions about the continuity of the firm's research-driven investment process.

   - *Return Dispersion.* Clients appear to have experienced significantly different performance results depending upon the portfolio manager assigned to their account. This raises questions about the level of performance that the SBI would experience in the future with a new portfolio manager.

   The Committee noted that Templeton's performance to date on the SBI account has been satisfactory. Given the above concerns, however, the Committee believes it is doubtful that the SBI would continue to experience such favorable results. The SBI's international consultant, Pension Consulting Alliance, also concurs with the recommendation to terminate the relationship at this time.

   More information on the Templeton organization and return dispersion issues is included in the staff analysis which is attached to this report beginning on **page 5.**

RECOMMENDATION:

The Committee recommends that the SBI terminate its contractual relationship with Templeton Investment Counsel.

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MINNESOTA STATE BOARD OF INVESTMENT

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

Date: August 14, 1996

To: Members, International Manager Committee

From: Beth Lehman
Karen Vnuk

Subject: Recommendation to Terminate the SBI's Relationship with Templeton Investment Counsel

In late June 1996, the SBI's portfolio manager and three other professionals left Templeton Investment Counsel. This event raised serious concerns about the firm and has prompted staff to recommend that the SBI terminate its relationship with Templeton.

Templeton was asked to respond to a supplemental questionnaire which solicited information on personnel changes, performance history and business plans. Templeton's written response is enclosed for your review. In addition, staff met with the following individuals at SBI offices in July 1996 to discuss the response and meet the new personnel assigned to the SBI account: Don Reed, President, Gary Clemmons, Vice President and Gary Motyl, Executive Vice President.

The remainder of the memo summarizes the information obtained in the questionnaire and in staff's meetings with Templeton personnel.

Background on Ownership Structure

Templeton Investment Counsel, part of Templeton Worldwide, has managed global and international stocks since 1979. In 1992, Templeton Worldwide became a subsidiary of Franklin Resources, Inc. At the time, Franklin was primarily known as provider of fixed income mutual funds.

In June 1996, Franklin acquired another mutual fund group, Michael Price and Heine Securities Corporation, which specializes in domestic stock management.

Background on Personnel Changes

At the time of the Franklin buyout, key Templeton employees were retained under employment contracts with terms of 3-5 years. It appears that several employees have chosen to leave the firm and pursue other opportunities as these contracts have expired.

Templeton was retained in November 1993 to manage an international stock portfolio for the SBI. Since that time, the firm has experienced significant turnover among its international investment professionals.

- In 1993, the firm was headed by Tom Hansberger, Chairman, who had been with Templeton for 14 years and Mark Holowesko, Research Director, who had been with the firm 7 years. At the time, the firm listed 14 additional portfolio managers for international accounts. Over the last three years, Tom Hansberger and 7 of these portfolio managers left the organization.

- In 1996, the firm is headed by Mark Holowesko, Chief Investment Officer, and Don Reed, President. Templeton now lists 18 additional portfolio managers for international accounts. Ten (10) of these individuals were hired during the last three years. In addition, the firm has expanded and reorganized the investment group by adding 11 analysts.

Templeton has stated that they expect turnover of at least 5-10% per year. While turnover has clearly exceeded that level over the last three years, they state that they do not believe it has been disruptive to their research-driven investment process.

Personnel Assigned to the SBI Account

The SBI account has had three different portfolio managers since the account inception in November 1993:

- The account was originally assigned to **Harry Ehrlich**. At the time, Harry had 10 years of experience, 7 of which had been with Templeton as a portfolio manager. He left in December 1994 to join Warburg Pincus.

- **Jim Chaney**, who had been designated as back-up manager for the SBI account since inception, assumed lead manager responsibility for the portfolio in January 1995. At the time, he had 13 years of experience, 4 of which had been with Templeton as a portfolio manager. He left the firm in June 1996 to join Hansberger Global Investors. When he left, Jim managed approximately $5.5 billion in international and global assets for Templeton.

- **Gary Clemmons** was assigned the SBI account upon Jim's departure. He has 6 years of experience, 3 of which have been with Templeton. Prior to July 1995, it appears he had only research responsibilities. For the last year he has been designated as lead portfolio manager on four accounts totaling less than $550 million as of June 30, 1996. None of these accounts had an international mandate similar to the SBI portfolio; two are global portfolios and two are sector funds.

Return Dispersion

Templeton maintains that a change in portfolio managers will be "transparent" to the client since all managers use the same lists of approved stocks for buying and selling activity. Portfolio managers do, however, have discretion concerning the specific names chosen for a given portfolio and the weights given each holding at any point in time. Templeton states that all portfolios are subject to a regular and rigorous peer review process where differences between portfolios are closely examined and monitored.

Staff believe that the return dispersion among Templeton's international accounts is very wide. This indicates that the portfolio manager assigned to an account will have a significant impact on the client's returns:

Templeton Investment Counsel
Tax Exempt International Composite

	1990	1991	1992	1993	1994	1995	Jan-Jun 1996
High	na	na	6.5	55.4	6.9	23.4	12.5
Composite	**-8.5**	**17.2**	**-0.3**	**47.8**	**1.4**	**15.8**	**10.8**
Low	na	na	-3.1	42.6	-3.6	9.5	9.4

Source: Templeton Investment Counsel

Over the last 2.5 years, the SBI account has outperformed the Templeton composite:

	1994	1995	Jan-Jun 1996	2.5 years Annualized
SBI Account*	**3.8**	**17.5**	**10.0**	**12.5**
Composite**	1.4	15.8	10.8	11.1
Difference	2.4	1.7	-0.8	1.4
EAFE	7.8	11.5	4.5	9.5

* net of fees
** gross of fees

The SBI account provided 3 percentage points value added above EAFE for the period. It appears that an account in the lower end of the range within the Templeton composite could have been below the index by the same margin. Staff asked Templeton to provide the returns of individual accounts within the composite along with the manager assigned to each account to examine the dispersion in greater detail. Templeton has declined to provide this detail.

Summary and Conclusion

While Templeton's performance on the SBI's account has been satisfactory, staff have cited concerns about staffing and growth plans at the Templeton organization for some time. The recent departure of the SBI's portfolio manager exacerbated those concerns and required a re-examination of the SBI's relationship with the firm.

- Staff believe that the level of turnover among investment professionals at the Templeton organization is unacceptably high. Two thirds of the 30+ member international investment team have been with the organization for less than three years. This raises doubts about the continuity of the firm's investment process.

- This concern is reinforced by the dispersion of returns among accounts with similar mandates. While Templeton maintains that a change in portfolio managers should be transparent, clients appear to have experienced significantly different performance results. This raises doubts about the level of performance that the SBI would experience in the future.

As a result of these concerns, staff recommend that the SBI terminate its relationship with Templeton Investment Counsel.

Attachments

Supplemental Questionnaire
Templeton Investment Counsel, Inc.
July 1996

1. Number of professional staff

a. Provide the number of investment professionals in July 1993 (i.e. the approximate date of Templeton's response to the SBI's original detailed questionnaire) and July 1996 in the following format:

Int'l/Global Equity Accounts

	July 1993	July 1996
Portfolio Managers/Analysts	19	20
Analysts	1	12
Traders	5	13
Client Service Professionals	2	2

Emerging Markets Equity Accounts

	July 1993	July 1996
Portfolio Managers/Analysts	1	6
Analysts	4	11
Traders	3	6
Client Service Professionals	0	1

b. State to what extent personnel are double counted between international/global and emerging markets categories in July 1993 or July 1996. Discuss how research is/is not shared between the two staffing groups.

No names have been double counted in the above lists. Research is not shared between the Global/International and Emerging Markets groups.

2. Current investment personnel.

Provide current lists of investment personnel in the following format. If individuals have responsibilities for both international/global and emerging markets accounts, include them in both lists:

a. International/Global equity accounts

Global/International Equity Portfolio Managers

Name	Title	Yrs with Templeton	Total yrs Investment experience
Gary Motyl	EVP	15	22
Howard (Rusty) Leonard	EVP	7	18
Mark Beveridge	VP	11	11
William T. Howard, Jr.	VP	3	10

Marc S. Joseph	VP	3	11
Gary Clemons	VP	3	6
Peter Nori	VP	2	9
Edward Ramos	VP	3	7
Stephen Oler	VP	0	11
Alasdair (Sandy) Nairn	Dir. of Global Eq Research	6	11
Murdo Murchison	VP	2	9
Ken Cox	VP	5	19
George Ritchie*	VP	0	11
Mark G. Holowesko	Chief Investment Officer	11	13
Dorian B. Foyil	SVP	5	9
Jeffrey A. Everett	EVP	6	9
Sean Farrington	VP	5	5
Kent Shepherd	VP	2	8
Donald F. Reed	President	7	25
Norman J. Boersma	SVP	5	10
George Morgan	VP	1	9

* starts August 1996

Global/International Equity Research Analysts

Name	Title/Responsibility	Yrs with Templeton	Total yrs Investment Experience
Thomas Peters	Research Analyst	2	3
Heidi Schettler	Asst. Research Analyst	1	1
Richard Chapman	Asst. Research Analyst	1	1
Guang Yang	Asst. Research Analyst	1	1
Ed Lugo	Asst. Research Analyst	0	6
Chris Maura	Asst. Research Analyst	3	3
John T. Crone	Asst. Research Analyst	1	3
Dale Winner	Asst. Research Analyst	1	8
Geoff Webb	Managing Director	6	36
Bradley Radin	Asst. Research Analyst	1	4
Martin Steinik	Global Sm Cap Equity	3	3
Juan Benito-Martin	Global Sm Cap Equity	0	0

b. Emerging Markets equity accounts

Emerging Markets Equity Portfolio Managers

Name	Title	Yrs with Templeton	Total Yrs Investment Experience
J. Mark Mobius	Dir of EM & EVP	9	28
Tom Wu	Port Mgr/Analyst	9	10
Allan Lam	Port Mgr/Analyst	9	9
Eddie Chow	Port Mgr/Analyst	2	2
Ong Tek Khoan	Port Mgr/Analyst	3	10
Dennis Lim	Port Mgr/Analyst	6	12

Emerging Markets Equity Research Analysts

Name	Title	Yrs with Templeton	Total yrs Investment Experience
Sven M. Richter	Research Analyst	1	1
R. Shankar	Research Analyst	1	1
Chetan Sehgal	Research Analyst	1	1
Chris Freund	Research Analyst	1	1
Vo Manh Hung	Research Analyst	1	4
Mikhail V. Armiakov	Research Analyst	1	2
Alexis Zarechnak	Research Analyst	1	1
Grzegorz Konieczny	Research Analyst	1	4
Andrzej Pawlowski	Research Analyst	1	2
Jakub Bente	Research Analyst	1	2
Rafael Gowland	Research Analyst	1	1

3. Staff Changes over the last three years.

Templeton provided the attached list of investment personnel in its response to the SBI's detailed questionnaire in 1993. Update this list by providing the following information:

a. Identify each person on the list who is no longer employed by Templeton. Show their responsibility at time of departure and give the reason they left the firm.

INVESTMENT PERSONNEL LOST

NAME	TITLE	FUNCTION	PRODUCT	HIRE DATE	DEPART DATE
Thomas Hansberger	Chief Investment Officer	PM/Analyst	Equity	1979	1993
Donald Krueger	Vice President	PM/Analyst	Equity	1991	1993
Frank Helsom	Vice President	PM/Analyst	Equity	1988	1993
Wilkin Tai	Research Analyst	Analyst	Equity	1990	1994
Harold Ehrlich	Sr Vice President	PM/Analyst	Equity	1987	1994
Mark Poon	Equity Trader	Trader	Equity	1987	1995
Daniel Jacobs	Exe Vice President	PM/Analyst	Equity	1984	1995
Karen Coll	Vice President	PM/Analyst	Equity	1993	1995
Andrew Johnsen	Research Analyst	Analyst	Equity	1994	1995
Jane Siebel-Kilnes	Sr. Vice President	PM/Analyst	Equity	1990	1996
Lauretta A. Reeves	Sr. Vice President	PM/Analyst	Equity	1987	1996
Charles F. Gulden	Vice President	Research Technology	Equity	1989	1996
James E. Chaney	Exec Vice President	PM/Analyst	Equity	1991	1996

Our policy prohibits stating a reason for departure.

b. List each investment professional added since the attached list was presented. Show their current responsibility and give a brief history of their education and investment experience prior to joining Templeton. Note any person who was added and deleted within the three year period and give the reason for departure.

Global/International Equity Portfolio Managers

Name	Hire Date	Title	Indust Start	School	Degree
William T. Howard, Jr.	10/11/93	VP	1986	Emory	MBA
Marc S. Joseph	9/13/93	VP	1985	Harvard	MBA
Gary Clemons	7/19/93	VP	1990	U of Wiscons	MBA
Peter Nori	2/01/94	VP	1987	U of San Francisco	MBA
Edward Ramos	7/19/93	VP	1989	Columbia	MBA
Stephen Oler	3/18/96	VP	1985	Cambridge Univ	M of Phil
Murdo Murchison	2/1/94	VP	1987	Glasgow	Dir Legal Prac
George Ritchie	8/05/96	VP	1985	Edinburgh University	MA Hons
Kent Shepherd	2/01/94	VP	1988	UCLA	MBA
George Morgan	8/28/95	VP	1987	U. of Western Ontario	MBA

Global/International Equity Research Analysts

Name	Hire Date	Title	Indust Start	School	Degree
Thomas Peters	6/13/94	Research Analyst	1993	U of Tennessee	MBA
Heidi Schettler	7/20/95	Asst. Research Analyst	1995	Columbia	MBA
Richard Chapman	7/26/95	Asst. Research Analyst	1995	U. of Virginia	MBA
Guang Yang	7/1/95	Asst. Research Analyst	1995	Harvard	MBA
Ed Lugo	7/01/96	Asst. Research Analyst	1990	Northeastern/Columbia	MBA
Chris Maura	12/13/93	Asst. Research Analyst	1993	Rollins College	BA
John T. Crone	7/17/95	Asst. Research Analyst	1993	SMU	BA
Dale Winner	6/6/95	Asst. Research Analyst	1988	Reading Univ.	Law
Bradley Radin	6/19/95	Asst. Research Analyst	1992	U of Western Ontario	MBA
Martin Steinik	6/28/93	Global Sm Cap Equity	1993	University of Miami	BS
Juan Benito-Martin	6/19/96	Global Sm Cap Equity	1996	Harvard	MBA

Emerging Markets Equity Portfolio Managers

Name	Hire Date	Title	Indust Start	School	Degree
Eddie Chow	5/9/94	Port Mgr/Analyst	1994	U of Wisconsin	MBA
Ong Tek Khoan	6/28/93	Port Mgr/Analyst	1986	Wharton School	MBA

Emerging Markets Equity Research Analysts

Name	Hire Date	Title	Industry Start	School	Degree
Sven M. Richter	7/1/95	Research Analyst	1995	Midrand Campus	B Com
R. Shankar	1995	Research Analyst	1995	Indian Inst. of Mgt.	PGDM,ACA
Chetan Sehgal	1995	Research Analyst	1995	Indian Inst. of Mgt.	PGDM
Chris Freund	1995	Research Analyst	1995	U. of California	BA
Vo Manh Hung	1995	Research Analyst	1992	Hanoi U.	BA Econ
Mikhail V. Armiakov	1995	Research Analyst	1994	Academy of Foreign Trade	M. Int Mgt.
Alexis Zarechnak	1995	Research Analyst	1995	College of William & Mary	BA
Grzegorz Konieczny	1995	Research Analyst	1992	U. of Gdansk	M. Sc.

Andrzej Pawlowski	1995	Research Analyst	1994	Silesian Tech U.	M.Sc.
Jakub Bente	1995	Research Analyst	1994	Warsaw Technical U.	M.Sc.
Rafael Gowland	1995	Research Analyst	1995	St. Andrews U.	B.Sc. of Econ.

Andrew Johnson and Karen Coll were added and deleted during the three year period (see 3.a.).

4. Personnel currently responsible for the SBI account.

a. Identify the member(s) of the firm who are directly responsible for managing the SBI's account. Provide biographies which include at least the following information: name, title, professional designations, educational background, date of tenure with Templeton, summary of current and past responsibilities within Templeton, including the date the individual assumed portfolio management responsibilities at the firm, summary of prior investment experience, including names of organization and date(s) of tenure.

Please refer to attached biographies and excerpts from Form ADV.

b. Discuss the distinction between "lead manager", "back-up manager" and "co-manager" as those terms are used by Templeton. (All three have been used in prior communications with the SBI.)

The lead manager is the individual responsible for day to day management of the portfolio, including buy and sell decisions. All managers use the same bargain list for buys, and the hold list and source of funds list for sells. Normally, two back-up managers are assigned to every portfolio. The back-ups are available to answer portfolio specific questions and work in conjunction with the lead manager in managing the assets. Also, if the lead manager is traveling and cash came into the portfolio, the back-up is authorized to enter trades to invest the funds. Wherever possible, the back-ups will first consult with the lead manager prior to any activity.

We rarely use co-managers in our portfolios and apologize for the use of this terminology in the past.

c. Discuss how the current lead manager, Gary Clemons, allocates his time between portfolio management, research, and other responsibilities (e.g., training/developing more junior analysts, client contact/marketing, etc.)

Our investment process is research driven, so the typical split of time is research (55%), portfolio management (35%) and other (10%).

5. Disposition of all accounts assigned to Jim Chaney.

List all account managed by Jim Chaney at the time of his departure. Include the following information: account name/identifier, account type (public pension, corporate pension, endowment, mutual fund, etc.), asset type (global equity, international equity, balanced, etc.), account size as of June 1996.

Name	Account Type	Asset Type	Account Size (Mil)	Lead Manger
995	Corporate	International	$238.0	William Howard
929	Corporate	Global	$79.7	William Howard
778	Institutional Commingled	International	$395.9	Gary Motyl
757	Inst. Mutual Fund	International	$2,462.8	Gary Motyl
648	Mutual Fund	International	$39.6	Marc Joseph
672	Mutual Fund	International	$138.8	Gary Clemons
620	Corporate	International	$77.1	Gary Clemons
486	Public	International	$229.4	Don Reed
481	Corporate	International	$32.1	Steve Oler
478	Mutual Fund	International	$175.5	Marc Joseph
470	Corporate	International	$54.4	Gary Clemons
461	Inst. Mutual Fund	Global	$236.4	Gary Motyl
455	Mutual Fund	International	$419.5	Marc Joseph
442	Public	International	$532.6	Don Reed
435	Public	International	$208.1	Gary Clemons

6. Current accounts assigned to Gary Clemons

List all accounts managed by Gary Clemons at the present time. Include the following information: account name, account type, account size as of June 30, 1996, account inception date with Templeton, date account was assigned to Gary Clemons as lead manager.

Name	Account Type	Asset Type	Account Size (Mil)	Account Incept Date	Date assigned to Gary Clemons
981	Endowment	Global	$19.0	March 3, 1981	July 1995
845.	Mutual Fund	Global	$480.8	August 24, 1988	July 1995
684	Mutual Fund	Sector	$4.4	September 1, 1994	February 1995
423	Mutual Fund	Sector	$25.6	May 14, 1994	February 1995
672	Mutual Fund	International	$138.8	September 1, 1994	July 1996
470	Corporate	International	$54.4	October 23, 1992	July 1996
435	Public	International	$208.1	November 1, 1993	July 1996
620	Endowment	International	$77.1	January 23, 1996	July 1996
664*	Corporate	International	$24.2	November 2, 1994	July 1996
454*	Corporate	International	$24.8	June 1, 1993	July 1996
453*	Corporate	International	$30.5	June 1, 1993	July 1996

*related accounts

7. Portfolio transition.

a. Discuss how the SBI portfolio was repositioned when Jim Chaney assumed lead manager responsibility from Harry Ehrlich.

The portfolio was not repositioned when Jim Chaney assumed responsibility of the portfolio. All trading was consistent for all of our other international portfolios managed by Templeton.

b. Discuss how the SBI portfolio will be repositioned when Gary Clemons assumes lead manager responsibility.

When there is a change in portfolio manager on a portfolio, this change will be transparent for the client. We do not anticipate repositioning the portfolio other than making normal trades that are a function of the bargain list and source of funds list. These trades will be made in all of our portfolios, not just the State of Minnesota's.

8. Composite returns for tax-exempt non-US equity accounts.

Provide Templeton's composite returns for tax-exempt non-US equity accounts in the following format:

Annual periods ending June 30

	1990	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Composite (Gross)	34.1	-12.3	23.8	4.4	26.0	12.9	17.8*
High**	n/a	n/a	6.5	55.4	6.9	23.4	12.5
Low**	n/a	n/a	-3.1	42.6	-3.6	9.5	9.4

*preliminary quarter end return.
** High and Lows are for the calendar years and year to date for 1996.

Show the aggregate market value of the composite on:

June 30, 1990	$13,556,222
June 30, 1991	$50,423,760
June 30, 1992	$178,029,294
June 30, 1993	$702,944,515
June 30, 1994	$1,438,670,614
June 30, 1995	$2,870,752,418
June 30, 1996	$3,575,576,379

9. Performance of accounts assigned to Jim Chaney.

Provide returns for each account within the above composite managed by Jim Chaney. Include only the time periods when Jim was designated as lead portfolio manager for each account. Provide the aggregate market value of these accounts on June 30, 1992; June 30, 1993; June 30, 1994; June 30, 1995; and June 30, 1996.

As discussed, we do not create individual composites for any of our managers.

10. Performance of accounts assigned to Gary Clemons.

Provide returns for each account within the composite managed by Gary Clemons. Include only the time periods when Gary was designated as lead portfolio manager for each account. Provide the aggregate market value of these accounts on June 30, 1994; June 30, 1995; and June 30, 1996.

Gary did not manage any portfolios in the non-U.S. composite. Gary has and does manage an infrastructure fund, the international equity portion of a variable annuity fund and a global equity portfolio.

11. Business plan/growth plan.

a. Does the firm impose, or plan to impose, any limitations with respect to number of client relationships, assets under management, maximum/minimum account size? Why or why not?

We impose a general limitation of 12 relationships per portfolio manager contingent upon the amount of time acquired to appropriately service the relationship. The minimum separate account size is $25 million for global/international equity. There is no maximum size. We do not plan on limiting the assets under management for the firm at this time. We feel that the percentage growth in the world market capitalization for equity investments will exceed the growth in our assets under management. We also plan to continue to grow the research staff to uncover securities that are appropriate for our clients. If we feel that if our asset size is thought to be detrimental to the quality of performance that we can provide our clients, we will address the issue of asset limits. However, we do not feel that we will ever reach that point with the continued growth of the equity markets.

b. How many new accounts/what level of assets does the firm expect to add within the next 1-2 years? How is the firm equipped to handle this growth?

We are in the middle of the budget process at this time so we do not have any firm projections. We do feel that we will have growth in both the institutional and retail side. Since 1992, the growth rate for institutional accounts has surpassed the retail. We are experiencing a lot of interest in our institutional mutual funds and expect this trend to continue. We are also receiving a lot of interest in our retail products for 401k options. We will handle this anticipated growth by continually adding research staff and training our existing analysts to assume management responsibilities in the future. We currently have two analysts that have 10+ years of experience that we are in the later stages of recruitment.

c. What is the current mix between institutional and non-institutional business? What mix is the firm targeting for the future? Why?

The current mix is one/third institutional and two/thirds retail. We anticipate the institutional side to continue to grow at a faster rate as discussed above. We are not really targeting institutional or retail per se. Our goal is to provide quality returns for our clients based on a research driven process and to provide the investment options that our clients need. These include the institutional mutual funds, retail 401k options and individually managed separate accounts.

Gary R. Clemons
Vice President
Portfolio Management/Research
Templeton Investment Counsel, Inc.
Fort Lauderdale, Florida

Gary Clemons joined the Templeton organization in 1993 as a portfolio manager/research analyst with responsibility for the telecommunications industries, as well as country coverage of Columbia, Peru, Sweden and Norway.

Prior to joining Templeton Investment Counsel, Inc., Mr. Clemons worked as a portfolio manager/research analyst for Structured Asset Management in New York, a subsidiary of Templeton International. His duties included management of a small capitalization fund. Upon relocating to Templeton's Fort Lauderdale office, Gary also managed global and international portfolios for Templeton Portfolio Advisory, Templeton's division serving the wrap-fee market.

Mr. Clemons holds a master of business administration degree with emphasis in finance/investment/banking from the University of Wisconsin-Madison and a bachelor of science degree from the University of Nevada-Reno.

GARY P. MOTYL, CFA
Executive Vice President & Director
Portfolio Management/Research
Templeton Investment Counsel, Inc.
Fort Lauderdale, Florida

Gary Motyl has been a research analyst and portfolio manager with Templeton Investment Counsel, Inc. since 1981. He currently manages the publicly-listed Templeton Institutional Growth and Foreign Equity Series Mutual Funds, and is responsible for managing many of our separate account portfolios. Mr. Motyl's research responsibilities include the global automobile industry and U.S. based utilities as well as country coverage of Germany.

Prior to joining the Templeton organization, Mr. Motyl worked from 1974 to 1979 as a security analyst with Standard & Poor's Corporation. He then worked as a research analyst and portfolio manager from 1979 to 1981 with Landmark First National Bank. In this capacity he had responsibility for equity research and managed several pension and profit sharing plans.

Mr. Motyl holds a bachelor of science in finance degree from Lehigh University in Pennsylvania and a master of business administration degree from Pace University in New York, and is a Chartered Financial Analyst.

DON REED, CFA, CIC
President & Director
Templeton Investment Counsel, Inc.
Fort Lauderdale, Florida
President & CEO
Templeton Management Ltd.
Toronto, Ontario, Canada
Executive Vice President
Templeton Worldwide, Inc.
Fort Lauderdale, Florida

Don Reed is president of Templeton Investment Counsel, Inc., as well as president and chief executive officer of Templeton Management Limited. He is responsible for managing both global and international portfolios and currently manages several mutual funds and large institutional accounts for Templeton Management Limited.

Mr. Reed is president and a director of Templeton Growth Fund, Limited. He serves on the Executive Committee and is chairman of the Portfolio Management Committee of Templeton Worldwide, Inc.

Prior to joining Templeton in 1989, Mr. Reed was president and director of Reed Monahan Nicolishen Investment Counsel, a pension fund investment management company based in Toronto. In 1981, he joined the Board of Directors of the Toronto Society of Financial Analysts and became president in 1983. In this capacity, he was at the focal point of the pension reform issue in Canada and appeared before the Parliamentary Task Force on Pension Reform, as well as before the Ontario Securities Commission.

In 1985, Mr. Reed was elected a director of the Financial Analysts Federation and has served on the executive committee of that organization. He is co-founder of the International Society of Financial Analysts, and has served as a director of that organization since its inception.

Mr. Reed graduated with a bachelor of commerce from Acadia University in 1966. In 1980, he received the Chartered Financial Analyst designation. He is also a Chartered Investment Counselor.

STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 1996

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INTERNATIONAL STOCK MANAGERS
Period Ending 6/30/96

Current Managers	Quarter Actual %	Quarter Bmk %	1 Year Actual %	1 Year Bmk %	3 years Actual %	3 years Bmk %	5 Years Actual %	5 Years Bmk %	Since Inception Actual %	Since Inception Bmk %	Market Value (in millions)	Pool %
Baring (1)	2.7	1.6	20.1	13.3	13.4	10.5			14.0	13.0	$221.39	6.1%
Brinson (1)	3.8	1.6	25.6	13.3	11.9	10.5			11.8	13.0	316.07	8.7%
Marathon (2)	4.5	1.6	20.3	13.3					12.0	8.0	310.08	8.5%
Rowe Price (2)	4.0	1.6	18.0	13.3					10.9	8.0	303.80	8.4%
Scudder (2)	3.7	1.6	21.7	13.3					11.2	8.0	203.37	5.6%
Templeton (2)	5.0	1.6	17.6	13.3					12.3	8.0	208.35	5.7%
Genesis (3)	NA	NA							1.4	0.2	101.09	2.8%
Montgomery (3)	NA	NA							1.6	0.2	202.76	5.6%
State Street (4)	2.3	1.6	13.6	13.3	11.0	10.5			13.6	13.3	1,762.68	48.6%
Current Aggregate*	**3.1**	**1.6**	**16.9**	**13.4**	**12.2**	**10.5**			**14.2**	**13.3**	**$3,629.20**	**100.0%**

* Includes impact of currency overlay unrealized gain/loss (see below).
Aggregate benchmark weighted 91.75% EAFE Free/8.25% Emerging Markets Free as of 6/30/96.
100% EAFE Free prior to 5/1/96.

(1) Active country/passive stock. Retained April 1, 1993.
(2) Fully active. Retained November 1, 1993.
(3) Emerging markets specialist. Retained May 1, 1996.
(4) Index. Retained October 1, 1992.

Impact of Currency Overlay Program

	Qtr.	Since Dec. 95
Index Fund**	2.3	9.3
Index + Overlay***	2.2	9.3

** EAFE index fund managed by State Street Global Advisers.
*** Index fund with currency overlay program implemented by Record Treasury Management.
Program being phased-in from Dec. 95 - Nov. 96.

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BARING INTERNATIONAL INVESTMENT LTD.
Period Ending 6/30/96

Portfolio Manager: Philip Bullen | **Assets Under Management: $221,391,191**

Investment Philosophy

Barings manages an active country/passive stock portfolio for the SBI. Barings' strategic policy team is responsible for the country and currency decisions. Country allocation decisions are made using a macroeconomic framework which seeks to identify growing economies as evidenced by positive changes in GDP and interest rates. The team uses multiple inputs including regional specialists, local market valuations and a computer model that functions as an audit of the qualitative valuation process. Currency specialists within Barings provide assessments on flow of funds, currency rates, monetary policy, inflation and interest rates. Barings uses country index funds managed by State Street Global Advisors to implement their country allocations. At Barings' direction, State Street also implements currency/hedging strategies for the portfolio.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Current concerns are:

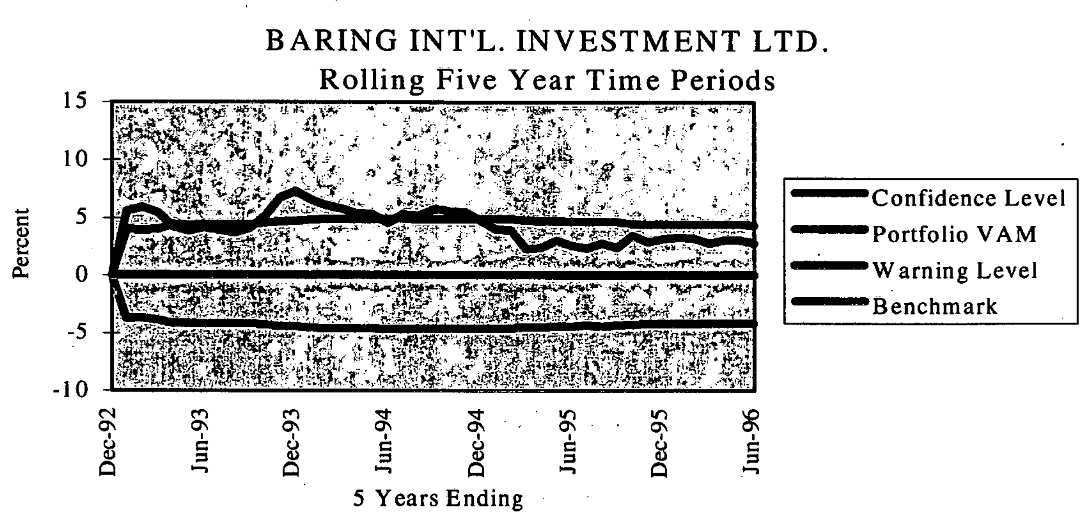
—New ownership by ING effective February 1995.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.7%	1.6%
Last 1 year	20.1	13.3
Last 2 years	9.7	7.4
Last 3 years	13.4	10.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	14.0%	13.0%

Recommendations

No action required.



