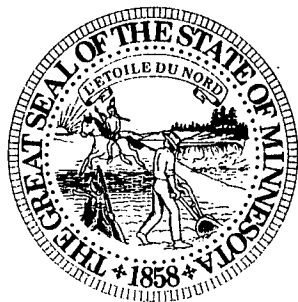

MINNESOTA STATE BOARD OF INVESTMENT

MINNESOTA STATE BOARD
OF INVESTMENT
MEETING
September 3, 1997

&

INVESTMENT ADVISORY
COUNCIL MEETING
September 2, 1997



Governor Arne H. Carlson

State Auditor Judi Dutcher

State Treasurer Michael A. McGrath

Secretary of State Joan Anderson Growe

Attorney General Hubert H. Humphrey III

**AGENDA
STATE BOARD OF INVESTMENT
MEETING**

Wednesday, September 3, 1997

8:30 A.M. -Room 125

State Capitol - Saint Paul

TAB

- 1. Approval of Minutes of June 4, 1997**

- 2. Report from the Executive Director (H. Bicker)**
 - A. Quarterly Investment Review (April 1, 1997 - June 30, 1997) **A**
 - B. Portfolio Statistics (June 30, 1997) **B**
 - C. Administrative Report **C**
 1. Reports on budget and travel
 2. Update on litigation
 3. Update on tobacco information
 4. Authorization to form a Review Committee and issue RFP's for custodial and portfolio accounting vendors

- 3. Report on the status of the Executive Director's performance evaluation for FY97 (P. Sausen)**

- 4. Report from the SBI Administrative Committee (M. McGrath)**

- 5. Report from the Deferred Compensation Review Committee (P. Sausen) **D****
 - A. Update on study of 403(b) match program
 - B. Semi-annual review of product providers
 - C. Authorization to issue product provider RFP's for the 457 Plan

- 6. Reports from the Investment Advisory Council (J. Yeomans)**
 - A. Domestic Manager Committee **E****
 1. Review manager performance
 2. Recommendations concerning three domestic stock managers (IAI, Winslow, Wilke/Thompson)

 - B. International Manager Committee **F****
 1. Review manager performance
 2. Status of review of currency overlay manager
 3. Recommendation to place a manager on probation (Scudder)

 - C. Alternative Investment Committee **G****
 1. Review of current strategy
 2. Approval of commitment to an existing real estate manager (Westmark) for the Post Fund

**Minutes
State Board of Investment
June 4, 1997**

The State Board of Investment (SBI) met at 8:30 A.M. Wednesday, June 4, 1997 in Room 125 State Capitol, St. Paul, Minnesota. Governor Arne H. Carlson, State Auditor Judith H. Dutcher, State Treasurer Michael A. McGrath; Secretary of State Joan Anderson Growe were present. Attorney General Hubert H. Humphrey III was absent. The minutes of the March 5, 1997 Board meeting were approved.

Executive Director's Report

Mr. Bicker, Executive Director, referred members to Tab A of the meeting materials and reported that the Combined Funds had exceeded inflation over the ten year period ending March 31, 1997 (Combined funds 10.7% vs. Inflation 3.6%), trailed the median fund (Combined Funds 11.8% vs. Median 12.1%) and outperformed their composite index (Combined Funds 11.8% vs. Composite 11.6%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 12.0% vs. Composite 11.9%) over the last five years and reported that the Post Fund had outperformed its composite index for the 3.75 year period since July 1, 1993 (Post Fund 11.5% vs. Composite 11.1%).

Mr. Bicker reported that the Basic Funds' assets increased 0.9% for the quarter ending March 31, 1997 due to positive investment returns. He said that the asset mix is essentially on target and that the Funds had outperformed their composite index for the quarter (Basics 0.7% vs. Composite 0.5%) and for the year (Basics 13.2% vs. Composite 12.1%).

Mr. Bicker reported that the Post Fund's assets decreased 0.2% for the quarter ending March 31, 1997 due to negative contributions. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 0.5% vs. Composite 0.2%) and for the year (Post 11.4% vs. Composite 9.9%).

Mr. Bicker reported that the domestic stock manager group underperformed for the quarter (Domestic Stocks 0.5% vs. Wilshire 5000 0.6%) but had outperformed for the year (Domestic Stocks 15.8% vs. Wilshire 5000 15.5%). He said that the international stock manager group outperformed for the quarter (International Stocks 2.1% vs. Int'l Composite -0.3%) and for the year (International Stocks 8.7% vs. Int'l Composite 2.3%). He added that the bond segment also outperformed for the quarter (Bonds -0.5% vs. Lehman Aggregate -0.6%) and year (Bonds 5.9% vs. Lehman Aggregate 4.9%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite for the quarter (ARP 0.9% vs. Composite 0.8%) and for the year (ARP 8.8% vs. Composite 8.4%). He concluded his report with the comment that as of March 31, 1997 the SBI was responsible for \$33.7 billion in assets.

Executive Director's Administrative Report

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

Mr. Bicker referred members to the legislative update and reported that the 1997 Legislature had approved the SBI's budget request for fiscal years 1998 and 1999. Mr. Bicker stated that the Pension Uniformity Bill had been signed into law and he briefly reviewed the changes in the formula used to calculate the benefit increases for the Post Retirement Fund.

Mr. Bicker said that the Omnibus Pension bill had passed and is expected to be signed by the Governor. He then summarized the portions of the bill that impact the SBI. He noted that the bill will give the SBI increased investment flexibility for the Deferred Compensation Plan, allowing investment options beyond insurance company annuity products. He reported that the bill mandates that the SBI conduct a study of 403(b) tax sheltered annuities and report to the Legislature by February 1, 1998. He stated that the bill amended existing investment reporting requirements for all public pension funds in the State. He added that the bill also established an advisory council for the MnSCU defined contribution plan that will advise both the MnSCU Board and the SBI on administrative and vendor selection issues.

Mr. Bicker stated that the higher education funding bill provides tax deferred savings and matching dollars to participants who contribute to a new college savings program called "Edvest". He explained that the SBI has been given responsibility to develop and select an investment structure for this new program and to assist the Higher Education Services Office (HESO) in selecting a record keeper for the program. He added that the program is not expected to be operational for at least a year.

Mr. Bicker reported that the K-12 education funding bill contains language that would allow the SBI to re-introduce up to 50% equities into the Permanent School Fund. He noted that the K-12 bill had been vetoed by the Governor and would likely be considered by a special session of the Legislature.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of litigation concerning Mercury Finance Corporation. Ms. Eller explained that the SBI is seeking to become lead plaintiff in a class action suit against the company and several of its officers. She stated that the allegations are securities fraud based on significant errors and alleged fraud in their financial statements. She noted that the SBI had purchased approximately 500,000 shares during the class period and that damages are in dispute. In response to several questions from Mr. Carlson, Ms. Eller stated that an

advantage of the SBI becoming lead plaintiff would be the potential reduction of over all attorney fees. She said that a disadvantage would be exposure to significant amounts of discovery. She noted that costs related to discovery will be paid from the total fund for recovery.

Mr. Bicker referred members to item 4 of his Administrative Report for an update on tobacco information. Ms. Grove commented that since this report had been prepared, the State of Florida had announced divestment of its tobacco holdings. In response to questions from Ms. Grove, Mr. Bicker confirmed that managers must notify the SBI in writing when they purchase additional holdings in tobacco stock.

SBI Administrative Committee Report

Mr. McGrath referred members to Tab D of the meeting materials and stated that the Committee is seeking Board approval of several recommendations. Mr. McGrath and Mr. Carlson agreed that several of the recommendations could be handled with one motion.

Mr. McGrath reported that the Committee is recommending approval of the FY98 Executive Director's Workplan with the provision that it serves as the basis for the Executive Director's performance evaluation for the coming fiscal year. He said that the Committee is recommending approval of the FY98 Administrative Budget Plan with the flexibility for the Executive Director to reallocate funds between budget categories in the event budgeting needs change during the year. He stated that the Committee recommends that the Board adopt the Continuing Fiduciary Education Plan which includes \$2,500 annually for each Board member for educational costs. Mr. McGrath said that the Committee is recommending that the SBI adopt the same process used in recent years for the Executive Director's FY97 performance evaluation.

Mr. McGrath reported that the Committee is also requesting approval to transfer custody of the assets for the Assigned Risk Plan, Environmental Trust Fund and the Permanent School Fund from First Trust Bank St. Paul to State Street Bank. He noted that the purpose of the transfer is to reduce costs and increase efficiency. In response to a question from Mr. Carlson, Mr. Bicker said that the assets being transferred are less than \$1 billion and that First Trust will maintain clearing responsibilities for approximately \$5 billion in assets for the SBI.

Mr. McGrath moved approval of the above Committee recommendations, as stated in the Committee Report, which read as follows: "The Committee recommends that the SBI approve the FY98 Executive Director's Workplan. Further, the Committee recommends that the workplan serve as the basis for the Executive Director's performance evaluation for FY98. The Committee recommends that the SBI approve the FY98 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 FY97 performance evaluation: the evaluation will be completed

prior to the September 1997 meeting of the SBI and will be based on the results of the Executive Director's workplan for FY97; 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; and Board Members are encouraged to meet individually with the Executive Director to review their own evaluation. The SBI Administrative Committee recommends that the SBI authorize the Executive Director to transfer custody of the Assigned Risk Plan, the Environmental Trust Fund and the Permanent School Fund from First Trust Bank, St. Paul, MN to State Street Bank and Trust, Boston, MA effective July 1, 1997. Further, the Committee recommends that the SBI authorizes the Executive Director, with assistance from SBI legal counsel, to negotiate and execute any necessary contract amendments to implement this transfer."

Ms. Growe seconded the motion. Mr. Carlson asked what impact the transfer would have on First Trust. Mr. Bicker explained that the large majority of transactions that occur in these funds take place in the Invested Treasurer's Cash Fund and he noted that those assets are going to remain at First Trust. The motion passed.

Mr. McGrath stated that the final discussion item from the Committee involves deciding on the process to use to determine the Executive Director's salary. He said that the pending agency head "pay bill" would establish a new process for setting the salary of the SBI's Executive Director and make the Board responsible for recommending a salary rate. He noted that in the past, agency head salaries had been determined by the Governor. Mr. McGrath recommended and moved that the Board assign the SBI Administrative Committee the task of reviewing the data and making a recommendation to the Board. The motion passed.

Consultant Review Committee Report

Mr. Sausen referred members to Tab E of the meeting materials and stated that 7 firms had responded to the SBI's RFP for consultant services. He said that staff and the Committee had agreed that there is a need for both a primary consultant plus a specialized consultant. He stated that the Committee is recommending that Richards & Tierney, Inc. be retained as the primary consultant and that Pension consulting Alliance be retained as the specialty consultant. 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's legal counsel, to negotiate and execute contracts with Richards & Tierney, Inc. for general consulting services and with Pension Consulting Alliance for special projects. Both contracts should cover the five year period beginning July 1, 1997 and will be subject to the standard termination provisions required by state statute." Ms. Dutcher seconded the motion. The motion passed.

Domestic Manager Committee Report

Ms. Yeomans referred members to Tab F of the meeting materials and noted the information items which pertain to revising the benchmarks for two of the equity managers and to an update on candidates for the Manager Monitoring Program.

Ms. Yeomans stated that the Committee is recommending that Investment Advisers, Wilke Thompson and Winslow Capital be re-interviewed by the Committee due to staff turnover or performance concerns. 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 Domestic Manager Committee to re-interview Investment Advisers, Inc., Wilke/Thompson Capital Management, and Winslow Capital Management and recommend whether these firms should be terminated or continued in the SBI's domestic equity program." In response to a question from Mr. McGrath, Mr. Bicker confirmed that the interviews would occur during the next quarter. The motion passed.

Ms. Yeoman reported that the Committee is recommending that the SBI renew contracts with three existing semi-passive stock managers and the existing stable asset manager. Ms. Growe moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute contracts with the following firms for the purposes noted below: Barclays Global Investors, semi-passive domestic stock; Franklin Portfolio Associates, semi-passive domestic stock; J. P. Morgan Investment Management, semi-passive domestic stock; Galliard Capital Management, stable asset." The motion passed.

Ms. Yeomans said that the Investment Manager Guidelines had been reviewed and that the proposed changes were all technical in nature. Mr. McGrath moved approval of the Committee's recommendation, as stated in the Committee Report which reads: "The Committee recommends that the SBI adopt the Investment Manager Guidelines which begin on page 37 of this tab section." The motion passed.

International Manager Committee Report

Ms. Yeomans referred members to Tab G of the meeting materials and stated that the Committee is recommending that Montgomery Asset Management be placed on probation due to Montgomery Securities' plans to sell Montgomery Asset Management to Commerzbank, a large German Bank. Ms. Growe moved approval of the Committee's recommendation, as stated in the Committee Report, which reads: "In accordance with the SBI's Manager Continuation policy, the Committee recommends that the SBI place Montgomery Asset Management on probation." The motion passed.

Ms. Yeomans stated that the Committee is recommending that the SBI terminate its relationship with Barings Asset Management due to concerns in staff turnover. Mr. McGrath 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 Baring Asset Management for international stock management.” The motion passed.

Ms. Yeomans stated that the investment guidelines for the international managers had also been reviewed and that technical changes are being proposed and need approval. Ms. Growe moved approval of the Committee’s recommendation, as stated in the Committee Report, which reads: “The Committee recommends that the SBI adopt the Investment Manager Guidelines which begin on page 7 of this tab section.” The motion passed.

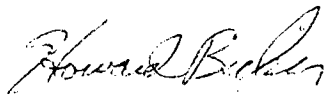
Ms. Yeomans stated that the Committee is recommending approval of the statement of the existing philosophy on currency management. Ms. Dutcher moved approval of the Committee’s recommendation, as stated in the Committee Report, which reads: “The Committee recommends that the SBI affirm the existing approach to currency management which is articulated in the ‘Statement of Existing Philosophy on Currency Management’ which begins on page 29. Further, the Committee recommends that staff formally update the position paper on currency management to incorporate the principles outlined in the statement.” The motion passed.

Alternative Investment Committee Report

Ms. Yeomans reported that the Committee had no recommendations requiring action at this time.

The meeting adjourned at 9:00 a.m.

Respectfully submitted,



Howard J. Bicker
Executive Director

**AGENDA
INVESTMENT ADVISORY COUNCIL
MEETING**

**Tuesday, September 2, 1997
2:00 P.M. - SBI Conference Room
Room 105, MEA Building - Saint Paul**

- TAB**
- 1. Approval of Minutes of June 3, 1997**

 - 2. Report from the Executive Director (H. Bicker)**
 - A. Quarterly Investment Review (April 1, 1997 - June 30, 1997) **A**
 - B. Portfolio Statistics (June 30, 1997) **B**
 - C. Administrative Report **C**
 1. Reports on budget and travel
 2. Update on litigation
 3. Update on tobacco information
 4. Authorization to form a Review Committee and issue RFP's for custodial and portfolio accounting vendors

 - 3. Report from the SBI Administrative Committee**

 - 4. Report from the Deferred Compensation Review Committee (P. Sausen) **D****
 - A. Update on study of 403(b) match program
 - B. Semi-annual review of product providers
 - C. Authorization to issue product provider RFP for the 457 Plan

 - 5. Reports from the Investment Advisory Council**
 - A. Domestic Manager Committee (J. Bohan) **E****
 1. Review manager performance
 2. Recommendations concerning three domestic stock managers (IAI, Winslow, Wilke/Thompson)

 - B. International Manager Committee (J. Mares) **F****
 1. Review manager performance
 2. Status of review of currency overlay manager
 3. Recommendation to place a manager on probation (Scudder)

 - C. Alternative Investment Committee (K. Gudorf) **G****
 1. Review of current strategy
 2. Approval of commitment to an existing real estate manager (Westmark) for the Post Fund

**Minutes
Investment Advisory Council
June 3, 1997**

MEMBERS PRESENT: Gary Austin; Dave Bergstrom; Roger Durbahn; Ken Gudorf; Judy Mares; Bob McFarlin; Mike Stutzer; and Jan Yeomans.

MEMBERS ABSENT: John Bohan; Doug Gorence; Peter Kiedrowski; Han Chin Liu; Malcolm McDonald; Daralyn Peifer; Gary Norstrem; Wayne Simoneau and Mary Vanek.

SBI STAFF: Howard Bicker; Beth Lehman; Jim Heidelberg; Sheila Berube; Lois Buermann; Debbie Griebenow; Kristine Hanson; Mark Regal; Karen Vnuk and Charlene Olson.

OTHERS ATTENDING: Ann Posey, Richards & Tierney; Christie Eller; Carey Moe; Peter Sausen; Jake Manahan; Elaine Voss; Lloyd Belford, REAM and Carl Simmons.

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, 1997 (Combined Funds 10.7% vs. Inflation 3.6%), trailed the median fund (Combined Funds 11.8% vs. Median 12.1%) and outperformed their composite index (Combined Funds 11.8% vs. Composite 11.6%) for the most recent five year period. He stated that the Basic Funds had exceeded their composite index (Basics 12.0% vs. Composite 11.9%) over the last five years and reported that the Post Fund had outperformed its composite index for the 3.75 year period since July 1, 1993. (Post Fund 11.5% vs. Composite 11.1%).

Mr. Bicker reported that the Basic Funds' assets increased 0.9% for the quarter ending March 31, 1997 due to positive investment returns. He said that the asset mix is essentially on target and that the Funds' had outperformed their composite index for the quarter (Basics 0.7% vs. Composite 0.5%) and for the year (Basics 13.2% vs. Composite 12.1%).

Mr. Bicker reported that the Post Fund's assets decreased 0.2% for the quarter ending March 31, 1997 due to negative contributions. He said that the asset mix is essentially on target and that the Fund had outperformed its composite index for the quarter (Post 0.5% vs. Composite 0.2%) and for the year (Post 11.4% vs. Composite 9.9%).

Mr. Bicker reported that the domestic stock manager group underperformed for the quarter (Domestic Stocks 0.5% vs. Wilshire 5000 0.6%) but had outperformed for the year (Domestic Stocks 15.8% vs. Wilshire 5000 15.5%). He said that the international stock manager group outperformed for the quarter (International Stocks 2.1% vs. Int'l Composite -0.3%) and for the year (International Stocks 8.7% vs. Int'l Composite 2.3%). He added that the bond segment also outperformed for the quarter (Bonds -0.5% vs. Lehman Aggregate -0.6%) and year (Bonds 5.9% vs. Lehman Aggregate 4.9%).

Mr. Bicker reported that the Assigned Risk Plan (ARP) had outperformed its composite for the quarter (ARP 0.9% vs. Composite 0.8%) and for the year (ARP 8.8% vs. Composite 8.4%). He concluded his report with the comment that as of March 31, 1997 the SBI was responsible for \$33.7 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 reported that the Legislature had approved the SBI's budget request. He said that the Pension Uniformity Bill had been signed into law and he briefly explained the changes in the formula used to calculate the benefit increases for the Post Retirement Fund that resulted from the legislation. He added that the bill also dealt with reallocating funds that had been contributed to various Minnesota pension funds in order to even out the funding levels of all the plans.

Mr. Bicker said that the Omnibus Pension bill had also passed and is expected to be signed by the Governor. He noted that the bill will give the SBI increased investment flexibility for the Deferred Compensation Plan, allowing more investment choices in addition to insurance company investment products. He reported that the bill mandates the SBI conduct a study of 403(b) tax sheltered annuities and report to the Legislature by February 1, 1998. He noted that the bill amended existing investment reporting requirements for all public pension funds in the State. He added that the bill also established an advisory council for the MnSCU defined contribution plan that will advise both the MnSCU Board and the SBI on administrative and vendor selection issues.

Mr. Bicker stated that the higher education funding bill provides tax deferred savings and matching dollars to participants who contribute to a new college savings program called "Edvest". He explained that the SBI has been given responsibility to develop and select the investment structure for the plan and to assist the Higher Education Services Office (HESO) in selecting a record keeper for the program. He added that the program is not expected to be operational for at least a year.

Mr. Bicker reported that the K-12 education funding bill contains language that would allow the SBI to re-introduce up to 50% equities into the Permanent School Fund.

Mr. Bicker asked Christie Eller, Assistant Attorney General, to update members on the status of the litigation concerning Mercury Finance Corporation. Ms. Eller stated that the court had denied a request for early discovery against the SBI. She explained that the allegations are securities fraud based on significant errors in the company's financial statements. She said that during the class period from 1994 to 1997, the SBI owned approximately 560,000 shares in the index account, one of the semi-passive portfolios and in GeoCapital's portfolio. Ms. Eller stated that the SBI is seeking to become lead plaintiff in a class action suit against the company.

Mr. Bicker noted that an update on tobacco information was included in his report for members' review.

SBI Administrative Committee Report

Mr. Bicker referred members to Tab D of the meeting materials and briefly updated members on the SBI's Certificate of Deposit Program. He noted that other agenda items from the Committee are the review of the FY98 Executive Directors Workplan, FY98 budget plan and a review of the Continuing Fiduciary Education Plan.

Mr. Bicker stated that during FY97, the SBI had conducted a comprehensive review of accounting and performance measurement systems. He said that as a result of the study, staff and the Committee were recommending that the custody of assets for the Assigned Risk Plan, the Permanent School Fund and the Environmental Trust Fund should transfer from First Trust to State Street Bank. He said this change would improve the timeliness of a variety of accounting and performance reports and take advantage of some cost savings. He noted that the custody/clearing for the State Cash Accounts would remain with First Trust. In response to a question from Ms. Yeomans, Mr. Bicker noted that it is more cost effective for the cash accounts to remain at First Trust, where the funds are collected.

Consultant Review Committee Report

Mr. Sausen referred members to Tab E of the meeting materials and stated that seven firms had responded to the SBI's RFP for consultant services. He said that staff and the Committee had agreed that there is a need for both a primary consultant and a specialized consultant. He stated that the Committee will recommend to the Board that Richards & Tierney, Inc. be retained as the primary consultant and that Pension Consulting Alliance be retained as the special projects consultant.

Domestic Manger Committee Report

Mr. Bergstrom referred members to Tab F of the meeting materials and briefly reviewed the managers' performance. He stated that staff's annual review of the manager's benchmarks had revealed that the benchmarks for IAI and Weiss Peck & Greer needed some additional revisions.

Mr. Bergstrom stated that the staff and the Committee had completed an update on candidates for the Manager Monitoring Program. He said that ten potential active domestic stock managers and three potential semi-passive domestic stock managers have been selected for the program. He noted that the semi-passive manager candidates were selected from a group of six firms who were asked to manage a paper portfolio against the completeness fund benchmark over the last year. He said that the three managers chosen for the program had met or exceeded staff expectations for the paper portfolio assignment.

Mr. Bergstrom reported that the Committee is recommending that three domestic stock managers, Investment Advisers, Wilke Thompson and Winslow Capital be re-interviewed by the Committee due to staff turnover or performance concerns. He moved approval of the Committees' recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion. The motion passed.

Mr. Bergstrom stated that the Committee is recommending that investment manager contracts be renewed with the three semi-passive domestic stock managers, Barclays Global Investors, Franklin Portfolio Associates and J.P. Morgan, along with Galliard Capital Management, the SBI's stable asset manager. Mr. Bergstrom moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Durbahn seconded the motion. The motion passed.

Mr. Bergstrom stated that the Committee is recommending approval of the updated investment manager guidelines. Ms. Lehman noted that the changes are all technical in nature to make them more consistent across different manager groups. Mr. Durbahn moved approval of the committee's recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.

International Manager Committee Report

Ms. Mares referred members to Tab G of the meeting materials and briefly reviewed the international managers' performance. She stated that the Committee is recommending that Montgomery Asset Management be placed on probation due to a change in ownership. Ms. Mares moved approval of the Committee's recommendation, as stated in the Committee Report. Mr. Gudorf seconded the motion. The motion passed.

Ms. Mares said that the Committee is recommending that the SBI terminate its relationship with Barings Asset Management due to significant amounts of staff turnover. Ms. Lehman added that the firm is also making other structural changes to their decision-making process. Mr. Gudorf moved approval of the Committee's recommendation, as stated in the Committee Report. Ms. Mares seconded the motion. In response to a question from Mr. Bergstrom, Mr. Bicker said that the funds will initially be placed in the international index portfolio. The motion passed.

Ms. Mares stated that the investment guidelines for the international managers had been reviewed and that technical changes had been made and need approval. She moved approval of the Committees' recommendation, as stated in the Committee Report. Mr. Bergstrom seconded the motion. The motion passed.

Ms. Mares reported that the Committee had reviewed the rationale behind the SBI's currency management philosophy. She stated that she would like to present the policy issues individually for discussion by the members. She said that the first issue involves whether the SBI should attempt to reduce the volatility associated with currency exposure by using a passive/constant hedge. She said that the Committee had reaffirmed its decision that it is not appropriate to utilize a constant hedge and she asked members for comments. Ms. Lehman added that the goal of the currency management program is to add value to an unhedged policy target.

Ms. Mares stated that the second issue is whether the SBI should attempt to add value through active currency management within the international stock program. She said that the decision in the past had been to do so and that the recommendation is to continue doing so going forward. There were no questions or comments on this issue.

Ms. Mares said that the third issue was how currency management should be addressed within the actively managed portion of the international stock program. She reported that there was agreement that the active managers' method of managing currency should be accepted as part of the program. Hearing no comments, she continued by saying that the fourth issue is how to address currency management within the indexed portion of the international stock program. She said that in the past, the SBI was not comfortable utilizing a market-timing approach to currency management, and she said the recommendation is to maintain the use of a currency overlay program for the indexed segment. Ms. Lehman commented that the Committee had discussed that there may be periods when a currency overlay program may add to costs without providing any value-added benefits. She added that the Committee felt that, over time, the SBI should realize gains above the cost of implementing the program.

Ms. Mares said that the final issue involved what operating constraints should be imposed on the SBI's currency overlay program. She stated that the proposed recommendations are to limit the program to currencies that comprise 5% or more the EAFE-Free index, to use the actual unhedged return of the SBI's EAFE index fund as the benchmark, to allow hedges back to the US dollar, and to generate currency positions through the use of forwards, options or futures.


Mr. Durbahn moved approval of the Committees' recommendation as stated in the Committee Report. Mr. Bergstrom seconded the motion. Mr. Bicker noted that Record Treasury Management has done a fine job as the currency overlay manager for the SBI. He noted however that the Committee will be evaluating all firms who offer this type of structured currency approach over the next several months since the contract with Record Treasury expires in approximately six months. The motion passed.

Alternative Investment Committee Report

Mr. Gudorf referred members to Tab H of the meeting materials and stated that the Committee had no recommendations for approval at this time. He noted that Mr. Sam Zell, who is a real estate manager for the SBI, is in the process of rolling up several of his real estate funds into a publicly traded real estate investment trust (REIT) and that staff will continue discussions with his firm on the terms of the new instrument. He added that a similar proposal at Heitman was rejected by their investors.

The minutes of the March 4, 1997 meeting were approved. The meeting adjourned at 3:00 P.M.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Howard J. Bicker".

Howard J. Bicker
Executive Director

Tab A

LONG TERM OBJECTIVES

Period Ending 6/30/97

COMBINED FUNDS: \$30.1 Billion	Result	Compared to Objective
<p>Provide Real Return (10 yr.)</p> <p>Provide returns that are 3-5 percentage points greater than inflation over the latest 10 year period.</p>	11.7% (1)	8.2 percentage points above CPI
<p>Exceed Composite Index (5 yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the actual asset mix of the Combined Funds over the latest 5 year period.</p>	14.2% (1)	0.3 percentage point above composite index
<p>Exceed Median Fund (5 yr.)</p> <p>Provide returns that are ranked in the top half of universe of public and corporate plans over the latest 5 year period.</p>	37th percentile (2)	above the median fund in TUCS

BASIC RETIREMENT FUNDS: \$15.9 Billion	Result	Compared to Objective
<p>Exceed Composite Index (5 Yr.)</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Basic Funds over the latest 5 year period.</p>	14.4%	0.2 percentage point above target

POST RETIREMENT FUND: \$14.2 Billion	Result	Compared to Objective
<p>Exceed Composite Index</p> <p>Outperform a composite market index weighted in a manner that reflects the long-term asset allocation of the Post Fund over the latest 5 year period.</p>	13.8% (3)	0.4 percentage point above target (3)

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

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

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

SUMMARY OF ACTUARIAL VALUATIONS

MSRS, TRA, PERA General Plans
June 30, 1996

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

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

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

Notes:

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

Actuarial Assumptions:

Salary Growth: 6.5%

Interest/Discount Rate: 8.5% Basics, 5.0% Post

Full Funding Target Date: 2020

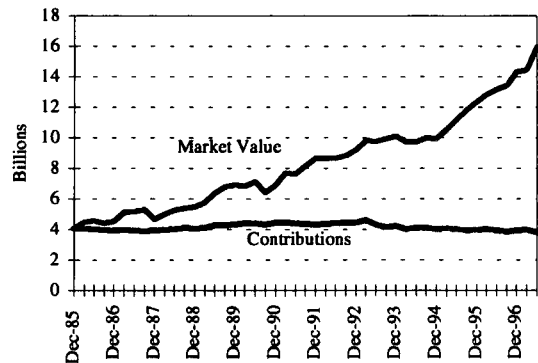
EXECUTIVE SUMMARY
Basic Retirement Funds (Net of Fees)

Asset Growth

The market value of the Basic Funds increased 10.5% during the second quarter of 1997. Positive investment returns accounted for the increase during the period.

Asset Growth
During Second Quarter 1997
(Millions)

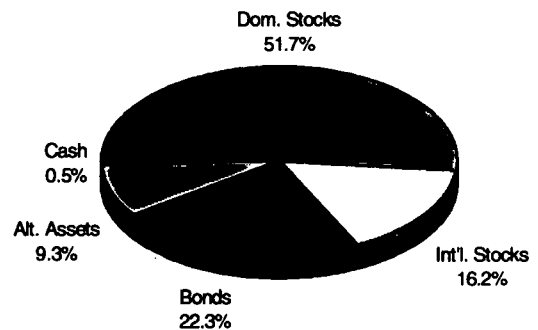
Beginning Value	\$ 14,405
Net Contributions	-137
Investment Return	1,646
Ending Value	\$ 15,914



Asset Mix

During the quarter, the allocation to domestic stocks and international stocks moved up reflecting strong performance among worldwide equity markets.

	Policy Targets	Actual Mix 6/30/97	Actual Market Value (Millions)
Domestic Stocks	45.0%	51.7%	\$8,228
Int'l. Stocks	15.0	16.2	2,572
Bonds	24.0	22.3	3,552
Alternative Assets*	15.0	9.3	1,485
Unallocated Cash	1.0	0.5	77
	100.0%	100.0%	\$15,914

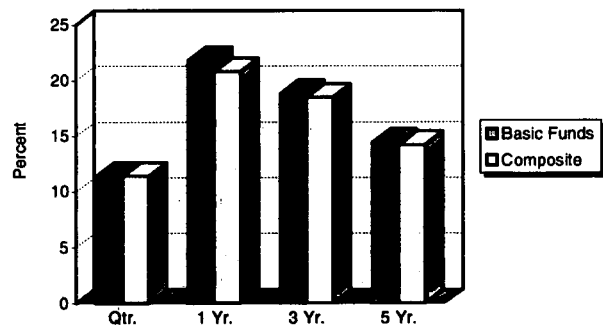


* Any uninvested allocation is held in domestic stocks

Fund Performance (Net of Fees)

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

	Qtr.	1 Yr.	3 Yr.	5 Yr.
Basics	11.4%	21.8%	18.8%	14.4%
Composite	11.4	20.8	18.5	14.2



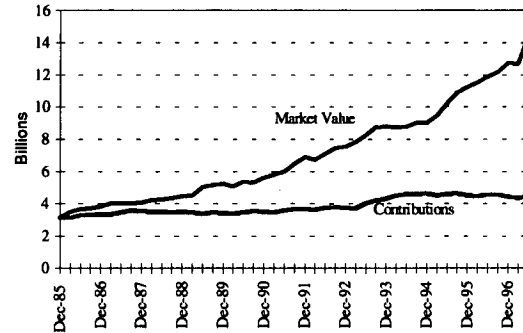
EXECUTIVE SUMMARY
Post Retirement Fund (Net of Fees)

Asset Growth

The market value of the Post Fund increased 12.3% during the second quarter of 1997. The increase resulted from positive investment returns.

Asset Growth
During Second Quarter 1997
(Millions)

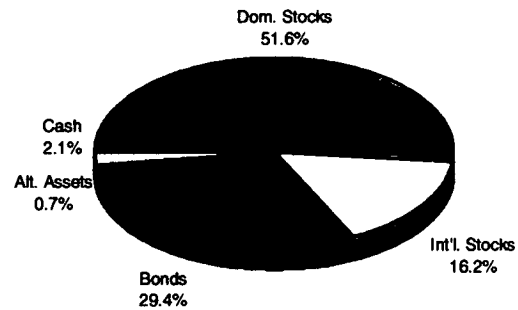
Beginning Value	\$12,677
Net Contributions	98
Investment Return	1,455
Ending Value	14,230



Asset Mix

During the quarter, the allocation to domestic and international stocks moved up reflecting strong performance among worldwide equity markets.

	Policy Targets	Actual Mix 6/30/97	Actual Market Value (Millions)
Domestic Stocks	50.0%	51.6 %	\$7,336
Int'l. Stocks	15.0	16.2	2,314
Bonds	27.0	29.4	4,183
Alternative Assets*	5.0	0.7	95
Unallocated Cash	3.0	2.1	302
	100.0%	100.0%	\$14,230



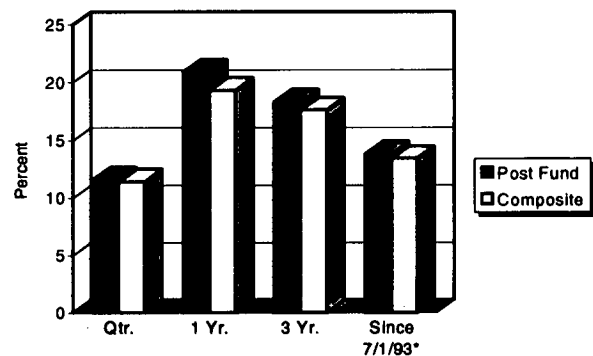
* Any uninvested allocation is held in bonds

Fund Performance (Net of Fees)

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

	Qtr.	1 Yr.	3 Yr.	Since 7/1/93*
Post	11.6%	20.9%	18.3%	13.8%
Composite	11.4	19.3	17.6	13.4

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



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

Domestic Stocks

The domestic stock manager group (active, semi-passive and passive combined) underperformed its target for the quarter and outperformed for the year.	Qtr.	1 Yr.	3 Yr.	5 Yr.
Dom. Stocks	16.8%	29.7%	26.2%	18.7%
Wilshire 5000*	16.9	29.3	26.7	19.0

* 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) underperformed its target for the quarter and outperformed for the year.	Qtr.	1 Yr.	3 Yr.	Since 10/1/92*
Int'l. Stocks	12.1%	18.2%	12.4%	15.0%
Composite Index*	12.5	13.2	9.3	13.3

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

Bonds

The bond manager group (active and semi-passive combined) outperformed its target for the quarter and for the year.	Qtr.	1 Yr.	3 Yr.	5 Yr.
Bonds	3.9%	9.3%	9.0%	7.7%
Lehman Agg.*	3.7	8.2	8.5	7.1

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

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

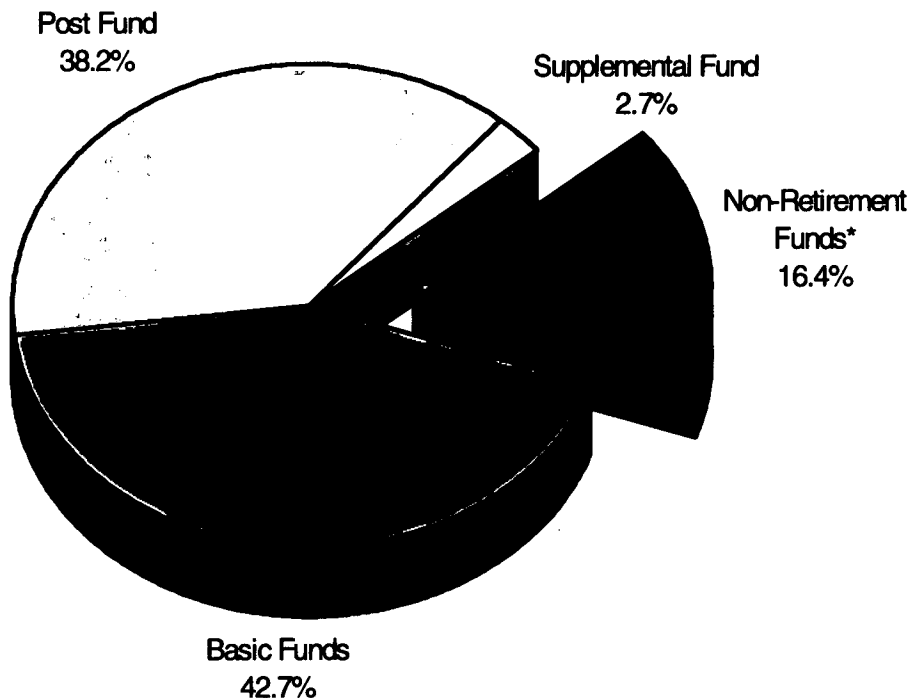
Wilshire 5000: The Wilshire 5000 stock index reflects the performance of all publicly traded stocks of companies domiciled in the U.S.

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

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

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

EXECUTIVE SUMMARY
Funds Under Management



6/30/97
Market Value
(Billions)

Retirement Funds	
Basic Retirement Funds	\$15.9
Post Retirement Fund	14.2
Supplemental Investment Fund	1.0
Non Retirement Funds*	
Assigned Risk Plan	0.6
Permanent School Fund	0.4
Environmental Trust Fund	0.2
State Cash Accounts	4.9
Total	\$37.2

EXECUTIVE SUMMARY
Assigned Risk Plan (Net of Fees)

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.

	6/30/97 Target	6/30/97 Actual
Stocks	20.0%	24.3%
Bonds	80.0	75.7
Total	100.0%	100.0%

Investment Management

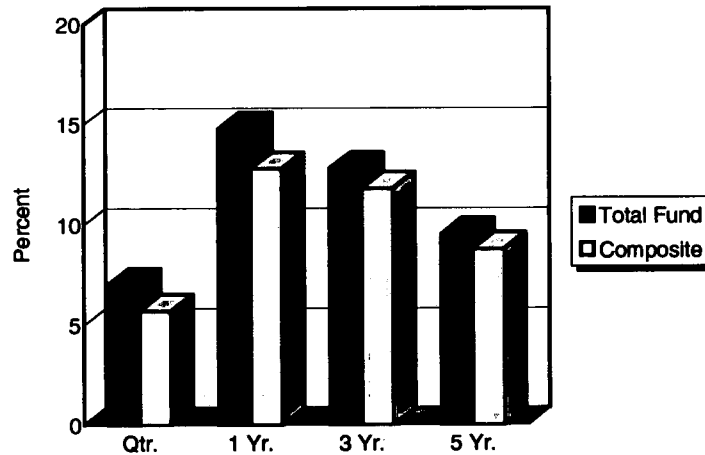
The entire portfolio was transferred from the Department of Commerce to the SBI in May 1991. Voyageur Asset Management has managed the bond segment of the Fund since inception. Since January 1995, GE Investment Management has managed the equity segment.

Performance Benchmarks

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

Market Value

On June 30, 1997 the market value of the Assigned Risk Plan was \$591 million.



Period Ending 6/30/97

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund*	7.0%	14.8%	12.8%	9.5%
Composite Index	5.7	12.8	11.8	8.8
Equity Segment*	17.9	34.4	28.4	17.3
Benchmark	17.5	34.7	28.9	17.9
Bond Segment*	2.8	7.8	8.0	6.8
Benchmark	2.9	7.7	7.8	6.6

* Actual returns are reported net of fees.

MINNESOTA STATE BOARD OF INVESTMENT

QUARTERLY INVESTMENT REPORT

Second Quarter 1997
(April 1, 1997 - June 30, 1997)

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VARIOUS CAPITAL MARKET INDICES

	Period Ending 6/30/97				
	Qtr.	Yr.	3 Yr.	5 Yr.	10 Yr.
Domestic Equity					
Wilshire 5000	16.9%	29.3%	26.7%	19.1%	14.0%
Dow Jones Industrials	17.1	38.5	31.5	21.4	15.8
S&P 500	17.5	34.7	28.9	19.8	14.6
Russell 2000	16.2	16.3	20.1	17.9	11.1
Domestic Fixed Income					
Lehman Aggregate*	3.7	8.2	8.5	7.1	8.8
Lehman Gov't./Corp.	3.6	7.8	8.3	7.2	8.7
90 Day U.S. Treasury Bills	1.3	5.3	5.4	4.5	5.7
International					
EAFE**	13.0	12.8	9.1	12.8	6.7
Emerging Markets Free***	8.6	12.8	7.0	14.8	N/A
Salomon Non U.S. Gov't. Bond	2.8	2.2	7.2	8.2	9.3
Inflation Measure					
Consumer Price Index****	0.2	2.3	2.7	2.7	3.5

* Lehman Brothers Aggregate Bond index. Includes governments, corporates and mortgages.

** Morgan Stanley Capital International index of Europe, Australia and the Far East (EAFE).

*** Morgan Stanley Capital International Emerging Markets Free index.

**** Consumer Price Index (CPI) for all urban consumers, also known as CPI-U.

FINANCIAL MARKETS REVIEW

DOMESTIC STOCKS

The stock market moved up sharply in the second quarter as a result of moderating economic growth and marginally lower interest rates. Better than expected corporate earnings and a continuing flow of money into mutual funds also added to the strength of the stock market. Overall, growth stocks beat out value stocks. Large cap stocks performed better in April and small cap stocks performed best in May and June.

The Wilshire 5000 provided a 16.9% return for the quarter. Performance among the different Wilshire Style Indexes for the quarter is shown below:

Large Value	11.9%
Small Value	12.9
Large Growth	19.9
Small Growth	21.8

The Wilshire 5000 increased 29.3% during the latest year.

DOMESTIC BONDS

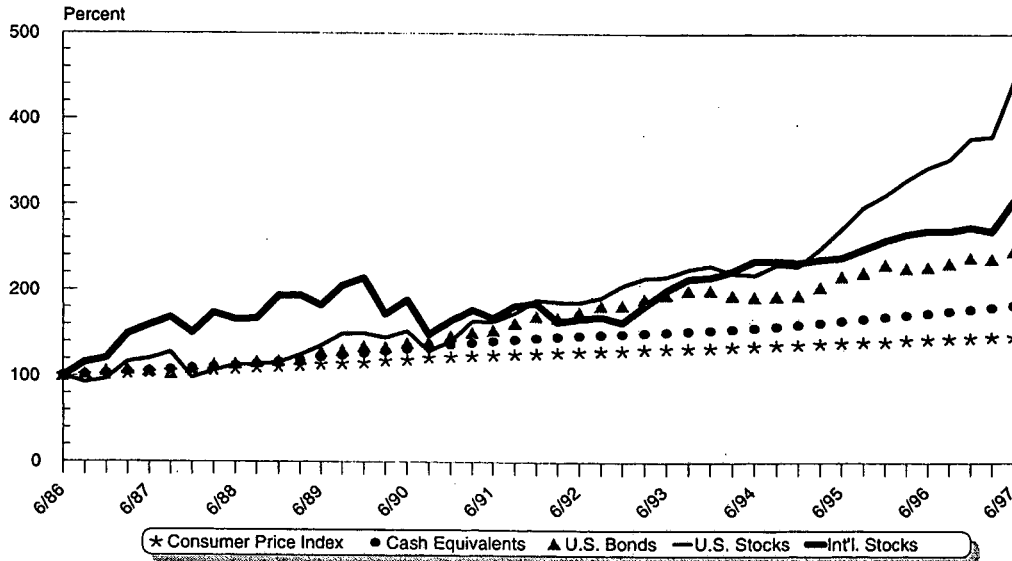
The bond market also generated positive returns for the quarter. Bond prices increased in each month due to reports of low, stable inflation rates along with moderate economic growth. As a result, the bond market appears to believe that the Federal Reserve will not move to raise short term rates and that long term interest rates may start to decrease.

Overall, the Lehman Brothers Aggregate Bond Index increased 3.7% for the quarter. The Lehman Aggregate sector returns for the quarter were:

Treasury/Agency	3.5%
Corporates	4.1
Mortgages	3.8

The Lehman Aggregate increased 8.2% for the latest year.

PERFORMANCE OF CAPITAL MARKETS
Cumulative Returns



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

FINANCIAL MARKETS REVIEW

INTERNATIONAL STOCKS

In aggregate, international stock markets (as measured by the EAFE index) provided a return of 13.0% for the quarter. As shown below, performance varied widely among the major markets:

Japan	23.7%
United Kingdom	8.0
Germany	4.9
France	3.0

The EAFE index increased by 12.8% during the latest year.

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

EMERGING MARKETS

Emerging markets (as measured by MSCI Emerging Markets Free index) provided a return of 8.6% for the quarter. The performance of the five largest stock markets in the index is shown below:

Malaysia	-11.7%
South Africa	2.2
Brazil	26.5
Taiwan	16.0
Mexico	18.6

The Emerging Markets Free index increased by 12.8% for the year.

The Emerging Markets Free index is compiled by MSCI and measures performance of 26 stock markets in Latin America, Asia, Africa and Eastern Europe. The markets listed above comprise about 60% of the value of the index.

REAL ESTATE

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

PRIVATE EQUITY

Domestic private equity limited partnerships of all kinds raised \$33.6 billion in 1996, a 13.2% increase from the \$28.4 billion reported for 1995. It was the fifth consecutive annual rise, and the third consecutive annual record. So far, 1997 looks to be another record year. After only 6 months this year, \$25.5 billion has been raised for domestic private equity limited partnerships.

RESOURCE FUNDS

During the second quarter of 1997, West Texas Intermediate crude oil averaged \$19.94 per barrel compared to an average price of \$22.95 per barrel during the first quarter of 1997. Despite the weak oil prices, oil companies are continuing to aggressively drill for oil and gas.

COMBINED FUNDS

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

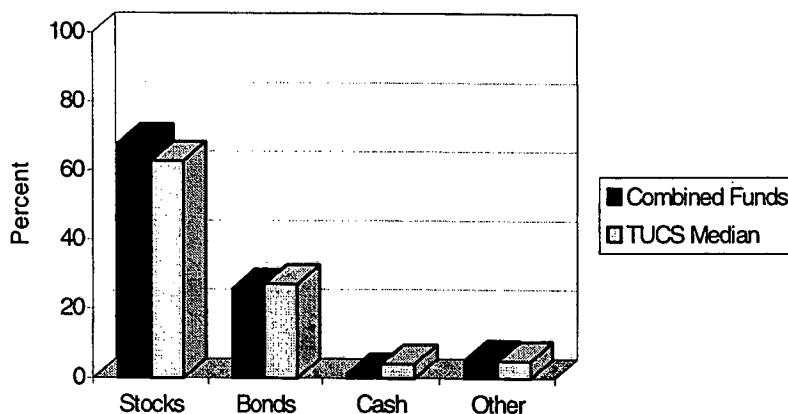
The comparison universe used by the SBI is the Trust Universe Comparison Service (TUCS). Only funds with assets over \$1 billion are included in the comparisons shown in this section.

Asset Mix Compared to Other Pension Funds

On June 30, 1997, the actual asset mix of the Combined Funds was:

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

	\$ Millions	%
Domestic Stocks	\$15,563	51.6%
International Stocks	4,886	16.2
Bonds	7,735	25.7
Alternative Assets	1,581	5.2
Unallocated Cash	378	1.3
Total	\$30,143	100.0%



	Stocks*	Bonds*	Cash	Other
Combined Funds	67.8%	25.7%	1.3%	5.2%
Median Allocation in TUCS**	62.8	27.1	4.1	5.0

* Both domestic and international.

** Public and corporate plans over \$1 billion.

**COMBINED FUNDS
Performance Compared to Other Pension Funds**

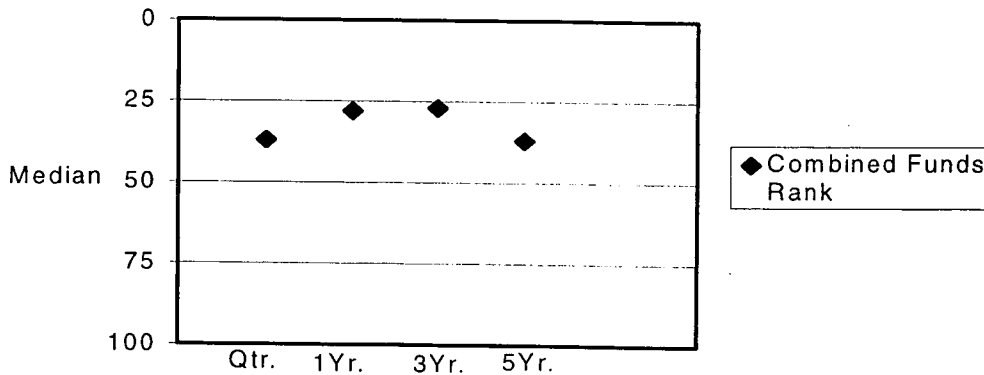
While the SBI is naturally concerned with how its returns compare to other pension investors, universe comparisons should be used with great care. There are several reasons why such comparisons will provide an "apples to oranges" look at performance:

- **Differing Allocations.** Asset allocation will have a dominant effect on return. The allocation to stocks among the funds in TUCS typically ranges from 20-90%, a very wide range for meaningful comparison. In addition, it appears that many funds do not include alternative asset holdings in their reports to TUCS. This further distorts comparisons among funds.
- **Differing Goals/Liabilities.** Each pension fund structures its portfolio to meet its own liabilities and risk tolerance. This will result in different choices on asset mix. Since asset mix will largely determine investment results, a universe ranking is not relevant to a discussion of how well a plan sponsor is meeting its long-term liabilities.

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

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

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



	Period Ending 6/30/97			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds Percentile Rank in TUCS*	37th	28th	27th	37th

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

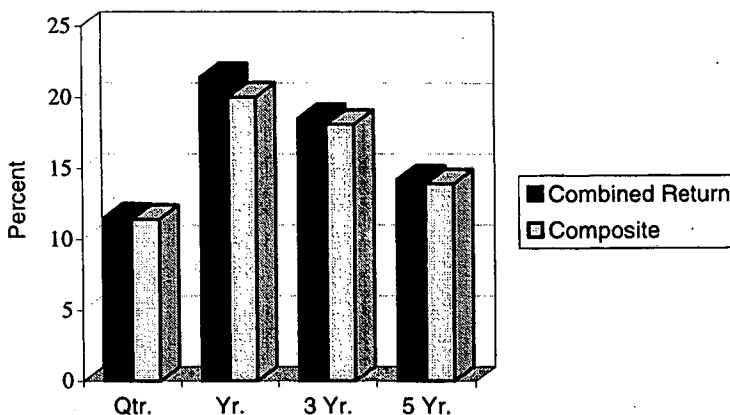
COMBINED FUNDS
Performance Compared to Composite Index

The Combined Funds' performance is evaluated relative to a composite of market indices. The composite is

weighted in a manner that reflects the asset allocation of the Combined Funds:

	Market Index	Combined Index Weights 2Q97
Domestic Stocks	Wilshire 5000	50.0%*
Int'l. Stocks	Int'l. Composite	15.0
Bonds	Lehman Aggregate	27.5*
Alternative Assets	Wilshire Real Estate	2.1*
	Venture Capital Funds	2.9*
	Resource Funds	0.5*
<u>Unallocated Cash</u>	<u>91 Day T-Bills</u>	<u>2.0</u>
		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 6/30/97			
	Qtr.	Yr.	3 Yr.	5 Yr.
Combined Funds**	11.5%	21.4%	18.5%	14.2%
Composite Index***	11.4	20.0	18.1	13.9

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

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

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BASIC RETIREMENT FUNDS

Investment Objectives

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

Employee and employer contribution rates are specified in state law as a percentage of an employee's salary. The rates are set so that contributions plus expected investment earnings will cover the projected cost of promised pension benefits. In order to meet these projected pension costs,

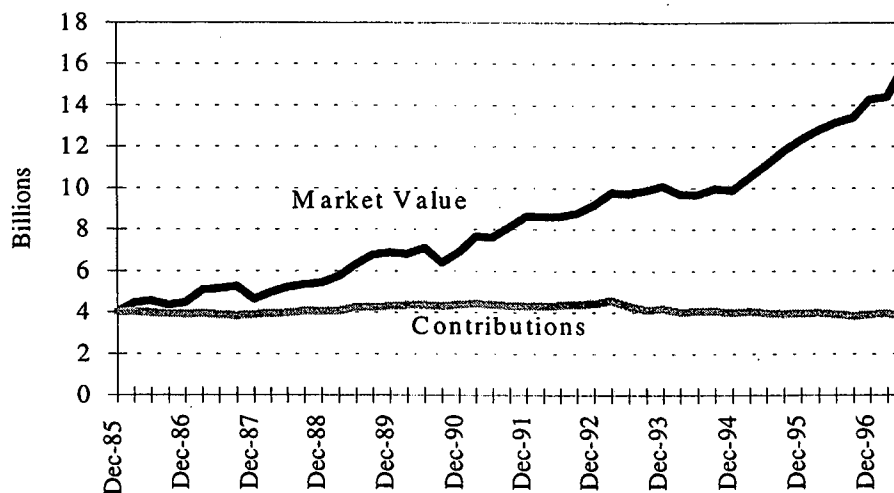
the Basic Retirement Funds must generate investment returns of at least 8.5% on an annualized basis, over time.

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

Asset Growth

The market value of the Basic Retirement Funds' assets increased 10.5% during the second quarter of 1997.

Positive investment returns accounted for the increase during the quarter.



	Last Five Years						Latest Qtr.
	In Millions						
	12/92	12/93	12/94	12/95	12/96	3/97	6/97
Beginning Value	\$8,639	\$9,191	\$10,086	\$9,890	\$12,338	\$14,275	\$14,405
Net Contributions	-34	-239	-206	-29	-59	24	-137
Investment Return	586	1,134	-10	2,477	1,996	106	1,646
Ending Value	\$9,191	\$10,086	\$9,890	\$12,338	\$14,275	\$14,405	\$15,914

BASIC RETIREMENT FUNDS

Asset Mix

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

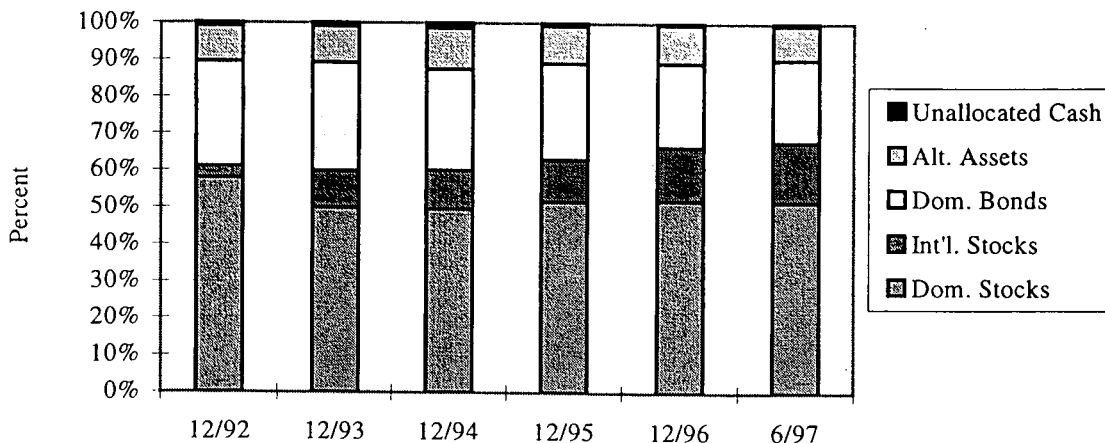
Domestic Stocks	45.0%
Int'l. Stocks	15.0
Bonds	24.0
Alternative Assets*	15.0
Unallocated Cash	1.0

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

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

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

During the last quarter, the allocation to domestic and international stocks moved up reflecting strong performance in the worldwide equity markets.



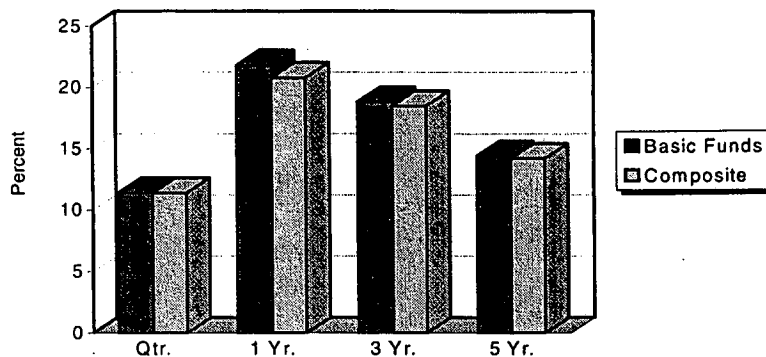
	Last Five Years					Latest Qtr.	
	12/92	12/93	12/94	12/95	12/96	3/97	6/97
Domestic Stocks	49.9%	49.7%	51.7%	52.0%	52.0%	50.4%	51.7%
Int'l. Stocks	10.0	10.3	11.3	14.5	14.5	14.7	16.2
Bonds	29.4	27.5	26.1	22.8	22.8	24.0	22.3
Real Estate	4.1	4.6	4.1	3.4	3.9	3.8	3.4
Private Equity	4.6	5.6	5.4	4.9	5.5	5.5	4.9
Resource Funds	1.1	0.9	0.7	1.0	1.0	1.0	1.0
Unallocated Cash	0.9	1.4	0.7	0.3	0.3	0.6	0.5
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

BASIC RETIREMENT FUNDS
Total Fund Performance (Net of Fees)

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

	Basics Target	Market Index	Basics Composite 2Q97
Domestic Stocks	45.0%	Wilshire 5000	50.0%*
Int'l. Stocks	15.0	Int'l Composite	15.0
Bonds	24.0	Lehman Aggregate	24.0
Alternative Assets	15.0	Wilshire Real Estate	3.7*
		Private Equity Funds	5.3*
		Resource Funds	1.0*
Unallocated Cash	1.0	91 Day T-Bills	1.0
	100.0%		100.0%

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



	Period Ending 6/30/97			
	Qtr.	Yr.	3 Yr.	5 Yr.
Basic Funds**	11.4%	21.8%	18.8%	14.4%
Composite Index***	11.4	20.8	18.5	14.2

**Returns are reported net of fees.

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

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

POST RETIREMENT FUND

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

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

Through fiscal year 1992, unrealized capital gains (or losses) were excluded from the statutory definition of

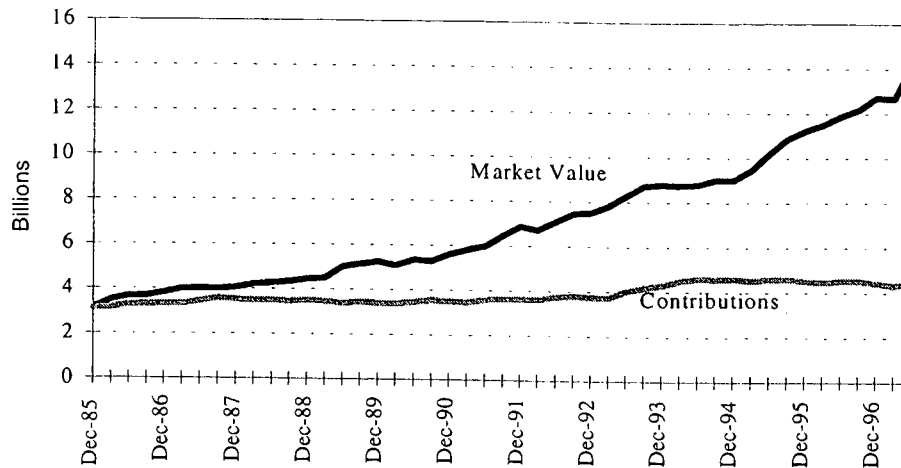
earnings. For this reason the Post Fund previously was not designed to maximize long-term total rates of return. Rather, the SBI attempted to generate a high, consistent stream of realized earnings for the Post Fund that maintained current benefits, as well as produced benefit increases over time.

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 12.3% during the second quarter of 1997.

The increase resulted from positive investment returns.



	In Millions						Latest Qtr.
	12/92	12/93	12/94	12/95	12/96	3/97	6/97
Beginning Value	\$6,855	\$7,500	\$8,766	\$9,001	\$11,216	\$12,705	\$12,677
Net Contributions	95	386	314	-102	-94	-88	98
Investment Return	550	880	-79	2,317	1,583	60	1,455
Ending Value	\$7,500	\$8,766	\$9,001	\$11,216	\$12,705	\$12,677	\$14,230

POST RETIREMENT FUND
Asset Mix

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

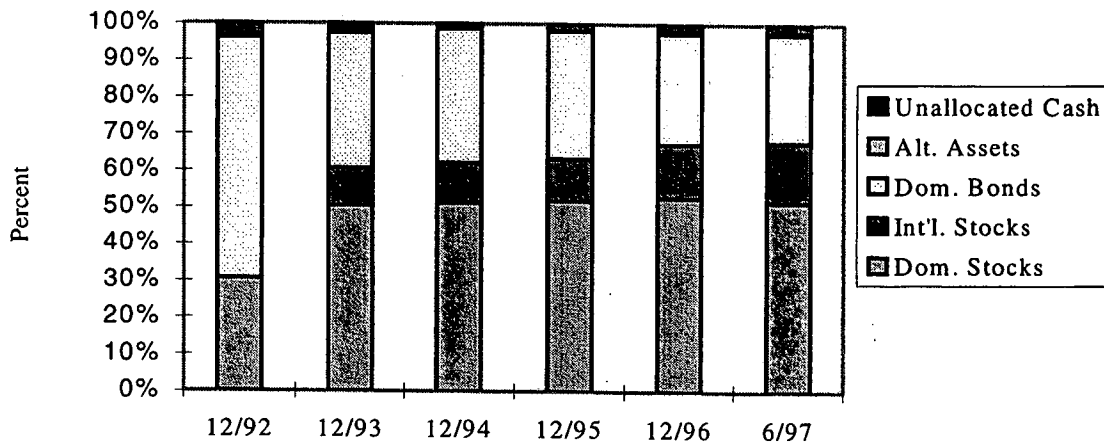
The large allocation to common stocks will allow the Fund to increase the long-term earning power of its assets and allow the Fund to focus on generating higher long-term total rates of return.

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

During the last quarter, the allocation to domestic and international stocks moved up reflecting strong performance in the worldwide equity markets.

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

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



	Last Five years					Latest Qtr.	
	12/92	12/93	12/94	12/95	12/96	3/97	6/97
Dom. Stocks	30.6%	50.5%	51.2%	51.9%	52.7%	51.0%	51.6%
Int'l. Stocks	0.0	10.0	11.0	11.4	14.6	14.8	16.2
Bonds	65.6	36.9	36.5	34.7	30.2	31.5	29.4
Alt. Assets	0.0	0.0	0.1	0.2	0.6	0.7	0.7
Unallocated Cash	3.8	2.6	1.2	1.8	1.9	2.0	2.1
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

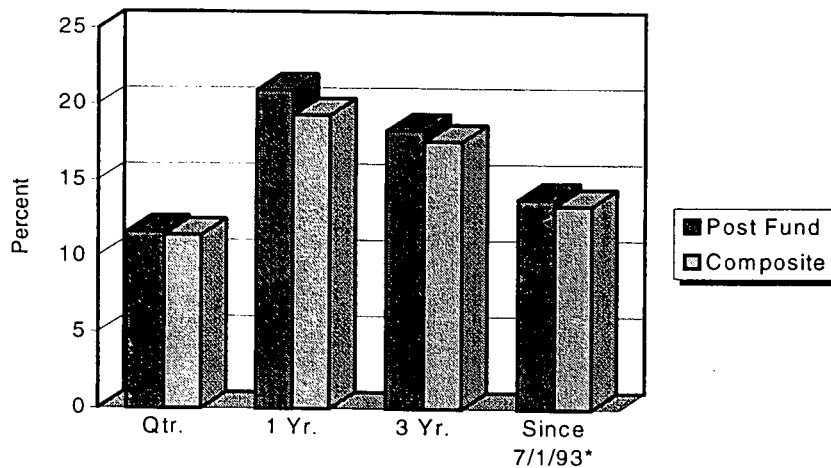
POST RETIREMENT FUND
Total Fund Performance (Net of Fees)

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 2Q97*
Domestic Stocks	50.0%	Wilshire 5000	50.0%
Int'l. Stocks	15.0	Int'l. Composite	15.0
Bonds	27.0	Lehman Aggregate	31.5*
Alternative Assets	5.0	Wilshire Real Estate	0.2*
Unallocated Cash	3.0	Private Equity Funds	0.3*
		91 Day T-Bills	3.0
	100%		100.0%

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

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



	Qtr.	1 Yr.	3 Yr.	Annualized Since 7/1/93
Post Fund**	11.6%	20.9%	18.3%	13.8%
Composite Index	11.4	19.3	17.6	13.4

** Returns are reported net of fees.

Effective July 1, 1993, the Basic and Post Funds share the same domestic stock, international stock, and bond managers. See page 15 for the performance of these asset pools.

STOCK AND BOND MANAGERS
Performance of Asset Pools (Net of Fees)

Domestic Stock Pool

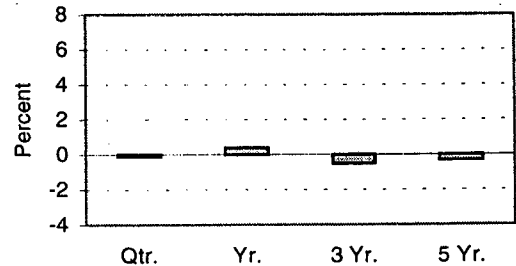
Target: Wilshire 5000 Adjusted*

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	16.8%	29.7%	26.2%	18.7%
Wilshire 5000*	16.9	29.3	26.7	19.0

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

Value Added to Wilshire 5000 Adjusted*



Bond Pool

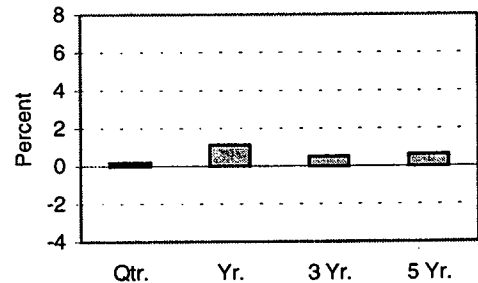
Target: Lehman Brothers Aggregate Bond Index

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	3.9%	9.3%	9.0%	7.7%
Lehman Agg.*	3.7	8.2	8.5	7.1

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

Value Added to Lehman Aggregate*



International Stock Pool

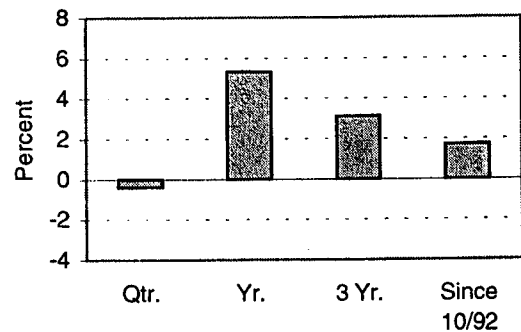
Target: Composite of EAFE-Free and Emerging Markets Free*

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.	Annualized	
			3 Yr.	Since 10/1/92
Int'l. Pool	12.1%	18.2%	12.4%	15.0%
Composite Index*	12.5	13.2	9.3	13.3

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

Value Added to International Composite*



ALTERNATIVE ASSET MANAGERS

Performance of Asset Pools

(Net of Fees)

Real Estate Pool (Basic Funds only)

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

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Real Estate	1.2%	7.7%	5.9%	2.1%
Real Estate Index		7.8	5.0	1.4
Inflation	0.2	2.3	2.7	2.7

Private Equity Pool (Basic Funds only)

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

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

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Private Equity	3.6%	28.4%	24.2%	16.6%

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 and periodically makes new investments. Some of the existing investments, therefore, are relatively immature and returns may not be indicative of future results.

	Qtr.	Yr.	Annualized	
			3 Yrs.	5 Yrs.
Resource Funds	6.4%	32.0%	19.3%	14.0%

Yield Oriented Pool (Post Fund only)

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

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

	Qtr.	Yr.	Annualized Since	
			3 Yrs.	3/1/94
Yield Oriented	-1.1%	5.0%	9.6%	8.6%

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.

	6/30/97 Target	6/30/97 Actual
Stocks	20.0%	24.3%
Bonds	80.0	75.7
Unallocated Cash	100.0%	100.0%

Investment Management

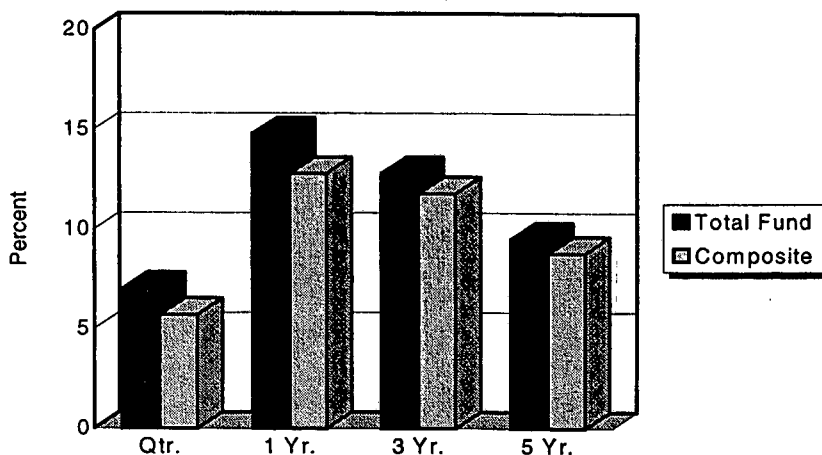
The portfolio was transferred from the Department of Commerce to the SBI on May 1, 1991. Voyageur Asset Management has managed the bond segment of the Fund since inception. Since January 1995, GE Investment Management has managed the equity segment.

Performance Benchmarks

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

Market Value

On June 30, 1997 the market value of the Assigned Risk Plan was \$591 million.



	Period Ending 6/30/97			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account*	7.0%	14.8%	12.8%	9.5%
Composite	5.7	12.8	11.8	8.8
Equity Segment*	17.9	34.4	28.4	17.3
Benchmark	17.5	34.7	28.9	17.9
Bond Segment*	2.8	7.8	8.0	6.8
Benchmark	2.9	7.7	7.8	6.6

* Actual returns are calculated net of fees.

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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, 1997 the market value of the entire fund was \$990 million.

Investment Options

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

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

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

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

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

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

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

SUPPLEMENTAL INVESTMENT FUND
Income Share Account

Investment Objective

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

Asset Mix

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

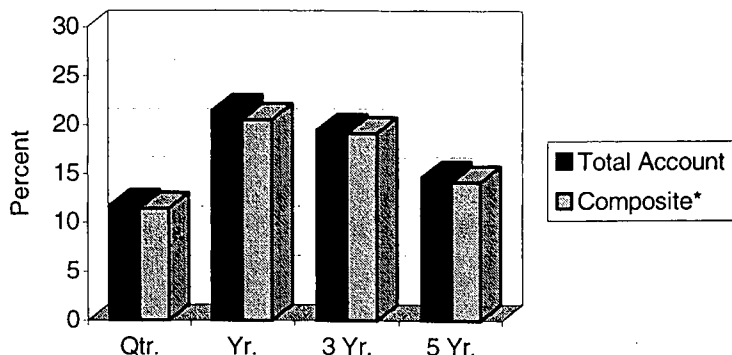
Investment Management

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

Market Value

On June 30, 1997 the market value of the Income Share Account was \$470 million.

	Target	Actual
Stocks	60.0%	64.2%
Bonds	35.0	31.6
Unallocated Cash	5.0	4.2
	100.0%	100.0%



	Period Ending 6/30/97			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	11.7%	21.4%	19.4%	14.6%
Composite*	11.4	20.5	19.1	14.1
Equity Segment	16.9	29.9	26.5	19.3
Wilshire 5000**	16.9	29.3	26.7	19.0
Bond Segment	3.7	8.9	8.9	7.8
Lehman Agg.***	3.7	8.2	8.5	7.2

* 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

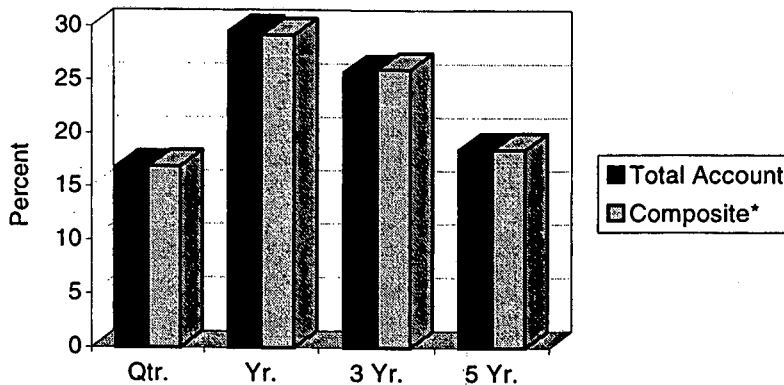
The Growth Share Account is invested primarily in the common stocks of US companies. The managers in the account also hold varying levels of cash.

Investment Management

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

Market Value

On June 30, 1997 the market value of the Growth Share Account was \$206 million.



Period Ending 6/30/97

	Annualized			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	16.8%	29.5%	25.7%	18.5%
Composite*	16.9	29.2	26.0	18.5

* 95% Wilshire 5000/5% T-Bills Composite through October 1996. 100% Wilshire 5000 since November 1996. 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. stock market as a whole. The Account is designed to track the performance of the Wilshire 5000, a broad-based equity market indicator.

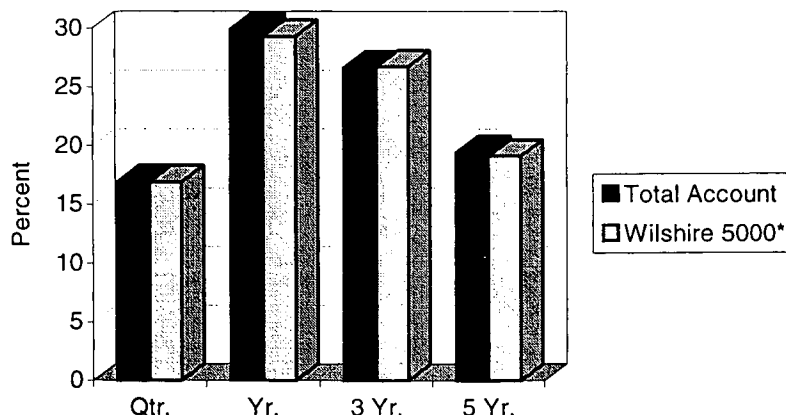
The Account is invested 100% in common stock.

Investment Management

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

Market Value

On June 30, 1997 the market value of the Common Stock Index Account was \$143 million.



Period Ending 6/30/97
Annualized

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	16.9%	29.9%	26.6%	19.4%
Wilshire 5000*	16.9	29.3	26.7	19.1

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

SUPPLEMENTAL INVESTMENT FUND
International Share Account

Investment Objective and Asset Mix

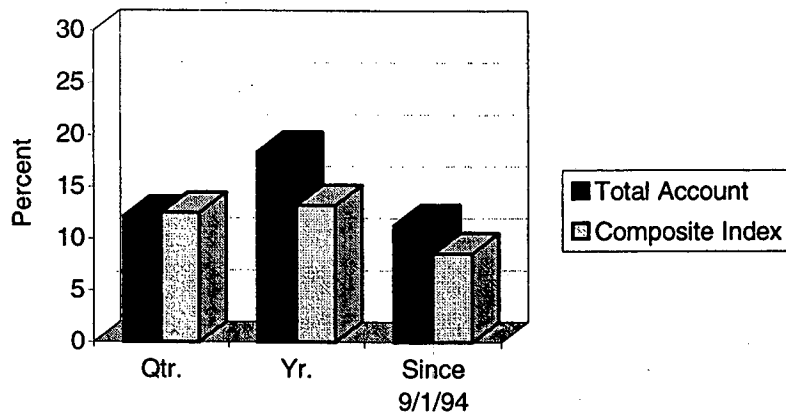
The investment objective of the International Share Account is to earn a high rate of return by investing in the stock of companies outside the U.S. Approximately half of the Account is "passively managed" and is designed to track the return of 20 markets included in the Morgan Capital International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

Investment Management

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

Market Value

On June 30, 1997 the market value of the International Share Account was \$21 million.



Period Ending 6/30/97
 Annualized
 Since
 Qtr. Yr. 9/1/94

Total Account	12.1%	18.3%	11.3%
Composite Index*	12.5	13.2	8.6

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

SUPPLEMENTAL INVESTMENT FUND
Bond Market Account

Investment Objective

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

Asset Mix

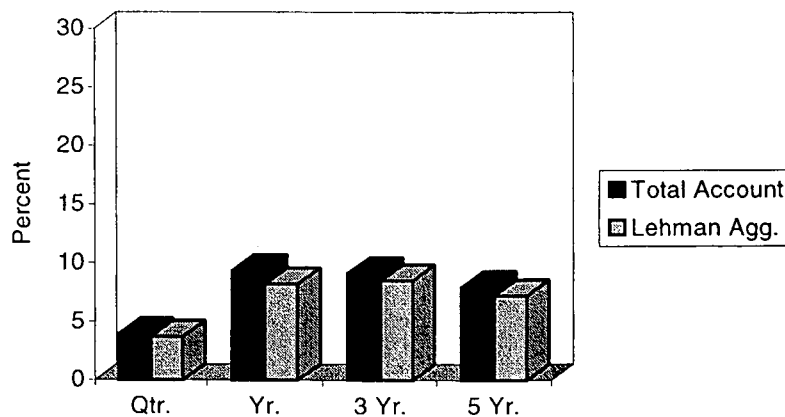
The Bond Market Account invests primarily in high-quality, government and corporate bonds that have intermediate to long-term maturities, usually 3 to 20 years.

Investment Management

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

Market Value

On June 30, 1997 the market value of the Bond Market Account was \$27 million.



	Period Ending 6/30/97			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	3.9%	9.3%	9.1%	7.9%
Lehman Aggregate*	3.7	8.2	8.5	7.2

* 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

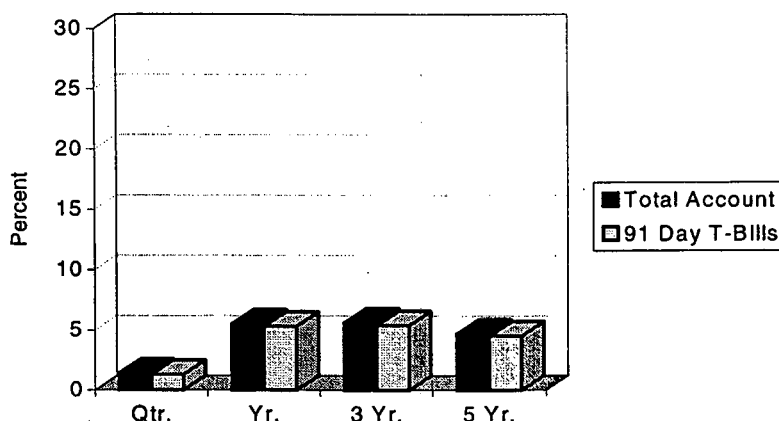
The Money Market Account is invested entirely in high quality short-term investments such as U.S. Treasury Bills, bank certificates of deposit, repurchase agreements, and high grade commercial paper. The average maturity of these investments is 30 to 60 days.

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, 1997 the market value of the Money Market Account was \$52 million.



Period Ending 6/30/97

Annualized

	Qtr.	Yr.	3 Yr.	5 Yr.
Total Account	1.4%	5.5%	5.6%	4.7%
91 Day T-Bills	1.3	5.3	5.4	4.5

SUPPLEMENTAL INVESTMENT FUND
Fixed Interest Account

Investment Objectives

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

Asset Mix

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

Investment Management

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

Market Value

On June 30, 1997 the market value of the Fixed Interest Account was \$71 million.

	Period Ending 6/30/97		Annualized Since 11/1/94
	Qtr.	Yr.	
GIC Pool	1.4%	6.6%	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

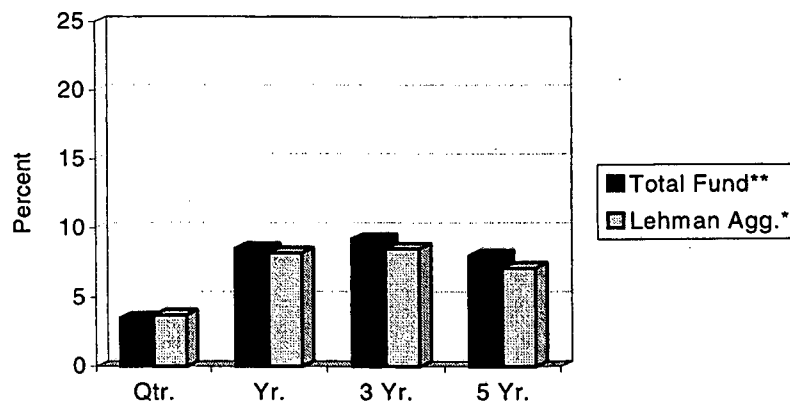
The Permanent School Fund is managed internally by SBI staff. The investment approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate securities are consistently equal to or greater than the market weightings. 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 Benchmark

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

Market Value

On June 30, 1997 the market value of the Permanent School Fund was \$437 million.



Period Ending 6/30/97

	Annualized			
	Qtr.	Yr.	3 Yr.	5 Yr.
Total Fund**	3.5%	8.5%	9.2%	8.0%
Lehman Agg.*	3.7	8.2	8.5	7.1

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

** Actual returns are calculated net of fees.

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.

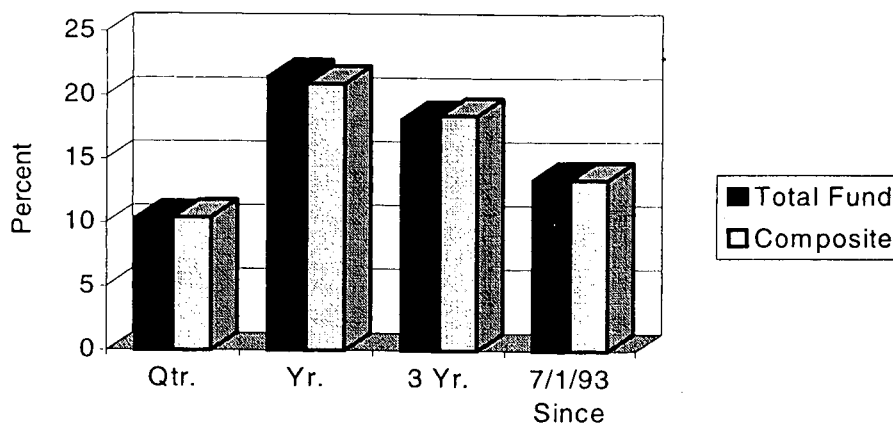
Investment Management

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, 1997 the market value of the Environmental Trust Fund was \$179 million.

	Target	Actual
Stocks	50.0%	51.9%
Bonds	48.0	47.1
Unallocated Cash	2.0	1.0
	100.0%	100.0%



Period Ending 6/30/97

		Annualized			
	Qtr.	1 Yr.	3 Yr.	Since 7/1/93	
Total Fund*	10.3%	21.4%	18.1%	13.4%	* Actual returns are calculated net of fees.
Composite	10.4	20.9	18.4	13.4	
Equity Segment*	17.4	34.7	28.8	21.4	
S&P 500	17.5	34.7	28.9	21.4	
Bond Segment*	3.6	8.6	8.7	6.5	
Lehman Agg.	3.7	8.2	8.5	6.0	

* Actual returns are calculated net of fees.

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.

	Market Value (Millions)	Period Ending 6/30/97		Annualized	
		Qtr.	Yr.	3 Yr.	5 Yr.
Treasurer's Cash Pool*	\$4,297	1.1%	5.3%	5.6%	4.9%
Custom Benchmark**		1.4	5.6	5.8	NA
Trust Fund Cash Pool*	62	1.4	5.6	5.7	5.2
Custom Benchmark***		1.2	5.5	5.8	NA
91-Day T-Bills		1.3	5.3	5.4	4.5

* Actual returns are calculated net of fees.

** Beginning in January 1997, the Treasurer's Cash Pool is measured against a blended benchmark consisting of the Lehman Brother's 1 to 3 year Government Index for the first \$600 million and the IBC all Taxable Money Fund Index for the balance of the portfolio. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% 1-3 year Treasuries.

*** Beginning in January 1997, the Trust Fund Pool is measured against the IBC All Taxable Money Fund Index. From April 1993 through December 1996, the benchmark was 75% State Street Short Term Investment Fund/25% 1-3 year Treasuries.

Tab B

PORTFOLIO STATISTICS

	PAGE
I. Composition of State Investment Portfolios 3/31/97	1
II. Cash Flow Available for Investment 1/1/97 - 3/31/97	4
III. Monthly Transactions and Asset Summary - Retirement Funds	5

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MINNESOTA STATE BOARD OF INVESTMENT
Composition of State Investment Portfolios By Type of Investment
Market Value June 30, 1997 (in Thousands)

	Cash And Short Term Securities	Bonds		Stocks		External Int'l.	Alternative Assets	Total
		Internal	External	Internal	External			
BASIC RETIREMENT FUNDS:								
Teachers Retirement Fund	18,616 0.28%	-0-	1,492,576 22.27%	-0-	3,470,189 51.77%	1,081,913 16.14%	639,516 9.54%	6,702,810 100%
Public Employees Retirement Fund	21,715 0.64%	-0-	763,848 22.35%	-0-	1,764,914 51.65%	552,793 16.18%	313,741 9.18%	3,417,011 100%
State Employees Retirement Fund	15,072 0.46%	-0-	732,839 22.39%	-0-	1,693,265 51.74%	530,353 16.21%	301,008 9.20%	3,272,537 100%
Public Employees Police & Fire Fund	8,872 0.55%	-0-	363,217 22.37%	-0-	839,233 51.70%	262,858 16.19%	149,187 9.19%	1,623,367 100%
Highway Patrol Retirement Fund	1,072 0.46%	-0-	52,125 22.39%	-0-	120,436 51.74%	37,722 16.21%	21,410 9.20%	232,765 100%
Judges Retirement Fund	89 0.46%	-0-	4,323 22.39%	-0-	9,988 51.74%	3,129 16.21%	1,776 9.20%	19,305 100%
Public Employees P.F. Consolidated	10,809 2.31%	-0-	102,852 21.99%	-0-	237,504 50.78%	74,377 15.90%	42,211 9.02%	467,753 100%
Correctional Employees Retirement	819 0.46%	-0-	39,862 22.39%	-0-	92,104 51.74%	28,849 16.21%	16,374 9.20%	178,008 100%
POST RETIREMENT FUND	301,489 2.12%	-0-	4,183,161 29.40%	-0-	7,335,572 51.55%	2,314,208 16.26%	95,372 0.67%	14,229,802 100%
TOTAL BASIC & POST	378,553 1.26%	-0-	7,734,803 25.66%	-0-	15,563,205 51.63%	4,886,202 16.21%	1,580,595 5.24%	30,143,358 100%

	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	19,931 4.24%	148,670 31.62%	-0-	-0-	301,526 64.14%	-0-	-0-	470,127 100%
Growth Share Account	-0-	-0-	-0-	-0-	205,882 100%	-0-	-0-	205,882 100%
Money Market Account	52,029 100%	-0-	-0-	-0-	-0-	-0-	-0-	52,029 100%
Common Stock Index Account	-0-	-0-	-0-	-0-	142,990 100%	-0-	-0-	142,990 100%
B Bond Market Account	-0-	-0-	26,683 100%	-0-	-0-	-0-	-0-	26,683 100%
International Share Account	-0-	-0-	-0-	-0-	-0-	21,445 100%	-0-	21,445 100%
Fixed Interest Account	5,279 7.45%	-0-	65,615 92.55%	-0-	-0-	-0-	-0-	70,894 100%
TOTAL SUPPLEMENTAL FUNDS	77,239 7.80%	148,670 15.02%	92,298 9.32%	-0-	650,398 65.69%	21,445 2.17%	-0-	990,050 100%
TOTAL RETIREMENT FUNDS	455,792 1.46%	148,670 0.48%	7,827,101 25.14%	-0-	16,213,603 52.08%	4,907,647 15.76%	1,580,595 5.08%	31,133,408 100%

	Cash And Short Term Securities	Bonds		Stocks		External Int'l.	Alternative Assets	Total
		Internal	External	Internal	External			
ASSIGNED RISK PLAN	15,596 2.64%	-0-	435,646 73.74	-0-	139,563 23.62%	-0-	-0-	590,805 100%
ENVIRONMENTAL FUND	1,788 1.00%	84,392 47.06%	-0-	93,161 51.94%	-0-	-0-	-0-	179,341 100%
PERMANENT SCHOOL FUND	11,439 2.62%	425,587 97.38%	-0-	-0-	-0-	-0-	-0-	437,026 100%
TREASURERS CASH	4,297,380 100%	-0-	-0-	-0-	-0-	-0-	-0-	4,297,380 100%
HOUSING FINANCE AGENCY	25,443 12.75%	174,034 87.25%	-0-	-0-	-0-	-0-	-0-	199,477 100%
MINNESOTA DEBT SERVICE FUND	4,534 4.45%	97,418 95.55%	-0-	-0-	-0-	-0-	-0-	101,952 100%
MISCELLANEOUS ACCOUNTS	94,590 41.21%	133,378 58.12%	-0-	1,538 0.67%	-0-	-0-	-0-	229,506 100%
GRAND TOTAL	4,906,562 13.20%	1,063,479 2.86%	8,262,747 22.23%	94,699 0.26%	16,353,166 44.00	4,907,647 13.20%	1,580,595 4.25%	37,168,895 100%

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT**

**Net Cash Flow Available For Investment
April 1, 1997 - June 30, 1997**

Teachers Retirement Fund	-186,500,000.00
Public Employees Retirement Fund	15,000,000.00
State Employees Retirement Fund	10,500,000.00
Public Employees Police & Fire	5,900,000.00
Highway Patrol Retirement Fund	750,000.00
Judges Retirement Fund	500,000.00
Public Employees P&F Consolidated	15,026,953.32
Correctional Employees Retirement Fund	1,250,000.00
Post Retirement Fund	97,675,944.22
Supplemental Retirement Fund - Income	-1,487,676.71
Supplemental Retirement Fund - Growth	-240,592.61
Supplemental Retirement Fund - Money Market	-1,062,013.90
Supplemental Retirement Fund - Index	2,820,848.23
Supplemental Retirement Fund - Bond Market	345,685.42
Supplemental Retirement Fund - Fixed Interest,	1,390,218.66
Supplemental Retirement Fund - International	733,516.06
Total Retirement Funds Net Cash Flow	-37,397,117.31
Assigned Risk Plan	-3,064,229.00
Permanent School Fund	-4,699,234.55
Total Net Cash Flow	-45,160,580.86

**STATE OF MINNESOTA
STATE BOARD OF INVESTMENT
Transaction and Asset Summary**

Retirement Funds

	Net Transactions				Asset Summary (at Market Value)			Total Mkt. Value (Millions)
	Bonds (Millions)	Stocks (Millions)	Total (Millions)	Cash Flow (Millions)	Short-Term % of Fund	Bonds % of Fund	Equity % of Fund	
January 1995	1	10	11	-11	1.5	32.0	66.5	19,681
February	1	0	1	-1	1.5	31.8	66.7	20,249
March	2	18	20	-18	1.3	31.5	67.2	20,607
April	1	-305	-304	-6	2.7	31.2	66.1	21,049
May	0	13	13	14	2.6	31.5	65.9	21,681
June	8	-12	-4	-3	2.6	31.3	66.1	22,028
July	1	13	14	19	2.5	30.4	67.1	22,646
August	-1	14	13	-25	2.3	30.5	67.2	22,814
September	0	13	13	-21	2.1	30.1	67.8	23,369
October	1	-3	-2	-20	2.1	30.6	67.3	23,294
November	-5	87	82	-20	1.6	30.1	68.3	23,975
December	11	-6	5	-6	1.5	30.2	68.3	24,304
January 1996	0	12	12	-4	1.4	29.9	68.7	24,721
February	-301	303	2	4	1.4	28.0	70.6	24,859
March	0	-14	-14	-15	1.4	27.6	71.0	25,070
April	-42	-31	-73	-18	1.6	26.9	71.5	25,493
May	-1	-20	-21	-3	1.6	26.5	71.9	25,823
June	0	-52	-52	-20	1.8	26.8	71.4	25,829
July	-25	0	-25	16	2.0	27.7	70.3	25,076
August	0	-156	-156	39	2.4	27.3	70.3	25,453
September	3	51	54	-9	2.1	26.8	71.1	26,388
October	-19	30	11	-9	2.0	26.8	71.2	26,871
November	14	67	81	10	1.5	26.2	72.3	28,054
December	9	46	55	5	1.3	26.3	72.4	27,851
January 1997	401	-487	-86	-19	1.5	27.1	71.4	28,616
February	-1	-19	-20	-15	1.5	27.1	71.4	28,699
March	-6	3	-3	-12	1.5	27.5	71.0	27,965
April	0	(8)	(8)	(27)	1.4	27.1	71.5	28,752
May	12	(46)	(34)	10	1.5	26.2	72.3	30,126
June	(13)	(15)	(28)	(15)	1.5	25.6	72.9	31,133

Tab C

EXECUTIVE DIRECTOR'S ADMINISTRATIVE REPORT

DATE: August 26, 1997

TO: Members, State Board of Investment

FROM: **Howard Bicker**

1. Reports on Budget and Travel

A final report on the SBI's administrative budget for FY97 is included as **Attachment A**. A report for the FY98 administrative budget through July 31, 1997 is included as **Attachment B**.

A report on travel for the period from May 16 - August 15, 1997 is included as **Attachment C**.

2. Litigation Update

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

3. Update on Tobacco Information

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

a) Tobacco-Related Holdings

As of June 30, 1997 the SBI held approximately 10.7 million shares in tobacco related companies identified by the Investor Responsibility Research Center (IRRC). The market value of the SBI's holdings in these companies was approximately \$365 million on June 30, 1997. This is an increase of approximately \$21 million from the market value of the shares held on March 31, 1997. Listings of SBI holdings in tobacco-related companies as of March 31, 1997 and June 30, 1997 begin on **page 11**.

As I previously reported, I have directed the SBI's stock managers to inform the SBI staff of the reasons for their decisions to purchase additional shares of companies identified by the IRRC as deriving 50 percent or more of their revenue from the sale of tobacco. During the quarter ending June 30, 1997, three of the domestic and international stock managers reported buying additional shares in five of these companies. The communications received from the managers begin on **page 13**.

b) Activity in Other States

In May 1997, the **Florida** Board of Administration voted to divest about \$825 million in tobacco stocks. The board delegated the responsibility to carry out the orderly divestiture of the holdings to its staff. According to staff, the Board may review its position pending developments in tobacco litigation and tobacco settlement talks.

In June 1997, three systems in **Vermont** (Vermont State Employees' Retirement System, the Vermont Municipal Employees' Retirement System and the Vermont Teachers' Retirement System) voted to divest their plans' holdings of tobacco stocks. The total holdings of tobacco company stocks was about \$20 million.

In June 1997, the **Pennsylvania** Public School Employees' Retirement System decided to freeze its investment in tobacco stocks which were valued at approximately \$264 million. The decision was based on concern over the volatility of the investments. The cap is to remain in place until the tobacco settlement is voted on by the Congress or until the board directs a change in the policy.

In July 1997, the **Washington** State Board of Investment deadlocked 4-4 on a proposal that would have required divestment of about \$268 in tobacco stocks.

c) Legal Developments Reported by the News Media.

Reports identify 40 states that have now sued the tobacco industry to recover state Medicaid moneys spent treating smoking-related illnesses. The State of Minnesota is one of these states.

There continue to be numerous media reports about negotiations and potential settlement among tobacco companies, state attorneys general and others seeking a settlement covering the industry's potential liability. Any settlement is expected to require an act of Congress.

A lawsuit against Imperial Tobacco PLC and Gallaher PLC was brought by 47 people who have contracted lung cancer and was scheduled to go to trial July 1 in the United Kingdom. This was described as the first test outside the US.

For your information, a copy of a new publication from the IRRC, the *Investor's Tobacco Reporter*, begins on **page 19**. It provides additional information on activities in other states and municipalities and summarizes the settlement proposal.

A news report on the settlement of a suit in Florida begins on **page 27**.

4. Authorization to form a Review Committee and issue RFP's for master custodial and accounting services.

Contracts with the SBI's master custodian (currently, State Street Bank & Trust) and accounting vendor (currently, Financial Control Systems) expire on September 30, 1998 and June 30, 1998, respectively. Since these are inter-related services, the contractual relationships should be reviewed simultaneously. In order to proceed with an orderly review of available services, the Board needs to authorize a Review Committee to proceed with the request for proposal (RFP) process at this time.

RECOMMENDATION:

The Executive Director recommends that the SBI authorize a Review Committee to evaluate the SBI's needs for master custodial and portfolio accounting systems through the RFP process. The Review Committee should be comprised of a designee of each Board member and at least two members of the IAC. The Review Committee should report its recommendations to the SBI by March 1998.

ATTACHMENT A

**STATE BOARD OF INVESTMENT
FISCAL YEAR 1997 ADMINISTRATIVE BUDGET REPORT
GENERAL FUND APPROPRIATION
FISCAL YEAR TOTAL**

ITEM	FISCAL YEAR 1997 BUDGET	FISCAL YEAR 1997 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,538,114	\$ 1,553,816
SEVERENCE PAYOFF	20,000	34,562
WORKERS COMPENSATION INSURANCE	1,000	718
MISCELLANEOUS PAYROLL	1,000	673
SUBTOTAL	\$ 1,560,114	\$ 1,589,769
STATE OPERATIONS		
RENTS & LEASES	90,500	90,498
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	19,656
BONDS AND INSURANCE	0	0
PRINTING & BINDING	16,000	15,531
PROFESSIONAL/TECHNICAL SERVICES	50,000	8,211
COMPUTER SYSTEMS SERVICES	202,500	203,600
COMMUNICATIONS	27,000	25,110
TRAVEL, IN-STATE	3,000	544
TRAVEL, OUT-STATE	55,000	52,318
SUPPLIES	42,000	39,471
EQUIPMENT	25,000	43,324
EMPLOYEE DEVELOPMENT	8,000	14,403
OTHER OPERATING COSTS	34,000	23,632
SUBTOTAL	\$ 566,000	\$ 536,298
TOTAL GENERAL FUND	\$ 2,126,114	\$ 2,126,067

ATTACHMENT B

STATE BOARD OF INVESTMENT
 FISCAL YEAR 1998 ADMINISTRATIVE BUDGET REPORT
 GENERAL FUND APPROPRIATION
 FISCAL YEAR TO DATE THROUGH JULY 31, 1997

ITEM	FISCAL YEAR 1998 BUDGET	FISCAL YEAR 1998 EXPENDITURES
PERSONAL SERVICES		
FULL TIME EMPLOYEES	\$ 1,600,000	\$ 35,650
SEVERENCE PAYOFF	20,000	0
WORKERS COMPENSATION INSURANCE	1,000	0
MISCELLANEOUS PAYROLL	1,000	0
SUBTOTAL	\$ 1,622,000	\$ 35,650
STATE OPERATIONS		
RENTS & LEASES	92,500	7,707
REPAIRS/ALTERATIONS/MAINTENANCE	13,000	0
BONDS AND INSURANCE	0	0
PRINTING & BINDING	16,000	0
PROFESSIONAL/TECHNICAL SERVICES	45,000	0
COMPUTER SYSTEMS SERVICES	204,000	0
COMMUNICATIONS	26,000	0
TRAVEL, IN-STATE	3,000	0
TRAVEL, OUT-STATE	55,000	0
SUPPLIES	38,000	0
EQUIPMENT	12,500	0
EMPLOYEE DEVELOPMENT	12,000	0
OTHER OPERATING COSTS	24,000	0
SUBTOTAL	\$ 541,000	\$ 7,707
TOTAL GENERAL FUND	\$ 2,163,000	\$ 43,357

ATTACHMENT C

STATE BOARD OF INVESTMENT

**Travel Summary by Date
May 16, 1997 - August 15, 1997**

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Consultant Meeting Richards & Tierney	H. Bicker	Chicago, IL 6/2	\$709.00
Board Member Travel Council of Institutional Investors Executive Committee	M. McGrath	Washington, DC 6/9-6/11	\$640.92
Board Member Travel J. P. Morgan Public Fund Symposium	M. McGrath	New York, NY 6/11-6/14	\$664.66
Staff Education BARRA's 21st Annual Equity Research Seminar	L. Buermann	Pebble Beach, CA 6/15-6/18	\$798.50
Manager Monitoring Emerging Equity Managers: New Amsterdam, Valenzuela Manager Monitoring Master Custodian: State Street	M. Perry	New York, NY Boston, MA 6/16-6/17	\$1,189.95
Board Member Travel National Association of Public Pension Attorneys Annual Conference	C. Eller	Monterey, CA 6/24-6/27	\$1,728.20
Manager Monitoring Domestic Stock Managers: GeoCapital, Forstmann Leff, J. P. Morgan Manager Search Domestic Stock Manager: Goldman Sachs	L. Buermann K. Hanson	New York, NY 6/25-6/27	\$2,718.00

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Manager Monitoring Alternative Investments: First Reserve Manager Search Alternative Investments: Landmark Realty Advisors	M. Regal	Hartford, CT 7/2-7/3	\$1,142.38
Miscellaneous Class Action Litigation	M. Perry	Chicago, IL 7/2	\$89.00
Manager Monitoring Domestic Equity Managers: Weiss Peck & Greer Consultant Meeting Richards & Tierney	H. Bicker	Chicago, IL 7/11	\$709.00
Manager Monitoring Emerging Markets Managers: City of London, Genesis Manager Monitoring International Managers: Marathon, Record Treasury, Rowe-Price Fleming, State Street Global Advisors Manager Search International Managers: Delaware International Advisors, Foreign & Colonial, BNY Overlay Associates, Pareto, Safeport	B. Lehman K. Vnuk	London 7/14-7/22	\$5,871.07
Staff Conference "Preserving the Sanctity of Pension Funds" sponsored by Pensions 2000	H. Bicker	San Francisco, CA 7/19-7/23	\$202.00

<u>Purpose</u>	<u>Name(s)</u>	<u>Destination and Date</u>	<u>Total Cost</u>
Staff Education "Financial Analysts Seminar" sponsored by AIMR Manager Monitoring Domestic Fixed Income: Lincoln Capital Manager Search Domestic Fixed Income: Brinson Partners, Inc., Harris Investment Mgmt., Lotsoff Capital Mgmt., Northern Trust, Stein Roe & Farnham Consultant Meeting: Richards & Tierney	M. Menssen S. Berube	Chicago, IL 7/20-7/30	\$3,583.96
Staff Education "Financial Analysts Seminar" sponsored by AIMR	M. Regal	Chicago, IL 7/20-7/25	\$2,295.21

**SBI Stock Holdings
in Tobacco Companies Identified by the IRRC
June 30, 1997**

Company	Percent Revenue from Tobacco in 1995	SBI Shares 6/30/97	SBI Cost Value 6/30/97	SBI Market Value 6/30/97
Amer Group	7.7%	8,300	\$ 172,369	\$ 149,405
American Maize	n/a	0	0	0
BAT	69.1	1,873,127	14,669,711	16,756,274
Brooke Group	98.8	10,200	67,138	35,700
Compagnie Fin.	66.2	80,000	2,751,015	2,180,000
Culbro	56.4	10,600	356,901	1,475,388
Dimon	80.1	206,499	4,090,521	5,472,224
Empresas	55.6	94,500	438,914	501,932
Fortune Brands*	56.6	308,400	8,867,259	11,507,175
Glatfelter	<25	151,000	2,855,431	3,020,000
Hanson PLC	31.9	0	0	0
Imasco Ltd.	16.3	0	0	0
Japan Tobacco	n/a	0	0	0
Loews	11.0	123,400	7,536,270	12,355,425
Philip Morris	48.9	5,857,380	145,379,557	259,921,238
Rembrandt	n/a	250,000	2,192,801	2,667,819
RJR Nabisco	48.2	683,998	20,890,153	22,571,934
Sara Lee	<2	358,205	10,449,054	14,910,283
Schweitzer-Maud.	94.0	21,410	603,771	802,875
SEITA	80.3	23,850	748,757	755,603
Standard Comm'l	62.3	6,356	70,397	110,436
Tabacalera SA	81.9	49,350	1,749,586	2,654,235
Universal Corp.	70.5	319,300	8,564,253	10,137,775
UST	86.9	106,600	3,171,350	2,958,150
Volvo AB	4.3	197,600	3,819,653	5,297,438
Total		10,740,075	\$239,444,861	\$376,241,309

*American Brands changed its name to Fortune Brands in May 1997.

Sources: List of companies is from "The Tobacco Industry, 1995 Edition," and percent of revenue is from "The Tobacco Industry, 1996 Edition," by the Investor Responsibility Research Center (IRRC), Washington D.C. SBI holdings data are from SBI bank records.

**SBI Stock Holdings
in Tobacco Companies Identified by the IRRC
March 31, 1997**

Company	Percent Revenue from Tobacco in 1995	SBI Shares 3/31/97	SBI Cost Value 3/31/97	SBI Market Value 3/31/97
Amer Group	7.7%	8,300	\$ 172,369	\$ 172,609
American Brands	56.6	308,400	14,034,913	15,612,750
American Maize	n/a	0	0	0
BAT	69.1	1,623,663	12,519,570	13,783,511
Brooke Group	98.8	10,200	67,137	48,450
Compagnie Fin..	66.2	80,000	2,751,015	2,380,000
Culbro	56.4	10,600	356,900	993,750
Dimon	80.1	192,499	3,725,313	4,427,477
Empresas	55.6	94,500	438,914	473,036
Glatfelter	<25	167,400	3,159,227	2,762,100
Hanson PLC	31.9	295,902	1,644,166	1,394,551
Imasco Ltd.	16.3	0	0	0
Japan Tobacco	n/a	0	0	0
Loews	11.0	303,200	18,864,102	26,946,900
Philip Morris	48.9	1,948,860	143,020,457	222,413,647
Rembrandt	n/a	250,000	2,192,801	2,672,195
RJR Nabisco	48.2	710,398	19,782,440	20,935,310
Sara Lee	<2	403,905	11,450,515	16,358,152
Schweitzer-Maud.	94.0	8,810	170,867	266,502
SEITA	80.3	19,600	595,254	707,599
Standard Comm'l	62.3	15,338	189,158	274,167
Tabacalera SA	81.9	73,350	2,611,558	3,673,449
Universal Corp.	70.5	310,200	8,251,632	8,957,025
UST	86.9	197,300	5,696,713	5,499,737
Volvo AB	4.3	162,100	2,917,298	4,346,376
Total		7,194,525	\$254,612,319	\$355,099,293

Sources: List of companies is from "The Tobacco Industry, 1995 Edition," and percent of revenue is from "The Tobacco Industry, 1996 Edition," by the Investor Responsibility Research Center (IRRC), Washington D.C. SBI holdings data are from SBI bank records.

Barclays Global Investors
 45 Fremont Street, San Francisco, CA 94105
 P.O. Box 7101, San Francisco, CA 94120-7101
 Tel 415 597 2829
 Fax 415 597 2188
 Net jay.vyas@bglobal.com

Fax

Fax to Lois Buermann, Minnesota SBI

Fax number 612-296-9572

From Jay Vyas, Alpha Strategies JPV

Date June 19, 1997

Total pages 1

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



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

<u>Company</u>	<u>Shares</u>
<u>Dimon Inc</u>	<u>14,000</u>
<u> </u>	<u> </u>

Reason For Purchase

- Improvement in expected return forecast by the BGI Core Alpha Model. This model incorporates analysts earnings expectations, valuation characteristics, and signals by market and corporate management decisions.**
- Risk Control or Increased Weight of tobacco securities in Benchmark.**

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

Barclays Global Investors
45 Fremont Street, San Francisco, CA 94105
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Tel 415 597 2125
Fax 415 597 2198
Net steve.cushmano@bglobal.com

Fax

Fax to Lois Buermann, Minnesota SBI
Fax number 612-296-9572
From Jay Vyas, Alpha Strategies JPV
Date June 12, 1997
Total pages 1
Subject MN Semi-Passive Fund - Purchase of Tobacco Related Company



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

<u>Company</u>	<u>Shares</u>
<u>Schweitzer-Mauduit Int'l</u>	<u>1,100</u>
<u> </u>	<u> </u>

Reason For Purchase

- Improvement in expected return forecast by the BGI Core Alpha Model. This model incorporates analysts earnings expectations, valuation characteristics, and signals by market and corporate management decisions.**
- Risk Control or Increased Weight of tobacco securities in Benchmark.**

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

Barclays Global Investors
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Tel 415 597 2829
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Fax

Fax to Lois Buermann, Minnesota SBI
Fax number 612-296-9572
From Jay Vyas, Alpha Strategies JRV
Date May 2, 1997
Total pages 1
Subject MN Semi-Passive Fund - Purchase of Tobacco Related Company



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

<u>Company</u>	<u>Shares</u>
<u>Schweitzer-Mauduit Int'l</u>	<u>4,000</u>
_____	_____

Reason For Purchase

- Improvement in expected return forecast by the BGI Core Alpha Model. This model incorporates analysts earnings expectations, valuation characteristics, and signals by market and corporate management decisions.**
- Risk Control or Increased Weight of tobacco securities in Benchmark.**

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

CIC ASSET MANAGEMENT, INC.

707 WILSHIRE BOULEVARD
FIFTY-FIFTH FLOOR
LOS ANGELES, CALIFORNIA 90017
TELEPHONE (213) 629-0451
TELECOPIER (213) 629-0901

PRINCIPALS
ELARIO R. MONTEIRO, CFA
JORGE CASTRO, CFA
FERNANDO INZUNZA, CFA

August 7, 1997

Mansco Perry III
Minnesota State Board of Investment
55 Sherburne Ave.
Suite 105, MEA Bldg.
St. Paul, MN 55155

Dear Mansco:

I am writing to comply with the December, 1996 letter from Howard Bicker regarding purchase of tobacco stocks.

Today, August 7, 1997, CIC began purchasing a 2.00% position in Universal Corporation. We justify this purchase on the basis of its valuation and risk/return parameters. We believe the stock is worth \$46 and has a downside of \$32, for an upside of 30% and a downside of 10%.

Universal Corporation has never been sued because it does not make cigarettes or any other product directly sold to consumers. Universal Corporation is not party to any of the tobacco settlements.

If you have any questions, please do not hesitate to call me.

Best Regards,


Jorge Castro, CFA

April 11, 1997



Ms. Beth Lehman, CFA
Assistant Executive Director
Minnesota State Board of Investment
Suite 105, MEA Building
55 Sherburne Avenue
St. Paul, MN 55155

Dear Beth:

As you requested, we are informing the SBI that an additional 33,700 shares of BAT Industries were purchased in the Baring Active/Passive portfolio on April 1, 1997. The portfolio now holds a total of 181,697 shares in this security.

Additional shares of BAT Industries were purchased in order to maintain the correct capitalization weight of the stock after Baring Asset Management instructed SSgA to invest \$9.588 million into the MSCI United Kingdom Index portfolio on April 1, 1997.

Please do not hesitate to call if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lynn', written over a horizontal line.

Lynn S. Blake, CFA
Vice President

cc: Philip Bullen, Baring Asset Management

April 11, 1997



Ms. Beth Lehman, CFA
Assistant Executive Director
Minnesota State Board of Investment
Suite 105, MEA Building
55 Sherburne Avenue
St. Paul, MN 55155

Dear Beth:

As you requested, we are informing the SBI that an additional 229,900 shares of BAT Industries and 4,250 shares of SEITA were purchased in the MSCI EAFE-Free Index portfolio on April 1, 1997. The portfolio now holds a total of 1,207,966 shares of BAT Industries and 20,658 shares of SEITA.

Additional shares of these securities were purchased in order to maintain the correct capitalization weight of the stocks due to the \$200 million contribution invested on April 1, 1997.

Please do not hesitate to call if you have any questions or concerns.

Sincerely,

A handwritten signature in black ink, appearing to read 'Lynn', written in a cursive style.

Lynn S. Blake, CFA
Vice President



INVESTOR'S

IRRC TOBACCO REPORTER

Tracking the Tobacco Investment Debate

Premier Issue • July 1997

IRRC Launches Tobacco Information Service

The Investor Responsibility Research Center has launched a new service to track the tobacco investment debate. IRRC's Tobacco Information Service will serve as a clearinghouse on tobacco companies and tobacco investments worldwide. Products and impartial research to be made available include:

- An international directory of tobacco manufacturers and industry suppliers.
- Tracking of institutional investments and divestment actions involving tobacco.
- Reporting on shareholder campaigns and proxy issues.
- Publication of a bi-monthly newsletter, *Investor's Tobacco Reporter*.
- Sponsorship of an October 1997 roundtable discussion on the future of the tobacco industry.
- Publication of a 1998 report on strategic issues facing tobacco companies and their shareholders.
- Maintenance of a Tobacco Information Service "web page" at IRRC's Internet site: <http://www.irrc.org>. Institutional investors, corporate executives and public health officials are

eligible to receive reports and information free of charge from the Tobacco Information Service. (A subscription form appears at the back of this newsletter.)

The Robert Wood Johnson Foundation, the nation's largest philanthropy devoted exclusively to health and health care issues, is underwriting the operating costs of IRRC's Tobacco Information Service.

Objective, timely research

The Investor Responsibility Research Center is the leading source of independent, impartial information on social responsibility and corporate governance issues. Now celebrating its 25th year, IRRC has more than 50 professional staff members who provide research and analysis, software products, consulting and portfolio screening services to more than 400 subscribing institutions. Doug Cogan is the director of the Tobacco Information Service and has been with IRRC since 1982.

Tobacco investments have long posed a quandary. Strong earnings, high dividends and inelastic product demand have made tobacco companies a staple of most institutional portfolios. Yet tobacco use is responsible for more than 3 million deaths a year worldwide, making it the only consumer product yielding such lethal results when used as intended.

As the premier issue of this newsletter goes to press, the U.S. tobacco industry is poised at an historic turning point. Unprecedented negotiations to settle mounting product liability suits portend the establishment of multi-billion dollar industry reserves to pay for smoking and health claims, more stringent government controls over the manufacture and sale of tobacco products, and possibly the introduction of safer cigarettes. Whether the burgeoning overseas markets of U.S. cigarette makers will be affected by these developments remains to be seen.

About this newsletter

This newsletter—and IRRC's Internet site—will keep institutional investors and others abreast of the rapidly changing environment for the tobacco industry. Regular features will include:

- A tobacco industry "stock watch."
- In-depth company profiles.
- Shareholder news and views.
- Legal and regulatory updates.

IRRC is pleased to offer this new free service. Our purpose is to provide accurate, timely and objective information in the evolving debate over tobacco companies and responsible investments. We welcome your comments and input to ensure that the Tobacco Information Service meets your needs.

2 Stock Watch

4 Divestment Update

6 Shareholder Activism

3 Companies and Investors

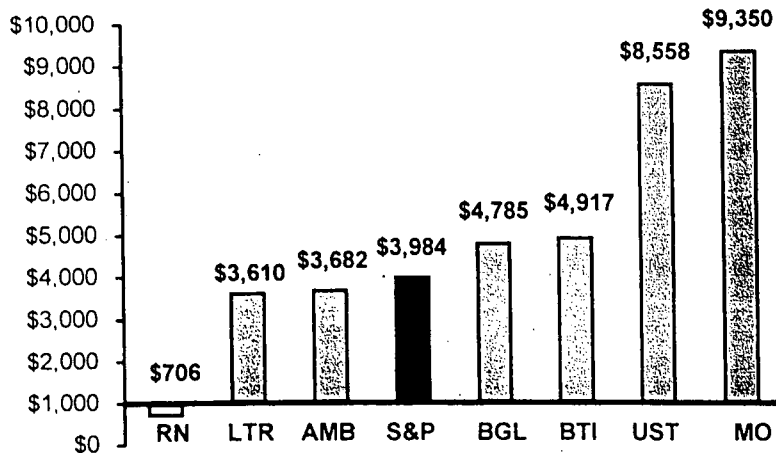
5 Tobacco-Free Mutual Funds

7 Settlement Proposal

Published by IRRC's Tobacco Information Service

Stock Watch

Total Returns on \$1,000 Investment
1/1/87-12/31/96



Source: Standard & Poors' Compustat

Company Names and Tickers

RN	RJR Nabisco Holdings Inc.
LTR	Loews Corp.
AMB	American Brands Inc.*
S&P	S&P 500 Index
BGL	Brooke Group Ltd.
BTI	B.A.T Industries PLC (ADR)
UST	UST Inc.
MO	Philip Morris Cos. Inc.

* On May 30, 1997, American Brands completed the spinoff of its wholly-owned British subsidiary, Gallaher Group PLC, to holders of American Brands common stock. Also on that day, American Brands changed its name to Fortune Brands Inc., which has no remaining interests in the tobacco industry. American Depositary Shares of Gallaher Group PLC trade on the New York Stock Exchange under the ticker GLH.

Are tobacco stocks good investments?

The answer is more complicated than the question. First, one has to define what constitutes a tobacco stock. The seven companies listed in the chart above were the primary sellers of cigarettes and smokeless tobacco in the United States from 1987 through 1996. Other tobacco companies process tobacco leaf or manufacture loose tobacco, reconstituted tobacco or cigars. (See p. 3 for a more complete list of tobacco manufacturers.)

Second, one has to choose a time horizon over which to measure financial performance. For the period Jan. 1, 1987 through Dec. 31, 1996, the performance of tobacco stocks has been mixed. Three of the listed stocks underperformed the Standard & Poors' 500 index, and the four others outperformed the S&P 500—some by a wide margin.

Third, the market capitalization of each of the stocks has to be taken into account. On a weighted basis, Philip Morris is larger than all of the other listed stocks combined. Accordingly, Philip Morris's total returns (share price accumulation and dividend payouts) play a major role in determining most tobacco investors' profits. Over the last 40 years, Philip Morris has been a standout performer, providing investors with annualized returns of 20.2 percent—making it the single most profitable large-cap U.S. stock of any kind to own since 1955.

Fourth, one has to consider that tobacco stocks are only one element of a well-diversified institutional portfolio, blunting individual performance results. Tobacco stocks make up only about 2 percent of the market capitalization of the S&P 500, and their representation is typically smaller in broader indices. When 11 tobacco stocks represented in the Wilshire 5000 were excluded from investment results over the period Dec. 31, 1987 to March 31, 1997, no demonstrable positive or negative effect was found on the index's total return.

Finally, one has to remember that past performance is never a fool-proof guide to future performance. Given the watershed events involving the tobacco industry in recent days, perhaps the only safe assumption is that the future will be different from the past.

The Investor Responsibility Research Center publishes *Investor's Tobacco Reporter* for educational purposes. Free subscriptions to the bi-monthly newsletter are made possible by a grant from The Robert Wood Johnson Foundation. IRRC makes no warranty, express or implied, as to the accuracy, completeness or usefulness of the information contained herein and does not assume any liability with respect to consequences of use of this information. While IRRC's Tobacco Information Service exercises due care in compiling information appearing in *Investor's Tobacco Reporter*, changing circumstances may cause it to be obsolete.

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Tobacco Companies and Major Shareholders

Six companies now dominate the sales of cigarettes and smokeless tobacco in the United States. Below are "snapshots" of these companies, listing their names and ticker symbols, as well as their leading brands. Total revenue and operating income figures for 1996 are in millions of dollars, with tobacco's contribution shown in percentage terms. Common shares outstanding are as of March 31, 1997.

Major investors in these companies have been identified with the aid of CDA/Spectrum. Most of the listed investing institutions submit 13F filings, indicating the number of common shares for which they had investment discretion in a recent reporting period (usually Dec. 31, 1996 or March 31, 1997). The first shareholder listed is the largest investor in the company, typically an investment management firm. The second share-

holder listed typically is the largest insurance company investor, including shares held on behalf of managed client accounts. The other shareholders listed represent the largest educational pension fund investor (often the Teachers Insurance and Annuity Association-College Retirement Equity Fund), the largest state employee pension fund investor and (where applicable) the largest university endowment investor.

B.A.T Industries PLC (BTI) <i>Cigarettes (GPC, Kool, Lucky Strike)</i>
1996 Revs: \$27,306 (Tobacco 73%) 1996 Op. Inc.: \$4,104 (Tobacco 62%) ADR shares: 1,549,024,000
USAA (1,950,000) Travelers Inc. (1,877,000) TX Teachers' Ret. Sys. (1,264,000) NV Pub. Empl. Ret. Sys. (384,000)

Loews Corp. (LTR) <i>Cigarettes (Newport, Kent, True)</i>
1996 Revs: \$19,778 (Tobacco 9%) 1996 Op. Inc.: \$2,539 (Tobacco 28%) Shares outstanding: 115,000,000
Equitable Cos. Inc. (6,613,000) Barclays Bank PLC (3,952,000) College Ret. Equities Fund (1,107,000) OH State Teachers' Ret. Sys. (748,000)

RJR Nabisco Holdings Corp. (RN) <i>Cigarettes (Winston, Salem, Camel)</i>
1996 Revs: \$17,063 (Tobacco 48%) 1996 Op. Inc.: \$2,680 (Tobacco 69%) Shares outstanding: 272,945,000
Fidelity Mgmt. & Rsch. (34,032,000) Prudential Ins. Co. (6,702,000) College Ret. Equities Fund (2,792,000) CA Public Empl. Ret. Sys. (1,432,000)

Brooke Group Ltd. (BGL) <i>Cigarettes (L&M, Lark, Eve)</i>
1996 Revs: \$348 (Tobacco 99%) 1996 Op. Loss: \$4 (NA) Shares outstanding: 18,497,000
Bennett LeBow (9,536,000) Dimensional Fund Advisors (557,000) Travelers Inc. (53,000) MA Teachers/Emp. Ret. Sys. (15,000)

Philip Morris Cos. Inc. (MO) <i>Cigarettes (Marlboro, Va. Slims, Merit)</i>
1996 Revs: \$54,553 (Tobacco 67%) 1996 Op. Inc.: \$11,769 (Tobacco 70%) Shares outstanding: 809,598,000
Fidelity Mgmt. & Rsch. (69,514,000) Equitable Cos. Inc. (18,561,000) College Ret. Equities Fund (10,268,000) CA Public Empl. Ret. Sys. (4,382,000) University of TX (429,000)

UST Inc. (UST) <i>Smokeless (Copenhagen, Skoal)</i>
1996 Revs: \$1,370 (Tobacco 88%) 1996 Op. Inc.: \$751 (Tobacco 100%) Shares outstanding: 186,184,000
Lazard Freres & Co. (5,583,000) Mass Mutual Life Ins. Co. (3,801,000) MI State Treasurer (2,527,000) College Ret. Equities Fund (2,289,000) University of TX (522,000)

Sources: CDA/Spectrum, Standard & Poors' Compustat

U.S. Publicly Traded Companies that Process Leaf Tobacco or Manufacture Cigars, Loose Tobacco or Reconstituted Tobacco

Caribbean Cigar Corp.
Consolidated Cigar Corp.
Culbro Corp.
Dimon Inc.
General Cigar Corp.
Mafco Consolidated Group Inc.
Sara Lee Corp.
Schweitzer Mauduit International
Swisher International Group
Standard Commercial Corp.
Tamboril Cigar Co.
Universal Corp.

Non-U.S. Publicly Traded Companies that Sell Cigarettes Outside of the United States

Amer Group Ltd.
Compagnie Financiere Richemont AG
Empresas la Moderna SA de CV
Gallaher Group PLC
Grupo Carso SA de CV
Imasco Ltd.
Imperial Tobacco Group
Japan Tobacco Inc.
Rembrandt Group Ltd.
Rothman's International Holdings
Societe National des Tabacs/SEITA
Swedish Match
Tabacalera SA

IRRC's Tobacco Information Service is continually refining its lists of tobacco manufacturers. The next annual *Tobacco Industry* directory, to be released by IRRC this fall, will include expanded coverage of tobacco product manufacturers in emerging markets.

Who's Divested Tobacco Stocks?