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

BRINSON PARTNERS
Period Ending 6/30/96

Portfolio Manager: Richard Carr | **Assets Under Management: $316,074,495**

Investment Philosophy

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

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

— Highly successful and experienced professionals.

— Familiar with the needs of large institutional clients.

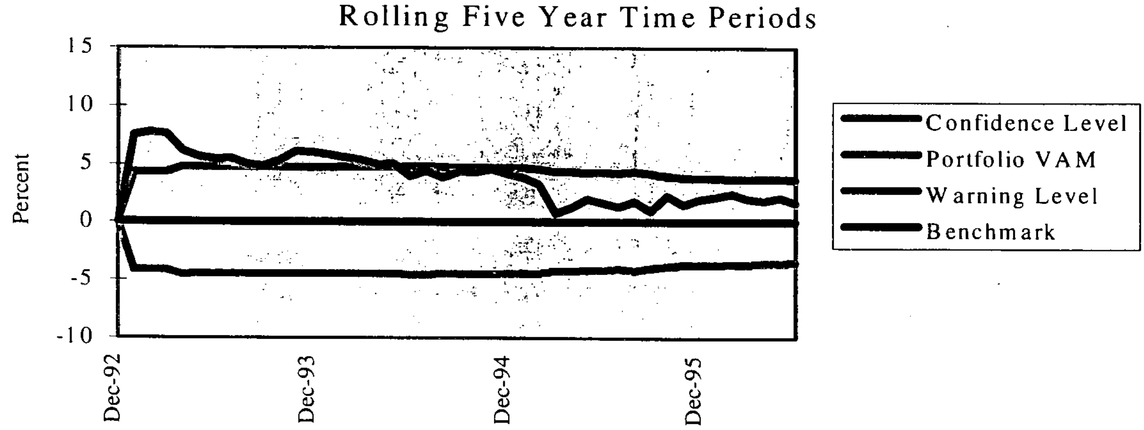
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.8%	1.6%
Last 1 year	25.6	13.3
Last 2 years	12.6	7.4
Last 3 years	11.9	10.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (4/93)	11.8%	13.0%

Recommendations

No action required.

BRINSON PARTNERS, INC. (INT'L.)
Rolling Five Year Time Periods



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

MARATHON ASSET MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: William Arah | **Assets Under Management: $310,079,995**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Attractive, unique investment approach.

Current concerns are:

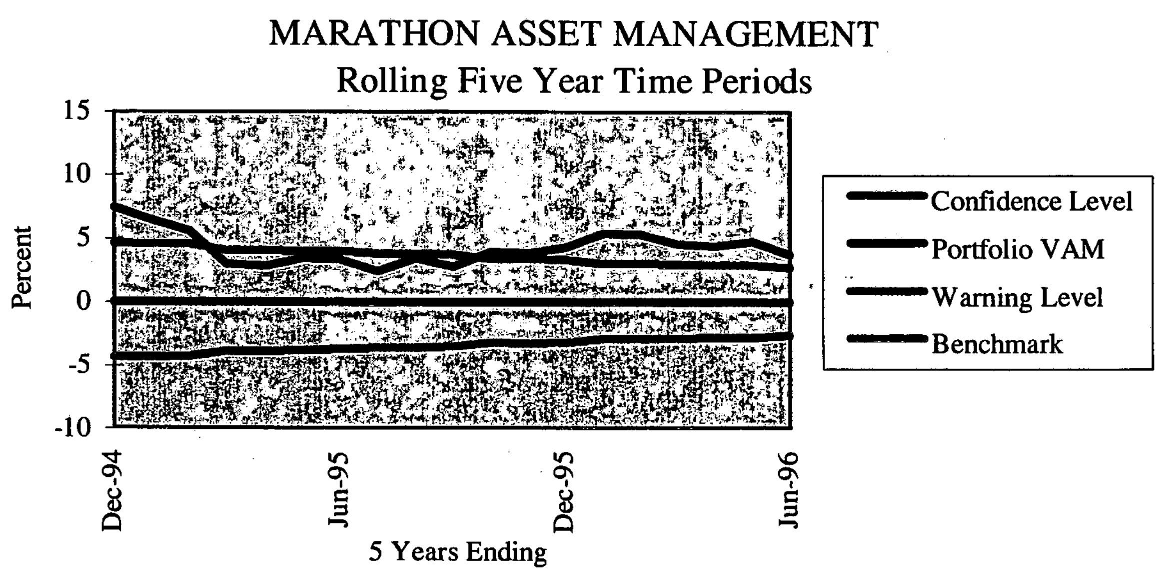
—The firm has experienced significant client growth over the last three years.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.5%	1.6%
Last 1 year	20.3	13.3
Last 2 years	8.2	7.4
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)	12.0%	8.0%

Recommendations

No action required.



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

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 6/30/96

Portfolio Manager: Martin Wade | **Assets Under Management: $303,801,878**

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

— Extensive securities research process.

— Successful investment approach which has been consistently applied over a number of market cycles.

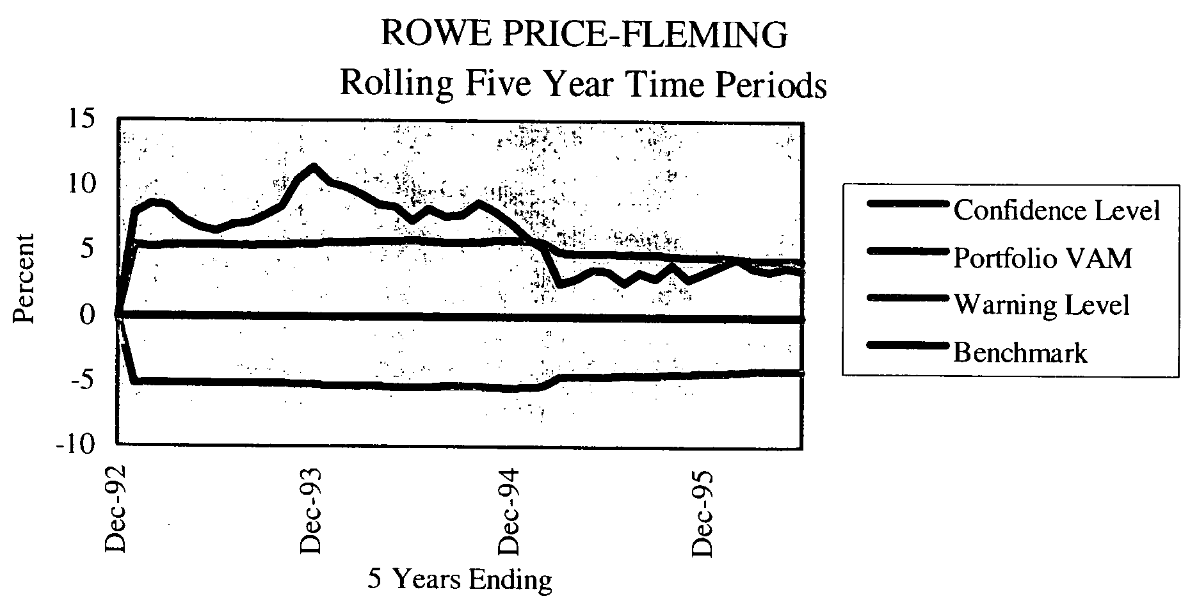
— Familiarity with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	1.6%
Last 1 year	18.0	13.3
Last 2 years	11.7	7.4
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	10.9%	8.0%

Recommendations

No action required.



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

SCUDDER, STEVENS & CLARK
Period Ending 6/30/96

Portfolio Manager: Irene Cheng — **Assets Under Management: $203,371,307**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Strong leadership.

—Extensive securities research capabilities.

—Successful investment approach which has been consistently applied over a number of market cycles.

Current concerns are:

—Growth plan appears aggressive.

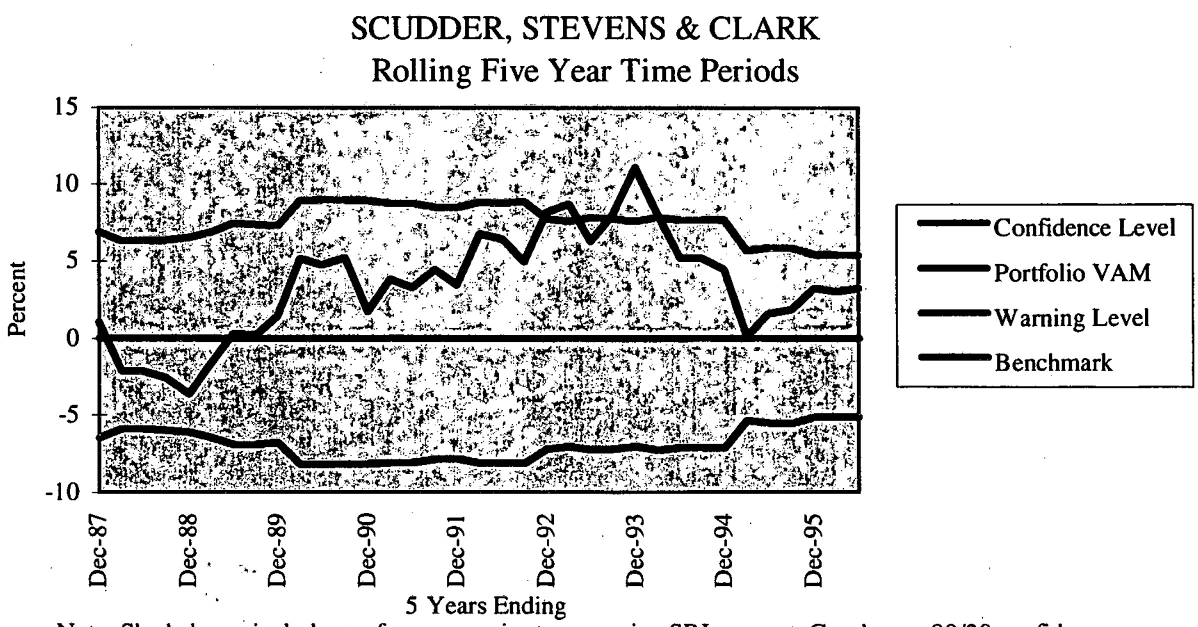
—Staffing and organizational changes are being made in response to growth.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.7%	1.6%
Last 1 year	21.7	13.3
Last 2 years	13.5	7.4
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)	11.2%	8.0%

Recommendations

No action required.



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Uses quarterly returns. Monthly composite returns prior to the inception of the SBI account are unavailable.

TEMPLETON INVESTMENT COUNSEL, INC.
Period Ending 6/30/96

Portfolio Manager: Jim Chaney **Assets Under Management: $208,346,558**

Investment Philosophy

Templeton's goal is to identify those companies selling at the greatest discount to future intrinsic value. The firm takes a long-term approach to investing and believes that, over time, markets are efficient and patience will reward those who have identified undervalued stocks. Stock selection dominates Templeton's investment approach; country, sector and industry weightings are a residual of the stock selection process. Stock ideas are obtained from a worldwide network of research sources and screens of their own global database. From this preliminary list, analysts conduct fundamental analysis to distinguish a "cheap' stock from a "bargain." Templeton seeks stocks that are cheap relative to their own price history, their global industry and their domestic market. Each stock on the resulting "bargain list" has established buy and sell price targets and is purchased and sold accordingly.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Extensive securities research process.

—Successful investment approach which has been consistently applied over a number of market cycles.

Current concerns are:

—Growth plan appears aggressive.

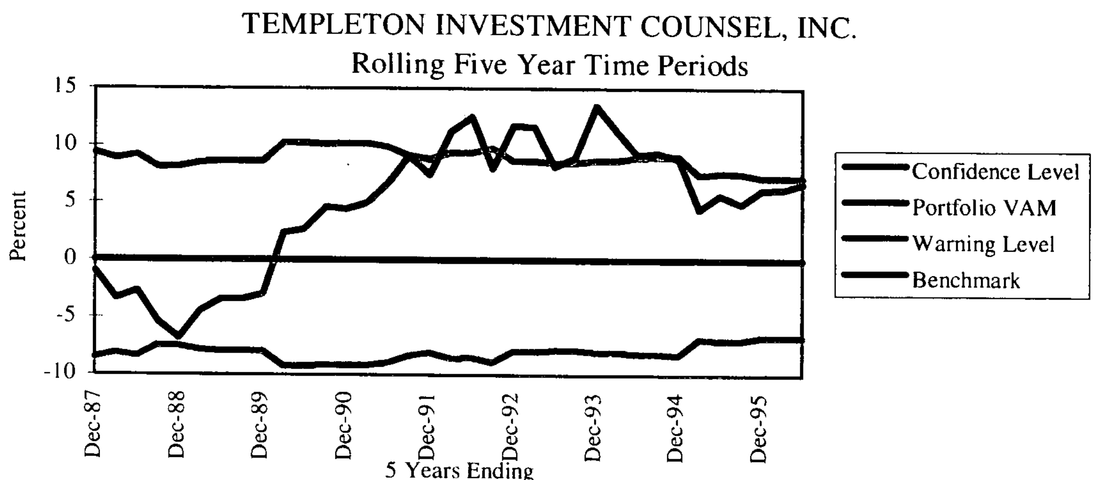
—Staff has been expanded significantly over the last three years.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	5.0%	1.6%
Last 1 year	17.6	13.3
Last 2 years	14.9	7.4
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)	12.3%	8.0%

Recommendations

The SBI's portfolio manager and three other professionals left the firm at the end of June 1996. Due to this and other concerns about the organization, staff recommends that the SBI terminate its relationship with Templeton.



Note: Shaded area includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Uses quarterly returns. Monthly composite returns prior to the inception of the SBI account are unavailable.

GENESIS ASSET MANAGERS, LTD.
Period Ending 6/30/96

Portfolio Manager: Paul Greatbatch | **Assets Under Management: $101,093,366**

Investment Philosophy

Genesis believes that the critical factor for successful investment performance in emerging markets is stock selection. They also believe that structural changes in emerging markets will continue to create both winners and losers in the corporate sector. Finally, they believe that following index stocks will not necessarily expose an investor to the highest returns since those stocks are typically concentrated in large capitalization companies that have already attained a certain level of recognition. They identify those countries in which structural change will most likely generate growth opportunities for business and/or where the environment is supportive of a flourishing private sector. Stock selection is based on Genesis' estimate of the value of the company's future real earnings stream over five years relative to its current price. The portfolio consists of the most undervalued stocks across all markets with emphasis on growth with value.

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Investment approach has been successfully applied to emerging markets for nearly a decade.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	1.4%	0.2%

Recommendations

No action required.

VAM Graph will be drawn for period ending 9/30/98.

MONTGOMERY ASSET MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Josephine Jimenez **Assets Under Management: $202,755,933**

Investment Philosophy

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

Qualitative Evaluation (reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Familiar with the needs of large institutional clients.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	N/A	N/A
Last 1 year	N/A	N/A
Last 2 years	N/A	N/A
Last 3 years	N/A	N/A
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (5/96)	1.6%	0.2%

Recommendations

No action required.

VAM Graph will be drawn for period ending 9/30/98.

RECORD TREASURY MANAGEMENT
Period Ending 6/30/96

Portfolio Manager: Les Halpin — **Exposure Included in Overlay:$774,455,832**

Investment Philosophy

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

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

—Highly successful and experienced professionals.

—Methodology has been consistently applied for more than a decade.

Quantitative Evaluation

	Qtr.	Since 12/95
EAFE Index Fund (1)	2.3%	9.3%
Index Fund + Record	2.2	9.3
Five Markets (2)	1.5	7.5
Five Markets + Record	1.8	7.7
Five Markets/Currency only (3)	-1.7	-4.2
Record	-1.5	-4.0

Recommendations

No action required.

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

(2) Unhedged return of the five markets included in the overlay program using EAFE weights. Includes return of underlying stocks in the EAFE Index. (As reported by Record Treasury)

(3) Currency only return of the five markets included in the currency overlay program. (As reported by Record Treasury)

Tab G

COMMITTEE REPORT

DATE: August 27, 1996

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

FROM: **Alternative Investment Committee**

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

- Review of current strategy.

- Additional investment for the Basic Retirement Fund with an existing real estate manager, TA Associates Realty.

- Additional investment for the Post Retirement Fund with an existing real estate manager, Westmark Commercial Realty Advisors.

Board action is requested on the investments with TA Associates and Westmark Commercial.

INFORMATION ITEMS:

1) Review of Current Strategy.

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

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds. Currently, the SBI has committed $606 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 $921 million to thirty one (31) commingled private equity funds.

- The strategy for resource investment requires that investment be made in resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has committed $158 million to nine (9) commingled oil and gas funds.

Post Fund

- The Post Fund assets allocated to alternative investments will be invested separately from the Basic Funds' alternative investments to assure that returns are accounted for appropriately. Because the Post Fund invests the retired employee's pension assets, an allocation to yield oriented alternative investments will be emphasized. The Basic Retirement Funds' invest the active employees' pension assets and have less concern regarding the current yield for their alternative investments. Since 1994, the SBI has committed $203 million to seven (7) yield oriented funds for the Post Fund: Two (2) are in real estate, four (4) are in private equity and one (1) is in oil and gas.

The Committee met during the quarter with a number of small venture capital fund managers to get information on investing in small venture capital funds (less than $50-75 million in size). The meetings were interesting and informative. More information will be provided as the Committee continues to review this asset class.

ACTION ITEMS:

1) **Additional investment for the Basic Retirement Fund with an existing real estate manager, TA Associates Realty, in The Realty Associates Fund IV.**

TA Associates Realty is seeking investors in a new $150 to $350 million real estate fund, The Realty Associates Fund IV. This Fund is the fourth fund raised and managed by TA Associates Realty. The SBI invested $40 million in TA Associates Realty Fund III. TA Associates Realty Fund IV will focus, like prior funds, on geographically diversified real estate investments in small to medium sized properties.

More information on the Realty Associates Fund IV is included as **Attachment C**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $50 million or 20%, whichever is less, in The Realty Associates Fund IV. This commitment will be allocated to the Basic Retirement Fund.

Approval by the SBI of this potential commitment is not intended to be, and does not constitute in any way, a binding or legal agreement or impose any legal obligations on the State Board of Investment and neither the State of Minnesota, the State Board of Investment or its Executive Director have any liability for reliance by TA Associates Realty 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 TA Associates Realty or reduction or termination of the commitment.

2) **Additional investment for the Post Retirement Fund with an existing real estate manager, Westmark Commercial Realty Advisors, in Westmark Commercial Mortgage Fund III.**

Westmark Realty Advisors is seeking investors in a new $50 to $200 million real estate mortgage fund, Westmark Commercial Mortgage Fund III. This Fund is the third mortgage fund raised and managed by Westmark Realty Advisors. The SBI invested $13.5 million in Westmark Commercial Mortgage Fund II. Westmark Commercial Mortgage Fund III will focus, like prior funds, on geographically diversified real estate mortgage loans.

More information on the Westmark Commercial Mortgage Fund III is included as **Attachment D**.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from the SBI's legal counsel, to negotiate and execute a commitment of up to $30 million or 20%, whichever is less, in Westmark Commercial Mortgage Fund III. 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 Westmark Realty Advisors 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 Westmark Realty Advisors or reduction or termination of the commitment.

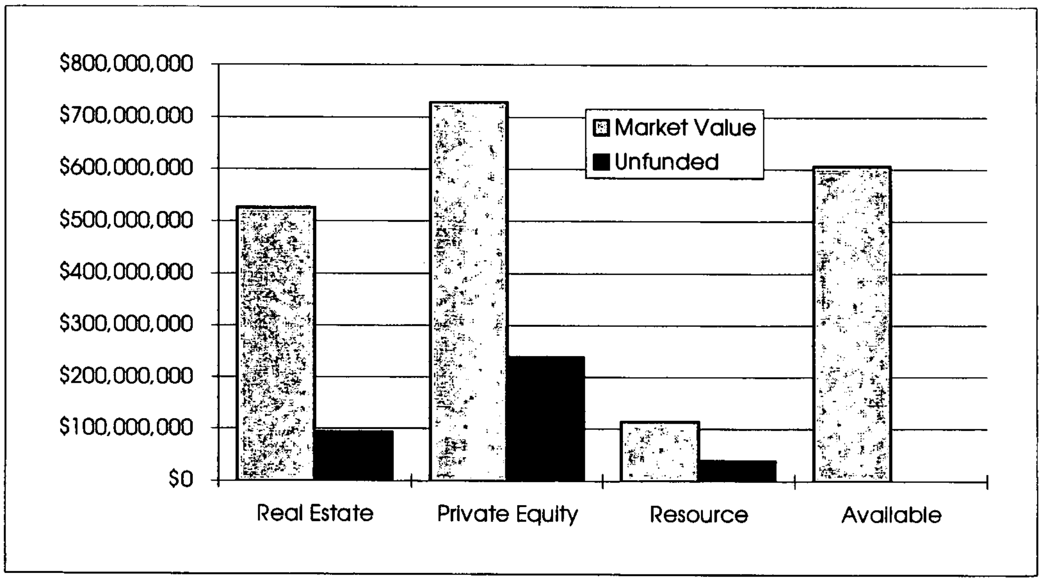
Minnesota State Board of Investment

Alternative Investments
Basic Retirement Funds
June 30, 1996

Market Value of Basic Retirement Funds	$13,146,448,474
Amount Available For Investment	$605,275,307

	Current Level	*Target Level*	*Difference*
Market Value	$1,366,691,964	$1,971,967,271	$605,275,307
MV + Unfunded	$1,738,203,935	$2,629,289,695	$891,085,760

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$525,543,430 *4.0%*	$94,185,703 *0.7%*	$619,729,133 *4.7%*
Private Equity	$728,081,247 *5.5%*	$237,937,831 *1.8%*	$966,019,078 *7.3%*
Resource	$113,067,287 *0.9%*	$39,388,438 *0.3%*	$152,455,724 *1.2%*
Total	**$1,366,691,964** ***10.4%***	**$371,511,971** ***2.8%***	**$1,738,203,935** ***13.2%***



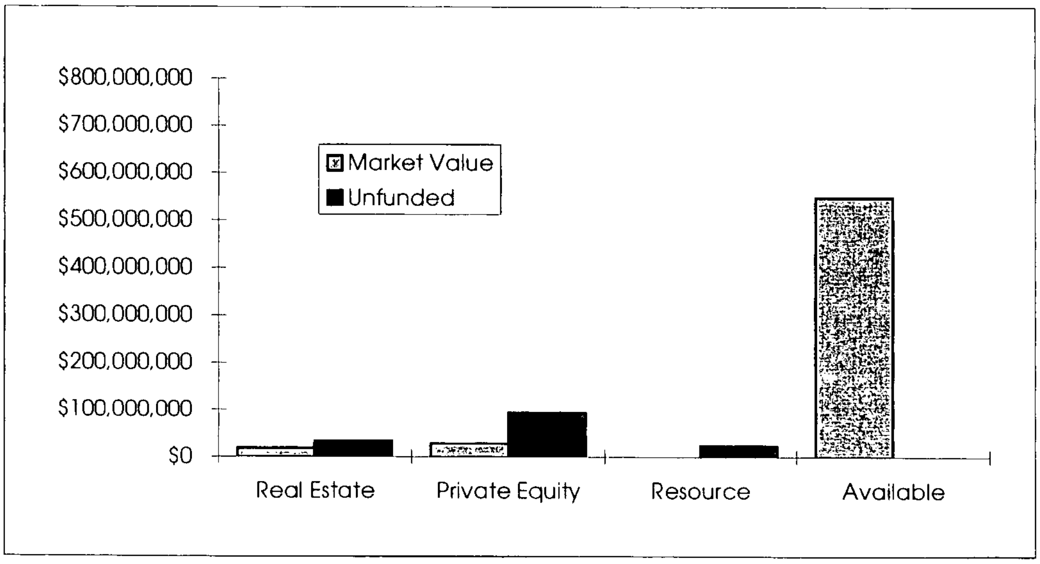
Minnesota State Board of Investment

Alternative Investments
Post Retirement Fund
June 30, 1996

Market Value of Post Retirement Fund	$11,883,292,651
Amount Available For Investment	$548,211,762

	Current Level	*Target Level*	*Difference*
Market Value	$45,952,870	$594,164,633	$548,211,762
MV + Unfunded	$197,369,338	$1,188,329,265	$990,959,927

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	$18,155,631 *0.2%*	$33,755,604 *0.3%*	$51,911,235 *0.4%*
Private Equity	$27,797,239 *0.2%*	$93,660,864 *0.8%*	$121,458,103 *1.0%*
Resource	$0 *0.0%*	$24,000,000 *0.2%*	$24,000,000 *0.2%*
Total	**$45,952,870** ***0.4%***	**$151,416,468** ***1.3%***	**$197,369,338** ***1.7%***



ATTACHMENT B

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - REAL ESTATE
June 30, 1996

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
AETNA	42,376,529	42,376,529	77,044,082	0	0	4.87	14.2
AEW							
Fund III	20,000,000	20,000,000	16,034,768	5,469,605	0	0.72	10.8
Fund IV	17,400,000	15,000,000	3,115,280	829	2,400,000	-15.16	9.8
Fund V	15,000,000	15,000,000	8,987,218	2,488,672	0	-3.30	8.5
AMERICAN REPUBLIC	1	1	1	0	0	0.00	6.4
COLONY INVESTORS II	40,000,000	11,363,896	10,624,998	230,170	28,636,104	-9.77	1.2
EQUITABLE	40,000,000	40,000,000	74,678,073	0	0	4.68	14.7
FIRST ASSET REALTY	916,185	916,185	594,603	372,796	0	2.63	2.2
HEITMAN							
Fund I	20,000,000	20,000,000	9,089,293	12,492,314	0	1.13	11.9
Fund II	30,000,000	30,000,000	20,819,696	16,004,894	0	2.67	10.6
Fund III	20,000,000	20,000,000	10,957,214	8,947,502	0	-0.07	9.4
Fund V	20,000,000	20,000,000	22,144,912	3,500,817	0	6.95	4.6
LASALLE	15,000,000	14,644,401	15,141,225	1,616,278	355,599	6.12	4.8
REALTY ASSOCIATES III	40,000,000	32,800,000	37,508,738	10,083,546	7,200,000	9.89	2.1
RREEF	75,000,000	75,000,000	63,981,581	35,089,087	0	3.21	12.2
TCW							
Fund III	40,000,000	40,000,000	28,694,891	13,697,649	0	0.68	10.9
Fund IV	30,000,000	30,000,000	21,338,556	4,283,225	0	-1.92	9.7
ZELL/MERRILL LYNCH							
Fund II	40,388,854	40,388,854	59,480,300	2,585,484	0	14.46	4.6
Fund III	50,000,000	44,406,000	45,308,000	755,163	5,594,000	3.21	2.4
Fund IV	50,000,000	0	0	0	50,000,000	0.00	0.2
TOTAL REAL ESTATE (BASICS)	***606,081,569***	***511,895,866***	***525,543,430***	***117,618,032***	***94,185,703***		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
WESTMARK COM. MTG FUND II	13,500,000	8,380,500	7,530,633	1,079,515	5,119,500	6.72	1.0
COLONY INVESTORS II	40,000,000	11,363,896	10,624,998	230,170	28,636,104	-9.77	1.5
TOTAL REAL ESTATE (POST)	***53,500,000***	***19,744,396***	***18,155,631***	***1,309,685***	***33,755,604***		

TOTAL REAL ESTATE	***659,581,569***	***531,640,262***	***543,699,061***	***118,927,717***	***127,941,307***

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - PRIVATE EQUITY
June 30, 1996

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
ALLIED	5,000,000	5,000,000	1,689,488	4,176,640	0	2.77	10.8
BANK FUND							
Fund III	20,000,000	20,000,000	22,890,873	2,022,090	0	11.51	3.7
Fund IV	25,000,000	3,750,000	3,580,047	0	21,250,000	-0.19	0.4
BLACKSTONE PARTNERS II	50,000,000	13,842,197	21,738,347	21,652,331	36,157,803	73.09	2.6
BRINSON PARTNERS							
VPAF I	5,000,000	5,000,000	1,783,320	6,303,743	0	10.90	8.1
VPAF II	20,000,000	17,237,751	7,583,568	20,630,958	2,762,249	23.99	5.6
CHURCHILL CAPITAL PARTNERS II	20,000,000	17,800,000	11,975,653	8,257,722	2,200,000	9.16	3.7
CORAL PARTNERS							
IAI Ventures I	1,146,890	1,146,890	376,238	1,238,121	0	17.63	5.3
Fund I (Superior)	7,011,923	7,011,923	3,568,018	4,685,814	0	3.05	10.0
Fund II	10,000,000	8,500,000	16,781,557	1,579,857	1,500,000	18.41	5.9
Fund IV	15,000,000	4,500,000	7,645,533	0	10,500,000	33.52	1.9
DSV	10,000,000	10,000,000	9,890,417	6,913,427	0	5.39	11.2
FIRST CENTURY	10,000,000	10,000,000	4,833,795	10,417,566	0	8.30	11.6
GOLDER THOMA							
Fund III	14,000,000	14,000,000	21,392,385	25,544,560	0	29.00	8.7
Fund IV	20,000,000	14,200,000	14,107,823	463,026	5,800,000	1.92	2.4
Fund V	30,000,000	0	0	0	30,000,000	0.00	0.0
HELLMAN & FRIEDMAN III	40,000,000	13,014,411	12,414,256	0	26,985,589	-6.80	1.8
IMR PARTNERSHIP	15,000,000	1,524,900	2,160,019	1,148,997	13,475,100	32.65	3.9
INMAN BOWMAN	7,500,000	7,500,000	2,963,356	6,991,610	0	3.98	11.1
KOHLBERG KRAVIS ROBERTS							
1984 Fund	25,000,000	25,000,000	15,720,693	109,551,085	0	28.82	12.1
1986 Fund	18,365,339	18,365,339	89,439,856	57,856,599	0	27.26	10.2
1987 Fund	145,950,000	145,950,000	231,430,793	148,448,922	0	11.55	8.6
1993 Fund	150,000,000	94,192,910	114,630,522	30,680,852	55,807,090	12.52	2.5
MATRIX							
Fund II	10,000,000	10,000,000	2,031,513	18,837,166	0	13.60	10.9
Fund III	10,000,000	10,000,000	10,859,967	52,685,816	0	73.37	6.2
NORTHWEST	10,000,000	10,000,000	936,219	14,154,594	0	5.44	12.5
SUMMIT PARTNERS							
Fund I	10,000,000	10,000,000	594,230	19,513,924	0	13.08	11.5
Fund II	30,000,000	28,500,000	5,404,885	59,047,746	1,500,000	27.89	8.1
T. ROWE PRICE	106,595,061	106,595,061	34,035,290	116,141,493	0	13.63	8.6
WARBURG PINCUS	50,000,000	20,000,000	20,215,357	179,750	30,000,000	2.54	1.5
ZELL/CHILMARK	30,000,000	30,000,000	35,407,230	10,659,234	0	9.03	6.0
TOTAL PRIVATE EQUITY (BASICS)	***920,569,213***	***682,631,382***	***728,081,247***	***759,783,644***	***237,937,831***		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
CITICORP MEZZANINE	40,000,000	11,843,067	9,479,886	3,676,667	28,156,934	11.07	1.5
CRESCENT / TCW MEZZANINE	40,000,000	5,389,004	5,389,004	0	34,610,996	0.00	0.3
KLEINWORT BENSON	25,000,000	1,107,066	1,041,667	2,523	23,892,934	-14.81	1.0
SUMMIT SUB-DEBT FUND	20,000,000	13,000,000	11,886,682	3,777,253	7,000,000	22.84	2.3
TOTAL PRIVATE EQUITY (POST)	***125,000,000***	***31,339,136***	***27,797,239***	***7,456,443***	***93,660,864***		

TOTAL PRIVATE EQUITY	***1,045,569,213***	***713,970,519***	***755,878,487***	***767,240,087***	***331,598,694***

STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - RESOURCE
June 30, 1996

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
FIRST RESERVE CORP.							
AMGO I	15,000,000	15,000,000	7,886,925	3,614,536	0	-2.29	14.8
AMGO II	7,000,000	7,000,000	9,364,958	2,325,453	0	5.09	13.4
AMGO IV	12,300,000	12,300,000	15,789,993	7,571,921	0	10.57	8.1
AMGO V	16,800,000	16,408,222	27,417,279	8,729,562	391,778	15.86	6.2
AMGO VII	20,000,000	0	0	0	20,000,000	0.00	0.0
APACHE III	30,000,000	30,000,000	6,755,132	39,365,844	0	11.39	9.5
MORGAN OIL & GAS	15,000,000	15,000,000	14,140,902	1,664,933	0	0.94	7.9
SIMMONS							
OFS II	17,000,000	14,547,829	21,755,413	838,169	2,452,171	13.96	4.9
OFS III	25,000,000	8,455,511	9,956,685	0	16,544,489	38.88	1.0
TOTAL RESOURCE (BASICS)	***158,100,000***	***118,711,562***	***113,067,287***	***64,110,418***	***39,388,438***		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
MERIT ENERGY	24,000,000	0	0	0	24,000,000	0.00	0.0
TOTAL RESOURCE (POST)	***24,000,000***	***0***	***0***	***0***	***24,000,000***		

TOTAL RESOURCE	***182,100,000***	***118,711,562***	***113,067,287***	***64,110,418***	***63,388,438***

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REAL ESTATE MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND:	The Realty Associates Fund IV
FUND MANAGER:	TA Associates Realty
TYPE OF FUND:	Real Estate Limited Partnership and Investment Trust
TOTAL FUND SIZE:	$150 million - $350 million
MANAGER CONTACT:	Michael A. Ruane Arthur I. Segel
ADDRESS:	45 Milk Street Boston, Massachusetts 02109
TELEPHONE:	Phone (617) 338-4300 Fax (617) 338-5054

II. ORGANIZATION AND STAFF

TA Associates Realty (TA) was formed in 1982. It is a privately held limited partnership with two managing partners: Michael Ruane and Arthur Segel. Including Ruane and Segel, TA currently has thirty real estate management employees.

Property management at the local level is administered through third party contractors. These contractors are responsible for all aspects of the day to day operations and are overseen by the asset management group at TA.

The Realty Associates Fund IV is the fourth commingled, closed-end fund for TA. In addition to these commingled funds, TA has separate account commitments from Los Angeles County Employee's Retirement Associations, State of Washington, Virginia Retirement Systems and a Swedish insurance company. Total real estate assets under management, including both commingled and separate accounts, exceeds $1.5 billion.

III. INVESTMENT STRATEGY

The investment strategy of The Realty Associates Fund IV is consistent with the strategies of the previous three funds. The fund will make geographically diversified equity investments in small to medium sized properties ($12 to $15 million average), primarily office and industrial property acquisitions. When possible, the fund will use modest leverage. Under no circumstances will leverage exceed 50%.

IV. INVESTMENT PERFORMANCE

The SBI invested in Advent Realty Fund III which closed in 1994 with a total of $487.5 million. Today the portfolio is 90% invested with a gross carrying value of $590 million and has distributed $50 million of capital back to investors. This corresponds to a 10% net IRR to investors. Fund III will be appraised for the first time at the end of 1996 and it is expected that appreciation will be recognized at 12/31/96.

V. TAKEDOWN SCHEDULE

Capital will be called as needed.

VI. MANAGEMENT FEE

Year	*Fee*	*Basis*
1	.500%	Committed Capital
2	.800%	Committed Capital
3	1.100%	Committed Capital
4	1.200%	Committed Capital
5	.875%	Aggregate Invested Equity
6	.850%	Aggregate Invested Equity
7	.800%	Aggregate Invested Equity
8 and thereafter	.600%	Aggregate Invested Equity

VII. TERM

The acquisition period will last between two and four years depending on the ultimate size of the fund and the state of the real estate markets during the acquisition phase. Liquidation is expected within ten years from being fully invested.

VIII. DISTRIBUTIONS

Distributions are made quarterly at the discretion of the advisor, after appropriate reserves are established. The advisor may reinvest proceeds from sales or debt financing during the two to four year property acquisition period.

Distributions are allocated 100% to the investors until they have received a return of capital and an annual compound preference return equal to inflation (CPI-U). Thereafter, distributions will be shared 95% to investors and 5% to the advisor.

At 1% real, all income is divided 94.0% to the investor and 6.0% to the advisor;

At 2% real, all income is divided 92.5% to the investors and 7.5% to the advisor;

At 3% real, all income is divided 90.5% to the investors and 9.5% to the advisor;

At 4% real, all income is divided 88.5% to the investors and 11.5% to the advisor;

At 5% real, all income is divided 86.5% to the investors and 13.5% to the advisor;

At 6% real, all income is divided 84.5% to the investors and 15.5% to the advisor;

At 7% real, all income is divided 82.5% to the investors and 17.5% to the advisor;

At 8% real and thereafter, all income is divided 80% to the investors and 20% to the advisor.

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ATTACHMENT D

REAL ESTATE MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND:	Westmark Commercial Mortgage Fund III
FUND MANAGER:	Westmark Realty Advisors, Inc.
TYPE OF FUND:	Real Estate Mortgage Group Trust
TOTAL FUND SIZE:	$50 - $200 Million
MANAGER CONTACT:	Tim Stevens
ADDRESS:	533 South Fremont Avenue Los Angeles, California 90071
TELEPHONE:	Phone: (213) 683-4366

II. ORGANIZATION AND STAFF

The Investment Manager for the Trust (the "Investment Manager") is Westmark Commercial Realty Advisors, Inc., a wholly-owned subsidiary of CB Commercial. Both Westmark and CB Commercial are large real estate investment firms based in Los Angeles, California.

Westmark was formed in 1982 and was acquired by CB Commercial on June 30, 1995. CB Commercial Realty Advisors was formed in 1972. Overall, the CB Commercial Group constitutes a broadly diversified real estate firm with 4100 employees located in 86 offices coast to coast. The Westmark Commercial Mortgage Fund III is the third in a series of three commingled mortgage funds raised since 1993. Going forward, Westmark plans to offer a new mortgage fund every year.

The Investment Manager will appoint CB Commercial Mortgage Banking to originate loans and perform selected servicing activities. Mortgage Banking provides mortgage origination, loan underwriting, and loan administration services to institutional real estate lenders throughout the United States. Mortgage Banking serves as the exclusive origination correspondent for a number of major institutional investors. Mortgage Banking, which was established in 1939, originates mortgage loans only on commercial real estate. Mortgage Banking employs approximately 108 employees located in twenty-five major metropolitan areas throughout the United States. For the last ten years, Mortgage Banking placed on behalf of institutional investors an average of approximately $1.0 billion in mortgage loans annually. Mortgage Banking currently provides collection and loan administration services for a loan portfolio of approximately $4 billion originated by Mortgage Banking.

III. INVESTMENT STRATEGY

The investment objective of the Trust is to make loans of $1 million to $10 million secured by first mortgages on commercial real property, including office, industrial, retail, mobile home and apartment properties. The terms of such loans will be not less than five, nor more than ten, years. Interest will accrue on the Mortgage Loans at a fixed rate of interest agreed by the Investment Manager and the borrower. The Investment Manager believes that it will be able to place Mortgage Loans carrying rates of interest of approximately 1.5% to 3.0% per annum over the market yield for United States Treasury obligations of similar maturities. In addition, Mortgage Banking will not recommend that a Mortgage Loan be extended unless, based on financial information provided, (a) the "debt service coverage ratio" initially equals or exceeds 1.20, and (b) the "loan to value ratio" equals or is less than 0.75. To the extent permitted by applicable laws, the loan agreement for each Mortgage Loan will contain provisions that would require the borrower to pay a prepayment premium of one percent of the amount prepaid or an amount determined under a "yield maintenance provision," whichever is greater, in the event such borrower elects to prepay such Mortgage Loan, or portion thereof, more than 90 days prior to maturity. The Mortgage Loans will be non recourse to the borrowers, except as to fraud, willful misconduct, and liability under environmental laws.

IV. INVESTMENT PERFORMANCE

The SBI invested inWestmark's second mortgage fund, Westmark Commercial Mortgage Fund II which was established June 23, 1995. Eight investors committed a total of $67.5 million to Fund II. Since inception of the Fund, Westmark closed thirteen loans and committed to eight more loans. The twenty-one loans together represent $67 million or 99.5% of the fund. The loans are diversified by property location and type and each loan is under $10 million in size. Rates vary from 8.75% to 9.5% which represent spreads over comparable treasury securities in excess of 260 basis points. Loan to property value ratios vary from 34% to 73%. Also, debt service coverage varies from 2.62 times to 1.30 times on the loans. Since inception, the fund has produced a net annualized IRR of 6.76%.

V. TAKEDOWN SCHEDULE

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

VI. MANAGEMENT FEE

Upon receipt by the Trust of the proceeds of the initial call for payment of subscriptions for Units, the Trust will pay the Trustee an initial fee of $7,500, and will reimburse the Trustee for its direct expenses incurred in the organization of the Trust (including legal fees and expenses). In addition, the Trust will pay the Investment Manager an amount equal to 2.0% of the aggregate amount of subscriptions (the "Subscription Fee"). The Subscription Fee will be used by the Investment Manager to pay the fees and expenses of an affiliate for loan origination and loan application review services and to compensate the Investment Manager for reviewing, approving, and placing the loans. Prospective borrowers from the Trust will be required to pay certain fees to the Trust, which the Investment Manager believes will total approximately 1.5% of the aggregate amount of subscriptions. For example, if the Trust is fully subscribed at $100 million, $2 million of the proceeds from such subscriptions received by the Trust will be paid by the Trust to the Investment Manager. If the Trust is fully invested in Mortgage Loans, the aggregate amount invested should be approximately $99.5 million (i.e., $98 million net proceeds from subscriptions plus approximately $1.5 million from fees paid to the Trust by borrowers), less the Trustee's initial fee and reimbursement of expenses.

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

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

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

Returns from Fund investments will be distributed monthly.

VII. TERM

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

Tab H

MINNESOTA STATE BOARD OF INVESTMENT

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

DATE: August 27, 1996

TO: Members, State Board of Investment

FROM: Howard Bicker

SUBJECT: Tobacco Issues

At the June 5, 1996 meeting of the State Board of Investment (SBI), Board members requested that the Executive Director update the May 24, 1996 report transmitted to the Board by the Proxy Committee.

The updated report is attached. It provides a history of the Board's policy on tobacco, lists current SBI holdings of tobacco company stocks, summarizes current industry research reports on the tobacco industry and identifies actions being taken by other public pension funds concerning tobacco investments.

The changes to the May 24 report are marked in the margin of each page, where appropriate. The original attachments are not included in this updated version. The attachments to this updated version contain new materials not contained in the earlier report. Please refer to the May 24 report for the details provided in the original Attachments A-J.

Updated information includes:

- SBI holdings of tobacco stocks are shown for June 30, 1996.
- Activity by public funds entities includes the states of Louisiana and Washington and several cities that were not previously cited.
- Several events in the legal/regulatory environment are updated and new developments are discussed. These include the release by the White House of new FDA tobacco rules, the lack of interest in the Philip Morris counter proposal to the FDA rules, the citing of three additional state Medicaid type suits against the tobacco industry, and outcome of significant tobacco liability suits in Florida and Indiana.
- New Attachments K and L provide news articles about recent events.

Please note that the report incorporates information available to SBI staff as of August 26, 1996.

The report is divided into several sections:

I. History of SBI Policies Regarding Tobacco

Prior to March 1993, the State Board of Investment (SBI) had a long-standing policy of not holding stock of any company which obtained more than 50 percent of its revenues from the sale of liquor or tobacco. The history on this policy is quite sketchy. To the best of staff's knowledge, there is no formal resolution of the Board on record which delineates the policy or rationale. Based on references in SBI minutes, it appears to have been in place sometime before the mid 1970's.

In June 1992, the Investment Advisory Council (IAC) reviewed information that showed that the restriction reduced returns of the Wilshire 5000 stock index by approximately 0.4% annualized from January 1980-March 1992. As a result, the IAC recommended the SBI's restriction on liquor and tobacco stocks be dropped. At that time, the SBI did not take action and referred the matter to another committee for further review.

In December 1992, the Proxy Committee provided its report to the Board. (See **Attachment A** for a copy of the complete report.)

- It stated: "Arguments for the policy included concerns that companies primarily engaged in alcohol and tobacco were imprudent investments because of their exposure to potential liability for damages from litigation regarding health risks and because investment in these companies could lead to an increase in long term costs attributable to health risks of alcohol and tobacco borne by beneficiaries, the taxpayers of the state and the state as a whole."

- It presented data that showed that for the period January 1980-September 1992 the restriction reduced returns of the Wilshire 5000 by 0.41% on an annualized basis. The report also noted that "the impact on the actively managed portion of the SBI's stock portfolio is more difficult to determine since active stock managers may or may not have chosen to include tobacco stocks in their portfolios if they had not been restricted by the SBI."

- Based on its review, the Committee recommended "that the SBI lift its investment restrictions concerning liquor and tobacco companies." At the same time, the Committee cited potential liability associated with pending litigation and urged the SBI to become a more active shareholder on issues associated with liquor and tobacco.

Also in December 1992, the IAC reported the following motion to the SBI: "Consistent with our fiduciary duty to plan beneficiaries, taxpayers and the

State of Minnesota, the [IAC] recommends that the [SBI] act in a timely manner to remove all investment restrictions, except those resulting from objective risk/return considerations or required by statute, on the investment of employee benefit assets for which the Board has fiduciary responsibility. Further, the IAC recommends that no such new restrictions should be undertaken."

In March 1993, the SBI voted to rescind the liquor and tobacco policy and also directed the Proxy Committee "where feasible, to sponsor, cosponsor and support shareholder resolutions that call for a company to reduce its involvement in liquor and tobacco production, product marketing and other related lines of business in order to diversify its business in a manner that will reduce or eliminate potential liability to legal claims associated with liquor and tobacco that may negatively impact the value of the SBI's holdings." This directive was part of the Proxy Committee's recommendation in its December 7, 1992 report.

In October 1995, the Chair of the Proxy Committee, in a verbal report to the Board, stated that the Committee had met with a group of private citizens concerning the SBI's policy regarding investments in tobacco related companies. The Chair indicated that the Committee had requested additional background information and would be making a further report to the Board.

In December 1995, the Proxy Committee reported that it had reviewed its proxy voting record with respect to its current directive from the Board. (See **Attachment B** for a complete copy of the report.) The Committee stated that the SBI voted to support a range of tobacco related resolutions in 1995. The Proxy Committee also agreed to cosponsor a shareholder resolution submitted to Albertson's, a leading Western states grocery store chain, at its December 1995 annual meeting. The Committee also reported that it plans to cosponsor additional resolutions on tobacco related issues for the 1997 proxy season. The Committee concluded that it is "taking appropriate action to carry out the SBI's directive of March 1993 concerning tobacco holdings and recommends no change in the policy at this time."

II. Current Legal/Regulatory Environment

The tobacco industry has been subject to increasing scrutiny and criticism during the 1990's. The following statement is typical of the sentiment expressed by many market commentators: "It is difficult to recall a period during which attacks from antismoking advocates, government officials, and the news media represented as much of an all-out assault as we have seen during the past few weeks. We find it equally hard to pinpoint when the pressure will subside, for that matter" (from "The Tobacco Handbook," Goldman Sachs Global Research, April 8, 1994, page 4.)

In 1994, the FDA (Food and Drug Administration) proposed to regulate nicotine as a drug and Congress held hearings on the tobacco industry. In August 1995, the FDA drafted a detailed set of rules ostensibly designed to prevent marketing of tobacco products to minors. The FDA forwarded the final version of its rules to the White House in August 1996. President Clinton made the rules public on August 23, 1996. That action coupled with earlier comments by Republican presidential nominee Bob Dole and questions about tobacco industry campaign contributions have made tobacco a topic of interest in the presidential election.

Some items in the new FDA rules are:

- the FDA will regulate tobacco as a drug delivery mechanism;
- cigarette machines will only be allowed in places not accessible to minors, such as bars and nightclubs;
- tobacco billboards will be banned within 1000 feet of schools;
- tobacco brand name sponsorship of sporting events will be banned;
- tobacco ads in magazine with a 15 percent threshold of youth readership will be limited to black-and-white, text-only format.

The tobacco and advertising industries are reported to be seeking to block the new rules in court. (See **Exhibit K** for copies of recent newspapers accounts.)

According to various external news and research services, in addition to the FDA rules, the tobacco industry continues to face at least the following legal/regulatory issues:

- Justice Department inquiries into whether industry executives illegally conspired to obstruct a Congressional investigation into how much the companies knew about nicotine and its risks. These inquiries include five federal grand juries currently weighing criminal charges against the companies or their executives.

- Lawsuits filed by Attorneys General of thirteen states seeking reimbursement for Medicaid expenditures due to the health consequences of cigarette smoking. This total is up from eight as of the end of May 1996, and there continue to be reports that other states may take similar action.

- Several class action lawsuits alleging nicotine addiction or health risks.

In 1994, Minnesota Attorney General Humphrey, on behalf of the State of Minnesota, filed suit with Blue Cross-Blue Shield against a number of tobacco companies seeking damages for medical claims paid on cases arising from use of tobacco products.

In mid-March 1996, Bennett LeBow, Chief Executive Officer of Brooke Group, Ltd., owner of Liggett Group, a small producer of cigarettes, announced an out of court settlement with plaintiffs in the Castano case and with four state Medicaid suits. (The Castano case is a class action suit on nicotine addiction, and the state Medicaid suits are actions brought by several states seeking reimbursement from tobacco companies for Medicaid expenses related to smoking.). However, Liggett has the right to nullify the settlements under certain conditions. (See **Attachment C** for an outline of the proposed settlement.)

On May 23, 1996, the Fifth U.S. Court of Appeals dismissed the Castano class action suit. The decision, which has been described as the most serious liability threat ever to confront cigarette makers, was expected by many industry analysts. The timing, however, came several months sooner than anticipated. The case had been the largest class action in U.S. history. According to industry research reports, the Liggett settlement is technically dead, since it was based on the class certification in Castano. Because of the Castano ruling, the LeBow settlement would have to be refiled with the court. (See **Attachment C** for news articles about the decision and **Attachment M** for research reports.)

On April 23, 1996 the American Medical Association (AMA) urged investors to sell holdings in mutual funds that invest in tobacco companies. The AMA announced that it would publish annually a list of mutual funds that have tobacco industry investments. (See the news article in **Attachment E.**)

In May 1996, in an effort to derail the FDA proposal, Philip Morris (with support from UST, Inc.) proposed that the Congress adopt laws to reduce teenage smoking by including many of the items contained in the FDA rules, but some in modified form. The proposal would have precluded the FDA from regulating tobacco products.

The FDA is reported to have immediately rejected the proposal. Initial media reports suggested an uncertain reception in the Congress. August 1996 reports confirm that no member of the Congress has chosen to sponsor the proposal. Moreover, no major tobacco manufacturer adopted the proposal. (See the news articles in **Attachment F** for further detail.)

On August 9, 1996 a jury in Florida awarded $750,000 in damages to an ex-smoker and his wife (in the Carter case) who sued Brown & Williamson Tobacco Company, a unit of B.A.T. Industries PLC, alleging his lung cancer was caused by smoking. Other than a 1988 verdict which was reversed on appeal, this case represents the only time a plaintiff has been awarded damages in a tobacco case. As reported, this case may be noteworthy in that it is the first time a jury has seen the large number of internal company documents that clearly identify the dangers of smoking.

On August 23, 1996, a jury in Indiana sided with the tobacco industry in a case (Rogers) in which the death of a man who died of lung cancer was allegedly caused by smoking. It is reported that industry analysts believed the tobacco companies had to win this suit "to sustain investor confidence." Post verdict reviews of the decision are mixed, however. An Indiana state law gave the jury a higher standard than several states, including Florida, require for a plaintiffs verdict. (See **Attachment L** for copies of newspaper accounts.)

While it is different from the legal and regulatory activities described, shareholder activism concerning tobacco issues is another area requiring tobacco industry attention. According to the Investor Responsibility Research Center (IRRC), Washington, D.C., 42 proposals were submitted for 1996 to tobacco companies and companies having ties to the industry. This is a larger number than had been proposed in previous years. These proposals cover a range of topics and call for a variety of actions:

- voluntarily comply with FDA proposal
- donate a percentage of tobacco profits to fund a youth antismoking campaign
- identify nicotine levels in cigarettes and reduce those levels
- end business ties with tobacco industry
- make health insurer portfolios tobacco-free
- spin off non-tobacco businesses

For more information, see the IRRC report, "Tobacco Production and Marketing," dated January 18, 1996 in **Attachment D.**

III. SBI Holdings of Tobacco Company Stock

Since there is no commonly accepted definition of what constitutes "tobacco company," determining the extent of the SBI's tobacco holdings is somewhat problematic.

The lawsuit filed by Attorney General Humphrey names eight defendants (see **Attachment G**). The publicly traded companies affected by the suit are:

American Brands	Loews
BAT Industries	Philip Morris
Brooke Group, Ltd.	RJR Nabisco

In its recent announcement, the AMA cited thirteen companies with tobacco operations:

American Brands	RJR Nabisco
Brooke Group, Ltd	Sara Lee
Culbro	Schweitzer-Mauduit Int'l
Dimon	Standard Commercial
Loews	UST
Mafco Consolidated Group	Universal
Philip Morris	

The most comprehensive list of companies engaged in the tobacco business that staff has identified is a group of companies profiled by the IRRC. The IRRC has identified twenty five (25) "public companies around the world that manufacture tobacco products, or process or distribute tobacco as a major business activity." Their report, entitled "The Tobacco Industry, 1995 Edition," profiles publicly traded companies "whose stock US institutional investors are realistically likely to own." State owned or controlled firms outside the US are not included unless they are traded on a major US stock exchange or there is clear evidence of significant ownership by US institutional investors. The 25 companies are:

Amer Group Ltd.	Loews Corp.
American Brands Inc.	Philip Morris Cos. Inc.
American Maize-Products	Rembrandt Group Ltd.
B.A.T. Industries PLC	RJR Nabisco Holdings Corp.
Brooke Group Ltd.	Sara Lee Corp
Compagnie Financiere Richemont AG	Schweitzer-Mauduit International Inc.
Culbro Corp.	Societe Nationale des Tabacs (SEITA)
Dimon Inc.	Standard Commercial Corp.
Empresas La Moderna SA de CV	Tabacalera SA
Glatfelter (P.H.) Co.	Universal Corp.
Hanson PLC	UST Inc.
Imasco Ltd.	Volvo AB
Japan Tobacco Inc.	

As of June 30, the SBI holds stock in 22 of these 25 companies identified by the IRRC, up from 19 as of the end of March 1996. Please note that the significance of tobacco operations as a source of revenue for each firm varies widely:

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

Company	Percent Revenue from Tobacco in 1994	SBI Shares 6/30/96	SBI Cost Value 6/30/96	SBI Market Value 6/30/96
Amer Group	8.0%	113,725	$ 2,116,740	$ 1,915,224
American Brands	53.4	206,600	8,730,509	9,374,475
American Maize	27.0	0	0	0
BAT	63.2	1,298,363	9,879,577	10,102,188
Brooke Group	97.2	9,900	65,372	58,162
Compagnie Fin..	66.2	33,000	1,482,975	1,576,080
Culbro	47.6	10,600	356,900	632,025
Dimon	74.6	23,899	392,891	442,131
Empresas	55.0	400,000	1,857,838	1,790,376
Glatfelter	n/a	71,800	1,376,059	1,319,325
Hanson PLC	8.3	2,697,924	9,107,734	7,541,952
Imasco Ltd.	16.4	0	0	0
Japan Tobacco	96.0	0	0	0
Loews	14.2	388,300	22,987,890	30,627,162
Philip Morris	44.0	1,864,260	127,096,645	193,883,040
Rembrandt	n/a	115,000	999,922	1,080,198
RJR Nabisco	49.9	917,778	14,802,482	15,365,668
Sara Lee	<5	515,705	13,847,845	16,695,949
Schweitzer-Maud.	93.0	16,210	314,388	455,906
SEITA	83.1	19,600	595,254	899,292
Standard Comm'l	64.4	12,491	161,661	149,892
Tabacalera SA	53.3	74,050	2,618,859	3,731,280
Universal Corp.	70.5	208,400	5,156,611	5,522,600
UST	86.5	276,300	7,893,094	9,463,275
Volvo AB	5.1	325,700	5,701,012	7,433,437
Total		**9,599,605**	**$237,542,260**	**$320,059,640**

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

For information on the other lines of business operated by the above companies, please refer to **Attachment H.**

For a breakdown of holdings held in the active and passive portfolios, see **Attachment I.**

IV. Current Tobacco Industry Research Reports

The changing legal environment raises questions about the market's valuation of tobacco company stocks.

As staff reported earlier, tobacco industry research reports gathered during mid 1995 generally concluded that the potential for adverse claims against tobacco companies was already factored into current market prices. (See the information included in **Attachment B** for highlights of these reports.) Similar reports issued in late 1995 and early 1996 generally reflected the same conclusion. (See **Attachment J.**)

Analyst assessments since the Florida (Carter) verdict call the case "unique" and reference an "increase in near-term tobacco litigation risk." They also speculate that the tobacco industry will likely prevail in the Indiana (Rogers) case. Some comments point to an easing of litigation risks as investors digest these and other anticipated legal outcomes. These views may change, however, when the Rogers decision is announced in Indiana. (See **Attachment M** for highlights from tobacco industry research reports from the spring and summer 1996.)

V. Activity at Other Public Pension Funds

The following items are based on media reports and discussion with IRRC regarding activity at other public pension funds:

- In early 1996, the **Massachusetts** Attorney General asked money managers for the Massachusetts pension funds to be more active shareholders. Similarly, the **Florida** Attorney General, with support from the Florida Governor, has urged that state's pension fund to address tobacco companies as shareholders in order to reduce tobacco advertising to youth.

- In March 1996, the New York State Comptroller, sole fiduciary for the **New York State and Local Retirement Systems**, announced that its active equity managers have been instructed not to purchase additional shares of tobacco company stocks. The Systems will continue to hold tobacco stocks in its passively managed portfolios. In addition, the Fund industry support for initiatives to reduce youth access to tobacco products.

- In April 1996, **Maryland State Retirement Systems** sold tobacco holdings because of concerns about the long term financial outlook for the industry. The Systems sold stock holdings in four companies and a single company bond investment. The executive director of the Systems reported that the sale was a "strategic investment decision" and that the fund had not adopted a policy prohibiting investments in tobacco companies. The executive director added that the fund would reevaluate investing in tobacco stocks if lawsuits and other negative publicity concerning the industry are settled.

- In late April 1996, **New York State Teachers Retirement System** (NYSTRS) announced a three point action plan concerning its investment in tobacco stocks. NYSTRS decided to take action to:

  - communicate with tobacco companies to reduce potential exposure by improving youth antismoking efforts;
  - support "reasonable" proxy proposals directed at spinning off nontobacco related businesses; and
  - reduce its tobacco exposure by underweighting the tobacco sector of its Russell 3000 index fund by up to 25 percent. This action will be done over a period of time in conjunction with semi-annual rebalancing of the index.

- In late April 1996, a California Assembly Committee voted against a bill to force **California** public pension funds to divest their tobacco stocks. A bill has been introduced in the Massachusetts House to require that state's funds to divest their tobacco holdings in a timely fashion. No action was taken on the **Massachusetts** bill during the 1996 session.

- The **Texas** Attorney General is reportedly reviewing that state's investment in tobacco stocks. Similarly, the **New York City Employees Retirement System** (NYCERS) and state funds in **Washington** and **Louisiana** are reported to be reviewing their positions on holding tobacco stocks. (The reports on Washington and Louisiana are new information since the SBI's June meeting.)

As reported in the summer 1996, the cities of Pittsburgh, Pennsylvania and Cambridge, Massachusetts approved laws requiring the divestiture of tobacco investments. The San Francisco board of supervisors signed a resolution urging the San Francisco Retirement Board to divest tobacco holdings, but the resolution is not a law requiring the action.

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ATTACHMENT K

Attachment K contains August 1996 news reports concerning the new FDA rules on tobacco.

THE WALL STREET JOURNAL
LAW WEDNESDAY, AUGUST 14, 1996

FDA Forwards Final Version of Rule On Tobacco to White House for Review

By TIMOTHY NOAH
And HILARY STOUT
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – The Food and Drug Administration has forwarded the final version of its controversial tobacco rule to the White House.

The rule, which isn't believed to differ appreciably from the version proposed last summer, would ban tobacco marketing deemed accessible to minors. It was sent from the FDA to the White House yesterday afternoon, according to Lawrence Haas, a spokesman for the White House budget office, which will review the rule before making it public.

Given the sweeping nature of the regulation, and the importance of the tobacco issue in the 1996 presidential election, the rule is sure to be vetted by top White House officials and President Clinton in addition to the budget office review. One complication is that the top regulatory official at the White House budget office, Sally Katzen, has recused herself from tobacco issues because her husband works for Jones, Day, Reavis & Pogue, a law firm that has done extensive work for RJR Nabisco Inc., the nation's second largest tobacco manufacturer.