Three waves of divestment have hit tobacco stocks over the last decade. Public health associations like the American Medical Association, philanthropies like the Henry J. Kaiser Foundation and religious institutions like the Episcopal Church USA divested their tobacco holdings in the mid- to late-1980s, citing ethical conflicts with their institutional goals. University endowments led the second wave of divestment in the early 1990s. The third wave began to build in 1996, when state pension funds in New York and Maryland restricted or eliminated tobacco stocks from their portfolios, citing fiduciary rather than ethical concerns. This latest divestment wave is still building, as state pension fund trustees in Florida and Vermont voted to sell tobacco stocks this spring. Here's a rundown of divestment developments to date.

State Pension Funds

Florida State Retirement Trust Fund. May 1997. By a 2-1 vote, trustees voted to sell all of the \$835 million of tobacco stocks held in fund's \$55 billion portfolio. The State Board of Administration executed the sale of more than \$650 million of tobacco stocks by June 20—the day a nationwide tobacco settlement proposal was announced. Most of the fund's remaining tobacco stocks are in a Standard & Poors' 500 index fund. Florida's divestment ranks larger than all other state tobacco divestments combined. In June, trustees for the \$2 billion **Florida Prepaid College Program** followed the lead of the state pension fund, voting unanimously to divest \$12.8 million of tobacco stocks and bonds.

Maryland Retirement and Pension System. April 1996. Comptroller Louis L. Goldstein announced that the \$20 billion fund had sold all of its tobacco stocks, valued at \$75.5 million, citing "the potentially negative long-term impact of litigation on the investment value of U.S. tobacco companies."

Massachusetts Pension Reserves Investment Trust. This July, the

Massachusetts legislature is expected to vote on House Bill 3905 that would require the state's \$20 billion pension fund to divest approximately \$190 million of tobacco securities within three years. A similar bill passed the Massachusetts House of Representatives last summer, but the Senate failed to take action on the bill before the end of the legislative session.*

New York State Common Retirement Fund. March 1996. Comptroller H. Carl McCall instructed the \$75 billion fund's active managers to halt new investments in tobacco stocks, valued at \$640 million. Tobacco investments in the indexed portion of the portfolio remain unrestricted. The fund also sponsored shareholder resolutions in 1997 calling on tobacco companies to comply voluntarily with the FDA's new tobacco regulations.

New York State Teachers' Retirement Fund. April 1996. The nation's largest teachers pension fund announced a new policy to "underweight" tobacco stocks in the indexed portion of its \$52 billion portfolio by 25 percent, prompting the sale of approximately \$90 million of tobacco stocks last spring and summer.

Pennsylvania Public School Employees' Retirement System. June 1997. Trustees of the \$40 billion fund announced their decision to freeze tobacco investments, valued at \$264 million. The move was in response to state Treasurer Barbara Hafer's call for tobacco divestment by state pension systems. In May, Hafer ordered the divestment of \$227,000 of tobacco stocks held by the **Pennsylvania Tuition Account Program.**

Vermont State Retirement System. June 1997. Trustees of the \$701 million **Vermont State Employees' Retirement System** voted unanimously on June 5 to divest more than \$8 million of tobacco holdings. The following day, trustees for the \$101 million **Vermont Municipal Employees' Retirement System** voted unanimously to divest nearly \$850,000 in tobacco holdings. Two weeks later, trustees for the \$776 million **Vermont State Teachers' Retirement System**, by a

4-1 vote (and one abstention), agreed to sell \$10.7 million of tobacco stocks, reversing an earlier 3-3 tie vote taken on June 4, 1997.

Washington State Investment Board. On July 17, 1997, nine trustees of the \$29 billion fund will vote on a recommendation to divest \$255 million of tobacco holdings. The Public Markets Committee voted unanimously on June 17 in favor of a proposal to recommend divestment to the board. Three members of the committee serve on the board of trustees; a majority vote of five is required to enact a divestment policy.

* Tobacco divestment legislation also has been introduced in Colorado, Connecticut, Illinois, Louisiana, Michigan, Minnesota, New Jersey, Oregon and Texas.

Municipalities

Boston, Mass. May 1997. Mayor Thomas Menino signed a city ordinance requiring divestment of tobacco stocks from some \$50 million in trust assets, for which the city is the sole trustee. The ordinance also urged trustees overseeing an additional \$80 million in city bequests to end tobacco investments. Overall, some \$155,000 in tobacco holdings were divested.

Burlington, Vt. June 1997. Trustees of the **Burlington Employees Retirement System** voted unanimously to adopt a formal policy prohibiting investments in stocks or bonds of tobacco product manufacturers. The fund's administrator told IRRC that the portfolio currently includes no tobacco investments, though the fund had invested in Philip Morris in the past.

Cambridge, Mass. September 1990. The Cambridge City Council adopted a nonbinding resolution urging trustees of the **Cambridge Retirement System** to divest of tobacco stocks. The trustees instructed the fund's investment managers to avoid tobacco investments, except in cases where such a policy would result in a significant negative impact on returns.

Denver, Colo. November 1996. Mayor Wellington Webb announced that the **Denver Employee Retirement Program** would divest of nearly \$10.6 million in tobacco-related investments.

Fulton County, Ga. August 1994. Trustees of the **Fulton County Employees' Retirement System** tabled indefinitely a tobacco divestment proposal approved by county commissioners.

Philadelphia, Penn. June 1997. The Philadelphia City Council approved a resolution ordering trustees of the **Philadelphia Municipal Pension Fund** to divest \$20 million in tobacco stocks from the fund's \$2.7 billion portfolio. The divestment is to be carried out "as soon as feasible" and should take a couple of months, according to city councilmen.

Pittsburgh, Penn. 1990. The Pittsburgh City Council adopted a nonbinding resolution urging trustees of the city's **Comprehensive Municipal Pension Trust Fund** to divest of tobacco stocks. However, trustees have not enacted the requested divestment policy.

San Francisco, Calif. May 1996. The San Francisco Board of Supervisors unanimously approved the adoption of a nonbinding resolution urging trustees of the **San Francisco Employees' Retirement** to divest tobacco-related holdings. However, the retirement board has not enacted the requested divestment policy. A representative of the retirement system told IRRC that trustees felt that divestment would be financially imprudent. Most of the fund's tobacco-related investments are in index instruments and are not actively managed.

Educational Institutions

City University of New York. May 1990. Divested \$3.5 million of tobacco stocks in its \$60 million endowment.

Earlham College. Divested tobacco stocks in the mid-1950s.

Harvard University. May 1990. Divested \$58 million of tobacco stocks in its \$4.7 billion endowment.

Haverford College. May 1997. Divested \$3 million of tobacco stocks in its \$192 million endowment.

Johns Hopkins University. February 1991. Divested \$5.3 million of tobacco stocks in its \$483 million endowment.

Northwestern University. Doesn't hold tobacco stocks "by tradition".

Pomona College. October 1994. Divested about \$1 million of tobacco stocks in its \$400 million endowment.

Smith College. March 1997. Divested \$2 million of tobacco stocks in its \$617 million endowment.

Teachers Insurance and Annuity Association-College Retirement Equity Fund. In 1990, TIAA-CREF established a tobacco-free 'Social Choice' account. A group of retired university professors has an ongoing campaign to get TIAA-CREF, the world's largest pension fund, to divest its \$1.4 billion of tobacco holdings from its \$180 billion portfolio. At last year's annual meeting, 22.4 percent of voting beneficiaries supported the divestment proposal.

Texas Permanent School Fund (a secondary school fund, not a university fund). September 1996. Divested \$9 million of tobacco holdings in its \$13.5 billion portfolio.

Tufts University. Divested tobacco stocks in the mid-1970s.

Wayne State University. June 1991. Divested \$1 million of tobacco stocks in its \$47 million endowment.

Mutual Funds

In April 1996, the American Medical Association (AMA) urged investors to avoid 1,474 U.S. mutual funds that held tobacco stocks and bonds. The physicians' group also urged these funds' managers to exclude tobacco companies from their portfolios.

(The AMA contracted with IRRC to examine the U.S. tobacco holdings of 7,107 U.S. mutual funds. IRRC based its findings on a review of Morningstar Inc. mutual fund data. IRRC will be conducting another review for the AMA this summer.)

In February 1997, the AMA launched the "Coalition for Tobacco-free Investments," a group of U.S. mutual funds that have pledged not to invest in 17 tobacco manufacturers traded on U.S. exchanges.

Below are the 55 members of the AMA Coalition for Tobacco-free Investments as of July 7, 1997.

AMA Tobacco-Free
 AHA Limited Maturity Fixed Income
 AHA Full Maturity Fixed Income
 AHA Balanced
 AHA Diversified Equity
 Ariel Appreciation
 Ariel Growth
 Bridgeway Aggressive Growth
 Bridgeway Ultra-Small Company
 Bridgeway Social Responsibility
 Calvert Soc. Inv. Equity
 Calvert Soc. Inv. Managed Growth
 Calvert Soc. Inv. Bond
 Calvert Soc. Inv. Money Market
 Calvert Capital Accumulation
 Calvert Strategic Growth
 Calvert World Values Int'l
 Citizens Emerging Growth
 Citizens Index
 Citizens Global Equity
 Citizens Income
 Citizens Muir - CA Tax-Exempt
 Citizens Trust E-Fund
 Citizens Trust Working Assets
 Concert Social Awareness-Smith Barney
 Domini Social Equity
 Domini Institutional Social Equity
 Dreyfus Third Century
 Dreyfus Socially Responsible Growth
 First Union Social Principles
 Green Century Balanced
 Green Century Equity
 MMA Praxis Growth
 MMA Praxis Intermediate Income
 Neuberger & Berman Socially Resp.
 New Alternative
 Parnassus
 Parnassus Income Balanced
 Parnassus Fixed Income
 Parnassus Income - CA Tax-Exempt
 Pax World
 Righttime Social Awareness
 Security Social Awareness
 Stein Roe Young Investor
 Stratton Growth
 Stratton Monthly Dividend Shares
 Stratton Small-Cap Yield
 Thornburg Limited Term Income (A)
 Thornburg Limited Term Income (C)
 Thornburg Limited Term Income (I)
 Thornburg Limited Term U.S. Gov't (A)
 Thornburg Limited Term U.S. Gov't (C)
 Thornburg Limited Term U.S. Gov't (I)
 Thornburg Value
 Women's Equity

Shareholder Activism

Shareholders who wish to express concerns about tobacco issues have the option of voting their proxies rather than voting "with their feet." Nearly 200 shareholder resolutions on tobacco issues have been filed in the 1990s, after the Securities and Exchange Commission ruled in 1989 that such proposals do not raise "ordinary business" matters and therefore are not excludable from companies' proxy statements. Though tobacco companies have received the lion's share of the proposals, tobacco industry suppliers, retailers, media advertisers, health and life insurance companies, airlines and fast-food companies have received tobacco-related proposals as well. Religious investors and anti-smoking activists affiliated with the Interfaith Center on Corporate Responsibility have filed most of the proposals. The New York City Employees' Retirement System sponsored tobacco resolutions in 1993 and 1994, and the New York State Common Retirement Fund and the Minnesota State Board of Investment sponsored proposals in 1997.

Overview of Tobacco-Related Shareholder Resolutions, 1990-1997

Year	Total No. of Resolutions	No. Coming to Votes	No. Withdrawn	No. Omitted	Avg. Support Level	Vote Range	No. of Cos. Targeted
1997	34	17	8	9	6.4%	3.1 - 16.8	20
1996	48	17	16	15	6.8%	2.6 - 37.6	27
1995	37	17	15	5	6.7%	2.0 - 14.2	24
1994	24	15	5	4	4.9%	2.2 - 9.4	16
1993	18	9	4	5	5.5%	2.7 - 8.7	13
1992	15	10	5	0	5.1%	2.6 - 8.4	11
1991	16	9	6	1	5.3%	3.4 - 7.7	13
1990	6	5	0	1	3.1%	2.2 - 3.9	4
<i>Overall</i>	<i>198</i>	<i>99</i>	<i>59</i>	<i>40</i>	<i>5.8%</i>	<i>2.0-37.6</i>	<i>64</i>

Voting Results for 99 Tobacco-Related Shareholder Resolutions, 1990-1997

End/review tobacco operations		Review/end Joe Camel ad campaign		Rate/reduce nicotine levels	
90 American Brands	3.7%	93 RJR Nabisco	2.7%	95 American Brands	5.9%
Kimberly-Clark	3.9%	97 RJR Nabisco	6.4%	RJR Nabisco	8.7%
Loews	2.4%	Stop making Harley Davidson cigarettes		96 Loews	2.9%
Philip Morris	2.2%	96 Loews	3.7%	Philip Morris	3.7%
91 Eastman Kodak	7.7%	Smoke-free facilities		RJR Nabisco	4.2%
Kimberly-Clark	4.6%	94 AMR	5.9%	UST	4.1%
92 American Brands	3.9%	Pepsico	7.0%	Support tobacco farm conversion	
Eastman Kodak	4.4%	95 AMR	5.6%	94 Philip Morris	4.2%
UST	2.6%	Pepsico	6.8%	RJR Nabisco	2.2%
95 Kimberly Clark	8.8%	96 Pepsico	6.7%	UST	5.1%
96 Fuller (HB)	10.8%	97 IHOP	3.5%	95 Philip Morris	3.7%
Eastman Chemical	2.8%	Wendy's Int'l	16.8%	Stop challenging ETS studies	
97 Fuller (HB)	10.2%	Worldwide warning labels		94 Philip Morris	5.2%
Report on/end tobacco-insurance links		91 Philip Morris	6.7%	RJR Nabisco	2.6%
91 Aetna	7.1%	93 Loews	4.1%	95 Philip Morris	6.4%
93 Loews	4.4%	Philip Morris	6.6%	96 Philip Morris	6.4%
94 American Int'l Group	3.2%	94 Loews	5.9%	Eliminate benzo(a)pyrene in smoke	
Loews	6.1%	RJR Nabisco	9.4%	97 Loews	3.7%
95 American Int'l Group	5.6%	UST	4.1%	Philip Morris	3.8%
Loews	6.7%	95 RJR Nabisco	9.9%	RJR Nabisco	3.3%
97 Aon	6.6%	UST	7.3%	Portion of profits to combat youth smoking	
Columbia/HCA	3.1%	96 UST	7.0%	96 Loews	3.7%
Report on compliance with ad code		Separate tobacco & other operations		RJR Nabisco	4.9%
91 American Brands	7.7%	95 American Brands	6.4%	Discourage youth smoking in dev. nations	
Loews	3.4%	Loews	2.0%	97 Philip Morris	9.8%
92 American Brands	6.7%	Philip Morris	3.5%	RJR Nabisco	6.6%
Gannett	7.2%	RJR Nabisco	6.5%	Support youth access restrictions	
Loews	3.7%	96 Philip Morris	4.1%	94 RJR Nabisco	2.9%
Philip Morris	6.6%	RJR Nabisco	37.6%	97 Loews	7.2%
93 American Brands	6.0%	97 RJR Nabisco	6.9%	RJR Nabisco	8.1%
Gannett	5.5%	End promotion to minors & minorities		Warn of smoking risks to pregnant women	
Philip Morris	4.8%	90 Philip Morris	3.5%	96 RJR Nabisco	4.9%
Ethical criteria for tobacco ads		91 Loews	3.6%	97 RJR Nabisco	4.6%
92 Time Warner	8.4%	Philip Morris	3.4%	Test ingredients for toxicity	
93 Time Warner	8.7%	UST	3.9%	97 RJR Nabisco	3.5%
94 Knight Ridder	4.0%	92 Loews	3.6%	Study youth use of smokeless tobacco	
95 Knight Ridder	14.2%	UST	3.7%	97 UST	4.7%
Time Warner	6.1%	93 American Brands	7.1%		
96 Gannett	2.6%	94 American Brands	5.4%		

Settlement Deal: Will It Hold?

The historic agreement reached on June 20 by state attorneys general, plaintiffs' attorneys and tobacco company executives could alleviate uncertainty that has plagued the industry and its investors. The \$368.5 billion settlement fund at the center of the agreement could be financed by raising cigarette prices about 50 cents per pack—well within the budgets of most adult smokers. The immunity from punitive damages and ban on future class-action suits that tobacco companies would get in exchange would all but eliminate the specter of litigation-driven bankruptcy. That in turn could pave the way for long-awaited company spinoffs and restructurings—cheering investors.

But Congress must enact the settlement into law for it to become final. A 23-member panel of health groups led by former FDA Commissioner David Kessler and former Surgeon General C. Everett Koop has prepared a report for Congress and the White House raising serious concerns about the settlement. In particular, the panel is critical of the pact for allowing strings to be attached to the FDA's regulation of nicotine, for disallowing punitive damages and for setting industry penalties too low if youth smoking-reduction rates fail to reach their goals.

President Bill Clinton also has expressed some reservations about the deal. He has appointed Deputy White House Domestic Policy Adviser Bruce Reed and Health and Human Services Secretary Donna Shalala to coordinate a White House review of the settlement terms.

Congress won't be taking up the whole issue until the fall. Up to two dozen congressional committees and subcommittees may claim jurisdiction over various elements of the pact.

Meanwhile, Mississippi Attorney General Michael Moore, who led the landmark settlement negotiations, agreed to a \$3.4 billion out-of-court settlement with four tobacco companies on July 3, 1997. Moore's move heightened expectations that other state attorneys general may seek to cut their own separate deals with the tobacco industry rather than waiting for Congress to act.

If Congress does approve a nationwide settlement, the U.S. Supreme Court may yet have the final say. Critics of the pact contend that the provision eliminating punitive damages for past industry conduct may violate constitutional safeguards guaranteeing due process of law and the right to a jury trial.

Settlement Proposal

Tobacco industry payments: Tobacco companies pay \$368.5 billion in the first 25 years and then \$15 billion a year indefinitely. The payments are tax-deductible. Of the total, \$25 billion is earmarked for health care for uninsured children. Some of the funds will finance anti-smoking education and advertising, and be used to enforce the settlement.

Settling tobacco lawsuits: The pact settles suits brought by 40 states and Puerto Rico seeking to recover Medicaid funds spent treating smoking-related illnesses. The pact also settles class-action suits filed in 17 states on behalf of smokers alleging harm from addiction to nicotine.

Limits on future lawsuits: The pact bans class-action suits, consolidation of multiple suits and punitive damages for past industry conduct. Insurer lawsuits to recover health-care payouts linked to smoking are restricted. Individual suits are allowed to go forward for medical bills or lost wages to be paid from an annual \$5 billion industry settlement fund.

FDA regulation: The Food and Drug Administration could regulate nicotine as a drug but not ban it from cigarettes until 2009. To limit nicotine, the FDA would have to prove its action is technologically feasible, will result in "a significant overall reduction of health risks" and won't create "a significant demand" for black market cigarettes.

Advertising bans: All billboard and outdoor advertising of tobacco products is banned. The use of human and cartoon figures in ads is banned. Brand-name sponsorship of sporting events and brand-name promotional merchandise are banned. Internet advertising and product placements in movies and television are banned.

Warning labels: New warning labels would appear on the top quarter of cigarette packs, stating "Cigarettes Are Addictive," "Smoking Can Kill You" and "Tobacco Smoke Causes Fatal Lung Disease in Non-Smokers."

Access to minors: Cigarette vending machines are banned. Tobacco retailers would be licensed to enforce nationwide sales restrictions.

Reduction in smoking rates: The tobacco industry is subject to fines if youth smoking does not drop 30 percent by 2002, 50 percent by 2004 and 60 percent by 2009. A penalty of \$80 million is assessed for each percentage point by which the target is missed, up to a maximum fine of \$2 billion a year. The industry can petition for a 75 percent refund of a fine if it can show it acted in "good faith" in full compliance with the agreement, pursued all reasonable measures and show it did nothing to "undermine achievement of required results."

Smoking restrictions: The pact prohibits smoking in public places and most workplaces without separately ventilated smoking areas. Restaurants (but not fast-food outlets), bars, casinos and bingo parlors are exempted.

Source: The Wall Street Journal and various other press accounts.

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Florida Settles Suit With Tobacco Firms

Industry to Pay \$11.3 Billion, Eliminate Billboard Ads, Restrict Machine Sales

By MILO GEYELIN
And SUEIN L. HWANG

Staff Reporters of THE WALL STREET JOURNAL

Florida reached a sweeping settlement of its lawsuit against the tobacco industry, with the companies agreeing to pay \$11.3 billion, eliminate billboard advertising and stop selling cigarettes in vending machines accessible to youths.

The pact was the second to be sealed by an individual state as the White House and Congress consider whether to approve a proposed \$368.5 billion national settlement. It also seemed intended to persuade people who oppose the national agreement, which was reached in June after weeks of delicate negotiations, to reconsider.

The major tobacco companies quickly hailed the Florida deal as "a concrete demonstration that the industry is prepared to cooperate with government and the public-health authorities to emphasize that it doesn't want kids to smoke." In a joint statement, the companies added: "This is another step in a process to end the climate of confrontation and litigation that has marked the national debate on tobacco-related issues."

Florida's attorney general, Bob Butterworth, said he also expected Congress to take note of the industry's more conciliatory posture.

Both sides were well aware that allowing the Florida case to go to a verdict could have derailed the national pact, according to J. Philip Carlton, a lead negotiator for the industry in the national talks. The national pact "by definition is fragile, and as time goes on, people's views will harden as [legal] developments take place," he said. "Certainly, having [courtroom] skirmishes isn't conducive to general talks about the national resolution."

The Florida pact was approved yesterday by a state court judge in West Palm Beach, Fla., as the state was preparing for opening arguments next week in its trial to recover the public-health costs linked to smoking.

To settle with Florida, the tobacco companies agreed not just to a huge monetary settlement, but to put into effect some of the advertising and marketing restrictions contained in the national proposal. The restrictions also will go into effect in Mississippi, which agreed last month to settle its case for \$3.6 billion.

Terms of the Deal

- Florida gets \$11.3 billion over 25 years, with \$1 billion due by September 1998
- Includes funding for antismoking program aimed at kids
- Companies take down all billboards and advertising on mass transit and in stadiums
- Vending machines will be banned from places where children have access to them

Although the major tobacco companies have won the vast majority of courtroom battles, executives believed that the Florida's suit — buttressed by a state law that essentially barred the industry from using its best defenses — could have easily resulted in a massive judgment since Florida was considered to have the strongest case among the 39 states that have sued the industry. "This was singularly the nightmare suit of all them," said one tobacco executive. The executive added that the industry is hoping the national settlement will be adopted by Congress before Minnesota takes its case to trial in January.

Minnesota has vigorously opposed the national settlement. A top aide to Minnesota Attorney General Hubert Humphrey III said the state is preparing for trial and hasn't held any settlement talks. To settle, Minnesota would require more than what the industry has given up in Florida and Mississippi, said the aide, Eric Johnson. He said the state would demand that the industry fully disclose documents concerning its targeting of youth, its knowledge of the health risks of smoking and its efforts to play them down.

In Texas, where jury selection in the state's Medicaid recoupment suit is set to begin Sept. 29 in federal court in Texarkana, a spokesman for Attorney General Dan Morales said there have been "no concrete talks." He said the state would "certainly listen" to any industry overtures.

Under the Florida deal, the industry agreed to eliminate cigarette billboards and advertising on mass transit and in stadiums. The companies also agreed to identify billboards located near schools so the state can mount its own antismoking messages.

Beef Up Penalties

The industry also agreed to support legislative initiatives in Florida to ban the sales of cigarettes in vending machines accessible to youths and to beef up penalties for selling cigarettes to those under 18.

Florida had initially said that cigarette packs sold in the state carry bold black and white labels warning that smoking is addictive and kills. But the state gave in on that demand because "you really can't change warning labels state by state," Mr. Butterworth, the state's attorney general, said.

Florida also had demanded full disclosure of all the industry's internal documents, including those that it maintains contain confidential communications with their lawyers. Under terms of the deal, the industry will hand over only those documents that plaintiffs lawyers wanted to use at trial. But the companies have reserved the right to fight over the documents, asserting that they should be shielded from disclosure by the attorney-client privilege. Mr. Butterworth said the industry agreed to expedite the process and said he hoped the documents will be available so Congress and the White House can view them.

The Florida deal falls short of what both the tobacco industry and its antitobacco foes have agreed to in the national settlement. The industry still wants very much to cap its annual liability and to ban punitive damages for its past conduct. And the antitobacco forces still want the industry to toughen warning labels on cigarette packs, pay stiff penalties if teen smoking rates don't decline by specific amounts and agree to be regulated by the Food and Drug Administration, among other things.

The tobacco industry is pushing the Senate to approve the proposed national settlement this year before the potentially damaging Minnesota case goes to trial early next year. Yesterday, Leslie Sandberg, the press secretary for Mr. Humphrey, said the industry is worried their case may prove they "manipulated nicotine, public policy and children." Ms. Sandberg said they are "afraid that with our discovery process we will prove 40 years of lies, deception and fraud."

The White House said it didn't think the Florida agreement would have any effect on its review of the national settlement. "We're going to continue our review process of the proposed settlement and we'll probably have more to say about it in September," Deputy Press Secretary Barry Toiv told reporters.

Litigation Expenses

The Florida agreement says attorney fee requests will be submitted to an independent arbitrator. The industry did, however, agree to pay Florida \$10 million for its costs and expenses in the litigation and to pay a team of outside lawyers for the state \$12 million for their costs.

Tobacco Firms to Pay \$11.3 Billion to Settle Suit Filed by Florida

Florida, which had held talks with the industry about a possible settlement last month, began negotiating in earnest again last week. Mr. Butterworth said the talks gained momentum when the chairmen of **RJR Nabisco Holdings Co.** and **Philip Morris Cos.** both made conciliatory remarks about the risks of smoking during pretrial questioning by lawyers for the state.

Talks continued through the weekend at Mr. Butterworth's office in West Palm Beach. Gov. Lawton Chiles participated until about 9 p.m. Sunday, when he left for a dinner party at the home of one of the lawyers for the state. Mr. Butterworth said representatives of both sides worked through the night on details of the deal, which was announced yesterday.

Some analysts believe that the industry's willingness to ban billboards in Florida indicates its confidence that the national settlement will be adopted by Congress. "The reason the industry's prepared to enter into this agreement is because there's a strong feeling now that a settlement will be implemented," said Martin Feldman, an analyst at Smith Barney. "The global settlement is looking more and more likely."

Oppenheimer's Roy Burry noted that since Florida's annual payments were tied to a national settlement, the industry has created an incentive for the state to push for the settlement's passage. "It seems the industry may be building allies."

In composite trading on the New York Stock Exchange, tobacco stocks rose. Market leader Philip Morris was up 62.5 cents to close at \$44.9375 and RJR Nabisco rose 43.75 cents to close at \$35.75.

Separately, a federal judge in Philadelphia granted class-action status to a suit seeking industry payment for medical monitoring for all of Pennsylvania's allegedly addicted smokers. The judge had previously thrown out the suit, saying the case was too unwieldy to proceed as a class action. The lawyers narrowed their claim, seeking only medical monitoring instead of damages for the smokers' addiction. In certifying the new class, the judge said he reserved the right to change his mind about allowing the case to go forward as a class action.

Tab D

COMMITTEE REPORT

DATE: August 26, 1997

TO: Members, State Board of Investment

FROM: Deferred Compensation Review Committee

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

- Update on legislatively mandated study of 403(b) tax sheltered annuities
- Semi-annual review of product providers
- Proposal from Great-West to provide 100% portability of variable options in the 457 Plan
- Recommendation to authorize necessary RFP's for 457 Plan

Board action is requested on the last two items.

INFORMATION ITEMS:

1. Update on legislatively mandated 403(b) study

The 1997 Legislature mandated that the SBI report on the most desirable method for evaluating insurance companies for the existing 403(b) matching program and on the most effective delivery mechanism for bringing 403(b) annuities to employees. The study is to be conducted in consultation with the Commissioner of Commerce. Staff briefly reviewed the research conducted to date and expects to review a draft report with the Committee during the next quarter. In order to submit the report to the Legislature in a timely fashion, the SBI should review the final report at its next meeting in December 1997.

2. Review of insurance company product providers

Staff reviews the performance of the vendors in the three deferred compensation programs (457, 403b, 401a) on a semi-annual basis. The information summarizes plan structure, insurance company financial strength and variable option (stock, bond, etc.) performance in each of the plans.

The most recent review indicates that the financial strength of the nine insurance companies in the various programs remains high. This means that the assets backing the fixed investment options in the plans are also strong.

The analysis shows mixed results for the variable options for the 1, 3 and 5 year periods ending June 30, 1997. Performance relative to benchmarks can be summarized as follows:

- money market options underperformed due to fees
- performance of the bond and balanced options was mixed
- returns from nearly all domestic equity options were disappointing
- nearly all international equity options outperformed by significant amounts

Staff's complete report on the 457 Plan begins on **page 5**. The reports on the 403(b) program and the 401(a) plans begin on **page 17** and **page 43**, respectively.

ACTION ITEMS:

3. Proposal from Great-West to provide 100% portability of variable options in the 457 Plan

Great-West, one of three vendors in the State Deferred Compensation (457) Plan, has offered to enhance the portability offered to participants in the Plan. "Portability" refers to the ability of a plan participant to transfer assets from one product provider to another product provider without incurring charges.

Currently, participants in Great-West (GW) may transfer assets from maturing fixed product certificates to new GW certificates or to GW variable products. Once a year, participants may also transfer 40 percent of their assets from GW variable options to investment options offered by the other product providers in the plan.

In comparison, participants in Minnesota Mutual (MM) enjoy more generous portability provisions. They may transfer their entire balance out of MM's fixed product over a five year period to any investment option in the plan. In addition, participants in MM may transfer in any year 100 percent of their balances in MM variable options to investments offered by other product providers in the plan.

Great-West proposes to allow 100% portability from its variable options once a year. If the change is adopted, variable option portability would be essentially the same for both Great-West and Minnesota Mutual.

The Committee concurred with the proposal from Great-West and agreed that the current contract should be amended to allow the increased level of portability for Plan participants. If the SBI authorizes the contract amendment, SBI staff will work with MSRS and Great-West to communicate the change to participants in the 457 Plan.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Executive Director, with assistance from SBI legal counsel, to negotiate and execute the necessary contract amendment for the Deferred Compensation Plan to provide 100 percent portability of account balances in Great-West variable annuity options to options of other product providers in the State Deferred Compensation Plan.

4. Recommendation to authorize RFP's for 457 Plan

The current contracts with Great-West and Minnesota Mutual for investment options in the 457 Plan expire June 30, 1999. In order to provide for a timely review of available services, the Committee recommends that the Board act now to authorize the Deferred Compensation Review Committee to search for product providers through the request for proposal (RFP) process. The Committee should report its recommendations on vendor selection to the SBI by June 1998 in order to finalize contractual arrangements and allow sufficient lead time to transition the Plan prior to the expiration of the current contracts.

Over the next quarter, the Committee will discuss plan design alternatives with the SBI's deferred compensation consultant, Watson Wyatt. After plan design issues are finalized, the Committee expects to use the RFP process to evaluate available investment options providers. The providers considered may be insurance companies, mutual funds or some combination of the two. The RFP process is expected to take place during the first half of calendar 1998.

As you recall, MSRS is responsible for providing enrollment and record keeping services for the 457 Plan. Contracts with the current service providers, National Benefits and Ochs Agency, also expire on June 30, 1999. As a result, MSRS's RFP for enrollment and record keeping will need to be coordinated with the SBI's RFP process for investment providers.

RECOMMENDATION:

The Committee recommends that the SBI authorize the Deferred Compensation Review Committee to conduct necessary searches for investment providers in the State Deferred Compensation Plan through the RFP process. The Committee should report to the SBI on RFP results by June 1998.

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DATE: August 5, 1997

TO: Members, Deferred Compensation Review Committee

FROM: Jim Heidelberg, Bob Barman

SUBJECT: Review of the 457 State Deferred Compensation Plan

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

Responsibilities

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

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

Service Organizations

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

Product Providers and Investment Options

The SBI contracts with two outside product providers, Great-West Life (GW) and Minnesota Mutual Life (MM). Contracts with these firms expire June 30, 1999. The SBI also offers investment options through the Supplemental Investment Fund (SIF). The investment options available to every participant are:

**State Deferred Compensation Plan
Investment Options By Asset Class**

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

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

Review of Investment Options

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

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

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

ATTACHMENT A

457 State Deferred Compensation Plan

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

Financial Strength/Claims Paying Ability Ratings

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

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

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

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

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

ATTACHMENT B

457 State Deferred Compensation Plan

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

Variable Options Performance

Variable options include money market accounts and options investing in stock and bonds. The SBI evaluates the performance of the variable products against benchmark indices appropriate to each option. The following observations relate to the June 30, 1997 return data in the tables below. Please note that performance is evaluated net of all direct fees and charges, including the 40 basis point a year administrative charge imposed by MSRS on all options.

When the Plan was restructured effective September 1, 1994, a new array of investment options was introduced, including mutual funds. Effective June 13, 1997 two new GW options were introduced to replace prior offerings. These options are the INVESCO balanced option and the Loomis Sayles bond option.

The return history that follows has been calculated to display option performance as if the option had been available in the Plan for longer periods of time with the current investment and administrative fees. Return information is not available in those cases in which the mutual fund did not exist for the longer time period.

In general, performance of the variable options was mixed:

- The money market options of GW and MM significantly underperformed the 90 day Treasury bill index due to high annual expenses. The SIF Money Market Account underperformed due to the imposition of the 40 basis point asset based charge.
- Bond performance was favorable.
- Performance of the balanced options of all three providers exceeded the benchmark.
- Performance of the equity options was generally disappointing.
- The international options of each provider outperformed the EAFE-Free index in each time period, except for Minnesota Mutual's offering which only slightly underperformed in the five year period.

Great-West Life & Annuity Insurance Company
457 Deferred Compensation Plan
June 30, 1997

The money market option underperformed its benchmark for all three time periods due to high annual expenses.

The Loomis Sayles corporate bond option greatly outperformed the Lehman corporate index for all three time periods.

The INVESCO balanced option return was significantly above the return of the benchmark during the periods in which it has existed.

The Twentieth Century Ultra equity option was the only equity option that outperformed its benchmark for one, three and five years. Growth Fund I (Janus) and Vista Growth & Income performed substantially below their indices. It should be noted the one year performance for Janus was greatly below the benchmark.

The Templeton international option significantly outperformed its index for the periods in which it was available.

**Great West Variable Annuity Options
457 Deferred Compensation Plan
June 30, 1997**

Asset Class and Option	Annualized Total Return			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
Great West Money Market	4.17%	4.21%	3.31%	1.41%
<i>90 Day Treasury Bills</i>	5.33%	5.38%	4.53%	
Bond				
GW Corp Bond (Loomis Sayles)	15.01%	13.89%	12.33%	1.85%
<i>Lehman Corporate</i>	8.79%	9.60%	8.03%	
Balanced				
GW Balanced Portfolio (INVESCO)	25.06%	23.57%	NA	1.95%
<i>60% Wil/35% Leh Agg/ 5% TBill</i>	20.49%	19.08%	14.09%	
Equity				
GW Growth Fund 1 (Janus)	-4.16%	17.04%	NA	2.05%
<i>S&P 500</i>	34.66%	28.93%	19.82%	
GW Vista Growth & Income	26.10%	20.25%	15.82%	1.95%
<i>S&P 900 (S&P 500 / Midcap 400)</i>	33.42%	28.17%	19.57%	
GW Twentieth Century Ultra	20.78%	23.83%	20.10%	1.95%
<i>Russell 2000</i>	16.33%	20.05%	17.87%	
International				
GW Templeton International Equity	18.15%	13.96%	NA	2.45%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

Minnesota Mutual Insurance Company
457 Deferred Compensation Plan
June 30, 1997

The money market option underperformed its index by a wide margin for the one, three and five year periods due to high annual expenses.

The Vanguard Corporate bond option returns were lower than the Lehman corporate index for one, three and five years, but not by a large amount.

The Vanguard Wellington balanced option outperformed the benchmark for one, three and five years.

All three equity options underperformed the Standard & Poor's 500 by a significant amount for one, three and five years.

The Scudder International option outperformed the EAFE-Free index for one and three years, but slightly underperformed for five years.

**Minnesota Mutual Variable Annuity Options
457 Deferred Compensation Plan
June 30, 1997**

Asset Class and Option	Annualized Total Return			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
MM Money Market	3.96%	3.95%	3.07%	1.60%
<i>90 Day Treasury Bills</i>	5.33%	5.38%	4.53%	
Bond				
MM Vanguard Corporate Portfolio	8.17%	8.87%	7.65%	1.28%
<i>Lehman Corporate</i>	8.79%	9.60%	8.03%	
Balanced				
MM Vanguard Wellington	23.72%	19.80%	14.55%	1.31%
<i>60% Wil/35% Leh Agg/ 5% TBill</i>	20.49%	19.08%	14.09%	
Equity				
MM Janus Twenty	32.63%	27.91%	16.81%	1.93%
MM Fidelity Contrafund	23.09%	23.07%	18.89%	1.83%
MM Index 500	31.85%	26.50%	17.77%	1.45%
<i>S&P 500</i>	34.66%	28.93%	19.82%	
International				
M Scudder International	18.65%	11.58%	12.19%	2.14%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

Supplemental Investment Fund
457 Deferred Compensation Plan
June 30, 1997

The money market option slightly underperformed the 90 day Treasury Bill index for one, three and five years due to the 40 basis point administrative charge.

The bond option outperformed the Lehman Aggregate index for one, three and five years.

The balanced option slightly outperformed its index for one and five years, but narrowly underperformed for three years.

The common stock index option marginally outperformed the Wilshire 5000 benchmark for one year, but narrowly underperformed for three and five years. Growth Share slightly underperformed the index for all three periods.

The international option significantly outperformed the EAFE-Free index for all three time periods.

**Supplemental Investment Fund
457 Deferred Compensation Plan
June 30, 1996**

Asset Class and Option	Annualized Total Return			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
SIF Money Market	5.17%	5.23%	4.32%	0.41%
<i>90 Day Treasury Bills</i>	5.33%	5.38%	4.53%	
Bond				
SIF Bond Market	8.88%	8.69%	7.48%	0.52%
<i>Lehman Aggregate</i>	8.15%	8.53%	7.12%	
Balanced				
SIF Income Share	20.96%	18.96%	14.15%	0.42%
<i>60% Wil/35% Leh Agg/ 5% TBill</i>	20.49%	19.08%	14.09%	
Equity				
SIF Common Stock Index	29.41%	26.05%	18.88%	0.42%
SIF Growth Share	28.95%	25.24%	18.03%	0.69%
<i>Wilshire 5000 Index</i>	29.32%	26.74%	19.06%	
International				
SIF International Share	17.77%	11.91%	14.08%	0.61%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

ATTACHMENT C

457 State Deferred Compensation Plan

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

Fixed Options June 30, 1997

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

- The Minnesota Mutual fixed option is a portfolio product in which assets are invested in the general account of the company and earn a rate that reflects the investment performance of this large pool of assets.
- The Great-West fixed option is a choice of two certificates that have a stated rate for the length of each certificate. The assets also are invested in the general account of the company.
- The SIF Fixed Interest Account is a pool of assets invested in guaranteed investment contracts (GIC's) and GIC-type investments from which participants earn monthly interest that changes somewhat from month to month depending upon the mix of the investments in the Account.

Minnesota Mutual:

- MM's current new money rate is 6.20%.
- Comparable US Treasury yields are 6.23% (3 yr.) and 6.38% (5 yr.).

Great West

- GW's current rate for the 36 month certificate is 4.90%. Comparable three year US Treasuries are 6.23%.
- GW's current rate for the 84 month certificate is 5.65%. Comparable seven year US Treasuries are 6.42%.

Supplemental Investment Fund

- The annualized return of the SIF Fixed Interest Account is 6.17% for the period ending December 31, 1996.
- Comparable US Treasury yield is 6.23% (3 yr.)

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403(b)
Match Program

MINNESOTA
STATE
BOARD OF
INVESTMENT



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Governor
Arne H. Carlson

State Auditor
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State Treasurer
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Attorney General
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Howard J. Bicker

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

An Equal Opportunity
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DATE: August 5, 1997

TO: Members Deferred Compensation Review Committee

FROM: Jim Heidelberg, Bob Barman

SUBJECT: Review of Insurance Companies for 403(b) Employer Match

This memo provides a review of the qualified insurance companies for the 403(b) employer match opportunity. A brief description of the match is followed by a review of the investment options and the financial standing of the insurance companies.

1992 Legislation:

Laws of Minnesota 1992, Chapter 487, Section 4, since codified in *Minnesota Statutes*, section 356.24, authorizes school districts to provide employer match dollars for individual 403(b) annuities. In addition to authorizing this employer match, the law provided that the SBI select up to ten "qualified" insurance companies that would be the only investment option providers for districts and bargaining units that provide employer matching funds.

403(b) Annuities

A 403(b) annuity is a tax sheltered annuity under the provisions of section 403(b) of the Internal Revenue Code. Under the provisions of section 403(b), individuals who may utilize tax sheltered annuities are employees of educational organizations, hospitals, and certain other nonprofit organizations. In its basic form, a tax sheltered annuity is an arrangement between the eligible individual and insurance company. The employer is not a party to the contract. The individual invests in annuity products on a tax deferred basis, with contributions made pre-tax and interest accumulating on a tax deferred basis.

The 403(b) match opportunity allows a Minnesota school district to provide an employer match up to \$2000 a year, as authorized in *Minnesota Statutes*, section 356.24. Dollars involved in the match must be invested in products offered by the eight qualified insurance companies.

There are no state agencies or private firms responsible for marketing or administration. Any dollars contributed to a match are the sole responsibility of the employing unit. There are no state dollars directly appropriated for a local school district match.

SBI Responsibilities:

By law, the SBI was required to select up to ten insurance companies by January 1, 1993. The SBI is mandated to retain a consultant to assist in its determination, is mandated to periodically review its selection and to charge back to the selected companies a proportional share of the costs of the selection. In addition, the SBI is required to approve any contracts with the selected product providers before execution.

The law requires the Commissioner of Commerce to determine which insurance companies are licensed to do business in Minnesota and have a rating within the top two rating categories by a nationally recognized rating agency. The SBI selected the qualified insurance companies from this list of companies created by the Commissioner.

Qualified Insurance Companies

The eight insurance companies retained by the SBI are:

- Aetna Life Insurance & Annuity Company (Aetna)
- Great-West Life & Annuity Insurance Company (Great-West)
- IDS Life Insurance Company (IDS)
- Metropolitan Life Insurance Company (Metropolitan)
- The Minnesota Mutual Life Insurance Company (Minnesota Mutual)
- Nationwide Life Insurance Company (Nationwide)
- United Investors Life Insurance Company (United Investors)
- The Variable Annuity Life Insurance Company (VALIC)

The eight insurance companies market their own products through company employed insurance agents or independent insurance agents, maintain participant accounts and service participant requests. In addition, the companies are responsible for complying with applicable state and federal laws

Review of Investment Options

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

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

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

ATTACHMENT A

403(b) Annuity Employer Matching

Aetna Life Insurance & Annuity Company (Aetna)
Great-West Life & Annuity Insurance Company (Great-West)
IDS Life Insurance Company (IDS)
Metropolitan Life Insurance Company (Metropolitan)
The Minnesota Mutual Life Insurance Company (Minnesota Mutual)
Nationwide Life Insurance Company (Nationwide)
United Investors Life Insurance Company (United Investors)
The Variable Annuity Life Insurance Company (VALIC)

Financial Strength/Claims Paying Ability Ratings

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

Aetna is a highly rated company, being rated in the top two ratings categories by three national rating agencies, even after Moody's, Standard & Poor's and Duff & Phelps lowered their ratings of the company. The current ratings compared to the ratings when Aetna was retained in May 1993 as a 403(b) qualified provider are:

Company	Current Rating	Prior Rating
Standard & Poor's	AA-, claims paying ability	AAA
Moody's	Aa3, financial strength	Aa2
Duff & Phelps	AA+, financial strength	AAA

Great-West is a highly rated company, being rated in the top two ratings categories by three national rating agencies, even after Moody's and Standard & Poor's lowered their ratings of the company from Aa1 and AAA to Aa2 and AA+ respectively. The current ratings compared to the ratings when GW was selected as a 403(b) qualified provider are:

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

IDS Life is rated in the top two ratings categories by Moody's and Duff & Phelps. IDS is not rated by Standard & Poor's. The current ratings compared to the ratings when IDS was retained as a 403(b) qualified provider are:

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

Metropolitan is a highly rated company, being rated in the top two ratings categories, even after slight downgrades by Standard & Poor's and Moody's since the firm was retained in May 1993 as a 403(b) qualified provider. The ratings are:

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

Minnesota Mutual is a highly rated company, being rated in the top two ratings categories by three national rating agencies, even after Moody's slightly lowered MM's rating to Aa2 from Aa1. The current ratings compared to the ratings when the SBI retained MM as a qualified provider are:

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

Nationwide also is a highly rated company, being rated in the top two ratings categories by Standard & Poor's and Moody's. The firm's ratings are only slightly lower since May 1993 when Nationwide was retained as a 403(b) qualified provider.

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

United Investors Life is rated in the top two ratings categories by Standard & Poor's, even after S & P lowered the rating from AAA to AA. The current rating compared to the rating since United Investors was retained as a 403(b) qualified provider are:

Company	Current Rating	Prior Rating
Standard & Poor's	AA, claims paying ability	AAA
Moody's	NA	NA
Duff & Phelps	NA	NA

VALIC also is a highly rated company, as shown in the following table. Standard & Poor's lowered slightly its rating from AAA to AA+ since the SBI retained VALIC as a 403(b) qualified provider. These ratings are:

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

ATTACHMENT B

403(b) Annuity Employer Matching

Aetna Life Insurance & Annuity Company (Aetna)
Great-West Life & Annuity Insurance Company (Great-West)
IDS Life Insurance Company (IDS)
Metropolitan Life Insurance Company (Metropolitan)
The Minnesota Mutual Life Insurance Company (Minnesota Mutual)
Nationwide Life Insurance Company (Nationwide)
United Investors Life Insurance Company (United Investors)
The Variable Annuity Life Insurance Company (VALIC)

Variable Options Performance

Variable options include money market accounts and options investing in stock and bonds. The SBI evaluates the performance of the insurance company variable products against benchmarks appropriate to each option. The following observations relate to the June 30, 1997 return data in the tables below. Please note that performance is evaluated net of all direct fees and charges.

The return history that follows has been calculated by the insurance companies. The calculations are in accordance with SBI requests and SEC requirements that must be met by the insurance companies. Return information is not available in those cases in which the mutual fund did not exist for the longer time period.

In general, performance was unsatisfactory:

- Money market options underperformed the 90 day U.S.Treasury bill index due to high annual expense charges.
- Bond option performance was mixed. With a few exceptions, options offered by the eight companies underperformed their indices.
- Balanced option performance was mixed.
- The performance of the equity options was disappointing across nearly all providers in nearly all time periods.
- With the exception of the Metropolitan and IDS offerings, international options outperformed the EAFE-Free index. Aetna did not offer an international option.

With a few exceptions, the options display an acceptable level of stability in portfolio management tenure.

Aetna Variable Annuity Options
403 (b) Plan
June 30, 1997

Performance Summary:

The Aetna money market option underperformed its 90 day Treasury Bill benchmark for all three periods primarily due to high annual fees.

The bond and balanced accounts underperformed by significant margins during all three time periods.

The two equity options also underperformed during all three time periods. American Century VP Capital Appreciation suffered a large loss of value for the one year period which dragged down the three and five year period returns.

Organizational Issues:

There were no portfolio manager changes during the past year. The periods of portfolio manager tenure range from three to fourteen years.

Aetna Variable Annuity Options
403 (b) Plan
June 30, 1997

Annualized Total Returns

Asset Class and Option	1 Year	3 Year	5 Year	Annual Expenses
Money Market				
Aet Variable Encore	4.07%	4.12%	3.25%	1.60%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond				
Aet Income Shares	6.32%	7.12%	5.40%	1.73%
<i>Lehman Gov/Corp</i>	7.75%	8.34%	7.23%	
Balanced				
Aet Investment Advisers	18.03%	16.98%	11.43%	1.83%
<i>60% Wil/35% LehAgg/5% TBills</i>	20.49%	19.08%	14.09%	
Domestic Equity				
Aet Variable	30.20%	23.83%	15.57%	1.81%
AET Amer Cent VP Cap Apprec	-10.07%	7.41%	6.48%	2.25%
<i>S&P 500</i>	34.66%	28.93%	19.82%	
International				
None				

**Great West Variable Annuity Options
403 (b) Plan
June 30, 1997**

Performance Summary:

The money market fund underperformed for all periods due to high annual expenses.

Two bond accounts underperformed their respective indices. The Great West Corporate option outperformed the Lehman Corporate benchmark for the one year period in which it was available.

All three balanced options underperformed the composite index in all three time periods.

Equity option returns were very disappointing. Every fund underperformed in every time period with the exception of the Ariel Value Fund, which outperformed the Russell 2000 for the one year period. Negative returns were posted for the one year period by the American Century Growth option and the Growth Fund (Janus) option.

Both international options significantly outperformed the EAFE-Free index for the periods in which they were available.

Organizational Issues:

One manager change occurred in the past year. The manager for the Fidelity VIP Growth Fund has been in place for less than one year. There were no other changes during this time. The periods of portfolio manager tenure range from one to three years.

Great West Variable Annuity Options
403 (b) Plan
June 30, 1997

Asset Class	Annualized Total Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
GW Money Market	3.87%	3.90%	3.03%	1.71%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond				
GW Bond	5.89%	6.15%	4.99%	1.85%
<i>Lehman Gov/Corp</i>	7.75%	8.34%	7.23%	
GW US Government Securities	6.83%	6.57%	5.40%	1.85%
<i>Lehman Government</i>	7.40%	7.95%	6.98%	
GW Corporate Bond	14.67%	NA	NA	2.15%
<i>Lehman Corporate</i>	8.79%	9.60%	8.03%	
Balanced				
GW Amer Cent Balanced	14.74%	13.76%	9.39%	2.25%
GW Fidelity VIP II Asset Manager	18.89%	12.63%	10.96%	1.99%
GW Total Return	18.29%	14.31%	11.17%	1.85%
<i>60% Wil/35% Leh Agg /5%</i>	20.49%	19.08%	14.09%	
<i>TBills</i>				
Domestic Equity				
GW Stock Index	30.85%	25.69%	15.81%	1.85%
<i>S&P 900 (S&P 500/Midcap 400)</i>	33.42%	28.17%	19.57%	
GW Amer Cent Growth	-19.43%	1.32%	2.53%	2.25%
GW Fidelity VIP Growth	16.46%	23.53%	18.21%	1.94%
GW Growth Fund 1-Janus	-4.45%	16.69%	NA	2.35%
GW T.Rowe Price Equity-Income	25.77%	NA	NA	2.20%
<i>Standard & Poors 500</i>	34.66%	28.93%	19.82%	
GW Small Cap Index	13.62%	16.84%	NA	1.85%
GW INVESCO Small Cap Growth	8.66%	NA	NA	2.35%
GW Ariel Value	19.66%	13.21%	NA	2.60%
<i>Russell 2000</i>	16.33%	20.05%	17.87%	
International				
GW Templeton International	17.80%	13.62%	NA	2.75%
GW INVESCO ADR	25.13%	NA	NA	2.55%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

**IDS Variable Annuity Options
403 (b) Plan
June 30, 1997**

Performance Summary:

The money market underperformed due to annual expense changes.

The Special Income Bond option outperformed the Lehman Aggregate for all three time periods, but the Global Yield option and the Income Advantage option underperformed for the one year period in which they were available.

The balanced option outperformed for one year, but underperformed for three and five years.

Equity account returns were disappointing in all three periods available for all three domestic accounts.

International account underperformed in all three time periods.

Organizational Issues:

There were no portfolio manager changes during the past year. The periods of portfolio manager tenure range from one to ten years.

IDS Variable Annuity Options
403 (b) Plan
June 30, 1997

Asset Class	Annualized Total Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
IDS Moneyshare	4.01%	4.07%	3.16%	1.57%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond				
IDS Special Income	9.55%	9.87%	8.58%	1.69%
IDS Global Yield	6.86%	NA	NA	2.17%
<i>Lehman Aggregate</i>	8.15%	8.53%	7.12%	
IDS Income Advantage	12.03%	NA	NA	1.94%
<i>First Boston High Yield</i>	14.67%	12.36%	11.60%	
Balanced				
IDS Managed	22.50%	16.15%	12.38%	1.65%
<i>60% Wil/35% Leh Agg/5%</i>	20.49%	19.08%	14.09%	
<i>TBills</i>				
Domestic Equity				
IDS Capital Resources	17.08%	16.98%	11.85%	1.69%
<i>Russell 1000</i>	32.26%	27.96%	19.45%	
IDS Aggressive Growth	3.28%	17.83%	14.17%	1.69%
IDS Growth Dimension	24.41%	NA	NA	1.77%
<i>Wilshire 5000</i>	29.32%	26.74%	19.06%	
International				
IDS International Equity	8.32%	8.27%	10.00%	1.99%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

**Metropolitan Life Annuity Options
403 (b) Plan
June 30, 1997**

Performance Summary:

The returns for the Metropolitan options were disappointing. All of them underperformed their indices in every time period.

Organizational Issues:

There were no portfolio manager changes during the past year. The periods of portfolio manager tenure range from one to nine years.

**Metropolitan Life Annuity Options
403 (b) Plan
June 30, 1997**

Asset Class and Option	Annualized Total Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
Met -None				
Bond				
Met Income	6.78%	7.37%	6.15%	1.65%
<i>Lehman Govt/Corp</i>	7.75%	8.34%	7.23%	
Balanced				
Met Diversified	19.87%	16.65%	12.97%	1.75%
Met Calvert Socially Responsible	19.16%	16.48%	11.53%	2.09%
<i>60% Wil/35% Leh Agg/5% TBill</i>	20.49%	19.08%	14.09%	
Domestic Equity				
Met Stock Index	32.58%	26.66%	17.84%	1.55%
<i>Standard & Poor's 500</i>	34.66%	28.93%	19.82%	
Met Growth	29.89%	23.59%	18.08%	1.80%
<i>Russell 1000</i>	32.26%	27.96%	19.45%	
Met Aggressive Growth	-6.38%	13.91%	14.03%	2.00%
<i>Russell 2000</i>	16.33%	20.05%	17.87%	
International				
Met International Stock	8.41%	1.15%	9.00%	2.22%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

**Minnesota Mutual Life Annuity Options
403 (b) Plan
June 30, 1997**

Performance Summary:

The money market option underperformed its benchmark due to the fees charged.

Every bond option underperformed its index in each period in which they were available except for the maturing bond options due in 2006 and 2010. These outperformed their indices for the one and three year periods.

The balanced option underperformed in all three time periods. The equity option returns were, in general, disappointing. All options, except the Value Stock option, underperformed their benchmarks in all time periods..

The international equity option outperformed its EAFE-Free index for all three periods, and quite significantly for the one and three year periods.

Organizational Issues:

One portfolio manager change occurred in the International Stock Portfolio during the last year. With this exception, the periods of portfolio manager tenure range from one to ten years.

Minnesota Mutual Life Annuity Options
403 (b) Plan
June 30, 1997

Asset Class and Option	Annualized Total Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
Money Market	3.70%	3.72%	2.84%	1.85%
90 Day U.S. Treasury Bill	5.33%	5.38%	4.53%	
Bond Fund				
MM Bond	7.62%	7.32%	5.76%	1.81%
Lehman Govt/Corp	7.75%	8.34%	7.23%	
MM Maturing US Govt Bond 1998	5.36%	6.04%	NA	1.45%
MM Maturing US Govt Bond 2002	6.32%	7.82%	NA	1.45%
MM Maturing US Govt Bond 2006	7.76%	9.84%	NA	1.65%
MM Maturing US Govt Bond 2010	8.71%	11.09%	NA	1.65%
Lehman Government	7.40%	7.95%	6.98%	
MM Mortgage	8.30%	7.97%	5.99%	1.83%
Lehman Mortgage	9.10%	9.01%	6.87%	
Balanced				
MM Asset Allocation	15.24%	15.79%	10.64%	1.79%
60% Will/35% Leh Agg/5% TBills	20.49%	19.08%	14.09%	
Domestic Equity				
MM Growth Stock	22.62%	20.47%	13.25%	1.84%
MM Cap Appreciation	17.15%	20.28%	14.07%	2.10%
Russell 3000	30.58%	27.15%	19.22%	
MM Index 500	31.52%	26.34%	17.64%	1.70%
Standard & Poor's 500	34.66%	28.93%	19.82%	
MM Value Stock	32.38%	26.80%	NA	2.08%
S&P Midcap 400	23.22%	22.22%	17.32%	
MM Small Company	2.17%	17.15%	NA	2.06%
Russell 2000	16.33%	20.05%	17.87%	
International				
MM International Stock	23.88%	15.47%	13.85%	2.31%
EAFE-Free	12.84%	9.18%	12.90%	

**Nationwide Life Annuity Options
403 (b) Plan
June 30, 1997**

Performance Summary:

The money market fund underperformed due to high annual expenses.

Returns for the bond options were mixed. The Government Bond option underperformed its benchmark for all three periods. Fidelity VIP High Income outperformed its benchmark for the three and five year periods, and the Dreyfus Quality option slightly outperformed for the five year period.

Performance of the balanced options was mixed. The Total Return option exceeded its benchmark in all three periods. The other two options significantly underperformed during each time period.

The equity option returns were disappointing, in general. The Dryfus Small Cap and Special Fund II outperformed over five years but underperformed over one and three years. All other options underperformed in all time periods. It should be noted TCI Growth had an exceptionally poor one year return.

Templeton International had strong returns versus its benchmark for all three periods.

Organizational Issues:

One portfolio manager change occurred in the past year. The manager for the Fidelity VIP Equity/Income Fund has been in place for less than one year. There were no other changes during this time. The periods of portfolio manager tenure range from one to twelve years for the other options.

Nationwide Life Annuity Options
403 (b) Plan
June 30, 1997

Asset Class	Annualized Total Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
NW Money Market	3.78%	3.84%	2.94%	1.83%
90 Day U.S. Treasury Bills	5.33%	5.38%	4.53%	
Bond				
NW Government Bond	6.76%	6.98%	5.60%	1.81%
<i>Lehman Government</i>	7.40%	7.95%	6.98%	
NW Fidelity VIP High Income	12.97%	12.48%	11.77%	2.01%
<i>First Boston Hi-Yield</i>	14.67%	12.36%	11.60%	
Dreyfus Quality Bond	6.54%	7.52%	7.25%	2.09%
<i>Lehman Aggregate</i>	8.15%	8.53%	7.12%	
Balanced				
NW Neuberger/Berman Balanced	13.89%	13.70%	8.90%	2.38%
NW TCI Advantage	10.84%	10.32%	7.35%	2.30%
NW Total Return	32.28%	22.31%	16.05%	1.82%
<i>60% Wil/35% Leh Agg/5% TBills</i>	20.49%	19.08%	14.09%	
Domestic Equity				
NW TCI Growth	-10.08%	7.38%	6.46%	2.30%
NW Dreyfus Stock Index	32.46%	26.62%	17.65%	1.60%
NW Dreyfus Socially Resp Growth	27.81%	23.11%	NA	2.26%
NW Fidelity VIP Equity/Income	24.02%	22.29%	18.53%	1.88%
<i>Standard & Poor's 500</i>	34.66%	28.93%	19.82%	
NW Dreyfus Small Cap	12.21%	18.22%	33.64%	2.09%
<i>Russell 2000</i>	16.33%	20.05%	17.87%	
NW Special Fund II	20.55%	17.64%	19.66%	2.47%
<i>S&P Midcap 400</i>	23.22%	22.22%	17.32%	
International				
NW Templeton International	26.30%	17.67%	16.45%	2.18%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

United Investors Life Annuity Options
403 (b) Plan
June 30, 1997

Performance Summary:

The money market fund underperformed its benchmark for all periods due to high annual charges.

Bond option returns were mixed. The Bond option exceeded the Lehman Government/Corporate index for all three periods. The Limited Term option underperformed the benchmark for periods it was available. The High Income option outperformed for the one year period, but underperformed for the three and five year periods.

The two balanced options underperformed for all periods in which they were available.

Equity performance was generally disappointing. The Small Cap equity option outperformed its benchmark for the three year period but significantly underperformed for the one year period. The other two options underperformed their benchmark for all three periods.

The international option greatly exceeded the EAFE-Free index for all periods in which it was available.

Organizational Issues:

There were no portfolio manager changes during the past year. The periods of portfolio manager tenure range from one to ten years.

United Investors Life Annuity Options
403 (b) Plan
June 30, 1997

Asset Class	Annualized Total Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
UIL Money Market	5.00%	5.08%	4.17%	1.51%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond				
UIL Bond	8.65%	8.71%	7.26%	1.49%
UIL Limited Term Bond	6.73%	6.92%	NA	1.66%
<i>Lehman Govt/Corp</i>	7.75%	8.34%	7.23%	
UIL High Income	15.35%	11.93%	11.34%	1.61%
<i>First Boston Hi-Yield</i>	14.67%	12.36%	11.60%	
Balanced				
UIL Balanced	16.59%	14.64%	NA	1.60%
UIL Asset Strategy	10.43%	NA	NA	1.83%
<i>60% Wil/35% Leh Agg /5% TBills</i>	20.49%	19.08%	14.09%	
Domestic Equity				
UIL Income	30.88%	24.01%	18.76%	1.63%
UIL Growth	27.89%	24.05%	19.30%	1.63%
<i>Standard & Poor's 500</i>	34.66%	28.93%	19.82%	
UIL Small Cap	4.02%	24.54%	NA	1.81%
<i>Russell 2000</i>	16.33%	20.05%	17.87%	
International				
UIL International	21.39%	12.92%	NA	1.90%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

Variable Annuity Life Annuity Options
403 (b) Plan
June 30, 1997

Performance Summary:

The VALIC money market option underperformed the 90 day Treasury Bill index for all three time periods due to high annual fees.

In general, bond option performance was favorable. The two Vanguard funds underperformed in the last year but outperformed or matched their indices over three and five years. International Government Bond Fund outperformed for one year but underperformed for three and five years.

The balanced option exceeded its benchmark for all three periods.

Domestic equity returns were disappointing for the one year period, and mixed for the three and five year periods. The exception was the positive performance of Twentieth Century Ultra which exceeded its benchmark in all three periods. Putnam OTC Emerging Growth, while displaying a poor one year return, exceeded its benchmark for three and five years.

The Putnam Global Growth international equity option outperformed its benchmark for all three periods and the Templeton option for one and three years.

Organizational Issues:

One portfolio manager change occurred in the past year. The management team for the Twentieth Century Ultra Fund has been in place for less than one year. There were no other changes during this time. The periods of portfolio manager tenure range from one to eleven years for the other options.

Variable Annuity Life Annuity Options
403 (b) Plan
June 30, 1997

Asset Class	Annualized Total Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market				
VAL Money Market-E	4.01%	4.07%	3.17%	1.57%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond				
VAL Vanguard Long Term Corporate	7.14%	8.35%	7.23%	1.53%
<i>Lehman Govt/Corp</i>	7.75%	8.34%	7.23%	
VAL Vanguard Long Term U.S. Treasury	6.26%	8.22%	7.38%	1.50%
<i>Lehman Government</i>	7.40%	7.95%	6.98%	
VAL International Government Bond	1.02%	5.50%	6.12%	1.56%
<i>Salomon Non-US Govt. Bond Index</i>	-0.24%	6.82%	9.51%	
Balanced				
VAL Vanguard Wellington	23.40%	19.57%	14.31%	1.56%
<i>60% Wil/35% Leh Agg/5% TBills</i>	20.49%	19.08%	14.09%	
Domestic Equity				
VAL Stock Index	33.09%	27.31%	18.24%	1.35%
VAL Social Awareness	34.06%	27.03%	18.35%	1.56%
VAL T. Rowe Price Growth	13.50%	25.43%	NA	1.83%
VAL Neuberger & Berman Guardian Trust	26.14%	20.35%	17.34%	1.92%
VAL Vanguard Windsor II	29.81%	24.93%	17.91%	1.64%
VAL Scudder Growth & Income	31.53%	23.54%	17.76%	1.78%
<i>S&P 500</i>	34.66%	28.93%	19.82%	
VAL Putnam OTC Emerging Growth	-8.70%	24.10%	22.01%	2.11%
<i>Nasdaq OTC Composite</i>	10.92%	18.01%	15.14%	
VAL Putnam New Opportunities	3.19%	26.10%	25.18%	2.11%
<i>Russell 1000</i>	32.26%	27.96%	19.45%	
VAL Twentieth Century Ultra Investors	20.41%	23.60%	19.92%	2.05%
<i>Russell 2000</i>	16.33%	20.05%	17.87%	
VAL Founders Growth	21.15%	28.35%	21.87%	2.19%
<i>Russell 3000</i>	30.58%	27.15%	19.22%	
VAL T. Rowe Price Science & Tech	9.93%	34.72%	NA	1.94%
<i>S&P 900 (S&P 500/Midcap 400)</i>	33.42%	28.17%	19.57%	
International				
VAL Putnam Global Growth	21.48%	15.12%	13.43%	2.27%
VAL Templeton Foreign	19.04%	12.52%	11.87%	2.12%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

ATTACHMENT C

403(b) Annuity Employer Matching

Aetna Life Insurance & Annuity Company (Aetna)
Great-West Life & Annuity Insurance Company (Great-West)
IDS Life Insurance Company (IDS)
Metropolitan Life Insurance Company (Metropolitan)
The Minnesota Mutual Life Insurance Company (Minnesota Mutual)
Nationwide Life Insurance Company (Nationwide)
United Investors Life Insurance Company (United Investors)
The Variable Annuity Life Insurance Company (VALIC)

Fixed Options

Fixed options are lower risk products intended to protect the principal of the investment and provide a stable return for the participant.

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

The current new money crediting rates are:

Aetna	5.50%
Great-West	5.80%
IDS	6.25%
Metropolitan	6.00%
Minnesota Mutual	5.10%
Nationwide	5.40%
United Investors	5.60%
VALIC	6.25%

Comparable Treasury Yields are:

- 1 Year: 5.65%
- 3 year: 6.23%
- 5 year: 6.38%

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DATE: August 5, 1997

TO: Members, Deferred Compensation Review Committee

FROM: Jim Heidelberg, Bob Barman

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

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

The Plans

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

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

Plan Administration

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

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

SBI Responsibilities

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

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

Product Providers and Investment Options

The four outside product providers are:

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

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

ATTACHMENT A

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

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

Financial Strength/Claims Paying Ability Ratings

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

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

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

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

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

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

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

VALIC also is a highly rated company, as shown in the following table. Standard & Poor's lowered slightly its rating from AAA to AA+ since the SBI selected it for the MnSCU plans.

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

ATTACHMENT B

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

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

Variable Options Performance

Variable options include money market accounts and options investing in stock and bonds. The SBI evaluates the performance of the insurance company variable products against benchmarks appropriate to each option. The following observations relate to the June 30, 1997 return data in the tables below. Please note that performance is evaluated net of all direct fees and charges. Because the two percent front end load on contributions to insurance company products is an administrative charge and is deducted before contributions are transmitted to the product providers, the front end load is not included in rate of return calculations. The front end load is noted clearly in communication pieces to participants. The 40 basis point a year charge assessed against SIF options is included in SIF rates of return.

When the Plan was restructured effective July 1, 1995, additional product providers and a new array of options were made available to participants. Options offered by TIAA-CREF and VALIC, therefore, have been available only since July 1995. Minnesota Mutual and Great-West expanded their offerings at the same time, and the SIF International Share Account was added. In May 1997 the SBI recommended to MnSCU that two GW variable options be replaced. To date, MnSCU has not acted on the recommendation.

The return history that follows has been calculated to display option performance as if the option had been available in the Plan for longer periods of time with the current investment and administrative fees. Return information is not available in those cases in which the mutual fund did not exist for the longer time period.

In general, performance was mixed:

- Except for TIAA-CREF, the money market options underperformed the 90 day U.S. Treasury bill index due to high annual expense charges.

- Bond options generally underperformed their benchmarks.
- The performance of balanced options was mixed.
- Equity option performance was disappointing across nearly all options in nearly all time periods.
- International options generally outperformed the EAFE-Free index for the one and three year time periods.

With a few exceptions, the options display an acceptable level of stability in portfolio management tenure.

Great-West Life & Annuity Insurance Company
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997

Performance Summary:

Great West's money market option returns were significantly lower than the 90 day Treasury Bill benchmark. Annual expenses were a major cause of the lower returns.

The bond option outperformed its benchmark for the one and three year periods but underperformed for the five year period.

The balanced option outperformed its benchmark for the one year period but greatly underperformed for the three and five year periods.

Three of the equity options significantly underperformed the benchmarks for all three periods. The small cap option significantly outperformed its benchmark for all three periods.

Both international options outperformed the EAFE-FREE benchmark for the one and three year periods.

Organizational Issues:

The only portfolio manager change in the past year occurred in the balanced option (Fidelity Advisor Growth Opportunity Fund). The length of portfolio manager tenure for the nine options range from one to nine years.

Great-West Life & Annuity Insurance Company
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997

Asset Class	Annualized Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market Fund				
GW Money Market	4.38%	4.39%	3.51%	1.21%
90 Day U.S. Treasury Bill	5.33%	5.38%	4.53%	
Bond Fund				
GW Voyageur U.S. Government Sec	6.92%	7.48%	6.06%	1.72%
Lehman Government	4.29%	6.32%	7.08%	
Balanced Fund				
GW Fidelity Adv. Balanced	23.33%	11.24%	9.97%	2.02%
60% Wil/35% Leh Agg /5% TBills	20.49%	19.08%	14.09%	
Domestic Equity Fund				
GW Fid. Adv Growth Opportunity	27.31%	22.01%	18.88%	2.19%
GW Growth Fund I (Janus)	-3.96%	17.27%	NA	1.85%
Standard & Poor's 500	34.66%	28.93%	19.82%	
GW Vista Growth & Income	26.30%	20.70%	16.08%	1.75%
S&P 900 (S&P 500/S&P 400)	33.42%	28.17%	19.57%	
GW American Century Ultra	21.02%	24.11%	20.35%	1.75%
Russell 2000	16.33%	20.05%	17.87%	
International Equity Fund				
GW Templeton International Equity	18.39%	14.19%	NA	2.25%
GW Fidelity Advisors Overseas	20.74%	10.42%	11.70%	2.50%
EAFE-Free	12.84%	9.18%	12.90%	

Minnesota Mutual Life Insurance Company
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997

Performance Summary:

Minnesota Mutual's money market option returns were significantly lower than the Treasury benchmark. High annual expenses were a significant contributor to the smaller returns.

Both the bond and balanced options greatly underperformed their benchmarks. The differences were sizable over all three time periods.

All five equity options underperformed the Standard & Poor's 500 index for all three time periods. The Advantus Growth II Fund's one year performance was particularly disappointing, and this underperformance contributed to the lower three and five year returns of that option. The Parnassus Fund one year performance was close to the benchmark and the Janus Twenty Fund's three year return was close to the benchmark.

The Scudder International Fund surpassed the performance of its EAFE-Free benchmark for the one and three year periods but not for the five year period.

Organizational Issues:

The only portfolio manager change in the past year occurred in the Scudder International Fund. Portfolio manager tenure at the nine options range from four to thirteen years.

Minnesota Mutual Life Insurance Company
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997

Asset Class	Annualized Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market Fund				
MML Money Market	4.12%	4.15%	3.28%	1.45%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond Fund				
MML Scudder Bond	5.15%	4.43%	4.08%	1.75%
<i>Lehman Gov/Corp</i>	7.75%	8.34%	7.23%	
Balanced Fund				
MML Managed I	15.97%	16.28%	11.07%	1.45%
<i>60% Wil/35% Leh Agg /5% TBills</i>	20.49%	19.08%	14.09%	
Domestic Equity Fund				
MML Janus Twenty Fund	32.96%	28.08%	16.97%	1.68%
MML Fidelity Contrafund	23.08%	23.03%	18.86%	1.83%
MML Fidelity Growth & Income	28.46%	24.78%	19.11%	1.75%
MML Advantus Growth II	2.15%	17.65%	14.19%	1.55%
MML Parnassus Fund	34.04%	16.24%	17.23%	1.96%
<i>Standard & Poor's 500</i>	34.66%	28.93%	19.82%	
International Equity Fund				
MML Scudder International	18.60%	11.56%	11.88%	2.14%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

**Teachers Insurance & Annuity Assoc. College Equity Retirement Fund
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997**

Performance Summary:

Modest expenses resulted in the money market option matching or exceeding the index return in all three time periods.

The bond option outperformed the Lehman Government/Corporate Index for the one year period, but narrowly lagged the index for the longer time periods.

The balanced option outperformed its benchmark for all three time periods.

All three equity options underperformed the Standard & Poor's 500 index in each period in which the options were available. It should be noted that the Growth Account option underperformed the benchmark for the three year period by a relatively small amount.

The international equity option significantly outperformed the EAFE-Free index for all three periods.

Organizational Issues:

There were no portfolio manager changes during this past year. The periods of portfolio manager tenure range at the seven options from one to ten years.

Teachers Insurance & Annuity Assoc. College Equity Retirement Fund
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997

Asset Class	Annualized Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market Fund				
TIAA-CREF Money Market	5.39%	5.40%	4.53%	0.29%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond Fund				
TIAA-CREF Bond Market	8.01%	8.08%	6.99%	0.29%
<i>Lehman Gov/Corp</i>	7.75%	8.34%	7.23%	
Balanced Fund				
TIAA-CREF Social Choice Account	24.31%	20.15%	15.18%	0.30%
<i>60% Wil/35% Leh Agg /5% TBills</i>	20.49%	19.08%	14.09%	
Domestic Equity Fund				
TIAA-CREF Equity Index	30.38%	26.69%	NA	0.30%
TIAA-CREF Stock Account	27.40%	23.24%	17.50%	0.31%
TIAA-CREF Growth Account	32.03%	28.56%	NA	0.36%
<i>Standard & Poor's 500</i>	34.66%	28.93%	19.82%	
International Equity Fund				
TIAA-CREF Global Equities Account	24.52%	18.33%	17.55%	0.38%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

Variable Annuity Life Insurance Company
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997

Performance Summary:

The VALIC money market option substantially underperformed its 90 day Treasury Bill benchmark for all three time periods. High annual expenses contributed significantly to the lower returns.

Both bond options underperformed in all three periods.

The balanced option greatly exceeded the index for the one year period, underperformed for the three year period and slightly outperformed for the five year period.

The four equity options underperformed their benchmarks for all three time periods in which they were available, with two exceptions. The T. Rowe Price Science & Technology Fund outperformed its benchmark for the three year period. However, that option significantly underperformed for the one year period. The Dryfus small cap option outperformed its benchmark for the five year period.

The international option significantly outperformed the EAFE-Free benchmark for all three time periods.

Organizational Issues:

There were no portfolio manager changes during the past year. The periods of portfolio manager tenure at the nine options range from one to eleven years.

Variable Annuity Life Insurance Company
401(a) Minnesota State Colleges & Universities Plan
June 30, 1997

Asset Class	Annualized Returns			Annual Expenses
	1 Year	3 Year	5 Year	
Money Market Fund				
VALIC Money Market	4.01%	4.07%	3.17%	1.57%
<i>90 Day U.S. Treasury Bill</i>	5.33%	5.38%	4.53%	
Bond Fund				
VALIC Capital Conservation	7.02%	7.19%	5.79%	1.57%
<i>Lehman Gov/Corp</i>	7.75%	8.34%	7.23%	
VALIC International Govt Bond	1.02%	5.50%	6.12%	1.56%
<i>Salomon Non-US\$ Govt Bond</i>	2.16%	7.22%	8.16%	
Balanced Fund				
VALIC Templeton Asset Allocation	25.09%	18.04%	14.24%	2.03%
<i>60% Wil/35% Leh Agg /5% TBills</i>	20.49%	19.08%	14.09%	
Domestic Equity Fund				
VALIC Stock Index	33.09%	27.31%	18.24%	1.35%
VAL T.Rowe Price Science & Tech.	9.93%	34.72%	NA	1.94%
<i>Standard & Poor's 500</i>	34.66%	28.93%	19.82%	
VALIC Midcap Index	21.49%	20.77%	15.79%	1.41%
<i>S&P Midcap 400</i>	23.22%	22.22%	17.32%	
VALIC Dreyfus Small Cap	12.27%	18.26%	33.70%	2.04%
<i>Russell 2000</i>	16.33%	20.05%	17.87%	
International Equity Fund				
VALIC Templeton International	26.38%	17.71%	16.51%	2.13%
<i>EAFE-Free</i>	12.84%	9.18%	12.90%	

ATTACHMENT C

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

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

Fixed Options June 30, 1997

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

- The fixed options of the insurance companies are portfolio products in which assets are invested in the general account of the company and earn a rate that reflects the investment performance of the respective company's large pool of general account assets. In general, the fixed products have stated interest rates for specific time periods as determined by the companies.
- The SIF Fixed Interest Account is a pool of assets invested in guaranteed investment contracts (GIC's) and GIC-type investments from which participants earn monthly interest that changes somewhat from month to month depending upon the mix of the investments in the Account.

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

Minnesota Mutual

- The current new money rate is 6.10%.

Great-West

- The current new money rate is 6.00%.

TIAA-CREF

- The current new money rate is 7.25%.

VALIC

- The current new money rate is 6.75%.

SIF

- Annualized return for June 1997 was 6.17%.

Comparable Treasury Yields

- 1 Year: 5.65%
- 3 year: 6.23%
- 5 year: 6.38%

Tab E

COMMITTEE REPORT

DATE: August 26, 1997

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

FROM: Domestic Manager Committee

The Domestic Manager Committee met on August 14, 1997 to consider the following agenda items:

- Review of manager performance for the period ending June 30, 1997.
- Re-interview of Investment Advisers (IAI), Wilke/Thompson, and Winslow Capital.

Board/IAC action is requested on the second item.

INFORMATION ITEMS:

1. Review of manager performance for the period ending June 30, 1997.

- *Stock Managers*

For the quarter ending June 30, 1997, the domestic stock manager program lagged the Wilshire 5000 by 0.1% basis points. For the latest year, the total program outperformed the Wilshire 5000 by 0.4%. For the one year, three year and five year periods, the **current** managers outperformed the Wilshire 5000.

Time Period	Total Program	Wilshire 5000*	Current Mgrs. Only	Aggregate Benchmark
Quarter	16.8%	16.9%	16.8%	16.9%
1 Year	29.7	29.3	30.3	29.8
3 Years	26.2	26.7	27.1	27.4
5 Years	18.7	19.0	19.7	19.3

* Adjusted for SBI's restrictions, as appropriate.

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

- **Bond Managers**

The bond manager program outperformed the Lehman Aggregate for the quarter and year ending June 30, 1997 by 0.2% and 0.5% respectively. The total program also outperformed over the latest three and five year periods.

Time Period	Total Program	Lehman Aggregate*	Current Mgrs. Only	Aggregate Benchmark
Quarter	3.9%	3.7%	3.9%	3.7%
1 Year	9.3	8.2	9.3	8.2
3 Years	9.0	8.5	9.1	8.5
5 Years	7.7	7.2	7.8	7.2

* Reflects Salomon BIG index prior to 7/94.

The performance evaluation reports for the bond managers start on the **third “blue page”** of this Tab section. Manager Commentaries are in **Tab H**.

ACTION ITEM:

2. Re-interview of three active domestic equity managers, Investment Advisers, Wilke/Thompson, and Winslow Capital

At the June 1997 meetings, the SBI/IAC concurred with the Committee’s recommendation to formally re-interview three active domestic stock managers: *Investment Advisers (IAI)*, *Wilke/Thompson*, and *Winslow Capital*. The re-interviews took place as part of the Domestic Manager Committee meeting on August 14, 1997.

Staff’s analysis and Committee discussion on the firms can be summarized as follows:

- The SBI retained **IAI** to manage a Regional Fund in July 1993. At this time, the concerns with IAI are both qualitative and quantitative. Over the last two quarters, IAI has experienced significant staff turnover and loss of clients/assets under management in two other equity disciplines, the Mid Cap and Small Cap Equity products. As a result, IAI has restructured the investment team for all three equity products. The Committee is uncertain what impact the staffing changes will have on the firm’s investment processes but noted that Staff believes that the present investment team is likely to remain intact. IAI’s poor performance relative to its current benchmark was also examined. Over the last year, Staff have strongly urged IAI to improve the quality of its benchmark. IAI has now complied with Staff’s requests and developed a new benchmark with improvements in coverage and positive active positions and better fit with the

capitalization characteristics of the actual portfolio. Using a backtest, IAI's performance relative to the new benchmark is greatly improved.

- **Winslow Capital** was retained in April 1994 as part of the Emerging Manager Program. Neither staff or the Committee has organizational concerns regarding Winslow at this time. The Committee concurred with Staff's view that Winslow Capital has consistently applied its investment process and the underlying investment philosophy is unlikely to change. While performance has lagged the benchmark since the inception of the SBI's account, much of the underperformance has occurred within the last 18 months. Winslow Capital believes their underperformance is due in part to anomalies in recent market conditions and is confident their performance will improve, over time.
- **Wilke/Thompson** was also retained in April 1994 as part of the Emerging Manager Program. As with Winslow, neither staff or the Committee has organizational concerns about the firm at this time. The Committee noted that Wilke/Thompson manages a small cap portfolio of high quality growth companies and is likely to experience volatile performance, both positive and negative, over time. While they currently lag the benchmark by a wide margin, Wilke/Thompson believes their track record demonstrates that they will add substantial value in future periods.

Additional information prepared by SBI staff on each firm begins on page 5.

RECOMMENDATIONS:

The Committee recommends that the SBI continue to retain IAI/Regional Fund, Winslow Capital and Wilke Thompson, but that all three firms be subject to close review by the Committee:

- **Due to the significant organizational changes at IAI, the SBI's relationship with the firm should be reassessed by the Committee in six months. The review should focus on the stability and effectiveness of the newly formed investment team as well as performance relative to the new benchmark for the Regional Fund discipline.**
- **The Committee believes that the performance concerns about Winslow Capital and Wilke/Thompson may be clarified with some additional time. As a result, these firms should be reviewed by the Committee within twelve months.**

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INVESTMENT ADVISERS, INC.

Staff met with Investment Advisers Inc. (IAI) in their Minneapolis office on January 16, March 14, and April 17, 1997 to discuss organizational changes, benchmark problems and poor performance relative to the benchmark.

As you will recall, Mark Hoonsbeen replaced Bing Carlin as SBI's portfolio manager in January 1996. Mark has a more detailed quantitative style and makes decisions from a bottom-up understanding of the companies in which he invests. He, therefore, was building a team of three research analysts to assist him in formulating and implementing the investment process for the Regional product. To increase the productivity of the investment team, Mark was also developing a database system that would store all the fundamental analysis, meeting notes, contacts, etc. for each company that they cover which could be reviewed or updated by any team member. However, the loss of six portfolio managers and one analyst in other equity products at IAI during the first half of 1997 caused major organizational changes which affected the implementation of these plans.

Prior to March 1997, Mark Hoonsbeen was responsible for 3 accounts and less than \$300 million in assets for the Regional Product. In March 1997, Mark became the lead portfolio manager for a combined mid/large/regional investment team called the Growth Equity Team which manages 63 client relationships and \$2,190 million as of June 30, 1997. This team consists of Mark, a second portfolio manager, and six analysts with an average experience level of 7.6 years.

During the second quarter 1997, IAI lost 40 equity accounts and about \$1.1 billion in domestic equity assets. This is about 29% of the \$3.8 billion in domestic equity assets under management on March 31, 1997. Most of the lost accounts were in the Mid Cap and Small Growth products. The Regional product has retained all three of its accounts.

For the past two years, IAI's performance has been measured against the Modified Regional Index, a benchmark created by IAI. During last quarter's annual benchmark review, staff highlighted problems with the benchmark including low coverage, low positive positions, and a size difference relative to the actual portfolio. IAI has modified their benchmark construction process to address these issues.

The new benchmark, like the current benchmark, contains companies from the eight state region with market capitalization of at least \$50 million. The primary difference between the two benchmarks is that the current benchmark was constructed with market capitalization weighting and the new benchmark is constructed with the following market capitalization limits:

- Companies with market capitalization equal to or greater than \$5 billion (large cap) will comprise 20% of the new benchmark.

- Companies with market capitalization below \$5 billion and equal to or greater than \$500 million (mid cap) will comprise 50% of the new benchmark.
- Companies with market capitalization below \$500 million and equal to or greater than \$50 million (small cap) will comprise 30% of the new benchmark.

A backtest of the new benchmark shows that IAI has improved the coverage of names in the actual portfolio. They have also improved positive active positions by decreasing the weightings of the largest capitalization stocks to a maximum of 0.60% of the portfolio. The small capitalization stocks will have a minimum weighting of 0.08%. Although the new construction guidelines will help control size, sector biases may become more problematic. The sector weightings will be monitored; if a significant bias becomes evident, additional constraints may be needed.

As shown below, the new benchmark provides a better fit to their investment universe when examined with the usual benchmark quality tests.

BENCHMARK ANALYSIS

	<u>Current Benchmark</u>	<u>New Benchmark</u>
Coverage - past 1 year	75%	94%
- past 3.5 years	78%	84%
Positive Positions	93%	99%
Standard Deviation of VAM	5.12	3.56
Correlation Analysis		
Portf / S&P correlation to Bnmk / S&P	0.705	0.867
Portf / Bnmk correlation to Bnmk / S&P	0.157	-0.042

Since the backtest shows that the new benchmark is probably a better benchmark than the current benchmark, one can use it to examine the portfolio's performance. It should be noted, however, that the backtest contains survivor bias; the backtest process used only companies in existence today and did not use those that may have gone bankrupt or merged in the past three years. More recent periods include less survivor bias and are more reliable as a measure of what can be expected. Although the survivor bias may cause understated returns in the new benchmark, it appears that the portfolio did not underperform the new benchmark to the same degree as it underperformed the current benchmark.

PERFORMANCE

	<u>Actual</u>	<u>Current Bnmk</u>	<u>VAM</u>	<u>Actual</u>	<u>New Bnmk</u>	<u>VAM</u>
1 Year	15.13%	27.52%	-9.72%	15.13%	18.15%	-2.56%
3 Years	21.94	25.33	-2.71	21.94	19.89	1.71
3.5 Years	16.38	20.29	-3.25	16.38	15.51	0.75

CONCLUSION

There has been a considerable amount of change at IAI in the past six months. IAI has had a high level of turnover in their equity investment staff and has lost significant assets due to staff turnover and poor performance in recent periods. In addition, SBI's portfolio manager has been given a larger role in the management of the firm's clients and assets which may or may not have an affect on the attention SBI's portfolio receives. IAI has made a significant improvement to their benchmark. It appears that performance relative to this new benchmark is better. However, survivor bias in the backtested benchmark may impact the results.

Wilke/Thompson Capital Management Staff Comments August 1997

Philosophy

The investment philosophy of Wilke/Thompson is to invest in high quality growth companies that demonstrate the ability to sustain strong secular earnings growth, notwithstanding overall economic conditions. Wilke utilizes a bottoms up fundamental approach to stock selection. Ideas are formulated by networking with the corporate managers of their current and prospective holdings, as well as regional brokers, venture capitalists, and other buy-side portfolio managers. Wilke manages a small cap growth portfolio for the SBI. Staff believes that the investment team at Wilke/Thompson have a good understanding of the companies in their portfolios.

Accounts/Assets

Wilke/Thompson currently manages approximately \$1.4 billion in assets for 60 institutional clients and have more than \$100 million in assets for smaller accounts. The firm has grown from less than \$400 million in total assets at the time the SBI retained Wilke. In that time Wilke has lost 4 accounts with assets greater than \$10 million. Much of Wilke's growth has come from asset growth and new additions from current clients.

The Small Cap Growth product in which the SBI participates was closed to new clients in 1995. Wilke accepts additional funds from existing clients and will replace lost clients. Wilke limits its other major product, the Growth Equity, to one or two new net accounts annually. The firm believes that the Small Cap Growth product has the capacity for at least \$2 billion which can come from investment appreciation and additional contributions from existing clients. Current assets in this product are \$523 million. The SBI's account is currently \$43 million.

Organization

Paul Hayne is leaving the firm after eight years as President. While Paul made significant contributions to the growth of Wilke/Thompson, staff does not believe his departure will have an impact on Wilke's investment process. Mark Thompson, the firm's Chairman and Chief Investment Officer, has stated that the firm desires to focus on its current products and existing client relationships whereas Paul believes his strength is in growing the business. A new president, Anthony Ventura, and current members of the investment team have purchased Paul's ownership in Wilke/Thompson. No member of the investment staff has left the firm since its retention by the SBI. A new Senior Research Analyst, Maureen Pettrossi, was added in early 1997.

Benchmark/Performance

Wilke/Thompson has had a customized benchmark since mid-1995. Data employed to develop the initial benchmark was used to construct benchmark comparisons from inception in April, 1994. The names contained in Wilke's benchmark are relevant to its investment universe. Staff believes there are no issues with the representativeness of Wilke's benchmark.

Wilke's annualized performance since inception is 11.6% versus a benchmark return of 16.8%. The underperformance has been due primarily to stock selection in the consumer nondurables and technology sectors. Wilke's returns have been the most variable of the managers within the Emerging Manager program. Wilke has managed a portfolio for the SBI for 39 months. During the first 18 months of the relationship, Wilke outperformed its benchmark on an annualized basis with a return of 30.0% versus 19.4%. However, for the next 24 months, Wilke significantly underperformed its benchmark as the portfolio experienced an annualized return of 3.9% versus the benchmark return of 19.0%. While Staff has some concerns regarding the ability of this firm to recoup its underperformance, Wilke has also demonstrated its ability to significantly outperform in short periods of time. Staff believes that over the longer term, Wilke can provide positive returns.

Conclusion

Staff believes that Wilke/Thompson's investment philosophy and process is the same as when they were hired by the SBI. The assets of the firm have grown significantly over the past three years. Staff believes that the firm is organizationally sound and has the potential to manage a larger portfolio for the SBI in the future. While Staff is concerned about the significant underperformance of Wilke/Thompson, it recognizes the above average volatility expected from the firm's style and believe they can provide positive returns over the longer term.

Winslow Capital
Staff Comments August 1997

Philosophy

Winslow Capital believes that investing in companies with above average future earnings growth provides the best opportunity for achieving superior returns over the long term. Winslow Capital 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 of 15-20% over a 2-3 year time horizon. Staff believes that the portfolio managers at Winslow maintain in-depth knowledge of the companies in their portfolio via direct contact with company management and working closely with Street research analysts.

Accounts/Assets

Winslow manages \$1.2 billion in assets for 21 accounts in three equity growth products which are differentiated by capitalization size. The SBI is invested in Winslow Capital's Large Cap Growth product. At June 30, 1997, there were eight accounts representing \$580 million in this discipline. The firm's assets have grown from \$375 million in seven accounts since the SBI funded Winslow Capital in April, 1994. The firm believes that there is no limit to the total assets they can manage in this product due to the liquidity of the companies they invest in. The firm has set a maximum limit of ten client relationships per portfolio manager. There are currently five portfolio managers. However, the firm has a target of 35 institutional accounts. Since the inception of the firm, Winslow has lost only one account with a value of \$64 million.

Benchmark/Performance

Winslow Capital has had a customized benchmark since January, 1996. Data employed to develop the initial benchmark was used to construct benchmark comparisons from inception with SBI in April, 1994. While Winslow has closely monitored its benchmark, the benchmark portfolio has included names which Winslow believes to be irrelevant to their investment universe. In order to meet benchmark quality standards, the benchmark has included slower growing companies than Winslow would invest in. Winslow's benchmark builder, BARRA, does not have the ability to exclude individual names from investment sectors. Winslow has been addressing this issue.

Winslow's performance since inception is 19.1% annualized vs. a benchmark return of 22.8%. The underperformance was primarily due to stock selection in consumer non-durables and technology. The companies within the Winslow portfolios have continually reported stronger than market earnings growth and above average return of equity. The fundamentals of the Winslow portfolio have remained consistent with their investment approach since the inception of the SBI.

Winslow Capital has managed a portfolio for the SBI for 39 months. During the first 20 months of this relationship, Winslow Capital added value to the SBI portfolio with an

annualized return of 22.2% versus the benchmark return of 21.4%. For the next 16 months, Winslow significantly underperformed as the portfolio experienced an annualized return of 3.7% versus a benchmark return of 13.4%. During the last quarter, Winslow's performance has improved with the portfolio earning 20.3% for the quarter versus the benchmark return of 19.2%.

Conclusion

Staff believes that Winslow is a stronger organization than when the firm was initially retained. Shortly after Winslow was hired, an additional portfolio manager, Gail Knappenberger, joined the firm. In the second quarter of 1997, two additional portfolio managers (Joe Docter and Bart Wear) were hired. Since inception , one research analyst, Gordon Ritz, resigned from the firm. Gordon's duties included research and marketing which were absorbed by the addition of Mr. Knappenberger and the addition of a client service representative, Jon Foust. The assets of the firm have grown steadily since the SBI retained the firm. Staff believes that the firm is organizationally sound and has the potential to manager a larger portfolio for the SBI in the future. While Staff remains concerned about the significant short-term underperformance, Staff believes that Winslow can provide positive returns over the longer term.



STATE BOARD OF INVESTMENT

Stock Manager Evaluation Reports

Second Quarter, 1997

DOMESTIC STOCK MANAGERS
Period Ending 6/30/97

	Quarter		1 Year		3 Years		5 Years		Since Inception (1)		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
Alliance	21.8	19.0	41.7	35.2	31.4	28.8	21.9	18.8	19.4	14.4	\$884.67	5.5%
Brinson	15.8	15.6	32.7	28.6	28.4	25.4			21.9	18.9	\$547.48	3.4%
Forstmann-Leff	16.0	16.8	30.0	26.8	26.9	25.8	18.4	17.5	14.8	13.8	\$576.04	3.6%
Franklin Portfolio	16.5	15.1	31.6	26.2	26.2	24.7	20.9	18.7	16.8	15.7	\$718.89	4.4%
GeoCapital	15.1	18.2	9.1	5.6	19.1	24.2	15.4	21.1	15.7	17.4	\$406.82	2.5%
IAI	16.0	17.0	15.1	27.5	21.9	25.3			16.8	19.5	\$194.37	1.2%
IDS	14.1	17.8	25.4	34.5	23.7	28.9	18.3	21.0	15.9	16.5	\$680.56	4.2%
Independence	14.6	17.5	28.8	34.8	25.8	29.1	18.8	20.2	17.8	18.9	\$480.41	3.0%
Lincoln	18.4	21.0	32.1	35.8	31.7	31.1			23.4	22.7	\$560.25	3.5%
Oppenheimer	16.9	16.1	37.1	31.4	30.9	26.3			23.3	19.7	\$572.82	3.5%
Weiss Peck & Greer	15.3	16.7	1.3	8.5	22.0	21.6			13.4	15.4	\$333.37	2.1%
Emerging Managers (2)	17.9	17.5	25.0	26.0	24.4	27.0			21.5	23.4	\$506.09	3.1%
Semi-Passive Managers (3)												
Franklin Portfolio	17.1	16.1	33.7	32.5					31.2	31.1	\$1,529.18	9.4%
JP Morgan	16.5	16.1	32.1	32.5					31.4	31.1	\$1,569.90	9.7%
Barclays Global Investors	16.5	16.1	33.1	32.5					32.9	31.1	\$1,584.24	9.8%
Passive Manager (4)												
Barclays Global Investors	16.9	16.9	29.9	29.3					27.7	27.4	\$5,068.48	31.3%
Since 1/1/84												
Current Aggregate	16.8	16.9	30.3	29.8	27.1	27.4	19.7	19.3	17.4	15.1	\$16,213.59	100.0%
Historical Aggregate (5)	16.8	16.9	29.7	29.7	26.2	26.7	18.7	19.1	15.4	15.7		
Wilshire Adjusted		16.9		29.3		26.7		19.0		15.6		
Wilshire 5000		16.9		29.3		26.7		19.1		15.9		

(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 6/30/97

Portfolio Manager: Jack Koltes

Assets Under Management: \$884,674,559

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.

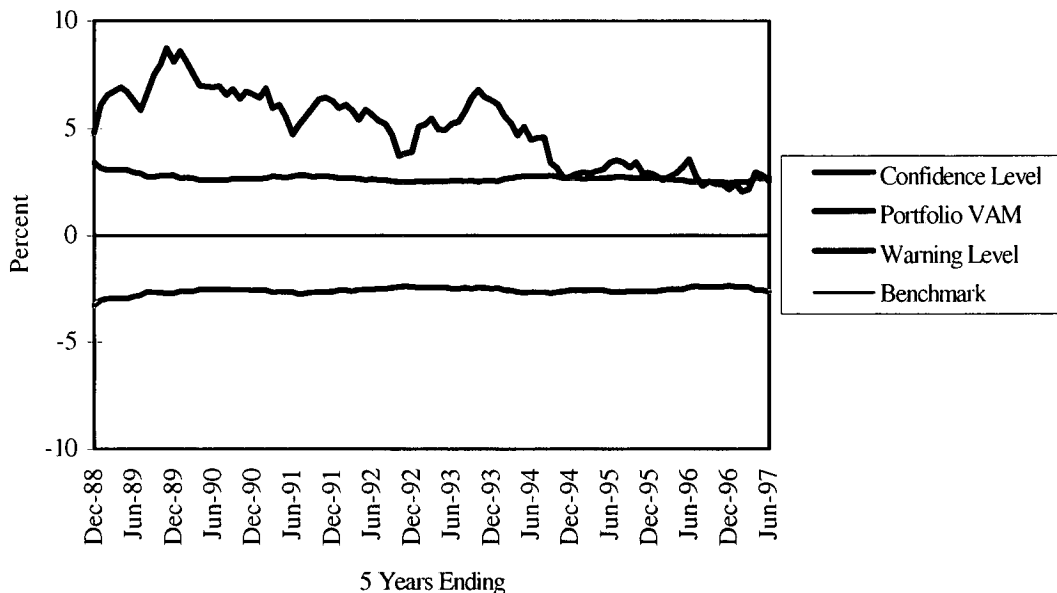
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	21.8%	19.0%
Last 1 year	41.7	35.2
Last 2 years	32.0	29.7
Last 3 years	31.4	28.8
Last 4 years	22.9	21.4
Last 5 years	21.9	18.8
Since Inception (1/84)	19.4	14.4

Recommendation

No action required.

ALLIANCE CAPITAL MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

BRINSON PARTNERS
Period Ending 6/30/97

Portfolio Manager: Jeff Diermeier

Assets Under Management: \$547,482,180

Investment Philosophy

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

**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.

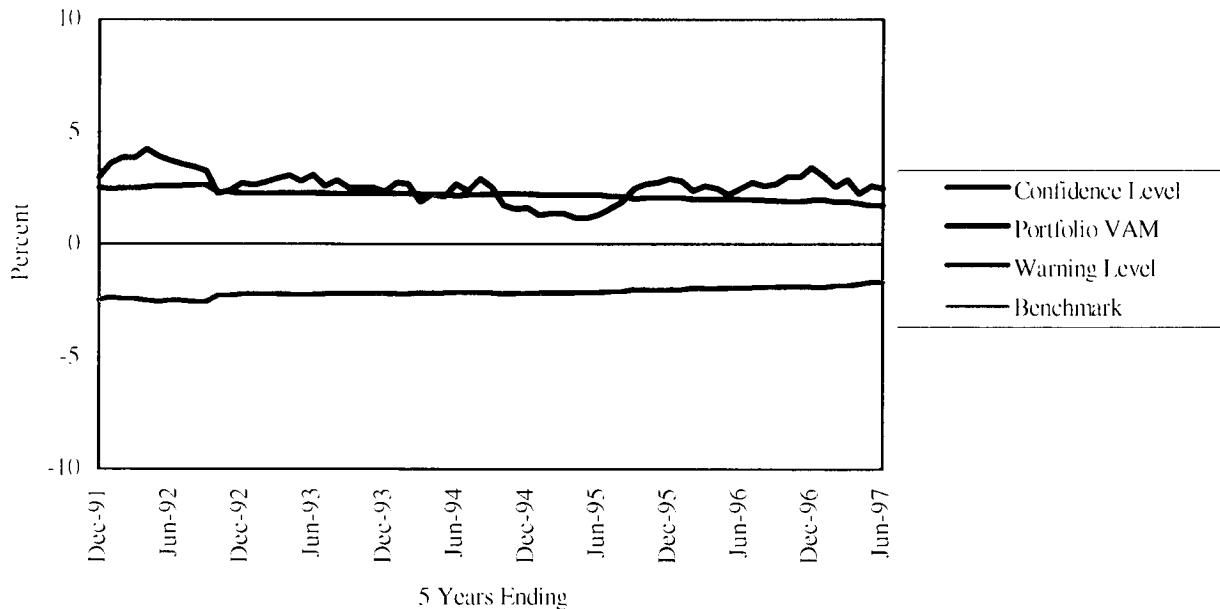
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.8%	15.6%
Last 1 year	32.7	28.6
Last 2 years	31.7	25.8
Last 3 years	28.4	25.4
Last 4 years	21.9	18.9
Last 5 years	N.A.	N.A.
Since Inception (7/93)	21.9	18.9

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 6/30/97

Portfolio Manager: Joel Leff

Assets Under Management: \$576,038,689

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.

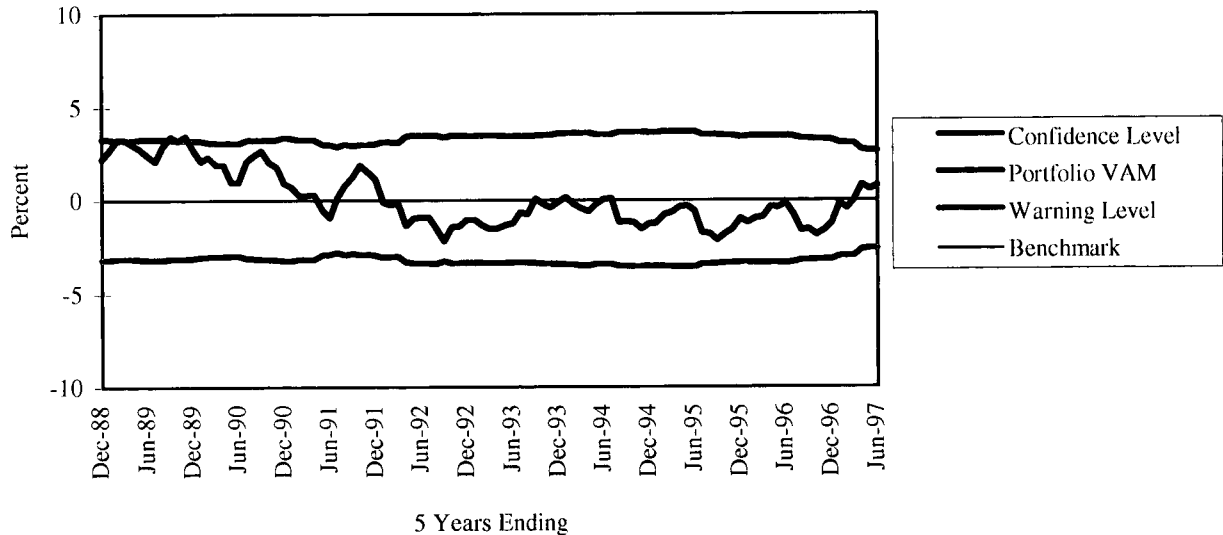
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.0%	16.8%
Last 1 year	30.0	26.8
Last 2 years	31.1	25.5
Last 3 years	26.9	25.8
Last 4 years	19.9	18.3
Last 5 years	18.4	17.5
Since Inception (1/84)	14.8	13.8

Recommendation

No action required.

FORSTMANN-LEFF ASSOCIATES
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

FRANKLIN PORTFOLIO ASSOCIATES
Period Ending 6/30/97

Portfolio Manager: John Nagorniak

Assets Under Management: \$718,892,936

Investment Philosophy

Franklin believes that rigorous and consistent application of fundamentally based valuation criteria will produce value added investment returns. Franklin builds a portfolio by using a series of more than 30 integrated computer models that value a universe of 3500 stocks. Their models rank each security based on fundamental momentum, relative value, future cash flow, and supplementary models, then a composite ranking provides one ranked list of securities reflecting their relative attractiveness. Stocks that fall below the median ranking are sold and proceeds reinvested in stocks from the top deciles in the ranking system. Franklin uses the BARRA E2 risk model to monitor the portfolio's systematic risk and industry weightings, relative to the selected benchmark, to achieve a residual risk of 3.0 to 3.5 percent for the active portfolio.

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths:

- Familiar with the needs of large institutional clients.
- Firm's investment approach has been consistently applied over a number of market cycles.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

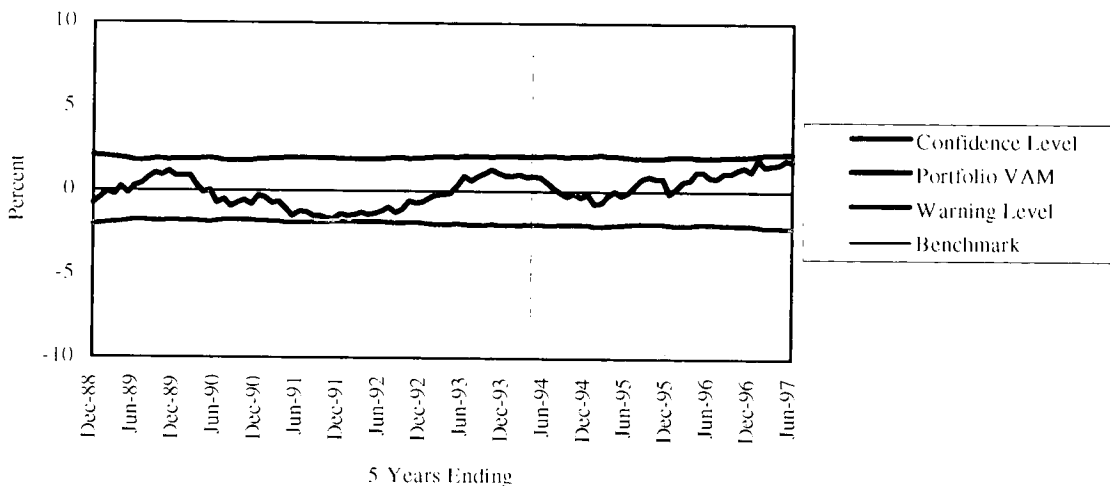
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.5%	15.1%
Last 1 year	31.6	26.2
Last 2 years	27.6	24.7
Last 3 years	26.2	24.7
Last 4 years	19.2	18.4
Last 5 years	20.9	18.7
Since Inception (4/89)	16.8	15.7

Recommendation

No action required.

FRANKLIN PORTFOLIO ASSOCIATES
Rolling Five Year Time Periods



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

GEOCAPITAL CORP.
Period Ending 6/30/97

Portfolio Manager: Barry Fingerhut

Assets Under Management: \$406,824,206

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

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

Concerns:

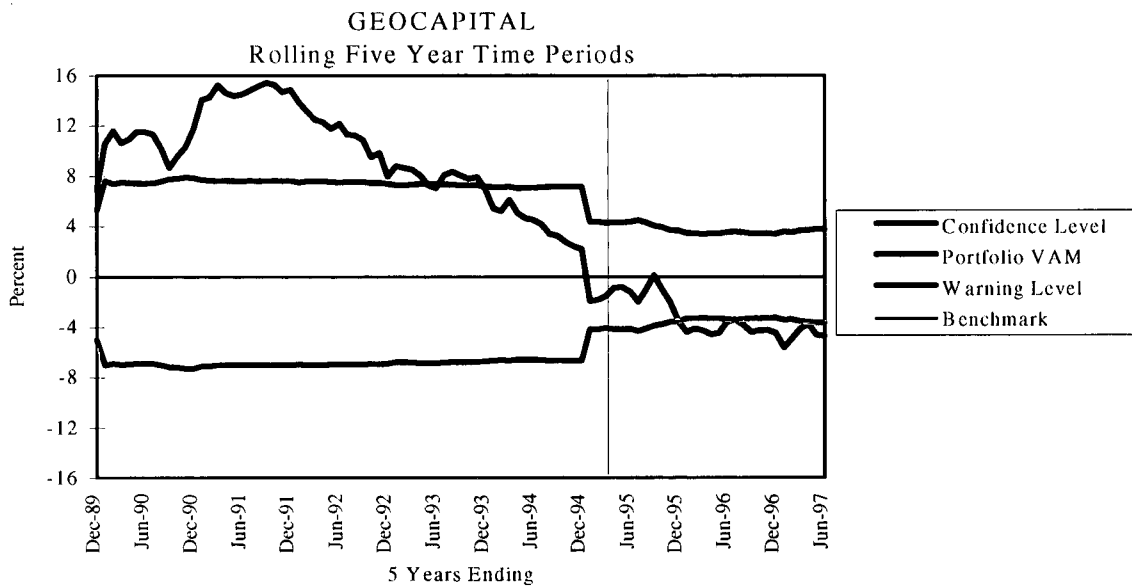
- Performance for the past year has been good, however, the 5 year rolling VAM continues to lag expectations.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.1%	18.2%
Last 1 year	9.1	5.6
Last 2 years	17.6	20.1
Last 3 years	19.1	24.2
Last 4 years	15.3	18.6
Last 5 years	15.4	21.1
Since Inception (4/90)	15.7	17.4

Recommendation

No action at this time. GeoCapital was reinterviewed by the Domestic Manager Committee during the first quarter 1997 meeting. In March 1997, the Board concurred with the Committee's recommendation to retain GeoCapital. Staff continues to monitor the firm.



Note: Scale differs from other 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 6/30/97

Portfolio Manager: Mark Hoonsbeen

Assets Under Management: \$194,374,028

Investment Philosophy

IAI's investment philosophy is to own the highest quality companies which demonstrate sustainable growth. IAI tries to achieve this objective by investing at least 80% of the portfolio in companies which have their headquarters in Minnesota, Wisconsin, Illinois, Iowa, Nebraska, Montana, North Dakota, or South Dakota. If IAI cannot find enough investment opportunities in the region, up to 20% of the portfolio can be used to purchase stocks that display the same quality and growth characteristics but have headquarters outside this region.

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths:

—Attractive, unique investment approach.

Concerns:

—The equity team has experienced significant staff turnover and internal re-organization.

—Performance continues to lag expectations.

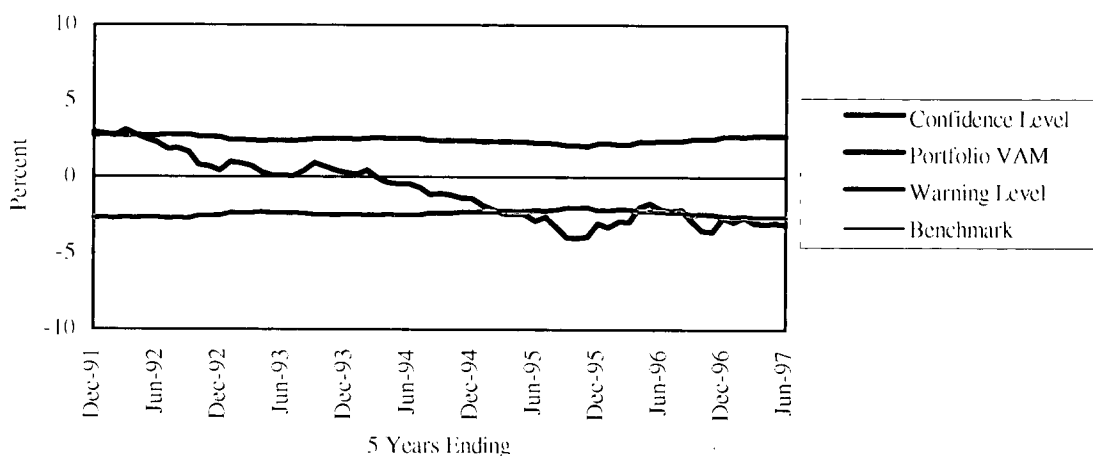
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.0%	17.0%
Last 1 year	15.1	27.5
Last 2 years	20.6	25.3
Last 3 years	21.9	25.3
Last 4 years	16.8	19.5
Last 5 years	N.A.	N.A.
Since Inception (7/93)	16.8	19.5

Recommendation

The Domestic Manager Committee will re-interview IAI at their August 1997 meeting to decide whether to retain or terminate the investment management services of IAI.

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 6/30/97

Portfolio Manager: Jim Johnson

Assets Under Management: \$680,561,025

Investment Philosophy

IDS Advisory employs a concentrated style of management. The methodology by which the portfolio is managed is based on a fundamentally driven and quantitatively managed process. Using 20 to 30 of the top-rated stocks by American Express Financial research analysts, the portfolio seeks to maximize the greatest level of risk-adjusted return for a predetermined level of risk tolerance. Due to the level of concentration, the active risk versus the normal portfolio will be higher than that of the typical active manager. Trading within the portfolio is also analyst driven, which will lead to turnover between 80 and 120 percent per year. Because the focus of the methodology is concentrated stock selection, the portfolio will remain fully invested at all times.

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Familiar with the needs of large institutional clients.

Concerns:

—Performance continues to lag expectations.

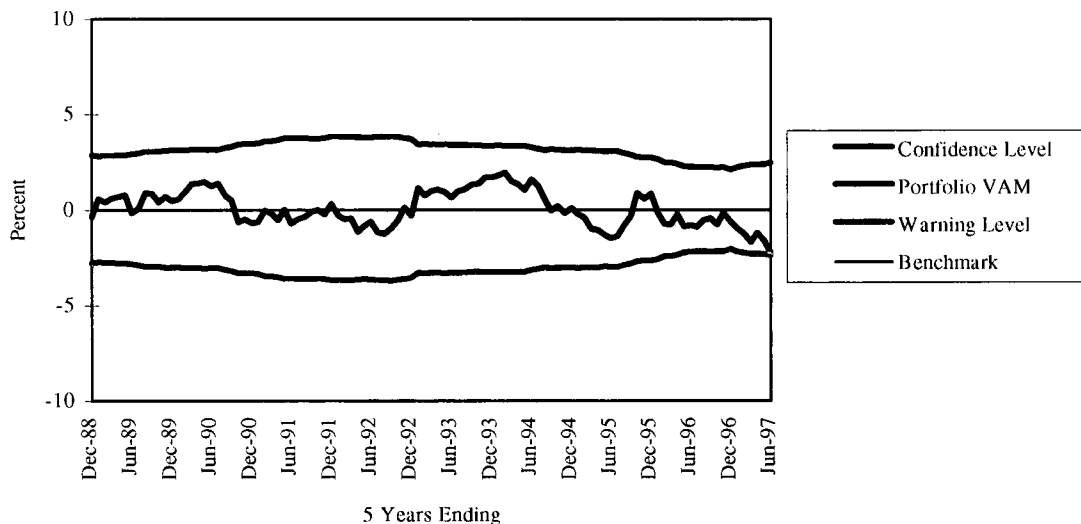
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	14.1%	17.8%
Last 1 year	25.4	34.5
Last 2 years	25.0	30.0
Last 3 years	23.7	28.9
Last 4 years	18.3	21.8
Last 5 years	18.3	21.0
Since Inception (1/84)	15.9	16.5

Recommendation

No action required at this time. Staff will review IDS and present the results to the Domestic Manager Committee next quarter. The review is prompted by performance concerns.

IDS ADVISORY
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval

INDEPENDENCE INVESTMENT ASSOCIATES

Period Ending 6/30/97

Portfolio Manager: Bill Fletcher

Assets Under Management: \$480,405,170

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.

Concerns:

- Portfolio VAM appears to have diminished over time.

Quantitative Evaluation

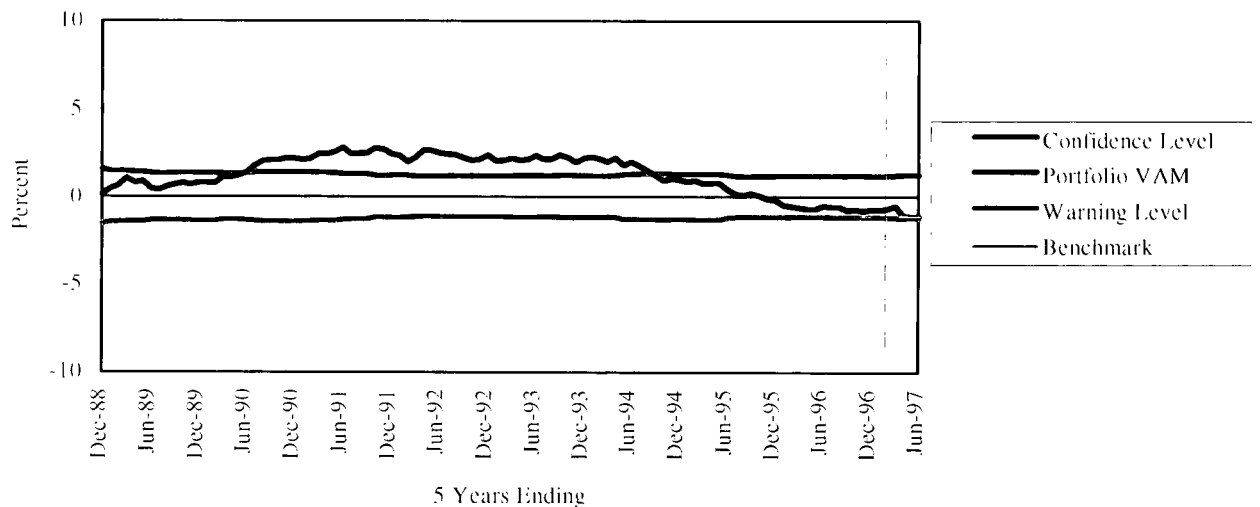
	Actual	Benchmark
Last Quarter	14.6%	17.5%
Last 1 year	28.8	34.8
Last 2 years	27.5	30.6
Last 3 years	25.8	29.1
Last 4 years	19.6	21.4
Last 5 years	18.8	20.2
Since Inception (2/92)	17.8	18.9

Recommendation

No action required at this time. Staff will review Independence and present the results to the Domestic Manager Committee next quarter. The review is prompted by performance concerns.

INDEPENDENCE INVESTMENT ASSOCIATES

Rolling Five Year Time Periods



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

LINCOLN CAPITAL MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Parker Hall

Assets Under Management: \$560,247,864

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

- Organizational continuity and strong leadership.
- Familiar with the needs of large clients.
- Investment style has been consistently and successfully applied over a number of market cycles.

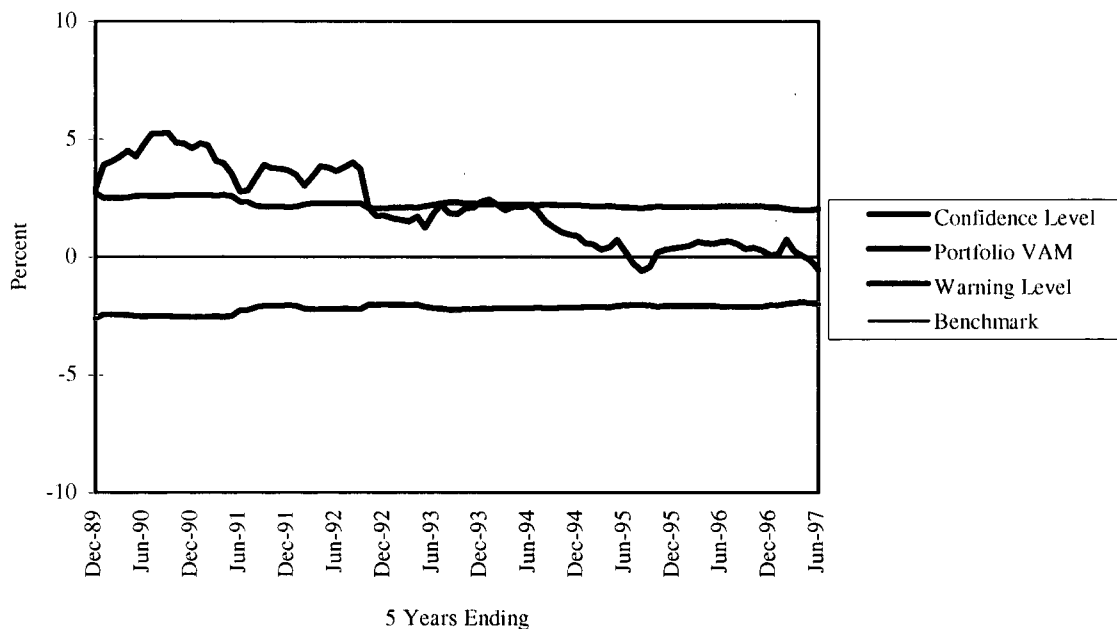
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	18.4%	21.0%
Last 1 year	32.1	35.8
Last 2 years	32.2	31.9
Last 3 years	31.7	31.1
Last 4 years	23.4	22.7
Last 5 years	N.A.	N.A.
Since Inception (7/93)	23.4	22.7

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 6/30/97

Portfolio Manager: John Lindenthal

Assets Under Management: \$572,824,016

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

- Highly successful and experienced professionals.
- Familiar with the needs of large institutional clients.
- Investment style has been consistently and successfully applied over a number of market cycles.
- Performance has exceeded expectations over time.

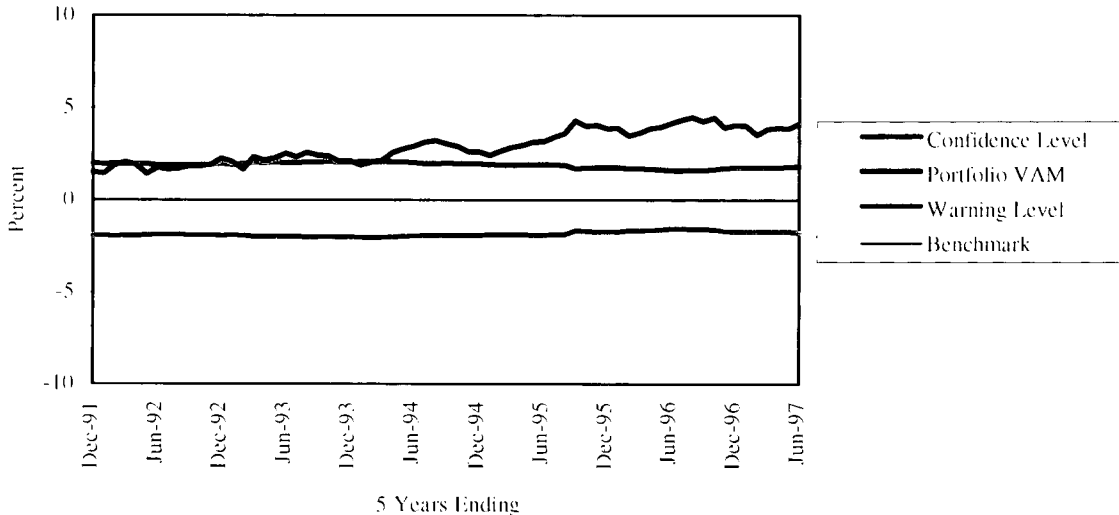
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.9%	16.1%
Last 1 year	37.1	31.4
Last 2 years	32.5	28.3
Last 3 years	30.9	26.3
Last 4 years	23.3	19.7
Last 5 years	N.A.	N.A.
Since Inception (7/93)	23.3	19.7

Recommendation

No action required.

OPPENHEIMER CAPITAL
Rolling Five Year Time Periods



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

WEISS, PECK & GREER
Period Ending 6/30/97

Portfolio Manager: Melville Straus

Assets Under Management: \$333,372,515

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

—Highly successful and experienced professionals.

Concerns:

—Performance pattern has been very volatile.