The White House by law has 90 days to review the regulation but is eager to get the rule completed quickly. Mr. Clinton will likely unveil it in September, a White House official said.

The tobacco rule, which for the first time would subject the tobacco industry to regulation by that agency, was proposed by the FDA last August. The proposal, among other things, would ban vending-machine sales of cigarettes; restrict tobacco ads to a black-and-white, text-only format in magazines with a significant youth readership; and require tobacco companies to fund an ambitious antismoking advertising campaign.

The rule drew more comment than any previous proposal put forward by the FDA, including stacks of letters from outraged stock-car racing fans. Under the FDA proposal, brand-name sponsorship of sporting events such as North Carolina's Winston Cup would be forbidden, though tobacco companies could sponsor such events using their corporate name.

Philip Morris Cos. and U.S. Tobacco Co., a unit of UST Inc., attempted to derail the FDA rule by proposing a legislative compromise incorporating several of its elements, albeit in modified form. But this plan, which would have required the FDA to relinquish its proposed jurisdiction over tobacco, was never adopted by other major tobacco manufacturer, and was judged insufficient by the Clinton administration. No member of Congress was found to sponsor it.

THE WALL STREET JOURNAL
THURSDAY, AUGUST 22, 1996

Clinton Set to Release Tobacco Curbs

Regulation Bans Marketing To Minors, Gives FDA Control of the Industry

By TIMOTHY NOAH
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The White House tomorrow plans to release its long-awaited rule restricting tobacco sales.

The sweeping regulation will ban tobacco marketing deemed accessible to minors and subject the tobacco industry, for the first time, to regulation by the Food and Drug Administration. Its release appears timed to generate maximum publicity on the eve of the Democratic National Convention, which begins Monday. President Clinton for months has been highlighting the forthcoming tobacco rule, and the Republican party's growing dependence on tobacco money, and the Clinton campaign has been especially eager lately to capitalize on Robert Dole's public equivocation about whether nicotine is addictive.

Tobacco Shares Fall

A sell-off in tobacco stocks sent Philip Morris to its lowest price in three months and contributed to a 31.44-point decline in the Dow Jones Industrial Average. Articles on pages C1 and C2.

News of the rule's planned release was reported by the Cable News Network and then confirmed by an administration official. The official also said that the rule would contain only minor changes from the proposal issued by the Food and Drug Administration in August 1995, which drew more responses than any rule ever proposed by the agency. The White House budget office is still reviewing the rule but is not expected to alter it further in any significant way.

The rule, as proposed, was bitterly fought by the tobacco industry, which has always denied that marketing techniques like the cartoon mascot Joe Camel represent any attempt to entice minors to smoke. Among other things, the final rule is expected to ban vending-machine sales of cigarettes; restrict tobacco ads to a black-and-white, text-only format in magazines with a significant youth readership; ban brand-name tobacco sponsorship of sporting events such as North Carolina's Winston Cup; and require tobacco companies to fund an ambitious antismoking advertising campaign.

Tobacco companies have lately argued that a Supreme Court ruling this past year concerning billboard ads for liquor undermines the advertising restrictions in the proposed rule, which included a ban on tobacco-product billboards within 1,000 feet of schools.

Antismoking activists have countered that the Supreme Court decision addressed a legal activity – liquor ads publicizing price differences – whereas the FDA rule addresses an illegal activity – the alleged marketing of tobacco to minors. But it is likely that the agency has made certain changes to bring the rule in line with the Supreme Court decision.

Philip Morris Cos. and U.S. Tobacco Co., a unit of UST Inc., attempted to derail the FDA rule by proposing a legislative compromise incorporating many of its elements. But this plan, which would have required the FDA to relinquish its proposed jurisdiction over tobacco, was never adopted by other major tobacco manufacturers and was judged insufficient by the Clinton administration.

By releasing the final rule this week, the Clinton administration appears to be rejecting any legislative solution. But since the rule isn't likely to take effect for several months, it is conceivable that the administration is trying to exert pressure on pro-tobacco legislators to accept a bill, sometime after the presidential election, that is closer to the FDA rule.

THE WALL STREET JOURNAL
FRIDAY, AUGUST 23, 1996

Tobacco Rule Won't Outlaw Machine Sales

By TIMOTHY NOAH
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The tobacco rule that President Clinton will unveil today won't contain outright bans of cigarette sales in vending machines or through the mails.

Both of these marketing methods would have been banned in the version of the rule proposed by the Food and Drug Administration in August 1995, on the grounds that they made cigarettes too-easily available to minors. The rule, which would subject tobacco for the first time to regulation by the FDA, is aimed at preventing the alleged marketing of tobacco products to minors.

In the final rule, however, vending machines will be permitted in places judged inaccessible to minors, such as bars and nightclubs – though they will be banned elsewhere. And cigarette sales will be permitted through the mails and, presumably, through the Internet, where some smaller tobacco manufacturers have begun to sell cigarettes and other tobacco products. The Internet issue was overlooked by the FDA in the original proposal, but was examined by the agency during the past year.

Several other tough provisions in the proposed rule remain unchanged in the final version. Tobacco billboards will be banned within 1,000 feet of schools; tobacco ads in magazines whose youth readership exceeds 15% will be restricted to a black-and-white, text-only format; and tobacco-company brand-name sponsorship of sporting events, such as stock-car racing's Winston Cup series, will be forbidden. The latter provision, when proposed last summer, stirred considerable opposition from racing fans, who flooded the FDA with protest letters.

Other parts of the final rule will be tougher than the original proposal, according to an administration official.

But the watering-down of the vending-machine provision and the elimination of the ban on mail-order sales both seem likely to disappoint groups that seek to restrict tobacco's availability to minors. **Philip Morris** Cos. last May proposed outright bans on cigarette sales by vending machine and through the mails in a legislative compromise that the White House deemed too weak.

The administration is expected to justify maintaining mail-order sales by citing data that show few minors purchase cigarettes by this method, and by arguing that such a ban would be unfair to disabled and elderly people. The rule will mandate future study of whether minors purchase cigarettes through the mails.

The administration's decision not to wholly eliminate cigarette vending machines may also stem from concern for the vending-machine industry; about 40% of all vending-machine companies, many of which are ailing, count tobacco among the products they sell.

It isn't clear when the administration decided to alter the vending-machine proposal, but several months ago President Clinton described this provision at a public event as less than an outright ban. At the time, White House and FDA officials said the president had mischaracterized the ban as outlined in the proposed rule.

Overall, the tobacco rule is certain to displease the tobacco and advertising industries, which bitterly opposed it after it was proposed, and are seeking to block its implementation in federal court. Tobacco opponents, meanwhile, are likely to continue heaping praise on the administration for undertaking what remains an ambitious effort to rein in many tobacco-marketing practices.

FDA Tobacco Rules

AUGUST 1995 PROPOSAL	FINAL RULE
■ Ban cigarette sales through vending machines.	Vending-machine sales allowed only in adults-only areas such as bars and nightclubs.
■ Ban tobacco-product billboard ads within 1,000 feet of schools and playgrounds.	Same.
■ Tobacco-product billboard ads more than 1,000 feet from schools and playgrounds must be black-and-white, text-only. Same with advertisements in stores.	Color imagery allowed in such ads only in adults-only areas such as bars and nightclubs, provided the image can't be seen from outside, and can't be removed easily.
■ Tobacco ads in publications whose youth readership exceeds 15% or 2 million, must be black-and-white, text-only.	Same.
■ Ban mail-order sale of tobacco products.	Mail-order sales permitted.
■ Ban brand-name tobacco sponsorship of sporting events like the Winston Cup auto race.	Same; Ban is extended to brand-name sponsorship of individual cars and teams.
■ Ban publicity items such as hats and T-shirts bearing tobacco product names and logos.	Same.
■ Tobacco manufacturers must provide $150 million annually to fund TV ads on the health hazards of tobacco.	Not included. Instead, the FDA will begin discussions with tobacco companies to fund an education campaign.

Clinton's Tobacco Rule Restricts Ads In Media Deemed Accessible to Minors

By TIMOTHY NOAH
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The Marlboro Man may continue his ride through the pages of Time, Newsweek, Family Circle and Popular Mechanics, but he will be fenced out of People, Rolling Stone, Sports Illustrated and Vogue.

In those magazines with a substantial youth audience – and on all outdoor billboards – the Clinton administration's new tobacco rule will prohibit ads featuring color, pictures or drawings.

The tobacco rule, which for the first time subjects the industry to regulation by the Food and Drug Administration, contains stiff new restrictions on the marketing of tobacco products deemed accessible to minors – especially advertising. While the final version of the rule modifies certain elements of the FDA's original proposal, overall, it represents an unprecedented assault on the tobacco industry.

"It really isn't an accident that nobody else has ever tried to do this," President Clinton said Friday at a White House ceremony to unveil the rule, recalling a comment he made to Vice President Al Gore when the FDA first contemplated the regulation. "This is not going to be one of those freebies."

Though the rule risks being overturned in federal court – tobacco companies and advertising agencies have lawsuits pending – the White House long ago concluded that the issue is a big plus with voters.

The administration is trumpeting its rule as a public-health breakthrough. But it also represents an opportunity for the Clinton presidential campaign to show, on the eve of the Democratic National Convention, that its candidate is willing to face down Big Tobacco.

Republican presidential candidate Robert Dole, who has made clear his opposition to the FDA rule in the past, issued a carefully worded statement on Saturday. "I am pleased that President Clinton has finally recognized the dangers of teen smoking," the statement said. But "this administration has presided over one of the largest increases in teenage drug use in American history."

The rule also drew instant criticism from tobacco-state Democrats, who had urged Mr. Clinton not to issue it. The rule is sure to hurt his re-election prospects in Kentucky, Tennessee, and Georgia–three tobacco-producing states he won in 1992.

The final rule contained some significant changes from the proposal, most of them, FDA officials say, meant to deflect legal and political attacks asserting that the rule will impede adults as well as children from buying tobacco products.

The Clinton administration eliminated contemplated bans on mail-order sales, which the FDA says rarely involve children, and tobacco sponsorship of contests, lotteries and games of chance, which the agency says are already limited to those over 18. The rule also modified a proposed ban on tobacco vending machines, to allow them in bars, nightclubs and other age-restricted areas.

But Steven Parrish, senior vice president for corporate affairs at Philip Morris Cos., said regulation still "tramples on the Constitution and the rights of millions of adult Americans." Dan Jaffe, executive vice president of the Association of National Advertisers, said: "We are in favor of trying to make it hard for kids to buy cigarettes, but trying to manipulate advertising just will not work."

Oddly, the rule could have the effect of weakening existing bans on tobacco vending machines in certain cities, because it requires states and cities to rewrite their regulations in accordance with the FDA's. Among the municipalities that have banned cigarette vending machines are San Diego; Ann Arbor, Mich.; and Brookline, Mass. Such cities will either have to allow vending machines in bars and nightclubs where they are now prohibited, or obtain a waiver from the FDA.

The fate of one key element is unclear. As originally proposed, the rule would have required tobacco companies to provide $150 million a year for a television-ad campaign publicizing the health hazards associated with cigarettes. This has been dropped from the final rule. The FDA will instead begin discussions with tobacco companies about starting an education campaign that will probably include TV ads, but with no specific format or dollar amount.

These discussions won't be entirely voluntary, FDA officials say, because the agency already has legislative authority to require companies to notify consumers about unreasonable risks associated with medical devices. Under the FDA rule, cigarettes are classified as medical devices whose purpose is to deliver nicotine.

The agency will be sending out letters to six tobacco companies: Philip Morris; RJR Nabisco Holdings Corp.'s R.J. Reynolds Tobacco Co.; Lorillard Inc., a unit of Loews Corp., which makes cigarettes; United States Tobacco Co., a unit of UST Inc.; and Conwood Co. and Pinkerton Tobacco Co., makers of smokeless tobacco.

FDA Commissioner David Kessler said he still anticipates the campaign will consist largely of TV ads, and that it will cost between $100 million to $150 million.

ATTACHMENT L

Attachment L contains August 1996 news reports about the Florida and Indiana suits.

THE WALL STREET JOURNAL
MARKETPLACE SECTION
WEDNESDAY, AUGUST 21, 1996

LEGAL BEAT

Is Tobacco Trial A 'Must Win' For Industry?

By MILO GEYELIN
Staff Reporter of THE WALL STREET JOURNAL

Richard Rogers began stealing his father's cigarette butts when he was five. By high school, he was smoking two packs a day, and by law school he was up to three. At 52, the Indianapolis attorney died of lung cancer. Was the tobacco industry responsible for his death?

That's the heart of a case, nearing final arguments in Marion County Superior Court in Indianapolis, that has suddenly taken on towering stakes for the $45 billion tobacco industry. Since earlier this month, when a jury in Jacksonville, Fla., awarded $750,000 to an ex-smoker with lung cancer and his wife, Wall Street and the tobacco industry have been pondering the same question: Was that verdict an aberration, as the tobacco companies maintain, or does it signal a fundamental and costly shift in public sentiment — against the industry? Accordingly, industry analysts are calling the Rogers case a "must win" if the tobacco industry is to sustain investor confidence.

The Rogers case was filed shortly before Mr. Rogers's death in 1987 by a father-and-son law firm making its first foray into tobacco litigation. The suit contends that nicotine is addictive and that smoking caused Mr. Rogers's cancer, and charges cigarette companies with negligence and making a defective product.

"Dick smoked all the time," Mr. Rogers's widow, Yvonne, testified two weeks ago. "He would light up before his feet touched the ground in the morning . . . As much as he was breathing, he was smoking."

On the defense team are a battalion of industry lawyers working for four tobacco companies whose brands Mr. Rogers smoked: **Philip Morris Cos.**; R.J. Reynolds Tobacco Co., a unit of **RJR Nabisco Holdings Co.**; American Tobacco Co., now owned by **B.A.T Industries PLC**; and **Brooke Group Ltd.**'s Liggett Group Inc. They are arguing the industry's standard defense: While there remains no proof that cigarettes cause lung cancer, the general health concerns about smoking were well enough known when Mr. Rogers took up the habit that he implicitly accepted the risk.

That argument wasn't enough to convince most jurors when the Rogers case first went to trial last year. The jury found unanimously that cigarettes are unreasonably dangerous but split 5-1 on the question of whether Mr. Rogers "voluntarily" incurred a known risk by smoking. All but one juror agreed that he was addicted to some extent, but the lone holdout forced a mistrial.

"What really hung us up was whether he was wholly responsible," says former juror Linda Tarr Churchill. "The rest of us were for the plaintiff."

Now, the tobacco team is trying some new tactics.

Last year, more than a dozen defense lawyers — led by the Kansas City firm **Shook, Hardy & Bacon**, which represents Philip Morris — crowded around the defense table, frequently jumping in simultaneously with objections. The team further erred, one industry lawyer concedes, by failing to produce a company representative to put a human face on the corporate defense. And to argue that the health risks of smoking and addiction have been well-known for more than a century, tobacco company lawyers waited until the final day of trial before dumping a mound of school textbooks and magazine articles on the jury.

This time, the number of lawyers at the defense table was trimmed to five. To explain cigarette design, the defense last week produced RJR's recently named director of product development, David Townsend, a poised, 19-year veteran of research and development at Reynolds. And to explain how health risks of smoking have been ingrained in the popular consciousness for years, particularly in Indiana, tobacco lawyers brought in Indiana University history professor Joan Hoff to discuss magazine articles and song lyrics dating from the early 1900s that warned of smoking's hazards.

But not all the changes worked as planned. When asked on cross-examination whether he believed smoking causes cancer or whether cigarettes are addictive, RJR's Mr. Townsend waffled, drawing a rebuke from Marion Superior Court Judge Kenneth H. Johnson.

"I don't know what your problem is," the judge snapped. "Would you answer the question?" Mr. Townsend finally replied that he did not believe smoking causes cancer.

Ms. Hoff of Indiana University testified that tobacco "has one of the longest-standing negative presses in history." But under cross-examination, she conceded that she was unaware of the tobacco industry's behind-the-scenes efforts to minimize public-health concerns about smoking and lung cancer. "Are you aware that [the tobacco industry] distributed articles entitled 'Go Ahead and Smoke Moderately,' 'The Phony Lung Cancer Scare' and the book "Why Stop Smoking?' " she was asked.

"No," she replied.

Also, her contention that most Americans have long been aware of smoking's risks was undercut during cross-examination. She admitted, for example, that she had not seen survey results published in the 1989 Surgeon General's report that 24% of all smokers surveyed in 1986 were not concerned about the health risks.

Another possible setback for the defense: a jury sprinkled with unfortunate links to smoking. One juror is an ex-smoker whose uncle has throat cancer. Another hasn't been able to quit smoking longer than six months for 20 years; her husband quit after devoloping chronic bronchitis. The panel is composed of five women, who are generally thought to be more sympathetic to plaintiffs than male jurors. And overall, the panel is more educated than the one in the first Rogers trial — a fact some plaintiffs' lawyers consider an asset.

But the defense has managed to keep from jurors the Brown & Williamson internal documents about nicotine and addiction that so inflamed the Jacksonville jury earlier this month. Judge Johnson limited plaintiff's evidence to what was introduced in the first Rogers trial — mainly internal company records discussing the links between cancer and smoking. None of the documents discusses addiction in detail.

And, unlike Florida, Indiana requires a defense verdict if a plaintiff is held to be more than 50% responsible for his injury. That would allow the jury to side with Mrs. Rogers on her broad claims about smoking and cancer but still return a verdict for the tobacco companies.

Jury Rejects Damages in Cigarette Case But Says Tobacco Firms Were Negligent

By MILO GEYELIN
Staff Reporter of THE WALL STREET JOURNAL

INDIANAPOLIS – A state-court jury sided with the tobacco industry in a closely watched case, refusing to award damages to the family of a heavy smoker who died of lung cancer at age 52.

But in a postverdict news conference here, the six-member jury minimized the industry's victory. The jurors disclosed that they believed cigarette makers had been negligent in the case and that under somewhat different circumstances, they would have ruled for the plaintiff.

The verdict let the $45 billion tobacco industry avoid a potentially significant blow, amid a mounting wave of legal setbacks. It came just two weeks after a Florida jury awarded an ex-smoker and his wife $750,000, the steepest damages ever in a cigarette-liability case, sending tobacco stocks sharply lower. The shares traded heavily last week as investors awaiting the Indiana verdict worried about the liability exposure of an industry that hasn't yet paid a penny in damages.

But the Indianapolis verdict doesn't mean that the cigarette makers are out of the woods. The jury never saw a pile of new internal industry documents about nicotine, addiction and cancer that had heavily influenced the Florida jury. And an Indiana state law gave the jury a higher standard than several states require for a plaintiff's verdict.

In a prepared statement read by foreman David Anderson in a packed courtroom, the jury expressed "concern that our verdict may be misconstrued as an endorsement of the tobacco companies' position on smoking and health."

The statement declared: "In this case, under the laws of Indiana, we found [the plaintiff] Richard Rogers bore a greater responsibility for the condition that caused his death than did the actions of the defendants." It added: "However, we felt the evidence did show a degree of negligence on the part of the cigarette companies."

To what extent, Mr. Anderson said, the jury couldn't agree, except that the industry's negligence didn't exceed 50%. Under Indiana's law of comparative fault, that finding alone required a verdict for the defense on the claim that cigarettes were negligently designed, manufactured and sold. The jurors also rejected the plaintiffs' claim that cigarettes are unreasonably dangerous because they addict smokers and cause lung cancer.

For the tobacco industry, the verdict—announced late Friday – offered a psychological boost on the same day that President Clinton declared nicotine an addictive drug by announcing sweeping federal restrictions to curb tobacco advertising to children. Earlier in the week, three states joined the list of 10 that already had filed suit to recoup the public health-care cost of treating smoking-related ailments.

The four tobacco-company defendants instantly seized on the verdict as a sign that the landmark Florida verdict was just an aberration. "This unanimous verdict sends a clear signal that there is no legal groundswell in the American court system to reverse 40 years of precedents that people are responsible for their own actions when it comes to tobacco use," said Charles R. Wall, senior vice president for litigation at **Philip Morris** Cos.

Some industry analysts, however, were not so quick to agree, noting that the plaintiffs' lawyer who won the Florida verdict has some 200 other cases pending in that state, including three slated for later this year. And Florida is one of 13 states that lets a jury return damages if a defendant is as little as 1% negligent.

"We're just going to have to see whether the industry can put on the same sort of defense in these Florida cases," said Diana Temple, a tobacco analyst at Salomon Brothers Inc. in New York.

Antismoking activists went further, saying the verdict wasn't a good indicator of future results since Marion County Superior Court Judge Kenneth H. Johnson limited plaintiffs' evidence to what was admitted when the case first went to trial last year. That case ended with a hung jury.

"What's remarkable is that even lacking that evidence, this jury expressed serious misgivings about letting the tobacco industry off the hook," said Matthew Myers, executive vice president of the National Center for Tobacco-Free Kids in Washington. "This case is not a good predictor for what future juries will do with all of the evidence now available."

Mr. Rogers, a former attorney in Indianapolis, was five years old when he first began smoking his father's cigarette butts from ashtrays. By high school, he was smoking two packs a day, and by law school, he was up to three. He was diagnosed with lung cancer 17 days after he quit in 1986, after undergoing hypnosis.

His suit, filed before his death in 1987, named Philip Morris; R.J. Reynolds Tobacco Co., a unit of **RJR Nabisco Holdings** Corp.; American Tobacco, now owned by **B.A.T Industries PLC**; and **Brooke Group's** Liggett Group Inc. During the three-week trial, the defense team of more than a dozen lawyers, led by Kansas City, Mo., firm **Shook, Hardy & Bacon** and Indianapolis defense lawyer Richard D. Wagner, took pains to show the jury how ingrained in the public mind the health risks of smoking were long before Mr. Rogers first lighted up.

Plaintiffs' lawyer C. Warren Holland, whose small father-and-son firm made its first foray into tobacco litigation with the Rogers case, presented evidence of the industry's aggressive, behind-the-scenes public-relations blitz and advertising campaign to trivialize health concerns.

As in the prior trial, much of the testimony centered around what defines an addiction. Mr. Holland, unable to present the industry's own documents on the subject that proved so influential to the Florida jury, relied on testimony from two experts, Dr. David M. Burns, a senior scientific expert for the 1988 Surgeon General's Report, and Dr. Stephen Jay, assistant dean of the Indiana University Medical School. Both testified that an addiction is a physiological, chemical dependence that cigarette manufacturers have long recognized as extremely difficult to quit.

Just how difficult? Before he died, Mr. Rogers described trying to quit several times by tossing out his cigarettes on Friday nights and lying in bed in a cold sweat, curled in a fetal position until Monday morning, when he would buy a fresh pack first thing on the way to work.

But the jury said it found that testimony unconvincing. The defense produced testimony from Mr. Rogers's first wife, read to the jury by a secretary from Shook, Hardy & Bacon, that Mr. Rogers never made any serious effort to quit during their 17-year marriage. Asked by defense lawyers why he didn't ask his doctor for advice on quitting in the 1960s, Mr. Rogers replied in a deposition before his death, "I didn't really want to quit."

The jury, which deliberated 18½ hours over two days, said it was struck most by this lack of evidence that Mr. Rogers ever seriously tried to quit smoking, and thereby incurred his own risk.

"To be real honest," said Mr. Anderson, the jury foreman, "I think that if we had seen examples that could have been borne in the evidence that Mr. Rogers had actually tried as hard as he said to quit, we perhaps would have come forth with a different verdict."

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ATTACHMENT M

Highlights from Tobacco Industry Research Reports
Spring-Summer 1996

The following are some highlights from recent tobacco industry research reports prepared by various investment industry analysts. The company comments are in alphabetical order.

Auerbach, Pollak & Richardson, Inc.

- August 12, 1996 report states "In our expectation, tobacco stock prices will experience further weakness as hitherto complacent investors begin to realize how badly the industry's litigation position has deteriorated in the past year. Eventually, as investors grow more comfortable with the fact that the tobacco industry cannot win every case that goes to trial, we think the exceptional values offered by tobacco stock prices will attract buyers and will initiate a new cycle of complacency."

Bernstein

- August 16, 1996 report states that "we believe that the industry will prevail (defense verdict or hung jury) in the Rogers retrial." The report cites their belief that "the Carter case will prove to be an aberration." The report also states that "If the industry loses Rogers, we would expect tobacco stocks to break through their historic low relative multiples..."
- August 12, 1996 report state that "The current Rogers retrial in Indiana becomes a 'must win' for the industry -- both for investor confidence and to dissuade plaintiff attorneys assessing whether to jump feet-first into tobacco litigation." "If the industry loses again in Rogers, then our thesis that Carter was an aberration..." "If the industry loses Rogers, we would expect tobacco valuations to fall through their all-time relative multiples..." "If the industry wins in the Rogers retrial..., we would expect stocks to only partially retrace the 10-15% losses incurred Friday [the day of the Carter decision], as the FDA and November election threats become more visible, and as some investors use any valuation upticks to further lighten tobacco exposure." The report also cites their belief that "both Philip Morris and RJR can outperform over a 6-12 month period."
- May 24, 1996 report states that "The Liggett settlement is technically dead, since there is no class anymore."

Dean Witter

- May 28, 1996 report states about the Castano class action case ruling that "The Castano ruling also reverses part of the Bennett LeBow agreement with the Castano plaintiffs in that there was a provision that would void that settlement if the industry was successful in decertifying Castano."

- August 12, 1996 report concludes that "we are maintaining our 'buy' ratings on Philip Morris and RJR." The report also states "Nevertheless, the near-term tobacco litigation risk has increased." The report asserts that "If the Rogers' jury rules against the industry, it would likely indicate that there has been a significant shift in jury behavior. If the industry is victorious, Carter will be viewed as an anomaly." The report concludes that "Based on the Carter decision, we believe it is premature to conclude that there has been a fundamental shift in jury behavior...However, if the industry were to lose the Rogers case, we may have to alter our view."

Goldman, Sachs & Co.

- August 12, 1996 report states that "Market participants reacted [to the Carter decision] as if this was an unambiguous indicator that the risk has meaningfully increased that cigarette producers will face substantial financial obligations attendant to health litigation." The report notes that "the discount being assigned following Friday's market activity [the day of the Carter decision] is substantial..." Concerning overall litigation risk, the report concludes that "There is meaningful risk of further underperformance related to the possibility that juries may indeed be moving away from a view of smokers as knowledgeable users of a dangerous product. More information could become available to help evaluate this issue as the Rogers v. RJR trial concludes in Indianapolis later this month and other trials proceed later this year."

Tab I

STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending June 30, 1996

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	6/30/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$168 Billion	Actual	4.3%	23.0%
Total Firm Assets Managed in this Discipline	$ 16 Billion	Benchmark	4.0%	24.4%

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?*

   We outperformed the benchmark this quarter. Underweighting the basic industry and consumer manufacturing sectors contributed to the portfolio's outperformance while our largest overweight, finance, hampered performance as it lagged the market (+1.4% versus +4.5%). Although we were slightly underweight in the consumer staples sector, we had excellent stock selection, i.e., Coca Cola +18%, Gillette +21%, Pepsi +12%, and Philip Morris +19% versus the sector average of +11%. We were equal weighted in technology with the benchmark but our largest holdings were up substantially, i.e., Intel +29%, Microsoft +16%, Cisco Systems +22% and Compaq +27%.

   We underperformed the benchmark for the year, primarily due to our exposure to cellular, memory chip and semiconductor capital equipment stocks, specifically Nokia, Motorola, Texas Instruments and Applied Materials. The overweight of cable and broadcasting stocks also negatively impacted performance. Our core technology holdings solidified their industry leadership positions over the past year: Cisco Systems +124% has reached new highs and both Hewlett Packard +34% and Microsoft +33% exceeded the benchmark return. Also on the positive side, as with the quarter, the consumer staple holdings of Coca Cola, Pepsi, Philip Morris and Gillette significantly outperformed for the year. Our overweight of financials contributed positively despite the rising interest rate environment, especially Fannie Mae +42% and Citicorp +43%. Our airline overweight remained positive as United Airlines was up +53%.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We expect the bond and stock markets to remain unusually volatile until the state of the economy in the second half of the year comes into sharper focus. We still favor financial stocks on a risk-reward basis, particularly those that avoid interest rate risk by serving as intermediaries between the capital market and the consumer. We believe that the secular growth in PC demand remains intact and continue to emphasize companies positioned to take advantage of it. Overall, we continue to prefer stocks with proven growth records in the consumer and healthcare sectors as well as diversify across more names to hedge against the market's heightened volatility.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Won	Lost
University of Kentucky Howard Hughes Medical Institute City of Fort Worth	None

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$55.5 Billion	Actual	3.3%	30.8%
Total Firm Assets Managed in this Discipline	$13.1 Billion	Benchmark	3.1%	22.9%

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?*

   Active factor exposures detracted from portfolio performance during both the quarter and the twelve months ending June 30, 1996. During the quarter, the portfolio was hurt by a tilt toward small and intermediate capitalization stocks and an overweight in stocks with a high degree of liquidity. Negative returns to these exposures were partially offset during the quarter by a positive contribution from an underweight in relative strength. During the twelve months ending in June, the portfolio was hurt by an overweight in stocks with a high degree of earnings variability (economic sensitivity) and from an underweight in relative strength. Underweights in stocks that have a high degree of foreign earnings exposure and price volatility added modestly to portfolio performance during the same period.

   Industry weightings detracted from portfolio performance during the quarter but added to performance for the year ending in June. During the quarter, negative returns from relative overweights in the banks, insurance, drug, rail and paper sectors and from an underweight in energy more than offset positive contributions to performance from our relative overweights in tobacco, cosmetics and leisure and an underweight in chemicals. For the twelve months ending in June, portfolio performance benefited from overweights in aerospace, drugs, tobacco, cosmetics and banks. Positive returns to these exposures more than offset negative returns to overweights in basic and interest sensitive industries, including papers, iron and steel, banks and non-life insurance along with underweights in business machines and energy. Stock selection added the largest increment to portfolio performance during the quarter and for the year. Holdings which contributed to positive stock selection during the quarter included Cigna, Citicorp, Lockheed Martin, Melville and Sprint. Holdings which, on a stock specific basis, detracted from performance during the second quarter included Alza, Forest Labs, Lyondell Petrochemical and Seagate Technology.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The portfolio is relatively market-like in regard to factor characteristics at this time. We find that stocks with high price-to-book rank attractively, consistent with the recent underperformance of traditional value stocks relative to growth. The portfolio is also modestly overweighted in stocks with higher earnings variability and financial leverage characteristics due largely to a modest overweight in financials and a moderate underweight in utilities.

   From an industry perspective we continue to possess an overweight in financial/interest sensitive stocks, which comprises modest overweights in both banks and property casualty insurance. We believe that restructuring and consolidation will raise efficiency for banks. A common thread in our insurance holdings is a trend toward restructuring and improved management focus, along with our belief that uncertainty surrounding environmental liabilities for casualty insurance companies may diminish and estimated liabilities may decline.