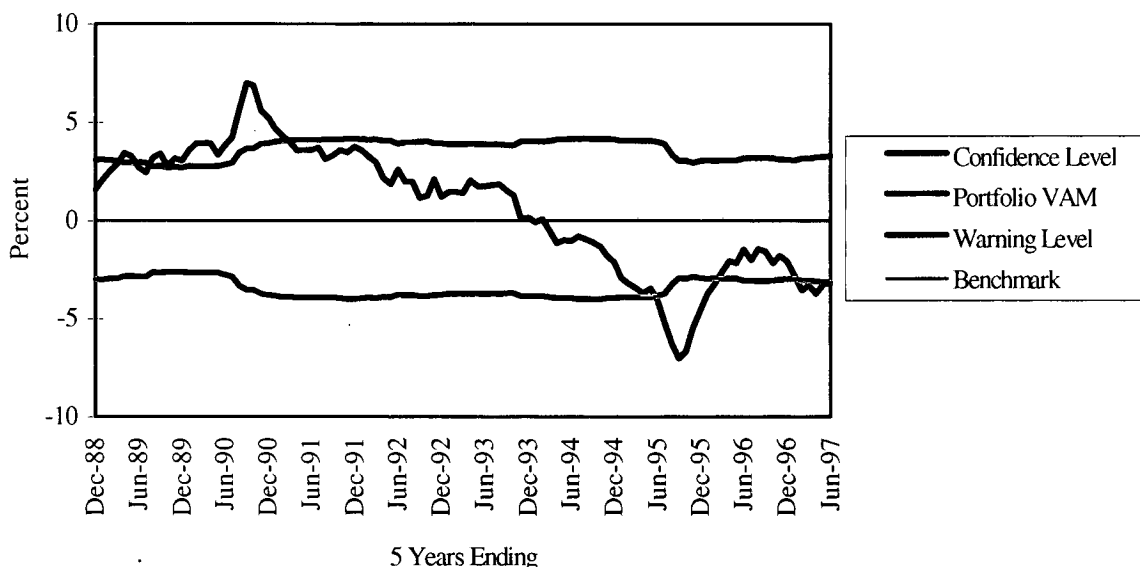
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	15.3%	16.7%
Last 1 year	1.3	8.5
Last 2 years	19.9	15.7
Last 3 years	22.0	21.6
Last 4 years	13.4	15.4
Last 5 years	N.A.	N.A.
Since Inception (7/93)	13.4	15.4

Recommendation

No action at this time. Weiss, Peck & Greer was reviewed by Staff and the Domestic Manager Committee in November 1996. The Committee recommended that no action be taken. Staff continues to monitor the firm.

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 6/30/97

Portfolio Manager: John Nagorniak

Assets Under Management: \$1,529,183,183

Investment Philosophy
Semi-Passive

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

Qualitative Evaluation
(reported by exception)

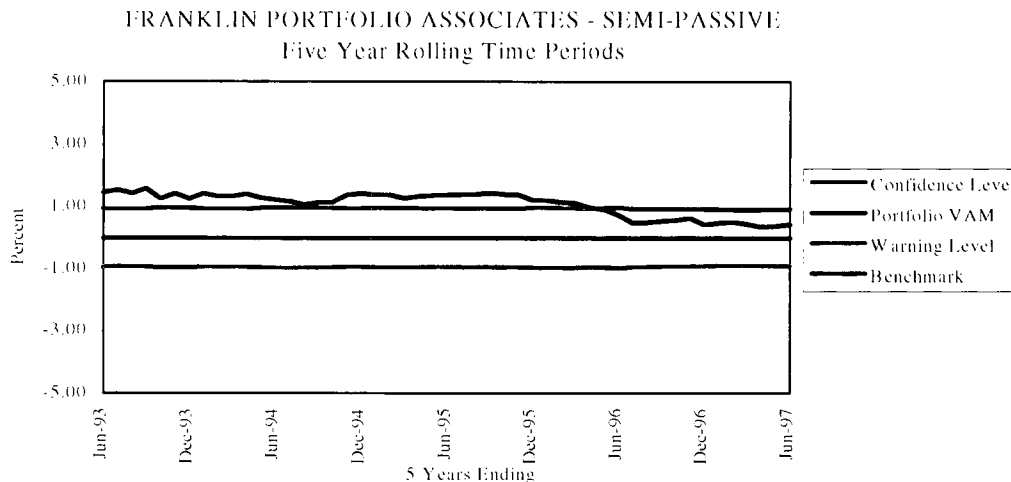
Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Firm's investment approach has been consistently applied over a number of market cycles.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

Quantitative Evaluation

	Actual	Benchmark*	
Last Quarter	17.1%	16.1%	Recommendation No action required.
Last 1 year	33.7	32.5	
Last 2 years	29.4	29.2	
Last 3 years	N.A.	N.A.	
Last 4 years	N.A.	N.A.	
Last 5 years	N.A.	N.A.	
Since Inception (1/95)	31.2	31.1	

* Completeness Fund



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

J.P. MORGAN INVESTMENT MANAGEMENT, INC.
Period Ending 6/30/97

Portfolio Manager: Rick Nelson

Assets Under Management: \$1,569,896,645

Investment Philosophy
Semi-Passive

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

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

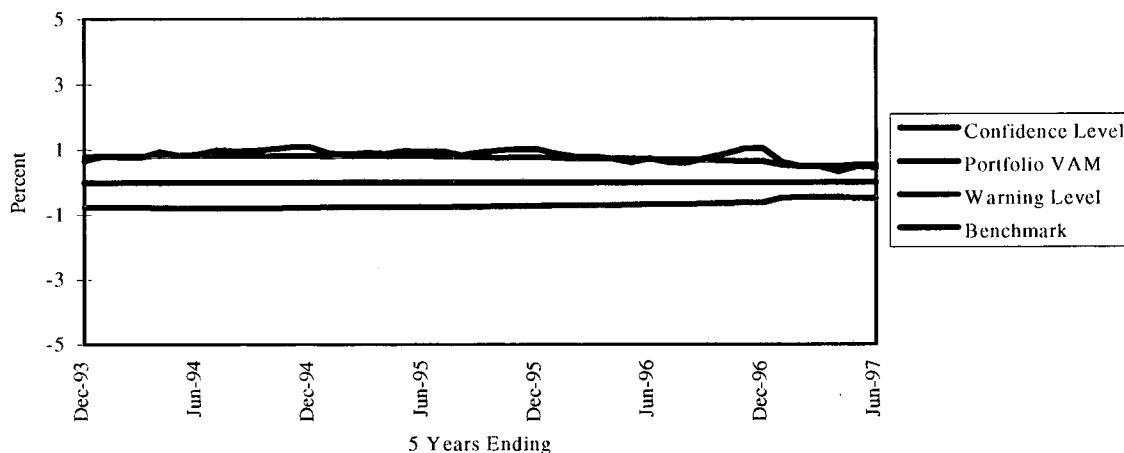
	Actual	Benchmark*
Last Quarter	16.5%	16.1%
Last 1 year	32.1	32.5
Last 2 years	29.2	29.2
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	31.4	31.1

Recommendation

No action required.

* Completeness Fund

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



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

BARCLAYS GLOBAL INVESTORS
Period Ending 6/30/97

Portfolio Manager: Nancy Feldkircher

Assets Under Management: \$1,584,236,484

Investment Philosophy
Semi-Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.
- Attractive, unique investment approach.

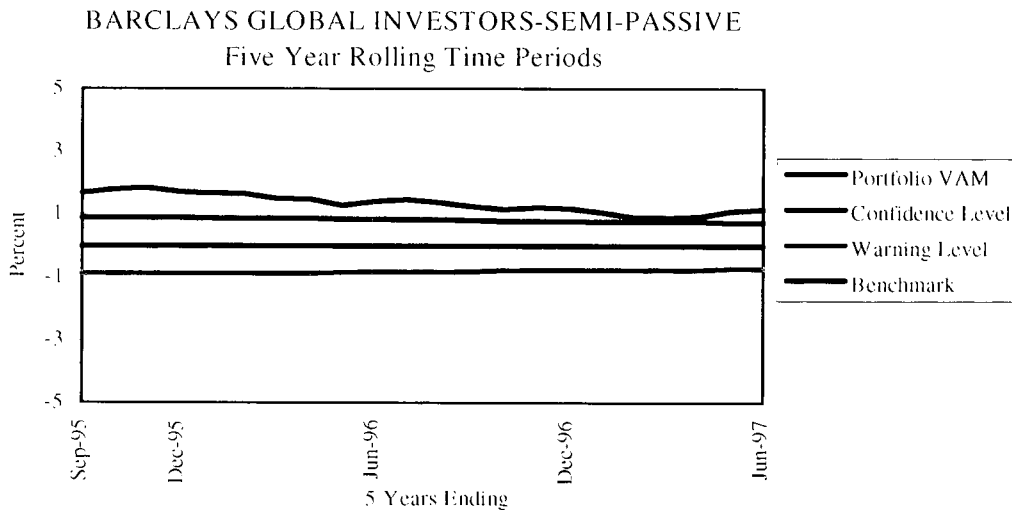
Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	16.5%	16.1%
Last 1 year	33.1	32.5
Last 2 years	30.7	29.2
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception (1/95)	32.9	31.1

Recommendation

No action required.

* Completeness Fund



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

BARCLAYS GLOBAL INVESTORS
Period Ending 6/30/97

Portfolio Manager: Tom Seto

Assets Under Management: \$5,068,480,222

Investment Philosophy
Passive

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.

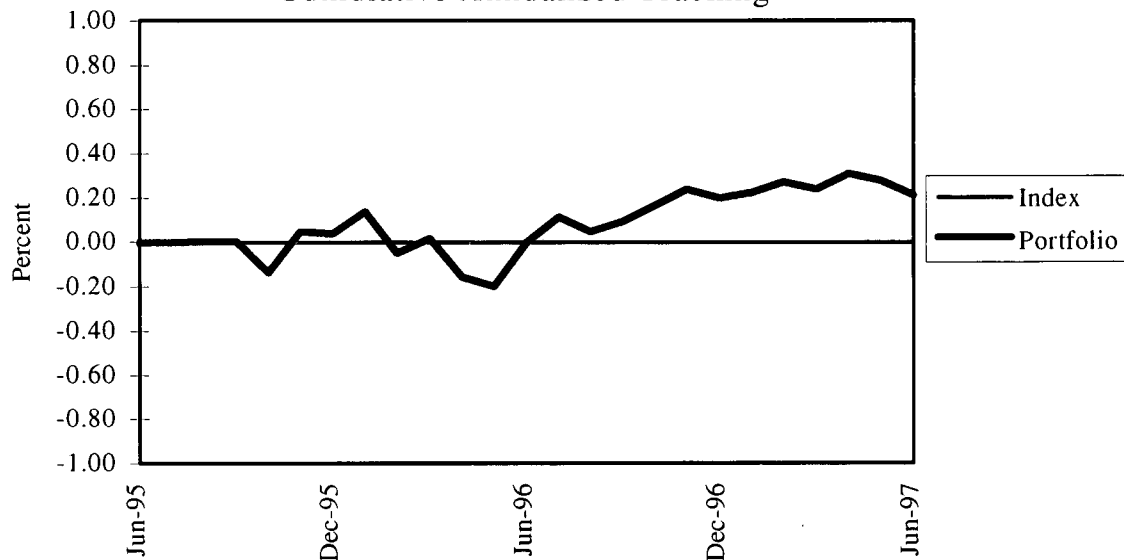
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	16.9%	16.9%
Last 1 year	29.9	29.3
Last 2 years	27.7	27.4
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)	27.7	27.4

Recommendation

No action required.

BARCLAYS GLOBAL INVESTORS
PASSIVE
Cumulative Annualized Tracking



GE INVESTMENT MANAGEMENT - Assigned Risk Plan
Period Ending 6/30/97

Portfolio Manager: Gene Bolton

Assets Under Management: \$143,326,685

Investment Philosophy
Assigned Risk Plan

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Investment approach has been consistently applied over a number of market cycles.
- Highly successful and experienced professionals.
- Strong leadership.

Current concerns are:

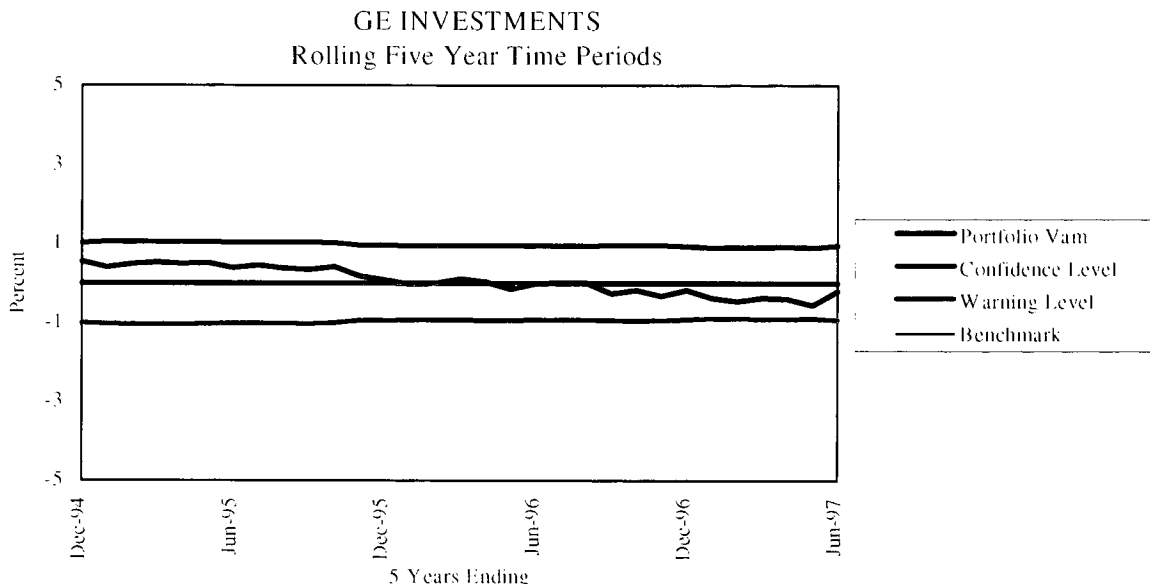
- Recent organizational structure changes within the domestic equity program.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	17.9%	17.5%
Last 1 year	34.4	34.7
Last 2 years	29.7	30.4
Last 3 years	N.A.	N.A.
Last 4 years	N.A.	N.A.
Last 5 years	N.A.	N.A.
Since Inception	32.4	33.1

Recommendation

No action required.



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

INTERNAL STOCK POOL - Trust/Non-Retirement Assets
Period Ending 6/30/97

Portfolio Manager: Lois Buermann

Assets Under Management: \$94,696,731

Investment Philosophy
Environmental Trust Fund

Qualitative Evaluation
(reported by exception)

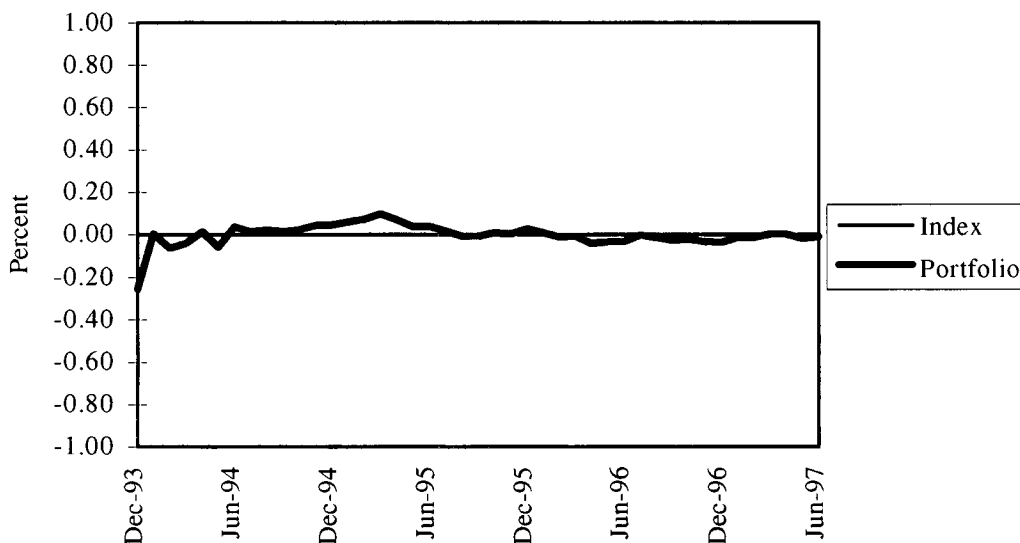
The current manager assumed responsibility for the account in December 1996. The Internal Equity Pool is managed to closely track the S&P 500 Index. The strategy replicates the S&P 500 by owning all of the names in the index at weightings similar to those of the index. The optimization model's estimate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

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	17.4%	17.5%	No action required.
Last 1 year	34.7	34.7	
Last 2 years	30.3	30.4	
Last 3 years	28.9	28.9	
Last 4 years	N.A.	N.A.	
Last 5 years	N.A.	N.A.	
Since Inception (7/93)	21.4	21.4	

INTERNAL STOCK POOL
Trust/Non-Retirement Assets
Cumulative Annualized Tracking



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STATE BOARD OF INVESTMENT

Emerging Stock Manager Evaluation Reports

Second Quarter, 1997

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EMERGING EQUITY MANAGERS
Period Ending 6/30/97

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
CIC Assets	14.5	15.1	29.0	32.8	25.1	27.2			23.0	25.1	\$58.70	11.6%
Cohen, Klingenstein, & Marks	19.7	16.1	37.8	32.8	29.5	26.7			27.7	23.8	118.67	23.4%
Compass Capital	15.3	19.3	24.4	32.3	25.8	27.3			23.0	24.3	58.72	11.6%
New Amsterdam	18.6	16.6	34.6	28.2	25.3	23.8			21.4	21.6	56.30	11.1%
Valenzuela Capital	15.6	15.8	42.5	26.8	26.7	23.7			24.9	21.4	61.85	12.2%
Wilke/Thompson	18.5	20.9	-7.2	10.9	15.2	21.0			11.6	16.8	42.90	8.5%
Winslow Capital	20.3	19.2	18.8	28.0	21.9	25.6			19.1	22.8	52.87	10.4%
Zevenbergen Capital	20.3	18.7	25.8	27.5	25.4	26.2			21.2	23.0	56.09	11.1%
											\$506.09	100.0%
									Since 4/1/94			
Current Aggregate	17.9	17.5 *	26.3	27.7 *	25.1	25.5			22.2	22.6 *		
Historical Aggregate	17.9	17.5 *	25.0	26.0 *	24.3	24.7			21.5	22.0 *		

Note:

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

* Weighted average of above benchmarks.

CIC ASSET MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Jorge Castro

Assets Under Management: \$58,701,830.24

Investment Philosophy

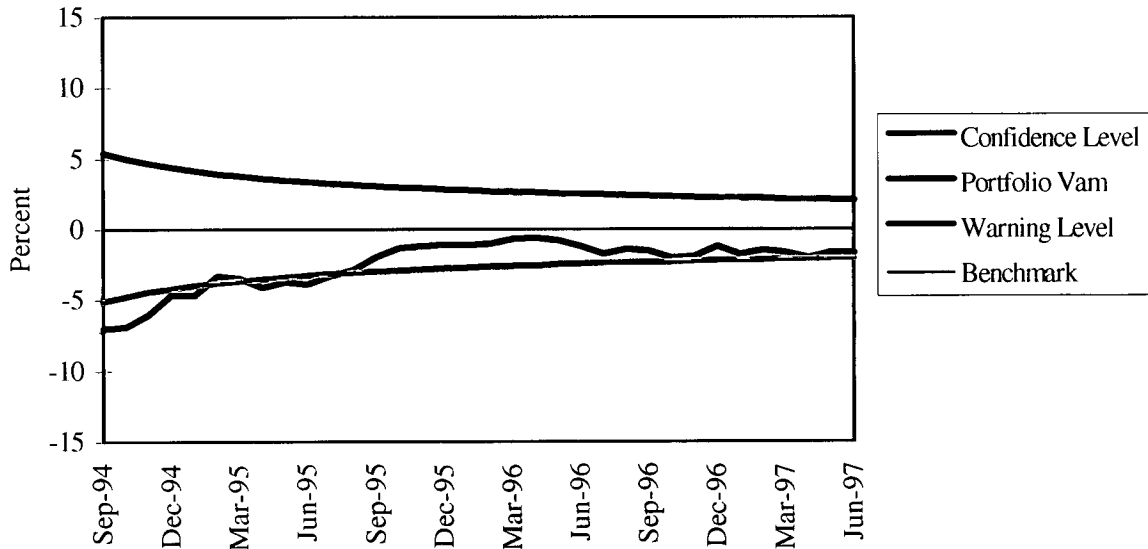
CIC Asset Management (CIC) uses a disciplined relative value approach to managing equities. CIC believes that purchasing companies at attractive prices provides superior long-term performance with lower volatility. This investment process is designed for clients who desire equity market exposure with 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 analysis.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	14.5%	15.1%
Last 1 Year	29.0	32.8
Last 2 Years	28.3	28.7
Last 3 Years	25.1	27.2
Since Inception (4/94)	23.0	25.1

* Custom benchmark since inception date.

CIC ASSET MANAGEMENT
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.

COHEN KLINGENSTEIN & MARKS INCORPORATED
 Period Ending 6/30/97

Portfolio Manager: George Cohen

Assets Under Management: \$118,668,502.04

Investment Philosophy

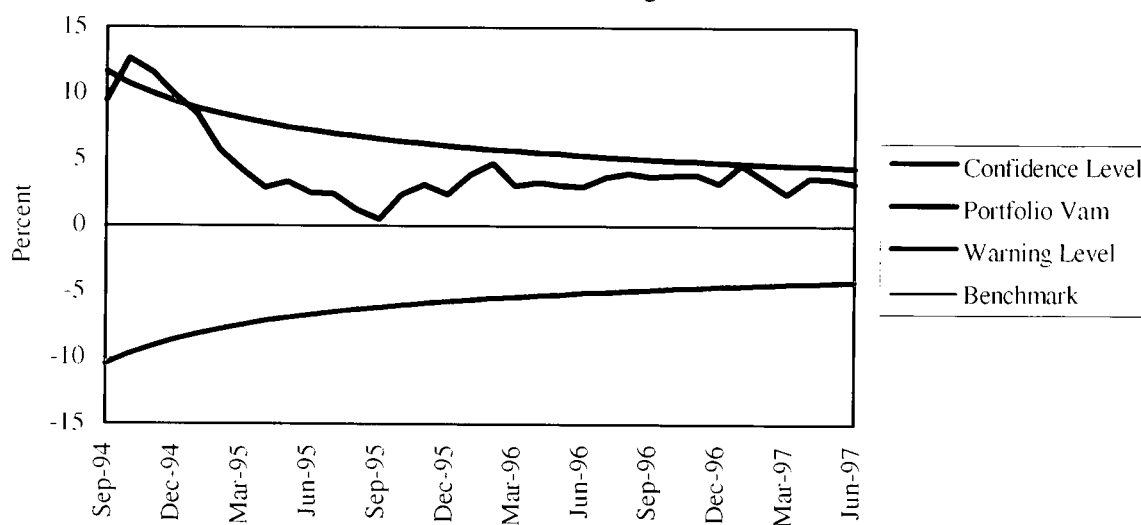
Cohen Klingenstein & Marks Inc. (CKM) seeks to outperform the market by focusing on two variables: 1) economic cycles; and 2) security valuation. Within economic cycles, they believe that stocks exhibit predictable patterns that reflect changing expectations on corporate profits and interest rates. Similarly, 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	19.7%	16.1%
Last 1 Year	37.8	32.8
Last 2 Years	31.2	26.6
Last 3 Years	29.5	26.7
Since Inception (4/94)	27.7	23.8

* Custom benchmark since inception date.

COHEN KLINGENSTEIN & MARKS INCORPORATED
 Cumulative Annualized Tracking Record



Note: Graph uses 80/20 confidence interval.

COMPASS CAPITAL MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Charles Kelley

Assets Under Management: \$58,717,713.60

Investment Philosophy

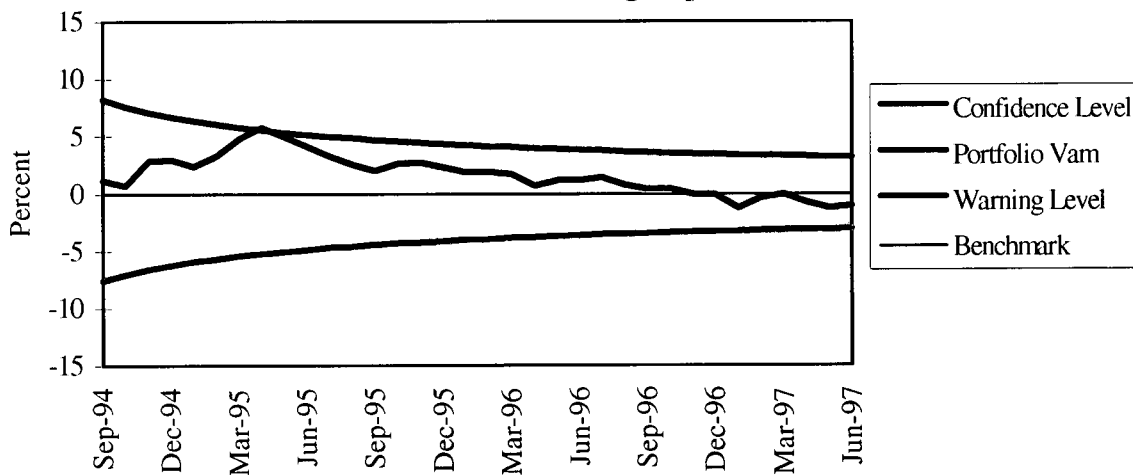
Compass Capital Management (CCM) combines aspects of growth and value investing to achieve the proper blend of return (growth) and risk (value). They use a computer based data network to screen for large, well established companies whose earnings grow in spite of a weak economy and companies whose earnings 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 do not hold utility, bank, deep cyclical (auto companies for example), or oil and gas stocks.

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	15.3%	19.3%
Last 1 Year	24.4	32.3
Last 2 Years	24.3	29.7
Last 3 Years	25.8	27.3
Since Inception (4/94)	23.0	24.3

* Custom benchmark since inception date.

COMPASS CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.

NEW AMSTERDAM PARTNERS
Period Ending 6/30/97

Portfolio Manager: Michelle Clayman

Assets Under Management: \$56,298,267.35

Investment Philosophy

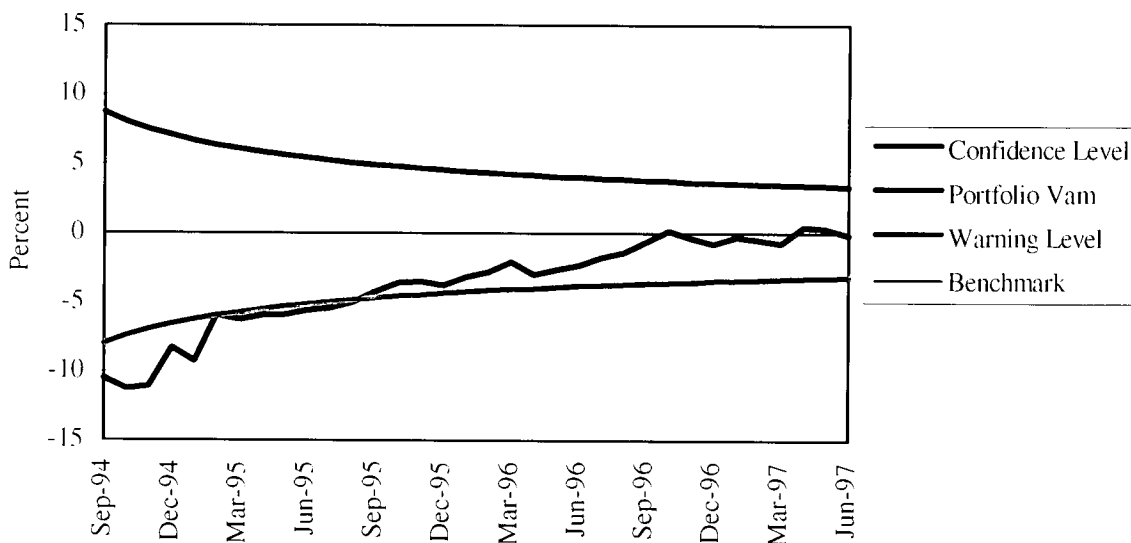
New Amsterdam Partners believes that investment results are evaluated by actual return, and therefore, investment opportunities should be evaluated by expected return. They believe that all valid techniques depend on forecasts of the amounts and timing of future cash flows. Thus, the firm focuses on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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	18.6%	16.6%
Last 1 Year	34.6	28.2
Last 2 Years	27.8	23.6
Last 3 Years	25.3	23.8
Since Inception (4/94)	21.4	21.6

* Custom benchmark since inception date.

NEW AMSTERDAM PARTNERS
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.

VALENZUELA CAPITAL MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Tom Valenzuela

Assets Under Management: \$61,845,859.52

Investment Philosophy

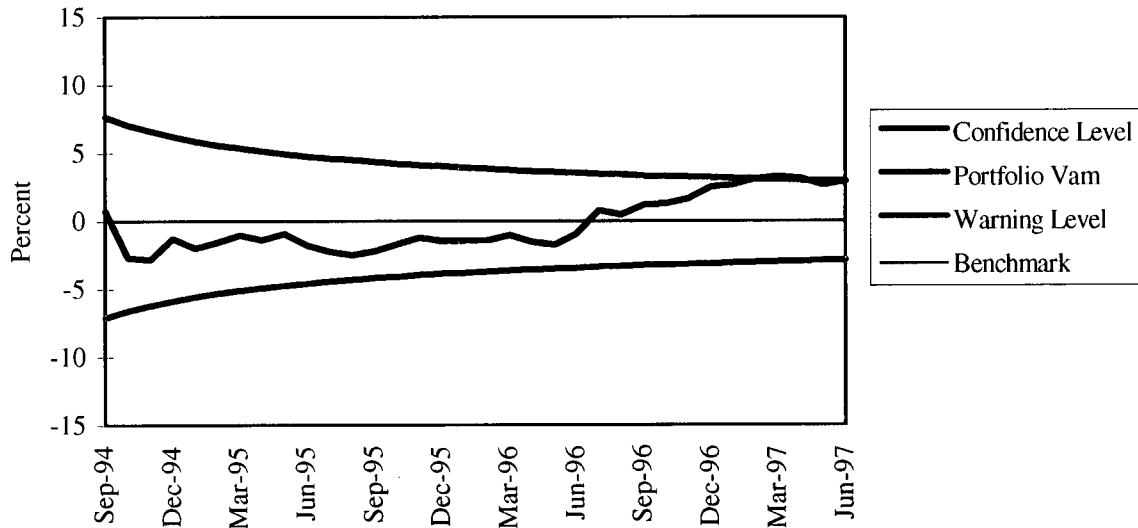
Valenzuela Capital Management (VCM) believes that stock selection and adherence to valuation analysis are the backbone of superior performance. Their investment philosophy is one of risk averse growth. VCM seeks companies undergoing strong rates of change in earnings, cash flow and returns. These companies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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	15.6%	15.8%
Last 1 Year	42.5	26.8
Last 2 Years	32.8	25.2
Last 3 Years	26.7	23.7
Since Inception (4/94)	24.9	21.4

* Custom benchmark since inception date.

VALENZUELA CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Period Ending 6/30/97

Portfolio Manager: Mark Thompson

Assets Under Management: \$42,899,846.10

Investment Philosophy

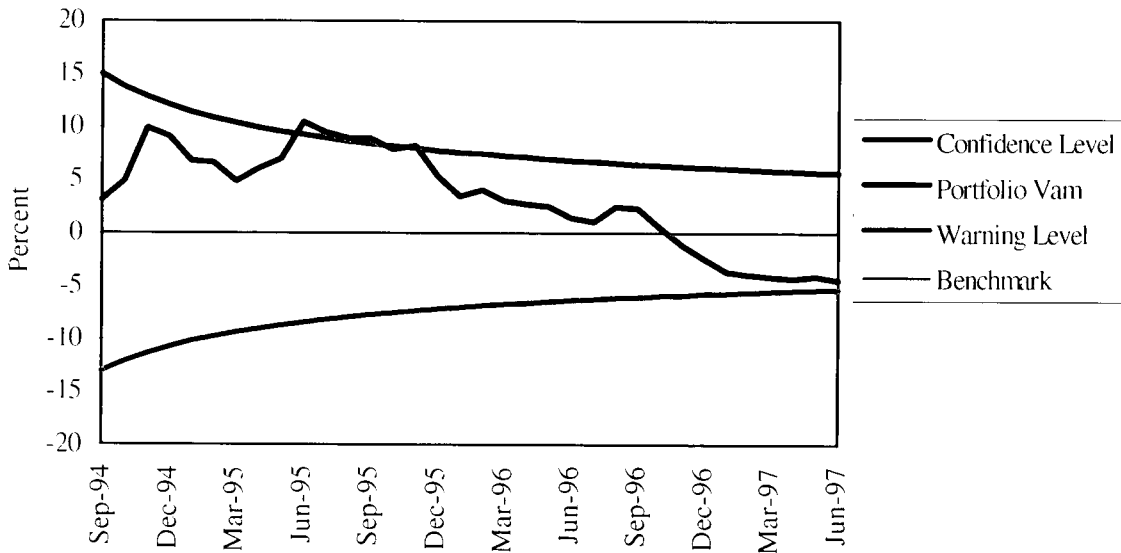
The investment philosophy of Wilke/Thompson (W/T) is to invest in high quality growth companies that demonstrate the ability to sustain strong secular earnings growth, notwithstanding overall economic conditions. W/T's investment approach involves a bottom-up fundamental process. The stock selection 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	18.5%	20.9%
Last 1 Year	-7.2	10.9
Last 2 Years	3.9	19.0
Last 3 Years	15.2	21.0
Since Inception (4/94)	11.6	16.8

* Custom benchmark since inception date.

WILKE/THOMPSON CAPITAL MANAGEMENT INC.
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval. Scale differs from other graphs.

WINSLOW CAPITAL MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Clark Winslow

Assets Under Management: \$52,870,203.13

Investment Philosophy

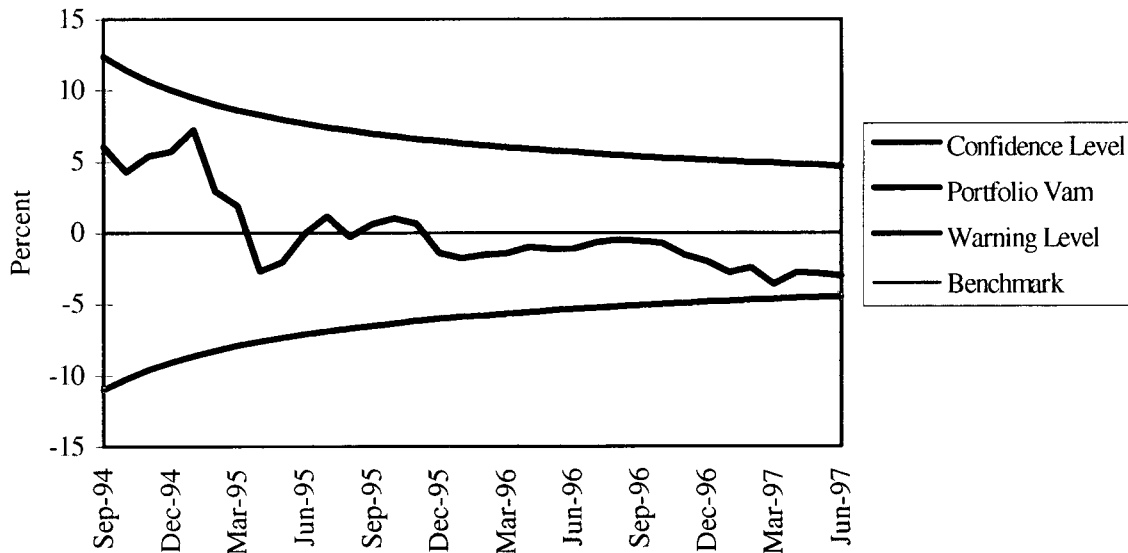
Winslow Capital Management (WCM) believes that investing in companies with above average earnings growth provides the best opportunities for superior portfolio returns over time. WCM believes that a high rate of earnings growth is often found in medium capitalization growth companies of \$1 to \$10 billion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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	20.3%	19.2%
Last 1 Year	18.8	28.0
Last 2 Years	19.0	25.1
Last 3 Years	21.9	25.6
Since Inception (4/94)	19.1	22.8

* Custom benchmark since inception date.

WINSLOW CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.

ZEVENBERGEN CAPITAL INC
Period Ending 6/30/97

Portfolio Manager: Nancy Zevenbergen

Assets Under Management: \$56,090,096.44

Investment Philosophy

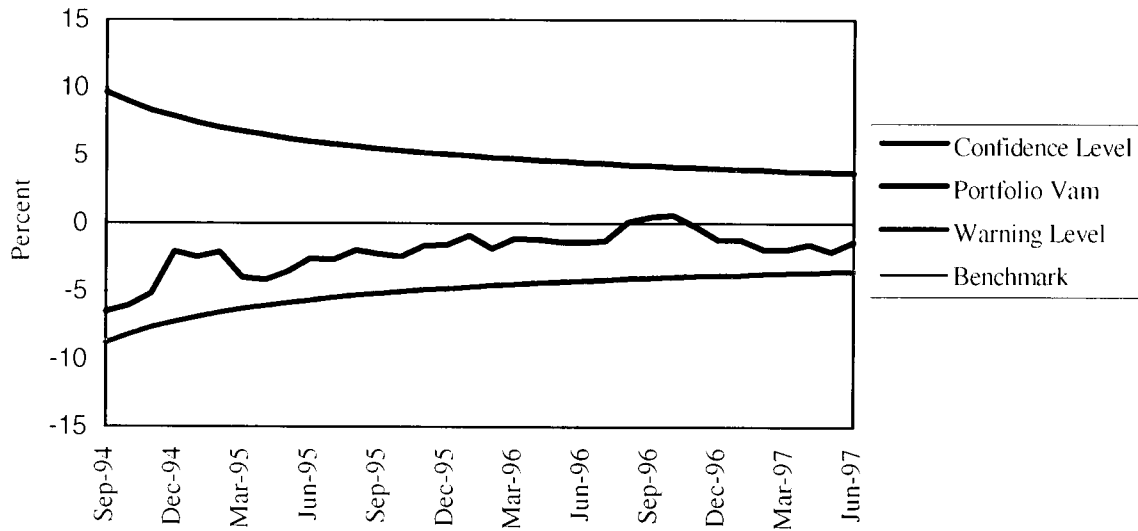
Zevenbergen is an equity growth manager. The investment philosophy is based on the belief that earnings drive stock prices while quality provides capital protection. Hence, portfolios are constructed with companies showing above-average earnings growth prospects and strong financial characteristics.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

Quantitative Evaluation

	Actual	Benchmark*
Last Quarter	20.3%	18.7%
Last 1 Year	25.8	27.5
Last 2 Years	24.7	25.5
Last 3 Years	25.4	26.2
Since Inception (4/94)	21.2	23.0

* Custom benchmark since inception date.

ZEVENBERGEN CAPITAL INC.
Cumulative Annualized Tracking Report



Note: Graph uses 80/20 confidence interval.



STATE BOARD OF INVESTMENT

Bond Manager Evaluation Reports

Second Quarter, 1997

BOND MANAGERS
Period Ending 6/30/97

	Quarter		1 Year		3 years		5 Years		Since (1) Inception		Market Value (in millions)	Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active Managers												
BEA	4.9	3.7	10.3	8.2	9.4	8.5			6.6	6.0	\$464.60	6.0%
IAI	3.8	3.7	8.3	8.2	7.8	8.5	7.4	7.2	11.0	10.9	567.91	7.3%
IDS	3.6	3.7	8.8	8.2	8.7	8.7			6.1	6.1	354.02	4.6%
Miller	3.8	3.7	10.9	8.2	9.8	8.5	8.3	7.2	11.3	10.9	764.97	9.9%
Standish	4.0	3.7	10.0	8.2	9.0	8.5			6.3	6.0	638.20	8.2%
Western	4.3	3.7	10.9	8.2	10.4	8.5	8.8	7.2	12.2	10.9	1,127.22	14.5%
Semi-Passive Managers												
BlackRock	3.6	3.7	8.7	8.2					7.3	7.0	1,292.61	16.7%
Goldman	3.6	3.7	8.7	8.2	8.9	8.5			6.5	6.0	1,289.87	16.6%
Lincoln	3.6	3.7	8.2	8.2	8.6	8.5	7.3	7.2	9.0	9.0	1,261.99	16.3%
											\$7,761.40	100.0%
									Since 7/1/84			
Current Aggregate	3.9	3.7	9.3	8.2	9.1	8.5	7.8	7.2	11.4	10.9		
Historical Aggregate (2)	3.9	3.7	9.3	8.2	9.0	8.5	7.7	7.2	10.9	10.8		
Lehman Aggregate (3)		3.7		8.2		8.5		7.1		10.4		

(1) Since retention by the SBI. Time period varies for each manager.

(2) Includes performance of terminated managers.

(3) Prior to July 1994, this index reflects the Salomon BIG.

BEA ASSOCIATES
Period Ending 6/30/97

Portfolio Manager: Bob Moore

Assets Under Management: \$464,597,655

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

- Highly successful and experienced professionals.
- Extensive option analysis capabilities.

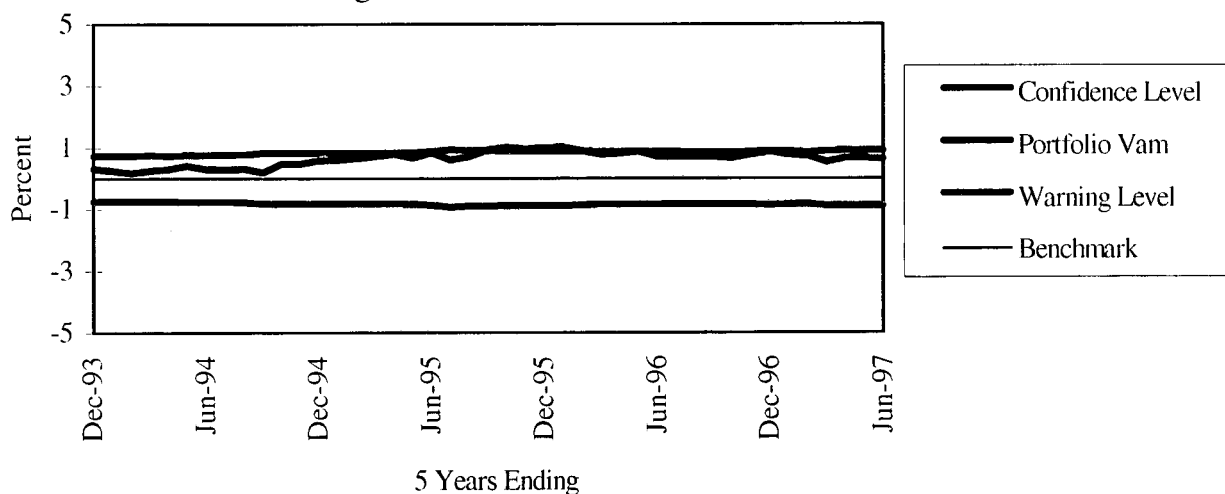
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.9%	3.7%
Last 1 year	10.3	8.2
Last 2 years	7.4	6.6
Last 3 years	9.4	8.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.6	6.0

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 6/30/97

Portfolio Manager: Larry Hill

Assets Under Management: \$567,909,691

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)**

Exceptional strengths:

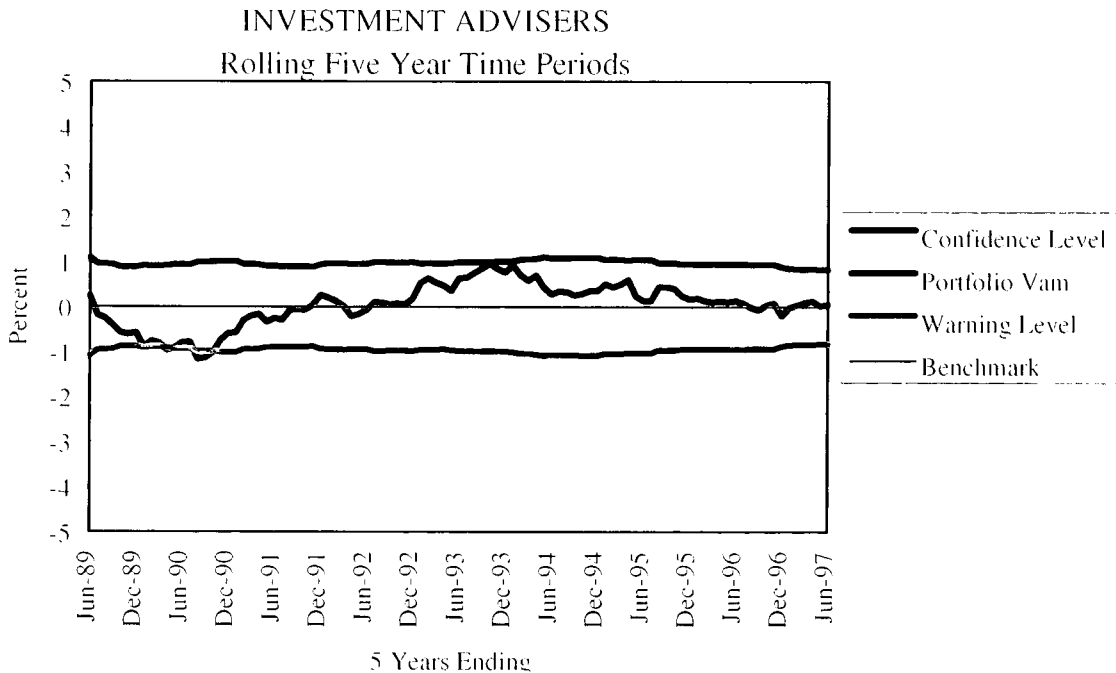
—Firm's investment approach has been consistently applied over a number of market cycles.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.8%	3.7%
Last 1 year	8.3	8.2
Last 2 years	6.5	6.6
Last 3 years	7.8	8.5
Last 4 years	5.3	6.0
Last 5 years	7.4	7.2
Since Inception (7/84)	11.0	10.9

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

IDS ADVISORY GROUP
Period Ending 6/30/97

Portfolio Manager: Ed Labenski

Assets Under Management: \$354,021,493

Investment Philosophy

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

Qualitative Evaluation
 (reported by exception)

Exceptional strengths are:

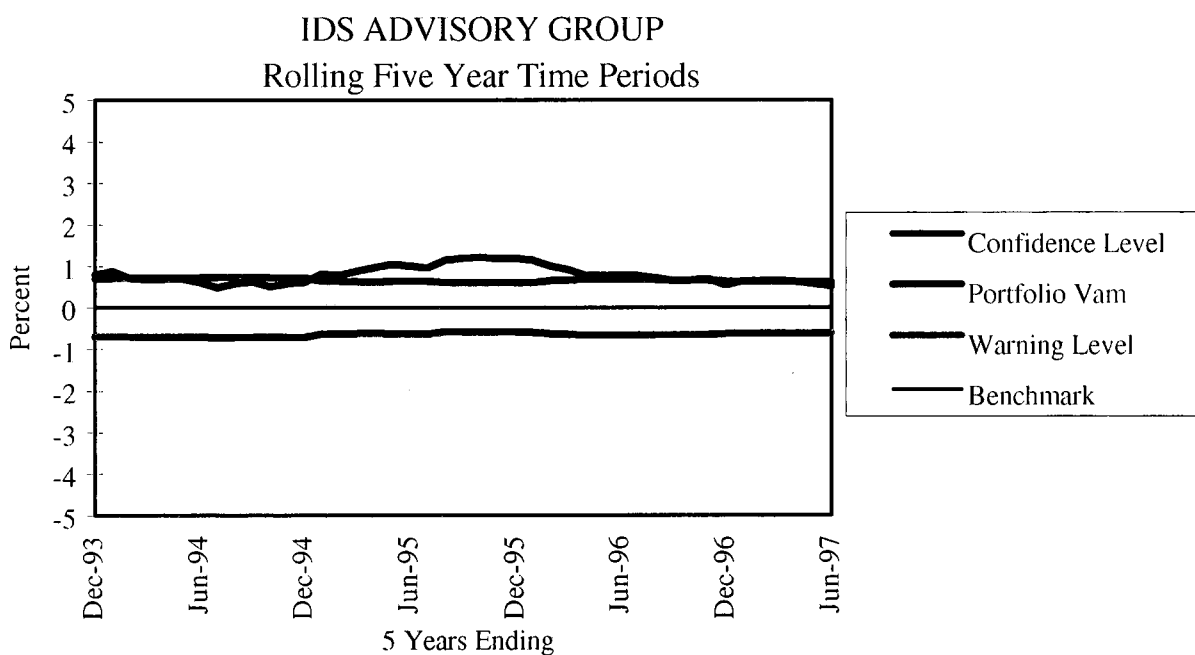
- Highly successful and experienced professionals.
- Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.6%	3.7%
Last 1 year	8.8	8.2
Last 2 years	6.3	6.7
Last 3 years	8.7	8.7
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.1	6.1

Recommendations

No action required.



Note: Graph uses 80/20 confidence interval.

MILLER ANDERSON & SHERRERD
 Period Ending 6/30/97

Portfolio Manager: Tom Bennett

Assets Under Management: \$764,971,155

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.

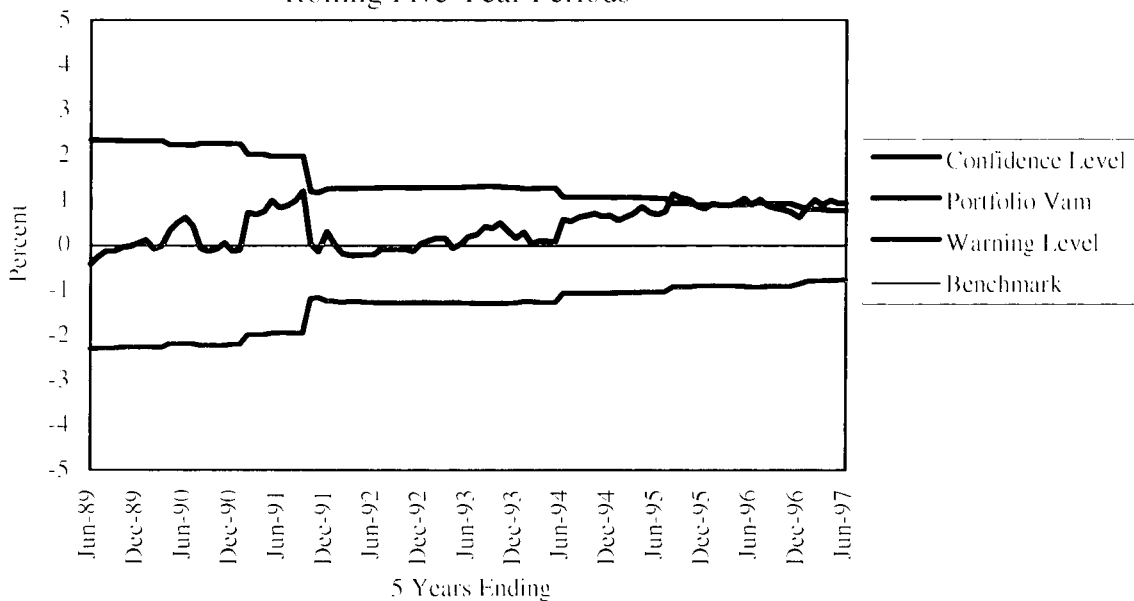
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.8%	3.7%
Last 1 year	10.9	8.2
Last 2 years	8.5	6.6
Last 3 years	9.8	8.5
Last 4 years	6.8	6.0
Last 5 years	8.3	7.2
Since Inception (7/84)	11.3	10.9

Recommendations

No action required.

MILLER ANDERSON & SHERRERD
 Rolling Five Year Periods



Note: Graph uses 80/20 confidence interval.

STANDISH, AYER & WOOD
Period Ending 6/30/97

Portfolio Manager: Austin Smith

Assets Under Management: \$638,196,626

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:

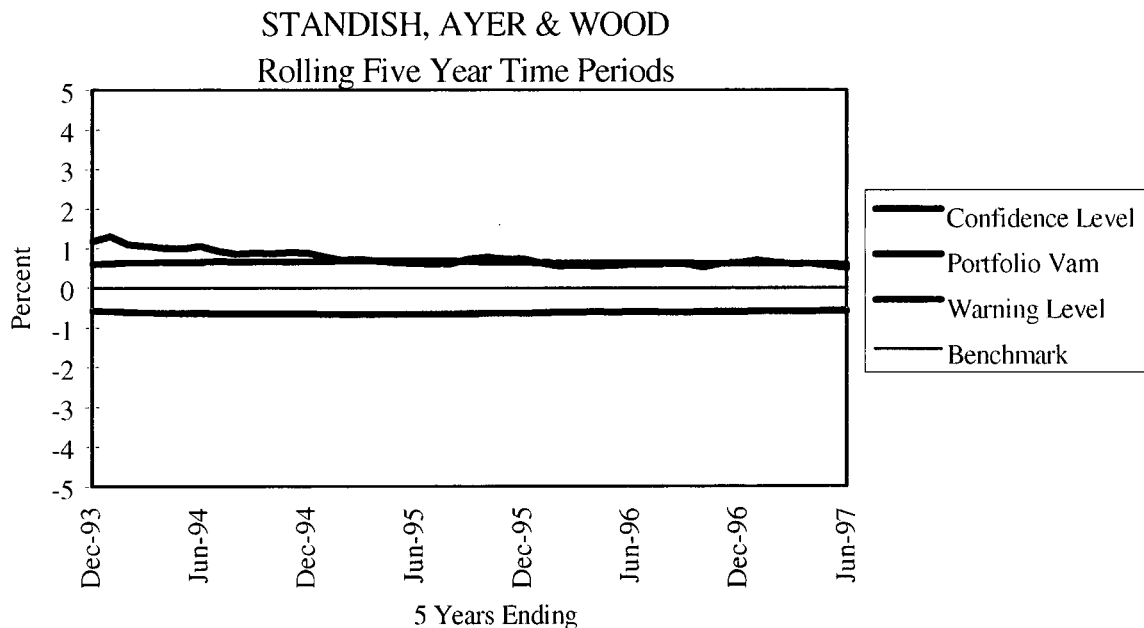
- Highly successful and experienced professionals
- Extensive corporate research capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.0%	3.7%
Last 1 year	10.0	8.2
Last 2 years	7.9	6.6
Last 3 years	9.0	8.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.3	6.0

Recommendations

No action required.



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

WESTERN ASSET MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Kent Engel

Assets Under Management: \$1,127,220,713

Investment Philosophy

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

**Qualitative Evaluation
 (reported by exception)**

The firm's exceptional strengths continue to be:
 —Highly successful and experienced professionals.
 —Extensive securities research process.

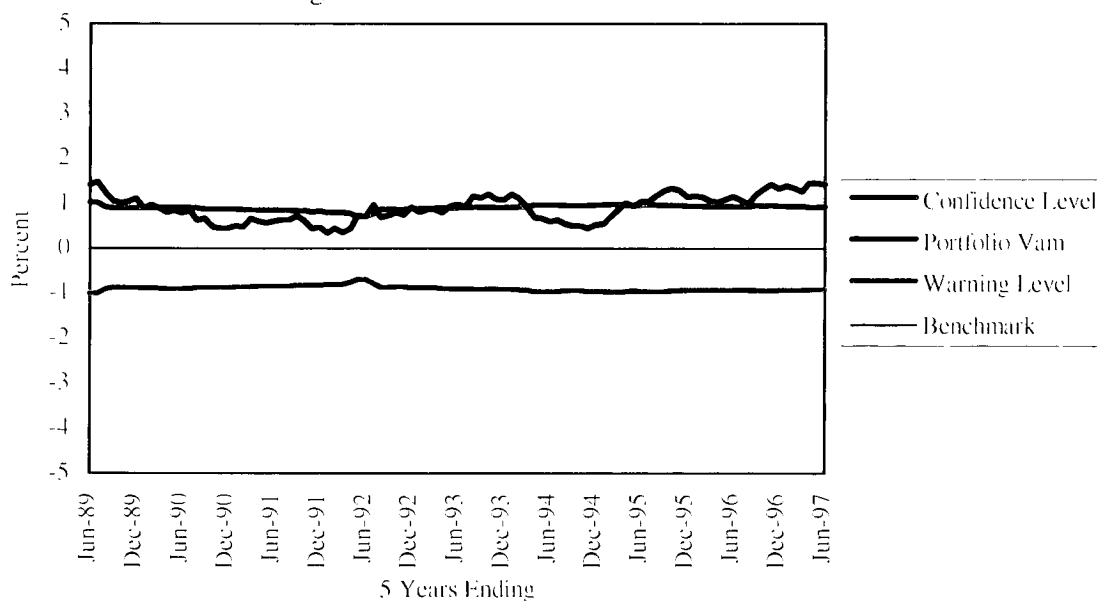
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	4.3%	3.7%
Last 1 year	10.9	8.2
Last 2 years	8.3	6.6
Last 3 years	10.4	8.5
Last 4 years	7.4	6.0
Last 5 years	8.8	7.2
Since Inception (7/84)	12.2	10.9

Recommendations

No action required.

WESTERN ASSET MANAGEMENT
Rolling Five Year Time Periods



Note: Graph uses 80/20 confidence interval.

BLACKROCK FINANCIAL MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Keith Anderson

Assets Under Management: \$1,292,614,156

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Strong quantitative capabilities.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.6%	3.7%
Last 1 year	8.7	8.2
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 (4/96)	7.3	7.0

Recommendation

No action required.

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

GOLDMAN SACHS
Period Ending 6/30/97

Portfolio Manager: Sharmin Mossavar Rahmani

Assets Under Management: \$1,289,869,894

Investment Philosophy

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Quantitative capabilities.

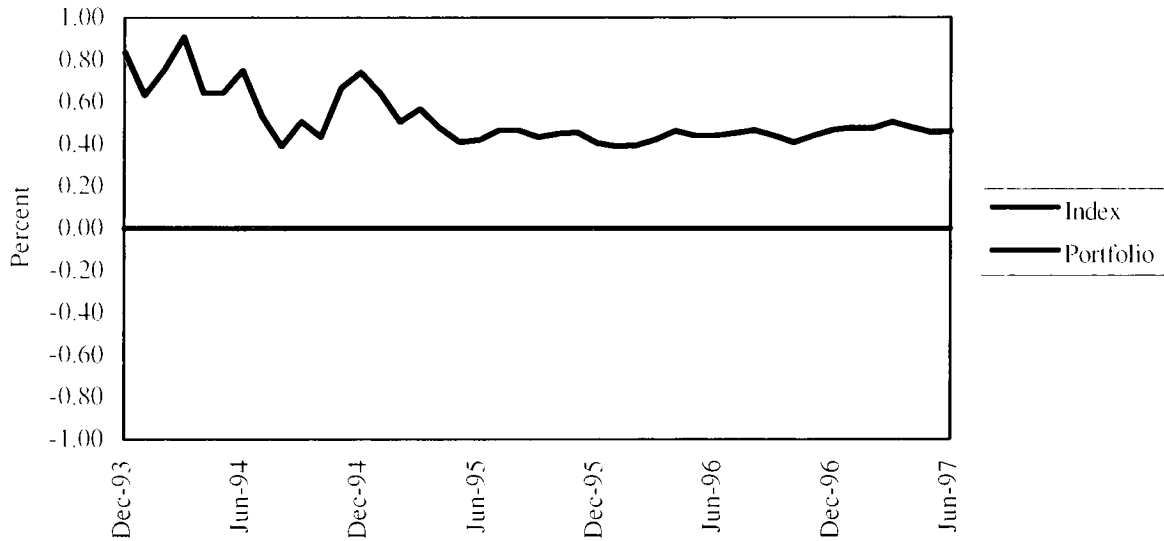
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.6%	3.7%
Last 1 year	8.7	8.2
Last 2 years	7.1	6.6
Last 3 years	8.9	8.5
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (7/93)	6.5	6.0

Recommendations

No action required.

GOLDMAN SACHS
Cumulative Annualized Tracking Report



LINCOLN CAPITAL MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Andrew Johnson

Assets Under Management: \$1,261,994,997

Investment Philosophy

Lincoln is an enhanced index manager that uses a quantitative approach to managing the portfolio. Lincoln calculates the index's expected return for changes in 54 variables. These variables include interest rates, yield curve shape, call features and sector spreads. Lincoln then constructs a portfolio to match the expected returns for a given change in any of the variables. Lincoln relaxes the return tolerances, defined as the difference between the portfolio's expected returns and that for the index, for an enhanced index fund. The portfolio's securities are selected from a universe of 250 liquid issues using a proprietary risk-valuation model. A linear program or portfolio optimizer then constructs the most undervalued portfolio that still matches the return characteristics of the index.

Qualitative Evaluation
(reported by exception)

The firm's strengths are:

- Highly successful and experienced professionals.
- Extensive quantitative capabilities.

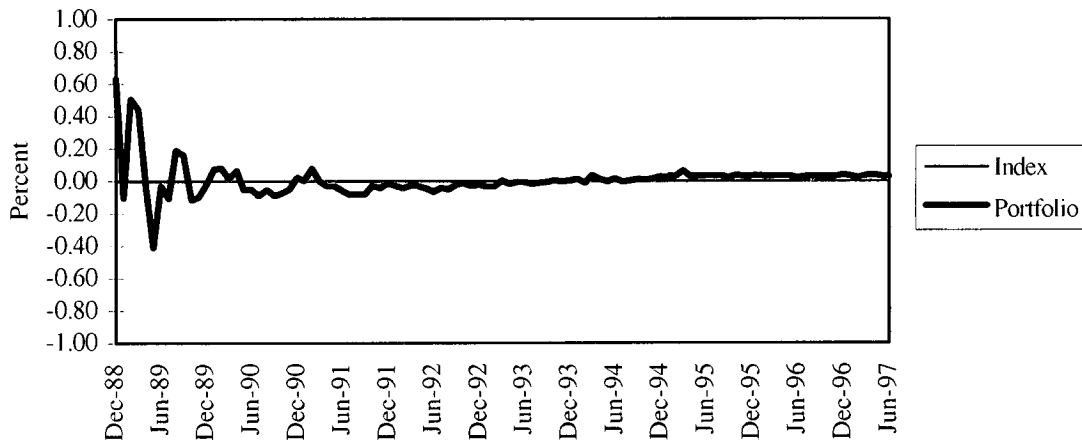
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	3.6%	3.7%
Last 1 year	8.2	8.2
Last 2 years	6.6	6.6
Last 3 years	8.6	8.5
Last 4 years	6.1	6.0
Last 5 years	7.3	7.2
Since Inception (7/88)	9.0	9.0

Recommendations

No action required.

LINCOLN CAPITAL MANAGEMENT
Cumulative Annualized Tracking Report



VOYAGEUR ASSET MANAGEMENT - Assigned Risk Plan
Period Ending 6/30/97

Portfolio Manager: Jane Wyatt

Assets Under Management: \$447,477,694

**Investment Philosophy
Assigned Risk Plan**

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Firms investment approach has been consistently applied over a number of markets cycles.
- Highly successful and experienced professionals.
- Organizational continuity and strong leadership.

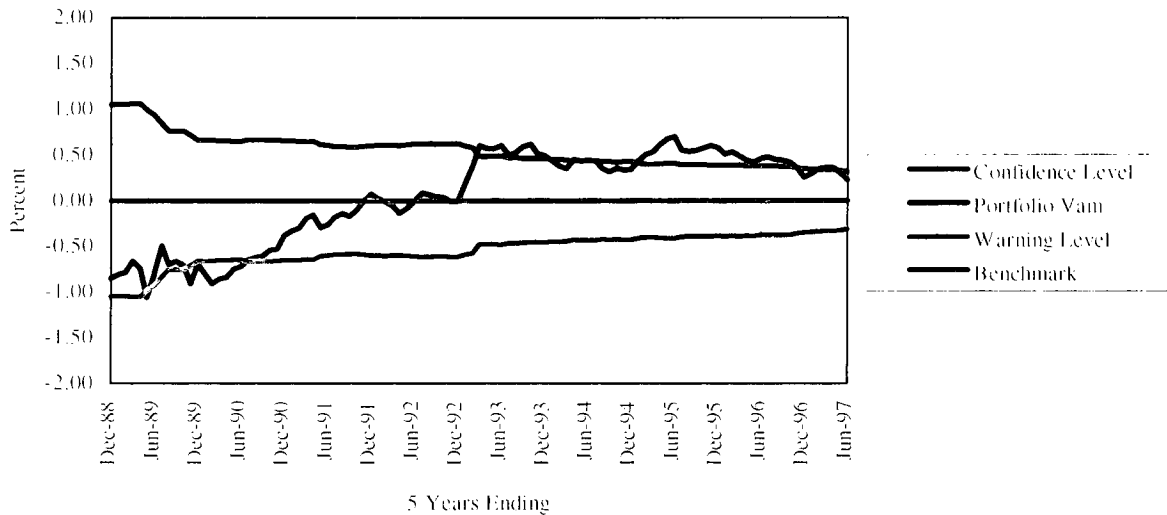
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	2.8%	2.9%
Last 1 year	7.8	7.7
Last 2 years	6.6	6.6
Last 3 years	8.0	7.8
Last 4 years	6.2	6.0
Last 5 years	6.8	6.6
Since Inception (7/91)	8.0	7.6

Recommendation

No action required.

VOYAGEUR ASSET MANAGEMENT
Rolling Five Year Time Periods



Notes: Area through 6/96 includes performance prior to managing SBI account. Graph uses 80/20 confidence interval. Area to the left of the vertical line includes performance prior to retention by the SBI.

INTERNAL BOND POOL - Income Share Account
Period Ending 6/30/97

Portfolio Manager: Mike Menssen

Assets Under Management: \$146,651,678

Investment Philosophy
Income Share Account

Qualitative Evaluation
(reported by exception)

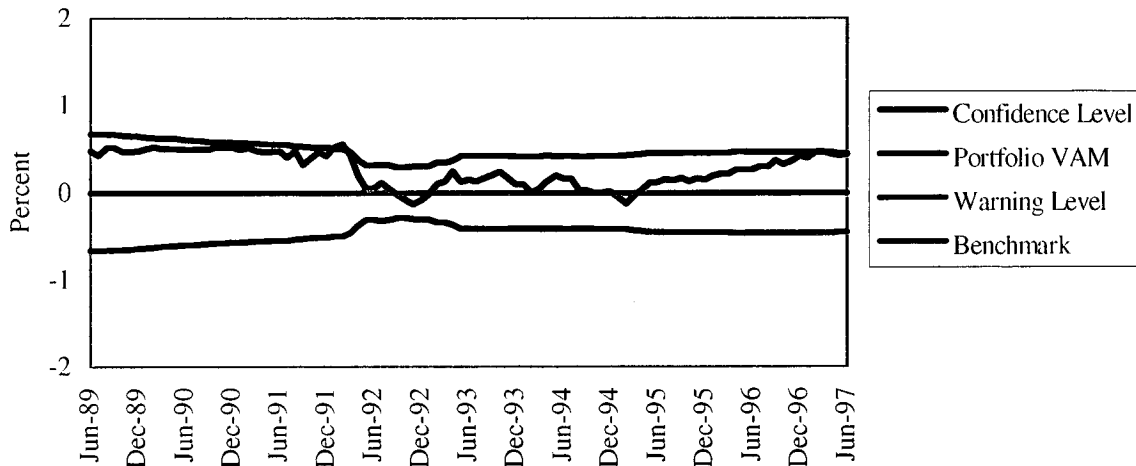
The current manager assumed responsibility for this portfolio in December 1996. The investment approach emphasizes sector and security selection. The approach utilizes sector trading and relative spread analysis of both sectors and individual issues. The portfolio weightings in mortgage and corporate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

Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	3.7%	3.7%	No action required.
Last 1 year	8.9	8.2	
Last 2 years	7.3	6.6	
Last 3 years	8.9	8.5	
Last 4 years	6.4	6.0	
Last 5 years	7.8	7.2	

INTERNAL BOND POOL - Income Share
Rolling Five Year Time Periods



INTERNAL BOND POOL - Trust/Non-Retirement Assets
Period Ending 6/30/97

Portfolio Manager: Mike Menssen

Assets Under Management: \$505,874,123

Investment Philosophy
Environmental Trust Fund
and Permanent School Trust Fund

Qualitative Evaluation
(reported by exception)

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

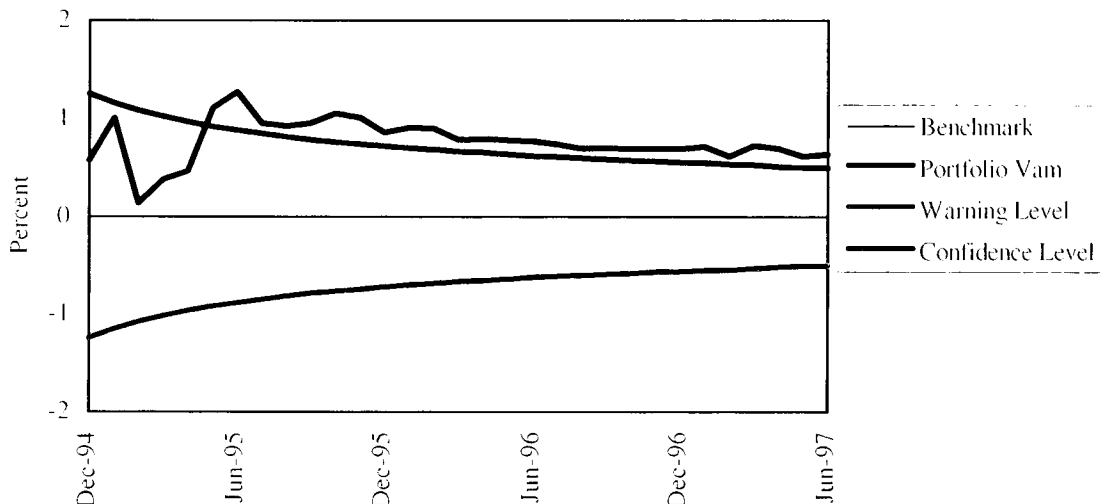
Quantitative Evaluation

Recommendation

	Actual	Benchmark	
Last Quarter	3.6%	3.7%	No action required.
Last 1 year	8.6	8.2	
Last 2 years	6.9	6.6	
Last 3 years	9.2	8.5	
Last 4 years	N/A	N/A	
Last 5 years	N/A	N/A	
Since Inception (7/94)*	9.2	8.5	

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

INTERNAL BOND POOL - Trust/Non-Retirement Assets
Cumulative Annualized Tracking Report



Tab F

COMMITTEE REPORT

DATE: August 26, 1997

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

FROM: **International Manager Committee**

The International Manager Committee met on August 19, 1997 to consider the following agenda items:

- Review of manager performance for the period ending June 30, 1997.
- Status of Committee's review of the currency overlay manager
- Recommendation to place Scudder Stevens & Clark on probation due to a change in ownership.

Board/IAC action is requested on the last item.

INFORMATION ITEMS:

1. Review of manager performance for the period ending June 30, 1997.

The total international stock program underperformed its composite index by 0.3 percentage point for the quarter ending June 30, 1997. The program outperformed by 5.0 percentage points over the last year, by 3.2 percentage points over the last three years and by 1.7 percentage points since inception (4.75 years). Performance of the equity managers (without the currency overlay) was higher than the target in all periods:

Time Period	Total Program	Composite Index	Equity Managers Only
Quarter	12.1%	12.5%	12.6%
1 year	18.2	13.2	15.6
3 years	12.4	9.3	11.6
Since Incept. 10/92	15.0	13.3	14.5

Three of **active EAFE managers** underperformed the EAFE-free index during the quarter and one matched the target. For the latest year, three managers exceeded the index and one lagged. As in past quarters, the dominant factor in the returns was a manager's decision regarding the Japanese market which performed well in the last quarter but trailed other EAFE markets by considerable margins during the last year. Since inception of the SBI account, each of the managers has surpassed the index.

All three of the **emerging markets specialists** outperformed the Emerging Markets Free index for the quarter and since inception.

The **currency overlay program** detracted from returns over the last quarter (index fund *with* overlay +12.4%, index fund *without* overlay +13.5%). Over the last year, the overlay program has added 5.1 percentage points to the return of the index fund.

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

2. Status of Committee's review of the currency overlay manager.

At their meetings in June 1997, the SBI and IAC endorsed a "Statement of Existing Philosophy on Currency Management." This action re-affirmed the decision to use a systematic currency overlay approach for the assets in the EAFE index fund.

The contract with the SBI's currency overlay manager, Record Treasury Management, expires at the end of the calendar year. The Committee is reviewing the results to date and is considering a number of alternatives. These include continuing the relationship with Record or considering other systematic overlay managers as additions or replacements. The Committee intends to make recommendations to the IAC/SBI at their meetings in December 1997.

ACTION ITEM:

3. Recommendation to place Scudder on probation.

In June 1997, Scudder Steven & Clark announced that the firm had been sold to the Zurich Group, a Swiss-based insurance and financial services firm. Scudder will be combined with Zurich-Kemper Investments to form Scudder Kemper Investments. The transaction is expected to close by the end of calendar year. According to Scudder officials, Scudder's investment process will remain intact and Scudder will take over leadership of the Zurich-Kemper organization.

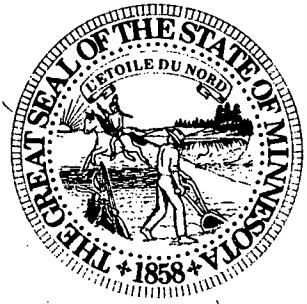
Staff have also learned that the portfolio manager assigned to the SBI's account will be changing. Irene Cheng will be moving from institutional to mutual fund accounts.

Marc Joseph, recently hired from Templeton, will assume responsibility the SBI's portfolio. The entire global stock group will continue to be headed by Nick Bratt.

RECOMMENDATION:

In accordance with the qualitative guidelines in the SBI's Manager Continuation Policy, the Committee recommends that Scudder Stevens & Clark be placed on probation due to organizational changes.

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STATE BOARD OF INVESTMENT

International Manager Evaluation Reports

Second Quarter, 1997

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INTERNATIONAL STOCK MANAGERS
Period Ending 6/30/97

	Quarter		1 Year		3 years		5 Years		Since Inception		Market Value (in millions)	Equity Pool %
	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %	Actual %	Bmk %		
Active EAFE												
Brinson (1)	12.7	13.0	18.1	12.8	14.4	9.2			13.3	12.9	\$418.47	8.6%
Marathon (2)	10.4	13.0	9.6	12.8	8.7	9.2			11.3	9.3	383.99	7.9%
Rowe Price (2)	12.2	13.0	18.4	12.8	13.9	9.2			12.9	9.3	404.50	8.3%
Scudder (2)	13.0	13.0	21.3	12.8	16.0	9.2			13.9	9.3	291.78	6.0%
Active Emerging Markets												
City of London (3)	10.3	8.6							23.1	20.3	122.19	2.5%
Genesis (4)	9.2	8.6	22.0	12.8					19.9	11.1	247.19	5.1%
Montgomery (4)	12.0	8.6	21.8	12.8					20.1	11.1	246.92	5.0%
Passive EAFE												
State Street (5)	13.5	13.0	13.0	12.8	9.5	9.2			13.5	13.2	2,762.64	56.6%
									Since 10/1/92			
Equity Only*	12.6	12.5	15.6	13.2	11.6	9.3			14.5	13.3	4,877.68	100.0%
Total Program**	12.1	12.5	18.2	13.2	12.4	9.3			15.0	13.3	\$4,907.65	

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

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

(1) Active country/passive stock. Retained April 1, 1993.

(2) Fully active. Retained November 1, 1993.

(3) Retained November 1, 1996.

(4) Retained May 1, 1996.

(5) Retained October 1, 1992.

Impact of Currency Overlay Program

	Qtr.	Yr.	Since Dec. 95
Index Fund*	13.5	13.0	14.3
Index + Overlay**	12.4	18.1	17.5

* EAFE index fund managed by State Street Global Advisers.

** Index fund with currency overlay program implemented by Record Treasury Management. Program was phased-in from Dec. 95 - Nov. 96.

(Blank)

BRINSON PARTNERS
Period Ending 6/30/97

Portfolio Manager: Richard Carr

Assets Under Management: \$418,469,609

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.

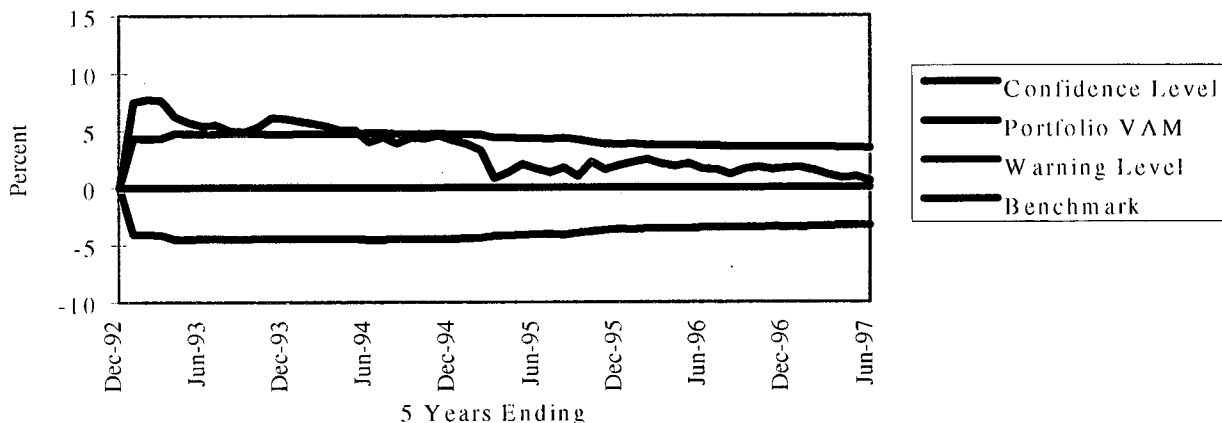
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.7%	13.0%
Last 1 year	18.1	12.8
Last 2 years	21.8	13.1
Last 3 years	14.4	9.2
Last 4 years	13.4	11.1
Last 5 years	N/A	N/A
Since Inception (4/93)	13.3%	12.9%

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 6/30/97

Portfolio Manager: William Arah

Assets Under Management: \$383,989,374

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.

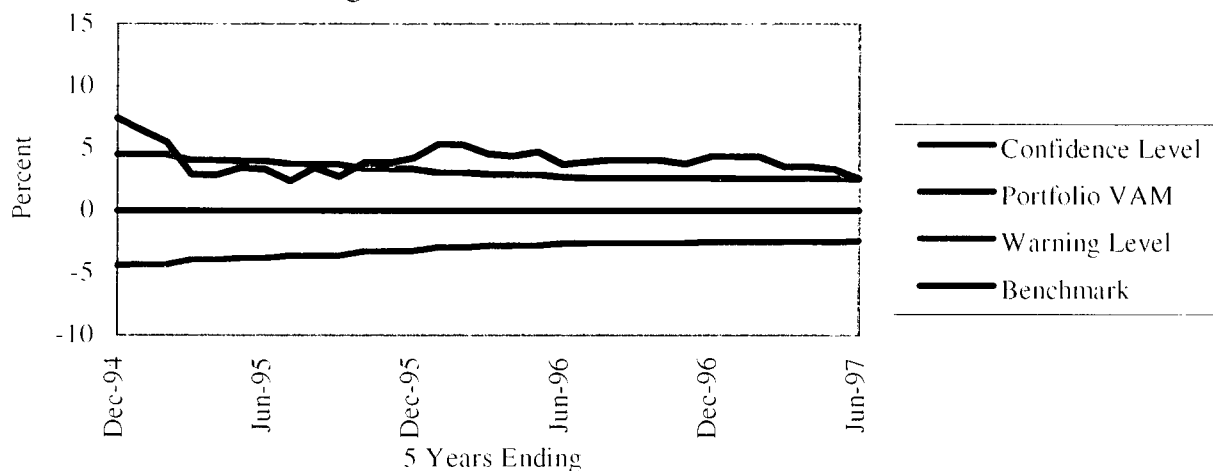
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.4%	13.0%
Last 1 year	9.6	12.8
Last 2 years	14.8	13.1
Last 3 years	8.7	9.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	11.3%	9.3%

Recommendations

No action required.

MARATHON ASSET MANAGEMENT
Rolling Five Year Time Periods



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

ROWE PRICE-FLEMING INTERNATIONAL, INC.
Period Ending 6/30/97

Portfolio Manager: Martin Wade

Assets Under Management: \$404,495,766

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.

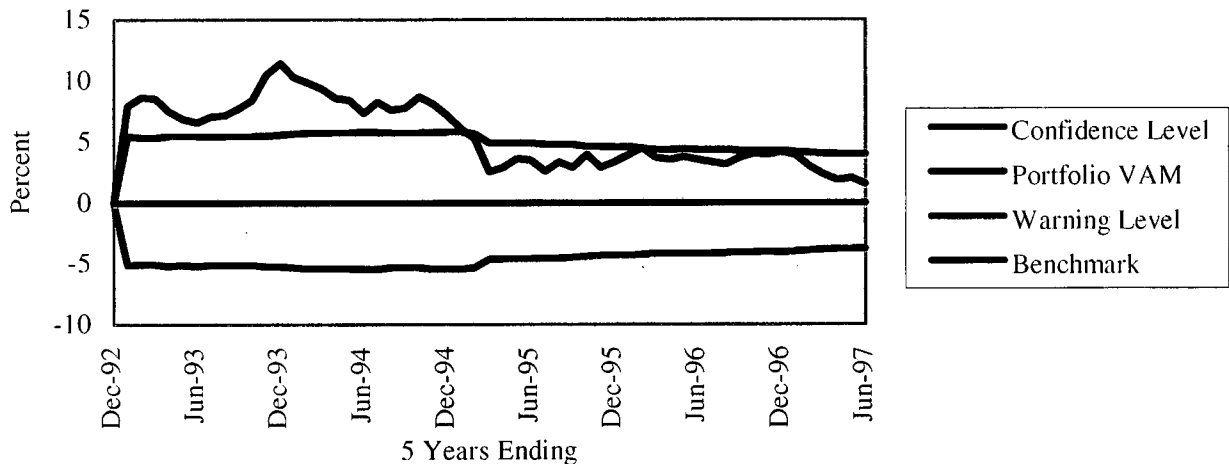
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.2%	13.0%
Last 1 year	18.4	12.8
Last 2 years	18.2	13.1
Last 3 years	13.9	9.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	12.9%	9.3%

Recommendations

No action required.

**ROWE PRICE-FLEMING
Rolling Five Year Time Periods**



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

SCUDDER, STEVENS & CLARK
Period Ending 6/30/97

Portfolio Manager: Irene Cheng

Assets Under Management: \$291,782,275

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:

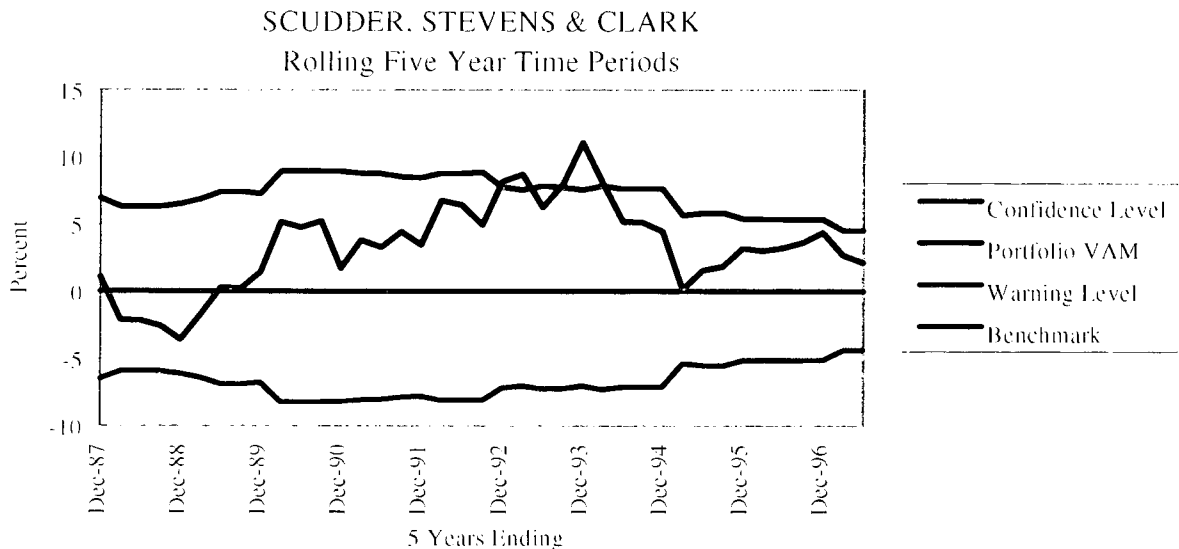
- Growth plan appears aggressive.
- Staffing and organizational changes are being made in response to growth.
- New ownership by Zurich effective fall 1997.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.0%	13.0%
Last 1 year	21.3	12.8
Last 2 years	21.5	13.1
Last 3 years	16.0	9.2
Last 4 years	N/A	N/A
Last 5 years	N/A	N/A
Since Inception (11/93)	13.9%	9.3%

Recommendations

Place the manager on probation due to the ownership change in accordance with the guidelines in the SBI's Manager Continuation Policy.



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

CITY OF LONDON
Period Ending 6/30/97

Portfolio Manager: Barry Olliff

Assets Under Management: \$122,191,890.00

Investment Philosophy

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

Qualitative Evaluation
(reported by exception)

Exceptional strengths are:

— Attractive, unique investment approach.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	10.3	8.6
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 (11/96)	23.1%	20.3%

Recommendations

No action recommended at this time.

VAM Graph will be drawn for period ending 6/30/98.

GENESIS ASSET MANAGERS, LTD.
Period Ending 6/30/97

Portfolio Manager: Paul Greatbatch

Assets Under Management: \$247,189,851

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Investment approach has been successfully applied to emerging markets for nearly a decade.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	9.2	8.6
Last 1 year	22.0	12.8
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)	19.9%	11.1%

Recommendations

No action required.

VAM Graph will be drawn for period ending 6/30/98.

MONTGOMERY ASSET MANAGEMENT
Period Ending 6/30/97

Portfolio Manager: Josephine Jimenez

Assets Under Management: \$246,917,877

Investment Philosophy

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

**Qualitative Evaluation
(reported by exception)**

Exceptional strengths are:

- Highly successful and experienced professionals.
- Familiar with the needs of large institutional clients.

Current concerns are:

- New ownership by Commerzbank effective spring 1997.

Quantitative Evaluation

	Actual	Benchmark
Last Quarter	12.0	8.6
Last 1 year	21.8	12.8
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)	20.1%	11.1%

Recommendations

Firm was placed on probation in June 1997 due to ownership change noted above. Staff will make a recommendation on this matter for the December 1997 meeting.

VAM Graph will be drawn for period ending 6/30/98.

STATE STREET GLOBAL ADVISORS
Period Ending 6/30/97

Portfolio Manager: Lynn Blake

Assets Under Management: \$2,762,638,961

Investment Philosophy

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

**Qualitative Evaluation
 (reported by exception)**

Exceptional strengths are:

- Familiar with the needs of large institutional clients.
- Highly successful and experienced professionals.

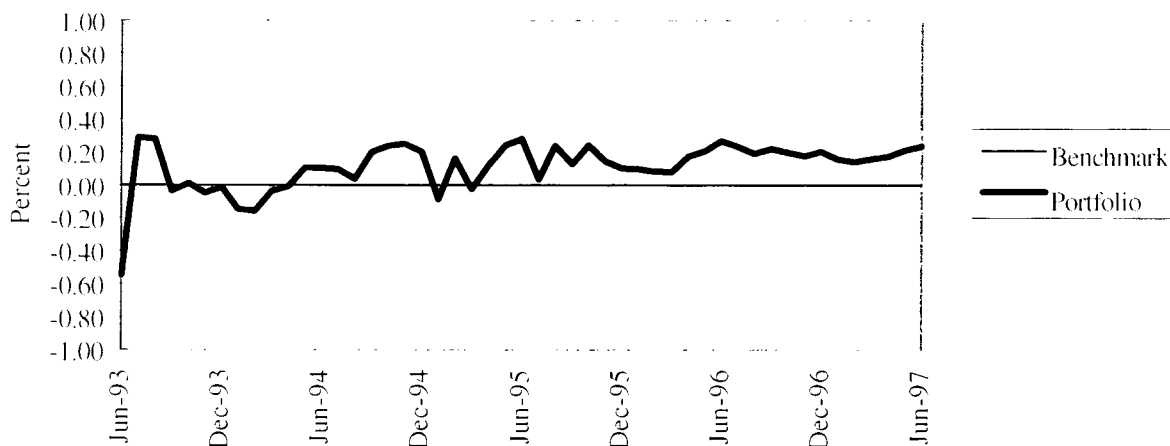
Quantitative Evaluation

	Actual	Benchmark
Last Quarter	13.5%	13.0%
Last 1 year	13.0	12.8
Last 2 years	13.3	13.1
Last 3 years	9.5	9.2
Last 4 years	11.5	11.1
Last 5 years	N/A	N/A
Since Inception (10/92)	13.5	13.2

Recommendation

No action required.

STATE STREET GLOBAL ADVISORS
Cumulative Annualized Tracking Report



Tab G

COMMITTEE REPORT

DATE: August 26, 1997

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

FROM: **Alternative Investment Committee**

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

- Review of current strategy.
- Status report on existing real estate investments with Zell/Merrill Lynch.
- Investment for the Post Retirement Fund with an existing real estate manager, Westmark Realty.

The Board/IAC action is required on the last item.

INFORMATION ITEMS:

1) Review of Current Strategy.

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

Basic Funds

- The real estate investment strategy calls for the establishment and maintenance of a broadly diversified real estate portfolio comprised of equity oriented investments that provide overall diversification by property type and location. The main component of this portfolio consists of investments in diversified open-end and closed-end commingled funds. The remaining portion of the portfolio can include investments in less diversified, more focused (specialty) commingled funds. Currently, the SBI has committed \$656 million to twenty-two (22) commingled real estate funds.

- The private equity investment strategy is to establish and maintain a broadly diversified private equity portfolio comprised of investments that provide diversification by industry type, stage of corporate development and location. To date, the SBI has committed \$1.2 billion to thirty-four (34) commingled private equity funds.
- The strategy for resource investment requires that investment be made in resource investment vehicles that are specifically designed for institutional investors to provide an inflation hedge and additional diversification. Individual resource investments will include proved producing oil and gas properties, royalties and other investments that are diversified geographically and by type. Currently, the SBI has committed \$178 million to nine (9) commingled oil and gas funds.

Post Fund

- The SBI introduced a 5% allocation to alternative assets in the Post Fund in 1994. These investments will be managed separately from those in the Basic Funds to assure that returns are accounted for appropriately in each fund. Because the Post Fund invests assets of retired employees, an allocation to yield oriented alternative investments will be emphasized. (The Basic Funds invest active employee pension assets and has an exceptionally long investment time horizon. As such, the Basic Funds are less concerned with generating current yield from alternative investments.) Since 1994, the SBI has committed \$264 million to nine (9) yield oriented funds for the Post Fund: Three (3) are in real estate, five (5) are in private equity and one (1) is in oil and gas.

2) Status report on existing investments with Zell/Merrill Lynch Real Estate.

During the quarter, **Zell/Merrill Lynch** combined four Zell/Merrill/Lynch real estate funds into a single company as a Real Estate Investment Trust, or REIT, that was taken public via a public security offering in July 1997. The SBI was an investor in three of four Zell/Merrill/Lynch real estate funds included in the new REIT.

The name of the new company is Equity Office Properties Trust (stock symbol is EOP) which trades on the New York Stock Exchange. At EOP's initial public offering price of \$21 per share, the SBI's total investment was valued at \$173 million compared to a net cost of \$119 million. Since the initial public offering, the per share price of EOP has increased to \$31 per share as of August 15, 1997 and the market value of the SBI's investment at that price was \$255 million.

ACTION ITEM:

- 1) **Investment for the Post Retirement Fund with an existing real estate manager, Westmark Realty, in Westmark Commercial Mortgage Fund IV.**

Westmark Realty is seeking investors for a new \$50 - 200 million real estate fund, Westmark Commercial Mortgage Fund IV. This Fund is the fourth mortgage fund managed by Westmark Realty. Like the prior funds, Westmark Commercial Mortgage Fund IV will focus on assembling a diverse portfolio of high quality real estate mortgages.

More information on the Westmark Commercial Mortgage 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 \$30 million or 20%, whichever is less, in Westmark Commercial Mortgage Fund IV. 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 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 or reduction or termination of the commitment.

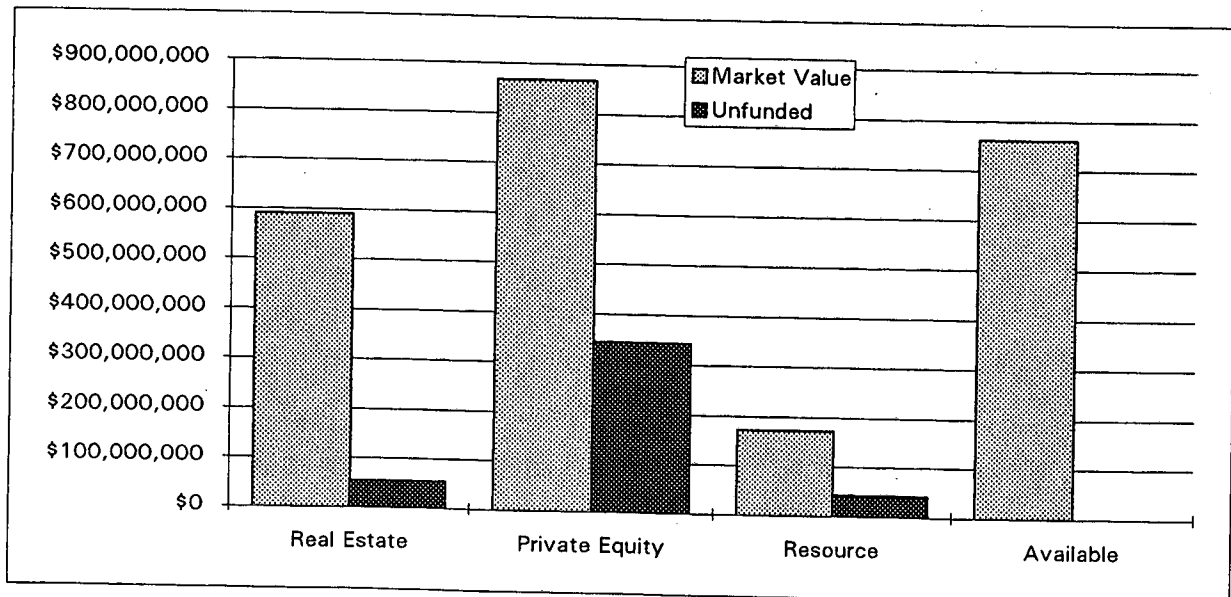
ATTACHMENT A

Minnesota State Board of Investment Alternative Investments Basic Retirement Funds June 30, 1997

Market Value of Basic Retirement Funds	\$15,913,556,379
Amount Available For Investment	\$760,525,313

	<i>Current Level</i>	<i>Target Level</i>	<i>Difference</i>
Market Value	\$1,626,508,144	\$2,387,033,457	\$760,525,313
MV + Unfunded	\$2,064,679,915	\$3,182,711,276	\$1,118,031,361

Asset Class	Market Value	Unfunded Commitment	Total
Real Estate	\$589,734,215 3.7%	\$53,760,999 0.3%	\$643,495,214 4.0%
Private Equity	\$865,444,904 5.4%	\$342,848,354 2.2%	\$1,208,293,258 7.6%
Resource	\$171,329,025 1.1%	\$41,562,418 0.3%	\$212,891,443 1.3%
Total	\$1,626,508,144 10.2%	\$438,171,771 2.8%	\$2,064,679,915 13.0%



ATTACHMENT B

**STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - REAL ESTATE
June 30, 1997**

BASIC FUNDS	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
AETNA	42,376,529	42,376,529	91,497,273	0	0	5.8	15.2
AEW							
<i>Fund III</i>	20,000,000	20,000,000	2,331,872	18,848,387	0	0.5	11.8
<i>Fund IV</i>	17,400,000	15,000,000	3,297,410	1,075,974	2,400,000	-11.2	10.8
<i>Fund V</i>	15,000,000	15,000,000	7,556,966	4,057,903	0	-2.9	9.5
AMERICAN REPUBLIC	1	1	1	0	0	0.0	7.4
COLONY INVESTORS II	40,000,000	24,494,600	23,441,400	570,650	15,505,400	-1.1	2.2
EQUITABLE	40,000,000	40,000,000	82,250,396	0	0	5.0	15.7
FIRST ASSET REALTY	916,185	916,185	360,000	582,277	0	1.1	3.2
HEITMAN							
<i>Fund I</i>	20,000,000	20,000,000	6,682,558	14,275,465	0	0.7	12.9
<i>Fund II</i>	30,000,000	30,000,000	19,562,610	17,779,225	0	2.7	11.6
<i>Fund III</i>	20,000,000	20,000,000	10,607,934	9,679,229	0	0.2	10.4
<i>Fund V</i>	20,000,000	20,000,000	19,596,581	7,291,990	0	6.8	5.6
LASALLE	15,000,000	14,644,401	15,110,498	2,794,497	355,599	6.6	5.8
T.A. ASSOCIATES REALTY							
<i>Realty Associates III</i>	40,000,000	38,000,000	42,004,820	12,320,798	2,000,000	11.7	3.1
<i>Realty Associates IV</i>	50,000,000	16,500,000	16,500,000	0	33,500,000	0.0	0.4
RREEF USA FUND III	75,000,000	75,000,000	42,844,610	64,936,462	0	3.9	13.2
TCW							
<i>Fund III</i>	40,000,000	40,000,000	18,871,809	27,372,449	0	1.6	11.9
<i>Fund IV</i>	30,000,000	30,000,000	12,336,934	14,137,133	0	-1.4	10.7
ZELL/MERRILL LYNCH							
<i>Fund II</i>	40,388,854	40,388,854	55,476,544	16,535,237	0	15.2	5.6
<i>Fund III</i>	50,000,000	50,000,000	69,076,106	2,404,542	0	19.3	3.4
<i>Fund IV</i>	50,000,000	50,000,000	50,327,895	348,578	0	2.5	1.2
TOTAL REAL ESTATE (BASICS)	656,081,569	602,320,570	589,734,215	215,010,795	53,760,999		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
COLONY INVESTORS II	40,000,000	24,494,600	23,441,400	570,650	15,505,400	-1.1	2.2
WESTMARK REALTY ADVISORS							
<i>Westmark Comm. Mtg. Fund II</i>	13,500,000	13,193,130	12,968,189	1,706,002	306,870	8.3	1.8
<i>Westmark Comm. Mtg. Fund III</i>	21,500,000	5,386,000	5,374,566	126,755	16,114,000	7.5	0.6
TOTAL REAL ESTATE (POST)	75,000,000	43,073,730	41,784,155	2,403,407	31,926,270		

TOTAL REAL ESTATE	731,081,569	645,394,300	631,518,370	217,414,203	85,687,269		
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**STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - PRIVATE EQUITY
June 30, 1997**

BASIC FUNDS	TOTAL	FUNDED	MARKET		UNFUNDED	IRR	PERIOD
	COMMITMENT	COMMITMENT	VALUE	DISTRIBUTIONS	COMMITMENT	(%)	(YEARS)
ALLIED	5,000,000	5,000,000	727,142	5,035,425	0	0.1	11.8
BANK FUND							
Fund III	20,000,000	20,000,000	33,646,620	3,668,264	0	23.1	4.7
Fund IV	25,000,000	12,500,000	13,544,307	10,691	12,500,000	11.8	1.4
BLACKSTONE PARTNERS II	50,000,000	30,325,232	21,263,000	39,256,210	19,674,768	28.2	3.6
BRINSON PARTNERS							
VPAF I	5,000,000	5,000,000	1,253,060	7,083,800	0	11.2	9.1
VPAF II	20,000,000	18,579,998	8,690,616	22,907,872	1,420,002	12.6	6.6
CHURCHILL CAPITAL PARTNERS II	20,000,000	20,000,000	13,772,072	10,202,630	0	10.0	4.7
CONTRARIAN CAPITAL FUND II	37,000,000	7,449,426	7,449,426	0	29,550,574	0.0	0.1
CORAL PARTNERS							
IAI Ventures I	1,146,890	1,146,890	76,933	1,508,533	0	17.4	6.3
Fund I (Superior)	7,011,923	7,011,923	2,043,765	4,685,814	0	-0.8	11.0
Fund II	10,000,000	10,000,000	16,881,114	14,569,797	0	27.5	6.9
Fund IV	15,000,000	7,519,110	8,301,086	392,447	7,480,890	8.7	2.9
DSV	10,000,000	10,000,000	6,972,919	16,829,452	0	8.5	12.2
FIRST CENTURY	10,000,000	10,000,000	3,345,065	12,509,403	0	8.6	12.6
GOLDER THOMA CRESSEY RAUNER							
Fund III	14,000,000	14,000,000	14,529,860	42,860,556	0	31.2	9.7
Fund IV	20,000,000	19,200,000	21,830,210	7,455,551	800,000	25.7	3.4
Fund V	30,000,000	8,400,000	8,320,838	0	21,600,000	-3.8	1.0
HELLMAN & FRIEDMAN III	40,000,000	21,153,483	15,698,316	12,347,236	18,846,517	26.8	2.8
IAI U.S. VENTURE FUND II	15,000,000	5,244,773	5,244,773	0	9,755,227	0.0	0.5
IMR PARTNERSHIP	15,000,000	1,524,900	403,058	1,148,997	13,475,100	0.6	4.9
INMAN BOWMAN	7,500,000	7,500,000	2,609,270	7,184,530	0	3.8	12.1
KOHLBERG KRAVIS ROBERTS							
1984 Fund	25,000,000	25,000,000	14,207,403	109,717,026	0	28.6	13.1
1986 Fund	18,365,339	18,365,339	89,635,764	96,036,857	0	28.3	11.2
1987 Fund	145,950,000	145,950,000	221,291,439	218,125,609	0	13.2	9.6
1993 Fund	150,000,000	150,000,000	180,236,856	44,207,499	0	14.4	3.5
1996 Fund	200,000,000	20,354,723	16,697,999	1,445,613	179,645,277	-68.5	0.8
MATRIX							
Fund II	10,000,000	10,000,000	2,084,017	18,980,606	0	13.6	11.9
Fund III	10,000,000	10,000,000	3,245,017	68,561,749	0	74.2	7.2
NORWEST VENTURE CAPITAL	10,000,000	10,000,000	627,635	14,829,284	0	5.7	13.5
PIPER JAFFRAY HEALTHCARE FUND	10,000,000	900,000	900,000	0	9,100,000	0.0	0.3
SUMMIT PARTNERS							
Fund I	10,000,000	10,000,000	226,023	19,925,323	0	13.1	12.5
Fund II	30,000,000	28,500,000	4,390,248	63,957,721	1,500,000	28.6	9.1
T. ROWE PRICE	123,959,827	146,952,471	33,063,101	154,363,945	(22,992,644)	12.6	9.6
WARBURG PINCUS	50,000,000	32,500,000	51,426,850	2,147,050	17,500,000	44.8	2.5
ZELL/CHILMARK	30,000,000	30,000,000	40,809,100	14,510,950	0	12.2	7.0
TOTAL PRIVATE EQUITY (BASICS)	1,199,933,979	880,078,269	865,444,904	1,036,466,440	319,855,710		

POST FUND	TOTAL	FUNDED	MARKET		UNFUNDED	IRR	PERIOD
	COMMITMENT	COMMITMENT	VALUE	DISTRIBUTIONS	COMMITMENT	(%)	(YEARS)
CITICORP MEZZANINE	40,000,000	15,441,525	13,384,282	4,632,896	24,558,475	11.4	2.5
KLEINWORT BENSON	25,000,000	6,584,775	6,423,076	71,515	18,415,225	-2.8	1.7
SUMMIT PARTNERS							
Summit Sub-Debt Fund I	20,000,000	18,000,000	10,941,695	12,502,298	2,000,000	23.9	3.3
Summit Sub-Debt Fund II	45,000,000	0	0	0	45,000,000	0.0	0.6
TCW/CRESCENT MEZZANINE	40,000,000	17,341,770	16,979,141	4,395,689	22,658,230	5.1	1.2
T. ROWE PRICE - POST	478,375	478,375	228,938	55,193	0	-88.5	0.3
TOTAL PRIVATE EQUITY (POST)	170,478,375	57,846,445	47,957,132	21,657,591	112,631,930		

TOTAL PRIVATE EQUITY	1,370,412,354	937,924,714	913,402,036	1,058,124,031	432,487,640		
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STATE OF MINNESOTA
ALTERNATIVE INVESTMENTS - RESOURCE
June 30, 1997

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	10,725,805	3,614,536	0	-0.4	15.8
AMGO II	7,000,000	7,000,000	12,564,950	2,325,453	0	6.9	14.4
AMGO IV	12,300,000	12,300,000	16,797,140	11,771,660	0	12.5	9.1
AMGO V	16,800,000	16,800,000	36,754,915	13,004,139	0	20.2	7.2
First Reserve Fund VII	40,000,000	13,936,358	18,587,000	2,719,454	26,063,642	135.6	1.0
APACHE III	30,000,000	30,000,000	4,000,000	41,128,691	0	10.8	10.5
MORGAN OIL & GAS	15,000,000	15,000,000	12,101,573	6,209,894	0	3.1	8.9
SIMMONS							
OFS II	17,000,000	14,847,529	40,359,088	1,221,564	2,152,471	29.0	5.9
OFS III	25,000,000	11,653,695	19,438,554	0	13,346,305	41.9	2.0
TOTAL RESOURCE (BASICS)	178,100,000	136,537,582	171,329,025	81,995,391	41,562,418		

POST FUND	TOTAL COMMITMENT	FUNDED COMMITMENT	MARKET VALUE	DISTRIBUTIONS	UNFUNDED COMMITMENT	IRR (%)	PERIOD (YEARS)
MERIT ENERGY	24,000,000	6,846,012	7,043,830	617,175	17,153,988	22.1	1.0
TOTAL RESOURCE (POST)	24,000,000	6,846,012	7,043,830	617,175	17,153,988		

TOTAL RESOURCE	202,100,000	143,383,594	178,372,855	82,612,566	58,716,406		
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ATTACHMENT C

REAL ESTATE MANAGER PROFILE

I. BACKGROUND DATA

NAME OF FUND: Westmark Commercial Mortgage Fund IV

FUND MANAGER: Westmark Realty Advisors, Inc.

TYPE OF FUND: Real Estate Mortgage Group Trust

TOTAL FUND SIZE: \$50 - \$200 Million

MANAGER CONTACT: Tim Stevens
865 South Figueroa Street
Los Angeles, California 90017
Phone: (213) 683-4366

II. ORGANIZATION AND STAFF

The Investment Manager for the Trust (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 in 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 L.J. Melody & Company, a wholly owned subsidiary of CB Commercial Real Estate Group, to originate loans and perform selected servicing activities. L.J. Melody & Company, established in 1939, provides mortgage origination, loan underwriting, and loan administration services to institutional real estate lenders throughout the United States. L.J. Melody & Company employs approximately 108 employees located in twenty-five major metropolitan areas throughout the United States. For the last ten years L.J. Melody & Company placed on behalf of institutional investors an average of approximately \$2 billion in mortgage loans annually. L.J. Melody & Company currently provides collection and loan administration services for a loan portfolio of approximately \$7 billion originated by L.J. Melody & Company.

III. INVESTMENT STRATEGY

The investment objective of the Trust is to make loans of \$1 million to \$10 million secured by first mortgages on commercial real property, including office, industrial, retail, mobile home and apartment properties. The terms of such loans will be not

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

IV. INVESTMENT PERFORMANCE

The SBI invested in Westmark's second mortgage fund, Westmark Commercial Mortgage Fund II which was established in June 1995. Eight investors committed a total of \$67.5 million to Fund II with the SBI's investment at \$13.5 million. Since inception of the Fund, Westmark closed twenty loans. 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 between 225 and 340 basis points. Loan to property value ratios vary from 34% to 73%. Since inception, the fund has produced a net annualized IRR of 8.3%.

The SBI also invested in Westmark's third mortgage fund, Westmark Commercial Mortgage Fund III which was established in December 1996. Six investors committed a total of \$107 million to Fund III with the SBI's investment at \$21 million. Since inception of the Fund, Westmark has closed eight loans, committed to two more loans and has three more loans under application. The thirteen loans together represent \$56 million or 50% of the fund. The loans are diversified by property location and type and each loan is under \$10 million in size. Rates vary from 8.5% to 9.5% which represent spreads over comparable treasury securities between 190 and 245 basis points. Loan to property value ratios vary from 74% to 69%. Since inception, the fund has produced a net annualized IRR of 7.5%.

V. TAKEDOWN SCHEDULE

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

VI. MANAGEMENT FEE

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

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

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

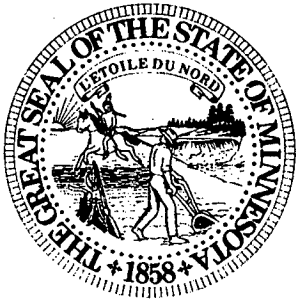
The Investment Manager will be paid a Performance Fee, upon liquidation of the Fund, of .50% of the aggregate capital invested in mortgage loans. The Performance Fee will be reduced by any losses from the expected returns to Investors. The Performance Fee is completely at risk until the Investors have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

Returns from Fund investments will be distributed monthly.

VII. TERM

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

Tab H



STATE BOARD OF INVESTMENT

Manager Commentaries

Period Ending March 31, 1997

Domestic Stock Managers	1
Emerging Stock Managers	31
Domestic Bond Managers	47
International Stock Managers	65
Emerging Markets Managers	73
Assigned Risk Plan	83
Internal Stock and Bond Pools	87

(Blank)

Manager Commentary
Alliance Capital Management L.P.

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$197 Billion	Actual	21.8%	41.7%
Total Firm Assets Managed in this Discipline	\$ 21 Billion	Benchmark	19.0%	35.2%

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?*

We outperformed the benchmark this quarter, +21.8% for the portfolio versus +19.0% for the benchmark. With the notable exception of Intel's flat performance for the quarter, the portfolio's technology stocks outperformed the benchmark. Dell +74% and Applied Materials +53% led the portfolio in absolute performance while larger positions such as Cisco +39%, Microsoft +38% and Compaq +30% posted strong returns. The financial sector overweight, led by Merrill Lynch +39% and MBNA Corp +31%, continued to contribute positively to performance. Finally, holdings in the healthcare sector, such as Pfizer +42%, Medtronic +33% and Schering Plough +32%, boosted the portfolio's return. Despite the successful negotiation of a possible settlement to tobacco litigation, Philip Morris +16% lagged the benchmark.

We outperformed the benchmark for the year, +41.7% for the portfolio versus +35.0% for the benchmark, largely due to overweightings in the technology and financial sectors. Microsoft +110%, Compaq +103% and Intel +93% stand out, but Applied Materials +132% had the greatest total return as it rebounded from a cyclical lull in orders from its DRAM customers. Financial companies benefited from the environment of low inflation and stable interest rates. Significant financial holdings such as MBNA Corp +93%, Merrill Lynch +83%, and Norwest +61% closely followed the technology outperformers. Pharmaceutical stocks with strong new product pipelines, such as Merck +58% and Schering Plough +53%, easily outperformed the benchmark; conversely, concerns about a maturing pipeline caused Amgen's +8% underperformance. Several holdings in the consumer services sector negatively impacted performance such as Northwest Airlines -3% and Airtouch -8%. There were even holdings in the technology sector that did not keep pace with the benchmark, notably Cisco +19%, Hewlett Packard +12% and First Data +10%.

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.*

Underpinned by moderate growth and inflation, the economy's excellent fundamentals continue to propel the market. We recognize that the market's P/E valuation has achieved new heights but are unable to identify any weakening in the economy's strong fundamentals. We continue to structure the portfolio within an overall framework of a quality economic environment, i.e. moderate growth, strong corporate profits and low inflation. In this environment the winners will be those companies that can generate earnings through unit volume growth and market share gains. Those companies that have not rationalized costs and rely solely on pricing power for their earnings will be the losers. This will continue to be a dominant theme in developing our stock specific strategy. We favor financial companies whose earnings growth rates match or exceed their P/E multiples. Our overweight of the technology sector remains grounded in our belief that the process of innovation and adoption of technology has long-term sustainability. Given the short-term volatility that accompanies such rapid product cycles, we prefer those technology companies such as Applied Materials and

Alliance (con't)

Cisco with the proven ability to grow their market share even when their industry group comes under pressure. We still favor consumer staples and healthcare companies with the combination of exceptional product strength, international reach that supports strong revenue growth, and predictability of earnings. In summary, we continue to characterize ourselves as bullish, though with increasing caution.

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

Duke Power Company
Omaha School Employees' Ret.
Shell Pension Trust

Lost

Uarco Inc.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Alliance Capital participated in a Domestic Equity Manager Round Table at the SBI on June 23, 1997. Staff has no other comments at this time.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$75.2 Billion	Actual	15.8%	32.7%
Total Firm Assets Managed in this Discipline	\$17.2 Billion	Benchmark	15.6%	28.6%

1. ***Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The market was extremely strong during the second quarter of 1997. Better-than-expected earnings growth and declining bond yields powered this market move.

During the second quarter of 1997, the portfolio was helped by overweighting the earnings-to-price factor and underweighting size and relative strength factors. Underweighting foreign earnings exposure detracted from performance. During the twelve months ending in June, the portfolio was helped by overweights in stocks exhibiting traditional measures of value such as high earnings-to-price and book-to-price characteristics. Underweights in stocks that have a high foreign earnings component negatively impacted performance.

Industry exposures detracted modestly from relative performance in the second quarter, but were substantial contributors to performance for the trailing twelve month period. Decisions to underweight energy and electric utility stocks contributed to portfolio performance in the second quarter. Overweighting tobacco and pollution control stocks detracted from performance during this same time period. For the twelve months ending in June, positive returns from a relative overweight in banks and aerospace stocks and from underweights in electric and telephone utilities and chemical stocks more than offset negative contributions to performance from our relative underweights in energy, electronics and miscellaneous finance. Stock selection detracted from portfolio performance during both the second quarter and for the year ending in June. Holdings which had a negative contribution to stock selection during the second quarter of 1997 included Reynolds & Reynolds and Geon. Mattel, Xerox and several telecommunication companies serving niche markets contributed to 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.*

Our process remains focused on identifying those stocks that are most attractive in price/value terms through intensive individual company analysis, which incorporates strategic themes and industry research. The portfolio is overweighted with respect to earning-to-price and book-to-price factors. We are underweighted regarding foreign earnings exposure and size. At this point in time, we find most of the largest capitalization companies to be significantly overvalued and are holding only two of the largest twenty-five S&P 500 companies.

From an industry perspective, we have significantly reduced our exposure to financial securities. The banking sector, in particular, has experienced strong profitability and contributed meaningfully to portfolio returns over time. At present our valuation methodology indicates prices of these securities in general are near fair value. We have increased our exposure to electric utilities. Our thesis for these companies has not changed.

Brinson Partners, Inc. (con't)

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. However, we believe that at current valuations, this scenario is already being discounted. As a result, several electric utilities are attractively valued. The portfolio remains underweighted in telephone utilities. This position has contributed meaningfully to portfolio performance during the past two years. Competition will also intensify in the telecommunications and cable industries as regulatory barriers between traditional business lines are blurred and the traditional regional telephone companies are pushed toward "cost of service" pricing.

We are overweighted in railroads because of the secular improvement in railroad industry and our belief that profitability will continue as regulatory barriers continue to fall, enabling rails to shed excess labor costs and abandon unprofitable routes. We are underweighted in the energy sector. Our petroleum outlook calls for steady increases in world demand for oil which will increase the call on OPEC oil, but at a rate well within the production capabilities of these countries. Our 1997 estimate for the normalized price of West Texas intermediate crude oil is \$20.50/bbl, slightly in excess of current futures market prices. The portfolio is overweight in paper stocks and has an underweight in chemicals.

Key holdings include Xerox, Philip Morris, Burlington Northern Santa Fe, Lockheed Martin, Corning, First Data and EMC Corp.

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 changes this quarter.

Three new accounts totaling \$285 million were funded. One account totaling \$53 million departed.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Brinson Partners participated in a Domestic Equity Manager Round Table at the SBI on June 23, 1997. Staff has no other comments at this time.

Manager Commentary
Forstmann-Leff Associates Inc.

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$3.9 Billion	Actual	16.0%	30.0%
Total Firm Assets Managed in this Discipline	\$1.6 Billion	Benchmark	16.8%	26.8%

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?

Performance for the second quarter was slightly behind the benchmark, due partly to the mid cap orientation in the portfolio. Though mid cap stocks began to outperform in May, they significantly underperformed again in June. The one area of equity weakness was in the consumer services sector, where an overweight in the hotel/motel stocks held performance back. Returns were boosted by overweights in the health care and technology sectors, as well as strong performance in the consumer area, particularly among retailers such as Costco Companies, Inc. and Barnes & Noble Inc. Our financial holdings also produced attractive returns, led by gains in Great Western Financial Corp.

Performance for the year was well ahead of the R&T benchmark. However, the mid cap orientation in the portfolio held performance back somewhat, as mid cap stocks in general underperformed over the period. Stock picking was generally good, with strong results in the technology area, consumer non-durables (particularly the retailers) and the interest sensitive names. Within the technology area, we made several weighting shifts which allowed us to maximize performance. The sale of technology issues prior to the July, 1996 decline conserved returns, while we were able to go back in during later months and pick up bargains repriced during the decline. Strong sector performance late in the year indicated valuation targets had been met, signaling sales early in 1997. This allowed us to avoid much of the trouble in the first quarter, and again positioned us to pick up bargains prior to the second quarter rally. Sector overweights hurt us somewhat in the consumer services and non-durables areas, which generally underperformed the broad market, though our stock picking was better than the market in both areas.

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 maintain our view that the mid cap names are significantly undervalued relative to the larger names, equivalent to if the Dow were trading today at 4500. Given our mid cap orientation, we expect our equities to do well against the market, while providing a cushion should the market retract a portion of its gains.

Given our interest rate outlook, we have been adding to the *utility* holdings within the portfolio, as well as *interest sensitive* names, including the banks and government sponsored agencies. Within the *consumer* area, we are underweighted in the durables, where we expect continued weakness, and overweighted in the retailers, though we have begun to take gains in several names which profited on earlier consumer strength. *Healthcare* names, which performed well in the quarter, look good going forward, with positions placed selectively in high growth companies.

Forstmann-Leff Associates (con't)

We have developed a market weight in the *industrial* commodities, focused principally in the paper and forest product companies. Commodity pricing in this area has fallen 50%, with production at full capacity, making a strong case for pricing leverage in an environment of attractive global economic activity. We have avoided the metals where we see big supply coming into the market. The farm equipment area has been the focus of our machinery holdings, where we are beginning to take profits on accumulated gains. Within the *energy* area we are maintaining a market weight as well, though focused in the broader based service companies. Fundamentals in this area are strong, with oil field expenditures in the double digits. However, given the influx of momentum money, the area may be vulnerable to investor swings. This situation is especially pronounced within the drilling area, where perceptions are more volatile. Given the levels of OPEC production and new output coming on elsewhere, including Iraq, oil prices may be vulnerable. In our view the major oil companies are overvalued and should be avoided for the near term.

As suggested in our last letter, we did pick up a number of bargains in the *technology* area following first quarter weakness. New holdings included exposure in the help desk group, neural networks and electronic commerce. A key position in Newbridge Networks has been particularly productive, with good prospects for continued growth 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.

The merger with Refco Group Ltd. was completed on June 30th.
No accounts were gained or lost in this discipline.

- 4. *Other Comments.*** Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

No issues to report at this time.

Staff Comments

Staff visited Forstmann-Leff Associates' offices in New York in June 1997. Topics discussed in the meetings agree with the above comments.

Manager Commentary
Franklin Portfolio Associates Trust
Active Account

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$12.1 Billion	Actual	16.5%	31.6%
Total Firm Assets Managed in this Discipline	\$718.5 Million	Benchmark	15.1%	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?

Last Quarter's Performance:

The market came roaring back in the second quarter after a sharp but brief correction in the February-March period. For the period, the account outperformed its benchmark with a total return of 16.5%, net of fees, compared to 15.1%. For the same period, the S&P 500 produced a return of 17.5%. According to our performance attribution analysis, stock selection bets were positive contributors to active return in the quarter. Industry exposures made a small positive contribution and risk-index exposures were a neutral factor.

Twelve Month Performance:

The twelve month portfolio return was strong in absolute and relative terms. Our performance attribution analysis indicates that stock selection bets, risk-index bets and industry bets contributed to active return.

Below is a table of the top and bottom five industry risk factor contributors to active return.

Top 5 and Bottom 5 Industry or Risk Factor Contributors to Active Return					
Factor	Qtr Active Bets	Qtr Return Contrib.	Factor	12 Mths Active Bets	12 Mths Return Contrib.
Top 5:			Top 5:		
Misc. Finance	5.60	1.31	Misc. Finance	4.22	2.29
Business Machines	5.19	0.86	E/P Factor	0.36	1.12
Other Insurance	4.07	0.81	Business Machines	1.90	1.09
Retail	4.55	0.72	Producer Goods	1.91	0.99
Steel	4.00	0.61	Retail	3.55	0.99
Bottom 5:			Bottom 5:		
Media	-2.21	-0.45	Soaps	-1.98	-0.65
Chemicals	-3.54	0.47	Media	-2.13	-0.69
Drugs	-3.39	-0.54	Chemicals	-2.87	-0.79
Banks	-3.34	-0.57	Drugs	-1.95	-0.92
Telephones	-4.18	-0.60	Banks	-3.03	-1.09

- Note:
1. Bets are averages of beginning of month values.
 2. Risk Index differences are in standard deviations.
 3. Industry differences are in percents.
 4. Contributions are percents aggregated from monthly data.

Franklin (con't)

2. *Future Strategy.* What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

As of June 30, 1997, the following active bets existed in the account relative to the benchmark:

- A. Risk factor bets (standard deviations from benchmark = or > .1):

Success = 0.22	Earnings/Price = 0.47	Trading = 0.24
Book/Price = 0.25	Labor Intensity = -0.26	Leverage = -0.21
Foreign Exposure = -0.13		

- B. Industry bets (bets stated as percentage deviations from benchmark weight):

<u>5 Most Positive Bets:</u>		<u>5 Most Negative Bets:</u>	
Misc. Finance	6.48%	Telephones	4.14%
Business Machines	4.69	Drugs	-3.73
Other Insurance	4.59	Food	-2.87
Food Stores	4.46	Media	-2.36
Steel	4.42	Chemicals	-1.97

Active portfolio bets are based on: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above. The total estimated tracking error of the account relative to the benchmark at quarter-end was 4.6%.

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 over the last quarter. In July, Paul F. Healey joined Franklin as Senior Vice President, Marketing.

There were no account gains or losses in this discipline during the period.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

None.

Staff Comments

Staff has no comments at this time.

**Manager Commentary
GeoCapital Corporation**

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$1.9 Billion	Actual	15.1%	9.1%
Total Firm Assets Managed in this Discipline	\$1.9 Billion	Benchmark	18.2%	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?

The following chart highlights our functional bets in the actual portfolio relative to the benchmark and the relative performance of both entities. A new benchmark portfolio was established in early 1996 which we continue to believe more accurately reflects our current universe of securities. Early in 1997, we suffered relative to the benchmark primarily due to the significant market loss of Mercury Finance as a result of fraudulent accounting revelations in January. Both the portfolio and benchmark performed well in May and June, but we were underweighted in technology and some of our consumer non-durables did not perform as well as the benchmark. The financial sector proved to be our best performer in Q297 but still added negative value for the year. Both technology and consumer non-durables were positive contributors for the year.

	Quarter Ending 6/30/97	Year Ending 6/30/97
Consumer Non-Durable	Negative Higher weightings/ lower returns 46.76% Geo/38.91% benchmark	Positive Higher weightings/ higher returns 45.21% Geo/41.23% benchmark
Technology	Negative Lower weightings/ lower returns 28.27% Geo/34.84% benchmark	Positive Lower weightings/ higher returns 31.19% Geo/32.49% benchmark
Financial	Positive Lower weightings/ higher returns 8.49% Geo/10.02% benchmark	Negative Higher weightings/ lower returns 10.94% Geo/10.31% benchmark

2. **Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

In technology, greater emphasis has been placed on Information Consulting companies because we believe that as computer systems and networks become more mission critical and complicated, more users will depend on outside consultants. Healthcare declines (within consumer non-durables) have been more than offset by distribution, retail, and lodging companies. Financial stocks have declined due to the sales of fully valued commercial banks and Mercury Finance.

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 changes.

GeoCapital (con't)

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

Second Quarter 1997 Comments

The first half of 1997 brought (1) better than expected corporate profits, (2) lower than expected inflation reports, (3) a generalized rise in P/E ratios and (4) large capitalization stocks continuing to outperform relative to small and mid capitalization stocks. We believe that the major short term risks facing the market include the following: corporate pre-announcements (usually negative); the possibility of another increase in interest rates by the Federal Reserve; and economic surprises from outside the U.S., where dramatic changes are more probable. Looking at the longer term downside risk, we note that long term bear markets will typically result from deteriorating economic fundamentals in the presence of overvaluation in the stock market. This negative market scenario will most often play out in an environment of significant inflationary pressures and interest rate increases followed by recession and profit declines. We do not envision such a dramatic turn. Looking ahead at the next 18-24 months, we see a period of (1) ongoing profit expansion, (2) modestly increasing inflation trends and (3) a pre-emptive Federal Reserve fine tuning of rates.