The portfolio is underweighted in utilities, including both electric utilities and the traditional telephones. We continue to see evidence that the eventual deregulation of power generation is accelerating competitive pressure from lower cost utility and non-utility generators and will increase the purchasing power of larger power users. Competition will intensify in the telecommunications and cable industries as regulatory barriers between traditional business lines are blurred and the traditional regional telephone companies are pushed toward "cost of service" pricing.

We are modestly overweighted in the non-health consumer sector including retail/apparel, durables and discretionary spending stocks. The demographic profile of U.S. consumer and the pressures from sustained reduction in labor content in many corporations suggest trend growth in this area will continue to be slightly below that of the general economy. Nevertheless, we find a number of individual stocks that appear attractive on a stock specific basis. We are overweight in selected tobacco, cosmetics and leisure related stocks. The portfolio also remains overweighted in health care and drug stocks. While the immediate threat of direct government regulation of health care has now passed, the industry faces a longer-term intensification of competition due to the growing power of health care consumers. Since we see this trend progressing, all of our health care selections are companies which we believe can maintain profitability in a more competitive environment. This position is further supported by the demographics of an aging population and technological advances in previously underserved areas of health care.

We are overweighted in transportation resulting entirely from an overweight in railroads. In general, we believe that secular improvement in railroad industry profitability will continue as regulatory barriers continue to fall, enabling rails to shed excess labor costs and abandon unprofitable routes. The portfolio is modestly underweighted in the basic industries comprised of neutral weights in iron, steel and paper stocks and an underweight in chemicals. Market prices for many commodities are below beginning-of-year levels, as a result of slowing economic growth and capacity additions. Finally, the portfolio is overweight with respect to aerospace and defense and underweight in technology and other producer goods. Key holdings include Avon, Chase Manhattan, Citicorp, Burlington Northern, Enron, Kimberly Clark, Lockheed Martin, Mattel and Schering-Plough.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no significant organizational changes in this past quarter. Five (5) U.S. Equity accounts for $1,444 million were gained during the quarter. There were no lost accounts.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	6/30/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$3.2 Billion	Actual	5.5%	32.1%
Total Firm Assets Managed in this Discipline	$1.4 Billion	Benchmark	3.0%	24.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Performance for the second quarter outperformed the benchmark. Areas of strength included strong stock selection in the health care sector with noteworthy performance by Thermotrex Corp. An overweight to the benchmark and superior performance in the technology sector was extremely productive, despite increasing volatility and choppy returns in the broader technology area in the month of June. Finally, strong performance due to an orientation toward the equipment and services segment of the energy sector helped us to outperform the benchmark's energy component. The one area in which we saw weakness was the cyclical sector, where stock selection was not productive. Performance for the year was strengthened considerably by successful stock picking in the technology and health care sectors, which were themselves the better performing areas of the benchmark over the period. Key names included HEALTHSOUTH Rehabilitation Corp., Vivus, Inc., Parametric Technology Corp. and WorldCom, Inc. Portfolio returns in both sectors were roughly twice those of the benchmark. A third area of portfolio strength was the overweighted consumer services area, including the hotel/motel group, where Host Marriott Corp. and Marriott International, Inc. provided a boost to returns. The one area of weakness within the portfolio was the interest sensitive sector, which performed well in the benchmark, but the portfolio slightly underperformed. In general, the portfolio's move toward the better performing middle capitalization names late in 1995 helped performance across all sectors.

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.*

Portfolio structure continues to reflect a barbell strategy encompassing mid-cap growth names and global cyclicals. Within the global cyclicals, we have temporarily cut back on holdings in the agricultural and farm equipment group, taking accumulated gains with the intention of stepping back in at lower prices. Similarly, we have reduced exposure to the aluminum group, expecting to reestablish a significant weight as the inventory reversal progresses.

Within the consumer sector, we've liquidated the position in CompUSA, Inc., having quadrupled our initial investment and met valuation targets. Partial profits have also been taken in a handful of retail names which have produced significant returns since the beginning of the year. The outlook remains quite favorable for key positions in the lodging names and Price/Costco Corp., the latter continuing to surprise analysts on the upside. Despite the difficulties in the technology area, earnings for major holdings such as Parametric Technology Corp. and Oracle Corp. have been strong. Reflecting a more positive view of the interest rate environment, we have increased holdings within the interest sensitive sector, bringing the sector closer to a market weight. Finally, we maintain our exposure to the equipment and services group within the energy sector, which should continue to benefit from the application of technological advances throughout the industry.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   As of June 30, 1996, the Firm officially welcomed the arrival of Phil Warner from Morgan Stanley. Mr. Warner brings close to $400 million of client assets under FLA LP. It is not anticipated that Mr. Warner will be involved in any aspect of the Firm's existing portfolio management activities, but will manage his largely taxable client portfolios separately from the Firm's tax-exempt business. It is not anticipated that Mr. Warner will have contact with or responsibility for the SBI portfolio.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   No issues to report at this time. We look forward to seeing members of staff in October, and would be happy to come to St. Paul to meet with other members of staff or the committee/board at their convenience.

Staff Comments

No comments at this time.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	6/30/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$9.9 Billion	Actual	1.2%	23.8%
Total Firm Assets Managed in this Discipline	$0.5 Billion	Benchmark	2.9%	23.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Last Quarter's Performance:
The performance for the period lagged the benchmark, giving up some of the relative gain of the first quarter. According to our performance attribution analysis stock selection in May and June was responsible for the bulk of the shortfall. Industry and risk-index exposures had a minor impact on active return. Issues which were strong performers for the account were Equifax, Inc. (30%), Micron Technology, Inc. (18%), GAP, Inc. (16%), Safeway, Inc. (16%), and Texas Instruments, Inc. (14%). Issues which performed poorly were Ivax Corp. (-39%), Humana, Inc. (-29%), Union Carbide (-18%), Digital Equipment (-16%), and KLA Instruments (-13%).

The risk factor bet which helped performance was a positive tilt on Variability-in-Markets. The risk factors which hurt performance was a positive tilt toward Trading. Industry contributors to active return were positive bets on Food Stores, Gas Utilities, and Air Transportation. Industry bets that hurt performance were negative bets on Forest Products, Services, and Aerospace. While our investment process does not specifically target industry groups for over and underweighting, these weights arise out of our selection of individual issues.

Twelve Month Performance:
The twelve month return was ahead of the account's benchmark. Our performance attribution analysis points to stock selection bets and risk-index bets as having contributed to active return over the period. Industry bets had no impact. Issues in the portfolio which were strong contributors to performance were Safeway, Inc. (77%), Halliburton Co. (57%), Allstate Corp. (57%), Textron, Inc. (48%), and Travellers, Inc. (45%). Issues which hurt performance were Ivax Corp. (-40%), Pacific Gas & Electric (-25%), Scientific Atlanta (-17%), EMC Corp. (-17%), and KLA Instruments (-16%). A positive bet on the Success risk factor was a large positive contributor to active return. Industry bets that helped performance were Oil Service, Gas Utilities, Food, and Air Transportation. In all cases, the account was overweighted in these groups and they performed well. Underweighting of Aerospace, Railroads, Domestic Oils, and Telephones 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 June 30, 1996, the following significant active bets existed in the account relative to the benchmark:

A. Factor bets (bets stated as standard deviations from benchmark):

Success = 0.10	**Earnings/Price = 0.24**	**Trading = 0.16**
Earnings Variability = 0.11	**Leverage = -0.14**	**Labor Intensity = -0.19**
Variability-in-Markets = 0.12	**Book/Price = 0.15**	

B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		5 Most Negative Bets:	
Food Stores	2.55%	Services	-2.33%
Thrifts	2.30	Soaps	-2.20
International Oils	2.20	Aerospace	-1.60
Business Machines	2.20	Publishing	-1.44
Gas Utilities	1.96	Chemicals	-1.43

C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

Travelers	2.31%	Gap, Inc.	2.06%
Cardinal Health	2.26	Medtronic, Inc.	2.03
Safeway, Inc.	2.21	Panenergy Corp.	2.02
Analog Devices	2.11	Exxon Corp.	2.00
Federated Dept. St.	2.09	Equifax, Inc.	1.99

Active portfolio bets are based on two factors -- (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk characteristics of the overall portfolio relative to the benchmark. The portfolio construction objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above. We attempt to maintain a total tracking error of approximately 3% to 3.5% relative to the benchmark. As of quarter-end, the forecast total tracking error for the portfolio was 3.25%.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant personnel or organizational changes at the firm since the last quarter. There were no account gains or losses in this discipline during the period. On a firm-wide basis we lost one account and gained one account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We have continued to expand our global equity investment capabilities.

Staff Comments

No comments at this time.

Manager Commentary
GeoCapital Corporation

Period Ending:	6/30/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$2.7 Billion	Actual	7.2%	26.7%
Total Firm Assets Managed in this Discipline	$2.7 Billion	Benchmark	5.7%	36.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

GeoCapital outperformed the benchmark in the most recent quarter (ending 6/30/96) and underperformed for the year ending the same period. As discussed with SBI and Richards & Tierney, a new modified benchmark was installed at year-end 1995. During the second quarter we continued to invest the cash present at year-end in consumer stocks and added to current technology issues on weakness.

As opposed to new purchases underperforming the rest of the portfolio in the fourth quarter of 1995, recent purchases outperformed the portfolio and overall stock market in the second quarter of 1996. The technology sector performed strongly in the June quarter.

GeoCapital's portfolio vs. benchmark weightings (value added):

	Quarter Ending 6/30/96	Year Ending 6/30/96
Consumer non-durable	Positive Higher weightings/higher returns	Negative Higher weightings/lower returns
Technology	Positive Higher weightings/higher returns	Negative Under weightings/ higher returns
Financial	Negative Higher weightings/lower returns	Negative Higher weightings/lower returns

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We continue to add to our technology area, specifically in the application software and data networking sectors. While our total technology exposure in the portfolio is about 5% above the benchmark's exposure we are actively betting that the software and networking sectors will outperform. The financial sector continues to be an active bet as our portfolio exposure is about 20% higher than the benchmark. This is mainly represented by our holding in Mercury Finance, which we believe is very attractively priced relative to its outlook for growth. Our energy and capital goods exposure continues to be quite a bit below the benchmark.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No change in personnel.

   No accounts were gained or lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   In the second quarter of 1996, our clients experienced good relative returns as we outpaced the relevant small capitalization benchmarks. In general, technology stocks contributed to the gains in the quarter, with strong returns in April and May. In the month of June, we saw a correction in the small capitalization sector with the technology sector's moves most pronounced. We believe that this correction was largely due to fears regarding earnings shortfalls in the second quarter, high valuations for initial public offerings (IPOs), and the traditional summer slowdown for technology companies.

   As is typical, returns in our special-situation investments were less dependent on overall sector movement but were impacted a great deal by specific corporate actions and events. In the quarter, we saw continued strength in our positions in the death-care industry and in our positions in distribution companies in such areas as wholesale food and healthcare.

   We are still experiencing high volatility in the overall market, seemingly driven in large part by the interest rate outlook. While we would not deny the significance of interest rates on individual company valuations, we would also point out that valuations will also be driven by the earnings performance and value-creating activities of the individual companies. As such, we continue to employ fundamental analysis to search out and find those opportunities which can create wealth for our clients.

   We are still of the belief that the economy is not accelerating dramatically and believe that, even with recent economic moves, we are still in a relatively slow growth and low inflation period, which often translates into small capitalization outperformance.

Staff Comments

Over the last year, staff has expressed concerns about the number of stocks in this benchmark and the percentage of the benchmark assigned to large capitalization stocks. GeoCapital concurred with staff and reduced the number of names in the benchmark for the 1st quarter of 1996 and reduced the number of large capitalization stocks in the benchmark for the 2nd quarter.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	6/30/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$16.0 Billion	Actual	5.5%	26.3%
Total Firm Assets Managed in this Discipline	$ 0.9 Billion	Benchmark	3.0%	23.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the quarter ended June 30, 1996, the Portfolio returned 5.5% versus a benchmark 3.0%. Our outperformance for the quarter was balanced across the active bets in the Portfolio. From a sector standpoint, consumer durables provided the strongest contribution to relative performance. A 3.8% active bet in the sector contributed 92 basis points of the 248 basis point outperformance. This performance was led by St. Paul based ITI Technologies, Newell Companies, and Polaris Industries. The commercial services sector also provided a strong contribution to relative performance. Our overweighting in this sector was due to individual stock selection not a sector bet. In the commercial services sector, Merrill Corporation and Manpower, Inc. led the sector to contribute 84 basis points in relative performance. Only one sector created a material drag on relative performance: electronic technology (54 basis points). This sector was particularly strong during the quarter and even though the Portfolio stocks did well (up over 11%) they did not keep up with the 16.45% return of the benchmark.

For the year, the Portfolio rose 26.3% versus a benchmark return of 23.1%. Our outperformance for the year was entirely due to individual stock selection and our adherence to our buy and sell discipline. We used the volatility of individual sectors and stocks to be opportunistic in adding stocks to the portfolio. An example was our move back into the telecommunications equipment companies in December 1995, after the stocks crashed. Our move into small cap medical products early in the year provided exceptional returns, but we felt by the spring of 1996 valuations had become too rich, as many of our holdings traded to values where public prices began exceeding private values (a good bell weather for valuation).

We stuck with our price discipline to build positions in companies when the upside justified our investment. Likewise, our sales of individual holdings over the past year was most often a reflection of our belief the markets expectations (as reflected in the stock price) got too high. This would be in contrast to stock sales due to a fundamental shift in our outlook for the company.

We had a large number of stocks perform consistently well for us in areas of the market that were not the focus of most investors. Holdings like BMC Industries, Northland Cranberries, Wisconsin Central, Sears, ITI Technologies, Heartland Express, Lindsay Manufacturing, and Pentair added to our outperformance. We were also aided by strong performance from IMC Fertilizer, MFS Telecommunications, John Deere, Case, and Berkshire Hathaway.

The two sectors that generated the largest drag on our relative performance were consumer nondurables and financials. In both cases, we maintained underweighted positions in the sectors when they provided strong returns to the benchmark. Our analysis led us to emphasize other areas of the market which we believed to have better long-term upside potential.

Our cash position in excess of policy had a larger impact on twelve month relative performance than on the quarterly performance. Cash for the year reduced our total Portfolio return by 3.36% from the pure equity returns. The impact of cash on the quarter was 0.25% or an amount in line with policy cash. The net cash position of the account will continue to be a residual reflecting the valuations of the stocks in our universe and will not be used to actively time moves in the market. As a result we will avoid structurally holding cash positions in excess of the new policy level of 1%.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   There have been no major shifts in the strategy employed by the Portfolio over the past three months. We continue to approach the market one stock at a time, looking for quality growth companies we can buy at attractive prices. We continue to hold our largest above benchmark weightings in: Consumer Durables (Polaris, Newell, ITII, etc.), and Process Industries (a continuation of our capital goods thesis). We are underweighted in consumer nondurables and utilities.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   New hires: Don Hoelting, Vice President/Equity Portfolio Manager (Value); Jon Brusven, Associates V.P./Equity Analyst (Value); Robert Mlnarik, Associate Equity Analyst (Small Cap). No accounts gained/lost.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   We are beginning an active search for another analyst to join the Regional Team. We are looking for an experienced analyst who can help round out our coverage of companies in the region.

Staff Comments

IAI was placed on probation in March 1996 due to a change in portfolio manager. Staff met with IAI on August 6, 1996 to review the TSB/Lloyds Bank merger, investment process, Regional Fund staffing, and asset growth. The TSB/Lloyds Bank merger has been completed and the current organizational structure does not affect IAI's internal investment or management operations. The investment process has changed somewhat in the transition from Bing Carlin to Mark Hoonsbeen. Mark emphasizes bottom-up fundamental research more than Bing did. This means that stock selection will be more important and sector bets less important than in the past. Also the portfolio will remain fully invested where in the past cash bets were occasionally made. Staff feels that these changes are appropriate, because they are consistent with the strengths of the investment team that Mark has assembled. Mark plans to hire one additional analyst by the end of the year. The Regional Fund Team would then consist of four investment professionals which Mark feels would provide enough resources to cover their universe. Currently, the Regional Fund has $850 million under management. Recently, the growth has come from the retail side because they have not actively marketed the product to the institutional market.

Manager Commentary
IDS Advisory Group, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$28.9 Billion	Actual	3.3%	24.5%
Total Firm Assets Managed in this Discipline	$ 7.0 Billion	Benchmark	4.7%	25.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The State of Minnesota account underperformed the Normal Portfolio over the last three months and year. This underperformance was primarily a reflection of poor stock selection. Sector allocation and other factors were neutral to positive. In recent months it has paid to quickly sell stocks with earnings disappointments no matter what the magnitude of the decline. The "dead cat bounce" which normally occurs after any major decline appears to have vanished. Stocks decline, momentarily pause, and then decline further. At the moment, we have a few too many stocks that have suffered from disappointing earnings and are now in a stage of dormancy. These "wounded ducks" will need to be cut back if performance is to return to acceptable levels.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Our sector weights are as follows:

	6/30/95	**6/30/96**	**Benchmark 6/30/96**
Technology	9.0	24.1	16.5
Consumer Stable	17.9	19.3	24.4
Consumer Cyclical	11.6	12.3	13.2
Utilities (non electric)	6.1	3.0	5.7
Financial Services	15.9	14.0	16.4
Energy	9.1	3.1	5.9
Industrial Basic	5.7	3.2	3.0
Industrial Growth	5.4	13.2	3.1
Industrial Cyclical	6.8	6.4	6.7
Equity Cash	12.6	1.4	5.0
	100.0	100.0	100.0

We continue to hold a very heavy position in the technology sector. This is a reflection of our belief that this sector remains characterized by strong earnings momentum and is also the cheapest sector within the market. It is our belief that the introduction of Windows NT will lead to renewed growth in the technology arena later this year. Given the enormous volatility in the sector in recent weeks, patience will clearly be required. In the financial arena, we continue to carry weightings that exceed the benchmark. Again, we are confident of earnings in the sector and believe this sector is undervalued. We do not agree with those who see rates rising in the near future. On the contrary, it is our belief that long-term interest rates will decline approximately 50 basis points by year end. We will remain significantly underweighted in the consumer stable area. While earnings for many companies in this sector look satisfactory, valuations appear a little rich. Utilities and energy stocks hold little interest to us reflecting our belief that both sectors are characterized by anemic earnings and full valuations. Finally, we are heavily overweighted in the industrial intermediate growth area.

This sector is comprised primarily of chicken cyclicals with relatively predictable earnings. In addition, most companies have heavy exposure to the economy of continental Europe which we believe will show signs of life as the year draws to a close.

Our economic framework remains unchanged. Over the next 18 months, we expect growth of approximately 2-2 1/2% and inflation of approximately 3 1/2%. Interest rates are likely to decline at the long end of the curve while corporate profits should continue to advance. Based on our estimate of 1997 operating earnings of $42, the S&P 500 is selling for approximately 15 times. We regard the market as fairly valued. We are projecting a total rate of return of approximately 8 - 12% for calendar 1996.

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.*

Brad Stone, Senior Portfolio Manager, joined our fixed income team on June 3. In addition, we have had two Portfolio Managers promoted to Senior Portfolio Manager: William P. Miller, Large Cap Growth Domestic Equities; David G. Bayer, Small/Mid Cap Growth Domestic Equities.

There have been no significant personnel departures during the last quarter.

Second Quarter 1996

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	3	155.9	0	0.0
Fixed Income	0	0.0	0	0.0
Balanced	1	25.4	0	0.0
International	2	111.2	0	0.0
Regional - Pacific/Far East	0	0.0	1	9.5
Global Ex-Australia	1	19.7	0	0.0
Latin America	0	0.0	0	0.0
Small Cap Equities	1	4.7*	0	0.0
Mid Cap Equities	0	0.0	0	0.0
Research Core	0	0.0	0	0.0
Research Aggressive	1	15.0	0	0.0
Global Bonds	4	146.4	0	0.0
Structured Fixed Income	0	0.0	0	0.0

* Existing client adding an additional account.

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 comments at this time.

Manager Commentary
Independence Investment Associates

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$23.2 Billion	Actual	4.5%	26.1%
Total Firm Assets Managed in this Discipline	$11.8 Billion	Benchmark	4.5%	26.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   For the sixth consecutive quarter, a period which marked the 100th birthday of the Dow Jones Industrial Average, stock market returns were again positive. Economic gains continue to be broad based as evidenced by solid retail sales, employment and economic leading indicators. As a result of this economic rebound, market observers who in early spring had been expecting the Fed to cut interest rates began anticipating a tightening, but at the July 3rd meeting the Fed left the funds rate unchanged. In addition, earnings growth appears to have peaked for this cycle; S&P 500 earnings are expected to show single digit growth following 18% growth in 1995 and a 24% gain in 1994. Reflecting some of these concerns, stocks in cyclical, transportation and capital goods sectors lagged in the quarter as did interest sensitive sectors such as utilities and banks. Retail, media, beverage and pharmaceutical industry stocks generally performed well. Technology issues were a mixed group with large issues such as Hewlett Packard, Intel and Microsoft outperforming while Digital Equipment lagged.

   The best performing stocks in your portfolio included retail issues such as Wal-Mart, Home Depot and Price Costco and consumer stocks like Pepsico, as well as selected technology companies such as Intel and Microsoft. Other large holdings which performed well were Philip Morris, General Electric and Xerox. On the other hand, telephone stocks like AT&T and Nynex lagged this quarter as did financial issues like American Express and Lincoln national, the autos and many of the smaller technology issues. Major purchases included Cigna, Ford and JP Morgan, while Aetna, First Union and Allstate were eliminated. Turnover in the first half was in line with our historical average of 60% annually.

   In the second quarter, the composite model had modest positive predictive ability in May and June, making up for a sluggish April. The earnings momentum components performed better than the intrinsic value models, paralleling once again the resurgence of growth stocks during the quarter. Over the last 12 months, the better performing models have reversed from quarter to quarter, tracking the more successful investment style (value last quarter, growth the previous quarter, etc.). The relative attractiveness rankings continue to be somewhat more volatile than normal leading to less persistence in their added value over longer holding periods, a temporary phenomenon.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We will continue to construct a diversified, benchmark-like portfolio of stocks that are "cheap" and have improving fundamentals. At the end of June, your portfolio owned 116 stocks and had a beta of 0.99, and a tracking error of 1.97%. Over 85% of the non-market risk in your portfolio is attributable to specific stock selection, where Independence has a long track record of proven skill. Consistent with this focus on stock selection (as opposed to trying to time the market), your portfolio is fully invested with a cash position of 0.60%. Your account's P/E ratio of 14.8X is lower than your benchmark's P/E (reflecting cheapness) and its long-term growth ratio of 10.2% is higher than your benchmark's (reflecting improving fundamentals). All of your portfolio's characteristics comply with your investment policy guidelines which are monitored closely.

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 very excited about a recent corporate development. Independence Investment Associates, Inc. has agreed to acquire Boston International Advisors, Inc. (BIA), an international equity investment management firm. We have known BIA and its principal manager for many years and we share a common approach to disciplined investing. The acquisition will allow Independence to expand the international equity investment management services we began introducing to our clients late last year while continuing to dedicate extensive resources to our domestic equity and domestic fixed income businesses.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$42 Billion	Actual	7.1%	32.3%
Total Firm Assets Managed in this Discipline	$15 Billion	Benchmark	6.7%	28.1%

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?*

   Quarter - Your Lincoln portfolio's return (net of fees) exceeded the benchmark by roughly 40 basis points, of which -25 is attributable to sector (industry) allocation and +65 to stock selection within our industries. Issue selection was good in the health care, consumer non-durables and technology industries.

   Last 12 Months - The portfolio's return (net of fees) exceeded the benchmark by approximately 420 basis points, -50 of which is attributable to sector (industry) allocation and 470 to stock selection within our industries. Issue selection was good in specialty chemicals, health care, consumer non-durables, and technology, offset modestly by poor picks in the retail/apparel area.

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 terms of industry weightings, the overweighing in consumer non-durables (beverages, tobacco and other) continues to be substantial. The technology sector is now meaningfully underweighted. As corporate profits slow, the stability of earnings growth in the consumer sector should prove to be increasingly attractive. Likewise, the variability of earnings in the tech sector is viewed as negative, even though secular prospects are good.

   The key individual stock bets are concentrated in the top 10-15 positions in the portfolio.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Two accounts were gained during the second quarter; none were lost in the equity discipline.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Oppenheimer Capital

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$41.9 Billion	Actual	3.1%	28.0%
Total Firm Assets Managed in this Discipline	$24.7 Billion	Benchmark	3.1%	25.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

For the quarter, stocks in the technology sector had the greatest positive impact on the portfolio's performance. The portfolio's stocks in this sector returned 9% vs. 5% for the benchmark. The best performing stock, Intel, rose almost 30% during the period. Intel's dominant share of the microprocessor market enable it to continue to produce strong earnings in a difficult industry environment. Much of the strength in the market during the quarter was in large cap consumer non-durables, an area where we have not found many companies that meet our investment criteria. The portfolio's underweighting in this sector relative to the benchmark detracted from performance.

The five largest contributors to and detractors from performance were as follows:

Five Largest Contributors		Five Largest Detractors	
Intel Corp.	29.2%	Hercules	(10.3%)
Lockheed Martin	11.2	Arrow Electronics	(8.2)
General Electric	11.4	Champion International	(7.6)
Shaw Industries	20.0	Freeport McMoRan	(10.7)
Sprint	11.2	Tenneco	(7.8)

For the year ended June 30, 1996, the portfolio outpaced the benchmark by 280 basis points, with stock selection contributing more than 80% of the portfolio's outperformance. In large part the positive outcome relative to the benchmark was a result of the investment in financial stocks. Both stock selection within the group and the overweighting of the sector had significant positive impact. The portfolio's financial holdings, which represent 32% of the portfolio and more than twice the benchmark weight, produced returns of 43% vs. 33% for the stocks in the benchmark.

The five largest contributors to and detractors from performance were as follows:

Five Largest Contributors		Five Largest Detractors	
First Interstate Bancorp	120.6%	Nokia	(37.1)%
Monsanto	84.6	Champion International	(19.6)
Travelers	59.4	Arrow Electronics	(13.3)
Sprint	55.9	Shaw Industries	(21.1)
General Electric	56.8	Motorola	(5.9)

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*

A position in ACE Ltd. was established in the portfolio during the quarter. ACE is one of the leading providers of excess liability insurance in the world, and they have diversified into aviation, excess property and financial lines. They are headquartered in Bermuda, they do not pay corporate tax and have an enormous cost advantage in terms of their expense ratio. ACE recently announced two acquisitions that we believe will successfully redeploy a portion of their excess capital. Tempest Re, a leading supplier of property/casualty re-insurance, and Methuen Group, a holding company for Lloyds of London managing agency, both of which fit well into ACE's high return, low cost strategy. We are very impressed with ACE's ability to use the cost and regulatory advantages of Bermuda to build a portfolio of unique, high return businesses.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no changes which impacted the management of the Minnesota State Board of Investment portfolio. However, there have been the following changes in investment professional staff:

Robert Martin, Senior Vice President, passed away.
Eugene Brody, Managing Director - Futures & Options, retired.

CORE EQUITY ACCOUNTS GAINED/LOST:

Accounts Gained:	5 accounts with $292.9 million in assets.
Accounts Lost:	1 account with $6.9 million in assets.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Waddell & Reed

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$25.0 Billion	Actual	0.9%	16.4%
Total Firm Assets Managed in this Discipline	$ 0.5 Billion	Benchmark	1.7%	20.8%

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?*

Our performance for the quarter ending June 30, was 80 basis points below our benchmark. For the latest twelve months the portfolio was up 16.4% relative to the 20.8% return for the benchmark. The overweighting in technology was the primary reason for the underperformance. Specifically, Silicon Valley Group, America Online, United Healthcare, and Seagate Technology were the portfolio's worst performing stocks during the quarter.

The overall equity market was quite volatile. Concern about first quarter earnings sent the market into sharp declines in both April and May. Each of these sell-offs was followed by a rapid recovery as investors perceived these "market dips" as buying opportunities.

Relative to the benchmark, the portfolio is overweighted in energy and technology. Energy, particularly natural gas related issues, performed well. Our holdings in Enron and Noble Affiliates showed greater than 10% gains. Technology, however, continued to face a difficult environment. Our biotechnology (Amgen) and semiconductor equipment (Applied Materials) holdings remained under pressure throughout the quarter. Several of our technology holdings did well: GT Interactive rose nearly 60%, Intel advanced 29% and Cisco was up 22%.

The portfolio is underweighted in basic industries, consumer & service, and financials relative to the benchmark.

During the quarter, we made the following changes within the portfolio:

Positions Increased	New Stocks	Stocks Sold
AIG	America Online	Evergreen Media
Broderbund	DuPont Photomasks	Georgia Pacific
CUC International	First Data	H&R Block
LSI Logic	Intel	LeCroy
	Loral Space	Loral*
	Merck	Texas Instruments
	Neurex	
	Noble Affiliates	
	Pfizer	
	Wal Mart	
	Xilinx	

*Loral was acquired by Lockheed Martin.

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 current weightings are as follows:

Underweighted	Overweighted
Basic Industries	Energy
Consumer & Service	Technology
Financial	Utilities

We continue to think we are late in the U.S. economic cycle. Severe shortfalls in 2Q96 earnings by some prominent U.S. corporation have caused us to have increased concern about the general earnings outlook for the remainder of 1996. The European recovery, long anticipated, is proving to be disappointing at best. We also think capital spending, a big driver of U.S. economic growth since 1991, will continue to be sluggish.

Following meaningful stock declines, some technology stocks have moved to valuation levels not seen recently. We continue to think technology represents the key sector of U.S. market dominance and is the single most important area for long term equity investment returns in growth oriented portfolios.

Our cash position is currently above the benchmark level. We think a more defensive posture remains appropriate. We have increased our exposure to energy, drugs, and financials, sectors with traditionally defensive characteristics.

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 have made the following personnel changes:

Addition: Mr. Thomas Mengel, International Portfolio Manager, hired.
Departure: Ms. Tara Jefferson, Industry Analyst, resigned.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

We have had no significant issues occur in the last quarter that would affect the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Weiss Peck and Greer

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$12.7 Billion	Actual	8.6%	41.9%
Total Firm Assets Managed in this Discipline	$ 1.3 Billion	Benchmark	4.1%	23.4%

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 twelve month and quarter to date returns for your account continue to reflect superior performance versus the benchmark.

   Selective investing in several sectors, including Business Services, Technology and Consumer Non-cyclicals, has benefited the account over these time periods. Our holdings in several correctional and employment outsourcing companies were very good relative performers. Our computer component and peripheral selections also helped to boost the performance of the account. Conversely, among our technology holdings, continued weakness in the performance of our relational database investments negatively impacted 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.*

   Our thesis of continued strength in the U.S. economy and moderating interest rates still holds. We are continuing to focus on finding cyclical growth stocks that should outperform under this scenario. The increased market volatility which began in June could likely signal the onset of the correction phase we have been anticipating. We have increased the use of index options as a hedging strategy to protect the portfolio through this period. In addition, we are using the market downturns as buying opportunities to increase portfolio positions in stocks whose fundamentals we believe support superior long-term growth. In particular, we are taking technology back to a market weight from an underweight in the second quarter as these stocks corrected. Also, we continue to overweight retail within the Consumer Non-durable sector.

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.*

   Effective June 1, 1996, Angeli Kolhatkar joined Weiss, Peck & Greer as a research analyst covering Biotechnology and Health Care. Ms. Kolhatkar has an MBA in Finance from NYU and a B.A. in Natural Science from Fordham University. She joined the firm from Lehman Brothers where she followed these industries for several years.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$9.9 Billion	Actual	2.7%	25.2%
Total Firm Assets Managed in this Discipline	$1.1 Billion	Benchmark	4.0%	26.1%

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?*

   Last Quarter's Performance:
   For the period, the account lagged its benchmark. According to our performance attribution analysis, stock specific bets were negative contributors to active return in the months of May and June. The following are issues that both helped and hurt portfolio return during the period. Issues in the portfolio which were strong performers were Claire's Stores (49%), Harman International (34%), Provident Cos. (26%), Fleetwood Enterprises (25%), and American Bankers Insurance (24%). Issues which detracted from performance were Oak Technology, Inc. (-57%), Ivax Corp. (-39%), Northeast Utilities (-32%), Schuller Corp. (-28%), and Maxxam, Inc. (-20%). Risk-index bets were also negative and industry bets had a neutral impact on performance.

   Twelve Month Performance:
   The return for the account was behind its benchmark return for the past twelve months. Risk factor bets hurt and industry bets helped performance for the past year. Stock specific bets made a negative contribution to performance. Issues which were strong contributors were Claires Stores (127%), Cincinnati Bell (81%), Genetics Institute (64%), Baker Hughes (60%), and Pepsico, inc. (55%). Issues which were weak were Oak Technology (-61%), Ivax Corp. (-41%), Handleman Co. (-36%), Navistar International (-33%), and Northeast Utilities (-32%). A positive tilt on Success made a positive contribution to performance. A positive tilt on Earnings-Variability and a negative tilt on Size hurt performance. Overweighting Other Insurance, Gas Utilities, Health (Non-Drugs), and Oil Service helped the account for the period. Underweighting relative to the benchmark in Real Estate, Motor Vehicles, Services, Railroads, Telephones, and Banks hurt relative performance during 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.*

   As of June 30, 1996, the following significant active bets existed in the account relative to the benchmark:

   A. Factor bets (bets stated as standard deviations from benchmark):
      Earnings/Price = 0.17
      Book/Price = 0.16
      Variability-in-Markets = 0.10
      Trading Activity = 0.14
      Financial Leverage = -0.13

B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:		**5 Most Negative Bets:**	
Gas Utilities	2.00%	Railroads	-1.25%
Misc. Finance	1.14	Producer Goods	-1.05
Food Stores	1.10	Telephones	-0.83
Electric Utilities	0.89	Beverages	-0.72
Health (Non-Drugs)	0.77	Electronics	-0.69

C. Ten largest Stock bets (bets stated as percentage deviation from benchmark weight):

Coca Cola Co.	**-0.79%**	**General Motors**	**-0.63%**
Chevron Corp.	**-0.78**	**American Home**	**-0.60**
Minnesota Mining	**-0.71**	**Nationsbank Corp.**	**0.57**
Travelers Group	**0.71**	**Bankamerica Corp.**	**0.56**
Intel Corp.	**-0.63**	**Chase Manhattan**	**0.55**

Active portfolio bets are based on two factors - (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk characteristics of the overall portfolio relative to the benchmark. The portfolio construction objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above. We attempt to maintain a total tracking error of under 1.5% relative to the benchmark. As of quarter-end, the forecast total tracking error for the portfolio was 1.37%.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant personnel or organizational changes at the firm since the last quarter. There were no account gains or losses in this discipline during the period. On a firm-wide basis we lost one account and gained one account.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

We have continued to expand our global equity investment capabilities.

Staff Comments

No comments at this time.

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

Period Ending:	6/30/96	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	$151.0 Billion	Actual	3.8%	26.4%
Total Firm Assets Managed in this Discipline	$ 8.4 Billion	Benchmark	4.0%	26.1%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The Research Enhanced Index (REI) portfolio is sector and style neutral relative to the benchmark, thus the only bets are individual stock selection decisions.

The Minnesota portfolio trailed its benchmark in the second quarter as relative weakness in the technology and multi-sectors more than offset solid performance in the utility, insurance, and service sectors. Year-to-date, the portfolio's relative performance remains ahead of its customized benchmark.

The theme dominating performance in the second quarter was the search for earnings stability. Underweighted positions in overvalued companies such as Coca Cola, Johnson & Johnson, General Electric, and Microsoft detracted from performance as the stocks were strong at a time when the market was concerned about the economic outlook. Other stocks which detracted significantly from performance included Forest Labs and MCI Communications which reported weaker than expected earnings and were pummeled as a result.

On the positive side, stocks which added to performance included funeral home operator, Service Corporation, which advanced as the company reported strong earnings and as management communicated a very optimistic outlook for the company's future potential. American Home Products outperformed as it advanced in response to the successful introduction of their weight loss drug, Redux, as well as management's guidance of a bullish quarter. Grainger Incorporated reported stronger than expected industrial machine equipment sales and benefited from the fact that it is less cyclical than others in the capital goods sector. Oracle Systems reported strong quarterly earnings citing strength in their software applications business.

For the one year period ending June, 1996, the REI portfolio outperformed its customized benchmark as most of the JPMIM sectors surpassed their customized benchmark counterparts. The energy and consumer stable sectors had the greatest impact on performance, with the transportation, finance, drug, and chemical sectors also making positive contributions.

Stocks which added the most to the portfolio's strong results included Service Corporation (see above), Integra Financial Corporation which was taken over by National City, and PepsiCo which benefited from strong results in their cola, restaurant, and snack food businesses.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Our stock selection process buys/holds those stocks within each sector that have the highest DDRs and sells those with low expected returns. Since the portfolio is fully invested, sector neutral, and factor neutral, the only active bets are individual stock over and under weightings.

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, one account switched into the REI strategy from another Structured Equity strategy, one account switched from the REI strategy into another Structured Equity strategy, and three new accounts were added.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
BZW Barclays Global Investors
Semi-Passive Account

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$307.4 Billion	Actual	4.0%	28.4%
Total Firm Assets Managed in this Discipline	$ 8.9 Billion	Benchmark	4.0%	26.1%

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?*

BGI Global Investors' Alpha Tilts Strategy, customized for the Minnesota SBI, matched the Minnesota Custom Benchmark in the second quarter, and outperformed by 2.30% over the last 12 months. This strategy systematically evaluates companies according to a broad set of investment characteristics in order to construct a risk-controlled, index-like portfolio with expected returns in excess of the benchmark. The active risk level of the portfolio is generally maintained at 1.0 - 1.5%; from inception and over the past year the realized active risk was well within this range.

The attribution of returns is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.46% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value added -0.08% in the second quarter. As expected, industry weighting differences made only a small contribution to the portfolio's active return (0.07%), due to the tight risk controls we use in this area. Finally, the portfolio experienced negative security-specific returns in the second quarter, representing the idiosyncratic or residual returns of individual companies that cannot be explained by their industry group, style, size or other common characteristics. Over shorter measurement intervals, the returns attributable to security-specific sources can be relatively large in magnitude, but this source of tracking error risk tends to diversify toward zero over longer holding periods. The Alpha Tilts portfolio minimizes this risk through broad diversification (approximately 800 stocks) and by limiting the active positions taken in individual companies.

Active Return Attribution:

	Quarters	**Past Year**
Analyst inputs:	0.46%	1.89%
Fundamental value:	-0.08	0.04
Signaling inputs:	0.00	0.00
Other common factors:	-0.02	-0.25
Industry weights:	0.07	0.27
Stock-specific	-0.43	0.36
Total active return:	**-0.01%**	**2.30%**

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 process seeks to identify companies for which consensus expectations will be improving, by carefully modeling the linkage between changes in analysts' forecasts and future expectations and returns. Secondly, we emphasize companies that are trading at multiples (based on earnings and book value) that are below their industry peer group. Finally, we identify companies whose management has "signaled" their view of stock valuation to the market in the form of insider trading activity and corporate financing activity. These areas of emphasis in the portfolio are designed to be relatively consistent over time; we do not make subjective or ad hoc changes to our investment process. The rationale for these bets is based on a combination of economic/investment theory about how markets and investors operate and rigorous empirical testing to validate these ideas and determine the optimal way to incorporate them in highly risk-controlled portfolios. In general, we are seeking to capture systematic return effects that are generally overlooked by traditional investors.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No ownership changes took place in the past quarter. Two new members were added to the Alpha Strategies Group in June: Steve Cusimano, formerly of the Florida State Board of Administration, will concentrate on US Alpha Tilts strategies, and Naozer Dadachanji, formerly of Towers, Perrin, will focus on International Alpha Tilts and currency hedging strategies. Richard Harjes, a member of the Advanced Strategies & Research Group, left the firm to pursue other opportunities.

We added 17 new clients in our Alpha Tilts Strategies during the second quarter, with a total funding of approximately $2.04 billion. There were no lost clients in the Alpha Tilts Strategies during second quarter 1996.

<u>New Alpha Tilts Clients, Second Quarter 1996:</u>

(Confidential Client)	City of Houston
General Mills	IBM
(Confidential Client)	Kansas State Univ. Foundation
Phelps Dodge	McDonnell Douglas
UPS	Campbell Soup Foundation
Northwestern University	Snap-On Tools
General Motors	World Bank
Haverford College	City of Milwaukee
Hoffman LaRoche	

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

At this time, there are no special issues pertinent to the management of the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
BZW Barclays Global Investors
Passive Account

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$307 Billion	Actual	4.4%	25.5%
Total Firm Assets Managed in this Discipline	$ 12 Billion	Benchmark	4.4%	25.5%

1. ***Past Performance.*** *Summarize your performance over the last quarter* <u>*and*</u> *Year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   BZW Barclays Global Investors' (BGI) Wilshire 5000 Strategy matched the Wilshire 5000 for the quarter and year ending June 30, 1996. At the end of the second quarter, the expected annual tracking error of the portfolio was 16 bps. This means that two thirds of the time the portfolio should track the index to within 8 bps per quarter and 95% of the time the portfolio should tracks to within 16 bps per quarter.

   Tracking error, due to security specific misweights, for the last twelve months has also been slightly positive (7 basis points).

2. ***Future Strategy.*** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations.*

   We continue to look for opportunities to rebalance the portfolio. We seek to rebalance on a cross only basis over time to minimize tracking error.

BZW Barclays Global Investors (con't)

3. ***Organizational Issues.** Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No significant personnel or ownership changes took place during the last quarter.

   BGI experienced net withdrawals of approximately $36.4 million in all of its Wilshire 5000/US Equity Market strategies during the second quarter. No clients were lost. Three new clients were gained.

4. ***Other Comments.** Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   During the first quarter, BGI traded approximately $109 million (based on trade date prices) in the SBI's Wilshire 5000 portfolio. Trades were done to facilitate rebalancing, index changes, and dividend reinvestment. Of the $109 million traded, $34 million was crossed either with other BGI clients/funds, through Instinet/Posit, or with brokers. Approximately $75 million was actively traded through Instinet or traded open market. Assuming that the cross transactions saved Minnesota just one half of the bid/offer spread, the amount saved was $126 thousand (est. 37 bps times the amount crossed).

Staff Comments

No comments at this time.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$157 Million	Actual	1.4%	27.6%
Total Firm Assets Managed in this Discipline	$157 Million	Benchmark	2.7%	24.8%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

CIC's performance in the second quarter was 1.40% versus 2.69% for the benchmark return. For the last one year CIC returned 27.79% versus 24.77% for the benchmark. CIC's under performance in the quarter came primarily from our large overweighting in basic industries (273% of the benchmark). On the positive side, we had particularly strong performance from Xerox (28.6%), Ahmanson (19.34%), Campbell Soup (16.48%), Sun America (14.46%), and Anheuser Busch (12.05%).

Portfolio Construction Table: Industry exposure and cash holdings changed as follows:

Sector	**Normal Portfolio Benchmark 5/30/96**	**Portfolio 3/31/96**	**Portfolio 6/30/96**
Consumer Cyclicals	19.23%	14.86%	13.02%
Consumer Non-Durables	13.22	7.75	6.92
Technology	12.83	8.42	7.55
Energy	7.10	9.49	8.59
Basic Materials	7.27	10.45	19.86
Capital Goods	8.99	6.55	5.73
Electric/Other Utilities	3.54	6.97	9.03
Telephone	6.03	7.09	9.42
Banks	10.64	6.51	6.45
Nonbank Financials	11.17	17.57	7.13
Cash	0.00	4.32	6.29
TOTAL	**100.00%**	**100.00%**	**100.00%**

CIC Asset Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   During the second quarter we significantly reduced our exposure to financial stocks from 24.08% of the portfolio to 13.58% as we became increasingly convinced that the economy was growing faster than consensus, and that higher interest rates were going to become a problem for financial stocks. Additionally, in the beginning of 1996 we were early in significantly reducing our exposure to financials with large exposures to credit card delinquencies. Both rising interest rates and credit concerns will continue to be a problem for financials for the duration of this credit cycle. Conversely, we significantly increased our exposure to basic industries where we see significant value (from 10.45% to 19.86%). It appears that the federal reserve may have fallen behind the inflation curve and the economy has gathered a head of steam. The consensus view among investors is that the economy will slow in the second half of the year. As it becomes apparent that this is not happening, we believe investors will buy basic industry stocks.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the second quarter CIC hired one new research analyst bringing our investment team to four. CIC also opened one new account for the Tekakwitha Charitable Trust and we received acknowledgment that we will receive approximately $10 million in additional funds from an existing client, the Los Angeles Fire and Police Pension System.

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 staff comments at this time.

Manager Commentary
Cohen, Klingenstein & Marks Incorporated

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$387 Million	Actual	3.4%	25.0%
Total Firm Assets Managed in this Discipline	$387 Million	Benchmark	2.8%	20.7%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?***

The account increased by 3.4% (net) during the first quarter of 1996 which compares to a 2.8% gain for the benchmark. Broadly speaking, the account remained aggressive (in the context of the generally conservative large capitalization stocks that we purchase). Relative to the benchmark, we have been overweighted in Interest-Rate Sensitive stocks (reflecting a belief that rates would decline), and underweighted in Cyclicals stocks (though somewhat overweighted relative to the S&P 500). This was true for the entire past twelve months as we did not meaningfully reposition the portfolio over this period. Since Cyclicals (particularly some of the Consumer Cyclicals) did poorly last quarter (as they have on balance for the past year) this helped the account's performance relative to the benchmark. On the other hand, the account's exposure to interest rate sensitive stocks was on balance a negative; that is, it took away from relative performance. While over exposure to rate-sensitive stocks hurt relative last quarter, it has helped on balance over the past year. Much of the rest of the difference between Minnesota's account and the benchmark is very stock specific. The account was helped last quarter (and last year) by holding certain Technology stocks (Oracle, Cisco, Compaq) and hurt by others (Advanced Micro Devices, Digital Equipment). By the way, Advanced Micro was sold early this quarter.

2. ***Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.***

We believe that the market is fairly valued based on consensus profit and interest rate expectations. As noted last quarter, this is a relatively recent change: heretofore we had been arguing that the market was undervalued. On the other hand, we believe that the consensus is too pessimistic on both rates (which we expect to fall) and profits so that we think the market can rise from current levels. Given our optimism (both near and long-term), and our belief that rates will decline some, the portfolio remains "Growthy," with above-market (i.e., above S&P 500) exposure to Interest-rate Sensitive stocks. On the other hand, relative to the benchmark we are underweighted in Cyclicals.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Accounts Gained	Accounts Lost
Six ($13.5 million)	None

Excludes additions (withdrawals) to (from) existing accounts.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$237 Million	Actual	4.4%	24.2%
Total Firm Assets Managed in this Discipline	$130 Million	Benchmark	5.2%	27.2%

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?*

Again, the primary driver of investment performance during the past three and twelve month periods, was being fully invested. Since the inception of the relationship, a very small cash position has been held. This has added to investment performance greatly.

	QUARTER		**YEAR**	
Sectors	**Active Bets**	**Value Added**	**Active Bets**	**Value Added**
Technology	Underweighted	Did Not Work	Underweighted	Worked
Consumer Non-Durables	Underweighted	Did Not Work	Equal	Worked
Consumer Durables	Overweighted	Worked	Overweighted	Did Not Work
Capital Goods	Equal	Worked	Equal	Worked
Financial	Overweighted	Did Not Work	Equal	Worked
Basic Industries	Overweighted	Did Not Work	Overweighted	Did Not Work
Transportation	Underweighted	Worked	Underweighted	Flat
Miscellaneous	Underweighted	Worked	Underweighted	Did Not Work
Energy	No Position	No Bnmk. Position	No Position	No Bnmk. Position
Utilities	No Position	No Bnmk. Position	No Position	No Bnmk Position

<u>Quarter</u>
The portfolio was negatively affected by the underweighting in the Technology sector. This underweighting is attributed to the current overvaluation of the sector. Individual stock selection within the sector, however, was very good. During the quarter, Compass moved one position from the Consumer Non-Durable sector to the Financial sector. Valuations of Financial stocks have become attractive, with the rise of interest rates over the past six months.

<u>Year</u>
With almost a double weighting in basic materials vs. the benchmark, underperformance in this sector over the past year has negatively affected the portfolio. However, this sector reflects good value, and should add value over a longer period of time. Also adding to underperformance to the benchmark were the poor performing printers and miscellaneous consumer services companies. One of these two stocks was sold in favor of financial stocks. Adding to performance over the past year was the underweighting in Technology stocks. Individual stock selection within the Technology sector is crucial as earnings surprises positively and negatively have added to volatility in the sector.

Compass Capital Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The largest overweighted active bets vs. the benchmark are within the Consumer Durables and Basic Materials sectors. The largest underweighted active bet to the benchmark is Technology.

   Compass Capital is a growth stock manager with a strong emphasis on value. Therefore, with the high valuation currently carried by the Technology sector, one would expect an underweighting in this sector from us. (However, with the current stock correction in Technology, they are becoming more attractive.)

   The opposite would apply for Consumer Durables and Basic Materials sectors. With consumer spending tight and with strong competition, the valuations of these stocks look attractive. Compass is a bottoms up stock selector.

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 four principal/founders have acquired additional stock ownership.

   No accounts lost..

   No new accounts

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Kennedy Capital Management

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$ 1.7 Billion	Actual	11.2%	35.5%
Total Firm Assets Managed in this Discipline	$528 Million	Benchmark	8.6%	26.3%

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?*

   Kennedy Capital Management buys small unrecognized stocks in a manner that is different from many managers. The investment process is "bottom-up" and, as a result, the portfolio structure (active bets) at any given time is a residual of the stock picking process which focuses on the following:

   Few analysts covering the stock.
   Low institutional ownership.
   Sales and earnings acceleration.
   High, and improving, cash flows.
   Paying dividends (KCM "value" 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.*

   Kennedy Capital will continue to follow the process described above and, as a consequence will have a value tilt as indicated below:

	6/30/96 Minnesota	**6/30/96 Ru 2000**	**6/30/96 Ru 2000 Value**
Trailing P/E	14.7	18.4	14.9
Price/Book	1.9	2.5	1.7
Yield	1.8%	1.5%	2.6%

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.*

   No significant organizational changes. No accounts closed or opened. One trader was hired.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
New Amsterdam Partners L.P.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$300 Million	Actual	1.2%	21.4%
Total Firm Assets Managed in this Discipline	$271 Million	Benchmark	2.3%	19.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the quarter ended June 30, 1996 the return on your portfolio was 1.2%. This compares with 2.3% for our customized benchmark, 4.5% for the S&P 500 Index, 2.9% for the S&P MidCap, 3.5% for the Russell 1000 and 7.6% for the NASDAQ Index. For the last twelve months your portfolio returned 21.4% compared with 19.2% for its benchmark.

Our core strategy remains the same: we use a valuation model to identify stocks with better than average forecast long-term growth and profitability selling at market or below-market multiples. Here are the characteristics of the portfolio as of June 30, 1996:

	Minnesota	**S&P MidCap**	**S&P 500**
Expected Return	16.0%	13.5%	9.0%
P/E	19.7x	22.0x	19.7x
Price to Book	4.5x	4.1x	3.8x
Yield	1.2%	1.6%	2.2%
Growth	11.4%	12.3%	6.7%
Return on Equity	23.6%	16.5%	20.6%
Wtd Avg Mkt Cap	$13.5bn	$2.4bn	$34.9bn

In the second quarter, our sector selection ability was good. Our overweighting in Consumer stocks, both Durables and Non-Durables, helped performance, as did our underweighting in Technology stocks. Unfortunately, we did not have good stock selection ability In particular our Technology and Capital Goods picks hurt results. As a result we underperformed the benchmark in the quarter.

For the past twelve months, however, we showed both good sector selection ability and strong stock selection skill resulting in value added of 2.0% over the benchmark. Our overweighting in Financial and Consumer stocks (particularly Durables) added significantly to return, as did our decision to lower our Technology exposure over this period. The main sector tilt to hurt us was our underweighting in Utility stocks, but overall our sector selection skill added decent value.

Our stock selection ability was also strong over the past year. We were most successful with our Financial and Consumer Non-Durables picks. Our areas of weakness lay in cyclical sectors: Capital Goods, Technology and Retail stocks.

New Amsterdam Partners (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   We currently have an overweighting in consumer, health and finance stocks but are underweighted in the utility area, in the energy sector and in cyclical stocks. Over the past quarter we raised our allocation to Health Technology stocks (pharmaceutical, medical equipment and biotechnology companies) believing that they offer high stable earnings growth rates and solid profitability. We remain fully invested in your account and continue to stick to our investment discipline which looks for companies with superior profitability and forecast growth, selling at reasonable multiples.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Robin Schwartz, a portfolio manager, resigned from the firm in early April due to family illness. She was replaced by Nathaniel H. Paull, CFA. Nat holds an MBA from New York University as well as the CFA designation. Prior to joining our firm, he spent eight years at Brown Brothers Harriman as a portfolio manager.

   One account was gained in this discipline during the 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 continue to remain cautiously bullish on both stock and bond markets in 1996, despite the recent correction. Our more detailed outlook is available upon request.

Staff Comments

No comments at this time.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$850 Million	Actual	2.8%	23.7%
Total Firm Assets Managed in this Discipline	$850 Million	Benchmark	3.0%	23.6%

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*

Under our "bottom up" style, each stock pick is an active bet. For the quarter, gains were made throughout the portfolio, with the largest contribution to performance stemming from Xerox (adding 0.81%), experiencing accelerating earnings gains, TJX (0.72%), where improving apparel sales are driving earnings, and Baker Hughes (0.41%), benefiting from the expanded exploration budgets of oil companies. Performance was adversely affected by W.R. Grace (costing 0.24%), due to a delay in the announced restructuring, and Sundstrand (0.25%) and Perkin Elmer (0.37%), where there is no change in the two companies' fundamentals but the stocks were correcting after strong performance in 1995 and early 1996. For the twelve months, the most significant gains stem from Student Loan Marketing Association (contributing 2.04%), benefiting from a shareholder oriented restructuring and acceleration of earnings growth, and Consolidated Stores (1.84%) and TJX (1.37%), as a result of an improving retail environment. The poorest performers for the period were Kmart (costing 1.22%), due to concern about deterioration in the company's financial liquidity, H&R Block (0.46%), from a disappointing valuation after the spin-off of the CompuServe subsidiary, and Foundation Health (0.28%), affected by margin pressures in the HMO industry.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to our benchmark? Summarize the rationale for making these active bets.*

Valenzuela Capital's investment philosophy is one of "risk-averse growth." We believe that growth in earnings and cash flow fuel price appreciation and that high price-to-earnings ratios cause volatility and risk. Hence, we try to sell higher P/E stocks and buy stocks in companies whose earnings will grow but whose P/E's are at or below the market. The portfolio was slightly realigned during the quarter. We added to positions we felt still represented good value and trimmed others, largely for reasons of valuation. New investments were initiated in B.F. Goodrich, Houghton Mifflin, MGIC Investment Corp., Rohr, and Valassis Communications. Realized gains were taken in Anadarko, Household International, Loctite and Morgan Stanley. The position in Leggett & Platt was also sold due to an expected earnings shortfall.

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.*

   Lisa L. Parisi, who joined the firm in 1995 as a portfolio manager and research analyst, was named Vice President of Valenzuela Capital Management. The Pennsylvania Public School Employees' Retirement System terminated its account in a restructuring of its emerging manager line-up. SBI staff was informed at the time.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   During the second quarter, economic growth accelerated as employment improved smartly. This, in turn, stimulated consumer spending to levels not seen for quite some time. The equity markets also continued to move higher and are showing signs of speculation in many areas. As the quarter draws to a close, many investors are beginning to question whether the Federal Reserve may raise interest rates in an attempt to head off incipient inflation and cool some of the speculation in the stock market. Seasonally, we have passed the high point of money flows into mutual funds which have fueled rising stock prices. As we pass into the back half of 1996, the investment climate is likely to be more difficult for two reasons: the Presidential Election will embrace promises and accusations that will scare investors. And, corporate earnings are already showing signs of plateauing. In an attempt to negotiate this difficult investment climate, we have concentrated portfolio holdings in companies that have the highest probability of delivering superior earnings.

Staff Comments

No comments at this time.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$ 1.4 Billion	Actual	3.4%	16.3%
Total Firm Assets Managed in this Discipline	$779 Million	Benchmark	6.3%	27.7%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   A number of factors contributed to the relative under-performance of the SBI portfolio. Healthcare and technology issues, two areas in which SBI has significant exposure, under-performed the overall market. Meanwhile, financial companies and utilities, two areas in which SBI does not fundamentally invest, performed well. Furthermore, small cap issues generally underperformed their large cap counterparts. In addition to these general factors, there have been a few companies in our portfolio that have experienced relatively insignificant operating issues that were greeted with a severe correction in their stock price.

   The underperformance of the SBI portfolio for the second quarter versus its benchmark is primarily attributable to three sectors: multimedia/content software, distribution and electronics. The common thread that ties these three sectors together is that they are personal computer related. Two stocks in particular, Micro Warehouse and Macromedia, suffered large losses as investors overreacted to disappointing short-term issues and sold off these positions. Although the personal computer area may continue to come under pressure short-term, we will continue with our exposure to this area as the long-term fundamentals remain strong.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Looking ahead to the rest of 1996, we see several events that could shape the overall market. Many expect the Federal Reserve to raise interest rates in a preemptive strike against inflation and a robust economy. The presidential election will also occur later in the year, which has historically been a positive occurrence for Wall Street. Overall, we expect the second half of the year to be much like the first half in which we see excess volatility and overreactions by short-term oriented investors. While there may be short-term price volatility in the market as well as the SBI portfolio, the long-term fundamentals of our companies remain unchanged.

Wilke/Thompson Capital (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Wilke/Thompson Capital Management had no ownership or professional personnel changes last quarter.

   Wilke/Thompson Capital Management is presently closed to new account relationships in our Small Cap Growth product and is only accepting additional contribution from existing clients. We did not lose any clients during the first quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   Wilke/Thompson looks forward to continuing to serve the Minnesota State Board of Investment as its money manager.

Staff Comments

No comments at this time.

Manager Commentary
Winslow Capital Management, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$970 Million	Actual	4.9%	19.3%
Total Firm Assets Managed in this Discipline	$512 Million	Benchmark	4.3%	22.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the quarter ending June 30, 1996 the Minnesota State Board of Investment account appreciated 4.99% net of fees. The Russell 1000 Growth experienced a return of 6.36% during the second quarter while the S&P 500 appreciated 4.49%. The benchmark "normal" portfolio constructed by BARRA for Winslow Capital returned 4.32% for the second quarter and 21.91% over the most recent twelve months. This compares with the performance of the SBI account over the last twelve months of 19.32% net of fees versus 27.80% for the Russell 1000 Growth and 26.01% for the S&P 500.

   The SBI's Large Cap growth portfolio continues to be overweighted in telecommunications, Healthcare and consumer services/specialty retail. Our exposure to technology is neutral relative to the benchmark "normal" portfolio. The investment process we follow is a fundamental "bottom up" approach that leads us to companies that exhibit above-average earnings growth. In the most recent quarter, the average reported earnings gain for the companies in your portfolio was 26%. We continue to believe these companies have outstanding potential because they meet our strict criteria of high earnings growth at attractive valuations.

   The outperformance Winslow Capital experienced during the second quarter can be attributed to our stock selection versus the benchmark "normal". The overweighting of telecommunications and Healthcare limited our current quarter outperformance. Also, the underweighting of financial service companies detracted from overall performance. Although your portfolios' technology holdings appreciated strongly for the three months ending June 30, 1996, Winslow Capital was slightly underweighted versus the benchmark. Our exposure to specialty retail\consumer services was additive during the quarter.

   For the last twelve months, your portfolio has underperformed net of fees slightly versus the benchmark "normal" portfolio. Two factors that have had a measurable impact on performance were the portfolios overweighting in Healthcare and telecommunications companies. Both of these sectors have performed poorly relative to the benchmark and the relevant market indices. We continue to see sustained growth in the specific companies we own and believe that the long-term results of owning these securities will be additive to performance.

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.*

   In our opinion, the sectors that are likely to exhibit the best earnings growth over the next two to three years will be technology, specialty retail/consumer services, Healthcare and telecommunications. These sectors make up a majority of your portfolio because on fundamental, "bottom-up" analysis we have identified specific companies within the aforementioned sectors that are poised to achieve strong future earnings growth. Notwithstanding the portfolio gain in the last year, we are constructive that on an absolute and relative basis, P\E ratios remain attractive. The portfolio is currently forecasted to achieve earnings growth of 24% through 1997, while selling at only 19 times our 1997 estimates.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Winslow Capital has been retained by one new client during the most recent quarter. The Daughters of Charity Healthcare System in St. Louis hired our firm to manage a $27 million Small Company Growth portfolio.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

No comments at this time.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$383 Million	Actual	5.5%	23.6%
Total Firm Assets Managed in this Discipline	$383 Million	Benchmark	6.5%	23.6%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	MSBI	**Custom Benchmark**
Second Quarter 1996	5.7%	6.5%
Sector Outperformance		
Technology	12.5%	11.8%
Utilities/Telecom Services	3.7%	0.7%
Health Care	6.0%	-0.7%
Sector Underperformance		
Consumer Discretionary	3.0%	6.2%

Zevenbergen Capital's Technology, Telecom Services and Health Care sectors provided outperformance for the second quarter, boosted by strong advances for issues such as Lucent Technologies, Inc. (+23%), Cisco Systems, Inc. (+22%), Loral Space and Communications (+28%) and Qualcomm, Inc. (+27%). Our Health Care sector was a solid contributor despite the pull-back in biotech (Amgen off 11% and Biogen off 7%). The inclusion of "Death Care" providers, Service Corp. (+18%) and Stewart Enterprises (+5.5%), served as a substitute for the hazardous investment arena of health care service providers such as HMO's and hospitals. The Producer Durables sector took a breather from a strong first quarter and was hurt by a decline in Solectron (off 13.9%). Despite Solectron's strong quarterly report of 33% growth in revenue and earnings, concerns were raised about margin pressure and the commodity-like nature of their customer's products. We are confident that Solectron screens and diversifies their customer base and is only adding business that is profitable. The stock is attractively priced at current levels.