While the months of May and June were very strong for small capitalization equities in general and our clients' portfolios in particular, large capitalization equities continued to outperform in the first half of 1997. Our view is that a migration from very highly valued large cap stocks to small and mid caps will occur during the second half of 1997 and 1998. One often referenced valuation measure - a company's earnings multiple relative to its underlying earnings growth - illustrates the current valuation disparity between large and small caps, (with particular relevance to our growth/technology investments). Large stocks are currently selling at P/E to growth rate ratios of 2.0, while mid and small cap companies struggle to reach 1.0.

During the quarter, good performance was turned in by our special situations stocks as stock market values moved closer to real business value. Technology rebounded strongly with particular strength in the stocks of outside consulting firms that focus in designing and implementing computer systems and networks for customers.

Staff Comments

Staff visited GeoCapital's New York office in June 1997. Comments made during the meeting agree with the above.

Manager Commentary
IDS Advisory (IDS Equity Advisors)

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$36.6 Billion	Actual	14.1%	25.4%
Total Firm Assets Managed in this Discipline	\$ 8.2 Billion	Benchmark	17.8%	34.5%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

The concentrated portfolio was up 14.1 percent versus 17.8 percent for the MNSBI Normal portfolio in the second quarter of 1997. Over the past twelve months the portfolio was up 25.4 percent versus 34.5 percent for the Normal. The 370 basis point underperformance in the second quarter was due to general stock selection as six of our nine sectors suffered from poor stock selection. Unlike the first quarter however, our technology picks performed well, adding 79 basis points of excess return. Through the risk-adjusted optimal discipline, 34 basis points of value were added in the sector allocation category with an active risk of 6.25 percent annualized. Disappointing active stock specific bets thus far this year can be partially attributed to a rallying, narrow market, stemming from an exceptionally favorable environment for large cap stocks. In addition, the moderate economic growth, low inflation, and falling interest rate environment was a more bullish scenario than our economists and analysts had predicted, further contributing to inferior stock selection.

2. **Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

Currently, the portfolio contains 28 1-rated stocks and a ten percent position in an S&P 500/Nasdaq 100 Futures Mix. The futures mix is being used as a temporary hedge against the Normal portfolio until the portfolio is optimally rebalanced this quarter. The portfolio's active risk is predicted to be approximately 5 percent excluding the hedge; this is slightly lower than in previous months due to the newly modified BARRA risk model being employed. The net effect of the new model is a less stable risk forecast month to month. However, the risk aversion associated with the portfolio will remain unchanged. Residual to the risk-adjusted methodology are the sector bets listed below. We are currently overweighted in the Technology and Health Care sectors with the offsetting underweightings spread amongst several sectors. In general, the portfolio is tilted toward smaller, higher growth, and higher volatility stocks.

Sector	Concentrated Portfolio	MNSBI Normal	Active Bet
Basic Materials	6.57	6.65	-0.08
Commercial Services	2.66	2.38	0.29
Consumer Cyclical	5.66	7.09	-1.42
Consumer Services	3.46	4.81	-1.35
Consumer Stable	13.40	12.75	0.65
Energy	4.04	5.74	-1.70
Financial	16.87	16.20	0.67
Health Care	18.82	13.84	4.98
Industrials	3.94	6.95	-3.02
Technology	18.93	15.82	3.10
Telecommunications	4.82	4.82	0.00
Transport	0.12	1.96	-1.84
Utility	0.23	1.00	-0.77
Cash	0.50	0.00	0.50

IDS Advisory Group, Inc. (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.

The following individuals have joined IDS:

Todd Czachor, Fixed Income Analyst; Lysander Tennant, Int. PM - Eastern & Central Europe; Richard Leadam, Int. PM - North America; Angela Campbell, Marketing Director - Europe; Mike Milosch, Fixed Income Analyst; Julie G. Deutz, Fixed Income Analyst; Tom Mahowald, Senior Equity Analyst; Jennifer P. De Leon, Senior Fixed Income Analyst; Tom Howell, Eq. Assoc. Analyst; David Benz, Eq. Assoc. Analyst; and Cary Robinson, Eq. Assoc. Analyst.

The following individuals have left IDS:

Ned Dau	Sr. International Analyst	Pursue career outside of firm
Paul Hopkins	CIO - International Equity	Terminated
Paul Warren	Int. PM - Japan	Pursue career outside of firm
George Gaskins	Eq. Quant. Analyst	Pursue career outside of firm
John Meara	Equity Analyst	Pursue career outside of firm

The following promotions took place over the last quarter:

Steve Roszell was promoted to Senior Vice President of American Express Financial Corp.

Gregg Groechel was promoted to the position of portfolio manager.

Peter Lamaison has assumed responsibilities as Chief Investment Officer in London.

Nicole Meline has accepted an International Account Analyst position.

Ron Haim has accepted a Trading Assistant position.

Scott Hamilton has accepted the Account Analyst position.

Rebecca Binder has accepted an Account position.

**IDS ADVISORY GROUP
Second Quarter 1997**

Product	Gains		Losses	
	# of Accounts	Assets (\$MM)	# of Accounts	Assets (\$MM)
Large Cap Equities	4	169.6	2	188.6
Fixed Income	1	1.0	0	0.0
International	1	19.2	0	0.0
Global Ex-Australia	1	28.0	1	75.3
Research Core	1	27.4	0	0.0
Research Aggressive	2	1.9	0	0.0
Global Opportunities	0	0.0	1	45.6
Global	0	0.0	3	362.3

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

Due to performance concerns, staff will conduct an in-depth review of IDS and present the results to the Domestic Manager Committee next quarter. IDS Advisory changed its name to American Express Asset Management effective July 10, 1997. Staff has no other comments at this time.

Manager Commentary
Independence Investment Associates

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$26.4 Billion	Actual	14.6%	28.8%
Total Firm Assets Managed in this Discipline	\$12.0 Billion	Benchmark	17.5%	34.8%

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?*

The U.S. economy, now in its seventh year of expansion, is fueling an extraordinary stock market, and U.S. stocks had yet another superlative quarter. At these levels, the market is in virtually unprecedented territory with returns over the last 2 ½ years unmatched since the mid 1930s. The S&P 500 climbed rapidly over the last three months, setting 15 record highs and closing at 885.14. Your portfolio continues to participate in this historic rally and has been up over 95.93% since January 1, 1995. Although you have made a lot of money in this amazing bull market, it has been a difficult time for Independence, like other active managers, to add value over the benchmark. So far this year only about 10% of active managers have outperformed the S&P 500*. We have done better than most of our peers in this environment, and your results have exceeded the median manager's by 170 basis points since the beginning of 1997*. (*Source: INDATA) This quarter our valuation model continued to work less well than normal on the positive side of the alpha distribution and in particular on the "mega-cap" stocks. We believe this is related to the ongoing extreme concentration of S&P 500 performance in a handful of these large, liquid issues, a cyclical phenomenon driven by equity managers scrambling to invest massive cash inflows. During the last three months, these "mega-cap" stocks continued to outperform so that for the first half of 1997 these 50 largest stocks within the S&P 500 returned 24.3% while the remaining 450 returned only 17.0%. Because these issues are trading at such relatively high P/E multiples, our valuation model which focuses on owning stocks which are undervalued has not found them attractive. As a result, these names are not in your portfolio. Your portfolio is well positioned however, and when the market pulls back, these expensive issues are often the most vulnerable, and our philosophy of owning stocks of companies which are not only fundamentally strong but are also "cheap" returns to favor. In fact, this quarter on flat to down market days your portfolio outperformed the market by approximately 50 basis points. Alternatively, on up days when investors seemed to indiscriminately pour cash into the market, your portfolio lagged the overall market by a somewhat greater margin. While not changing the short-term bottom line, we find it both logical and encouraging that your portfolio does better when buying pressure abates and investors instead focus on making disciplined, value-oriented sell decisions.

With the exception of the high-flying "mega-cap" issues, prices of many stocks remain in line with underlying economic conditions. Given the lack of any near-term inflationary pressure, interest rates should remain low. And corporate profits—which have experienced their strongest cycle ever in the 1990s—are likely to moderate but not substantially weaken. So, we don't see a case for a large market sell-off, but do question the sustainability of the current favored few. Clearly, any re-acceleration of economic growth which triggers renewed interest rate concerns would lead to a quick market correction as occurred in the February - March period.

Independence (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.*

While we believe that our current performance pattern is related to the extraordinary stock market environment, our research shows that there has not been any secular market change that will cause these circumstances to persist indefinitely. As has happened following other difficult performance periods in our history, we are confident that by sticking to our disciplined approach we will once again outperform your benchmark. In the short run, “waiting it out” by adhering to our investment discipline feels uncomfortable, but in the long run we know it’s the right thing to do. Meanwhile, your portfolio is poised to capture the value embedded in it. We’ve maintained your portfolio’s characteristics in line with your investment policy guidelines throughout this quarter. At the end of June, your portfolio owned 116 stocks and was fully invested with a cash position of 0.3%. Your account had a beta (a measure of volatility) of 1.0, an R^2 (a measure of diversification) of 0.98, and a tracking error (a measure of non-market risk) of 1.96%. Your portfolio’s P/E of 17.1x is well below the S&P 500’s 20.6x multiple, another indicator that there are many attractively-valued stocks outside of the current market favorites. Independence has outperformed the market in nine out of the fourteen calendar years we’ve been in business. Independence continues to tightly manage the risk in your account and to systematically implement our sound investment philosophy and disciplined process. As this extraordinary market cycle runs its course, we are confident that our approach will add value. The key factors that have driven our longer-term success remain in place -- the same team of experienced investment professionals, a deeply-held belief in owning stocks that are “cheap” with improving fundamentals, and a rigorous adherence to our investment process.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There has been no change in our ownership, investment staff, our philosophy or our daily implementation.

Four accounts in your discipline were lost in the second quarter, one for performance, and three due to plan restructuring (one went passive and two became more aggressive).

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

The annual Client Seminar will be held in Chicago this year November 19th through November 21st.

Staff Comments

Due to performance concerns, staff will conduct an in-depth review of Independence and present the results to the Domestic Manager Committee next quarter.

Staff has no other comments at this time.

Manager Commentary
Investment Advisers, Inc.

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$ 15 Billion	Actual	16.0%	15.1%
Total Firm Assets Managed in this Discipline	\$879 Million	Benchmark	17.0%	27.5%

- 1. Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

The portfolio was up 16.0% for the quarter ended June 30, 1997, which compares to a 17.0% for our benchmark. For fiscal year 1997, the portfolio was up 15.1% as compared to the benchmark which was up 27.5%. As we have discussed in previous updates, the primary reason for the fiscal 1997 under-performance relative to the benchmark has been the overall underperformance of small capitalization stocks and the outperformance of the large capitalization stocks within the region. The portfolio has been weighted toward stocks under \$1 Billion and with the exception of the most recent quarter, this has had an impact on the performance of the portfolio relative to the benchmark.

During the second quarter, the large capitalization stocks continued to be the primary driver of the performance in the benchmark. In the second quarter, Motorola, Medtronic, Caterpillar, Norwest and Allstate all had an impact of greater than 50 basis points on the benchmark and all of these names were either underweighted or not part of the portfolio. However, the continued strong performance of the large capitalization names was offset by the performance of the small capitalization names in the portfolio. Diametrics Medical (+128.57%), Recovery Engineering (123.73%), ITI Technology (60.53%), Shopko (70.0%) and Merrill Corporation (51.69%) were all names with significant absolute performance. The stocks with a market capitalization under \$1 Billion accounted for 11.59% of the overall performance of the portfolio during the last quarter, and this performance offset the continued strong performance of the large capitalization names in the benchmark.

- 2. Future Strategy.** What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

The only significant change to the portfolio is that we initiated a position in Ameritech to broaden our bet in the Communication Services sector and in combination reduced our position in 360 Communications. During the current quarter we expect to reduce some of our positions in the large capitalization names to adhere more closely to the weightings in the new benchmark which went into effect for fiscal 1998. We will continue to have an active bet in the small and middle capitalization range and expect that the only change over the next three months will be a modest increase in the overall number of names owned.

- 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.

3a. Ownership Changes:

There were no ownership changes in second quarter of 1997.

Investment Advisers, Inc. (con't)

3b. Personnel Changes:

Staff Additions are as follows:

Year	Hired	Name	Title/Responsibility
1997 2Q		Christopher Burk	Associate Vice President/Fixed Income Investment
1997 2Q		Michael Hamilton	Vice President/Senior Equity Analyst
1997 2Q		Ray Murray	Senior OTC Trader
1997 2Q		Curt McLeod	Vice President/Equity Portfolio Manager
1997 2Q		Alan C. Livsey, CFA	Senior Fund Manager/Latin American Equities
1997 2Q		Simon Hallet	Senior Fund Manager/Far East Equities

Staff Departures are as follows:

Year	Departed	Name	Title/Responsibility
1997 2Q		Tina Michael	Vice President/Equity Analyst
1997 2Q		Nigel Hart	Portfolio Manager/Emerging Market Equities

During the second quarter, Michael Hamilton was hired as a Senior Equity Analyst for IAI's Growth Equity Team. The Growth Equity Team manages IAI's Regional Equity Portfolios.

3c. Accounts Gained or Lost:

Total firm-wide accounts Gained/Lost during the second quarter 1997:

	# of Accounts	Asset Value
Gains	7	\$ 129 MM
Losses	49	\$1,326 MM

IAI did not gain or lose any Regional Equity accounts in the second quarter of 1997.

4. Other Comments. *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

In the past two quarters, IAI has had significant turnover in their investment staff, a significant loss of accounts and assets, and problems with their benchmark resulting in poor relative performance. IAI will be re-interviewed by the Domestic Manager Committee in August 1997 to determine whether to retain or terminate the manager's services.

Manager Commentary
Lincoln Capital Management Company

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$44.1 Billion	Actual	18.4%	32.1%
Total Firm Assets Managed in this Discipline	\$19.9 Billion	Benchmark	21.0%	35.8%

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?*

Quarter - The active portfolio underperformed the benchmark by 260 basis points net of fees. Sector allocations added 90 basis points while issue selections decreased returns by 350 basis points. The underweighted position in technology and overweighted position in consumer non-durables were the sources of the positive sector variance.

The issue selection problem was mostly specific to technology. Meaningful laggards included Intel and Hewlett. Omissions were also an important part of the lag here.

Year - The active portfolio underperformed the benchmark by roughly 370 basis points net of fees. There was essentially no net impact from industry weightings. Selections were good in consumer non-durables and health care. In all other sectors our stock picks were poor (particularly in technology and specialty chemicals).

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 top ten holdings in the portfolio currently represent nearly 48% of assets. These positions will be the key to relative performance. Bottom-up issue selection is based upon fundamental analysis and valuation parameters.

There are currently meaningful industry weighting variances. Consumer non-durables are materially overweighted. Most of these companies are "global brand" entities. We like their superior long term growth rates, high and improving ROI's, and predictable earnings patterns. Technology is underweighted, reflecting less certain earnings trends currently. Healthcare issues, primarily pharmaceuticals, are also overweighted. They possess many of the characteristics of the global brand companies.

Lincoln 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.*

No ownership change. There were no new relationships added in the second calendar quarter of 1997, although one client transitioned from a balanced fund to an equity account. Additionally, Sandy Lincoln, our Chief Operating Officer, resigned on 6-30-97.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

The new 30 stock portfolio will have somewhat greater variability than the prior more diversified set of selections.

Staff Comments

Sandy Lincoln was a consultant to Lincoln Capital for several months last summer as an employee of William Mercer. In the fall of 1996, he was hired to oversee Lincoln Capital's business direction. Lincoln Capital is currently seeking a replacement for Chief Operating Officer. Staff does not believe this change will affect the management of SBI's portfolio.

Lincoln Capital also hired a third portfolio manager for the equity team, John Cole. John came from Boatmen's Trust Company where he has been Executive Vice President and Chief Equity Investment Officer. This addition should strengthen the team managing SBI's account.

Lincoln Capital Management participated in a Domestic Equity Manager Round Table at the SBI on June 23, 1997.

Manager Commentary
Oppenheimer Capital

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$51.2 Billion	Actual	16.9%	37.1%
Total Firm Assets Managed in this Discipline	\$34.2 Billion	Benchmark	16.1%	31.4%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

For the quarter, the portfolio outperformed the benchmark by 80 basis points. Most of the top contributors to portfolio performance were in the financial sector, which generated a return of 37.4%. Insurance companies Exel Ltd. (+25.8%), American International Group (+27.4%), Aflac (+26.3%), and Progressive (+36.3%) led the group. Travelers, a diversified financial services company, was the third best performing stock in the portfolio, returning 31.7%. Another prominent group in the portfolio this quarter was consumer non-durables, which included Warner Lambert (+44.2%) the top performing stock in the portfolio, as well as Avon Products (+35.1%), Becton Dickinson (+12.8%) and Carnival Cruise Line (+11.4%).

The returns of the five largest contributors to and detractors from performance for the past quarter were as follows:

<u>Five Largest Contributors</u>		<u>Five Largest Detractors</u>	
Warner Lambert	44.2%	Shaw Industries	-16.2%
Caterpillar	34.4	Arrow Electronics	-5.8
Travelers	31.7	Wells Fargo	-4.7
General Electric	31.0	Freeport McMoran	-1.0
Federal Home Loan Mortgage	28.8	Intel	2.0

For the year ended June 30, 1997, the portfolio outpaced the benchmark by 570 basis points. As was the case for the quarter, portfolio outperformance for the year was dominated by an overweight in financial stocks and aided significantly by stock selection in the consumer non-durable sector. The groups returned 49.8% and 41.5% respectively.

The returns of the five largest contributors to and detractors from performance for the past year were as follows:

<u>Five Largest Contributors</u>		<u>Five Largest Detractors</u>	
Warner Lambert	130.5%	Freeport McMoran	-17.7%
Intel	93.5	Shaw Industries	-17.2
Travelers	86.5	Hercules	-11.8
Federal Home Loan Mortgage	65.9	Motorola	-11.5
Exel Ltd.	54.0	RR Donnelley	-9.9

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

The portfolio continues to be overweighted in financial stocks. Most of these holdings have been in the portfolio for over three years and are held because of our belief in the company fundamentals and long-term business prospects. Our conviction remains high for the current portfolio holdings.

Oppenheimer (con't)

In general, we find the stock market to be fully valued at this time. However, we are not market timers and do not have an opinion as to whether the market will be higher or lower a month from now than it is today. We maintain an interest in individual stocks, not the market. We will be opportunistic in buying stocks we like whenever we can get them at favorable prices.

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 affected the management of the Minnesota State Board of Investment portfolio. However, there have been the following changes in investment professional staff:

Additions:

Laurie Deaton, VP, Relationship Manager
John Wilson, VP, Relationship Manager

Departures:

Denise Cusick, Director of Client Services
Roger Mack, Assistant Portfolio Manager

CORE EQUITY ACCOUNTS GAINED/LOST:

Accounts Gained: 7 accounts with \$375.6 million in assets
Accounts Lost: 1 account with \$34.2 million in assets

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

PIMCO Advisors has signed a definitive agreement with Oppenheimer Capital to acquire a one-third, managing general partner interest in Oppenheimer Capital. When completed, this acquisition will not only enable our clients to access strong fixed income and value equity management, but will also strengthen our organization in a number of ways. The acquisition would not change in any manner, our investment culture, process, investment professional staff or operations as an investment management firm.

Oppenheimer Capital will function as a separate subsidiary of PIMCO Advisors. The structure will ensure that the stability of Oppenheimer Capital's investment team and the integrity of its focus remain unchanged. The high quality of the PIMCO organization, the business mix of the combined companies and the compatibility of our cultures creates an organization with tremendous strength and strategic opportunities. Additionally, PIMCO has proven through prior acquisitions that it respects the importance of retaining investment professionals and maintaining the culture of a successful organization.

Staff Comments

Staff does not believe the acquisition of Oppenheimer Capital of PIMCO Advisors will have an adverse affect on the management of SBI's portfolio. John G. Lindenthal will continue to manage SBI's portfolio with the same philosophy and investment process used since inception of the relationship in July 1993.

Manager Commentary
Weiss, Peck & Greer

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$12.9 Billion	Actual	15.3%	1.3%
Total Firm Assets Managed in this Discipline	\$ 1.1 Billion	Benchmark	16.7%	8.5%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The second quarter of 1997 marked a reemergence of strong performance for Small Capitalization growth stocks. After a decline of 3.7% in April, your portfolio rose 14.4%, net of fees, in May versus 12.6% for the benchmark. A return of 4.4% in June brought the quarter's performance to a close at 15.3% in the Minnesota portfolio versus the benchmark return of 4.1% for June and 16.7% for the quarter. The portfolio's performance versus the benchmark was hindered by Informix's 53% drop during April as well as a slump in biotechnology stocks. On the positive side, May and June's outperformance was driven by a rebound in the business services and telecommunications areas. Wackenhut Corrections buoyed the business services sectors on news of winning a substantial new contract. The telecommunications group was spurred by Intermedia Communications, a competitive local exchange carrier whose stock posted a remarkable 63% return.

For the one-year period, the Minnesota portfolio has underperformed the benchmark with a gain of 1.3% versus 8.5% for the normal portfolio. This divergence can be attributed primarily to February and April when networking and software companies experienced particularly poor performance. Several of our holdings were hurt by specific news-related sell-offs. Among these, Ascend and Cascade continue to have excellent long-term prospects. We are encouraged by their recent strength and added to our positions during the downturn. However, given our overweightings in technology and health care, particularly biotechnology, the portfolio has suffered in 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.*

Strategically, we have continued to purchase battered growth stocks during the Small Cap malaise. The recent Small Cap sell-off has allowed us the chance to buy sterling companies at bargain basement prices. Our key overweightings continue to be in the areas of technology, business services and telecommunications. We believe that the current trough in Small Cap performance will add longevity to the sector's long-term up-cycle. As investors begin to reexamine the fundamentals of the group's constituents, we believe that they will endorse our outlook by moving the group into a positive relative position versus blue chips and other investments.

Weiss, Peck & Greer (con't)

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

None.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Weiss, Peck & Greer participated in a Domestic Equity Manager Round Table at the SBI on June 23, 1997. Staff has no other comments at this time.

Manager Commentary
Franklin Portfolio Associates Trust
Semi-Passive Account

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$12.1 Billion	Actual	17.1%	33.7%
Total Firm Assets Managed in this Discipline	\$ 1.5 Billion	Benchmark	16.1%	32.5%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

Last Quarter's Performance:

The market came roaring back in the second quarter after a sharp but brief correction in the February-March period. For the period, the account outperformed the benchmark -- gaining 17.1% compared to 16.1%. According to our performance attribution analysis, stock specific bets were strong positive contributors to active return. Industry bets were slightly negative and risk index bets were slightly positive contributors.

Twelve Month Performance:

The account was ahead of its benchmark for the past twelve months. Our performance attribution analysis indicates that stock specific bets were positive contributors to active return. Risk factor bets were also positive and industry bets were slightly neutral.

Below is a table of the top and bottom five industry or risk factor contributors to active return.

Top 5 and Bottom 5 Industry or
Risk Factor Contributors to Active Return

Factor	Qtr Active Bets	Qtr Return Contrib.	Factor	12 Mths Active Bets	12 Mths Return Contrib.
Top 5:					
Food	1.01	0.15	E/P Factor	0.16	0.51
Health Non-Drugs	0.79	0.13	Misc. Finance	1.31	0.49
Oil Services	0.67	0.12	Oil Services	0.51	0.27
Misc. Finance	0.52	0.12	Health Non-Drugs	0.74	0.25
E/P Factor	0.14	0.12	Gas Utilities	0.97	0.24
Bottom 5:			Bottom 5:		
Mortgage	-0.56	-0.09	Business Machines	-0.56	-0.20
Banks	0.94	-0.15	Telephones	-0.22	-0.21
Beverages	-1.46	-0.24	Services	-1.56	-0.31
Services	-1.61	-0.27	Beverages	-0.89	-0.32
Telephones	-2.56	-0.38	Banks	-1.06	-0.45

- Note:
1. Bets are averages of beginning of month values.
 2. Risk Index differences are in standard deviations.
 3. Industry differences are in percents.
 4. Contributions are percents aggregated from monthly data.

Franklin (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

As of June 30, 1997, the following active bets existed in the account relative to the benchmark:

- A. Risk factor bets (standard deviations from benchmark = or > .1):

Earnings/Price = 0.12

Trading = 0.10

- B. Industry bets (bets stated as percentage deviations from benchmark weight):

5 Most Positive Bets:

Electric Utilities	1.38%
Retail	1.08
Misc. Finance	1.06
Health Non-Drugs	0.98
Oil Services	0.94

5 Most Negative Bets:

Telephones	-2.24%
Beverages	-1.54
Services	-1.25
Banks	-0.84
Business Machines	-0.77

Active portfolio bets are a function of: (a) the rank of individual issues as computed by Franklin's multi-factor ranking methodology, and (b) the effect of each issue on the "tracking error" or risk of the overall portfolio relative to the benchmark. Our objective is to obtain as high a rank as possible consistent with the residual risk (tracking error relative to the benchmark) objective. As a result of the stock selection bets, the portfolio acquires the industry and risk factor bets as described above. The total estimated tracking error of the account relative to the benchmark at quarter-end was 1.50%.

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 over the last quarter. In July, Paul F. Healey joined Franklin as Senior Vice President, Marketing.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

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

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$235 Billion	Actual	16.5%	32.1%
Total Firm Assets Managed in this Discipline	\$10.9 Billion	Benchmark	16.1%	32.5%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The Research Enhanced Index (REI) surpassed its benchmark in the second quarter with strong relative performance in the telephone and energy sectors overcoming weakness in the services and multi-industry sectors. Because portfolio sector weights are equal to the benchmark sector weights, the relative performance is due to stock selection within each sector rather than from sector over/under weighting. Further, the large number of stocks in the portfolio reduces the potential relative return impact of a small number of stocks. In other words, many small, active, individual stock positions drive performance.

Among the stocks which had the largest positive impact in the quarter were Worldcom, Cisco and Warner Lambert. Worldcom (+45.5%) is the best positioned telecom company to profit from the growth of Internet services and has benefited from its non-residential customer base, avoiding much of the regulatory uncertainty of the residential market. Cisco Systems (+39.5%) led the rebound in networking stocks, announcing solid earnings and a bright outlook for the group. Warner Lambert (+44.2%) continues to rally on the rapid success of their two new drugs, Lipitor (cholesterol) and Rsulin (diabetes).

Stocks that negatively impacted performance included Microsoft (underweight), General Electric (underweight) and Sensormatic. Microsoft's uncanny ability to surpass inflated earnings projections has analysts revising their models. Similarly, GE has consistently met or exceeded expectations, as they did again this quarter. We believe that eventually these companies will be valued based on their long term, sustainable earnings. Until that happens we will remain underweight, within the bounds of the strategy. An overweight position in Sensormatic also detracted from performance as some analysts lowered their estimates amid stiff competition from rival Checkpoint, and weakness in Europe.

For the year ending June 30, 1997, the portfolio underperformed its benchmark. Performance was mixed with the chemical, transportation and insurance sectors adding the most to return while the technology and multi-industry sectors detracted the most from return.

Most of the relative weakness can be attributed to underweighted positions in Large Cap "Nifty Fifty" stocks such as Coca Cola, General Electric and especially Microsoft which has risen 110% in the last 12 months. The relative strength stemmed from individual stock selection decisions such as Warner Lambert, Worldcom and Tyco Labs.

J.P. Morgan (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.

Our stock selection process overweights those stocks within each sector that have the highest expected return or dividend discount rate (DDR - the discount rate that equates projected earnings/dividends to current price) and underweights those with low DDR's. Since the portfolio is fully invested, sector neutral, and factor neutral, the only active bets are individual stock over-and under-weightings. As prices and earnings estimates change, so do DDR's. Monthly portfolio rebalancing redistributes the portfolio weights such that within each sector, stocks with the lowest DDR's are sold and stocks with the highest DDR's are purchased, within specified limits. Regular rebalancing and constant oversight ensures that our analysts' latest estimates are reflected in the portfolio. As of June 30, the largest positive bets in the SBI portfolio are Nynex, Duke Energy and First Data Corp. The largest negative bets are Merck, Johnson & Johnson and General Electric.

3. *Organizational Issues.* Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

Due to fundamental changes in the management of retirement assets, the distinction between management for institutions and for individuals has been blurred. As such, we have combined JP Morgan Investment Management (primarily institutional) operations with the Private Banking operation to form JP Morgan Asset Management Services. Ramon de Oliviera was named chairman of the new group, while Kim Schappert, head of investment management, was named president.

During the second quarter, five new accounts were added, and one was lost.

4. *Other Comments.* Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

None.

Staff Comments

Staff visited J.P. Morgan's New York office in June 1997. Comments made during the meetings agree with the above.

**Manager Commentary
Barclays Global Investors
Semi-Passive Account**

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$464 Billion	Actual	16.5%	33.1%
Total Firm Assets Managed in this Discipline	\$15.4 Billion	Benchmark	16.1%	32.5%

1. **Past Performance.** Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

BGI's Alpha Tilts Strategy, customized for the Minnesota SBI, outperformed the Minnesota DCF Benchmark by 0.4% in the second quarter of 1997, and outperformed by 0.6% (net of fees) over the last 12 months. This strategy systematically evaluates companies according to a broad set of investment characteristics in order to construct a risk-controlled, index-like portfolio with expected returns in excess of the benchmark. The active risk level of the portfolio is generally maintained at 1.0-1.5%; from inception and over the past year the realized active risk was well within this range.

The attribution of added returns in the second quarter is shown in the table below. The portfolio's use of analyst information to identify companies experiencing positive changes in earnings expectations added 0.58% during the quarter. The use of valuation measures to identify stocks trading at attractive prices relative to their underlying economic value added 0.06% in the second quarter. The use of signaling measures, which include corporate financing activity and informed insider trading, contributed 0.01% to active return 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 positive 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:

	Quarter	Past Year
Analyst inputs:	0.58%	2.25%
Valuation inputs:	0.06	0.61
Signaling inputs:	0.01	0.02
Other common factors:	-0.19	-0.76
Industry weights:	-0.07	-0.45
Management fees:	-0.04	-0.15
Stock-specific	0.03	-0.69
Total active return:	0.38%	0.83%

Barclays Global Investors (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The current Minnesota Alpha Tilts portfolio is similar in structure to the first quarter 1997 portfolio. Our investment process seeks to identify companies for which consensus expectations will be improving, by carefully modeling the linkage between changes in analysts' forecasts and future expectations and returns. Secondly, we emphasize companies that are trading at multiples (based on earnings and book value) that are below their industry peer group. Finally, we identify companies whose management has "signaled" their view of stock valuation to the market in the form of insider trading activity and corporate financing activity. These areas of emphasis in the portfolio are designed to be relatively consistent over time; we do not make subjective or ad hoc changes to our investment process. The rationale for these bets is based on a combination of economic/investment theory about how markets and investors operate and rigorous empirical testing to validate these ideas and determine the optimal way to incorporate them in highly risk-controlled portfolios. In general, we are seeking to capture systematic return effects that are generally overlooked by traditional investors.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No significant ownership or senior personnel changes took place at BGI in the past quarter. In the Alpha Strategies Group, Steve Cusimano, portfolio manager, left the firm to pursue other opportunities. Greg Gipson joined the group as a portfolio manager. We added 10 new clients in our US Alpha Tilts Strategies during the second quarter, with a total funding of approximately \$510 million. No clients were lost in the US Alpha Tilts Strategies during second quarter 1997.

New Alpha Tilts Clients, Second Quarter 1997:

LA County Metro Transit Authority	
Southern New England Telephone	
BASF Corp	Transocean Offshore
Sun Company	Amateur Athletic Foundation
Saks Fifth Avenue	Airtouch Foundation
NY State Common Fund	(Confidential client)

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

Staff has no comments at this time.

Manager Commentary
Barclays Global Investors
Passive Account

Period Ending:	6/30/97	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$464 Billion	Actual	16.9%	29.9%
Total Firm Assets Managed in this Discipline	\$ 15 Billion	Benchmark	16.9%	29.3%

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.*

Barclays Global Investors' (BGI) Wilshire 5000 Strategy tracked the Wilshire 5000 Index to zero basis points during the second quarter of 1997. At the end of the second quarter, the expected annual tracking error of the portfolio was 13 bps.

Tracking error for the last twelve months has been positive (60 basis points). The tracking error was due to security specific misweights in the optimized portion of the portfolio. Please also note that the performance discussed above is net of fees.

2. **Future Strategy.** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectations.*

We continue to look for opportunities to rebalance the portfolio and use cash flows to minimize the portfolio's expected tracking error. We seek to rebalance, preferably by using crossing opportunities, over time to minimize tracking error.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant ownership or personnel changes at the firm over the last quarter.

New Activity, Second Quarter 1997
 3 Accounts, \$36M

Lost Activity, Second Quarter 1997
 2 Accounts, -\$8.1M

Note: All these lost clients still have relationships with BGI.

Barclays Global Investors (con't)

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 \$50.0 million in the Wilshire 5000 portfolio. Trades were done to facilitate rebalancing, index changes, and dividend reinvestment. Of the \$50.0 million traded, \$412,000 was crossed either with other BGI clients/funds, through Instinet/Posit, or with brokers. The entire \$412,000 crossed were "micro" capitalization stocks that are the most costly stocks to trade in the open market. Assuming that the normal transactions cost for trading such stocks is 157 bps, the estimated savings was about \$6500. The portion not crossed was actively traded through Instinet or traded open market. Much of the trading done in the open market involved new stocks added to the index.

Staff Comments

Staff has no comments at this time.

Manager Commentary
CIC Asset Management, Inc.

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$225 Million	Actual	14.5%	29.0%
Total Firm Assets Managed in this Discipline	\$225 Million	Benchmark	15.1%	32.8%

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?

Second Quarter Performance

CIC's performance in the second quarter was 14.5% versus 15.1% for the benchmark index. We were hurt by our underweight in financials which are up 29% year to date as a group. We are currently at 85% of the index in financials and we believe valuations are very unattractive given the tremendous outperformance of this sector over the last three years. Within the financials, we much prefer nonbank financials over banks as we believe the consolidation seen in the banking sector will continue to spread to the nonbank sector.

Last One Year's Performance

For the last one year, our performance relative to the benchmark has been hurt by our underweighting in financials and by our overweighting in basic industries. Within the technology sector we were negatively affected by our holding in Silicon Graphics which was down 23.53% in the first quarter.

Portfolio Construction Table: Industry exposures and cash holdings changed as follows:

Sector	Normal	Portfolio	Portfolio
	Portfolio		
	Benchmark	6/30/97	6/30/97
Consumer Cyclicals	11.38%	8.05%	10.88%
Consumer Non-Durables	10.59	8.35	10.08
Technology	6.80	8.38	6.76
Energy	12.24	11.09	10.32
Basic Materials	10.21	15.53	14.33
Capital Goods	10.45	11.41	16.51
Utilities	14.87	10.67	10.85
Financials	23.46	23.39	19.85
Cash	0.00	3.13	0.42
TOTAL	100.00%	100.00%	100.00%

CIC Asset Management (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

During the quarter, we significantly increased our exposure to capital goods; we found good values in AMP, Kennametal, Case, and Thomas and Betts. We also reduced our exposure to financials by selling Great Western Financial, Beneficial Corp., Ahmanson, First Hawaiian Inc., and First Virginia Bank.

The overall market has been led by very high quality large cap stocks with high earnings predictability. Valuations on these securities have become extremely stretched relative to the 'value' strategy that CIC uses and we are finding it increasingly difficult to find new buy ideas. The securities which continue to outperform are those that have the least value in our opinion.

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 to report.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None to report.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Cohen, Klingenstein & Marks Incorporated

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$968 Million	Actual	19.7%	37.8%
Total Firm Assets Managed in this Discipline	\$968 Million	Benchmark	16.1%	32.8%

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?*

The account increased by 19.7% (net) during the second quarter of 1997 which compares to a 16.1% gain for the benchmark. For the past twelve months, the account rose 37.8% (versus 32.8%). Broadly speaking, the account remained aggressive, both in relation to our investment universe and to the benchmark. In particular, the account is more Growth and Interest-Rate oriented than the benchmark while it is under-weighted in the Stable and Energy sectors. It is also under-weighted relative to the benchmark in Economic Cyclical. This relative positioning, which has applied for the past year, reflects our optimism about long-term economic growth, and our expectation for steady near-term growth and lower interest rates. This positioning benefited the account in the second quarter: Growth stocks (Technology, in particular) lead the market and the account's over-weighting in this sector aided relative performance. The relative under-weighting of Cyclical stocks (which lagged the overall market) helped further. Most of the other differences in weighting had little effect. By and large, for the past twelve months, the same market dynamics applied (Growth leading, Cyclical lagging) and so the explanation for relative performance remains the same.

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 about fairly valued based on consensus profit and interest rate expectations. On the other hand, we believe that the consensus remains a bit too cautious on both rates (which we expect to fall) and profits. This, along with expected increases in profits can propel the market higher. This reflects no significant change in outlook.

Cohen, Klingenstein & Marks (con't)

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

Accounts Gained	Accounts Lost
19 (\$141.3 mil)	0

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

Staff visited Cohen's office on June 16, 1997 to review the portfolio and discuss the investment process and organizational issues. Staff believes Cohen will continue to grow its business with no adverse impact to its philosophy.

Manager Commentary
Compass Capital Management, Inc.

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$270 Million	Actual	15.3%	24.4%
Total Firm Assets Managed in this Discipline	\$150 Million	Benchmark	19.3%	32.3%

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?

Sectors	QUARTER		YEAR	
	Active Bets	Value Added	Active Bets	Value Added
Technology	Underweighted	Did Not Work	Underweighted	Did Not Work
Consumer				
Non-Durables	Underweighted	Did Not Work	Underweighted	Did Not Work
Consumer Durables	Overweighted	Did Not Work	Overweighted	Did Not Work
Capital Goods	Overweighted	Worked	Overweighted	Worked
Financial	Equal	Worked	Equal	Worked
Basic Industries	Overweighted	Did Not Work	Overweighted	Did Not Work
Transportation	Underweighted	Worked	Underweighted	Worked
Miscellaneous	Underweighted	Did Not Work	Underweighted	Did Not Work
Energy	No Position	No Bnmk. Position	No Position	No Bnmk. Position
Utilities	No Position	No Bnmk. Position	No Position	No Bnmk. Position

Quarter

Strength in the equity market continued in the second quarter of 1997. Compass' largest bet vs. its benchmark was in the Capital Goods sector, with a double weighting to the benchmark. This double weighting was the correct bet as Capital Goods stocks performed very well; however, Compass' stock selections within the Capital Goods sector did not keep pace with the sector itself. Two of the four Capital Goods stocks were purchased recently, based upon valuation and historical growth. Compass believes the market will reward these stocks in the future. Both Consumer Non-Durables and Technology sectors are underweighted to the benchmark. This underweighting (due to overvaluations in these sectors) penalized the portfolio in the quarter. Compass puts significant emphasis on the valuations of the securities and will not chase overvalued securities for short-term performance.

Year

Compass made the correct bet to increase portfolio exposure in the Capital Goods sector by adding two names during the past year. These two names have yet to be of benefit to the portfolio, but Compass believes that over time the market will reward them.

The underweighting in Technology and Consumer Non-Durables continues to hinder investment performance. Why the underweighting? Valuations. Compass can't find attractive growth stocks at reasonable prices in either of these two sectors at the present time.

As was the case last quarter, diversification by market capitalization has penalized Compass over the past twelve months. We are still finding attractive valuations in the mid-cap sector -- a sector which has not kept pace with the largest stocks.

Compass Capital Management (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Compass continues to somewhat underweight the technology sector, based upon high relative valuations. However, the portfolio has three major overweightings: capital goods (8%), basic materials (6%), consumer durables (4%), and two major underweightings: technology (6%) and consumer non-durables. The sole rationale for these active bets is growth at a reasonable price.

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 continued to repurchase Compass stock from the outside owner.

Accounts lost: None

Accounts gained: 3 Accounts at \$1 million each.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
New Amsterdam Partners LLC

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$415 Million	Actual	18.6%	34.6%
Total Firm Assets Managed in this Discipline	\$394 Million	Benchmark	16.6%	28.2%

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, 1997 the return on your portfolio was 18.6%. This compares with 16.6% for our customized benchmark, 17.4% for the S&P 500 Index, 14.7% for the S&P MidCap, 16.3% for the Russell 1000 and 18.0% for the NASDAQ Index. Year-to-date your portfolio has returned 18.9%. This compares with 16.9% for our customized benchmark, 20.6% for the S&P 500 Index, 13.0% for the S&P MidCap, 17.6% for the Russell 1000 and 11.7% for the NASDAQ Index.

At quarter's end, the portfolio contained forty five stocks. During the quarter we completed the sale of Superior Industries, sold Phelps Dodge and Chesapeake Energy and began to reduce our position in First Brands. We trimmed back two other positions slightly (Microsoft and Travelers Group) after sizable run-ups in their stock prices. We added to our position in American Power Conversion, taking advantage of what we perceived to be temporary price weakness. We also established new positions in Wellpoint Health Networks, a high expected return California-based HMO, and Furniture Brands Intl., a manufacturer of many of the best known brands of household furniture. During the quarter we purchased a small amount of Chesapeake Energy, which we later sold. The company's stock price initially moved up after our purchase on the announcement of a major natural gas find, but then the company preannounced a major earnings shortfall, causing the stock to drop.

This quarter our sector selection skill was neutral to slightly positive. We were overweighted in some of the best performing sectors (Finance and Health Related stocks) but 0 were underweighted in others such as Producer Manufacturing. Our stock picking ability in the quarter, however, was strong. Our stock selections outperformed their peers in ten of seventeen economic sectors and underperformed in the remaining seven sectors. Two of the stocks that hurt us last quarter rebounded sharply: 0 U.S. Robotics which merged with 3Com rose 42.2% and Access Health rebounded 70.4%. Other stocks that did well included Solectron Corp. (+39.8%), Mattel Inc. (+41.5%), Schering Plough (+32.3%), Medtronic Inc. (+32.7%), Microsoft (+37.8%) and our finance picks, in aggregate, were up 26.8%. Our disappointments included Cabletron (-4.0%), Arrow Electronics (-5.8%) and First Brands (-6.4%) all of which announced earnings shortfalls. We have begun to liquidate our First Brands holding but are maintaining our positions in the other two stocks. Nine West, a shoe wholesaler and retailer, fell 14.7% due to controversy over their accounting for an acquisition two years ago. We believe that the stock is a sound investment and currently undervalued. Our other major disappointment was Chesapeake Energy (referred to earlier).

New Amsterdam Partners (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

We continue to maintain an overweighting in Consumer and Health Related stocks but are underweighted in the Energy and Utilities sectors and in Cyclical stocks. Our model is now indicating that the Finance sector (which has done so well for us) is becoming fully valued so we expect to reduce our exposure in that area over the coming quarter. We remain fully invested in the account.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

None.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

In last quarter's letter we suggested that the market was currently going through a correction rather than entering a prolonged downdraft. We expected the stock market to rise 5 to 10%. The second quarter's performance certainly exceeded those expectations. New Amsterdam Partners, however, continues to remain cautiously bullish on both the stock and bond markets for 1997. We expect the stock market to rise 5% from here and for the interest rate on the long bond to average 6.5% for the year, ending 1997 at around 6.3%.

Staff Comments

Staff visited New Amsterdam Partners on June 16, 1997 to review the portfolio and discuss the investment process and organizational issues. Staff believes there are no issues at this time.

Manager Commentary
Valenzuela Capital Management, Inc.

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$1.26 Billion	Actual	15.6%	42.5%
Total Firm Assets Managed in this Discipline	\$1.24 Billion	Benchmark	15.8%	26.8%

- 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*

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 Pennzoil, adding 1.19%, the subject of a takeover bid; Cooper Cameron, +0.93%, where earnings are benefiting from consolidation in the oil services industry; and Sunbeam, +0.74%, whose restructuring plans continue on target. Performance was adversely affected by Footstar, costing 0.34%, where a slowdown in athletic footwear sales tempered growth at Foot Action stores; Raychem, (0.29%), experiencing temporary margin pressures; and Wallace Computer Services, (0.12%), where sales remain strong but declining paper prices are hurting top line growth.

For twelve months, the most significant gains came from Rite Aid, contributing 2.12%, experiencing earnings acceleration; as well as Washington Mutual, +2.04%, and Conseco, +2.02%, both benefiting from the integration of accretive acquisitions. The poorest performers for the period were Baker Hughes, costing 0.30% for the period while actually contributing +0.81% from inception; Rohr, (0.25%), facing uncertain implications of consolidation in the aerospace industry; and Raychem, (0.23%), from margin pressures in the most recent quarter.

- 2. Future Strategy. What active bets are in place at the present time relative to our benchmark? Summarize the rationale for making these active bets.*

Valenzuela Capital applies fundamental value-oriented research to selecting equities. We believe that growth in earnings and cash flow fuel price appreciation and that high price-to-earnings ratios cause volatility and risk. Hence, we try to sell higher P/E stocks and buy stocks in companies whose earnings will grow but whose P/E's are at or below the market. The portfolio was slightly realigned during the quarter. We added to positions we felt still represented good trade value and trimmed others, largely for reasons of valuation. New investments were initiated in Allegiance Corp., a healthcare products and services company experiencing improving fundamentals, CMAC Investment Corp., an undervalued provider of private mortgage insurance, Quantum, a manufacturer of storage products for computer platforms benefiting from growing demand, and Wallace Computer Services, a manufacturer of business forms products gaining market share. We realized gains in McDonnell Douglas, Pall and UNUM. We also realized gains in Gillette and JC Penney, positions resulting from the respective acquisitions of Duracell and Eckerd, as the new securities did not conform with our investment approach. The position in Rohr was sold due to concerns about competition in the consolidating aerospace industry.

Valenzuela Capital (con't)

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

We have advised members of the staff that the firm's name has been changed from Valenzuela Capital Management, Inc. to Valenzuela Capital Partners, Inc. to better reflect the structure of the organization. There is no change in ownership or otherwise. Wendy Hu joined the firm as a research analyst. Ms. Hu holds a Bachelor of Engineering in Industrial Automatic Control Engineering from Beijing Institute of Aeronautics & Astronautics in China and a Master of Science in Management of Technology (MBA) from MIT Sloan School of Management. She has five years of investment experience.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Looking forward through the second half, we are focusing on the likely deceleration of economic growth and its likely impact on corporate earnings - more specifically, on the earnings of the companies which are in our portfolio. In addition, we are carefully following developments on the inflation and interest rate front. We expect to see price pressure become more evident during the next several quarters, and expect that the Federal Reserve will react quickly to signs of inflation. As we have said during the last several quarters, stock selection will be important, and we remain committed to investing in companies that can deliver superior earnings in a softer economic environment.

Staff Comments

Staff visited Valenzuela Capital on June 16, 1997 to review the portfolio and discuss the investment process and organizational issues. Staff believes Valenzuela has strengthened its organization recently with the addition of a full time client service person and another research analyst.

Manager Commentary
Wilke/Thompson Capital Management

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$ 1.5 Billion	Actual	18.5%	-7.2%
Total Firm Assets Managed in this Discipline	\$551 Million	Benchmark	20.9%	10.9%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The year began exactly how 1996 left off – a small number of larger cap names captured investors' capital and the smaller cap companies went virtually ignored. Investors were attracted to these names as they possessed liquidity and perceived safety. Macro-economic factors including a strong global economy, low levels of inflation and declining interest rates also fueled the run-up in the larger cap names while causing the smaller cap issues to lag. It was very encouraging to see a "broadening-out" of the market in the month of May where more than just a select group of stocks performed well. In the latter part of 1996 and the beginning of 1997, the market's upward move was driven by only a handful of large cap names. Other, non-large cap issues were ignored by investors who were searching primarily for liquidity regardless of the stock's price or valuation. Valuation parameters are once again becoming the focus of investors and some of the neglected, smaller stocks are getting noticed. In the latest 12 month period, the portfolio's technology and healthcare issues have performed extraordinarily well and the retailers have struggled. For the latest quarter, however, some of the retailers have exhibited strong performance with much improved same-store sales comparisons. The psyche of the market still remains volatile as minor economic concerns often sway the market significantly. The portfolio remains fundamentally sound with companies that are growing their sales and earnings at above average rates.

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 1997, several macro-economic variables suggest that the overall market will remain strong and that smaller company stocks, in particular, will fare better relative to the first half of the year. The economy continues to grow at a healthy pace with little evidence of inflationary pressure. Future interest rate hikes are not necessarily imminent and appear to be modest at best. An encouraging sign from the portfolio's perspective is that investors are beginning to invest in some of the high quality, fast growing companies in which we invest that have not had the significant price appreciation that some of the larger companies have enjoyed. Although we will probably see a continuation of the "flight to liquidity," the market is showing signs of broader participation as opposed to the past 12 months where only a handful of large companies received investors' capital. We continue to focus the portfolio on business service companies who are providing productivity enhancements to their customers. Another market segment in which we are participating is cost effective health care companies.

Winslow Capital (con't)

outperformance over the long-term. The portfolio is currently forecasted to achieve earnings growth of 23% through 1998, while selling at only 21 times our 1998 estimates. This compares to the S&P 500 with earnings growth of 6% and a P/E of 19 times 1998 estimates. Your portfolio is growing 300% faster than the market and trading at a very slight 15% P/E premium.

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.*

Winslow Capital follows a fundamental "bottom up" investment process that leads us to companies with above-average future earnings growth. Above-average growth is a necessity, but valuation of the stock is also important. These investment philosophy guidelines have driven us to overweighted positions in the technology service, consumer service and healthcare sectors relative to our "normal" benchmark portfolio. We continue to look for individual stocks in these sectors to report strong earnings. In the most recent quarter, the average reported earnings gain for the companies in your portfolio was 29%.

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 of 1997 we were retained by the St. Paul based Bush Foundation to manage a \$90 million High Growth-Combined Cap account.

On April 1, 1997 Winslow Capital was pleased to announce the addition of Joe Docter and Bart Wear to the team of investment professionals. Wear and Docter, both 37, were previously partners at Baird Capital Management. Prior to Baird Capital, Bart and Joe were Senior Vice Presidents and Portfolio Managers at Firststar Investment Research and Management Company in Milwaukee. Each has 14 years of investment experience and is a Chartered Financial Analyst. They will participate fully in the team process of research and portfolio management at Winslow Capital.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Winslow Capital is being reinterviewed this quarter by the Domestic Manager Committee, due to lagging longer term performance relative to their benchmark.

Manager Commentary
Zevenbergen Capital, Inc.

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$494 Million	Actual	20.3%	25.8%
Total Firm Assets Managed in this Discipline	\$494 Million	Benchmark	18.7%	27.5%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

Zevenbergen Capital's (ZCI) technology, health care and consumer staples sectors led the portfolio with gains in excess of the custom benchmark sectors. Technology rebounded from first quarter's sell-off, as ZCI concentrated the sector's holdings in top-tier companies (defined by consistent, quality earnings). Fundamentals for the health care industry, primarily the pharmaceutical arena, remain positive and continue to drive returns as a result of several factors: 1) use of preventative/maintenance therapies as an alternative to higher-cost in-patient and surgical procedures, 2) pricing power, 3) global expansion and 4) an aging domestic population. Lastly, lower multiple, consumer staple issues also outperformed the custom benchmark sector. Deliberate overweighting in the nontraditional and moderately defensive cosmetic sector (where ZCI finds remarkable top- and bottom-line growth) provided excellent returns. The conventional food, beverage and household products companies typically represented in this sector do not possess strong top-line growth or pricing flexibility and hence, are not chosen as active investments.

Our challenges this quarter were centered in the consumer discretionary and energy sectors. Specifically, APAC Teleservices, Inc. unexpectedly announced the loss of significant revenue associated with its largest client UPS (25% of sales). On the news, we re-evaluated company fundamentals, and on expectation of further near-term earnings pressure, exited the position. Energy is typically a cyclical investment sector and therefore, not considered by ZCI to have long-term growth fundamentals. Occasionally, this segment exceeds expectations and outperforms our energy holdings. We are confident that overweighting other growth sectors, such as technology and telecommunications, will provide greater long-term returns than investments in the energy area.

By virtue of the weakness in small- and mid-cap stocks, combined with a sell-off in the technology sector during the first quarter of 1997, ZCI outperformed only three sectors year-to-date: health care, consumer staples and utilities/telecomm. We are assured by the recent strength in our top 10 holdings (representing the total portfolio's significant exposure to the small- and mid-cap arena), that the portfolio contains excellent growth vehicles, recognized for their superior valuations in comparison to their long-term growth rates.

Zevenbergen Capital (con't)

2. ***Future Strategy.*** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

The custom benchmark returns reflect continued strength in the largest capitalization issues within the index, approximately the top 50. Clearly, some of the big companies in the benchmark are expensive when compared to their growth rates or historic valuations. In opposition to these extremes, MSBI's portfolio is heavily weighted (approximately 70%) in mid- and small-size companies which until recently, have not been in favor and hence, have lower valuations.

The portfolio does hold some issues in the large-cap realm (roughly 30%) which contributed to performance, but these issues are selectively chosen for their growth durability and lower relative prices. Meaning, their earnings have been consistent and strong enough to keep their P/E's in-line with their growth rates, versus P/E multiple expansion based on price momentum fed by the in-flow of funds to passive strategies.

To reduce our downside risk, we are extremely careful with stock selection, weighting, quality and consistency of earnings *and* valuation parameters. By diversifying the higher growth issues in the technology and telecommunications sectors with lower valuation securities in the healthcare, consumer staples and finance sectors, the portfolio maintains a balance of steady growth for unpredictable times.

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 to report for the period.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
BEA Associates

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$31.9 Billion	Actual	4.9%	10.3%
Total Firm Assets Managed in this Discipline	\$ 4.4 Billion	Benchmark	3.7%	8.2%

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 performance of the Lehman Aggregate index for the second quarter of 1997 was 3.7%. The State of Minnesota portfolio provided a net return of 4.1% for the quarter, generating net outperformance of 40 basis points. This outperformance can be attributed to successful strategy and security selection in corporate bonds, volatility arbitrage, and emerging market debt.

At quarter end, the government and agency bond portion of the State of Minnesota portfolio was 21%, representing an underweight of approximately 30%. The decision to maintain this underweight was based on our desire to run the portfolio more aggressively than the index, as it related to spread risk.

The investment grade corporate bond weighting of 23% represented a 4.1% overweight and contributed 5 basis points of gross performance. In the month of April, corporate bond prices came under pressure and provided us with an opportunity to increase the portfolio's exposure by approximately 5%. Of the 23% in "high grade" corporate bonds, 9% is in putable bonds. We feel putable bonds are currently very attractive at the recent level of low interest rate volatility.

Mortgages and other collateralized obligations accounted for 42% of the portfolio. The mortgage (MBS) portion of the portfolio had little impact on incremental performance (approximately 2 basis points) in the second quarter. At quarter end, we had a neutral-weighting in MBS collateral (31%). Our longer-term bias has been to vary the MBS exposure between neutral and overweight and we would look to increase exposure should spreads widen. Asset and commercial backed bonds equaled 11% of the portfolio.

For the quarter, volatility arbitrage positions had a positive impact on performance of 17 basis points. As mentioned in our last quarterly review, the positions we hold are designed to benefit from the general increase in day to day fluctuations in currency and equity markets around the world. Our most profitable positions were in the Yen, FTSE, and British pound.

During the past 12 months, the State of Minnesota portfolio provided 10.3% return vs. an 8.2% return for the Lehman Aggregate. The outperformance is the result of several strategies: a general overweight in "spread products"; an overweight in the bonds of both domestic and international investment grade banks; a major portion of the 10% below investment grade allocation to crossover credits; and identifying utility bonds which would benefit from substantial regulatory changes.

BEA Associates (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Although credit spreads are at the high end of their long-term valuations, we still see many pockets of opportunities and value. Double AA corporates have good relative value because the corporate quality curve has flattened, due to the exceptional performance of high yield securities over the past year. Reinsurance bonds, municipal securities, and mortgage-backed securities are several examples of non-cyclical investments that will perform well, regardless of economic fluctuations. Though we expect economic fundamentals to remain solid, we suspect that the overall "quality" of lower rated securities is diminishing with the flood of new issuance.

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

The discrepancy between SBI's and BEA's returns was due to a pricing error. Our custodian mispriced a currency hedge which caused an 80 basis point reduction in returns for the first quarter of 1997. This was reversed in April. Procedures have recently been implemented between BEA and the custodian which should prevent similar mispricings in the future.

Manager Commentary
IDS Advisory (IDS Fixed-Income Advisors)

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$36.6 Billion	Actual	3.6%	8.8%
Total Firm Assets Managed in this Discipline	\$4.0 Billion	Benchmark	3.7%	8.2%

- 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, 1997, the total return on your portfolio was +3.5% compared to a +3.7% return on the Lehman Aggregate Bond Index. For the twelve months ended June 30, 1997 your account returned +8.6% as compared to the benchmark return of +8.2%.

The primary reason for the underperformance for the second quarter was an underweighting in mortgages which outperformed the market. The portfolio weighting was 20% relative to the index weighting of 30%.

High Yield securities continued to add value in the second quarter of 1997. The total return on high yield securities was +4.96% for the quarter, which contributed an incremental positive return of +0.39% to the portfolio. At quarter end, 8.0% of the portfolio was invested in securities rated below investment grade by either S&P or Moody's. Because we are closer to the end of an expanding economic cycle, our bottom up investment approach is receiving increased emphasis at this time. However, as long as the economy does not falter, we believe that investment value can continue to be found in the high yield portion of the fixed income market.

- 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.*

Late in the first quarter, the Federal Reserve Board (FRB) increased short-term interest rates. In a very short period of time the market chose to ignore the FRB's interest rate move. Instead the market has focused on a continuous string of good inflation news and the fact that the economy is neither gathering momentum or changing direction. As a result, we continue to believe that maintaining duration close to the benchmark remains prudent.

- 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 following promotions took place over the last quarter:

Steve Roszell was promoted to Senior Vice President of American Express Financial Corp.

Greg Groéchel has been promoted to the position of portfolio manager.

Peter Lamaison has assumed responsibilities as Chief Investment Officer in London.

Nicole Meline has accepted an International Account Analyst position.

Ron Haim has accepted a Trading Assistant position.

Scott Hamilton has accepted an Account Analyst position.

Rebecca Binder has accepted an Account Analyst position.

IDS (con't)

The following individuals have joined IDS:

Todd Czachor	Fixed Income Analyst	Tom Mahowald	Sr. Equity Analyst
Angela Campbell	Marketing Dir. - Europe	Jennifer P. DeLeon	Sr. Fixed Income Analyst
Mike Milosch	Fixed Income Analyst	Tom Howell	Eq. Assoc. Analyst
Julie G. Deutz	Fixed Income Analyst	David Benz	Eq. Assoc. Analyst
Richard Leadam	Int. PM - North America	Cary Robinson	Eq. Assoc. Analyst
Lysander Tennant	Int. PM - Eastern/Central Europe		

The following individuals have left IDS:

Ned Dau	Sr. International Analyst	Pursue career outside firm
Paul Hopkins	CIO - International Equity	Terminated
Paul Warren	Int. PM - Japan	Pursue career outside of firm
George Gaskins	Eq. Quant. Analyst	Pursue career within firm
John Meara	Equity Analyst	Pursue career outside of firm

Second Quarter 1997

Product	Gains		Losses	
	# of Accounts	Assets (\$MM)	# of Accounts	Assets (\$MM)
Large Cap Equities	4	169.6	2	188.6
Fixed Income	1	1.0	0	0
Balanced	0	0.0	0	0
International	1	19.2	0	0
Regional - Specialized	0	0.0	0	0
Global Ex-Australia	1	28.0	1	75.3
Latin America	0	0.0	0	0
Small Cap Equities	0	0.0	0	0
Mid Cap Equities	0	0.0	0	0
Research Core	1	27.4	0	0
Research Aggressive	2	1.9	0	0
Global Opportunities	0	0.0	1	45.6
Global	0	0.0	3	362.3
Structured Fixed Income	0	0.0	0	0

4. Other Comments. *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None at this time.

Staff Comments

Variance between SBI's and IDS's returns is due to pricing differences. On an ongoing basis staff continues to work with the managers to achieve greater consistency between our custodial records and their internal records. IDS Advisory changed its name to American Express Asset Management, effective July 10, 1997.

Manager Commentary
Investment Advisers, Inc.
(Fixed Income)

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$14.8 Billion	Actual	3.8%	8.3%
Total Firm Assets Managed in this Discipline	\$ 4.4 Billion	Benchmark	3.7%	8.2%

- 1. Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio lagged its benchmark during the second quarter. Our overweighting in asset backed securities and our issue selection in Treasuries and corporates all contributed positively to the second quarter return. Our slightly shorter-than-benchmark duration, more defensive stance in corporates, and more convex position in mortgage backed securities (MBS) negatively impacted the second quarter results.

The slight lag in 12-month trailing period return performance is entirely explained by the second quarter results.

During the second quarter, we increased our duration to be virtually identical to the benchmark, reduced our barbell yield curve position, increased our MBS weighting after spreads had widened, reduced our dollar-duration exposure to corporates, added exposure to federal agency paper, and slightly increased our asset backed securities (ABS) 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 portfolio's duration is neutral to the benchmark. The portfolio has a modest barbell yield curve structure, with a slight underweighting in intermediate-maturity bonds. With additional Fed tightenings possible, we believe that the yield curve is likely to flatten further. With regard to sector weightings, the portfolio is overweighted in ABS, underweighted in U.S. Treasuries and Agencies, and neutrally weighted in corporates (on a dollar-duration basis) and MBS. The portfolio has a seasoned coupon-barbell bias in its MBS positions. The corporate holdings de-emphasize utilities and telecommunication issues.

Our rationale for making these active bets is based on several factors. First, we are positioned late in the second phase of the credit cycle. Second, cyclical inflation pressures are likely to re-emerge during the second half of 1997. Third, corporate profitability and cash flow remains solid, yet corporate spreads are narrow. Fourth, the Fed is in a reactive, "wait-and-see" mode, with more tightenings likely later in 1997.

IAI (con't)

3. **Organizational Issues.** Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

There were no ownership changes in the second quarter of 1997.

IAI lost one account in this discipline in the second quarter of 1997.