	MSBI	**Custom Benchmark**
6/30/95 to 6/30/96	23.8%	23.6%
Sector Outperformance		
Technology	28.7%	14.2%
Health Care	43.0%	34.9%
Producer Durables	32.3%	23.6%
Sector Underperformance		
Consumer Discretionary	12.9%	23.3%
Energy	7.4%	23.6%

Zevenbergen Capital (con't)

Zevenbergen Capital's Technology, Health Care and Producer Durables sectors contributed to positive annual performance against our custom benchmark. Strategic overweighting and solid stock selection were the major catalysts to outperformance. Stock selection was strong as eight of our top ten names significantly outperformed the benchmark. Those issues included; Microsoft: (+34%), First data Corp. (+42%), Paychex (+28%), Estee Lauder (+24%), Starbucks (+64%), Hughes Electronics (+53%), CUC International, Inc. (+36%) and Service Corp. (+33%). The consumer discretionary area lagged due to an earlier underweight in retail and our overweight in media. Energy remains an underperforming sector for the year due to first quarter's rise in oil prices. (See previous quarter manager commentary.)

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.*

Strong growth in earnings and revenues will be essential for outperformance as the economy decelerates. It is an excellent environment for growth style managers to outperform. Healthy balance sheets will protect valuations in a potentially rising interest rate environment and we expect to have turned the corner on a bias toward low quality that has been evident for the last few years. We have reviewed revenue, earnings and balance sheet strength for each of our holdings and believe the portfolio is well positioned for coming periods. Reducing media and cable company holdings (lower quality balance sheets) and some large names in health care and technology (due to slowing revenue growth) are changes we felt necessary to position the portfolio for outperformance going forward.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no personnel issues to report for the second quarter of 1996.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
BEA Associates

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$28.7 Billion	Actual	0.9%	4.5%
Total Firm Assets Managed in this Discipline	$ 4.2 Billion	Benchmark	0.6%	5.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Gross outperformance for the quarter was 42 basis points and performance continues to benefit from our decision to diversify the risk in the State of Minnesota portfolio. Derivative related strategies have added approximately 16 and 80 basis points in the last three and twelve months, respectively. The decision to own European floating rate notes and security selection in the investment grade portion generated the bulk of the outperformance within the cash portion during the second quarter (20 of 26 basis points). The below investment grade portion had a minimal impact on the quarter and represented 10% of the portfolio as of 6/30/96.

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 have a defensive posture on corporate bonds and emerging market debt. Both sectors have shown strength in the face of rising U.S. interest rates and tight historical spreads. Therefore, outperformance will come from security selection as our sector weights are index like. Mortgages appear appropriately valued, but if rates rise and concerns related to prepayments shift from fear of acceleration to fear of deceleration, contrarian opportunities will be reviewed. Domestic high yield appears moderately expensive , and we have invested in the higher tier credits.

BEA Associates (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No significant personnel changes. On a net basis, accounts and assets are unchanged.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Variance between SBI returns and BEA returns is due to pricing differences.

Manager Commentary
BlackRock Financial Management

Period Ending:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$41.6 Billion	Actual	0.4%	N/A
Total Firm Assets Managed in this Discipline	$ 1.9 Billion	Benchmark	0.6%	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 its first quarter under BlackRock's management, the MSBI Enhanced Index Core Bond Portfolio posted a return of 0.55%, versus 0.57% for the Lehman Aggregate Index. Following is a month-by-month breakdown of performance:

	MSBI	LEHM	DIFFERENCE
April	-0.45%	-0.56%	0.11%
May	-0.23%	-0.20%	-0.03%
June	1.24%	1.34%	-0.10%

The main bias in the MSBI portfolio since inception has been our significant overweight in mortgage-backed securities. This portfolio was funded during a period when BlackRock began shifting out of Treasuries and into discount mortgage pass-throughs. Pass-throughs had undergone a prolonged period of relative underperformance and we believed then, and still maintain, that investors will gravitate back toward this sector as interest rate volatility recedes.

This overweighting in MBS provided positive outperformance relative to the benchmark in April, as interest rates began their rise and prepayment risks abated. Mortgages have since performed fairly consistently with Treasuries on a duration adjusted basis.

The marginal underperformance in June which brought our quarterly performance to roughly even with the benchmark, was primarily the result of the sharp multi-point rally in the bond market during the last few days of the quarter. The portfolio underperformed over these days due to a combination of being marginally short in duration versus the benchmark (2 months), and the widening of mortgage spreads which commonly occurs during a sharp rise in bond prices. Market levels and mortgage spreads both retraced these moves during the first week of July.

It is important to note that this is our first quarter of managing these assets and much of the period was spent restructuring the portfolio to be consistent with similar portfolios managed by BlackRock. Consequently, portfolio turnover was fairly significant during the quarter.

BlackRock Financial Management (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Currently, our primary strategies are as follows:

   - Maintain a neutral relative duration to the benchmark and look for opportunities to make small tactical duration changes given market movements and new economic data.
   - Maintain a slight steepening yield curve bias in the portfolio by favoring intermediate maturity issues relative to shorter and longer maturity issues.
   - Maintain a significant overweighting in mortgage securities, concentrating on 30 year discount pass-throughs which act as high quality corporate bond surrogates with significantly better yield and only marginally poorer convexity characteristics.
   - Maintain a neutral to slightly underweight bias towards corporate bonds and focus on non-generic names and structures in search of relative value. These non-generic names include selected Yankee issues as well special situations such as Nabisco and News America Holdings.
   - Lastly, maintain liquidity by avoiding CMO's, agency bonds, and medium term notes.

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 2nd quarter of 1996, E.G. Fisher, a principal at BlackRock who specialized in managing our short duration accounts, left to join a Broker Dealer in their proprietary trading group. While we will miss E.G.'s contribution, we will not be replacing him; instead, his responsibilities will be divided among our existing 16 portfolio managers, including two young people who have been with the firm for several years and who will gain a growing role in portfolio management.

   Also during the 2nd quarter, BlackRock had Andrew Gordon join its Portfolio Management Group as a Principal. Andrew is responsible for managing our non-dollar sector allocation.

   No accounts managed under an Enhanced Index mandate have been gained or lost during the 2nd quarter of 1996.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Variance between SBI returns and BlackRock returns is due to pricing differences.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$15.6 Billion	Actual	0.3%	4.7%
Total Firm Assets Managed in this Discipline	$ 4.5 Billion	Benchmark	0.6%	5.0%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?***

   The portfolio lagged its benchmark during the second quarter of 1996. Our more positively-convex, seasoned MBS passthrough holdings (with a barbell coupon structure) underperformed par and CUSP coupon MBS in the benchmark. Our ABS and corporate holdings continue to perform well and add value. The portfolio underperformed its benchmark for the trailing 12-month period due to a defensive duration stance during the second quarter of 1995.

2. ***Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.***

   Relative to the benchmark, the portfolio is currently duration-neutral. Structurally, the portfolio is laddered along the yield curve with no steepening or flattening bias. Issue selection continues to be critical along the U.S. Treasury yield curve. With regard to sector weightings, the portfolio is overweighted in ABS and MBS, underweighted in Treasuries and agencies, and neutrally weighted in corporates. The portfolio is overweighted in BAA-rated corporates (though less so than a month ago) and was a seasoned coupon-barbell bias in its MBS positions.

   Our rationale for making these active bets is based on several factors. First, we are positioned late in the second phase of the credit cycle. Second, cyclical inflation pressures are building. Thus, corporate profitability remains solid and there is no recession imminent. Fourth, the bond market will have a downward bias (in price); we have been in a bond bear market since October 1993.

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 organizational structure during the second quarter of 1996. IAI gained one Fixed Income Investment professional during 2nd quarter 1996. Please refer to attached biography on Tim Anderson, CFA. There were no losses from the Fixed Income Team 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.*

   No additional comments.

Staff Comments

Mark Simenstad, a member of IAI's Fixed Income Group, has resigned. Mark was primarily responsible for IAI's corporate bond sector. Staff does not believe that Mark's departure will have an adverse impact on the SBI portfolio. Staff will meet with IAI in the near future, but does not recommend any action at the current time.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$36.3 Billion	Actual	0.6%	6.1%
Total Firm Assets Managed in this Discipline	$21.6 Billion	Benchmark	0.6%	5.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Over the last quarter your portfolio provided a return of 1.0% versus a benchmark return of 0.6%. Over the last twelve months, your portfolio provided a return of 7.0% versus a benchmark return of 5.0%

   During the quarter, interest rates rose with intermediate yields rising more than long yields, resulting in a flattening of the yield curve. We began the quarter with a duration, or interest rate sensitivity, in your portfolio of 5.6 years, about half a year longer than that of your benchmark. The portfolio had a modest barbell incorporated within it. Corporate securities represented 21.5% of the portfolio, foreign 8.7%, and mortgages 62%. Our strategy was to be overweight these latter three sectors and underweight Treasuries.

   While the duration of the portfolio detracted from overall relative results, the portfolio benefited from its yield curve exposure as the barbell performed relatively well in the curve-flattening environment. Foreign yields rose less than U.S. rates and in some cases actually fell, resulting in a positive contribution from foreign securities. Corporate spreads continued to narrow and the corporate contribution was positive. Mortgage securities remain our most significant overweighting. Mortgage securities were a neutral influence during the quarter.

   During the last year, the portfolio duration and yield curve exposure, foreign and corporate securities contributed to the relative outperformance. Mortgage securities, in spite of their significant and consistent overweighting, have been neutral throughout this period. Yield spreads, particularly for medium and lower quality corporate securities, have narrowed significantly relative to comparable duration Treasuries. Your exposure in recent months to medium quality corporates has had a positive influence on 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.*

   We find the fixed income market place attractive. The level of real interest rates and the steepness of the yield curve are our two primary indicators of value, and these indicators suggest that an above average exposure to the market is warranted. We have begun the quarter with a duration of 5.8 years, about three-quarters of a year greater than your benchmark. Yields and expected returns on foreign fixed income securities continue to fall relative to the U.S. fixed income market. Consequently, we are paring back foreign holdings further. Corporate securities are modestly attractive and we would anticipate cutting the portfolio's exposure over the upcoming months. Mortgage securities remain cheap on an option-adjusted yield basis and mortgages represent our most significant overweighting.

Miller, Anderson & Sherrerd (con't)

Approximately half of our mortgage holdings are in current coupon securities which are unusually attractive.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   During the quarter, one investment professional joined our staff, and none left.

   During the quarter we gained six accounts and lost two.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None.

Staff Comments

Variance between SBI returns and Miller returns is due to pricing differences.

Manager Commentary
Standish, Ayer & Wood

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$29.0 Billion	Actual	0.9%	5.8%
Total Firm Assets Managed in this Discipline	$12.4 Billion	Benchmark	0.6%	5.0%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Second Quarter and Year Attribution (Rel. to Lehman Aggregate)

	2ND QUARTER	**LAST 12 MONTHS**
Duration	-0.20	-0.27
Yield Curve	0.05	-0.02
Domestic Sectors	0.45	1.23
Non-Dollar	0.09	0.23
Fees	-0.05	-0.19

- Below investment grade corporate spreads tighten.
- Overweighting in mortgages positive in 96.
- Non dollar very strong.

2. *Future Strategy. What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Sector	Weighting Strategy	Rationale
Mortgages	Overweight	Spreads have tightened somewhat beginning to reduce strong overweight.
Corporates	Reduced overweight	High grade industrial spreads very narrow. Continue to add below investment grade which are better value.
International	Average weighting	U.S. has been worst performing market. Short term, best may be over for non dollar.
Treasuries	Underweight	Sector offers no special value.

Standish (con't)

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel additions:	William J. Kearns	Market/Client Service
Departures:	David Murray	Director & Treasurer (retired)
Accounts:	Gained 1 Pension	$ 60 Million
	Lost 1 Pension	$244 Million

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

Manager Commentary
Western Asset Management

Period Ending:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$21.2 Billion	Actual	0.9%	5.7%
Total Firm Assets Managed in this Discipline	$12.1 Billion	Benchmark	0.6%	5.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Once again, market-level performance in the first quarter was the product of mixed results for major portfolio strategies. Higher interest rates were again the major negative factor, since the portfolio's duration was longer than its benchmark throughout the quarter. This was offset, however, by the positive impact of a flatter yield curve on the portfolio's barbell exposure to maturities, particularly at the long end of the yield curve, and by the portfolio's overweight exposure to mortgage-backed securities as spreads narrowed somewhat.

Performance over the past year remains ahead of the benchmark. The portfolio's long duration posture over most of this period has been a drag on performance, since interest rates have, on balance, risen over the course of the past twelve months. The success of other major strategies has more than offset the negative impact of rising rates. Yield curve positioning has contributed to overall results, since the portfolio has held a barbell exposure for most of the past year and the yield curve has flattened. Mortgage underweighting in the latter part of last year was a positive as mortgages trailed other sectors, and moving to an overweight position early this year was rewarded by strong relative performance in the mortgage sector. Corporate overexposure throughout the past year added importantly to returns, particularly the emphasis on the lower end of the investment quality scale, as these issues turned in very strong performances.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Although the data confirm that the U.S. economy has strengthened this year, it is far from clear that it is on a path to overheating, and sound monetary fundamentals appear still intact. Recently, the growth rates of retail sales, consumer credit and the monetary aggregates have slowed, apparently in response to higher interest rates. To be sure, employment growth has picked up moderately, as have wages. Yet capacity utilization is below critical levels, and worldwide manufacturing activity is less than robust. For its part, fiscal policy continues to be restrictive, since spending growth has been restrained and tax burdens have reached post-war highs. Forward interest rates currently assume the economy will grow fast enough (3% or more) to cause the Fed to raise short-term rates 75 basis points by the end of the year. If moderate growth and subdued inflation prevail as we expect, then Fed tightening expectations will fade, and short- and intermediate-term interest rates should decline more than long-term rates. Consequently, we are maintaining a long duration position, and have moved recently to restructure our yield curve exposure in anticipation of a steeping curve. We are now emphasizing bonds of intermediate maturities and have reduced holdings of long-term and zero-coupon issues.

Spreads on corporate bonds are generally low historically, and our outlook does not call for unexpected economic strength. Therefore, we continue to hold only a modest overweighting to the sector, and will look for opportunities to reduce exposure further. Holdings are concentrated in issues at the lower end of the investment quality scale with improving credit prospects and attractive yields. Mortgage spreads, on the other hand, are relatively attractive historically, especially since prepayment risk has dropped as market yields have risen. This argues for maintaining a modest overweighting to the sector, but our interest rate outlook calls for emphasizing low coupon issues and for using commercial mortgages where credit quality is high, spreads are wide, and prepayment risk is relatively low to boost exposure opportunistically.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel Additions:

Joseph C. Carieri, Client Service Executive

Accounts Gained:

Three

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

No comments at this time.

Manager Commentary
IDS Advisory (IDS Fixed-Income Advisors)

Period Ending:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$28.9 Billion	Actual	-0.1%	4.0%
Total Firm Assets Managed in this Discipline	$4.1 Billion	Benchmark	0.6%	5.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the quarter ended June 28, 1996, the total return on your portfolio of -0.03% compared with a +0.57% return on the Lehman Brothers Aggregate Bond Index. For the twelve months ended June 28, 1996, your account returned +4.2% as compared to the +5.0% return of the Lehman Brothers Aggregate Bond Index. High yield securities added value in the second quarter. The return on high yield securities was +1.92% in the quarter and contributed a positive return on the total portfolio of +0.17%. A copy of the attribution analysis is attached.

   The underperformance for the quarter and the past twelve months is the result of duration levels which were higher than the benchmark during a period of rising interest rates. In late May and early June portfolio duration was reduced to a level closer to that of the benchmark which will reduce portfolio volatility going forward.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   High yield securities are being maintained close to the 10% permitted in investment guidelines. This is being done because we believe that the stable to strong economy we are expecting over the next twelve months will result in reduced credit risk in this sector. Likewise, mortgage pass-through holdings now represent 5% of the portfolio and represent better value than high grade corporate bonds at this time.

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.*

Brad Stone, Senior Portfolio Manager, joined our fixed income team on June 3. In addition, we have had two Portfolio Managers promoted to Senior Portfolio Manager: William P. Miller, Large Cap Growth Domestic Equities; David G. Bayer, Small/Mid Cap Growth Domestic Equities.

There have been no significant personnel departures during the last quarter.

First Quarter 1996

	Gains		Losses	
Product	**# of Accounts**	**Assets ($MM)**	**# of Accounts**	**Assets ($MM)**
Large Cap Equities	3	155.9	0	0
Fixed Income	0	0.0	0	0
Balanced	1	25.4	0	0
International	2	111.2	0	0
Regional - Pacific/Far East	0	0.0	1	9.5
Global Ex-Australia	1	19.7	0	0
Latin America	0	0.0	0	0
Small Cap Equities	1	4.7*	0	0
Mid Cap Equities	0	0.0	0	0
Research Core	1	15.0	0	0
Research Aggressive	4	146.4	0	0
Global Bonds	0	0.0	0	0
Structured Fixed Income	0	0.0	0	0

* Existing client adding an additional account.

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 comments at this time.

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$49.5 Billion	Actual	0.7%	5.5%
Total Firm Assets Managed in this Discipline	$14.9 Billion	Benchmark	0.6%	5.0%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   In the second quarter, the portfolio outperformed the Lehman Aggregate by 16 bps. This outperformance is due primarily to the corporate, mortgage and emerging market sectors.

   For the past 12 months, the mortgage sector added about 11 bps to incremental return as prepayment fears remained low over the period. In the second quarter, the mortgage sector added about 4 bps to incremental return, primarily due to spread tightening of the portfolio's CMO securities.

   For the past 12 months, term structure detracted about 6 bps from incremental return due to the barbelled portfolio structure during the second half of 1995, and the portfolio's Treasury securities added approximately 2 bps to incremental return due to security selection. Agencies added about 5 bps due to security selection. In the second quarter, the portfolio's term structure added approximately 1 bp to incremental return. Agencies did not have a significant impact on performance over the quarter.

   For the past 12 months, the corporate sector added about 20 bps to incremental return primarily due to the outperformance of the portfolio's industrial and financial holdings. In the second quarter, the corporate sector added about 5 bps to incremental return, primarily due to spread tightening of the portfolio's industrial and financial securities and sector OAS advantage of the portfolio's industrial securities.

   For the past 12 months, the emerging market sector added about 11 bps to incremental return. In the first quarter, the emerging market sector added about 4 bps to incremental return due to a combination of spread tightening and OAS advantage.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   The duration/term structure of the portfolio is targeted to that of the benchmark. In agencies, the portfolio is slightly underweighted (-3%) vs. the benchmark in favor of other higher-yielding spread sectors. 33% allocation to the mortgage sector (4% overweighting). Neutral outlook due to recent tightening. Overweight in lower coupons (7.0% - 7.5%) due to recent cheapening. Overweight seasoned securities in the premium coupons (9.0% - 10.0%) although less so due to outperformance earlier in the year. Underweight newly issued premiums due to unattractive spreads relative to lower coupons. Continue to add CMOs when attractive relative to pass-throughs.

28% allocation to the corporate sector (11% overweighting). Despite positive fundamentals we are neutral on corporate spreads as they remain at near historical tights. Yield spread widening toward the end of the second quarter attracted buying interest which left the corporate basis only slightly wider for the month of June. Pre-announced earnings revisions, which are generally bearish, may present some near term skittishness; however, the economy remains robust and the overall corporate earnings should show a slight improvement for the second quarter. 12% allocation to asset-backed sector (11% overweighting). Our outlook for the asset-backed sector is cautiously optimistic. Over the last several weeks, fixed-rate asset-backed sector is cautiously optimistic. Over the last several weeks, fixed-rate asset-backeds have experienced spread pressure due to a combination of heavy supply and ongoing consumer credit concerns. However, this sector should still benefit from strong investor demand for short-duration and floating rate paper with incremental yield and low spread volatility.

4% allocation to the emerging market sector (4% overweighting). We remain cautious regarding the Republic of Colombia, but will add assets in the event that spreads widen, as we are not concerned about payment risk. Our main concerns regarding Colombia are related to political uncertainty and reduced economic performance, which could cause spreads to widen. We continue to like CAF for the incremental spread that a 4.5-year BBB at 90 bps can provide. We added Panamco during 2Q96 based on its strong earnings record. Looking forward we are planning to add the credit enhanced United Mexican States bond in 3Q96. Additionally, we are seeking sectors to diversify the EMD allocation.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no changes in the ownership of GSAM. In late July, Goldman, Sachs & Co. increased its commitment to its asset management business by agreeing to acquire CIN Management Limited, British Coal's pension Fund manager, which has over $25 billion in assets under management. This acquisition will increase GSAM's total assets under management to approximately $85 billion.

U.S. Fixed Income Accounts Gained:		U.S. Fixed Income Accounts Lost*:	
U.S. Clients	2	U.S. Clients	1
Non-U.S. Clients	1	Non-U.S. Clients	0

* In regards to the account lost, the client decided to terminate his fixed income account with GSAM. However, the client is still invested in other GSAM products.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None

Staff Comments

No comments at this time.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$41.8 Billion	Actual	0.5%	5.0%
Total Firm Assets Managed in this Discipline	$14.0 Billion	Benchmark	0.6%	5.0%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

	2nd Quarter 1996		12 Months Ended 6/30/96	
	Active Strategy	Value Added	Active Strategy	Value Added
Mortgages	Overweighted	+0.00%	Overweighted	-0.04%
Corporates	Neutral	0.00	Neutral	-0.02
BBBs	Neutral	0.00	Neutral	0.00
Asset-Backeds	Overweighted	+0.01	Overweighted	+0.02
Agencies	Neutral	0.00	Neutral	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.06	N/A	+0.21
Less Fees		-0.01		-0.04
Total		**+0.05%**		**+0.09%**

On a net-of-fee basis, your portfolio outperformed the Lehman Brothers Aggregate Index by 5 basis points for the second quarter 1996 and 9 basis points for the fiscal year ending June 30, 1996.

For the one-year period, the value added from security selection was offset by the mortgage overweighting. For both the second quarter and one-year period, the change to the pricing methodology utilized by Lehman Brothers resulted in an incremental 5 basis points of return. This change captured a market valuation that had evolved over the past six to nine months, but was not being reflected in your returns.

High quality, AAA-rated asset-backed securities are overweighted relative to comparable maturity Treasuries; they offer an attractive yield advantage with minimal event or issuer risk. Spread risk is also reduced through the use of short maturity issues. The balance of the corporate sector is market-weighted relative to the index.

Discount mortgage securities are overweighted in the portfolio, resulting in an active exposure of 0.13%. We continue to view this area as attractive for several reasons; on an OAS basis we believe these securities are cheap, and they offer less prepayment risk in today's interest rate environment.

Lincoln (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	**Strategy**	**Rationale**
Resolution Funding Corporation	Overweighted vs Treasuries	1. Government Guarantee 2. Attractive Yield 3. Certain Cash Flow
Asset-Backed	Overweighted vs Treasuries	1. High Quality 2 Attractive Yield 3. Low Event Risk 4. Low Prepayment Risk
Discount Mortgages	Overweighted vs Treasuries	1. Agency Quality 2. Low Prepayment Risk 3. Wide Nominal Spreads

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

	Number	**Market Value ($ millions)**
Accounts Gained	1	$258
Accounts Lost	1	$348

Tim Doubek, Vice President, joined Lincoln in June of 1996 as a fixed income portfolio manager/analyst.

Peter Knez, Vice President, joined Lincoln in June of 1996 as a fixed income portfolio manager/analyst.

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:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$11.8 Billion	Actual	2.7%	20.1%
Total Firm Assets Managed in this Discipline	$ 2.6 Billion	Benchmark	1.6%	13.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The following figures show a breakdown of the returns for the last quarter:

	Total Return %	Currency %	Market Weighting %	Tracking Error %
Minnesota State Board	2.7	-0.4	2.4	0.5
MSCI EAFE Index	1.6	-1.6	3.2	---
Relative Return	1.1	1.2	-0.8	0.5

Currency (Relative return 1.2%): The most significant contributor to return was the underweighting of the Japanese yen. Underweighting both the Swiss franc and the French franc made a slight positive contribution. These were off-set in part by our underweighting of sterling which was one of the strongest currencies during the quarter.

Market Weighting (Relative return -0.8%): The underweighting of Australia, the UK, Singapore and Malaysia and overweighting Spain and Italy all made small positive contributions to return. However these were off-set by the allocations to South Korea, Thailand and overweighting Hong Kong.

Tracking Error (Relative return 0.5%): Tracking error this quarter added 0.5% value, substantially from Korea and marginally from France and Japan.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The main features of your portfolio are:

- A continued overweighting of Japan.
- A continued underweighting of the Japanese yen.
- A slight shift towards peripheral European markets of Italy and Sweden.
- Overweight in Hong Kong.

Although the economic recovery in Japan is gaining momentum, we are forecasting monetary policy to remain easy and short interest rates to stay lower for some time. The rebuilding of the balance sheets of Japanese banks has some way to go and the combination of low interest rates and deregulation is needed to accomplish this restructuring. The low interest rate environment will continue to be beneficial for Japanese financial assets and in particular stocks where corporate restructuring is starting to enhance profits. Based upon our earnings forecast,

Baring (con't)

the Japanese market is selling on 23 times March 1998 earnings which is attractive relative to bonds. As interest rates remain low we continue to forecast the Yen to weaken further and are maintaining our hedge from the Yen into the Dollar.

In Europe, the German economy continues to weaken which, when combined with fiscal restraint, will permit the Bundesbank to lower interest rates further. Lower interest rates in Europe will be particularly beneficial to the peripheral economies and stock markets and therefore we have increased the weightings in both Sweden and Italy.

Finally, the exposure in Asia is limited to Hong Kong where we are now within one year of Hong Kong claiming to Chinese rule. The economy is recovering from a growth recession as is the mainland economy. This will be a possible boost to corporate profits. Valuations are more than discounting the concerns over Chinese sovereignty.

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, we gained five new active/passive accounts for $40 million in new assets.

4. ***Other Comments.***

   None.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Mar. - Jun. 1996
Country selection*	-0.43
Stock selection*	0.62
Currency effect	0.23
Hedging activity	0.72
Total Value Added to EAFE	1.17

Source: State Street Analytics * in local currency

Manager Commentary
Brinson Partners, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$55.5 Billion	Actual	3.8%	25.6%
Total Firm Assets Managed in this Discipline	$14.1 Billion	Benchmark	1.6%	13.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio considerably outperformed the benchmark in the quarter, growing 3.8% in dollar-adjusted terms versus 1.6% for the MSCI Non-U.S. unhedged Index, and also significantly outperformed during the one-year period, earning 25.6% against a benchmark unhedged return of 13.3%. Market allocation was slightly negative in the fourth quarter and negative for the full year. The portfolio was helped in the quarter by overweights of the Netherlands, Belgium and Spain and by underweights in Hong Kong and Singapore. In contrast, overweighting the weak Anglo-Saxon markets (New Zealand, Australia and the U.K.) and underweighting Japan made a negative contribution. Strategic cash detracted slightly from performance. For the full year, the primary detractors were the underweights of Japan, holding strategic cash and overweights in Australia and New Zealand. Underweighting Malaysia, Singapore and Sweden was beneficial.

Currencies once again added considerable value both during the quarter and the year, playing a significant part in both periods' outperformance. The most important factor in both periods was the strategy of being underweight yen, as the latter continued to weaken in the second quarter and has declined over 26% in the twelve month period. Other important positives for the quarter and the year have been the underweights of the DM bloc currencies, which have weakened quite a bit both during the quarter and the year, and overweights of several peripheral currencies.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

There is a 5% strategic cash allocation, similar to last quarter. This is based on our view that most non-U.S. equity markets are overvalued. The scale of the Japan underweight had been increased last quarter. This market has been quite strong, yet concerns remain about the strength of the economic recovery and the as yet unresolved problems of the banking sector. Within the AO market, we increased the already overweight position of New Zealand, while scaling back on the overweight of the Netherlands. New Zealand has been a weak performer in both the quarter and the year and looks to be a good value. Current overweights are in the Netherlands, France, Belgium, Spain, New Zealand and Australia; underweights are held in Japan, Hong Kong and Switzerland.

One currency change was made. The Australian dollar was reduced, adding to the U.S. dollar. The portfolio continues to maintain a sizable yen underweight and almost no exposure to the DM bloc currencies. While the yen has been weak recently, because of the very low short-term cash rates in Japan, there is still an advantage to holding U.S. cash versus yen cash. The weakness of the yen and relative strength of the dollar has lessened the degree of comparative attractiveness of these two currencies. We continue to believe, however, that the U.S. dollar offers the most attractive return potential, while the yen and DM-bloc currencies, the portfolio's major underweights, remain overvalued.

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 changes and no turnover of our senior investment professionals in this past quarter. During the 2nd Quarter, there were no gained or lost Non-U.S. Equity.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None this quarter.

Staff Comments

Brinson informed the SBI that Susan O'Nan, Partner and Equity Strategy Analyst, recently left the firm for personal reasons. She will be replaced as soon as feasible. In the meantime, her duties will be covered by Tony Robinson and Gary Graphs. Gary had been working closely with Susan in the quantitative area. Ms. O'Nan had been with Brinson since 1987. Staff will monitor Brinson to ensure that this departure is not an indication of increasing turnover at the firm.

Performance attribution relative to EAFE for the quarter is shown below:

	Mar. - Jun 1996
Country selection*	0.36
Stock selection*	-0.60
Currency effect	0.45
Hedging activity	1.99
Total Value Added to EAFE	2.27

Source: State Street Analytics * in local currency

Manager Commentary
Marathon Asset Management

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$5.2 Billion	Actual	4.5%	20.3%
Total Firm Assets Managed in this Discipline	$3.3 Billion	Benchmark	1.6%	13.3%

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 Fund outerperformed in the second quarter of 1996, rising 4.5% versus a 1.6% rise in the MSCI EAFE Index. Outperformance was due to positive stock returns in Japan and Europe (notably the U.K., Germany and Sweden). Country and sector exposures remained largely unchanged over the quarter, with a bias towards materials and capital equipment groups (33.1% versus Index 23.5%) at the expense of energy and finance (16.9% versus Index 35.4%).