During the second quarter of 1997, IAI added Christopher Burk to its fixed income team. Christopher will be focusing on the finance, transportation, and consumer cyclical areas of the corporate sector.

Total firm additions and departures for the second quarter are as follows:

Staff *Additions* are as follows:

Year Hired	Name	Title/Responsibility
1997 2Q	Christopher Burk	Associate Vice President/Fixed Income Investments
1997 2Q	Michael Hamilton	Vice President/Senior Equity Analyst
1997 2Q	Ray Murray	Senior OTC Trader
1997 2Q	Curt McCleod	Vice President/Equity Portfolio Manager
1997 2Q	Alan C. Livsey, CFA	Senior Fund Manager/Latin American Equities

Staff *Departures* are as follows:

Year Departed	Name	Title/Responsibility
1997 2Q	Tina Michael	Vice President/Equity Analyst
1997 2Q	Nigel Hart	Portfolio Manager/Emerging Market Equities

4. **Other Comments.** Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

No additional comments.

Staff Comments

The variance between SBI's and IAI's returns is primarily due to two bond mispricings. The first is a mortgage bond that State Street has assigned a significantly higher price creating a \$500,000 difference. The second is a mortgage bond where State Street has a par value \$2,000,000 greater than IAI. IAI is currently working with State Street to resolve the discrepancies.

Manager Commentary
Miller, Anderson & Sherrerd

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$44.3 Billion	Actual	3.8%	10.9%
Total Firm Assets Managed in this Discipline	\$28.0 Billion	Benchmark	3.7%	8.2%

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 last quarter, your portfolio provided a net return of 4.0% versus a return of 3.7% for the benchmark. Over the last twelve months, your return (net of fees) was 10.6% versus 8.2% for the benchmark.

During the quarter, interest rates fell about 30 basis points. We began the quarter with a duration of 4.8 years and the duration remained relatively constant throughout the quarter. Our investment strategy included an overweighting in mortgage and corporate securities, a 3% allocation to foreign securities, and a relatively neutral stance with regard to the yield curve. During the quarter, corporate securities provided a significant contribution to relative returns. Yield curve and duration decisions were a modest positive, and mortgage-backed securities were a slight negative. The shortfall on mortgage security returns follows an exceedingly strong first quarter performance.

Over the last year, our active decisions with regard to duration, yield curve, corporate, mortgage and foreign securities added to relative investment results. Yield spreads for high and medium quality corporate securities narrowed throughout the last year and have added to overall portfolio returns. Your exposure to these securities, as well as our allocation to foreign fixed income securities, were a net positive for 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 rates and the slope of the yield curve indicate that the broader fixed income market place represents fair value. We remain neutral with regard to duration and yield curve decisions. We continue to be overweight mortgages (41% versus 29.6%) and corporate securities (25.5% versus 19.6%) within the portfolio and we have a 3% exposure to the non-dollar fixed income market.

Mortgage-backed securities, after a period of noteworthy outperformance, appear rich on an option-adjusted basis. We have eliminated prepayment sensitive mortgage securities such as current coupon mortgages from your portfolio. This strategy will benefit the portfolio if there is an increase in market volatility or an increase in prepayment concerns associated with a general move to lower interest rates.

Miller, Anderson & Sherrerd (con't)

We remain overweight in corporate securities. Below investment grade and emerging markets securities account for 4% of the portfolio. The ongoing growth of the economy and the current low inflation environment suggests yield spreads will remain stable or narrow slightly, a scenario where corporate securities will provide attractive returns relative to Treasury and mortgage securities.

U.S. Treasury inflation index linked notes have underperformed. We've begun to build a modest position in these securities and expect they will perform reasonably well should there be a resurgence of inflation concerns.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

During the quarter, we hired five non fixed income investment professionals and lost one equity portfolio manager.

During the quarter, we gained ten fixed income accounts and lost one.

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's and Miller's returns is due to pricing differences. On an ongoing basis staff continues to work with the managers to achieve greater consistency between our custodial records and their internal records.

**Manager Commentary
Standish, Ayer & Wood**

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$33.5 Billion	Actual	4.0%	10.0%
Total Firm Assets Managed in this Discipline	\$10.5 Billion	Benchmark	3.7%	8.2%

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?

First Quarter and Year Attribution (Rel. to Lehman Aggregate)

	2nd QUARTER	LAST 12 MONTHS
Duration	0.07	0.12
Yield Curve	0.02	0.11
Domestic Sectors	0.24	1.34
Non-Dollar	0.05	0.53
Fees	-0.04	-0.17

- Corporates strong; below investment grade still doing well (Year and Quarter).
- Continue to reduce mortgages.
- Non-dollar continues strong, but rate of outperformance declining.
- Neutral duration posture neither adds nor subtracts.

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	Underweight	Spreads have tightened and bond volatilities are very low, continuing to reduce weighting.
Corporates	Overweight	High grade industrial spreads are very narrow. Reducing some more cyclical credits. Limiting duration in corporates.
International	Average weighting	Foreign markets remain reasonably attractive in spite of superior performance. Foreign performing more in line with U.S.
Treasuries	Less underweight	Spread sectors have tightened so much that Treasuries appear to be better values. Money flowing from mortgages to Treasuries.

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: John Power International Fixed Analyst/Economist
Tracey Manzi International Fixed Bond Trader
Christopher Lang Investment Grade Fixed Income Analyst
Jonathan Uhrig High Yield Trader

Personnel Transfers: Benjamin Keating Corporate Bond Allocator
Benjamin Li Securitized Trader
Nicole Jackman Yankee/Non-Dollar Credit Analyst
Michael Tucker Corporate Bond Analyst

Personnel Lost: Cathal Fitzgerald International Equity Research Analyst

Accounts Gained: Public Pension, \$50.0 M
Endowment, \$120.0 M

Accounts Lost: Insurance, \$30.0 M

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Western Asset Management

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$29.3 Billion	Actual	4.3%	10.9%
Total Firm Assets Managed in this Discipline	\$6.6 Billion	Benchmark	3.7%	8.2%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

The portfolio recorded moderate performance gains in the second quarter of 1997 as all strategies produced positive results. The portfolio's long duration exposure was the major contributor to performance, since interest rates fell across the board. The portfolio's bulleted exposure to maturities benefited from a steeper yield curve, as short and intermediate rates fell more than long-term rates. Overweight exposure to the mortgage sector contributed to performance as spreads narrowed on balance for the quarter. Selected corporate issues turned in above-average performance as well. The portfolio's exposure to emerging market debt securities also made an important contribution to performance, as spreads continued to narrow.

Performance over the past year remains well ahead of its benchmark. The portfolio's long duration posture throughout the past year has made a modest contribution to performance, since interest rates have fallen on balance for the period. Yield curve positioning has contributed to overall results, as yield curve exposure has successfully anticipated virtually every major shift (three in total) in the shape of the yield curve. Mortgage overweighting throughout the past year was a definite positive, as mortgages outperformed all other sectors. Corporate overexposure throughout the past year has added importantly to returns, particularly the emphasis on the lower end of the investment quality scale, as these issues turned in very strong performances. Emerging market debt exposure has also contributed handsomely to returns as spreads have narrowed rather dramatically.

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, we are seeing the most benign inflation the economy has had since the mid-50s and 60's, when bond yields were 4% and mortgages were 5%. Year-to-date through May, the CPI is up at a 1.5% annual pace, and the PPI is *falling* at a 3.9% pace; at the end of last year, these indices were registering 3.3% and 2.8%, respectively. With inflation collapsing and interest rates unchanged-to-higher on the year, real interest rates have risen significantly. In addition, most commodity and precious metals prices are falling, and the dollar has risen 10% in the past year. As if to confirm that monetary conditions are tight, it appears that the rise in rates earlier this year was sufficient to produce a substantial economic slowdown in the second quarter.

This view of the world leads to the conclusion that interest rates are still attractive relative to inflation, but it does not suggest an obvious direction for the shape of the yield curve.

Western Asset (con't)

Stronger-than-expected growth would almost certainly result in a flatter curve, but high real rates mitigate against that. Weaker-than-expected growth would lead to a much steeper yield curve, but the salutary effects of lower interest rates mitigate against that. Consequently we are in the process of shifting to a more neutral posture, with a bias toward returning to a barbelled exposure given the steepness in the long end of the yield curve. Regardless, low and stable inflation should keep interest rate volatility in check, thus offsetting to a degree the narrowness of mortgage spreads. Consequently we plan to remain only moderately overweight the sector while continuing to emphasize low coupon issues and commercial mortgage-backed securities to minimize prepayment risk. Barring a deflationary shock, a disinflating and growing economy should be supportive of corporate spreads, but rising deflationary risks and narrow spreads argue for maintaining a modest corporate overweighting and moving up the quality scale.

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: None

Accounts Gained: 8 Accounts Gained - \$298 million

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
BlackRock Financial Management

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$50.00 Billion	Actual	3.6%	8.7%
Total Firm Assets Managed in this Discipline	\$2.65 Billion	Benchmark	3.7%	8.2%

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 second quarter, the MSBI Enhanced Index Core Bond Portfolio posted a return of 3.6%, net of fees, versus 3.7% for the Lehman Aggregate Index. Since its April 1, 1996 inception, the Portfolio has returned 7.3%, net of fees, versus 7.0% for the Lehman Aggregate Index (annualized). Following is a month-by-month breakdown of performance:

	MSBI	LEHM	DIFFERENCE
July 1996	0.37%	0.27%	0.10%
August 1996	-0.17%	-0.17%	0.00%
September 1996*	1.73%	1.74%	-0.01%
October 1996	2.27%	2.22%	0.05%
November 1996	1.75%	1.71%	0.04%
December 1996*	-0.80%	-0.93%	0.13%
January 1997	0.42%	0.31%	0.11%
February 1997	0.40%	0.25%	0.15%
March 1997*	-1.16%	-1.11%	-0.05%
April 1997	1.37%	1.50%	-0.13%
May 1997	0.94%	0.95%	-0.01%
June 1997*	1.21%	1.19%	0.02%

*Quarter-End fees deducted from last month of quarter.

The Portfolio underperformed the Lehman Aggregate Index during April and performed neutrally versus the benchmark during May and June. Total underperformance for the second quarter was -13 basis points, net of fees, versus the index.

Positive contributions to performance (in decreasing order of magnitude) included:

- Overalllocation to corporates:
 - Trust preferreds tightened by 20 basis points on average
 - Yankees tightened by 20 basis points on average
 - Triple-B rated securities outperformed higher rated issues
- Overweight in fixed rated Asset Backed Securities (ABS)
 - Manufactured housing backed issues tightened between 5 and 15 basis points
- Curve exposure emphasized 30-year maturities

BlackRock Financial Management (con't)

Negative contributions to performance (in decreasing order of magnitude) included:

- “Bought” too much convexity at the expense of yield--Market volatility remained low
- Inflation protected notes continued to perform poorly as broad inflation measures diminished
- Underowned generic MBS pass-throughs which performed well in the low volatility environment
- Floating rate ABS widened by 5 basis points under the weight of the new supply

Since July 1, 1996, the Portfolio has outperformed the index by 42 basis points on a net-of-fees basis. During the past year of managing MSBI's portfolio, much of the value we have added is attributable to the outperformance of spread product, our overweighting within the increasingly attractive asset-backed sector, and our yield curve positioning. Consistent with our management style, both our overall sector biases and our specific security selection within the respective sectors have contributed substantially to the Portfolio's 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.*

Currently, our primary strategies are as follows:

- Maintain a position with a duration neutral to slightly long of the benchmark, as we do not expect further Fed tightening in the immediate future.
- Maintain a yield curve flattening bias, focusing on the 3 and 30-year parts of the curve.
- Remain overweighted in corporates, focusing on the industrial and Yankee subsectors. As an alternative to corporate bonds, we also continue to look to the high grade commercial mortgage backed sector.
- Maintain a lower allocation to mortgages as expected prepayment rates increase with the falling interest rate environment.

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, two new enhanced index mandates were funded at BlackRock:

- State University Retirement System of Illinois, an existing client with a mortgage mandate, hired BlackRock to manage an additional portfolio, a \$100 million enhanced index core account.
- A large European pension plan hired BlackRock to manage a \$235 million enhanced index mortgage portfolio.

4. ***Other Comments.*** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Staff has no comments at this time.

Manager Commentary
Goldman Sachs Asset Management

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$120.7 Billion	Actual	3.6%	8.7%
Total Firm Assets Managed in this Discipline	\$20.1 Billion	Benchmark	3.7%	8.2%

- 1. Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

In the second quarter, we maintained our overweight positions in mortgages, asset-backed, corporates and emerging market debt. The portfolio outperformed the Lehman Aggregate by 7 bps (gross of fees). This outperformance is due primarily to the asset-backed, corporate, emerging market and mortgage sectors.

For the past 12 months, the mortgage sector added about 15 bps to incremental return, primarily due to superior security selection.

For the past 12 months, term structure and the portfolio's Treasury securities added approximately 10 bps. Agencies subtracted approximately 4 bps primarily due to our strategic underweighting of the sector relative to the Index.

For the past 12 months, the corporate sector added about 24 bps to incremental return primarily due to the outperformance of the portfolio's industrial and financial holdings.

For the past 12 months, the emerging market sector added about 13 bps. Portfolio holdings continue to be concentrated in Latin America, where substantial economic and political reforms have been implemented. The portfolio benefited chiefly from the sizeable Option Adjusted Spread (OAS) advantage of the sector.

2Q97 Performance Attribution

Duration/Term Structure/Convexity	-2.4	Emerging Markets	1.6
Treasury	4.4	Mortgage	1.8
Agency	-1.1	Municipal	0.0
Asset-Backed	1.6	*Index Price Mismatch	-5.6
Corporate	5.0	Residual	<u>1.7</u>
		Total	7.0

*The index pricing mismatch is the difference between GSAM's pricing at 5:00 p.m. and that of an Index pricing at 3:00 p.m. Most indexes, except for those of Salomon Brothers, price at 3:00 p.m.

Goldman (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

31% allocation to the mortgage sector (1% overweighting): Mortgages continue to offer relatively little incremental spread as we approach yield levels that are within a few basis points of eighteen-month lows. As a result of this tightening, we are maintaining a cautious approach to mortgage investing. 26% allocation to the corporate sector (8% overweighting): We remain neutral on the corporate market. While we anticipate no near-term deterioration in the fundamental state of the economy, it is unlikely that corporates - given their already tight levels - will experience much further compression. Hence, we continue to emphasize short-duration, higher spread bonds in order to add incremental yield (without incremental volatility) to the portfolio. 12% allocation to asset-backed sector (11% overweighting): In the near-term, we expect spreads to stabilize or tighten modestly as new issuance subsides and bargain hunters emerge. For the balance of 1997, however, we expect some divergence in performance among subsectors. Tighter underwriting standards and slower growth should benefit the credit card subsector as loss rates stabilize. The home equity and sub-prime subsectors, however, may be subject to further tiering as losses have yet to peak among such issuers. 5% allocation to the emerging market sector (5% overweighting): Despite the fact that EMD spreads are at or near record-tight levels, most indications point to additional spread compression over the medium term. Liquidity appears to be abundant, and fears of Fed tightening are receding. Potential sources of volatility include: the aftermath of the July 4th Congressional elections in Mexico, where the ruling PRI party has lost its absolute majority, political instability in Argentina following the cabinet reshuffling and a widening rift between Croatia and the United States should Croatia continue to balk on certain Dayton Accord issues.

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 acquired Commodities Corp, an asset management firm specializing in commodities and other alternative asset classes.

U.S. Fixed Income Accounts Gained:		U.S. Fixed Income Accounts Lost:	
U.S. Clients	11	U.S. Clients	1
Non-U.S. Clients	2	Non-U.S. Clients	1

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Variance between SBI's and Goldman's returns is due to pricing differences. On an ongoing basis staff continues to work with the managers to achieve greater consistency between our custodial records and their internal records.

Manager Commentary
Lincoln Capital Management Company
(Fixed Income)

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$44.1 Billion	Actual	3.6%	8.2%
Total Firm Assets Managed in this Discipline	\$12.9 Billion	Benchmark	3.7%	8.2%

1. *Past Performance.* Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?

	2nd Quarter 1997		12 Months Ended 6/30/97	
		Value		Value
	Active Strategy	Added	Active Strategy	Added
Mortgages	Neutral	0.00%	Overweighted	0.01%
Corporates	Neutral	0.00	Neutral	0.00
BBBs	Neutral	0.00	Neutral	0.00
Asset-Backeds	Overweighted	0.00	Overweighted	0.00
Agencies	Neutral	0.00	Neutral	0.00
Miscellaneous				
Rebalancing Transaction Cost	N/A	-0.01%	N/A	-0.04%
Security Selection	N/A	+0.05	N/A	+0.14
Less Fees		<u>-0.01</u>		<u>-0.04</u>
Total		+0.03%		+0.07%

On a net-of-fee basis, your portfolio outperformed the Lehman Brothers Aggregate Index by 3 basis points for the second quarter 1997, and by 7 basis points for the year ending June 30, 1997.

During the course of the past quarter, we continued to opportunistically increase the overweighting in asset-backed securities relative to the benchmark, which currently stands at 10%. The average duration of the asset-backed component is approximately 2.0 years. We hope to capture the yield advantage of these securities (with minimal event or issuer risk), with only a moderate exposure to a widening in asset-backed spreads. The balance of the corporate sector is market-weighted relative to the benchmark.

Over the past twelve months, mortgage-backed securities contributed positively to the portfolio's return relative to the benchmark. The .125 year duration overweighting in mortgages was reduced to zero in mid-January as mortgage spreads narrowed inside of historical spreads. Since these spreads remain narrow, your portfolio remains market weighted relative to the benchmark. Security selection continues to be the primary component of value-added, both for the quarter and the one-year period ending 6/30/97.

Lincoln (con't)

2. **Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Future Strategy	Strategy	Rationale
Asset-Backed Securities	Overweighted vs Treasuries	1. High Quality 2. Attractive Yield 3. Low Event Risk 4. Low Prepayment Risk

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 last quarter, one participant, representing \$17 million in assets, entered our commingled Enhanced Bond Index Fund (EBIF). In addition, one participant left the fund, representing \$14 million in assets.

During the last quarter, John Cole joined LCM as an equity portfolio manager/analyst, and Steve Coulter joined the firm as a fixed income portfolio manager/analyst, specializing in corporate credit research. Biographies for these individuals are shown below. In addition, Sandy Lincoln, COO, and Charles Kilbride, Systems, left the firm.

John S. Cole, Vice President, joined LCM in 1997. John was previously Executive Vice President and Chief Equity Investment Officer of Boatmen's Trust Company in St. Louis. Prior to that five-year engagement, he spent ten years with Cowles Media Company in Minneapolis as Vice President and Treasurer. John received his BS cum laude from Bentley College and his MBA with honors from Notre Dame. He is a CFA.

Stevan F. Coulter, Vice President, joined LCM in 1997. Previously, Steve had spent 16 years in fixed income research, including 13 years at Stein Roe, two at Calamos Asset Management and one at Zurich Kemper Investments. He has a BA in Economics and an MBA in Finance from Northwestern University. Steve is a CFA.

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

Variance between SBI's and Lincoln's returns is due to pricing differences. On an ongoing basis staff continues to work with the managers to achieve greater consistency between our custodial records and their internal records. Staff does not believe that the personnel changes noted in #3 will have a material impact on management of the SBI account at Lincoln.

Manager Commentary
Brinson Partners, Inc.

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$75.2 Billion	Actual	12.7%	18.1%
Total Firm Assets Managed in this Discipline	\$19.6 Billion	Benchmark	13.0%	12.8%

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?*

The portfolio underperformed the benchmark in the quarter, growing 12.7% on a net-of-fees basis against the benchmark return of 13.0%. Over the one year period, the portfolio significantly outperformed, with a gain of 18.1% against the benchmark return of 12.8%. Market allocation strategies detracted in the second quarter and were a wash for the full year. The portfolio was helped in the quarter by underweighting Malaysia, holding no exposure to Sweden and by maintaining overweights of the Netherlands, Australia and New Zealand. Detracting from quarterly performance were the underweights of Switzerland, Hong Kong and Japan. Strategic cash also detracted. The story for the full year is much the same: strategic cash cost performance, as did underweighting several Scandinavian markets and Switzerland. The portfolio benefited from overweighting the Continental European markets and underweighting Japan and SE Asia.

Currency strategies had a major positive impact on relative performance over the full year, but had a more modest positive impact in the second quarter. In both time periods value was added from the strategy of being overweight the U.S. dollar. In earlier time periods, the underweight of the yen and of the core DM-bloc currencies had a significant positive impact, while in the second quarter largely neutral yen and European strategies had no impact. In aggregate, during the second quarter the non-U.S. currencies were neutral against the dollar, although this describes a combination of yen strength and European weakness. Over the one year period the strategy of holding only minimal positions in foreign currencies was very successful as Continental European currencies declined 7.5% and the Japanese yen fell 9.0%. Subsequently, these positions were scaled back earlier this year, leading to today's neutral currency strategies.

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 more recent history, the portfolio has few active bets in place at this time. Most significant is the strategic cash allocation of 5% which is based on our view that most non-U.S. equity markets continue to be quite overvalued. Japan remains underweight, but the scale of this underweight has been reduced. Japan continues to appear overvalued; despite signs of an economic rebound, the low level of corporate profitability, the slow pace of much-needed regulatory reforms and the significant level of bad loan problems that continue to hang over the banking sector have held down this market's intrinsic value.

All other markets enjoyed particularly strong performance over the past year, growing almost 36% in hedged returns. During the second quarter, within the other markets, we began to lock in some of the profits generated by this strong performance. France was scaled back in two stages, going from overweight to underweight. The poor performance of

Brinson (con't)

Malaysia and Singapore has caused these markets to become more attractive; each has been raised to a small overweight. No other market allocation changes were made. At this time there are only small overweights in Australia, New Zealand, the U.K and various European markets, as well as small overweights for Malaysia and Singapore. Underweights are held in Japan, Switzerland, France, Hong Kong and Canada.

No currency strategy changes were made in the second quarter, following the numerous adjustments that were taken during the first quarter, gradually bringing the significant underweight positions in the yen and DM bloc currencies back to neutral. However, in early July there was a strategy shift out of the pound into the Australian dollar. The current portfolio is now primarily currency neutral, with only small U.S. dollar and NZ dollar overweights and modest underweights of the Hong Kong dollar and the pound sterling.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

No personnel or ownership changes this quarter.
There were no accounts gained or lost this past quarter.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

Brinson Partners Inc.'s parent, Swiss Bank Corporation (SBC), recently signed a letter of intent to form a strategic alliance with The Long-Term Credit Bank of Japan, Ltd. (LTCB) to provide financial services to Japanese investors, including a new institutional asset management joint venture, LTCB SBC Brinson, which will provide asset management capabilities for Japanese clients. For our non-Japanese clients, we will continue to manage our yen-denominated securities as we have in the past, however we will now be drawing on a larger pool of resources.

Staff Comments

Due to rebalancing at the total fund level, Brinson received additional funds of \$40 million on April 1, 1997.

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

April - June 1997

Local Returns		Currency Returns	
Country selection	-0.3	Currency effect	0.1
Stock selection	0.5	Hedging activity	0.4
Timing	-0.1	Timing	-0.8
Total Value Added to EAFE	-0.2		

Source: State Street Analytics

Manager Commentary
Marathon Asset Management

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$8.4 Billion	Actual	10.4%	9.6%
Total Firm Assets Managed in this Discipline	\$6.0 Billion	Benchmark	13.0%	12.8%

- 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?*

The Fund rose 10.4% during the second quarter of 1997, underperforming the 13.0% rise in the MSCI EAFE Free Index. The continued hostile environment for value (particularly economic sensitives) and mid-small cap stocks in Europe accounted for most of this underperformance, with UK returns particularly weak. Elsewhere the portfolio suffered from the slight underweighting of Japan (where the index rose 25.1% in the quarter) and the poor performance of South Africa in the wake of the collapse in gold prices. Cash, which averaged 3.8% over the quarter, accounted for 50 bp of underperformance.

- 2. Future Strategy.** *What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.*

Over the last couple of years Marathon's holdings in Japan have been increasingly orientated towards growth/high ROE areas whilst the value bias in Europe has (with hindsight, wrongly) remained high. Whilst the drivers supporting a high ROE/growth bias (globalization, the shift in managerial focus to share holder value and the shift in investor focus towards EVA-style analysis) are still present in Europe, the divergence of performance between value and growth, large cap and mid cap, seems to be reaching a crescendo point in a manner very reminiscent of 1992 in the UK. With growth (and employment) becoming increasingly prioritized in Europe, pressure on monetary union is rising and any swing from the current loose monetary/tight fiscal stance towards a more balanced policy approach should directly benefit the domestic economic sensitives that Marathon holds.

Rising growth and interest rate expectations in Japan however, are likely to have the opposite effect: as confidence builds investors will lose their current extreme risk aversion and start buying domestic equity. Their focus however will be on growth (which is very cheap by global standards) not value (which is expensive and suffers from the special problems arising from Japanese labour practices). The portfolio remains then biased towards a pick-up in real global economic activity, with European value and Japanese growth seeming most likely to weather well any resultant market turbulence.

- 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.*

Marathon (con't)

- Personnel: We gained two new employees in the quarter; an Assistant Trader and a Compliance Officer (from 9/22/97, working out notice). The only leaver was an Executive Secretary, whose position we are currently recruiting for.
- Accounts Gained: Three segregated accounts were gained in the quarter. These were an \$250mn ERISA plan managed against an MSCI EAFE benchmark, a \$300mn ERISA plan with a MSCI World x US benchmark and an \$100mn Insurance Fund also with an MSCI EAFE benchmark.
- Accounts Lost: No segregated accounts lost. One participant withdrew from a commingled fund.

4. Other Comments. *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Due to rebalancing at the total fund level, Marathon received additional funds of \$40 million on April 1, 1997

Staff met with Marathon in their London offices on July 17, 1997. The day-long review covered a variety of topics including philosophy, methodology, implementation, benchmarking, trading, compliance, and administration as well as a discussion of current investment strategy and longer term business plans. Marathon has enlarged their back-office and trading staff over the last two years and added an analyst to assist each of the three portfolio managers. They are comfortable with the current staffing levels and do not expect further staff expansion over the near term. SBI staff have had concerns about Marathon's client and asset growth for some time. Over the last year, growth has slowed, but not stopped. Marathon attributes the slow-down to their sluggish performance relative to other managers. SBI staff remain concerned that growth will accelerate to uncomfortable levels if/when their performance picks up. This issue will continue to be monitored. Marathon's comments with respect to past performance and current strategy mirrored the discussion in this Commentary.

Performance attribution (gross of fees) for the quarter relative to EAFE is shown below:

April - June 1997

Local Returns		Currency Returns	
Country selection	0.3	Currency effect	0.0
Stock selection	-2.6	Hedging activity	-0.1
Timing	0.0	Timing	-0.1
Total Value Added to EAFE	-2.5		

Source: State Street Analytics

Manager Commentary
Rowe Price-Fleming International

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$33.8 Billion	Actual	12.2%	18.4%
Total Firm Assets Managed in this Discipline	\$28.1 Billion	Benchmark	13.0%	12.8%

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?*

Relative **country allocation** was a small negative factor over the quarter primarily because of the strong performance of Japan where we remain underweight. Positive contributions resulted from our overweight positions in Latin America (particularly Brazil) and from underweightings to the U.K. and Germany. On a year-to-date basis, value-added at the country level remains positive, with overweightings in the Netherlands and Latin America as well as the underweighting of Japan the most notable contributors.

Stock selection relative to the index was a small positive factor over the quarter. Value was added in Latin America, with Brazilian and Mexican stock selection looking particularly good. Your portfolio holdings in parts of Europe, particularly in the Netherlands and the U.K., performed much better in the quarter just ended after a difficult start to the year. In contrast, Japanese stock selection was less favourable as the high quality internationally-competitive growth stocks, that had been well-rewarded through 1996 and in early 1997, retraced their steps and as banks stocks, which are still absent from your portfolio, led the broader market higher. For the full year-to-date, portfolio stock selection value added is positive, with the most significant contributions coming from portfolio holdings in Brazil and Japan.

We continue to have no currency hedges in place in your portfolio. That said, our underweight yen position relative to the benchmark subtracted value as that currency moved higher versus the U.S. dollar.

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.*

Last quarter we wrote that we felt international markets could perform well in 1997 despite a dull start to the year, and this confidence has been rewarded in the last few months. Looking forward, we continue to find the general economic outlook healthy -- with growth now accelerating in Continental Europe and better than we had expected in Japan. Importantly, this improved level of economic activity has not led to higher rates of inflation -- a backdrop which has helped to underpin bond markets worldwide. The current environment should continue to provide reasonable support to global equities.

Recent market strength has taken stock market valuations in a number of regions to relatively expensive levels but, unless bond markets weaken or corporate earnings disappoint, we believe that these valuations can be sustained given the low inflation environment worldwide. Corporate earnings look most vulnerable in the U.K. and, to a lesser extent, Japan, which helps to explain our continued underweighting of these markets.

Rowe Price (con't)

Generally, though, corporate earnings look set to come through strongly in 1997 and this should help to underpin a reasonable outlook for international equities through the balance of the calendar 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.*

There have been no changes in the ownership or personnel of RPFII in the last quarter.

Three separate accounts of the same managed discipline were gained in the second quarter of 1997, none were lost.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

None.

Staff Comments

Due to rebalancing at the total fund level, Rowe Price-Fleming received additional funds of \$40 million on April 1, 1997.

Staff met with Rowe Price-Fleming International (RFPI) in their London office on July 16, 1997. The day-long review covered a variety of topics including philosophy, methodology, implementation, benchmarking, trading, compliance, and administration as well as a discussion of current investment strategy and longer term business plans. Staff had the opportunity to meet with RFPI personnel in all areas of the organization. The discussions did not generate any particular areas of concern. Staff believe that RFPI will continue to be a stable organization with very low personnel turnover and reasonable client/asset growth. Staff also believe that RFPI's investment approach has been/will continue to be consistently applied. The discussion of past results and current strategy mirrored the discussion in this Commentary.

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

April - June 1997

Local Returns		Currency Returns	
Country selection	1.2	Currency effect	0.1
Stock selection	-1.0	Hedging activity	0.0
Timing	-0.1	Timing	-0.9
Total Value Added to EAFE	-0.7		

Source: State Street Analytics

Manager Commentary
Scudder, Stevens and Clark

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$120.0 Billion*	Actual	13.0%	21.3%
Total Firm Assets Managed in this Discipline	\$11.8 Billion*	Benchmark	13.0%	12.8%

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?*

In the second quarter many global equity markets staged a strong advance, following a mixed first quarter. For US investors, this strong local performance was offset in part by continued currency weakness against the dollar, with the major exception of the yen. The EAFE Free index pushed up 13.0% during the quarter, bringing the gain for the year-to-date to 11.2%. In U.S. dollar terms, the star performers among the major markets were Japan, Switzerland, Hong Kong and the Netherlands. Divergence characterized the emerging markets, proving once more that volatility is their most consistent common characteristic: Thailand, Malaysia, and the Philippines declined by 12-25%, while Korea rebounded by 11% and Brazil continued its strong rise of the first quarter by shooting up another 37%.

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.*

Your portfolio underwent little change during the quarter, and most of the activity that took place reflected a response to shifting valuation relationships. The portion invested in Japan rose from 16% to 20%, in part due to the advance in the market and in part due to increased investments in Japan. New or increased positions were taken in Nippon Oil, Nippon Telephone and Telegraph, Orix, Shiseido and Shohkoh Fund. The percentage allocated to Europe dipped very slightly, falling from 63% to 62%. The major new purchases or additions were in Alcatel Alsthom, Dresdner Bank, Imperial Chemical Industries, Lyonnais des Eaux and Siemens. Major sales in Europe include St. Gobain, Paribas, Deutsche Bank, Pinault Printemps and Wolters Kluwer. These portfolio adjustments in Europe reflect valuation shifts, not changes in underlying strategy. In Asia, we trimmed your position in Hong Kong, reflecting valuation concerns as the market rose on the anticipation of the Hong Kong hand-over. We trimmed HSBC, and sold Sun Hung Kai and Swire Pacific. On the other hand, we added selectively in Malaysia, as the fall in that market opened up new attractive opportunities.

The focus of portfolio construction remains on companies which are ready for the challenges of global integration. These fall into two groups – companies that are already globally competitive, such as Asea Brown Boveri or Carrefour, and companies that are becoming globally competitive through restructuring, such as Daimler Benz or Philips Electronics. We can identify many candidates in both groups with excellent long term prospects. Much more difficult is to identify opportunities with reasonable valuations. The global economy has experienced a protracted period of slow growth. Ample liquidity has continued to build up, which has fueled the stock markets around the world.

Scudder (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.

Scudder hired Marc Joseph as an International Equity Portfolio Manager. No personnel were lost. 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.

None.

**Data in heading on previous page is for 1st quarter 1997.*

Staff Comments

Due to rebalancing at the total fund level, Scudder received additional funds of \$40 million on April 1, 1997.

In June 1997, Scudder announced that they were being purchased by Zurich Group, a large Swiss insurance company. In late July, staff met with Nick Bratt, Director of the Global Equity Group and Victoria Herget, Managing Director and Client Service Representative, at SBI offices to discuss the buy-out. The purchase will not be finalized until late calendar 1997. According to Bratt and Herget, Scudder's investment process will be left entirely to Scudder's discretion and Scudder will be assuming responsibility for all investment activities of the existing Zurich-Kemper organization. During the meeting, SBI staff were informed that Marc Joseph, recently hired from Templeton, will be assuming greater responsibility for international institutional accounts, including the SBI portfolio. The current manager, Irene Cheng, will be moving from institutional to mutual fund accounts. Staff will monitor impact of both the Zurich purchase and the manager change over the next few months. In accordance with the SBI's Manager Continuation Policy, staff are recommending that Scudder be placed on probation due to these organizational changes.

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

April - June 1997

Local Returns		Currency Returns	
Country selection	-0.3	Currency effect	0.1
Stock selection	0.5	Hedging activity	0.4
Timing	-0.1	Timing	-0.8
Total Value Added to EAFE	-0.2		

Source: State Street Analytics

Manager Commentary
City of London

Period Ending:	6/30/97	Returns	Qtr.	Since Inception
Total Firm Assets Under Management	\$ 983 Million	Actual	10.3%	23.1%
Total Firm Assets Managed in this Discipline	\$ 983 Million	Benchmark	8.6%	20.3%

1. **Past Performance.** *Summarize your performance over the last quarter and year. Specifically, what active bets did you make relative to your benchmark? Which of these bets worked/did not work and why?*

There was significant outperformance resulting from the Fund's overweight position in Mexico and an underweight position in Malaysia. Investments outside the Index, particularly in Hong Kong, Russia and Spain, added further outperformance.

The Fund also outperformed due to currency movements over the period. In particular gains were made from underweight positions in Turkey and Malaysia as the lira and the ringgit weakened against the US dollar during the quarter.

The portfolio's holdings that invest in Latin America did not perform as well as their benchmark constituent stock market indices. The main reason was the lack of exposure in the Fund's holdings to a particular stock in Brazil which posted large gains over the quarter and is a large component of the index. Chinese and Thai invested holdings tended to outperform their benchmark constituent stock markets but could not offset the above underperformance.

The major component of outperformance was the general narrowing of discounts at which the underlying portfolio holdings trade, in particular, two of the fund's larger holdings - Mexico Fund Inc. and GT Global Developing Markets Fund. These discounts fell from 22.4% and 18.7% to 15.9% and 9.2% respectively. The latter of the two announced plans to open end the company in the 4th quarter of 1997.

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 exposure to Korea remains low at 0.74% compared to the benchmark level of 4.2%. The Korean market has recently rallied on the strength of the Japanese Yen against the Korean Won, but we believe that a bull market place is still two quarters away. The Greater China region has been strong and, looking towards the 3rd quarter, this should be sustained. Added value in Taiwan is available through the locally listed closed end funds as the discounts narrow ahead of redemption payouts. Hong Kong and China should continue to benefit on the abundant liquidity supplied to both markets.

Our portfolio continues to be three times the benchmark weighting in Thailand. The devaluation has provided the foundation for a sustained 2 to 3 year bull market with a strong initial rally in the remainder of 1997, as underweight managers drive up stock prices by increasing exposure. For Malaysia, the index weighting is 13.8% whilst our exposure is just

City of London (con't)

over 1.0%. The economic fundamentals continue to suggest an overheating economy, with the current bear market likely to continue over the next quarter. However, on a valuation basis, if the market falls to historic p/e lows, we will increase exposure.

In Latin America, we will continue to be underweight Chile; its attraction lies in its defensive qualities. Yet, in Mexico, we will remain overweight as the country continues to recover and our exposure through closed end funds is cheap. Finally we will increase exposure to South Africa to around 1 1/4 times. We are currently underweight but new data suggest that earnings are coming through in company results.

3. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

In the Attribution Department, Magnus Kovacec left the company. His departure, whilst missed, does not effect the Investment Management Team or process. There has also been a second departure as Robert Coke, a research analyst, resigned so he could follow an ecclesiastical career. These departures have provided the opportunity to appoint researchers with previous experience in the related emerging markets.

Texas Instruments redeemed its total investment in April 1997. This redemption was necessary because Texas Instruments needed to downsize and give early retirement to a number of workers. In addition it is a subsidiary to Raytheon. The redemption enabled Texas Instruments to raise the cash for these lay offs. It had nothing to do with the management of City of London.

Global Developing Markets Fund redeemed its units in May. These units were sold as a result of the poor performance of the Global Developing Markets Fund, which suffered a major redemption in the form of US West.

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

No related issues/events occurred.

Staff Comments

Attribution is not available for City of London at this time. Staff are working with State Street Analytics to address this.

Staff met with City of London (COL) in their London office on July 15, 1997. The day-long review covered a variety of topics including philosophy, methodology, implementation, benchmarking, trading, compliance, and administration as well as a discussion of current investment strategy and longer term business plans. Staff had the opportunity to meet with COL personnel in all areas of the organization. Staff believe that the London office is functioning well, despite Barry Olliff's move to the United States to open another office within the last year.

Manager Commentary
Genesis Asset Management Limited

Period Ending:	6/30/97	Returns	Qtr.	1 Year
Total Firm Assets Under Management	\$7.1 Billion	Actual	9.2%	22.0%
Total Firm Assets Managed in this Discipline	\$6.4 Billion	Benchmark	8.6%	12.8%

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?

Benefiting from its continued overweighting in the Latin American region, the MSBI portfolio performed relatively well compared to the MSCI EM Free benchmark, producing mild outperformance of 0.6% net of fees. Of the 15 markets which outperformed, Genesis regards Israel, Portugal and Taiwan as developed markets and does not invest there (those countries having obtained "high income" status according to the World Bank - South Korea was also recently similarly classified and the portfolio's holdings will be liquidated over the course of the next economic cycle as they achieve what we consider to be full value).

Therefore of the remaining 12 outperforming markets where Genesis makes investments, the MSBI was overweight in 8 countries (Argentina, Brazil, Chile, Peru, Venezuela, China, Korean and Hungary) and underweight in 4 (Mexico, India, Sri Lanka and Jordan). As far as the underperforming markets were concerned, the MSBI was out or underweight in 9 of these and had overweighting only in Greece and Pakistan.

In Brazil the stocks in the MSBI portfolio lagged the return of the constituent MSCI Index, as Genesis rules on stock diversification precluded a full market weighting in the two best performing stocks in the quarter (Telebras and Petrobras). In Mexico, Genesis' stock selection similarly lagged the constituent index. While the large underweighting in Malaysia helped performance, stock selection was poor, and in South Africa the stocks in the MSBI portfolio performed in line with the market.

The first half of the period features the initial funding and investment period and performance therefore was distorted by extraordinary cash-levels and transaction costs. However, it should be borne in mind that throughout all the year the MSBI portfolio was overweighted in the strong markets of Latin America and Central Europe, and conversely underweighted in the problematic Asian markets. Following the funding stage, the portfolio's turnover declined substantially fitting in with Genesis' pattern of retaining stocks within the portfolio for over 4 years on average.

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 bets referred to above are still in place. Notwithstanding nervousness in the Brazilian market due to current account concerns, we continue to find the Brazilian stocks in the MSBI portfolio represent excellent value in the global context, even allowing for the volatility of the Brazilian economy. Initial investments were recently made on MSBI's behalf in Poland and Russia (the latter through the ADR route) and it is likely these countries will figure more

Genesis (con't)

prominently in the portfolio during coming quarters with the holdings in Hungary being de-emphasised.

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 Genesis lost its first Investment Director in over 8 years of operation; Jonathan Points resigned as a Director of Genesis Investment Management Limited, effective June 30, 1997. He remains a shareholder of Genesis. His responsibilities for country coverage were reassigned to other Investment Directors, with Catherine Vlasto assuming coverage for the important Malaysian market.

An additional Investment Director was added, namely James Jurack. As well as assuming coverage for Poland, he will be analyzing other countries in Eastern and Central Europe (working with Paul Greatbatch) and supporting the research process in Mexico, Pakistan and Thailand.

4. **Other Comments.**

No other pertinent matters arose.

Staff Comments

Staff met with Genesis in their London offices on July 14, 1997. The day-long review covered a variety of topics including philosophy, methodology, implementation, trading, compliance, and administration as well as a discussion of current investment strategy and longer term business plans. Staff had the opportunity to meet with all the investment directors as well as key administrative staff.

Despite the staffing change noted in #3, above, staff believe that Genesis remains a very stable organization. It is clear that the firm is committed solely to emerging markets investing. They have a thoughtful growth plan in place and have recently closed their doors to new business in response to an influx of assets under management with the last year. This closure is expected to be temporary and will not preclude additional contributions from existing clients.

Performance attribution (gross of fees) relative to EMF for the quarter is shown below:

April - June 1997

Local Returns		Currency Returns	
Country selection	4.1	Currency effect	-0.1
Stock selection	-4.0	Hedging activity	0.0
Timing	0.4	Timing	0.4

Total Value Added to EMF 0.8

Source: State Street Analytics

Manager Commentary
Montgomery Asset Management

Period Ending:	6/30/97	Returns	Qtr.	1 Year
Total Firm Assets Under Management	\$8.9 Billion	Actual	12.0%	21.8%
Total Firm Assets Managed in this Discipline	\$2.9 Billion	Benchmark	8.6%	12.8%

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?*

The solid return during the second quarter was mainly due to strong performance in Latin America, which was up 22.1%, led by Venezuela (+44.7%). Emerging Europe rose 4.8%, led by Hungary (+26.0%). Asia rose only 1.7%, due to disappointing performances in Thailand and the Philippines, which dropped 22.7% and 14.1%, respectively, during the quarter. The three main contributors to the Portfolio's solid performance in the second quarter were our investments in China/Hong Kong, Brazil and Russia. These three markets had a solid quarter, with the MSEF China Index up approximately 14.4%, the MSEF Brazil Index up approximately 26.5% and the MSEF Russia Index advancing approximately 44.8% (as of 6/30/97, Morgan Stanley has not included Russia in its global MSEF Index, however they do track it on a stand alone country basis). Through our country allocation and stock selection, we added 188 basis points to performance in Russia, 150 basis points in Brazil and 100 basis points in China/ Hong Kong. The largest detractor from performance was our investment in India. Although the MSEF India Index rose approximately 28.4% during the second quarter, the Portfolio's investments only rose 5.7%. Two of the larger Indian holdings, Bajaj Auto and Indian Hotels, rose only 2% during the 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.*

In Latin America, earnings growth and further structural reforms point to a positive outlook for Brazil. Going forward, the Brazilian market will look for progress on reforms, further privatization momentum and earnings growth. We continue to overweight the Brazilian market with a weight of approximately 22.5% versus the MSEF Index weight of 15.8%.

In Emerging Europe, we remain positive on Russia and have an allocation of approximately 7.8%. As mentioned earlier, Morgan Stanley had not yet included Russia in the global MSEF Index as of 6/30/97. Russia has made substantial progress in terms of reducing inflation and interest rates while stabilizing the fall in GDP. Even with the rally of the last 18 months, asset valuations for Russian companies remain attractive versus their global peers. Russian companies are also becoming more transparent through providing financial statements in international GAAP, and they are gaining higher visibility through ADR issues, which should add to interest in the market. Finally, inclusion in several of the major benchmarks will also enhance the attractiveness of this market for global funds.

In Asia, we are maintaining our underweight bets in Southeast Asia, which benefited performance in the second quarter. We are increasing our weight in North Asia, where we believe that the Chinese economy has emerged from a transition stage to greater stability, making room for the government to stimulate growth.

Montgomery (con't)

3. **Organizational Issues.** Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.

The Commerzbank acquisition of Montgomery Asset Management is scheduled to close on July 31, 1997, as planned. We are looking forward to the strategic opportunity that this will bring to Montgomery Asset Management.

The Montgomery Emerging Markets Team lost two analysts during the second quarter. Mr. Wing Yip, an analyst for North Asia, and Mr. Nitin Bajpai, an analyst for South Asia, both left to pursue other opportunities.

During the second quarter, we gained one public pension fund client as an investor in the Montgomery Institutional Series: Emerging Markets Portfolio. Unfortunately, we lost three smaller institutional accounts during the quarter in our offshore and retail funds.

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, 1997, the SBI account was successfully invested in 98.43% equities, with total assets being \$246,954,189. The SBI account is well diversified in 24 countries, 39 industries and 168 companies.

Staff Comments

Of the two departing analysts mentioned in #3 above, one left to work with Montgomery's developed markets team and one didn't work out as an analyst. Both analysts will be replaced. In the meantime, the regional portfolio managers will cover the responsibilities left by the departing analysts.

Performance attribution (gross of fees) relative to EMF for the quarter is shown below:

April - June 1997

Local Returns		Currency Returns	
Country selection	1.4	Currency effect	0.3
Stock selection	1.6	Hedging activity	0.0
Timing	-0.2	Timing	0.4
Total Value Added to EMF	3.6		

Source: State Street Analytics

Manager Commentary
State Street Global Advisors

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$350.0 Billion	Actual	13.5%	13.0%
Total Firm Assets Managed in this Discipline	\$ 68.5 Billion	Benchmark	13.0%	12.8%

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.*

The portfolio outperformed the benchmark for the 2nd quarter by 0.5%. Most of the quarter's outperformance was the result of the portfolio receiving greater dividend income than the benchmark. The benchmark assumes monthly income is an average of the trailing 12 month period. Since many European markets pay out dividends only in May and June, income in the portfolio was considerably higher. The portfolio also added 4 basis points over the index because of a large index change and our trading methodology. Nippon Telephone and Telegraph was added to the MSCI Japan Index in June. The portfolio purchased the stock 2.2% below the index entry price, causing 4 basis points in outperformance relative to EAFE-Free. Over the last twelve months, the portfolio outperformed by 0.2%. This positive tracking error continues to result because of the lower dividend withholding tax paid by the portfolio versus the withholding tax rate included in the net benchmark calculation. Positive tracking error was also due to December index changes, futures mistracking and dividend smoothing in the benchmark calculation.

2. **Organizational Issues.** *Describe any significant ownership or personnel changes at the firm over the last quarter. List accounts gained and lost in this discipline over the same time period.*

There were no significant ownership or personnel changes during the second quarter. We gained nine new accounts with total assets of \$700 million last quarter, and lost none.

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.*

On April 1, 1997, \$200 million was contributed to the SBI MSCI EAFE-free portfolio. Approximately \$50 million or 25% was crossed internally at no transaction costs, resulting in cost savings of approximately \$390,00 for the 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

Due to rebalancing at the total fund level, SSgA received additional funds of \$200 million on April 1, 1997.

The assets of the Barings account were re-positioned by SSgA during the month of June and transferred to the EAFE index fund on July 1, 1997. SSgA's crossing rate on these assets was very high as well. Of the entire \$302 million in the account, \$276 million was transferred directly to the index fund and \$26 million was crossed with other SSgA clients. Only \$3 million had to be traded in the open market.

Performance attribution (gross of fees) relative to EAFE for the quarter is shown below:

April - June 1997

Local Returns		Currency Returns	
Country selection	0.0	Currency effect	-0.1
Stock selection	0.6	Hedging activity	0.0
Timing	0.0	Timing	0.0
Total Value Added to EAFE	0.5		

Source: State Street Analytics

Manager Commentary
Record Treasury Management

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Assets Under Mgmt.	\$5.5 billion	Index + Record	12.4%	18.1%
Total Currency Overlay	\$3.6 billion	Index Fund Only	13.5%	13.0%

1. Performance/Strategy. Summarize your currency positions and profit/loss. Highlight performance over the most recent quarter and year.

	Currency Exposure* 6/30/97	Actual Hedge** as of 6/30/97	
Yen (JPY)	\$800.3 million	\$306.3 million	38.3%
Sterling (GBP)	441.8 million	0.0 million	0.0
Mark (DEM)	209.3 million	124.0 million	59.2
Fr. Franc (FRF)	161.4 million	104.5 million	64.78
Sw. Franc (CHF)	159.9 million	68.9 million	43.1
Total	\$1,772.8 million	\$603.7 million	34.1%

Profit (Loss) During Latest Quarter (Just overlay) **-\$17,448,522**
Profit (Loss) Since Inception (Dec. 95) **\$90,361,365**

- * Based on currency exposure of the SSGA EAFE Free index fund for these five currencies.
** In-house options are placed 2% out-of-the-money for each monthly/semi-monthly tranche. This requires a 2% strengthening of the USD to trigger a hedge for that tranche.

- 1 % returns are calculated from the total assets of SSGA's EAFE Free Index Fund.
2 Profit/(loss) since inception includes \$61,255,342 of realized profit plus \$29,106,023 of Mark to Market.

Market/Performance Comments:

Currency	JPY/USD	USD/GBP	DEM/USD	FRF/USD	CHF/USD
Rate 3/31/97	123.77	1.6415	1.6681	5.6275	1.4402
Rate 6/30/97	114.43	1.6643	1.7426	5.8710	1.4579
Strengthening of USD	-8.16%	-1.39%	4.28%	4.15%	1.21%

Market

GBP range traded in a 3.7% band during the quarter, ending 1.39% stronger. JPY strengthened 10% between 1st and 21st of May, it was relatively stable for the rest of the quarter ending 8.16% stronger. DEM, FRF and CHF weakened finishing the quarter 4.28%, 4.15% and 1.21% down respectively.

Performance

The returns for this quarter have been heavily impacted by the strong JPY. The effect of it's rise is to reduce the ratio of JPY hedges from 81.5% to 38.3% with a corresponding loss in open valuation. As JPY is the major contributor to the program (45% of the hedgable amount) this effect outweighs the increases in value of the CHF, DEM and FRF hedges leaving an overall loss in value over the quarter.

Record (continued)

2. Current Market Values. Show the value of each tranche in US dollars as of the end of the quarter.

Tranche Date	JPY*	GBP*	DEM*	FRF*	CHF*
Jul. 09, 1997	\$1,529,153	0	1,276,333	805,144	1,237,216
Jul. 24	1,904,219	--	--	--	--
Aug. 11	2,031,494	0	1,573,221	1,343,913	1,460,314
Aug. 27	1,861,727	--	--	--	--
Sep. 10	1,703,529	0	1,409,072	1,348,736	1,397,971
Sep. 24	1,454,394	--	--	--	--
Oct. 09	469,266	0	944,513	952,169	1,227,400
Oct. 24	830,865	--	--	--	--
Nov. 12	-188,504	-557,276	1,460,927	1,220,958	1,227,415
Nov. 26	791,405	--	--	--	--
Dec. 10	-59,306	-559,600	1,295,207	1,122,915	863,183
Dec. 24	-1,133,379	--	--	--	--
Jan. 09	-1,194,782	-953,940	1,150,098	1,001,551	574,557
Jan. 26	-584,856	--	--	--	--
Feb. 09	-330,064	-168,080	241	191,498	-401,009
Feb. 24	-168,204	--	--	--	--
Mar. 09	-1,430,723	0	3,221	-8,744	0
Mar. 24	-512,845	--	--	--	--
Apr. 09, 1998	-155,328	0	-190,340	39,177	0
Apr. 24	0	--	--	--	--
May. 11	0	0	0	0	0
May 27	0	--	--	--	--
Jun 10	0	0	0	0	0
Jun. 24	0	--	--	--	--
Total	6,818,061	-2,238,896	8,922,493	8,017,317	7,587,047
(Not discounted)					

* Mark to market at actual cost of close out; i.e., using the forward rate to the position's value date. Profit/(loss) since inception includes \$34,566,577.36 of realized profit.

3. Organizational Issues. Describe any significant ownership or personnel changes at the firm over the last quarter. List currency overlay accounts gained or lost over the same time period.

There have been no personnel gains or losses. There have been no client gains or losses.

4. Other Comments. Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.

None to report.

Staff Comments

Staff met with Record Treasury in their Windsor, England offices on July 21, 1997. The day-long review covered a variety of topics including philosophy, methodology, implementation and benchmarking as well as a discussion of longer term business plans. Additional information on the firm and results to date are included in a separate staff memo to the Committee.

Manager Commentary
GE Investment Management, Inc.
Assigned Risk Plan - Stocks

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$64.5 Billion	Actual	17.9%	34.5%
Total Firm Assets Managed in this Discipline	\$12.2 Billion	Benchmark	17.5%	34.7%

- 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 GE Multi-Style strategy returned 17.9% in the second quarter, compared to 17.5% for the S&P 500. For the last twelve months the return was 34.5% compared with 34.7% for the S&P 500. During the second quarter, while it appeared that a larger number of stocks participated in the rally, market performance continued to be driven by the very large capitalization companies. This can be seen by comparing the S&P 500 return to the Russell 1000 performance. In the second quarter the S&P 500 was ahead of the Russell 1000 by 80 basis points and leads by over 200 basis points for the first six months of 1997. Also, looking at a broad universe of stocks, only 40% outperformed the S&P 500 in the quarter, the lowest percent since 1990. When market leadership is this narrow, it is very difficult for active managers to outperform, as evidenced by the fact that only about 5% of large capitalization General Equity mutual funds beat the S&P 500 during the first half.

We were helped in the quarter by our overweighting in Capital Goods stocks, especially Textron, Emerson and Deere, all of which continue to show solid earnings gains. We also had good stock selection and benefitted from an underweighting in the Consumer Cyclical sector. Comcast and other cable stocks had good comebacks, and we did well by underweighting General Motors and by not owning Nike. In the Financial sector we were helped by our large overweightings in Travelers, Federal National Mortgage Association and State Street Corp.

Technology was the sector where we once again suffered our greatest underperformance. While stocks such as First Data Corp. and Equifax enapped back from poor first quarter performance, Hewlett Packard, Intel and Reuters continued to trail the index. Our large underweighting in Microsoft also hurt. Microsoft now has the third largest capitalization in the S&P 500 and sells at twice the market multiple, and about 15 times sales. Our overweighting in the Energy sector hurt us in the quarter as Amoco, Texaco, Unocal and Burlington Resources all lagged the Index, while Exxon and Royal Dutch, two companies that we have reduced due to valuation concerns, continued to outperform. In the Consumer Staples sector we had good stock selection in health care, an area in which we are moderately overweighted, while Kimberly Clark and Annheuser Busch were laggards.

- 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 did some reshuffling in the Energy sector, reducing Exxon and Royal Dutch while adding to Atlantic Richfield, British Petroleum, Mobil and Baker Hughes, companies that have more attractive valuations and better growth prospects. We added to Bank America, Chase Manhattan, Chubb and Reliastar in the Financial sector, while

GE Investment Management (con't)

reducing General Reinsurance, JP Morgan, TIG Holdings, Travelers and Wells Fargo, again to achieve a better combination of valuation vs. growth. We also raised our growth rate in the Telecom area by increasing positions in Airtouch and Worldcom while reducing GTE and MCI.

We continue to believe that our focus on careful, fundamental analysis and bottom-up stock selection will add value over the long term. We believe that our approach, with its emphasis on high quality companies with good relative value, leaves the portfolio well positioned for what could be a very volatile period during the remainder 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

Staff has no comments at this time.

Manager Commentary
Voyageur Asset Management
Assigned Risk Plan - Bonds

Period Ending:	6/30/97	Returns	Qtr.	1 Yr.
Total Firm Assets Under Management	\$6.2 Billion	Actual	2.8%	7.8%
Total Firm Assets Managed in this Discipline	\$0.6 Billion	Benchmark	2.9%	7.7%

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?*

No significant new bets were made during the past three months. We maintained an overweighting in spread product, benefiting from the ongoing strong performance in the mortgage and asset-backed sectors and the renewed strength in corporates. Trading activity included moving out the yield curve in some short corporate names to capture additional yield and spread (both the yield and credit curves are relatively steep inside of four years). In addition, we took advantage of the extreme "richness" of the 15-year mortgage passthrough market by selling some 6% and 6.5% pools and replacing them with "cheaper" whole loan collateral. And finally, we added marginally to the asset-backed sector, buying short home equity and highly structured credit card paper. It should be noted that on June 16 we received \$46.5 million in cash, which was initially allocated to Treasuries until other more select securities could be found. This cash infusion ultimately skewed, somewhat, the asset allocation we were targeting. Over time, as securities become available, we expect to replace those Treasuries with more mortgages, corporates and asset-backed securities.

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 be constructive on mortgage spreads and are maintaining a small overweight position (28% versus the benchmark weighting of 25%) in your portfolio. If spreads widen further from their current levels we will look to increase your passthrough allocation to take advantage of this opportunity. Your portfolio is also slightly overweighted in the corporate and asset-backed sectors. We believe that some areas of the corporate market still offer value and we will look to add to corporate exposure as opportunities present themselves. Asset-backed, on the other hand, are relatively expensive, so our bias will be to look for trade opportunities within the sector rather than to add new positions.

For the second half of 1997, Voyageur remains fairly neutral on the market. We expect interest rates to trade in a range with a bias towards lower rates in the near term and slightly higher rates as we approach year-end. Economic growth, which has been moderate, could increase slightly as GDP growth rises more than expected. However, inflation should remain near historical lows as new technology advances increase productivity, which will alleviate job and wage pressures. This forecast bodes well for our current strategy of overweighting spread product since spread product outperforms in a stable interest rate environment.

Voyageur (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.*

Effective April 30, 1997, Voyageur sold its retail mutual funds and related operations to Delaware Management, a subsidiary of Lincoln National Corp. The sale required reincorporation of Voyageur Asset Management and related entities to accomplish separation of the retail fund operations from Voyageur's continuing operations. Voyageur's institutional investment management business remains unaffected by this transaction.

As part of this reorganization, John Taft was named Chairman of Voyageur Asset Management LLC and remains Chief Executive Officer. Ed Kohler was named President and Chief Operating Officer. Michael Dougherty remains Chairman and Chief Executive Officer of Voyageur's parent company, Dougherty Financial Group LLC.

As a result of the sales of the mutual fund group, four Voyageur municipal bond managers, including Elizabeth Howell, Senior Vice President, and Andrew McCullagh, Senior Vice President, moved with the funds group to Delaware management, as did two municipal bond analysts.

Accounts gained in this discipline:

Total Tax-Exempt Clients and Assets Gained in 2nd Quarter. 2/\$1.6 million

Accounts lost:

Tax-Exempt Clients: 3/\$54.8 million

4. **Other Comments.** *Highlight any other issues/events that are pertinent to the management of the SBI account at your firm.*

As mentioned last quarter, the sale of the mutual fund group will not affect the management of the SBI account. Jane Wyatt, Melissa Uppgren and Dorrie Marks will continue to be involved with the account, as will Ed Kohler and Jean Daleki.

Staff Comments

As previously mentioned, Voyageur expects this will sale allow them to focus their resources on meeting the needs of their institutional clients. The four municipal bond managers that moved to Delaware focused on the retail mutual fund side, so their departure should not effect the management of the SBI portfolio. Staff will continue to monitor Voyageur to ensure no personnel changes are made on the SBI's portfolio and that no other adverse affects occur.

Manager Commentary
Internal Stock Pool
Trust/Non-Retirement Assets

Period Ending:	6/30/97	Returns	Qtr.	YTD
Total Firm Assets Under Management	\$80.6 Million	Actual	17.4%	34.7%
Total Firm Assets Managed in this Discipline	\$80.6 Million	Benchmark	17.5%	34.7%

- 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 portfolio had negative tracking of 0.1% relative to the benchmark. The tracking error was due to slight weighting differences for each name in the portfolio compared to its weighting in the S&P 500. For the year, it tracked the index at 34.7%.

- 2. Future Strategy.** *Going forward, what strategies, if any, do you plan to implement to control tracking error within expectation.*

Staff will continue to examine the trade-offs between the tracking error caused by not holding a fully replicated portfolio and the trading costs to implement all index changes with limited cash flows.

Internal Stock 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.

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
Internal Bond Portfolios**

Period Ending:	6/30/97	Returns	Qtr.	Year
Total Firm Assets Under Management	\$0.7 Billion	Actual	3.6%	8.6%
Assets Managed in this Discipline	\$0.7 Billion	Benchmark	3.7%	8.2%

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?

Performance, Second Quarter '97

The above returns reflect the combined portfolios of the Environmental Trust Fund, the Income Share Account, and the Permanent School Fund. Collectively, the funds slightly underperformed the index returns.

- A significant overweighting of mortgages added value to the portfolio. Mortgages outperformed the aggregate (3.79% vs. 3.67%).
- An underweighted corporate position generated negative excess return because corporates outperformed the aggregate (4.12 vs. 3.67%).
- A slightly shorter duration decreased performance as interest rates decreased.
- An underweighted Treasury position added value because they underperformed the aggregate (3.47% vs. 3.67%).

Performance for the Year

Collectively, the funds outperformed the index.

- An underweighted Treasury position that underperformed the benchmark (7.40% vs. 8.15%) and an overweighted mortgage position that outperformed the benchmark (9.10% vs. 8.15%) generated almost all the excess return for the year.

Internal Bond Pool (con't)

2. *Future Strategy.* What active bets are in place at the present time relative to your benchmark? Summarize the rationale for making these active bets.

Yield Curve Strategy

Given the uncertainty with interest rates the portfolio has a yield curve neutral to the benchmark. We also plan to move the slight negative duration bet to a more neutral position.

Corporate Strategy

Corporate spreads are still tight. However, the supply/demand situation still remains positive for corporates. We plan to selectively add corporates to the portfolio until the portfolio at least achieves a neutral position relative to the benchmark.

Mortgage Strategy

We will remain overweighted in mortgages. Spreads are still relatively tight but the supply/demand situation remains positive. However, when additions to the corporate sector are made in the future, the funding will come from the mortgage 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.

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.