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.*

   This sectoral bias towards economic sensitives and away from interest rate beneficiaries has historically been associated with early cycle value investing. As such a state is clearly not the case (even Japan is now 32 months into an expansion phase versus a post-war average of 33.5 months) it is worth re-emphasizing the key reasons for Marathon's position. Firstly at the micro level company management have finally ceased to over-invest as cyclical cash flow rises; secondly the global monetary cycle (particularly in Japan) argues against economic slowdown and if anything suggests re-acceleration; thirdly the new demand centres (China, India, Russia et al) are radically shifting the longer term growth outlook for many of these industries; and finally valuations already in many cases reflect economic slowdown (or even slump).

   Against a longer term environment of rising long bond rates as real global demand for credit comes through from the developing world (just who is going to be buying developed world debt with real yields of only 3% once the Japanese stop?) current market favourites (be they brand name, technology, telecom or drug driven) appear highly vulnerable. Valuations on cellular stocks for example can hence be based on discounted earnings (but at what rate?) out to the year 2010 whilst industrials, cyclicals and commodity related are barely looking out six months. Whilst it may appear counter-intuitive, traditional economically-sensitive value stocks then are the main beneficiaries of economic expansion and the integration of the developing world. Growth will predominate over pure value at this stage of the cycle, but Marathon firmly believes that the cheapest "growth" remains lurking in the value universe, be it in the U.K., Europe or Japan.

Marathon (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel:	No changes.
Accounts Gained:	1
Accounts Lost:	None

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Performance attribution for the quarter relative to EAFE is shown below:

	Mar. - Jun. 1996
Country selection*	-0.19
Stock selection*	2.87
Currency effect	0.39
Hedging activity	-0.01
Total Value Added to EAFE	3.05

Source: State Street Analytics * in local currency

Manager Commentary
Rowe Price-Fleming International

Period Ending:	6/30/96	Returns	Qtr.	Year
Total Firm Assets Under Management	$26.6 Billion	Actual	4.0%	18.0%
Total Firm Assets Managed in this Discipline	$20.0 Billion	Benchmark	1.6%	13.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   Country selection was a small positive over the quarter. Value was added in Europe, where the overweighting in the Netherlands and underweighting in Switzerland added value, and Latin America where your portfolio's exposure to the Brazilian market was beneficial. Value was subtracted in the Pacific ex-Japan with overweightings in Korea and Singapore unhelpful.

   Stock selection was also positive over the quarter. Most value was added in Europe with performance in France and Germany particularly strong while Japan and Brazil were also good. Stock selection in the Pacific ex-Japan was a small negative. Medium sized and smaller companies continue to perform well in most markets with Japan particularly good.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Current position and outlook

   Markets have generally performed well so far this year and we believe that this can continue in forthcoming months. The economic outlook remains supportive internationally, corporate earnings growth is good to strong, bond markets are unlikely to weaken from present levels and valuations are reasonable. Selectively, investment opportunities look attractive in both Japan and Europe while the smaller markets of Asia and Latin America should make further progress over the balance of the year.

Rowe Price (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There have been no changes in the ownership of RPFI.

   During the second quarter of 1996, RPFI gained one new account in the 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

Performance attribution relative to EAFE for the quarter is shown below:

	Mar. - Jun. 1996
Country selection*	0.60
Stock selection*	1.53
Currency effect	0.43
Hedging activity	-0.01
Total Value Added to EAFE	2.54

Source: State Street Analytics * in local currency

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$100.0 Billion*	Actual	3.7%	21.7%
Total Firm Assets Managed in this Discipline	$ 10.0 Billion*	Benchmark	1.6%	13.3%

* as of 3/31/96. Data as of 6/30/96 unavailable at this time.

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   The Minnesota State Board of Investment portfolio gained 3.7% during the second quarter of 1996, outpacing a 1.6% rise in the benchmark EAFE index. With few exceptions, stock markets around the world all rose during the quarter. For US-based investors, a stronger dollar eroded about half these local currency gains. Year-to-date, your portfolio is up 10.9%, versus a 4.5% increase for EAFE.

   We attribute the outperformance of your portfolio primarily to some solid stock picking in Japan as well as in several European markets, most notably France, the United Kingdom, Switzerland and Sweden. Some exposure to the smaller markets of Italy, the Philippines and Brazil was also constructive.

   The fundamental macroeconomic backdrop has not materially changed since last quarter. Major world economies continue to follow divergent paths. Japan is in the earlier stages of recovery and gathering steam, while Europe is still on the brink of recession. In the US, economic expansion is taking on a decidedly late-cycle tone.

   Changes made to your portfolio during the course of the quarter consisted more of stock-specific rebalancing than any major realignments. The basic strategic thrust of your portfolio remains intact. We took some profits on a number of more highly valued "growth" situations, primarily in Europe, and reinvested the proceeds back into several less highly-rated, new European restructuring candidates.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Looking forward, there are no major portfolio shifts immediately contemplated. In the Japan portion of your portfolio, some trimming or rebalancing of positions is likely should the market rise materially further or should the recovery appear less robust than the market is currently anticipating. Key drivers that we are following closely in this regard are the currency and consumption trends. In Europe, our focus continues to center on global companies and additional candidates for industry or company-specific restructuring. In that vein, we expect to increase exposure to French corporates, where there are early suggestions of fundamental structural change that should be quite positive for 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.*

Personal Gained:

Name	Title	Responsibility
Clewley, Kevin	Vice President	Global Industry Analyst
Greenberg, Andrew M.	Assist.Vice President	Asst. Portfolio Mgr. (Global Bond in SF)
Hoes, Clay	Vice President	Global Industry Analyst
Stuart, Virginea	Assist. Vice President	Global Industry Analyst

Personnel Lost:

Name	Title	Responsibility	Reason
Loudon, Doug	Managing Director	Client Service	Left to pursue other opportunities
Silva, Todd	Vice President	Global Industry Analyst	Left to pursue other opportunities
Yew, Irene	Vice President	Country Analyst	Left to pursue other opportunities

	Gained	Lost
International Accounts Gained/Lost **First Quarter 1996:***	6 accounts	$ 1 account
	$41 million	$112 million

* Second quarter data will be sent as soon as 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

Performance attribution relative to EAFE for the quarter is shown below:

	Mar. - Jun. 1996
Country selection*	1.25
Stock selection*	-0.05
Currency effect	0.18
Hedging activity	0.00
Total Value Added to EAFE	1.38

Source: State Street Analytics * in local currency

Manager Commentary
Templeton Investment Counsel, Inc.

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$65.0 Billion	Actual	5.0%	17.6%
Total Firm Assets Managed in this Discipline	$21.6 Billion	Benchmark	1.6%	13.3%

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?*

   Our overweight European exposure, specifically Spain and Sweden, both of which produced in excess of 30% returns in dollar terms over the past year, was value additive to the portfolio. With the MSCI Japan Index providing only a 1.2% and 11.3% return in dollar terms over the past quarter and year, respectively, our Japanese underweighting has been beneficial. The underweight position reflects the fact that we are unable to find bargains in Japan and not that we have an unfavorable view of Japan. After modest performance in the last half of 1995 the emerging markets provided solid returns the past two quarters and we were rewarded given our 12% emerging markets exposure.

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 process is a stock driven process in which security selection determines our country and industry allocation. Accordingly, we avoid making market outlook projections. However, our Bargain List provides us with insight as to what is becoming attractive. Currently the US stock representation on the Bargain List is near a historic low while international securities dominate the list. We are finding bargains throughout the international markets with Europe and the banking sector offering the best value. While underweight Japan, we remain overweight in Hong Kong. Many of our Hong Kong holdings are direct beneficiaries of the positive economic changes taking place in China. We recognize the risks associated with the 1997 transition of Hong Kong to China, but believe that the long term rewards far outweigh the near term risks.

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, the manager for the portfolio, Jim Chaney, resigned from Templeton. In addition, Retz Reeves (portfolio manager/analyst) and Wes Freeman (Director of Institutional Business Development) also left the firm. All three of them joined a small local investment company in the start up stages as Managing Directors. Jim Chaney joined the firm as CIO and Retz Reeves as Director of Developed Markets Research. Wes Freeman has the same responsibility as he did at Templeton. Each also received equity ownership in their new firm. Mr. Chaney and Ms. Reeves combined covered approximately 8% of the global research database at Templeton. The remaining 92% of the database is covered by the remaining 32 analysts. In response to these departures, Gary Clemons (Vice President) has been recommended as the new lead portfolio manager with Don Reed (President) and Gary Motyl (Executive Vice President) serving as back up managers for the portfolio.

In March 1996, we added Steve Oler to the research team. Steve joins us with 11 years of international equity portfolio management/analysis experience from Baring Asset Management and will be located in Ft. Lauderdale, FL. George Richie has also accepted an offer to join us in our Edinburgh office in early August. George has over ten years of international equity research experience with Standard Life in Edinburgh. We are also in the later stages of recruiting one other experienced portfolio manager/analyst.

We were informed of the closing of one Non US separate account managed in Nassau. The client feels that equities in general are over valued and terminated a number of managers. They are going to hire managers that have portfolio weightings closer to the index. We also had one new Non US equity separate account funded during the quarter.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

The semi-annual research meeting for the entire global research staff was held in July in Toronto. The purpose of these meetings is to address specific issues relating to the research process such as supplementary valuation methods (i.e. enterprise value to EBITDA), specific stock ideas and regional issues (i.e. China/Hong Kong transition).

Staff Comments

Due to the larger part to the turnover referenced in #3, staff are recommending that the relationship with Templeton be terminated. For more information please refer to the staff memo on this topic.

Performance attribution relative to EAFE for the quarter is shown below:

	Mar. - Jun. 1996
Country selection*	1.30
Stock selection*	1.63
Currency effect	0.58
Hedging activity	-0.01
Total Value Added to EAFE	3.50

Source: State Street Analytics * in local currency

Manager Commentary
State Street Global Advisors

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management	$240.0 Billion	Actual	2.3%	13.6%
Total Firm Assets Managed in this Discipline	$ 52.0 Billion	Benchmark	1.6%	13.3%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.*

   In the second quarter, the portfolio outperformed the benchmark by 0.7%. The portfolio gained approximately 8.5 basis points due to index changes that occurred on June 1st. The portfolio purchased/sold stocks at a better price than its entry or exit price in the MSCI Country Index. The remaining outperformance is due to the portfolio receiving a larger dividend yield than the 12 month average dividend yield which is included in the benchmark calculation. For the last twelve months, the portfolio outperformed by 0.3% due to SBI's lower dividend withholding taxes than the tax rates used in the calculation of the MSCI EAFE Free Index.

2. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   Tom Turner joined SSgA this Spring as Director of Risk Management. He will lead our initiative in developing a strong risk management infrastructure throughout the firm. We gained five accounts in the discipline with total assets of $240 million. No accounts were lost last quarter.

State Street (con't)

3. ***Other comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   According to the May 13, 1996 edition of Pensions and Investments, SSgA is the number one ranked manager of US tax-exempt assets. SSgA is extremely proud of this accomplishment and we believe it reflects the quality and depth of investment products and services that we offer our clients. Most importantly, we recognized that it has been made possible only through the confidence and trust that each of our clients has placed in us. We thank you for allowing us to achieve this important milestone.

Staff Comments

Performance attribution relative to EAFE for the quarter is shown below:

	Mar. - Jun. 1996
Country selection*	-0.05
Stock selection*	0.54
Currency effect	0.23
Hedging activity	0.00
Total Value Added to EAFE	0.73

Source: State Street Analytics * in local currency

Manager Commentary
Record Treasury Management

				Since
Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**12/95**
Total Assets Under Management	$5.1 Billion	Index + Record	2.2%	9.3%
Total Currency Overlay	$3.1 Billion	Index Fund only	2.3%	9.3%

1. *Performance/Strategy. Summarize your currency positions.*

	Currency Exposure* 6/30/96	**Assets Included in Overlay Program** 6/30/96**		**Assets Hedged*** as of 6/30/96**	
Yen (JPY)	$687.3 mill	$417.3 mill	60.72%	$354.6 mill	51.60%
Sterling (GBP)	277.0 mill	159.7 mill	57.67	0.0 mill	0.00
Mark (DEM)	115.3 mill	69.8 mill	60.51	49.6 mill	43.00
Fr. Franc (FRF)	109.8 mill	66.8 mill	60.80	28.4 mill	25.90
Sw. Franc (CHF)	98.8 mill	60.9 mill	61.62	42.7 mill	43.28
Total	**$1,288.2 mill**	**$774.5 mill**	**60.12%**	**$475.4 mill**	**36.91%**

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

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

*** The percentage of assets hedged is relatively low due to cover being placed 2% OTM. This requires a 2% strengthening of USD to trigger cover being put in place.

Market Comments 2Q96: During the quarter, the USD strengthened against all currencies except the GBP (see table below). The JPY strengthened to 104.3 at the end of April before weakening and trading between 108 and 110 JPY/USD. Overall, the JPY positions contributed $3 mil. of unrealized gains for the quarter. The GBP weakened early in the quarter to 1.5085 before ending stronger at quarter end. This resulted in some trading costs for the GBP positions in April and May. The FRF weakened to 5.1900 before finishing slightly stronger against the USD. The GBP and FRF positions generated unrealized losses of about $1 mil. for the quarter. The DEM and CHF weakened early in the quarter than traded around current levels for the last month. The DEM and CHF positions generated about $2 mil. of unrealized gains.

Currency	**JPY/USD**	**USD/GBP**	**DEM/USD**	**FRF/USD**	**CHF/USD**
Rate on 3/29/96	106.43	1.5251	1.4752	5.0296	1.1896
Rate on 6/28/96	109.89	1.5467	1.5225	5.1461	1.2505
Change	-3.25%	+1.42%	-3.21%	-2.32%	-5.12%

2. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List currency overlay accounts gained or lost over the same time period.*

There have been no personnel gains or losses. There have been no client gains or losses.

Record (con't)

3. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm* .

None to report.

Detail on Positions, by Currency as of 6/28/96

Spot Rate *6/28/96*	JPY *109.89*	GBP *1.5467*	DEM *1.5225*	FRF *5.1461*	CHF *1.2505*
Tranche Dates	**Marked to Market***	**Marked to Market***	**Marked to Market***	**Marked to Market***	**Marked to Market***
Dec. 11, 1995	2,412,745.45	(297,970.00)	170,604.23	(18,832.60)	448,128.48
Dec. 24	1,890,893.01	--	--	--	--
Jan. 8, 1996	362,364.57	(649,665.00	91,762.87	(286,438.65)	310,176.43
Jan. 24	504,279.17	--	--	--	--
Feb. 10	63,081.71	(140,000.00)	47,930.47	(125,751.02)	99,837.83
Feb. 26	466,128.38	--	--	--	--
Mar. 11	40,048.44	0.00	68,738.24	(188,665.56)	190,778.46
Mar. 26	(459,747.25)	--	--	--	--
Apr. 10	(266,155.67)	0.00	83,089.21	(202,086.33)	126,998.01
Apr. 24	(672,317.30)	--	--	--	--
May 9	275,026.67	0.00	0.00	0.00	(337,067.31)
May 27	(131,010.44)	--	--	--	--
Jun. 10	0.00	0.00	0.00	0.00	0.00
Jun. 25	0.00	--	--	--	--
Jul. 7					
Jul. 22					
Aug. 7					
Aug. 22					
Sep. 7					
Sep. 22					
Oct. 7					
Oct. 22					
Nov. 7					
Nov. 22					
Total (Not discounted)	$4,485,336.74	($1,087,635.00)	$462,125.02	($821,774.16)	$838,851.90

* Mark to market valued at the actual cost of close out; ie using the forward rate to the position's value date.

Profit (Loss) During Quarter	**$4,967,473**
Profit(Loss) Since Inception (Dec. 1995)	**$3,876,905**

Staff Comments

During the last quarter, staff developed new formats to report the results of the currency overlay program. Staff continue discussions with Record and the SBI's consultants on appropriate benchmarks.

Record Treasury's accounting records and valuation for the quarter differ from those provided by State Street Bank. Staff are working with both Record and State Street to reconcile the differences.

Manager Commentary
Genesis Asset Management Limited

Period Ending:	**6/30/96**	**Returns**	**Since Inception**
Total Firm Assets Under Management	$4.1 Billion	Actual	1.4%
Total Firm Assets Managed in this Discipline	$3.4 Billion	Benchmark	0.2%

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 months of May and June provided a favourable market background for putting funds to work. In May the MSCI EM Free index fell by 0.69% with 13 out of its 22 country components falling; June saw a rise of 0.41% but with 11 countries falling.

By the end of the quarter, the portfolio was roughly two thirds invested, containing 55 stocks from 25 countries. (More, less liquid stocks will be added subsequently to take the final total to 90-100, from over 30 countries).

The investment returns were influenced by three noteworthy factors:

(i) a large position (with the full $200 million funding programme in mind) was taken in the Brazilian telecommunications company Telebras. This subsequently increased almost 20%;

(ii) in Korea over one third of the investment in Samsung Electronics was lost. The stock suffered from a poor local market and depressed semiconductor prices; and

(iii) the combined holdings in Central Europe added value to the 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.*

The portfolio's remaining liquidity will be invested in July, by which time over thirty countries will be represented and the final "shape" of the portfolio will be in place. The additional funding scheduled for the third and fourth quarters will then be used to add to existing positions, and importantly to move into smaller and less liquid companies so as to bring the number of stocks in the portfolio up to 90-100.

Genesis' current view is that corporate growth is more attractively valued in Latin America markets, especially in the Argentinean, Brazilian and Chilean markets. Therefore the portfolio will be overweighted in this region (approximately 40% versus MSCI EM Free weighting of 32%). The notable exception is Mexico, where we feel economic recovery has already been discounted.

Genesis (con't)

South Asia is under emphasized: many companies in the Malaysian and Thai markets are highly priced and are likely to be tested by the unaccustomed economic slowdown taking place in those countries. When custody becomes available in Korea, it is likely holdings there will be prominent compared to the index; Korean companies are very attractively priced. In addition, further names are likely to be added in India where entrepreneurial managements are benefiting from sustained economic growth.

South Africa (where we see growing political instability) is a concern. The current heavy underweighting will continue. Conversely we continue to find what we consider corporate bargains in the rest of the broad Africa/Middle East/Europe area. Despite rapid rises, Central European markets (which are scarcely represented in the indices) remain underpriced and are therefore overweighted.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   There were no significant ownership or personnel changes during the period. Two new separate accounts were gained during the second quarter and none were lost. One of the accounts was a United Kingdom pension fund and the other an as yet undisclosed state retirement fund in the United States.

4. ***Other Comments.***

   Genesis' Nairobi office officially opened to conduct research on East Africa and a decision was reached in principle to open a Brazilian research office. There were no other events which we believe were pertinent to the conduct of the SBI account.

Staff Comments

Genesis received $50 million in May and $50 in June. They will receive an additional $100 million over the remainder of the calendar year.

Manager Commentary
Montgomery Asset Management

Period Ending:	6/30/96	Returns	Since Inception
Total Firm Assets Under Management	$7.0 Billion	Actual	1.6%
Total Firm Assets Managed in this Discipline	$2.2 Billion	Benchmark	0.2%

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 inception date of the Portfolio is May 1, 1996.

We made an active bet relative to our benchmark in Brazil. The overweighting in Brazil was based on our outlook for positive GDP growth momentum, lower inflation and lower interest rates. Country allocation and stock selection both added value in Brazil during May and June. Our decision to overweight Brazil helped performance as the MSEF Brazil Index advanced 13.00% versus the MSEF Index return of 0.18% during May and June. Further, our stock selection in Brazil added value as the Brazil portion of the Portfolio was up 19.80% during May and June. One example, Telebras, Brazil's largest telecom provider and the largest holding in the Portfolio gained 28.64% during May and June.

Another active bet we made, relative to our benchmark, was in the entire region of North Asia. Our investment allocation outside of the MSEF Index in this region helped performance as China added 4.73%, Hong Kong added 8.78% and Taiwan was up 18.55% during May and June. The index return for the one North Asian country in the MSEF Index, Korea, was down 21.91%. However, due to stock selection, the Korean portion of the Portfolio was only down 14.59% during May and June.

Country allocation was also positive in Malaysia and South Africa. We made active bets to underweight the benchmark in both of these countries. This proved beneficial as the MSEF Malaysian Index returned -3.51% for May and June, and the MSEF South African Index returned -1.58% during this 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.*

We continue to overweight Brazil, however, we have taken profits in several stocks within this market. As we have taken profits, we have been reallocating the proceeds to other markets that we also find attractive. For example, while we continue to be underweight in South Africa versus the benchmark, we are slowly increasing our allocation as we expect the South African market to perform better now that the currency has stabilized, interest rates are beginning to fall, and government policy is better defined.

Montgomery (con't)

We have also increased our allocation to North Asia, capitalizing on the growing trend of consumerism in this populous region. Additionally, the region is becoming a larger share of investor's portfolios as the IFC and Morgan Stanley re-orient their indices to give a greater weight to this region, thus improving liquidity.

From a global perspective, we expect real interest rates to fall in the emerging markets. We forecast average inflation rates in 1997 to fall in 22 of the 29 markets we follow. As a result, we continue to overweight the banking sector versus the benchmark. Many of the bank stocks represent good asset values and they are able to capitalize on declining real 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.*

   Since our relationship began, there have been no significant ownership or personnel changes at the firm.

   In addition to gaining your account, we are in the final stages of contract negotiations with the Philadelphia Municipal Employees Retirement System for a $57.5 million separate account. We also had some turnover among our smaller accounts in our commingled vehicles, gaining one relationship and losing one relationship, due to a change in their investment objectives from a global manager to a regional manager.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   As of June 30, 1996, the SBI account was successfully invested in 88.50% equities, with total assets being $203,122,583.

Staff Comments

Montgomery received $100 million in May and $100 million in June. No additional contributions are contemplated at the present time.

Manager Commentary
GE Investment Management, Inc.
Assigned Risk Plan - Stocks

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$55.1 Billion	Actual	3.7%	25.2%
Total Firm Assets Managed in this Discipline	$10.7 Billion	Benchmark	4.5%	26.2%

1. ***Past Performance.*** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

   During the quarter we were helped by our large holdings of Equifax, PepsiCo and Emerson Electric. We benefited from an overweighting in Energy, particularly Oil Service stocks such as Schlumberger and Baker Hughes. We were also helped by our underweighting in basic materials, especially commodity chemicals. We were hurt during the quarter by two sectors in particular, Capital Goods and Technology. In Capital Goods, Allied Signal and Deere were both off slightly after strong performances in the first quarter while GE, which we currently cannot own, was very strong. Technology was also up strongly and we were hurt by our underweighting in the sector, particularly in Microsoft and Cisco Systems, and by our holding of IBM. Over the last twelve months we were helped by our overweighting in Energy and Transportation and by underweightings in Consumer Cyclicals, Technology and Basic Materials. We were hurt by our overweighting in Capital Goods and by not owning GE. We were also hurt by our 4% cash holding in 1995. Cash in 1996 has dropped to around 2%.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   During the quarter we increased our exposure to the Consumer Stable sector by adding to Proctor & Gamble, Bristol Myers and Anheuser Busch on weakness. We reduced our exposure to consumer credit by trimming Bank of New York, Dean Witter Discover, Equifax and First Chicago, but maintained our Financial sector weighting by adding to Wells Fargo and Provident, two companies involved in restructuring. We increased our growth potential in the Energy sector by adding to Schlumberger and Total with the proceeds from the sale of Chevron and Royal Dutch. We added to Intel, as the company continued to show excellent growth and an attractive valuation, and we significantly reduced our holding in Minnesota Mining. Based on the rapid fluctuations between Growth and Value over the last few quarters, we believe this is a particularly good time to be style neutral to the S&P 500. We continue to focus on bottom-up stock selection and believe the portfolio is well positioned for good relative performance during the balance of the year.

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

No comments at this time.

Manager Commentary
Voyageur Asset Management
Assigned Risk Plan - Bonds

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**1 Yr.**
Total Firm Assets Under Management	$ 7.4 Billion	Actual	0.7%	5.4%
Total Firm Assets Managed in this Discipline	$ 3.7 Billion	Benchmark	0.8%	5.6%

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?*

   To recap: Over the most recent quarter, we reduced our allocation to Treasuries, while boosting that of the corporate and asset-backed sectors. In our view, no spread product (securities that offer additional yield relative to comparable Treasuries) offers exceptional value. We have therefore focused our purchases on the short end of the duration spectrum, insulating the securities' values against any spread widening while taking advantage of the incremental income these holdings offer (duration is a measure of risk: the longer the duration, the more price sensitivity there is to any changes in interest rates - or changes in spread relationships). These additions to spread product have helped enhance the income portion of the returns, enabling us to better match the performance of the benchmark.

   In June, we also became more defensive in regards to our view on interest rates. In as much as we never attempt to add significant value to the portfolio by making interest rate bets, the overall duration of the portfolio will reflect our view of how we expect the market to perform. Relative to the benchmark duration of 3.04 years, the portfolio was shortened from 3.14 years at the end of the March to 2.95 duration years by the end of June (to 97% of the benchmark duration).

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

   Going forward, we will continue to emphasize an overweighting in spread product, in particular, in the short end of the market. In the event that spreads do widen from their current tight levels, we will opportunistically look to buy securities further out the curve. At the present time however, we do not feel we are being compensated to take on the additional duration risk at current spread levels. In the mortgage sector, we will continue to participate in liquid agency passthrough pools and will potentially add more short, well structured CMO's. CMO's will be used principally to maintain the desired duration of the mortgage holdings. Treasuries, ultimately, will be used to maintain the desired duration of the overall investment portfolio.

   In our view, for the balance of 1996, the economy, overall, should continue to grow at a modest pace with little in the way of significant, sustainable price pressures. In light of some apparent strength in certain sectors (the consumer, wage gains, potential inventory build-up), we believe the Fed will nudge interest rates higher, consistent with their mandate to contain inflation and support an economic growth pace in the 2.5% area. In this environment, we will remain fully invested, albeit with a somewhat cautious posture towards the market (i.e., we were at 97% of the benchmark at quarter end). Our emphasis will remain on spread product to add value, and we will manipulate duration in a more subtle fashion and only as a reflection of our interest rate views.

3. *Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Personnel changes during the second quarter, 1996, are as follows:

Additions:
Dorrie Marks, Assistant Portfolio Manager (Taxable Fixed Income) - 5/30/96
William Stouten, Fixed Income Credit Analyst - (4/1/96)
Losses:
None.

Accounts Gained in this discipline:

Tax-Exempt Clients:	Association of California Water Agencies
	Bricklayers & Stonemasons Union Local No. 2 Pension Trust Fund
	Fresno County Employees' Retirement Association
	Hawaii Iron Workers' Annuity Trust Fund
	Marquette Pension
	Northern Colorado School Districts' Self-Insurance Pools
	Plumbers & Pipefitters National Pension Fund
	Rapid City Area School District
	Southern California Regional Liability Excess Fund
	Staff Pension Plan of Laborers International Union of North America
	Twin City Pipe Trades Pension Supplemental Trust
	United Food & Commercial Workers Local No. 789
	West San Gabriel Valley Workers' Compensation S.I.A. Fund

Accounts Lost in this discipline:
None.

4. *Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

As noted above, Dorrie Marks joined Voyageur in May, 1996, as Assistant Portfolio Manager. She is working primarily with Melissa Uppgren, portfolio manager for SBI's account. She will assist Melissa and Jane Wyatt, Chief Investment Officer, in portfolio management activities for insurance clients, including SBI.

There were no other events occurring which would directly affect the management of the SBI account.

Staff Comments

No comments at this time.

Manager Commentary
Internal Stock Pool
Trust/Non-Retirement Assets

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**YTD**
Total Firm Assets Under Management	$64.8 Million	Actual	4.5%	26.0%
Total Firm Assets Managed in this Discipline	$64.8 Million	Benchmark	4.5%	26.2%

1. ***Past Performance. Summarize your performance over the last quarter and year. Specifically, explain the reasons for the tracking error between the portfolio and the index.***

   For the quarter, the index fund matched the benchmark. For the year, it had negative tracking error of 0.2%. The negative was due to residual cash, trading and other. Some cash levels will always be maintained in the account because the dollar value is too small to equitize with futures. (Currently one futures contract will equitize $330,000.) In a strong stock market this will cause some negative tracking error. In addition, trading activity induced by cash flows, dividends or corporate actions will contribute to tracking error. Over time, this activity will generate a small negative bias due to transaction costs.

2. ***Future Strategy. Going forward, what strategies, if any, do you plan to implement to control tracking error within expectation.***

   Staff purchased futures to equitize a $2.4 million cashflow received on August 1, 1996. Currently there is $5.3 million of cash being equitized with futures and staff is in the process of developing a buy program to deploy the cash into stocks. The S&P 500 index continues to incur a fair amount of merger activity. However, dividend cashflow has been sufficient to cover the purchase of new additions to the index.

Internal Equity Index Pool (con't)

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

   No other comments.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

   None

Staff Comments

No comments at this time.

Manager Commentary
Internal Bond Portfolios

Period Ending:	**6/30/96**	**Returns**	**Qtr.**	**Year**
Total Firm Assets Under Management		Actual	0.7%	5.3%
Assets Managed in this Discipline	$0.6 billion	Benchmark	0.6%	5.0%

1. *Past Performance. Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

<u>Performance, Fourth Quarter '95</u>

The above returns reflect the combined portfolios of the Environmental Trust Fund, the Income Share Account, and the Permanent School Fund. Collectively, the funds outperformed the index returns.

- An underweighted Treasury position and overweighted mortgage position enhanced returns since mortgage securities performed well during the quarter.
- A slightly barbelled portfolio increased returns as the yield curve flattened during the quarter.
- A neutral to underweighted corporate position detracted slightly from performance since corporate securities performed better than treasuries but worse than mortgages.
- A slightly longer duration decreased performance as interest rates increased.

<u>Performance for the Year</u>

Collectively, the funds outperformed the index.

- A slightly longer duration than the benchmark increased performance as interest rates declined during the first six months. After the fourth quarter of 1995, the duration was shortened and maintained returns as interest rates rose.
- A barbelled structure decreased performance as the yield curve steepened.
- An underweighted Treasury position and overweighted mortgage position enhanced returns since mortgage securities performed well during the year.
- A neutral to underweighted Corporate position decreased returns since the corporate sector performed well.

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Yield Curve Strategy

Real US interest rates are higher than they were at the beginning of the year. If you assume that inflation will be 3% next year, the real yield on the ten year Treasury was around 3.7 % on June 30. At this level, bonds are more attractive than at the beginning of the year. At these levels, the portfolio duration will be neutral to slightly longer than the market.

We will move to add more bonds in the middle part of the curve and reduce the barbelled position because we believe there is more value here than at the beginning of the year.

Corporate Strategy

Corporate spreads are still tight and we will remain neutral to underweighted in them. We will look to selectively add corporates to the portfolio throughout the quarter if spreads widen.

Mortgage Strategy

We will remain overweighted in mortgages. With the increase in rates, mortgages have become more positively convex and should perform well if interest rates move in either direction.

3. ***Organizational Issues.*** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

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

None at this time.